



Sustainability Section
extract from 2006 Annual Report

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Executive Deputy Chairman's message

The vocation of Telecom Italia to operate in the hi-technology telecommunications industry blends with the awareness of the fundamental service that a Group like ours provides in the economic and social development of all the countries in which it operates.

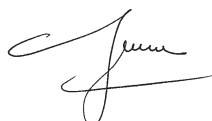
This awareness is closely tied with the firm belief that our business activities have to be carried out taking into account the stakeholders' expectations, in line with internationally accredited Sustainability standards.

Telecom Italia, which adhered in 2002 to the Global Compact promoted by the United Nations, confirms its commitment to supporting GC principles and to spreading them in the countries in which it operates.

In 2006 the Group has been confirmed in the main sector stock indexes, both at national and international level; the qualitative targets set for 2006 with regard to the environment were reached, while quantitative targets relative to Customers, Human Resources, The Environment and Digital Divide were defined for 2007; two corporate policies were developed, one related to the safeguard of working conditions and human rights for all the Group's subsidiaries in Italy and abroad, and the other related to the safeguard of the values on which the Group's Code of Ethics hinges, in supplier relations.

In 2007 we will again promote important national and international initiatives in line with the commitments undertaken with regard to Sustainability, including the attention to the level of emissions responsible for the greenhouse effect. We will give special support to the "Alliance" launched by the European Commission in 2006 in order to make our continent a pole of excellence in the field of Corporate Social Responsibility.

We do believe in our commitments and we will continue to operate with resolution in order to confirm Telecom Italia as an industrial asset which is vital for the modernisation and the social and economic development of Italy and all those countries where we are confirming the quality of our technologies, services and people.



Carlo Buora
Executive Deputy Chairman

Introduction



For the past ten years the Telecom Italia Group has been analysing its own performance towards the stakeholders on which the Group depends and, at the same time, influences by its own activities: Customers, Suppliers, Competitors, Institutions, the Environment, the Community, Human Resources, Shareholders.

The Sustainability Section is included in the Annual Report, thus confirming the intention of the Group to present its financial performance together with the non-financial one.

Results

The results achieved in 2006 with respect to goals set in the 2005 reporting are detailed below.

- “Evolution” Project: it has been developed according to the performance improvement goals set with regard to customers, in particular concerning the time for fixed line activation and for technical assistance. A detailed description of results attained is included in paragraph “Customer focus” in the “Customers” chapter.
- Environmental targets:
 - **Energy:** the Group focus on the development of the most promising technologies to produce energy from alternative sources, in order to contribute to the reduction of environmental pollution, has been realized with the implementation of photovoltaic and fuel cell projects.
 In order to evaluate at best the energy performance of Telecom Italia, an indicator has been defined to measure energy efficiency both considering energy consumption and the wider service offer. As compared to 2005, the improvement of eco-efficiency, measured by such indicator, is equal to approximately 60%.
 - **Waste:** the differentiated waste collection of paper, cardboard, wood and multimaterial has been extended to the main Group’s offices (over 30 new premises were concerned).
 - **Paper:** during the last months of 2006 an awareness campaign involved all the employees in Italy, in order to promote a reduction of paper use, favouring recycled paper instead of new one.
 - **Emission of carbon dioxide:**
 Vehicles: the car fleet renewal involved a 28.5% reduction of CO₂ emissions as compared to potential emissions by dismissed vehicles.
 Heating systems: the replacements done allowed a reduction of CO₂ emissions equal to 800 tons.

– **Electromagnetic emissions:**

- 88% of the most widespread and technologically innovative mobile handsets models have been concerned by the SAR (Specific Absorption Rate) qualification.
- The goal to reduce, during maximum voice traffic periods, the power emitted by some GSM Base Transceiver Stations, thus reducing electromagnetic field intensity, has been attained. In some stations having quite significant electromagnetic emissions, power has been reduced using the Half Rate code (instead of Full Rate), achieving a 15% reduction.

Further details on the achievement of environmental targets are included in “The Environment” chapter.

- A policy concerning labour standards and human rights has been defined for all subsidiaries both in Italy and abroad, in order to ensure adequate employee protection in the various countries where the Group operates. The policy is available in the Sustainability section of the Group website.
- A policy on the methods adopted by the Telecom Italia Group in its relations with suppliers has been defined. The policy is meant to safeguard ethical, environmental and social values, consistently with the principles of the Group’s Code of Ethics. Further details on the policy, that also foresees confidential reporting on possible irregularities observed by suppliers in the purchasing process, are included in the “Suppliers” chapter.
- In consideration of the ever-increasing significance of on-line financial communication, the Telecom Italia website (<http://www.telecomitalia.it>) review has been completed, including the Sustainability section, in order to make it more appropriate to meet analysts, investors and other stakeholders’ information requirements. In the “Webranking” survey, conducted in 2006 by Hallvarsson & Halvarsson (Swedish company leader in financial communication), Telecom Italia ranked first in Italy (among 83 companies with highest capitalization) and third in Europe (among 165 companies with highest capitalization) concerning the quality of on-line communication. In particular the Sustainability section of the Telecom Italia website ranked among the three best Italian sections on Corporate Social Responsibility.
- The Group has defined a theoretical model for the representation of internally generated intangible assets that cannot be measured by common accounting metrics, such as for instance the ability to innovate, the valorisation of human capital, the quality of services offered, the respect of the environment and the relations with the other stakeholders. These topics contribute to the non financial corporate performance attracting an ever-increasing market interest. The results achieved have been presented during a conference at the Bocconi University of Milan.
- Telecom Italia has contributed to the drafting of guidelines aimed at minimising energy consumption for broadband technology. The initiative has been promoted by the European Commission through the Joint Research Centre and has involved the most important players of the sector in the drafting of a Code of Conduct (CoC) defining power management methods and technical solutions to contain energy consumptions, avoiding any negative impact on the quality of services in offer. The CoC has been submitted for approval to equipment manufacturers and TLC providers. Telecom Italia is currently evaluating adhesion procedures.

Acknowledgements

The inclusion of Telecom Italia S.p.A. in both the categories of indexes managed by Dow Jones has been confirmed:

- “Dow Jones Sustainability World” Indexes (DJSI World), including 318 companies, Sustainability leaders at World level;
- “Dow Jones STOXX Sustainability” Indexes (DJSI STOXX), including 162 companies, Sustainability leaders at European level.

Telecom Italia S.p.A. has also been confirmed as a component of all the significant indexes (tradable and non tradable) of FTSE4Good:

- “FTSE4Good Global” (755 companies), the first 100 companies by market capitalization are included in the FTSE4Good Global 100 - tradable index.
- “FTSE4Good Europe” (296 companies): the first 50 companies by market capitalization are included in the FTSE4Good Europe 50 - tradable index.

Telecom Italia S.p.A. is also included the following indexes:

- the “Pioneer” index managed by ESI (Ethibel Sustainability Index), including 200 companies selected at global level among those accepted in the “Excellence” index (280);
- the “ASPI (Advanced Sustainable Performance Index) Eurozone” including 120 companies;
- the “ECPI Global” index consisting of 300 securities while the Europe index includes 150 securities, managed by E.Capital Partners;
- the “Euro Ethical” and “Euro CSR” indexes, including 40 securities, managed by Axia.

Telecom Italia has been ranked among the best 100 companies at world level with reference to the quality of its Sustainability reports in the “The Global Reporters 2006 Survey” conducted by the specialised agency SustainAbility in co-operation with UNEP (United Nations Environment Programme) and the rating agency Standard & Poor's.

Sustainability strategy for 2007-2009

The Group is fully convinced that business activities have to be carried out taking into consideration the stakeholders' expectations, consistently with principles included in the internationally accepted standards to which the Group refers (in this regard see the "References" paragraph in the Introduction). Corporate management should aim at the pursuit of economic results always considering the environmental and social context within which the company operates.

The Sustainability strategy for the above-mentioned three-year period is based on the following pillars:

- care on service quality, constantly monitored by the departments in charge (in this regard see the "Customer Satisfaction" paragraph in the "Customers" chapter);
- inclusion of Sustainability reporting within Annual reports, thus confirming the Group intention to jointly present its financial and non financial performance;
- assessment of the Sustainability impact of business projects submitted to the approval of the Group's Investment Committee by filling a specific investment form (in this regard see the "Reporting and planning" paragraph in Introduction);
- stakeholder involvement in corporate processes (in this regard see the "Stakeholder Involvement" paragraph in the Introduction);
- evolution of reporting towards a better correspondence with the Global Reporting Initiative (GRI) guidelines;
- definition of quantitative goals in line with issues deemed most significant with respect to Sustainability (in this regard see the "2007 Objectives" paragraph in the Introduction);
- integration between Sustainability and innovation: a specific section has been devoted to Corporate Responsibility within the Technological Plan, i.e. the document in which the company defines its strategy in terms of technological evolution;
- inclusion of specific questions on customer perception of the Sustainability model adopted by the Group, into questionnaires for the assessment of customer satisfaction, starting from the end of 2006;
- confirmation of international commitments on Sustainability among which the adhesion to Global Compact and the support to the Alliance among the European Commission, national partner organizations and European companies leaders in Sustainability, launched on March 22, 2006 in order to promote the development of CSR and to make Europe a pole of excellence.

At the beginning of each chapter of this section the specific strategy defined for the related stakeholder is described.

To make sure that Sustainability issues are appropriately considered in the Group's management decision-making process, objectives associated to the variable remuneration system have been set. The table below summarises such objectives by stakeholder.

Stakeholder	Incentive-associated objectives
Customers	- Customer Satisfaction - Quality of the service provided
Human Resources	- Surveys on staff attitude - Employee Health and Safety - Training on safety and environment issues - Training and professional growth programs - Welfare activities and employee well-being
The Environment	- Materials, energy and water consumption - Atmospheric emissions - Waste management - Environmental remediation
Institutions	- Compliance with laws, regulations and codes - Quality and timeliness of corporate communication
Suppliers	- Environmental audits at suppliers' premises
The Community	- Organisation of cultural events - Quality of the initiatives/projects for the Community

2007 Objectives

Consistently with the analysis on the most significant Sustainability topics (in this regard see the "Hot Topics" paragraph in the Introduction) and with commitments undertaken, the Group has defined quantitative targets concerning Customers, Human Resources, The Environment and Digital Divide, briefly described below and more widely discussed in the related chapters. These targets are included in the 2007-2009 Sustainability Plan and are available in the Sustainability section of the Group's website.

Area	Target Description
Customers	Improvement of time efficiency in activating new connections to fixed line voice services
Customers	Improvement of time efficiency in activating new connections to ADSL services
Customers	Improvement of time efficiency for technical assistance
Customers	Increase of automated setting up of new fixed line connections (Ready Access mode)
Staff attitude	Maintenance of the last recorded satisfaction level
Training	Increase of training hours per person
Sickness	Maintenance of the last recorded sickness rate
Equal opportunities	Increase in the number of employed women
Energy efficiency	Improvement of TLC services eco-efficiency
Electromagnetism	Power emission reduction through the installation of a second carrier on UMTS cells
Electromagnetism	Specif Absorption Rate measures on mobiles on the market
Waste	Increase of corporate offices adopting recycling waste management programs
Paper	Increase of the percentage of purchased recycled paper
Emissions	Reduction of carbon dioxide emissions (CO ₂)
Digital Divide	Increase in the percentage of ADSL, UMTS and IPTV services coverage

Stakeholder Involvement

The involvement of stakeholders in the company decision making processes is one of the most qualifying aspects of a sustainable company.

The Telecom Italia Group's stakeholder involvement mainly refers to the following activities:

STAKEHOLDER	ACTIVITY	CHAPTER/PARAGRAPH
Customers	The co-operation with Consumers' Associations involves meetings aimed at safeguarding the consumers' rights with regard to the Group's products and services as well as providing information on the company organisational changes possibly affecting customers.	Customers/Relations with Consumers' Associations
Customers	Customer Satisfaction is measured through the Integrated Feedback System (IFS) based on over 200,000 telephone interviews to customers and on thematic focus groups, whose composition ensures the participation of all customer ranges. Data collected are processed to improve organisational processes and service quality.	Customers/ Customer Satisfaction
Competitors (National level)	At national level Telecom Italia takes part with competitors in the following associative activities: <ul style="list-style-type: none"> • DGTVi - Association for the development of Terrestrial Digital in Italy • Radio and Television Federation (FRT) • Digital Environment • High-Definition Forum (HD Forum) 	Competitors/ Organizations and associations
Competitors (International level)	At international level Telecom Italia takes part with competitors in the following associative activities: <ul style="list-style-type: none"> • BRT (Brussels Round Table) • ETNO (European Telecommunications Network Operators' Association) • GSME (GSM Europe) • EIF (European Internet Foundation) • ERT (European Round Table of Industrialists) • ESF (European Services Forum) • EABC (European American Business Council) • BRUEGEL (Brussels European and Global Economic Laboratory) • ETP (European Telecommunications Platform) • ITU (International Telecommunications Union) • BIAC (Business and Industry Advisory Committee) 	Competitors/ Organizations and associations
Institutions	The Group co-operates with both national and international institutions with the aim of establishing collaborative and transparent relations and providing support if required.	Institutions/ Relations
The Environment	Together with the most important TLC players Telecom Italia took part in the drafting of a Code of Conduct aimed at the reduction of energy consumption and promoted by the European Commission through the Joint Research Centre.	Environment/ Energy
The Community	Many initiatives in favour of the Community are designed and realised in partnership with Institutions and Non Governmental Organisations in order to address efforts towards the satisfaction of the principal needs as perceived by the Community. <p>Within the initiatives carried out:</p> <ul style="list-style-type: none"> • two call centers in the S. Vittore and Rebibbia prisons in co-operation with the Ministry of Justice. • the project "Tim Music in the schools", in partnership with the Brazilian Government. • the digital inclusion program in the North-East of Brazil "Sou ligado!" ("I am connected!") in co-operation with the Non Governmental Organisation Visão Mundial. 	Community/ Initiatives in the Community, Investments in the Community
Human Resources	The fifth edition of the survey on staff attitude "Group Photo" based on an on-line questionnaire for employees in Italy, Germany and Brazil has been realized. The results have been published on the Intranet and spread through specific meetings.	Human Resources/ Internal communication
Human Resources	"The Lighthouse" project is an internal feedback initiative aimed at proposing actions plans to improve the staff attitude, develop internal loyalty indicators and to start actions aimed at developing corporate business.	Human Resources/ Internal communication
Human Resources	The Project "Values in progress", aimed at spreading behaviours compliant with corporate values, has seen the participation of 2,200 Group's resources including senior managers, middle managers and office staff.	Human Resources/ Internal communication
Human Resources	The organizational changes described have been carried out involving the Trade Unions.	Human Resources/ Internal communication
Shareholders	A new financial communication channel with retail shareholders has been opened through the Shareholders Club TI Alw@ys ON.	Shareholders/ Financial communication
Shareholders	Organisation of formal meetings with the market plus daily contacts through direct meetings and telephone conversations as well as a specific road show devoted to the SRI investors (Socially Responsible Investing).	Shareholders/ Financial communication

References

In defining and implementing Sustainability strategies and programs, the Telecom Italia Group refers to the guidelines issued by the most important world organisations for strategy and standardisation on Corporate Responsibility, particularly by UN Agencies and Programs for Environment and Human Rights and by OECD (Organisation for Economic Co-operation and Development).

Since 2002 Telecom Italia has adhered to the principles set out by Global Compact, the most important initiative at world level, launched in 2000 by UN to promote environment conservation, respect of human rights and labour standards, and anti-corruption practices.

The following table shows the paragraphs and the pages whose contents directly or indirectly refer to the Global Compact's principles and to the relative GRI's (Global Reporting Initiative) indicators. During 2006, the Group has adopted the G3 Sustainability Reporting Guidelines, in particular with reference to the materiality, inclusiveness and the completeness principles. As far as the GRI Application Levels defined in G3 Guidelines, the Group's currently ranked at Level C+, as confirmed by the GRI. Relevant actions to attain Level B+ have been undertaken.

Global Compact's Principles	Directly relevant GRI Indicators	Indirectly relevant GRI Indicators	Paragraph related to the GC Principle	Page number
1 Businesses should support and respect the protection of internationally proclaimed human rights.	HR1-7	LA4, LA13, SO1	Results, Sustainability strategy for 2007-2009, 2007 Objectives, Stakeholder Involvement, References, Suppliers, The Community, Human Resources	3, 6, 7, 8, 9, 22-24, 41-48, 49-60
2 Businesses should make sure that they are not complicit in human rights abuses.	HR1-2		2007 Objectives, Suppliers, Human Resources	7, 22-24, 49-60
3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	HR5, LA4, LA5		Human Resources	49-60
4 Businesses should uphold the elimination of all forms of forced and compulsory labour.	HR7	HR1-3	2007 Objectives, Suppliers, Human Resources	7, 22-24, 49-60
5 Businesses should uphold the effective abolition of child labour.	HR6	HR1-3	2007 Objectives, Suppliers, Human Resources	7, 22-24, 49-60
6 Businesses should uphold the elimination of discrimination in respect of employment and occupation.	HR4, LA2, LA13	HR1-2	2007 Objectives, Suppliers, Human Resources	7, 22-24, 49-60
7 Businesses should support a precautionary approach to environmental challenges.	Profile Disclosure 4.11	EC2	2007 Objectives, Stakeholder Involvement, Suppliers, The Environment	7, 8, 22-24, 32-40
8 Businesses should undertake initiatives to promote greater environmental responsibility.	EN5, EN18, EN22, EN30	EC2, EN3-4, EN17, EN20, EN23	Results, 2007 Objectives, Stakeholder Involvement, Suppliers, The Environment	3, 7, 8, 22-24, 32-40
9 Businesses should encourage the development and diffusion of environmentally friendly technologies.	EN5, EN18,		The Environment, The Community	32-40, 41-48
10 Businesses should work against corruption in all its forms, including extortion and bribery.	SO2-4		2007 Objectives, Charters, Codes and Values, Suppliers, Shareholders	7, 11, 22-24, 61-79

Further information on "Core" Indicators (GRI, G3) is available on the website www.telecomitalia.it, Sustainability Section.

The management system for Sustainability also takes into account the main international standards specifically concerning the various stakeholders:

- the ISO 9000 and ISO 14000 certifications for Quality and Environmental Management Systems, ensuring the quality of service to customers and the safeguard of the environment;
- the Social Accountability 8000 standard (SA8000), aimed at favouring the respect of human rights and labour standards by companies and by their supply chain;
- the method suggested by the London Benchmarking Group (LBG) for measuring investments in the Community;
- the principles stated in the Conventions of the International Labour Organization (ILO) for the respect of the fundamental rights of workers.

Aimed at protecting Shareholders, the Group Corporate Governance system hinges on the Code of Ethics and reflects the highest national and international standards. It is based on the central role of the Board of Directors and of independent Directors, the transparency of operational decisions, the effectiveness of the internal control system and the strict regulation of potential conflicts of interest. Within the internal control system, the Organizational Model, ex Legislative Decree dated June 8, 2001, no. 231 is aimed at preventing specific offences including corruption, extortion and corporate crimes.

Further information is included in the "Corporate Governance" chapter of this report.

Charters, Codes and Values

The Charters of Services describe the principles of conduct with regard to customers and the commitments undertaken by the main companies of the Group in terms of quality of the service. The Charter of Services and the General Subscription Conditions of Telecom Italia are available on the Group's companies' websites (www.187.it; www.tim.it and www.la7.it).

Codes, procedures and principles supporting the governance system are available in the relevant section of the www.telecomitalia.it website and on the Group Intranet, providing easy access to all the staff.

The pillar of the system is the Code of Ethics, representing the primary component of the organisational model and of the overall internal control system of Telecom Italia Group, founded on the belief that ethics in the conduct of business is a condition for business success. The respect of the Code of Ethics is a requirement for governing bodies, management and employees of all the companies of the Group, within the boundaries of their competences, functions and responsibilities.

The System of Values adopted by Telecom Italia is a constant benchmark of conduct for all the Group's employees, creating a sense of belonging to a single organisation. The various corporate processes and systems for the development and rewarding, assessment and training of the staff, are inspired by the Charter of Values thus consistently orienting individual attitudes in a common direction for the whole Group.

- **Customer focus**

To consider customers as the main employer and customer satisfaction as the basic value. To be ready to listen both internal and external customers' needs and to take steps to anticipate requests and rapidly provide answers.

- **Taking responsibility**

To take responsibility in the achievement of tangible results and to accept delegation as an opportunity, without referring to management all problems that can be solved in one's field of competence.

- **Innovation**

To ensure the development of innovative solutions and promote new modes for the improvement of the existing processes and systems, in order to strengthen the positioning of the company on the market.

- **Pro-action**

To cause things to happen rather than reacting to events. To seize and develop opportunities occurring in one's own reference context, no matter how weak is the indication, and to advance proposals and initiatives useful to achieve the company and Group's goals.

- **Efficiency**

To consider time-efficiency as a very important asset affecting the costs of services provided and the loyalty of both internal and external customers. To handle needs and problems tackling multiple and defective inputs, working out timely and practical solutions.

- **Integration**

To work with the colleagues as a team, minimising conflict and maximising the effectiveness of information exchange and professional contribution, in view of a common result for the company and the Group.

- **Transparency**

To ensure an ethically-oriented conduct of business; to entertain internal and external relations that are correct and loyal, favouring information exchange.

- **Professional excellence**

To continuously improve one's own competences, undertaking responsibility on personal professional growth project in view of contributing to the success of the Company and of the Group.

Reporting and Planning

The analysis of the performance and the related reporting are based on a multi-stakeholder approach and on a set of approximately 200 KPI (Key Performance Indicators). KPI have been developed on the basis of the GRI analysis (Global Reporting Initiative), of the Global Compact principles, and of the questionnaires sent by the main rating agencies (SAM for Dow Jones Sustainability Indexes, EIRIS for FTSE4Good, SIRI, Vigeo, Ethibel, Oekom and others) for the purpose of admission to the Sustainability stock-exchange indexes.

The KPIs are managed through a centralised software platform, also used to manage other Company's applications governing accounting, financial and control processes. This also allows data sharing among the various platforms, thus ensuring the maximum integration of Sustainability in the other corporate processes.

The Group's companies considered for the purpose of Sustainability reporting must meet at least one of the following requisites: revenues exceeding euro 50 thousand, number of employees exceeding 50, excluding sold/destined to be sold companies.

The selection of issues to be published in the report, or on TI website, is made on the basis of the principle of materiality considering the level of societal concern and the related impact of the Telecom Italia Group activities.

For the investments projects exceeding a defined threshold (euro 2.6 million for Operations, euro 1.0 million for Media and Olivetti) submitted to approval of the Group Investment Committee, an assessment form stating the investment impact in terms of Sustainability has to be filled in. The project managers state whether the project they are submitting for approval has a positive, negative or neutral impact in terms of Sustainability on certain significant areas identified for each stakeholder. The analysis of such impacts is part of the decision making process for project approval.

The evaluations reported on the investment forms, together with other projects submitted by the Sustainability responsible for each corporate department, are included in the Sustainability Plan that covers 3 years.

DJSI (Dow Jones Sustainability Indexes): equity indexes including companies meeting defined Sustainability parameters, managed by Dow Jones in co-operation with SAM (Sustainable Asset Management).

FTSE4Good (Financial Times Stock Exchange): equity indexes including companies respecting defined standards of responsibility, managed by FTSE in co-operation with EIRIS (Ethical Investment Research Service).

SIRI (Sustainable Investment Research International Company): company operating in the SRI (Socially Responsible Investment) sector providing research and consultancy services.

Hot Topics

Sustainability concerns all the corporate processes however certain issues are particularly significant and require specific consideration with regard to the implementation of the Corporate Responsibility model defined by the company. Such Sustainability “hot topics” have been identified by the Telecom Italia Group on the basis of:

- requests by Sustainability rating agencies for inclusion in sector indexes, through questionnaires for the assessment of the Group performance;
- requests by investors during dedicated Road Shows or one-to-one contacts;
- analysis of media and reports published by specialised companies;
- benchmarking of Sustainability activities carried out by other companies, both national and foreign.

With regard to all the identified hot topics the Group has set goals, that are listed in the “2007 Objectives” paragraph of the Introduction. The Group’s position on each hot topic is described in the relative paragraphs, as indicated below:

- **Customer Care**

To improve customer satisfaction Telecom Italia has put into action several initiatives. Among these there is the “Evolution” project, aimed at dealing with customers with transparency on fixed line activation and technical assistance. Detailed information is available in the “Customer focus” paragraph of the “Customers” chapter.

- **Human Capital**

It is one of the key success factors for a company and represents one of the aspects on which the Group is focusing the most. Initiatives on Equal Opportunities, Development, Education and training, Health and Safety, and Welfare are described in the “Human Resources” chapter.

- **Electromagnetism**

This is an issue that has all along been given special consideration by the scientific community and public opinion. The Group commitment to reduce emissions is described in the “Electromagnetic emissions” paragraph of “The Environment” chapter.

- **Climate Change**

The need to reduce CO₂ emissions arises from scientific evidence supporting the cause/effect link between greenhouse gas emissions and climate change. The Group is committed to reduce its emissions and both encourages and supports the dematerialization of assets and services through actions and strategies described in “The Environment” chapter, at the “Climate change” paragraph.

- **Energy**

Due to the exhaustibility of fossil fuels and their negative impact on environment, energy saving and alternative source studies are issues of burning topicality. The initiatives undertaken by the Group on this matters are described in the “Energy” paragraph in “The Environment” chapter.

- **Waste**

The monitoring of waste production, particularly the most polluting kind, and the adoption of differentiated waste collection are issues attracting deep attention by economic operators. Further information is available in the “Waste management” paragraph of “The Environment” chapter.

- **Digital Divide**

The diffusion of communication technologies may involve cultural and geographical discriminations and Telecom Italia has undertaken specific actions to face both risks. Further information is available in the “Customers” chapter, “Digital Divide” paragraph.

Financial data and added value

The following tables show the added value of Telecom Italia Group, calculated on the basis of accounting data, its distribution among stakeholders and the related contribution.

