TELECOM ITALIA S.p.A.
Minutes of Ordinary Shareholders’ Meeting
14 April 2008, 11:00 am

The business of TELECOM ITALIA S.p.A. commenced at 11:00 am on 14 April 2008, at via Toscana no. 3, Rozzano.

Dr. Gabriele Galateri di Genola, Chairman of the Board of Directors, declared the meeting open and, in this capacity and with the unanimous agreement of those present, took the chair of the meeting.

The Agenda was as follows:

**Ordinary part**
- Financial statements as at 31 December 2007. Related and consequent resolutions.
- Appointment of the Board of Directors. Related and consequent resolutions.
- Stock option plan reserved for the Top Management of the Company
- authorisation for the Company to buy and dispose of its own shares.
- related and consequent resolutions.

**Extraordinary part**

(omission)

With the unanimous agreement of those present, the Chairman called on Professor Piergaetano Marchetti to perform the function of Secretary to the Meeting.

The Chairman then announced that:
- the notice of the Shareholders’ Meeting had been published in the Official Gazette of the Italian Republic, Second Part, no. 30, of 11 March 2008, and also in La Repubblica, Il Corriere della Sera, Il Sole 24 Ore, MF, Finanza & Mercati and the Financial Times;
- no request has reached the Company for additions to the Agenda, pursuant to law;
- on 12 and 13 April 2008 the Shareholders’ Meeting [which had been called on 12 April on first call (extraordinary part), and on 13 April on first call (ordinary part) and second call (extraordinary part)] was not quorate, as appears in the official record of the occasion made by Notary Carlo Marchetti;
- as stated in the declaration filed on 29 February 2008, the share capital is 10,673,803,169.15 Euros, divided into 19,406,914,853 shares with a par value of 0.55 Euro each, of which 13,380,794,192 are ordinary shares and 6,026,120,661 are savings shares;
- as of today’s date, the Company holds 1,272,014 of its own ordinary shares. In addition, 124,544,373 Telecom Italia ordinary shares are held by its subsidiary Telecom Italia Finance S.A..

Because the Bylaws provide that the right to vote may be exercised by post, the Chairman of the Board of Auditors delivered to the Chairman the voting slips which had arrived within the time-limit. In total the number of slips which proved to be in order and valid for the purposes of the Shareholders’ Meeting being properly constituted was one, representing 12,250 ordinary shares.

The Chairman therefore declared at 11:03 am that the ordinary shares participating in the Meeting for the purposes of its being validly constituted numbered a total of 4,374,289,040, including the postal votes. The total capital represented at the Meeting was therefore equal to 32.69% of the ordinary shares.

After this preamble, the Chairman determined and gave notice that the Meeting was regularly constituted and could discuss and vote on the matters on the Agenda.

The Chairman then:

- announced that:
  -- the documentation relating to the various matters on the agenda was published in accordance with the applicable regulations, and also made available on the Company’s website;
  -- the following documents were distributed at the entrance:
    - the printed report of the financial statements for 2007 (including the various resolutions proposed);
    - a report containing the slates of the candidates for the office of Director, and the curriculum vitae of each one;
  -- according to the figures in the possession of the Company, the following hold shares with voting rights amounting to more than 2% of the ordinary capital:
    - Telco S.p.A., with a direct holding, by way of ownership, corresponding to 24.50% of the capital with voting rights;
    - Findim Group S.A., with a direct holding, by way of ownership, corresponding to 4.45% of the capital with voting rights;
    - JP Morgan Chase & Co., with an indirect holding corresponding to 2.05% of the capital with voting rights, of which 0.81% is held by way of ownership and 1.24% in the capacity of lender;
    - Brandes Investment Partners LLC, with a holding in the capacity of savings manager corresponding to 5.43% of the capital with voting rights;
the list of names of people taking part in the meeting would be available in front of the stage, as soon as it was printed;

- as regards shareholder agreements with significance for Telecom Italia in terms of Article 122 of Legislative Decree 58/1998, notices had been published in the national press declaring, as per the following extract:
  - he stated that the description of the essential elements of the above-mentioned agreements is contained in the financial statements report, within the annual report on corporate governance;
  - he announced that the following were present at the meeting:
    - the outgoing Directors Paolo Baratta, Franco Bernabè, Jean Paul Fitoussi, Gaetano Miccichè, Aldo Minucci, Julio Linares and Luigi Zingales;
    - all the Auditors;
    - the common representative of the holders of savings shares, Prof. Carlo Pasteris;
    - Francesco Pensato, common representative of the holders of bonds relating to the following loans:
      - "Telecom Italia 1.5% 2001-2010 convertible with premium upon redemption";
      - “Telecom Italia 2002-2022 Floating Rate bonds, Open Special Series, reserved for subscription by employees of the Telecom Italia Group, in service or retired”;
      - “Telecom Italia S.p.A. 750,000,000 Euros 4.50 per cent. Notes due 2011”;
      - “Telecom Italia S.p.A. 1,250,000,000 Euros 5.375 per cent. Notes due 2019”;
  - he announced that representatives of the external auditors were present, as well as financial experts and analysts and staff engaged in the proceedings of the Meeting;
  - in accordance with the Regulations for the Shareholders’ Meeting, he set 15 minutes as the maximum length of speeches during the course of the discussion, as well as for all the matters on the agenda for the ordinary part of the meeting, recalling that this solution had been shown last year to be effective for ensuring that the proceedings took place in an orderly fashion, and for that reason was being repeated;
  - he stated that voting would take place separately on the various matters;
  - he pointed out that the operations of recording attendances and counting the votes were being performed with the aid of a remote unit known as a “televoter” and suitable computer software.

At the Chairman’s invitation, the Secretary, with the aid of some slides, explained the operation of the televoter, making the following points:
-- each participant has received a televoter, which has his/her identifying data associated with it. The televoter’s computer software combines the votes which each person at this Shareholders’ Meeting holds. The televoter is a device for strictly personal use, which shareholders are asked to carry throughout the duration of the meeting, since it also functions as an identifying pass for access to the premises where the meeting is being held;
-- there are five keys on the televoter, and alongside each one there is an indication of what vote it represents. In order from top to bottom, the keys are used for abstaining, for casting a vote against, and for casting a vote in favour. The three keys marked In Favour 1, In Favour 2 and In Favour 3 are equivalent, except in the case of voting on the slates for electing Directors, where each of the keys identifies one of the three slates nominated by shareholders;
-- the instructions for the use of the televoter are anyway printed in the leaflet distributed at the entrance, and the auxiliary staff of the Company are available for clarification: they are identified by a special badge;
-- during the course of the proceedings, the opening of voting is announced, and the subject of the vote is specified each time. While voting is open, the televoters are enabled and each person can cast their vote. They can alter the choice that they have made, up to the moment when voting is closed, which will also be announced: the system records the last vote cast;
-- the fact that a vote has been recorded is shown by a green lamp lighting up at the top left corner of the device. If the lamp turns red, it means that the vote has not been recorded by the computer software. Participants are therefore recommended to always check the colour that the lamp is showing after each time that a key is pressed;
-- in any case, as mentioned above, the auxiliary staff are available if any help is needed, and there is also a booth marked “ASSISTED VOTING”. This booth is particularly for the use of delegates who intend to cast a variety of votes on behalf of the various shares that they represent;
-- in all cases, as is normal practice, the details of the voting will be reported in the minutes.

The Chairman took the floor again:
before proceeding to deal with the items on the agenda, he reminded shareholders who intended to address the meeting to book at the desk in front of the platform. When they were called upon to speak, they should go to the podium set up for the purpose, to the right of the Chair, and avoid making speeches from the floor;
- he then informed the meeting that recording equipment was being used in order to facilitate minute-taking, and that there was also a simultaneous translation service from Italian to English and vice versa (headphones were available at the entrance to the hall). The personal data gathered by means
of the recording process and also during accreditation for participation in the proceedings would be handled for the purposes of the proper conduct of the meeting and for minute-taking. All data would be treated in accordance with the regulations on privacy. Audio and video recording of the meeting by shareholders was not permitted;
- since the documentation for all the items on the Agenda had been made available on paper and via the internet, and also distributed at the entrance to the hall, he announced that the reading of said documentation would be omitted.

The Chairman, therefore:
- moved on to dealing with the matters on the Agenda of the Ordinary Meeting, which, as already mentioned, consisted of the following items:
  - Financial statements as at 31 December 2007. Related and consequent resolutions;
  - Appointment of the Board of Directors. Related and consequent resolutions;
  - Stock option plan reserved for the Top Management of the Company; authorisation for the Company to buy and dispose of its own shares. Related and consequent resolutions;
- stated, as indicated at the start of the proceedings, that there would a single format for the discussion of all the various matters. There would then be separate votes on the individual points on the agenda.

Shareholder D’Atri asked the Chairman to explain the reasons why he thought it legitimate, both as regards form and substance, to give agenda items that were very different from each other a unified treatment. He asked, furthermore, that the Chairman of the Board of Auditors should express his opinion on the point.
He also observed that various requests to speak had already been received before the opening of the business of the meeting: he considered that conducting the meeting in this way was not correct from a procedural point of view, and asked that bookings which had been informally made should be cancelled.

The Chairman reminded him that Article 8 of the regulations governing shareholders’ meetings allowed the chairman of the meeting to provide for a unitary discussion on various points on the agenda: the decision which had been taken, furthermore, satisfied shared requirements of speed and economy in dealing with the business of the meeting. Finally, he considered that the procedure for taking requests to speak had been carried out in a totally transparent way.

Prof. d’Atri filed a complaint to the Board of Auditors under Article 2408 of the Civil Code about the collection of requests to speak before the formal opening of the business of the meeting.
The Chairman, continuing, made the following statements for technical clarification:
- with regard to the first point (financial statements), he announced that the fees of the external auditors Reconta Ernst & Young S.p.A. had been as follows:
  • for auditing the accounts of Telecom Italia S.p.A. for financial year 2007: 1,704,000 Euros for a total of 16,840 hours
  • for auditing the 2007 consolidated accounts of the Telecom Italia Group, they amounted to 327,000 Euros for a total of 2,720 hours. These sums do not include direct expenses and secretarial costs, which must be added to the cost;
- as regards the re-election of the Board of Directors, he mentioned that as stated in the notices published in the daily press and in information published by the issuer, in accordance with the governing regulations, three slates had been presented within the time-limit and in compliance with the procedure required by the Bylaws, which he read out and which are reproduced below:

**TELCO slate**
(Presenting shareholder: Telco S.p.A.)
1. Cesar Alierta Izuel
2. Tarak Ben Ammar
3. Franco Bernabè
4. Elio Cosimo Catania
5. Jean Paul Fitoussi
6. Gabriele Galateri di Genola
7. Berardino Libonati
8. Julio Linares Lopez
9. Gaetano Miccichè
10. Aldo Minucci
11. Gianni Mion
12. Renato Pagliaro
13. Clemente Rebecchini
14. Filippo Maria Bruno
15. Karl Pardaens

**Investment Funds slate**
Interfund Sicav)
1. Luigi ZINGALES
2. Stefano CAO
3. Aldo Roveri
4. Francesco Vella

**Findim Group slate**
(Presenting shareholders: Findim Group S.A.)
1. Paolo Baratta
2. Roland Berger
3. Gianemilio Osculati
- the Chairman announced that the shareholder Telco had also proposed, in the notice published with the slate:
  - that the number of Directors should be set at 15;
  - that the Board of Directors which was to be appointed should have a term fixed at three financial years, so until the Shareholders’ Meeting called to approve the financial statements for the year ending 31 December 2010.
  - that the maximum total annual remuneration of the Board of Directors under Article 2389, paragraph 1 of the Civil Code should be set at 2,200,000.00 Euros, this amount to be divided among its Members in accordance with resolutions on the matter adopted by the Board itself;
  - that candidates for the office of Director should be authorised to pursue the activities indicated in their respective curriculum vitae, and at all events be unfettered by the prohibition on competition, so far as is permitted by Article 2390 of the Civil Code.

Having stated the above, the Chairman moved on to the considerations of an introductory nature in the Chairman’s Report attached to these minutes.

At the Chairman’s request, the Chief Executive Officer Dr Bernabè then took the floor. He in his turn explained in summary form the principal features of the 2007 financial statements and the principal information underlying the Company’s future strategy, all of which is contained in the CEO’s Report (this too is attached to these minutes).

The Chairman then asked shareholders who intended to speak on the matters on the agenda to book and urged them when speaking to stick to the subjects on the agenda. He reminded them that the maximum time available to each speaker was set at fifteen minutes.
Shareholder Sivori saluted the Chairman and all the Directors, but especially the shareholders who, like him, had invested in Telecom Italia, without getting results. He explained that he was from Genoa originally and that his family had invested huge resources in Telecom Italia, as it was one of the last great Italian companies. He observed that once the “state grandees” ran companies which provided work and were a source of prestige in Italy and abroad. Subsequently there was the arrival of the “captains courageous” (he mentioned Roberto Colaninno) who, with limited personal investment and substantial recourse to borrowing, made what has been described as “the mother of all takeover bids”, after which the direction of the share price was inexorably downwards, with heavy losses for those who had invested their money in the shares. Shareholder Sivori continued: Roberto Colaninno was followed by Marco Tronchetti Provera, who invested a fair amount of his own money in the initiative, but he too had little success: he found his way blocked by the man who, as Chairman of IRI (Institute for Industrial Reconstruction) “sold off” numerous companies in which the state had a stake, at prices below their real value (he quoted the case of Cirio). This politician, in his opinion, had hindered the business plan prepared by Tronchetti Provera, who at this point – although he had invested his own money in Telecom Italia – abandoned everything.

Following that precedent, he suggested that the present managers, whom he considered capable, should keep out of politics and perform miracles, because Telecom Italia was a sick man for whom a doctor was not enough, only a magician could save it. In this respect he hoped that, having both had experience in Fiat, they would succeed in doing for Telecom Italia what Marchionne had done at Fiat.

The shareholder repeated that he had invested a lot of money in Telecom, so much that he had been invited to the Company’s Investor Day held on 7 March 2008 as one of its principal individual shareholders. He added that he was taking part in the day’s meeting with only a fraction of the shares he owned and that he still had faith in the Company, in spite of the losses which he had suffered; he was however prepared to give credit to Telecom Italia up to a point and no further.

Moving on to another subject, he observed that among the candidates for the post of Director was Elio Catania: in this connection, in the light of the less than flattering results obtained by the latter at the helm of the State Railways, he invited his fellow-shareholders to think hard before appointing him.

Shareholder Sivori recalled at this point the opening address by the CEO, who spoke of the need for patient but fruitful work. He noted however that the first actions of the new Top Management had been cutting the dividend for shareholders, and awarding a stock option plan to the newly-elected Top Management itself. This proposal could have been acceptable provided it was subject to conditions, and in particular to the re-establishment of the share price at above 3 Euros. The reduction in the dividend had been recommended at the time by a number of shareholders, with speeches very carefully worked-out from a technical point of view (he recalled in particular Sergio Cusani’s speech to
the shareholders’ meeting of 16 April 2007), but personally – as a real investor, who had invested a lot of money in Telecom Italia, not one who had come to the meeting just to take part symbolically – he thought that a share which did not have a particularly brilliant stock exchange performance should nonetheless guarantee a constant annual return, in the form of a dividend.

In any case, in spite of the cash saving delivered by cutting the dividend, the exercise had been little more than a placebo, because the correct medicine was a robust and aggressive business plan, which the shareholder regretted had not been discussed at the aforementioned Investor Day. This circumstance had also caused a collapse in the share price, which ended with the humiliation of the shares being suspended on the grounds of an excessive drop. He therefore reaffirmed his opposition to granting stock options to Top Management, unless they were going to be linked to an increase in the value of the shares. In any event, as in the past he was even now not criticising the Directors and indeed repeated his faith in them, trusting that they were capable and honest people.

He then proposed himself as a candidate for the office of Director, guaranteeing that he would play an active part in defence of the investment which he himself had made, a circumstance which meant that he had a common interest with his fellow-shareholders. He then needed to establish that in spite of the speeches by the Chairman and the CEO at the start of the proceedings, the share price was moving downwards over the course of the day (at that moment it was more than two percentage points down). He therefore asked for effective solutions to be found, declaring that failing such solutions he would disinvest from Telecom Italia to buy Alitalia, offering himself as a candidate to raise to a value of one Eurocent per share, in consortium with the trade unions.

Shareholder Lombardi declared first of all that he was the Chairman of the association ASATI, which is a collection of about 2000 small shareholders, employees of Telecom Italia and outsiders, holding shares totalling about 0.25% of the ordinary capital, not comprehensively represented at the shareholders’ meeting because of the muddled state of the rules on the collection of proxy votes and the delay by the banks – a serious matter, in his opinion – in notifying the issuer of the shareholder’s request to speak.

Having said this by way of preamble, he proposed a series of considerations on the events of the last year. He recalled in particular that at the April 2007 shareholders’ meeting ASATI had expressed opposition to the management of the time, and had undertaken initiatives with relation to (among others) the Telco shareholders and the Chairman of the Board of Auditors to ensure that the stock options approved by the aforementioned shareholders’ meeting should not be assigned; in this regard he stated with satisfaction that the distribution had not taken place, a circumstance which made the ASATI association proud of the initiatives it had undertaken.
With reference to the change of top management at the Company, ASATI had then agitated from June to November 2007, indicating the skills which in its opinion were required of the CEO; in this respect too it expressed satisfaction at the choice which had been made, which had been consistent with the recommendations made by the Association.

There then followed a correspondence with the present top management (a propos of which he thanked Dr Bernabè for the reply received), which the shareholder trusted could improve the Company’s fortunes provided that it took the action which he intended to indicate further on in his speech.

Moving on to the subject of incentives to take voluntary redundancy, he reported that the Association had written on 30 November 2007 to the remuneration committee, asking that when the change of top management changed, no “golden parachute” contracts should be agreed and that no excessive severance packages should be granted to the top management which had brought the Company to its present condition. He had learnt however from the financial statements and the media that 30 million Euros were going to be granted to Dr Buora and Dr Ruggiero, by a company which turned out to be one of the most indebted in Italy, on the basis of entitlements that he did not agree with, such as the non-competition agreement which had been made with Dr Buora in his day. And this despite the fact that Dr Buora himself had declared on the occasion of the shareholders’ meeting of 16 April 2007 that he knew nothing of the events connected with the Company’s Security department. He wondered therefore what Internal Auditing was doing, and considered that this affair was a “scandal”. He viewed the explanations offered by the Chairman of the Board of Auditors as unacceptable, when faced with requests for clarification and complaints which ASATI had made to the Company, to the Board of Auditors itself, to the committee for internal control and corporate governance and to Consob, even in relation to an action for mismanagement.

He reported that he had not yet heard the explanations which he said had been promised him by the Chairman, and which he trusted would be provided later on in the proceedings.

In the meantime, he also called the attention of the meeting to the sale of Company properties to the Pirelli Group at prices far below their market value, and also to the facility management contracts agreed with a business, MPF, in which ManutenCoop and Pirelli Real Estate had a stake. He explained that ASATI had asked for information on these contracts, and had asked if they were favourable and why they were not rescinded if they were unfavourable. The Association had also submitted questions on the cases of telephone interception, on the supply of apparatus coming from Pirelli, and on the sale of Brasil Telecom, subjects on which the Chairman of the Board of Auditors had not replied, in his opinion because of the small size of the shareholding which ASATI represents. He then made an appeal to his fellow-shareholders to join ASATI, in order, once ownership of a fiftieth of
the share capital had been acquired, to legitimise its demands for the replies which so far it had not obtained.

He then reminded the Directors, and in particular the CEO, (who on his arrival at Telecom Italia had found a situation he described as ugly) that by not acceding to ASATI’s requests, they were making themselves jointly responsible for any irregularities which might later emerge.

With respect to the proposal to grant stock options to top management, he did not express opposition in principle, but considered that the “bar” was set too low: the strike price should not be lower than the stock market price prevailing at the time that Dr Galateri and Dr Bernabè joined the Board of Directors (2.2 Euros). To resolve the Company’s problems he considered it essential to remotivate its human resources, giving them back the enthusiasm of the 1990s: he had to note however the absence up to now of operational plans, in spite of everything that had been announced.

He therefore suggested launching a stock option plan with different levels, but extending to the entire personnel (including the call centres for the 187 and 191 numbers), so that there should be a single project and a common objective with which everyone could identify. People’s morale today is low, he said, (with employees and managers with salaries that had not changed for ten years because of disputes with the previous management), and ASATI therefore proposed that an incentive scheme should be implemented which would motivate everybody to move together in the right direction, so that together they all formed a “system”, so to speak.

ASATI believed that the top management could bring the company to success, but thought it necessary for this purpose to compress the reorganisation times, so as to run till the end of April for the Sales, Purchases, Finance and Personnel departments; the actions so far taken on the Network were insufficient, and must continue, setting up a system with AGCom (the communications regulator) for Open Access governance. He reported that during the last few days he had sent the text of his speech to the Chairman of the Board of Directors, requesting him, among other things, to specify the precise quarterly objectives with regard to the various subjects concerned, asking what were the innovative business areas (for example advertisement, infomobility and video surveillance), asking about international development (hopefully in developing countries where it might be sufficient today to invest modest resources, with the prospect, however, of significant returns, as had happened in Brazil), about customer care and about relations with Telefónica. In this regard he asked for explanations, inviting the Chairman to clearly define the course and the objectives of the collaboration between the two companies (in particular over the international market, where it was necessary to establish respective fields of action), making best use of the areas where Telecom Italia excelled, and thus avoiding creating synergies solely by imposing cost savings on Telecom Italia itself.

On the quality of the service to be delivered to the customer, ASATI shared the view that this was central, regarding it as the number one priority. On this point ASATI believed it to be essential to raise
the level of customer care, assigning skilled staff to it such as putting executives into the 119 service: maintaining the level of the domestic market was in fact an essential objective.

He asked the Chairman for replies on the Top Management and on previous managements. He asked for clarification on the fall in the share price on the stock exchange, which he considered unjustified in view of Telecom Italia’s excellence in terms of technology and human resources, which in the 1980s had put the Company in a leadership position at world level.

He hoped that the new Board of Directors and the new remuneration committee would avoid repeating the severance packages which had been awarded in the past, bearing in mind also that there could be a significant turnover of managers in the medium term. If not, he assured the meeting that ASATI would mobilise at national level: remuneration and bonuses had to be justified solely by the objectives achieved.

He recalled that following Olivetti’s acquiring control, over 300 managers left Telecom Italia with payments of 24-36 months’ salary. In present circumstances the Company could not afford to make disproportionate settlements.

He repeated once more the importance of proceeding swiftly with the reorganisation of the Company, with particular reference to the commercial services, and the remotivation of the human resources by means of a suitable incentive plan aimed at the staff as a whole, making the best use of it at all levels, and paying attention to staff quality and training at all levels (including the call centres, he repeated).

In the name of ASATI he asked about the possibility of three-monthly meetings with top management, as is allowed to large shareholders; he urged that the business plan should be prepared according to the logic that he had suggested, and he made it clear that he thought it was possible to make the share price rise.

Lastly, he commended enthusiasm and a belief in Telecom Italia, he urged the Board to communicate the same enthusiasm when presenting the business plan, and he hoped finally, and once again, for clarification about relations and possible cooperation with Telefónica.

Shareholder Fava ran through Dr Galateri’s CV (from IFIL to Mediobanca), and expressed the wish that the success he had achieved in the past, especially in terms of the enhancement of the share value of the companies with which he was concerned, could be repeated in Telecom Italia. He reminded the meeting that shareholders like good listings and high dividends, and therefore he hoped that in the future, the Company could do better.

In relation to the frequent press stories about presumed agreements with various partners, he asked for further information on relations with Telefónica, which he considered to be an expert and solid partner.
He invited the CEO to focus on the 187 service to make it more efficient and human and improve its quality. He observed in fact that while some operators are courteous and competent, others are anything but, and this prompts customers to take their business elsewhere.

Similarly, he asked that attention be paid to the sale of products to the public. In the opinion of the shareholder, compared to its competitors, Telecom Italia has the advantage of capable and expert staff, but this competitive advantage should be developed and promoted, and this does not appear to be happening. He also complained about poor service in the supply of broadband service, pointing out that he had obtained the promised transmission capacity (7 Mb) only after he had requested assistance from company technicians. He praised the price cut for these services, although he observed that it was lower than the price cut applied in San Marino. Finally, he invited the chairman to ensure that shareholders who speak in the debate do so only for the times specified in the regulations.

