FOREWORD

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

The first part describes the “architecture” of the Company’s system of corporate governance and the practical application of the various mechanisms making up the system as it came to be configured during the year, partly in response to innovations in the relevant legislation and self-regulation. In the first place the reference here is to the changes made in implementing new legislation, such as that on the protection of savings (Law 262/2005 and Legislative Decree 303/2006) and the transposition of the so-called Market Abuse Directive. In the second place it is to the adjustments made in light of the recommendations contained in the latest version of Borsa Italiana’s Corporate Governance Code (March 2006). In this connection it should be noted that the Company has invoked the right to refer to the 2002 version of the Code for the report on corporate governance to be published in its Annual Report for 2006, while also indicating the steps taken to comply with the new prescriptions of the 2006 version.

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

INTRODUCTION

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

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

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

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

BOARD OF DIRECTORS

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

Role and tasks

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

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

- examining and approving the strategic, business and financial plans of the Company and the Group;
- reviewing and approving the budget of the Company and the Group;
- examining and approving transactions – including investments and disinvestments – with a significant impact on the Company’s or the Group’s activity in view of their nature, strategic importance or size. As part of the revision of the corporate governance mechanisms, express
provision has been made in the Company’s Self-Regulatory Code for the Board of Directors to establish general criteria for identifying such transactions;

- verifying the adequacy of the organizational, administrative and accounting structure of the Company and the Group, with special reference to the internal control system;
- preparing and adopting the Company’s corporate governance rules and drawing up the Group’s governance guidelines;
- appointing the Supervisory Panel set up under Legislative Decree 231/2001;
- nominating the persons who are to hold the offices of Chairman and Managing Director in strategic subsidiaries;
- assessing the overall performance of operations and periodically comparing the results achieved with those planned. In addition, the Board of Directors carefully examines transactions in which one or more directors have an interest, directly or on behalf of third parties, with special account taken of the reports received from the Managing Directors, the Internal Control and Corporate Governance Committee and the person responsible for internal control;
- examining and approving the periodic financial reports.
- exercising the powers and performing the tasks entrusted to it by law and the bylaws.

Meetings

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

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

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

Election of directors

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

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

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

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

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

Composition

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

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

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

Following the resignation of the Chairman, Marco Tronchetti Provera, on 15 September 2006, the Board co-opted a new Chairman in the person of Guido Rossi. Lastly, the death of Enzo Grilli on 29 October 2006 resulted in the membership of the Board falling from 21 to 20 and the number of independent directors from 13 to 12, though they remained the majority.

On 8 March 2007 Telecom Italia’s Board of Directors consisted of 20 directors, of whom 3 were executive and 17 non-executive; of the latter 12 were classified as independent.

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

Renato Pagliaro  
Pasquale Pistorio  
Carlo Alessandro Puri Negri  
Luigi Roth  
Member of the Remuneration Committee and of the Strategy Committee

The positions held by the directors in other listed companies and other large financial, banking and insurance companies are shown below:

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
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<tbody>
<tr>
<td>Guido Rossi</td>
<td>- - -</td>
</tr>
<tr>
<td>Carlo Buora</td>
<td>Director of Mediobanca S.p.A.</td>
</tr>
<tr>
<td>Riccardo Ruggiero</td>
<td>Director of Safilo Group S.p.A.</td>
</tr>
<tr>
<td>Paolo Baratta</td>
<td>Director of Edizione Holding S.p.A.</td>
</tr>
<tr>
<td>John Robert Sotheby Boas</td>
<td>- - -</td>
</tr>
<tr>
<td>Diana Bracco</td>
<td>- - -</td>
</tr>
<tr>
<td>Domenico De Sole</td>
<td>Director of Delta Airlines and Bausch &amp; Lomb.</td>
</tr>
<tr>
<td>Francesco Denozza</td>
<td>Chairman of the Board of Auditors of Siemens S.p.A. and of Siemens Holding</td>
</tr>
<tr>
<td>Luigi Fausti</td>
<td>Chairman of Patrimonio Immobiliare dello Stato S.p.A.; Director of Monrif S.p.A.</td>
</tr>
<tr>
<td>Guido Ferrarini</td>
<td>Chairman of TLX S.p.A.; Independent Director of Autostrade S.p.A.</td>
</tr>
<tr>
<td>Jean Paul Fitoussi</td>
<td>- - -</td>
</tr>
<tr>
<td>Vittorio Merloni</td>
<td>Chairman of Indesit Company S.p.A.</td>
</tr>
<tr>
<td>Massimo Moratti</td>
<td>Managing Director of Saras S.p.A.; Director of Interbanca S.p.A. and Pirelli &amp; C. S.p.A.</td>
</tr>
<tr>
<td>Marco Onado</td>
<td>Independent Chairman of Pioneer Global Asset Management S.p.A. (Unicredito Group)</td>
</tr>
</tbody>
</table>
Renato Pagliaro  

Pasquale Pistorio  
Honorary Chairman of STMicroelectronics S.p.A.; Independent Director of Fiat S.p.A.

Carlo Alessandro Puri Negri  

Luigi Roth  
Chairman of Fondazione Fiera di Milano and Terna S.p.A.; Deputy Chairman of Cassa Depositi e Prestiti S.p.A.

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

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

**Board performance evaluation**

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

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

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

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

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

**Independent Directors**

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

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

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

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

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

Since 2004 Telecom Italia’s Board of Directors has had a Lead Independent Director. As part of the revision of the Company’s corporate governance mechanisms referred to above, it was considered desirable to formalize this position, which is intended to provide a point of reference and coordination for the needs and inputs of the independent directors and which is held at present by Guido Ferrarini, who is also Chairman of the Internal Control and Corporate Governance Committee and a member of the Supervisory Panel. The Lead Independent Director may use the Company’s structures in performing his tasks and call special meetings of the independent directors to discuss issues related to the working of the Board or the management of the business. It should also be noted that the Chairman of the Board of Directors avails himself of the collaboration of the Lead Independent Director to improve the working of the Board.

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

**Executive directors**

The authority to grant delegated powers to directors and revoke such mandates is reserved to the Board of Directors, which also establishes their objects, limits, manner of exercise and the intervals – of not more than three months – at which persons with delegated powers must report to the Board on their activity, the general results of operations, and the transactions of greatest economic, financial or balance sheet significance concluded by the Company or its subsidiaries.
In 2004 the Board of Directors appointed Marco Tronchetti Provera as Chairman and Carlo Orazio Buora and Riccardo Ruggiero as Managing Directors; Gilberto Benetton was made Deputy Chairman. Following the resignation of the Chairman, Marco Tronchetti Provera, on 15 September 2006, the Board of Directors appointed Guido Rossi as Chairman and Carlo Orazio Buora as Executive Deputy Chairman entrusted with the powers and responsibilities previously assigned to Marco Tronchetti Provera. At the same time the Board confirmed Gilberto Benetton in the position of Deputy Chairman and Riccardo Ruggiero in that of Managing Director.

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

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

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

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

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

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

**Directors’ remuneration**

As approved by the shareholders’ meeting of 7 April 2005 and in accordance with the first paragraph of Article 2389 of the Civil Code, the maximum total annual remuneration of the Board for 2006 was €3,000,000, allocated as follows:
• €114,000 to be paid to each director in office;
• an additional €63,000 to be paid to each of the four members of the Internal Control and Corporate Governance Committee (Guido Ferrarini, Francesco Denozza, Domenico De Sole and Marco Onado);
• an additional €52,000 to be paid to each of the three members of the Remuneration Committee (Luigi Fausti, Paolo Baratta and Pasquale Pistorio);
• an additional €20,000 to be paid to each of the three members of the Strategy Committee other than the Chairman of the Board and the Managing Director (now Executive Deputy Chairman) Carlo Buora (i.e. Domenico De Sole, Marco Onado and Pasquale Pistorio);
• an additional €20,000 to be paid to the director appointed to the Supervisory Panel set up under Legislative Decree 231/2001 (Guido Ferrarini).

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

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

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

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

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

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

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

**THE INTERNAL CONTROL SYSTEM**

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

¹ The Managing Director Riccardo Ruggiero is an exception in this respect since, prior to his being co-opted to the Board of Directors, as General Manager he was among the beneficiaries of a stock-option plan.
than substantial because operational practices were often more advanced than the Company’s official declarations.