TELECOM ITALIA GROUP - SELECTED FINANCIAL DATA			
(millions of euro)	2006 (a)	2005 (b)	Change % (a-b)/b
Sales and services revenues	31,275	29,919	4.53%
Total revenues and operation income	31,881	30,597	4.20%
Gross Operating Profit (GOP)	12,850	12,517	2.66%
Operating Profit	7,437	7,499	(0.83%)
Net income (loss) before minority interest	3,003	3,690	(18.62%)
Net income (loss) - Parent Company	3,014	3,216	(6.28%)
Shareholders' equity at December 31 (Parent Company + minority interests)	27,098	26,985	0.42%
Net borrowing at December 31	37,301	39,858	(6.42%)
Investments	5,320	20,107	(73.54%)
Employees at year end	83,209	85,484	(2.66%)

ADDED VALUE			
(millions of euro)	12.31.2006 (a)	12.31.2005 (b)	Change % (a-b)/b
Standard production value ⁽¹⁾	31,767	30,409	4.5%
Raw materials and external services	(14,191)	(12,937)	9.7%
Added value	17,576	17,472	0.6%
Other items ⁽²⁾	2,982	1,913	55.9%
Gross added value	20,558	19,385	6.1%

(1) Including revenues, work in progress change, inventory change, costs for internal works capitalised, contributions for operating expenses.

(2) Representing the balance between the following items of the income statement: other operating costs/other operating income, dividends deliberated, value adjustments to financial assets, net income from equity investments, financial income, profit on exchange rates, net result from sold/destined to be sold activities, end of year result owing to Parent Company or third parties.

DISTRIBUTION OF ADDED VALUE AMONG STAKEHOLDERS AND OTHER PARTIES			
(millions of euro)	12.31.2006 (a)	12.31.2005 (b)	Change % (a-b)/b
Employees	3,005	2,868	4.8%
Institutions	3,691	3,524	4.7%
of which			
• Social security costs	796	807	(1.4%)
• Income taxes	2,519	2,395	5.2%
• Indirect taxes	141	141	0.0%
• TLC license fees	235	181	29.8%
Shareholders	3,002	2,342	28.2%
Financers	5,014	5,113	(1.9%)
Business (depreciation and amortization, reserve funds for risks and fees, other accruals and adjustments)	5,846	5,538	5.6%
Added value distributed to stakeholders	20,558	19,385	6.1%

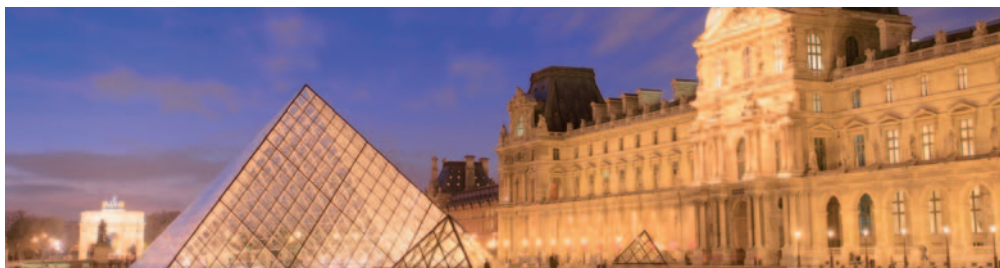
CONTRIBUTION TO THE STAKEHOLDERS

(millions of euro)		
Suppliers ⁽¹⁾	17,768	Consumption of raw materials and external services, industrial investments
Institutions ⁽²⁾	3,691	Expenses, taxes and TLC license fees
Employees	3,005	Cost of labour net of compulsory contributions
Shareholders	3,002	Dividends deliberated
Financers	5,014	Interest and other financial costs

(1) The breakdown of the contribution to this stakeholder is described in the "Suppliers" chapter.

(2) The breakdown of the contribution to this stakeholder is described in the "Institutions" chapter.

Customers



► Strategy

The Group's companies aim at providing excellent products and services through their close attention to customers and their will to listen to the customers' requests. The goal we pursue is assuring immediate, competent and reliable answers to the customers' requests, while being polite, kind and collaborative.

► Focus on Customers

The Group's actions for improving customer satisfaction are listed below, set into three different categories:

Services

- A project called "Evolution" – launched in 2005 in order to provide customers with clear and reliable answers concerning access and maintenance – is currently ongoing and its targets are progressively increasing:
 - since February 2006 it has been including voice services for residential customers, micro and small business customers everywhere in Italy;
 - since May 2006 it has been extended to the "Alice Standard" (ADSL) offer for residential customers.

The main targets of 2006 concerned:

- keeping the technicians' appointments at the customer premises (target achieved in more than 98% of cases for plain phone services and 97% for ADSL);
- providing new access lines through "Ready access", a way of providing new access lines fast and automatically, without technical assistance, which covered over 15% of requests.

Thanks to its results, the project will predictably be extended to other services:

- "Alice Voice" and "Alice Home TV" starting in May/June 2007.
- "ADSL Business" starting in September/October 2007.

The project's targets for 2007 are reported in the Sustainability section of the Group's website.

Registered customers may access the websites www.187.it and www.191.it to exploit a series of services among which:

- preview of the Telecom Italia bill directly online before receiving the paper invoice; online customers can view details of each phone call (the last figures of called numbers are omitted) specifying type of call, offer, date, called number, time, length and cost. Residential customers may also obtain explanations on all items of the invoice or on possible variations as compared to previous ones. They may also lodge inquiries to Customer Service, obtaining an answer within 24 hours;
- the service "Your records" allows to track progress of customer records concerning purchases, requests for new access or access variations, fault repair requests (the latter only for residential customers) and back-up of both sent and received e-mails;

- the service “phone-line data” allowing online request of: moving their phone number to a new address (residential customers may alternatively ask for keeping the phone number previously assigned to the new home, free of charge), change of billing address, details of calls together with the possibility of blocking premium services such as “144”, “166”, “899”;
 - the service “tell us online” allows customers to inform Telecom Italia about payments made after the expiry date or about bills whose payment has not yet been recorded by Telecom Italia, in order to avoid service termination or to allow for reactivation of the telephone line.
- The www.187.it portal now features the “Digital Assistant” service, a digital version of customer care providing customers with support in surfing among all the services available on the site, which also helps them to quickly solve many of their needs associated to fixed line management. The Digital Assistant offers in particular on-line information and helps customers to lodge requests to Customer Care. In the latter case the time required to reply is clearly stated, and the customer receives via e-mail clear information about the progress of his records. The Digital Assistant may prove to be a useful support also for hearing-impaired customers as they may choose to display a written version of all information.
 - Concerning ADSL service provision, the Alice portal for residential customers has been expanded, adding a section on technical assistance named “Alice Help”. The portal also integrates the “Alice helps you” system, offering two main advantages:
 - customers are enabled to identify and solve, on their own, certain technical problems;
 - Telecom Italia technicians are provided with a tool which displays information and any detected problem associated to the customer workstation.

Products

- All products marketed by Telecom Italia undergo strict technical tests to assure their compliance to European directives and to the directives’ implementation laws at national level, some of which are:
 - EU rules on equipment protection and safety of use for the customer;
 - RoHS rules prohibiting to use certain substances in electric and electronic equipment;
 - RAEE rules on disposal of product at end of life.

Various quality tests/trials are carried out to assure that the product is compliant with the technical and performance requisites which were agreed and undersigned by Telecom Italia with its suppliers.

Furthermore, product usability is tested/analysed, to make sure end users receive products whose use is simple, practical and fast.

Employee incentive system

- Within the framework of performance related compensation, Telecom Italia S.p.A. has a target relative to customer satisfaction. The income indicator (Gross Operating profit) has in fact been associated to a customer loyalty indicator. Such indicator is an average of customer satisfaction with regard to service, of Customer Relationship Management, of image and of technical quality.

► Customer Satisfaction

The Group has adopted a multi-channel approach to CRM (Customer Relationship Management), providing customers with technical assistance both through toll-free numbers and websites.

Through the support of the CRM system, the customer care staff:

- provides information and technical support;
- directly manages customer requests (One Call Solution) or warns the relevant departments in charge of solving the detected problem;
- manages commercial contacts, sells and activates contracts.

Furthermore, the CRM system keeps track of calls received by Call Centers. The CRM staff is adequately trained, both on technical aspects and behaviour, and it is supported by a portal providing guidelines for solving problems, in the “One Call Solution” perspective.

The Customer Satisfaction model developed in past years for the fixed network has been expanded in 2006 to the mobile network customers.

Customer Satisfaction monitoring occurs through the Integrated Feedback System (IFS) that takes customer needs into consideration, both general needs (collected through past contacts) and specific recent needs (for instance, the request for a specific service such as a new ADSL line), but it also takes into consideration calls made to the Call Center requesting information, administrative issues, or reporting inefficiency claims. IFS is based on over 200,000 telephone interviews to customers. Collected data are used to improve organisational processes in order to better meet customer needs. Starting with the end of 2006, interviews include specific questions on the perception of Telecom Italia’s Sustainability model.

IFS also involves qualitative analyses based on focus groups. In 2006 the latter paid special attention to broadband (analysing reason for choice, kinds of use, problems with the service). They were carried out on groups of people representative of Italian geography, chosen on the basis of length of ADSL connections, kind of offer, provider.

Telecom Italia uses two methods in order to survey Customer Satisfaction:

- a kind of survey on the customer’s overall perception, unrelated to any recent specific experience by the customer, which allows to analyse the cause-and-effect relations determining customer satisfaction. This methodology, similar to the one underlying the ACSI (American Customer Satisfaction Index), is based on an indicator which allows for inter-sector and international comparisons, which is stable and predictive. Such indicator provides important clues on the drivers which can improve customer satisfaction. This type of survey is applied to all customer segments, whether consumer or business;
- another kind of survey is carried out immediately after the event being analysed (for instance a contact with the Call Center operator). People interviewed are asked to provide, about a recent call, both an overall evaluation of the service they experienced (e.g. overall satisfaction) and an evaluation on each specific aspect of the experience (e.g. waiting time to speak to the operator, courtesy and competence).

Data included in the table below refer to the second kind of surveys.

Customer satisfaction on customer care

	Customer segment	Overall satisfaction	Courtesy of operator	Competence of operator
Fixed telephony	Consumer ⁽¹⁾	61.6%	90.2%	78.7%
	Business ⁽²⁾	54.1%	88.4%	72.0%
Mobile telephony	Consumer ⁽³⁾	81.1%	93.5%	86.0%
	Business ⁽⁴⁾	75.8%	94.0%	79.0%

(1) Satisfaction with the assistance provided by 187.1 on information, marketing and administrative calls: 2006 weighed average (TOP2). TOP2 refers to the % of “very satisfied+satisfied” in the 5-point scale (very satisfied, satisfied, not entirely satisfied, unsatisfied, very unsatisfied).

(2) Satisfaction with the assistance provided by 191.1 and 191.9.1 for information, marketing and administrative calls (TOP2): weighed average of TOP2 in 2006.

(3) Satisfaction with the assistance provided by 119: weighed average (TOP3) in 2006. TOP3 refers the % of people answering “excellent+very good+good” in the five-point satisfaction scale (excellent, very good, good, limited, inadequate).

(4) Satisfaction with the assistance provided by the toll-free number for Businesses: weighed average (TOP3) in 2006.

► Digital Divide

The spread of information and communication technologies has given rise to noticeable opportunities of development for the population but it has, at the same time, generated the risk of new gaps due to social and geographic reasons: this is an issue deserving special consideration by the ICT sector.

Geographic Digital Divide

Telecom Italia has undertaken a series of initiatives aimed at expanding ADSL coverage: from 86% at the end of 2005 to 89.5% at the end of 2006 (data refer to the total of Telecom Italia's fixed lines).

At the end of 2006 IPTV was available for 45% of Telecom Italia's lines.

UMTS coverage, in terms of resident population, was 70.8%; for broader bandwidths on mobile networks Telecom Italia adopts HSDPA (High Speed Downlink Packet Access) technology, allowing to achieve 3.6 Mbp/s: at the end of 2006 it was implemented through 3,500 antennas amounting to an HSDPA coverage of about 35% of the population.

A working group has been set up, with the participation of all competent departments, in order to:

- define the company's strategic positioning on this topic;
- monitor its development both at national and international level;
- coordinate the various activities carried out by the company.

The working group has developed an IT system named "Digital Divide Project" (DDP) as an operational tool for its activities. For each Italian municipality, DDP collects and presents data relative to the current status and its development (whether planned or still under analysis) from both perspectives: market and technical aspects.

Social Digital Divide

Many social reasons lead to the exclusion of some people from benefits achievable through ICT: belonging to underprivileged social groups (because of age or income), but often simply lack of access of appropriate information. The main areas of intervention of the Telecom Italia Group for the reduction of the social Digital Divide are:

- Spreading ICT culture: the "Future Centre" in Venice is a place where Telecom Italia displays some of the most innovative technologies, which can be tried for free, and where meetings are held on issues associated to new technologies and their social and environmental impacts. The Group also contributes to the "Science Festivals". Still, the Group's website contains detailed explanations and references on the latest ICT innovations and trends.
- Support for the elderly: Telecom Italia offers free classes for the elderly, teaching the use of the Internet.
- Support for people with disabilities: a service allowing the hearing-impaired people to use several functions of mobile handsets is operating.
- Support in developing areas: Telecom Italia runs projects in Latin America to reduce technological Digital Divide (Sou Ligado!) and projects aimed at reducing the illiteracy rate among poor children.

More information on single projects is available in the "The Community" chapter.

► Research and tests on innovative services

The main innovative services under study in the Group's laboratories – in co-operation with research institutes and both Italian and foreign universities – having a positive environmental and social impact are described below.

Infomobility: vehicular platforms on board

Telecom Italia is developing a platform devoted to infomobility services and mainly based on localisation systems. Infomobility services aim at optimising management of both public and private transportation (sorting traffic to avoid jams), of parking and limited traffic areas, and they enable "Mobile Payments" (automatic or assisted payments) and vehicle control (intelligent navigation, entertainment, etc.).

The infomobility platform and the related services offer several advantages for the environment and the population as they allow to:

- reduce the polluting impact of transportation thanks to lower average kilometric hauls;
- reduce traffic pressure on urban fabric;
- save energy;
- rationalise traffic and urban infrastructure use (i.e. parking) through the diffusion of online on board systems.

Dynamic-TV: users may become a “source” of contents

The “Dynamic-TV” project changes TV pattern use: no more broadcast only, but users may become a “source” of contents, making them available to other users and sharing them. Exploiting the attractiveness of mass contents sent through digital terrestrial TV or IPTV, perhaps by joint offers, “Dyamic-TV” may promote high-quality niche contents, available at low cost.

Other innovative sustainable services under test

The table below lists some services under test in our laboratories which might have positive impacts in terms of Sustainability.

ZigBee ticketing	System issuing tickets for public transportation via mobile handsets (mobile ticketing).
Vehicular access to controlled areas	Platform for the dynamic management of access to controlled areas through systems wearable by drivers or mounted on vehicle.
Post Accident Remote Diagnosis	“eCall enabled” service for remote diagnosis of patients made on the accident spot (for instance, transferring biometric parameters to emergency centers).
Fire Brigade	Remote real time monitoring of the Fire Brigade’s actions through a ZigBee sensor network (Body Area Network) integrated in clothes.
Net computing platform	The platform provides workers, at home and on demand, with applications, storage and processors based on shared virtual resources.
Services for house management	Solutions for improving management of consumption (water and electric energy), systems for theft prevention and for remote management of home appliances.

► Certifications

In 2006 the Group’s quality systems achieved the following certifications:

	Certification	Departments/Companies
Telecom Italia S.p.A. Operations	ISO 9001	Departments: Sales & Customer Services, Marketing, Technology (*) Companies: TI Sparkle, Elettra, Pathnet, Loquendo
	ISO 14001	Departments: Technology Companies: TI Sparkle, Elettra
	AUDIWEB	Companies: Matrix
	ISO 27001	Departments: ICT Operations (inside Technology dept.)
Olivetti S.p.A.	ISO 9001	Departments: Business & Market Development, Product & Technology Development, Industrial Operations, Market Communication
	ISO 14001	Olivetti plant at Arnad (AO)

(*) The Technology Department now includes the following Departments/Companies: Wireline Network, Tim Network, TILab and IT Telecom.

► Protection of minors

To protect minors from adult contents or more generally from contents possibly damaging their psycho-physical development (e.g. violence, racism, offences to religion), the Group’s companies have undertaken the initiatives described below.

A working group has been set up for each platform (fixed, mobile, TV). Each group is coordinated at central level and it contains representatives of the departments in charge of the offer of services, with the view of:

1. assuring compliance to national ruling normative and European directives;
2. meeting the needs expressed by the associations and movements for the protection of consumers and of minors;
3. promoting correct and socially responsible behaviours.

These are the main activities carried out in 2006:

- Guidelines have been issued for the classification and control of contents provided by the Group. These guidelines concern not only contents that are directly offered by Telecom Italia, but also contents offered by third parties buying spaces within Telecom Italia portals.
- Filtering systems and procedures for the Group's offer of adult content on the Internet have been defined. These measures aim at preventing minors to access adult content available on the Group's portals.
- Contents proposed by the Group through its mobile platform do not fall in the class subject to filtering. However parents (or whoever involved) can activate "blacklists", that is the possibility to prevent surfing from mobile handsets to selected sites. Moreover, the Group ascertained its own compliance with recent Resolution no. 661/06/CONS "Safety measures for minor protection to be implemented on videophone mobile handsets" published on the Italian Communication Authority (AGCOM) website on November 29, 2006.
- Concerning premium voice services, Telecom Italia requires the use of a PIN code for access to services which might be ranked as "adult", such services however are not offered by the Group.
- The Group's televisions do not broadcast contents requiring filtering systems. Broadcasting is compliant with ruling normative and with the above mentioned guidelines.

In 2006 the Group continued its control activities to prevent the diffusion of juvenile pornography. The Group's companies have set up abuse management teams, "Abuse Desks", where service users can report abuses or inappropriate use of services to the Group's companies. In the case of Internet services, Abuse Desks are differentiated according to service typology (mobile, residential, business): besides managing alarms on problems associated to the Group's services, desks inform competent authorities about any significant event, such as the presence of pedopornographic contents on the Group's networks. As for interactive services such as Chats, Forums and Blogs, offered by the Group's suppliers of services, a prevention system based on the presence of "moderators" has been set up and it is in charge of identifying and reporting the presence of illicit content, blocking its transmission.

► Research and innovation in e-security

Research and development activities on the issue focus on:

- protection and early detection of attacks on new network and service infrastructures;
- development of innovative tools for predictive analysis of risk exposure level (i.e. through advanced use of modelling and simulation techniques);
- methods allowing to manage security measures available on the network, for instance filtering and monitoring systems, so as to automatically change configurations and intervention rules following changes in risk scenarios, so as to respect established security targets;
- development of innovative security services based for instance on new generation SIM and mobile handsets.

Research activities are associated to patent development, in order to protect achievements, as well as to scientific publications. The last year saw the development of ten patent applications.

► Relations with Consumers' Associations

The company started its collaboration with consumers' Associations in 1983, when it was still named "SIP". In the years several agreements have been signed and, in 2006, the Telecom Italia Group has actively collaborated with 17 among the main Associations. Such collaboration involves meetings aimed at safeguarding consumers' rights with regard to the Group's products and services, and the presentation by the Group's managers of the main projects of organisational development possibly affecting customers, as for instance the reorganisation of Customer Care services ("Evolution" project).

The collaboration with Associations involves informative meetings on the launch of new services and their relative contractual terms. A positive outcome of the collaboration with Associations is constituted by the "parity" conciliation procedures that since 1991 have allowed the resolution of about 40,000 disputes with customers.

The Group takes part, as a founder member, in the Consumers' Forum, which brings together Consumers' Associations, companies and research institutes. The Forum deals with issues related to consumerism. Within the Forum's activities, with Telecom Italia's support in planning and organizing, there are initiatives of joint training with Associations on Conciliation. Projects and initiatives have been developed in order to promote a "collaborative consumerism" and to provide strategic feedback to the appropriate Group departments.

The Group's commitment with regard to consumers' rights is also shown by its actions in support of access to services by disabled customers.

The Telecom Italia Group is firmly determined to protect consumers' interests in a framework of loyal collaboration and transparent mutual information. Its recent decision to put off the increase in line rental charge expected in 2007 for residential customers confirms the Group's commitment to protect the general interests of consumers.

Conciliation

The conciliation procedure between Telecom Italia and Consumers' Associations is based on the "parity" model involving direct responsibility of both parties: the customer, who chooses a Consumers' Association and fully entrusts the relevant representative to deal about his dispute, and the Company who participates with his representative having an equivalent mandate. Conciliation applications are presented at appropriate offices included in Telecom Italia's premises over the national territory. The procedure is entirely free of charge for the customer. Starting with the application date and for the ensuing 45 days Telecom Italia refrains from any activity concerning the customer and undertakes to offer within such deadline a proposal to solve the dispute. Conciliation proceedings are then drafted and the customer is free to sign or refuse. If the conciliation proceeding are signed by both parties, the document becomes immediately operational. If the customer refuses to sign the proceedings, he/she is free to have resort to ordinary legal actions as appropriate. The conciliation procedure is accessible by Telecom Italia's customers only if ordinary claim procedures proved unsatisfactory.

Suppliers



The contribution of the Group to the stakeholder “Suppliers” is reported below.

TELECOM ITALIA GROUP		
(millions of euro)	2006	2005
Expenditure for raw materials and external services (net of TLC licence fee)	13,956	12,756
– of which correlated entities	263	414 (*)
Industrial investments	5,114	5,173
– of which correlated entities and internal capitalization	1,039	1,006
Total contribution	19,070	17,929
– of which correlated entities and internal capitalization	(1,302)	(1,420)
Total net contribution	17,768	16,509

(*) Including euro 5 million relative to “sold/destined to be sold activities”.

► Strategy

Purchasing processes within the Telecom Italia Group are designed to procure products/services at the best market conditions while assuring requisites such as quality, safety and respect for the environment. Procurement processes call for the competitive comparison of technical/economic offers from suppliers selected on the basis of company procedures in force at Group level and characterised by ethical negotiation.

► General

For high-risk commodity categories, the selection, evaluation and control process of the Group’s potential suppliers involves a pre-contractual “qualification” phase to assess their economic/financial and technical/organisational characteristics in light of their possible inclusion in the Group’s Supplier Register.

Regardless of the commodity risk level, each of the Group’s suppliers is required to commit, both personally and on behalf of any authorised sub-contractors, collaborators and employees, to comply with the ethical-behavioural principles included in the Group’s Code of Ethics.

Once included in the Group’s Supplier Register, companies receiving purchase orders after the competition/negotiations process undergo controls during the supply phase. These controls range from the Vendor Rating monitoring (systematic assessment of supply) to Incoming Quality Control (mandatory with regard to acceptance/use of the purchased item).

More information on these activities is available in the Purchase section of the Suppliers portal (<http://suppliers.telecomitalia.it/>).

► Controls

Summary of controls on the Suppliers carried out during 2006.

- Supplier Qualification: 448 controls (relative to 755 commodity categories), of which 15% with a negative outcome and 20% with a fixed-term qualification.
- Sub-contractor qualification: 173 controls (relative to 262 commodity categories), of which 13% with a negative outcome and 27% with a fixed-term qualification.
- Vendor Rating monitoring: 82 reports issued relative to approximately 500 Suppliers and to 58 purchase categories.
- Technical-organisational audits at Supplier's premises to perform Incoming Quality Controls on products and services: over 250 controls for a total of approximately 350 batches of controlled products. Of these, about 70 were exceptionally accepted due to secondary nonconformities, while 21 were rejected for severe nonconformities and thus sent for reworking.
- Technical-organisational audits at Supplier's premises to perform qualification procedures: 120 relative to 190 commodity categories, of which approximately 7% with a negative outcome while about 6% obtained fixed-term qualification due to technical deficiencies and thus subjected to further examination.
- Technical-organisational audits at the premises of high-risk sub-contractors (plant engineering-operational activities), to perform qualification procedures in view of use by Suppliers: 151 audits relative to 196 commodity categories of which approximately 9% with a negative outcome and about 17% with fixed-term qualification due to technical deficiencies and thus subjected to further examination.

More than 6,000 controls were also performed on the execution of technical works, mainly focused on the installation phase of new plants and on the provision of services and works.

► Main Sustainability initiatives

In 2006 the following initiatives were carried out:

- In line with the principles included in the Group's Code of Ethics and with the rules established in the Group's Procedure for "Purchases of Products and Services", a "Policy on relations with Suppliers" has been defined. This illustrates how the principles of Sustainability and ethical negotiation are promoted and pursued throughout the procurement process to ensure legal, transparent and correct relations with Suppliers. This Policy has been published in the Purchase section of the Supplier Portal (<http://suppliers.telecomitalia.it/>) and it also allows suppliers to confidentially report any eventual misconduct by the Group's staff with regard to the business relationship.
- The Group has defined its Guidelines for the assessment of products and suppliers with regard to their environmental compatibility; on the basis of this document, the eco-compatibility assessment has been tested with some international suppliers during the second half of 2006, confirming the adopted model's substantial validity.
- The Group has also defined a check list aimed to assess, during supply quality audits at supplier's headquarters/plants, any Supplier initiatives on Ethics and Sustainability, with special reference to the safeguard of the environment, the health, safety and rights of employees. The test assessments performed on 43 companies also aimed at promoting a tangible commitment to pursuing the aforementioned Sustainability values throughout the supply chain with the involvement of their suppliers (sub-contractors of the Group). Nearly 40% of the suppliers, showing various deficiencies with respect to the Group's expectations, made a firm commitment to implement the first improvement initiatives during 2007.
- Audit procedures on the suppliers of foreign subsidiaries also continued. In particular, before being included in the Supplier's List, all the new suppliers of Telecom Italia S.A. (France) are required to submit a self-certification in compliance with Legislative Decree no. 231/2001. This includes a statement of commitment to the principles of the Code of Ethics of the Telecom Italia Group and a declaration that no insolvency proceedings, protests or severe administrative sanctions are ongoing.