After declaring himself a small shareholder who attended company shareholder meetings assiduously, shareholder Borlenghi summarised and commented on a series of indicators taken from the 2007 financial report and the 2008 to 2010 plan: net profit (down 18.8%), dividend, payout (down from 92 to 67%), investments in network infrastructure (estimated at between 12 and 20 billion Euros), debt (reduced to 35 billion), trend in turnover of Tim Brazil (with a 14.8% rise in turnover) and in the domestic market, and the size of the workforce.

He observed that he had read in the financial report document that neither the Chairman nor the CEO possessed shares in the Company: he wondered if this meant that they do not believe in the company that they themselves manage, or if they do not think that Telecom Italia shares are worthwhile. He thought the business plan presented so far was provisional: it is not inspiring, it does not indicate growth objectives and it certainly does not explain how the company would obtain the means to sustain development, which certainly cannot be supplied by merely managing the existing assets.

Shareholder Rencorosi invited the Chairman and all the members of the Board to look at the faces of the shareholders, which were anything but happy. At the time of last year’s shareholders’ meeting, Telecom Italia’s shares were worth around 2.40 Euros and today this had fallen by over 40 %, after reaching a minimum of 1.21 Euros in March, i.e. a loss of 50%. Then there was the reduction of about 50% in the dividend. The shareholder invited the meeting to consider that there are some investors who hold in their portfolio shares with an initial purchase price of 4 to 5 Euros, or even 6 to 7 Euros. So he wondered how things could possibly have been worse. He observed that in his introduction the chairman attributed the fall in the share price to speculation, not to generalised sales, and he said that he agreed with this interpretation, assuming that no one would sell at 1.45 Euros something which stood in their portfolio at 4 Euros.
He recalled that on the occasion of the meeting of CEO with the financial community (Investor Day, 7 March 2008) the share lost 10% of its value, and he therefore invited him to turn up next time better prepared and if possible with a credible business plan. He considered that perhaps the previous CEOs could have obtained better results (particularly Dr Ruggiero and Dr Buora), and he criticised the severance payments they received, emphasising the size of the payouts made, at the expense of the shareholders.

He continued by saying that in 10 years Telecom Italia had changed ownership four times, with one constant factor in the various changes: those who left the company, while they might not have been happy, were certainly rich, while the only people who lost were always the faithful shareholders. He therefore agreed with the invitation formulated by a manager of the company and repeated on the internet, that employees should “run faster”. However he feared that these days running is not enough: the company needed to make rapid progress towards a credible business plan, which was late in coming, towards prudent management, which provides for cutting both costs and inefficiencies, towards quality of services, which at present are inadequate, and towards investment initiatives in areas that are not yet covered by some services. He also felt that there should be a move towards the small shareholders, who together hold 60% of the capital of Telecom Italia, so they can have more influence over future decisions, appointing their own representatives on the Board of Directors.

The shareholder then observed that, despite the fall in the share price and in the dividend, the stock options keep coming. When negotiating bonuses and salary increases for employees, it is usual to expect higher productivity and more positive results in their work, while the top management has no shame in continuing to ask for stock options despite the difficult situation the Company finds itself in. He considered it right to pay top management adequately, but in the current situation he considered the proposals for stock options to be “shameless” and an “insult” to all the shareholders. In this respect, he recalled the comments made at the last shareholders’ meeting by one shareholder who had spoken about house purchases made by the ex-Chairman of the Company.

He considered that, for the good of Telecom Italia, everyone who worked there, at every level, should take pride in the Company, because he believed that it is a healthy company which can still give a lot, and he personally believed in it. He also invited the Chairman to believe in it and to achieve some positive results.

Shareholder Morandi declared that he was a lawyer and represented the company Spal TLC S.p.A, previously Galactica S.p.A, which, in addition to holding shares in Telecom Italia, was involved in a dispute with Telecom Italia in which it is demanding a large sum in compensation. He pointed out that these proceedings are mentioned on page 405 of the notes to the financial reports for the year 2006, and again in the half-yearly report for the period 1 January to 30 June 2007 where, in the footnotes on
page 149 of the report, it is stated that the Milan Court, in the judgement issued on the 10 July 2007, confirmed that Telecom Italia was liable to Spal for the matters alleged in court, thereby recognising that Telecom Italia should compensate Spal for the damages suffered.

He remarked that in the mid-year report and the note cited, it is mentioned that these damages, according to the application made by Spal, totalled 90 million Euros, and it may therefore be deduced that Telecom Italia has made correct provision, perhaps in view of the judgement mentioned above, for a specific risk fund. In the draft balance sheet submitted to the shareholders today, however, there was no reference whatsoever, inexplicably in his view, either to the case in question or to the corresponding provision of a risk fund, although, he emphasised, nothing had happened in the meantime to change the situation described in the half-yearly report.

He therefore asked the reason why no mention was made of this case, given that correct principles for drawing up a financial statement, in terms of the continuity of the criteria used in the past, would require that at least the information that had appeared in the last half yearly report should be provided. He wondered if this deletion meant that all the provision made for this case had been eliminated and, if not, on what basis it is still being made and what was the size of the sum mentioned under the heading "legal dispute fund" on page 385 of the notes to the financial statement. He pointed out that the matters referred to are not dealt with in the draft financial statement submitted for approval to the shareholders’ meeting. Irrespective of the explanations that he was sure the Chairman would want to provide, this implied that the financial statements presented by the Directors, by their silence on this point, violated the principle of clarity, particularly bearing in mind the amount of the compensation claim indicated in previous financial reports. The financial statements therefore did not offer a true and correct representation of the financial situation and assets of the Company. In last year's shareholders’ meeting, in relation to the dossier scandal and the line tapping in which ex-employees with key roles and other people connected with the Company had been involved, Spal TLC had already reported how the Company had dealt with the matter. It had been handled in an unsatisfactory manner, taking into consideration only its importance in terms of Legislative Decree 231/2001. No account was taken of its possible effects on the financial situation of the Company, when, after discovery of the investigation papers, Telecom Italia’s responsibility for the damages caused to third parties by its agents emerged.

In this connection, it was expressly asked why Telecom Italia, while demonstrating that it had not been aware of the risks to the company caused by the illicit activities mentioned above, had not provided for these risks (which he considered to be obvious) in its financial statements, at the very least by setting up an adequate fund. In this respect, Dr Buora had not been in a position to exclude the possibility that the dossier scandal had also involved persons connected with the legal disputes in which Telecom Italia is involved. He had stated that the compensation which Telecom Italia might be liable to
pay as a result of the previously mentioned illegal activities undertaken by its employees had not been
considered in the financial statements because, for this to happen, at the very least someone would
have to have made a claim for compensation against the company, something which, according to Dr
Buora had not happened at the time the shareholders’ meeting was held. The shareholder thought it
obvious that this kind of reasoning was without foundation: it seemed imprudent and contrary to
correct accounting principles to take the view that, when faced with liabilities deriving directly from the
application of civil law principles about illegal acts, claims for compensation need to have been made
before provision can be made by setting up a risk fund. This is particularly true in a situation like this
one, where the illegitimacy and illegality, from several legal viewpoints, of the snooping, dossier
compilation, telephone tapping and other activities referred to, are objectively certain – in the view of
the shareholder – not to mention the fact that these activities had been undertaken by staff with key
responsibilities at Telecom Italia, sometimes using its facilities. It would be like saying that a company
that owns a vehicle driven by an employee who deliberately or negligently causes a massacre should
wait for a claim for damages before appropriating a fund to cover the risk of being found liable to pay
damages to the relatives of the victims, especially when it is known that the victims are getting
organised to make such claims. Conclusion: so far as the risks to Telecom Italia as a result of the
illicit activities mentioned are concerned, in the shareholder’s opinion it was not sufficient to assess
them in the light of legislative decree 231/2001, but it was and is necessary to examine their impact as
current and not merely potential risks, taking into account civil law principles on the subject of
responsibility for illicit acts.
Since the company is responsible for the consequences of its illicit conduct under legislative decree
231/2001 as well as for the actions of its employees, it would be and is the responsibility of the
Directors and, in certain respects, the auditors, to examine the issue of these responsibilities in depth,
analysing all aspects of the situation, so as to be able to give transparent information to the market on
the extent of the risk to the Company. These considerations are more relevant than ever, particularly
in relation to the financial statements presented for approval at the shareholders’ meeting: this
financial report, since it does not incorporate the risk relating to the damages suffered by third parties
and also by shareholders in respect of the illegal activities of Telecom Italia or its employees, by
providing an adequate risk fund, violates the principles of clarity, truthfulness and correctness that
govern the preparation of accounts. The shareholder therefore asked the Chairman of the
shareholders’ meeting and the Chairman of the board of statutory auditors to explain why despite the
requests formulated on this subject and a formal complaint under Article 2408 of the Civil Code
presented by Spal TLC, no answer has so far been provided. The opinion of the auditors stated in the
report accompanying the financial statements is, in the shareholder’s opinion, not well-founded, since
the law cited requires them to take a position on the facts mentioned earlier, expressing an opinion
that, however brief, must always be justified. Failure to have proceeded in this way in the report constitutes an irregularity, which he hoped would be rectified during today’s meeting.

Again in relation to the dossier compilation activities undertaken in the past by Telecom Italia, Spal TLC intends to make some critical comments about the Company’s compliance with the provisions of legislative decree 231/2001. In this respect he did not consider the composition of the supervisory body to be correct, since one of its members is a Statutory Auditor. The shareholder considered this inconsistent with the fundamental characteristics of autonomy and independence of the board of Auditors, which is charged to its very important responsibilities for checking adequacy and compliance with the organisational model specified in the legislative decree mentioned. The functions delegated to the board of Statutory Auditors impose on its members an explicit duty of care in relation to article 2403 of the Civil Code, and this gives rise to at least a potential conflict with the role attributed to the supervisory body, in relation to corporate crimes that might even have been committed by the Auditors.

Again, with reference to the same legal principle, while knowing and appreciating the authority of Prof. Mucciarelli, the shareholder did not share his opinion reported in the documentation to the 2006 financial statements, concerning the corruption charges laid against the known persons named in the writ issued by the Milan investigating Magistrate Dr Giuseppe Gennari on 30 March 2007, with reference to the likelihood that Telecom Italia might be held liable under legislative decree 231/2001, at least in relation to the matters referred to in paragraph 3.5 of the internal audit Committee report of 16 February 2007. While it is true that at present the conclusions of the preliminary investigation are not known, it is difficult to agree on the circumstance that the criminal acts in question (corruption) were committed to the detriment of the company and not to its advantage or in its interests. This seemed to him debatable to say the least, and so on prudential grounds, in the event that the corrupt conduct engaged in even by a single person in a key position within the Company was found to have been perpetrated in the interests or to the advantage of the Company, the addition of Telecom Italia to the list of persons investigated would follow, resulting in proceedings and a risk of penalties, again under legislative decree 231/2001. On this specific point, therefore, he asked what were the most recent assessments made by the supervisory body and what conclusions had been reached by the governing bodies of the Company.

Shareholder Gola greeted the Chairman and CEO and wished them luck in their work, something he thought that they would really need as the situation did not look particularly easy to him. He stated that he was a small shareholder and had invested his money in savings shares and had taken a considerable loss. The drastic reduction in the stock exchange capitalization of Telecom Italia (which had fallen from 61 billion Euros plus a further 59 billion Euros from subsidiary Tim, to the current 27
billion Euros) had made him feel severely uncomfortable and deeply disappointed; and with regret he admitted that he had been reckless and had not understood anything about the way the company had been going, and therefore it was right that he should take the consequences, but he expressed the opinion that many people found themselves in the same situation, including primary investment funds, banks and financial companies as well as the shareholders of Pirelli and of Telco.

So he hoped that Telefónica’s investment in Telco and the change in the top management of the company might contribute to putting Telecom Italia shares back on the right track, although the early signals from the market after the presentation of the business plan were still negative. The first measures taken by the new board, in setting the strategies and objectives to 2010, were felt by the market to be fairly weak, while a number of major financial operators had been forced or had in any event chosen to dispose of their large holdings in Telecom Italia. On some trading days Telecom Italia savings shares were listed at under 1 Euro, while the ordinary shares fell to a low of 1.21 Euros. At the same time the dividend had been reduced by over 40%, while Group profits fell by 18.8%, despite having benefited from a reduction of 837 million Euros in taxes, without which the fall would have reached 47%.

So he asked the CEO how he intended to reduce the debt (which he considered excessive and which had generated 1.749 million Euros in net charges on the income statement), without giving up the investment necessary for the company to run properly. In this connection he listed as possible hypothetical alternatives, a further decrease in the dividend, an increase in capital, making use of the financial solidity of the new TELCO shareholders, or a programme of sales of shareholdings abroad or in Italy. He asked in particular what the CEO intended to do with Telecom Italia Media, and whether he intended to retain a controlling share in his portfolio, or if he intended to sell all or some of it. He also asked if spinning off the networks had been considered, and then selling of the company to which they were assigned, which he had already suggested in the past to Dr Tronchetti Provera in previous shareholders’ meetings. He considered the recently presented business plan to be neither courageous nor robust (particularly in relation to the turnover and EBIDTA objectives), so much so that it did not deserve to be accompanied by stock options, since it was not sufficient for ensuring the relaunch of Telecom Italia: he therefore asked if a rigorous reappraisal of the business plan itself was envisaged. The destiny of Telecom Italia was in the hands of Dr Galateri and Dr Bernabè, who needed to demonstrate that they possessed the managerial qualities shown by Dr Marchionne in managing and resolving the crisis at Fiat. If they succeeded in doing so, he would be happy to cast his vote in favour of approval of the financial statements in future years, while as far as the 2007 trading year was concerned, and solely by way of encouragement, he would abstain.
Shareholder Fornasari considered that the Prodi government had always worked against the Company, with interventions that he considered devastating and negative, on the borderline with criminality, and this had been at the expense of the interests of the Treasury, since the higher the turnover the higher the tax take. After having watched the shares lose over 50% of their value in just 12 months, he asked who created a debt what he considered to be a gigantic debt, which was now paralysing the development of the Company.

As a small shareholder, he found the stock option proposals presented to the shareholders’ meeting to be offensive and disrespectful towards shareholders. He recalled that the arrival of Dr Marchionne at Fiat caused the share price to rise, to the very great satisfaction of its many shareholders, and he did not want to think that the Fiat case could not be repeated. So he asked the top management to give up the stock option proposals, postponing them to better times, and he invited all those shareholders who were about to speak to show their concern and their disappointment about this proposal. He asked the top management to give credibility to the plan to restructure and reduce the debt, even though he had appreciated the optimistic message that was sent by the initial comments by Dr Galateri and Dr Bernabè.

Shareholder Torcellan spoke about the workers who are no longer employed by Telecom Italia after the sale of the part of the business in which they worked. He asked if, in the light of the judgment concerning about 35 Telepost workers transferred in March 2004 and in the light of other similar judgments, where workers in these situations had been vindicated, the company intended to honour the determinations made by the Judges and reincorporate them into the workforce. In fact so far – he explained – they are still employed by the company that has been sold, with the exception of three workers in the Marche who only came back into Telecom Italia after an application made to the Magistrate’s court (a similar application had also been filed by the Telepost workers just recently).

Recalling the comments of shareholder Lombardi about MP Facility, he observed that Lombardi neglected to mention that MP Facility had renewed its contract, with an increase of 30% in the supply made to its sole client, shortly before the change of management at the helm of Telecom Italia. He reported that Telepost manages Telecom Italia’s correspondence, for a fee that in 34 months totalled 54 million Euros, which seemed a considerable sum to him, in the light of the number of people employed (about 200) and the small size of the organisation needed for the purpose (little more than a stamp and a pad), at least until the recent start of the automated correspondence project, know as SIGEC. In the shareholder’s opinion, the outsourcing initiatives led to higher costs than direct management of the same activities, and reintegration of these workers into the company workforce would result in a considerable saving, which would be in the interests of both the workers and the shareholders. He therefore exhorted the chairman and the CEO to check the single-client
arrangements in place with the outsourcers. He also observed that of the many legal disputes listed in the financial statements, only a small number concluded with an outcome favourable to Telecom Italia: in this case too, he exhorted the Board of Directors to assess the situation and provide some clarification.

Shareholder Grappiolo explained that he was a so-called small shareholder, but had invested most of his wealth in Telecom Italia and considered himself an important investor. He stated that he had felt unhappy for years about the way in which the company was run, but had suffered the worst losses from the TELCO management onwards. This had left the company without guidance for months because of the disputes between its shareholders, and only appointed the current Chairman and CEO at a late stage. Quite apart from the matter of the settlements awarded to the ex vice-Chairman and CEO, which he thought was a scandal that the outgoing Board of Directors should be ashamed of, he observed that the new CEO, shortly after his appointment, allowed himself to make comments about the company during a meeting with the trade unions which he considered serious, and this caused damage to the shareholder, as a result of the considerable drop in the stock market share value which followed (10% in 4 days). Another Group manager had ended up on the internet because he used vulgar language at a convention, demonstrating that he did not even have an elementary knowledge of history. This made him wonder how it was possible for there to be managers of this type in Telecom Italia. He wanted to know the fees paid to the Company's Directors, and said that he was not simply irritated at these payments: he thought he had been robbed, and asked that the remuneration committee should consist of ordinary people who, like most of the shareholders, have to work for their living.

Since he was precisely one of those people who earn their money and understand its importance, the shareholder urged the meeting to vote against awarding stock options to the Chairman and CEO, who are already paid about 100,000 Euros per month, and are therefore well-paid. A manager like Spinetta at Air France earns 1,200,000 Euros a year, but, it should be noted, he was the man who restored that company to health. Finally he invited the new Directors to create real value for the small shareholders, by coming up with a detailed business plan that would even convince the financial analysts that Telecom Italia would be well-run from now on.

Shareholder Turatti declared that he was very worried about the difficult situation the Company was in. He was very concerned about the current value of the share on the stock exchange, which had fallen almost to a historical low: ever since it was privatised (1999), it had been a real disaster for investors and savers who had decided to put their faith in the company. He recalled the debt at that time (984 million Euros with savers, and 9 billion with the banks) and the capitalisation at the same
time (114 billion Euros). The current capitalisation (26 billion) is 75% lower than this, which means that in nine years a value equivalent to about annual Italian public spending [finanziaria] has been destroyed.

In his view, Telecom Italia has been stripped of all its assets and loaded with an enormous amount of debt, generated by a Board of Directors which in his view was incompetent and had not been working for the good of the small savers. He believed that in any other European country this kind of thing would not have been tolerated. And it is never the management who pays the price for this situation: they have always received generous golden handshakes. He cited the case of Dr Riccardo Ruggiero (whose fees for 2007 came to 17,227,000 Euros) and Dr Carlo Buora (11,941,000 Euros). They were the highest-paid managers in Italy, notwithstanding the fall in the value of the Company. He asked who were the directors who authorised the payment of the sums that they received, which he regarded as “astronomical”, especially considering that the work performed by the people who received of these sums led to constant loss of share value for Telecom Italia. The impression he got from this was that “people who work badly are the best paid”.

The Group’s business plans on the other hand penalised lower-level employees, and in particular persons with disabilities, which the shareholder declared himself to be. He in fact stated that he had personally been transferred for work reasons despite holding a certificate of invalidity under law no. 104/1992, and despite the fact that other people without disabilities remained in the original workplace. This situation undermined his health since it forced him to commute daily from his home to his workplace (Padua), a total of 140 km, along the road known as the Romea Highway, one of the most dangerous in Italy. Indeed he declared that he had had three accidents with disabling consequences on this journey in the space of little more than a year. He therefore repeated his question in relation to the identity of the Directors who had authorised the golden handshakes (in his view “stratospheric”)paid to Dr Buora and Dr Ruggiero. He then asked how top management justified its behaviour, which had led the Company to lose 75% of its value; how it intended to resolve his personal problem as an employee in relation to the location of his work; he said that absence from work to participate in shareholder meetings is not considered a holiday but paid leave, taking into account the fact that the Human Resources department for that area, despite the innumerable attempts made, has never given a satisfactory response to resolve his case.

After declaring that he belonged to a consumer association called Adusbef, shareholder Lannutti declared that he agreed with the criticisms expressed by the previous speakers about the scandalous payments made by Telecom Italia. He remembered that at last year’s shareholders’ meeting, Beppe Grillo made a very critical indictment of the running of Telecom Italia by the previous management, and in particular by Dr Tronchetti Provera, the same gentleman, he said, who is “implicated in a series
of scandals and line tappings and deviant secret services which led to murder/suicide of Matteo Bove, resembling that of Pinelli”. He considered it necessary to remember that manager who is now dead, among the crimes perpetrated to the detriment of a great company, which offered excellent standards and quality services. He observed that, perhaps, we should regret the passing of the old “state grandees”, because services at that time were very good. Having attended the shareholders’ meeting of the company at the time of the STET, he declared that it was truly painful to remember how this company had been “pillaged”: he quoted the property assets transferred to Pirelli, in a situation of conflict of interests on which a judgment had not yet been given by the state prosecutors who had been involved by ADUSBEF.

He considered that Telecom Italia which feeds on the bills of the Italians, has always been “the land of milk and honey” where managers enjoyed very high salaries which were not commensurate with the results and the quality of the services supplied which, he observed regretfully, continued to deteriorate. He considered the case of Ricardo Ruggiero, already mentioned, to be emblematic and scandalous. After a drastic fall in the value of the shares and a cut in the dividend, he left the scene with a pay-packet of 17 million Euros, even doubling (to a value of 3.7 million Euros) his performance bonus. He asked if it was acceptable to receive a bonus for what he defined as disastrous acts, and asked, with reference to the settlement made in favour of Dr Buora, if action could be taken against him for mismanagement.

He appreciated what the previous speakers had said about the capacity of the company’s managers and workers. However, he invited the meeting to reconsider the case of disabled employees forced to make lengthy journeys, such as the decision to hold the shareholders’ meeting in a place with poor connections such as Rozzano (a decision which he hazarded a guess had been taken to make it difficult for small shareholders to attend the meeting) and he hoped that at least next year, a transport service for shareholders could be organised.

The Chairman mentioned that a coach service had been made available.

Shareholder Lannutti declared that he had not found the coach. He admitted that there might be excellent and talented managers in Telecom Italia, but he mentioned the case of Luca Luciani, who in 2007 received 858,000 Euros from the company (as the financial reports show) and became famous in the papers and on the internet for having thought that Waterloo was a victory for Napoleon. So he invited the meeting to throw out these managers, because they were a disgrace to a great company. He then declared that he did not want to mention the protests about services that do not work (in this respect he recalled a parliamentary agency, Agparl, of 11th April 2008) nor the comments made by Dagospia on the 5th of April on the mistake about Waterloo. Finally he stated that there is not just a
“caste” of politicians, journalists and bankers, but there is also a “caste” of directors, often directors who “fake independence”. In this respect he stated that he was in possession of knowledge that the Bank of Italy would support “fake minority slates”. He then mentioned decisions by Consob on the Generali case which, according to him, showed that fake minority slates cannot be formulated, and that minority slates must really come from the small investors, that is those who because of the “senseless management” of the company have lost 70 to 80% of their initial investment. He wondered what the so-called “independent” directors were doing, while Telecom Italia was, in his opinion, being pillaged. These directors, he said, had the gift of being everywhere, and have always been the same for the last 20 years: while he had nothing against Prof. Libonati personally, who is a great professional, he noted in particular that once again he was standing as a candidate for the Board of Directors. He considers that these directors, who Prof. Guido Rossi has described as “gigolo” directors, go from one post to another to cash in on the high rewards related to the office. Finally he expressed the wish that Dr Bernabè and Dr Galateri could give new hope to a company that is important to the country: for him, whether or not it is Italian did not matter, what did interest him is that the services are provided to those who pay for them. So he expressed the hope that Telecom Italia could recover and repay its shareholders for their investment in its shares which had suffered such huge losses.

Shareholder Mancuso observed that in this meeting which should be making a change of direction because of the presence of the new top management, it was difficult to think optimistically. He explained that he had been a shareholder in Società Elettrica Sicilia Orientale Occidentale and had invested the sums received from the government in 1962, when electricity was nationalised, in SIP and in STET, and in this way had finally become a shareholder of Telecom Italia. He considered that his personal story was indicative of the approach of small shareholders, who are in fact the people who hold most of the capital of the company, and who had considered first SIP shares and then STET shares, and now Telecom Italia shares as sound and reliable investments. This type of shareholder did not invest at the prices of 12th March 2008 and over time had suffered serious losses. He then reported that today he had learnt that the share price is down again and this inspires him with little hope. For the future he suggested that the agenda of the meeting should be inserted in the first pages of the financial report, rather than on page 385, where it is not even clearly indicated in the contents. Although he is aware that what he has said might not be very interesting, he invited the top management to consider that the person speaking represents virtually 60% of those shareholders who do not attend the shareholders’ meeting, or might attend it, but do not speak, the 60% which is composed of a large number of individuals who cannot easily get together, even through
associations, despite the fact that these are the people who had suffered the greatest losses. He reminded the meeting that he found no mention in the report of comments by Consob on the financial report, and that there would be a lot of things that the Chairman of the Authority could have said, and indeed there had been observations on the financial statements, concerning the Company’s performance, by Dr Catricalà.

