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ANNUAL REPORT ON CORPORATE GOVERNANCE

PART ONE

1. Profile of the company

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

2. Structure of the paid-up capital

The subscribed and paid-up share capital on December 31, 2007 was equal to euro 10,673,793,335.70, divided into 13,380,776,313 ordinary shares with a par value of euro 0.55 each and into 6,026,120,661 savings shares with a par value of euro 0.55 each (Table 1).

The Company's ordinary and savings shares are listed on the New York Stock Exchange in the form of American Depositary Shares, each of which corresponds to 10 ordinary shares or 10 savings shares as the case may be, represented by American Depositary Receipts issued by JPMorgan Chase Bank.

Table 2 shows the bonds issued by the Company that give holders the right to subscribe for newly issued shares.

For information on Telecom Italia's existing stock option plans and the capital increases for their implementation, see the notes to Telecom Italia's financial statements for the year ended December 31, 2007.

3. Restrictions on the transfer of securities

The bylaws contain no restrictions on shares being freely available, except for what is laid down in Article 22 (consultable in the Governance section of the Company's website www.telecomitalia.it) concerning the special powers of the Ministry for the Economy and Finance under Law 474/1994 (see below).

4. Significant shareholdings

According to the Shareholders' Book, the notifications made to Consob and the Company pursuant to Article 120 of Legislative Decree 58/1998, and other information in the Company's possession, the significant holdings of Telecom Italia's ordinary share capital are:

Declarant	Type of ownership	% of ordinary shares	% of voting shares
Telco S.p.A.	Direct	23.595	23.595
Hopa S.p.A.	Direct and indirect	3.721	3.721
• Hopa S.p.A.		0.039	0.039
• Holinvest S.p.A.		3.682	3.682
J.P. Morgan Chase & Co.	Indirect	2.045	2.045
• J.P. Morgan Securities Ltd.		2.045	2.045
Findim Group S.A.	Direct	2.008	2.008

It should be noted that J.P. Morgan Securities Ltd. holds 1.235% of its total portfolio of shares as a borrower; at the same time J.P. Morgan Chase & Co. has notified Telecom Italia that it is the lender of a holding equal to 0.401% of the Company's share capital.

On May 2, 2007 the US investment advisor Brandes Investment Partners, LP disclosed the availability, in its capacity as an asset manager, of 545,945,668 ordinary shares, equal to 4.08% of Telecom Italia's ordinary share capital.

5. Securities giving special rights

No securities are issued giving special rights with regard to the control of Telecom Italia.

A description follows of the special powers – under Article 2.1 of Decree Law 332/1994, ratified with amendments by Law 474/1994, replaced by Article 4.227 of

Law 350/2003 and included in Article 22 of the bylaws – exercisable by the Minister for the Economy and Finance in agreement with the Minister for Productive Activities:

- a) to oppose the acquisition of holdings equal to at least 3% of the share capital represented by shares with a right to vote in ordinary shareholder's meetings. The objection must be made within ten days of the date of the communication that the directors must send at the time of the application for entry in the shareholders' register if the Minister deems that the transaction is prejudicial to the vital interests of the state. During the interval for the exercise of the right of objection the voting rights and any rights other than the property rights shall be suspended. In the event of the exercise of the right of objection, by means of a measure giving the reasons, the transferee may not exercise the voting rights or any rights other than the property rights and must sell the shares within one year; if this is not done, the Court, at the request of the Minister for the Economy and Finance, shall order the sale of the shares pursuant to the procedures established in Article 2359-ter of the Civil Code. The measure exercising the power of objection may be appealed within sixty days by the transferee before the Lazio Regional Administrative Court;
- b) to veto, giving the reasons in relation to the actual prejudice caused to the vital interests of the state, the adoption of resolutions to dissolve the Company, transfer the business, merge or divide the Company, transfer the registered office outside Italy, change the corporate object, or amend these bylaws with a view to eliminating or modifying the special powers. The measure exercising the power of veto may be appealed within sixty days by the transferee before the Lazio Regional Administrative Court.

The right of objection referred to in subparagraph a) may be exercised with reference to the cases specified in Article 4.228 of Law 350/2003. The special powers referred to in subparagraphs a) and b) shall be exercised in conformity with the criteria established by the decree issued by the President of the Council of Ministers on June 10, 2004.

6. Employee share ownership: mechanism for exercising voting rights

At present there is no programme promoting employee share ownership.

7. Restrictions on voting rights

Without prejudice to the Minister for the Economy and Finance's power of objection to the acquisition of shareholdings exceeding 3% of the voting capital (see above), there are no restrictions on exercising the voting rights attaching to Telecom Italia ordinary shares.

Savings shares do not carry the right to vote in ordinary shareholders' meetings.

8. Shareholders' agreements

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

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

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

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

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

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

telecommunications services in the Brazilian market; and (ii) in compliance with adequate confidentiality obligations for the delivery of a copy of the agendas and minutes of the meetings to the appointed officers of TIM Celular S.A. and Tim Nordeste S.A. with a view to their delivery by the latter to the Brazilian regulator for the telecommunications industry within a time limit of 30 days.

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

9. Appointment and replacement of directors and bylaw amendments

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

The Board of Directors is elected as follows:

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

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

The procedure summarized above is the subject of some amendments that will be submitted to the shareholders' meeting called on April 12, 13 and 14, 2008. In particular, there is a proposal to relieve shareholders of the obligation to publish slates in daily newspapers at their own expense. In fact the manner of publicizing slates is now governed by Consob Regulation 11971/1999 on issuers, which requires the Company to bear the cost and to make slates and the accompanying documentation available to the public without delay at its registered office, at Borsa Italiana and on its website www.telecomitalia.it.

* * *

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

10. Mandates to increase the share capital and authorizations to purchase treasury shares

In accordance with Article 5 of the bylaws, for five years starting from May 6, 2004 the Directors may increase the share capital in one or more tranches by means of cash issues of up to a maximum of 1,600,000,000 ordinary shares, all or part of which:

- to be offered with the right of pre-emption to shareholders and holders of convertible bonds; or
- to be offered for subscription to employees of Telecom Italia S.p.A. or its subsidiaries.

The Board of Directors may also issue, in one or more tranches and for up to a maximum of five years from May 6, 2004, convertible bonds up to a maximum amount of euro 880,000,000.

* * *

The shareholders' meeting held on April 16, 2007 authorized the buyback of up to a maximum of 25,000,000 ordinary shares within eighteen months. The purchases must be made on regulated markets, in the manner and within the time limits prescribed by the applicable laws and regulations. The consideration must be between a minimum and a maximum corresponding to the weighted average of the official prices of the ordinary shares recorded by Borsa Italiana on the last ten trading days prior to the purchase, respectively decreased and increased by 10%.

The buyback authorization is for the implementation of the plan approved by the same shareholders' meeting to award Telecom Italia ordinary shares to the executive directors, managers reporting directly to them, and other persons holding strategic positions with an employment or collaboration relationship with Telecom Italia or its subsidiaries.

At December 31, 2007 the Company, which has not so far used the buyback authorization referred to above, held 1,272,014 Telecom Italia ordinary shares, corresponding to approximately 0.007% of the share capital. In addition, Telecom Italia Finance S.A. holds 124,544,373 Telecom Italia ordinary shares.

11. Change-of-control clauses

A series of agreements to which Telecom Italia is a party require the Company to notify any change of control.

In the first place this obligation – sometimes formulated according to applicable local law as a request for authorization – is contained in the concessions/licences to provide telecommunications services granted to foreign subsidiaries of the Group (notably in Bolivia and Brazil).

Telecom Italia is also a party to agreements in which change of control entails modification or even termination of the relationship. Some of these cases are subject to confidentiality constraints such that disclosure of the existence of the change-of-control clause would cause serious harm to the Company, which consequently invokes the right not to disclose its existence pursuant to the second part of paragraph 1.1 of Article 123-*bis* of the Consolidated Law on Finance. In other cases the agreement is deemed not to be material.