- Telecom Italia Group took part in a strategically oriented workshop on Sustainability and Integrity in Relations with Suppliers (SIRF) involving some of the most important Italian companies that operate in the services and manufacturing sectors. Following the formalisation of conduct rules and of implementation criteria for the procurement process that were based on guidelines inspired by international standards of corporate responsibility, an assessment was carried out which also involved the Telecom Italia Group. The Group's compliance rating, according to the SIRF standard, assessed by an independent company on a five-point scale (inadequate, limited, adequate, good, very good) was "very good".

► Commitments for 2007

- Expansion of audits (request to commit to the principles of the Group's Code of Ethics and to provide a self-certification statement on the absence of prejudicial conditions, supplier qualification, Vendor Rating) for the suppliers of foreign subsidiaries (in particular Tim Participações, Telecom Italia S.A. and Hansenet).
- Start of the ISO 9001 certification for the Purchasing Department of the Telecom Italia Group.
- Publication of the English version of the Supplier Portal along with the related documents.
- Application of the Guidelines for the eco-compatibility assessment of products and suppliers to a greater number of products.
- Extension of audits to a greater number of suppliers (in 2006 audit tests were performed on 43 suppliers) on initiatives adopted by suppliers on the Ethics and Sustainability issues together with follow-ups on the suppliers' commitments made during the first audit cycle.

Competitors



► Strategy

The Telecom Italia Group is committed to the promotion of fair competition that is considered positive both for the Group's interests and those of all market operators, as well as customers and stakeholders in general. Furthermore Telecom Italia pursues excellence and competitiveness on the market, offering to its customers services characterised by quality and efficiency.

► Organizations and associations

Co-operation with competitors at national level

In 2006 Telecom Italia has chaired DGTVi, the Association for the development of the Terrestrial Digital broadcasting in Italy to which Rai, Mediaset, Bordini Foundation (FUB), Radio and Television Federation, Aeranti-Corallo and D-free also take part.

In December FUB has officially declared its intention to leave the Association starting from February 2007.

Participation in the DGTVi enables the TI Media Group broadcasters to interact with the radio-television market players and to actively take part in the evolution process towards the Terrestrial Digital.

In the year the Association promoted several activities:

- organisation of the second national conference on Terrestrial Digital, held in Naples on July 14-15. During the event, the establishment of a ministerial committee as supervisor of the digitalisation process in Italy has been announced;
- implementation of two market surveys aimed at assessing the diffusion of decoders, both at national level and in the so-called "all digital" areas. The surveys have been commissioned to two distinct companies.

DGTVi is also actively taking part in the National Committee Digital Italy: such Committee has been established after the Naples conference and sees the participation of the main players in the digitalisation process (Institutions, television broadcasters, cable and satellite operators, publishers, consumers). It deploys its strategy and analysis activities through a Technical Committee articulated in nine thematic subgroups.

As at September 2006 over 4,300,000 decoders had been sold.

Telecom Italia adheres to the Radio and Television Federation (FRT) as a member of the Charing Committee. Besides the national and satellite broadcasters, FRT gathers 150 local and radio broadcasters.

In concert with the involved operational departments, the Group continues to take part in the activities of Digital Environment, an Association promoted by FUB, gathering all the ICT players in the Terrestrial Digital sector. The Association aims at the identification of appropriate solutions to harmonise the interactivity development of Digital TV in terms of user services and applications. In the second half of 2006 the Association undertook no initiatives also because of new sector regulations changing the reference framework.

The membership of the Group, as founder, to the High Definition Forum (HDF) is being formalised. Promoted by FUB and established on September 19, 2006 the Forum has as its main goal the promotion and spread in Italy of high-definition. Founders are Eutelsat, Fastweb, FUB, IDS Multimedia, Sony Italia, ST Microelectronics, Telsey and Mediaset.

The Group membership has been promoted in agreement with the involved operational departments (Television and Rosso Alice) and offers the following advantages:

- constant updating on competitor activities concerning high-definition (in particular Sky, Mediaset and Fastweb);
- greater influence in promoting initiatives pertaining to standardisation or regulations.

Since 2002 Telecom Italia Media is a shareholder of Auditel with a 3.33% share, and has one representative in the Board of Directors and one in the Technical Committee.

Auditel is the only subject, in terms of audience rating, recognised in Italy also by advertising companies who – on the basis of Auditel data – price advertisements on single TV channels.

Telecom Italia is involved in the management of association relations, co-ordination of lobbying and representation activities with Confindustria and its Associations.

These initiatives, involving in some cases joint actions with competitors consist, both at national and local level, of actions and meetings relative to the development of business and safeguarding the corporate interests on the economic, legislative, trade unions and labour themes.

The Group is a member of 99 territorial Associations and of the following Federations/National partner organizations: Confindustria Servizi Innovativi, Asstel, Assoelettrica and Assografici.

Co-operation with competitors at international level

- BRT (Brussels Round Table) which gathers various European TLC and manufacturing companies, is established to maintain a constant dialogue with European Institutions on significant themes concerning the ICT sector at Community level, in particular concerning regulations.
- ETNO (European Telecommunications Network Operators' Association) is the largest continental sector Association. Among its goals there is the development of a competitive and efficient European telecommunication market, to be achieved through co-ordination among operators and dialogue with the Institutions. Telecom Italia is a member of the Executive Board and chairs the working groups "Sustainability" and "Frequency management".
- GSME (GSM Europe) is an Association gathering the European mobile operators. One of its objectives is the development of the European mobile market, paying special attention to the market regulations aspect. Telecom Italia takes part in the *Strategy Forum* and in the work groups "Regulatory", "Mobile content", "Frequency" and "Health and environment".
- EIF (European Internet Foundation) gathers members of the European Parliament, TLC manufacturers and operators, software providers, ISPs and content providers. The Association aims at creating, within the European Parliament and among the various communications operators represented in Brussels, a favourable environment for fast development of the Internet, broadband, convergence and multimedia technologies and services, benefiting the final consumer;
- ERT (European Round Table of Industrialists) is a forum gathering about 45 leaders of European industry for the purpose of promoting competitiveness and European economy growth;
- ESF (European Services Forum) includes the European operators in the services sector and aims at promoting the interests of the European services industry and the liberalization of the services sector worldwide in the framework of the GATS 2000 negotiations;
- EABC (European American Business Council) is an Association headquartered in Washington and Brussels whose aim is supporting and facilitating transatlantic dialogue on the most significant development issues concerning industrial sectors strategic both for EU and USA.

- BRUEGEL (Brussels European and Global Economic Laboratory) is a European Study Center established on January 18, 2005 on the basis of joint collaboration among the Governments of the European Union and the main business players of the continent. It is dedicated to the analysis of international economy, development of chief industrial sectors and role of EU in the global economic context.
- ETP (European Telecommunication Platform) unites European Telecommunications and manufacturing companies for the purpose of promoting and discussing common issues relative to electronic communications.
- ITU (International Telecommunications Union) is a UN agency and aims at promoting co-operation between Governments and private sector on international technical standards, on operational procedures for wireless services and development programs for telecommunication infrastructures in developing countries. Adhesion to ITU as a representative of the private sector enables the Group to take part in the thematic Study Groups and Project Groups in the sectors ITU-Telecommunication Standardization (ITU-T) and ITU-Radiocommunications (ITU-R). Within the sector ITU-Development (ITU-D), Telecom Italia chairs the Group on "Question 10-2/1: Regulation for licensing and authorization of converging services".
- BIAC (Business and Industry Advisory Committee) represents industrial associations of OECD countries and is a preferential channel for dialogue with OECD (who has contacts with governments only).

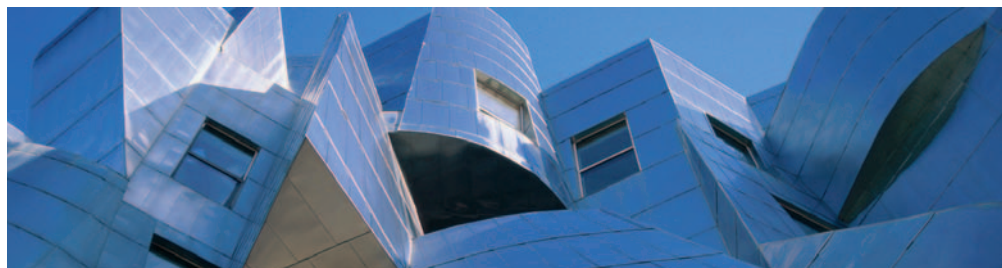
► Activities regarding competition

In the first few months of 2006 the guidelines relative to an "antitrust compliance programme" have been defined. The program consists of multilevel information and training initiatives and aims at spreading within the Group the correct cultural approach to the antitrust regulation, as well as awareness that competition is not a threat but, on the contrary, an essential asset for business activities.

Substantial changes in Telecom Italia organisation chart occurred in the second half of 2006 and in January 2007, prompting a phase of analysis extended to all Group processes and activities having a potential antitrust impact. We are now reviewing and completing such analysis.

With Resolution no. 587/06/CONS of September 27, 2006 a task force aimed at studying the technical/economic aspects and the related regulation evolution of the re-organizational process of Telecom Italia network has been established within AGCOM. The technical task force, in which Telecom Italia takes part, is committed to the pre-analysis of the technical/economic aspects and of implications and perspectives – also in terms of regulatory evolution – of a possible break-up process related to Telecom Italia access network, as well as of the possible development of the Next Generation Network.

Institutions



The contribution of the Group to the stakeholder “Institutions” is reported below.

TELECOM ITALIA GROUP						
(millions of euro)	2006			2005		
	Total	Italy	Abroad	Total	Italy	Abroad
Social security and pensions	796	720	76	807	750	57
Income taxes	2,519	2,519	0	2,395	2,395	0
Indirect taxes	141	95	46	141	93	48
TLC license fees	235	53	182	181	39	142
Total	3,691	3,387	304	3,524	3,277	247

► Strategy

The Telecom Italia Group is determined to continue its collaborative and transparent relations with the European Union and national institutions in view of facilitating dialogue on specific issues.

► Relations

The legislation activities of Central National Institutions (Parliament, Government) and local Institutions (Regions, Local Entities and independent sector Authorities) are constantly monitored by the Telecom Italia Group.

The approval procedure of legislation concerning sector issues is therefore constantly monitored. When requested, the Group also provides technical support to the competent institutions (Parliamentary Commissions, Ministry of Communications and other Ministries, local Authorities) in drafting the legislation for the relative areas of interest.

The Group subsidiaries and/or associated companies operating abroad directly interact, with the operational support of the parent company, with sector Authorities (Antitrust and Regulatory Authorities) and competent Institutions (Ministries of Communications, Parliamentary Committees) in the various countries, to represent and support the Group position and to ensure a correct competition dynamics in the related markets. Foreign companies also provide Institutions with support in the drafting of sector legislation, acting in observance of procedures adopted.

For the purpose of monitoring the activities with a significant impact on the Group, Telecom Italia interacts with the European Commission and its Regulatory Committees (for example the Communication Committee and Radio Spectrum Policy Group regarding spectrum management), the Council of Europe, the European Parliament and ERG (European Regulators Group).

► National legislation

The laws of interest to the Group, both approved or under examination during 2006, are reported below:

Approved laws

- On June 25, 2006, the constitutional law changing the second part of the Constitution, passed by the Berlusconi Government, underwent a confirmative referendum with negative outcome thus restoring the former constitutional reform of 2001. The “communication regulation” is therefore currently included in concurrent legislation matter with legislation control entrusted to the Regions, except for the determination of fundamental principles still a competence of the State. Within the framework of the Constitutional Bill proposed by the former Berlusconi government, Telecom Italia had supported a change then included in the final version of the law undergoing the referendum and meant to bring electronic communications regulation back among the issues subject to exclusive State legislation; this would have solved several critical points of the former 2001 reform. In the Group view, following the referendum outcome, the critical points of the former reform – i.e. the “communication regulation” included in concurrent legislation matter – still remain.
- Law 38/2006 on the fight against paedophilia, imposing the obligation on providers of electronic communication services to cooperate with a central institute at the Ministry of the Interior to counteract this phenomenon by providing information on businesses and people spreading paedo-pornographic contents.
- Legislative Decree no. 140/2006 adopting in national legislation the Directive 48/2004 on the protection of intellectual property rights and the fight to counterfeiting and piracy phenomena. The Decree includes measures to counteract the violation of intellectual property rights. The initial draft equated, in terms of responsibility and of the consequent sanctions, the perpetrator of the infringement and the intermediary whose services are used by third parties to infringe intellectual property rights; this critical provision has been subsequently attenuated by the inclusion of a reference to the provisions of Legislative Decree 70/2003 on e-commerce, excluding any responsibility of the Service Provider.
- Law 51/2006 converting Decree Law 273/2005 concerning the definition and the extension of terms related to preceding legislative provisions; among other things it includes the extension from 2006 to 2008 of the deadline for the complete switchover of the television system on terrestrial frequencies from analogical to digital broadcasting.
- Law 296/2006 (2007 Financial Act) including, among many provisions, the reduction of the tax burden for businesses, implemented by reducing IRAP (Regional tax on production) on labour cost; the mechanism excludes several subjects among which businesses operating on licence and fee in a series of sectors including telecommunications. A further provision affecting the sector business is the equalization of fiscal deductibility on a single rate, equal to 80% of business expenditure for electronic communication services. A Fund has been moreover established at the Ministry of Communications for conversion to digital, aimed at the diffusion of digital TV technology to the whole national territory; a tax allowance on individual income tax has been provided for replacement of television sets in view of conversion from analogical television to digital; appropriations have been provided for executive interventions by the Ministry of Communications to be implemented through Infratel in support of the new processes implementing broadband infrastructure in Southern Italy.

Laws under examination

- Bill including provisions for the regulation of the television sector during the conversion to digital technology. In October the Council of Ministers has approved and submitted to the Chamber of Deputies the so-called “Gentiloni bill” on television reform. The bill is a legislative initiative from Government aimed at implementing in national legislation the EU recommendations, in the framework of the infringement procedure against Italy initiated in July 2006 disputing some aspects of the “Gasparri law” and of the radio-television Consolidating Act with respect to European regulations. The bill provisions mainly concern: conversion in advance to digital

system of one network for operators owning 3 networks (within 15 months since the approval of the law); a 20% ceiling on broadcasting capacity for each content provider in the digital television system. The stricter limit on financial resource collection (included in the radiotelevision Consolidating Act), concerning businesses with revenues exceeding 40% in the electronic communication sector has been replaced with the prohibition to these same businesses to merge with dominant television broadcasters.

- Bill delegating the Government on review of regulation concerning ownership and marketing of transmission rights, both on television and on other electronic networks, of football events.
The bill approved by the Council of Ministers in July and submitted to the Chamber of Deputies institutes a new system based on the centralised sale of television rights by the subject in charge of organising sporting competitions. This regulation includes all existing platforms: satellite digital, terrestrial digital, cable, UMTS, broadband, encoded terrestrial analogical.
- Bill on wire-tapping. The bill has been approved by the Council of Ministers in August and is currently under examination at the Chamber of Deputies. It redesigns the subjects mainly concerning the duration of wiretapping, the publication of investigation reports and the related sanction regulation.
- Bill on collective compensation safeguarding consumers. The Government bill approved in July by the Council of Ministers and being examined by the Chamber of Deputies, regulates the “class action” mechanism.
- Draft resolution concerning the new regulation on the transfer of 40% broadcasting capacity. This draft has been approved by AGCOM on November 23 and the Authority intends to submit it to public consultation though no decision has been taken yet. The obligation to the 40% transfer and the related regulation concern Rai, Mediaset and TI Media.
The latter is also included among subjects having the requisites to access the 40% capacity (minimum coverage not being achieved as provided by Law 249/97, equal to 80% of the territory including all provincial chief towns). Such right is however limited to area not supplied by digital plants. The most important news are:
 - all operators owning more than one analogical concession are obliged to transfer capacity with no exception;
 - access to the reserve is granted to content providers not having any control or connection relation with the operator obliged to reserve, satellite and cable operators and both local and national television broadcasters not reaching the territory minimum coverage.

The Regulation also establishes the numbering to be applied to the automatic ordering for LCN channels (Logical Channel Numbering) offered on the Terrestrial Digital platform.

▶ European legislation

The Group activity focused on the following issues:

- analysis of EU Communications about the revision of the Regulatory Framework on Electronic Communications and participation in the consultation based on a Communication, a working document of the Commission’s services and an impact assessment illustrating the most significant strategic alternatives considered;
- analysis of the review proposal regarding the Recommendation about significant markets that are liable to the imposition of ex ante regulatory obligations and participation in the related consultation launched by the European Commission. The Commission review proposal, published in parallel with the Framework review documentation, involves a reduction from 18 to 12 of the reference markets. The new Recommendation would remove in particular the retail voice market and the retail leased line market. The Group contribution emphasized support to the proposal involving a reduction of the number of markets liable to the imposition of ex-ante obligations;

- review of the “Television Without Frontiers” Directive through a Directive proposal by the European Commission, currently under discussion at the European Parliament and EU Council, that distinguishes between linear (traditional television) and non linear (on demand audiovisual contents) services extending some traditional television provisions to on demand services;
- adoption process of EU recommendations on collecting societies;
- adoption by the European Commission of the proposal of a directive on retention of data processed through electronic communication services;
- adoption process of the EU Directive on domestic service market (Service Directive);
- adoption process and approval procedure of the EU Directive on penalties for intellectual property rights infringement;
- proposal for a regulation of international roaming and adoption of this regulation by the European Parliament and EU Council;
- analysis of the activity of European bodies in charge of the implementation of the regulation framework (Sector Committee – Cocom – and European Regulators Group – ERG).

► International legislation

The Group activity focused on the following issues:

- analysis of the regulatory development in countries of interest and support to the Group companies abroad in the management of relations with Regulatory and Antitrust Authorities and in the definition of regulatory strategies, consistently with the Group positioning in Italy;
- participation to both national and European public consultations and to the working groups within the various Regulatory Authorities;
- participation to Merger & Acquisition processes and to foreign companies sell procedures in strict co-operation with the relevant central departments; drafting of the related antitrust and regulatory notifications;
- control of regulatory compliance of foreign subsidiaries and safeguard of the related licences.

The Environment



► Strategy

It is based on the following principles:

- to improve the efficiency of both energy and natural resources;
- to minimise the negative environmental impacts and maximise the positive ones;
- to spread the culture of a correct approach to environmental issues;
- to ensure the commitment towards an ever-increasing improvement of environmental performances;
- to adopt purchase policies considering environmental issues.

► Environmental performance indicators

The environmental performance data shown below refer to:

- waste
- water
- energy
- atmospheric, electromagnetic and acoustic emissions

The data reported have been calculated on the basis of management data appropriately reclassified.

► Waste

Data shown in the table below refer to the quantity of waste handed over ⁽¹⁾ to carriers and booked in compliance with the related law ⁽²⁾.

WASTE HANDED OVER

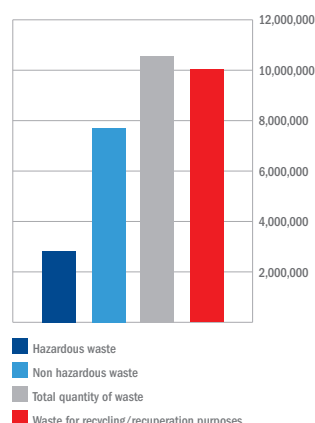
	Telecom Italia S.p.A. 2006 (*) (**)	Change %	
		2006 vs 2005	2006 vs 2004
Hazardous waste	kg 2,838,949	3.99%	-36.62%
Non hazardous waste	kg 7,715,179	-18.32%	-5.69%
Total quantity of waste	kg 10,554,128	-13.32%	-16.64%
Waste for recycling/recuperation purposes	kg 10,029,708	-3.48%	0.08%
Ratio between recycled/recuperated waste and total waste	95.03%	9.68%	15.87%

(*) Tables referring to Telecom Italia S.p.A. include TIM Italia S.p.A., merged by incorporation with effect from March 1, 2006. Data pertaining to the preceding years have been recalculated for homogeneous comparison purposes.

(**) Data do not include removed telephone poles, which are reported in the relevant table.

- (1) The term "handed over" refers to waste delivered to carriers and destined to be recuperated, recycled or destroyed.
- (2) Slight variances as compared to statements at December 31 might occur up to March 30 as data are derived from waste accounting books that are only consolidated once the real weight has been verified at destination. Such information is provided to the waste producer within three months from delivery, hence data variances are possible.

Waste handed over (kg)



Non hazardous waste production appears reduced as compared to 2005, due to the decrease of components mainly included in such waste (equipment, packaging and metals) depending on operational requirements of activities.

The last quarter saw an increase of waste handed over to authorised carriers for recycling and disposal also due to a new contract for waste management signed in September 2006. The continuation of such trend is expected in 2007.

As far as hazardous waste, the quantities handed over to carriers as compared to 2005 appear substantially stable while the significant market decrease as compared to 2004 is essentially due to the lower quantity of batteries and of waste containing hazardous materials. The ratio between recuperated/recycled waste and total waste handed over is affected by the related nature and by ever-increasing interaction with companies. The sustained high-level of such indicator shows the efficiency of the process.

WASTE HANDED OVER

	Group 2006	Group breakdown by BU (%)		
		Operations and other activities (*)	Media	Olivetti
kg	14,706,881	88.52%	0.23%	11.24%

(*) In "The Environment" chapter tables, the scope relative to Operations and other activities include Wireline, Domestic Mobile, Mobile Brasil, Central Departments and Entel Bolivia Group.

► Waste Management

Computerised waste accounting books, that expedite the management of waste produced by Telecom Italia and also allow regular monitoring, have been updated in 2006 to implement changes brought forth by the recent Legislative Decree 152/06.

The operational procedures on waste management of Telecom Italia and Telecom Italia Sparkle have been updated to conform to the new organisational structure.

Office differentiated waste collection activity has been increased and has involved over 30 offices in Rome and Milan. In 2007 such project will concern other national offices.

Paper, glass, plastic, aluminium and wood separately collected will be handed over to consortiums specialised in recycle/recuperation. An information campaign has been launched on this issue to raise staff awareness and involve them.

In Latin America, Tim Brasil premises and shops have been equipped with containers appropriate to collect used batteries.

The organisational, logistic and economic impacts of Legislative Decree 151/05 – dealing with the management of waste from electrical and electronic equipment (WEEE) – on Telecom Italia have been thoroughly investigated. Telecom Italia is concerned by the above mentioned Legislative Decree as both an indirect and sometimes direct producer of such waste.

From this viewpoint and considering the need to manage mobile terminals handed in by employees upon periodic renewals of service equipment, a project has been launched involving the withdrawal of technically obsolete equipment. Mobile terminals are either sold to be reused or undergo recuperation, particularly concerning substances representing potential environmental and social risks (mercury, lead, cadmium, chrome, and tantalum).

► Recuperation of wooden telephone poles

In compliance with the Agreement Program on wooden telephone poles, signed in 2003 with the Ministry of the Environment, the Ministry of Production Activities, the Conference of State and Regions and the recuperation company, in 2006 the Group continued the recovery of the poles. Details are shown in the table below.

TELEPHONE POLES REMOVED

	Telecom Italia S.p.A. 2006	Change %	
		2006 vs 2005	2006 vs 2004
no.	190,124	-7.49%	15.23%

The number of poles removed with respect to 2005 is decreased, showing the failed achievement of the objective set out in the Agreement Program for 2006. The failure was mostly due to the lack of available connection technologies alternative to wooden poles, compared to program forecast.

The recuperation activity will continue in 2007 in line with the engagements undertaken.

► Paper

Paper consumption breakdown by Business Unit and related incidences on Group's total volume are reported below.

PAPER		Group 2006	Group breakdown by BU (%)		
			Operations and other activities	Media	Olivetti
Non recycled paper purchased	kg	1,119,712	96.97%	1.74%	1.28%
Recycled paper purchased	kg	25,233	98.93%	1.07%	-
Total paper purchased	kg	1,144,945	97.01%	1.73%	1.26%

Paper consumption is in line with 2005 data.

To improve the trend an awareness campaign concerning all employees of Italian offices has been launched, in order to promote a reduction of paper consumption and use of recycled paper instead of new one.

TIM Brasil adopted specific procedures to reduce paper consumption in offices (two-sided print, shared printers).

► Water

Water consumption data relative to Telecom Italia S.p.A. and the Group are reported below.

WATER CONSUMPTION		Telecom Italia S.p.A. 2006	Change %	
			2006 vs 2005	2006 vs 2004
	m ³	4,220,492	-11.38%	-24.04%

WATER CONSUMPTION		Group 2006	Group breakdown by BU (%)		
			Operations and other activities	Media	Olivetti
	m ³	4,856,550	93.98%	0.42%	5.60%

Decreasing trends are the result of special monitoring of water consumption carried out on the most staffed premises of Telecom Italia S.p.A..

The rationalisation of office spaces had led to the closure of over 400 premises, thus contributing to the decrease of water consumption.

In Southern America TIM Brasil has promoted several water consumption rationalisation activities, among which the installation of timers on office taps, the reuse of rainwater, the collection and reuse of waste water.

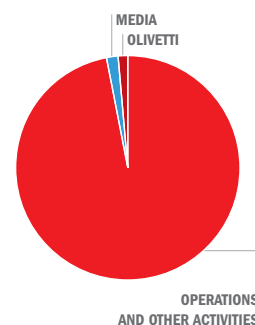
► Energy

Electricity consumption data relative to Telecom Italia S.p.A. and the Group are reported below.