The Chairman informed the meeting that no observations on the financial report had been made by Consob or the competition authority or others.

Shareholder Mancuso acknowledged this, although he observed that only Consob is the legal recipient of a copy of the financial report, and that as for the Commission, in the words of its own chairman, there are not enough officers to carefully read all the financial reports in any one season. He recalled that at last year’s shareholders’ meeting he had asked how many consultants the company had, and had received the answer that in 2006 there had been 100, at a cost of 76 million Euros. So he was repeating the question, to know whether or not the number had increased or decreased, and how much this had cost. He also asked for information about the civil, criminal, tax and fiscal disputes; if reports pursuant to article 2408 of the Civil Code had been filed; if the recapitalisation had been excluded, as the chairman has stated in his initial speech; if the workforce had increased or decreased compared to 2006 and if there had been changes in the first months of 2008; and he asked for clarification on advertising costs in the various media.

As for the legal proceedings, he had read in Il Sole 24 Ore that the financial report shows liabilities in the form of provisions for 426 millions Euros, a sum which to him seemed modest compared with what was being demanded in the cases described, which he said was equal to 2.5 billion Euros. If the information published in the newspaper was not correct, the shareholder invited the Company to sue for defamation, and to take other initiatives, since this is a piece of information which, with an imminent shareholders’ meeting, could have effect on the share price.

Moving on to the golden parachutes received by the previous top management, he considered that a violation of article 419 of the criminal code had occurred, since the beneficiaries of these payments were the same as the people who had authorised them: this would therefore constitute devastation, plundering and despoiling the company, punishable under the criminal code by imprisonment for between 8 and 15 years, a matter which would not be the subject of a declaration to the board of statutory auditors pursuant to article 2408 of the Civil Code, but rather to be reported to the Procura della Repubblica (Prosecutor’s Office).
Shareholder Fogliati declared that he was chairman of a shareholders’ association (ADAS) and in this shareholders’ meeting held proxy votes on behalf of 35 others. He stated that the association he chairs was formed in 1995 before the Draghi law, and had then been followed by other associations in 1998, when the Consob regulations on the subject of proxy votes had been issued. The fact that these rules are difficult to apply, the lack of political attention to legislating on employee shareholders, and the gradual deterioration in the situation of the company, had all combined to bring about a substantial abandonment of the associations. Now, however, the situation was evolving: The change in the share structure and the management of the company, the vital challenges which Telecom Italia is facing in a period in an unfavourable competitive situation and the irrational behaviour of the stock market, had given new life to the associations. This was confirmed by the initiative by ASATI, which with ADAS had supported Dr Bernabè on the eve of the Olivetti takeover and, he hoped, would continue to support him today: shareholder Fogliati expressed sincere good wishes to the re-born ASATI and to its chairman.

Moving on to the items on the agenda for the meeting, he mentioned that he had already communicated some considerations, proposals and questions to the company. Specifically, his questions concerned the spin-off of the networks, the dividend policy, the conversion of savings shares, the rules for the appointment of the Board of Directors, the adoption of the dual system, stock options, an increase in capital aimed at decisive strategic change, the remuneration policy for top and senior management, the potential critical items on the balance sheet (he mentioned by way of example the dispute with FASTWEB), the cost already incurred and projected for dealing with the competition, the employee shareholders, the initiative started in relation to individual shareholders and the changes to the Bylaws.

On the subject of the potential critical items on the balance sheet, he referred to the comments made by other shareholders, and confirmed that he, too, had read Il Sole 24 Ore. He hoped that the information contained in it did not correspond to the truth, since otherwise the company would face very large contingent liabilities.

So far as the current regulatory and competition system is concerned, he did not share the positive opinion expressed by Dr. Bernabè: on the contrary, he felt that the system is wrong and that AGCom should in fact be abolished, since the Antitrust authority and the application of the current laws are enough.

Leaving aside the other issues raised by other shareholders (tax investigations and “bullet-proof contracts”) he then expressed his concern for the business plan which had been announced, which he justified but did not approve. He justified it because of the difficult starting situation (and particularly the difficult financial situation, which highlights the lack of financial resources) from which the Company must manoeuvre, in terms of financial results and applicable regulatory framework, yet to be
defined. But he did not approve of the fact that the CEO should have been clearer: the company must be returned to health and relaunched, and doing this needs courage and resources, a tight and targeted reorganisation, the wise choice of a new management team, the restoration of a company spirit, as this too has deteriorated, the reduction of costs and the pursuit of synergies, particularly insofar as innovation and quality are concerned. He considered Group expenditure on research and development to be laughable, particularly when compared to other expenses which he considered unjustified. He declared himself in favour of the reduction of the digital divide, but only on precise conditions, to protect the investment it will require. If the regulatory framework changes, he repeated, investment must be increased, and the resources needed must be sought.

After stating that he agreed with the earlier speakers who lambasted the impoverishment of the Company in recent years, he reported that he had asked for an item to be added to the agenda of this meeting, although he did not have the right to do so according to the law, since he did not control a sufficient number of shares: he would have liked to attribute more elastic powers to the Board of Directors, to avoid having to reconvene the shareholders’ meeting at short notice if resources were needed.

The associations ADAS and ASATI were wondering, on behalf of all the shareholders they represent, if they should trust the new management, particularly the CEO. They were particularly concerned to know if the actions taken so far by this management are in line with the Company of tomorrow, and they had observed that so far the Trade Unions’ answer to this same question has been negative. For their part, ADAS and ASATI had encouraged their shareholders, showing a great sense of responsibility. Internally, however, they had been much more critical: they asked themselves if the organisational changes made or announced to date are adequate, and if the choice of resources is correct. They were also concerned about salaries, and critical of the fact that the existence of a large gap between the highest pay packages and average salaries does not help to restore confidence within the Company. If sacrifices have to be made, they must be shared by everyone, and it is precisely about this aspect that the two associations have not yet expressed their opinion, and await the next developments. Moreover, they did not expect a new plan within two months, since this plan would require pre-conditions to be established, failing which a more prudent approach was more appropriate. ADAS and ASATI would support the action of the management with their usual professionalism, and they asked the management to be prepared to listen to the proposals they intended to draw up, in the sole interest of the company and all interested parties. Finally, shareholder Fogliati refrained from formulating his voting intentions on the matters on the agenda until he had heard the answers the Chairman was willing to provide to the various questions raised during the course of the discussion. Before ending his comments he again made clear that, when he spoke about pursuing the interests of all parties involved, he really was referring to everyone, including the
company’s competitors who are members of Assotel, with whom a collaborative relationship should be established.

So far as relations with Telefónica were concerned, he reported that he had had positive dealings with some of its representatives who were at today’s meeting, but observed that the Group’s partner in Argentina (the Werthein family) disputed the nomination of two Telecom Italia directors by Telefónica, since this could allow sensitive information about Telecom Argentina to be passed to Telefónica.

The Chairman reported that the Directors appointed by Telefónica are required to leave the meeting when the Board deals with matters concerning Brazil or Argentina.

Fogliati took note, but observed that the fact that some Directors left the meeting had not in the past prevented the mass sale of a large part of the company’s property assets.

Antonazzo observed that analysts identify the main problem of Telecom Italia as debt, which prevents appropriate investments being made, because the Company must support financial charges (16 billion between 2001 and 2006) totalling more than the resources allocated for investment (12 billion over the same period). This means that the final figures are lower, reducing revenues, profits and dividends, the figures for which the shareholder recalled: he questioned therefore what the Company’s prospects are for 2008. At the end of November 2007 Gilberto Benetton had stated that Telecom Italia had been his worst investment, but – in the shareholder’s opinion – this situation is indeed his own fault.

The shareholder then pointed out an apparent discrepancy between the Chairman’s views on reorganisation of the Network and internationalisation, as reported by Il Sole 24 Ore on 14 March 2008, and his opening speech at today’s meeting. In the press article mentioned, he recalled, it was maintained that this reorganisation would produce savings of 300 million per year up to 2010, and that the Company’s path towards internationalisation seemed unsatisfactory; however, it was asserted in the introductory speech to this meeting that Telecom Italia was starting from an excellent position, thanks to a solid company organisation which is well-endowed with technology and professional skills. In the light of the above, he compared Telecom Italia to a farmer who has fertile land but no seed to sow.

Among the list of shareholders in the Company, which now “leaks like a sieve”, there is one flourishing and healthy company (Telefónica) whose Chairman has declared that the investment in that they made in Telecom Italia is a good one. In the speaker’s opinion, this was merely saving face, since, in economic terms, in one year Telefónica has lost two thirds of the capital it invested, as has happened to all the shareholders who put their money in Telecom Italia shares. He therefore asked for
consideration to be given to recapitalising the Company, so that it can make investments and promote research.

He felt that in the absence of some development, the situation will remain the same, and the problem of the debt will not be resolved. Telefónica’s investment can only become a good one if Telecom Italia is recapitalised and restored to health: this would in fact reduce the mean cost of the investment, which would then be in a company with cash to invest. Without the necessary financial resources, Telecom Italia would remain lagging behind, and would be overtaken by its competitors. So he invited Telefónica to consider this opportunity favourably, and allocate new resources to Telecom Italia.

And as for the Fossati family, which supports the proposed merger with Telefónica, he suggested as an alternative that once the necessary capital had been obtained, the two companies should be twinned, with each investing in the other, so that each maintained its own nationality and they could work together profitably.

Shareholder Antolini considered that the time had come for shareholders to seriously reflect on the investment they had made in Telecom Italia. Many questions arise from a careful reading of the financial reports of the Company, and, equally, there are many stakeholders in it. And this is primarily what the ordinary citizens who use Telecom Italia’s services are, people who, when that service is not good (as often happens, in the opinion of the speaker), switch to the competition. The owners, large and small shareholders, are also stakeholders, and they are all equally losers in these difficult times for the Company. Moreover, the real value of their investment is not just the current market value of the shares, but also includes the assets of the company and its long term business prospects. In this respect the speaker, while not an optimist, has great confidence in the Chairman.

He then invited the meeting to consider a further element: the human resources at the Company’s disposal which at this moment appear, unfortunately, to lack the necessary team spirit and enterprise culture. To support this comment, he specifically cited the case of the CEO of Telecom Italia Media, whose salary seem absurd in relation to the results he had achieved, results which show that in reality the company spent much more than it actually earned. It is vital that the management team is able to say no, when necessary, and the same rigorous approach must be expected from every employee. And, moreover, just as it is a serious matter to use a company car for private purposes – which certainly happens – it is equally serious that there are no controls capable of identifying these irregularities, and no way of punishing them. Certainly, employees must be paid, but to be paid they must do their work, earning the salary the Company pays them. So all employees must learn to play as a team, be part of the business, create profits.

In the speaker’s opinion, one of the basic problems of Telecom Italia, and of all the ex-Iri companies, is the very high level of union membership among its employees. However, they must be made to
understand that they are risking their jobs, as is happening at Alitalia, that they must take responsibility for being part of a team, consisting of them and the investors, in the interest of the business, which is also their own interest. Taking the Italian situation into account, one solution for Telecom Italia could be a some sort of collaboration (in the form of a joint venture, integration or merger) with Mediaset. If this route is impossible, he suggested collaborating (along the same lines) with Telefónica, so as to create a group with global impact whose strong points are Southern Europe and Central-Southern America.

Shareholder Staffa stated that his comments would be briefer than he had initially thought since some of his questions had already been answered by the Chairman and CEO in their opening remarks, following a practice that he considered admirable, although nowadays widely abandoned. He reported that his investment in Telecom Italia had had its ups and downs (he mentioned, in order of occurrence, the Tim spin off, the takeover by Olivetti, the dividend paid: all very positive events for the shareholder), although now there were no reasons to feel very satisfied about them.

In the press he had read that Telecom Italia is losing a million subscribers a year: he asked if this was true. From a personal perspective, he declared that he was a satisfied user, not willing to give up the service provided by Telecom Italia despite the many offers he received from other operators; in fact he reported his negative experience with the mobile service offered by a phone company other than Tim. He asked if Roberto Colaninno’s answer to the question about the number of competing operators (over 1000) was still true, and if income is still regularly received from them. Finally, he expressed the opinion that the proposal for the stock option plan should have been taken off the agenda for the meeting.

Shareholder Cattaneo declared that he had intended to speak about the “roller-coasters” that had recently characterised the Company share price, but he feared that this had already been dealt with by the Chairman in his opening remarks, although – from his perspective – in a not altogether exhaustive manner. At that point he wished to refocus attention on the fiscal disputes, asking about the current state of play. He asked for clarification about the tax investigation of the merger by incorporation of Blu into Tim, in 2002, and also about the statements by the Guardia di Finanza which had been notified to the company last October and November.

He also asked about the repeated rumours of operations on the capital, and in particular, of an increase in share capital (which he would not in fact support). He asked if there was a plan for the savings shares and, if so, what its essential features might be. Finally, on the subject of the renewal of the Board of Directors, he suggested shareholder Lombardi as a candidate, the chairman of ASATI,
of which the speaker was also a member: of all the speakers so far in today’s meeting, Mr. Lombardi’s contribution seemed to him to have been the best in quality.

Shareholder Bucci agreed with the criticisms of the stock option plan expressed by other speakers, and of the sums paid to the previous top management. He observed that in the meeting area there is no internet point for shareholders, which creates a kind of digital divide for those attending the meeting with laptops and wi-fi connections. He then moved on to consider the question of the debt, which in recent press stories has been linked to the subject of derivatives, highly speculative high-risk financial instruments which the banks had competed to sell to a broad range of types of investor, from small shareholders to local authorities to companies; and he therefore asked if Telecom Italia had signed any derivative-based swap contracts, and if this was the case, how much it would cost to get out of them. In addition, he pointed out that it should be noted that after recent legal pronouncements, Telecom Italia would still have the right to rectify its position on any derivatives it holds, thus also perhaps contributing to the reduction of the debt.

On the subject of competition, he agreed that much has been done, particularly in the field of mobile telephony, but considered that there much more missing and still to be done for the fixed telephony sector, where it is not so simple to switch from one provider to another. He also reported that users can only keep their number the first time they switch, and this represents a serious obstacle, particularly for business users such as small companies. As regards the auction for wi-max licences, he asked for updates and, more generally, clarification about Telecom Italia’s plans in the wireless broadband sector.

Shareholder Silla declared his lack of satisfaction with the current executive team, whose results – in his opinion – cannot be justified by the short period of time they have been with the Company, considering that they are very experienced managers. He complained in particular about the fact that the share price had effectively halved, dividends had been sharply reduced, and the business plan appeared to be vague. He was pleased that the Chairman talked about the solidity of the Company in his speech, but observed that some of the content of the initial presentations did not seem to be in line with the opinions which the press (and its readers) ascribe to Dr. Bernabè, who unfortunately gives the impression of a lack of faith in the telecommunications industry in general. In particular, he had read one paper’s summary of the CEO’s presentation of the business plan, which from which it was clear that the CEO’s declarations had generated suspicion in the market, causing a significant fall in the
share price. If this was merely (incorrect) interpretation by the journalist of the words that had actually been spoken, and of the concepts actually expressed in the interview, they should have been denied. Despite this, he continued, a stock option plan reserved for top management at an exercise price of 1.95 Euros was being proposed. Their performance did not seem to him to be outstanding, indeed he considered the scheme inappropriate, given the average value of the shares in the portfolio of most investors. Shareholder Silla made clear that this was purely an evaluation of the appropriateness of the proposal in the light of the cut in the dividend, since clearly it could not be criticised on grounds of legitimacy. Finally, he declared that he had not understood the CEO’s words about Telecom Italia’s future dividend policy; in this respect the comments seemed rather cryptic to him and he asked for clarification, specifying what shareholders can expect for the 2008 dividend.

Shareholder Fragapane dissociated himself from the criticisms that had been made of the Chairman for his conduct of the meeting. In his view, it was right to permit a single speech on all the topics on the agenda, preventing shareholders from speaking several times during the debate, which would have made it take far too long. The solution adopted by the Chairman should therefore be used in other shareholders’ meetings, for the benefit of the effectiveness of the discussion. He also congratulated the Chairman for the firm and at the same time polite way in which he had called on shareholders to respect the time limit for their speeches, and added that in his view 15 minutes is more than enough time to thoroughly express one’s thoughts.

Having said all of this, he had some comments to make, as a customer, on the claimed centrality of the customer in Telecom Italia’s actions. Over and above the data in the financial reports and the various “objective” indicators, which remained positive, his subjective impressions were very different, not only seeing an obvious situation of ruthless competition, but also experiencing serious inadequacies in the service provided by Telecom Italia, and in its customer relations. To support this, he referred to a personal experience which led him to change telephone company, although to be fair he has also had problems and difficulties with the new one.

He recalled having suggested at a previous shareholders’ meeting that physical branches should be opened where customers could talk about their problems, and hopefully resolve them directly; so he repeated this suggestion to the new top management, since face to face communication is very different (and, in his opinion, much more effective) from dealing with a call centre. He therefore hoped that greater attention would be paid to customers, since for Telecom Italia, or, indeed, any commercial enterprise, the customer really should be at the centre.

As regards the recapitalisation proposals, he considered that this was perhaps in theory the best solution, but in practice it was unworkable: in his view, the mere announcement of the initiative would
have extremely serious consequences on the stock exchange, and he therefore shared the closed attitude adopted by the current top management in this respect.

He recited some personal considerations about derivatives and the related responsibilities of the banking system (he pointed out in this connection that when the banks offered derivatives, in reality they were dealing with people who were not entirely ignorant, and so he did not share the view that attributed excessive responsibility to the banks), and then dwelt on the proposal to authorise the granting of stock options to the Chairman and CEO. He feared that the proposal would be approved, although personally he felt that at a time when the economic cycle is not positive such a proposal should not even be put to the meeting, given its inappropriate timing and lack of modesty.

Gianfranco D’Atri talked about the speech made at the start of the meeting, explaining that pessimists believe that the world is made up of stupid people who don’t listen, while optimists – of which he is one – believe that it is instead composed of intelligent people like the Chairman, with whom it is possible to have a dialogue, even though in the end they do not listen. The difference between form and substance is the same as the difference between the tip of the iceberg and the whole iceberg, and so a procedural question, while not fundamental in itself, is still relevant, because it indicates something else. Despite the abuse of the speaking and voting procedures, nothing had actually been changed, since the speeches had still been very critical, but in general he believed that there is a great variety of ways in which the discussion and progress of the shareholders’ meeting could be manipulated, as a result of a “weakened” procedure, and this is not a good thing. It was – he repeated – a signal, with a precise meaning in terms of communication, and he hoped in time to understand it better.

Referring to an article that appeared in Il Sole 24 Ore, concerning the governance of Telecom Italia, he stated that in this case there are no true minority slates, and he therefore expressed the opinion that when this article was published, the Chairman of the Board of Statutory Auditors should either have asked the paper to publish a correction or issued a writ; he was in fact aware of the existence of an explicit complaint to Consob about the connections between the slates. He therefore asked the Chairman of the shareholders’ meeting and the Chairman of the Board of Statutory Auditors if the slates presented were in their opinion true minority slates, declaring there and then that he was prepared to vote for them if they really qualified as such. What’s more, in this case he would invite the company to demand a correction from Il Sole 24 Ore.

He added that institutional obstruction was so much in evidence that respect for forms (which was the object of his remarks) would be a step in the right direction, and could have a positive effect on the share price, even if only a small one. It might, even so, have a greater effect than Dr Bernabè’s comments. In any event he asked the company to not ignore his comments just because they were
formulated free of charge, unlike those of Dr Bernabè. In his opinion, the confusing mixture of subjects raised during the debate, which was the result of the requirement to contain comments about all the topics on the agenda within the 15 minute maximum, benefited the majority shareholder and ensured that in the end only a few well rested and attentive people would be able to extract any useful information from the debate. In his opinion, this is an old-fashioned way of running meetings, in which the Chairman focuses on simply “getting through the night”, and the next day everyone gets back to business as usual. It was an approach he did not approve of: at shareholders’ meetings he addresses the small shareholders, such as himself, and shareholders with much bigger holdings, starting with Telefónica, who in his view have a responsibility when they accept and do not interfere with Directors’ behaviour which in his view “is deviant, or deviates” from the pursuit of a healthy objective. In these cases it is legitimate to suspect that someone has some other interest, taking into account the fact that a negative run on the stock market means that stock can be purchased at a lower price.

Prof. D’Atri expected some intervention from Telefónica, something beyond the speech by the Chairman of the meeting, who he described as an agent, an appointee, in other words a servant, in the original meaning of the word, in the sense that he is at the service of the shareholders. So the words of Dr Galateri and Dr Bernabè were interesting, but he would have wished to hear directly the voice of Telefónica. He regretted the fact that to start a real dialogue on important topics, we needed to get to the point of threatening an action for mismanagement, although this in fact is the only tool available to small shareholders to get attention.

Moving on, he assumed that the words of the CEO were sincere, and felt that this should be acknowledged. However, he criticised the role of the Board of Statutory Auditors: reading their report, which in his view represented one of the most negative elements of the financial statements that had been presented, it appears that they did a great job, but reached no conclusion at all.

With respect to the legal complaints under Article 2408 of the Civil Code, they stated that investigations were carried out but that nothing emerged. But the purpose of this type of complaint is to understand, and so the generic comment in the document, in his view, was insufficient. Using the analogy of a university examination, this report, which he considered sketchy in what it had to say about other topics as well, such as Directors’ pay, the governance system adopted by the Company (which is simply considered “positive”), the inadequacy of the internal auditing, the so-called model 231, and the problem of telephone tapping, would only merit a bare pass. All the topics raised here are dealt with in the report with no comment, no in depth examination, no justification, in his opinion.

In contrast, one would wish to know, for example, the reasons why the internal audit system is considered adequate, what amendments and improvements have been made to model 231, and for
what reasons. Equally, the Board of Statutory Auditors should provide more analytical detail of the supervisory activities it carried out in relation to the telephone tapping affair.

He would like the Board of Auditors to take a stand following its investigations and express clear evaluations, and therefore asked for the report to be explained, and the necessary clarification given to the shareholders' meeting.

With reference to the proposal to assign stock options to the Senior Management, shareholder Baroli expressed the view that they should be rewarded after they achieve results, not before. He therefore suggested that the Chairman and CEO either resign or agree to be paid only after achieving the necessary results.

At his own request, Luigi Zingales took the floor. He stated that he is an outgoing member of the Board of Directors, one of the so-called minority directors, as well as the Chairman of the Remuneration Committee of the previous Board. In this capacity, he felt obliged to explain to all the shareholders the decisions made by the Board of which he was a member, and the decisions that this Board had “inherited” from previous Boards. Firstly, he declared that he agreed with the shareholders who had already spoken in considering the severance payments made to Dr Ruggiero and Dr Buora to be a “scandalous act”. This scandalous act was the result of an agreement made in 2006 on the severance pay for Dr Buora, and of the fact that Dr Ruggiero was an employee of the Company, and as such his severance pay was not decided by the Board of Directors, but directly by Dr Buora (at the time about to leave), who granted him the protections and advantages of an employee.

For his part he could, however, answer for the action taken in relation to the new management. Dr Bernabè is not now an employee of the Company and therefore – he stated – he cannot benefit from the treatment that Dr Ruggiero enjoyed in the past. The agreements on severance pay made with Dr Galateri and Dr Bernabè are described in the financial statements: in brief, they will receive at most one additional year’s salary plus, if their contract should be terminated during their mandate, the remaining remuneration payable to its end. This is an absolutely normal agreement, both in line with European standards and to forestall legal proceedings for damages in case of termination without just cause.

As regards the stock options, he took note of the many protests expressed so far, but pointed out that noon has noticed that the remuneration established for Dr Bernabè is 40% less than that paid to Dr Buora, and this seemed to him a significant fact, something important and without precedent in the history of Telecom Italia and, more generally, of Italian companies. This reduction was compensated for by an increase in the variable component linked to results, as the shareholders had rightly demanded during the discussion. One of the parameters identified for this purpose is “customer
satisfaction*: 30% of Dr Bernabè’s annual bonus is linked to improving this indicator, as stated in the financial reports. As far as the stock option plan is concerned, Zingales explained that it is not an aggressive plan and, in particular, it is a plan that is much more modest than the one set up in the past for Dr Marchionne at Fiat, although it was designed along the same lines, with a significant part of the benefit linked to share performance. So whether or not a portion of the options may be exercised is conditioned by the listing of the telecommunications company, while setting the strike price at a sum significantly greater than the current share price is a solution without precedent. So the bar is set particularly high, and Dr Zingales declared himself to be proud of this.

