



Sustainability Section
extract from 2007 Annual Report

Summary

	Chairman's Letter	2
Introduction	References	4
	Charters, Codes and Values	5
	Reporting and Planning	7
	Results and Acknowledgements	8
	Financial data and added value	11
	Strategy	12
	2008 Objectives	13
	Hot Topics	14
	Stakeholder Involvement	15
External Stakeholders	Customers	17
	Suppliers	25
	Competitors	29
	Institutions	32
	The Environment	35
	The Community	46
Internal Stakeholders	Human Resources	53
	Shareholders	66
Auditors' report	Auditors' report (Ernst & Young)	86

Chairman's Letter

When I became the chairman of Telecom Italia at the end of 2007, I was very impressed with the wealth of professionalism, motivation and technological competence I found in the Group. I was already aware of that, but not up to the level I experienced. I also found it reassuring the deep-rooted culture of transparency and integrity.

Such culture does not imbue just the system of rules and procedures governing business management, decision-making and dialogue with the market. More generally it imbues all the relations with the stakeholders interacting with the Group in its business activities.

This obviously stems not only from ethical or reputational reasons, but from the awareness that the creation of value is sustainable in time if we are able to effectively integrate the expectations of the context in which we operate, while pursuing our economic goals.

I see this awareness expressed in strategies and facts.

Let's consider the environment. We are living in a period of many growing concerns about climate change, depletion of natural resources, and increasing prices of energy supply.

We are aware of the fact that telecommunication services may considerably contribute to the elimination or containment of greenhouse gases emissions.

Videoconferences, telework, infomobility services, telemedicine are but a few among the solutions offered by new technologies, permitting to rationalize and reduce transfers of people and goods and the related emissions. We are also aware, however, that these services absorb energy.

The more they are used the more traffic on networks increases and the curve of consumptions shoots up, unless we strive to achieve an ever higher level of efficiency. Telecom Italia is doing this. In 2007 our eco-efficiency, measured as the ratio between traffic units and energy consumed, showed further improvement.

We are currently experimenting with several solutions for the use of alternative energy sources, ranging from cogeneration to photovoltaic plants, wind farms and fuel cells.

The first results are rather interesting, as are the ones coming from interventions on heating systems, on corporate car fleet (also involving significant reductions of emissions) and on the handling of technological waste produced by telecommunication activities.



Conducting energy and environmental efficiency pays: it is good both for the planet and for businesses. You could say it is twice as good for businesses: not only for the economic fall-out effects but also as an incentive to technological innovation. A sustainable company is a more innovative and competitive company. The financial market recognizes and rewards it.

We are greatly satisfied with the inclusion, also in 2007, in the most important sustainability indexes, both at national and international level, and with the inclusion in the group of 20 companies most often selected at European level by "Green Social and Ethical" funds.

I mentioned the environment, but I could just as well recall the great effort made by the Group to significantly reduce the digital divide in Italy. In Telecom Italia the concept of sustainability is wide-ranging and involves many applications, as the following pages illustrate with a wealth of detail, data and quantitative targets on which the Group wants to be evaluated in a transparent way.

Transparency is one of the main goals of the Alliance, launched in March 2006 by the European Commission, companies and stakeholder representatives, in order to make Europe a pole of excellence in the field of Corporate Social Responsibility. Telecom Italia is going to give special support to this initiative also in 2008.

We mean to continue on this same path: doing business in a sustainable way and create value are as a whole. Starting from this standpoint we confirm our commitment to support and spread the values and principles of the Global Compact, the initiative originated under the aegis of UN to promote the respect of human rights and working standards, to safeguard the environment and to fight corruption.

We have the honour to be among the protagonists in a sector, such as telecommunications, having a key role in the economic and social development. This honour involves many responsibilities, which we don't consider as a burden but rather as an incentive to do better and better. And this is for everybody, and for the world which we would like our children to inherit in even better conditions than the world we've found.

Gabriele Galateri di Genola

Chairman



Introduction



For the past eleven 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.

► 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 the 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 related GRI's (Global Reporting Initiative) indicators. During 2007, the Group has adopted the G3 Sustainability Reporting Guidelines, in particular with reference to the materiality, inclusiveness and completeness principles. As far as the GRI Application Levels defined in G3 Guidelines, the TI Group sustainability report currently ranks at Level B+, as confirmed by GRI. Relevant actions to attain Level A+ have been undertaken.



Global Compact Principle	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, LA7-9, LA13, PR1, PR8	References, Results and Acknowledgements, Strategy, 2008 Objectives, Stakeholder Involvement, Suppliers, The Environment, The Community, Human Resources	4, 8, 12, 13, 15, 25, 35, 46, 53
2. Businesses should make sure that they are not complicit in human rights abuses.	HR1-7	2008 Objectives, Hot Topics, Suppliers, Human Resources	13, 14, 25, 53
3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	HR1-3, HR5, LA4-5	Human Resources	53
4. Businesses should uphold the elimination of all forms of forced and compulsory labour.	HR1-3, HR7	2008 Objectives, Suppliers, Human Resources	13, 25, 53

Introduction	External Stakeholders	Internal Stakeholders	Auditors' report
5. Businesses should uphold the effective abolition of child labour.	HR1-3, HR6	2008 Objectives, Suppliers, Human Resources	13, 25, 53
6. Businesses should uphold the elimination of discrimination in respect of employment and occupation.	HR1-4, LA2, LA13	2008 Objectives, Hot Topics, Stakeholder Involvement, Suppliers, Human Resources	13, 14, 15, 25, 53
7. Businesses should support a precautionary approach to environmental challenges.	EC2, EN18, EN26, EN30	2008 Objectives, Hot Topics, Stakeholder Involvement, Suppliers, The Environment	13, 14, 15, 25, 35
8. Businesses should undertake initiatives to promote greater environmental responsibility.	EN1-5, EN8, EN16-17, EN20, EN22-23, EN26-27, EN30, PR3	Results and Acknowledgements, 2008 Objectives, Stakeholder Involvement, Suppliers, The Environment	8, 13, 15, 25, 35
9. Businesses should encourage the development and diffusion of environmentally friendly technologies.	EN5-7, EN18, EN26-27, EN30	Hot Topics, The Environment, The Community	14, 35, 46
10. Businesses should work against corruption in all its forms, including extortion and bribery.	SO2-4	Charters, Codes and Values, 2008 Objectives, Suppliers, Shareholders	13, 5, 25, 66

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, relevant to 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;
- the Assurance Standard (AA1000AS) and the Stakeholder Engagement Standard (AA1000SES), issued by AccountAbility in order to ensure the quality of the stakeholder involvement process and of the internal reporting system.

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 “Report on Corporate Governance” chapter of the TI Group Annual Report.

► Charters, Codes and Values

The commitments undertaken by the Group towards its stakeholders are based on a system of Charters and Codes which are available on the www.telecomitalia.it website (Sustainability/Our model/Policies) and on the Group Intranet, allowing easy access to all employees. 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 Code states goals and guiding values at the basis of corporate activities with reference to the main stakeholders interacting with the Group. The respect of the Code of Ethics is a requirement for governing bodies, managers and employees of all the companies of the Group, within the boundaries of their competences, functions and responsibilities.

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 services offered to customers.

The Charters of Services are available on the websites of the Group's companies (www.187.it; www.191.it; www.adsl.alice.it; www.tim.it and www.la7.it).

The Charters of Services of Telecom Italia S.p.A. are completed by the General Subscription Conditions, regulating the contractual relations related to fixed voice telephony. These are published, together with the Charters of Services, on the www.187.it and www.191.it websites and on the first pages of telephone directories.

Moreover, in compliance with the Resolutions concerning quality issued by the Italian Communication Authority (AGCOM), the objectives set on a yearly basis for each service (fixed and mobile voice telephony, Internet access services, pay television services with IP – IPTV technology) are published on the relevant Group website.

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 make things 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.

The policies adopted by the Group concern:

The social responsibility of the Telecom Italia Group, regulating the compliance with labour standards within the Group, in particular child labour, forced labour, health and safety, freedom of association, discrimination, disciplinary procedures, work hours and remuneration.

Relations with Suppliers within purchasing processes of the Telecom Italia Group, regulating the Group's ethical negotiation (transparency, role separation, fairness, traceability), and the requirements concerning the labour and environmental standards which Telecom Italia's suppliers are asked to meet.

TV self-regulation code, aimed at the protection of minors with respect to television services.

► Reporting and Planning

Reporting

The analysis of the performance and the related reporting are based on a multi-stakeholder approach and on a set of approximately 200 KPIs (Key Performance Indicators). KPIs have been developed through the analysis of the GRI (Global Reporting Initiative) guidelines, 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 sustainability 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 requirements: revenues exceeding euro 50 thousand, number of employees exceeding 50, excluding sold activities /non current activities destined to be sold.

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 and on the basis of the principles of Completeness and Responsiveness defined by AccountAbility 1000 Assurance Standard (AA1000AS), in accordance with the GRI guidelines.

Through the integration of Sustainability report into the consolidated financial statements, implemented since financial year 2003, the Group has anticipated the application of European Directive 51/2003, transposed in Italy with Legislative Decree February 2, 2007 no. 32. By amending art. 2428 of the Civil Code, such Decree regulates the introduction in the Report on Operations of non financial indicators related to corporate activities, including information related to environment and staff, whenever necessary to better understand the company's situation, the results of operations and their future trends.

Planning

Within planning activities, a new model for the Sustainability Plan has been developed, constituted by four phases:

1. identification of improvement areas in sustainability performance;
2. comparison between improvement areas and the investment projects planned by the Group for business purposes;
3. definition of targeted actions relative to those improvement areas which either are not yet involved in investment projects or are not adequately affected, in terms of sustainability, by planned investment projects;
4. monitoring of issues which need to be always kept under control in order to sustain the achieved performance level.

The identification of improvement goals is based on:

- commitments required by international organisations – such as UN, ILO, OECD – as well as regulatory entities, tailored to the Group by means of its Code of Ethics, Charters of Services and policies;
- general issues assessed by analysts for admission to Sustainability indexes;
- stakeholders' requests (conveyed through associations, media, direct contacts, etc.);
- benchmarking with peers.

Projects involving significant investments, submitted to the approval of appropriate Committees, are complemented by an assessment form which is filled in by the project managers and ranks the impacts of the project in terms of Sustainability, relative to selected issues encompassing each stakeholder. The ensuing information is taken into account when decisions on investments take place, and it is a useful synthetic tool in order to analyze the consequences, in terms of sustainability, of the Group's investment decisions.

► Results and Acknowledgements

Results

A synthesis of the main initiatives undertaken in 2007 is reported below.

- In order to evaluate at best the energy performance, Telecom Italia has developed an indicator which is the ratio between services offered to customers - simplified in the quantity of transmitted bits – and the related corporate impact on environment, measured in terms of energy consumption.
With respect to 2006 the improvement of eco-efficiency, as measured by such indicator, is equal to 45%. For further information please see the chapter “The Environment/Energy”.
- The institutional website of Telecom Italia (<http://www.telecomitalia.it>) has attained the highest score with reference to quality and transparency of online communication in the European classification Webranking, conducted by Hallvarsson & Halvarsson, Swedish company leader in financial communication, in collaboration with the Financial Times. The ranking takes into consideration approximately 500 among the most important listed companies in Europe and is formulated by over 300 journalists, analysts and opinion makers. The 125 parameters considered evaluate the quality and availability of content, the transparency, surfing, graphic, interactivity, and the overall usability of websites. The Sustainability section of the Telecom Italia website has achieved the highest score with respect to similar sections of other websites.
- The meetings with SRI (Socially Responsible Investing) investors took place in 2007, too. These financial operators prefer to invest in companies caring about ethical, social and environmental issues without neglecting the economic-financial performance. A specific road show, organised by a joint team including the Investor Relations and Group Sustainability departments with the participation of the Chief Financial Officer, has been devoted to SRI investors in three European markets (London, Paris and Amsterdam). Investors expressed their appreciation for the Group Sustainability Model and offered some useful suggestions for future improvements.
- With reference to the Alliance between the European Commission and European companies, launched on 22 March, 2006 in order to make Europe a pole of excellence on CSR, several “laboratories” have been setup with the participation of companies and stakeholder representatives, supported by the European Commission. These laboratories are meant to explore and develop shared operational solutions allowing to implement measurable improvements in the Alliance priority areas, among which the integration between financial and non-financial performance and the improvement of communication with stakeholders, especially investors. For this purpose the laboratory “Sustainability and evaluation on non-financial performance”, of which Telecom Italia is co-leader, was set up. It aims at defining an advanced communication model for non-financial performance, as required by investors and the other stakeholders.
The laboratory has received an award in Brussels during the 2007 edition of Sustainability Market Place, organised each year by CSR Europe.
Telecom Italia also took part in the laboratory on Equal Opportunities at the Sodalitas Foundation. The document “Pursue gender parity in careers. A path for change on the basis of practical corporate experience” was issued at the end of the workshop. It is meant to propose concrete indications for the enhancement of Equal Opportunities within corporations, starting from processes such as selection, training, career development, remuneration and internal communication. The document was presented on 3 December, 2007 to the Rights and Equal Opportunity Minister, Hon. Barbara Pollastrini, during the meeting “Gender equal opportunities today. Corporations move into actions”.
Telecom Italia also takes part to the “Eco-efficiency” laboratory, whose activities are still ongoing under the coordination of the Sodalitas Foundation.
- A survey has been conducted concerning the perception of the Group’s staff on Sustainability initiatives implemented by Telecom Italia and on the related reporting. The answers yielded a practically unanimous appreciation of the positive value of companies “investing” in sustainability and the opportunity to inform about the initiatives undertaken both inside the company and outside, in view of positive effects in terms of culture and reputation.
With respect to Sustainability reporting most respondents consider the information issued interesting and useful for their job, but they would like a less technical language.
A summary of results obtained has been posted on the company intranet.

The table below shows results achieved in 2007, as compared to objectives established on December 31, 2006.

Area	Indicator ⁽¹⁾	Measurement unit	Target 2007	Final Balance 2007	Target Status 2007
CUSTOMERS	Keeping the technician appointment at the customer's premises	%	98	98	▲
CUSTOMERS	Percentage of telephone lines activated through "Linea Pronta" (Ready access) ⁽²⁾	%	18	13.1	▼
HUMAN RESOURCES	Employee satisfaction ⁽³⁾ measured through the survey "Group Photo"	Mean level of satisfaction	≥6.21	/	⁽⁴⁾
HUMAN RESOURCES	Training	Training hours per capita ⁽⁵⁾	29.3	30.6	▲
HUMAN RESOURCES	Health: sickness hours as compared to working hours	%	≤3.5	3.7	▼
HUMAN RESOURCES	Equal opportunities: women workers as compared to total staff	%	26.8	26.9	▲
ENVIRONMENT/Energy	Eco-efficiency indicator	Bit/Joule	850	873	▲
ENVIRONMENT/ Electromagnetism	Reduction of emissions from UMTS cells ⁽⁶⁾	Number of additional cells with second carrier	500	4,289 ⁽⁷⁾	▲
ENVIRONMENT/ Electromagnetism	SAR qualification ⁽⁸⁾	%	95	100	▲
ENVIRONMENT/Waste	Corporate offices with over 100 employees with differentiated waste collection in place	Number of offices	70	75	▲
ENVIRONMENT/Paper	Purchased recycled paper ⁽⁹⁾	%	40	45	▲
ENVIRONMENT/ CO ₂ emissions	Replacement of Euro3 vehicles with Euro4 vehicles ⁽¹⁰⁾	Number of replaced vehicles	1,000	1,901	▲
ENVIRONMENT/ CO ₂ emissions	Replacement of oil boilers with methane boilers	Tons of CO ₂ not emitted	500	182	► ⁽¹¹⁾
DIGITAL DIVIDE	ADSL coverage ⁽¹²⁾	%	94.5	94	►
DIGITAL DIVIDE	IPTV coverage ⁽¹²⁾	%	51	52	▲
DIGITAL DIVIDE	UMTS coverage ⁽¹³⁾	%	77	76.5	►

Target status: ▲ achieved; ► partially achieved; ▼ not achieved.

- (1) Unless otherwise indicated targets refer to activities of Telecom Italia S.p.A.
- (2) Linea Pronta (Ready access): fast and automatic activation of telephone lines, without technical assistance, at the customer's premises.
- (3) Data refers to the activities of the Group in Italy and is calculated on a 10-point scale.
- (4) The objective has not been measured because in 2007 the survey on staff attitude did not take place.
- (5) The data include training in the classroom, on line and on the job.
- (6) In high traffic conditions the use of two radiofrequency carriers instead of a single carrier reduces the total power emitted by the station.
- (7) The development of the UMTS "high speed" coverage, due to commercial reasons, has allowed the activation of a number of cells with second carrier remarkably higher than foreseen.
- (8) The percentage is calculated on cellular terminal model of the type more widespread and technologically innovative. SAR: Specific Absorption Rate.
- (9) Measured as compared to the total purchased paper.
- (10) Euro4 vehicles allow an approximate 30% reduction of CO₂ emitted as compared to Euro3 vehicles.
- (11) The target should be achieved by April 2008. Data reported refer to the period of use of boilers in 2007 and do not include the benefits occurred during the first months of the year 2008.
- (12) The percentage refers to fixed telephone lines.
- (13) The percentage refers to the residential population.

As far as the achievement of Suppliers qualitative targets due at December 31, 2006, see the relevant chapter.

Acknowledgements

Sustainability indexes represent stock-exchange indexes whose securities are selected not only on the basis of economic-financial parameters, but considering social and environmental criteria as well. The selection process is entrusted to international rating agencies who assess companies on the basis of information publicly available or on the basis of questionnaires, as well as considering media and stakeholders' opinions. The selection process is very strict and only the companies that are deemed to be worthy are admitted to the indexes. The admission to the indexes is in general a strategic achievement for companies, both due to the positive effects on their reputation and to the ever-increasing number of "traditional" investors, besides pensions funds and ethical funds, who prefer "sustainable" companies especially if they are included in specific indexes, as they consider them less risky in the medium/long term. The participation in the assessment process is moreover a useful

opportunity for companies to evaluate the results they achieved, and the rating agencies' indications at the end of the selection process are quite often very useful to plan future improvement actions.

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

- Dow Jones Sustainability World Indexes (DJSI World), including 316 companies, Sustainability leaders at World level;
- Dow Jones STOXX Sustainability Indexes (DJSI STOXX), including 154 companies, Sustainability leaders at European level.

The SAM Sustainable Asset Management rating agency, which manages the DJSI indexes, has awarded Telecom Italia with the "2008 Gold Class" award, assigned to companies whose sustainability performance stands out in their sectors.

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

- FTSE4Good Global (900 companies), the first 100 companies by market capitalization are included in the FTSE4Good Global 100 - tradable index;
- FTSE4Good Europe (480 companies), the first 50 companies by market capitalization are included in the FTSE4Good Europe 50 - tradable index
- FTSE4Good Environmental Leaders Europe, including 40 securities selected within the FTSE4Good Europe on the basis of results achieved in the field of environment protection.

Telecom Italia is also included in the following indexes:

- ESI (Ethibel Sustainability Indexes):
 - Excellence Europe, consisting of 202 securities
 - Excellence global, consisting of 338 securities
 - Pioneer global, consisting of 190 securities
- ASPI (Advanced Sustainable Performance Index) Eurozone, including 120 companies;
- ECPI (E.Capital Partners Indexes):
 - Ethical Global, consisting of 300 securities, with the related tradable index including 100 components;
 - Ethical Euro, consisting of 150 securities, with the related tradable index including 100 components;
 - Ethical EMU, consisting of 150 securities;
 - ECPI Global TOP 30;
- Axia Ethical and AXIA Euro Ethical Axia, consisting of 40 securities;
- KLD Sustainability Indexes:
 - Global, consisting of 686 securities;
 - Global ex US, consisting of 485 securities;
 - Europe, consisting of 200 securities.

Telecom Italia has been included among the 20 companies most often selected by the managers of "Green Social and Ethical" funds at European level, in the survey carried out by Avanzi SRI Research/Vigeo Italia. Telecom Italia ranks second in the TLC sector and eighteenth in the intersectorial rating.

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.

► 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)	2007 (a)	2006 (b)	Change % (a-b)/b
Sales and services revenues	31,290	31,275	0.05%
Total revenues and operation income	31,703	31,881	(0.56%)
Gross Operating Profit (GOP)	11,617	12,850	(9.60%)
Operating Profit	5,764	7,437	(22.50%)
Net income (loss) before minority interests	2,455	3,003	(18.25%)
Net income (loss) – Parent Company	2,448	3,014	(18.78%)
Shareholders'equity at December 31 (Parent Company + minority interests)	26,985	27,098	(0.42%)
Net borrowing at December 31	35,701	37,301	(4.29%)
Investments	6,155	5,320	15.70%
Employees at year end (number)	83,429	83,209	0.26%

ADDED VALUE			
(millions of euro)	12.31.2007 (a)	12.31.2006 (b)	Change % (a-b)/b
Standard production value ⁽¹⁾	31,871	31,767	0.3%
Consumption of raw materials and external services	(14,545)	(14,191)	2.5%
Added value	17,326	17,576	(1.4%)
Other items ⁽²⁾	3,474	2,982	16.5%
Gross added value	20,800	20,558	1.2%

(1) Including revenues, change in work in progress, change in inventory, costs for internal works capitalised, operational grants.

(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, other financial income, profit on exchange rates, net result from activities sold/non current activities destined to be sold, net profit arising from current activities.

DISTRIBUTION OF ADDED VALUE AMONG STAKEHOLDERS AND OTHER PARTIES			
(millions of euro)	12.31.2007 (a)	12.31.2006 (b)	Change % (a-b)/b
Employees	2,933	3,005	(2.4%)
Institutions	3,057	3,691	(17.2%)
Of which			
– Social security costs	951	796	19.5%
– Income taxes	1,681	2,519	(33.3%)
– Indirect taxes	142	141	0.7%
– TLC licence fees	283	235	20.4%
Shareholders	2,840	3,002	(5.4%)
Financers	5,094	5,014	1.6%
Business (depreciation and amortization, reserve funds for risks and fees, other accruals and adjustments)	6,876	5,846	17.6%
Added value distributed to stakeholder	20,800	20,558	1.2%

CONTRIBUTION TO THE STAKEHOLDERS

(millions of euro)		
Suppliers ⁽¹⁾	18,504	Consumption of raw materials and external services, industrial investments
Institutions ⁽²⁾	3,057	Expenses, taxes and TLC contributions
Employees	2,933	Cost of labour net of compulsory contributions
Shareholders	2,840	Dividends deliberated
Financers	5,094	Interests 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.

► Strategy

Sustainability strategy for 2008-2010

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 Introduction/References).

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 presented in 2007 for the three-year period 2007-2009 is confirmed and is based on:

- care on service quality, constantly monitored by the departments in charge (Customers/Customer Satisfaction);
- 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 (Introduction/Reporting and Planning);
- stakeholder involvement in corporate processes (Introduction/Stakeholder Involvement);
- 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 (Introduction/2008 Objectives);
- 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 of the transmission network;
- confirmation of international commitments on Sustainability among which the adhesion to Global Compact and the support to the Alliance with the European Commission (Introduction/Results and Acknowledgements).

The strategy defined for each single stakeholder is described at the beginning of the relevant chapter.

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	<ul style="list-style-type: none"> - Customer Satisfaction - Quality of the service provided
Human resources	<ul style="list-style-type: none"> - Surveys on staff attitude - Health and safety of employees - Training on safety and environment issues - Training on professional growth programs - Welfare activities and employee well-being
The Environment	<ul style="list-style-type: none"> - Materials, energy and water consumption - Emissions - Waste management - Environmental remediation
Market and institutions	<ul style="list-style-type: none"> - Compliance with laws, regulations and codes - Quality and timeliness of corporate communication
Suppliers	<ul style="list-style-type: none"> - Environmental audits at suppliers' premises
The Community	<ul style="list-style-type: none"> - Organisation of cultural events - Quality of the initiatives/projects for the Community

► 2008 Objectives

Consistently with the analysis on the most significant Sustainability topics (in this regard see the “Hot Topics” paragraph) and with engagements undertaken, the Group has defined quantitative targets concerning Customers, Human Resources, the Environment, Suppliers and Digital Divide, briefly described below and more widely discussed in the related chapters.

These targets are included in the 2008-2010 Sustainability Plan and are shown in the table below.

Area	Indicator ⁽¹⁾	Measurement unit	Year end 2007	Target 2008
CUSTOMERS	Keeping the technician appointment at the customer's premises	%	98	98
HUMAN RESOURCES	Training- Italian companies ⁽²⁾	Training hours per capita ⁽³⁾	30	30.5
HUMAN RESOURCES	Training- Italian companies ⁽²⁾ : coverage (no. of people taking part at least once in training over the total population)	%	84.3	85
THE ENVIRONMENT	Eco-efficiency indicator	Bit/Joule	873	1,130
THE ENVIRONMENT	Energy saving by the use of low-consumption lighting systems (10 buildings)	kWh	0	3,000,000
THE ENVIRONMENT	Energy saving due to the optimisation of the electrical efficiency of 50 substations through power factor correction ⁽⁴⁾	Kvar/h	0	1,950,000
THE ENVIRONMENT	Reduction of power emission from UMTS cell ⁽⁵⁾	Number of additional cells with second carrier	4,289	600
THE ENVIRONMENT	SAR qualification Italy ⁽⁶⁾	%	100	100
THE ENVIRONMENT	SAR qualification Brazil ⁽⁶⁾	%	0	25
THE ENVIRONMENT	SAR qualification Bolivia ⁽⁶⁾	%	0	40
THE ENVIRONMENT	Other corporate offices to be equipped for differentiated waste collection	Number of offices	75	100
THE ENVIRONMENT	Paper consumption reduction	%	7.6	3
THE ENVIRONMENT	Recycled paper purchased ⁽⁷⁾	%	45	60
THE ENVIRONMENT	Replacement of 15 oil boilers with new generators/heat pumps ⁽⁸⁾	Tons of CO ₂ not emitted	182	200
THE ENVIRONMENT	Replacement of Euro3 vehicles with Euro4 vehicles ⁽⁹⁾	Tons of CO ₂ not emitted	1,951	2,700
SUPPLIERS	Increase of audits on Suppliers with reference to Ethics and Sustainability	%	16	10
DIGITAL DIVIDE	ADSL coverage ⁽¹⁰⁾	%	94	96
DIGITAL DIVIDE	IPTV coverage ⁽¹⁰⁾	%	52	54
DIGITAL DIVIDE	UMTS coverage ⁽¹¹⁾	%	76,5	81
DIGITAL DIVIDE	HSDPA coverage ⁽¹¹⁾	%	70.6	81

(1) Unless otherwise indicated, targets refer to activities of Telecom Italia S.p.A.