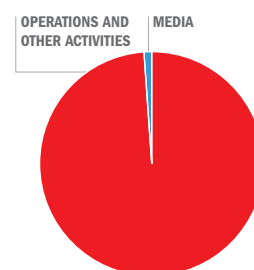
► Electricity

PURCHASED OR PRODUCED ELECTRICAL ENERGY		Telecom Italia S.p.A. 2006	Change %	
			2006 vs 2005	2006 vs 2004
Electricity from non-renewable or mixed energy sources	kWh	2,076,938,000	7.95%	12.08%
Electricity from renewable energy sources	kWh	30,000,000	-63.55%	-78.96%
Total purchased or produced electricity	kWh	2,106,938,000	5.02%	5.57%

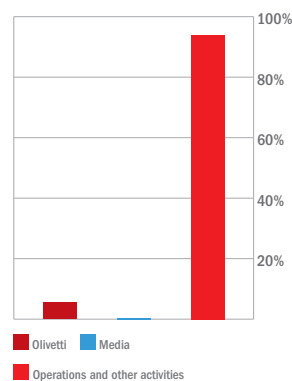
Non recycled paper purchased (%)



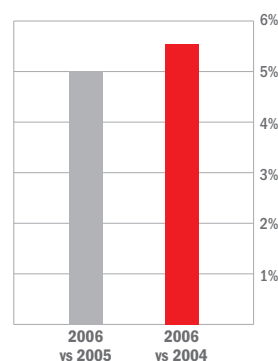
Recycled paper purchased (%)



Water consumption



Purchased or produced electrical energy



PURCHASED OR PRODUCED ELECTRICAL ENERGY

	Group 2006	Group breakdown by BU (%)		
		Operations and other activities	Media	Olivetti
kWh	2,571,429,921	97.87%	1.27%	0.86%

The increasing trend characterising electrical energy consumptions of Telecom Italia S.p.A. stems from growing energy requirements in the TLC sector, essentially due to data traffic increase and new services being offered. In this regard Telecom Italia is focusing on energy efficiency: as detailed below, the eco-efficiency indicator shows an approximately 60% improvement.

The decrease of energy certified as purchased from renewable sources is due to lower import band (energy imports from abroad) acquisitions in 2006 following the increase of customers on the free market in Italy. Approximately 20% of the energy comes from renewable hydroelectric and geothermic sources, solar energy plants and wind-farms.

The Group interest in the most promising technologies in the field of alternative energy sources is also showed by the following initiatives:

- installation of fuel cells in five locations (in Trentino Alto Adige, Piemonte, Sicilia). Through new storage technologies, these plants use hydrogen as energetic back up for powering mobile telephony transmission equipment;
- implementation of four photovoltaic plants, each having 30 kW nominal power, as back-up of as many telephone exchanges;
- assessment of innovative self-routing concentration photovoltaic plants for company purposes, enabling an increase of electric yield up to 35% as well as a reduction of costs for plants and spaces occupied.

Energetic efficiency in the industrial consumptions of the Technology has been improved through the following initiatives:

- replacement of energy stations with lower conversion yield;
- installation of new Free Cooling plants;
- replacement, rationalisation and optimisation of conditioning plants;
- compacting of commutation modules;
- switch-off of obsolete plants and equipment.

TIM Brasil implemented several projects to rationalise electrical energy consumption, too:

- automatic lighting and conditioning;
- electrical circuit sectioning;
- installation of presence sensors;
- replacement of incandescence lamps with fluorescence ones.

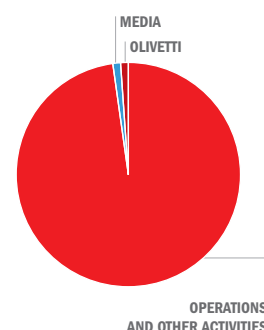
Eco-efficiency indicator

The formulation of this indicator is meant to monitor and improve the Group's energetic efficiency. It is the ratio between the service offered to customers (simplified to the quantity of transmitted bits) and the related environmental impact (proportional to energy consumption).

We considered the voice and traffic data, both from fixed and mobile networks, as well as industrial (conditioning of plants, network operation) and civilian energetic consumptions (i.e. office heating, vehicle fuel consumption, office electricity consumption).

The evidence of an eco-efficiency improvement trend of TLC processes/services is given in the following table relative to the indicator that measures transmitted bits on energy consumption.

Purchased or produced energy (%)



The 2006 improvement compared to 2005 is due to the increased number of transmitted bits deriving especially from the increase of new broadband lines and a larger use of the existing ones. Our commitment continues with the definition of an improvement goal for 2007 published on our website www.telecomitalia.it, in the Sustainability section.

Year	kBit/kWh	Bit/Joule
2003	492,082	137
2004	777,248	216
2005	1,311,676	364
2006	2,144,178	596 (*)

(*) 2006 data has been calculated on the basis of management data (period January/September) and based on estimates of traffic and consumption volumes (period October/December).

Concerning energetic efficiency, the European Union, through the Joint Research Centre (JRC) and with the involvement of the most important players of the sector, has promoted a Code of Conduct (CoC) aimed at minimising energy consumption for broadband connection services. The CoC has been established also thanks to Telecom Italia coordination and is in force since January 2007. It defines power management methods and technical solutions for the containment of energy consumption concerning both customers and providers, without compromising the technological development and the quality of services. Adhesion to CoC is voluntary and is also promoted by ETNO as it implies to undertake engagements in line with ETNO Sustainability Charter and ETNO Energy Policy. Telecom Italia is currently evaluating adhesion procedures to CoC.

► Heating fuels

ENERGY CONSUMPTION FOR HEATING SYSTEMS

	Telecom Italia S.p.A. 2006	Change %	
		2006 vs 2005	2006 vs 2004
Energy consumed - heating fuel	MJ 161,740,466	-2.81%	-8.06%
Energy consumed - methane heating	MJ 726,164,586	-4.72%	-4.30%
Total energy consumed for heating	MJ 887,905,052	-4.37%	-5.01%

Heating consumption data show a remarkable reduction due to the optimisation of office space. The fuel mix used reflects the company's commitment on the improvement and modernisation of heating systems, through the replacement of obsolete diesel oil heating systems with methane ones.

ENERGY CONSUMPTION FOR HEATING SYSTEMS

	Group 2006	Group breakdown by BU (%)		
		Operations and other activities	Media	Olivetti
MJ	1,002,395,510	92.51%	0.43%	7.06%

► Vehicle fuels

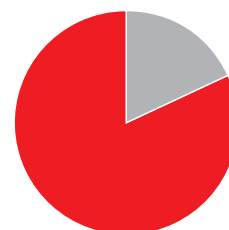
VEHICLE FUEL CONSUMPTION

	Telecom Italia S.p.A. 2006	Change %	
		2006 vs 2005	2006 vs 2004
Unleaded petrol consumption	l 16,985,560	-10.28%	-13.27%
Diesel oil consumption	l 8,949,711	7.93%	-4.10%
Total vehicle fuel consumption (*)	MJ 865,767,950	-4.33%	-10.11%

(*) Represents the conversion in MJ of unleaded petrol and diesel oil consumption expressed in liters.

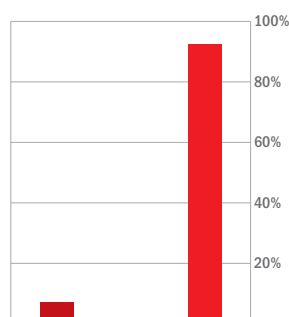
Total consumption data in megajoule show decreased vehicle consumptions consistently with the decrease of distance travelled (see the following table), thanks to corporate rationalisation policies on vehicle use.

Energy consumption for heating systems (MJ)



■ Energy consumed - heating fuel
■ Energy consumed - methane heating

Energy consumption for heating systems



■ Olivetti ■ Media
■ Operations and other activities

The increase of diesel oil consumption and the reduction of petrol consumption are due to a partial fleet renewal in favour of diesel vehicles.
LPG consumptions have not been included in the preceding table as not remarkable.

NUMBER OF VEHICLES AND DISTANCE TRAVELLED

		Telecom Italia S.p.A. 2006	Change %	
			2006 vs 2005	2006 vs 2004
Total number of vehicles	no.	22,133	-2.64%	0.98%
Number of low-emitting vehicles (*)	no.	21,775	-3.80%	-0.36%
Overall distance travelled by vehicles	km	314,338,775	-5.80%	-7.65%

(*) Unleaded petrol vehicles, eco-diesel, bludiesel, LPG (compliant in Europe to the Euro4 standard or higher), electrical vehicles or vehicles using other fuels with comparable or lower emissions.

NUMBER OF VEHICLES AND DISTANCE TRAVELLED (*)

		Group 2006	Distance travelled breakdown by BU (%)		
			Operations and other activities	Media	Olivetti
Total number of vehicles	no.	24,309	98.52%	0.44%	1.04%
Overall distance travelled by vehicles	km	356,619,773	97.60%	0.63%	1.77%

(*) Data shown are related to distances travelled and number of all the Group's vehicles (industrial, commercial, granted in use to senior/middle managers), both through leasing and ownership. Concerning Entel Bolivia and TIM Partecipacoes, vehicles owned by the sales force and the related distances travelled are included only in the case of significant use for corporate purposes and when characterised by continuity of use.

► **Atmospheric emissions**

The only significant concern of Telecom Italia as to atmospheric emissions is carbon dioxide (CO₂). These are divided by indirect emissions (deriving from electrical energy used to power telephone and data networks and premises) and direct emissions (fuel used for heating and vehicles).

ATMOSPHERIC EMISSIONS

		Telecom Italia S.p.A. 2006	Change %	
			2006 vs 2005	2006 vs 2004
CO ₂ emissions from consumption of electrical energy produced by mixed sources	kg	908,907,531	7.31%	14.74%
CO ₂ emissions due to heating systems	kg	59,107,598	-4.33%	-5.10%
CO ₂ emissions due to vehicle consumption	kg	61,693,999	-3.98%	-9.92%
Total CO ₂ emissions	kg	1,029,709,127	5.83%	11.57%

In 2006, notwithstanding the confirmation of the reduced emission consumption trend concerning vehicles and heating, the increased consumption of electrical energy from non renewable sources has caused an increase of CO₂ emissions as compared to 2005.

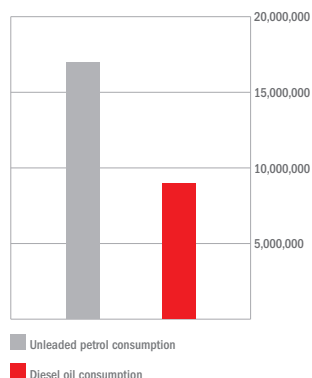
CO₂ emissions have been calculated according to UNEP (The GHG Indicator: United Nations Environment Programme Guidelines for Calculating GreenHouse Gas Emissions for Businesses and Non-Commercial Organizations) and ETNO criteria within the framework of the "Climate Change" project.

Data pertaining to emissions from electrical energy consumption have been derived from parameters published by Enel in its 2005 Environmental Report.

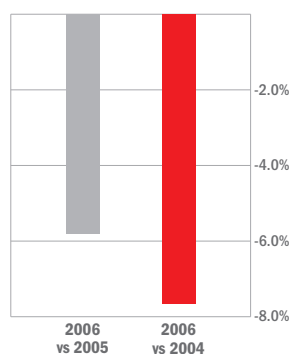
ATMOSPHERIC EMISSIONS

		Group 2006	Group breakdown by BU (%)		
			Operations and other activities	Media	Olivetti
CO ₂ emissions from consumption of electrical energy produced by mixed sources	kg	977,273,841	98.24%	1.46%	0.30%
CO ₂ emissions due to heating systems	kg	66,643,908	92.56%	0.42%	7.02%
CO ₂ emissions due to vehicle consumption	kg	94,220,405	98.05%	0.55%	1.40%
Total CO ₂ emissions	kg	1,138,138,153	97.89%	1.32%	0.78%

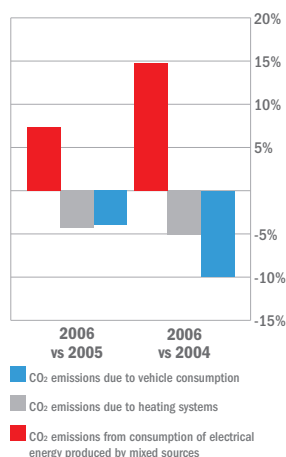
Vehicle fuel consumption (liters)



Overall distance travelled by vehicles



Emission change



► Climate change

Scientific evidence supports the causal relationship between greenhouse gas emissions and climate change, hence the need to reduce CO₂ emissions, also involving significant economic repercussions.

The TLC sector may play a significant role both by developing technologies and prompting behaviours helping to reduce greenhouse gas. The Telecom Italia Group is well aware of this. The Group approach is based on two different action levels: to reduce its own greenhouse gas emission on one side, to favour and support the dematerialisation of assets and services on the other side.

As far as the reduction of the Group's greenhouse gases, the following initiatives were launched in 2006:

- a multi-year modernisation program, designed to renew vehicles and heating systems through technological choices having lower environmental impact, has been launched in view of reducing direct emissions. In 2006 1,600 Euro3 vehicles have been replaced with 1,500 Euro4 vehicles. Such vehicle renewal brought forth an approximate 30% reduction of CO₂ emissions that would have been produced by the replaced vehicles. We are also continuing to replace thermal plants fuelled by oil with methane-fuelled plants, allowing to reduce CO₂ emissions for the heating of buildings. The replacements implemented in 2006 achieved a CO₂ emissions reduction equal to 800 tons.
In the "Energy" and "Atmospheric emissions" paragraphs of this chapter the trends related to the consumption of fossil fuels and greenhouse gas emissions are reported;
- as compared to 2005, an approximate 60% improvement of eco-efficiency has been achieved, with the related effects in terms of greenhouse gas emissions reduction.

As far as asset and service dematerialisation, the Group provides products and services enabling to eliminate or reduce the greenhouse gas emissions caused by people and object displacement. Here are some examples ⁽³⁾:

- Videoconference and audio conference services avoid the physical displacement of people.
- TLC services allow telework and the consequent reduction of house/office displacement of employees.
- Online invoicing and payments, besides allowing saving paper and consequently the energy related to production and transportation, eliminate displacements to make payment.
- Thanks to Telemedicine services (see the related paragraph in "The Community" chapter) the need for doctors and patients to meet is reduced, thus avoiding displacements and the related greenhouse gas emissions.
- By using information obtained from mobile terminals, Infomobility projects (see the related paragraph "Study and experimentation of innovative services" in the "Customers" chapter) allow to better manage traffic, thus reducing both travel time and CO₂ emissions.

The Group also takes part in the initiative launched by ETNO and by WWF "Saving the climate @ the speed of light" – information & communication technology for CO₂ reductions".

The initiative, supported by Margot Wallström, current Vice-President of the European Commission, is set out in two objectives:

- to demonstrate the concrete possibility to reduce CO₂ emissions through the application of ICT solutions, giving specific examples of applications developed by European TLC operators in co-operation with University centres and Research Institutes;
- to promote within the European Commission context the implementation of such solutions and their inclusion in EU strategies for sustainable development.

(3) According to estimates: 100 million audio conferences avoiding physical displacement would lead to save more than 2 million CO₂ tons; 10 million teleworkers, working just two days a week from home, would save approximately 11 million tons of CO₂; 10 million users receiving on-line invoices for telephone services, instead of traditional paper invoices, would make it possible to save approximately 11,000 tons of CO₂.

Examples are purely indicative and the purpose is just to give a concrete idea of TLC service potential.

They are based on projects that are audited by independent third parties, and are tested on a small scale by ETNO members within the framework of the initiative "Saving the climate @ the speed of light", developed together with WWF (www.etno.be/sustainability).

As far as the emission of substances depleting stratospheric ozone that protectively shields life on earth filtering harmful UV radiation, starting from January 1st, 2009, the marketing of ozone-depleting substances (e.g. HCFC) for conditioning plants will be banned. The Group is therefore taking steps to upgrade its plants using ozone-depleting gases (about 25,000 units, 90% with respect to the total plants). A gas compatible with ozone-protecting requirements has been successfully tested on a sample of about 100 conditioning plants.

► Electromagnetic emissions

The commitment of Telecom Italia Group to the electromagnetic emission issue is substantiated by the following:

- careful and accurate management of plants along their whole life cycle, in observance of regulations in force and of internal standards of efficiency and security;
- use and continuous research of advanced technological tools for control and monitoring.

The most significant initiatives of the year are detailed below.

The SAR qualification (Specific Absorption Rate) for mobile terminals is applied to assure electromagnetic field levels lower than limits established by national and EU regulations. Controls on terminal Specific Absorption Rates, carried out by Telecom Italia laboratories, are meant to control manufacturers' assurances. In this regard the Group has fulfilled its commitments for 2006 (we qualified the 88% of mobile terminals ⁽⁴⁾) and has defined a challenging goal for 2007 (see the Sustainability section of the Group website).

Concerning the electromagnetic emissions of Base Transceiver Stations (BTS), the goal to reduce, during maximum voice traffic periods, the power emitted by the GSM Base Transceiver Stations, thus reducing electromagnetic field intensity has been attained.

The GSM standard involves as a matter of fact multiple voice codes: Full Rate (FR), requiring a radio resource for each conversation, Half Rate (HR) requiring one radio resource for two simultaneous conversations. The power emitted by radio transceivers is lower with the HR code but it requires a careful design of the network.

In this regard we have identified locations that are particularly significant in terms of emissions and have reduced BTS emissions using the Half-Rate code (instead of Full Rate). Our goal for 2007 (see the Sustainability section of the Group website), has been reformulated in view of the growing importance of UMTS technology. The basic consideration, in order to reduce magnetic field emissions, is that as the traffic carried by UMTS BTS increases, there is an augmentation in the power emitted and therefore a higher intensity of the electromagnetic field. Traffic carried being the same, if two radiofrequency carriers are used (additional reception/transmission frequency), instead of a single carrier, the total power emitted by the Station is lower. In high-traffic conditions a 15% power reduction is achieved.

The TI Media Group substantiates its commitment on the issue of electromagnetic emissions also thanks to co-operation with the Department of Occupational Medicine of the University of Turin.

A program has been launched for the systematic and periodic monitoring of electromagnetic emissions levels of La7, MTV and TIMB plants (Telecom Italia Media Broadcasting), in order to ensure the observance of law limits in force and high safety standards. The Telecom Italia Media Group controls in particular that:

- the electromagnetic field levels produced by the emissions of its plants are always lower than 20 V/m in areas that can be reached by people not belonging to the Company and that in areas including houses, nurseries, schools or in any case attended for more than 4 hours daily, electromagnetic fields levels must be lower than 6 V/m;
- worker exposure levels are not higher than limits established by Directive 2004/40/EC.

(4) The percentage refers to the total of mobile terminals of the most widespread and technologically innovative type.

On the basis of controls performed on the Italian territory in 2006, the electromagnetic emissions generated by La7 and MTV resulted within lawful limits, showing significantly lower values with digital television transmission ⁽⁵⁾.

Electromagnetism and the study of its potential effects on biological systems has been for several years the subject of much debate within the scientific community and public opinion. The regulations, studies and research on this subject are available on the Italian version of the website www.tim.it (per il sociale/ambiente/elettromagnetismo).

► Acoustic emissions

In observance of regulations in force the control of acoustic emissions by corporate plants continued.

In 2006, 414 intensity measurements on the noise produced by conditioning plants and power plants of telephone exchanges and Base Transceiver Stations have been performed, and appropriate steps have been taken in the occurrence of non-conformance.

► Environmental Management Systems

Environmental Management Systems (EMS) contribute to the sustainable management of productive and support processes and stimulate a continuous improvement of the environmental performance.

The four systems, i.e. fixed network, mobile network, TILab (having ISO 14001 and ISO 9001 certification) and ICT (having ISO 9001 certification) have been integrated in a single System developed in compliance the UNI EN ISO 9001 and UNI EN ISO 14001 requirements and managed by the Technology Department of Telecom Italia.

The system has been verified with positive outcome during three audit sessions by the CSQ certification Board. Audits involved two territorial areas and the central departments. Several internal audits have moreover been held in order to check the implementation and application of the Environmental Management System in observance of the ISO 14001 and of requirements defined by corporate procedures regulating all activities having an environmental impact.

Olivetti I-Jet and TI Sparkle confirmed their certification for ISO 14001 also for 2006.

In the "Customers" chapter the environmental certifications achieved or confirmed in 2006 are reported.

"The Environment" Project

Started in 2004 with an action plan spanning over the three years 2004-2006 the project has been reviewed in 2006 to ensure the appropriate monitoring of environmental issues within the Group. For each approved project, a project manager in charge of the implementation has been identified while an Operation Committee and a Steering Committee have been established to assure constant monitoring on activity progress, the approval of new projects and the related funding.

Among the new proposals already approved by the Steering Committee there are the implementation of new Environmental Management Systems, the management of waste from electrical and electronic equipment and the intervention on conditioning plants operating with stratospheric ozone-depleting gases.

(5) The digital technique allows a 75% reduction of electromagnetic emissions with respect to traditional analogical techniques.

The Community



► Strategy

The Group aims at assisting in the economic welfare and growth of the communities in which it operates by providing efficient and technologically advanced services.

In keeping with these objectives and with the engagements undertaken with stakeholders, the Group's companies consider research and innovation to be priority factors for growth and success.

Compatibly with their own nature of private subjects and the need for economic efficiency, in their decision-making processes, the Group's companies do consider the social significance of telecommunication services, meeting the needs of the Community and of its less fortunate members.

The Group favourably regards and supports social, cultural and educational initiatives meant to promote the human being and to improve its life standards.

► Classification of the contribution according to the LBG model

In 2006, the contribution of the Group to the Community, calculated according to the guidelines of the London Benchmarking Group (LBG), is equal to approximately euro 42.4 million (euro 41.8 million in 2005).

Contributions have been calculated on the basis of management data appropriately reclassified and partly based on estimates.

Founded in 1994, the LBG is an association comprising over 100 large international companies and represents the worldwide standard of reference for the classification of contributions to the Community.

To measure and report corporate commitment to the Community, the LBG has devised a pyramid model that reclassifies contributions according to three different categories ⁽¹⁾ (Charity, Investments in the Community, Initiatives in the Community).

The criteria adopted for the allocation of contributions to the various levels of the pyramid are reported in the following table.

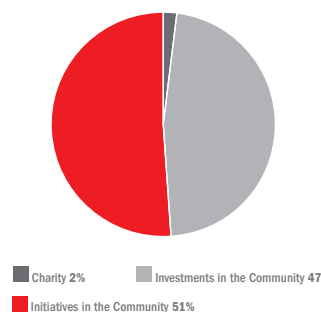
LBG model (millions euro)



(1) The LBG model foresees the inclusion of the activities mainly characterised by the Group's sense of moral responsibility into the first three levels of the pyramid, leaving to the companies the choice of reporting on the activities directly linked to core business (business basics). This year the business basics are not reported, therefore the 2006 data is comparable with the sum of the first 3 levels of the pyramid that amounted to euro 41.8 million in 2005.

<p><u>Charity</u> Intermittent support to a wide range of good causes in response to the needs and appeals of charitable and community organisations, increasingly through partnerships between the company, its employees, customers and suppliers.</p>	<p>Contributions to national/international organisations not based on a specific medium/long-term program. Sponsorship of causes or events, not part of a marketing strategy. Company matching of employee giving and fundraising. Costs of supporting and promoting employee involvement. Costs of facilitating giving by customers and suppliers.</p>
<p><u>Investments in the Community</u> Long-term strategic involvement of the company to address a limited range of "social" issues.</p>	<p>Memberships and subscriptions. Grants and donations based on a specific medium/long-term program.</p>
<p><u>Initiatives in the Community</u> Activities in the Community, usually by commercial departments, to support directly the success of the company, also in partnership with charities and community-based organizations.</p>	<p>Sponsorship of events, publications and activities to promote the brand and the corporate identity. Cause related marketing, promoting sales. Support to scientific and university research and to charitable organisations. Community-based care for consumers with special needs. Civil protection activities.</p>

Breakdown of contributions to the Community by the Telecom Italia Group (%)



► Progetto Italia

Telecom Italia Group's commitment to the Community was coordinated by the Brand Enrichment Department, with the goal of promoting and valorising the image of the Group with respect to Institutions, society, public and private bodies, and single citizens, both Italian and foreign, contributing to the cultural and social growth of our Country.

At the beginning of 2005, the Group established an ad hoc company, the Progetto Italia S.p.A., continuing its commitment towards the Community throughout the 2006 year.

From January 2007, the Brand Enrichment initiatives carried out by Progetto Italia are a responsibility of the External Relations Department.

In 2006 Progetto Italia organised about 100 initiatives in 80 Italian towns that involved nearly 600 protagonists from the world of culture, solidarity, education, entertainment and sports and the direct participation of more than one million people.

Some events were broadcast live at no charge through Internet on Rosso Alice: a new type of diffusion, that doubled the number of people enjoying these initiatives and that will be replied in the future for high-impact public events.

The most significant areas of intervention for 2006, classified in the second and third levels of the LBG model, are reported below.

The complete list of initiatives is available on the website: www.telecomprogettoitalia.it.

► Culture

Progetto Italia has spread the knowledge of our artistic and literary heritage to the greater public by organising events involving important protagonists of the Italian and worldwide culture qualifying the Group as a first-class promoter of the protection and management of the Italian cultural heritage.

► The contemporary

Through the creation of spaces, itineraries and ad hoc events Progetto Italia has valorised the contemporary and contributed to stimulate the discussion on authors and works of our time, with a multi-faceted approach that mixes literature, music and cinema.

▶ **Solidarity**

The Group's solidarity initiatives by Progetto Italia consisted of significant contributions to improving the living conditions of the less fortunate such as minors and disabled people. The Trovanoprofit.it portal has been designed and launched with the aim to facilitate contacts among companies, non-profit organisations and people wishing to participate in voluntary activities.

▶ **Training**

Progetto Italia has favoured innovative methods of spreading the technologies that support the Group services, paying special attention to sectors of the population having fewer opportunities for enrichment and learning, such as the elderly.

▶ **Sports**

Sports activities promote positive values such as loyalty, team-work and respect towards the opponent. Progetto Italia has contributed to the diffusion of these values through dedicated projects, ranging from competition in schools to events in clubs and town squares.

A breakdown – according to the LBG model – of some of the Group's initiatives undertaken in 2006 is reported below.

▶ **Lev. 1 - Charity**

▶ **SMS and solidarity calls**

This is a fundraising tool created with the purpose of enabling customers to donate to non profit associations by sending an SMS or by a telephone call. The immediacy and simplicity of this tool allows a more direct appeal to people's generosity and easier donations. All funds raised have been allocated without deductions by tax authorities (thanks to the awareness campaign launched by telecommunications companies and by non profit organisations, this kind of fundraising is exempt from VAT) and by the company for the costs incurred.