To summarise, the stock option is exactly correlated with share performance: if the shares do not go up, it is worth nothing, and if they do, its worth is linked to the amount by which they have risen. This is what this stock option guarantees, and in any event it is worth less than the reduction in the fixed component of the remuneration paid to Dr Bernabè, whose total payment was – in his opinion – absolutely in line with the market. Paradoxically, what he considered to be incorrect was the remuneration paid to the Board of Directors, who he thought were paid too much, and badly. They are paid too much because, in his view, the remuneration is often used as a way of “buying” the consent of the so-called independent directors, which, by the way, will not happen in the post-renewal Board, given the reduction in the number of independent directors. In any event, he considered it would be correct (and intended to repeat this in Board meetings, if re-elected) for directors to be paid, at least in part, according to the change in share price. He declared that he had requested this in a Board meeting, where he was told that the decision was one for the shareholders’ meeting, so he was now repeating the request – the shareholders’ meeting. He then confessed his embarrassment about not owning any of the Company’s shares: in his view, all directors should own shares in the company on whose Boards they serve. He has therefore asked the Board for all its members to invest part of their remuneration in shares, and made a public commitment, if re-elected, to invest half of his remuneration in Company shares as soon as this is technically possible (i.e. after the period of interdiction specified in the Company’s Self-Regulatory Code). He hoped that all the senior management of the Company, including the Chairman and CEO, would follow his example.

Finally, Prof. Zingales reminded the meeting that, as mentioned by the Chairman in his opening remarks, Telecom Italia has recently approved a significant new internal code on relations with related parties. This code anticipates the regulation on which Consob has recently started consulting, and would make the role of the independent directors fundamental, since they would have to evaluate any possible conflicts of interest between the Company and its major shareholders. In this respect he expressed regret that the majority slate had reduced the number of independent directors; he therefore considered it even more important to understand the role they should play in managing these issues.
Before giving the floor to the next shareholder who had asked to speak, the Chairman dissented from the opinion expressed by Luigi Zingales that the independent directors are “bought” with the attendance allowance: a statement without foundation.

Dr Gelsomino, the Bank of Italy delegate, reminded the meeting that the Bank, in exercising the rights inherent in its shareholding, had adopted some general criteria to inform its choices. As the election of company officers was concerned, it usually voted for the minority slate, presented by qualified institutional investors, with the aim of improving corporate governance, favouring the auditing function that these people can perform.

The Bank had adhered to this criterion in recent years’ shareholders’ meetings in renewing boards of companies whose bylaws specify the presence of minority representatives (including last year’s Telecom Italia shareholders’ meeting), and would continue to follow this policy in this meeting too, voting in favour of the slate presented by the institutional investors.

With regard to the plan for stock options reserved for top management, while well-designed remuneration and incentive mechanisms for directors and management can contribute to increasing the competitiveness of the company and improving its management, the Bank of Italy takes a favourable view of plans that include adequate forms of parameterisation with real and durable company results, in accordance with long term strategies. The plan at issue, while containing elements deserving of appreciation, does not entirely fulfil these criteria: for this reason the Bank of Italy will abstain from voting on this agenda item.

Shareholder Maffezzoni asked how much had been spent on goods and services purchased directly by company managers rather than through the Procurement Office. He considered that this department should be considered increasingly strategic, and might contribute significantly to the creation of value, providing it is staffed by people professionally trained to face business and market challenges. On reading the financial reports he noted that, in the technical audits of suppliers organised by Procurement to monitor the quality of products and services received, 55 (10%) of a total of 545 batches of products had been rejected for non-conformity. In order to improve the service offered, something had to be done to ensure that Procurement exerted greater control and achieved more positive results. Having found no reference to this activity among the objectives of the plan, he hoped that in future this omission would be rectified.

Mr Segni declared that he spoke on behalf of the shareholder Pirelli, and intended to inform the meeting how he would vote in the election for the Board of Directors, and the reasons for these
decisions. Pirelli considered it to be important to use its vote to show its support for a slate presented by shareholders who have declared as their central objective the maximisation of Company value, in the interests of all shareholders and employees. In pursuing this aim – he reported – Pirelli had given him a mandate to vote in favour of the slate presented by the Findim Group, consistently with Findim’s declared intention to maximise the value of the Company. However, recent events involving the election of the Board of Statutory Auditors of the company Generali, and particularly the attitude adopted by Consob on the presumed connection between some of the shareholders who promoted competing slates in that election, had prompted Pirelli to consider it advisable to abstain from voting in the election of the Board of Telecom Italia, so as to not give grounds for argument at today’s meeting about the validity of the election. Pirelli’s sole purpose was therefore to avoid further turbulence at Telecom Italia, turbulence which the Company absolutely does not need.

Shareholder Tatulli recalled that during the shareholders’ meeting of 16 April 2007 some employees had expressed concern about the progressive sale of Company property over the course of the last decade. He asked the new top management what was the extent of the depletion of Company property, who had profited by it, how much rent was being paid by Telecom Italia to occupy the properties it had sold, and if criminal proceedings could be instituted against the people who had so weakened Telecom Italia in respect of its property portfolio.

He then observed that there had been much talk of derivatives and of the concerns that these securities arouse, but – in his view – the ultimate derivative (meaning the derivative that is most worrying) is in fact the Telecom Italia share. He said that he had Telecom Italia shares in his portfolio, purchased at 4.50 Euros, that were now worth around 1.40 Euros.

He concluded by stating that he was an ex-manager of a large Italian petrochemical company, which in the 1980s had always paid him at the end of the year on the basis of the results achieved, never in advance.

Shareholder Tronconi focussed his comments on the stock option proposal, since the other topics had already been dealt with. He considered that the explanations provided by Prof. Zingales were not convincing, and that it was enough to read the material made available to realise this. In particular, he considered two aspects of the plan unacceptable. The first was the price at which the options can be exercised, because 1.95 Euros is well below the book value reported by many shareholders, and below the price paid by current shareholders. The second element that makes the plan unacceptable is that it specifies that 75% of the options may be exercised independently of the results achieved, and only 25% is linked to a performance parameter. He considered this to be extremely low, since for the
option to be exercised, the Company need only match the median results of a panel of other European telecommunications companies.

He would think it fair if only 25% of the stock options became exercisable when a median result was achieved, with the remaining 75% being conditional on the achievement of results better than those achieved by the other European telecommunications companies. Prof. Zingales had stated that it was the previous Board that made a mistake, since it had signed an agreement with Dr Buora which tied the Company's hands; it seemed to him that a similar result would be achieved with a stock option plan like the one submitted to today's meeting for approval.

Personally he was in favour of the stock options, but asked for the proposed plan to be changed in respect of the exercise price (not less than 2.5-2.6 Euros) and the conditions under which the options could be exercised (they should depend on a result at least equal to that of the other European telephone companies, and at all events exercised at a higher price if the total options assigned are exercised). The speaker observed that Dr Galateri and Dr Bernabè were entering Telecom Italia as new managers, and their objective of changing its culture and re-establishing the merit principle and the value of results would not be credible if they themselves were rewarded irrespective of the results they achieved. So he asked for the modifications he proposed to be made by top management as an act of decency. He repeated that he was prepared to approve a stock option plan provided it was acceptable in principle, but that in his opinion the proposed plan follows the same logic (although the amounts are different) that underlay the much-criticised sums paid to the previous top management.

Shareholder Quintarelli recalled his comments made in the shareholders’ meeting of 16 April 2007 about strategies, antitrust regulations governing offers, regulatory obligations on network access and interoperability, disappointing margins on content sales, and the way the Company’s results were more dependent on telephone traffic than its peers. He said that he had asked what strategy was being considered to compensate for the trends created by the regulatory framework and by technological developments. The then Chairman had replied that within three years, that is, in 2009, the fall in the domestic market would have been offset by the foreign component, which would account for 48% of customers and 30% of revenues. Less than a year later, the words of Dr Bernabè during the Investor Day gave a different view of the situation and prospects of Telecom Italia. After stating that he had “found a company that no longer has an international portfolio, or hardly, apart from the portfolio brilliantly preserved by our management, a company that has sold all its international assets over the last eight years, and it had many excellent ones, while, as you have observed, all the other companies are offsetting the gap created by the contraction of the market with international expansion. Most of our sister companies in the industry have created extensive international portfolios, while we have reduced ours”.

38
He therefore asked if the prediction that 30% of revenues would be of foreign origin in 2009 still held, and if it did not, what the percentage would be.

As far as the domestic market is concerned, the financial report presented to the meeting showed a fall of 6.1% in revenues and a loss of 7.4% on the fixed network. Of the 1.6 billion lost on the domestic market, as much as 80% is attributable to the fixed network. Domestic EBITDA has fallen by 1.7 billion, i.e. 14.5%. The fall in EBITDA is not detailed by business line.

He asked how much of the fall in EBITDA is attributable to the Wireline Division. Apparently the Company was relying on the Alice offers: the shareholder assumed that the company is seeking to revitalise its fixed network offers by the sale of content. He observed that although these offers started about 7 years ago, no indication has yet been supplied about the margins they contribute to the Company’s results, and he therefore asked what the revenues and EBITDA of the Alice Home TV service were.

Technological evolution is what separates networks from services, the latter being based on the IP protocol: this has been extensively demonstrated by the myriad new global services that have sprung up on IP networks. Voice traffic is just one of these services. Service applications can happily carry on irrespective of the underlying complexity. This is the aim that has been achieved in full by the standardisation bodies. Services are independent of the structure of the underlying network. This is a first fixed point: as time passes, knowledge and control of the underlying network no longer constitute a competitive advantage in terms of technology.

The combination of TLC regulation and Antitrust regulations, he continued, means that, as a notified operator, the Company must increase user choice by opening its infrastructure to its competitors, on fair and transparent terms, related to costs. Judging from the legal proceedings and damages that it has had to pay, the company has repeated broken these rules in the past. The rules also specify that the network and services must operate completely separately, so as not to give the Company’s commercial structures an unfair advantage over its competitors, who are its wholesale customers. This is the second fixed point: unless the company breaks the rules, control of the fixed network does not constitute a competitive advantage in commercial terms.

At the same time, the Company has to manage and develop the network structure in the whole of Italy, including areas where it does not pay its way, or where the margins are lower, while its competitors benefit by renting Telecom Italia infrastructure, as they are entitled to, only in the more profitable areas, where they subject the Company to greater competitive pressure.

In his introductory remarks, discussing margin revenues, he had reminded the meeting that 80% of the loss on the domestic market was concentrated on the fixed network. The future will see further pressure due to the implementation of the VOIP (Voice over IP) rules already approved some time ago by the Communications Authority, and fixed or mobile service switch offers from the competition,
which prompt our subscribers to abandon the fixed network (a commercial offer which, it should be recalled, was suspended by the Authority, and only reinstated at the end of 2007).

Revenues and margins from the fixed network tend to fall, costs are incurred in any event, and competitors can concentrate only on the most remunerative areas. This is the third fixed point: full possession of the fixed network does not constitute a competitive advantage in economic and financial terms.

While not wishing to start discussing the strategic requirements of the country and its need to modernise the network, he had to point out that what some experts believe may be true: Telecom Italia no longer has a competitive economic, financial, technological or commercial advantage from the network, because of the structure of the market, technological evolution and the regulatory framework. The scenario described, the technological innovations, Voip and FMS transfer value to the customer, subtracting it from the environment. It seems that the competitive model of vertical integration is leading to a kind of “tragedy of the commons” in the Garret Harding sense. He believed that there should be a guarantee that all the players in the market – operators, customers and institutions – should contribute to preserving the common environment of the fixed network. Singapore is moving towards structural separation and a common network shared with the operators; in Sweden and Finland the dominant operator has decided that the network should be run as a separate company. Last week Australia announced that it would move towards a single fibre optic network with competition on services, and in the same week the OECD issued a recommendation and policy document on the fibre optic network, which suggests that the network should be kept separate from services.

In his personal opinion, one scenario that could generate value and make resources available for international and adjacent-market expansion, calm the competitive scenario and minimise the impact of the context on the fixed network (described earlier), could be as follows: a separate company running the fixed network, maintaining its consolidation and stock market listing with an open board composed of representatives of its principal users, professional associations and appointees of authorities as in the case of the Quality of Access boards in the Open Reach model. Negotiating with Agcom might ensure the best return on capital thanks to greater market clarity. A long term financial operation by institutional funds, for example, could be agreed, against an investment and modernisation plan. Part of the debt could then be renegotiated to long term borrowing.

In his meeting with the investors, Dr Bernabè had stated that all scenarios are being considered, and that he would commit himself to any operation within his power. Quintarelli therefore asked if the broad general hypothesis he had described is one of the scenarios being considered, and if it isn’t, then why not.
He also asked if the Board of Directors was aware of the existence of any agreements or links between shareholders, or agreements between the shareholders of a partner, or if there are legal constraints connected with the debt that rule out the hypothesis he had described.

Shareholder Cusani stated that he had submitted a document to the new Board of Directors containing the questions asked at the Telecom Italia shareholders’ meeting on 16 April 2007, based on an analysis of the period 1999 – 2006 undertaken on behalf of the Communications Industry division of the national trade union CGIL. He observed that finally (apparently, but perhaps also in reality) Telecom Italia had returned to focussing on its core business. In relation to the criticisms made by one of the earlier speakers of some of the declarations made by the CEO, he considered that these declarations must be read as a (probably bitter) statement of what had become of the company which Dr Bernabè had run from late 1998 to early 1999. At that time it was a flourishing company, and now it is a very different company, as Dr Bernabè had declared in the meeting with the financial community on 7 March 2008, as reported in the press. Cusani believed that this is not a pessimistic attitude, and that the words of the CEO were simply an acknowledgement of what had happened to Telecom Italia between 1999 and 2006. Then came 2007, a year of inertial transition, albeit downwards, marked by a significant change in reference partners. He explained that he had delivered the questions put to the last year’s shareholders’ meeting because on that occasion he had received evasive answers: now, after the declaration by the Pirelli delegate (who, in his view, should have been prevented by modesty from speaking), he felt that the Board of Directors should clarify whether or not all the existing contracts agreed at that time with a related party (meaning the Pirelli Group, of which Telecom Italia was in the situation of an “objective vassal”) have now been cancelled or reviewed. He added that there had been a great many of these contracts, even including one for monitoring the costs of a project to train technicians. He asked therefore what had become of all these contracts, if they had been reviewed or if the intention was to review or terminate them, if there is any intention to audit them (internally or with the support of an external auditor), as with all other contracts with former partners. In this connection he recalled that in the period 1999/2006, cash flow for investment activity was negative for 66.4 billion Euros, which corresponds to the value of three finance bills, and considered that enormous sums had been squandered in Telecom Italia. He therefore asked the new Board to undertake an internal audit and due diligence of this matter – and, he added, that all the operations carried out in that period should examined by a control authority, in the form of Consob or Investigating Magistrates. In this connection he recalled the ENI precedent, in which the current CEO of Telecom Italia occupied a similar position between 1992 and 1998. On that occasion, Dr Bernabè, collaborating with the Magistrates and clarifying the off-the-books invoicing of the ENI Group, put that
company on the road to recovery. He therefore asked that the CEO, who has started a different process for this great company, should be confirmed in his position, together with the Chairman, who he believed to be a gentleman, and is repeating in Telecom Italia the operation he conducted at that time in ENI. He discounted the possibility of passing over in silence what had been done in Telecom Italia in the last few years, and asked if proceedings could be started, perhaps recovering a little of the strategic property that had been sold.

The property portfolio, which at historic values was reported at “5.73 million Euros” in 1999, has now fallen almost to zero, with capital gains of a few hundred million Euros. Shareholder Cusani expressed the opinion that the new Board must, among other things, review the valuations, at the time always performed by Richard Ellis, of the real value of the property portfolio which in his view was sold off too cheaply. He reported that he had submitted two sample files of operations undertaken during the period under review: of 158 “company financial operations”, over 140 “went badly”, a situation that seemed somewhat distorted to him. So he renewed the invitation to clarify the sale of the property assets, reiterating the importance of the 1993/94 ENI precedent, which the CEO now has the opportunity of repeating, to ensure that Telecom Italia becomes once more a profitable company, with development prospects, strengthened by a renewed shareholder list with the acquisition of strong partners such as Telefónica.

Much work would have to be done by the top management, but the speaker was confident that there would be no more complaints from the shareholders, and in this respect considered that the position adopted by the Bank of Italia to be very correct. In his opinion, the reconnaissance work he was recommending, sorting out the accounts and looking into what had (perhaps wrongly) been removed, would be in the interest of the shareholders, employees and the whole national system.

During the meeting, Cusani also submitted to the Chairman’s table a document requesting that “the Board of Directors consider whether proceedings for mismanagement should be started against the previous directors, in relation to all the shareholding purchase and sale operations, and all operations involving property sales, undertaken from 1999 to the present”.

Shareholder Vittangeli made some statements explaining his vote in favour of approval of the financial report, even though the document could not be considered to be satisfactory for a small investor, in the light of the proposal to reduce the dividend. In his opinion, the 2007 financial report should be appreciated in the light of the precedents cited by previous speakers, which demonstrated how Telecom Italia is an example of how privatisations should not be done.

He quoted Nobel prizewinner Solzhenitsyn’s definition of privatisation in Russia as the plundering of national assets by a group of adventurers, speculators, rogues: and hoped that the same would not be said of privatisations in Italy, although there were circumstances which would make one think that that
the situations were analogous. However, this was the past, and the speaker wanted to look at the present and the future. Various shareholders had put suggestions to the new management about how the company should be run: while he did not want to follow them down this route, he wanted to express a quiet piece of advice. He invited the meeting to consider that the Italian political class had lost the esteem of its citizens because of its greed for privileges, especially economic privileges, and would not wish the world of managers to lose the esteem and trust of savers because of matters such as the much discussed payoffs, or stock options that are perhaps premature, notwithstanding the details provided by Zingales, which attenuate a little the concerns or even the negative opinions expressed by many speakers. So he recommended that managers should not become a separate caste, as occurred with the political class, with scandalous differences between managers and the rest of the workforce.

The financial statements, he continued, indicate both troublesome and positive aspects: he would like to hope that the former are linked to the past and the latter are the signs of a better future. Among the troublesome aspects are the falls in both EBITDA and EBIT, although he acknowledged that, as regards the fall in profits, the 2006 financial year had benefited by almost 2 million Euros in TIM dividends for 2005, which had mitigated the fall. The positive elements are the sustained revenues, which are evidence of the company’s capacity to stay abreast of the market, the growth in investments, which are the future of the company, and the reduction in financial borrowings. He mentioned that he had read that one shareholder with a large holding did not consider the Company’s level of financial exposure (-35 billion) to be dangerous, but the speaker did not share this view. He observed that the level of indebtedness is another consequence of the privatisation, and declared that he understood how, faced with these privatisations which allowed a company to be purchased at a loss and then stripped of its worth, some shareholders regretted the passing of the Government grandees.

On the other hand, there are two kinds of managers – those who manage well and those who manage badly, irrespective of whether they work in the public or the private sector. In any event, the reduction of borrowing is one of the guidelines of the new three year plan, and he declared that he was amazed that the financial world had greeted it coldly because in his view these are lucid and coherent guidelines. Although it needs further definition, this is a serious business plan, which does not promise the miracles the market has become used to from the irresponsible operators who created the current situation of the international financial market, which is risking a devastating global crisis. On the contrary, the plan presented by the current top management is a serious one, which identifies its lines of action as reducing costs, selecting investments, improving services, transparent offers and the termination of activities that are not profitable or which have no prospects of offering an adequate return. Various shareholders had expressed the hope that Dr Galateri and Dr Bernabè would do for
Telecom Italia what Dr Marchionne had done for Fiat. Well, the past achievements of Dr Galateri and Dr Bernabè had been such that they did not need to be Marchionne, it was enough that they were who they were.

Maresca raised a procedural issue as his primary concern. He stated that he had encountered a number of problems, on calling at the registered offices of the Company, in being recognised as a shareholder and having access to the financial documentation. He considered this to be a serious issue, and called the Secretary’s attention to the matter, so that these difficulties would be overcome in the future, inviting him to take note that the next time he would come with a notary to have formal notice taken of how at Telecom Italia a shareholder is not able to get a copy of the accounting documents.

Having said that, he also complained about the layout of the financial report itself, in which the proposed resolutions are placed at the end, not at the beginning, where it appeared to him it would have been reasonable to place them. He also complained that he had had problems understanding the proposals for allocation of the profits. He was sure that the physical strength shown by the top management in conducting the meeting was a sign of a similar strength in performing the work that awaits them, and considered that this could be a positive sign. However, he does not feel able to draw similar conclusions from the observation that the remaining directors are not on the podium: he would have wished to see them, and the Board of Statutory Auditors, as a form of respect for the shareholders, and so that shareholders would know who would be managing the money they had invested.

On the subject of the size of the dividend, he expressed the view that, in a listed company (where the shares are easily negotitated), this is not a fundamental element, and in fact risks acting as a smokescreen, since the actual value of the business is more important.

So far as the proposals put forward by some people to recapitalise the Company, he declared that he is not against this if the operation is to be carried out by self-financing, at no cost, instead of paying the dividend. So far as the stock option plan is concerned, he pointed out that this is an initiative that essentially has no precedent, since it is reserved for just two people: the Chairman and the CEO. In the light of the criticisms that have emerged, he felt that the Chairman should resign, although this would have serious repercussions on the stock market, or give up the proposal, given the reaction it has generated among the shareholders. The shareholders do not want the stock options, which are in any event an old-fashioned tool; in this respect the shareholder cited current US practice, and reminded the meeting of the perverse effect created by the sale on the market of shares obtained through share options that were sold as soon as their beneficiaries gained possession of them (to the obvious detriment of the share price), and, furthermore, that in this instance, there would be a
preliminary stage consisting of the prior purchase of treasury shares using reserves allocated from the profits. Proposing that the top management should give up the stock options seemed a bit strong to the speaker, but he still invited them to consider this possibility, taking into account the positive effect such a decision potentially could have, in terms of the broad support of the shareholders. He then mentioned a personal problem he had encountered as a customer of Telecom Italia: his son had contacted a competitor and, at a certain point, had cancelled his subscription to Telecom Italia without him knowing how this had occurred. He therefore asked if it is possible that a subscription could be “taken away” by another company against the wishes of the customer. He admitted that his son had probably used his data, but considered that an express cancellation by the customer – verbally or in writing – should be necessary before a subscription is closed.

After stating that he was an ex-employee of Telecom Italia, shareholder Francolino declared that he would vote in favour of the proposal since – as he had stated at the previous shareholders’ meeting – he considered this type of voting to be substantially illegal, as it permits a derisory number of large shareholders to get together and make the entire shareholders’ meeting process pointless. He was therefore hoping for a change to the applicable regulations to protect small shareholders, who are the same private citizens who are normally customers of Telecom Italia.

He advised the Board of Directors to focus on the human resources, investing in them and not just in innovative solutions (he mentioned short term contracts and call centres), which ultimately transfer wealth from the poor to the rich. Following the latter course will ultimately impoverish the system, to the detriment of all businesses, because it will deny poor people the resources they need to make purchases, and damage the development of the economy. Investment in people is the path to follow, since money is of no use if it is not placed in the hands of those who need it.

He stated that he had passed his entire professional life in Telecom Italia and was now retired; since retiring, he had attended all the Company shareholders’ meetings. He had learnt many things from the Company, and not just technical ones. With his pension, and income from property investments he had made, he had a monthly income greater than he was able to use: he would therefore like to invest to create work for other people and transform the money into services. This should apply to everyone, since if money is not invested properly it is useless, and impoverishes even those who have it. He stated that he did not believe his comments were off topic, and that in any event it would be useless for him to talk about the financial report when there are professionally skilled people who are paid to draw up the financial statements and comment on them.

He stated that he had sent the Company a letter in which he formulated suggestions about the operation of ASSILT and CRAL (the Telecom employee healthcare and leisure schemes). He had asked in this letter that members of these associations should be treated as shareholders, so as to
invest in these people, and had made other recommendations and proposals. In particular, he asked that fewer contracts should go out to tender, so that the services provided, particularly by Cralt, could be more competitive. The money that goes to these associations is the workers’ money, and they must participate in its management, almost as if they were shareholders, in the same way as the Company shareholders, since these are not free services, and the resources come partly from Telecom Italia, and thus from its shareholders, and partly from the employees. So it is not simply a matter of justifying the expenses incurred, but of making good use of the resources received, by providing an appropriate service. He thought that the poor management of Assilt and Cralt was an indication of the poor management of the Company, which probably is no more efficient than the two associations mentioned. He repeated his invitation to focus on the poor, who should not exist, since Italy is a very rich country, although unfortunately its riches are not in the hands of those who ought to manage them, and who would manage them to everyone’s advantage, unlike the banks, who make profits from speculative operations and give no service in exchange.