There remain the following cases, all of which concern loan agreements.

- Multi-currency revolving credit facility (euro 8,000,000,000). The loan agreement was concluded by Telecom Italia with a syndicate of banks on August 1, 2005 and subsequently amended. In the event of a change of control Telecom Italia must inform the agent within 5 business days and the agent, acting on behalf of the lending banks, will negotiate in good faith on how to continue the relationship. None of the parties are obliged to continue the negotiation beyond 30 days. If this time limit expires without an understanding, the facility will cease to be effective and Telecom Italia will be required to repay the amounts it has received (currently equal to euro 1,500,000,000). Conventionally, there is not deemed to be a change of control when control, as defined by Article 2359 of the Civil Code, is acquired: (i) by shareholders who at the date the loan agreement was signed held, directly and indirectly, more than 13% of the voting rights in the shareholders' meeting; (ii) by the investors (Telefónica, Assicurazioni Generali, Sintonia, Intesa Sanpaolo and Mediobanca) who on April 28, 2007 signed a shareholders' agreement in relation to Telecom Italia shares; or (iii) by some combination of the two categories referred to above;
- Term Loan facility (euro 1,500,000,000). The loan agreement was concluded by Telecom Italia with a syndicate of banks on December 8, 2004 and subsequently amended. The rules are basically the same as those of the facility referred to above. The total amount actually disbursed under this facility is currently equal to euro 1,500,000,000.
- bond loans. The terms and conditions of the loans issued under the EMTN Programme by Olivetti and Telecom Italia and of the loans denominated in US dollars typically provide that, in the event of a merger or the transfer of all or substantially all of the assets of the issuer or the guarantor, the merging company or the company to which the assets are transferred must assume all the obligations of the merged company or the company whose assets are transferred. Failure to fulfil the obligation, without this being remedied, constitutes an event of default;
- contracts with the European Investment Bank (EIB). The contracts concluded by Telecom Italia with the EIB, for a total maximum amount of approximately euro 2.5 billion, require Telecom Italia to notify the EIB promptly of changes concerning the

bylaws and the distribution of the capital among the shareholders capable of leading to a change of control. Provision is made for termination of the contract in the event of failure to make such notifications and when a shareholder who did not hold at least 2% of the capital when the contract was signed comes to hold more than 50% of the voting rights in the ordinary shareholders' meeting or of the share capital if the EIB reasonably considers that this may cause it harm or compromise the implementation of the project financed.

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

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

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

- the terms and conditions applied to the Executive Deputy Chairman were those contained in the agreement concluded on December 5, 2006 whereby:
 - in the event of his being appointed to the Board of Directors for the three years 2007-09 with powers basically analogous to those formerly entrusted to him and of the appointment being interrupted during the three years 2007-09 at the initiative of the Company (except in the case of just cause) or at the initiative of Mr. Buora for just cause (e.g. revocation of all or a significant part of his delegated powers, reasoned disagreement regarding the Company's strategies, the sale of all or a significant part of the reference shareholding, significant changes in the composition of shareholders, etc.), provision was made for the payment of the fixed and additional compensation that would have been due to him from the termination of the relationship to the end of his term of office as a director, supplemented by a penalty payment corresponding to a year's fixed compensation;
 - in the event of his not being appointed to the Board of Directors for the three years 2007-09, or of his not being entrusted with powers basically analogous to

those formerly entrusted to him, or of his ceasing to hold the position under Article 2386 of the Civil Code, provision was made for the payment of a gross amount equal to euro 4,400,000 (corresponding to two years' fixed compensation) as recognition of the professional and managerial contribution made to the Group since October 2001 (the start of Mr. Buora's relationship with Telecom Italia).

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

- as regards the CEO, who also held the position of General Manager and was linked to the Company by an employee relationship with the rank of manager, a private agreement was concluded at the time of his resignation providing for the consensual termination of the employment relationship against payment of a termination benefit incentive of euro 9,915,000 (comprising compensation for the contract notice period, the maximum penalty provided for by the contract for managers in the event of termination of the relationship without due cause, calculated on the basis of the components of compensation marked by continuousness /repetitiveness: manager's salary, compensation for the position, average of the short-term incentive of the three preceding years, and amount due under the retention plan approved earlier by the Board of Directors). The special circumstances that characterized the life of the Company in the last fiscal year and of the media attention it repeatedly received also suggested concluding an agreement whereby Mr. Ruggiero, against payment of euro 2 million (slightly more than a year's fixed compensation), renounced any future claim regarding his compensation as employee and director and the termination thereof, as well as any claim for damages of any kind whatsoever, including for harm to his image. Mr. Ruggiero is also constrained by a two-year covenant not to compete that was signed in 2002; the consideration due was disbursed in full while the relationship was still in force.

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

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

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

13. Compliance

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

* * *

As regards Telecom Italia's compliance with provisions of foreign law, it should be noted that – as specified in the Company's Self-Regulatory Code (consultable in the Governance section of the Company's website www.telecomitalia.it) – the Board of Statutory Auditors, in addition to performing the duties assigned by Italian law, performs the tasks entrusted to the audit committee under US law, to which Telecom

Italia is subject as a foreign issuer registered with the Securities and Exchange Commission and listed on the New York Stock Exchange. Accordingly, the Board of Statutory Auditors has established a procedure governing the receipt, retention and treatment of reports, complaints and concerns (consultable in the Governance section of the Company's website www.telecomitalia.it).

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

14. Direction and coordination

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

15. Composition of the Board of Directors

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

16. Cap on offices held in other companies

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

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

- are listed and included in the S&P/MIB index; and/or
- operate prevalently in the financial sector on a public basis; and/or
- engage in banking or insurance.

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

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

17. Role of the Board of Directors

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

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

* * *

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

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

- examining and approving strategic, business and financial plans and the budget of the Company and the Group;
- examining and approving strategic transactions and establishing general criteria for their identification (see below);
- verifying the adequacy of the organizational, administrative and accounting structure of the Company and the Group, with special reference to the internal control system;

- preparing and adopting the Company's corporate governance rules and drawing up the Group's governance guidelines;
- specifying the limits to delegated powers, the manner of exercising them and the frequency with which bodies with such powers must report to the Board of Directors on the activity performed in exercising them;
- nominating the persons who are to hold the offices of Chairman and CEO in strategic subsidiaries;
- assessing the overall performance of operations and periodically comparing the results achieved with those planned.

Pursuant and in addition to these principles, in the third quarter of 2007 the Board of Directors (without altering the duties and powers reserved to it by law, the bylaws, the delegation of powers and internal procedures) adopted and published criteria for identifying strategic transactions to be submitted to the Board for approval (the complete document can be consulted in the Governance section of the Company's website www.telecomitalia.it). These transactions include:

- agreements with competitors of the Group that, owing to the subject, the commitments, the conditionings and the limits capable of deriving from them, have a lasting influence on the freedom of strategic business choices;
- deeds and transactions that entail: (i) the entry into (or exit from) geographical and/or product markets;
- business investments and disinvestments exceeding euro 250 million; transactions that can lead in carrying them out or upon their completion to commitments and/or purchase and/or sale deeds of this nature and scale;
- purchase and sale deeds referring to companies or business units that are of strategic significance in the overall framework of the business or exceed euro 250 million; transactions that can lead in carrying them out or upon their completion to commitments and/or purchase and/or sale deeds of this nature and scale;
- purchase and sale deeds of controlling or affiliation shareholdings exceeding euro 250 million or (even if less) in companies carrying out activities included in the core business of the Group, and the conclusion of contracts for the exercise of rights attaching to such shareholdings; transactions that can lead in carrying them out or

upon their completion to commitments and/or purchase and/or sale deeds of this nature and scale;

- the taking out of loans and the granting of loans and guarantees in favour of non-subsidiary companies for amounts exceeding euro 250 million; transactions that can lead in carrying them out or upon their completion to commitments and/or deeds of this nature and scale;
- transactions referred to above to be carried out by unlisted subsidiaries of the Group, except for subsidiaries of listed subsidiaries;
- the listing on (delisting from) European and non-European regulated markets of financial instruments issued by the Company or companies belonging to the Group;
- the instructions to be given to listed subsidiaries (and their subsidiaries) in the performance of the Parent Company's direction and coordination function in relation to the carrying out of transactions having the characteristics referred to above.