(2) Italian companies: Telecom Italia S.p.A., BU Media, BU Olivetti, Elettra S.p.A., TI Sparkle, Telecontact Center S.p.A., Path.Net S.p.A., Loquendo S.p.A., Matrix S.p.A.

(3) The data include training in the classroom, on line and on the job.

(4) The power factor is adjusted installing a device in the Medium Voltage/Low Voltage substations that, for the same active power used, reduces transmission losses in the electrical distribution grid.

(5) In high traffic conditions the use of two radiofrequency carriers instead of a single carrier reduces the total power emitted by the station.

(6) The percentage is calculated on cellular terminal model of the type more widespread and technologically innovative. SAR: Specific Absorption Rate.

(7) Measured as compared to the total purchased paper meant for office use.

(8) Most new plants are gas-fuelled.

(9) Euro4 vehicles allow an approximate 30% reduction of CO₂ emitted as compared to Euro3 vehicles.

(10) The percentage refers to fixed telephone lines.

(11) The percentage refers to the resident population.

► 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 meetings;
- analysis of media and reports published by specialised agencies;
- benchmarking of Sustainability activities carried out by other companies, both national and foreign.

Area	Stakeholder	Telecom Italia engagement	Chapter/Reference paragraph
Customer Care	Customers, Human Resources	The attention to customer needs and the improvement of their satisfaction is one of the most important objectives for Telecom Italia. Several projects and initiatives are ongoing.	Customers/Customer focus
Human Resources	Human Resources, Institutions, The Community	Human Resources are a critical factor for the Group success and are particularly considered. Several initiatives are ongoing on Equal Opportunities, Development, Training, Health and safety, Welfare.	Human Resources /Equal opportunities, Development, Training, Welfare, Health and safety
Digital Divide	Customers, Institutions, The Community	The availability of communication technologies may generate social and geographic discrimination. The risk of exclusion is particularly high for certain population brackets such as the elderly, sick people and disabled people. Telecom Italia has launched several initiatives to ensure a wide availability of the new technologies.	Customers/ Digital Divide
Radio Base Stations and electro-magnetism	The Environment, The Community, Institutions, Customers	Telecom Italia uses technical solutions which allow to optimise electromagnetic emissions and involves stakeholders to identify the optimal position on the territory of Radio Base Stations, also adopting co-sharing solutions.	The Environment/ Electromagnetic emissions
Energy and climate change	The Environment, Suppliers, Institutions, The Community, Customers	The Group is committed to reduce its emissions through energetic saving, the use of alternative energy sources and the promotion of asset and service dematerialisation.	The Environment/ Climate change
Supply chain	Suppliers, The Community	The globalisation of markets and supplies has made the control of the supply chain an unavoidable issue for Sustainable corporations. The Group is implementing several initiatives with suppliers meant to protect the environment and labour standards.	Suppliers/Main sustainability initiatives
Innovation	Customers, Institutions, The Community, The Environment	In the framework of the competitive context and the development of technologies in the ICT sector, innovation is a significant competitive lever. The new TLC services may provide an ever-increasing contribution to the improvement of people life quality and to the decrease of the environmental impact of human activities.	Customers/ Study and experimentation of innovative services
Web content	Customers, Institutions	The diffusion of Internet is a great opportunity but can also be a source of dangers, most of all for minors. Telecom Italia has implemented several initiatives for the protection of minors.	Customers/Protection of minors, The Community/Initiatives in the Community

► Stakeholder Involvement

The involvement of stakeholders in the company decision-making processes is one of the most qualifying aspects of a sustainable company and is an issue in the Sustainability strategy pursued by the Group.

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

Stakeholder	Tool used	Reference chapter/ paragraph
Customers	The co-operation with Consumer's associations involves meetings aimed at guarantee the protection of the consumers' rights with regard to the Group's products and services as well as providing Associations with information about any company organisational changes possibly affecting customers.	Customers/ Relations with Consumer's associations
Customers	Customer Satisfaction is measured through the Integrated Feedback System (IFS) that considers both the overall assessment by the customer and the specific assessment of the last contact occurrences. Data collected are processed to improve organisational processes and service quality.	Customers/ Customer Satisfaction
Suppliers	At the end of 2007 the Purchasing Department conducted a satisfaction survey involving the most important Suppliers through an online questionnaire. The questions included in the questionnaire made it possible to assess the interaction of Suppliers with the Purchasing Department in all the purchasing process, getting their feedback.	Suppliers/Main Sustainability initiatives
Suppliers	Audits were conducted in order to evaluate the initiatives adopted on Ethics and Sustainability, such as the respect of the principles of Business Ethics and the procedures to ensure the health, the safety and the rights of workers. This led the majority of audited companies to put into effect the actions agreed upon not only in their own sphere, but also promoting them with their suppliers and thus starting a virtuous process along the whole supply chain.	Suppliers/Main Sustainability initiatives
Competitors	Telecom Italia has signed an agreement with Vodafone Italy to share the access sites to the mobile network as far as passive infrastructure (poles and pylons, electrical and air-conditioning systems, civil infrastructures). Thanks to such agreement the two companies are putting into practice the guidelines included in the Electronic Communications Code and favouring a more efficient use of network infrastructures.	The Environment/ Electromagnetic emissions
Competitors (national associations)	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) • High-Definition Forum (HD Forum) • National Committee Digital Italy; • Auditel; • Confindustria; • Fondazione Ugo Bordoni. 	Competitors/ Organizations and associations
Competitors (international associations)	At international level Telecom Italia takes part with competitors in the following associative activities: <ul style="list-style-type: none"> • BRT (<i>Brussels Round Table</i>); • ETNO (<i>European Telecommunications Network Operators' Association</i>); • GSME (<i>GSM Europe</i>); • EIF (<i>European Internet Foundation</i>); • ERT (<i>European Round Table of Industrialists</i>); • ESF (<i>European Service Forum</i>); • EABC (<i>European American Business Council</i>); • BRUEGEL (<i>Brussels European and Global Economic Laboratory</i>); • ETP (<i>European Telecommunications Platform</i>); • ITU (<i>International Telecommunications Union</i>); • BIAC (<i>Business and Industry Advisory Committee</i>). 	Competitors/ Organizations and associations
Institutions	In December 2007 a Memorandum of Understanding has been signed by the Ministry of Communications, Infratel Italia and Telecom Italia with the aim of reducing, and eliminating in perspective, the digital divide, thus favouring the development of broadband infrastructures over the whole national territory.	Customers/Digital Divide
Institutions	Control activities aimed at preventing the diffusion of juvenile pornography are continuing. The Group's companies have set up teams for the management of abuses the so-called "Abuse Desks", in collaboration with the appropriate Authorities for the detection of pedo-pornographic material on the Group networks.	Customers/Minor protection
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.	The Environment/ Energy

Introduction	External Stakeholders	Internal Stakeholders	Auditors' report
The Environment	In collaboration with the second Naples University and the National Agency for Environment Protection and Technical Services (APAT) Telecom Italia launched a project meant to improve the energy efficiency of TLC equipment using renewable sources, energy saving strategies and interventions to reduce emissions.		The 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. Within the initiatives carried out: <ul style="list-style-type: none"> • The project "Alice for children", in partnership with Twins International, for the realisation of 2 hosting centres designed after the family home, in the degraded suburbs of Nairobi; • The "Solidarity ponies", an initiative stemmed from the collaboration with Social Policies Councils and Volunteer Associations of the involved towns, and aimed at providing free assistance at home to the over 65; • "Literacy for young and adults", in partnership with the "Pastoral da criança" non governmental organisation: an educational programme to be implemented in the North-Eastern and Southern communities of Brazil, scoring the highest rate of social exclusion in the country. 		The Community/ Investments in the Community
The Community	"Web as a friend" is an information campaign meant to educate young people, parents and teachers to a safe navigation of the Internet. The campaign is promoted by MOIGE (Italian Parent Movement) and is supported by Telecom Italia, Microsoft, Polizia Postale e delle Comunicazioni (Postal Police), Poste Italiane (Italian Post Services), under the sponsorship of the Ministry for Family Policies, the Ministry of Communications and the Ministry of the Interior.		The Community/ Initiatives in the Community
Human Resources	A survey has been conducted among the Group's employees to assess the perception on the Sustainability initiatives by Telecom Italia and the relevant reporting. A synthesis of the survey's results has been disclosed on the corporate intranet.		Introduction/Results and Acknowledgements
Human Resources	Telecom Italia actively participates, in collaboration with other companies and representatives of stakeholders and institutions, in the laboratories activated within the framework of the Alliance, set up with the European Commission on March 22, 2006. Among these laboratories there are the one on non-financial performance, of which Telecom Italia is co-leader, the one on man-woman career equal opportunities and the laboratory on eco-efficiency.		Introduction/Results and Acknowledgements
Human Resources	"The Lighthouse" project is an initiative aimed at getting employees' feedback in order to define action plans to improve the staff attitude, develop internal loyalty indicators and start actions aimed at developing corporate business.		Human resources/ Internal communication
Human Resources	The first online Intranet community devoted to the Group's social solidarity initiatives has been created; this is an interactive space for social networking.		Human resources/ Internal communication
Shareholders	The channel for financial communication and interaction with retail shareholders is operative and acts 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 special road show devoted to SRI (Socially Responsible Investing) investors.		Shareholders/ Financial communication

More information on the projects described in the above table is available from the Sustainability section of the Group website.

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.

- A Project called *Evolution* – launched in 2005 in order to provide customers with clarity, transparency and reliable time estimates concerning the activation of new phone lines – has been expanded to residential customers and it now includes all data services (“standard ADSL”, “Alice Mia”, “Alice Home TV”, etc.). The front end operator, upon receiving the customer's request, agrees with the customer on the date and hour of the technician's visit at the customer's premises, afterwards the customer is updated on the status of request and on needed time. After the implementation of *Evolution*, indicators of customer satisfaction with respect to phone line activation have shown a growing trend, with an increase of over 10% as compared to September 2005. The results achieved so far let us foresee for 2008 the expansion of the project to Business customers and to new services which will be launched in the future.
- The 187.it portal, which was improved during 2007, is a significant caring tool available to the residential customers of Telecom Italia. Besides information on services, customers can find options such as:
 - Invoice viewing
Customers may:
 - preview their Telecom Italia bill directly on line, before being mailed the paper copy;
 - gain online access to the last six two-month billing periods, with the options to view the related documents in “pdf” format, to save them on their PC and to surf among items reported on each invoice;
 - obtain explanations on all items of the invoice, check variations of last invoice as compared to previous ones, lodge inquiries to Customer Service and receive an answer within 24 hours;
 - obtain exhaustive information relative to their calls, with the last digits of called numbers being omitted;
 - keep their consumptions under control before billing by Telecom Italia (only for Customers having an active “Alice Free” connection); the service lists all calls with date, hour, tariff range and length;
 - analyse calls of the last six two-month billing periods both in tabular and graphic format;
 - check payments of the last six two-month billing periods;
 - receive every two months an e-mail saying that the new bill is available online;
 - avoid paper bills thus saving mailing expenses.

- “Your line” service
offering the possibility to look at:
 - personal data, information reported on phone directory and privacy consent;
 - the mailing address for the Telecom Italia bill, which can be changed directly on line;
 - unblocked and blocked phone numbers (for instance non-geographic numbers such as those beginning with 899, 166, 144), that can be changed directly on line;
 - kind of bill (paper or on line), that can be changed directly via web;
 - services and discount packages which are active on the line (for instance “Teleconomy”, “Alice”), with the option of online changes of features and profiles of packages.
- Your records
the service allows to track the progress of requests which are being processed.
- On line payments
customers may pay their bill online, at no added cost.
- A further customer care service for business customers has been launched in order to:
 - provide information on when requests will be met or on possible problems;
 - provide all the call centre operators with the date when requests will be met, in order to make relations with customers easier in the event of a second call.
- In order to provide technical assistance to residential customers as well as to very small business customers (in the latter case, for the time being, only relative to voice services) we improved the IT platform for customer management used by operators: we thus improved and simplified customer/operator relationships. Improvements and expansions also took place concerning the pre-diagnosis and telemetry tools available to customers through the diagnostic tool “Alice ti Aiuta (Alice helps you)”, the latter is available on the “Aiuto Alice” website, and it is distributed together with the Alice installation kit. A digital assistant has been placed on the web site to help surfing.
- To improve relations with customers, all customer care operators of technical services have been trained on communication and management of relations.
- A new technology has been implemented on the Customer Care platform of mobile telephony; it provides:
 - dynamic management of calls: re-routing of requests towards Customer Care Centres with lower work load, thus reducing waiting time and switching off;
 - Virtual Queuing: centralised management of a single virtual queue, with positive effects on the efficiency of answers;
 - Queue to Agent: re-routing of a customers towards the same agent in the event of multiple calls by the customer.

For further details see www.telecomitalia.it (Sustainability/Stakeholders/Customers).

► Customer Satisfaction

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 Centre for information, administrative issues, reporting inefficiency or claims. This information is used to improve organisational processes, in order to provide customers with services which are closer to their needs.

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

- a 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 used to develop the ACSI (American Customer Satisfaction Index), is based on an indicator which allows for inter-sectorial and international comparisons, which is stable and predictive. Such an 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 survey is carried out immediately after the event being analysed. 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 reported in the two tables below refer to the first kind of survey.

	Customer segment	Satisfaction with access service ^(*)	Satisfaction with Billing ^(*)
Fixed telephony	Consumer	86.2%	77.5%
	Business	81.9%	72.1%

	Customer segment	Satisfaction with access service ^(*)	Satisfaction with Billing ^(*)
Mobile Telephony	Consumer	87.5%	77.9%
	Business	86.9%	82.7%

(*) Percentage of customers who are “very satisfied” and “satisfied” (TOP2) in a 5-point scale: very satisfied, satisfied, not entirely satisfied, unsatisfied, very unsatisfied. Weighed 2007 average.

Data reported in the table below refer to the second kind of survey.

Customer satisfaction on Customer Care				
	Customer segment	Overall satisfaction ^(**)	Courtesy of operator ^(***)	Competence of operator ^(***)
Fixed telephony	Consumer ⁽¹⁾	62.5%	88.9%	74.0%
	Business ⁽²⁾	56.3%	87.1%	70.5%
Mobile telephony	Consumer ⁽³⁾	78.0%	91.8%	82.0%
	Business ⁽⁴⁾	66.1%	91.5%	71.7%

(**) Percentage of customers who are “very satisfied” and “satisfied” plus positive share of those who are “moderately satisfied” (TOP2+) in the 5-point scale: very satisfied, satisfied, moderately satisfied, unsatisfied, very unsatisfied. Customers stating to be moderately satisfied were asked another question to understand if their assessment is mainly positive (sufficient/acceptable) or negative (insufficient/unacceptable). Weighed 2007 average.

(***) Percentage of customers who are “very satisfied” and “satisfied” (TOP2) in the 5-point scale: very satisfied, satisfied, moderately satisfied, unsatisfied, very unsatisfied. Weighed 2007 average.

(1) Assistance provided by the 187.1 service for information, marketing and administrative calls.

(2) Assistance provided by the 191.1 and 191.9.1 services for information, marketing and administrative calls.

(3) Assistance provided by the 119 service.

(4) Assistance provided by the Business toll-free number.

Besides surveys on fixed and mobile telephone services, special attention is paid to the satisfaction of ADSL customers. In 2007 we conducted ad hoc surveys, based on focus groups which were held in 2006 aimed at identifying the most important issues for consumers.

These issues were then adopted as the subject of the survey, conducted through telephone interviews. The Group has thus collected information and the opinions and knowledge of customers on broadband, on the potential development of demand, and on opportunities to innovate and expand its ADSL offer.

Customer satisfaction within the management incentive system

The short-term incentive system for Telecom Italia’s management includes, among the objectives of all people within the incentive system, a target associated to customer satisfaction, which is adapted to the manager’s specific role. The basic indicators, whose weighed average constitutes the general index of Customer Satisfaction of Telecom Italia S.p.A and is used in incentives, come from the ACSI survey and depend on the market (fixed vs mobile telephony) and on customer segment.

► Certifications

Telecom Italia's processes and departments having a significant impact on its products and services and, in general, on the community, have certifications which ensure the adoption of procedures and behaviours that are in line with the expectations of the stakeholders they involve.

In particular, the attention to customers and to the quality of products and services is shown by the UNI EN ISO 9001:2000 certification, the interest for the environment is the basis of the UNI EN ISO 14001:2004 certification, the safety of information is certified through the ISO 27001:2005 norm.

The table below shows the certifications achieved by the various Departments/Companies of the Group, with reference to particularly significant processes and activities.

More details are available on the www.telecomitalia.it website (Sustainability/Our model/Certifications).

	Certification	Certified companies/departments
Telecom Italia S.p.A.	ISO 9001	Departments: Domestic Fixed Services, Top Client & ICT Services, Quality & Field Services Management, Domestic Mobile Services - Sales Consumer, Technology, Purchasing Companies: TI Sparkle, Elettra Tlc, Path.Net, Loquendo
	ISO 14001	Departments: Technology, Companies: TI Sparkle, Elettra Tlc
	AUDIWEB (*)	Companies: Matrix
	ISO 27001	Departments: ICT operations of Technology
Olivetti S.p.A.	ISO 9001	Departments: Business & Market Development, Product & Technology Development, Industrial Operations, Market Communication
	ISO 14001	Olivetti Plant di Arnad (AO)
Mobile Brazil and others	ISO 9001	Companies: Tim Brasil s.a., Tim Nordeste s.a.

(*) Audiweb certifies quantitative and qualitative information on the use of Internet tools and online systems.

New certifications are scheduled for 2008 and they are currently in an advanced implementation phase:

- OHSAS 18001 certification (Management System for Occupational Health and Safety) and ISO 14001 certification of the call centre units in Rome (Via Oriolo Romano) and Naples (Centro Direzionale);
- ISO 14001 certification (Environmental Management System) for the Building and Services - Facility Management Department;
- Extension of the ISO 9001 certification (Quality Management System) to the whole Purchasing Department.

► Digital Divide

The growth of information and communication technologies has given rise to noticeable opportunities of development for the population. Telecom Italia is aware of the need for a careful and insightful approach in managing this phenomenon, to avoid the risk of generating both geographic and social divides in the community.

Geographical Digital Divide

The "Anti digital divide plan", announced by Telecom Italia in 2006, aims at expanding ADSL coverage, which, at the end of 2007, has reached 94% of Telecom Italia's fixed lines. In the same period IPTV covered 52% of Telecom Italia's fixed lines.

As for mobile broadband, the percentage of resident population covered by Telecom Italia through UMTS at the end of 2007 was 76.5%. A significant development concerning mobile telephony is HSDPA technology, allowing to attain 3.6 Mbp/s and covering, at the end of 2007, 70.6% of the population.

Thanks to a Working Group on digital divide, in 2007 we have developed an important tool providing support for operations and decisions, the “Digital Divide Project” (DDP). DDP contains the complete map, both current and future, of the Italian territory concerning ADSL, ADSL 2+, 20M/IPTV coverages. DDP is used not only for daily management of broadband, but also to drive, as much as possible, network activities towards the locations which are most vulnerable to digital divide.

On December 18, 2007 a Memorandum of Understanding has been signed between the Ministry of Communications, Infratel Italia and Telecom Italia. The agreement launches joint activities to define a plan aimed at reducing as much as possible the number of areas not yet covered by broadband, both in the South (where Infratel is already operating) and in the Centre-North (on the basis of agreements signed or being signed by the Ministry with Regions). The aim is reducing, and, in perspective, eliminating, digital divide, favouring the development of broadband infrastructures over the whole national territory.

Social Digital Divide

Belonging to underprivileged social groups due to physical problems, age or income may lead to the exclusion from the benefits of ICT.

The main areas where the Telecom Italia Group acts for the reduction of social Digital Divide are:

- Spreading ICT culture;
- Support to the elderly;
- Support to people with disabilities;
- Support in developing areas;

More information on single initiatives is available in “The Community” chapter.

The Digital Terrestrial Television

Telecom Italia Media – La7 has contributed to the process of transition of our country towards the digital television system, supporting the launch of the All Digital areas in Sardinia and in Valle d’Aosta, in view of the 2012 switch. In these areas, starting from April 2007, the Qoob, Raidue and Rete Quattro TV programs are already exclusively broadcast through digital terrestrial technology. Telecom Italia Media – La7 customers were provided all the necessary technical information and support, also thanks to the help of a call centre, set up in collaboration with the Ministry of Communications.

► Research and Innovation in e-security

Research and development activities concerning e-security mainly focused on:

- innovative tools for an efficient and immediate protection from attacks to the new network infrastructures and to services, with special focus on solutions for detecting even the faintest signals of computer attacks;
- innovative tools for predictive analysis of risk exposure level, through advanced use of modelling and simulation techniques;
- systems allowing to manage security measures by switching automatically action rules when changes in risk scenarios and security targets occur;
- services for the protection of new generation mobile handsets;
- innovative technologies to render data anonymous, whenever necessary for compliance with ruling laws, and which simplify management processes.

Research activities are associated both to patent development, in order to protect innovation, as well as to scientific publications for dissemination of results.

► Research and tests on innovative services

The main tests on innovative services, designed by the Laboratories of the Telecom Italia Group in collaboration with Research Institutes and both Italian and foreign universities, are described below.

Reduction of electrical energy consumptions

- Energetic and environmental control system for Telecom Italia's exchanges, which analyses and segments consumptions, with remote control in real time through wireless network.
- Management and control solution for water and electrical energy consumption in households, through a wireless sensor network and fixed and/or mobile peripherals.

New technologies for the reduction of environmental impact

- Infomobility services (i.e. traffic management, traffic information, payment services, navigation services) and technological infrastructure based on specific onboard units.
- IT management of metered parking areas. Mobile phones are used in order to identify the position of users and vehicles, and to indicate which parking areas are easier to reach and how to reach them, also identifying the parking permit, if any, and applying the right toll.
- Dynamic management of vehicle access to limited traffic urban areas through personal mobile handsets or onboard devices.
- Traffic management through onboard devices. Tests will be carried out in partnership with Autostrade S.p.A.
- Remote control solution in real time of fire brigade actions thanks to a ZigBee sensor (Body Area Network) integrated in the firemen's clothes. The solution has been submitted to the Ministry of the Interior.

Assistance services

- Tele-assistance service through the control of parameters such as heart rate, body temperature, movement. The service offers the possibility to call for help through a Panic Button. Communication with the service centre occurs through innovative ZigBee technology, incorporated in videophones or mobile handsets.
- Health kiosks: a project in collaboration with Parmalat (a dairy firm) for the control of significant personal parameters (such as weight, body mass index, body fat percentage, blood pressure) through health kiosks connected to a service centre.
- Remote monitoring of some physiological parameters, meant for patients affected by chronic pathologies (diabetics, cardiac patients, chronic bronchitis patients).
- "Geofencing" service aimed at supporting outdoor mobility of patients affected by mental health problems (i.e. Alzheimer), through the definition of safe areas and localization functionalities of mobile handsets and network.

A consortium for infomobility

Telecom Italia and Magneti Marelli, a leader firm in the field of car component production, have created a consortium for new infomobility services in order to develop and market a new open platform ensuring uninterrupted connections with information and entertainment services and favouring "ecodriving", thus minimising traffic congestion. The system will allow for the integration between the automotive environment and ICT, thanks to an onboard telematic device for dialogue between the vehicle and the software applications of the various service providers. Such applications may be used by public authorities to provide information on road conditions and traffic (in order to avoid jams, to pay tolls and parking, to manage access to limited traffic areas, etc.) and by companies managing corporate fleets in order to locate vehicles and enable communications.

► 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.

- 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 which is subject to filtering. Should the Group launch in 2008 adult content services on its mobile platform, appropriate protection and filtering measures would be adopted. 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 Resolution no. 661/06/CONS "Safety measures for minor protection to be implemented on video 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 having adult content; 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.
- As for the offer of content/services on corporate websites (Rosso Alice and Virgilio), further guidelines of conduct are currently under study.

In 2007 control activities to prevent the diffusion of juvenile pornography continued. The Group's companies have set up abuse management teams, called "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 (residential and business): besides managing alarms on problems associated to the Group's services, desks, through an officer who acts as reference point for the Postal Police, inform the appropriate authorities about any significant event, such as the presence of pedo-pornographic 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.

► Relations with Consumer's Associations

Telecom Italia places special emphasis on the protection of consumers' interests and to relations with the Associations representing them, in a framework of loyal collaboration and transparent mutual information.

The company started its collaboration with Consumer's Associations in 1983. Since then several agreements have been signed and Telecom Italia actively collaborates 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 of the main projects of organisational development possibly affecting customers (for instance the reorganisation of certain Customer Care services or information on the possibility of enabling/disabling non geographic phone numbers through an appropriate PIN).

Telecom Italia regularly transmits the following information to Associations:

- Telecom Italia bill: all messages sent to customers and included in the "Telecom News" section of the Telecom Italia bill, concerning tariff changes, the launch of new services and offers, institutional information and in general all news useful to customers;
- In linea con Te (On line with you), that is information generally concerning tariff policies and initiatives undertaken in compliance with specific regulations, published by Telecom Italia on the most widespread national newspapers.

The Group is a founding member of the Consumers' Forum, which gathers Consumer's Associations, companies and research institutes. The Forum deals with issues related to consumerism. To promote the development of a "collaborative consumerism" and to provide feedback to the appropriate Group departments, in 2007 some important meetings took place ("Media, Consumers and Consumerism", "Authority: which strategies for the future?") with the participation of the highest institutional authorities.

Furthermore, within the Forum's activities and with Telecom Italia's support, there occur initiatives of joint training with the Associations on Conciliation.

Conciliation

Direct results of Telecom Italia's collaboration with the Associations are its "Conciliation procedures". Based on the 'parity' model, these procedures have led to the resolution of approximately 48,000 client disputes since their adoption in 1991.

The conciliation procedure between Telecom Italia and Consumer's Associations is based on the "parity" model involving direct responsibility of both parties: the customer, who chooses a Consumer's Association and fully entrusts the relevant representative to deal about his/her dispute, and the Company, which participates with its representative having an equivalent mandate. Conciliation applications are presented at appropriate offices hosted 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 them. If the conciliation proceedings 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



TELECOM ITALIA GROUP		
(millions of euro)	2007	2006
Expenditure for raw materials and external services (net of TLC licence fee)	14,262	13,956
– of which correlated entities	288	263
Industrial investments	5,520	5,114
– of which correlated entities and internal capitalization	990	1,039
Total contribution	19,782	19,070
– of which correlated entities and internal capitalization	(1,278)	(1,302)
Total net contribution	18,504	17,768

► 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. The Group aims at ensuring the quality of purchasing processes and their continuous improvement through the implementation of the ISO 9001:2000 certification, already attained by some departments of the Purchasing Area. The certification attainment will be completed in 2008, as specified below.

► 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.

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

More than 8,500 controls were performed on the execution of technical works, mainly focused on the installation phase of new plants and on the provision of services and works.