The internal control system is a process made up of rules, procedures and organizational structures and designed to pursue substantial and procedural fairness, transparency and accountability, values that are considered fundamental for Telecom Italia’s business dealings, as laid down in the Group Code of Ethics. The aim of the process is to ensure that the management of the business is efficient and can be known and verified, that accounting and operational data are reliable, that applicable laws and regulations are complied with, and that the assets of the business are safeguarded, not least with a view to preventing fraud against the Company and financial markets.

The cardinal rules of the Company’s internal control system concern:

• the separation of roles in the performance of the principal activities involved in each operating process;
• the traceability and constant visibility of decisions;
• the management of decision-making processes on the basis of objective criteria.

As the body responsible for the internal control system, the Board of Directors lays down the guidelines for the system and verifies its adequacy, efficacy and proper functioning, while making sure that the main operational, compliance, economic and financial risks are appropriately identified and managed. To this end the Board uses the Internal Control and Corporate Governance Committee and a suitably independent person from the internal audit function appointed to be responsible for internal control and endowed with the resources needed to perform the task.

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

The functions assigned to the person responsible for internal control are to verify the adequacy and effectiveness of the system and, where anomalies are found, to propose appropriate remedies. The Board has appointed the Company’s internal auditor (the consortium company Telecom Italia Audit & Compliance Services), in the person of the director of the consortium company designated by Telecom Italia, to be responsible for its internal control system. This company reports on its activity to the Internal Control and Corporate Governance Committee, the Board of Auditors and the Managing Director in charge of the internal control system. The aim of entrusting internal auditing to the consortium company Telecom Italia Audit & Compliance Services, in which TI Media also holds an interest, is to maximize the independence of the person responsible for internal control from Telecom Italia’s corporate structures, with respect to which the audit function is completely autonomous.

The Managing Director in charge of the internal control system is entrusted with the implementation of any maintenance work on the system found to be necessary on the basis of the checks performed and for this purpose appoints one or more persons responsible for implementation. In 2005 the position of Group Compliance Officer was created with a view to better coordinating implementation of the Group’s internal control system. The Group Compliance Officer performs a role of liaison and coordination among the various plans for the improvement of the Group’s internal control system and is responsible for monitoring and facilitating the relationship between management and the internal control system, so as to guarantee, with the assistance of Telecom Italia Audit & Compliance Services, methodological correctness in the management of risk. Furthermore, to further strengthen the system, the persons responsible for implementation were flanked by compliance managers coordinated by the Group Compliance Officer. The position of Group Compliance Officer was also formally incorporated into the Company’s Self-Regulatory Code and the related tasks and duties specified. In addition, to ensure coordination of risk management at the top level, in 2006 a Risk Management Committee, chaired by the Executive Deputy Chairman and composed of the heads of
the Head Office departments, was established and, within Telecom Italia Audit & Compliance Services, the position of Group Risk Officer created.

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

In addition, following the insertion by the Law on the Protection for Savings of Article 154-bis into the Consolidated Law on Finance, the shareholders’ meeting called to approve the Annual Report for 2006 will introduce the position of “person responsible for preparing the Company’s financial reports” into the Company’s bylaws. The bylaws will specify the experience requirements (in the fields of administration, finance and auditing) for this new position, which is treated in a special report to the shareholders’ meeting. The Board of Directors will appoint (and remove) this officer after consulting the Board of Auditors and will also determine the powers and duties of the office.

The Company’s internal control system is completed by the so-called 231 Organizational Model, which goes beyond the mere application of the provisions of Legislative Decree 231/2001, since it provides a paradigm for the conduct of all those who act in the Company’s name and on its behalf. More specifically, the model comprises “principles for dealings with governmental bodies” (elaborated as a set of rules for relations with representatives of such bodies) and “internal control checklists” listing (i) the main stages of every process, (ii) the offences that may be committed in relation to individual processes, and (iii) the control activities to prevent the related risks from arising.

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

Monitoring of the functioning and compliance with the model is performed by a Supervisory Panel made up of a member of the Board of Auditors (Ferdinando Superti Furga, chairman), an independent director on the Internal Control and Corporate Governance Committee (Guido Ferrarini) and the person responsible for the internal control system. This composition ensures that the Panel is completely autonomous and independent and that it embodies all the professional skills involved, in different capacities, in the control of the Company’s operations. The Panel reports to the Board of Directors, the Internal Control and Corporate Governance Committee and the Board of Auditors on the checks performed and their results. Lastly, it should be noted that a special unit (the Compliance Support Group) has been created within Telecom Italia Audit & Compliance Services to provide operational support to the Supervisory Panels of Group companies by handling reports of violations of the organizational model and conducting compliance audits on the basis of the data received by way of the information flows that have been put in place.

The Internal Control and Corporate Governance Committee

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

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

In response to the recommendations of the 2006 version of Borsa Italiana’s Corporate Governance Code, the Company has made some amendments to its own Self-Regulatory Code on the basis of which the Internal Control and Corporate Governance Committee, in addition to the tasks described above, is also called upon to:
- express its opinion on the proposals for appointing, removing and assigning duties to the person responsible for internal control and the person responsible for preparing the Company’s financial reports;
- assesses, together with the person responsible for preparing the Company’s financial reports, whether the accounting policies have been correctly applied for the purpose of preparing the consolidated financial statements;
- in cases of substitution of an independent director, proposes the candidates for co-optation to the Board of Directors; and
- defines the procedures and time limits for conducting the “board performance evaluation”.

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

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

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

On another front, the Committee monitored the introduction and application of IAS/IFRS, first to the Group’s consolidated financial statements (for 2005) and then to the parent company’s financial statements (for 2006) and kept abreast of the progress made by Project 404.
As well as monitoring transactions that the Board deemed to be especially delicate, the Committee examined the quarterly plans of the person responsible for internal control, from whom it received periodic reports on the results of the audits performed and the progress made by the projects known as Control Risk Self-Assessment and Check-Up of Administrative Systems.

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

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

THE STRATEGY COMMITTEE

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

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

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

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

BOARD OF AUDITORS

The shareholders’ meeting of 13 April 2006 appointed the current Board of Auditors. The election, held using the slate voting system under procedures exactly equivalent to those adopted for the Board of Directors, resulted in the appointment of a Board of Auditors for the three years 2006-08, consisting of Paolo Golia and Stefano Meroi (elected from the slate presented by minority shareholders) and Salvatore Spiniello, Ferdinando Superti Furga and Gianfranco Zanda (elected from the slate presented by the largest shareholder, Olimpia). The Company immediately applied the provision of the law on the protection of savings regarding the appointment of the chairman of the Board of Auditors by the shareholders’ meeting, which duly elected Paolo Golia from among the members who had been presented by the minority slate.
The original composition of the Board of Auditors subsequently changed owing to the resignation of a “minority” member, Stefano Meroi, on 20 October 2006, who was replaced by the alternate member elected from the same slate, Enrico Maria Bignami.

The offices held by members of the Board of Auditors are shown below. It should be noted that, pending the issue of the relevant Consob regulation, the limit set by the Company’s bylaws to the number of offices the members of the Board of Auditors may hold remains applicable. The bylaws provide that persons who are members of the boards of auditors of more than five companies listed on Italian regulated markets, excluding Group companies, shall forfeit their post.

Paolo Golia

Enrico Maria Bignami Chairman of the Board of Auditors of Biancamano S.p.A.


Gianfranco Zanda

The shareholders’ meeting of 13 April 2006 set the gross annual remuneration of each member of the Board of Auditors at €128,000 and the gross annual remuneration of the Chairman of the Board of Auditors at €171,000. It also decided to award an additional €20,000 to the member of the Board of Auditors appointed to the Supervisory Panel set up under Legislative Decree 231/2001 (Ferdinando Superti Furga).

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

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

Telecom Italia has determined that the Board of Auditors meets the requirements laid down by US law (to which it is subject as a company registered with the Securities and Exchange Commission) and, availing itself of the general exemption provided for therein, has therefore assigned the responsibilities and tasks of the Audit Committee to the Board of Auditors. This role has been formalized within the Company’s new Self-Regulatory Code.