* * *

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

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

The internal rules for related party transactions were revised by the Board of Directors in its meeting on March 6, 2008 with the introduction of a more comprehensive set of procedures. These are currently being deployed and will lead to a diversification of the decision-making roles and responsibilities according to the type of activity in question (whether or not deemed to be part of the ordinary course of business) and the manner of

determining the relationships with related parties (distinguishing between unalterable “other-directed” conditions, competitive procedures, and benchmarking procedures for ascertaining their “market” comparability). There has been no watering down – rather a strengthening with suitable reporting and oversight mechanisms – of the principles of transparency and verifiability of compliance with the criteria of substantial and procedural correctness.

* * *

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

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

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

As specified in the Self-Regulatory Code, in implementing the guidelines laid down by the Board of Directors, the Director in charge of internal controls (in 2007 the Executive Deputy Chairman, Carlo Buora, and, with effect from December 3, 2007, the Chairman, Gabriele Galateri di Genola) defines the instruments and procedures for the configuration of the internal control system and ensures its adaptation to changes in the operational environment and the applicable laws and regulations. The executive

directors, each with reference to the matters falling within the scope of his/her duties and in cooperation with the manager responsible for the preparation of the Company's financial reports for matters for which he/she is competent, must use the instruments and procedures referred to above to ensure the overall adequacy of the system and its practical effectiveness in a risk-based perspective that is also an essential component in the definition of the agenda of the Board of Directors.

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

* * *

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

* * *

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

- euro 114,000 to be paid to each director in office;
- an additional euro 70,000 to be paid to each member of the Internal Control and Corporate Governance Committee;
- an additional euro 40,000 to be paid to each member of the Remuneration Committee;

- an additional euro 20,000 to be paid to each member of the Strategy Committee, other than the Chairman and the CEO;
- an additional euro 20,000 to be paid to the director appointed to the Supervision Panel set up under Legislative Decree 231/2001.

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

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

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

* * *

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

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

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

18. Bodies with delegated powers

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 of Directors 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.

During 2007 and specifically after the shareholders' meeting held on April 16, which renewed the Board of Directors for one fiscal year, delegated powers were assigned. In addition to legal representation of the Company and powers of an organizational nature, the Chairman, Pasquale Pistorio, was entrusted with responsibility for:

- overseeing the process of establishing the strategic guidelines for the Company and the Group, with the assistance of the Executive Deputy Chairman and the CEO;
- submitting the strategic guidelines established in this way to the Board of Directors;
- supervising the preparation and implementation of business plans.

In addition to legal representation of the Company, the Executive Deputy Chairman, Carlo Orazio Buora, was entrusted with responsibility for: the overall governance of the Group, including the establishment, in agreement with the Chairman, of the strategic guidelines and the preparation, in agreement with the CEO, of the business plans implementing the Company and Group strategic guidelines approved by the Board of Directors.

Lastly, in addition to legal representation of the Company, the CEO, Riccardo Ruggiero, was entrusted with responsibility for: the coordination of operations and charged with the management and development of fixed and mobile telecommunications and Internet business.

Following the resignations of Pasquale Pistorio, Carlo Buora and Riccardo Ruggiero on December 3, 2007, the Board of Directors appointed Gabriele Galateri di Genola Chairman of the Board and Franco Bernabè CEO. In the same meeting the Board entrusted them, in conformity with their competences and powers under the law and the bylaws and with the general criteria for requiring authorization by the Board of

Directors of transactions that have a major impact on the activity of the Company and the Group, with additional powers, as follows:

- to the Chairman, in addition to legal representation of the Company, as provided for in the bylaws:
 - ✓ the responsibilities referred to in point 6.1 of the Company's Self-Regulatory Code and to that end – so that the Board of Directors can exercise, including through the Board committees, the general power of guidance and control on the activity of the Company and the Group – in particular:
 - supervision of the preparation of the strategic, business and financial plans and their development and implementation;
 - supervision of the design of organizational structures;
 - supervision of the economic and financial performance;
 - responsibility for overseeing the examination of the strategic guidelines for the internal control system;
 - ✓ organizational responsibility for the coordination of:
 - the following Group Functions: General Counsel and Corporate and Legal Affairs and Public Affairs;
 - Telecom Italia Audit and Compliance Services S.c.a.r.l.;
 - ✓ responsibility for disclosure to the market;
- to the CEO, in addition to legal representation of the Company, responsibility for the overall governance of the Company and the Group. In particular, the CEO is entrusted with:
 - ✓ responsibility for drawing up, submitting to the Board of Directors and subsequently developing and implementing the strategic, business and financial plans;
 - ✓ the definition of the organizational arrangements;
 - ✓ all the organizational responsibilities for ensuring the management and development of the business, through the coordination of the organizational aspects not entrusted to the Chairman;
 - ✓ “employer” responsibility for workers’ safety and health at the workplace;

- ✓ responsibility for data treatment in accordance with the rules on privacy.

19. Other executive directors

There are no other Telecom Italia directors qualifying as executive directors.

20. Independent directors

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

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

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

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

21. Lead Independent Director

As part of the revision of the Company's corporate governance mechanisms carried out early in 2007, the position of Lead Independent Director was formalized in the

Company's Self-Regulatory Code after being introduced in 2004 in accordance with international best practice and the indications provided by US practice.

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

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

22. Treatment of corporate information

Transparent relations with the market and the provision of accurate, clear and complete information are standards for the conduct of the members of the governing bodies, the management and all the employees of the Telecom Italia Group.

For this reason the Board of Directors has adopted a procedure for the internal management and external disclosure of documents and information concerning the Company, with special reference to inside information (consultable in the Governance section of the Company's website www.telecomitalia.it). The procedure governs the management of inside information concerning Telecom Italia, its unlisted subsidiaries and listed financial instruments of the Group and is addressed to all the members of the governing bodies, employees and outside collaborators of Group companies who have access to potentially inside information. It also gives instructions to all subsidiaries for the purpose of promptly obtaining the information needed for timely and correct compliance with public disclosure requirements. The procedure also governs the

register of persons with access to inside information referred to in Article 152-*bis* et seq. of Consob Regulation 11971/1999 on issuers.

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

23. Board committees

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

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

24. Strategy Committee

The aim of the creation of the Strategy Committee is to increase the involvement of the parent company's Board of Directors – while respecting the management's roles and responsibilities – in making strategic choices, in the light of the evolution of the competitive environment. Owing to the strong stimuli produced by technology and the evolution of consumer needs and behaviour, the sector in which Telecom Italia operates

is likely to undergo changes that are as rapid as they are radical. It is therefore a question of exercising close and effective oversight of the processes of repositioning and change imposed by the telecommunications market.

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

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

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

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

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

25. Nominations committee

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

Moreover, formalizing a practice already in use, since 2007 the Company's Self-Regulatory Code entrusts the Internal Control and Corporate Governance Committee with special powers when it is necessary to co-opt an independent director. In fact in

such cases it is this committee that proposes candidates for the Board of Directors to choose from to make the replacement.

26. Remuneration Committee

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

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

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

Again with reference to the remuneration of senior managers, the Remuneration Committee provided assistance to the Board of Directors in its decision to revoke the three-year 2006-08 cash incentive plan and recommended the adoption of suitable

mechanisms for aligning manager's interest with that of investors, by means of variable remuneration schemes based on medium-term results that are currently under study.