The most significant controls carried out on suppliers during 2007 are summarized below.

- Supplier qualification: 871 qualification controls involving 504 suppliers, of which 254 with a negative outcome and 91 with a fixed-term qualification.
- Sub-contractor qualification: 124 qualification controls, of which 7 with a negative outcome.
- Vendor rating monitoring: 75 reports issued relative to approximately 366 suppliers and 44 purchase categories.
- Technical-organisational audits at Supplier's premises to perform Incoming Quality Control on products and services: 545 batches of controlled products. Of these 55 were rejected for nonconformity.
- Technical-organisational audits at Supplier's premises to perform qualification procedures: 273 controls involving 171 suppliers, of which 34 with a negative outcome and 29 with fixed-term qualification.
- 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: 166 audits involving 115 suppliers, of which 5 with a negative outcome and 14 with fixed-term qualification.

The Group has defined the criteria for the systematic monitoring, also with respect to vendor rating, of the number and severity of accidents involving the employees of high-risk Telecom Italia Group suppliers (network works, Radio Base Station installations, exchange/building works).

The model defined has been derived from the UNI 7249 ed. 95 regulation, "Statistics on accidents at work". It identifies specific indicators, such as Severity index and Frequency Index.

The comparison of data obtained with the average value calculated considering all the suppliers of the monitored departments and with indexes published by INAIL (National Institute for Insurance against Accidents at Work), will allow the definition – in collaboration with suppliers – of actions aimed at continuous improvement (the objective being zero accidents).

► Main Sustainability Initiatives

In 2007 the following initiatives were carried out:

- Application of the "Guidelines for the assessment of product life cycle" (issued at the end of 2006) to 50 suppliers and 17 products. These guidelines are meant to assess, through an eco-compatibility index, whether the products purchased/handled/marketed by the Group meet the requirements related to reference environmental regulations. Also whether such products are designed, manufactured, used and disposed of in view of a better management of the whole life cycle, from the environmental and economic standpoints. The product groups to which these guidelines apply are defined on the basis of purchase volume, impact on corporate reputation, hazardousness and economic/legal risk. These are:
 - Products destined to be launched on the market (telephone terminals, exchanges, fax, modems);
 - Office products (computer and peripherals, copiers, paper, consumption materials such as toner, batteries, etc.);
 - Network equipment/materials (poles, masts, cabinets, accumulators, exchanges).
- Concerning the 50 above mentioned suppliers, the assessment of the product life cycle has been integrated with other controls aimed at assessing in general the initiatives adopted on Ethics and Sustainability, such as the compliance on corporate ethics and the procedures applied to ensure the worker's health, safety and rights. The assessments are also aimed at promoting a commitment to pursuing Sustainability throughout the supply chain, with the involvement of their suppliers (sub-contractors of the Group). Among the audited suppliers 44% showed adequate attention to Ethics and Sustainability issues (32% in 2006), while 61% of suppliers who in 2006 had undertaken improvement commitments with the Telecom Italia Group, has implemented the agreed actions.
- Audit procedures on the suppliers of subsidiaries abroad also continued. In particular, before being included in the Suppliers' List, all the new suppliers of Telecom Italia S.A. (France) and TIM Brasil, 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.

- Several departments belonging to the Group's Purchasing Area have attained in the month of October 2007 the certification of compliance to the ISO 9001:2000 requisites related to the "Quality Management System"; the certification process, contributing to ensure the quality and continuous improvement of purchasing processes, will be completed in 2008. This initiative involved mapping the whole Purchasing Area processes and defining over 90 control indicators in order to improve the management of services provided to internal customers and suppliers.
- At the end of 2007 the Purchasing Area carried out a survey meant to monitor satisfaction among the main suppliers. An online questionnaire was posted on the Suppliers portal to this purpose.
This analysis, carried out in collaboration with corporate department IT Quality & Processes, involved 580 suppliers of which approximately 200 (equal to 34%) participated in the initiative. A positive outcome was recorded, with scores in excess of 7/10.
The questionnaire includes 28 questions, allowing to assess the interaction with the Purchasing Departments in all the phases of the purchasing process.
- The Group has issued the English version of the Suppliers Portal and of the "Policy on relations with Suppliers" illustrating how the Sustainability and Ethics principles are promoted and pursued in the purchasing process.
- Since 2006 the Telecom Italia Group takes 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 standard 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 a well-known independent company, was "very good" for 2006. The assessment for 2007, recently concluded, has emphasized a further improvement in the areas not attaining the maximum score in 2006.

Table summarizing 2007 results vs 2007 objectives

2007 objective	2007 results	Objective status
Start of the procedure to attain the ISO 9001 certification by the Purchasing Area of the Telecom Italia Group.	The ISO 9001 certification has been attained by the TLC and IT Purchasing departments, and by the Logistics, Facility Management, Operational Planning, Suppliers Control and Information Technology Support departments, operating within the Purchasing Area of the Telecom Italia Group.	Achieved
Issue of the English version of the Suppliers Portal and of the related documents.	The English version of the Suppliers Portal has been issued.	Achieved
Application of the guidelines for the assessment of product and supplier eco-compatibility to a higher number of products.	Application of the "Guidelines for the assessment of Products Life Cycle" (issued at the end of 2006) to 50 suppliers and 17 products.	Achieved
Application to a higher number of suppliers (experimental audits carried out in 2006 on 43 suppliers) of audits on initiatives adopted by suppliers on Ethics and Sustainability and control of the compliance with respect to the commitments by suppliers during the first cycle of audits.	Audits on initiatives concerning Ethics and Sustainability on 50 suppliers.	Achieved
Extension of the 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 subsidiaries abroad (in particular Tim Brasil, Telecom Italia France SA and Hansenet Telekommunikation GmbH).	Audits on suppliers of subsidiaries abroad concerned Tim Brasil and Telecom Italia France S.A. and are progressively being expanded to the most important suppliers of Hansenet Telekommunikation GmbH (Germany).	Partially achieved

► 2008 Objectives

- Completion of the ISO 9001 certification within the Purchasing Area of the Telecom Italia Group, together with the ISO 14001 certification of the Facility Management Department of the same Area.
- 10% increase of audits scheduled on suppliers on Ethics and Sustainability, integrating the controls so far performed through audits with a monitoring based on self-certification.
- Development of an *e-community* project through the creation on the Suppliers Portal of a multimedia environment aimed at:
 - Publishing policies, standards, specifications, objectives and best practices, in the field of Sustainability;
 - Encouraging the start of Sustainability initiatives and projects;
 - Staging e-voting campaigns for suppliers on Sustainability initiatives both by the Group and by suppliers.
- Development of a global vendor rating index involving the most important suppliers of the Group and considering the suppliers' performance in the field of environmental and social Sustainability.
- Extension of audits to the most important suppliers of the subsidiary abroad Hansenet Telekommunikation GmbH (Germany), who will be requested to adhere to the Code of Ethics' principles of the Telecom Italia Group.

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.

► Organisations and associations

Co-operation with competitors at national level

During 2007 Telecom Italia Media took part in the DGTVi, the Association for the development of the Terrestrial Digital broadcasting in Italy to which Rai, Mediaset, Radio and Television Federation, Aeranti-Corallo and D-free also take part. Telecom Italia Media is also holding the position of President of the DGTVi up to March 2008. Participation in the DGTVi enables the TI Media Group broadcasters to interact with the radiotelevision 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 third national conference on Terrestrial Digital (Turin - November 30 and 1st December) during which the report "The future is clear" was presented. This is a study, developed by four research institutes and approved by the public and private companies participating in the DGTVi, which summarises the data, analyses and opinions shared by the scientific community and by industry;
- release of the DGTVi label for the certification of integrated decoders and televisions on the basis of technical specifications developed by the Association. The label will be placed on equipment of the manufacturing companies adhering to the agreement starting from February 2008;
- continuation of the two market surveys aimed at assessing the diffusion of decoders, both at national level and in the so-called "all digital" areas, with the aim of monitoring the spread of digital decoders in Sardinia and in Valle d'Aosta.

DGTVi is also actively taking part in the National Committee Digital Italy, involving the 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 divided into nine thematic subgroups.

As of October 2007 no. 5,500,000 decoders and 1,200,000 integrated television sets had been sold.

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

Telecom Italia has formalised its membership as founder to the High Definition Forum (HDF), whose main goal is the promotion and diffusion in Italy of high-definition. Within the Association Telecom Italia coordinates three working groups on distribution/supply, production and utilisation. The adhesion to the Forum favours the regular updating on competitor activities related to high definition (in particular Sky, Mediaset and Fastweb) and the promotion of regulation and standardisation initiatives.

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 related to the development of business and safeguarding the corporate interests on the economic, legislative, trade unions and labour issues.

The TI Group is a member of 100 territorial Associations and of the following Federations/National partner organizations: Confindustria Servizi Innovativi, Asstel, Assoelettrica and Assografici (terminated on December 31, 2007 for Matrix), Distretto dell'Audiovisivo e dell'ICT.

Together with other operators of the sector, Telecom Italia Group participates in the Ugo Bordononi foundation, involved among else in research, study and consultancy in the sectors of Communications and Information Technologies, with particular reference to the Digital Television sector.

The Foundation has a considerable experience, well known at international level, in areas such as radiopropagation, optical communication, safety and protection of telecommunications, TLC networks, multimedia communications.

The Ugo Bordononi foundation has been legally entitled to the technical supervision of experimental activities relating to Terrestrial Digital transmissions and interactive services and manages several projects in collaboration with the Ministry of Communications and other public entities.

The contributions of Telecom Italia to the Ugo Bordononi foundation are included at level 3 of the London Benchmarking Group (LBG) model (see "The Community" chapter).

Collaboration with competitors at international level

At international level the Telecom Italia Group collaborates with several organisations and/or associations, among which:

- BRT (The Brussels Round Table): this organisation brings together the most important European TLC and manufacturing companies and aims at maintaining a constant dialogue with European Institutions on significant issues concerning the ICT sector at European Community level;
- ETNO (European Telecommunications Network Operators' Association): it is the most important association in the field of telecommunications across the continent and aims at developing a competitive and efficient European telecommunication market by coordination of operators and dialogue with Institutions;
- GSME (GSM Europe): it is an association gathering the European mobile operators. Among its objectives there is the development of the European telephone and mobile services market with particular attention to the regulatory aspects;
- EIF (European Internet Foundation): it gathers European Parliament members, TLC manufacturers and operators, software providers, ISPs and content providers and supports public policy related to the fast development of the Internet, broadband and information technologies;
- ERT (European Round Table of Industrialists): this forum brings together about 45 European industrial leaders to promote the competitiveness and growth of the European economy;
- ESF (European Services Forum): this is an association of European operators in the services sector and aims at promoting the interests of the European services industry, and liberalising the service sector worldwide within the WTO framework;
- EABC (European American Business Council): it is an association whose goal is to support and facilitate transatlantic dialogue on significant industry issues of interest to the EU and the USA;
- BRUEGEL (Brussels European and Global Economic Laboratory): it is a European study centre dedicated to the critical analysis of the international economy, to the development of the main industrial sectors and to the role of the EU in the global economic context;
- ETP (European Telecommunications Platform): it is an organisation gathering TLC operators and manufacturers, aiming to promote and discuss common telecommunications-related issues;
- ITU (International Telecommunications Union): it is an agency belonging to the United Nations whose objective is to favour the joint elaboration, between Governments and the private sector, of an international set of technical standards, operating procedures for wireless services and of development programmes for TLC infrastructures in developing countries;
- BIAC (Business and Industry Advisory Committee): it represents the industrial Association of OECD countries.

► Activities regarding competition

In the first months of 2006 the guidelines for an "Antitrust Compliance Programme" were defined. The program consists of a series of multilevel information and training and aims at spreading the correct cultural approach to Antitrust regulations within the Group, as well as the awareness that competition is not a threat but, on the contrary, an essential asset for business activities.

The substantial changes in the Telecom Italia organisation chart occurred in the second half of 2006, and corporate events occurred in the second half of 2007, prompted a pause in the implementation of the Antitrust Compliance Programme; this was necessary in order to avoid involving in the huge training activities required for the implementation of the program corporate departments being possibly affected by organisational change.

The implementation phase of the program should start within the first half 2008, once the already defined guidelines have been appropriately updated.

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



TELECOM ITALIA GROUP

(millions of euro)	2007	2006
Social security and pensions	951	796
Income taxes	1,681	2,519
Indirect taxes	142	141
TLC license fees	283	235
Total	3,057	3,691

► 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 common concern 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 issues of interest to the Group is therefore constantly monitored. Telecom Italia 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.

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, 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 2007, are reported below.

Approved legislative provisions

- Law 40/2007 dated April 2, 2007, converting Legislative Decree no. 7/2007 containing “urgent measures to safeguard consumers, promote competition, develop economic activities and create new businesses” (the so-called “Bersani Law”).
The text contains provisions related to mobile phones recharging services, transparency and the freedom to rescind contracts with telephone, television and Internet service providers.
- Law no. 106/2007 of July 19, 2007 delegating the Government to review regulations concerning ownership and marketing of transmission rights for football events both on television and other electronic communication networks. During the legislative approval

proceedings Telecom Italia has represented the Group position (both as television broadcaster and telephone provider supplying digital content by means of cable or mobile networks), with the objective of minimising the impact of some critical parts of the text related to the definition of contracts and the sub-licensing of acquired rights within the technological platform.

- Law no. 244/2007 of December 24, 2007 (2008 Financial bill).
The law includes provisions involving the sector:
 - concerning wire-tapping a unified national system on the subject of room and telephone wire-tapping is going to be launched by the Ministry of Justice;
 - as far as telephone tariff concessions to the publishing industry a mechanism involving tariff discounts will be applied by the Government directly to publishing industries;
 - the Fund for under-exploited areas and the Fund for transfer to digital will be increased to promote broadband development;
 - a contribution system by electronic communication operators has been created to promote European audiovisual works;
 - Public Administration systems will migrate towards the VOIP services;
 - the limitation, given to companies, related to VAT deducibility of costs occurred for mobile telephony and provided by the preceding regulations is eliminated;
 - telephone operators are required to communicate to the land tax register the data related to the building in which the telephone line has been activated.

The law has moreover introduced the regulation of the collective compensation of damages to safeguard consumers (class action), including in the current Code of Consumption (Legislative Decree no. 205/06) article 140-bis. The recognized Consumers' Associations, as well as associations and committees appropriately representing collective interests, can now act in order to protect the collective interest of consumers and users by requesting from the competent court to ascertain the right to the compensation of damage and the restitution of the due sums to single consumers in the framework of juridical relations associated to "mass contracts" (ex article 1342 c.c.), i.e. as a consequence in the case of unlawful extracontractual acts, unfair trade practice or anticompetitive behaviours, whenever the rights of a plurality of consumers or users are prejudiced.

Legislative provisions under examination (*)

- On June 13, 2007, the Chamber of Deputies approved the Bill promoted by the Government and concerning "Citizen-Consumer Measures for facilitating productive and commercial activities as well as initiatives in sectors of national relevance" (the so-called "Bersani law" on liberalisations). The text is under examination by the Senate. This provision includes several issues quite relevant to the Group, among which the government amendment resolution on the functional separation of Telecom Italia's access network on the basis of which AGCOM has been conferred the power to oblige Telecom Italia to carry out such functional separation, to be implemented after previous authorisation by the EU Commission, however without doing away with the provision on voluntary commitment that was introduced by Law 248, dated August 4, 2006.
- During the month of October 2006 the Council of Ministers approved and submitted the so-called "Gentiloni Bill" to the Chamber of Deputies for examination. This Bill sets out regulations for the television sector in the conversion to digital technology.
This Bill is a legislative initiative by the Government that seeks to implement the EU recommendations in national legislation as a result of the infringement procedure against Italy that was started last July, to dispute some aspects of the "Gasparri law" and of the radio-television Consolidating Act with respect to European regulations.
The main provisions of this Bill concern: the setting of November 30, 2012 as the date for the conversion from analogue to digital; the establishment of a ceiling equal to 45% of the television industry advertising revenues to define a monopoly position in the sector; anticipation of the digital conversion for one network for operators owning 3 networks (within 15 months since the law's approval).
The Bill introduces a ban for the Telecom Italia Group concerning the connection/control with respect to dominant television broadcasters; it also introduces for Telecom Italia the obligation to grant the access to its broadband infrastructure with respect to the provision of television services and the linear distribution of multimedia content.

(*) Information provided refers to activities carried out as of December 31, 2007

- The Government Bill on wire-tapping has been approved by the Council of Ministers in August 2006. After transmission to the Parliament for examination it has been approved by the Chamber of Deputies in April 2007 and has then been transmitted to the Senate for examination, which started in June. The Bill redesigns the subject, mainly concerning the duration of wire-tapping, the publication of investigation reports and the related sanction regulation.

▶ European legislation

The Group activity focused on the following issues:

- monitoring of European Commission activities related to revisions within the Community framework: revisions of directives and recommendations about significant markets;
- adoption process of the TV Directive that was approved at the end of May by the EU Parliament and Council. This Directive separates linear services (traditional TV) from non linear ones (on demand audio-visual content); it extends some televisions provisions to on demand services and makes quantitative regulations on advertising lighter;
- adoption process of EU recommendations on collecting societies;
- adoption process of EU directive on domestic services market (Service Directive);
- adoption process of the Directive on electronic payments on the internal market;
- adoption process and approval procedures of the EU Directive on penalties for intellectual property rights infringement;
- proposal for the regulation of international roaming and adoption of it. This regulation has been adopted by the EU Parliament and Council. It calls for setting a ceiling related to prices for international roaming services (price cap), both for final customers (retail market) and for operators (wholesale market);
- analysis of the activities being carried out by European bodies charged with implementing regulatory framework (sector committees – Cocom and the European Regulators Group – ERG);
- monitoring of the possible revision process for the e-commerce Directive.

▶ International legislation

The Group activity focused on the following issues:

- analysis of regulatory development in countries of interest and support to the Group's 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 in both national and European public consultations; monitoring and possible participation in working groups within the various Regulatory Authorities;
- participation in the Merger & Acquisition processes and in sell procedures related to foreign companies, in strict collaboration with the appropriate central departments and development of the relevant antitrust and regulatory notifications;
- control of regulatory compliance of foreign subsidiaries and safeguard of the related licences.

The Environment



► Strategy

The TI Group environmental strategy is based on the following principles:

- to optimise the use of energy sources and natural resources;
- to minimise the negative environmental impacts and maximise the positive ones;
- to disseminate the culture of a correct approach to environmental issues;
- to implement the progressive 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. Due to changes in this report scope with respect to past years, some data related to the previous two-years period might have been appropriately reclassified for comparison uniformity purposes. The scope of Domestic/Broadband/Mobile Brazil and other activities includes the Central Departments and all the fixed and mobile telephony operations, both in Italy and abroad.

► Waste

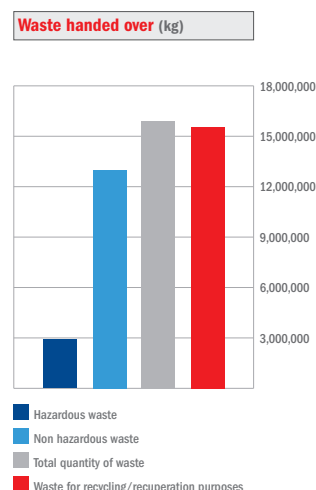
Data shown in the table below refer to the quantity of waste handed over⁽¹⁾ to carriers and booked in compliance with the related law⁽²⁾.

WASTE HANDED OVER ^(*)	Telecom Italia S.p.A. 2007	Change %		
		2007 vs 2006	2007 vs 2005	
Hazardous waste	kg	2,913,607	2.63%	6.72%
Non hazardous waste	kg	12,980,361	68.24%	37.43%
Total quantity of waste	kg	15,893,968	50.59%	30.54%
Waste for recycling/recuperation purposes	kg	15,558,013	55.12%	49.72%
Ratio between recycled/recuperated waste and total waste		97.89%	3.00%	14.69%

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

As compared to the preceding years non hazardous waste shows a significant increase, already foreseen and commented in the latest Sustainability report and connected to the management contract signed in the last quarter 2006.

(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 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.



The ratio between the quantity of waste handed over for recycling/recovery and the total quantity of waste is improved. The high levels of recuperation/recycling and the progressive improvement of the index show the process efficiency and the good interaction with companies to which such service is entrusted⁽³⁾.

WASTE HANDED OVER

	TI Group 2007	TI Group breakdown by BU (%)		
		Domestic/Broadband/ Mobile Brazil and other activities (*)	Media	Olivetti
kg	20,263,161	94.97%	0.67%	4.36%

(*) In this table and in those following in the Environment chapter the scope of Domestic/Broadband/Mobile Brazil and other activities includes all the fixed and mobile TLC domestic activities, as well as the related support activities, the broadband services in France, Germany and The Netherlands, TIM Brasil and Entel Bolivia.

► **Waste Management**

Industrial waste produced by Telecom Italia is managed using computerised waste accounting books, also allowing regular monitoring.

The differentiated waste collection of waste produced by corporate offices, started in 2006, has been progressively expanded to all Italian offices having more than 100 employees. The service is currently ongoing in 107 territorial offices and in the Rome and Milan headquarters. In 2008 the service will be implemented in other smaller offices. In 4 particularly representative and ISO 14001 certified offices, the opportunity to realize other initiatives aimed at improving the service (Ecobox and double-compartment waste baskets) will be tested.

Concerning the management of waste from electrical and electronic equipment (WEEE), ruled by Legislative Decree 151/05, Telecom Italia is required to manage the product end-of-life, being both a distributor and a producer. While waiting for the executive decrees related to the above legislative decree to be issued, Telecom Italia will join a consortium specialised in the management of equipment end-of life. The processes for the collection and selection of WEEE have been defined for each direct sale channel, and appropriate provisions have been added to the standard purchase contractual conditions, concerning the WEEE and the hazardous substances (RoHS)⁽⁴⁾.

The responsibilities related to the management of end-of-life electrical and electronic equipment are at the basis of some initiatives both concerning the company and customers, such as:

- the disposal of obsolete computer workstation;
- the withdrawal of products (in particular basic telephones and ADSL modems), owned, rented or entrusted to customers on a free loan basis;
- a collection of used mobiles for reuse and/or recuperation (for instance through the project "Become a mobile phone-donor" described in chapter "The Community/Charity").

These initiatives are meant to:

- collect and correctly dispose of the hazardous components contained in these equipment/accessories, including batteries;
- recuperate materials, from plastics to noble metals such as gold, copper, palladium, silver and platinum;
- start a new life cycle for repairable or operating equipment.

► **Product Responsibility**

Product responsibility – also known as product stewardship – is related to aspects such as the safety and environmental impact of products and services supplied to customers, for instance the compliance to health/safety and environmental standards, labelling and marketing actions.

(3) Controls concerning technological waste (approximately 6,000,000 kg of waste handed over to carriers for cycling and recovery) were carried out in 2007 and showed that 97% has been actually recycled and recovered while the remaining 3% has been disposed of.

(4) European Directive 2002/95/CE on restrictions to the use of certain hazardous substances in electrical and electronic equipment (Restriction of Hazardous Substances Directive).

The products marketed by Telecom Italia undergo strict technical tests meant to ensure their conformance to European Directives and to the national legislation implementing these measures. The most important are:

- the EU regulation on the protection and safety of customers using such equipment;
- the RoHS regulation, banning the use of hazardous substances in electrical and electronic equipment;
- the already mentioned WEEE regulation.

Products are submitted to rigorous quality tests to make sure they match the environmental and safety requirements agreed with suppliers. More information on the safety of mobile terminals is available in the "Electromagnetic emissions" paragraph.

The technical/commercial departments of Telecom Italia S.p.A. and Olivetti also show their care for health, safety and the environment through the acquisition of certifications: UNI EN ISO 9001:2000 (for quality); UNI EN ISO 14001:2004 (for the environment); ISO 27001:2005 (information security standards). For further information on the subject please see chapter Customers/Certifications.

During 2007 the Life-cycle Analysis (LCA) method has been applied to a group of 17 products (mobile and fixed terminals, fax and printers). The LCA assesses and quantifies the environmental impact of a product, a process or an activity, starting from raw material acquisition to end of life. The LCA method, developed within Telecom Italia in a form simplified and appropriate for corporate requirements, also aims at supporting the purchase decision-making process, in particular for commercial products, also through the involvement of suppliers.

► 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 2007 the TI Group continued the recovery of the poles. Details are shown in the table below.

TELEPHONE POLES REMOVED

	Telecom Italia S.p.A. 2007	Change %	
		2007 vs 2006	2007 vs 2005
no.	208,250	+9.53%	+1.33%

The recuperation activity will continue in 2008.

► Paper

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

PAPER

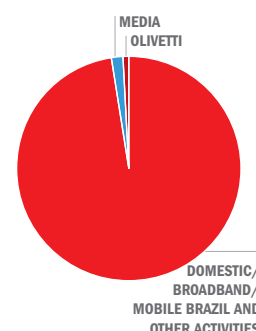
	TI Group 2007	TI Group breakdown by BU (%)		
		Domestic/Broadband/ Mobile Brazil and other activities	Media	Olivetti
Non recycled paper purchased	kg 746,462	96.40%	2.66%	0.94%
Recycled paper purchased	kg 390,768	99.74%	0.22%	0.05%
Total paper purchased	kg 1,137,230	97.55%	1.82%	0.63%

Also due to the awareness campaign concerning all employees of Italian offices, the consumption of paper is reduced as compared to 2006. The use of recycled paper, instead of new paper, has recorded a strong percentage increase. The quantitative objective defined for Italian operations in 2007 (40% of recycled paper used) has been reached and outperformed.

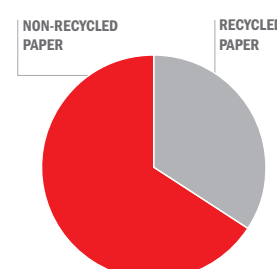
In the year it has been presented to customers the initiative "Stop to paper! Saying YES to the environment REWARDS YOU", aimed at favouring the on line invoicing of telephone bills, replacing the traditional mailing of the paper document. The initiative has been associated to a competition with prizes with final draw among subscribers.

In Brazil TIM Participações has replaced new paper for commercial use (telephone bill invoices and promotional material) with recycled paper. The total use is quantifiable in over 2,500 tons.