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

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

A short description of how such reports are to be submitted to the Board of Auditors /Audit Committee is available on the Company’s website, under Governance.

In addition to the tasks performed in its Audit Committee capacity, the Board of Auditors carried out supervisory functions provided for under Italian law: verifying that the transactions of greatest significance for the Company’s profitability, financial position and assets and liabilities conformed with the law, the bylaws and the principles of correct management; checking that transactions with related parties complied with the self-regulatory principles and procedures adopted by the Company and that they were in its interest; and checking the adequacy of the organizational structure. The Board of Auditors also monitored the adequacy of the internal control system and that of the administrative and accounting system and the latter’s reliability in correctly representing transactions.

During 2006, in connection with specific problems regarding the Group’s Security Function, network security and the handling of traffic data that will be discussed in Part Two of this Governance Report, the Board of Auditors took a series of steps to evaluate the adequacy of the Company’s organizational structure and internal control system, holding numerous joint meetings with the Internal Control and Corporate Governance Committee. More detailed information on the activity of the Board of Auditors can be found in its report pursuant to Article 153 of Legislative Decree 58/1998.

SHAREHOLDERS’ MEETINGS

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

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

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

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

For the matters that will be submitted to the shareholders’ meeting called to approved the financial statements for 2006, information is to be found in the relevant reports.
CODE OF ETHICS

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

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

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

The document is available on the Company’s website, under Governance.

RULES OF CONDUCT FOR TRANSACTIONS WITH RELATED PARTIES

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

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

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

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

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

INFORMATION MANAGEMENT

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

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

The Disclosure Committee Rules are available on the Company’s website, under Governance.

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

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

RULES ON INSIDER DEALING

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

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

Telecom Italia has chosen to identify "[managers] who have the power to make managerial decisions affecting the future development and prospects of the issuer" in the key managers referred to in IAS/IFRS 24 and in executive officers for the purposes of US law.
In 2006 the Company and persons defined as relevant made three filings in accordance with Article 152-octies of Consob Regulation 11971/1999 on issuers. These filings can be found on the Company’s website, under Governance.

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

MEETING REGULATIONS

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

The Meeting Regulations are available on the Company’s website, under Governance.

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

INVESTOR RELATIONS

A special unit, headed by the Executive Deputy Chairman, is responsible for handling relations with the financial community in Italy and abroad. In 2006 the scope of the unit’s activity was extended to include retail investors.

Details are given in the Sustainability section of the Annual Report under Shareholders/Financial Communication.

Additional information can be obtained from the following addresses:

**Institutional investors:**
Telecom Italia S.p.A.
Investor Relations
Piazza degli Affari, 2
20123 Milan
Tel.: +39 02 8595 4131
E-mail: investor_relations@telecomitalia.it

**Retail investors:**
Telecom Italia S.p.A.
Investor Relations
Piazza degli Affari, 2
20123 Milan
Tel.: +39 02 8595 4131
E-mail: investitori.individuali@telecomitalia.it

SHAREHOLDERS’ AGREEMENTS

Relations between the shareholders of Olimpia (on 8 March 2007 Telecom Italia’s largest shareholder with an interest of approximately 18% in the Company’s ordinary share capital) are governed by an agreement that was concluded on 7 August 2001, and subsequently amended on 14 September
2001 and 13 February 2002, with clauses of relevance to Telecom Italia pursuant to Article 122 of Legislative Decree 58/1998. As of 2 March 2007 Edizione Holding S.p.A. has been replaced by Sintonia S.p.A., while Edizione Finance International S.A. has changed its name to Sintonia S.A.

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

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

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

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

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

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

<table>
<thead>
<tr>
<th>Participant</th>
<th>Number of ordinary shares</th>
<th>% of ordinary share capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Olimpia S.p.A.</td>
<td>2,407,345,359</td>
<td>17.99%</td>
</tr>
<tr>
<td>Gruppo Generali</td>
<td>490,580,064</td>
<td>3.67%</td>
</tr>
<tr>
<td>Mediobanca S.p.A.</td>
<td>206,464,069</td>
<td>1.54%</td>
</tr>
</tbody>
</table>
The above-mentioned shares are the subject of lock-up and standstill agreements with provision made for a series of exceptions. In particular, by way of derogation from the commitment not to transfer the Telecom Italia shares it committed, Olimpia has the right to dispose of its entire holding, provided it gives Generali and Mediobanca a right of pre-emption, which would not be exercisable if the acquirer undertook to acquire the shares committed to the agreement by Generali and Mediobanca at the same conditions. The same mechanism also applies in the event of Pirelli, on its own or jointly with Sintonia, disposing of an interest of more than 50% of Olimpia’s capital.
PART TWO: THE SECURITY FUNCTION, THE SECURITY OF THE NETWORK AND TRAFFIC DATA

During 2006 the Company’s corporate governance arrangements and in particular its internal control system were subjected to a sort of “field-test” in connection with the well-known judicial events involving the former head of the Group Security Function, which led in turn to questions regarding the security of the network and the handling of traffic data.

The checking and analysis activities aimed at identifying the problems and related causes and the remedies adopted and to be adopted to cope with the facts and situations that gradually emerged required the intervention of all the Company structures and bodies forming part of the internal control system, from the Internal Control and Corporate Governance Committee to the Board of Auditors, from the Internal Audit Function to the Supervisory Panel.

It is sufficient to recall that the Board of Directors intervened 6 times in the matters referred to above, while they were addressed in 12 meetings of the Internal Control and Corporate Governance Committee and in 13 meetings of the Board of Auditors.

The results of the above-mentioned checking and analysis activities are set out in full in the report submitted to the Board of Directors by the Internal Control and Corporate Governance Committee, which was approved by the Board in its meeting on 16 February 2007 and is reproduced below.

Without assessing circumstances that are still being investigated by the judicial authorities (with which the Company has collaborated actively, as is confirmed by all the reports and documentation transmitted during the year), what needs to be stressed here is the ability to react shown by the Company, which put in place a series of defences and remedies that included changes to existing organizational procedures and arrangements, whose significance, not to mention other measures, is testified to, albeit implicitly, by the resolution adopted by the Italian privacy regulator in December extending the deadline for compliance with the requirements set forth in the order of 1 June 2006. (see infra in the report of the Internal Control and Corporate Governance Committee referred to above).
REPORT OF THE INTERNAL CONTROL AND CORPORATE GOVERNANCE COMMITTEE TO THE BOARD OF DIRECTORS

1. Introduction

1.1. This report has been prepared by the INTERNAL CONTROL AND CORPORATE GOVERNANCE COMMITTEE and sets forth the outcome of the activities performed and the investigations undertaken by the COMMITTEE during 2006 and through the middle of February of the current year with reference to the following matters:
- events related to the ex Head of the Security Function, Giuliano Tavaroli;
- network security and services to the Judicial Authorities;
- traffic data, privacy and collection of information on employees.

1.2. It should be noted that, pursuant to art. 12 of the Self-Regulatory Code of the Company, the COMMITTEE acts as advisor and makes proposals to the Board of Directors. In particular (and insofar as the goals of this report are concerned) the COMMITTEE assists the Board in the execution of its responsibilities for the internal control system, evaluates the work plan prepared by the staff responsible for internal control, receives periodic reports from such staff and reports to the Board at least every six months on its activity and on the adequacy of the internal control system.

1.3. The COMMITTEE is composed entirely of independent Directors (Guido Ferrarini, Francesco Denozza, Domenico De Sole and Marco Onado). The Chairman of the Board of Auditors, or another auditor as designated by him, attends the meetings of the COMMITTEE. When deemed appropriate, depending on the topics to be dealt with, the COMMITTEE and the Board of Auditors meet in joint session.

1.4. It should also be noted that, pursuant to art. 11 of the Self-Regulatory Code of the Company, the Board of Directors is responsible for designing the internal control system and monitors its proper functioning with respect to the management of business risks. The Director delegated for that purpose (currently the Executive Vice Chairman, Carlo Buora) defines the tools and methods for implementing the system of internal control, in execution of the policies established by the Board of Directors, ensures the overall adequacy and effectiveness of the system and its adaptation to changes in the operating conditions and in the legislative and regulatory environment.