The most significant fundraising initiatives are detailed below:

- **Thirty hours for life**, meant to support the treatment of severe pathologies, scientific research and the fight for social malaise;
- **Chances for Children**, an initiative promoted by UNICEF whose objective is to allow access to primary education for 50,000 children in India, Brazil and Ethiopia within 2007;
- **SMS Lebanon emergency**, a project launched by WFP (United Nations World Food Programme), in agreement with all mobile operators, to support people affected by the Lebanon war.

▶ **School in Bolivia**

Entel Bolivia has implemented several initiatives aimed at supporting children's education:

- donation of scholastic materials to children coming from rural areas among the poorest of the country;
- activation of educational Tele-centres equipped with PCs and satellite broadband access to the Internet, aimed at promoting the use of IC technologies as educational tools for teachers and students in the rural areas of the country. The initiative brought to 34 the number of Tele-centres currently operating in the country in support of the education of 15,000 children;
- 24 grants awarded to deserving students from low-income families, selected through public competitive examinations.

▶ **Lev. 2 - Investments in the Community**

▶ **Telecom Italia - Let's train for life**

It is a recreational-educational programme designed by Progetto Italia for schools, and aimed at contributing to the cultural, civil and social growth of young people through motor education and sports as promoters of positive values.

The project is meant for schools at all levels and offers a series of educational tools and multidisciplinary didactic materials modulated according to age ranges, to teachers, students and families. The project is linked to the "Athletics-live" initiative that organises numerous meetings in schools between students and athletes from various sports disciplines each year. In 2006 99 meetings were organised throughout the Country, involving over 16,000 students, 97 schools and 178 athletes.

▶ **The solidarity ponies**

In 2006, thanks to the joint commitment of TIM and Progetto Italia, "The solidarity ponies" project, now in its eighth edition, has been renewed: it's a free initiative to support the "over 65s" aimed at providing assistance in the home.

The elderly may call a telephone number provided by their Municipality or by the Associations participating in the project to request help. The Municipality operators, connected to an operating exchange, switch calls to the mobile phones of volunteers who can readily swing into action also on holidays.

In 2006 the project involved six important Italian towns (Milan, Turin, Bologna, Rome, Naples, Palermo).

▶ **TIM Music in the schools**

Originated in 2003 thanks to the partnership between the Brazilian Government and TIM Brasil this project aims – through musical education – at the social recovery of children and teenagers who live in at risk situations.

To date, the program saw the participation of 14,540 children from 42 different public schools: during the weekly music courses notions of civics and peaceful coexistence are imparted to students. Teachers use novels, poetry, films, and comedies as a basis for their lessons, in the attempt to attract young people to studies.

The project covers eight towns and also involves shows in hospitals, organised by the students themselves, now known as "Pequenos Ambaixadores de Paz" (Little Ambassadors of Peace).

▶ **Sou ligado!**

The Group's mobile companies and the Visão Mundial NGO have implemented the "Sou ligado!" (I'm connected!) project, a digital inclusion program in Pernambuco, in the North-East of Brazil.

By supplying mobile phones and granting Internet access to small traders and low-income professionals, along with providing them lessons on the use of basic communication technologies, this project has improved their economic performance.

▶ **Lev. 3 - Initiatives in the Community**

▶ **Call centres in the prisons of Rebibbia and San Vittore**

The Ministry of Justice and Telecom Italia jointly operated to organise two call centres – the first in 2003 in the San Vittore district prison in Milan and the other in 2005, at the Rebibbia prison in Rome – for the provision of Direct Assistance services by the convicts.

This is the first initiative of its kind implemented at a penal institution in Europe, both considering its organisational characteristics and the kind of activity carried out. The initiative received an award for the best Community partnership program, in the fourth edition of the Sodalitas Social Awards that rewards the most significant social initiatives each year carried out by Italian companies in the various sectors of corporate responsibility.

▶ **Future Centre**

The Centre is located in the heart of Venice and offers a program including both cultural and social initiatives. It is a permanent exhibition on technological innovation allowing visitors to both see, touch and try out the new technologies created in TILab, as well as to attend exhibitions and conferences.

The Future Centre also offers an Internet Saloon, a teaching centre launched in January 2005 and offering free courses to people aged over 60 on Internet navigation and information technology basics. The participants receive a certificate confirming their ability as "Internet surfers".

▶ **Technology in support of minors**

Through its services and telecommunications infrastructure, Progetto Italia has realized several initiatives in support of minors:

- **114 Childhood emergency:** it is a free service, accessible from fixed networks, to report situations of distress or immediate danger for the personal psycho-physical safety of children and teenagers. The management of reports has been entrusted to Telefono Azzurro, the most important Italian association for the safeguard and protection of children.
- **Parents telephone service:** it is an initiative promoted by the Fondazione Movimento Bambino and involves a listening service for parents, free of charge and covering the entire national territory, aimed at providing answers to questions that may arise from the parent-child relationship.
- **Dreams Mission:** a “mini-portal” has been created in order to offer hospitalised children a double possibility: a video-chat to communicate with their families, teachers and friends as well as a series of films, sports events, games and didactic content, thus lessening the burden of hospitalisation. The service is operating at the Paediatrics Department of the Tumor Institute of Milano.

▶ Relations with Universities

The Telecom Italia Group is strongly committed to support the University world and training centres for young university graduated. At this purpose, it sponsors scholarships and master programs. Through an internship mechanism, the Group supports the technical training of approximately 300 young people every year with a financial commitment equal to about euro 800,000. Moreover, in 2006 a master fully supported by the Group has been launched at the Turin Polytechnic Institute. The master aims at favouring training on the innovation of networks and services for 40 young engineering graduates.

The Group's contribution to youth training also involves the time dedicated by many of its managers to university courses and masters, as well as to internship workers, students and undergraduates.

▶ Business basics

Business basics are the Group's initiatives linked to core business having a significant impact on the Community.

▶ Mobile Care

It is a multimedia video-assistance service for hearing impaired people developed in co-operation with ENS (National Agency for Deaf-Mutes). It allows receiving free of charge all information required to use mobiles and mobile telephony services in the Italian sign language. The hearing impaired people just connect to the WAP 119 service, access the dedicated area and navigate within a menu. Once the information required is selected, a recorded film is displayed on the mobile, providing all the necessary explanations in the Italian sign language.

▶ Telemedicine

Telecom Italia, shareholder of Telbios, continues its strict collaboration with this company for the development of joint offers that integrate their relative operational and business competences.

Telbios develops Telemedicine networks designed to share images, data and medical-scientific competences among renowned hospital centres and remote healthcare facilities, in order to extend the availability of appropriate specialised assistance and to expand the offer of services to patients throughout the Country, thus ensuring the continuity of treatments administered in the hospital and reducing the number of medical checks and unnecessary hospitalisations.

Telbios telemedicine services are Teleassistance, Telecardiology and Telemonitoring. Directly from the home, the patient may record his vital parameters using cutting-edge telemedicine equipment provided by Telbios: electrocardiographs, spirometers, sphygmomanometers, digital balances, etc. The data recorded may be transmitted through a simple telephone connection or by using a GSM mobile to the Telemedicine Service Centre of Telbios, where specialised operators and specialists of the cardiology team of the San Raffaele Scientific Institute of Milan are available around the clock. Data are analysed in real time at the Centre or are sent to specialists of other healthcare facilities that are treating the patient.

The goal of the Telbios services is the improvement of medical assistance, of the collaboration between doctors and patients, in view of a better and more efficient healthcare system.

► Research, Development and Innovation

The TLC Italian market is considered among the most advanced, both from the technological viewpoint and evolution of customer attitudes as well as customer consumption profiles.

To Telecom Italia Group technological innovation is therefore an essential and differentiating element in order to develop a competitive advantage and maintain leadership in an increasingly competitive market.

The wealth of technological and innovative competences of the Group has allowed in these years the design, development and adoption on the field of cutting-edge networks, terminals and services, a wealth to be used also in foreign countries where the Group operates.

Technological innovation activities are carried out not only by the "TILab - Innovation, Engineering & Testing" department of Operations – where the activities and expertise needed for basic research are concentrated, to evaluate emerging technologies and intra-moenia development – but also by some Operating Units and Business Units (Network, Market, Information Technology, Web & Media and Security) and by Olivetti.

The technological innovation of the Telecom Italia Group is also the result of strategic partnerships with leading manufacturers of TLC equipment and systems and with top research labs belonging to world-class academic institutions in Italy and abroad.

Technological innovation activities range from reviewing basic technologies with the aim of increasing efficiency of networks and systems, to complex activities which involve an in-depth review of the platforms, services and architectures; the effort bestowed on the field by Business Units' operational departments is therefore essential to ensure that new services meet customer requirements and continuously improve quality levels.

In 2006 the overall innovative investments of the Telecom Italia Group in tangible and intangible assets amount to approximately euro 3,200 million. Internal staff devoted to these activities as well as to research is approximately 6,300, with an overall commitment of around euro 540 million (of which about euro 130 million already included under investments).

In 2006 the R&D centres of the Telecom Italia Group carried out in particular the following activities.

► TILab - Innovation, Engineering & Testing

"TILab - Innovation, Engineering & Testing", a department of the Operations Technology division, operates as a competence centre for the activities of Research, Development and Testing of the Telecom Italia Group, catalysing technological innovation in support of departments in charge of business development. It also operates externally as excellence centre for the TLC sector.

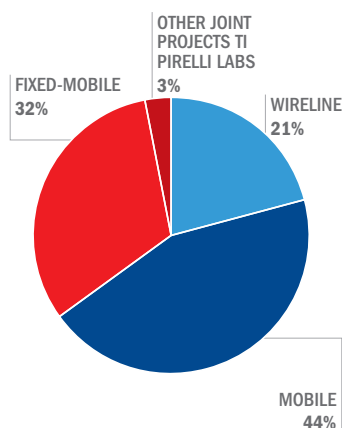
Consistently with such commitment, its technical experts operate therefore for innovation engineering and testing, to make it rapidly and economically accessible to the Group's customers in the context of the Italian telecommunications market, considered among the most advanced at world level both from the technological viewpoint and that of customer attitudes and consumption evolution.

Technological innovation is therefore for the Telecom Italia Group the essential and qualifying issue enabling their competitiveness and leadership in a market characterised by growing competition levels.

The technological innovation of the Telecom Italia Group is also the result of strategic partnerships with leading manufacturers of TLC equipment and systems and with top research labs belonging to world-class academic institutions in Italy and abroad (Polytechnic of Turin and Milan, Universities of Pisa, Genoa, Florence, Rome, Naples, Bologna, Reggio Emilia, Brescia and Verona, University of Berkeley, Ministry of Innovation and technologies).

In co-operation with the Technical University-Polytechnic of Turin we also launched a University Master on the subject "Network and service innovation in the ICT sector", with the view to train on specific technological competences thanks to a marked integration between classroom and laboratory activities.

In the field of technological innovation the strong focus put on the opportunity to generate competitive advantages and to create value for the Telecom Italia Group is also being pursued through a strategic management of relations among research, Intellectual Property Rights (IPR) and business, aimed at developing the corporate patent portfolio. In this context and as a consequence of placing more emphasis on the quality of patents instead of large numbers as in the past, in 2006 sixty-three new patents have been registered (86 in 2005), of which 4 following joint research projects with Pirelli Labs. A breakdown by activity sector is reported below:



Among the ongoing activities that in the next few years will be significantly perceived by the general public, the following are worth mentioned: the development of mobile communications and the spreading of broadband in a perspective of evolution of the network and services projected up to 2015.

In particular, results accomplished by TILab in 2006 have been addressed on one side to achieve a network platform appropriate to the new requirements in terms of traffic and geographic coverage of operating services and on the other side to favour the introduction of new service/terminals and new network architectures capable of increasing the Group's revenues. TILab also contributed, in co-operation with other departments, to improve the quality of existing services and to rationalise the acquisition costs for new network and user equipment.

Concerning the evolution of Network Architectures towards the Next Generation Network 2 (NGN2), the Group projected the evolution course that will lead in the next few years to the introduction in the Telecom Italia network of innovative architectures based on FTTB (Fiber to-the-Building) and FTTCAB (Fiber to-the-Cabinet) technologies. The new network and user technological platforms, the bases of these future developments, have been analysed and characterised whenever possible in the laboratory and through specific trials. The RFI/Requests for Information, to achieve vendors' state-of-the-art in the sector, have also been started.

As far as the updating of network platforms with the new requirements related to traffic and geographic coverage of operating services, several initiatives have been carried out in strict co-operation with Network Operation, which can be summarised as follows:

- expansion of ADSL functions in 1,125 further exchanges, also considering the requirements associated to the “digital divide” initiative;
- introduction of the ADSL2+ function for residential and business customers in 899 further exchanges, thus achieving 1,200 installations at the end of 2006;
- expansion in 497 exchanges of the network function supporting the Alice Home TV service; equipped sites are thus 836 at the end of 2006;
- expansion of network nodes for the UMTS service achieving an incremental total of 1,635 nodes;
- enrichment of UMTS nodes with functions enabling a markedly increased speed of data transmission on mobile terminals (HSDPA function) in 3,528 sites;
- start of the deployment of Core Network equipment, thus avoiding alterations in the mobile network traffic clearance following changes in 2G-3G user mixing;
- installation of a new release of the IMS platform (IP Multimedia Subsystem) enabling the Alice Mia and Push-Over-Cellular services over the whole national territory.

With reference to the contribution given by TILab to the launch of new services and terminals the following events are worth mentioning:

- organisation of the network and user terminal for the marketing launch of “Hi-Speed”, data transmission service on mobile based on HSDPA functions and with bit-rate up to 3.6 Mbit/s;
- organisation of the network and user terminal for the Telecom Italia fixed-mobile offer “Unica”;
- in co-operation with Mediaset, implementation of the DVB-H trial for the winter Olympic games in Turin and organisation of the network and user terminal for the marketing launch of the Mobile TV service;
- organisation of the network and terminal for the marketing launch of the Video-communication service based on the Combo terminal and of “Alice’s telephone”;
- development and organisation of network platforms for the launch of the “Instant Messaging” service between fixed and mobile network communities, the so-called “Alice Messenger”;
- activation of the Push-over-Cellular service for residential mobile users, within the “TIM Tribù” offer, enabling an innovative communication mode within a community of mobile customers;
- demonstration at the dealers convention of October 2006 and network organisation in view of the launch of the “News Click” service, providing multimedia content in the push mode to mobile customers;
- demonstration of statistical localisation solutions applied to city infomobility (Venice Biennial - Telecom Italia/MIT pavilion and subsequently in Rome);
- start of a Telecom Italia - Magneti Marelli project for a “service brokering” prototype solution for the automotive market, tested with the “Intelligent Parking” service on a prototype version of platform on vehicle;
- completion of the certification for the new product Aladino VoIP enabling the self-installation of the “Alice Voice” service within the “Alice All Included 30 euros” offer;
- experimentation and introduction of Home Networking solutions to simplify home wiring in support of the Alice Home TV service, based on radio technologies (Wi-Fi) or pre-existing home wiring (Powerline on mains or coaxial plant);
- tests in laboratory and in the field on m-commerce and m-ticketing solutions based on mobile terminal with ZSIM (Zigbee enabled SIM);
- certification of the new service for Business “2in1” customers (two numbers associated in the same SIM).

With respect to service quality quite significant are the TILab contributions to quality improvement on ADSL accesses and the Video-communication service.

TILab has also defined the technical solutions favouring the launch by the Group of important tenders related to Network Transport and Optical Packet Metro as well as to the second supplier of Access Gateway, with significant cost rationalisation results.

► Olivetti S.p.A.

The Olivetti Business Unit 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 250 people, corresponding to 18% of its total workforce.

In particular, the ink-jet technology, exclusively owned at European level by Olivetti, and by five other companies worldwide, was created and developed in the Arnad (Aosta) plant, where over 200 employees are engaged in the entire production cycle of thermal ink-jet technology: from silicon processing to print cartridges assembly. In 2006 the Olivetti research centre focused most of all on the development of new models of multifunctional printers and new generations of ink-jet print heads.

Human Resources



► Strategy

The Group's companies strongly believe in the centrality of Human Resources and consider the professional contribution of people operating in it as a key factor for business success, within a mutual loyalty and trust framework.

The Group's companies safeguard health and safety in the workplace and consider the respect of workers' rights as an essential issue in business.

The management of industrial relations aims at ensuring equal opportunities and favouring individual professional growth.

► Headcount and changes in Telecom Italia Group

Headcount at 12.31.2005 (*)	Changes in the period					Headcount at 12.31.2006 (*)
	Recruited	Terminated	Decrease of temporary staff	Changes in report scope	Total change	
86,531	6,086	(7,127)	(728)	(1,553)	(3,322)	83,209

(*) includes staff on temporary contract, equal to 3,382 in 2005 and 2,654 at December 2006.

Headcount at December 31, 2006 is 83,209.

The reduction of 3,322 employees with respect to December 31, 2005, is due to:

- the sale of Buffetti (– 183 employees), Wirelab (– 54 employees), Eustema (– 134 employees), TILS (– 195 employees), Digital Venezuela (– 915 employees) and of the “Radio-maritime services” (– 72 employees) by Telecom Italia S.p.A.;
- the entry of 6,086 employees (of which 119 related to sold/destined to be sold activities, i.e. “discontinued operations”) and the termination of 7,127 employees (of which 67 related to “discontinued operations”), plus a decrease of 728 employees of temporary staff.

► Headcount and changes in Telecom Italia S.p.A.

Headcount at 12.31.2005			Changes in the period								Headcount at 12.31.2006		
			Incorporated company TIM ITALIA 03.01.2006		Recruited	Terminated	Transfers among Group's companies (including the entry of Nuova Tin.it)	Increase of temporary staff	Sale of “Radio-maritime services”	Total change			
Staff	Temporary staff	Total	Staff	Temporary staff							Staff	Temporary staff	Total
52,731	9	52,740	10,315	1,303	526	(2,820)	360	48	(72)	9,660	61,040	1,360	62,400

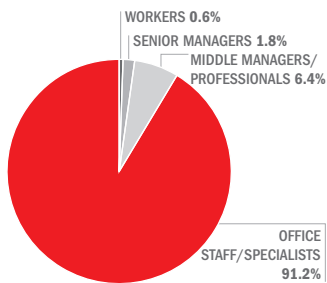
Headcount of Telecom Italia S.p.A. at December 31, 2006 is 62,400.

As compared to December 31, 2005 an overall increase of 9,660 employees is observed. This is mainly due to the merger by incorporation of TIM Italia into Telecom Italia S.p.A. (+11,618 employees).

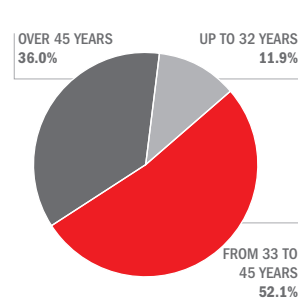
The sale of the "Radio-maritime services" (- 72 employees) occurred in September 2006.

In Italy the Group's payroll headcount is equal to 83.4% of the total with the following characteristics:

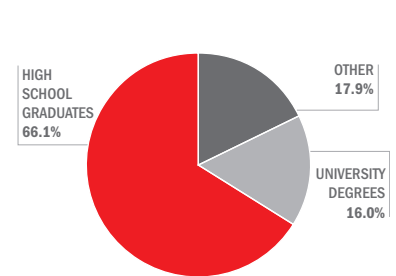
Telecom Italia Group - Italy: employee breakdown by professional category



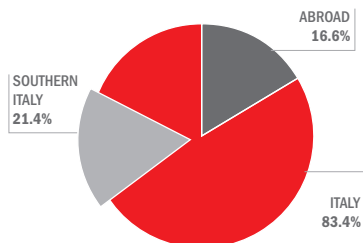
Telecom Italia Group - Italy: employee breakdown by age group



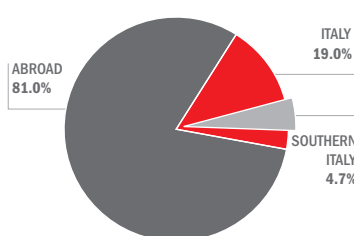
Telecom Italia Group - Italy: employee breakdown by academic qualification



Telecom Italia Group: employee breakdown by geographic area

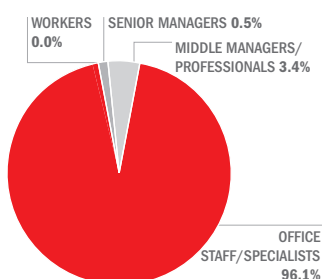


Telecom Italia Group: recruitment breakdown by geographic area

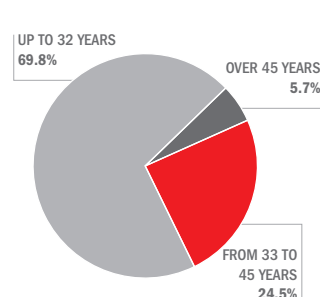


► Focus on Latin America

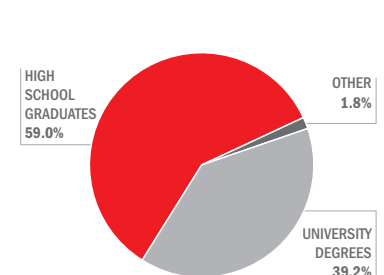
Latin America: employee breakdown by professional category



Latin America: employee breakdown by age group

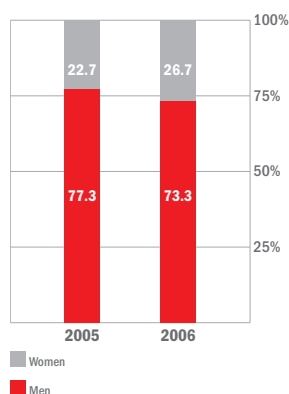


Latin America: employee breakdown by academic qualification

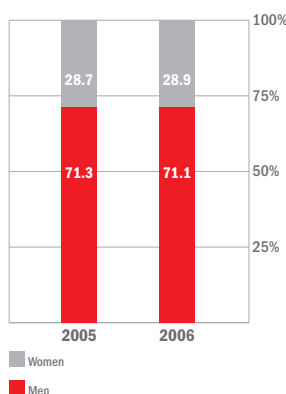


► Gender balance

Distribution of men and women
Telecom Italia S.p.A. (2005-2006)



Distribution of men and women
TI Group (in Italy) (2005-2006)



In 2006 the percentage of women holding senior management positions in the Group (in Italy) was approximately 15%; at middle management level it was about 24%.

Equal opportunities

Initiatives in favour of women professional growth and of the diffusion of equal opportunities have been launched, developing and consolidating issues included in the "Woman Project" of 2003.

The following activities have been developed in particular in 2006:

- Childcare centres: a new childcare has been inaugurated in Milan. Others have already been open in Rivoli (TO), Palermo, Naples and Rome (Parco dei Medici and Via Faustianiana).
- Loans for mothers: 147 loans have been granted to new mothers with children up to three years of age.
- Children day: on May 26, 2006, the "working mother's and father's day", the employees' children had access to all Telecom Italia offices to visit their parents' workplace. Seventeen offices organised entertainments with snacks and gadgets distribution.
- Christmas day: visit of the offices in 5 corporate premises with entertainment and small gifts for employees' children up to 12 years of age.
- Time off for mothers and fathers: "time chequebooks" for employees up to the fifth level (according to the Italian labour contract) and children up to 8 years of age, with 150 hours of time off every year to be repaid with overtime.
- Time off to attend: paid time off up to 12 monthly hours to be recuperated, granted to pregnant employees and fathers.
- Development of management policies: (training courses, training on the job, coaching, working time flexibility, etc.) to help women employees resume their jobs after maternity leave (i.e. temporary renewable part-time for a year, granted to mothers with children up to 8 years).

► Development

Several projects concerning the development of specific position at the various organisational levels have been launched in the year. In particular specific initiatives have been designed in order to define medium-term Individual Development Plans for key resources to our business in several segments of corporate staff: managers, middle managers, high-potential young employees.

Upon conclusion of the two-year Competence mapping process we continued in 2006 to identify the Key Professional Roles for business development within the various organisational

profiles mapped in the corporate Professional System. On the basis of the single gap analyses specific action plans have been defined, aimed at competence development through training programs, job rotation and recruitment initiatives.

Concerning in particular job rotations, in 2006 our policy meant to develop competences through intra-group mobility continued, thus favouring resource development and allowing to meet staff requirements using skills available within the Group. During the year 137 announces were posted on the Group Job Posting (as compared to 80 in 2005) and 1,084 curricula were collected (as compared to 500 in 2005).

In 2006 a new system (System for Performance Evaluation & Development) was designed and its implementation started. The basic idea was to simplify human resources assessment processes and to promote a more integrated assessment of individual performances. The project thus merges the yearly process of Performance Assessment and the biennial process of Competence Mapping in a single logic and computerised work flow. This new work flow integrates in the process the existing stand alone procedures, introducing the paperless processing.

Also in 2006 the "Management Review" allowed the analysis of the qualitative profiles of the whole management, assessing about 1,600 senior and middle managers. The process, through a new methodology using a specific leadership model, made it possible to elaborate more complete and richer assessment profiles. This helps to increasingly steer assessments on a succession management basis and to plan actions for organisational and managerial development.

In this regard, on the basis of the Management Review, a new initiative called "Individual Leadership Center" started. It refers to a part of senior managers and aims at analysing, with the support of external professionals and the co-operation of the concerned managers, single managerial profiles in view of specific development and training programs.

Recruiting

In 2006 the "University Tour" project, aimed at presenting our company in the main Italian universities, continued as well as the selection and recruiting plan concerning university graduates, mostly in Engineering. Within the initiatives promoted by the Group and involving student grants, the Master "Innovation" started, devoted to the placement of young engineers in study and training stages in technologically innovating sectors, in co-operation with the Polytechnic (Technical University) of Turin.

► Training

In 2006 training activities implemented for Telecom Italia Group's staff in Italy involved approximately about 1.9 million hours (class sessions, on-line, training on the job) and about euro 21.8 million of outlay costs (excluding the cost of labour and logistic expenses).