Total paper purchased



Recycled and non-recycled paper purchased

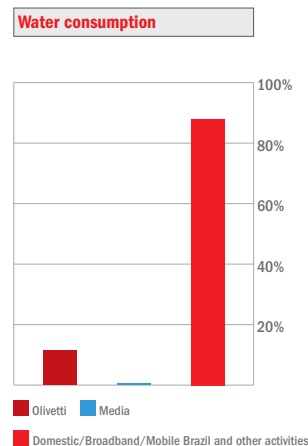


▶ Water

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

WATER CONSUMPTION			
	Telecom Italia S.p.A. 2007	Change %	
		2007 vs 2006	2007 vs 2005
m ³	4,147,359	-1.73%	-12.92%

WATER CONSUMPTION				
	TI Group 2007	TI Group breakdown by BU (%)		
		Domestic/Broadband/Mobile Brazil and other activities	Media	Olivetti
m ³	5,141,499	88.01%	0.48%	11.50%



The decreasing trend of water consumption by Telecom Italia, as compared to preceding years, continued also in 2007. The monitoring of water consumption on heavily staffed premises, already started in the past and expanded in 2007 to corporate offices with more than 100 employees, associated to the office disposal plan, is the basis of the result achieved.

The overall Olivetti environmental profile, though showing an increase of water consumption due to the introduction of a closed cycle-cooling system at the Arnad plant, is improved as the new process granted the elimination of ozone depleting gases.

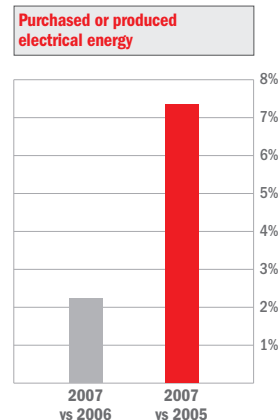
▶ Energy

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. 2007	Change %		
		2007 vs 2006	2007 vs 2005	
Electricity from non-renewable or mixed energy sources	kWh	2,121,870,937	2.16%	10.28%
Electricity from renewable energy sources	kWh	32,000,000	6.67%	-61.12%
Total purchased or produced electricity	kWh	2,153,870,937	2.23%	7.36%

PURCHASED OR PRODUCED ELECTRICAL ENERGY				
	TI Group 2007	TI Group breakdown by BU (%)		
		Domestic/Broadband/Mobile Brazil and other activities	Media	Olivetti
kWh	2,608,334,981	97.97%	1.13%	0.90%



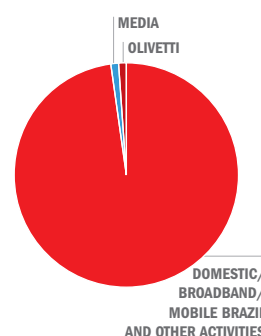
The increasing trend characterising the electrical energy consumptions is mainly due to the increase of broadband lines and data traffic, to the new services being offered and to the progressive spread of flat rates. A trend inversion is expected thanks to a further development of energy saving activities and most of all to the introduction of the Next Generation Network (NGN2) as unique access platform.

The electrical energy purchased in Brazil in 2007 derives from natural sources (hydroelectricity) and is equal to 267 millions of kWh.

The Group is committed to the development of alternative energy sources, as shown by the following initiatives:

- installation of fuel cells in five locations (Trentino Alto Adige, Piemonte and Sicilia). These plants use hydrogen as energy 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;
- experimentation continues on innovative self-routing concentration photovoltaic plants, enabling an increase of electric yield up to 35% as well as a reduction of costs for plants and spaces occupied;
- completion and activation within March 2008 of the co-generation (trigeneration) plant at the Data Processing Centre of Pomezia (Rome). Here energy requirements will be met using a system which should provide – in association to the usual suppliers – electrical energy, heating and cooling with a 30% estimated energy saving;
- four Base Transceiver Stations have been equipped this year with a supplementary mixed wind and photovoltaic power (a 15 kW wind generator and 3,5 kWp photovoltaic modules) ensuring 30% of energy requirement;
- a project in collaboration with the second Naples University and the National Agency for Environment Protection and Technical Services (APAT), meant to improve the energy efficiency of TLC equipment by the use of renewable sources, energy saving strategies and interventions to reduce emissions, has been launched;
- in collaboration with TILab it has been started, at the Turin Vanchiglia exchange, the experimentation of a system for the monitoring of energy consumption through the “Wireless Sensor Network” technology. The aim is the continuous monitoring of environmental conditions (air conditioning, free cooling, lighting, router and gateway) and of energy consumption. The project is planned to be applied to larger exchanges.

Purchased or produced electrical energy



As far as the Technology industrial consumption, the energy saving initiatives started in past years are continuing. The most important interventions are:

- The replacement of power supply units with low conversion rate;
- The optimisation of system usage and the technological upgrade of obsolete equipment;
- The installation of new free cooling plant systems;
- The replacement, rationalisation and optimisation of air conditioning systems;
- The compacting of switching modules.

TIM Brazil has also implemented several projects to rationalise electrical energy consumption, which were started in 2006:

- automatic lighting and air conditioning of buildings, through motion sensors;
- electrical circuit sectioning;
- replacement of incandescence lamps with low-consumption fluorescence ones.

► **Eco-efficiency indicator**

Telecom Italia S.p.A. monitors its own energy efficiency through an indicator comparing the service offered to customers (simplified to the quantity of transmitted bits) and the related environmental impact measured in terms of energy consumptions. For this purpose the following inputs are considered: voice and traffic data, both from fixed and mobile networks; industrial (air conditioning of plants, network operation) and civilian energy consumptions (i.e. office heating, vehicle fuel consumption, office electricity consumption).

The table below shows the last five years trend of the TLC service eco-efficiency.

Year	kBit/kWh	Bit/Joule	% increase Year 200X vs year 200X-1
2003	492,082	137	
2004	777,248	216	+58%
2005	1,311,676	364	+70%
2006	2,144,178	596	+63%
2007	3,144,283	873	+45%

The indicator figure for 2007 shows an approximate 45% increase as compared to 2006, thus higher than the defined target (850 Bit/Joule). The annual increase of the index is however progressively shrinking: the actions undertaken in the last years for energetic efficiency purposes and the increased traffic volume involve a reduction of the index improvement margins. The commitment continues with the objective for 2008: +30% with respect to 2007. For further details please see paragraph "2008 Objectives" of "Introduction".

Energy efficiency is promoted by the EU JRC (Joint Research Centre) and by ETNO (European Telecommunications Network Operators' Association), also through Code of Conducts aimed at minimising energy consumption without interfering with technological development and the quality of services offered to customers.

Besides having an active role in the drawing of the Code of Conducts, Telecom Italia uses the related targets as reference for technical specifications and for the evaluation of offers during bids for the purchase of broadband equipment. The TI Group is evaluating the hypothesis to replace the first generation DSLAM equipment currently in use with lower energetic consumption equipment.

▶ Heating fuels

ENERGY CONSUMPTION FOR HEATING SYSTEMS

	Telecom Italia S.p.A. 2007	Change %	
		2007 vs 2006	2007 vs 2005
Energy consumed - heating fuel	MJ 149,150,349	-7.78%	-10.37%
Energy consumed - methane heating	MJ 721,333,711	-0.67%	-5.35%
Total energy consumed for heating	MJ 870,484,060	-1.96%	-6.25%

The reduction of the consumption of heating fuels in Telecom Italia S.p.A. with respect to the preceding years is due to the dismissal of three buildings and to the improvement of heating systems in 20 buildings. Considering that in 2006 the winter temperatures have been higher than the season's average, the consumption decrease appears all the more valuable.

The consumption trend reflects actions undertaken to improve and upgrade boilers through the replacement of the old oil boilers with last generation heating generators.

ENERGY CONSUMPTION FOR HEATING SYSTEMS

	TI Group 2007	TI Group breakdown by BU (%)		
		Domestic/Broadband/ Mobile Brazil and other activities	Media	Olivetti
	MJ 981,703,175	92.23%	0.29%	7.48%

▶ Vehicle fuels

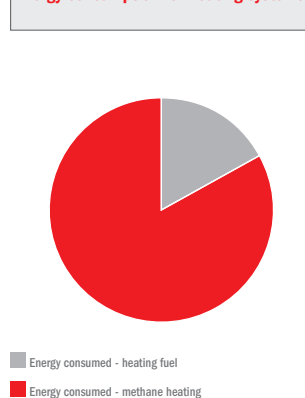
VEHICLE FUEL CONSUMPTION

	Telecom Italia S.p.A. 2007	Change %	
		2007 vs 2006	2007 vs 2005
Unleaded petrol consumption	l 14,046,076	-17.31%	-25.81%
Diesel oil consumption	l 10,781,175	20.46%	30.02%
Total vehicle fuel consumption (*)	MJ 836,484,253	-3.38%	-7.57%

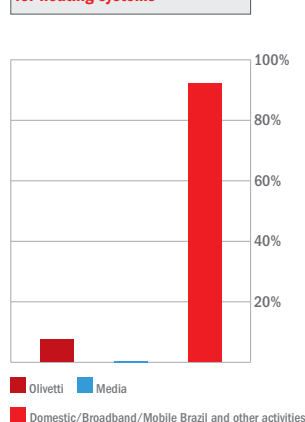
(*) Represents the conversion in MegaJoule of unleaded petrol and diesel oil consumption expressed in litres. The consumptions of LPG have not been included in the table as not significant (1.300 litres of LPG, equal to 38,961 MJ).

Within the general decrease of vehicle fuel consumption, as shown by the figure expressed in MJ, an increase of diesel oil consumption and a marked reduction of petrol consumption have been recorded, due to a gradual fleet renewal in favour of diesel vehicles.

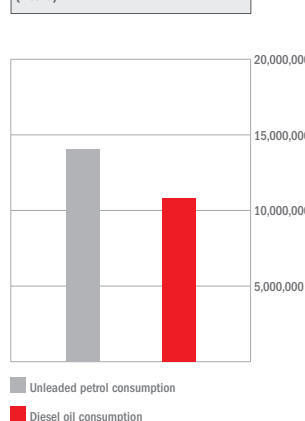
Energy consumption for heating systems



Energy consumption for heating systems



Vehicle fuel consumption (liters)



We have started the experimentation of the hybrid vehicle Panda Van, whose first prototype should be delivered in February 2008. This vehicle allows an approximate 20% reduction of carbon dioxide (CO₂) as well as a marked reduction of particulate emissions, thus confirming the TI Group intention to adopt low environmental impact vehicles.

NUMBER OF VEHICLES AND DISTANCE TRAVELLED

		Telecom Italia S.p.A. 2007	Change %	
			2007 vs 2006	2007 vs 2005
Total number of vehicles	no.	21,558	-2.60%	-5.17%
Number of low-emitting vehicles (*)	no.	21,207	-2.61%	-6.30%
Overall distance travelled by vehicles	km	311,969,057	-0.75%	-6.51%

(*) Unleaded petrol vehicles, eco-diesel, biodiesel, 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 (*)

		TI Group 2007	TI Group breakdown by BU (%)		
			Domestic/Broadband/ Mobile Brazil and other activities	Media	Olivetti
Total number of vehicles	no.	23,648	98.43%	0.55%	1.02%
Overall distance travelled by vehicles	km	353,812,287	97.44%	0.88%	1.68%

(*) 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 Participações, 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.

Telecom Italia is committed to the development of technologies in order to meet the growing mobility requirements, mostly in large urban centres, reducing the negative impacts on the social and environmental system, such as traffic, accidents, pollutants and CO₂ emissions, and noise pollution. The description of actions undertaken is included in the chapter Customers/Research and tests on innovative services.

► **Atmospheric emissions**

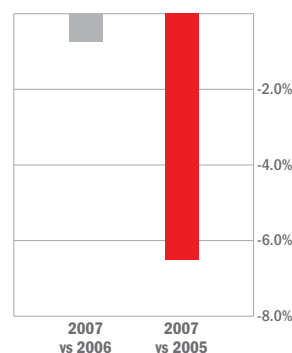
The only significant concern of Telecom Italia as to atmospheric emissions is carbon dioxide (CO₂). These are divided by indirect emissions (deriving from electrical energy used to power telephone and data networks and premises) and direct emissions (fuel used for heating and vehicles).

EMISSIONI ATMOSFERICHE

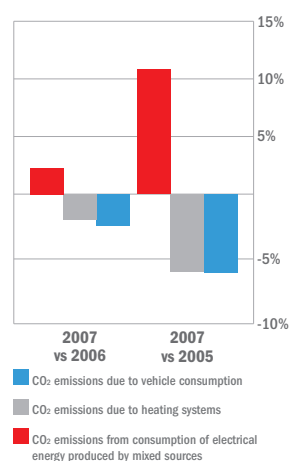
		Telecom Italia S.p.A. 2007	Change %	
			2007 vs 2006	2007 vs 2005
CO ₂ emissions from consumption of electrical energy produced by mixed sources (*)	kg	965,451,276	2.16%	10.28%
CO ₂ emissions due to heating systems	kg	57,849,069	-2.13%	-6.37%
CO ₂ emissions due to vehicle consumption	kg	60,077,983	-2.62%	-6.50%
Total CO ₂ emissions	kg	1,046,498,089	1.63%	7.55%

(*) The national coefficients in CO₂ grams per kWh are as follows: Italy 455; Germany 453; France 87; Bolivia 537. Source GHG Protocol "Indirect CO₂ Emissions from the consumption of the purchased electricity" - www.ghgprotocol.org.

Overall distance travelled by vehicles



Emission change



ATMOSPHERIC EMISSIONS

		TI Group 2007	TI Group breakdown by BU (%)		
			Domestic/Broadband/ Mobile Brazil and other activities	Media	Olivetti
CO ₂ emissions from consumption of electrical energy produced by mixed sources ^(*)	kg	1,039,485,363	98.39%	1.29%	0.32%
CO ₂ emissions due to heating systems	kg	65,166,276	92.27%	0.28%	7.44%
CO ₂ emissions due to vehicle consumption	kg	96,521,117	97.97%	0.68%	1.35%
TTotal CO₂ emissions	kg	1,164,749,654	98.01%	1.18%	0.80%

(*) The national coefficients in CO₂ grams per kWh are as follows: Italy 455; Germany 453; France 87; Bolivia 537.
Source GHG Protocol "Indirect CO₂ Emissions from the consumption of the purchased electricity" – www.ghgprotocol.org.

In 2007, notwithstanding the confirmation of reduced direct emission, the increased consumption of electrical energy from non renewable sources (mainly due to the increase of data traffic and to the new services offered), has caused a slight increase of CO₂ emissions as compared to the preceding years.

The criterion applied to calculate indirect emissions deriving from electrical energy purchase has been modified with respect to 2006, following the adoption of the conversion coefficients developed by "GHG Protocol" (Indirect CO₂ Emissions from the consumption of the purchased electricity) ⁽⁶⁾. Up to 2006 it was used a coefficient calculated on ENEL production capacity as a function of the energy source mix used.

The calculation method suggested by the GHG Protocol considers the energy mix of the countries where the Group operates; it is an internationally adopted method and allows comparisons with other companies of the sector.

The transition from the preceding calculation method to the current one has not highlighted significant changes in CO₂ emission quantity ⁽⁷⁾.

The CO₂ emissions from fuels used for vehicles and heating systems have been calculated according to UNEP indications (United Nations Environmental Programme Guidelines for Calculating Greenhouse Gas Emissions for Businesses and Non-Commercial Organisations – www.uneptie.org).

According to a study of 2007 on the Telecom Italia S.p.A. scope, we estimate that indirect consumptions related to Scope 3 of the Global Reporting Initiative involve yearly emissions into the atmosphere of:

- 71 million kg of CO₂, due to employee house/office displacement;
- 9.5 million kg of CO₂, due to air travels for work missions;
- 4 million kg of CO₂ related to 1,570,000 oil litres used by 123 power plants (managed and owned by Telecom Italia S.p.A. suppliers) continuously operating at the Base Transceiver Stations where electrical energy is not available.

► **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 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 emissions, both direct and indirect;
- to favour and support the dematerialisation of assets and services.

(6) The GHG Protocol (Greenhouse Gas Protocol initiative) has been established in 1998 after the signature of the Kyoto protocol within the framework of the World Business Council for Sustainable Development (WBCSD) and the World Resources Institute (WRI), in order to support companies on the specific topic of greenhouse gas emissions through the development of calculation methods and scientific studies promoting innovation and responsibility on climate change.

(7) The TI Group CO₂ emissions in 2007, calculated with the preceding method are 1,003,062 tons; with the new method the figure is 1,039,485 tons: the deviation between the two methods is approximately 3%.

As far as the reduction of the TI Group's greenhouse gases, the following initiatives were launched in 2007:

- Car fleet: a multi-year modernisation program has been launched in view of reducing greenhouse gas emissions. In 2007 we replaced 1,900 Euro3 vehicles with the same number of Euro4 vehicles. Such vehicle renewal brought forth an approximate 30% reduction of CO₂ emissions that would have been produced by the replaced vehicles.
- Boilers: the replacement of oil-fuelled thermal systems with methane-fuelled or heat pump has continued, allowing to reduce CO₂ emissions for the heating of buildings. The replacements implemented in 2007 achieved a CO₂ emission reduction equal to kg 180,000.
- Energy saving and use of renewable energy sources: the initiatives launched are described in the "Energy" and "Atmospheric emissions" paragraphs of this chapter.

As far as dematerialisation the TI Group provides products and services enabling to eliminate or reduce the greenhouse gas emissions caused by people and object displacement. Here are some examples ⁽⁸⁾.

- 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 payments.
- 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.

As far as the emission of substances depleting stratospheric ozone that shields life on earth by filtrating harmful UV radiation, starting from January 1st, 2009, the marketing of ozone-depleting substances (e.g. HCFC) for air conditioning systems will be banned. In collaboration with the Universities of Naples and Turin we have implemented experimental interventions to upgrade systems operating on ozone-depleting gases. These systems have been replaced with others using a gas compatible with ozone-protecting requirements. The experimentation concerns buildings (12 systems replaced) and technological plants (497 air conditioning systems and 130 refrigerating units) and will continue in 2008.

► Electromagnetic emissions

The commitment of Telecom Italia Group to the electromagnetic emissions 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.

(8) According to estimates 100 millions of audio-conferences replacing physical travel would save more than 2 million tons of CO₂ emissions; 10 million teleworkers working for two days from home would save nearly 11 million tons of CO₂ while if 10 millions subscribers would receive online telephone bills instead of traditional paper bills approximately 11,000 tons of CO₂ could be saved. Examples are indicative and their purpose is providing concrete indications of the potential to TLC services. These data are based on projects, have been verified by independent third parties and have been tested on a small scale by ETNO members within the framework of the initiative "Saving the climate @ the speed of light" developed in collaboration with the WWF (www.etno.be/sustainability).

In this regard the TI Group has exceeded expectations as far as its 2007 objective (SAR qualification of 95% of mobile terminal new models) by submitting to the SAR qualification the 100% of the new models of mobile terminals (66 technologically innovative and widespread models), marketed by Telecom Italia. The objective for 2008 involves maintaining the performance with the consequent commitment of the TI laboratories on mobile bands GSM 900MHz, DCS 1800MHz and UMTS. For further details please see paragraph "Results and Acknowledgements" of "Introduction".

From 2008 the SAR qualification will be applied to mobile terminals marketed in South America: it has been planned to submit to the test 25% of mobile models in Brazil and 40% in Bolivia.

The 2007 objective related to the activation of cells with second carrier for UMTS Base Transceiver Stations (BTS), best described in paragraph "Results and Acknowledgements" of "Introduction", has been achieved and exceeded.

The remarkable development of the UMTS "high speed" coverage, due to commercial needs connected to the increase of data transmission speed, has allowed the activation of a number of cells with second carrier (4,200 cells) remarkably higher than planned (500 cells). For 2008 the objective is to install 600 further cells with second carrier.

If two radiofrequency carriers are used instead of a single one, traffic carried being the same, the total power emitted by the Station is lower. In high-traffic conditions a 15% power reduction is achieved.

The laboratory tests conducted confirmed the validity of such estimate.

Concerning the TI Media Group, the systematic monitoring of the electromagnetic emission levels of the La7, MTV and TIMB (Telecom Italia Media Broadcasting) broadcasting stations has been continued in order to ensure the compliance to law limits in force and to keep 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, recently adopted by the national legislation with Legislative Decree 257/2007.

On the basis of controls performed on the Italian territory in 2007, the electromagnetic emissions generated by La7 and MTV resulted within lawful limits, and showed significantly lower values with digital television transmission, which allows an approximate 75% reduction of electromagnetic emissions as compared to the traditional analogical technologies.

Telecom Italia has moreover signed with Vodafone Italia an agreement that involves sharing the mobile network access sites with reference to passive infrastructures (poles and masts, electrical and air conditioning systems, civil infrastructures). Thanks to this new agreement, renovating and expanding the content of the preceding one, the two companies are fulfilling the recommendations of the Electronic Communication Code, thus favouring a more efficient use of network infrastructures both in urban and rural areas. According to the agreement each operator, though owning its own infrastructures, will host the other in its radiomobile stations all over the national territory in view of optimising the mobile network coverage. The sharing of electronic equipment providing mobile telephony services to customers and the relevant operational services is excluded in the agreement.

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. Further information is available on the website www.telecomitalia.it, (Sustainability/Hot Topics/Mobiles and health).

► Acoustic emissions

In observance of regulations in force the control of acoustic emissions by corporate plants continued. In 2007 we performed 421 intensity measurements on the noise produced by air conditioning systems and power supply units of telephone exchanges and Base Transceiver Stations.

► Culture, Training and Information

During the year more than 8,000 hours of specialized technical training have been provided to internal departments whose activities are related to environmental themes. Other informative and cultural interventions also promoted among the Group's employees the culture of energetic saving and the adoption of environmental sustainable behaviours.

We also organised a workshop, devoted to the Human Resource departments, in order to analyse the role and tools available to human resources on the subject of environmental protection.

The Prevention, Protection and Environment Service department has upgraded on the corporate Intranet the Environment Project website, making easier for colleagues the navigation of the "Environment Protection" website.

A workshop on "Integrated competence for the environment" for the management most involved in environmentally significant activities has been held.

The corporate Intranet also hosted awareness-raising initiatives such as: the World Environment Day (June 5); the World Climate Change Day (December 8); the report of the national conference on climate change held in Rome on September 12-13; the summary of activities carried out by Intelec (International Telecommunications Energy Conference).

► 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.

Among the TI Group's companies Telecom Italia has promoted in the years the planning of these systems as tools ensuring the efficient management of working processes, the prevention and continuous reduction of environmental impacts. The TI Group EMS have achieved the UNI EN ISO 14001 certification.

In 2007 we started the implementation of two new EMS: the first one within the Facility Management Department of Telecom Italia S.p.A., in the Building and Services department; the second within TI Media Broadcasting.

We also continued the activities started in 2006 and related to the definition of an Integrated System for Safety management and the Environment within two *call centres* located in Rome and Naples.

The chapter "Customers/Certifications" reports the environmental certifications achieved or confirmed in the year.

► The Environment Project

Started in 2004 with an action plan spanning over the three years 2004-2006 the project has been re-launched in 2007-2009 in order to complete initiatives and plan further activities. Instead of the preceding Environment Project Committee we established an Operational Committee which proposes and monitors projects and a Steering Committee, that approves the projects submitted and ensures the relevant funding. For each approved project, a project manager in charge of the implementation is identified and entrusted with the management and the coordination of an interfunctional team.

The most significant projects dealt within the framework of the Environment Project are: the prevention and reduction of noise pollution, the mapping and decontamination of asbestos, the optimisation of energy consumption, the reduction of paper consumption and the progressive replacement of new paper with the recycled type, the promotion of differentiated waste collection, the reduction of emissions by car fleets and heating systems, the optimisation of the management of the electromagnetic field intensity of Base Transceiver Stations, the SAR (Specific Absorption Rate) qualification for mobile handsets, the promotion of initiatives involving environmental culture, training and information.

The Community



The TI 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 TI 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, the TI Group's companies do consider the social significance of telecommunication services, meeting the needs of the Community and of its less fortunate members. The TI Group favourably regards and supports social, cultural and educational initiatives meant to promote the human being and to improve its life standards.

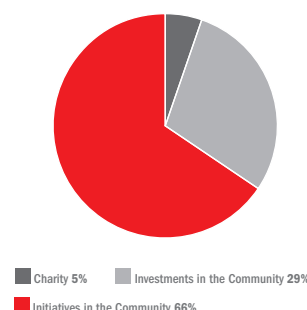
► Classification of the contribution according to the LBG model

In 2007 the contribution of the TI Group to the Community, calculated according to the guidelines of the London Benchmarking Group (LBG), is equal to approximately euro 32 million (euro 42.4 million in 2006). 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 110 large international companies and represents the worldwide standard of reference for the classification of contributions to the Community. Consistently with the LBG model, to measure and report corporate commitment to the Community, contributions have been classified according to three categories (Charity, Investments in the Community, Initiatives in the Community) and allocated to the various levels of the LBG model pyramid ⁽⁹⁾: The criteria adopted for the allocation of contributions to the various levels of the pyramid are reported in the following table:

LBG model



Breakdown of contributions to the Community by the Telecom Italia Group



<p>Charity Support to a wide range of "social" issues in response to the needs and appeals of 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>Community investments 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>Initiatives in the Community Activities in the Community usually by commercial departments to support directly the success of the company also in partnership con philanthropic organisations.</p>	<p>Sponsorship of events, publications and activities promoting brand or corporate identity. Cause Related Marketing, promotional sales. Support to scientific and University research and to philanthropic organisations. Care for consumers with special needs. Civil protection activities.</p>
<p>Business Basics Core business activities for the production of socially useful goods and services in a manner which is ethically, socially and environmentally acceptable.</p>	<p>Optimisation of electromagnetic fields. Reduction of Digital Divide. Energy saving activities. Reduction of the visual/acoustic impact of telephony equipment. Electronic health solutions. Services and products for disabled people and the elderly.</p>

(9) The LBG model requires to include in the first three levels of the pyramid the activities mainly characterized by a sense of moral responsibility, and leaving to companies the possibility to indicate separately the activities more directly connected to the core business (*Business Basics*). Consistently with these guidelines, the figure related to the overall contribution of the Telecom Italia Group to the Community do not include Business Basics.

► Progetto Italia

Progetto Italia operates within the Advertising, Image and Brand Enrichment Department. Its activities hinge on TI Group's competences, technologies and abilities, and are aimed to realize initiatives and events which are characterized by a large participation and easily access to everybody, with a view to contributing to the cultural and social growth of the country.

Progetto Italia activities are based on the targeted divulgation, quality, and originality principles, as well as on the measurability of outputs and impacts related to the different initiatives. These pay special attention to young people and to the most vulnerable groups of the population.

In the past five years Progetto Italia has organized more than 500 initiatives, both at national and international level, related to solidarity, education and sport, involving hundreds of institutional representatives and protagonists from the world of culture, science and sport. The events have been attended by 4 million people and by 25% of employees, besides the public connected through the www.telecomprogettoitalia.it website, on which the complete list and description of activities may be found.

► 2007 activities

Some of the TI Group's initiatives, classified according to the LBG model, are reported below.

► LEV. 1 - Charity

SMS and solidarity calls

Several fundraising initiatives have been implemented in 2007 through SMS or telephone calls to donate to non profit associations and entities.