1.5. To monitor the correct functioning of the internal control system, the Board of Directors also has access, in addition to the COMMITTEE, to an independent appointee that is endowed with the necessary resources to perform such task. Such appointee, currently the consortium company TELECOM ITALIA AUDIT & COMPLIANCE SERVICES, which for this purpose appointed its Chairman, Armando Focaroli, reports on its work to the Executive Vice Chairman, the COMMITTEE and the Board of Auditors.

1.6. The Executive Vice Chairman implements the changes to the internal control system that are prompted by the checks carried out, appointing one or more persons for the purpose of implementing such changes. To improve implementation of the internal control system, the role of Group Compliance Officer was created in 2005. To
ensure that risk management is coordinated at a senior level a Risk Management Committee was also created in 2006, chaired by Carlo Buora and made up of the managers of the Central Functions involved; in addition, within TELECOM ITALIA AUDIT & COMPLIANCE SERVICES, the office of Group Risk Officer was established.

1.7. The principles of the system of internal control are set forth in art. 11, subsection 6 of the Self-Regulatory Code and also specified in the Organisational Model 231. This Model, adopted pursuant to Italian legislative decree no. 231/2001 (which deals with the liabilities of a company for certain crimes, when committed by its directors, managers or employees in the company’s interest or to the company’s benefit), consists of “principles of behaviour with Government bodies” and “internal control schemes” in which the principal phases of each process are listed, highlighting corresponding risks, in terms of possible criminal behaviour in connection with the relevant process, and setting out measures designed to avoid such risks. Organisational Model 231 is subject to periodic revision as a result of experience in its application and of the extension of the relevant regulations to new events. A specific “Organismo di Vigilanza”, or Supervisory Board, consisting of a Statutory Auditor (Ferdinando Superti Furga, who acts as Chairman), an independent Director (Guido Ferrarini) and the Head of internal audit (Armando Focaroli), monitors – with the support of a specific work group called the 231 Support Group – compliance with the Model and – in collaboration with a Steering Committee consisting of the Senior Executives responsible for the functions involved – proposes any necessary modifications thereof.

1.8. The element of the internal control system that is concerned with financial reporting also relates to the application of the Sarbanes-Oxley Act, which requires certification of the relevant internal controls over financial reporting by the CEO and the CFO, and attestation by the auditors about the adequacy of the controls on this matter, pursuant to Section 404. The Company is currently engaged in an important project designed to ensure the full and correct application of these regulations and thus to improve the internal controls over financial reporting (404 Project). The auditors' attestation will be issued, for the first time, on the financial statements for 2006.

2. The activities performed by the Committee

2.1. Initially, the investigations with respect to the Security issue involved only the Internal Audit function and the Supervisory Board (see 3.1, below). However, in the Committee’s meeting held on May 4, 2005, as part of the quarterly Report of internal audit, the COMMITTEE was provided initial general information on the internal audit addressing the Security function; a confidential report on the notice of investigation issued to Giuliano Tavaroli was also provided.

On July 15, 2005, the COMMITTEE received a report on Giuliano Tavaroli’s decision to voluntarily relinquish his managerial activities as the Head of the Security function as from May 4, 2005 and on the Company’s intention to appoint him as a consultant on antiterrorism.

The Board of Directors received a similar report on July 26, 2005, when it was also informed of the appointment of Giovanni Penna as interim manager of the Security Function.
2.2. The COMMITTEE directly addressed the three topics that are the subject of this report from 2006 onwards, in the meetings specified below:

2.2.1. Meeting on March 30, 2006: examination of press coverage of alleged irregular phone tapping and improper use of customer traffic data, with respect to the Tavaroli issue; notification by the Head of internal audit of (i) the audit operation carried out in February/March 2005, (ii) the acquisition of the results of such audit by the Judicial Authorities, and (iii) the subsequent organisational changes which had been put in place and declared to be suitable. These issues were reported to the Board of Directors on May 8, 2006;

2.2.2. Meeting (together with the Board of Statutory Auditors) on June 12, 2006: examination of compliance issues (network, IT systems, services for the Judicial Authorities), with respect to the Tavaroli issues; the COMMITTEE was informed that a memorandum had been filed with the Judicial Authorities; all of this was reported to the Board of Directors on July 5, 2006, when a document concerning the matters discussed in this Report was also examined;

2.2.3. Meeting (together with the Board of Statutory Auditors) on September 29, 2006: analysis of the arrest warrant issued by the Magistrate responsible for the preliminary investigations by the Milan Court against Giuliano Tavaroli (a warrant that became public knowledge following its publication on the Internet at www.ilvelino.it; hereinafter “the Warrant”); examination of the alleged violations of privacy rules in handling traffic data and the activities performed by the Company to comply with an Order issued by the Privacy Authority on June 1, 2006;

2.2.4. Meeting (together with the Board of Statutory Auditors) on October 3, 2006: continuing examination of the aforementioned privacy issues;

2.2.5. Meeting (together with the Board of Statutory Auditors) on October 12, 2006: presentations by the Executive Vice Chairman, representatives of KPMG Advisory, representatives of Reconta Ernst & Young (who described the additional audit activities to be performed concerning the Security issue) and by Davis Polk & Wardwell, the Company’s U.S. legal advisors with respect to the applicable issues to be considered from the perspective of United States law (applicable to the company since it is listed on the NYSE); report on the legal opinions sought from external legal advisors on various aspects of Italian law relating to the object of this Report;

2.2.6. Meeting (together with the Board of Statutory Auditors) on October 24, 2006: review of the legal opinion by Professor Mucciarelli on the relevant issues with respect to the Tavaroli matter, in the light of Italian legislative decree no. 231/2001 (see paragraph 3.5 below); meeting with KPMG Advisory and with senior management for an update on the topics that are the subject of this report;
2.2.7. Meeting (together with the Board of Statutory Auditors) on October 31, 2006: presentation by the Executive Vice Chairman on the actions of the Risk Management Committee he chairs, and on the coordination of the work of the Risk Management Committee and the COMMITTEE for better management of risks in general, and for an adequate response to the recent events reviewed in the meetings described above in particular, as well as on the present organisation of the Security function and other organisational issues involved in such events.

2.2.8. Meeting (together with the Board of Statutory Auditors) on December 12, 2006: check on the progress of IT compliance initiatives, and update on the Tavaroli matter.

2.2.9. Meeting (together with the Board of Statutory Auditors) on January 31, 2007: receipt of the first results of the additional audit activities performed by the audit firm Reconta Ernst & Young with regard to the Security issue, discussion with the Executive Vice Chairman of the events relating to Fabio Ghioni (a former employee of Telecom Italia) and the so-called “Tiger Team” (the office within the Security function of Telecom Italia in charge of technical security issues, acting under the responsibility of the aforementioned Ghioni);

2.2.10. Meeting on February 16, 2007: update on the Company’s activities regarding IT compliance, communications by the audit firm Reconta Ernst & Young on the continuation of its work programme relating to the abovementioned additional audit activities; clarifications on methods and timeliness of the Company in addressing the requests by the Judicial Authorities with reference to the unauthorized access to the computer network of RCS (one of the most important Italian publishing companies, with a presence both in Italy and abroad) widely commented upon by the Italian press.

3. Information received and activities performed by the Committee

During the meetings listed above, representatives from the applicable offices of the Company have informed the COMMITTEE of the facts of, and expressed their opinions on, the matters at stake.

3.1. The Security issue

3.1.1. Audit and reorganisation

3.1.1.1. A review by internal audit of expenses for professional and consultancy services rendered to the Security Function – Intelligence department was carried out in February/March 2005. The purpose of the audit (not included in the 2005 Audit Plan, but performed at the request of CEO Carlo Buora, in part as a result of the increase in the expenses of this Function) was to evaluate the relevant internal control system through remote (computerised) access to documentation and subsequent interviews with the head of the office.
3.1.1.2. The final report did not identify specific concerns, although it highlighted that the internal control system of the Security function allowed regular recourse to purchases of professional and consultancy services outside the ordinary procedure (so-called purchases “in derogation” account for 60% of the overall amount of this kind of services) and the head of the Security function to determine the choice of supplier, to approve the service provided, and to authorise invoices for payment.