27. Directors' remuneration

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

* * *

For the executive directors in office until December 3, 2007 a part of their remuneration was linked to the economic results of Telecom Italia and the achievement of objectives established in advance by the Board of Directors. The Chairman and the Executive Deputy Chairman (who were not employees and received a fixed amount for the position equal to respectively euro 1,800,000 and euro 2,200,000) received short-term incentives equal to respectively euro 700,000 and euro 1,400,000, related on an on/off basis to the achievement of the budget objective for consolidated EBIT with positive Delta EVA, with the conditions and variability mechanisms referred to earlier. The CEO (who – in addition to the fixed amount for the position equal to euro 770,000 – received a salary in his capacity as General Manager and employee of the Company) participated in the short-term incentives (MBO) and their long-term equivalent (the so-called LTI cash plan) in the same way as the senior managers of the Group. The indemnities received by Mr. Buora (formerly Executive Deputy Chairman) and Mr. Ruggiero (formerly CEO) following their resignations with effect from December 3, 2007 are described in detail in Section 12.

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

* * *

The present Chairman and CEO, who are exclusively directors of the Company, receive a fixed amount for the position pursuant to paragraph 3 of Article 2389 of the Civil Code – in addition to that received pursuant to paragraph 1 of Article 2389 of the Civil

Code – equal to respectively euro 1,300,000 and euro 1,400,000, as well as a payment for retirement benefits equal to 10% of the fixed compensation for the CEO.

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

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

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

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

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

In November 2007 the Board of Directors approved the cancellation of the three-year 2006-08 cash incentive plan with effect from 2007 and with payment of the amounts accrued. Consequently, pending the implementation of the performance-based equity award plan approved by the shareholders' meeting held on April 16, 2007, there is currently no medium to long-term incentive plan in operation for the senior management of the Group.

* * *

After the adoption of a first resolution on March 7, 2006, on February 16, 2007 the Board of Directors named the following Telecom Italia managers as having strategic responsibilities:

- ✓ the executive directors;
- ✓ the general managers of the Company;
- ✓ the pro tempore heads of the following Group Functions: Public Affairs, Finance Administration and Control, General Counsel & Corporate and Legal Affairs, Human Resources Organization and Security (now Human Resources Organization and Industrial Relations), Purchasing, Strategy and International Affairs;
- ✓ the head of the Mobile Business Unit.

and delegated the Executive Deputy Chairman (now the CEO) to update the list when necessary in the light of organizational developments and/or managerial turnover and to report to the next meeting of the Board of Directors.

The creation of the Business Strategies & International Development Function in January 2008 required the adjustment of the list of Telecom Italia managers having strategic responsibilities to take account of the new arrangements. The head of the new function has been recognized as having strategic responsibilities, while the Strategy and International Affairs Functions have been merged into the new function and their heads (respectively Filippo Bettini and Giampaolo Zambelletti) are no longer recognized as having strategic responsibilities.

The list of managers with strategic responsibilities in 2007 is given below:

- Massimo Castelli (General Manager and Head of Domestic Fixed Services);
- Luca Luciani (General Manager and Head of Mobile Fixed Services);
- Enrico Parazzini (General Manager and Head of Finance Administration and Control);
- Stefano Pileri (General Manager and Head of Technology, now Technology & Operations);
- Paolo Annunziato (Head of Public Affairs) as of May 25, 2007;
- Filippo Bettini (Head of Strategy) as of February 16, 2007;
- Gustavo Bracco (Head of Human Resources Organization and Security, now Human Resources Organization and Industrial Relations);
- Franco Rosario Brescia (Head of Public Affairs) as of May 24, 2007;
- Antonio Campo Dall'Orto (Head of Business Unit Media) as of March 8, 2007;
- Francesco Chiappetta (Head of General Counsel & Corporate and Legal Affairs);
- Germanio Spreafico (Head of Purchasing);
- Giampaolo Zambelletti (Head of International Affairs) as of February 16, 2007.

In 2007 the total remuneration disbursed by Telecom Italia and its subsidiaries, for any reason and in any form, to the managers with strategic responsibilities amounted to euro 8,893,000. This does not include the euro 32,010,000, shown in Note 42 to Telecom Italia's annual financial statements, paid to the executive directors and general managers who held office in 2007, even for only a part of the year.

28. Internal Control and Corporate Governance Committee

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

Committee, meetings were often preceded or accompanied by informal technical meetings devoted to preparatory work and/or analysis.

The composition of the Committee is shown in Tables 5 and 6. The inclusion of at least one member with accounting and financial experience is guaranteed – in the form of training and professional experience – by Paolo Baratta (Chairman), Domenico De Sole and Luigi Fausti.

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

- evaluates the adequacy of the internal control system;
- evaluates the work plan prepared by the person responsible for internal control, from whom it receives periodic reports (on a quarterly basis);
- evaluates the proposals made by the external auditors in order to be awarded the appointment, the audit plan and the results set out in any letter of suggestions;
- reports to the Board of Directors on the activity performed from time to time and in any case on the adequacy of the internal control system on the occasion of the meetings held to approve the annual financial statements and the half-yearly report;

In Telecom Italia the Committee also:

- monitors compliance with the rules of corporate governance and their periodic updating.
- express its opinion on the proposals for appointing, removing and assigning duties to the person responsible for internal control and the manager responsible for preparing the Company's financial reports;
- in cases of substitution of an independent director, proposes the candidates for co-optation to the Board of Directors;

- defines the procedures and time limits for conducting the “board performance evaluation”;
- performs the additional tasks that may be assigned to it by the Board of Directors.

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

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

An update on these matters is provided in Part Two of this report.

The activity involved careful oversight of initiatives and of compliance with the rules on privacy, later extended to include observance of antitrust and sector regulations, with a thorough analysis of the administrative proceedings and disputes with competitors in which the Company is involved. Again with reference to compliance with the law, the Committee closely followed the work of maintaining and updating the so-called 231 Organizational Model (see below).

Turning to internal controls over financial reporting, the Committee oversaw the evolution of the so-called 404 Project, which allowed the top management to vouch for the effectiveness of the above-mentioned controls at December 31, 2006 in the Company’s Form 20-F for the year 2006, published in June 2007. The Committee also agreed with the solution of merging the activities to ensure compliance with Section 404 of the Sarbanes Oxley Act (which as of 2006 requires registered foreign issuers to prepare a management report on internal controls over financial reporting) with the corresponding initiatives serving – as of the 2007 annual financial statements – to guarantee compliance with Article 154-*bis* of the Consolidated Law on Finance (declaration by the CEO and the manager responsible for preparing the Company’s financial reports on the adequacy and application of the administrative and accounting

procedures for the preparation of the company and consolidated annual financial statements.

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

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

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

29. Internal control system

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

section of the Company's website www.telecomitalia.it). The aim of the process is to ensure that the management of the business is efficient and can be known and verified, that accounting and operational data are reliable, that applicable laws and regulations are complied with, and that the assets of the business are safeguarded, not least with a view to preventing fraud against the Company and financial markets. The cardinal rules of the Company's internal control system concern:

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

As the body responsible for the internal control system, the Board of Directors lays down the guidelines for the system and verifies its adequacy, efficacy and proper functioning, while making sure that the main operational, compliance, economic and financial risks are appropriately identified and managed.

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

In 2005 the position of Group Compliance Officer was created with a view to better coordinating the development and maintenance of the internal control system. The Group Compliance Officer performs a role of liaison and coordination among the plans for the improvement of the Group's internal control system and is responsible for monitoring and facilitating the relationship between management and the internal

control system, so as to guarantee, with the assistance of Telecom Italia Audit & Compliance Services, methodological correctness in the management of risk.