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.

Approximately 70 fundraising initiatives have been activated, among these we point out:

- Associazione Italiana Ricerca sul Cancro (Italian Association for Research on Cancer), as support to the fundraising initiative "An Azalea for Research";
- WWF, for the "Giornata delle Oasi (Oasis day)" project;
- TELETHON, in support of the fundraising television marathon in favour of research on genetic diseases, associated this year to the initiative "Become a mobile-donor". In some specific days, people owning old mobiles were given the opportunity to bring these phones to some corporate offices of Telecom Italia, to all the "il Telefonino" shops and to the gazebos set up thanks to the support of the Environmental Services Department in the Premier League stadiums and in the squares of the main Italian towns. Each mobile donation brought 5 euros to Telethon, in support of research projects, totalling 25,000 euros plus further 25,000 euros, directly donated by Telecom Italia.

Equipment out of order have been shipped to specialised disposal companies in order to provide to the extraction of gold, copper, palladium, silver, platinum and to ensure the correct disposal of hazardous components, in compliance with European environmental legislation. Batteries have been safely regenerated while the charger and accessories underwent recycling, with plastics transformed into objects for daily use. Still working mobiles have been prepared to be sold at accessible prices in developing countries.

"Salam" Heart Surgery centre

On May 3rd in Khartoum, Sudan, the Salam Regional Heart Surgery Centre was inaugurated. Progetto Italia helped fund this centre built by Emergency. The Centre aims at promoting the universal right to free and qualified health care, and friendly, peaceful relations in the Northeast Africa.

The centre was established to provide free surgery to heart patients in Sudan and its nine bordering countries. The structure is provided with biomedical equipment and high-level technological solutions such as the photovoltaic plant used for the hospital air conditioning system.

Since the beginning of diagnostic activities (March 2007) up to 31 October 2007, the hospital performed 4,491 medical examinations of which 2,183 were specialistic, together with 49 cardiology operations as well as 257 cardiosurgery operations.

► LEV. 2 - Investments in the Community

Alice for Children

Matrix took part as sponsor in the initiative proposed by the "Twins International" Association, whose goal is the improvement of the quality of life for orphan children living in the degraded suburbs of Nairobi, through the realisation of two hosting communities according to a family home model. The first centre, "Alice Children Home", has been built in the North-East of Nairobi, near to an existing orphanage, while "Alice Village" is located 30 km South of the Kenyan capital.

These centres will also hold professional training courses for the children.

This project is also associated to the Telecom Italia initiative "Alice Mail" for "Alice for Children", involving the donation by Telecom Italia of 3 euros every 30,000 mails sent from or received by all "Alice Mail" mailboxes.

Solidarity ponies

Telecom Italia continued in 2007 its support of the initiative "The Solidarity Ponies", aimed at providing free home assistance to elderly people (over 65s).

The elderly can call a telephone number, made available by the Municipality or by the Associations participating in the project, to ask for help. The Municipality operators are connected to an operational exchange and switch the calls to the mobiles of volunteers who are readily available, also in the summer months.

The initiative, stemmed from the collaboration with Social Policies Councils and Volunteer Associations, is this year at its ninth edition and covers six important Italian towns (Milan, Turin, Bologna, Rome, Naples and Palermo).

The TI Group's broadcasters and their environmental and social commitment

The Telecom Group's broadcasters, MTV and La7, are devoted to the implementation of awareness-raising programs on social and environmental issues, particularly with respect to the less developed countries.

In 2007 two main subjects were shared by the two networks:

- The environment protection, mostly with the "Live Earth", a worldwide event meant to raise awareness on the climate crisis currently affecting our planet. Several concerts have been broadcast. The event has been attended by 2 billion people all over the world, on the web and on the main television (among which NBC and BBC) and radio channels;
- Fighting the mafia: La7 has produced and broadcast the film "La memoria ha un costo (The price of memory)", dedicated to the fighting against mafia and to the antimafia initiatives by don Ciotti in Calabria; MTV has realised a series of meetings and has broadcast documentaries to raise awareness on the subject.

Adult and Youth literacy

This project was launched 16 years ago by one of the largest and most important NGO's in Brazil, "Pastoral da Criança". Since 2001, TIM has participated in this educational programme with participants coming from some regions of the north east and south of Brazil, having the highest rate of social exclusion in the country. According to research conducted by the "Pastoral da Criança" NGO, the project has demonstrated a strong correlation between education and quality of life: the higher the mother's educational level, the lower the infant mortality rate.

In 2007 the project was implemented exclusively in the South of Brazil where 126 classes (717 people benefited from the initiative) were established.

► LEV. 3 - Initiatives in the Community

TIM Talks

In 2007 Telecom Italia and the Italian Union for Blind People made available in exclusive for Italy "TIM Talks", a free innovative software programme allowing to blind people, short-sighted people and the elderly to use all the available mobile functions thanks to an electronic voice reading the display on the basis of the user needs and indications.

The service users can write and read SMS and emails, compose and download multimedia messages (MMS), call and modify numbers in the address book, change phone settings, manage the appointment calendar and read and write texts.

Web is your friend: safe exploration of the Web

The aim of this initiative is to devise appropriate tools to help minors in their safe navigation of the Internet, avoiding pedo-pornographic sites, grooming and frauds. The campaign "web is your friend" is promoted by Moige (Italian Parent Movement) and is supported by Telecom Italia, Polizia Postale e delle Comunicazioni (Postal Police), Poste Italiane (Italian Post Services) and Microsoft, under the patronage of the Ministry for Family Policies, the Ministry of Communications and the Ministry of the Interior.

The campaign schedule involves lessons for parent and teachers and separately for children, totalling 46 "Open school days for safety on the Internet", managed by Moige and Postal Police experts. Access to the initiative was also extended online through the "Web is your friend" site and the free support service offered by the same "Ask an expert".

Internet Saloon

Telecom Italia is a partner of the AIM (Association for Metropolitan Interests) of Milan, with respect to the Internet Saloon initiative, started in 2000 with the goal to favour the diffusion of the Internet and of new technologies among the over 60s, thus contributing to reduce the cultural digital divide. In order to hold courses and practices, classrooms have been equipped with 26 multimedia workstations, software and Internet connection. During these courses, free lessons for different levels are provided, aimed at informatics and web surfing learning. More than 23,000 over 60s have successfully attended these courses in the seven years since the start.

► Business Basics

Electronic Health Solutions

The following paragraph describe some ICT solutions for managing medical treatment and diagnostics at Healthcare facilities.

MYdocs ehealth: a solution ensuring an optimal system to manage current and historical clinical files with instructions to create a digital archive, in order to optimise the available space and speed up the access to patient information.

MYPharma Management is an offer providing a two-fold solution:

- centralised management of single dose medicines: a Pharmaceutical Risk management solution designed to improve drug prescription safety, preparation and administration and to optimise supplies and consumption;
- management of pharmaceutical protocols at hospital wards: a prescription and administration software and automated pharmaceutical storage closets allow clinical and logistical drug management.

MyImage Archiving: allows remote archiving of digital diagnostic images in the standard DICOM format on Telecom Italia data centres.

MYPatient Hospital record: application platform that allows the integration of information issued from hospital information systems, the recording of clinical and medical documentation, also making such information available throughout the Internet aiming at the integrated monitoring of the hospitalised patient.

MYAsset Tracking: solution allowing to track and localise patients with special needs, to track and manage sanitary equipment and transfusion blood sacks through the RFID (Radio Frequency Identification) technologies.

MYDoctor@Home: telemonitoring service allowing to assist chronic patients directly in their home, avoiding hospitalisation. The patient's home is equipped with simple wireless electromedical instruments capable of sending data via a mobile phone or videophone to a centre whose specialised operators (doctors and paramedics) check the data received through the web and undertake the appropriate actions.

► Research, development and innovation

The Italian market of telecommunications is considered among the most advanced, both from the technological viewpoint and the evolution of customers' attitudes and consumption profiles.

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

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

Technological innovation activities range from reviews of basic technologies, aimed at increasing network and system efficiency, to complex activities involving the radical review of platforms, services and architectures; the effort concentrated on the field by business unit operational departments is therefore essential to assure the compliance of new services to customer needs and the continuous improvement of qualitative levels.

Besides by TILab, technological innovation activities are carried out also by the operational and business units (Network, Market, Information Technology, Web & Media and Security) as well as by Olivetti.

During financial year 2007 the investments of Telecom Italia Group for tangible and intangible assets related to development and innovation totalled approximately euro 3,400 million. Internal resources devoted to these activities as well as to research amount approximately to euro 6,200 million, with an overall commitment equal to about euro 560 million (of which about euro 163 million already included in the investments).

In 2007 the research and development centres of Telecom Italia carried out in particular the activities detailed below.

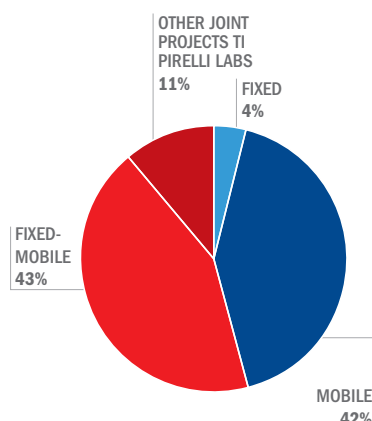
► **TILab**

TILab is the catalyst at the basis of the Telecom Italia Group technological innovation and operates as a competence centre for the internal departments devoted to business development and also operates externally as a centre of excellence for the telecommunications industry. The TILab laboratories have contributed for instance to the development and success of achievements such as GSM, MP3 and optical transmission.

TILab activities are focused on research, evaluation and development of emerging technologies and on the revision of basic technologies designed to increase the efficiency of networks and systems as well as of platforms, services and network architectures.

TILab regularly collaborates with both national and international research centres and with the most qualified academic institutes (the Polytechnic institutes of Turin and Milan, the Universities of Pisa, Genoa, Florence, Rome, Naples, Bologna, Reggio Emilia, Brescia, Turin, Verona, Modena, the University of Berkeley, the Columbia University and Massachusset Institute of Technology). TILab continued in particular with the Polytechnic Institute of Turin the collaboration on the University Master “Network and Services Innovation in the ICT Sector”, with the objective of training on specific technological skills through a marked integration between classroom and laboratory activities.

In 2007 forty-seven new patents were filed (63 in 2006), of which 10 are the result of joint research projects with Pirelli Labs (to be added to more than 500 patents already filed). A breakdown by activity sector is reported below:



Within the framework of the activities aimed at the TI Group's technology development scenario TILab has defined the Technological Plan 2008-2010, outlining the strategic lines for the development of the network and platforms in terms of target architecture, as well as technological and operational assets. The plan also provides deep information on subjects which are particularly strategic and relevant as far as the positioning of the Telecom Italia Group technologies such as terminal development and multimedia domestic solutions, the start of NGN2, the service framework and the related brokering towards third parties, information technology as network service, the content-based services and their convergence towards communication.

The results accomplished by TILab in 2007 with respect to infrastructures and platforms have contributed to raise the TI Group's profitability by improving the network solution efficiency and consequently rationalizing costs, and by developing solutions that allow to offer new services and performances. Particularly relevant from this standpoint are the following initiatives:

- the engineering of technical solutions for the new generation network NGN2, whose implementation is started from the Milan area;
- the implementation of a "naked ADSL" solution, representing in perspective the transition towards IP telephony, substituting traditional analogical access; it ensures number portability, reuse of home equipment and access to non geographic phone numbers;
- the experimental start of real time monitoring of energy efficiency in the exchange areas of Telecom Italia; the appropriate distribution of technologies such as the "wireless sensor networks" made it possible in particular to experiment the efficiency of energy saving solutions, implemented through the monitoring and profiling of consumptions related to single systems, the support of designs related to energy saving targeted interventions, the identification of operation and consumption anomalies;
- the definition of introduction scenarios in the field of both fixed and mobile WiMAX technology, in terms of architecture and impact on the access network and terminals, as well as the related simulation of the system performances;
- the definition of innovative algorithms/models to plan the radiomobile access network, also in real-time, for the relevant sizing and optimization with the development of new functionalities of the TIMPLAN/GUITAR software platform. The results achieved enabled new solutions for the management of radio resources in scenarios characterized by multiple radio access technologies and the production of simulation tools for the optimized use of the frequency spectrum;
- the definition of the software platform development scenario at service level (Service Framework) to enable the role of platform provider to third parties (Service Broker), for application in different vertical situations, with focus first of all on the context of services meant for car drivers (emergency, information services, traffic management, fleet management). Within this framework service prototypes on a circulating vehicle have been experimented, and used as demo in several occurrences, among which the presentation to the Turin Mayor and to the CTO Summit in Venice. The activity is connected to the "Tema.mobility" initiative, in partnership with Magneti Marelli;
- the laboratory experimentation of possible applications of principles oriented to the Web 2.0 paradigm and the world of telecommunications started. It aims at supporting the study of new business models and scenarios for the integration between Web 2.0 and the software platform with regard to the telecommunication operator service. In particular, solutions for functionalities available via the internet have been realized, as well as a system allowing users to create/share services within a community.

Concerning the development of new services, the activities carried out and the results achieved have generated new opportunities in support of the development of the current offer and of the expansion to new product or service segments. The most significant implementations achieved in the year are described below:

- the development, integration and test of the dual mode service launched with the name of "Unico". The service allows to manage on a single dualmode mobile terminal (2G-3G/Wi-Fi) the fixed telephony VoIP service Alice Voce and the mobile telephony 2G/3G TIM service;
- the design, development, integration and test of the TIM Casa solution. The service allows customers to call from home on the mobile network with differentiated tariffs and by using the fixed network phone numbers;
- the development in the field of digital entertainment services, of the IPTV services, such as high definition digital and interactive television, video and music services on demand, and self-production of multimedia and web-diffused content such as "Plays in the community";

- the demonstration of the first innovative applications of mobile TV on commercial terminal such as "Rich Media", which will allow the operator to have a sophisticated control of the user interface and particularly attractive interactive applications;
- the release of a new Set Top Box also offering the access to the Terrestrial Digital TV channels managing video codes and high performances;
- the implementation among mobile services of the "SMS Real Time Charging" function, meant to reduce the frauds generated by SMS sent by mobile and large account users towards other mobile operators;
- the start-up of an innovative experimentation based on the implementation of a service named First Life Communicator which has allowed the Group to access the virtual community Second Life with the telephone service subsequently extendable with e-mail and instant messaging;
- the continuation of the research on new television utilization paradigms (Dynamic TV) which, taking advantage of the interest associated to mass content diffused through DTT or IPTV, aim at the effective promotion of a high number of niche content available in digital format and at low cost;
- the study and development of interactive and multichannel multimedia advertising service prototypes (IPTV and Mobile) through the use of innovative technologies such as for instance the 2D barcode, the access to past television programs, the 3D mobile client presented at the Science Festival of Genoa and at the Science White Night of Turin. Their purpose is the simplification of advertising content fruition, making it more attractive at the same time;
- the analysis and development of service prototypes based on the Mobile Personal Web Server such as, for instance, personal sites and personal journals;
- the initiatives to amplify the SIM role on the mobile terminal, transforming it in an operator asset, as a tool for the authentication and personalization of services to the customer. In this sense, the specifications related to the new SIM/USIM and the requirements for the new sim-based services have been defined, besides the development and experimentation on the first mega/giga SIM prototypes;
- the development of the architecture and communication protocols among equipment using the SIM and the integrated ZigBee (ZSIM) radio interface as a safety component managed by the network operator to ensure high safety communication besides enabling Authentication/Authorisation services and the configuration and personalization of equipment and services through proximity technologies;
- the preparation of demos and technical experimentations with respect to Radiomobile commerce, in order to assess solutions and new services using proximity technologies for the support of m-commerce services, such as micro-payments and mobile-ticketing.

In conclusion we report the results achieved in the field of validation and test of innovative solutions in the TILAB testing laboratories, as a contribution ensuring the availability of high technical quality solutions and meeting the market requirements. Test campaigns have been implemented to develop the systems for the ADSL access network and for the new generation one (NGN2). Other test campaigns concerned the terminals and network terminations for the Group's offer both of innovative services (i.e. Access Gateway, combo videophone, DECT headers, Set top box for IPTV) and traditional services (Cordless, Printers, Fax, etc.).

► The Olivetti Group

The Olivetti Group devotes a significant number of its employees to the technological research and development sector. Its research centres, located both in Italy and abroad, are staffed by about 200 employees, accounting for over 15% of its total workforce.

In 2007 the Olivetti research centres have been committed to the development of products and terminals for counter automation and of ink-jet products and accessories.

Human Resources



► Strategy

The TI 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 TI 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

► Telecom Italia Group

Headcount at December 31, 2006 (*)	Changes in the period					Total change	Headcount at December 31, 2007 (*)
	Recruited	Terminated	Decrease of temporary staff	Changes in report scope			
83,209	7,345	-8,310	-682	+1,867	+220	83,429	

(*) Includes staff on temporary contract, equal to 2,654 in 2006 and 1,972 at December 2007.

Headcount at December 31, 2007 is 83,429.

The increase of 220 employees with respect to December 31, 2006 is due to:

- the acquisition of AOL (+1,101 employees) and of the Tecnosis branch (+104 employees), the addition of SSC to the scope (+670 employees) and the sale of Domus Academy (-8 employees);
- to the entry of 7,345 employees and the termination of 8,310 employees, plus a decrease of 682 employees on temporary contract.

► Telecom Italia S.p.A.

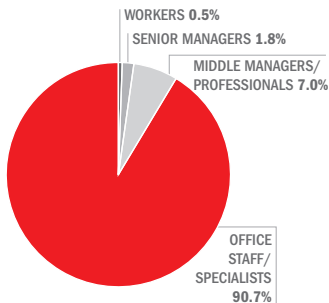
Headcount at December 31, 2006			Changes in the period						Headcount at December 31, 2007		
			Recruited	Terminated	Transfers among Group companies	Changes in temporary staff	Changes in report scope	Total change			
Employees	Temporary staff	Total							Employees	Temporary staff	Total
61,040	1,360	62,400	795	-3,401	148	-87	104	-2,441	58,686	1,273	59,959

Telecom Italia S.p.A. headcount at December 31, 2007 is 59,959.

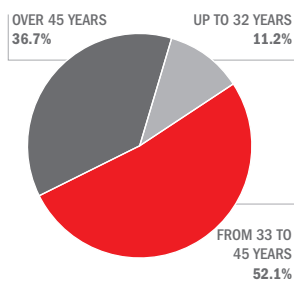
As compared to December 31, 2006 there is an overall decrease of 2,441 employees due to 3,401 terminations, 795 recruitments, the entry of 148 employees from other companies of the TI Group, plus 104 employees due to the acquisition of a business activity from Tecnosys and a decrease of 87 employees with temporary contracts.

The staff operating in Italy is equal to 80.5% of the TI Group's total and is characterized as follows:

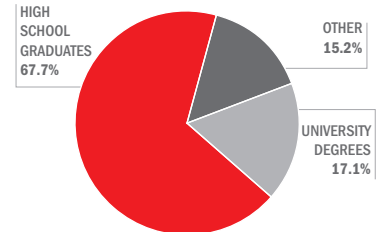
Telecom Italia Group - Italy: employee breakdown by professional category



Telecom Italia Group - Italy: employee breakdown by age group

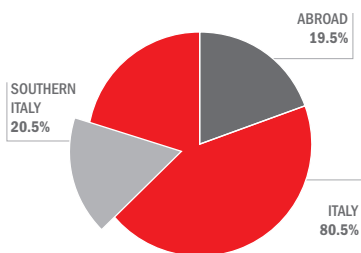


Telecom Italia Group - Italy: employee breakdown by academic qualification

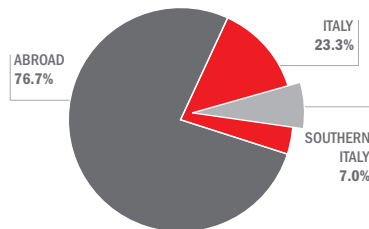


Staff presence breakdown by geographic area and TI Group staff recruitment breakdown by geographic area:

Telecom Italia Group: employee breakdown by geographic area



Telecom Italia Group: recruitment breakdown by geographic area

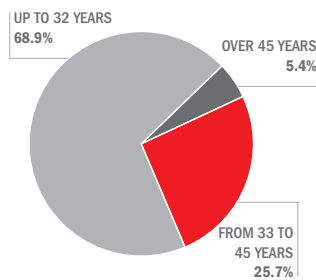


Characteristics of the staff operating in South America:

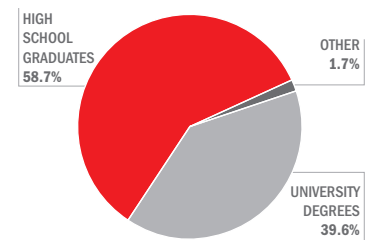
Latin America: employee breakdown by professional category



Latin America: employee breakdown by age group

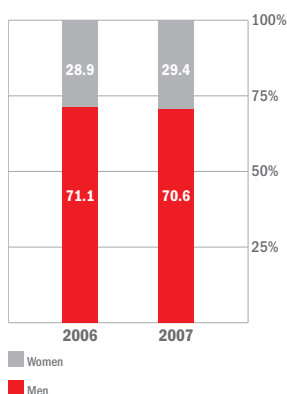


Latin America: employee breakdown by academic qualification

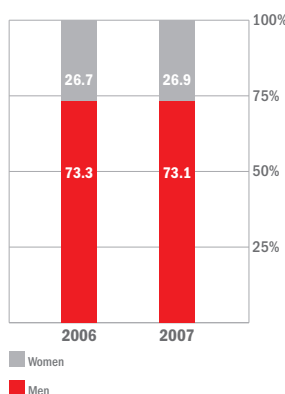


► Gender balance

Distribution of men and women
Telecom Italia S.p.A. (2006-2007)



Distribution of men and women
TI Group (in Italy) (2006-2007)



In 2007 the percentage of women holding senior management positions in the Group (in Italy) was approximately 15%; at middle management level it was about 25%.

Equal opportunities

In line with the “Woman Project”, launched in 2003, several initiatives have been realized to favour the diffusion of equal opportunities.

- Childcare centres: a new childcare centre has been opened in Ancona while six are already operating in Rivoli (Turin), Palermo, Naples, Rome and Milan.
- Loans for mothers and fathers: the TI Group granted 500 loans to new parents with children up to three year of age.
- Children’s day: on May 25, 2007, in coincidence with the “working mother’s and father’s day”, all the Telecom Italia offices were open to employees’ children who could visit their parent’s workplace. Entertainments were held in 29 offices, with snacks and small giveaways, involving approximately 7,500 children.
- Christmas day: visit to the offices in 4 corporate locations, entertainment and small giveaways 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 prenatal birth courses: paid time off up to 12 monthly hours to be recuperated, granted to pregnant employees and fathers.
- Development of management policies through interventions on flexibility 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).

On the occasion of the European Year for Equal Opportunities and in line with the activities related to the “Woman Project”, Telecom Italia has launched the “Equal Opportunities for everyone” project. This initiative aims at defining and implementing actions promoting equal opportunities at corporate level starting from a qualitative and quantitative survey, also involving focus groups.

Within the framework of the Alliance with the EU commission of March 22, 2006 a laboratory on career equal opportunities for men and women has been set up at Sodalitas. Telecom Italia actively participated together with other companies. The laboratory results have been presented on December 3, 2007 during a conference held in Milan. For further information please see paragraph “Results and Acknowledgements” of “Introduction”.

► Initiatives for employees

Welfare

In 2007 the Welfare Department ensured the operation of the TI Group Recreational and Welfare Organisations through the provision of social services for the improvement of employees well-being, 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 corporate offices (Turin, Milan, Padua, Bologna, Florence, Rome, Naples and Palermo) feature permanent counters for the management of errands (administration, post office, etc.).
- Wellness/Concierge: within the corporate offices of Turin, Padua, Rome and Palermo an area has been equipped for fitness purposes. Two offices in Rome and one office in Milan offer laundry and shoe repair services.
- Price agreements: national and/or territorial agreement for purchase/use of goods and services at reduced cost: cars and motorbikes, culture and entertainment, electronics, fashion and accessories, health and fitness, sport, travels and holidays.
- Company loans: the TI Group granted 399 loans, of which 57 to buy house, 61 for renovating houses and 281 for various reasons.
- Corporate loyalty: in the year approximately 3,921 employees were rewarded for 25, 30 and 35 years seniority.
- Health information: an interactive medical section has been introduced. It includes a FAQ section and an e-mail medical answer service "The doctor online": a staff of specialists is available to offer advice on medical problems.

The following initiatives are devoted to employees' children:

- **Traditional summer holiday camps:** 15-day camps for TI Group company employees' children aged 6-12. Participants in 2007: 4,571 children.
- **Thematic summer holidays:** 14-day holiday devoted to learning English and sport practice (tennis, sailing, horse-riding, volley and basket) for TI Group company employees' children aged 7-15. In 2007 several initiatives have been added: dance, theatre, canoe, Jam Camp Volley and Basket and two college summer courses in England. 1,235 youths took part in these initiatives.
- **Scholarships:** 80 scholarships abroad devoted to English learning. Four weeks for boys and girls aged 15-16 (45 in Ireland and 35 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 TI 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 (23,218 members, of which 3,918 are working employees) continued the realization of its institutional activities, confirming the co-operation with the Olivetti Gold Pins Association (3,904 members).

ASSILT

At December 31, 2007 over 217,066 people were enrolled in the Association for Integrative Healthcare for Telecom Italia Group workers: 64,433 employees, 44,656 retirees, 107,977 employees' family members.

Besides reimbursing healthcare expenses to integrate the National Healthcare Service (430,000 cases in 2007 totalling over euro 46.8 million), the association conducts campaigns for preventive medicine and healthcare education, using its mobile diagnostic units and support from public healthcare facilities.

Also in 2007 the programs for multidisciplinary Oncological Prevention to discover breast and skin pathologies continued (Lombardy, Campania, Lazio and Piedmont), as well as the programs for the prevention of respiratory allergies (Tuscany, Sardinia, Calabria, The Marches, 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 night shows).

The contribution in favour of members may reach 40% and dues for all initiatives may be paid in monthly deductions from salary.

At December 31, 2007 about 53,803 members has joined the club (47,188 employees and 6,615 retirees).

► Development

In 2007 the TI Group completed the formalization of the Individual Development Plans meant for a group of key resources including senior managers, middle managers and high-potential young employees. The objective is the implementation of actions aimed at the enhancement, development and retention of these resources at medium term, by promoting their growth. Several training and development initiatives, both individual and group, have been launched to implement the Individual Development Plans. Within the framework of the annual meritocratic policy specific actions are devoted to the enhancement and retention of these resources.