In the introduction to the executive summary, it was emphasised that the period under consideration was “characterised by intense activity to counteract threats by third parties which certainly influenced the modus operandi of the entire structure” (with implied reference to the well-known events in Brazil). The conclusions of this report acknowledged the “objective difficulties (involved in) creating a ‘traditional’ control system given the sensitivity of the activities concerned”.

The Head of internal audit, Armando Focaroli, informed the senior management of the Company of the outcome of the audit, and also informed the members of the Supervisory Board, on an informal basis. The latter agreed that the control system of the Security function needed strengthening.

The Supervisory Board formally considered the issue in a meeting on May 31, 2005, when Armando Focaroli presented a summary of the result of the audit over professional services and consultancy procurement by the Security Function. The Supervisory Board agreed upon the need for a control system based on the separation of operational and supervisory roles, and requested that they be kept constantly updated.

3.1.1.3. In the meantime, on May 3, 2005, Giuliano Tavaroli received a notice of investigation indicating that investigations were pending against him for violation of official secrecy and conspiracy. His office in Telecom Italia was searched, and the Polizia Giudiziaria (Criminal Police) acquired the report of the aforementioned audit of the Security Function.

On May 12, 2006 the Judicial Authorities requested that the Company provide invoices issued by some suppliers to the Security Function. A task force including representatives of various departments within the Company was established for the purpose of verifying, for payment purposes, the invoices received from the suppliers indicated. The commissioning of services from these suppliers ceased.

3.1.1.4. As soon as Tavaroli received the notice of investigation, he asked to be relieved of his work responsibilities with immediate effect for a period of three months. On July 5, 2005 the employment relationship with Tavaroli was terminated, with effect from July 31, with customary financial settlement.

Giovanni Penna was appointed as interim manager of the Security Function with effect from August 1, 2005.
On July 19, after the terrorist attack in London, and with the agreement of the governmental authorities, Tavaroli was appointed as a consultant on antiterrorism issues on a one year contract at a fee of 50,000 Euros (as reported by the Chairman of the Board, Mr. Tronchetti Provera, in the meeting of the Board of Directors on July 26, 2005 and by Mr. Chiappetta, General Counsel of the Company, in the meeting of the COMMITTEE on July 15, 2005). On September 23, 2005 a power of attorney was conferred on Tavaroli in relation to the aforementioned appointment, but it excluded the authority to make purchases. The appointment as a consultant – subsequently extended to business continuity issues, without change of fees or duration – was terminated in March 2006, and the power of attorney was cancelled on June 19, 2006.

3.1.1.5. The reorganisation of the Security Function as indicated above continued. Initially the creation of a consortium company similar to TELECOM ITALIA AUDIT & COMPLIANCE SERVICES was considered; instead the Company opted for restructuring the Function internally, by separating operational and control roles. After the changes, the Head of the Security Function (identified as Gustavo Bracco, the Director of the Human Resources and Organisation Function, in January 2006) does not have a direct operational function, but supervises and directs; he is supported by a staff for planning and control, which ensures correct application of administrative procedures, documentary support for operations, and that expenses are pertinent to the objectives attained.

The reorganisation was reported to the Supervisory Board on February 28, 2006. Mr. Focaroli declared that the need to strengthen the internal control system in the intelligence sector of the Security Function had been satisfied by the actions taken. The same meeting approved the report of the Supervisory Board for 2005, containing information on the results of the audit and on the organisational remedies for the shortcomings encountered.

Similarly, in the meeting of the COMMITTEE on March 30, 2006 Mr. Focaroli explained that – as previously reported to the Supervisory Board in April/May 2005 (see 3.1.1.2 above) – “early in 2005 TI Audit reviewed the consultancy and professional services expenses of the structure (Security), in the light of a significant and rapid rise in expenditure, for which there were also objective reasons. The audit highlighted some critical aspects, not in terms of irregularities, but because of inadequacies in the control system resulting from the number of tasks directly performed by the head of the office. [...] The comments of the internal auditor were followed by organisational changes, without affecting the special aspects of the specific type of services”.

3.1.1.6. The issue raised by the internal audit report was presented by management as principally organisational in nature, and the Company took action to provide a suitable response in organisational terms.
It was not considered necessary to take further action, given:

a. the special nature of the sector (and the very sensitive situation in terms of international, in addition to Company, security). This gave credibility to avoiding the storage on Company premises of documents and other results of investigations for certain sensitive activities;

b. the excellent results achieved by Tavaroli in recent events (such as the Kroll business in Brazil, in which a formal apology letter was actually presented to Telecom Italia); and

c. the fact that the amounts in question were not material in terms of their possible impacts on the company financial statements, and on the overall assessment of the Company’s internal controls.

3.1.2. Emergence of new information

3.1.2.1. The issue assumed a different character at the end of 2005, when the defence counsel of Emanuele Cipriani (one of the most significant providers of outside services to the Security Function – Intelligence department of both Telecom Italia and Pirelli) forwarded a request (to be specific, only to Pirelli) that raised doubts about whether or not the services invoiced to Telecom Italia had actually been provided. The Company (just as Pirelli) engaged an outside attorney as legal advisor to investigate the invoices paid in the past to companies linked with Cipriani.

3.1.2.2. In the previously mentioned meeting of the Committee on March 30, 2006, director Francesco Denozza “demanded clarification of the news that had appeared in the daily press about alleged irregular payments made by the Security function”. Management affirmed that, in the light of the investigations undertaken so far and still underway at that time, the payments made by the Company appeared justified by the services actually rendered.

3.1.2.3. The investigation by the outside legal advisor was completed on April 21, 2006, and emphasised that in many cases it had not been possible to reconstruct the purpose of the services rendered. However, the sums involved (an estimated 8.5 million Euros for the period between May 30, 2002 and November 3, 2004) were not such as to reach a negative conclusion about the quality of internal controls (and certainly did not constitute a material weakness under US criteria), and in any event the issue had been tackled through the procedural changes made over a year earlier. The Company gave a detailed account of this matter in the memorandum filed with the Judicial Authorities on June 8, 2006.

3.1.2.4. In its meeting of October 3, 2006, the Committee requested that Mr. Focaroli question the top management of the Company in place at the time of the events under consideration (Tronchetti Provera, Buora and Ruggiero) and their direct reports (a total of 17 senior managers) to check if services had been commissioned to Tavaroli between March
2003 and May 2005, and, if that was the case, what they were, how they were assigned, and how the results were obtained. Of the 20 people to whom the request was made, 10 responded affirmatively, and supplied information about content of the tasks, how they were assigned, and how the results were obtained; such information did not provide any problematic evidence.

3.1.2.5. From the Warrant, the COMMITTEE learnt that certain administrative documents had been destroyed by employees of Pirelli and Telecom Italia. The Board of Statutory Auditors requested internal audit to investigate whether possible further similar episodes might have occurred in the Company. The outcome of this investigation was negative.

3.1.2.6. Ad hoc audit procedures are being carried out by the audit firm Reconta Ernst & Young, in relation to the acquisition of services provided to the Security function during the period 2001-2006, with the primary objective of evaluating possible impacts on the financial statements of Telecom Italia. In the meetings of January 31 and February 16, 2007 the COMMITTEE was updated on the progress of the work programme which, as agreed with the Company, was conducted according to the applicable auditing standards and Consob guidelines. The review completed to date, which covered all the suppliers cited in the aforementioned Warrant, do not evidence a “material” impact on the balance sheet.

3.1.2.7. The Company has cooperated with the Judicial Authorities, presenting further memoranda on October 19, December 6 and December 14, 2006.

3.1.2.8. The “maintenance” work on Organisational Model 231 has continued, and has in fact been accelerated by the matters examined here. In particular:
- The Group 231 Steering Committee approved an addition to the control scheme for “Agents and Intermediaries”: the change (which is included in the corresponding standard contract form) prohibits the agent or intermediary from transferring a credit and/or giving mandate for payment, so as to ensure that only the agent or intermediary can be the actual recipient of the payment. Any derogations from this provision are to be highlighted in the quarterly information flows to the Supervisory Board, and payments made somewhere other than the residence/domicile/registered offices of the agent or intermediary are also to be highlighted.
- This amendment was extended to other control schemes within the Organizational Model with the approval of a similar modification to the control schemes relating to “Consultancy and Professional Services”, “Sponsorships” and “Acquisitions of goods and services”.
- With respect to “Consultancy and professional services”, the Company is checking, at the specific request of the Board of Statutory Auditors, the efficacy and efficiency of the current
procedure, paying particular attention to operations performed “in derogation”. Previously, on this same matter, the Executive Vice Chairman issued an order stating that recourse to derogations of the procedures envisaged in the Organisational Model 231 and, more general, in the internal control system, were prohibited – unless explicitly authorised by the Executive Vice Chairman himself. Subsequently, in January 2007, a special procedure for the management and payment of “non-system” invoices became operative, which provides for invoices relating to amounts exceeding a determined threshold, and in any cases where is deemed appropriate, regardless of the amount of the invoice, requiring the authorization by the Executive Vice Chairman. In addition a specific report is to be issued periodically checking and monitoring this issue.

