TELECOM ITALIA S P A
Form 20-F
May 08, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

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

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

OR

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

OR

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

Commission file number 1-13882

Telecom Italia S.p.A.

(Exact name of Registrant as specified in its charter)

Italy

(Jurisdiction of incorporation or organization)

Piazza degli Affari 2, 20123 Milan, Italy

(Address of principal executive offices)

Enrico PARAZZINI

Chief Financial Officer

Telecom Italia S.p.A.

Piazza degli Affari 2, 20123 Milan, Italy

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enrico.parazzini@telecomitalia.it

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

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

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

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

None

(Title of Class)

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

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock

as of the close of the period covered by the annual report.

Ordinary Shares 13,254,959,926

Savings Shares 6,026,120,661

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

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

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

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

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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

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

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

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

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

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INTRODUCTION

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

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

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

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

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

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

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

- the continuing impact of increased competition in a liberalized market, including competition from established domestic competitors and global and regional alliances formed by other telecommunications operators in our core Italian domestic fixed-line and wireless markets;

- our ability to restructure our organizational model from one based on technology (fixed and mobile) to one based on customer segments (consumers, SOHOs, SMEs, Corporates) in order to focus on customers and their needs in utilizing our products and services;

- our ability to utilize our relationship with Telefónica to attain synergies primarily in areas such as network, IT, purchasing, sales activities in Germany and international mobile roaming;

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

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

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KEY DEFINITIONS

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

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

Telecom Italia Group and Group	means the Company and its consolidated subsidiaries.
Telecom Italia Media	Telecom Italia Media is the Telecom Italia Group s subsidiary operating in the Media business.
TIM	means Telecom Italia Mobile S.p.A., the Telecom Italia Group s subsidiary which operated in the mobile telecommunications business, and merged with and into Telecom Italia, with Telecom Italia as the surviving company, effective as from June 30, 2005.
Tim Italia	means the company deriving from the spin-off of TIM s domestic mobile operations, effective as from March 1, 2005. After the merger of TIM with and into Telecom Italia, Tim Italia became a wholly-owned subsidiary of Telecom Italia. Subsequently Tim Italia merged with and into Telecom Italia, with Telecom Italia as the surviving company, effective as from March 1, 2006.

PART I

Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable

Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable

Item 3. KEY INFORMATION

3.1 RISK FACTORS

RISKS RELATED TO TELECOM ITALIA

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

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

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

- a new business operations model on the domestic market based on:

    service quality and improved relations with competitors and regulatory authorities;

    convergence, a tool for managing market positioning vis-à-vis the various types of customer and the dynamics of fixed to mobile market migration;

    development of innovative/adjacent businesses, particularly ICT and Digital Media & Advertising; and

    the customer, by transforming the organizational model from one based on technology (fixed-mobile) to one based on customer needs;

- the search for new efficiencies and synergies in domestic and international activities through:

    integration and rationalization of sales channels, along the lines of the new organizational focus on customer segments;

    rationalization of information systems development and integration of operating processes and network systems (OSS) and business systems (BSS);

    organizational integration of network operating activities and field services;

    rationalization of staff structures; and

    pursuit of synergies with the Telefónica group;

- a strategy to recover international scope by consolidating the Group s presence in countries that have good growth prospects, divesting where our market share is marginal or significant growth prospects cannot be achieved and assessing new business opportunities in markets with strong development potential through financial alliances and partnerships;

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

    the monetization of non-core assets;

    a dividend policy sustainable in the long-term; and

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

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

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

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

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

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

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

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

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

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Item 3. Key Information **Risk Factors**

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

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

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

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

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

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

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

Our strategic plans provide for:

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

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

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

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

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

Our business depends on the upgrading of our existing networks.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks associated with Telecom Italia s ownership chain

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

From 2001, the main shareholder of Telecom Italia was Olimpia S.p.A. (80% of its capital was held by Pirelli & C. S.p.A. and the remaining percentage by Sintonia S.p.A., and Sintonia S.A.) which held approximately 18% of the ordinary share capital of the Company. On April 28, 2007, Pirelli & C. S.p.A., Sintonia S.p.A. and Sintonia S.A. announced that they had reached an agreement with leading financial institutional investors and industry operators to sell their 100% interest in Olimpia S.p.A..