In the same period the 83% of the Group's staff has at least been involved in one training initiative. These activities can be traced back to two essential themes: the overall Group projects and training as a tool to safeguard the business competences.

Overall Group Projects

In 2006 the basic theme of training activities has been the improvement of leadership abilities and the management and development of innovation.

We also supported the wide diffusion of operational aspects associated to the project "Sarbanes Oxley (404)" through a "cascade" approach (567 people trained on the overall).

In order to expand the Group training an e-learning project, "Formimpres@", involving about 200 resources and offering 52 on-line courses, has been realized.

▶ Training as a safeguard of business competences

Operations

Specific projects and trainings for the various organisational structures have been developed with the view to favouring more business-oriented skills:

- convergence of fixed/mobile networks and relative technological developments with respect to Added Value Services and Multimedia services for Network staff;
- improvement of management competences and development of team working;
- focus on Customer Satisfaction and improvement of competences on advanced technological services for Sales staff;
- consultancy skills for staff operating in the Large Business Customers segment.

With regard to technical assistance management, the activities related to the CISCO certification program started some years ago, have been continued with the aim of improving the process management level.

Media

In line with 2005, training initiatives have concerned the "People enhancement" theme. Programs have been realised on "Management of complexity", involving senior and middle managers, and on "Self Empowerment," meant to develop individual attitudes and abilities of MTV middle management. Furthermore, training courses on Terrestrial Digital and specific software for the management of the TV process have been organised for technical and specialist staff.

Olivetti

The Olivetti Business Unit has addressed training activities to managerial skills for middle managers, to the culture of business economic value for managers with higher seniority and on updating professional competences for the technical sector staff.

A training project on Leadership concerning the Central Departments has been realized. The project is meant for a limited number of middle managers for which a career development is foreseen and aims at reinforcing – through the application of an innovative outdoor, indoor and sailing methodology – those managerial behaviours that can be related to the Leadership model based on the System of Values.

The monitoring of the training activities for the Telecom Italia Group staff abroad refers to 95% of people operating in Brazil, Bolivia and Europe. For the first time the subsidiaries operating in France and Germany have been included in the analysis.

Training hours were approximately 830,000 and the overall cost was about euro 3.3 million.

More specifically, TIM Brasil implemented a very intensive training plan for Customer Care and Information Technology staff for the new Sant'André technological centre.

▶ Internal communication

In 2006 an extensive internal communication program in support of the change process towards the One Company has been launched.

Conventions and meetings

- Annual Convention (March 16, 2006) with the participation of about 6,000 senior and middle managers of the Telecom Italia Group in Italy, Europe and Latin America. The event was also broadcast both live and "on demand" through video streaming on the Intranet.
- Business Reviews on the territory (March-April 2006): with the participation of the Chief Executive Officer Riccardo Ruggiero in Rome, Milan, Naples and Bologna.
- Other meetings: several other meetings have been organised in the main business departments to spread information on specific corporate issues (Privacy, Safety, Environment) as well as events supporting the corporate welfare system.

Corporate Press

Three more issues of the house organ *noi.magazine* have been distributed to all employees both in Italy and abroad, besides to over 30,000 senior ex-employees of Telecom Italia. These three issues, among which a special double one at the end of the year, focused on themes such as customer service, integration and innovation.

Again in 2006 we launched the Portuguese edition of *noi.magazine* for TIM Brasil employees.

On-line communication

Several improvements were achieved as far as the Intranet, such as:

- stabilisation and consolidation of the new Group Intranet on SAP platform;
- harmonisation of TIM and Wireline Intranet with a new Intranet Operations;
- enrichment of the community with new features devoted to leisure time and culture.

On the overall over 1 million visits have been recorded per month with an average of single visitors exceeding 20,000.

A new tool, *noi.flash*, devoted to monographic issues having special corporate impact has been realized. The paper version of the newsletter has been created for network technical staff.

Concerning audiovisual communication, the experimental diffusion of short corporate news items on service mobiles, palmtops (Blackberry and Q-Tech), over the Intranet and IP-TV has been successfully implemented.

We also expanded and consolidated the plasma screen network installed in the communal areas of the main office buildings, transmitting information and corporate life programs; the initiative has been named "Scoop" and is also accessible through the Intranet where it is regularly broadcast.

Video-streaming is now a consolidated practice in the occurrence of special corporate events (ranging from meetings with the Financial Community, broadcast both live and in the recorded version, to the Group convention and top management video-messages).

Survey on staff attitude

The fifth edition of the staff attitude survey "Group photograph" has been realized.

The online questionnaire, presented to the Group employees in Italy, Germany and Brazil, saw a 73% participation (on the overall 57,000 questionnaires were completed). The analysis confirmed the satisfactory attitude level of last year: in Italy the performance is 6.21 on a 10-point scale, in Brazil 4.17 on a 5-point scale and in Germany 6.64 on a 10-point scale. Results have been posted on the Group Intranet portal and are also being circulated through ad hoc meetings.

Special initiatives for employees

Among these activities, the following projects have been carried out:

- *noi.shop* project, an on-line window containing Group products and services offered to employees.
- Photographic contest involving all the Group's employees. The 12 best images have been used to realize the *noi.2007* calendar.
- Telecom Italia "100 torch-bearers" Project at the Winter Olympic Games in Turin.
- Participation and involvement of employees in the main Brand Enrichment initiatives carried out by Progetto Italia, such as the "2006 Telecomcert" at the Fori Imperiali in Rome, sport events (Golf Open and Sailing together), literary (Lifetime classics) and musical events (Story Tellers), the Science Festival in Genoa.
- EmotionArt Project, art at the service of integration and change through film projections in Operations offices, to discuss and meet.
- The Lighthouse Project, an internal feedback initiative meant to define action plans to improve staff attitude, develop internal loyalty indicators and start actions favouring corporate business development.

It articulates into three subprojects:

- "Foreground", itinerant focus on the territory to establish close relations with employees, analyse their needs and expectations.

- “Viewpoint and Service Experimentation Club”, a panel including 2,000 employees that are periodically consulted to assess their acceptance, receive suggestions and feelings on various corporate issues (such as innovation, internal communication, corporate life issues). They are also asked to test product/services to perfect our offer to customers.
- “Reporter”, an electronic suggestion box, allowing collecting and valorising employees’ suggestions on various corporate issues (137 new proposals on the theme “Innovation of products/services”).

The “Values” Project

In July 2006 the first phase of the “Values in Progress” Project, aimed at spreading behaviours in line with corporate values, ended.

The project saw the participation of about 2,200 Group’s resources among which senior managers, middle managers and office staff.

Behaviours improving practices such as transparency, customer-orientation and integration have been defined; further actions will be carried out in order to facilitate the practice of such values in the second phase of the project.

► Remuneration policies

In 2006 the management of the fixed-compensation policy, inspired by equity and selectivity principles, has ensured market competitiveness management and valorisation of excellence in individual performances.

The “variable” component of compensation, correlated to company/individual performance, is confirmed as the distinctive element of the compensation package; to short-term formalised incentive tools – for managers (Management By Objectives) and professionals (Performance Bonus Program) – in 2006 a new three-year incentive plan (LTI 2006-2008 cash), involving a wide range of management on the Group’s strategic objectives creation of value and Customer Satisfaction, was added.

The commitment to harmonize policies on benefits has been continued, as well as to increase the population receiving benefits; within such framework the “Cellular for us” is worth mentioning. The project is a significant working tool and a daily benefit for all employees as it consolidates a feeling of identity and belonging to the Group.

► Stock options

Stock options have been used over the years within the Telecom Italia Group for retention purposes and as a long-term incentive for managers.

In 2006 no new stock option plans have been launched.

At the end of 2006 the stock option plans existing in the Group are related to options granted in preceding years and entitling to the subscription of Telecom Italia S.p.A. and Telecom Italia Media S.p.A. shares.

Information requested by Consob with Communication no. 11508 of February 15, 2000 relative to Telecom Italia Stock Option Plans (including those formerly assigned by Tim SpA) as well as to Telecom Italia Media Stock Option Plans, is summarized in the Notes “Stock option Plans”. They are included respectively in Telecom Italia S.p.A. Annual Report and in Telecom Italia Group Annual Report.

► Industrial relations

Collective Group bargaining mainly concerned the activities reported below.

Consistently with the agreement reached with trade unions in the 2005-2007 Industrial Plan (One Company Model) on February 27, 2006, the industrial procedure related to the merger by incorporation of TIM Italia S.p.A. into Telecom Italia S.p.A. has been accomplished.

The integrated business model, representing a significant innovation in the TLC market and

consisting in joint management of the fixed and mobile businesses, is based on technological infrastructure optimisation, on integrated offer to customers and on the unification of processes and resources. At the same date an agreement has been subscribed with Unions in order to harmonise different treatments for employees of the above mentioned companies.

Within the framework of the Group focus on core business activities, on July , 2006, Telecom Italia sold the 100% share capital of Telecom Italia Learning Services S.p.A. (TILS) to a newly established company (TILS HOLDING S.p.A.) jointly owned by Cegos and Camporlecchio Educational. In line with the Industrial Relations Department participatory model, the company has organized meetings with Trade Unions to provide information.

Within the framework of rationalisation activity, the sale of the branch Radiomaritime Customers Services by Telecom Italia S.p.A to ITS Servizi Marittimi e Satellitari S.p.A. has occurred, as of September 16, 2006. The meetings with Trade Unions for the relative labour procedure also saw the participation of the company buyer.

As far as reorganization within the Group, on October 1, 2006 the Nuova Tin.it S.r.l has been merged by incorporation into Telecom Italia S.p.A.. The related labour procedure was carried out after due consultation with Trade Unions as provided by the law and Industrial Relations Protocol.

On March 20, 2006 an agreement with Unions has been signed on the use of Intranet, Internet and e-mail. In compliance with art. 4 of law no. 300 of May 20, 1970, (workers Statute of rights), the agreement reconciles the respect of employee dignity and privacy with corporate authority to monitor the correct use of these tools should any hypothesis of illicit conduct by employees arise.

Following the agreements signed on December 20, 2005 with Trade Unions, in 2006 the Group enrolled on mobility lists 1,246 resources (using as a priority identification criterion the early retirement option during mobility).

Consistently with agreements signed with Trade Unions, mobility ex lege 223/91 has been implemented on the basis of voluntary assent by the involved resources.

These have been granted, upon termination of employment, an addition to TFR (end of employment settlement) such as to ensure appropriate income for the time to retirement pension. More generally, the management of resources in view of staff reduction has been implemented aiming at mutually agreed employment termination and, whenever possible, through professional re-employment solutions.

The Group also signed agreements with the manager's bargaining Group on supplementary health assistance and complementary security for managers: on March 6, 2006 an agreement has been signed to redefine contributions to ASSIDA (Supplementary Health Assistance Fund for Group companies senior managers), in order to oppose the growing unbalance between operating managers and associated retired managers; on July 19, 2006 and November 9, 2006 agreements have been signed to define contributions to Fontedir (Supplementary Pension Fund for Telecom Italia managers), consistently with similar solutions adopted by Confindustria and Federmanager for the National Fund of the category.

► Health and safety

In 2006 the realization of some important projects continued, at Group level:

- the survey on wellbeing in call-centres has been expanded to a sample of structures all over the national territory, using a special computerised questionnaire prepared by the University of Turin, that involves approximately 3,000 employees;
- the assessment of concentration levels of radon gas in some workplaces, by means of scientific collaboration with the Superior Health Institute continued, in order to develop a working methodology and an accredited laboratory;
- concerning the assessment of the biological risk occurring in underground plants, operated by Telecom Italia technical staff, the phase involving environmental and haematic sample collection as required by the Superior Health Institute has been concluded.

Furthermore, in order to ensure and promote health and safety on the job, several interventions have been implemented, the most significant of which are:

- updating of the Group Risk Assessment documentation;
- training on health and safety in the workplace – approximately 35,000 hours directly provided by the Prevention, Protection and Environment Service – devoted in particular to employees in charge of emergency management, to newly hired employees and to workers exposed to specific risk;
- preparatory activities related to an important project on information, education and training on “safe driving”, which will involve in the two-year span 2007-2008 the appropriate corporate staff with diversified modes;
- health surveillance and inspections of video terminal workstations carried out by competent physicians;
- preparatory activities in view of the application of the Safety Management System;
- controls and monitoring on buildings, plants, equipment and processes;
- evacuation tests to verify the efficiency of the Emergency Plans;
- updating of First Aid Operative Plans.

Accidents

Data on accidents occurred in Telecom Italia S.p.A. are shown in comparison with last year data. These have been recalculated considering changes in the report scope.

		Telecom Italia S.p.A.	Value aggregation for TI S.p.A. and TIM S.p.A.
		2006	2005
Total accidents	no.	973	943
Accident severity index (*)	%	0.25	0.30
Frequency rate (*)	%	10.97	9.34
Average duration	days	125.2	108.50
Unproductiveness rate (*)	%	1.37	1.02
% workers on total	%	1.67	1.51

(*) The severity, frequency and unproductiveness indexes represent respectively:
 – the number of conventional days lost per year per thousand hours worked;
 – the number of accidents per million hours worked;
 – the number of hours lost due to accidents per thousand hours worked.

► Initiatives for employees

Welfare

In 2006 the Welfare Department ensured the operation of the Group Recreational and Welfare Organisations through the provision of social services for the improvement of employees wellbeing, the implementation of health assistance/prevention and medicine in the workplace initiatives, and solutions for leisure time.

The following projects and initiatives have been carried out for employees:

- **Personal affairs service:** twenty-one corporate offices feature a permanent counter for the management of errands (administration, post office, etc.).
- **Wellness/Laundry/On-line shopping:** within the corporate offices of Turin, Padua, Rome and Palermo an area has been equipped for fitness purposes (mild exercise, postural, shiatsu massage, etc.). An office in Rome offers a laundry service (with collection and delivery) and an on-line shopping service.
- **Price agreements:** national and/or territorial agreement for purchase/use of goods and services at reduced cost (hotel chains, tourist packages, car rent, event booking); agreements with finance companies for personal loans at special conditions.

- **Company loans:** the Group granted 380 loans, of which 55 to buy house and 60 for renovating houses.
- **Corporate loyalty:** in the year approximately 3,600 employees were rewarded for 25, 30 and 35 years seniority.
- **Intranet and Internet websites:** information/communication with the Group's employees, access to Social Services.
- **Health information:** dedicated interactive section via Intranet.

The following initiatives are devoted to employees' children:

- **Traditional summer holiday camps:** 15-day camps for Group company employees' children aged 6-12. Participants in 2006: 4,747 children.
- **Thematic summer holidays:** 14-day holiday devoted to learning English and sport practice for Group company employees' children aged 7-15. In 2006, thanks to a higher availability of dedicated structures, 1,051 participations have been recorded. A thematic linguistic holiday has been also experimentally organised in England (Eastbourne). Twenty-nine children took part in it.
- **Scholarships:** 60 scholarships abroad devoted to the English language. Four weeks for boys and girls aged 15-16 (30 in Ireland and 30 in Finland); 20 one-year study stays for boys and girls aged 16-17 (Europe, United States and Canada).
- **Refund of university fees:** refund of first-year enrolment fee for Group employees' children with high school degree mark at least 90/100.

ALATEL

Association for the Elderly (ALATEL and Gold Pins)

The Senior Worker's Association of the Telecom Italia Group (23,000 members, of which 4,500 are working employees) continued the realization of its institutional activities, confirming the co-operation with the Olivetti Gold Pins Association (4,161 members).

ASSILT

At December 31, 2006 over 208,500 people were enrolled in the Association for Integrative Healthcare for Telecom Italia Group workers: 66,700 employees, 38,200 retirees, 103,600 employees' family members.

Besides reimbursing healthcare expenses to integrate the National Healthcare Service (551,000 cases in 2006 totalling over euro 58.9 million), the association conducts campaigns for preventive medicine and healthcare education, using its mobile diagnostic units and support from public healthcare facilities.

Also in 2006 the programs for multidisciplinary Oncological Prevention to discover breast and skin pathologies continued (Lombardia, Campania, Lazio and Piemonte), as well as the program for the prevention of respiratory allergies (Toscana, Sardegna, Calabria, Marche, Emilia Romagna and Basilicata).

CRALT

The Workers Recreational Club of the Telecom Italia Group organizes, in favour of employees and retirees, tourist initiatives (collective and individual tours with a 15% indicative saving as compared to market prices), sport initiatives (participation in the main national and regional sport meetings), cultural and recreational events (guided tours, music courses, painting, photography, theatre and cinema).

The contribution in favour of members may reach 40% and dues for all initiatives may be paid in instalments deducted from salary/wages.

At December 31, 2006 about 55,000 members has joined the club (47,800 employees and 7,200 retirees).

► Labour and human rights in Latin America

The following shows the main actions undertaken by the Group in Latin American countries – Brazil and Bolivia – to implement the principles of the Global Compact regarding human rights and safeguard of labour standards.

Human Rights

In TIM Participações the company kept strictly to the specific protection rules against discrimination provided by the Federal Constitution, in line with the ILO principles (International Labour Organization) and the Universal Declaration of Human Rights.

The Human Resources department, through their holding and territorial structures, monitors the essential processes related to human resources (recruitment, management and development). Following the introduction of the first corporate Code of Ethics (inspired by the general principles of the Group's code and in line with the Global Compact principles), an Intranet interactive application (quiz on the Code content) was developed in 2006 in view of favouring its spread among employees.

Entel Bolivia adopted a Code of Ethics whose mandatory rules gained a good acceptance within the company and have been approved by the Ministry of Labour and Microenterprise. The employer/employee relationships are defined by a Collective Labour Contract, approved by the Ministry of Labour and Microenterprise, subject to periodical mandatory review by the parties. The Contract reaffirms and boosts equal opportunities and defines the mechanisms regulating rights and obligations of the parties, not only in view of regulating contractual issues, but to valorise diversity as well.

Entel Bolivia adopts moreover the ILO recommendations, in the observance of all regulations provided by Bolivian law and in particular the Labour Code.

Safeguards for labour

Concerning freedom to associate, the Group's companies operating in Latin America ensure the observance of the general rules in force in each country.

In 2006 TIM Participações renewed the Collective Contracts of all operating companies.

Entel Bolivia recognizes and actively cooperates with Trade Unions representing the workers (FESENTEL), ensuring freedom to associate, and is compliant to Constitutional provisions concerning employee remuneration.

Some data concerning Unions:

- TIM Brasil: approximately 5.37% of workers are members of Trade Unions Organizations;
- Entel Bolivia: 59% of workers are members of Union Associations.

In both countries the results of negotiations affect all employees, including non Union members.

In TIM Brasil the company agrees with trade unions the reorganisation processes, though no mandatory requirement is provided by legislation, and discharges its legal duties towards institutional bodies such as ANATEL (regulatory) and CADE (antitrust).

On the subject of regulations protecting child labour, all Group companies conform to national and international regulations.

In order to fight exploitation and disadvantaged socio-economic conditions specific social initiatives have been launched at national level:

- TIM Participações supports project of social inclusion and fight against discriminations through the teaching of music (e.g., TIM Music in the school, benefiting 15,000 children, TIM Arteeducação, benefiting 10,000 children, etc.) and alphabetization projects (e.g. Alfa 100, Pastoral da Criança, benefiting 28,000 people). In June 2006 a healthcare project, named "Adopt a community", has been launched benefiting 56 communities (approximately 15,000 people).

- Entel Bolivia favours and supports socio-economic development projects, as well as education and sport projects, with its own initiatives or through agreements with both public and private institutions. In 2006 a voluntary program based on the Christmas campaign achieved its goal to give a Christmas present to more than 1,500 children. In 2006, in order to support and promote the professional development of the Country's university students, Entel signed agreements for stages at national level with 17 public and private universities, offering an opportunity to put knowledge into practice and to complete the learning process. Entel has moreover defined a series of agreements with Public and Private Institutions to improve the life standard of children and youngsters in disadvantaged conditions. Some of the most important projects implemented in 2006 to help children in their education are described in "The Community" chapter.

In 2006 TIM Brasil started the implementation of the private Security Plan for all employees. At the end of October 90% of employees had adhered, thus confirming the validity of the initiative.

Training and development

To create a shared-values base and raise employee involvement on corporate management-related issues, the Group launched initiatives to spread the Group's values and to communicate the corporate strategic plans.

The results of such actions have been monitored through the "Group photo" survey.

In TIM Participações talent enhancement programs are active, such as the enrolment of employees to University post-graduate masters with company contributions to expenses. An internal job-posting system allows to fill vacancies through intranet or posting on company notice boards.

Entel Bolivia promotes personal, professional and social development through training programmes. At the end of 2006, 81% of employees had achieved a professional education certificate. A Safe Driving program has moreover been launched whose goal is employee safeguard.

Shareholders



► Strategy

The Group's companies are well aware of the significance of correct information on their activities with respect to the market, investors and the Community. Aside from the necessary confidentiality in business management, the Group's companies set transparency as their goal in stakeholder relations. In particular, Telecom Italia communicates with market and investors adopting correctness, clearness and equal access to information criteria.

Outward communication is regulated – in compliance with regulations in force – by appropriate internal procedures.

The Investor Relations department is in charge for the relation between financial markets and the company, and it represents the information contact for Telecom Italia investors.

► Financial communication

Efficient, fast and transparent financial communication with shareholders is a strategic element for the Group.

In 2006 the most significant financial communication event has been the annual meeting with the Financial Community, held in Milan on March 8. During such meeting Telecom Italia presented its targets for the three-year period 2006-2008 and the strategies to achieve them.

The new organisational model of the Group, finalised in the second half of 2006, is consistent with the choice of a functional structure capable of efficiently implementing the strategic goals involved in the convergence between fixed mobile telecommunications, broadband Internet and media content, already presented to the market on October 25, 2006.

Such organisational model involves four business units (Fixed, Mobile, Network and Top Client/ICT), directly reporting to Chief Executive Officer Riccardo Ruggiero, who reports to the Executive Vice President Carlo Buora.

In 2006 the company has organised over 200 formal meetings with the market (financial analysts, institutional and individual investors) involving quarterly conference calls, road shows, attendance at conferences, as well as daily contacts with financial analysts and investors both one-to-one and by telephone.

Particularly important is financial communication with investors, specifically focused on Socially Responsible Investing (SRI), in co-operation with the Group Sustainability Department. These financial operators favour investment in companies respecting ethical, social and environmental issues without neglecting economics. A specific road show has been devoted to SRI investors.

Concerning relations with individual shareholders (retail), today approximately 770,000, Telecom Italia has launched in 2006 a new financial communication channel to efficiently meet the growing demand for information and timely updating on the Group.

The main tool of such channel is the shareholder Club "TI Alw@ys ON" (<http://ticlub.telecomitalia.it>). Created in March 2006, the Club helps individual shareholders to establish lasting relations with the company both receiving and exchanging information (Newsletter, Faxletter, Stock weekly Report and alerts via e-mail and/or SMS) not only related to the Telecom Italia Group, but to the overall TLC world.

As far as on-line financial communication, the institutional website of Telecom Italia (<http://www.telecomitalia.it>) has been completely renewed, thus gaining the Group an excellent position in the classification of Hallvarsson & Halvarsson, a Swedish company leader in financial communication.

Further information on this significant result is available in the "Results" paragraph of the Introduction.

► Safeguarding privacy and protecting data

The Telecom Italia Group, in compliance with regulations in force and consistently with the Group's Code of Ethics, is strongly committed to ensure the observance of the laws in force concerning the protection of personal data (Legislative Decree 196/03, the so-called "Privacy Code").

Significant initiatives are being in particular implemented on the technical side, also on the basis of analyses and audits conducted by KPMG Advisory, leading international consultants. These huge investments aim at establishing a stricter control on the most important IT systems handling personal data, with special focus on telephone and telematic data traffic and mandatory obligations by judicial authorities.

Telecom Italia has a specific "Privacy" department which is entrusted with the correct application of sector regulations at Group level. The implementation of these regulations is monitored in Telecom Italia through an audit system based on periodical self-assessment procedures of managers in charge of data handling and on periodical audits by the Privacy and Information Security departments, according to criteria and methodologies defined under the guidance of the Group's Auditing company. In 2006, in particular, audits concerned the privacy requirements related to personnel management, the privacy role in contracts with suppliers, video-surveillance and data safety measures. At Group level, some subsidiaries underwent audits on the status of implementation of privacy rules. Audits also involved third parties, in particular customer data handling and the adoption of the safety measures provided by the law at dealers, partners and software service suppliers.

Among other initiatives undertaken to improve the data safety level, it is worth to be mentioned, from the organizational point of view, the updating of Group policies regulating access to corporate IT resources, the management of requests for personal data extraction from the systems, the classification and safeguard of corporate information as well as the tracking of individual access to traffic data.

Furthermore the spreading of privacy culture at company level has been boosted, also by implementing a training and awareness plan on the application of rules on the protection of employees and customers' personal data. This involved, among else, 691 department managers and key professionals of Marketing, Sales, Customer assistance and caring, Human Resources departments.

Lastly, in compliance with provision 26 of attachment B (Technical Manual on Minimal Required Security Measures) of the Privacy Code, Telecom Italia confirms of having drawn up the Personal Data Security document for 2006. This document describes the technical and organizational criteria adopted to protect common, sensitive and judicial personal data handled with information technology tools, as well as the training plan designed for people responsible of handling personal data.

Please note that for 2006 the first edition of Personal Data Security document has been issued within the March 31 deadline and has then been updated in September, to incorporate the organisational, procedural and operational changes in the personal data handling reference framework, consequent to the merger by incorporation of TIM Italia into Telecom Italia and to the new organisation of Operations.

► Risk Management

The Telecom Italia Group has set up in 2006, within the corporate governance system, the Risk Management Committee, in charge of managing risks and to ensure business operational continuity. It also set up a Group Risk Officer office, in charge of implementing the Enterprise Risk Management system, spreading the related methodologies and tools and coordinating the risk assessment process.

ERM – Enterprise Risk Management – is the method and the set of tools available to support the organisation, whose goal is coordinating the risk assessment processes. This is a framework adopted at international level to assess the development of risk management processes and correctly identify the acceptable risk level.