As regards internal controls over financial reporting, reference is made to what was said earlier in describing the activity of the Internal Control and Corporate Governance Committee: thanks to the implementation of the 404 Project, which involves the whole Group, the Company has equipped itself with the instruments and means needed to ensure the exact fulfilment of the requirements concerning attestations “on internal control over financial reporting” for foreign issuers, starting from the Annual Report for 2006, which contains a declaration to the effect that the control system for accounting matters is effective and the external auditor issued an attestation on the basis of the standards laid down by the Public Company Accounting Oversight Board. As indicated above, the Company has drawn on the substantial work done to fulfil the transparency requirements introduced by Article 154-*bis* of the Consolidated Law on Finance, which to a large extent correspond to the US requirements.

The Company’s internal control system is completed by the so-called 231 Organizational Model, which Telecom Italia considers to provide a paradigm for the conduct of all those who act in the Company’s name and on its behalf and designed to ensure the effective performance of entrepreneurial activity by forestalling – notably, through the application of the principles established by Legislative Decree 231/2001 – situations and behaviour that are potentially harmful to the Company. As explained in earlier annual reports on corporate governance, the model comprises “principles for dealings with governmental bodies” (elaborated as a set of rules for relations with representatives of such bodies) and “internal control checklists” listing:

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

As reported in more detail below, in 2007 the 231 Organizational Model was updated and upgraded. Some interventions were made necessary by changes in the law, while others were deemed appropriate in the light of the results of the model’s application. In addition, through the 231 Steering Committee the Company checked the adequacy of the internal control system with respect to the new types of offence considered, with

special reference to crimes of market abuse and manslaughter and serious and very serious culpable injury – committed in violation of accident prevention and job health and safety protection rules.

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

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

30. Person responsible for internal control

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

This organizational solution maximizes the independence of the person responsible for internal control from the Company's structures and provides direct access to all the information needed to carry out the engagement and report to the competent director,

the Internal Control and Corporate Governance Committee and the Board of Statutory Auditors.

31. Organizational Model pursuant to Legislative Decree 231/2001

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

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

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

- the General Principles of Internal Control, which establish the rationale of the controls for each corporate process;
- the Rules of Conduct for Dealings with Governmental Bodies, which concern the conduct to be followed in direct relations with representatives of such bodies, framed both positively (things “to be done”) and negatively (things “not to be done”);
- Internal Checklists, which establish, for each corporate process that is relevant in the context of Legislative Decree 231/2001, the scope of the risk of criminal offences, the control activities to be carried out in the operational sphere and detailed rules of

conduct to be complied with. For most corporate processes indicators have been defined that those responsible are required to report on periodically.

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

In 2007 the Model was revised, with some interventions made necessary by changes in the law and others in the light of experience with the Model. In addition, through the 231 Steering Committee the Company checked the adequacy of the internal control system with respect to the new types of offence considered, with special reference to crimes of market abuse and to manslaughter and serious and very serious culpable injury caused by violations of accident prevention and job health and safety protection rules.

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

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

32. External auditor

Pursuant to the transitional provision contained in Legislative Decree 303/2006 permitting the extension, until the first shareholders' meeting called to approve the annual financial statements, of audit engagements under way at the time of the decree's entry into force whose total duration (taking into account earlier renewals and

extensions) would not exceed nine fiscal years, the shareholders' meeting held on April 16, 2007 extended the engagement of Reconta Ernst & Young S.p.A.

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

33. Manager responsible for preparing the Company's financial reports

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

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

The Regulation governing the manager responsible for preparing the Company's financial reports is consultable in the Governance section of the Company's website www.telecomitalia.it.

34. Interests of directors and related party transactions

In 2002 the Board of Directors adopted rules for related party transactions which in March 2007 were included in the Company's Self-Regulatory Code (Section 11, "Transactions with Related Parties").

According to these rules, it is up to the Board of Directors to approve all transactions carried out with related parties, whether directly or via subsidiaries. However, in view of the need to streamline operations and taking into account the good to be protected (the fairness of transactions), it is not deemed necessary for transactions to be submitted to the Board that can be considered not unfair. Transactions are presumed to be fair when they do not diverge from the normal, on the assumption that – in a routine situation – what is "normal" (in relation to the Company's standard operations and the conditions normally applied) is also fair. The transactions that are considered "normal" are those of a typical or customary nature to be concluded at arm's length conditions. In the absence of these requirements, the presumption of fairness no longer holds and the Board of Directors as a whole must make a prior assessment on a case-by-case basis regardless of the object and value of the transaction.

When the Board is called upon to examine transactions in which directors have an interest (or rather in the case of transactions with directors or with other parties whose relationship with Telecom Italia is via directors), the rules of conduct require the directors in question to withdraw once they have provided any clarifications that may be needed and without prejudice to the right of the Board to decide otherwise.

The rules for carrying out related party transactions contained in the Company's Self-Regulatory Code since December 2006 are supplemented by a specific procedure (consultable in the Governance section of the Company's website www.telecomitalia.it) designed to ensure:

- ✓ the identification of transactions in which the counterparty is a related party;
- ✓ the standardized treatment of concrete situations;
- ✓ the identification of the decision-making responsibilities by explicitly stating the related criteria and competences;
- ✓ 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. It also serves as the basis for the carrying out of compliance checks by the Group Compliance Officer.

Over and above what is laid down in the Self-Regulatory Code and the ad hoc procedure, it should also be noted that the practice of devolving certain investigatory and/or verification activities to the independent directors has become consolidated, with the latter sometimes operating in executive session and sometimes through the internal control committees with the assistance of separate advisors, chosen directly by the independent directors, with a view to guaranteeing the interests of all the shareholders.

As explained above, the internal rules for carrying out related party transactions have recently been revised under the supervision of the Internal Control and Corporate Governance Committee. The revision (approved by the Board of Directors on March 6, 2008 and now being implemented) is based on the classification of activities, contracts and relationships in the context of the Company's operations that are considered to be in the ordinary course of business. When transactions of these types (which are listed on an exemplary basis) are carried out with related parties, decision-making authority is allocated according to the manner of determining the related conditions and quantity thresholds with the role of providing general oversight and guidance entrusted to the Internal Control and Corporate Governance Committee.

35. Appointment of statutory auditors

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

Only shareholders who alone or together with other shareholders hold a total number of shares representing at least 0.5% of the voting ordinary share capital may submit slates.

Together with each slate it is necessary to file candidates' acceptances of their candidacy and declarations in which they attest that there are no grounds for ineligibility or incompatibility and that they meet the prescribed requirements, as well as any other information required by applicable law. Together with the declarations, a curriculum vitae must be filed for each candidate setting out his/her personal and professional data with an indication of the positions held in management and control bodies of other companies.

The slates are divided into two sections: one for candidates to the position of statutory auditor and the other for candidates to the position of alternate. The Board of Statutory Auditors is elected as follows:

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

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

The procedure summarized above is the subject of some amendments that will be submitted to the extraordinary shareholders' meeting following the increase in the

number of alternates from two to four, of which two chosen from the Majority Slate and two from the Minority Slates.

36. Statutory auditors

Tables 7 and 8 show information on the membership of the Board of Statutory Auditors

In 2007 the Board of Statutory Auditors met 29 times, in numerous cases jointly with the Internal Control and Corporate Governance Committee and with an attendance rate of 96%.

Telecom Italia has determined that the Board of Statutory Auditors meets the requirements laid down by US law to invoke the general exemption from the obligation to establish an Audit Committee within the Board of Directors insofar as the responsibilities and tasks of the Audit Committee are assigned to the Board of Statutory Auditors. This role has been formalized within the Company's new Self-Regulatory Code.

In its Audit Committee capacity, and essentially as now required by Italian law, the Board of Statutory Auditors is at the centre of the mechanism governing the services supplied by the auditing firm within the Group. In addition, in 2005 it adopted a procedure for receiving, retaining and handling the reports it is sent. Such reports can be of the following kinds:

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

A short description of how such reports are to be submitted to the Board of Statutory Auditors can be found in the Governance section of the Company's website www.telecomitalia.it.