Due to their high level of competence the project is being extended to significant *Knowledge People*, in order to achieve the business objectives. On the basis of the just completed *Knowledge Review* process, a group of resources will be identified, for which relevant Individual Development Plans and targeted initiatives will be defined.

The Management Review process continued in parallel and will be completed within the first months of 2008 ensuring the availability of about 1,700 assessments related to senior and middle managers. This will allow to better orient choices concerning "succession management" and to plan actions for organizational and managerial development planning.

In this sense, also the results of an initiative launched in 2006 and completed this year, the *Individual Leadership Centre*, turned out to be very useful. The process involved a part of the TI Group's senior managers and has been realized with the support of external professionals. It aimed at an analysis of individual leadership profiles in order to define targeted development and training plans.

Concerning in particular job rotations, in 2007 our policy meant to develop competences through intra-group mobility continued, thus favouring resource development and allowing to cover job positions by using skills available within the TI Group. During the year, 130 announces were posted on the Group Job Posting (same number as in 2006) while 1,500 curricula have been collected (as compared to 1,084 in 2006).

► Recruiting

In 2007 Telecom Italia took part in 11 career days, aimed at presenting our company in the main Italian universities and at activating exchange channels to build up a valuable recruitment source.

In 2007 recruiting activities mainly involved people having technical skills, for the Field Services department, new graduates for the Technology departments and high level professionals for the TopClient & ICT Services and Marketing departments. To these purposes 3,000 applicants were screened on the overall through Universities, Schools and on line recruitment.

The year 2007 also featured an intense assessment activity concerning internal staff, the purpose being to cover intermediate roles. Approximately 60 sessions of Assessment Centre were held, aimed in particular at the identification of Supervisors and coordinators/specialists.

► Relations with Universities

The Telecom Italia Group is strongly committed to support the University world and training centres for young university graduated. Through a stage mechanism the TI Group supports the technical training of approximately 300 young people every year with a financial commitment equal to about euro 1.9 million, and building at the same time a valuable source of qualified human resources.

In 2007 Telecom Italia started three Technological Master Programs (*Master Innovation* with the Polytechnic of Turin, *Master in Networking* and *Master in Security* with TILS). On the overall 56 young graduates with technical degrees were involved and the 32 best qualified have been recruited.

The year 2007 in particular saw the first edition of a master fully supported by the Group at the Turin Polytechnic Institute. The master aims at favouring training on the innovation of networks and services for 16 young engineering graduates.

In 2007 the Group also financed 40 scholarships supporting the participation in two Masters implemented by TILS on issues related to "Networking for Enterprise & Carrier", and "Information & Communication Security". Sixteen students have been recruited after attending stages at corporate structures. These initiatives will be continued in 2008.

The TI 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.

► Training

Training activities implemented for the Italian staff of Telecom Italia Group during amount 2007 to about 1.9 million hours (classroom, on line, training on the job) as shown in the table below and to about euro 31 million of outlay costs (excluding labour and transfer/logistics expenses). In the year, 84.3% of the TI Group's staff took part in at least one of these training initiatives.

	HOURS AND PARTICIPANTS BY PROFESSIONAL CATEGORY											
	CLASSROOM, ON LINE, TRAINING ON THE JOB				CLASSROOM, ON LINE				TRAINING ON THE JOB			
	HOURS		PARTICIPANTS	COVERAGE	HOURS		PARTICIPANTS	COVERAGE	HOURS		PARTICIPANTS	COVERAGE
	TOTALS	PER CAPITA			TOTALS	PER CAPITA			TOTALS	PER CAPITA		
Total	1,943,121	30.0	54,629	84.3	1,084,154	16.7	42,519	65.6	858,967	13.3	36,960	57.1
Senior Managers	36,635	30.8	999	84.1	36,531	30.7	999	84.1	104	0.1	9	0.8
Middle Managers	116,161	27.1	2,957	69.1	115,466	27.0	2,939	68.6	695	0.1	130	3.0
Office staff and specialists/Workers	1,790,325	30.2	50,673	85.4	932,157	15.7	38,581	65.1	858,168	14.5	36,821	62.1

Training activities are related to the overall TI Group projects and to business competences.

Overall Group's projects

In order to reinforce a shared management culture the TI Group has implemented training interventions dealing with behavioural competences and ICT scenarios both for senior and middle managers, as well as for high-performance level 6 and 7 employees.

In particular, for high-potential managers, the "Bridge the Gap" initiative has been launched. This aims to provide high-level training opportunities (participation in seminars at International Business Schools, Learning Tours, etc.).

Furthermore, the “Creating Value through Customer Satisfaction” initiative was launched and it is targeted at all managers in the TI Group.

Within the framework of the “Environment Project” initiatives have been developed to communicate the TI Group’s environmental policies and plans and to raise awareness through the rationalization of the “Environment Project” website, workshops, dedicated courses and informative articles.

Training as a safeguard of business competences

The purpose of this line of training is providing people directly involved in all business aspects the necessary competences to play their role at best. The training concerned for instance an updating on innovative technologies made necessary by the fast development of the ICT sector and the strengthening of specific competences for front end staff, call centre supervisors and the sales force.

► Internal communication

During 2007 a deep reorganisation of the internal communication department took place in order to favour a better integration with the company’s field departments.

The reorganization focused internal communication on:

- feedback activities and projects;
- corporate information and media;
- integration activities and projects;
- employee involvement activities.

Feedback activities and projects

The surveys on staff attitude (Group Photo) periodically involve all corporate employees.

In 2007 the questionnaire on staff attitude has been redesigned in order to make it more appropriate. Four survey areas have been identified: satisfaction, motivation, corporate processes, manager-employee relation. This survey has been postponed to 2008.

Since the end of 2006, in partnership with the Marketing structures, the innovative feedback project *The Lighthouse* has been launched. Its objective is to encourage employees to contribute their ideas and proposals on important topics of interest to the company and to test new company’s products and services.

In 2007 approximately 2,500 members joined *The Lighthouse* club. Tests on innovative services such as *Alice Messenger*, *Wireless Connection Manager*, *Ikids* and *Dynamic TV* have been launched.

Corporate information and Media

- Group magazine: three issues of the Group magazine (*noi.magazine*) are devoted to Sustainability, as well as to customer satisfaction and solidarity. The magazine is addressed to all the Group’s employees, both in Italy and abroad and to about 30,000 “senior” ex employees of Telecom Italia. It is being printed also in Portuguese for the employees of Tim Brasil; issues in English and Spanish have been printed for other foreign subsidiaries. A survey carried out in the month of March has confirmed the approval of this communication channel.
- *noi.flash*, the emailed newsletter devoted to monographic issues having special corporate impact continues. The issues published in 2007 were devoted to financial communication, Sustainability, top corporate appointments and initiatives in favour of employees.
- The *noi.perlora 2008* project with the related *agenda 2008* has been realized which contains the description of the social solidarity initiatives promoted both by the Group and by the Group’s employees. At the same time the first online Intranet community devoted to the same issue has been launched. This is an interactive and collaborative area, meant for social networking. Employees may access the site, that already has collected and describes over 70 initiatives, and publish documents, photos, videos, comments besides updating information on single solidarity activities.
- Online activities: the two pre-existing Intranet platforms (the Corporate platform and the Operations one) have been integrated in a single internal Group web (*noi.portal*), which will be accessible since May also by all employees of Tim Brasil. Between January and December 2007 the intranet portal has totalled on the average 22,000 single visitors every day, while over 750 news have been published.

- Videomessages by top management: video-streaming is a standard practice in the event of special occurrences. The videos are translated and retransmitted to foreign subsidiaries.
- Web TV: the experimental diffusion of news, interviews and specials on the internal TV (noi.tv) continued through a channel with transmission on Intranet, mobiles and palmtops.

Integration Projects & Activities

These activities are designed both to reinforce the employees' sense of belonging to the Telecom Italia Group and to favour the integration among Operational departments.

Numerous events were held to support the business including the Top Clients & ICT Services 2007 Kick-off, three editions of Business Appointments by the Mobile Domestic Services Department and the Telecontact Centre Convention. Meetings have also been held to promote the integration among the various Customer Service National Centres of the National Wholesale Services Department.

The team building event *Vita da Sales* (Sales Life) has been organized for the sales force of the Domestic Fixed Services Department, with the participation of 1,400 people.

In order to foster a culture of integration and innovation, the *IntegrArt* and *EmotionArt* projects have been realized. The projects, devoted to professionals and middle managers operating on the territory, involved projecting films followed by an expert-led debate encouraging discussion and exchange.

At Telecom Italia S.A.S., in France, the first e-convention "Expresso" has been realized. Organized in four sessions, and with the support of a chat connection, it has allowed all employees to exchange questions, suggestions and opinions with the managers of Marketing, Sales, Customer Care, Technology and Human Resources departments.

Employee Involvement Activities

In 2007 the involvement activities meant to reinforce the sense of belonging and to improve the staff attitude continued.

Many employees were able to participate in cultural events sponsored by "Progetto Italia" and in sporting events sponsored by the TI Group. Among the most important initiatives held, the Everybody go sailing, organised through a partnership of Progetto Italia and the "The Spirit of Stella" Onlus. Ten employees with motor disabilities were able to attend the races of the America Cup. The experience on the Andrea Stella's catamaran, the first ever built without architectonic barriers, has been repeated at Ostia (Rome) at the beginning of fall.

In December the Travelling Show "Who Loves music? Telecom Tour" has been organized for the Group employees' children in collaboration with the Accademia Nazionale di Santa Cecilia. The show has been held in 7 towns (Milan, Rome, Naples, Palermo, Turin, Bologna, Mestre) where the TI Group's employees are particularly concentrated; on the overall the show involved about 7,000 people, both adults and children.

► Remuneration policies

Remuneration policies confirmed in 2007 the tendency to combine market competitiveness with the respect of principles such as internal fairness and consistency.

The management of fixed compensation is based on strong selectivity criteria aimed at rewarding employees with excellent performances.

The variable component of compensation is confirmed as the distinctive element within the compensation package which is characterized by the correlation to company/individual performance.

The main tool is the MBO (Management by Objectives) system, intended for managers and for some professionals, which has become a unique formalized short term incentive tool. Variable remuneration is also having an ever-increasing significance in the long term, as it steers management actions towards the achievement of strategic objectives. Within this framework the Telecom Italia Shareholders meeting has approved in 2007 a Stock Options plan for the top management, correlated to stock performance in the three-year span 2008-2010.

The Long Term Incentive cash plan 2006-2008, launched in 2006, has been cancelled due to severe discontinuities of the competitive and regulatory framework during 2007, leading to the redefinition of plan and priorities.

► 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 2007 no new stock option plans have been launched. At the end of 2007 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.

With respect to the Telecom Italia stock options please note that in 2007 all the rights related to Stock Option Plan 2000 and to the Stock Option Plan 2001 are expired because of the expiration of the term allowed to exercise the options related to the residual batches of these plans.

The essential components of the Telecom Italian stock option plans (included those allocated in due time by TIM S.p.A. and those required by compliance to the recommendation included in the Consob Communication no. 11508 of February 15, 2000) as well as of Telecom Italia Media are summarized in the Note "Stock Option Plans" respectively of the Telecom Italia S.p.A. Annual Report and of the Telecom Italia Group Annual Report.

► Industrial relations

The year 2007 has been quite intense from the industrial relations viewpoint, also considering the opening in the month of May of the confrontation with Trade Unions on integrative bargaining.

After the submission by SLC-CGIL, FISTel-CISL and UILCom-UIL of the bargaining platform for the renewal of the 2nd contractual level, the Company has opened the confrontation with Trade Unions and with the National RSU Coordination (the RSU are the company level unitary union representative bodies) on all the claims included in the platform. The Parties decided to discuss the single subjects by means of joint technical committees. The work of the two committees contributed to make the Parties' positions closer with regard to most issues, thus enabling delegations to restart the discussion in plenary session on December 18, 2007 at the Industrialists and Corporates Association of Rome.

At the same time the TI Group invited the National RSU Coordination to a confrontation on the subject of welfare in call centres, in order to share an improvement program articulated into four thematic macro-areas: people enhancement and training, work organization, environment and safety, work-life balance. The Parties deemed appropriate to form two joint committees devoted to the organizational environments, of fixed telephony and mobile telephony, respectively. Several meetings have already been held and significant converging issues have been pointed out. The confrontation will then be passed on both within the National RSU coordination and at territorial level with the RLS (Workers Representatives for Safety) for the consultation of all worker's representatives.

In application of the agreement signed by the TI Group and Trade Unions on May 2, 2005 with respect to the set-up of a new nationwide structure coordinating the RSUs, and after the merger incorporating TIM Italia S.p.A. into Telecom Italia S.p.A., and of the subsequent harmonisation agreement of February 27, 2006 (through which the Company and Trade Unions agreed that the RSUs of TIM Italia S.p.A. should hold their position until the expiration of the Telecom Italia S.p.A. RSU's mandate), the parties agreed on the set-up of the National Coordination of the Telecom Italia S.p.A. RSUs. The agreement has been signed on March 26, 2007 and provides for the establishment of a single nationwide representative body including 92 RSUs elected among all the worker's representatives.

On June 5, 2007 an agreement has been signed with trade unions for the year 2007 on the Result-based bonus for all the Telecom Italia SpA employees, except those included in specific incentive plans. In compliance with the protocol of July 23, 1993 the agreement provides the distribution of a bonus correlated to corporate economic trends and to the actual presence on the job of the involved staff.

In compliance with commitments undertaken in the agreement of December 9, 2003, the company and the trade unions have analysed through technical committees the issue related to the Telephone Bar – Single Operator Workstation (system for the management of the technical assistance process for business fixed telephony customers) used at national level in the National Customer Services, within the Field Services Department. The meetings led to the agreement in compliance with art. 4 of the Worker's Statute and signed by the National Coordination of Telecom Italia RSUs and SLC, FISTel and UILCom in June 28, 2007.

Considering the reorganization and reinforcement of corporate security, on July 23, 2007 a meeting was held with Trade Unions to accomplish the return within Telecom Italia S.p.A. since 1st November 2007 of the company branch "Centri Territoriali di Sorveglianza", sold to Tecnosys S.p.A. in 2005. The operation involved 104 workers.

On July 26, 2007 two important agreements have been signed with the National Coordination of Telecom Italia RSUs concerning the start of an experimentation on part-time telework at home and of working-out (involving the possibility for technicians mainly working outside the company to park the company car at their house). The projects, designed by the Technology department and devoted to specific professional jobs, have been thoroughly developed by the Company-Trade Unions joint technical committees and undoubtedly involve advantages both for workers and for the company.

During the meeting of July 26, the Parties also reached an agreement on the project to reorganize the "Directory Assistance 1254" service, within Customer Operations. The company and the trade unions, after analyzing the business dynamics of this special sector, now share a plan for the rationalization and relaunch of the Information Services, aimed at recovering significant market shares.

Furthermore, another significant optimisation plan has been agreed between the Company and Trade Unions by the signature of an agreement on the integration of the Fixed and Mobile Premium Care within Customer Operation Business departments. The agreement establishes the Fixed-Mobile integration in the services for significant customers in order to sinergically improve the management of Large Business customers.

Concerning the other TI Group's companies, significant is the agreement signed with the Trade Unions on 1st August 2007 on the Result-based Bonus for the employees of TeleContact Center S.p.A..

According to an agreement signed with Trade Unions on November 9, 2007 since 1st January 2008 the National Collective Agreement for Telecommunications will be extended also to Matrix S.p.A., including some harmonisation issues with respect to Graphics and Publishing National Collective Contract currently applied.

Following the agreements signed on December 20, 2005 with Trade Unions, in 2007 the TI Group enrolled on mobility lists 1,634 workers resources. For this purpose the priority identification criterion used was 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 for staff reduction purposes has been implemented aiming at mutually agreed employment termination and, whenever possible, through professional re-employment solutions.

On February 7, 2007 the TI Group also signed agreements with the Trade Unions of TI Group's senior managers on supplementary health assistance. The Parties agreed on several amendments to the Statute of ASSIDA (Supplementary Health Assistance Fund for Group companies senior managers), proposed by the Board of Directors of the Association itself. With the same agreement the Parties confirmed their intention to find solutions in order to enable the Fund to keep offering better options as compared to the standard one provided by the category collective contracts.

► Health and Safety

In 2007 some specific projects at Group level, have started or continued:

- **Project for well-being in call centres:** the research started in 2004 in collaboration with the University of Turin continued; appropriate Company/Trade Unions joint committees have been set-up in order to identify possible improvement actions.
- **Safe Driving Project:** 14 editions of the theoretical-practical course have been held, involving over 500 technicians continuously using the car in their normal working activity. The videocourse "Safe Driving" has been published on the corporate intranet where it is available to all corporate staff. Special awareness-raising initiatives, also concerning safe driving and safety on the road, have been provided by SPPA through collective courses meant for operational staff.
- **Exposure to physical agents:** the assessment of gas radon concentration in some workplaces continues through a scientific collaboration with the Superior Health Institute in order to develop a working methodology and an accredited laboratory.
- **Exposure to biological agents:** in agreement with the Istituto Superiore di Sanità (Superior Health Institute) the assessment of a biological risk (Legionella) in underground plants, operated by Telecom Italia technical staff has been continued and led to the identification of appropriate control measures.
- **Access to poles:** also due to technological evolution, the technical/organisational procedures to access poles during interventions on TLC aerial networks, have been redefined.

Furthermore, in order to ensure and promote health and safety on the job, the following significant activities were carried out:

- updating of the corporate document on Risk Assessment;
- updating and drawing of 12 procedures on health and safety in the workplace;
- training on health and safety in the workplace – about 60,000 hours by SPPA (Prevention, Protection and Environment Service) – devoted in particular to employees exposed to specific risks, employees in charge of emergency management, to newly-hired staff and/or people interested in changing their work;
- health surveillance and 400 inspections of video terminal workstations carried out by competent physicians and by SPPA;
- preparatory activities in view of the application of the Safety Management System compliant with the OHSAS 18001 standard;
- controls and monitoring on buildings, plants, equipment and processes. In particular:
 - 1,685 microclimatic measurements in call centres;
 - 122 noise measurements in call centres;
 - 3,227 measurements of equipment noise;
 - 437 measurements of environmental noise;
 - 378 inspections;
 - 130 measurements of electromagnetic fields;
- 295 evacuation tests to verify the efficiency of the Emergency Plans;
- updating of the 316 First Aid Operative Plans.

Accidents

Data on accidents occurred in Telecom Italia SpA are shown below and compared to 2006 data.

	2007	2006
Total accidents no.	969	973
Accident severity index (*)	0.24	0.25
Frequency rate (*)	10.28	10.97
Average duration in hours	136.01	125.20
Unproductiveness rate (*)	1.40	1.37
Accidents x 100 workers	1.62	1.67

- (*) 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.

► Focus on Latin America

Several initiatives undertaken by Tim Brasil and Entel Bolivia regarding human rights, the safeguard of labour standards, equal opportunities, welfare and initiatives for employees, remuneration policies and industrial relations are described below.

Human rights and safeguard of labour standards

In TIM Brasil 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). The first corporate Code of Ethics, inspired by the general principles of the Group's code, in line with the Global Compact principles, and which integrates local requirements has been distributed to all 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.

Equal opportunities

TIM Brasil and Entel Bolivia do not practise any form of discrimination, both in recruiting processes and in the internal development opportunities. From 2003 to 2007 in TIM Brasil the women employed increase from 3,263 (54% of the total) to 5,874 (58% of the total). The same applies to women holding management positions who increase from 68 (21.8% of the total) to 84 (22.5% of the total). In Entel Bolivia, over a total of 1,497 employees, approximately 40% are women.

At Entel Bolivia the employer/employee relations are defined by a Collective Labour Contract, approved by the Ministry of Labour and Microenterprise, subject to periodical reviews and mandatory for the parties. The Contract confirms 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 those in the Labour Code.

Welfare and initiatives for employees

In 2006 TIM Brasil started the implementation of the private Social Security Plan for all employees.

At the end of December 2007 81.7% of middle managers had adhered, thus confirming the general approval of the initiative.

TIM Brasil also promotes initiatives in favour of its employees, such as:

- “Open doors at Tim”: on Children's Day in Brazil the initiative aims at allowing children to visit the workplace of their parents; recreational activities have been organised for all the employees' children aged 3 to 12;
- Happy Day: all employees enjoy a free day on their birthday and receive a birthday greetings card signed by all colleagues;
- End of the year party: this initiative is intended for all employees and is aimed at promoting integration with musical events, and giving the opportunity to everybody to celebrate the personal and professional achievements of the year.

In financial year 2007, in an effort to constantly improve the work environment and to generate a strong sense of belonging, the Entel Group has increased the headcount by 49%, as compared to financial year 2006, through the incorporation of the external workforce in the company's core activity.

In order to improve the quality of life Entel Bolivia designed and implemented the *Programa Mejora de la Calidad de Vida Laboral*, including several activities such as preventive programs on ergonomics and posture, exercise and other sport activities (tournaments and dedicated days), dance, culture and art events during weekends and holidays, development and diffusion of regulations and industrial safety procedures, services to internal customers (i.e. the management of errands such as certificates, visas, passports, etc.), training on safe driving techniques and self-defence, vaccination campaigns for the control of seasonal disease among employees.

Remuneration policy

TIM Brasil ensures that its staff wages are balanced with respect to internal company seniority levels and to market standards. The remuneration policy includes both a fixed and a variable component, linked to corporate results. Besides the MBO (Management by Objectives) and incentives to the sales force, TIM Brasil has adopted the "Participação nos Lucros e Resultados (PLR)" program, to share a part of the company's profit among employees, as required by a Federal law. All the Group's employees, except those entitled to MBO, participate in the program, which has been confirmed as an effective tool in order to improve the quality of service and productivity.

Entel Bolivia analyses staff remuneration and promotes actions to ensure the balance among levels within the company and consistency with market offers. The remuneration policy takes into account both a fixed and a variable component, this one linked to corporate results.

Industrial relations

Collective bargaining contracts of all operative companies within TIM Brasil have been renewed in 2007.

Entel Bolivia entertains constant and transparent industrial relations with the federation representing workers FESENTEL and national Trade Unions. In financial year 2007 the company has signed a collective bargaining agreement including a remuneration increase exceeding the conditions established by the Decreto Supremo (Highest Decree) 29116 (5% starting from May 1, 2007), extending the benefit to all companies' employees and providing increases exceeding 5%.

Some data concerning Unions:

- TIM Brasil: approximately 4.8% of workers are members of Trade Unions Organizations;
- Bolivia: 63.4% 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.

Shareholders



► Strategy

The TI 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

In 2007 the most significant financial communication event has been the annual meeting with the Financial Community, held in Milan on March 9. During such meeting the Telecom Italia Group has presented its targets for the three-year span 2007-2009 and the strategies to achieve them.

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, held in three European markets (London, Paris and The Netherlands) has been devoted to SRI investors.

Concerning relations with individual shareholders (retail), today over 660,000 (only ordinary shares), the strategy of Telecom Italia aims at increasing the financial communication channels to efficiently meet the growing demand for information and timely updating on the Group.

The main tool of such strategy is the shareholder Club "TI Alw@ys ON"

(<http://ticlub.telecomitalia.it>). Created in March 2006, the Club is a virtual meeting place between the company and its retail investors and for anyone interested in receiving economic-financial updates, information and news on the TI Group's performance.

Even those not owning shares can subscribe to the "Basic" users club in order to receive the same free services available to shareholders as described in the following:

- SMS alert: a daily update at the close of stock market trading, providing the closing price and the percentage change compared to the day before for the Telecom Italia ordinary and savings shares, as well as the daily percentage change in the S&P/MIB index;
- Weekly Stock Market report: this report is issued every Friday evening, within an hour of the close of the stock market, to provide highlights on the trend of the week;
- Monthly Zoom, including and update on the Group commercial offer both in Italy and abroad and details on the most recent technological issues both national and international;

- Quarterly Newsletter: the quarterly newsletter comments on the most recent economic and financial results and news regarding the Telecom Italia Group, provides updates on technology and marketing, interviews with managers, the results of business abroad and a calendar of the TI Group's future events.

Telecom Italia Shareholders (regardless of the number of held shares) may subscribe to the Club's "Premium" profile. In addition to offering the services included in the "Basic" user profile, it offers new subscribers a welcome gift, a free euro 25 of prepaid TIM traffic or in alternative, a Pago Rosso Alice e-coupon worth euro 20. Furthermore, Premium subscribers are automatically entered in the "TI premia 2nd edition" contest that periodically gives away mobile phones, tickets to sporting events sponsored by the Telecom Italia Group and other gadgets.

To complete its information channels devoted to individual shareholders Telecom Italia provides a Shareholder Guide, available also online to anybody requesting it.

As far as on-line financial communication, the institutional website of Telecom Italia (<http://www.telecomitalia.it>) has been again updated thus gaining the TI Group also in 2007 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 paragraph "Results and Acknowledgements/Results" of "Introduction".

► Safeguarding privacy and protecting data

The Telecom Italia Group 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").

To this purpose Telecom Italia has established a specific "Privacy" department which is entrusted with the monitoring of correct application of sector regulations at Group level.

Concerning the implementation of law provisions and of the Privacy Guarantor indications, in 2007 the TI Group has reviewed, completed and updated the TI Group regulations and policies, also on the basis of experience and of the occurred organisational changes. First of all the "System of rules for handling personal data within the TI Group" has been completely renewed and updated. These guidelines indicate, for each required duty, the appropriate provisions and operational indications thus ensuring a correct and homogeneous implementation. The TI Group policies for personal data handling by third parties (suppliers, consultants, etc.) have also been reviewed, and new guidelines have been issued, which are related to the handling of personal data through I.T. tools, with special reference to the datawarehouse and business intelligence platforms and to the handling of telephone and telematic traffic data.

Furthermore the spreading of privacy culture at company level has been boosted, also by implementing training initiatives on:

- The protection of personal data for specific professional roles;
- The compliance requirements in the handling of customer data through I.T. systems;
- Sales activities.

The implementation of these regulations is monitored through an audit system based on periodical self-assessment procedures by managers in charge of data handling and on periodical audits by the appropriate central departments, according to criteria and methodologies defined under the guidance of the TI Group's Auditing company. In particular, in 2007, the privacy requirements related to customer and employee data handling, as well as the definition of the privacy roles in the relationship with suppliers were verified. At Group level, some subsidiaries underwent audits on the status of implementation of privacy rules. Audits also involved third parties, with controls concerning customer data handling by dealers and commercial partners. In 2007 controls on the adoption of the required safety measures for the protection of personal data recorded quite significant increases through the building of a dedicated team who carried out several controls involving both internal structures and third parties (i.e. software service suppliers). From the technical standpoint the TI Group has

continued to develop the intervention program started in 2006 and involving substantial technical and economic resources, to achieve a stricter control of I.T. systems handling personal data, with reference for instance to the handling of traffic data and to the execution of mandatory actions on behalf of judicial authorities.

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 2007. 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.