CRSA (Control & Risk Self Assessment), operating within this framework, is the governance tool on corporate risk, already in place for more than three years, through which the identification, assessment and management of operational risk is carried out.

CRSA is based on risk self-assessment by the management, with the help of qualitative/quantitative measures and parameters, followed by surveys on existing audits and improvement proposals. The yearly CRSA cycle of risk identification and management involves the following operational phases:

- definition of Group's general targets by Top Management. For 2007 the following have been defined: Focus on customers, Market Leadership and Competitiveness, Image and Reputation, Reliability and Transparency of Information, Cash generation and Operational efficiency, Integration, Implementation of the New Organisational Structure;
- definition of specific Group's targets for each department with reference to their organisational context;
- identification and consolidation of risks possibly jeopardising the achievement of targets;
- assessment of identified risks in terms of impact and probability of occurrence and "weighing" of the same through the assignment of a qualitative/quantitative coefficient of relevance;
- identification of acceptable risks and of those involving special protective measures;
- development of action plans including protective measures;
- update of the Internal Control System and follow up if required.

The CRSA cycle for 2006 led to the identification of 218 actions related to the Consolidated Risk Portfolio at Central Department/Operations/Business Unit level (180 identified risks) and 14 actions related to Group Risk Portfolio (6 identified risks).

The management of the subsequent steps is supported by a web-based application integrating the CRSA and APM (Action Plan Monitoring) systems. It allows the automatic management and monitoring of Action Plans deadlines defined by CRSA, as well as it has been done for action plans deriving from audits. All employee involved in the various CRSA steps, both in Italy and abroad, underwent specific training.

The integrated APM and CRSA systems are currently managing approximately 1,750 users, 2,600 actions from Audit action plans and 550 actions from CRSA action plans.

Corporate Governance

► Foreword

The report on corporate governance in 2006 is divided into two parts.

The first part describes the “architecture” of the Company’s system of corporate governance and the practical application of the various mechanisms making up the system as it came to be configured during the year, partly in response to innovations in the relevant legislation and self-regulation.

In the first place the reference here is to the changes made in implementing new legislation, such as that on the protection of savings (Law 262/2005 and Legislative Decree 303/2006) and the transposition of the so-called Market Abuse Directive. In the second place it is to the adjustments made in light of the recommendations contained in the latest version of Borsa Italiana’s Corporate Governance Code (March 2006).

In this connection it should be noted that the Company has invoked the right to refer to the 2002 version of the Code for the report on corporate governance to be published in its Annual Report for 2006, while also indicating the steps taken to comply with the new prescriptions of the 2006 version.

The second part contains the report prepared by the Company’s Internal Control and Corporate Governance Committee with an account of the activities performed and the checks made in 2006 and through to the middle of February 2007 as regards the events involving the former head of the Security Department, Giuliano Tavaroli, the security of the network and questions concerning the handling of traffic data.

Herein below, you will find an excerpt from Part One of the Report on Corporate Governance, contained in the 2006 Annual Report, to which reference is made for the complete text (also available, as well as all the other corporate governance documents mentioned herein, at the website: www.telecomitalia.it, Governance).

► Introduction

The Company’s system of corporate governance is made up of a series of principles, rules and procedures that are constantly updated and, where necessary, adapted to legislative and regulatory developments and to changes in international best practice. In particular, the revision of the Company’s corporate governance mechanisms in 2006 involved incorporating the changes made necessary and/or desirable by the legislation on the protection of savings (Law 262/2005 and Legislative Decree 303/2006) and the transposition of the so-called Market Abuse Directive. As part of the overall revision, the Company also took steps to comply with the recommendations contained in the March 2006 version of Borsa Italiana’s Code of Corporate Governance (to which Telecom Italia first adhered in 1999).

As indicated in the foreword, this report has been prepared with reference to the 2002 version of the Code of Corporate Governance but also contains an account of the steps taken to comply with the 2006 version.

For the purpose of revising its corporate governance mechanisms, the Company set up an internal working group supported by consultants of high standing; the results of the group’s activity were regularly examined by the Internal Control and Corporate Governance Committee and the Board of Auditors. On the basis of the group’s work the Committee submitted its own proposals for changes to the Company’s system of corporate governance to the Board of Directors, which approved them and resolved that the amendments to the bylaws and the Meeting Regulations should be submitted to the shareholders’ meeting called to approve the financial statements for 2006.

Very briefly and before the detailed analysis of the individual changes, it needs to be stressed that the revision activity referred to above did not significantly alter the Company’s system of corporate governance, which was already broadly in line with the substance, if not the letter, of the new reference framework.

► Board of Directors

As indicated in earlier Annual Reports, the Company's system of corporate governance hinges on the central role of the Board of Directors in providing guidance and on the transparency and fairness of operational decisions, both within the Company and in relation to the market.

► Role and tasks

Effective and correct corporate governance requires the Board to play an active role both in the strategic guidance of the Company and in the control of operations, with powers to direct the business as a whole and to intervene in a series of decisions necessary or serving to promote the Company's purpose.

In the first place Telecom Italia has embraced the principle that the Board of Directors has the right (and the duty) to direct the Company's activity with the ultimate objective of creating value for its shareholders. To that end, among the tasks reserved exclusively to the Board under the Company's Self-Regulatory Code, the following are especially noteworthy:

- examining and approving the strategic, business and financial plans of the Company and the Group;
- reviewing and approving the budget of the Company and the Group;
- examining and approving transactions – including investments and disinvestments – with a significant impact on the Company's or the Group's activity in view of their nature, strategic importance or size. As part of the revision of the corporate governance mechanisms, express provision has been made in the Company's Self-Regulatory Code for the Board of Directors to establish general criteria for identifying such transactions;
- verifying the adequacy of the organizational, administrative and accounting structure of the Company and the Group, with special reference to the internal control system;
- preparing and adopting the Company's corporate governance rules and drawing up the Group's governance guidelines;
- appointing the Supervisory Panel set up under Legislative Decree 231/2001;
- nominating the persons who are to hold the offices of Chairman and Managing Director in strategic subsidiaries;
- assessing the overall performance of operations and periodically comparing the results achieved with those planned. In addition, the Board of Directors carefully examines transactions in which one or more directors have an interest, directly or on behalf of third parties, with special account taken of the reports received from the Managing Directors, the Internal Control and Corporate Governance Committee and the person responsible for internal control;
- examining and approving the periodic financial reports;
- exercising the powers and performing the tasks entrusted to it by law and the bylaws.

► Meetings

In 2006 the Board of Directors met eight times. The meetings were always well attended, with more than 92% of the directors present on average (the independent directors also recorded an attendance rate of more than 92%).

When board meetings were to be held, documentation permitting effective participation in the proceedings was normally provided well in advance. In this respect it should be noted that as part of the revision of the corporate governance mechanisms the Company has adopted a new procedure governing the flow of information to the members of the Board of Directors and the Board of Auditors. The new procedure incorporates the one introduced in the past to fulfill the information requirements laid down by Article 150 of the Consolidated Law on Finance. The aim of the new procedure is to regulate and coordinate all the mechanisms serving the common purpose of providing directors and members of the board of auditors with the information they need on a continuous basis, so that they can perform their management and control functions properly.

On November 6, 2006 the Company released a calendar showing the meetings scheduled for the Board of Directors in 2007. It should also be noted that in 2007 Telecom Italia has again opted to publish its annual financial statements and half-yearly report respectively within 90 days of the close of the fiscal year and 75 days of the close of the half year (which allows it to benefit from the exemption from the obligation to prepare the last quarterly report for 2006 and the second quarterly report for 2007).

► Election of directors

Article 9 of the Company's bylaws already provided for the members of the Board of Directors to be elected using the slate system, which the legislation on the protection of savings subsequently made mandatory as of 2006. Under this system the directors are elected on the basis of slates presented by shareholders at the Company's registered office and published in a national newspaper at least ten days before the date of the shareholders' meeting. A proposal to increase this time limit to fifteen days will be submitted to the shareholders' meeting as part of the revision of the bylaws.

Individual candidates are required to file acceptances of their candidacy and declarations in which they attest that there are no grounds for ineligibility or incompatibility; they are also required to submit curricula vitae setting out their main personal and professional data with an indication of the grounds, if any, for their qualifying as independent. The shareholders' meeting called to approve the financial statements for 2006 will be invited to approve an amendment to the bylaws requiring the above-mentioned CVs to show the positions held in management and control bodies of companies not belonging to the Telecom Italia Group. The proposed amendment is also in relation to the introduction in the Company's Self-Regulatory Code of a cap, discussed below, on the number of positions that may be held in management and control bodies.

The CVs of the directors in office are available in the Governance section of the Company's website www.telecomitalia.it.

The slate voting system is intended to ensure the presence on the Board of Directors of persons elected from slates submitted by minority shareholders. Pending the issue of the relevant Consob regulation, which may establish a different value, the minimum holding for the presentation of a slate is fixed by the bylaws at 1% of the share capital entitled to vote at the ordinary shareholders' meeting.

The Company took the view that using the slate voting system met the needs otherwise served by the creation of a nominations committee. Moreover, following the recent revision, the Company's Self-Regulatory Code entrusts the Internal Control and Corporate Governance Committee with special powers when it is necessary to co-opt an independent director. In fact in such cases it is the Committee that proposes candidates for the Board to make the replacement.

► Composition

Telecom Italia's bylaws provide for the Board of Directors to have not less than 7 and not more than 23 members. The shareholders' meeting of April 7, 2005 fixed the number at 21.

The present Board of Directors was elected for three years starting from the shareholders' meeting held on May 6, 2004 on the basis of two slates, one presented by the largest shareholder, Olimpia S.p.A., and the other by a group of Italian institutional investors. Consequently, the Board's term of office ends with the shareholders' meeting called to approve the financial statements for 2006.

During 2006 there were some changes in the composition of the Board. On April 13 the ordinary shareholders' meeting appointed Diana Bracco and Vittorio Merloni in place of Marco De Benedetti and Giovanni Consorte, who had resigned on October 5, 2005 and January 23, 2006 respectively. The slate voting system is envisaged by the Company's bylaws only for the complete renewal of the Board and therefore did not apply to the appointments in question, which increased the number of independent directors from 11 to 13 since both Diana Bracco and Vittorio Merloni were classified as independent on the basis of their declarations.

Following the resignation of the Chairman, Marco Tronchetti Provera, on September 15, 2006, the Board co-opted a new Chairman in the person of Guido Rossi. Lastly, the death of Enzo Grilli on October 29, 2006 resulted in the membership of the Board falling from 21 to 20 and the number of independent directors from 13 to 12, though they remained the majority. On March 8, 2007 Telecom Italia's Board of Directors consisted of 20 directors, of whom 3 were executive and 17 non-executive; of the latter 12 were classified as independent.

Guido Rossi	Chairman and Member of the Strategy Committee
Gilberto Benetton	Deputy Chairman
Carlo Buora	Executive Deputy Chairman and Member of the Strategy Committee
Riccardo Ruggiero	Managing Director and General Manager
Paolo Baratta	Member of the Remuneration Committee
John Robert Sotheby Boas	
Diana Bracco	
Domenico De Sole	Member of the Internal Control and Corporate Governance Committee and of the Strategy Committee
Francesco Denozza	Member of the Internal Control and Corporate Governance Committee
Luigi Fausti	Chairman of the Remuneration Committee
Guido Ferrarini	Chairman of the Internal Control and Corporate Governance Committee (Lead Independent Director)
Jean Paul Fitoussi	
Vittorio Merloni	
Gianni Mion	
Massimo Moratti	
Marco Onado	Member of the Internal Control and Corporate Governance Committee and of the Strategy Committee
Renato Pagliaro	
Pasquale Pistorio	Member of the Remuneration Committee and of the Strategy Committee
Carlo Alessandro Puri Negri	
Luigi Roth	

The Directors Francesco Denozza, Guido Ferrarini, Jean Paul Fitoussi and Pasquale Pistorio were elected from the slate presented by the group of institutional investors and the others (except for Diana Bracco and Vittorio Merloni) from the slate presented by Olimpia S.p.A., the holder of approximately 18% of the ordinary share capital at March 8, 2007. Neither Diana Bracco nor Vittorio Merloni, whose names were put forward by Olimpia S.p.A., were appointed using the slate voting system since this is envisaged by the Company's bylaws only for the complete renewal of the Board.

As part of the revision of the Company's corporate governance mechanisms based on the recommendations of Borsa Italiana's 2006 Corporate Governance Code, provision has been made, as was already the case for the members of the Board of Auditors, for restrictions on the number of management and control positions that Directors may hold outside the Group. On a general basis the limit has been set at five positions on the board of directors/auditors of: (i) listed companies included in the S&P/MIB index; (ii) financial companies operating on a public basis; (iii) companies engaged in banking or insurance. In addition, not more than three executive positions may be held in non-Group companies of the types specified above. Such number may be increased or decreased by a reasoned decision of the Board of Directors based on the companies' size and organization and interlocking equity interests. The decision shall be made public in the annual report on corporate governance.

► Board performance evaluation

In 2005, before it was recommended by Borsa Italiana's new Corporate Governance Code (2006), Telecom Italia's directors had carried out a Board performance evaluation, in line with international best practice. The evaluation was concerned with the size, composition and working of the Board and its committees.

That exercise permitted two objectives to be achieved: on the one hand to monitor and verify the performance of the Board and on the other to create awareness of the improvements to be made in the coming years.

For the second Board evaluation the Directors felt the need to call on an outside consultant specialized in this field to work alongside the independent Director chosen to act as the internal facilitator, both in preparing and performing the self-evaluation methodologies and in processing the results obtained. The first part of the evaluation was paper based and consisted of responding to questionnaires that differed according to individual directors' membership of the various board committees, while the second part consisted of an interview with the outside consultant, Egon Zehnder International. On the basis of checks and assessments made using techniques and standards developed in its international experience, this firm issued a professional opinion.

The factors considered in the evaluation were the independence, size and composition of the Board and the role and functioning of the Board and the Board Committees, with special reference to matters such as the flow of information, decision-making procedures, and relations with the shareholders and other stakeholders. The Board of Directors examined and assessed the outside consultant's activity and conclusions.

Attention was focused on the areas offering room for improvement and on the initiatives most likely to increase the effectiveness of the Board's activity, with a view to passing on the experience gained in the Board's three years in office to the new body that will be elected by the shareholders' meeting in April 2007.

► Independent Directors

In compliance with international best practice and the indications of Borsa Italiana's 2002 Corporate Governance Code, the Company had already established a set of principles by means of which to determine whether Directors qualified as independent.

On the basis of the information provided by the Directors and of that in the Company's possession, the Board of Directors verified, both at the time of the appointment of self-declared independent Directors' and subsequently once a year that each one satisfied the independence requirements referred to in the Corporate Governance Code. The market was duly informed of the results of these verifications, which were supervised by the Board of Auditors.

According to the declarations made by the parties concerned, at present 12 of the 20 members of the Board qualify as independent, namely: Paolo Baratta, John Robert Sotheby Boas, Diana Bracco, Domenico De Sole, Francesco Denozza, Luigi Fausti, Guido Ferrarini, Jean Paul Fitoussi, Vittorio Merloni, Marco Onado, Pasquale Pistorio and Luigi Roth.

The Company's Self-Regulatory Code provides for directors to be deemed independent who neither have nor have recently had business dealings with Group companies or executive directors or members of their families on a scale able to influence their judgement and who are not in a position to exercise a significant influence over the Company as a consequence of the shares they hold or their participation in shareholders' agreements. This requirement is interpreted extensively, in order to assess "substantial" independence; accordingly, directors who have material dealings with natural or legal persons who are parties to a shareholders' agreement do not qualify as independent.

Following the adoption of Borsa Italiana's new Corporate Governance Code in March 2006, the Company decided it would be preferable to rely exclusively on the independence criteria set out therein.

Since 2004 Telecom Italia's Board of Directors has had a Lead Independent Director.

As part of the revision of the Company's corporate governance mechanisms referred to above, it was considered desirable to formalize this position, which is intended to provide a point of reference and coordination for the needs and inputs of the independent directors and which is held at present by Guido Ferrarini, who is also Chairman of the Internal Control and Corporate Governance Committee and a member of the Supervisory Panel. The Lead Independent Director may use the Company's structures in performing his tasks and call special meetings of the independent directors to discuss issues related to the working of the Board or the management of the business. It should also be noted that the Chairman of the Board of Directors avails himself of the collaboration of the Lead Independent Director to improve the working of the Board.

In 2006 a total of five Independent Directors' Executive Sessions were held; the subjects discussed included strategic scenarios and the possible reorganization of the Group.

► Executive directors

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 to the Board 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.

In 2004 the Board of Directors appointed Marco Tronchetti Provera as Chairman and Carlo Orazio Buora and Riccardo Ruggiero as Managing Directors; Gilberto Benetton was made Deputy Chairman. Following the resignation of the Chairman, Marco Tronchetti Provera, on September 15, 2006, the Board of Directors appointed Guido Rossi as Chairman and

Carlo Orazio Buora as Executive Deputy Chairman entrusted with the powers and responsibilities previously assigned to Marco Tronchetti Provera. At the same time the Board confirmed Gilberto Benetton in the position of Deputy Chairman and Riccardo Ruggiero in that of Managing Director.

Despite the broad scope of the mandates granted to the executive directors, the power to take decisions on transactions of particular significance continues to be exercised by the Board as a whole, even when such decisions theoretically fall within the limits of the executive directors' mandates. This is because such mandates are not considered a way of attributing exclusive competences but as a means of ensuring, from the standpoint of organizing the management function, the greatest possible operational flexibility, both within the Company and in relation to third parties. In 2005, moreover, executive directors' powers were reclassified as internal limits to the relationship of trust between the Board that delegates the powers and the persons who exercise them. In fact the Chairman and the Managing Directors are all legal representatives of the Company and they are individually authorized to carry out any transaction relating to the Company's activity.

It is worth remembering that on October 5, 2005, consistently with the adoption of the One Company Model, responsibility for the development of fixed, mobile and Internet services was assigned to the same person. This provides for the unitary direction of the business in addition to the unitary direction of corporate affairs. The original allocation of functions and related organizational responsibilities remained in force until September 15, 2006 and is summarized below:

- Riccardo Ruggiero, Managing Director, responsible for operations from the standpoint of the management and development of the business;
- Carlo Buora, Managing Director, responsible for the guidance and control of the business and for matters of a transversal nature affecting the entire business;
- Marco Tronchetti Provera, Chairman, entrusted (until his resignation on September 15, 2006) with coordinating the activity of the two Managing Directors and with establishing, together with them, the strategic guidelines for the Group and its development, with direct responsibility for the following areas: institutional affairs, communications and image, and investor relations.

As reported above, on September 15, 2006 the Board assigned the Executive Deputy Chairman, Carlo Buora, the organizational responsibilities and powers previously assigned to Marco Tronchetti Provera, except for the general counsel functions and the management of institutional affairs, which are assigned to the Chairman, Guido Rossi.

Following the adoption of the new organizational arrangements on January 22, 2007, the Managing Director, Riccardo Ruggiero, heads the four business areas: Domestic Fixed Services, Domestic Mobile Services, Top Clients & ICT Services and Technology. This organizational structure was completed on February 16, 2007 with the appointment of four General Managers: Massimo Castelli (Domestic Fixed Services), Luca Luciani (Domestic Mobile Services), Stefano Pileri (Technology) and Enrico Parazzini (Finance, Administration and Control).

As for the ways in which the Chairman, the Executive Deputy Chairman and the Managing Director report to the Board of Directors and the Board of Auditors, the general procedure governing the flow of information to the members of the two Boards lays down rules and methods for gathering and transmitting information on their activity, transactions with major implications for the profitability, financial position and/or assets and liabilities of the Company and the Group, transactions with related parties (including intra-group business) and atypical or unusual transactions.

► Directors' remuneration

As approved by the shareholders' meeting of April 7, 2005 and in accordance with the first paragraph of Article 2389 of the Civil Code, the maximum total annual remuneration of the Board for 2006 was euro 3 million allocated as follows:

- euro 114,000 to be paid to each director in office;
- an additional euro 63,000 to be paid to each of the four members of the Internal Control and Corporate Governance Committee (Guido Ferrarini, Francesco Denozza, Domenico De Sole and Marco Onado);
- an additional euro 52,000 to be paid to each of the three members of the Remuneration Committee (Luigi Fausti, Paolo Baratta and Pasquale Pistorio);

- an additional euro 20,000 to be paid to each of the three members of the Strategy Committee other than the Chairman of the Board and the Managing Director (now Executive Deputy Chairman) Carlo Buora (i.e. Domenico De Sole, Marco Onado and Pasquale Pistorio);
- an additional euro 20,000 to be paid to the director appointed to the Supervisory Panel set up under Legislative Decree 231/2001 (Guido Ferrarini).

The current remuneration system for the executive directors provides for them to receive a fixed component and an additional payment subject to the achievement of the objective for consolidated EBIT with positive Delta EVA, in other words when value is created for all investors. In the same way as for the incentive schemes for managers, there is a margin of tolerance of up to 10%, with a corresponding progressive reduction to 10% of the additional amount.

This form of remuneration applies to the Executive Directors with operational responsibilities (until September 2006, the Chairman and the Managing Directors; with the present configuration, the Executive Deputy Chairman and the Managing Director). In view of the responsibilities assigned to the current Chairman, which exclude his direct involvement in the running of the business, Guido Rossi's remuneration does not include a component based on the financial condition and operating results of the business.

There is no provision for directors to receive stock options ⁽¹⁾.

Further information on the compensation paid to the executive directors (including benefits) can be found in the relevant table in the Notes to the financial statements of Telecom Italia S.p.A..

As of 2000 proposals for the remuneration of the directors who hold particular offices are prepared by a Remuneration Committee made up exclusively of independent directors, which is also charged with proposing the criteria for the remuneration of the Company's senior management. In this connection the Committee has prepared the proposal for the award of shares to the top management to be approved by the shareholders' meeting called to approved the financial statements for 2006.

The new version of the Company's Self-Regulatory Code formally authorizes the Remuneration Committee's practice of having recourse to outside consultants. At the same time it confirms the Committee's power with respect to the remuneration of the directors who hold particular offices and specifies that the related proposals must be compatible with the objective of creating value for shareholders over time. As regards the remuneration of the senior management, the new Code provides for the Committee to assess the criteria periodically and to perform a monitoring function.

Since May 6, 2004 the membership of the Remuneration Committee has been as follows: Paolo Baratta, Pasquale Pistorio and Luigi Fausti, chairman. In 2006 the Committee met five times; the average attendance rate was more than 93%.

► The internal control system

The effectiveness and efficiency of the internal control system are key aspects of Telecom Italia's corporate governance. Following the recommendations put forward in the 2006 version of Borsa Italiana's Corporate Governance Code, the Company revised its own Self-Regulatory Code. It should be noted, however, that the nature of the adjustments and amendments introduced was more formal than substantial because operational practices were often more advanced than the Company's official declarations.

The internal control system is a process made up of rules, procedures and organizational structures and designed to pursue substantial and procedural fairness, 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 known and 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.

(1) The Managing Director Riccardo Ruggiero is an exception in this respect since, prior to his being co-opted to the Board of Directors, as General Manager he was among the beneficiaries of a stock-option plan.

The cardinal 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 traceability and constant visibility of decisions;
- 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. To this end the Board uses the Internal Control and Corporate Governance Committee and a suitably independent person from the internal audit function appointed to be responsible for internal control and endowed with the resources needed to perform the task.

The Executive Deputy Chairman, Carlo Buora, is charged with the task of determining the mechanisms of the system and the manner in which it is to be implemented in accordance with the guidelines established by the Board; he is also responsible for ensuring the system's overall adequacy, its effectiveness and its adaptation to changes in operating conditions and the legislative and regulatory framework. In particular, he is responsible for the identification, monitoring and management of corporate risks, which he submits for examination by the Board of Directors.

The functions assigned to the person responsible for internal control are to verify the adequacy and effectiveness of the system and, where anomalies are found, to propose appropriate remedies. The Board has appointed the Company's internal auditor (the consortium company Telecom Italia Audit & Compliance Services), in the person of the director of the consortium company designated by Telecom Italia, to be responsible for its internal control system. This company reports on its activity to the Internal Control and Corporate Governance Committee, the Board of Auditors and the Managing Director in charge of the internal control system. The aim of entrusting internal auditing to the consortium company Telecom Italia Audit & Compliance Services, in which TI Media also holds an interest, is to maximize the independence of the person responsible for internal control from Telecom Italia's corporate structures, with respect to which the audit function is completely autonomous. The Managing Director in charge of the internal control system is entrusted with the implementation of any maintenance work on the system found to be necessary on the basis of the checks performed and for this purpose appoints one or more persons responsible for implementation. In 2005 the position of Group Compliance Officer was created with a view to better coordinating implementation of the Group's internal control system. 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 monitoring and facilitating the relationship between management and the internal control system, so as to guarantee, with the assistance of Telecom Italia Audit & Compliance Services, methodological correctness in the management of risk. Furthermore, to further strengthen the system, the persons responsible for implementation were flanked by compliance managers coordinated by the Group Compliance Officer. The position of Group Compliance Officer was also formally incorporated into the Company's Self-Regulatory Code and the related tasks and duties specified. In addition, to ensure coordination of risk management at the top level, in 2006 a Risk Management Committee, chaired by the Executive Deputy Chairman and composed of the heads of the Head Office departments, was established and, within Telecom Italia Audit & Compliance Services, the position of Group Risk Officer created.

As regards compliance with the provisions implementing the Sarbanes-Oxley Act, last year saw further progress in carrying out Project 404, which involves the whole Group and, under the guidance of the related Steering Committee, is intended to ensure the traceability, documentation and adaptation of the controls used in the gathering and processing of administrative and accounting information so as to permit the efficacy of internal controls safeguarding the reliability of financial reporting to be assessed, in compliance with the applicable accounting standards, as required by Section 404 of the Act. Telecom Italia is subject to these requirements starting with its Annual Report for 2006, which therefore contains the first management's report on internal control over financial reporting, on which the external auditor will be called upon to express an opinion.