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

37. Investor relations

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

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

Institutional and retail investors can obtain any other information they may require from the following addresses:

- ⇒ Institutional investors:
Telecom Italia S.p.A. -Investor Relations
Piazza degli Affari, 2

20123 Milano
Tel.: +39 02 85954131
E-mail: investor_relations@telecomitalia.it

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

38. Shareholders' meetings

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

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

Since as early as 1997 the Company has allowed its shareholders to exercise their right to vote by mail. This right is expressly referred to in Article 19 of the bylaws and Article 15 of the Meeting Regulations (consultable in the Governance section of the Company's website www.telecomitalia.it). A first version of the regulations was approved by the shareholders' meeting of the "old" Telecom Italia; in 2003, following the merger of Telecom Italia into Olivetti, they were approved again with some amendments (formally, it was their first approval by the Olivetti shareholders' meeting). Partly as a consequence of the passage of the Law on the Protection of Savings, the regulations were the subject of further amendments, approved by the shareholders'

meeting held on April 16, 2007, concerning additions to the agenda requested by shareholders and simplification of the rules on voting by mail.

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

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

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

PART TWO

Introduction

The Annual Report on Corporate Governance for the year 2006 contained the results of the analysis and checking activities that had been conducted by the Internal Control and Corporate Governance Committee *pro tempore* in connection with the well-known judicial events involving the former head of the Group Security Function, Giuliano Tavaroli, which in turn had raised questions about the security of the network and the handling of traffic data. The above-mentioned results were approved by the entire Board of Directors, which also approved the proposals with which the Internal Control and Corporate Governance Committee concluded its report.

The Committee was of the view that the action already under way at the time of writing (February 2007) needed to “be supplemented and strengthened in order to ensure confidence in the organization and the correctness of the Company’s behaviour”. To this end, the Committee, followed by the Board of Directors, considered it advisable to begin and/or complete the following initiatives (listed below as formulated verbatim) as soon as practicable:

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 action plan already initiated;
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;
3. ascertaining the reasons that prevented suitable perception of the risks connected to compliance with privacy regulation, and proposal for subsequent measures;
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;
5. assessment of the adequacy of the organization of the Security Function, taking into account the remedies already implemented, with particular attention to operational correctness and the efficiency of controls;

6. evaluation of the efficiency level of the solutions set forth by the 231 Organizational Model on the subject of consultancy;
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, 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
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 unrelated to the professional aptitude of prospective employees; adoption of procedures to ensure respect of applicable security regulations.

The state of implementation of these recommendations is briefly summarized below.

Recommendation no. 1

The Privacy Authority's measure of June 1, 2006 (the "Measure") required the Company to take a series of steps to protect traffic data within 120 days (on December 7, 2006 the deadline was extended to March 31, 2007), failing which the Company would have had to cease to handle such data.

As regards this matter, a programme for the technological adaptation of the systems handling traffic data was completed, in line with the requirements of the Measure, accompanied by initiatives of an organizational nature involving the revision of internal procedures and the issue and/or updating of policies and procedures regulating activities pertinent to data protection and compliance with the rules on privacy. It was also decided to extend the adjustment activities to systems not formally covered by the Measure in that they were managed by subsidiaries. Obviously, this altered the number of relevant applications. At the same time, to take account of the normal evolution of applications and systems, the Company adopted instruments for the control and updating of the perimeter.

Control of the conformity of the operational management and maintenance of the systems concerned has made the transition from an extraordinary phase, of response to exogenous events, to a phase of ordinary operation. Consistently with this approach, sensitive systems are checked and monitored continuously to ensure the lasting effectiveness of the steps taken.

All of the foregoing ensures that conformity with the Measure is monitored. Nonetheless, the steps taken strictly for compliance were accompanied by other activities aimed at improving the overall level of control in this area. The Privacy Authority received detailed information on these activities.

In particular, since the system-related action (whose technological aspects were completed) showed that the fragmentation of the support IT functions was a critical factor, it was considered necessary to implement an organizational consolidation of all the development/maintenance activities and of applications and systems management, in the context of a model of rigorous separation with respect to operational management.

Starting out from a situation in which the systems were managed by various units, the solution adopted for pursuing the objectives of rationalization was to concentrate:

- development activities in the IT Risk & Security Governance Function (except for so-called implementing systems, responsibility for which has remained with the Technology & Operations Department since they are closely connected with the network systems from which the data are extracted); and
- operational management in the Technology & Operations Department.

The assessment that KPMG Advisory was asked to perform of the actual effectiveness of the measures adopted found possible areas for improvement of some systems, which entailed making a start on appropriate corrective action.

Recommendation no. 2

The Company followed up on the initial indications provided by KPMG Advisory by asking the consultant for support in designing a suitable IT risks governance model. After the model was specified with the assistance of KPMG Advisory, a series of

organizational steps in October 2007 revised the management processes for IT security. In brief:

- an IT Risk & Security Governance function was set up within IT Governance and charged with integrated governance of IT risk management and security issues;
- an IT Compliance function was set up within the Compliance Division of Telecom Italia Audit and Compliance Services, with a view to more effective and properly structured integration into the Company's control system of the checks for legal compliance in the field of IT. The function coordinates with IT Risk & Security Governance on the state of IT security, periodically reporting the main problems found to the Risk Management Committee;
- the Security function was entrusted with data security governance, which it is to provide by setting guidelines and policies for the protection of the data that is in the Company's possession.

The implementation of operating procedures is proceeding alongside the identification of the organizational safeguards, as the above-mentioned model presupposes appropriate mechanisms for interaction on the part of the functions responsible for operational activities and technological implementation with, on the one hand, IT Risk & Security (which establishes guidelines, methodologies and instruments) and, on the other, IT Compliance (which checks the effectiveness of the solutions adopted). Upon completion of the process the tasks previously assigned to the IT Compliance Steering Committee will be redistributed to the ad hoc Group committees, with the Risk Management Committee entrusted with IT risk assessment and the IT Governance Committee with IT activities guidance.

Recommendation no 3

KPMG Advisory identified insufficient sensitivity to the problems of data security as the main cause of the weaknesses it had found in terms of privacy compliance.

In the light of the analysis performed, the Privacy Function (of Domestic Legal Affairs) was strengthened by making it also responsible for checking compliance on the part of the business units. Two areas of specific responsibility for, respectively, minimum security and monitoring of privacy compliance, were set up within the Function and

assigned human resources having significant experience of Internal Auditing. At the same time, steps were taken to strengthen the role of the Information Technology Governance Function in providing central coordination among the various different IT units, this being essential for better knowledge and governance of IT procedures. The effort by the whole Company to adapt to the different measures of the Privacy Authority has raised the level of attention to compliance, thanks also to the involvement of business as well as IT functions in the IT Compliance Steering Committee.

The goal is to sustain this sensitivity and will be pursued not only by moving ahead with training initiatives, but also by involving the persons responsible for the systems subjected to the IT security measures in defining the level of risk, to ensure their agreement with the choices made and the solutions adopted.

Meanwhile, monitoring and control of compliance with privacy rules is continuing under checking programmes by the competent functions.

Recommendation no. 4

During 2007 the external auditors completed their checks on the way invoices for services received or investments made by the Security Function in the period 2002-06 had been accounted for, reporting the results to the Internal Control and Corporate Governance Committee and to the Board of Statutory Auditors.

As already mentioned by the Board of Statutory Auditors in connection with its Observations on the 2007 half-yearly report, in the light of its assessment the audit firm Reconta Ernst & Young:

- ✓ ruled out the need to revise its audit plan; and
- ✓ rendered an unqualified opinion on the financial statements for 2006 and issued the attestation on management's assessment of internal controls over financial reporting for the Annual Report of 2006 pursuant to Section 404 of the Sarbanes Oxley Act.