► Risk Management - 2007

The Telecom Italia Group has adopted over 4 years ago the CRSA (Control & Risk Self Assessment) methodology as a tool for the identification, assessment and management of operational risk, on the basis of risk self-assessment by management. This yearly process, involving several levels of organisational responsibility, is operationally articulated as follows:

- definition of the TI Group's general targets by Top Management;
- definition of specific TI Group's targets for each department with reference to their organisational context;
- identification of risks possibly jeopardising the achievement of targets;
- transmission of risks to corporate top management and consolidation through "transversal portfolios";
- assessment of consolidated 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.

In compliance with the decisions undertaken by the Risk Management Committee in December 2006 – this Committee has been established in 2006 and charged with the responsibility of managing risks and ensure the business operational continuity – the CRSA 2007-2009 cycle has been started and developed, qualifying in detail the reference objectives, to which quantitative parameters have been associated. This in order to favour the establishment of risk portfolios and to improve the organisational risk "allocation" for the following cycle.

The 2007 CRSA cycle led to the identification of 296 Action Plans related to the Consolidated Risk Portfolio at Central Departments /Operations /Business Unit level (763 identified risks, of which 190 high range and 292 medium range).

The management of the various 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 done for action plans deriving from audits. All employees involved in the various CRSA steps, both in Italy and abroad, underwent specific training.

The integrated APM and CRSA systems are currently managing on the overall (since the establishment in 2004) 2,063 users, 3,217 actions from Audit action plans and 1,001 actions from CRSA action plans.

Corporate Governance

Hereinbelow is reproduced an excerpt from "Part One" of the Annual Report on Corporate Governance (hereafter "Report"), contained in the Annual Report 2007, to which reference is made for the complete text (also available, as well as all other corporate governance website: www.telecomitalia.it, under "Governance").

It should be noted that the Report includes also a second part ("Part Two"), in which evidence is given of the state of implementation of the various initiatives recommended by the Internal Control and Corporate Governance Committee (and approved and agreed upon by the Board of Directors), as a result of the analysis and checking activities conducted by the Committee itself (pro-tempore) in connection with the well-known judicial events involving the former Head and some managers of the Group Security Department, which in turn had raised questions about the security of the network and the handling of traffic data.

Profile of the company

The corporate governance system of Telecom Italia S.p.A. (the Company or Telecom Italia) hinges on the central role of the Board of Directors and the transparency and substantial and procedural correctness of operational decisions.

Restrictions on the transfer of securities

The bylaws contain no restrictions on shares being freely available, except for what is laid down in Article 22 concerning the special powers of the Ministry for the Economy and Finance under Law 474/1994, described in the complete text of the Report.

Employee share ownership: mechanism for exercising voting rights

At present there is no programme promoting employee share ownership.

Restrictions on voting rights

Without prejudice to the Minister for the Economy and Finance's power of objection to the acquisition of shareholdings exceeding 3% of the voting capital, there are no restrictions on exercising the voting rights attaching to Telecom Italia ordinary shares. Savings shares do not carry the right to vote in ordinary shareholders' meetings.

Shareholders' agreements

Telco S.p.A. (Telco) is Telecom Italia's main shareholder with an interest of 23.59% in the ordinary share capital. In turn Telco is owned by Intesa San Paolo S.p.A. (10.6%), Mediobanca S.p.A. (10.6%), Sintonia S.A. (8.4%), companies belonging to the Generali Group (28.1%) and Telefónica S.A. (42.3%).

On the basis of information in the public domain (and available in the Investors section of the Company's website www.telecomitalia.it), the shareholders of Telco signed an agreement on April 28, 2007 that, among other things, lays down the criteria for nominating its slate of candidates for the position of director of Telecom Italia. The criteria are set out below:

- Telefónica, if it possesses at least 30% of Telco's share capital, will be entitled to nominate two directors of Telecom Italia; Telefónica will also have the right of nomination in the event of the replacement of directors;
- the other shareholders of Telco, if they possess the absolute majority of its share capital, will be entitled to nominate the other persons on the slate, of whom three candidates chosen unanimously and the others on a pro rata basis.

The shareholders' agreement provides for the Telecom Italia Group and the Telefónica Group to be run autonomously and independently. In particular, the directors nominated by Telefónica in Telco and Telecom Italia will receive instructions from Telefónica not to take part or vote in board meetings that discuss and propose resolutions concerning the policies, management or operations of companies directly or indirectly controlled by Telecom Italia that supply services in countries where there are legal or regulatory restrictions or limitations to Telefónica's exercise of its voting rights.

On November 19, 2007 the agreement was amended to take account of the ruling handed down by the Brazilian regulator for the telecommunications industry (Anatel) on October 23, 2007 and published on November 5, 2007, whereby:

- Telefónica and the directors/officers nominated by Telefónica may not participate, vote or veto resolutions in shareholders' meetings, board meetings or committee meetings of Telco, Telecom Italia or any other company controlled by Telecom Italia whose object is to engage in telecommunications activity in the Brazilian market. In addition, Telefónica may not indicate directors or officers of companies with their registered office in Brazil that are controlled by Telecom Italia and supply telecommunications services in the Brazilian market or of companies with their registered office in Brazil controlling such suppliers of telecommunications services.
- Telefónica must take steps to ensure that its subsidiaries supplying telecommunications services in the Brazilian market do not enter into certain relationships with the companies controlled by Telecom Italia that supply telecommunications services in the Brazilian market, if the terms and conditions of such relationships differ from those envisaged by the provisions of Brazilian law applicable to telecommunications;
- Telefónica may not exercise direct or indirect control over any company controlled by Telecom Italia in Brazil (within the meaning of control applicable according to the provisions of Brazilian law concerning telecommunications), including where Telefónica exercises the right to acquire shares of Telco;
- the Parties must give instructions to the members of the Board of Directors of Telco they have respectively nominated and to the members of the Board of Directors of Telecom Italia nominated by Telco for: (i) separate agendas to be prepared for the meetings of the Boards of Directors of Telco, Telecom Italia and Telecom Italia International N.V. and every other company with its registered office outside Brazil that is controlled by Telecom Italia and has investments in the Brazilian telecommunications sector in which the directors nominated by Telefónica are allowed to attend and for the meetings in which the participation of the directors nominated by Telefónica is not allowed since it is a question of matters concerning the activities of companies controlled by Telecom Italia in supplying telecommunications services in the Brazilian market; and (ii) in compliance with adequate confidentiality obligations for the delivery of a copy of the agendas and minutes of the meetings to the appointed officers of TIM Celular S.A. and Tim Nordeste S.A. with a view to their delivery by the latter to the Brazilian regulator for the telecommunications industry within a time limit of 30 days.

The restrictions and limitations referred to above will apply until the expiration of the time limit or the cessation of the shareholders' agreement.

Appointment and replacement of directors and bylaw amendments

The Company's bylaws (Article 9) provide for the Board of Directors to be elected on the basis of slates presented by shareholders who together hold at least 0.5% of the ordinary share capital, filed at the Company's registered office and published in a daily newspaper with national circulation at least fifteen days before that fixed for the shareholders' meeting on the first call. Together with each slate it is necessary to file candidates' acceptances of their candidacy and declarations in which they attest that there are no grounds for ineligibility or incompatibility and that they meet the prescribed requirements, as well as their *curricula vitae* and any other information required by applicable law.

The Board of Directors is elected as follows:

- four fifths of the directors to be elected are chosen from the slate that obtains the majority of the votes cast by the shareholders, in the order in which they are listed on the slate; in the event of a fractional number, it is rounded down to the nearest whole number;
- the remaining directors are chosen from the other slates. To that end, the votes obtained by the various slates are divided successively by whole numbers from one up to the number of directors to be chosen and the quotients obtained are assigned to the candidates on each slate in the order specified thereon. On the basis of the quotients assigned, the candidates on the various slates are arranged in a single decreasing ranking. Those who have obtained the highest quotients are elected.

In appointing directors who for any reason have not been appointed pursuant to the procedure specified above, the shareholders' meeting votes using the majorities required by law.

The procedure summarized above is the subject of some amendments that will be submitted

to the shareholders' meeting called on April 12, 13 and 14, 2008. In particular, there is a proposal to relieve shareholders of the obligation to publish slates in daily newspapers at their own expense. In fact the manner of publicizing slates is now governed by Consob Regulation on issuers, which requires the Company to bear the cost and to make slates and the accompanying documentation available to the public without delay at its registered office, at Borsa Italiana and on its website.

* * *

As regards the rules governing amendments to the bylaws, without prejudice to the power described above to veto the adoption by the shareholders' meeting of a series of resolutions (including resolutions to change the corporate object and to suppress/alter the special powers referred to in Article 22 of the bylaws), Telecom Italia's bylaws are subject only to the applicable laws and regulations.

Moreover, as far as mandates to increase the share capital and authorizations to purchase treasury shares, as well as agreements in which Telecom Italia takes part stating the burden of notifying the change of control (so-called change of control clauses), reference should be made to the complete text of the Report.

Indemnity of directors in the event of resignation, dismissal or termination of the relationship following a takeover bid

As explained in more detail below, the composition of the Board of Directors changed during 2007.

The indemnities received by Carlo Buora (formerly Executive Deputy Chairman) and Riccardo Ruggiero (formerly CEO) following their resignations with effect from December 3, 2007 are described below:

- the terms and conditions applied to the Executive Deputy Chairman were those contained in the agreement concluded on December 5, 2006 whereby:
 - in the event of his being appointed to the Board of Directors for the three years 2007-09 with powers basically analogous to those formerly entrusted to him and of the appointment being interrupted during the three years 2007-09 at the initiative of the Company (except in the case of just cause) or at the initiative of Mr. Buora for just cause (e.g. revocation of all or a significant part of his delegated powers, reasoned disagreement regarding the Company's strategies, the sale of all or a significant part of the reference shareholding, significant changes in the composition of shareholders, etc.), provision was made for the payment of the fixed and additional compensation that would have been due to him from the termination of the relationship to the end of his term of office as a director, supplemented by a penalty payment corresponding to a year's fixed compensation;
 - in the event of his not being appointed to the Board of Directors for the three years 2007-09, or of his not being entrusted with powers basically analogous to those formerly entrusted to him, or of his ceasing to hold the position under Article 2386 of the Civil Code, provision was made for the payment of a gross amount equal to euro 4,400,000 (corresponding to two years' fixed compensation) as recognition of the professional and managerial contribution made to the Group since October 2001 (the start of Mr. Buora's relationship with Telecom Italia).

Applying the terms and conditions referred to above, the Executive Deputy Chairman was paid euro 4,400,000. On December 5, 2006, a two-year covenant not to compete was also signed with Mr. Buora for the business of the Group and for the whole of Europe against payment of a gross amount equal to euro 4,000,000, to be disbursed in four semi-annual instalments on a deferred basis starting from the termination of the relationship;

- as regards the CEO, who also held the position of General Manager and was linked to the Company by an employee relationship with the rank of manager, a private agreement was concluded at the time of his resignation providing for the consensual termination of the employment relationship against payment of a termination benefit incentive of euro 9,915,000 (comprising compensation for the contract notice period, the maximum penalty provided for by the contract for managers in the event of termination of the relationship without due cause, calculated on the basis of the components of compensation marked by continuousness /repetitiveness: manager's salary, compensation for the position, average of the short-term incentive of the three preceding years, and amount due under the retention plan approved earlier by the Board of Directors). The special circumstances that characterized the life of the Company in the last fiscal year and of the media attention it repeatedly received also suggested concluding an agreement whereby Mr. Ruggiero, against

payment of euro 2 million (slightly more than a year's fixed compensation), renounced any future claim regarding his compensation as employee and director and the termination thereof, as well as any claim for damages of any kind whatsoever, including for harm to his image. Mr. Ruggiero is also constrained by a two-year covenant not to compete that was signed in 2002; the consideration due was disbursed in full while the relationship was still in force.

The present executive directors (Gabriele Galateri di Genola and Franco Bernabè) currently receive a fixed amount of compensation.

However, provision has already been made, if they are elected by the shareholders' meeting to be held on April 13 and 14, 2008 and subsequently reappointed as respectively Chairman and CEO and if the appointment is interrupted before the end of the mandate established by the shareholders' meeting (i) for objective reasons (such as the merger of the Company or the termination of the entire Board of Directors pursuant to Article 9.12 of the bylaws), (ii) at the initiative of the Company (except in the case of just cause) or (iii) at the initiative of the interested party for just cause (e.g. change in the position, especially with reference to the delegated powers, significant changes in the composition of the reference shareholders):

- for the Chairman to be paid the fixed compensation that would have been due to him from the termination of the relationship to the end of his term of office as a director, supplemented by an indemnity equal to a year's compensation;
- for the CEO to be paid the compensation that would have been due to him from the termination of the relationship to the end of his term of office as a director (including the variable component calculated as the average of the disbursements already made or, in the absence thereof, of the target value), supplemented by a penalty payment corresponding to a year's compensation calculated as above.

Compliance

Telecom Italia complies with Borsa Italiana's Code of Corporate Governance and since 2000 has provided information on the development of its system of corporate governance in its annual and half-yearly reports.

* * *

As regards Telecom Italia's compliance with provisions of foreign law, it should be noted that - as specified in the Company's Self-Regulatory Code (consultable in the Governance section of the Company's website www.telecomitalia.it) - the Board of Statutory Auditors, in addition to performing the duties assigned by Italian law, performs the tasks entrusted to the audit committee under US law, to which Telecom Italia is subject as a foreign issuer registered with the Securities and Exchange Commission and listed on the New York Stock Exchange. Accordingly, the Board of Statutory Auditors has established a procedure governing the receipt, retention and treatment of reports, complaints and concerns (consultable in the Governance section of the Company's website www.telecomitalia.it).

Telecom Italia's strategic subsidiaries include the companies belonging to the Tim Brasil group, of which Tim Participacoes S.A. (indirectly controlled by Telecom Italia) is a Brazilian company listed in Brazil; this company is also registered with the Securities and Exchange Commission and listed on the New York Stock Exchange.

Direction and coordination

Telecom Italia is not subject to direction and coordination as referred to in Article 2497 et seq. of the Civil Code.

Composition of the Board of Directors

Tables 3 and 4, enclosed to the complete text of the Report, show information on the members of the Board of Directors as of March 6, 2008 and on those whose directorships ended during the 2007 fiscal year.

Cap on offices held in other companies

In Article 5 of the Company's Self-Regulatory Code, the Board of Directors has established, on a general basis, the maximum number of positions that Telecom Italia directors may hold in management and control bodies of other companies.

The principle is that the position of Telecom Italia director is not compatible with membership of the board of directors or auditors of more than five companies, other than companies that are directed and coordinated by Telecom Italia or are Telecom Italia subsidiaries or affiliates, when such companies:

- are listed and included in the S&P/MIB index; and/or

- operate prevalently in the financial sector on a public basis; and/or engage in banking or insurance.

The position is also considered not to be compatible with holding more than three executive positions in companies of the types specified above.

The Board of Directors may nonetheless make different individual evaluations, which must be made public in the annual report on corporate governance. The check on the number of positions held by directors will be made again following the appointment of the new board by the shareholders' meeting called on April 13 and 14, 2008.

Role of the Board of Directors

In 2007 the Board of Directors met nine times, with each meeting lasting approximately three hours on average. The attendance rate of all the directors was above 95% and that of the independent directors was 96%.

Apart from the renewal of the Board of Directors at the next shareholders' meeting, a total of five meetings have been scheduled for 2008, without prejudice to the possibility of calling additional meetings if operational requirements make this necessary. In the first three months of 2008 the Board of Directors had already met twice.

* * *

The basic assumption of the Telecom Italia model is that the Board of Directors should play an active role both in the strategic guidance of the Company and in the control of operations, with a power to formulate strategy and responsibility for intervening directly in decisions having the greatest impact on the activity of the Company and the Group.

In particular, as specified in the Self-Regulatory Code, the tasks entrusted to the Board of Directors include:

- examining and approving strategic, business and financial plans and the budget of the Company and the Group;
- examining and approving strategic transactions and establishing general criteria for their identification (see below);
- 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;
- specifying the limits to delegated powers, the manner of exercising them and the frequency with which bodies with such powers must report to the Board of Directors on the activity performed in exercising them;
- nominating the persons who are to hold the offices of Chairman and CEO in strategic subsidiaries;
- assessing the overall performance of operations and periodically comparing the results achieved with those planned.
- Pursuant and in addition to these principles, in the third quarter of 2007 the Board of Directors (without altering the duties and powers reserved to it by law, the bylaws, the delegation of powers and internal procedures) adopted and published criteria for identifying strategic transactions to be submitted to the Board for approval (the complete document can be consulted in the Governance section of the Company's website www.telecomitalia.it). For more details on such transactions reference should be made to the complete text of the Report.

Description of mandates entrusting some Directors is contained in the complete text of the Report.

In accordance with the Self-Regulatory Code, transactions with related parties, including intragroup transactions, except for typical or usual transactions concluded at arm's length conditions, must be examined and approved in advance by the Board of Directors.

Typical or customary transactions are considered to be those that, by their object or nature, are part and parcel of the normal course of business of the Company and those that do not involve particular critical factors due to their characteristics, the risks inherent in the nature of the counterparty or the timing of their execution. Transactions concluded at arm's length conditions means transactions concluded at the same conditions as those applied by the Company in comparable situations.

The internal rules for related party transactions were revised by the Board of Directors in its meeting on March 6, 2008 with the introduction of a more comprehensive set of procedures. These are currently being deployed and will lead to a diversification of the decision-making roles and responsibilities according to the type of activity in question (whether or not deemed to be part of the ordinary course of business) and the manner of determining the relationships with related parties (distinguishing between unalterable “other-directed” conditions, competitive procedures, and benchmarking procedures for ascertaining their “market” comparability). There has been no watering down - rather a strengthening with suitable reporting and oversight mechanisms - of the principles of transparency and verifiability of compliance with the criteria of substantial and procedural correctness. More details on transactions with related parties and on the possible Directors' interest in such transactions is available on the complete text of the Report.

* * *

In its function of monitoring and guiding the performance of operations, the Board of Directors assesses the adequacy of the organizational, administrative and accounting structure of the Company on the basis of information made available by the management and, with specific reference to the adequacy of the internal control system, in light of the results of the investigations made by the Internal Control and Corporate Governance Committee.

In performing its function as the body primarily responsible for the internal control system, the Board of Directors avails itself of the above-mentioned Committee and:

- the person responsible for internal control, chosen from within the internal auditing function, which is entrusted to the consortium company Telecom Italia Audit & Compliance Services;
- with reference to internal controls in relation to financial reporting, the manager responsible for preparing the Company's financial reports, as appointed in November 2007 in the person of Enrico Parazzini, General Manager and Head of the Finance Administration and Control Department. The powers and responsibilities of this new position are specified in a special set of rules (consultable in the Governance section of the Company's website www.telecomitalia.it).

As specified in the Self-Regulatory Code, in implementing the guidelines laid down by the Board of Directors, the Director in charge of internal controls (in 2007 the Executive Deputy Chairman, Carlo Buora, and, with effect from December 3, 2007, the Chairman, Gabriele Galateri di Genola) defines the instruments and procedures for the configuration of the internal control system and ensures its adaptation to changes in the operational environment and the applicable laws and regulations. The executive directors, each with reference to the matters falling within the scope of his/her duties and in cooperation with the manager responsible for the preparation of the Company's financial reports for matters for which he/she is competent, must use the instruments and procedures referred to above to ensure the overall adequacy of the system and its practical effectiveness in a risk-based perspective that is also an essential component in the definition of the agenda of the Board of Directors.

In this process the Group Compliance Officer performs a role of liaison and coordination among the various plans for the improvement of the Group's internal control system and is responsible for ensuring - with the assistance of Telecom Italia Audit & Compliance Services, where the Group Compliance Officer is located - methodological correctness in the management of risk. To ensure the coordination of risk management at the top level, there is a Risk Management Committee, chaired by the CEO and composed of the heads of the Head Office departments concerned.

* * *

The assessment of the performance of operations is based on a continuous flow of information coordinated by the Chairman of the Board of Directors and directed towards the non-executive directors and the members of the Board of Statutory Auditors. Assessments are made at intervals in the various meetings, notably, with a comparison of the results achieved with those budgeted during the examination of the financial reports.

* * *

After the shareholders' meeting held on April 16, 2007, the Board of Directors allocated the total compensation of euro 2.8 million approved by the shareholders for 2007 as follows:

- euro 114,000 to be paid to each director in office;
- an additional euro 70,000 to be paid to each member of the Internal Control and Corporate Governance Committee;
- an additional euro 40,000 to be paid to each member of the Remuneration Committee;
- an additional euro 20,000 to be paid to each member of the Strategy Committee, other than the Chairman and the CEO;
- an additional euro 20,000 to be paid to the director appointed to the Supervision Panel set up under Legislative Decree 231/2001.

Until the renewal of the top management on December 3, 2007 the compensation system for the Chairman (Pasquale Pistorio) and the Executive Deputy Chairman (Carlo Buora) provided for payments for the positions divided into a fixed component and a supplementary component subject on an on/off basis to the achievement of the budget objective for consolidated EBIT with positive Delta EVA. In the same way as for the incentive schemes for managers (including Riccardo Ruggiero, CEO, General Manager and employee of the Company) there was a margin of tolerance of up to 10%, with a corresponding progressive reduction to 10% of the additional amount.

The present Chairman (Gabriele Galateri di Genola) and CEO (Franco Bernabè) currently receive only a fixed amount for their positions. The CEO also benefits from a payment for retirement benefits equal to 10% of his fixed compensation.

For additional information on the compensation paid to the Directors in 2007 (including benefits), see Note 42 to Telecom Italia's annual financial statements.

* * *

In the annual self-assessment exercise the Board of Directors, in view of the imminent end of its term of office and calling of the shareholders' meeting to elect a new Board, preferred not to express an opinion on the latter's size and to leave the decision to the shareholders. Moreover, partly in light of the results of the board evaluation, the shareholders' meeting is invited to approve an extraordinary resolution to amend the bylaws and reduce the maximum number of directors from 23 to 19.

The recommendations submitted to the shareholders with a view to the election of a new Board included:

- assessing the desirability of the majority of directors being independent;
- assessing the desirability of some directors and possibly some independent directors having had experience of the telecommunications industry.

Independent directors

Telecom Italia has adopted the criteria established by Borsa Italiana's Corporate Governance Code for determining whether directors qualify as independent.

On the basis of the information in the Company's possession, the Board of Directors verified that each of the directors classified as independent in Tables 3 and 4 (enclosed to the complete text of the Report) satisfied the independence requirements at the time of their appointment. It was not considered necessary to repeat the assessment in view of the fact that the Board of Directors' term of office ends with the next shareholders' meeting.

The number (initially 9 as a consequence of the appointment of Pasquale Pistorio as Chairman and then 8 following the resignation of Diana Bracco) and professional skills of the independent directors permitted the creation of the board committees referred to in the Self-Regulatory Code.

The assessment of the independence of the members of the Board of Directors, the results of which were communicated to the market, was followed by the Board of Statutory Auditors, which also carried out the checks for which it was competent, finding compliance with the requirements for the composition of the Board of Directors (the presence of at least two directors satisfying the independence requirements established by law for statutory auditors). In particular, after the renewal of the Board of Directors approved by the shareholders' meeting held on April 16, 2007, the declarations and curricula presented showed that 6 directors were independent as defined in paragraph 4 of Article 147-ter of Legislative Decree 58/1998 (Luigi Zingales, Stefano Cao, Renzo Capra, Jean Paul Fitoussi, Luigi Fausti and Paolo Baratta).

Lead Independent Director

As part of the revision of the Company's corporate governance mechanisms carried out early in 2007, the position of Lead Independent Director was formalized in the Company's Self-Regulatory Code after being introduced in 2004 in accordance with international best practice and the indications provided by US practice.

At present the position, which is intended to provide a point of reference and coordination for the needs and inputs of the independent directors, is held by Domenico De Sole, who replaced Guido Ferrarini following the renewal of the Board of Directors on April 16, 2007 and is a member of the Internal Control and Corporate Governance Committee and the Strategy Committee. The Lead Independent Director may use the Company's structures in performing his tasks and call special meetings of the independent directors (Independent Directors' Executive Sessions) to discuss issues related to the working of the Board of Directors or the management of the business. In 2007 a total of four such sessions were held.

As laid down in the Self-Regulatory Code, the Chairman of the Board of Directors also avails himself of the collaboration of the Lead Independent Director to improve the working of the Board (including the choice of matters to be discussed in collegial meetings). The aim of this collaboration is to further enhance the value of the contribution and criticism of the Board's independent members.

Handling of corporate information

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.

For this reason the Board of Directors has adopted a procedure for the internal management and external disclosure of documents and information concerning the Company, with special reference to inside information (consultable in the Governance section of the Company's website www.telecomitalia.it). 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 gives instructions to all subsidiaries for the purpose of promptly obtaining the information needed for timely and correct compliance with public disclosure requirements. The procedure also governs the register of persons with access to inside information referred to in Article 152-bis et seq. of Consob Regulation on issuers.

The Company has adopted special procedures for the classification and handling of information from the standpoint of confidentiality and early in 2007 issued rules governing the activity of a management committee called the Disclosure Committee (consultable in the Governance section of the Company's website www.telecomitalia.it). This body is 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 Statutory Auditors on the one hand and to be disclosed to the market on the other. The regulation governing the committee, as it is true more generally for the entire internal regulation of disclosure, is likely to be revised, not least so as to improve the coordination with the position formally introduced in November of manager responsible for the preparation of the Company's financial reports.

Board committees

The following committees of the Board of Directors have been established: the Internal Control and Corporate Governance Committee, the Remuneration Committee and the Strategy Committee; their functions are governed by the Company's Self-Regulatory Code.

The evolution of best practices has shown the desirability of having an internal committee, with an advisory function, in addition to the traditional ones concerned with remuneration and internal controls, in order to permit a more effective approach to strategic issues, insofar as these are deemed to be of major importance for the firm.

Strategy Committee

The aim of the creation of the Strategy Committee is to increase the involvement of the parent company's Board of Directors - while respecting the management's roles and responsibilities - in making strategic choices, in the light of the evolution of the competitive environment. Owing to the strong stimuli produced by technology and the evolution of consumer needs and behaviour, the sector in which Telecom Italia operates is likely to undergo changes that are as rapid as they are radical. It is therefore a question of exercising close and effective oversight of the processes of repositioning and change imposed by the telecommunications market.

The Strategy Committee assists the Board of Directors in evaluating and addressing the most important decisions regarding:

- identification of possible developments in the structure of the telecommunications sector;
- strategic positioning and business models of the Group, *inter alia* in view of the nature of Telecom Italia as an incumbent;
- organizational developments in relation to possible business models;
- evolution of the corporate and financial structure;
- monitoring progress in the implementation of change.