Shareholder Giulianelli stated that he was an employee of the Company, and declared that he would vote against approval of the financial report, not because he distrusted the new management presenting it, but because it is the result of the previous management. He recalled the comments made by Beppe Grillo in the April 2007 Shareholder’s Meeting, which gave considerable time to the telephone tapping affair, with various remarks being made by the management as well.

One of the first comments of the day had stated that the matter had been examined by the Investigating Magistrates, and that for his part the shareholder was aware that one of the top people implicated in these matters had left the company. He therefore asked if any of the top people involved in these matters were still with the company. He asked for an update on this from the top management, in view of the fact that one of its first actions was to bring the Security Department under the direct control of the CEO. He asked what progress had been made on the separation of Security at Pirelli and at Telecom Italia, and the guidelines used to manage this operation.

He also wanted to repeat to the current management the question he raised last year with Dr Buora about so-called employee meritocracy. At the time Dr Buora had replied that Company policy is applied identically to all personnel, but the shareholder stated that he was aware that the performance assessment files of employees are compiled according to unwritten guidelines, under which employees over 50 receive no meritocratic recognition.

So he asked what quantitative data is available about the meritocratic measures applied to employees over 50 who are not executives, and if there is a guideline on this matter that might divide this type of operation by age-group.
Moving on to another subject, the shareholder observed that he had found no trace of Telecom France in the documentation made available. He considered this to be one of the Group’s most important international assets, given the state of uncertainty surrounding the shareholdings in Argentina and Brazil. He asked for clarification on this, as Telecom France is not even mentioned in the business plan.

Finally, the shareholder commented on the oft-repeated mantra about the need to “be part of the team”. He observed that there are many ways of understanding this concept which – to be credible – must then be applied consistently: regaining customer approval requires competence, quality of service, quality in relationships, and sharing and identifying with company policy – a hierarchical approach is not enough. He added that over and above the stock options and golden handshakes received by Dr Ruggiero and Dr Buora, a document was in circulation indicating that 44 employees had received a total of 24,214,000 Euros in severance pay, and a further 58 people had received average salaries of 321,000 Euros in 2007, making a grand total of almost 14.5 million Euros. So he asked if the team was composed of these people only, or also included those who struggled to get to the end of the month, or even temporary and outsourced staff. He expressed the view that the way to start a serious discussion of teamwork is by renewing the relationships between management, executives and workers.

Shareholder Costa declared that he represented some shareholders who are members of the independent trade-union movement and the Casa del Consumatore, the Italian consumer association. Firstly, he welcomed (in fact, welcomed back), Dr Bernabè, who he hoped would bring the offices of the Company back to Turin, since he always felt uncomfortable in Milan, starting with the time at which shareholders’ meetings open, which had reverted to a morning start only after protests from small shareholders’ organisations. He hoped that the new top management’s choice to convene the meeting in the morning was indicative of the attention they would pay to ordinary shareholders, whom its predecessors had always ignored and insulted.

The Telecom Italia of the present, he continued, is no longer the company which the CEO left in 1999, when the small shareholders fought alongside him to beat off the Olivetti takeover bid. This brought Roberto Colaninno to the helm of Telecom Italia. He had been described as the most brilliant provincial accountant in Italy, but then proved to be a successful entrepreneur. Unfortunately, in the opinion of the speaker, he was succeeded by an industrialist who first reduced the Company to poverty and then after leaving, has continued to attend shareholders’ meetings, something which he should avoid for decency’s sake at the very least. Today the shareholders have much to recover, and cannot do other than trust in the Chairman and the CEO, thanks to whom Telecom Italia can present itself to the market with a new face. It is true that at the moment the market is penalising Telecom
Italia, but the shareholder was pleased by the way the current management handled the change of top management at Telecom Italia Media, which in his view made no profit solely because of a disgraceful agreement between its chairman and Silvio Berlusconi, to make sure that La7 would be unsuccessful. This same agreement – according to the shareholder – had in the past led to the attempted purchase of Pagine Utili and the sale of Pagine Gialle.

Moving on, Costa stated that the Company is now in straitened circumstances, and no-one could really have thought that in only four months Dr Bernabè would be able to rectify seven years of a management that the speaker described as predatory. However, he asked the Chairman and CEO to have faith in Telecom Italia and its employees, in the knowledge that the company is worth much more than its current price on the stock market. In particular, its human resources are an asset of extraordinary value, but it also needs to have access to capital to invest and grow.

He asked what price the shares might reach by the date of the next shareholders’ meeting: he invited the management to indicate a figure to serve as a guide. He then asked for clarification on some items in the financial statements, in particular, on the penalty interest accrued for outstanding payments, and on tax issues, given that the investigations by the Finance Police had, according to him, discovered many irregularities in the merger by incorporation of Blu and the operation with Hopa: he invited the company to be transparent on this, granting the wish expressed by others that it would clean up and start again from scratch. For his part, he declared his intention to approve the financial statements because things must go forward, and because he considered it senseless to expect the dividend to be left unchanged after the "great season of dissipation" from which Telecom Italia had just emerged. The shareholder and those he represents would therefore come down on the side of the new top management, certain that they will be able to turn Telecom Italia back into the fifth largest telecoms company in the world, strengthened by its alliance with Spain and confident about the opening of new markets in India and China, where he invited the management to look, without limiting it to the narrow confines within which Tronchetti Provera had reduced the Company.

Shareholder Carena declared that he brought the voice of the workers of Telecom Italia to the shareholders’ meeting – many of them are also shareholders, and as such they have a dual interest in seeing the company return to growth. In this role he asked Dr Bernabè to protect the company with a management with different characteristics, opposite to those that have characterised previous regimes. He asked his fellow shareholders to consolidate their interest in Telecom Italia, not only to obtain a high return on their investment, but also because they had invested in a company with solid human capital, which can always be counted on. Today more than ever it is necessary to rely on the professionalism of everyone working in Telecom Italia, a professionalism that has always been at the heart of the company's success, and must therefore not be forgotten. In contrast, however, he
believed that in recent years this professionalism had too often been weakened by systems, procedures and timescales that sometimes did not allow the company to reach full efficiency and customer satisfaction. The shareholder therefore believed that a careful review of systems and procedures was required, to ensure that they become useful tools for performing work, not hindrances to the achievement of the company’s objectives. The recent relaunch of Fiat shows that a company creates value and success not only through innovative processes, ferocious restructuring, job losses and spasmodic cost cutting, but by care, commitment and investment in product quality and innovation. Telecom Italia is a company that needs a relaunch after a long period in which it has been impoverished in pursuit of financial rather than industrial interests.

In the opinion of the shareholder, the new management is unfortunately timid in making its strategic choices and in launching a business plan that goes beyond the short term. Although the central point for the relaunching of Telecom Italia is network innovation, the launch of NGN2 is uncertain, and remains unconvincing to analysts and investors; the investment needed is massive, but there is no sign of clear and convincing action directed towards making these investments.

The handling of the network separation issue, he continued, has been confused. The new body that will control access to the network has not been seen to have autonomy in decision-making and real powers of choice and investment, and the roles and limits of the resources in its control are unclear. The crucial point for the relaunch of the Company in Italy is the transition to NGN2: in this respect the company must be able to propose itself not only as the supplier of a new, fast and reliable carrier, on which others can insert content, but also as a supplier of its own add-on services, which will be able to take off and establish themselves only if the offer is innovative, and directed at all users. What can differentiate Telecom Italia from its competitors is its strength and capacity to bridge the digital divide, using both fixed and mobile network technology with conviction. Its strength is thus its capacity to act as a reference point for the supply of new services that are useful for individuals, companies and institutions. The IT skills and capacities to do all this are already present in the Company, where they coexist alongside the more traditional telecommunications skills: but they must be recognised and made use of.

The shareholder declared that in this meeting he represented the workers of Turin, which used to be the headquarters of the Company. Despite the move to Milan, Turin has not lost its specific role, since it is the home of Tilab, which employs a thousand people. These are valid research personnel who feel that the search for innovation has been penalised for years by the objective of obtaining a short-term return on investment. The shareholder observed with regret that the new structure makes the “organisational and professional carve-up” permanent – the dispersion of resources in a thousand roles with immediate operational responsibilities, while research remains relegated to a structure whose size and responsibilities make its role appear more image than substance. In contrast to this,
the presence of Tilab in Telecom Italia is of vital importance for the relaunch towards new
technologies. He therefore hoped to see more in-depth attention to what is the research heart of the
comp. Turin also continues to be the workplace of many corporate officers, technical and sales
staff, and as such must maintain its specific role within Telecom Italia. The speaker read out parts of
an article that appeared in the Libero newspaper on 8 April 2008, which commented on the possible
initiatives to reorganise and “slim down” the Company, in terms of its general management and
territorial organisation. In particular, he said that this article referred to the amalgamation in Rome of
several divisions of the general management at present located in Turin and Milan, the loss of 2500
jobs through retirement and the conversion of clerical and supervisory staff into call centre operators
and salespeople. Once again, two possibilities stood out, from an organisational point of view: either
reducing the eight territorial offices by half, or putting the call centre structure outside the boundaries
of the company, moving it under the aegis of Telecontact. He asked Dr Bernabè for some clarification
of what is reported in this newspaper article.

He observed that the personnel of Telecom Italia had been crushed and demoralised by many events
in the past, including professional mobility, frequent mergers, spin-offs and re-integrations, which each
time damaged their professionalism. Inevitably, the workers and small shareholders had lost faith in
the executives, and in the way the company had been managed to date: he advised Dr Bernabè to
monitor his managerial class properly, since they need the trust and respect of their co-workers. He
asked for a managerial class that is determined and ready to motivate the workers, that works with its
coworkers, communicating continuously in the spirit of a joint pursuit of shared aims. He asked for a
managerial class that reflects the professionalism, commitment and dedication of the personnel, that
knows the company and is able to indicate the path its co-workers must follow, and that is equipped
and able to manage its personnel. Courses are not enough for all this, there needs to have been
sufficient corporate growth to ensure thorough knowledge of the way the Company works, and of the
processes, systems and procedures that characterise it. The managerial class of Telecom Italia is well
paid: the shareholder commented that in the last few days the sums paid out to some recently
departed senior managers have appeared in the press, as have the salaries of some serving
managers. He asked that sacrifices should not always and only be asked of the employees and small
shareholders, who have been and are the healthy part of the company. Today the staff of Telecom
Italia make up a collage of differing experiences, which has been through many changes, and
operates with systems and procedures that do not always help to achieve the best work performance.
The shareholder then recalled that telecom Italia is a company in which these days people still die at
work. On the subject of the latest episode of death at work, an event which occurred a week before
the meeting, the shareholder expressed his deepest condolences to the family of deceased colleague
Carlino. He emphasised how, in 2008, it is more essential than ever to pay attention to worker safety.
He assured the meeting that the staff did not and will not give in, and stated that his presence at the meeting is testimony of this: despite a lack of trust because of an unfortunate history, the personnel and small shareholders that the speaker represents are ready to meet the challenge of this Board and of the CEO to restore Telecom Italia. Finally, he stated that RSU SLS CGIL of Turin had contributed to his speech.

Stella D’Atri declared that she was speaking as delegate of shareholder D&C Governance. Since – she stated – the Company financial report indicates that Telecom Italia had adhered and adapted to the Self Regulatory Code recently adopted by the competent authorities, she hoped for some details on the type of adaptation made in the direction of relations with shareholders. The Self Regulatory Code in fact contains the principle that the Board of Directors should promote initiatives to favour the broadest possible shareholder participation in meetings, and to facilitate the exercise of shareholders’ rights. However, in the light of the comments made by those of her fellow shareholders who spoke during the debate, it seemed clear to her that the shareholders’ perception was different: there had been comments about the location, the means of travelling to it, and the absence of internet points. So it would be useful if the Chairman and CEO could indicate specifically what actions have been taken by Telecom Italia to comply with the recommendation cited, that is, in the interest of small and large shareholders, since it is in everyone’s interest that the shareholders’ meeting should take place in a harmonious atmosphere.

She said that she had read the corporate governance report with interest, particularly the section on the arrangements for independent directors, rather than (the section dealing with their remuneration. On the matter of the independent directors, she noted that on page 180 the report states that, when the Board was being renewed on 16 April 2007, there were six directors who could be qualified as independent, among whom Mr Vecchio is not listed, while elsewhere he is indicated as an independent director; she asked if this was an error or if there was some reason for this apparent discrepancy, possibly in terms of a change in the Director’s status or curriculum during his mandate. So far as the remuneration is concerned, she appreciated that the table on this topic distinguishes the part of the financial remuneration that consists of bonuses, but includes a residual category indicated as “other”. While this type of detail is sufficient for most directors, she observed that probably, in the case of the two directors about whom there had been lengthy debate, taking account of the fact that the major portion of their remuneration is categorised as “other”, it would have been appropriate to have more information, which might have somewhat moderated the tones used and demands made in the discussion. On this topic, she emphasised that the fact that a director had also spoken during shareholder comments was an innovation, and in her view it was extremely positive, and she hoped
that this would be repeated in the future, since it could improve the interaction and dialogue between the management and the shareholders.

She then asked for clarification of the transactions with related parties described on page 189 of the financial report document: the passage speaks about a computer program used to determine whether or not the various operations were appropriate. She asked for further information on this, and wished to know if the program was already being used, and if any operation had been defined as inappropriate and therefore passed to the Board of Directors for examination.

Finally, she raised the subject of the so-called “pink quotas”. The financial report mentions an equal opportunities project, but the number of female employees among the supervisory staff is around 30%, and falls to 15% among the managers, while there are no women at all on the Board of Directors itself. For the future she invited the shareholders to present slates that take this aspect into account, since in statistical terms it seems impossible that not a single female candidate could be found with the same qualifications and skills as the assuredly well qualified candidates who had been indicated. She hoped in this respect that the presence of Telefónica among the owners of the reference partner could lead to positive developments, given the attention paid to this topic by the Government of its country of origin.

Shareholder Salmivuori, in English, simultaneously translated, repeated a question that he said he had already asked during the recent shareholders’ meeting of Telecom Italia Media, without receiving a reply. He asked what business plan Telecom Italia Media has to assure the independent growth and financial performance of La7, taking into account the fact that if the owner of Mediaset should achieve electoral success, La7 would be left as the only independent channel on the Italian television market. He also asked if Telecom Italia intends to de-list Telecom Italia Media, what the Group strategy is for the media content sector, and if (and when) a financial profit may be expected from Telecom Italia Media.

Marianna D’Atri wanted to know the details of the startup impairment test, by year of activity, clarifying that she hoped for answers that went beyond the statements reported on pages 358 and 359 of the financial report document. In particular, she asked what consultants had supported this valuation, and also wanted to know the valuation of the fixed network, as defined by Dr. Buora in the shareholders’ meeting of 16 April 2007, and if this value could be related to the impairment test on startup. She also wanted to know the value of the property currently rented (particularly the property rented by companies or funds that were linked to Pirelli) and the price at which they had been rented, and if there was any possibility of cancelling these contracts. Finally, she asked for the most detailed information possible on the Company’s debt to financial institutions.
Shareholder Maiullari wanted to remind the CEO of the shareholders’ meeting held in Turin in April 1999 when – so far as she could recall – he proposed the conversion of savings shares to ordinary shares. She then stated that she was very happy to see him again since he is a person who inspires great confidence.

She then asked that it be noted in the minutes that the word modesty had been pronounced several times during the debate, and specifically, modesty in relation to the assents and dignity of those present, since living like civilised people requires a lot of dignity, irrespective of the amount of money one has. She particularly appreciated the dignity of Dr. Cusani, as someone who had paid for what he himself and other people had done, but who then attended this meeting to defend those who have rights but who do not have the capacity to protect them.

She considered that this meeting was in some ways a continuation of the meeting held in April 2007 when, at the end of the proceedings, in the middle of the night, she found herself discussing the predecessors of the current top management with some fellow shareholders. After having again raised the issue of pay, which, with reference to the events surrounding Dr Ruggero and Dr Buora, in her view generates “disgust”, shareholder Maiullari expressed the view that those who wreck companies are people with no dignity. By contrast, she boasted about people like her in the 1950s and 60s who made this company (then called SIP) grow, only to then unfortunately watch its property portfolio being sold off cheap, and this made her irritated and angry.

In this respect she noted that according to their CVs, it turns out that some of the candidates for directorships are still linked to Pirelli, and this made her feel perplexed, although convinced that they could still be decent people. As regards the relaunch of Telecom Italia, she pointed out that a number of speakers had talked about working harder to produce more, while she felt that if anything it was a question of working less, but of everyone working, in the interests of the development of the economic system as a whole.

Moving on to the question of the stock options, she believed that if they only accepted the comments (in her view correct) that had been made during the debate, the Chairman and CEO, if they had any dignity, should immediately give up the stock options, because – in a company with debts of 35 billion – asking for stock options is senseless. She invited the CEO to consider these words, since as manager it is his responsibility to do so. If the Company later was going well, that would be the correct time to award a bonus, provided it was of reasonable proportion, in the light of the debt with which Telecom Italia is burdened, which means that any demands should be dignified and modest. Finally, shareholder Maiullari associated herself with the previous speakers in asking Dr Bernabè to give full information about the previous management, particularly with reference to any irregularities in the
sales of property: she was not in fact asking for Marchionne mark 2, but insisting that people should be correct and clean, and perform their work seriously and honestly.

Shareholder Croce asked if, in relation to the current separation between fixed and mobile telephony, the company intends to confirm the present organisation or is thinking about splitting it. He also asked if the conversion of savings shares to ordinary shares is planned, how the company intends to purchase its own shares to service the stock options, and, in particular, if there is any obligation to make constant purchases over time, or if the buy-back arrangements depend on a discreitional decision made by the management. So far as Tim Brazil is concerned, he feared that this holding could result in conflicts of interest with shareholder Telefónica, and he therefore asked if, over and above any commitments to abstain made by the Directors nominated by Telefónica, the Board of Directors did not consider that the problem could be definitively resolved by selling the holding at the best price, possibly partly to Telefónica and partly to another operator, and then reinvesting the revenue generated by the sale in other initiatives.

It was noted that some shareholders (Lombardi, Fogliati, Antonazzo) had submitted to the Chair texts that had been only partially read at the meeting, in their contributions, and these texts have been included in the minutes, to link with the replies.

No-one else wishing to speak, the Chairman, after stating that the answers would be given both by himself and by the CEO, in the order in which the questions were raised, first mentioned the dedication, motivation and pride shown by those who had worked and continued to work in the company, which certainly stimulated him to be even prouder of his own role.

He stated that he would also supply some answers about the past, as some speakers had requested, but hoped that he would be able to look to the future, since at the moment the most important thing was to seek to recover lost ground quickly, and to work to recover the values and results that the company deserves, as he believed was already happening.

Naturally, he did not wish to adopt an indulgent or superficial attitude to the past, but it was also important not to abandon oneself to “anguished” hypotheses and inferences about memories of the past.

In this respect, he reminded the meeting that the Company has an efficient internal audit organisation and a responsible Board of Statutory Auditors.

He strongly hoped that in the future there would be less attention paid to what had been done, and rather more to what would be done, obviously on the basis of better results than those achieved so far.
Moving on to deal with the individual points raised by the shareholders in their comments, the Chairman first of all replied to Sivori, who had proposed that the stock options be assigned when the share price reached a stock market value of 3.20 Euros.

The Chairman reminded the meeting that stock option plans, as was well-known, reward the creation of value for the shareholders, focussing the actions of the top management on improving share performance.

The stock options, he recalled, operate in the sense that, starting from a certain price, the managers who receive them have the right to purchase shares at that price, and may then gain from that value onwards, with an additional fiscal advantage mechanism that applies only to the extent to which the related shares, once purchased, remain tied up for a further 5 years in securities of the company itself, for the part corresponding to the gain achieved.

This is therefore a mechanism which – he acknowledged – might at first sight appear particularly favourable (and it certainly can become particularly favourable) but which requires a particularly impressive share performance.

And it is in this growth that both he and the CEO are profoundly interested, not just in economic terms, but – as some of the speakers have also recognised – even more so to demonstrate that the management, along with everyone else who works for the company, has contributed to its “rebirth”.

He also stated that the plans proposed or already approved by the shareholders’ meeting in the past involved the top management, following established international practice. At present, the Chairman continued, there is no share plan for employees. For employees who are not part of the top management, there are in fact other incentive schemes linked to the company’s results and to individual performances which are, in addition, more immediately “monetary”, because schemes linked to shares, as he had just made clear, are much more long-term in their effects.

The Chairman then moved on to discuss the various issues and questions raised by shareholder Lombardi, Chairman of ASATI.

In the first place, the Chairman recalled, Lombardi asked for confirmation about the pay differentials applied by Telecom Italia to the various categories of workers.

In this respect he pointed out that the average total pay of Group managers is two and half times that of supervisors and about five times that of workers.

In particular, taking the fixed and variable pay components into account, the pay received by managers is as follows:
- up to 150,000 Euros: 71.5%;
- from 150,000 to 300,000 Euros: 22.4%;
- from 300,000 to 400,000 Euros: 2.4%;
- over 400,000 Euros: 3.7%,

and these are sums in line with the Italian market, depending on the organisational responsibilities assigned.

And as regards the pay received by the previous top management (i.e., by Dr Buora and Dr Ruggiero) when their contracts finished, the Chairman recalled that there was an extensive and wide-ranging discussion of the matter in the Corporate Governance Report contained in the financial report document, to which reference should be made.

The Chairman explained that he would therefore confine himself to confirming that all the agreements that governed the ending of these contracts were concluded in accordance with the various provisions applicable, and to reminding the meeting that the decision about the severance pay of Carlo Buora was made by the Board of Directors, having received the opinion of the Remuneration Committee, at a time (December 2006) when the company wished to secure the professional services of Dr Buora for an extended period.

However, as regards the termination of the employment of Riccardo Ruggiero, the Chairman continued, the decision was taken by the serving Executive Vice Chairman, Dr. Buora, and the reasons for the decision are also explained analytically in the Annual Corporate Governance report mentioned a short while ago: the issue, the Chairman recalled, was to terminate the employment of a Director General (and Chief Executive Officer) the most senior manager in the company, by mutual agreement.

Prof. Zingales had clearly explained what the various attitudes adopted by the Remuneration Committee towards the current top management were, and, the Chairman stated, this type of approach will also be adhered to for future relationships with employees.

However, in relation to the request by the shareholder for guarantees that “similar episodes” will not occur in the future, the Chairman stated that, for the future, full disclosure has been made, as stated previously, in the Corporate Governance Report on the treatment which the Board has decided for both the Chairman and for Dr. Bernabè if their respective appointments are confirmed.

With reference to the five points that the shareholder stated that he had raised as questions (or rather, accusations) with the Board of Statutory Auditors, i.e.:

- the sale of the property portfolio,
- the facilities management contracts,
- security and telephone taps,
- the purchase of products from Pirelli, and
- the sale of Brasil Telecom,

the Chairman made the following comments, analysing each individual point separately.
On the sale of the property portfolio, the Chairman recalled that the Telecom Group started to dispose of some of its property assets in 2000, as a result of the strategic decision to focus on its core business. The cash generated by the sales was then allocated to the Company's characteristic business, and also contributed to reducing borrowing.

Regarding the ways in which the sales were conducted, two alternative valuation approaches were considered at the time, i.e.:

- the block approach, consisting in selling all the property together, agreeing rental contracts at the same time, or
- fractioned sales, as each individual property unit became vacant.

In the case of block sales, normal market practice is to apply a “portfolio discount” to the valuation of the assets sold, proportional to the type of property concerned. Taking account of the favourable market scenario at the time, and also of the effect of making the cost structure flexible, and the contribution that the operation would make to self-financing, the block sale option was considered the most advantageous, bearing in mind both the “property risk” that maintaining the assets in the portfolio would involve, and the risks and costs of direct management of the valuation activities over time, once the spaces had been vacated.

The sales were made to major property investors, the Chairman stated, industry leaders at national and international level. So they were not simple sales, that could be managed through a bidding process, but more complex operations that allowed the Company to maximise the value of a large proportion of its property portfolio.

The block property sale operations were as follows:

- in December 2000: sale of 581 properties to IMSER, by means of the sale of a branch of the company to a wholly owned company, in which Telecom Italia maintained a 40% share and sold 15% to Lehman and 45% to Beni Stabili. The properties sold were medium-large, and almost all located in major Italian cities. In 2001 and 2002 some of these properties were sold on:
  -- by transfer to TELEMACO (subsequently sold to the Whitehall Fund) and TELEGONO (subsequently wound up), whose shareholdings were held by the same IMSER shareholders and
  -- by a non-proportional partial demerger to EMSA, a Telecom Italia subsidiary.