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

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

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

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

The financial position of Telecom Italia is independent of that of Telco and Telecom Italia has no obligation to repay the debt held by Telco since they are two distinct legal entities, even though certain rating agencies consider the Telco level of debt a hurdle to a quick reduction of Telecom Italia s debt due to the fact that Telco is likely to absorb a significant portion of free cash through dividends to repay Telco s debt.

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

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

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

RISKS RELATED TO THE TELECOMMUNICATIONS INDUSTRY AND FINANCIAL MARKETS

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

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

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

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

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

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

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

- a requirement to conduct our business in a transparent and non-discriminatory fashion;

- a requirement to have our prices for fixed voice telephony services and the tariffs charged to other operators to utilize our network, subject, respectively, to a price cap and a network cap mechanism. This cap mechanism places certain limits on our ability to change our prices for certain services; and

- a requirement to provide interconnection services, leased lines and access to the local loop to other operators at cost-orientated prices. These services include allowing other operators to connect to our network and transport traffic through the network as well as offering certain services related to our local access network, or local loop, on an unbundled basis to these other operators to enable these operators to directly access customers connected to the network by leasing the necessary components from us.

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

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

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

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

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

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

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

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

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

Competition in our principal lines of business could lead to:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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3.2 EXCHANGE RATES

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

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

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

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

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

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

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

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

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

3.3 SELECTED FINANCIAL AND STATISTICAL INFORMATION

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

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

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

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

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

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Item 3. Key Information **Selected Financial And Statistical Information**

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

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Item 3. Key Information **Selected Financial And Statistical Information**

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

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Item 3. Key Information **Selected Financial And Statistical Information**

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

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

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

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

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

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

- Ordinary Shares was 13,254,934,303 for the year ended December 31, 2007, 13,254,860,233 for the year ended December 31, 2006, 12,283,195,845 for the year ended December 31, 2005 and 10,208,327,613 for the year ended December 31, 2004;

- Savings Shares was 6,026,120,661 for the years ended December 31, 2007 and 2006, 5,930,204,164 for the year ended December 31, 2005 and 5,795,921,069 for the year ended December 31, 2004.

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

(5) Telecom Italia s dividend coupons for the year ended December 31, 2007, were clipped on April 21, 2008 and were payable from April 23, 2008.

(6) Share capital represents share capital issued net of the par value of treasury shares.

(7) Net Financial Debt is a Non-GAAP Financial Measure as defined in Item 10 of Regulation S-K under the 1934 Act. For further details please see Item 5. Operating and Financial Review and Prospects 5.4 Results of Operations for the Three Years Ended December 31, 2007 5.4.2 Non-GAAP Financial Measures .

3.4 DIVIDENDS

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

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

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

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

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

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

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

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

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

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

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

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

Item 4. INFORMATION ON THE TELECOM ITALIA GROUP

4.1 BUSINESS

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

4.1.1 BACKGROUND

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

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

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

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

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

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

On August 4, 2003, Old Telecom Italia merged with and into Olivetti (the "**Merger**") with Olivetti as the surviving company changing its name to "Telecom Italia S.p.A.". Following the Merger, the proportionate ownership of Telecom Italia's share capital by shareholders unaffiliated with Olimpia or Pirelli & C. S.p.A. ("**Pirelli**"), Olimpia's largest shareholder, increased substantially to approximately 88.43% of the outstanding Ordinary Shares. Following the Merger, Olimpia acquired additional shares through market purchases and, prior to the acquisition by Telecom Italia of the share capital in TIM it did non already own (the **TIM Acquisition**), Olimpia held approximately 17% of Telecom Italia's Ordinary Shares, making it the largest shareholder of Telecom Italia. As a result of a series of transactions in December 2004 and March 2005, Olimpia acquired additional Ordinary Shares reaching approximately 21.4% of the outstanding Ordinary Shares.