Recommendation no 5

Eleven auditing interventions were carried out on the Security sector in 2007, checking the sector's various ramifications.

In the second half of 2008 there will be follow-up on all of the areas of improvement identified. At the completion of the follow-up, an assessment will be made of the advisability of proceeding with a further evaluation through a due diligence to be conducted, if appropriate, by an independent advisor.

Recommendation no. 6

As already mentioned in Part One of this Governance Report, the evaluation and checking of the 231 Organizational Model entrusted to KPMG Advisory concluded with the drawing up of a report indicating possible areas for improvement of differing importance.

The advisor suggested a master plan that the 231 Steering Committee examined, setting up a working group to identify suitable measures by means of which to update the Organizational Model in the light of the evolution of best practices, regulatory interpretations and court decisions.

Implementation of the master plan is already under way with the advisory assistance of KPMG Advisory.

Recommendation no. 7

The checks performed by Telecom Italia Audit & Compliance Services – whether duties had been conferred on Giuliano Tavaroli, and the characteristics thereof, in the period between June 2005 and September 2006 and Tavaroli's access to Company data after May 2005, apart from the specific consultancy assigned to him – did not find problem areas.

Recommendation no. 8

A new Group personnel recruitment and selection policy was issued on January 15, 2007 expressly prohibiting pre-hiring investigations except for the evaluation of references provided by candidates themselves.

With regard to the years 2004-06, in June 2007 Telecom Italia Audit & Compliance Services carried out a compliance check at the Human Resources Function to ascertain

the regularity of recruitment operations by evaluating recruitment procedures and examining a sample of the dossiers in the Company's records. The results confirmed the correctness of conduct in this regard.

In December a second check was carried out on a sample of 50% of the persons selected and of those hired in the years 2004-06 (2,518 dossiers). No irregularities have been found in the course of this activity, which is about 40% complete.

ANNEXES TO THE ANNUAL REPORT ON CORPORATE GOVERNANCE OF TELECOM ITALIA S.P.A.

TABLE 1

Share capital at December 31, 2007

	Number of shares	% of total share capital	Listed (indicate markets) / unlisted	Rights and obligations
Ordinary shares	13,380,776,313	68.95%	Listed on Borsa Italiana S.p.A.	Right to vote in the Company's ordinary and extraordinary shareholders' meetings
Savings shares	6,026,120,661	31.05%	Listed on Borsa Italiana S.p.A.	Right to vote in special meetings of savings shareholders. Preferential rights as specified in Article 6 of the bylaws: 5% preferred dividend; two-year carryover of right to preferred dividend; dividend 2% of par value higher than that on ordinary shares

TABLE 2**Convertible bonds**

	Listed (indicate markets) / unlisted	Number of instruments in circulation	Class of underlying shares	Number of underlying shares
Convertible bonds	Listed on Borsa Italiana S.p.A.	484,877,224	Ordinary shares	228,645,309

TABLE 3

Membership of the Board of Directors at March 6, 2008

Name	Position	Held from	Slate	Exec.	Non-exec.	Indep.	Indep. Consolidated Law on Finance	% Board meetings	Other positions
Gabriele Galateri di Genola*	Chairman	12/3/2007		X				100	5
Franco Bernabè*	CEO	12/3/2007		X				100	0
Cesal Izuel Alierta*	Director	11/8/2007			X			100	0
Paolo Baratta	Director	5/6/2004	M		X	X	X	89	0
Gilberto Benetton	Director	11/7/2001	M		X			78	6
Stefano Cao	Director	4/16/2007	m		X	X	X	86	1
Renzo Capra	Director	4/16/2007	m		X	X	X	100	1
Domenico De Sole	Director	5/6/2004	M		X	X		89	0
Luigi Fausti	Director	11/7/2001	M		X	X	X	100	1
Jean Paul Fitoussi	Director	5/6/2004	M		X	X	X	100	0
Julio Linares Lopez*	Director	11/8/2007			X			100	0
Gaetano Miccichè*	Director	7/24/2007			X			100	2
Aldo Minucci	Director	4/16/2007	M		X			100	10
Gianni Mion	Director	11/7/2001	M		X			67	3
Renato Pagliaro	Director	5/6/2004	M		X			100	3
Cesare Giovanni Vecchio	Director	4/16/2007	m		X	X		100	0
Luigi Zingales	Director	4/16/2007	m		X	X	X	100	0

* Co-opted by the Board of Directors.

LEGEND

Slate: “M” indicates that the director was elected from the so-called majority slate; “m” that the director was elected from a minority slate.

Indep.: “X” indicates that the director qualifies as independent according to the criteria laid down in the Company’s Self-Regulatory Code, which embodies the criteria established by Borsa Italiana’s Corporate Governance Code.

Indep. Consolidated Law on Finance: “X” indicates that the director satisfies the independence requirements laid down by Article 148.3 of the Consolidated Law on Finance.

% Board meetings: director’s Board meetings attendance rate during the fiscal year from the time of taking up the position.

Other positions: the total number of positions held in other companies referred to in Article 5 of Telecom Italia’s Self-Regulatory Code and detailed below.

Shown below are the positions held by Telecom Italia’s present directors in other companies included in the S&P/MIB index or operating primarily in the financial sector on a public basis (entered in the registers referred to in Articles 106 and 107 of Legislative Decree 385/1993) or engaged in banking or insurance and falling within the scope of Article 5 of Telecom Italia’s Self-Regulatory Code.

Gabriele Galateri di Genola	Deputy Chairman of Assicurazioni Generali S.p.A. and RCS MediaGroup S.p.A.; Director of Pirelli & C. S.p.A., Banca Esperia S.p.A., and Banca CRS S.p.A.
Franco Bernabè	- - -
Cesar Izuel Alierta	- - -
Paolo Baratta	- - -
Gilberto Benetton	Chairman of Autogrill S.p.A.; Director of Atlantia S.p.A., Lloyd Adriatico S.p.A., Pirelli & C. S.p.A. and Allianz S.p.A.; member of the supervisory board of Mediobanca S.p.A.
Stefano Cao	General Manager of the Exploration & Production Division of ENI
Renzo Capra	Chairman of the supervisory board of A2A S.p.A.
Domenico De Sole	- - -
Luigi Fausti	Director of Mediaset S.p.A.
Jean Paul Fitoussi	- - -
Julio Linares Lopez	- - -
Gaetano Miccichè	CEO of Banca IMI; Director of Banca Intesa Infrastrutture e Sviluppo S.p.A.
Aldo Minucci	Chairman of Genertel S.p.A. and Simgenia S.p.A.; Director of Alleanza Assicurazioni S.p.A., Banca Generali S.p.A., Intesa Previdenza Sim S.p.A., Intesa Vita S.p.A., , Toro S.p.A., Ina Assitalia S.p.A., Fata Vita S.p.A. and Fata Assicurazioni Danni S.p.A.
Gianni Mion	Director of Autogrill S.p.A., Atlantia S.p.A., and Luxottica Group S.p.A.
Renato Pagliaro	Director of Compass S.p.A., and RCS MediaGroup S.p.A.; Co-General Manager of Mediobanca S.p.A.
Cesare Giovanni Vecchio	- - -
Luigi Zingales	- - -

TABLE 4**Directors whose appointments ended in 2007**

Name	Position	Position held from / to	Slate	Exec.	Non-exec.	Indep.	% Board meetings	Other positions
John Robert Boas	Director	5/6/2004-4/16/2007	M		X	X	50	0
Diana Bracco	Director	4/13 – 12/3/2007	M		X	X	100	0
Carlo Orazio Buora	Executive Deputy Chairman	5/6/2004–12/3/2007	M	X			100	1
Claudio De Conto	Director	4/16–10/25/2007	M		X		100	2
Francesco Denozza	Director	5/6/2004-4/16/2007	m		X	X	100	0
Guido Ferrarini	Director	5/6/2004-4/16/2007	m		X	X	100	1
Luciano Gobbi	Director	4/16 – 7/6/2007	M				100	0
Vittorio Merloni	Director	4/13/2006 – 4/16/2007	M		X	X	100	0
Massimo Moratti	Director	5/6/2004 – 4/16/2007	M		X		100	2
Marco Onado	Director	5/6/2004 – 4/16/2007	M		X	X	100	1
Pasquale Pistorio	Director	5/6/2004-4/16/2007	m		X	X	100	2
	Chairman	4/17-12/3/2007	M	X			100	2
Carlo Alessandro Puri Negri	Director	5/6/2004–10/25/2007	M		X		86	1
Guido Rossi*	Chairman	9/15/2006–4/6/2007		X			100	0
Luigi Roth	Director	5/6/2004–4/16/2007	M		X	X	100	2
Riccardo Ruggiero	CEO / General Manager	5/6/2004–12/3/2007	M	X			100	0

* Co-opted by the Board of Directors.