The operations, the Chairman recalled, had generated a total of 3 billion Euros in cash and a gross capital gain of about 500 million Euros. These operations were approved by the Board of Directors and examined by the Board of Statutory Auditors with the support of the following consultants:

- CB Richard Ellis, a major independent company, which valued the properties asset-by-asset;
- KPMG, the auditors who carried out the technical investigation of the sale to IMSER as the Court-appointed expert;
- in October 2002: the following properties were sold:
-- 191 properties owned by Olivetti and Telecom Italia Group companies to Tiglio I. The sale was carried out by selling the share capital of the above-named companies to Tiglio I;

-- 168 properties owned by Telecom Italia to Tiglio II, by sale of a branch of the business.

Tiglio I, the Chairman recalled, is owned: 51.6% by MSCM (which is a company 75% owned by Morgan Stanley property funds and 25% by Pirelli & C. Real Estate), 0.6% by Pirelli & C., 45.7% by Telecom Italia and 2.1% by Telecom Italia Media.

Tiglio II, on the other hand, is 50.53% owned by Popoy and 49.47% by Telecom Italia. Popoy in turn is 75% owned by the Morgan Stanley property funds and 25% by Pirelli & C. Real Estate.

The properties sold to Tiglio I were medium-large, while those sold to Tiglio II were medium-sized (apart from the properties in Piazza Affari in Milan and in Corso d’Italia in Rome). Almost all the properties were located in major Italian cities. These later sales, the Chairman recalled, also generated a gross total of about 500 million Euros in cash for the Telecom Group, with gross capital gains of about 295 million Euros. These sales were approved by the Board of Directors and examined by the Board of Statutory Auditors with the support of the following consultants:

- CB Richard Ellis, which valued the properties asset-by-asset;
- REAG, which valued the areas asset-by-asset;
- Prof. Gualtiero Tamburini, who attested that the methods applied by CB Richard Ellis were appropriate;
- KPMG, which carried out the technical investigation of the sale to Tiglio II as the Court-appointed expert;
- Prof. Felice Martinelli, the Court-appointed expert who undertook the voluntary technical investigation of the sale of the holdings to Tiglio I.

In 2003 the mainly industrial areas owned by Tiglio I and Tiglio II, were assigned by demerger to Aree Urbane, a joint company created with Marzotto and Pirelli & C. Real Estate. The areas assigned were worth about 200 million Euros.

In 2004-2005, Tiglio I and Tiglio II sold about 68% of the property by allocating them to the following closed property funds: Tecla, Cloe, Olinda, Clarice and Berenice.

Since their foundation, Tiglio I and Tiglio II have disposed of about 24% of the properties they own by direct sales to investors. Over time, continued the Chairman, the two companies repaid the loans granted to them by their shareholders, and distributed reserves and profits totalling about 245 million Euros gross.

The following operations occurred between December 2005 and November 2006, continued the Chairman, through the subsidiary Olivetti Multiservices:

- 852 properties to the Raissa property fund and
- 427 properties to the Spazio Industriale fund.
The lion’s share of the Raissa fund was held by Morgan Stanley, with Pirelli & C. Real Estate holding a minority share, while the majority shareholder of the Spazio Industriale fund was Cypress Grove, with a minority held by Pirelli & C. Real Estate. The assigned properties mainly house telephone exchanges of limited unit size, and are located in Italy. 98% are situated in cities other than Rome and Milan, 80% in cities that are not regional or provincial capitals, and 60% in small urban conurbations. The transactions generated a gross total of about one billion Euros in cash and a gross capital gain of about 400 million Euros.

These operations were examined by the Internal Audit and Corporate Governance Committee, approved by the Board of Directors and reviewed by the Board of Statutory Auditors, again with the support of the following consultants:

- CB Richard Ellis, which valued the properties asset-by-asset;
- Scenari Immobiliari, which attested that the methods applied by CB Richard Ellis were appropriate.

The valuation of the rental payments for all the properties sold and leased back was performed by CB Richard Ellis, which also determined the range of rental payments referable to each property in its determination of the market value of the property.

With reference to the total rental for properties sold in the past and then leased back to the Company at the end of 2007, Telecom Italia pays approximately 400 million Euros per year, for a total of about 2000 properties. The unit rental payments are in line with the minimum market values, and were determined independently of the duration.

Regarding the duration of the rental contracts, the contracts for the properties sold to IMSER, Tiglio I and Tiglio II (which also house telecommunications equipment considered strategic by the management of Technology and Operations), last until 2021, with the possibility of tacit renewal, unless cancelled, for further periods of 6 years. In the case of properties that are solely for use as offices, contracts of standard duration were drawn up. However, as for the properties sold to the Raissa and Spazio Industriale funds, the duration of the rental contracts was fixed according to the analyses carried out by Technology and Operations which, given the rapid technological change in telecommunications, led to the definition of parameters for increasing the efficiency of the existing infrastructure, necessary for the operation of the communications systems.

This development will mean reorganisation and optimisation of the physical spaces occupied by exchange equipment in the future, to be carried out by progressively vacating the properties used to house it.

Based on the analyses carried out, the properties were split into three homogeneous categories:

- for 499 properties (39% of the total) which should be vacated in seven to nine years’ time, 6 year contracts were agreed, renewable for a further 6 years and with options to terminate at any time after the first contractual period;
- for 657 properties (51.4% of the total) which should be vacated in ten to twelve years' time (or on which operations are planned in the same period to greatly compact the equipment, and consequently reduce the space it occupies), nine year contracts were agreed, renewable for a further six years and with options to terminate at any time after the first contractual period;
- for 123 properties (9.6% of the total), which are not expected to be vacated within the periods of time considered above, 15 year contracts were agreed, renewable for a further 6 years and with options to terminate at any time after the first contractual period.

Moreover, the Company still owns 4700 properties, most of which small or very small in size, with a total floor space of 1.3 million square metres.

Moving on to the agreement of facilities management contracts, the Chairman recalled that during the 2004/2005 two year period the facilities management sector of the Telecom Italia Group underwent a profound reorganisation, which also led to the use of outsourcing. The economic convenience objectives pursued were:
- to reduce the overall costs of the facility system,
- to variabilise the fixed costs,
- to improve the processes of the supply of facilities services,
- to make best use of the professional skills already operating inside the Telecom Italia Group.

Specifically, the Chairman recalled, in November 2004 the environmental services and maintenance business was outsourced by selling the relative company branches of the Group to an outsourcer, MP Facility SpA (50% owned by Pirelli RE Facility and 50% by Manutencoop), with a service contract being signed at the same time. A total of 437 members of staff were assigned to MP Facility. The service contract lasts until 2013. The outsourcer was chosen, the Chairman stated, after a comparative process appraising price, quality of service and guarantee of continuity. At initial stage, therefore, the offers made by the major market leaders were assessed. In the next stage, Telecom Italia opened negotiations with the companies that had presented the best-priced offer. Finally, the operation was approved by the Board of Directors and examined by the Board of Statutory Auditors, while Deloitte Financials issued a fairness opinion on the appropriateness of the price of the contract.

In relation to the security and telephone tapping issue, the Chairman first stated that, as repeatedly stressed, Telecom Italia does not tap telephones and has not done so in the past. However, it is true that what is called the “Security affair” originated by the well known legal proceedings involving the ex-manager and some senior executives of the Group Security division, then led to the emergence of people involved with network security and the management of traffic data. Given that the legal proceedings are ongoing, the Company has not so far taken any action against its ex-employees.
In connection however with the company Security division and the weaknesses encountered in the past in the adequacy of its organisation and its internal auditing system, the Chairman recalled that the Corporate Governance Report gives notice of the extensive and incisive organisational review of this division undertaken by the Company.

He stated therefore that he had not personally so far identified any people in this division who still have or have had any involvement in that affair.

The “Security affair” also highlighted some issues around the management of traffic data, network security, and compliance with the privacy regulations. Here too, the Company has instituted a wide-ranging series of actions (in terms of organisational measures, training initiatives, the adoption of new internal procedures and/or the review of existing procedures, as explained in the annual Corporate Governance Report) which allows it to be stated at present that, in contrast to the previous “extraordinary” management of the company, these issues are again managed in a “root-and-branch” way, and thus are the object of careful and continuous monitoring.

Again in response to shareholder Lombardi, who asked how many of the current top managers are linked to presumed violation of the regulations on privacy in relation to the presumed line tapping, the Chairman stated that so far there is just one.

Moving on to the subject of the purchase of products and systems from the Pirelli Group, the Chairman recalled that the supplies that are the subject of the request for information – made by Pirelli Group companies such as Pirelli Broadband Solutions – originate from two research and development contracts approved by the Board of Directors that were agreed with Pirelli Labs between 2002 and 2007, in order to obtain synergic results from a collaboration with the Pirelli group research labs on specific projects involving telecommunications devices and metals technologies, intended to be deployed for use in the services offered by the Company.

As a consequence of these research projects, the development batches and initial marketing could not be undertaken by Pirelli, since it had originated the research. Once the first development batches had been created and marketed, it was technically possible to define the specifications of the product, which were then “opened” to other suppliers from 2007 onwards.

As is standard practice in the world of manufacturing, continued the Chairman, the research contracts included a commitment by Pirelli to sell any products using the results of the research exclusively to Telecom Italia, for a period of one year from the completion of each research project. In 2005-2006 these projects, with a total turnover of about 192 million Euros, were therefore supplied by Pirelli Group companies. From 2007 onwards the supplies were however awarded after online tender processes, and only one third of the total requirement was awarded to Pirelli.
Finally, in relation to the requests for clarification on the sale of the 38% shareholding in Brasil Telecom, the Chairman stated that the transfer of the 38% share in Solpart, the holding company that owned Brasil Telecom, was completed on 5 December 2007 in accordance with agreements signed on 18 July 2007, for a price of 515 million dollars. The sale to Techold Partecipações S.A., the majority shareholder of Solpart controlled by Citigroup and the major Brazilian pension funds, was made after a divestment project that the Group had already started in July 2006. The decision to disinvest in Solpart was therefore taken because of the known impossibility of exercising the governance rights (specified in the Solpart shareholder agreement), and consequently the impossibility of taking the role of strategic-industrial partner of reference in Brasil Telecom assigned to Telecom Italia, for two main reasons, which were:

- the ongoing conflicts with the other shareholders (firstly Opportunity and then Citigroup and the pension funds) that had always characterised the Solpart partnership and that had developed into a number of ordinary legal disputes and international arbitration cases; and
- the imminent end of the period imposed by the local Brazilian telecommunications authority (Anatel) within which the overlapping of licences between Brasil Telecom and TIM should be resolved, with the penalty of severe sanctions (including the possible annulment of TIM’s mobile licences in Brazil).

This overlapping of licences had been caused by the link between Brasil Telecom itself and Tim Brazil, deriving from the fact that Telecom Italia held shares in both operators at the same time.

After the decision to sell this investment, the Chairman recalled, Telecom Italia transferred its 38% share in Solpart to Brasilco, a company held in a trust under English law to which Credit Suisse Securities (Europe) Limited acted as trustee, and thus divested itself of ownership of the shares and the related governance rights, while maintaining the right to receive the economic revenues generated by the holding. At the same time, the trustee, and thus Credit Suisse, was also assigned to perform the task of selling the holding to third parties as soon as possible, with the assistance of advisor JP Morgan.

In this way it was possible to temporarily manage the existing critical regulatory aspects, eliminating the risk that sanctions would be imposed on Tim by Anatel, and therefore safeguarding the divestment process that had already started.

The Chairman then recalled that in the course of this divestment process, which started in 2006 and was undertaken by CSFB (which managed the holdings in trusts on behalf of Telecom Italia) with the assistance of JP Morgan, only two potential purchasers were identified (in over a year). They were:

- Orascom Telecom Holding, which formulated an offer of 465 million dollars, and
- the pension funds, Telecom Italia International's partner in Solpart, which made an offer of 450 million dollars.
After Orascom decided not to proceed with the acquisition, negotiations then continued with the pension funds alone, and they in fact represented the only possible purchaser of the Solpart holding, which evidently influenced the terms of the negotiations. In fact, specifically:

- it was unlikely that any third parties might be interested in purchasing a shareholding that was illiquid, and was also the subject of many legal disputes;
- the challenging of the governance rights by the other shareholders had a notable effect on the value of the shares;
- only the pension funds could be sure of reaching a transactional agreement to close the many international arbitration proceedings and dozens of ordinary legal disputes pending in relation to the Solpart joint venture as part of the sale;
- any third parties were in any event put off the purchase by the burden of launching a cascading hostile takeover bid on the floating ordinary shares of Brasil Telecom and Brasil Telecom Partecipações which would probably have fallen to any third parties that were not already part of the BT control group, which the pension funds were.

The sale price of 515 million dollars, which reflects a valuation of six times EBITDA, is therefore higher than the offers initially received, in February 2007, both from the funds and from Orascom, and may be considered to be midway between:

- the updated valuation given on 10 July 2007 by a primary international investment bank (JP Morgan) when the holding was transferred to the trust, which assessed the holding as worth up to 457 million dollars;
- the mean stock market value of the holding, calculated from the price of the shares of Brasil Telecom Partecipações on the San Paolo stock market: based on the average 90 days’ negotiation before the Board Meeting held on 24 July 2007, Brasilco’s shareholding in Solpart would have had an implicit value of 603 million dollars.

The difference between these values and those that are apparently being discussed in the Telemar/OI-BT operation currently under way in Brazil, is accounted for not only by the probable award of a controlling premium which it is unlikely that Telecom Italia would have received, but also by the fact that the impasse connected with the dispute between the shareholders in Solpart, which had frozen operations and decision-making in the company, with consequent negative effects on its value, had been overcome – precisely because Telecom Italia had withdrawn from the proceedings. Overcoming this situation and settling the disputes, the Chairman recalled, therefore produced a jump in the value of the company, facilitating an increase which by definition could not have been appropriated by the Telecom Italia Group.

In any event, the sale of the Solpart holding was part of a broader programme of sales of assets announced to the market by the preceding management, and shared with the rating agencies: so
failure to complete this programme would also have had potentially negative repercussions for both shareholders and bondholders.

This completed the replies on the five issues that were reported to the Board of Statutory Auditors which, as is apparent from its report, found no omissions, reprehensible acts or irregularities to report to the shareholders’ meeting. The Chairman recalled this to shareholder Lombardi, who had again asked to know “the rules and reasons” followed in the drafting of the agreements with the Argentinian Werthein family. He emphasised that this was a very delicate matter which the management was following with the greatest attention, given the strategic importance that its presence in Argentina has for the Group.

For this reason, the Chairman declared that it would be preferable not to add any further information, although noting that discussions are under way with the shareholders to find a satisfactory solution.

Finally, regarding the time required for the reorganisation process, the synergies on Telefónica and the human resource motivation tools, the Chairman recalled that the CEO Franco Bernabè had already answered these questions in his initial presentation, and would anyway make some further comments on them in his replies later on.

**The Chief Executive Officer Dr. Bernabè** continued the replies, and, in relation to the issues raised by Fava D’Alberto, stated that, as already mentioned, based on the recent activities undertaken by the Telecom Italia – Telefónica Steering Committing, the synergies for the three year period 2008-2010 would total 1.3 billion Euros overall. These synergies expressly exclude all joint projects in Argentina and Brazil, to fully satisfy the regulatory and competition authority requirements in these countries, which specify a clear separation between the activities and influence of Telecom Italia and the presence of Telefónica among the shareholders of Telecom Italia. These synergies are the results of a study, an in-depth assessment performed from December, that is, when the current top management took office.

The collaboration with Telefónica is therefore in progress: operations that can be carried out jointly will be finalised as they emerge. Current estimates of the possible synergies are anyway destined, in the near future, to increase.

As for the improvement in the 187 and broadband services, he reminded the meeting that customer satisfaction is of central importance in the business plan, and will be the area in which the company will invest most heavily in terms of resources and new automation tools, but above all in terms of managerial attention and motivation of personnel. It should be recalled that Telecom Italia’s customer service answers 80 million calls a year, 90% of them customer requests, 50% with waiting times of less than a minute, and resolves about 3 million complaints a year. The company therefore intends to give great weight both to personnel motivation and to training, and plans to invest about 10% of
working hours in training. There are also plans to strengthen the call centre structures, with an injection of new professionalism, and other winning policies aimed at improving quality of service will be adopted.

As regards broadband, speed (20 Mbit/s) and use of the service (100% increase per year) are both growing, and in 2008 50 Mbit/s services will start in Milan. Peak mobile access speeds, currently at 7 Mbit/s, are also growing, and will double over the next year. Coverage, he continued on the theme, will increase from 94% in 2007 to 96% in 2008 and 98.5% in 2010 on fixed lines, and from 77% in 2007 to 81% in 2008 and up to 85% in 2010 for mobile access.

And as for investments, the company will maintain a constant level of about 3.5 billion Euros over the three year period on the domestic sector, while investments in broadband will grow from 470 million in 2008 to 700 million in 2010.

The Chairman then resumed speaking, and reminded Boringh that neither he himself nor Dr. Bernabè had been able to invest in Telecom Italia shares because they had been in possession of information that could not yet be communicated to the public. Now, once the shareholders’ meeting had confirmed them, they would wish to proceed to make such an investment. In this connection he emphasised the fact that even Director Luigi Zingales continues to insist that it is appropriate for directors to purchase Company shares; he pointed out furthermore that Prof. Zingales himself could have started to invest in Telecom Italia, seeing that he has served as a Director for about a year.

As for the characteristics of the business plan, he referred the meeting (again in reply to Boringh) to the explanations already given by the CEO.

The CEO resumed speaking, and emphasised, in response to Rencurosi, that the business plan, in its journey of transformation and reconstruction of the foundations for growth, focuses on quality of service, value and customer relations, and on customer satisfaction as a central element of the strategy. The company also intends to review the plan as part of the normal and regular planning process, and to do this earlier than last year: the last plan was in fact launched to coincide with the presentation of the results, while this year the intention is to do it earlier than the results.

While confirming the indications given so far, he said that one of the themes on which attention was now being focused, and on which he believed important results could be achieved, is the subject of costs, an area in which there is still much to do. The process of selection of investments is being reviewed, and steps are being taken by the Investments Committee to update it, so as to ensure maximum efficiency in the process of expenditure for the investments themselves, at the same time ensuring quality of service and the expansion of Telecom Italia services.
As for as the comments made by Morandi, the Chairman continued, it should be noted that in the financial report document, following the logic of representing the events with the most significance, the disputes which are recorded are those which have a significant level of substance. The allocation of funds to cover the liabilities in the Galactica case, raised by the shareholder, is present just as it was in the 2006 financial year.

With reference to Prof. Mucciarelli’s opinion about the crimes of illegal dossier preparation, hypothesised in the prosecutor’s order of 30 March 2007, he stated that, to date, Telecom Italia has not been listed as an investigated subject in the Registers of the Procura della Repubblica (Prosecutor’s Office). And if this should occur, the maximum fine that is theoretically payable is about 1.5 million Euros, and no prohibitive sanctions can be hypothesised. It is evident that only when the preliminary investigations are complete will it be possible to make an assessment that is more than conjectural of any damages that Telecom Italia might hypothetically be called on to pay.

He then observed, again in reply to Morandi, that the composition of the Supervisory Body of the Company is defined by the Board of Directors, and includes the presence of members who are all, in different capacities, involved in the monitoring of the company’s internal audit system. The organism is thus composed of a director who is also a member of the Company’s Internal Audit and Corporate Governance Committee, a statutory auditor, and the representative for the Company of the body in charge of internal auditing, that is, of the consortium company Telecom Italia Audit and Compliance Services. There are no limitations on the participation of members of the Board of Statutory Auditors in the above-mentioned body, although it should be noted that a composition such as that of Telecom Italia is expressly indicated in the recent Confindustria guidelines on this subject.

Finally, with reference to the questions asked in the 2007 shareholders’ meeting about the lack of allocation of funds for the effects of any Telecom Italia liabilities for illegal dossier creation on the net worth of the company, he emphasised that before allocations to risk funds can be made, the preconditions must exist, that is, in this specific case, that there are requests for damages and that it is probable that the company will probably lose. In line with this approach, the only disputes having such matters as their subject that have been examined are those that have been formally notified to the Company, and at present there is only one on record, for which the outcome of losing is not considered probable. It must be repeated that no Telecom Italia liability has yet been established in relation to dossier creation, and that at present the Company is the injured party in this affair.

At the invitation of Dr. Galateri, the Chairman of the Board of Statutory Auditors, Prof. Golia, took the floor and, with reference to the accusation pursuant to article 2408 of the Civil Code, filed in relation to the Galactica dispute, commented that the Chairman, in his reply, had explained the reasons that govern the policy of fund allocation against current disputes. The Board of Statutory
Auditors had shared these views and had agreed that there were no omissions, reprehensible acts or irregularities in these matters to be reported to the shareholders’ meeting.

On the subject of the reduction of debt (Gola), Dr. Bernabè took the floor again and stated that the reduction in debt will be carried out through operational management, as announced in the business plan. The sale of businesses in France will also contribute to this reduction, while other sales are not planned at the moment. In particular, there are no plans to transfer the network to a third party company, still less are there plans to list it on the stock exchange. As regards possible increases in capital, he repeated that this is a hypothesis without foundation; and as for the reduction in the dividend, it is believed, as also indicated in the business plan, that it may be possible in the future to maintain the level of dividend announced this year.

The Chairman continued and clarified (Fornasari) that the financial indebtedness with which Telecom Italia is burdened is due primarily to the Olivetti takeover of Telecom Italia, which was financed by debt loaded onto Olivetti and Telecom Italia, and by investments in shareholdings made in the period 1999-2001, a total of about 30 million Euros, a sum inherited by Telecom Italia after the merger with Olivetti.

The net debt of 43 billion in September 2001 had been steadily reduced to 35.7 billion by 31 December 2007, absorbing the increases generated by the Olivetti – Telecom Italia merger (2003) mentioned above, and by the TIM – Telecom Italia merger of 2005.

In reply to shareholder Torcellan’s comment about the court decision of March 2004 ordering the reintegration of the Telepost workers Dr. Galateri said that, given the fact that the transfers of Telecom Italia staff to third party companies over the years have involved about 4,000 employees, and that the legal proceedings involve a minority of the people affected, and again, given that so far there have been more judgments in favour of the company than there have been against it, the company intends to go through the necessary legal processes and then comply with the judgements that are legally enforceable. He also pointed out that the people who took legal action against this outsourcing process all work regularly, and receive regular salaries from the companies to which the branches of the business have been sold.

As far as the contract with MP Facility is concerned, it should be noted that this contract was agreed in 2004, with an original duration of 6 years, renewable for a further 3 years, after external benchmarking at the end of the third and sixth years. The contract review had been dictated not only by the requirement to carry out the benchmarking mentioned, but also by the need to make some changes as a result of the experience of the first three years. For this reason, the following major innovations were made, with the agreement of a specific addendum to the contract on 4 October 2007: extension of the
perimeter of the extraordinary activities included in the annual payment, with a corresponding reduction in the quota outside the payment, and reformulation of the service level agreements both in terms of increase and performance and in terms of optimisation of response times.

Again in response to Torcellan, and in particular to the question about examining relationships with outsourced companies whose sole customer is Telecom Italia, he stated that there are no supplier companies of whom Telecom Italia is the sole customer. Moreover, the ongoing contacts with the outsourcer companies are structured to incorporate external benchmarking every three years of the cycle, to check the efficacy of the services provided and their cost.

Finally, he emphasised that constant checking of the validity of the decision whether to “make or buy” is the consolidated policy of the Telecom Italia management, both at the stage of deciding in favour of outsourcing, and at the time of the periodic benchmarking. So far the outsourcing operations completed have produced positive economic results.

Moving on to Grappiolo’s question, the Chairman reminded the meeting that the data on payments made to directors in 2007 are reported in detail on page 483 of the financial report document available in the hall.

Regarding the reason for the “collapse” of Telecom Italia’s capitalisation after privatisation, Dr. Galateri stated that as regards the trend in the Telecom Italia share price from the 1997 privatisation to the present, the comparison should obviously be made on a consistent basis, taking into account the impact of extraordinary operations (the merger of Telecom Italia and Olivetti in 2003 and the merger of TIM and Telecom Italia in 2005) on Telecom Italia’s capital, which changed from 7 billion shares in 1999 to 19 billion in 2005. In particular, it should be recalled that after the merger by incorporation of Telecom Italia into Olivetti, the shares of the old Telecom Italia were withdrawn from the market on 4 August 2003 and replaced with new Telecom Italia shares according to the formula of 3.3 new shares for each share in the old Telecom Italia.