3.1.2.9. As referred to in the COMMITTEE meeting of February 16, 2007, the re-organisation of the Security function has continued with the transfer of the IT Security technical activities to the technical auditing unit of TELECOM ITALIA AUDIT & COMPLIANCE SERVICES, concentrating the activities of Security on security and management of information (such as defining policies with respect to protection of information, identification of the owner of the process/system, etc.).

Revision of the qualification system for suppliers of “Investigation Services” is under way, and a corresponding review is under way for the qualification system of suppliers of “Executive Protection”, while the definition of a vendor rating procedure is under consideration, with the goal of evaluating the services of suppliers. Monitoring will be carried out in accordance with criteria established in the general procedures used by the Company in other areas, and will be based on the evaluations of technical, administrative and commercial quality.

3.2. Network security and services to the Judicial Authorities

“Judicial systems” are a combination of systems designed to deliver services to the Judicial Authorities pursuant to statutory provisions applying to all telecommunications operators. It should be noted that tapping activities pursuant to an order by Judicial Authorities take place outside of Company premises. The Company does not participate in tenders for the organization of monitoring centres, and only fulfils its legal obligations, imposed on all operators, to route the lines that competent Judicial Authorities have arranged to be monitored, to the pre-selected numbers indicated by the same Judicial Authorities.

3.2.1. The COMMITTEE examined this subject several times during 2006. In particular, during the meetings of March 30 and June 12, 2006, reference was made that:

a. the Company, after a significant reorganization in 2003, carried out a series of changes to its organisational structure in 2005 so as to offer a united, centralised interface with the Judicial Authorities, and to improve quality and timeliness of the service;

b. the relevant organization was rationalised with the creation of the JUDICIAL AUTHORITIES SERVICES Office (Funzione SERVIZI AUTORITÀ GIUDIZIARIA -
otherwise named SAG), through the integration in a unique centre of certain offices of the Company (already operating in the NATIONAL JUDICIAL AUTHORITY CENTRE, CENTRO NAZIONALE AUTORITÀ GIUDIZIARIA - CNAG, within the Security function) and TIM (Telecom Italia’s subsidiary focused on mobile services, which had been merged with and into Telecom Italia), dedicated to mandatory services for Judicial Authorities. SAG’s responsibility was placed under the responsibility of the Legal Affairs Manager (organisational measures of November 25, 2005);

c. the adopted procedures protect Telecom Italia, as the actual tapping takes place in premises controlled by the Judicial Authorities. In particular, management confirmed that “the tapping issue is fully under control, and does not represent a problem” (COMMITTEE meeting of June 12, 2006);

d. the support systems for the activity of intercepting mobile lines were granted certification by the company CSQ, applying standards defined by the BSI - British Standard Institute (standard ex BS7799, equivalent to ISO 27001).

3.2.2. In conclusion, the “tapping” issue, in the strictest sense, has never been a critical problem according to the information supplied to the COMMITTEE.

3.2.3. There is a more general problem of protection of privacy with reference to the treatment of judicial data and the management of the flow of information relating to mandatory services supplied to the Judicial Authorities; on December 15, 2005 the Privacy Authority addressed a specific ruling to all operators, and prescribed the adoption, within 180 days, of specific measures designed to guarantee and increase protection of managed data. The requirements (concerning organisational aspects; the security of the flow of information to and from the Judicial Authorities; and the protection of data used for judicial purposes) relate to the form and authenticity of the Judicial Decrees to commence activities, the methods of transmission of the corresponding documentation, the management of the authorisation profiles and the attribution of access rights to the IT resources. Issues which, at least with respect to the first two topics, require cooperation with the Judicial Administration.

On June 20, 2006 Telecom Italia responded to the ruling of December 15, 2005, submitting a report on compliance with the requirements (which were only partially met, as some of them required, for their implementation, the Judicial Authorities’ offices also to meet suitable technical requirements).

On September 20, 2006 the Privacy Authority issued a new ruling regarding services provided to the Judicial Authorities, ordering all telephone operators to complete the implementation, within 90 days, of the directions under the aforementioned ruling of December 15, 2005, and aimed at safeguarding data and flow of information relating to activities connected with the services supplied to the Judicial Authorities.

3.2.4. The Company requested the advice of KPMG Advisory on services to the Judicial Authorities. In the meeting of October 31, 2006 KPMG Advisory reported their findings to the COMMITTEE:

a. the lack of an overall plan, complete and updated, of the IT applications within the area of SAG;

b. that the Circe system (i.e. the software for the execution of mandatory services to be supplied to the Judiciary in the mobile sector) evidenced
some weaknesses, which could cause potential security risks, as well as
difficulty in the ex-post verification of consistency of activities carried out
with the competent authorities’ requests;
c. there was a lack of continuity in the integration process between the
systems for wired network and those applying to the mobile services.

However, in the meeting of February 16, 2007, management reported to the
COMMITTEE the results of the review that had been carried out since October 31,
2006. Based on the assessment performed to date, 23 systems were identified
that are used exclusively to comply with Judicial Authorities’ requests, and 14
systems were identified that support the supply of mandatory services to the
Judicial Authorities on a non-exclusive basis. In the meantime, the project aimed
at compliance with the ruling by the Privacy Authority of September 20, 2006 was
substantially concluded within the prescribed deadline. Such compliance was
confirmed to the Authority in a special document filed on December 22, 2006.
Such report indicated that the correct operation of the implemented solutions
depends on the adoption by the Judicial Authorities’ offices of suitable equipment
for the reception and sending of communications in accordance with the secure
protocols that have been defined.

3.2.5. In addition, assessment activities over the medium term continue in order to
rationalise and integrate the various current structures and procedures. Both the
systems used for mandatory services and the support systems are undergoing
analysis and evaluation of the IT applications used and the relative processes
that are managed, in order to determine, with the advice of KPMG Advisory,
possible risks and areas for improvement.

3.3. Traffic data, privacy and information on employees

3.3.1. This subject came to the attention of the COMMITTEE at the beginning of 2006,
when an increase of improper dissemination of clients’ personal data (traffic data)
by disloyal employees occurred. A new case, in particular, presented a significant
difference to past cases. Until that time, each time these events occurred, the
person responsible was quickly identified and subjected to disciplinary actions,
including dismissal. In the new case, however, the Company was unable to
identify the person responsible.

Taking this into account, in March 2006 the CEO, Carlo Buora, held a managerial
work team on the subject of security and protection of traffic data. The analyses
by this group concluded that, in particular, the planning of the systems that
manage the traffic data was incomplete, with consequential unavailability of
information on the number of individuals authorised to access such data.

3.3.2. During the COMMITTEE meeting of June 12, 2006 management indicated its
confidence in the quality of the relevant controls. (As pointed out in the memo
distributed during the meeting, “It is, however, important to highlight how the
control systems are correct in the sense that, in retrospect, the extracted log files
have allowed for the certain identification of the perpetrators of offences, both in
the cases of violations carried out by personnel from offices servicing the Judicial
Authorities, and in the cases of personnel from other offices”).
3.3.3. However during the aforementioned meeting, the COMMITTEE was informed that, during inspections by officers of the Privacy Authority, it emerged that an existing system (Radar) did not comply with company security standards, nor to legal requirements. The Company, however, had immediately arranged to block the Radar system from further use and reported the occurrence to the Judicial Authorities.

3.3.4. On June 1, 2006, after an appeal by a client, the Privacy Authority ordered the Company to adopt, within 120 days, a set of protective measures for traffic data, in the absence of which the Company should stop handling the data.