LEGEND

Slate: “M” indicates that the director was elected from the so-called majority slate; “m” that the director was elected from a minority slate.

Indep.: “X” indicates that the director qualifies as an independent director according to the criteria laid down in the Company’s Self-Regulatory Code, which embodies the criteria established by Borsa Italiana’s Corporate Governance Code.

Indep. Consolidated Law on Finance: “X” indicates that the director satisfies the independence requirements laid down by Article 148.3 of the Consolidated Law on Finance.

% Board meetings: director’s Board meetings attendance rate during the fiscal year from the time of taking up the position until the time of leaving the position or of the year.

Other positions: the total number of positions held in other companies referred to in Article 5 of Telecom Italia’s Self-Regulatory Code and detailed below.

Shown below are the positions held by Telecom Italia's directors whose directorships ended during the 2007 fiscal year in other companies included in the S&P/MIB index or operating primarily in the financial sector on a public basis (entered in the registers referred to in Articles 106 and 107 of Legislative Decree 385/1993) or engaged in banking or insurance and falling within the scope of Article 5 of Telecom Italia's Self-Regulatory Code.

John Robert Sotheby Boas	- - -
Diana Bracco	- - -
Carlo Buora	Director of Mediobanca S.p.A.
Claudio De Conto	Director of RCS MediaGroup S.p.A. and Efibanca Palladio Finanziaria SGR.
Francesco Denozza	
Guido Ferrarini	Independent Director of Atlantia S.p.A.
Luciano Gobbi	- - -
Riccardo Ruggiero	- - -
Vittorio Merloni	- - -
Massimo Moratti	Director of Interbanca S.p.A. and Pirelli & C. S.p.A.
Marco Onado	Independent Chairman of Pioneer Global Asset Management S.p.A. (Unicredito Group)
Pasquale Pistorio	Honorary Chairman of STMicroelectronics S.p.A. and Independent Director of Fiat S.p.A.
Carlo Alessandro Puri Negri	Deputy Chairman of Pirelli & C. S.p.A
Guido Rossi	- - -
Luigi Roth	Chairman of Terna S.p.A.; Deputy Chairman of Cassa Depositi e Prestiti S.p.A.

TABLE 5**Membership of the advisory committees at March 6, 2008**

Name	Position	R.C.	% R.C. meetings	I.C.C.	% I.C.C. meetings	S.C.	% S.C. meetings
Paolo Baratta	Director			C	100	M	100
Franco Bernabè	CEO					M	= *
Stefano Cao	Director	M	100				
Renzo Capra	Director	M	83				
Domenico De Sole	Director			M	82	M	100
Luigi Fausti	Director	M	100	M	100		
Jean Paul Fitoussi	Director					M	100
Gabriele Galateri di Genola	Chairman					M	= *
Renato Pagliaro	Director					M	100
Cesare Giovanni Vecchio	Director			M	100		
Luigi Zingales	Director	C	100				

* The Strategy Committee did not meet from the date of the appointments of Gabriele Galateri di Genola and Franco Bernabè (December 3, 2007) to the end of the 2007 fiscal year.

LEGEND

R.C.: Remuneration Committee (“C” stands for chairman “M” for member).

% R.C.: director’s rate of attendance at Remuneration Committee meetings.

I.C.C.: Internal Control Committee (“C” stands for chairman “M” for member).

% I.C.C.: director’s rate of attendance at Internal Control Committee meetings.

S.C.: Strategy Committee (“M” stands for member).

% S.C.: director’s rate of attendance at Strategy Committee meetings.

TABLE 6**Directors sitting on advisory committees whose appointments ended in 2007**

Name	Position	R.C.	% R.C.	I.C.C.	% I.C.C.	S.C.	% S.C.
Diana Bracco	Director			M	71		
Carlo Orazio Buora	Executive Deputy Chairman					M	75
Francesco Denozza	Director			M	100		
Guido Ferrarini	Director			C	100		
Marco Onado	Director			M	100	M	100
Pasquale Pistorio	Director Chairman	M	=*			M	100
Guido Rossi	Chairman					M	100
Riccardo Ruggiero	CEO / General Manager					M	100

* The Remuneration Committee did not meet while Pasquale Pistorio was a member.

LEGEND

R.C.: Remuneration Committee (“C” stands for chairman “M” for member).

% R.C.: director’s rate of attendance at Remuneration Committee meetings.

I.C.C.: Internal Control Committee (“C” stands for chairman “M” for member).

% I.C.C.: director’s rate of attendance at Internal Control Committee meetings.

S.C.: Strategy Committee (“M” stands for member).

% S.C.: director’s rate of attendance at Strategy Committee meetings.

TABLE 7**Membership of the Board of Statutory Auditors at March 6, 2008**

Name	Position	Position held from	Slate	Independent according to Code	% Board meetings	Other positions
Paolo Golia	Chairman	April 13, 2006	m	X	100	17
Enrico Maria Bignami	Statutory auditor	April 16, 2007	m	X	100	36
Salvatore Spiniello	Statutory auditor	April 13, 2006	M	X	90	30
Ferdinando Superti Furga	Statutory auditor	April 13, 2006	M	X	97	17
Gianfranco Zanda	Statutory auditor	April 13, 2006	M	X	93	4
Enrico Laghi	Alternate auditor	April 13, 2006	M	X	=	=
Luigi Gaspari	Alternate auditor	April 16, 2007	m	X	=	=

LEGEND

Slate: “M” indicates that the statutory auditor was elected from the so-called majority slate; “m” that the statutory auditor was elected from a minority slate.

Independent according to Code: “X” indicates that the statutory auditor qualifies as independent according to the criteria laid down in Borsa Italiana’s Corporate Governance Code.

% Board meetings: statutory auditor’s rate of attendance at meetings of the Board of Statutory Auditors during the fiscal year from the time of taking up the position.

Other positions: the total number of positions held in companies referred to in Book V, Chapters V, VI and VII of the Civil Code, as shown in the list annexed, pursuant to Article 144-*quinquiesdecies* of Consob Regulation 11971/1999, to the report on supervisory activity drawn up by the Statutory Auditors under Article 153.1 of the Consolidated Law on Finance.

TABLE 8**Members of the Board of Statutory Auditors whose appointments ended in 2007**

Name	Position	Position held from / to	Slate	Independent according to Code	% meetings attendance rate	Other positions
Enrico Maria Bignami*	Statutory Auditor	October 20, 2006	m	X	100	1

* On October 20, 2006 Mr. Bignami replaced the Statutory Auditor Stefano Meroi following the latter's resignation and held the position until the shareholders' meeting held on April 16, 2007, which confirmed his appointment as a Statutory Auditor until the end of the term of office of the entire Board of Statutory Auditors (the shareholders' meeting called to approve the financial statements for the year ended December 31, 2008).