After the renewal of the Board of Directors, the *pro tempore* executive directors were appointed to the Strategy Committee together with the following directors: Paolo Baratta, Domenico De Sole, Jean Paul Fitoussi and Renato Pagliaro. In this way the aim is to combine the contribution of important professional skills and experiences with the need for full alignment and effective coordination of the activities of the Committee, the Board of Directors and the management.

In performing its activity, the Strategy Committee held four meetings in 2007 (with the proceedings recorded in the minutes) and closely followed - in 2008 as well, during which two meetings have been held - the developments that led to the establishment of the strategic guidelines of the 2008-10 Plan.

The average attendance rate at the Strategy Committee's meetings in 2007 was 96%.

Nominations committee

The Company is of the opinion that using the slate voting system meets the needs otherwise served by the creation of a nominations committee.

Moreover, formalizing a practice already in use, since 2007 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 this committee that proposes candidates for the Board of Directors to choose from to make the replacement.

Remuneration Committee

As of 2000 there has been a Remuneration Committee charged with putting forward proposals for the remuneration of the directors who hold particular offices and criteria for the remuneration of the Company's senior management. The members of this committee must all be independent directors, of whom at least one must have been chosen from the Minority Slates. For the composition of the Remuneration Committee, see Tables 5 and 6, enclosed to the complete text of the Report.

The Remuneration Committee met six times in 2007 (and has already met five times in 2008), with an average attendance rate of more than 95%. The proceedings of meetings are recorded in the minutes. Investigatory and preparatory work is carried out before meetings, often by the chairman of the committee, with the assistance of the management and outside consultants made available by the Company.

In addition to the questions connected with the remuneration of the Chairman of the Board of Directors and the directors with delegated powers, analyzed in depth to align the solutions adopted by Telecom Italia with international best practice (which led to the inclusion in the agenda of the next shareholders' meeting of a proposal for a stock option plan reserved to the executive directors), the committee prepared - together with the Human Resources, Organization and Industrial Relations Department and its consultants - the incentive and retention plan consisting in the award of shares to senior managers that the shareholders' meeting held in April 2007 approved. The Remuneration Committee intervened both in the preparation of the proposal to submit to the shareholders' meeting and in the subsequent drawing up of the guidelines on the basis of which a mandate was conferred to the top management for the implementation of the plan.

Again with reference to the remuneration of senior managers, the Remuneration Committee provided assistance to the Board of Directors in its decision to revoke the three-year 2006-08 cash incentive plan and recommended the adoption of suitable mechanisms for aligning manager's interest with that of investors, by means of variable remuneration schemes based on medium-term results that are currently under study.

Directors' remuneration

The compensation received in 2007 by directors and general managers is shown in Note 42 to Telecom Italia's annual financial statements.

* * *

For the executive directors in office until December 3, 2007 a part of their remuneration was linked to the economic results of Telecom Italia and the achievement of objectives established in advance by the Board of Directors. The Chairman and the Executive Deputy Chairman (who were not employees and received a fixed amount for the position equal to respectively euro 1,800,000 and euro 2,200,000) received short-term incentives equal to respectively euro 700,000 and euro 1,400,000, related on an on/off basis to the achievement of the budget objective for consolidated EBIT with positive Delta EVA, with the conditions and variability mechanisms referred to earlier. The CEO (who - in addition to the fixed amount for the position equal to euro 770,000 - received a salary in his capacity as General Manager and employee of the Company) participated in the short-term incentives (MBO) and their long-term equivalent (the so-called LTI cash plan) in the same way as the top managers of the Group. The indemnities received by Mr. Buora (formerly Executive Deputy Chairman) and Mr. Ruggiero (formerly CEO) following their resignations with effect from December 3, 2007 are described in detail in the previous paragraph "Indemnity of directors in the event of resignation, dismissal or termination of the relationship following a takeover bid".

As already mentioned, the shareholders' meeting held on April 16, 2007 approved an equity-based incentive plan potentially also aimed at the executive directors, although in fact Mr. Pistorio, Mr. Buora and Mr. Ruggiero did not benefit from it.

* * *

The present Chairman and CEO, who are exclusively directors of the Company, receive a fixed amount for the position pursuant to paragraph 3 of Article 2389 of the Civil Code - in addition to that received pursuant to paragraph 1 of Article 2389 of the Civil Code - equal to respectively euro 1,300,000 and euro 1,400,000, as well as a payment for retirement benefits equal to 10% of the fixed compensation for the CEO.

If Gabriele Galateri di Genola and Franco Bernabè are reappointed as respectively Chairman and CEO following the renewal of the Board of Directors by the shareholders' meeting to be held on April 13 and 14, 2008, they will be paid the same fixed compensation for the position (including for the CEO the payment for retirement benefits equal to 10% of his fixed compensation). The CEO will also be entitled to a variable component linked to the economic results and a series of operational objectives. More specifically, it is a form of short-term incentive whose value ranges from 50% to 200% of the fixed component, linked on a linear basis to achievement of objectives set by the Board of Directors for:

- Return on Investment (30% share of the variable compensation);
- Net Cash Flow before Dividends (30% share of the variable compensation);
- Customer Satisfaction (30% share of the variable compensation); and
- Innovative Revenues (VAS Mobile + ICT and Fixed Internet; 10% share of the variable compensation)

set up by the Board of Directors.

Lastly, the shareholders' meeting to be held on April 13 and 14, 2008 will be invited to approve a stock option plan reserved to the present executive directors of the Company, subject to their being reappointed. The plan provides for the assignment of options for the purchase of a total of 11,400,000 Telecom Italia ordinary shares within the time limits and on the conditions described in the report on the plan.

* * *

The remuneration of the non-executive directors is the result of the division of the total amount established for the Board of Directors by the shareholders' meeting held on April 16, 2007, as specified earlier. Accordingly, it is not linked to the Company's economic results.

* * *

The remuneration of managers with strategic responsibilities has a variable component linked to the economic results of the Company and/or to the achievement of objectives set by the executive directors (MBO).

In November 2007 the Board of Directors approved the cancellation of the three-year 2006-08 cash incentive plan with effect from 2007 and with payment of the amounts accrued.

Consequently, pending the implementation of the performance-based equity award plan approved by the shareholders' meeting held on April 16, 2007, there is currently no medium to long-term incentive plan in operation for the top management of the Group.

For the complete list of executives with strategic responsibilities and their total remuneration, reference should be made to the complete text of the Annual Report.

Internal Control and Corporate Governance Committee

In 2007 the Committee met 11 times and increasingly frequently meetings were held jointly with the Board of Statutory Auditors (in eight cases) with the intervention of managers, representatives of the audit company and outside consultants according to the items on the agenda. The attendance rate of the Committee's members (all of whom were independent directors and at least one of whom was drawn from the Minority Slates) was approximately 96%. As for the Strategy Committee and the Remuneration Committee, meetings were often preceded or accompanied by informal technical meetings devoted to preparatory work and/or analysis.

Also for the composition of the Committee reference should be made to Tables 5 and 6, enclosed to the complete text of the Report. The inclusion of at least one member with accounting and financial experience is guaranteed - in the form of training and professional experience - by Paolo Baratta (Chairman), Domenico De Sole and Luigi Fausti.

Set up in 2000, the Committee is charged with advisory functions and the formulation of proposals. In accordance with Borsa Italiana's Code of Corporate Governance, on which the Company's own Code is modeled, it assists the Board of Directors in the performance of its tasks in matters concerning internal control and assesses, together with the manager responsible for preparing the Company's financial reports and the external auditor, the correctness of the application of accounting standards and their uniformity for the purpose of preparing consolidated financial statements. Accordingly, 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 (on a quarterly basis);
- 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;

In Telecom Italia the Committee also:

- monitors compliance with the rules of corporate governance and their periodic updating.
- express its opinion on the proposals for appointing, removing and assigning duties to the person responsible for internal control and the manager responsible for preparing the Company's financial reports;
- in cases of substitution of an independent director, proposes the candidates for co-optation to the Board of Directors;
- defines the procedures and time limits for conducting the "board performance evaluation";
- performs the additional tasks that may be assigned to it by the Board of Directors.

With reference to the oversight of internal controls, in addition to systematically monitoring the activity of the person responsible for internal control and receiving his reports and those of the external auditor (which also reported on specific checks that had been agreed), in 2007 the Committee undertook to oversee the implementation by management of the recommendations contained at the end of the report on corporate governance published together with the 2006 financial report. These referred to:

- matters concerning the former head of the Security Department, Giuliano Tavaroli;
- network security and services provided to the judicial authorities;
- traffic data, privacy and information on employees.

An update on these matters is provided in Part Two of the complete text of the Report..

The activity involved careful oversight of initiatives and of compliance with the rules on privacy, later extended to include observance of antitrust and sector regulations, with a thorough analysis of the administrative proceedings and disputes with competitors in which the Company is involved. Again with reference to compliance with the law, the Committee closely followed the work of maintaining and updating the so-called 231 Organizational Model. Turning to internal controls over financial reporting, the Committee oversaw the evolution of the so-called 404 Project, which allowed the top management to vouch for the effectiveness of the above-mentioned controls at December 31, 2006 in the Company's Form 20-F for the year 2006, published in June 2007. The Committee also agreed with the solution of merging the activities to ensure compliance with Section 404 of the Sarbanes Oxley Act (which as of 2006 requires registered foreign issuers to prepare a management report on internal controls over financial reporting) with the corresponding initiatives serving - as of the 2007 annual financial statements - to guarantee compliance with Article 154-bis of the Consolidated Law on Finance (declaration by the CEO and the manager responsible for preparing the Company's financial reports on the adequacy and application of the administrative and accounting procedures for the preparation of the company and consolidated annual financial statements).

As regards the monitoring of the updating of the corporate governance rules, the Committee contributed to the implementation of the instruments with which the Company has equipped itself. In the first half of 2007, the transposition into Italian law of the Market Abuse Directive, the passing of the Law on the Protection of Savings, and the publication of Borsa Italiana's "new" Code of Corporate Governance, led the Company:

- on the self-regulatory front, to adopt a new Self-Regulatory Code, a procedure for the flow of information towards directors and statutory auditors (consultable in the Governance section of the Company's website www.telecomitalia.it), and the new Charter of the Disclosure Committee;
- at the level of the shareholders' meeting, to formulate proposals to amend the bylaws and the Meeting Regulations (consultable in the Governance section of the Company's website www.telecomitalia.it), which were approved by the shareholders' meeting held on April 16, 2007.

In the second half of the year the Committee oversaw further interventions to bring the bylaws into line with the updated version of Consob Regulation 11971/1999 on issuers (amendments approved by the Board of Directors under the authority to revise the bylaws to conform with statutory provisions, recognized - in accordance with the law - by Article 12.2 of the bylaws). It also drafted internal rules on the powers of the manager responsible for preparing the Company's financial reports and the criteria for identifying transactions to be submitted in advance to the Board of Directors for approval. Lastly, under a mandate conferred by the Board of Directors, the Committee drafted the revision of the internal rules on transactions with related parties.

Internal control system

The internal control system is a process made up of rules, procedures and organizational structures and designed to pursue substantial and procedural correctness, transparency and accountability, values that are considered fundamental for Telecom Italia's business dealings, as laid down in the Group Code of Ethics (consultable in the Governance section of the Company's website www.telecomitalia.it). 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. 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.

In addition to the Internal Control and Corporate Governance Committee, the Board uses a person endowed with an appropriate degree of independence and adequate means to be

responsible for the internal control function, that is the director appointed by Telecom Italia to the board of the consortium company Telecom Italia Audit & Compliance Services). The functions assigned to this person are to assist in verifying the adequacy and effectiveness of the internal control system and, where anomalies are found, to propose appropriate remedies. The person responsible for internal control reports to the Internal Control and Corporate Governance Committee and to the member of the Board of Directors responsible for the internal control system (in 2007 the Executive Deputy Chairman, Carlo Buora, until the date of his resignation and subsequently the Chairman, Gabriele Galateri di Genola).

In 2005 the position of Group Compliance Officer was created with a view to better coordinating the development and maintenance of the internal control system. The Group Compliance Officer performs a role of liaison and coordination among the plans for the improvement of the Group's internal control system and is responsible for monitoring and facilitating the relationship between management and the internal control system, so as to guarantee, with the assistance of Telecom Italia Audit & Compliance Services, methodological correctness in the management of risk.

As regards internal controls over financial reporting, reference is made to what was said earlier in describing the activity of the Internal Control and Corporate Governance Committee: thanks to the implementation of the 404 Project, which involves the whole Group, the Company has equipped itself with the instruments and means needed to ensure the exact fulfilment of the requirements concerning attestations "on internal control over financial reporting" for foreign issuers, starting from the Annual Report for 2006, which contains a declaration to the effect that the control system for accounting matters is effective and the external auditor issued an attestation on the basis of the standards laid down by the Public Company Accounting Oversight Board. As indicated above, the Company has drawn on the substantial work done to fulfil the transparency requirements introduced by Article 154-bis of the Consolidated Law on Finance, which to a large extent correspond to the US requirements. The Company's internal control system is completed by the so-called 231 Organizational Model, which Telecom Italia considers to provide a paradigm for the conduct of all those who act in the Company's name and on its behalf and designed to ensure the effective performance of entrepreneurial activity by forestalling - notably, through the application of the principles established by Legislative Decree 231/2001 - situations and behaviour that are potentially harmful to the Company. As explained in earlier annual reports on corporate governance, 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:

- the main stages of every process;
- the offences that may be committed in relation to individual processes;
- the control activities to prevent the related risks from arising.

In 2007, the 231 Organizational Model was updated and upgraded. Some interventions were made necessary by changes in the law, while others were deemed appropriate in the light of the results of the model's application. 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 and manslaughter and serious and very serious culpable injury - committed in violation of accident prevention and job health and safety protection rules.

Monitoring of the functioning and compliance with the model is performed by a Supervisory Panel made up of a member of the Board of Statutory Auditors (Ferdinando Superti Furga, Chairman), an independent director on the Internal Control and Corporate Governance Committee (Paolo Baratta director) and the head of the internal control system in the person of the Chairman of Telecom Italia Audit & Compliance Services. The Panel was appointed by the Board of Directors in its meeting on May 8, 2007 following the cessation of the earlier Panel with the termination of the previous Board's term of office at the shareholders' meeting held on April 16, 2007. The composition described above 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 Statutory Auditors on the checks performed and their results.

In addition, a special unit (the Compliance Support Group) has been created within Telecom Italia Audit & Compliance Services to provide operational support to the Supervisory Panels of Group companies by handling reports of violations of the organizational model and conducting compliance audits on the basis of the data received by way of the information flows that have been put in place.

Person responsible for internal control

The Board of Directors has chosen the consortium company Telecom Italia Audit & Compliance Services (of which Telecom Italia Media is also a partner and which performs internal audit functions for the partners and their subsidiaries) to be responsible for assisting with verifying that the internal control system is always adequate and fully operational.

This organizational solution maximizes the independence of the person responsible for internal control from the Company's structures and provides direct access to all the information needed to carry out the engagement and report to the competent director, the Internal Control and Corporate Governance Committee and the Board of Statutory Auditors.

Organizational Model pursuant to Legislative Decree 231/2001

The companies of the Telecom Italia Group have adopted a single organizational model ("the Model"). Its deployment has involved the adoption in the Company's internal procedures and organizational systems of the internal control rationale represented at the conceptual level in the Model, which is reviewed periodically in light of feedback from the field and changes in the law since Legislative Decree 231/2001 was first introduced.

The principles of transparency, fairness and loyalty on which the Telecom Italia Group's action is based are embedded in the Model, which was formulated in accordance with the applicable statutory prescriptions as well as on the basis of the guidelines laid down by trade associations, with account also taken, in view of Telecom Italia's listing on the New York Stock Exchange, of best US practice in preparing crime prevention models.

The Model thus goes beyond the prescriptions of Legislative Decree 231/2001 since, by implementing the fundamental principles of the Code of Ethics, it is a paradigm for the conduct of all those who act in the Company's name and on its behalf. The Code of Ethics is the foundation of the Model and is supplemented by sets of rules arranged in the form of a pyramid:

- the General Principles of Internal Control, which establish the rationale of the controls for each corporate process;
- the Rules of Conduct for Dealings with Governmental Bodies, which concern the conduct to be followed in direct relations with representatives of such bodies, framed both positively (things "to be done") and negatively (things "not to be done");
- Internal Checklists, which establish, for each corporate process that is relevant in the context of Legislative Decree 231/2001, the scope of the risk of criminal offences, the control activities to be carried out in the operational sphere and detailed rules of conduct to be complied with. For most corporate processes indicators have been defined that those responsible are required to report on periodically.

An ad hoc disciplinary system, graded according to rank (employees, managers, top management) has been introduced to punish non-compliance with the prescriptions of the Model.

In 2007 the Model was revised, with some interventions made necessary by changes in the law and others in the light of experience with the Model. 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 and to manslaughter and serious and very serious culpable injury caused by violations of accident prevention and job health and safety protection rules.

KPMG Advisory was charged with the task of checking the Model. It conducted a gap analysis on the basis of best market practice and the (few) indications provided by court decisions in this field. In its report KPMG Advisory identified some areas offering scope for improvement, on which the management is now working.

Taking it as given that the effectiveness of organizational models cannot be certified ex ante and that the overall judgment on their adequacy is basically a judgment of the scope for updating and improving them, the Internal Control and Corporate Governance Committee expressed a positive opinion in relation to the response to external stimuli and the organizational changes reflecting the work of KPMG Advisory. In fact, by obtaining the professional opinion of a third party, the Company has equipped itself with an important instrument for verifying the solutions adopted and is now proceeding - under the guidance of the Supervision Panel - to give effect to the recommendations and suggestions that have been put forward.

External auditor

Pursuant to the transitional provision contained in Legislative Decree 303/2006 permitting the extension, until the first shareholders' meeting called to approve the annual financial statements, of audit engagements under way at the time of the decree's entry into force whose total duration (taking into account earlier renewals and extensions) would not exceed nine fiscal years, the shareholders' meeting held on April 16, 2007 extended the engagement of Reconta Ernst & Young S.p.A.

- to audit the annual financial statements of Telecom Italia S.p.A. and the consolidated annual financial statements of the Telecom Italia Group and
- to make a limited review of the Telecom Italia company and consolidated half-yearly report for the years 2007, 2008 and 2009.

Manager responsible for preparing the Company's financial reports

Following the addition to the bylaws of the position of "Manager responsible for preparing the Company's financial reports" (with the requirements in terms of professionalism and experience in the fields of administration, finance and control), in its meeting on November 8, 2007 the Board of Directors appointed Enrico Parazzini, General Manager and Head of the of the Finance, Administration and Control Department to perform the new role, in addition to that of Chief Financial Officer for the purposes of the US law to which Telecom Italia is subject.

The Board of Directors also adopted a Regulation that supplements Telecom Italia's system of corporate governance from the standpoint of the internal controls over financial reporting. The role of the manager responsible for preparing the Company's financial reports is governed by inserting it into Telecom Italia's corporate governance arrangements. The adequacy of the manager's powers and resources (for which the Board of Directors is responsible) is ensured in terms of the internal organizational functions vis-à-vis the Company and the Group.

The Regulation, available in the Governance section of the Company's website www.telecomitalia.it, lists the functional and hierarchical responsibilities of the manager, as well as the endowment of powers and resources for the performance of the duties attaching to the position.

Appointment of statutory auditors

The Board of Statutory Auditors is elected in accordance with the applicable laws and regulations on the basis of slates presented by shareholders and filed at the Company's registered office at least fifteen days before that fixed for the shareholders' meeting on the first call.

Only shareholders who alone or together with other shareholders hold a total number of shares representing at least 0.5% of the voting ordinary share capital may submit slates. Together with each slate it is necessary to file candidates' acceptances of their candidacy and declarations in which they attest that there are no grounds for ineligibility or incompatibility and that they meet the prescribed requirements, as well as any other information required by applicable law. Together with the declarations, a curriculum vitae must be filed for each candidate setting out his/her personal and professional data with an indication of the positions held in management and control bodies of other companies. The slates are divided into two sections: one for candidates to the position of statutory auditor and the other for candidates to the position of alternate. The Board of Statutory Auditors is elected as follows:

- one alternate and three statutory auditors are chosen from the slate that obtains the majority of votes cast (the Majority Slate), in the order in which they are listed on the slate;
- two statutory auditors are chosen from the other slates (the Minority Slates). To that end, the votes obtained by the Minority Slates are divided successively by one and two and the quotients obtained are assigned to the candidates in the corresponding section of each such slate in the order specified thereon. The quotients assigned to the candidates on the various slates are arranged in a single decreasing ranking. The candidates who have obtained the two highest quotients are elected;
- one alternate is chosen from the Minority Slate that obtained the largest number of votes.

In the event of the termination of the appointment of a statutory auditor chosen from the Majority Slate or one of the Minority Slates, the alternate chosen respectively from the Majority Slate or the Minority Slates takes his/her place. Appointments to fill vacancies on the Board of Statutory Auditors pursuant to Article 2401 of the Civil Code are approved by the shareholders' meeting in compliance with the principle of the necessary representation of the minority shareholders, which is deemed to be complied with in the event of the appointment of the alternate chosen from the Minority Slates to take the place of a statutory auditor chosen from the same slates.

The procedure summarized above is the subject of some amendments that will be submitted to the extraordinary shareholders' meeting following the increase in the number of alternates from two to four, of which two chosen from the Majority Slate and two from the Minority Slates.

Statutory auditors

Tables 7 and 8, enclosed to the complete text of the Report, show information on the membership of the Board of Statutory Auditors.

In 2007 the Board of Statutory Auditors met 29 times, in numerous cases jointly with the Internal Control and Corporate Governance Committee and with an attendance rate of 96%. Telecom Italia has determined that the Board of Statutory Auditors meets the requirements laid down by US law to invoke the general exemption from the obligation to establish an Audit Committee within the Board of Directors insofar as the responsibilities and tasks of the Audit Committee are assigned to the Board of Statutory Auditors. This role has been formalized within the Company's new Self-Regulatory Code.

In its Audit Committee capacity, and essentially as now required by Italian law, the Board of Statutory Auditors is at the centre of the mechanism governing the services supplied by the auditing firm within the Group. In addition, in 2005 it adopted a procedure for receiving, retaining and handling the reports it is sent. 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, in 2007 the Board of Statutory Auditors carried out supervisory functions provided for under Italian law: verifying that the transactions of greatest significance for the Company's profitability, financial position and assets and liabilities conformed with the law, the bylaws and the principles of correct management; checking that transactions with related parties complied with the self-regulatory principles and procedures adopted by the Company and that they were in its interest; and checking compliance with the principles of correct administration and the adequacy of the organizational structure. The Board of Statutory Auditors also monitored the adequacy of the internal control system and that of the administrative and accounting system and the latter's reliability in correctly representing transactions. Lastly, the Board of Statutory Auditors monitored the independence of the external auditor, verifying both its compliance with the applicable provisions of law and the nature and amount of non-audit services provided to Telecom Italia and its subsidiaries by Reconta Ernst & Young and entities belonging to the latter's international network.

Investor relations

Telecom Italia has created an easily accessible section on its website for information concerning the Company of interest to shareholders, so as to allow them to exercise their rights in an informed manner.

In addition, a member of the Telecom Italia staff has been appointed to handle relations with the Italian and international financial communities and with all the Company's shareholders.

Shareholders' meetings

Under Article 19 of the bylaws, shareholders may attend shareholders' meetings when the Company has received the communication referred to in the second paragraph of Article 2370 of the Civil Code, at least two days prior to the date set for each meeting.

Telecom Italia does not require shareholders to block their shares to be eligible to attend a meeting, instead they must deposit them, i.e. give the intermediary that keeps the relevant accounts instructions to make the above-mentioned communication to the Company at least two days before the date of the meeting. This does not prevent subsequent withdrawal of the shares; but if they are withdrawn, the earlier deposit ceases to be effective for the purpose of entitlement to attend the meeting. Any requests for advance notice to perform the relevant formalities in good time or unavailability of shares to be deposited as a consequence of intermediaries' market practices may not be imputed in any way to the Company.

Since as early as 1997 the Company has allowed its shareholders to exercise their right to vote by mail. This right is expressly referred to in Article 19 of the bylaws and Article 15 of the Meeting Regulations. A first version of the regulations was approved by the shareholders' meeting of the "old" Telecom Italia; in 2003, following the merger of Telecom Italia into Olivetti, they were approved again with some amendments (formally, it was their first approval by the Olivetti shareholders' meeting). Partly as a consequence of the passage of the Law on the Protection of Savings, the regulations were the subject of further amendments, approved by the shareholders' meeting held on April 16, 2007, concerning additions to the agenda requested by shareholders and simplification of the rules on voting by mail.

According to the regulations, persons who intend to speak must apply to the Chairman or the Secretary, indicating the subject they will address. Such requests may be submitted until the Chairman closes the discussion on the subject to which they refer. The Chairman may provide for several items on the agenda to be discussed together or for the discussion to proceed item by item. The Chairman, taking account of the subject matter and importance of the individual items on the agenda, may establish at the start of the meeting the time - not less than 15 minutes - available to each speaker. The Chairman calls on Participants to comply with the time limits established in advance for interventions and to keep to the matters specified on the agenda. In the event of an overrun and/or an abuse, the Chairman interrupts the speaker.

Participants may ask to take the floor a second time during the same discussion, for not more than five minutes, exclusively in response to other interventions or to declare how they intend to vote.

The Board of Directors reports on its activity to the shareholders' meeting in the report on operations accompanying the financial statements. It makes every effort to disseminate the documentation concerning the items on the agenda and to ensure that shareholders receive sufficient information to enable them to take informed decisions on the matters for which the shareholders' meeting is competent.

Auditors' report



■ **Reconta Ernst & Young S.p.A.**
Via della Vittoria, 7
00127 Roma

■ Tel. +39 06 2212
Fax. +39 06 7211204
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 of the Sustainability Section of the Telecom Italia Group as of December 31, 2007, 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, 2007, which describes the criteria and procedures 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, 2007, approved by the Board of Directors, with respect to which we issued our audit report dated March 26, 2008;
 - 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;

■ **Reconta Ernst & Young S.p.A.**
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- 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;
- 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 criteria;
- 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, as compared to the information reported in the Sustainability Section;
- obtained the representation letter signed by the legal representative of Telecom Italia S.p.A., attesting the reliability and completeness of the Sustainability Section, and of the information and data contained therein, as well as its compliance with the criteria and procedures mentioned in paragraph 1

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 26, 2007.

3. Based on the procedures performed, we believe that the Sustainability Section of the Telecom Italia Group as of December 31, 2007 complies with the criteria and procedures which form the basis of its preparation and which are described in the paragraph "References" of the Sustainability Section. Moreover, the financial data included in the Sustainability Section are 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 criteria and procedures governing the preparation of the Sustainability Section.

Milan, Italy
April 18, 2008

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

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

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

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