3.3.5. The Company’s response, with respect to a situation that proved to be different and more worrisome than had been previously understood, took the form of:
   a. a mandate to KPMG Advisory for the independent audit and analysis of the security of the processes and the IT systems of the Company, with particular reference to traffic data;
   b. the definition of a project with a more general scope, addressing the entire company organisation, dealing with the three levels of strategy, coordination and operation, which focused on 132 company applications. According to technological suppliers, Telecom Italia’s initiative was likely to be unprecedented on a worldwide basis, and certainly it was a first for Italy, as far as dealing with these kinds of issues in a large scale operational context;
   c. an undertaking (already carried out) representing Company internal resources of 2 million man/hours, with an estimated investment of over 30 million Euros for 2006 (7 million Euros for the years 2007-08).

On September 29, 2006 a document was filed with the Privacy Authority, describing the activities completed, the initiatives that were on-going and relevant technical problems (due in part to Italian legal requirements with respect to digital signatures that are particularly burdensome). On October 30, 2006 an update document was likewise submitted describing the activities carried out to date.

In the COMMITTEE meeting of December 12, 2006, Management reported that the activities completed to date to address compliance with the Authority ruling dated June 1, 2006 had made the applicable systems fully compliant with relevant privacy requirements which - according to management’s evaluation - were relevant to allow the Company to continue the effective operation of its business.

3.3.6. At the COMMITTEE meeting of December 12, both KPMG Advisory and the Company’s IT Governance manager presented a further update on the actions taken since October 31, 2006, and on the timing of those still in progress.

3.3.7. With a measure dated December 7, 2006 the Privacy Authority resolved to extend, until March 31, 2007, the deadline for completing the requirements set forth in the order of June 1, 2006. The corrective work carried out by the Company has thus been positively appreciated.

3.3.8. In the meeting of February 16, 2007, with reference to systems which deal with traffic data, the COMMITTEE was informed that, with respect to the 35 applications that were still critical at September 30, 2006, required remedies have now been carried out for 31 applications. The correction of the remaining 4 applications (systems that supply added-value services, that are complex but of low
importance) will be completed well before the deadline provided by the extension order of December 7, 2006. As required by the above-mentioned extension order, an update document on the status of these activities was submitted to the Authority on January 31, 2007.

3.3.9 The COMMITTEE, on reading the Warrant, also learned about collection of information on employees. In particular, according to the Warrant (which contains very harsh words in this respect), the Security department had collected information on a certain number of employees during the period February – August 2004.

3.3.10 The enquiry carried out by the Human Resources Management showed that:
   a. the controls were arranged at the initiative of Tavaroli, who asked the Wireline Human Resources Department for lists of candidates for employment in order to allegedly counter the risk of terrorist infiltration.
   b. in two cases indication of non-suitability were notified to the Wireline Human Resources Department (verbally). The two candidates were not hired;
   c. Human Resources Management declared it ignored the enquiry methods used by Tavaroli.

3.3.11 In the report by Gustavo Bracco, Head of the Group’s Human Resources function, it was specified that “there is no policy on the subject, nor any instruction was given to this end by those in charge of human resources management”.

3.4. Recently, the press reported some criticism regarding the way the Company met requests from the Judicial Authorities with reference to the episode of unauthorized access to the RCS computer network: the enquiries carried out by the management concluded that there have not been delays, but evidenced that some of the responses to the Judicial Authorities were provided by Mr. Ghioni, who is currently under arrest for alleged crimes committed in relation to the unauthorized access to RCS’s computer network.

3.5 Professor Avv. Francesco Mucciarelli, an expert in criminal law, expressed his opinion on the possibility of Telecom Italia being held responsible under Italian Legislative Decree 231/01 for the facts under the Warrant. Professor Avv. Mucciarelli gave a negative reply to this question.

As among the alleged offences in the Warrant, only the episodes of corruption are covered by Legislative Decree 231/01, and Mr. Tavaroli, sole ex-employee of Telecom Italia under investigation for corruption, is to be considered (by way of a conservative interpretation) a top manager (“apical subject” as per Legislative Decree 231), the alleged corruption, according to current knowledge, only refers to the giving of a sum of money to public officials by Mr. Cipriani, through Italian and foreign companies reporting to him, for the acquisition of information not legitimately available to third parties.

Professor Mucciarelli observed that no notification has been given to Telecom Italia under d.lgs. 231/01, in that the illegal actions performed appear to have been committed to the detriment of the Company and not to its advantage or in its interests; in this consideration it is apparent that the illegal conduct has occurred without the knowledge of the company management.
On the other hand, the offences alleged, and in particular the offence of association and fraud, conflict with the interests of the Company, and would give basis to the hypothesis that they were carried out through methods aimed at concealing their true nature. This latter consideration seems to Professor Mucciarelli particularly significant, in that one of the requirements for exclusion of direct responsibility of the corporation, when the deed is committed by a top manager, consists in the fraudulent evasion of existing organisational models.

Obviously the opinion of the Professor is based on publicly available information and certain Judicial Authority’s evaluations of the relevant facts and their qualification as criminal acts, which have yet to be declared final and proven in court.

4. Proposals

4.1. The COMMITTEE, on the basis of the information received from Management and advisors, as well as considering the measures taken by the Judicial Authority and the Privacy Authority, believes it necessary that the actions already in progress be integrated and strengthened in order to ensure confidence in the organization and the correctness of the Company’s behaviour.

In this respect it is necessary to start and/or finalize the following initiatives as soon as practicable:

4.1.1. full compliance with the Privacy Authority’s requirements under the measure of June 1, 2006 (deadline extended to March 31, 2007), by performing the plan of actions already initiated;

4.1.2. immediate implementation of the measures identified by the management with the support of KPMG Advisory, as per their advisory report on the state of Company IT procedures and systems with respect to security (under §3.3.6);

4.1.3. ascertaining the reasons that prevented suitable perception of the risks connected to compliance with privacy regulation, and proposal for subsequent measures;

4.1.4. completion of the enquiry by Reconta Ernst & Young on how (if at all) the findings in the Security sector affect the Company’s financial statements;

4.1.5. assessment of the organization of the Security function being adequate, taking into account the remedies already implemented, with particular attention to the respect of operational correctness and the efficiency of controls;

4.1.6. evaluation of the efficiency level of the solutions set forth by the Organizational Model 231 on the subject of consultancy;

4.1.7. determination if the Tavaroli issue may still affect the Company. And in particular: (i) understand the references in the Warrant to Tavaroli’s position after May 2005 (“according to documents, it results that for a certain period, even after his distancing from the management of the Security sector, he maintained an active role in Telecom, operating, in particular, from Romania”)[page 337], and (ii) verify if, subsequent to May 2005, Company employees or
officials have, no matter what the responsibilities of Tavaroli as a consultant were, allowed Tavaroli to access company data; and

4.1.8. determination if any office or any individual employee / consultant of the Company in any way facilitated the acquisition and treatment of confidential data, or data however unrelated to the professional aptitude, of perspective employees; adoption of procedures to ensure respect of applicable security regulations.
## TABLE 1: BOARD OF DIRECTORS AND BOARD COMMITTEES