In addition, following the insertion by the Law on the Protection for Savings of Article 154-bis into the Consolidated Law on Finance, the shareholders' meeting called to approve the Annual Report for 2006 will introduce the position of "person responsible for preparing the Company's financial reports" into the Company's bylaws. The bylaws will specify the

experience requirements (in the fields of administration, finance and auditing) for this new position, which is treated in a special report to the shareholders' meeting. The Board of Directors will appoint (and remove) this officer after consulting the Board of Auditors and will also determine the powers and duties of the office.

The Company's internal control system is completed by the so-called 231 Organizational Model, which goes beyond the mere application of the provisions of Legislative Decree 231/2001, since it provides a paradigm for the conduct of all those who act in the Company's name and on its behalf. More specifically, the 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 (i) the main stages of every process, (ii) the offences that may be committed in relation to individual processes, and (iii) the control activities to prevent the related risks from arising.

The organizational model is reviewed periodically. In 2006 some modifications were necessary in order to adapt the model to changes in legislation, others were deemed appropriate in the light of the results of the model's application (for the changes made in connection with the judicial problems involving the Company's former Head of Security, see Part Two of this Governance Report). In addition, through the 231 Steering Committee the Company checked the adequacy of the internal control system with respect to the new types of offence considered, with special reference to crimes of market abuse.

Monitoring of the functioning and compliance with the model is performed by a Supervisory Panel made up of a member of the Board of Auditors (Ferdinando Superti Furga, chairman), an independent director on the Internal Control and Corporate Governance Committee (Guido Ferrarini) and the person responsible for the internal control system. This composition ensures that the Panel is completely autonomous and independent and that it embodies all the professional skills involved, in different capacities, in the control of the Company's operations. The Panel reports to the Board of Directors, the Internal Control and Corporate Governance Committee and the Board of Auditors on the checks performed and their results. Lastly, it should be noted that 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.

► The Internal Control and Corporate Governance Committee

Since 2000 the Board of Directors of Telecom Italia has had an Internal Control and Corporate Governance Committee, charged with advisory functions and the formulation of proposals.

In particular, with the assistance of outside consultants where this is deemed desirable, the Committee:

- evaluates the adequacy of the internal control system;
- evaluates the work plan prepared by the person responsible for internal control, from whom it receives periodic reports;
- assesses, together with the heads of the Company's administrative departments and the external auditors, whether the accounting policies have been correctly applied and are homogeneous for the purpose of preparing the consolidated financial statements;
- evaluates the proposals made by the external auditors in order to be awarded the appointment, the audit plan and the results set out in any letter of suggestions;
- reports to the Board of Directors on the activity performed from time to time and in any case on the adequacy of the internal control system on the occasion of the meetings held to approve the annual financial statements and the half-yearly report.;
- performs the additional tasks that may be assigned to it by the Board of Directors, particularly as regards relations with the external auditors; and;
- monitors compliance with the rules of corporate governance and their periodic updating.

In response to the recommendations of the 2006 version of Borsa Italiana's Corporate Governance Code, the Company has made some amendments to its own Self-Regulatory Code on the basis of which the Internal Control and Corporate Governance Committee, in addition to the tasks described above, is also called upon to:

- express its opinion on the proposals for appointing, removing and assigning duties to the person responsible for internal control and the person responsible for preparing the Company's financial reports;

- assesses, together with the person responsible for preparing the Company's financial reports, whether the accounting policies have been correctly applied for the purpose of preparing the consolidated financial statements;
- in cases of substitution of an independent director, proposes the candidates for co-optation to the Board of Directors; and
- defines the procedures and time limits for conducting the "board performance evaluation".

The Committee is composed entirely of independent directors. In its meeting of May 6, 2004 the Board of Directors appointed Francesco Denozza, Domenico De Sole, Marco Onado and Guido Ferrarini (chairman).

In 2006 the Committee met 15 times and the attendance rate was 95%. Committee meetings were also attended by the Chairman of the Board of Auditors or by the auditor he designated. Where it was deemed desirable in the light of the issues on the agenda, the Committee and the Board of Auditors held joint meetings (this refers, in particular, to the issues that will be dealt with in Part Two of this Governance Report).

During the year the Committee contributed to the implementation and updating of the Company's instruments of corporate governance. In particular, following the transposition of the Market Abuse Directive into Italian law, the enactment of the law on the protection of savings and the issue of Borsa Italiana's "new" Corporate Governance Code (March 2006), the Internal Control and Corporate Governance Committee monitored the activity of the offices of the Company. This activity led, in 2006, to the preparation of procedures for the disclosure of inside information and for transactions with related parties and, in 2007, to the approval of the Company's new Self-Regulatory Code, a procedure governing the flow of information to directors and members of the Board of Auditors and the new Rules of the Disclosure Committee, as well as to the formulation of proposed amendments to the Company's bylaws and shareholders' meeting regulations submitted to the shareholders' meeting called to approve the financial statements for 2006.

On another front, the Committee monitored the introduction and application of IAS/IFRS, first to the Group's consolidated financial statements (for 2005) and then to the parent company's financial statements (for 2006) and kept abreast of the progress made by Project 404.

As well as monitoring transactions that the Board deemed to be especially delicate, the Committee examined the quarterly plans of the person responsible for internal control, from whom it received periodic reports on the results of the audits performed and the progress made by the projects known as Control Risk Self-Assessment and Check-Up of Administrative Systems.

In addition, the Committee and representatives of the external auditors, Reconta Ernst & Young, discussed the external audit plan and the proposals for the appointment of the external auditors for 2007-2009.

Lastly, during the Board meeting of March 8, 2007 the Committee reported on the state of the internal control system, expressing a positive opinion on the ability to respond that the system demonstrated in relation to the ascertainment of anomalies and irregularities (non-compliance with the legislation on privacy) and episodes of fraud (the Security Department affair). The Committee observed that in these circumstances of objective difficulty, aggravated by strong outside pressure, the Company's reaction was prompt and adequate, inasmuch as it first identified the irregularities and anomalies, and then corrected and reported them to the competent authorities, confirming the overall soundness and efficiency of a system which nevertheless can be improved.

► The Strategy Committee

Since 2004 the Board of Directors of Telecom Italia has had a Strategy Committee to increase the involvement of the Board in the Company's strategic decision-making, especially as regards guiding the evolutionary processes under way in the Group's business in the light of the rapid transformation of technologies and markets.

The Committee is entrusted with the task of assisting the Board of Directors in making strategic choices, in particular in the fields of technology, organizational strategies and corporate finance. As part of the revision of the mechanisms of corporate governance, in its Self-Regulatory Code the Company has formally established the required composition of the Committee as well as its tasks and functions.

The Strategy Committee consists of the Chairman of the Board, the Executive Deputy Chairman and three independent directors (Domenico De Sole, Marco Onado and Pasquale Pistorio) specialized in the fields of technology, organizational strategies and corporate finance.

The Committee met three times in 2006, with an attendance rate of 93%. The meetings were also attended by managers of the Group, invited according to their specific expertise to provide inputs with regard to the matters on the agenda. The Committee examined and offered its assessments of the evolution of Group's strategies and the development of the One Company Model against the background of the national and European scenario, analyzing technological, competitive and regulatory contexts, opportunities and risks. It also examined the strategic prospects and opportunities for enhancing the value of the Group's activities outside Europe.

► Board of Auditors

The shareholders' meeting of April 13, 2006 appointed the current Board of Auditors. The election, held using the slate voting system under procedures exactly equivalent to those adopted for the Board of Directors, resulted in the appointment of a Board of Auditors for the three years 2006-08, consisting of Paolo Golia and Stefano Meroi (elected from the slate presented by minority shareholders) and Salvatore Spiniello, Ferdinando Superti Furga and Gianfranco Zanda (elected from the slate presented by the largest shareholder, Olimpia). The Company immediately applied the provision of the law on the protection of savings regarding the appointment of the chairman of the Board of Auditors by the shareholders' meeting, which duly elected Paolo Golia from among the members who had been presented by the minority slate.

The original composition of the Board of Auditors subsequently changed owing to the resignation of a "minority" member, Stefano Meroi, on October 20, 2006, who was replaced by the alternate member elected from the same slate, Enrico Maria Bignami.

The shareholders' meeting of April 13, 2006 set the gross annual remuneration of each member of the Board of Auditors at euro 128,000 and the gross annual remuneration of the Chairman of the Board of Auditors at euro 171,000. It also decided to award an additional euro 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).

In 2006 the Board of Auditors met 32 times, in numerous cases jointly with the Internal Control and Corporate Governance Committee and with the an attendance rate of 92%. Its members participated in the meetings of the Board of Directors and periodically received the reports from the bodies with delegated powers, as provided for in the reporting procedure mentioned earlier.

The Board of Auditors plays a key role in the Company's system of corporate governance. Its importance is confirmed by the fact that in 2003, in advance of the requirements introduced by the law on the protection of savings concerning the appointment of external auditors, the Telecom Italia Group adopted a procedure that makes the choices of the Board of Directors subject to the corroborating opinion of the Board of Auditors (the procedure is available on the Company's website, under Governance). Under the law now in force the Board of Auditors is called upon to submit the proposals directly to the shareholders' meeting for the appointment of the external auditors.

Telecom Italia has determined that the Board of Auditors meets the requirements laid down by US law (to which it is subject as a company registered with the Securities and Exchange Commission) and, availing itself of the general exemption provided for therein, has therefore assigned the responsibilities and tasks of the Audit Committee to the Board of Auditors.

This role has been formalized within the Company's new Self-Regulatory Code.

In its Audit Committee capacity, the Board of Auditors, under the above-mentioned procedure for the appointment of external auditors, is at the centre of the mechanism governing the services supplied by the auditing firm within the Group. In addition, in 2005 the Board of Auditors adopted a procedure for receiving, retaining and handling the reports it receives.

Such reports can be of the following kinds:

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

In addition to the tasks performed in its Audit Committee capacity, 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 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.

During 2006, in connection with specific problems regarding the Group's Security Function, network security and the handling of traffic data, the Board of Auditors took a series of steps to evaluate the adequacy of the Company's organizational structure and internal control system, holding numerous joint meetings with the Internal Control and Corporate Governance Committee.

► Shareholders' meetings

The annual meeting was held on April 13, 2006 and the shareholders approved the financial statements for 2005. In addition, as discussed in greater detail in the section on the Board of Directors, the shareholders' meeting brought the Board up to full strength by appointing Diana Bracco and Vittorio Merloni as directors. This was done without applying the slate voting system, which the Company's bylaws requires only for the renewal of the entire Board.

As reported above, during the same meeting the shareholders appointed the new Board of Auditors for the three years 2006-08, consisting of Paolo Golia and Stefano Meroi (elected from a slate presented by minority shareholders pursuant to Article 17.11 of the bylaws) and Salvatore Spiniello, Ferdinando Superti Furga and Gianfranco Zanda (presented by Olimpia). As already mentioned, the Company immediately applied the provision of the law on the protection of savings regarding the appointment of the chairman of the Board of Auditors by the shareholders' meeting, which elected Paolo Golia to that office.

In addition, the shareholders' meeting authorized the purchase of treasury shares within the legal limits and in any case with a maximum outlay of euro 1 billion. The Board of Directors was empowered to make disposals of the treasury shares purchased or already held by the Company, whose cancellation is not currently foreseen.

As usual, the Company sought to increase shareholders' attendance at the meetings by providing the documents needed for informed participation to all those who requested them and, as provided for in the bylaws, ordinary shareholders were able to vote by mail.

► Code of Ethics

The Code of Ethics of the Telecom Italia Group enshrines the Group's fundamental values and establishes the principal ethical rules that must guide the Group in carrying on its activity, as well as the ethical and social responsibility of each member of the corporate organization. It can be considered as lying upstream 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. With the adoption of the Code of Ethics the Telecom Italia Group is committed to ethically-oriented conduct in relations with all the main internal and external stakeholders the member companies interact with every day (shareholders, financial markets, customers, local communities and employees), in the belief that ethical conduct is essential to the success of the business.

The Group Code of Ethics was drawn up on the basis of generally accepted ethical principles and in accordance with the highest international standards for the conduct of business with transparency, fairness and loyalty. In addition, it takes account of US requirements, primarily as regards the Code of Ethics referred to in the Sarbanes-Oxley Act and the Code of Conduct required by the listing standards of the New York Stock Exchange, which make it mandatory to have a code of conduct for certain categories of officers (executives and financial and accounting officers).

Like all the other corporate governance mechanisms adopted by the Company and the Group, the Code of Ethics is periodically evaluated and checked for the purpose of adapting it to the applicable laws and regulations, practical experience with its application and the most advanced national and international practices. Some suggestions received from institutional investors concerning, in particular, the desirability of publishing a summary of the ascertained cases of violation of the Code of Ethics and the Organizational Model, are currently being evaluated.

► Rules of conduct for transactions with related parties

In 2002 the Company adopted guidelines for carrying out transactions with related parties, including intra-group transactions.

The rules are intended to ensure both procedural and substantial fairness and transparency in transactions of transactions carried out by Telecom Italia, directly or through subsidiaries, with parties related to the Company. In particular, the Board of Directors is required to give advance approval to transactions with related parties, including intra-group transactions, apart from those of a customary nature to be concluded at standard conditions. To this end, provision is made for the Board to be adequately informed of all the relevant aspects: the nature of the relationship, the manner of carrying out the transaction, the economic and other conditions, the evaluation procedures used, the rationale for the transaction, the Company's interest in its implementation and the associated risks. Moreover, if the related party is a director or a party related via a director, he or she may only provide clarifications and must leave the meeting when the motion is examined and put to a vote. Depending on the nature, value and other aspects of related-party transactions, the Board may be assisted by outside experts in order to prevent contracts being concluded at inappropriate conditions

The rules are accompanied by a specific procedure serving to ensure: (i) the standardized treatment of concrete situations; (ii) the identification of the decision-making responsibilities by explicitly stating the related criteria and competences; and (iii) the traceability of the operational processes.

The procedure provides for the existence of a relationship with Telecom Italia to be checked in advance by consulting an expert system, which uses a database of the parties related to Telecom Italia. The expert system is able to provide automatic indications concerning decision-making powers (the Board or management), internal information flows for reporting purposes, and the need for an outside opinion in evaluating the fairness of transactions.

Lastly, as also indicated by Consob, with a view to defining the notion of related party the Company has adopted the notion found in IAS/IFRS (specifically IAS 24).

► Information management

Transparent relations with the market and the provision of accurate, clear and complete information are standards for the conduct of the members of the governing bodies, the management and all the employees of the Telecom Italia Group. Specific procedures are used for classifying and managing information from the standpoint of confidentiality.

The role and procedures of the Disclosure Committee (a managerial body that provides assistance to the Board of Directors and top management in disclosures to the market) have been revised as part of the adaptation and revision of the Company's different mechanisms of corporate governance, so that the Disclosure Committee is now responsible for validating, monitoring and checking the effectiveness of the procedures and controls used for gathering, analyzing, retaining and processing the data and information to be transmitted to the members of the Boards of Directors and Auditors on the one hand and to be disclosed to the market on the other.

The 2002 procedure for disclosing price-sensitive information was replaced in 2006 by a more general procedure for the disclosure of inside information, prepared by a working group set up at the initiative of the Disclosure Committee to evaluate the impact of the transposition of the Market Abuse Directive into Italian law.

The procedure governs the management of inside information concerning Telecom Italia, its unlisted subsidiaries and listed financial instruments of the Group and is addressed to all the members of the governing bodies, employees and outside collaborators of Group companies who have access to potentially inside information. It also applies as an instruction to all subsidiaries for the purpose of promptly obtaining the necessary information for timely and correct compliance with public disclosure requirements. The procedure also governs the register of persons with access to inside information, which has been operational since April 1, 2006.

► Rules on Insider Dealing

The transparency of transactions involving Telecom Italia shares or financial instruments linked thereto carried out directly or through a nominee by relevant persons or persons closely associated with relevant persons is currently governed by Consob Regulation 11971/1999 on Issuers (Articles 152-*sexies* et seq.), which supersedes the Code of Conduct on Insider Dealing that the Company adopted in December 2002.

The law imposes a disclosure obligation on the directors and members of the board of auditors of a listed company and “persons performing administrative, supervisory and management functions in a listed issuer and managers who have regular access to inside information and the power to make managerial decisions affecting the future development and prospects of the issuer” for so-called insider-dealing transactions involving shares of the company or financial instruments linked thereto amounting to more than euro 5,000 per year.

Telecom Italia has chosen to identify “managers who have access to privileged information and who have the power to make managerial decisions affecting the future development and prospects of the issuer” in the key managers referred to in IAS/IFRS 24 and in executive officers for the purposes of US law.

In 2006 the Company and persons defined as relevant made three filings in accordance with Article 152-*octies* of Consob Regulation 11971/1999 on issuers.

As part of the more general revision of the mechanisms of corporate governance, even in the absence of regulatory requirements it was decided to introduce an obligation into the Company's Self-Regulatory Code requiring abstention from carrying out transactions involving Telecom Italia shares or financial instruments linked thereto in specific periods of the year (so-called blackout periods). In extraordinary circumstances the Board of Directors may extend or suspend these periods.

► Meeting regulations

As provided for in the bylaws, the shareholders have approved a set of regulations for their meetings. The document also contains the procedure for ordinary shareholders to vote by mail, as provided for in the bylaws, so as to ensure the fullest possible guidance on the organizational and procedural aspects of this important moment in shareholders' participation in the life of the Company.

As a consequence of the issue of the law on the protection of savings, proposed amendments to the Meeting Regulations will be submitted to the shareholders' meeting called to approve the 2006 financial statements. The changes concern additions to the agenda at the request of shareholders and provisions intended to simplify voting by mail.

► Shareholders' agreements

Relations between the shareholders of Olimpia (on March 8, 2007 Telecom Italia's largest shareholder with an interest of approximately 18% in the Company's ordinary share capital) are governed by an agreement that was concluded on August 7, 2001, and subsequently amended on September 14, 2001 and February 13, 2002, with clauses of relevance to

Telecom Italia pursuant to Article 122 of Legislative Decree 58/1998. As of March 2, 2007 Edizione Holding S.p.A. has been replaced by Sintonia S.p.A., while Edizione Finance International S.A. has changed its name to Sintonia S.A..

Under the agreement (which is due to expire on October 4, 2007) Pirelli & C. S.p.A. on the one hand and Edizione Holding S.p.A. and Edizione Finance International S.A. (now respectively Sintonia S.p.A. and Sintonia S.A. and jointly: Sintonia) on the other undertook to do everything in their power to ensure, within the limits allowed by law, that in Telecom Italia's Board of Directors:

- one fifth of the directors (rounded up to the nearest whole number up to two) whose appointment is not reserved by law, regulation or the bylaws to the market or other persons are appointed as indicated by Sintonia;
- the Deputy Chairman is appointed with powers of legal representation from among the directors designated by Sintonia;
- if an Executive Committee is set up, one of its members is appointed from among the directors designated by Sintonia.

In addition, Pirelli & C. undertook to ensure, within the limits allowed by law, that no resolution is adopted by Telecom Italia's Board of Directors without the favourable vote of at least one of the directors designated by Sintonia, if such are present, on the following matters:

- individual investments in excess of euro 250 million;
- the purchase, sale or disposal in any other manner of controlling interests or interests in affiliates in excess of euro 250 million on an individual basis;
- the disposal in any way of businesses or business units in excess of euro 250 million on an individual basis;
- proposals to call an extraordinary shareholders' meeting;
- transactions between the Telecom Italia Group and the Pirelli Group in excess of euro 250 million on an individual basis;
- transactions with related parties.

On July 12, 2006 Olimpia concluded an agreement with Holinvest S.p.A. governing the former's right of pre-emption with regard to some (specifically 320,253,610) of the Telecom Italia ordinary shares held by the latter, which simultaneously undertook, both on its own behalf and on behalf of its subsidiary Hopa S.p.A., not to increase the above-mentioned holding without Olimpia's prior consent. This agreement expires on July 12, 2008.

Lastly, notices were published in the Italian press containing an extract of the agreement concluded on October 18, 2006 between Pirelli & C. S.p.A., Edizione Holding S.p.A. (now Sintonia S.p.A.), Edizione Finance International S.A. (now Sintonia S.A.), Olimpia S.p.A., Mediobanca S.p.A. and Assicurazioni Generali S.p.A., with clauses of relevance to Telecom Italia pursuant to Article 122 of Legislative Decree 58/1998. The agreement is managed by a committee made up of an even number of members, half of whom are appointed by Olimpia (currently Marco Tronchetti Provera - Chairman and Gilberto Benetton) and of the remainder one each by the other participants except Pirelli and Sintonia (currently Renato Pagliaro for Mediobanca and Giovanni Perissinotto for Generali). The agreement requires consultation among the participants before each Telecom Italia shareholders' meeting on the manner of casting the votes covered by the agreement, without prejudice to the right of each party to cast its votes as it deems fit if the committee fails to resolve unanimously.

The following Telecom Italia ordinary shares were initially committed to the agreement, which is due to last for three years.

Participant	Number of ordinary shares	% of ordinary share capital
Olimpia S.p.A.	2,407,345,359	17.99%
Gruppo Generali	490,580,064	3.67%
Mediobanca S.p.A.	206,464,069	1.54%
Total	3,104,389,492	23.20%

The above-mentioned shares are the subject of lock-up and standstill agreements with provision made for a series of exceptions. In particular, by way of derogation from the commitment not to transfer the Telecom Italia shares it committed, Olimpia has the right to dispose of its entire holding, provided it gives Generali and Mediobanca a right of pre-emption, which would not be exercisable if the acquirer undertook to acquire the shares committed to the agreement by Generali and Mediobanca at the same conditions. The same mechanism also applies in the event of Pirelli, on its own or jointly with Sintonia, disposing of an interest of more than 50% of Olimpia's capital.

Auditors' report



■ Reconta Ernst & Young S.p.A.
 Via della Chiesa, 2
 20123 Milano

■ Tel. (+39) 02 722121
 Fax (+39) 02 72212037
 www.ey.com

AUDITORS' REPORT (Translation from the original Italian text)

To the Board of Directors
of Telecom Italia S.p.A.

1. We have carried out the compliance procedures and analyses on the Sustainability Section of the Telecom Italia Group as of December 31, 2006, described in paragraph 2 of this report.

The procedures were carried out to evaluate the Board of Directors' statements, included in paragraph "References" of the Sustainability Section of the Telecom Italia Group as of December 31, 2006, which describe the guidelines adopted for the preparation of the Sustainability Section. The preparation of the Sustainability Section is the responsibility of Telecom Italia S.p.A.'s management.

2. In order to evaluate the Board of Directors' statements mentioned in paragraph 1, we have performed certain procedures which are summarized as follows:
 - verified that the financial data and information are consistent with those included in the Group's consolidated financial statements as of and for the year ended December 31, 2006, approved by the Board of Directors, with respect to which we issued our audit report dated March 26, 2007;
 - analyzed the operation of the processes underlying the generation, recording and management of quantitative data. In particular, we have performed the following procedures:
 - interviews and discussions with management and personnel, to obtain an overview of the activity of the Telecom Italia Group, to gather information on the information technology, accounting and reporting systems used in preparing the Sustainability Section, and to document the processes and procedures used to gather, combine, process and transmit data and information of the Group's operating units and departments to the function responsible for preparing the Sustainability Section;
 - sample-based analysis of supporting documentation used in preparing the Sustainability Section to confirm the reliability of the interview-derived information, the effectiveness of processes and their adequacy in relation to business objectives, and the operation of the internal control system in managing the data and information;

■ Reconta Ernst & Young S.p.A.
 Sede Legale: 00196 Roma - Via G.D. Romagnosi, 18/A
 Capitale Sociale € 1.259.500,00 i.v.
 Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
 Codice fiscale e numero di iscrizione 00434000584
 P.I. 00891231003
 (vecchio numero R.I. 6697/89 - numero R.E.A. 250904)



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- analyzed the completeness and consistency of the qualitative information included in the Sustainability Section. This activity was carried out in line with the above-mentioned guidelines;
- verified the process of stakeholders' involvement, in terms of the methods used, completeness of the stakeholders and analysis of data and significant findings in this respect, compared to the information reported in the Sustainability Section.

The Sustainability Section presents the prior year's data and information for comparative purposes, with respect to which reference should be made to our report dated March 22, 2006.

3. Based on the procedures performed, we believe that the Sustainability Section of the Telecom Italia Group as of December 31, 2006 complies with the guidelines and principles which form the basis of preparation and which are described in the paragraph "References" of the Sustainability Section. Moreover, the financial data included in the Sustainability Section is consistent with the data and information included in the Group's consolidated financial statements and the other data and information are coherent with the documentation and meet the content requirements established by the guidelines and principles governing the preparation of the Sustainability Section.

Milan, March 26, 2007

Reconta Ernst & Young S.p.A.
Signed by: Nadia Locati
Partner

Cover: Richard Meier & Partners, The Getty Center, Los Angeles, California, USA

Page 3: Frank O. Gehry, Guggenheim Museum, Bilbao, Spain

Page 15: I.M. Pei's Louvre Pyramid, Paris, France

Page 22: Norman Foster, Millau Viaduct, Millau, France

Page 25: La Defense, Paris, France

Page 28: Frank O. Gehry, Frederick R. Weisman Art Museum, Minneapolis, Minnesota, USA

Page 32: Frank Lloyd Wright's Taliesin estate, Spring Green, Wisconsin, USA

Page 41: Renzo Piano, Sala Santa Cecilia at Rome Auditorium, Rome, Italy

Page 49: Richard Meier & Partners, J. Paul Getty Museum, Brentwood, Los Angeles, California, USA

Page 61: Santiago Calatrava, City of Arts and Sciences, Valencia, Spain

Telecom Italia S.p.A.
Corso d'Italia, 41
00198 Rome

Tel.: +39.06.3688.2843
Fax: +39.06.3688.2803
e-mail: GroupSustainability@telecomitalia.it

Designed and produced by CRM S.r.l. - www.crm.it

Printed by Lucini, Milan

in May 2007

on ecological paper



Telecom Italia participates in Impatto Zero® (Zero Impact) compensating CO₂ emissions deriving from the printing process leading to 2006 Sustainability Section.

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