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

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

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

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

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

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

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

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

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

4.1.2 DEVELOPMENT

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

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

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

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

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

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

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

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

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

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

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

4.1.3 Business

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

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

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

4.1.4 Disposals and Acquisitions of Significant Equity Investments in 2007

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

4.1.5 Recent Developments During 2008

Telecom Italia and 3 Italia sign nationwide roaming services agreement

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

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

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

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

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

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4.1.6 OVERVIEW OF THE TELECOM ITALIA GROUP S MAJOR BUSINESS AREAS

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

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

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

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

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

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

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

4.1.7 Updated Strategy

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

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

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

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

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

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

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

Transformation in the Domestic Market

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

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

  improving performance on technical and network platforms;

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

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

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

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

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

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

- **Expansion in adjacent markets** Due to the global knowledge of customers, the capability to manage as a whole state-of-the-art networks and technological platforms, and due to the underlying changes in the ICT and Digital Media & Advertising markets (primarily convergence of information technology and communication services, and new business models linked to electronic distribution of multimedia contents), Telecom Italia will have the opportunity to broaden its activities in these markets, integrated and synergistic with its present telecommunications business.

- **New Organization** A key element to reach planned results is the organizational restructuring of the Group. The new organization will evolve from a present model based on technology (fixed and mobile) to a model based on customer segments (consumers, SOHOs, SMEs, Corporates) in order to maximize focus on customers and their needs in all operations and operating processes. The new organization will be gradually implemented during 2008 in order to allow for compliance with accounting regulation and will be fully reflected in the budgeting process from 2009. In particular, inside the Technology and Operations area, the Open Access group, will allow for greater cost efficiency and better quality both for the retail and wholesale markets attributable to the integrated management of the access network.

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

- **Residential customers:**

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

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

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

- **Business customers:**

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

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

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

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

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

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- **Wholesale customers**:

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

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

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

Network and Service Platforms Evolution

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

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

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

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

Strengthening of International Presence

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

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

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

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

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

Efficiency

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

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

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

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

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

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

4.1.8 The Organizational Structure

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

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

- **Group Functions** responsibility for:

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

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

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

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

- **Business Units** responsibility for business development in their respective businesses.

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

- **the Group Functions:**

  General Counsel & Corporate and Legal Affairs;

Public Affairs;

- **the Company:**

Telecom Italia Audit & Compliance Services.

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

- **the Group Functions:**

Finance, Administration and Control;

Human Resources and Organization;

Purchasing;

Domestic Legal Affairs and Judicial Authority Services;

Investor Relations;

External Relations;

Regulatory Affairs; and

Security.

- **The Departments:**

Business Strategies and International Development, with responsibility for:

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

operational coordination of the international development initiatives;

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

coordinating international BroadBand initiatives; and

supervising and managing the legal interests of the Group internationally.

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

Strategy;

Business Development;

National Wholesale Services;

International Wholesale & BroadBand Services;

International Affairs; and

International Legal Affairs.

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

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

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

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

- **The Company:**

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

- **The Business Units:**

Olivetti, for product development and Information Technology solutions;

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

- **The Function:**

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

* * *

Committees

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

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

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

- *Risk Management Committee* of the Group, responsible for the identification, assessment and management of the risks of the Group as well as the policy regarding IT security and information, coordinating preventive action plans designed to ensure the operating continuity of the business and monitoring the effectiveness of the countermeasures adopted;

- *IT Governance Committee* of the Group, responsible for establishing the guidelines for the information strategies of the Group, guides IT strategic decisions and investments consistently with business needs, monitors progress on the most important IT projects and monitors quality of solutions and cost effectiveness;

- *Security Committee* of the Group, responsible for the integrated coordination of security and crisis management activities of the Group, monitoring the progress on major projects and effectiveness of the solutions adopted;

- *Steering Committee of the Group for Relations with Telefónica* which aims to meet the following objectives:

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

  design consequent plans for execution; and

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

- *Group Quality Governance Committee,* responsible for:

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

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

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

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

4.2 BUSINESS UNITS

4.2.1 DOMESTIC

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

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

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

Telecom Italia Sparkle group:

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

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

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

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

v **KEY FACTORS**

Fixed Telecommunications

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

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

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

Mobile Telecommunications

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

The offering portfolio has been improved through the use of various strategies aimed at the greatest possible transparency with regard to rates and increased flexibility for the customer (i.e. dedicated offers by level and type of consumption).

v **COMMERCIAL AGREEMENTS**

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

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

- on June 8, 2007, Telecom Italia and the Generali Group signed an agreement for Telecom Italia to design and create the new telecommunications network of the insurance company in four European countries, and supply electronic communication services in those same countries and also Italy;

- on July 3, 2007, Telecom Italia was awarded the contract over a three-year period and worth more than 45 million for the development of an integrated telephone and data network for all the offices of the Monte dei Paschi di Siena group;

- on July 18, 2007, the governing body of the Vatican City State and Telecom Italia announced the creation of the institutional portal illustrating the services, activities and organization of Vatican City;

- on July 27, 2007, Telecom Italia and Tiscali signed an agreement which allows Tiscali to become a virtual mobile operator. For the first time in Italy, the operator of an alternative fixed network will also be able to offer mobile and integrated services throughout Italy to residential customers;

- on October 1, 2007, Telecom Italia was the first to launch the new offer Quadruple Play Unica based on BroadBand and IP technology. This offer allows calls to be made through both a landline and a mobile connection, from the same phone, the mobile Unico handset, due to the dual-mode technology (Alice Wi-Fi for the landline and UMTS for the mobile connection), in addition to surfing the internet and accessing the Alice Home TV contents;

- in October 2007, Telecom Italia and Sky Italia reached an agreement to broadcast all Sky channels on Alice Home TV, Telecom Italia s television via ADSL. The distribution of High Definition content is also included; and

- in February 2008, the auction was concluded for Wi-Max frequencies (technology which delivers BroadBand on radio frequencies). The Ministry of Communications is planning on this technology to deliver high-speed Internet throughout the country. The bidding for Wi-Max began in February 2007 with a starting bid of 45 million and after nine rounds of bidding was concluded for 140 million. The amount raised is higher than that in Germany (60 million) and France (100 million). Telecom Italia S.p.A. secured licenses for the regions of Umbria, Lazio, Abruzzo, Molise, Campania, Puglia, Basilicata and Calabria.

v **CUSTOMERS AND LINES**

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

	As of and for the years ended December 31,		
	2007	**2006**	**2005**
DOMESTIC FIXED TELECOMMUNICATIONS			
Fixed network connections in Italy (thousands)	22,124	23,698	25,049
Physical accesses (Consumer + Business) (thousands)	19,221	20,540	21,725
Voice pricing plans (thousands)	6,375	6,468	6,321
BroadBand accesses in Italy (thousands)	7,590	6,770	5,707
Virgilio page views powered by Alice (millions)	14,737	13,283	9,842
Virgilio powered by Alice average monthly single visitors (millions)	21.7	19.1	15.7
Fixed network infrastructure in Italy:			
• access network in copper (millions of km pair)	106.8	105.7	105.2
• access network and transport in optical fiber (millions of km of fiber)	3.8	3.7	3.7
Fixed network infrastructure abroad:			
• European backbone (km of fiber)	55,000	51,000	51,000
• Mediterranean (km of submarine cable)	7,000	7,000	7,000
• South America (km of fiber)	30,000	30,000	30,000
Total traffic on the fixed network (billions):	156.8	173.8	185.1
• *domestic traffic*	*140.1*	*160.1*	*171.3*
• *international traffic*	*16.7*	*13.7*	*13.8*
DOMESTIC MOBILE TELECOMMUNICATIONS			
Mobile telephone lines in Italy at year-end (thousands)	36,331	32,450	28,576
Prepaid lines at year-end (thousands)(1)	30,834	28,080	25,365
Growth of the customers (%)	12.0	13.6	8.8
Churn rate(2)	16.4	18.9	16.9
Total outgoing traffic per month (millions of minutes)	2,766	2,443	2,314
Total outgoing and incoming traffic per month (millions of minutes)	4,052	3,730	3,550
Average monthly revenues per line(3)	22.2	25.6	29.3

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

(2) The data refers to total lines. The churn rate for a certain period represents the number of mobile customers who discontinued service during the period (either voluntarily or because of default) expressed as a percentage of the average number calculated on the basis of the total annual number of customers during the period.