<table>
<thead>
<tr>
<th>Board of Directors</th>
<th></th>
<th></th>
<th></th>
<th>Internal Control Committee (i)</th>
<th>Remuneration Committee (ii)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Position</td>
<td>Name</td>
<td>Executive director</td>
<td>Non-executive director</td>
<td>Independent director</td>
<td>Number of other positions held **</td>
</tr>
<tr>
<td>Chairman</td>
<td>Guido Rossi</td>
<td>✗</td>
<td>100%</td>
<td>---</td>
<td></td>
</tr>
<tr>
<td>Deputy Chairman</td>
<td>Carlo Orazio Buora</td>
<td>✗</td>
<td>87%</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Deputy Chairman</td>
<td>Gilberto Benetton</td>
<td>✗</td>
<td>87%</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>Managing Director and General Manager</td>
<td>Riccardo Ruggiero</td>
<td>✗</td>
<td>100%</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Director</td>
<td>Paolo Baratta</td>
<td>✗ ✗</td>
<td>100%</td>
<td>1</td>
<td>✗</td>
</tr>
<tr>
<td>Director</td>
<td>John Robert Sotheby Boas</td>
<td>✗ ✗</td>
<td>75%</td>
<td>---</td>
<td></td>
</tr>
<tr>
<td>Director</td>
<td>Diana Bracco†</td>
<td>✗ ✗</td>
<td>86%</td>
<td>---</td>
<td></td>
</tr>
<tr>
<td>Director</td>
<td>Domenico De Sole</td>
<td>✗ ✗</td>
<td>87%</td>
<td>2</td>
<td>✗</td>
</tr>
<tr>
<td>Director</td>
<td>Francesco Denozza *</td>
<td>✗ ✗</td>
<td>100%</td>
<td>2</td>
<td>✗</td>
</tr>
<tr>
<td>Director</td>
<td>Luigi Fausti</td>
<td>✗ ✗</td>
<td>100%</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Director</td>
<td>Guido Ferrari *</td>
<td>✗ ✗</td>
<td>100%</td>
<td>2</td>
<td>✗</td>
</tr>
<tr>
<td>Director</td>
<td>Jean Paul Fitoussi *</td>
<td>✗ ✗</td>
<td>100%</td>
<td>---</td>
<td></td>
</tr>
<tr>
<td>Director</td>
<td>Vittorio Merloni†</td>
<td>✗ ✗</td>
<td>86%</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Director</td>
<td>Gianni Mion</td>
<td>✗</td>
<td>100%</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>Director</td>
<td>Massimo Moratti</td>
<td>✗</td>
<td>87%</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Director</td>
<td>Marco Onado</td>
<td>✗ ✗</td>
<td>87%</td>
<td>1</td>
<td>✗</td>
</tr>
<tr>
<td>Director</td>
<td>Renato Pagliaro</td>
<td>✗</td>
<td>100%</td>
<td>6</td>
<td></td>
</tr>
</tbody>
</table>

† Appointed Director on April 13, 2006
## Board of Directors

<table>
<thead>
<tr>
<th>Position</th>
<th>Name</th>
<th>Executive director</th>
<th>Non-executive director</th>
<th>Independent director</th>
<th>Number of other positions held</th>
<th>Internal Control Committee (i)</th>
<th>Remuneration Committee (ii)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Director</td>
<td>Pasquale Pistorio *</td>
<td>X</td>
<td>X</td>
<td>100%</td>
<td>2</td>
<td></td>
<td>X 100%</td>
</tr>
<tr>
<td>Director</td>
<td>Carlo A. Puri Negri</td>
<td>X</td>
<td>75%</td>
<td></td>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Director</td>
<td>Luigi Roth</td>
<td>X</td>
<td>X</td>
<td>87%</td>
<td>3</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(i) The Preda Code recommends that the Internal Control Committee should consist of non-executive directors, of whom the majority should be independent. Telecom Italia has gone further by establishing in its Self-Regulatory Code that the Committee for Internal Control and Corporate Governance is to consist exclusively of independent directors, of whom at least one elected from a slate presented by minority shareholders in accordance with the bylaws.

(ii) Whereas the Preda Code recommends that the Remuneration Committee should consist prevalently of non-executive directors, in its Self-Regulatory Code Telecom Italia has gone further by providing for it to consist exclusively of non-executive directors, of whom at least one elected from a slate presented by minority shareholders in accordance with the bylaws.

Number of meetings held during the year under review

- **Board of Directors:** 8
- **Internal Control Committee:** 15
- **Remuneration Committee:** 5

### NOTES

* Directors elected from minority slates.

** Number of other financial, banking and insurance companies listed on regulated markets in Italy or abroad of which the director is a member of the board of directors or the board of auditors. The Corporate Governance Report provides details on the positions held.

*** The director is a member of this Committee.

**** The director’s attendance at meetings of the board of directors or the board committee in question, as a percentage of the meetings held.
### TABLE 2: BOARD OF AUDITORS

<table>
<thead>
<tr>
<th>Position</th>
<th>Name</th>
<th>Attendance, as a percentage of the meetings held</th>
<th>Number of other positions held **</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairman</td>
<td>Paolo Golia *</td>
<td>94%</td>
<td>---</td>
</tr>
<tr>
<td>Auditor</td>
<td>Enrico Maria Bignami¹ *</td>
<td>100%</td>
<td>1</td>
</tr>
<tr>
<td>Auditor</td>
<td>Ferdinando Superti Furga</td>
<td>88%</td>
<td>3</td>
</tr>
<tr>
<td>Auditor</td>
<td>Salvatore Spiniello</td>
<td>81%</td>
<td>4</td>
</tr>
<tr>
<td>Auditor</td>
<td>Gianfranco Zanda</td>
<td>97%</td>
<td>---</td>
</tr>
<tr>
<td>Alternate</td>
<td>Enrico Laghi</td>
<td>=</td>
<td>=</td>
</tr>
</tbody>
</table>

Number of meetings held during the period under review: **32**

Quorum for minority shareholders to present a slate for the election of one or more auditors: **1%**

**NOTES**

* Elected from a minority slate.

** Number of other companies listed on regulated markets in Italy of which the auditor is a member of the board of directors or the board of auditors. The Corporate Governance Report provides details on the positions held.

¹ Who took over in the office of Auditor as October 20, 2006
<table>
<thead>
<tr>
<th>Delegations of authority and transactions involving related parties</th>
<th>YES</th>
<th>NO</th>
<th>Summary explanation in the case of non-compliance with Code provisions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Has the board of directors delegated authority and defined:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) limits applicable thereto?</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) manners of exercise applicable thereto?</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) reporting frequency applicable thereto?</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Has the board of directors retained the power to review and approve transactions of particular significance for the company’s profitability, assets and liabilities or financial position (with special reference to transactions involving related parties)?</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Has the board of directors defined guidelines and criteria for the identification of “transactions of particular significance”?</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Are these guidelines and criteria described in the Report?</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Has the board of directors defined procedures for the review and approval of transactions involving related parties?</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Are the procedures for approval of transactions involving related parties described in the Report?</td>
<td>X</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Procedures followed for the most recent appointments to the board of directors (May 6 2004) and the board of auditors (April 13 2006)</th>
<th>YES</th>
<th>NO</th>
<th>Summary explanation in the case of non-compliance with Code provisions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Were the proposals for the appointment to the position of director deposited at the company’s offices at least 10 days ahead of time?</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Were these proposals accompanied by detailed information?</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Did these proposals provide information on candidates’ eligibility to qualify as independent directors?</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Question</td>
<td>Yes</td>
<td>No</td>
<td>Summary explanation in the case of non-compliance with Code provisions</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------</td>
<td>-----</td>
<td>----</td>
<td>------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Were the proposals for the appointment to the position of member of the board of auditors deposited at the company’s offices at least 10 days ahead of time?</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Were these proposals accompanied by detailed information?</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td><strong>Shareholders’ Meetings</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Has the company adopted rules of procedure for its shareholders’ meetings?</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Are these rules of procedure attached to the report (or does the report indicate where such rules can be obtained/downloaded?)</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td><strong>Internal Controls</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Has the company appointed persons to run its internal control system?</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Are these persons not placed hierarchically under managers in charge of business units or operations?</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Unit in charge of internal controls</td>
<td></td>
<td></td>
<td>Telecom Italia, since 2002, has appointed its internal auditor – Telecom Italia Audit &amp; Compliance Services in the person of the Chairman, Mr. Armando Focaroli – to run its internal control system. The functions assigned include verifying the adequacy and efficiency of the system and proposing solutions where anomalies are found.</td>
</tr>
<tr>
<td><strong>Investor Relations</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Has the company appointed an individual in charge of Investor Relations?</td>
<td></td>
<td>X</td>
<td></td>
</tr>
</tbody>
</table>
| Unit and contact information (address/phone/fax/e-mail) for the company’s Investor Relations person |     |    | Institutional investors:  
Telecom Italia S.p.A.  
Investor Relations  
Piazza degli Affari, 2  
20123 Milan  
Tel.: +39 02 85954131  
E-mail: investor_relations@telecomitalia.it  

Individual investors:  
Telecom Italia S.p.A.  
Investor Relations  
Piazza degli Affari, 2  
20123 Milan  
Tel.: +39 02 85954131  
E-mail: investitori.individuali@telecomitalia.it |