So the comparison should be made in terms of market prices, normalising the share price of Telecom Italia on the basis of the share swap ratio mentioned. Taking this normalisation into account, in the period analysed, the ordinary shares fell by 12%, with a price that changed from 1.65 Euros, the mean price in October 1997, to 1.45 Euros (the mean for April 2008), and this fall was lower than the fall registered for other major telecoms shares (Deutsche Telecom: -30%, France Telecom: -19%, France Telecom: -29%)

The progress of the savings shares was different, and over the same period their value increased by 19%: from 0.97 Euro in October 1997, to 1.15 Euros in April 2008. It should in fact be remembered that with the end of the internet bubble, after 11 September 2001, stock exchange interest shifted to those securities, such as savings shares, that offer higher yields in terms of dividends.

As regards the issue of company debt, he referred back to the previous comments.
After recalling the replies about the bodies which decided the incentives to take voluntary redundancy, referring to the question about transfers to awkward places of work even for disabled workers, he reminded the meeting that transfers of staff between Group premises are made on the basis of the organisational needs of the company and, obviously, within the law and the applicable agreements, including the regulations protecting people with disabilities. As regards shareholder Turatti’s personal circumstances, it appears that several different solutions have been proposed that might meet his needs, such as teleworking, but that he has refused them.

Turatti, from the floor, complained that the reply given by the Chairman was not truthful.

Continuing, the Chairman (in reply to Lannutti), having stated that none of the previous directors had been found to be implicated in the investigations of the “Tavaroli” affair, stated that the action for mismanagement would be examined after the vote on the financial report, if the shareholder would be willing to confirm the proposal after the discussion. To do this, the shareholder would in due course be able to take the floor in order to formalise and better formulate his proposal.

Again in relation to the comments made by the same shareholder, he pointed out that the Rozzano auditorium has been the location for Telecom Italia shareholder meetings for years now. As happens every year, a free shuttle from Piazza Affari had been arranged: the service had been advertised in the public notice that appeared in the daily newspapers and was available on the website. So it was regrettable that the shareholder did make use of it, but it was not possible to attribute to the Company any desire to obstruct shareholder participation in the meeting, or make it more difficult.

The Chairman continued to answer the points raised by the shareholders (Mancuso) and stated that Telecom Italia had employed about 100 consultants in 2007, for a total cost of 63 million Euros. This relates to requests for the support of external professionals in professional organisation, development and organisation and processes, strategic evolution, adaptation to Italian and international standards, organisational activities and financial and fiscal activities. The main civil and fiscal disputes are listed in note 28 to the consolidated financial statements under the heading “Potential liabilities”.

He also confirmed that, as indicated in the report of the Board of Statutory Auditors to the shareholders’ meeting, 4 complaints under Article 2408 of the Civil Code had been received, briefly summarised in point 5 of the report on page 447 of the printed report.

The advertising investments of the Group at the end of 2007 (Mancuso again) grew by 45 million Euros compared to 2006 (from 152 to 197 million) to realign the amount spent by Telecom Italia with the increasing advertising expenditure by its competitors.
Thanks to this realignment, TIM has maintained its third place in the television advertising market for mobile telephony (23%), after Wind (first with 38%) and Vodafone (second with 28%).

The increase in spending also led to a sharp increase in the discounts negotiated with the main media outlets, thanks to which the Group was able in 2007 to generate efficiencies in its purchase of advertising space worth a total of 8.8 million Euros (equal to a saving of over 5.7% on the 2006 investment).

As regards human resources, he emphasised that the Group workforce at 31 December 2007, including personnel on temporary contracts, totalled 83,429 units, an increase of 220 units compared with 31 December 2006. The final figure was affected by an increase of 2,092 units abroad (due mainly to the acquisition of AOL Germany and to the development of Tim Brazil) and by a reduction of 1,872 units in Italy. Moreover, in Italy, changes in the perimeter during 2007 meant there was an increase of 765 units: net of the change to the perimeter, the reduction in the Italian workforce is therefore equal to about 2,640 units. On 31 March 2008 substantial stability of the overseas workforce was recorded, compared to December 2007, with a further reduction of about 200 units in Italy.

In concluding the replies to Mancuso, the Chairman finally pointed out that the allocation to the risk and legal liabilities fund was made according to prudential principles and, as required, in compliance with IAS accounting principles. It represents the estimated potential liabilities of the current dispute in which the Company is involved. It should be recalled that an allocation to the risk fund should only be made if there is a likelihood that the company will lose the case, and when the amount can be reliably estimated.

The CEO then continued, stating firstly, with reference to the written questions submitted by shareholder Fogliati, that the potential liabilities are explained in note 28 to the consolidated financial statements. The note makes it clear that for arbitration cases and legal or fiscal disputes, for which there is believed to be a likelihood that the company will lose, the Group has posted liabilities totalling 426 million Euros. For those cases for which an unfavourable outcome is considered to be unlikely, or in which the total amount cannot be reliably estimated, no provision has been made, as provided by IAS 37.

As far as the “bullet-proof” contracts are concerned, the “Goods in financial leasing” accounting principle explains the accounting treatment of financial lease contracts. The sums for rental payments on future lease contracts are reported in the last table in note 5 to the consolidated financial statements: the current total for lease payments is 1,643 million Euros.
Continuing, he recalled that the individual and collective elements of the pay of executive managers, general managers and key executives are reported in the financial statements in compliance with the current regulations on disclosure.

As regards the relationship between managers’ pay and that of supervisors and clerical staff, he observed that managers’ average total remuneration is about 2.5 times that of supervisors, and about 5 times that of clerical workers. Regarding the first five consultants and their appointment, he remarked that the details requested cannot be supplied for reasons of confidentiality: the accounts posting that includes these costs is the item entitled “costs for services rendered” (note 31 to the consolidated financial statements).

Again in response to Fogliati, he stated that the reduction in the number of employee shareholders is the result of the decisions of individuals to disinvest. In any event, he invited the shareholder to distinguish between the number of employees with shares lodged with the Company (progressively falling), and the (unknown) number of employees with Telecom Italia shares lodged with their own bank.

With regard to the “Shareholders’ club”, he considered Telecom Italia to be a company that is open and willing to engage in debate and dialogue with all its shareholders. The Investor Relations department has created specific channels and initiatives for individual shareholders, and is organised so as to respond to the requests and needs of the various branches of the entire market. The activity of Investor Relations focused on retail investors provides a series of services and up-to-date information free of charge, that meet the information needs of all those interested in understanding the Group better, through a series of products including a weekly stock exchange update, a monthly and quarterly newsletter, and the shareholders’ guide, as well as maintaining dedicated emailing addresses.

Regarding the behaviour of Telecom Italia towards the employee association, it is consistent with the applicable regulations. In accordance with the Consolidated Finance Law, the bylaws may specify provisions intended to facilitate the collection of voting proxies among the employee shareholders, and Article 20 of the Telecom Italia bylaws deals precisely with the provision of spaces for communication and carrying on the business of collecting proxies. If the Group were to become actively involved in the collection of proxies among shareholders, this really would be interference, since the dialogue between shareholders, whether individual or in associations, must develop in a correct and transparent way, without the issuer taking an active role.

Coming to the last comment, about the postal vote, this is viewed as an opportunity offered to shareholders who for various reasons cannot or do not manage to take part in shareholder meetings. The postal vote may have been little used, but is believed to be a valuable tool.
At present there are no plans to introduce different ways of voting, apart from those specified in the Company bylaws.

As far as welfare is concerned, no new initiatives of any significance are planned. There are plans for strengthening healthcare, preventive medicine and occupational health schemes, and for continuing the initiatives already under way for nurseries, summer holidays, loans and discounts for employees.

As regards ASSIDA, the redefinition and arrangements for the contributions made to ASSIDA were agreed with representatives of the Group management trade unions in March 2006, to rectify the growing imbalance between serving managers and associated retired directors, which has contributed to having a negative effect on the association’s balance sheet. For the same reasons, the Board of Directors of ASSIDA, using its powers, intervened in the regulation of the services provided: this regulation is anyway beneficial compared with the provisions of the national fund for the managers of Confindustria companies (FASI), which ASSIDA replaces. Following these operations, the trend in 2007, after a negative 2006, gives reason to expect financial results for the year which, although still in draft form, are expected to show a return to operating equilibrium.

On the subject of corporate governance, he repeated that Telecom Italia has excellent corporate governance. The Board does not believe that the Company’s internal rules in any way prevent shareholders from participating in the life of the Company. It is a fundamental principle, in limited companies, that the shares all embody the same rights, irrespective of who owns them: a mixed system such as the one proposed is not practicable for ensuring “privileged” representation of the small shareholders on the Board of Statutory Auditors or Board of Directors.

Again in response to shareholder Fogliati, he reminded the meeting that the voice of the employees, and of the shareholders, both large and small, will always be listened to. Just in the last few weeks, indeed, a road-show has been visiting all investors. Obviously, investors who are employees, small investors, are particularly close to the company, and with Investor Relations, a way has in fact been found to give them a large quantity of information and assistance. Other and further more effective means of communication will be found: but it must be clear that dialogue with the investors is a subject considered to be of great importance, to which the greatest effort will be dedicated.

Finally, on the subject of regulation and competition, he stated that the structure designated to work on regulatory issues as a whole employed 118 people as at 31 December 2007. The amount paid by Telecom Italia to the Communications regulator under Law no. 266 of 23.12.2005 and resolution no. 696/06/CONS which implemented it, was a total of 30,653,000 Euros.

The Chairman then took the floor again. In relation to shareholder Antonazzo’s remarks, he reminded the meeting that a full reply had already been provided on the fact that there are no recapitalisation projects, and on the tools that will still allow the company to make the necessary investments.
On the subject of Antolini’s questions about Telecom Italia Media, he reminded the meeting that, as the financial reports of the company indicate, the remuneration of the CEO in 2007 totalled 1.2 million Euros. The net negative result, as Telecom Italia Media itself has announced, is essentially due, in addition to the programming costs themselves, to depreciation of the investments in terrestrial digital services, for which the switch-off has been postponed to 2012, and to the structurally smaller size of La7, which is constantly improving, as are the economic results.

The use of company vehicles by some employees is constantly monitored, also in terms of mileage and fuel consumption. If improper use of vehicles occurs, the employees involved are challenged and disciplinary measures taken, if appropriate.

Dr. Bernabè then emphasised, in response to Staffa, that in recent years the number of customers using fixed telephony services provided by competitors has been substantially stable, at around 6.6 - 6.7 million. Access to these service happens in two ways: carrier preselection and unbundling. In the latter case Telecom Italia is paid a monthly subscription that is lower than the amount that would be paid to Telecom Italia by the end user.

The figure quoted in the shareholder’s question (loss of one million customers per year) refers to customers activated in unbundling with the competition, most of whom, as was mentioned earlier, were already customers of the competition who migrated from carrier preselection to unbundling. Telecom Italia, he added, has about 260 wholesale customers active in Italy, of whom 54 have interconnection contracts. There are no problems collecting moneys due, apart from the normal dynamics of credit control. The total of overdue bills at the end of 2007 was 167.5 million Euros (7.5% of fixed network revenues), essentially stable compared to 2006.

Dr. Galateri then took the floor again. He recalled (Cataneo) that in the month of December 2007, after a prolonged investigation, the Italian tax authority had issued to Telecom Italia an audit notice for the tax profiles of the merger by incorporation of Blu into Tim, effected in 2002, and demanding an additional 436 million Euros in higher taxes, fines and interest, making a total of 492 million Euros. In a well-founded and supported argument of its case, the Company has already appealed to the Turin Provincial Tax Commission. The tax authorities started legal proceedings last March. However, to date the negotiation hearing has not yet been fixed. After clarifying that there are no plans for the savings shares, in relation to the question about further investigations by the Guardia di Finanza, the Chairman reminded the meeting that in the notes to the finance statements, and signally in the paragraph entitled “tax disputes”, it was reported that Telecom Italia had received notification of four “reports on findings” during 2007. These reports, issued by the Guardia di Finanza, are concerned with the tax
position of Telecom Italia and its incorporated companies. The findings raised in the reports mainly concern:

1) the writedown of Telecom Italia in Olivetti’s portfolio;
2) the sale of Nuova Seat;
3) the taxation criteria applied to the contingent assets posted in the financial reports for the 2004 financial year, after the declaration that the contribution was not due.

These findings include a claim for payment of higher taxes, if the tax authorities are wholly successful, for a total of 2.5 billion Euros.

Telecom Italia promptly and extensively replied to the questionnaire on this matter sent by the tax authorities under Art. 37-bis of Presidential Decree 600/73, and repeated its assertion that it had behaved correctly and transparently. For this reason, it is believed that the tax authorities may form a positive view of the Company’s arguments, as happened in relation to the memorandum concerning the criteria for calculating and taxing the contribution payable on fixed and mobile telephony; these criteria were undermined by some of the findings mentioned above, but were not converted into audit notices for Telecom Italia, and the correct behaviour of Telecom Italia in this matter was therefore implicitly recognised.

More generally, Dr. Galateri reiterated that the company had behaved correctly, and emphasised that any tax risks are adequately covered by the Risk Funds.

Regarding the proposal to appoint Mr. Lombardi as a director of the Company (Cattaneo again), he pointed out that there is no possibility of derogation at this stage from the company regulations that govern the appointment of the Board of Directors, with which everyone must comply. The appointment procedure using the voting slate mechanism is particularly detailed, and specifies that shareholders should submit their proposed nominations no later than fifteen days before the shareholders’ meeting. Neither ASATI nor other shareholders have presented slates of candidates containing the name of Mr. Lombardi, who may not, therefore, be included among the candidates.

**Dr Bernabè** then took the floor again. In response to Bucci, he stated that the auction to assign the WIMAX frequencies closed at the end of February 2008, after 8 days and approximately 50 sessions of competitive bidding by the participants, including Telecom Italia. The total sum achieved by the Ministry of Communications was 184 million Euros.

Three territorial macroblocks of frequencies, out of a total of seven were awarded to Telecom Italia (area 4: Umbria, Lazio, Abruzzo, Molise, area 5: Campania, Puglia, Basilicata, Calabria, and area 7: Sardinia), making approximately 14 million Euros of investment.
For the company, which already has considerable broadband infrastructure for both fixed and mobile systems, the availability of frequencies for WIMAX is useful for completing the technologies at its disposal, both to bring broadband to rural areas, speeding up the elimination of the digital divide in infrastructure, and to offer further opportunities for business access to broadband.

With the availability of WI-MAX frequencies, companies other than the operators already present on the market can offer broadband services. Agreements could be made with these companies to complete the availability to Telecom Italia of this technology in those areas not awarded to the company.

The swap contracts (still Bucci) that Telecom Italia has are focused on the management and neutralisation of financial risks, with the aim of neutralising the risk of financial indebtedness in non-Euro currencies, and reducing the volatility of financial charges, which will maintain the fixed rate component of the debt at around 70%. As a result, there is no reason to get rid of these contracts which, in fact, can reduce the financial risks of the debt.

In response to the shareholder’s questions on the subject of number portability, the CEO emphasised that the possibility of guaranteeing that a customer of the fixed network can change from one alternative operator to another, as well as from Telecom Italia to another operator, has been dealt with in a joint meeting between the Authority and the operators (including Telecom Italia), and resulted in resolution 24/07/CONS, which should be implemented by all operators at the end of May 2008.

In this context it should also be noted that the procedures to guarantee the number portability of a number that has already been “portered” to an alternative operator will be clarified further.

Still on the subject of number portability, the meeting should recall that a regulatory obligation has been specified for all operators since 2000.

At the Telecom Day, he reminded Silla, the 2007 final accounts and the long-term development forecasts for the period 2008-2010 were presented to the market, reflecting the rules of a clear and correct disclosure policy.

The 2009-2010 three year plan and the 2009 budget will have been drawn up by the end of the year, in accordance with the new business planning process.

Finally, shareholders should refer to the comments already made concerning dividend policy for future years.

After the Chairman had referred to the previous statements about oversight of the management of customer relations (Fragapane comment), he moved on to the comments of Prof. D’Atri, to remind the meeting that the three slates presented by Telco, Findim Group and the Funds had been properly submitted by shareholders, and so were legitimate, and complied with the applicable provisions.
As such, these slates could and would be voted on according to the voting procedure described in the bylaws for the appointment of the Board of Directors. He added that, from the documentation submitted by the shareholders presenting these candidates, he could determine no links between the slates that might be relevant for the purposes of the Consolidated Finance Law or Issuer Regulations (which actually govern the subject of links between slates in relation to the appointment of the Board of Statutory Auditors), nor situations that might prevent voting by persons attending the meeting. As Chairman of the meeting, he would therefore confine himself to taking note of the votes expressed by the shareholders or their proxies, ascertaining the outcome of the vote and communicating it to the meeting.

The **Chairman of the Board of Statutory Auditors** stated that he fully agreed with this position.

**Dr. Bernabè**, in response to Mafezzoni, stated that concentrating purchases in the Group Purchasing division developed out of the decision to exercise full control and effective rationalisation over the expenditure of the Telecom Italia Group. For specific types of purchases, the relative responsibility is therefore directly assigned to the appropriate company department. There are also specific procedures for the Purchasing department to assess and assign powers for limited sums. Total purchases by the Purchasing department totalled about 10 billion Euros in 2007. Delegated purchases account for about 3% of this sum.

The **Chairman**, queried (Tatulli) on the answer given to shareholder Lombardi, explained the Tronconi findings, to remind the meeting that the pay settlement of its Chairman and CEO had been the subject of an in-depth review by the Remuneration Committee and then by the Board of Directors. To define this package, two major executive compensation consultants had been used, and international best practice, particularly in English speaking countries, had been constantly referred to. As mentioned by Prof. Zingales (Chairman of the remuneration committee), the structure of the “cash” payment to the CEO means that the variable annual payment linked to the results achieved is greater than the fixed component, while the Chairman receives no variable annual payment. The settlements also incorporate long term rewards for the Chairman and CEO, in the form of stock options that, in terms of their size, are absolutely in line with the European benchmarks, and well below the North American examples. As far as the performance parameters are concerned, firstly (as for all the stock option plans) they are based on the future progress of the share price in relation to the so-called exercise price, which has been set at a minimum sum (1.95 Euros), over one third higher than the current share price. Secondly, he reminded the meeting that some of the stock options could only be exercised if Telecom Italia shares do better than the annual average of their main European peers in
the future. Finally, he pointed out that the options could only be exercised in 3 years’ time, and if the mandates of the Chairman and CEO were to be renewed at the end of the three year period, only 50% of the accrued options could be exercised at the end of the three year period, while the remaining 50% could only be exercised after a further 12 months. The frequently applied condition of vesting the options in tranches during the mandate had not been included.

The CEO then took the floor again. He reminded Quintarelli that, with the current consolidation perimeter, the share of income generated by foreign associates would not exceed 30% in 2009. The target announced last year mentioned by the shareholder also included the consolidation of Telecom Argentina.

As for the loss of EBITDA on the fixed telecommunications business of the Domestic Business Unit, he stated that starting from the first quarter of 2007 onwards, the information bulletin by sectors of business had been changed to a bulletin by organisational sector as defined on 22 January 2007, to ensure greater operational flexibility, and to facilitate achievement of the convergence of the various business areas in the domestic segment. So separate information on the EBITDA of the fixed and mobile telecommunications business is no longer issued, but rather the EBITDA of the “domestic” business unit, which includes both this and the support activities.

The development of the IPTV services marketed by Telecom Italia under the Alice Home TV trade name is one of the clearest development trends for all the major telecommunications operators. Telecom Italia therefore intends to pursue a strategy of developing the IPTV platform as an important factor for building customer loyalty, and to increase margins per customer. At the end of 2007, Telecom Italia had 80,000 customers for this service, and the target is about 300,000 by the end of 2008. Revenues totalled 2 million Euros at the end of 2007. Over the next few years this figure is expected to grow at rates of over 200% per year, on average.

It should be recalled that Telecom Italia chose to implement the IPTV service primarily through a commercial agreement with a content partner (Sky), which allows Telecom to drastically cut the costs of content acquisition.

Shareholder Quintarelli’s vision of the progressive independence of network and services, Dr Bernabè emphasised again, is shared and picked up by the company in its positioning strategy on broadband and adjacent markets. The company does not however share the view that the fixed network is not strategic, and the consequences the shareholder extrapolates from this. The evolution of the fixed network to broadband is today one of the principal drivers of growth for the Group, together with the evolution of mobile broadband access. According to the agreed policy, the two structures (fixed access and mobile access) are and will be increasingly integrated. Already the connectivity of mobile
broadband radio stations is achieved efficiently through fixed broadband. Within a few years, with the development of the new generation network, most of these will be connected by fibre optics. The fixed network and its development towards the new generation, in the Company’s view, are strategic, and for this reason the Company wants to maintain the network within Telecom Italia. This does not mean impeding other operators’ access to this network (including the new generation one), and in fact this access is becoming increasingly important, both for increasing the transparency of the company positioning and to increase revenues and returns on investments. In this process it will be crucial to work with the Authority to enable the regulatory approach to evolve from a phase focused on promoting the distribution of market shares to a phase directed towards promoting the development of the market and the new technologies, assuring an adequate return on investment for development initiatives.

The recent creation of Open Access, which is considered to have opened the way to transparency, openness and optimisation of investments, as well as a faster return on them, should be seen in the context of opening the traditional and the new generation networks.

The Chairman, referring to the comments by Cusani, emphasised that as regards relations with Pirelli and companies in its group for the supply of products and services, the Company, and in particular the Board of Statutory Auditors, have undertaken investigations including commissioning internal audits, which have found no evidence of irregularities or reprehensible acts.

Transactions with related parties are supported by all the necessary procedural and valuation-based precautions, designed to guarantee their correctness. Valuations can only be revised if there are relevant facts that suggest this should be done. Regarding the property transactions, all the necessary information has already been supplied in the answer to Lombardi. In relation to the question of whether or not the Pirelli contracts have been cancelled or reviewed, he stated that, to reply, he would need to make some distinctions.

The Pirelli group has been – and will presumably continue to be – a supplier of Telecom Italia Group, as it is a supplier of other telecoms operators in the field of broadband solutions (modems and other equipment). In this field, contracts are not characterised by long durations: they are agreed, executed and finished, and if appropriate, they are then renewed if the offer is good value in economic and quality terms.

Concerning relations which by their nature are more lasting, then it should be noted that the company real estate business, the so-called property, project management and agency services, were sold in 2002 to subsidiaries of Pirelli & C Real Estate. At the same time as this sale, contracts were signed with the above companies for managing the property assets owned by third parties that were rented by the Company, for managing the property assets owned or leased by Telecom Italia Group, for
agency services and for project management services. These contracts, valid for 5 years, give the companies supplying the services the right for them to be renewed on expiry for a further three year period, on market conditions. These contracts were renewed on conditions aligned to the market, and their duration has been agreed to 31 December 2010, with the possibility of early termination. Moreover, maintenance and environmental services were subcontracted in a contract signed in November 2004. This was achieved by selling the corresponding business of Group companies to an outsourcer, MP Facility S.p.A., 50% owned by Manutencoop and 50% owned by Pirelli RE Facility, with the simultaneous signing of service contracts. 437 employees were assigned to MP Facility. The contract will last until 2013.

As had already been said, the choice of outsourcer was made after a benchmarking process for economic value, quality of service and guarantee of continuity. The offers made by the major market leaders were assessed at initial stage. In the next stage, Telecom Italia opened negotiations with the companies that had presented the best-priced offers. Moreover, the contract for industrial property consultancy and services was resolved by agreement, as of 1 April 2007, with work on some initiatives continuing until the end of the year (the natural expiry date of the contract).

Moving on to Maresca’s points, Dr Galateri reminded the meeting that all the documentation prepared for the day’s meeting, including the directors’ report on the items on the agenda, the financial reports and the slates submitted by shareholders for the appointment of the Board, had been available to the public at the offices in Piazza Affari since 28 March, two weeks previously. He therefore apologised if anyone had had to wait to obtain the documentation, which had been the object of many requests by the public. As always, the documentation was sent to any shareholders who asked for it, and in the future Mr. Maresca, too, can also ask for it to be sent to the address he supplies to the offices.

Regarding the clarity of the report, he observed that its layout is traditional, and up to now this has created no problems, since the summary on page 1 clearly indicates where the proposals for the shareholders’ meeting may be found, at the end of the financial reports. He added that a separate document containing the reports and proposals has been made available on the website and on file at the Company offices.