(3) Includes revenues from prepaid cards and revenues from non-domestic traffic; it does not include revenues from product sales.

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

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

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

v **TARIFFS FOR FIXED COMMUNICATIONS**

Changes in rate plans

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

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

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

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

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

In 2007 the following rate plan changes were introduced:

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

- **Traffic**: with respect to fixed-mobile traffic a revenue increase due to retention equal to 9.1 million (or 1.91%).

v **INTERCONNECTION WITH OTHER OPERATORS**

Fixed Telecommunications

In compliance with the European Commission Recommendation No. 2003/497 (the Recommendation) and the Electronic Communications Code (Legislative Decree No. 259 dated August 1, 2003), the public consultations with regard to the 18 significant markets identified in the Recommendation were concluded in 2006 and, in 2007, Telecom Italia implemented the regulatory remedies required by AGCom. AGCom also started and concluded in 2007 market analyses on two new markets: the market for wholesale termination for international routing (market 19), with respect to which AGCom has proposed removal of the existing restraints as no operator with significant market power has been identified, and the market for retail dial-up internet traffic (market 20), which is considered to be a market subject to competition. AGCom has also started a new cycle of market analyses concerning the wholesale market for access and call origination in mobile telephone networks, the market for termination on individual mobile networks and the markets for retail and wholesale fixed access.

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

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

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

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

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

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

With respect to broadcasting services with dedicated capacity and as required by AGCom, Telecom Italia has redefined its wholesale offering, transforming its previous wholesale line rental from end-to-end services to interconnection services (markets 13 and 14 of the Recommendation, i.e. terminating segment and interurban circuits trunks). On October 31, 2006, the 2007 RO was published but has not yet been approved by AGCom. The transition from the old offering to the new one is quite complex and, until market stability can be achieved, operators will continue to use the previously available services.

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

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

The consultation was closed in July 2007.

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

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

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

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

Mobile Telecommunications

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

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

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

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

v **MARKETING AND DISTRIBUTION**

Fixed Telecommunications

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

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

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

The main channels are:

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

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

Mobile Telecommunications

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

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

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

v NETWORK

Domestic Fixed Network

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

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

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

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

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

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

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

The OPB network is used to transport:

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

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

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

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

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

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

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

IPTV (Internet Protocol TV). Quadruple play is regarded as having significant value since customers find themselves immersed in an environment that can be exploited on several levels and which is able to supply a vast range of services. IPTV is an important part of this evolution. Tests were conducted in 2004-2005 and, in 2006, the first commercial service was launched, involving 836 exchange areas and 258 towns. In 2007 the commercial service with access to IP TV technology has been expanded, covering 464 towns (1,019 exchange areas). IPTV is seen as one of the pieces in the overall framework which hopes to give each customer the chance to access information in any form, wherever they are, and using fixed or mobile infrastructures according to the situation.

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

Domestic Mobile Network

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

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

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

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

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

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

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

- the MSC server controlling and supervising the MGW (Media GateWay) equipment;

- the MGW for traffic switching and media adjustment.

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

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

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

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

International Fixed Network

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

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

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

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

The cross-border backbone integrates 3 regional networks:

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

In detail:

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

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

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

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

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

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

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

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

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

Action to complete the services portfolio for mobile operators included the introduction of functions for transport of signaling over IP (SIGTRAN access for Global Signaling), the SMS hub and Virtual Home Environment services, allowing mobile operators, customers of Telecom Italia Sparkle, to provide their customers with international roaming advanced services available on the domestic network and SMS anti-fraud platform which provides mobile customers with functions for filtering fraudulent texts (spamming, spoofing, etc.), in keeping with the standards of the GSM Association.

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

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

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

4.2.2 EUROPEAN BROADBAND

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

GERMANY	FRANCE	THE NETHERLANDS
Telecom Italia Deutschland Holding	Liberty Surf Group S.A.S. (1)	BBNed N.V.
• HanseNet Telekommunikation GmbH	• Intercall S.A.	• BBeyond B.V.
	• Telecom Italia S.A.S.	• InterNLnet B.V.

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

v **KEY FACTORS**

Germany

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

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

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

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

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

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

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

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

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

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

The Netherlands

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

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

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

In this context, in July 2007, the acquisition of InterNLnet operator was completed. InterNLnet is active in the retail residential segment, both through ADSL and fiber offerings. Integration of the technology platforms was therefore set in motion in addition to aligning them to the Group standards, together with the integration of personnel and acquisition of customers, with the aim of maximizing synergies.

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

France

During 2007, the French market was again highly competitive with a bundled offering with rich content at some of the lowest prices on the European market: about   30 per month for dual and triple play rate plans (Video, Voice and Data).

The technological evolution of the offering continued with the launch of the offers for Ultra-BroadBand fiber services by the Iliad group and the development of similar projects by France Telecom and Neuf Cegetel.

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

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

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

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

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

partnership with TF1 for management of the portal www.aliceadsl.fr (contents and trading of the advertising);

the Naked ADSL offering in areas not covered by Unbundling;

- care on service quality reinforced by the launching of Alice pour Vous campaign which contractually formalizes the commitment to excellence in the quality of service offered, with mechanisms to monetarily reimburse the customer in case the commitment undertaken is not met;

- developing Group synergies for the wholesale offering and towards the Corporate Multinational customer.

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

v **MARKETING AND DISTRIBUTIONS**

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

Principal commercial channels used are:

- Call Centers;

- Internet;

- Retail;

- Commercial partner.

4.2.3 BRAZIL MOBILE

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

BRAZIL MOBILE

Tim Brasil Serviçõs e Participações S.A.

- Tim Participações S.A.

Tim Celular S.A.

Tim Nordeste S.A.

v **KEY FACTORS**

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

In 2007, the strategy of the Tim Brasil group focused on:

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

v **MARKETING AND DISTRIBUTION**

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

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

4.2.4 MEDIA

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

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

  Free to Air, through the activities of the two analog broadcasting network operators La7and MTV;

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

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

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- the **News** Business Area operates through Telecom Media News, a leading national news agency with a marked international connotation. It was conceived as the result of a partnership with Associated Press (AP) and provides news on a 24 hour basis as well as analyses, special reports from its offices in Rome and Milan and from abroad (Brussels, New York and Moscow).

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

MEDIA

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

- Telecom Italia Media Broadcasting S.r.l.

- MTV Italia S.r.l.

MTV Pubblicità S.r.l.

v **Key Factors**

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

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

4.2.5 Olivetti

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

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

OLIVETTI

Olivetti S.p.A.

- Olivetti I-Jet S.p.A.

- Olivetti International B.V. (foreign sales companies)

4.2.6 OTHER TELECOM ITALIA GROUP OPERATIONS

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

v **ENTEL BOLIVIA GROUP**

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

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

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

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

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

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

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

* * *

On March 29, 2007, the Bolivian government, in pursuing its policy of nationalizing some privately-owned businesses, issued legislation to set up a ministerial commission to start, conduct and conclude negotiations, within 30 days, with the aim of recovering Entel S.A. (**Entel**) into the hands of the Bolivian government (the company was acquired in 1995, with a payment of U.S.$610 million, by the Telecom Italia Group through the Dutch vehicle company ETI, owned entirely by Telecom Italia International). The above-mentioned measure alleges that Entel and ETI committed a number of serious managerial and tax irregularities. Telecom Italia participated in the meetings with the commission with the sole aim of hearing the government s position with regard to the recovering of Entel but has rejected all the accusations of having committed the irregularities with which it has been charged.

Subsequently, on April 23, 2007, the Bolivian government adopted two more measures abrogating all the laws on the basis of which the previous government had acknowledged that Entel had fulfilled the obligations it had assumed when the company was privatized; declaring that all initiatives put into place in executing the abrogated laws (particularly the capital reduction by Entel approved at the end of 2005) would be punishable by law; furthermore, annulling a number of previous administrative measures, particularly the one passed in 1995, which had launched the Entel privatization process.

On October 12, 2007, after an unsuccessful attempt at conciliation, an arbitration request was filed by ETI with ICSID (International Centre for Settlement of Investment Disputes, a body of the World Bank with headquarters in Washington DC, USA). The arbitration request covers the violation of the international treaty for the protection of foreign investments in Bolivia and the payment of compensation for the damages suffered as a result of the measures put in place by the Bolivian government.

On October 31, 2007, ICSID announced that the ETI arbitration request summoning the Bolivian government had been filed. The arbitration board is expected to be appointed in 2008.

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

* * *

A tax dispute is pending for the alleged failure to apply withholding taxes on the portion of share capital reimbursed in 2005 to a foreign shareholder. The alleged taxes evaded, together with additional charges and interest, are estimated at approximately 42 million. The rulings of the courts of the first instance before the *Superintendencia Tributaria* confirmed the position taken by the Tax Authorities. Entel Bolivia has filed an appeal before the *Corte Suprema de Justicia*. On April 18, 2008, Entel Bolivia was served an order of payment against which an appeal was promptly filed with the competent court. The filing, in accordance with applicable law, suspends the order of payment enforcement.

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

For both the disputes, on the basis of opinions by its internal and external experts, the company deems that it has sufficient technical and legal arguments to obtain a ruling in its favor and has therefore not set aside any provision for risks.

v **TELECOM ARGENTINA GROUP**

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

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

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

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

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

v **ETECSA**

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

Old Telecom Italia obtained an initial stake of 12.25% in ETECSA in 1995, when, prior to its privatization by the Italian government, Old Telecom Italia acquired, for approximately U.S.$291 million, a 25% stake in a Mexican telecommunications company which owned 49% of ETECSA. In February 1997, Old Telecom Italia converted its indirect stake in ETECSA into a direct investment and increased its interest to 29.29%. The acquisition price for such further 17.04% stake in ETECSA was U.S.$291.6 million. In connection with the merger of the local mobile operators into ETECSA to form an integrated provider of telecommunications services we participated in a series of capital increases proportionate to our share ownership.

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

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

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

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

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

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

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

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

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

* * *

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

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

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

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

4.2.7 COMPETITION

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

Fixed-line domestic telecommunications services market

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

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

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

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

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

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

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

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

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

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

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

Domestic mobile telecommunications services market

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

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

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

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

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

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

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

The European broadband market

Germany

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

It is characterized by:

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

- an increase in alternative operators LLU coverage and VDSL/Fibre Optic network projects;

- increasing penetration of dual and triple play offers and fixed-mobile convergent offers, partly as a consequence of the commercial campaigns of O2 and Vodafone;

- in the first quarter of 2007 the main operators launched more aggressive policies on pricing, which is still above the European average.

HanseNet s strong performance in 2007 was mainly due to:

- an increase in the ADSL customer base to 2.349 million users of which 1.083 million acquired from AOL (approximately 929,000 broadband customers in 2006);

- the extension of LLU network coverage to 60% of families in Germany at the end of 2007 (the sites covered by the proprietary network total 891, while those covered through its partners QSC and Telefónica amount to 1,616);

- the completion of the operational integration with AOL with the maximization of synergies: an organization that combines the resources and expertise of HanseNet with those of AOL; the migration of AOL customers to HanseNet systems; the integration of commercial channels; and the up-selling of the AOL customer base to offerings made under the Alice brand. In 2007, cost savings due to synergies with AOL exceeded 25 million;

- the launch of a commercial partnership with the Time Warner Group, which created a dedicated portal under the joint Alice-AOL brand;

- innovation of the offering: HanseNet was the first alternative operator in the German market to launch a complete Quadruple Play offer, integrating ADSL2+, Voice, IPTV and mobile offers (as a Mobile Virtual Operator).

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

The Netherlands

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

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

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

France

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

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

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

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

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

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

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

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

- focus on commercial activities on the LLU offering;

- the launch of the Alice pour Vous campaign which contractually formalized our commitment to excellence in the quality of the service offered, with mechanisms for cash reimbursements to customers in the event the commitments made are not met;

- the expansion of the LLU network, which at the end of 2007 extended coverage of the unbundling service to 687 Ready for Service sites.

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

The Brazilian market for mobile telecommunications services

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

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

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

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

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

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

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

4.3 REGULATION

The E.U. Regulatory framework

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

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

4.3.1 TELECOMMUNICATION REGULATORY FRAMEWORK IN ITALY

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

- Law 36 of February 22, 2001 regarding protection from exposure to electric, magnetic and electromagnetic fields and Prime Ministerial Decree of July 8, 2003, which established Exposure limits, attention values and quality goals to protect the population against electric, magnetic and electromagnetic fields generated at frequencies between 100 kHz and 300 GHz ;

- the Electronic Communications Code (ECC), Legislative Decree 259 of August 1, 2003, which incorporated into national law the EU directives of the 99 Review with regard to electronic communications networks and services (the EU directives on Access , Authorization , Framework and Universal Service);

- the Consolidation Act on Radio-Television (Legislative Decree 177 of July 31, 2005) which contains the principles for convergence between radio-television and other sectors of interpersonal communications;

- Legislative Decree 262 of October 3, 2006, which contains Urgent measures with regard to tax and financial matters and which, with reference to the ECC, partially altered the law on sanctions by introducing further examples of administrative offenses, a generalized increase in the fines for each sanction and the elimination of the institution of the partial cash settlements of fines;

- Decree Law 7 of January 31, 2007, (converted into law, with modifications, by Article 1 of Law 40, dated April 2, 2007) containing Urgent measures for the protection of consumers, promotion of competition, development of economic activities, creation of new companies, exploitation of technical and professional training and the demolition of vehicles which, for the electronic communications sector, abolished top-up charges and prohibited the expiry of phone traffic on prepaid phone cards.

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

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

Operators with significant market power

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

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

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

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

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

- ***Retail markets***

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

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

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

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

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

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

- ***Wholesale markets***

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

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

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

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

Market 12 (Bitstream services)

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

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

The main changes introduced include:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- ***Mobile markets***

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

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

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

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

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

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

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

International roaming

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

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

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

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

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

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

With specific reference to the application of EU law:

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

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

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

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

Fixed-mobile integration services

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

1) it is currently impossible to identify a new market for integrated services, although there is a need to monitor competitive dynamics and clarify, through market analysis, if these services can effectively represent a new market, distinct from the existing ones;

2) at present time this solution enables unnecessary procedures to be avoided and guarantees the possibility of assessing retail issues underpinning the rules of interconnection and the interoperability of Vodafone casa and Unico services in the context of market analyses now underway (Markets 15 and 16).

Pre-paid residual credit for mobile customers

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

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

Specific measures reserved to special customer categories

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

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

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

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

1) mobile operators should make available to deaf users an offer comprising the sending of at least 50 free text messages per day and in which *the price of each service available to these users does not exceed the best price for the same service applied by the operator to all its users, including for special promotions* ;

2) operators that provide access to the Internet from a fixed location should grant at least 90 hours of free Internet navigation per month to blind users and to users whose family unit comprises a blind person.

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

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

- two new free services for blocking outgoing calls to several groups of risky numbers (a permanent disconnection service and a self-administered disconnection service using a PIN);

- a second ad hoc bill, provided on request, for debits relating to calls towards numbers offering premium rate services;

- information on the economic conditions linked to services customers sign up for and on specific administrative aspects governed by contractual conditions (procedures for the suspension of a line in the event of delayed payment, the management of claims, settlement etc.);

- a free service, available on request, which alerts customers if they exceed a pr