As regards the allocation of profits, the proposed dividend is a financial indicator reported in the first pages of the report, on page 12 to be precise. The proposal for distribution is also indicated in note 17 to the consolidated financial statements, and in note 14 to the separate statement, commenting on the net equity, and it seems to be pretty clear. However, a dividend calculated on the basis of 8 cents per ordinary share and 9.1 cents per savings share has been proposed. Since the capital of Telecom Italia may rise (to service the convertible bond in circulation and the existing stock options), the maximum sums that may be distributed are indicated in the motion, and a
mandate is given to ascertain, in due course, the exact amount of the distributed profit, against the exact number of shares to be remunerated. With respect to shareholder Maresca’s observation about the fact that the stock option plan is only available to the Chairman and the CEO, the Chairman pointed out that there is already a stock grant plan, approved last year, that covers the rest of the employees: it did not however seem appropriate to use this kind of assignment of shares for the Company’s Top Management.

He assured the meeting that next year an attempt will be made to prepare a financial report that is easier to consult, but within the limits of the applicable provisions.

Dr Bernabè continued the answering by informing Giulianelli that the remuneration operations, and more generally, personnel development policies, are based solely on people’s abilities and performance, and therefore are separate from any assessment in terms of their age or length of service.

As regards Liberty Surf (controlled by Telecom Italia France), he repeated that assessments are under way to maximise the value of this holding, which could also lead to sale of the asset.

With reference to the figures on the supposed incentives (quoted by the shareholder) to take voluntary redundancy, he observed that the figures quoted were obtained from an anonymous email which was circulated in the company which gave figures on the pay of some senior managers who were still with the company and on others who had left it. He pointed out first that this email was an illegal circulation of confidential information protected by the privacy law, and that the Company had filed a complaint to the competent authorities against the unknown perpetrators, so that the persons responsible can be identified. Some of the salary information contained in the email was erroneous, and in any event this did not represent average pay awards.

Finally, again with reference to the telephone tapping affair, he again confirmed that so far the Company had not been formally included in the register of those under investigation, and that none of those in senior positions within the company who were involved in the investigation are still with Telecom Italia. There was no connection of any kind, he said, between the Telecom Italia Security department and the corresponding Pirelli department.

The Chairman told Costa that the current consensus of the financial analysts (about 40 brokerage houses) expresses a value of 1.85 Euros for ordinary Telecom Italia shares, ranging from a maximum of 2.70 (Dexia, closely followed by UBS with 2.60 Euros, Execution LTD with 2.50, Banca Akros with 2.40) and a minimum of 1.30 (Chevreaux, Oddo Equities). The objective value of the savings shares is 1.54. In terms of recommendations, currently 47% are to keep the shares, while 24% suggest purchasing them.
He repeated moreover that the main fiscal disputes are explained in note 28 to the consolidated financial statements, under the item “Potential liabilities”.

With reference to the comments made by Carena, Dr Bernabè reminded the meeting that innovation plays a fundamental role for the Company, supporting both its current business linked to the offer of services and the evolution of the network platforms, and to its plans for the future, which will allow the Company to enter new sectors and services effectively. These two types of innovation are and remain at the centre of the activities of TI LAB. With the Chairman, he has visited TI LAB more than once, precisely to see at first hand the main research initiatives under way, and the short and medium term results expected from them.

These investigations allowed the Board to confirm its extremely positive opinion of the research centre, and to further strengthen its role within the Group. And it should also be recalled that Turin is home to a comprehensive centre of excellence, with the Polytechnica and the various research institutions, in addition to TI LAB: the city of Turin will therefore play an important role in the strategy of technological development and the strengthening of innovation.

As far as workforce management is concerned, Telecom Italia intends to continue to pursue its policy of a balanced approach to efficiency on the one hand and resource quality on the other, always seeking possible solutions that are shared with the trade union organisations.

In response to Stella D’Atri, the Chairman reminded the meeting that all the procedures and instruments adopted by the Company in compliance with the recommendations contained in the Self Regulatory Code are in the annual corporate governance report that is part of the financial report document. Moreover, it should be emphasised that in many of its governance choices Telecom Italia has always been in the forefront, so much so that some of the options adopted by the Company have been incorporated into the latest edition of the Self Regulatory Code, as Prof. Zingales has pointed out.

Regarding the software used for the assessment of transactions with related parties, he pointed out that this is a so-called “expert system”, which basically means a guided checklist. Compilers authorised to consult the system are asked to answer a series of questions about the purpose of the operation and the contractual conditions of the relationship to be entered into. Selecting between the alternatives offered, following a “decision tree”, at the end of the process the system supplies a response which is the result of the objective application of the criteria established by the Board of Directors, indicating who should make the decision to proceed to conclude the contract.

With respect to the qualification of Vecchio as a director, he recalled that in the periodic progress reports of the Company, most recently the report dated 31 December 2007 (on page 2), Mr. Vecchio is
qualified as an independent director. This independence is as defined in the criteria referred to in the Self Regulatory Code of the Company. At the time of his candidacy this director had not declared that he possessed the requisites established for auditors in Article 148 subsection 3 of Legislative Decree 58/1998.

Again in response to Stella D’Atri, Dr. Galateri stated that the table showing the remuneration of directors had been drawn up in accordance with the provisions of the Issuer Regulations, annex 3C, which specifies the following to be indicated under the heading “other payments”: (1) remuneration received for offices held in listed and unlisted subsidiary companies, (2) remuneration received for employment, (3) end of service indemnities, (4) all other payments received for other services supplied. Details of the reasons for the payment are given in the footnotes.

He also pointed out that, with particular reference to those executive directors who ceased to hold office in 2007, a detailed analysis of the amounts paid as “other payments” is given in point 12 of the corporate governance report, on pages 174 and 175 of the printed document.

In relation to the questions raised by shareholder Salmivuori, Dr. Bernabè, after mentioning the comments already made about the IPTV strategy, pointed out, in relation to the aggregation of content, that TI Media, starting from its distinctive competence developed in the commercial television business, had positioned itself positively in the emerging business of paid television (terrestrial digital), and in particular in content and formats for the new platforms (IPTV and DVBH). In this, TI Media establishes itself as a centre of competence for the acquisition and in some cases the production of such content for the entire Group.

The profitability (Salmivuori again) of TI Media is improving, considering that EBITDA grew by 33% in 2007 compared to the previous year, and is to a great extent conditioned by the policy the government will implement for terrestrial digital, the switch-off of which is planned for 2012, a postponement which has slowed down the speed with which break-even point will be reached.

The most innovative business areas, including multimedia, are already in profit; MTV has generated net profits and positive cash flow for years.

The CEO continued with the replies, reminding (Marianna D’Atri) that the process followed for the impairment test is explained in note 5 to the consolidated financial statements and in note 4 to the separate financial statement. The process of impairment, as explained in these notes, requires the individual cash generating units to be valued. The values used by the individual businesses are in all cases higher than the book values. The professional consultant on the impairment test was Professor Mauro Bini of Bocconi University, one of the top experts in this field. Finally, he referred to the replies already given on the property business and relations with Pirelli.

And in answer to Croce, no separation of the fixed and mobile telephone business is in the pipeline.
As for TIM Brazil, he reminded the meeting that the Brazilian telecommunications authority, Anatel, approved Telco’s operation to purchase the entire share capital of Olimpia, imposing some restrictions intended to guarantee the full autonomy and separate management of the Telecom Italia and Telefónica businesses in Brazil. In the light of these restriction, any conflict of interest with Telefónica is today inconceivable, also because the latter has undertaken not to participate in the decision-making processes of the Telecom Italia Group subsidiaries in Brazil. In conclusion, in reply to Croce, no sale of Group business in the mobile sector is planned.

Finally, in relation to the comments made by shareholder Maiullari, the Chairman, after referring to the answers already provided concerning the connections between slates, reiterated that in any event, as Chairman, he has no option but to take note of the candidatures put forward by shareholders with legitimate rights to do so. They appear anyway to be candidates of great standing, as is in fact traditional in Telecom Italia.

As far as the previous management is concerned, he repeated that scrupulous internal auditing had detected no irregularities. He added that a series of important operations performed by that management has been the object of reports and complaints to the auditing bodies, which undertook the appropriate investigations without detecting any irregularities or reprehensible acts.

The Chairman of the Board of Statutory Auditors took the floor. Referring to shareholder Gianfranco d’Atri’s evident dissatisfaction with their Report (which he was sorry to hear), he made the point first of all that, regarding the tools of governance in relation to which the shareholder censured the positive judgement expressed only “by way of principle”, what that expression was intended to mean was that the judgement expressed by the Board of Auditors in the matter was a verdict on the system, whereas implementing such systems is the province of the management.

Next, in relation to organisational model 231, he stated that this should not be considered as static – it is in fact a model, by its very nature and as specifically required by the regulations, in continual evolution. The refinements the Board mentions, as expressly observed in the Report itself, concern changes necessitated by intervening legislative changes, and changes considered to be appropriate after feedback from practical company experience. He referred the meeting, for a more detailed explanation of the changes made to the model, to the comments in the corporate governance report, with reference also to the activity of the 231 steering committee and the work done by KPMG Advisory to test the model.

Moving on, and with reference to the remuneration paid to directors, he emphasised that, in legal terms, the Board of Auditors can do no more than verify the legitimacy and correctness of the
procedure. Once these elements have been ascertained, it is not the task of the Board to consider the merits of the proposals – this is in fact the responsibility of the Remuneration Committee. As for the alleged omission of a comment from the Board on the adequacy of the organisational and audit structure, this remark cannot be accepted. He pointed out that the Board has commented on this issue not only in this year’s report to the shareholders, and in particular from point 11 onwards, but also in its comments on the report for the six months ending 30 June 2007, to which he referred the audience and to which there was also a reference in their Report on the financial statements.

Lastly, the Chairman, Dr. Galateri, expressed the Board of Directors’ condolences to the Carlino family, which lost a family member in a work-related accident in Lecce a few days previously. At this point the Chairman stated that the shareholders could reply, warning them that each speech should last no longer than five minutes.

Lombardi commented that during the meeting the share price fell by 4.3%, and linked this to the fact that the idea of reviewing the business plan had not been accepted. With this market response, there really is reason to fear that the share price is no longer capable of rising. He declared himself dissatisfied with the replies, and commented that, from the sequence of changes of ownership of the properties, to where they ended up as part of a package in which Pirelli is actually a participant, there was ample material for putting together cases for actions for mismanagement. In this respect he appealed to all the shareholders to form a coalition, also by contacting the ASATI site, so as to reach the proportion of ownership need to start an action for mismanagement, a case which could also involve the directors who had created the financial statements currently under discussion. He criticised the fact that they had not received detailed information on the methods, businesses and countries from which the projected synergies with Telefónica could be derived. As for the idea of a merger with Telefónica, it is certainly a hypothesis worth looking at, but only after Telecom Italia returns to being the Telecom Italia of the 1990s, and not while the share price remains at its current level.

Even the much vaunted excellence of Telefónica is also something that very much needs studying. Telecom Italia, with one employee for every 1100 equivalent lines, versus the one employee every 780 lines at Telefónica, shows a potential efficiency increase of 30%, which should be exploited, with a more “appealing” business plan that should be vigorously pursued. He concluded by asking if Brandes Investment still holds 4-5% of Telecom Italia, and expressed amazement that such a substantial shareholder should not have brought its shares to the meeting.
Gianfranco D’Atri observed that some flexibility must be allowed for the replies in terms of time, particularly when the speakers are representatives of shareholder associations, both in form and tone, form and tone which have too often been aligned with an academic reading of texts prepared by the “think tank”.

After reminding the meeting that all the shareholders, from major investor to small saver, deserve equal consideration and attention, he observed that the Chairman’s mandate cannot and must not be interpreted as a mere “interim solution”, but as something much more all-embracing.

On this subject, he considered that the responses to the questions from the floor were disappointing, and wondered, regretfully, if one should not conclude that the only way to obtain proper answers would be in the course of an action for mismanagement. Requests for information should not be the subject of a continual “struggle”, given that the shareholders of Telecom Italia are in themselves a great resource for the company, that can make a significant contribution in terms of suggestions, skills and intelligence.

D’Atri then considered the speech made by Zingales, which he considered to be one of unheard-of gravity, to the point of meriting the attention of criminal lawyers, particularly the allegation that – essentially – directors would be influenced by the payment of exaggerated fees.

Before allowing other shareholders to speak, the Chairman clarified that Telefónica does not own 10% of Telecom Italia, but owns 40% of a company (Telco) that owns 24% of Telecom Italia. He informed the meeting that if many replies had been given by reading from notes, this was actually in order to supply precise and detailed information and answers. The need to work to give Telecom Italia a “shakeup” is the common objective, an objective which will be achieved by working to implement the programme outlined in a strategic plan in which the management continues to have every confidence.

Cusani observed that the presence on the staff of a figure such as Col. D’Andrea, an ex-officer of the Finance Police who previously worked with Borrelli at the Lega Calcio, as Internal Auditing manager, should facilitate the adoption of a plan for a clean break with the previous management (to which, by contrast, the manager for Legal Affairs, Mr. Chiappetta, is too closely linked).

The current CEO’s experience at ENI should prompt the company to abandon attitudes that justify past behaviour. And while it is true that to move forward we should not constantly be looking back, it is also true that we cannot continue to carry the dead wood of the past. The volume of legal disputes which at the end of December had led to the creation of a 385 million Euro fund is a significant matter to which attention should be paid.

Cusani also invited the meeting to pay the greatest attention to the 158 purchase and sale transactions made between 1999 and 2006, and to all the property transactions, closely scrutinised at
the request of the general secretary of the CGIL trade union in a report which has been sent to the competent authorities. What emerged is the fact that not only have properties not of primary importance been sold, as reported, but that assets that are essential for the business of the Group have also been disposed of, and in fact the same properties were then leased back to Telecom Italia on twenty or thirty year contracts. Cusani therefore believed that what was needed was to get a firm grip on the company and liberate it from all the negative aspects from the past: to work energetically towards this goal he made a special appeal to the independent directors and the new directors appointed by Telefónica.

He asked that the dossier he submitted during his speech about the investigations and initiatives of the previous year be annexed (to the financial report).

The Chairman was pleased to note the flattering opinion of D’Andrea expressed by Cusani, and stated that, as Internal Audit chief, D’Andrea had performed all the checks on the property and facilities issues Cusani had referred to. This was further reassurance about the positions assumed.

Turatti challenged the reconstruction of his personal situation that had been supplied. He felt that he had been bullied and intimidated for years. Forced to travel 140 km a day, he had had three road accidents and is disabled, and this makes the work rhythm and situation required of him intolerable. He complained that while other people had been kept in their own office base and city, he had been transferred to Padua, and no justification for this different treatment had been provided. Teleworking had in fact been proposed to him, but it seemed impossible to achieve, since his house was not suitable for this kind of activity.

This was all part of a situation which led the workforce to shrink from 122,000 to 83,000, with a policy that did not only affect workers, but also shareholders, who had lost most of their investments, and users, who were increasingly unhappy.

He asked for attention to be paid to his case, and precise answers give, since the “rubber wall” he had experienced in recent years was no longer tolerable. He specifically asked, as he had asked earlier but received no answer, that this meeting should be considered a day of paid leave, not a holiday, since his presence at the meeting was motivated by the need to resolve a business issue.

The Chairman assured Mr. Turatti that, after consulting the appropriate offices, he would ensure that an adequate response was given.

Giulianelli considered the responses received to be unsatisfactory, and in particular, repeated that his question had concerned how much space, in numerical and personnel terms, had been given to the
merits of the over 50s. On the question of the information being circulated by email, concerning the remuneration of the senior management, he noted that he had not had any idea of the criticisms that were made in the reply, and repeated that the ratio of the salaries of normal employees, supervisors and senior managers is not 1/3/5 but 1/20/200. He therefore asked for further details on this.

The **Chairman** confirmed that the response given earlier was correct.

**Francolino** again raised the issues of CRALT and ASSILT, claiming that the request for CRAL membership to be renewed is an unwarranted denial of acquired rights and asserting that the association manages itself, instead of resorting to additional and very costly employees, criticising in particular the role and space assigned to trade union organisations.

The **Chairman** stated that the issues raised by Francolino had already been dealt with in a detailed and reasoned letter. To be particularly scrupulous, he would have the matter looked at again, but once the organisational rules to be adhered to had been clarified, then clearly they would need to be adhered to.

**Costa** suggested that answers should not be overly diplomatic, and issues should not be postponed, as had occurred in the case of the disabled employee who had spoken earlier. He asked that the work of the shareholders’ meeting should “get into gear” with quicker and more decisive answers. In particular, he observed that some of the basic questions about the prospects of the company (from possible expansion abroad, into China or India, for example, to the reassessment of human resources and possible recapitalisation), had received responses that were too sketchy. He invited everyone to be braver, to dare more, to be true and determined entrepreneurs.

**Stella D’Atri** started by observing that she would have much preferred to be coming back to the platform to say that she was satisfied rather than to have to ask for additional information and detail. In relation to the question by Mr. Vecchio, she stated that she had asked why he had not declared himself an independent when appointed, since he is qualified as such now.

Regarding the questions about the Self Regulatory Code, Stella D’Atri observed that she certainly had not asked for details about how all the provisions of the code had been implemented (which would have needed much more time) but had limited the questions to details about the provision that recommends companies to facilitate shareholder participation in meetings and their relationship with management.
In this connection she recalled how in most cases the purpose of the questions of the shareholders attending the meet was to obtain data and information to supplement what was published in the financial report, and thus would not be satisfied by answers that simply repeated the information contained in the available documents.

Concerning principle 11.2 of the Code, which invited the Board to facilitate continuous dialogue with the shareholders, based on mutual understanding of their respective roles, and the criterion of application which refers to the need for the Company to act to provide timely and easy access to information, Stella D’Atri observed that the fact that a shareholder has to attend the shareholder’s meeting to obtain information is already a sign of the difficulties with this dialogue. Moreover, the shareholders’ meeting is not the right forum for analysing specific facts, there should be other tools for this. The many questions asked by the shareholders must therefore be a stimulus for supplying greater information continuously. She ended by asking if the reference on page 332 of the draft financial report to payment to the 2006 directors is a printing error which should read 2007, or if it does actually refer to 2006 as shown.

Marianna D’Atri considered it highly unsatisfactory to evade shareholders’ questions by merely referring them to pages in the financial report, and she also repeated the question about how much the fixed network is worth.

Salmivuori (in English with simultaneous translation) stated that there had been no answer to his question asking what the specific business plan was for La7 (if not for Telecom Italia Media in general), that can assure adequate growth for the network, which risks remaining the only independent one if the owner of Mediaset should win the elections.

Mancuso, after acknowledging that he had received answers to most of his questions, reproposed two aspects on which, in contrast, he did not seem to have received a comprehensive answer. Firstly, he did not consider that the 2007 information about legal and non-legal, strategic and non-strategic consultants, and their fees, had been given, considering that for 2006 Dr Buora had stated that there had been 100 consultants, with fees of about 76 million.

Secondly, referring to an article in Il Sole 24 Ore, he asked if fines for proceedings before the antitrust authorities should be added to the 426 million Euros indicated in the paper as costs of the civil and tax proceedings; these fines could exceed three billion, while the Chairman had talked about two billion. He therefore asked that the figures reported in the newspaper be checked.

Mancuso hoped for a Board composed of seven members (four majority directors, two of whom should be independent, and three minority directors) and considered the directors’ remuneration to be
too high; this remuneration should ensure that shares are only assigned to directors if they reach a specific share price, which should be over two Euros.

He asked for clarification about the accumulation of offices, including the offices held by the Chairman, since he believed that the Chairman held 10 offices, which would exceed the permitted limits.

The Chairman stated that his curriculum included offices which in the meantime he had given up (Pirelli, for example), and observed that the limit of five offices in listed companies, banks or insurance companies had been fully respected.

Quintarelli expressed his disappointment with the answers he had received, which focused on the formal aspects of the questions rather than their substance, and stated that this does not show the difference in behaviour, compared to the past, that had been expected.

Thus when asked if foreign revenues for the 2009 financial year would or would not exceed 30%, he had been given a substantially negative answer, but no indication of what the actual sum would be. To the question about the total loss imputable to the wireline division, he had received the reply that the information is not in the financial report: but this was precisely why the question had been asked. About Alice Home TV, the revenues were provided but not the margins, as requested. And the question as to whether or not the separation of the network was one of the scenarios being assessed was not answered. Nor was there any response to the question of whether the company is aware of any shareholder agreements or restrictions that might affect the above operation, nor, finally, was there an answer to the question about the existence of restrictions linked to the debt.

Cattaneo declared he was satisfied with the answer he had received to his question about the Blu Tim tax dispute.

Regarding the request to appoint Mr. Lombardi as a director of the Company, he realised that the proposal could not currently be implemented. But the purpose of the question was to draw attention to the appropriateness of ensuring that there should be people on the Board with specific technical knowledge.

Maiullari made an appeal for due attention and sensitivity to be paid to the case of the disabled employee forced to travel considerable distance to his place of work, emphasising the importance of the human factor and the possibility of being enabled to perform one’s work with love.

In this respect, she also mentioned the case of a mother of a small child who was forced to travel every day from Turin to Milan.
The Chairman stated that the human resources department was looking into the matter.

Maiullari continued, asking who the members of the Committee which appeared to be responsible for the excessively high remuneration were, and stating that this remuneration would not in any event produce the happiness and sense of inner wellbeing that everyone sought.

Tonelli (Studio Trevisan) stated that the opposing votes that he and his colleagues Maspiga and Maglioni would express by proxy should be understood to be opposing votes referring to slate 1.

No-one else wishing to speak, the Chairman reiterated that he had tried to supply all the information permitted in the circumstances, and stated that:
- the consultancy fees for 2007 totalled approximately 63 million Euros, for about one hundred consultants;
- the amount stated for the remuneration of company officers for 2007 on page 322 of the printed report was actually an error; the correct sums are given in note 42 to the statutory financial report of Telecom Italia, on pages 432 – 435 of the document;
- Telecom recognises two different criteria for independence, as detailed in the table on page 197: the criterion pursuant to Article 148 of the TUF [Financial Services Act], and the criterion in the Self Regulatory Code. Mr. Vecchio, by his own declarations, is considered independent according to the Self Regulatory Code criterion, but not according to the TUF criterion.

The Chairman declared that in any event his offices were willing to deal with further requests for details, to the extent that this was technically possible and permitted, and passed the floor to the Chairman of the Board of Statutory Auditors, who repeated that, as far as the remuneration of the executive directors is concerned, the remuneration committee formulates the proposals, the Board deliberates them, and, finally, the Board of Statutory Auditors checks the legitimacy and procedural correctness of the process.

***

As no-one else asked to speak, the meeting then proceeded to the votes which were taken separately for each item on the Agenda.

As a preliminary, the Chairman then opened the postal voting slips and delivered them to the staff who had the task of counting the votes which had been cast in this way.
The Chairman then moved on to the vote on the **Motion to approve the financial statements for the financial year and the allocation of the profit for 2007**, and then:

- asked shareholders who did not intend to take part in this vote to notify the auxiliary staff in the hall of the fact, so that the corresponding shares would not be taken into account in the voting process for the purposes of calculating the quorum;
- announced that for the purposes of the resolution, at 7:51 p.m. the number of shares represented was 5,283,455,959, entitling the holders to the same number of votes, equivalent to 39.49% of the shares;
- asked shareholders to cast their vote by pressing the key corresponding to their choice of vote, and reminded them that all three of the keys marked respectively In Favour 1, In Favour 2 and In Favour 3 had the identical effect of casting a vote in favour of the motion being put to the vote; he stated that the hall staff were available to provide technical support, and that for any necessity which might arise there was also the ASSISTED VOTING booth at the back of the hall.
- he then (at 7:55 p.m.) put to the vote the resolution proposed by the Board of Directors, which is transcribed below:

“The Shareholders’ Meeting of Telecom Italia S.p.A.,

- having examined the annual financial report for 2007;
- having taken note of the reports of the Board of Auditors and of the external auditing firm Reconta Ernst & Young S.p.A.;
- considering that the total number of shares with dividend entitlement at the proposed ex-dividend date will be not more than 13,722,809,598 ordinary shares and 6,026,120,661 savings shares;

resolves

1. to approve the financial statements of Telecom Italia S.p.A. for the year ended 31 December 2007, which show net income for the year of € 1,882,420,520.78;
2. as regards the net income for the year,
   a. to allocate to the legal reserve a maximum of € 37,626,989.18 and in any case not more than the amount necessary for the legal reserve to reach the amount of one fifth of the Company’s certified and actual share capital at the time this resolution is adopted;
   b. to allocate up to a maximum of € 1,646,099,986.88 for the distribution of a total dividend to shareholders, calculated on the basis of the following amounts per share, which will be applied to the ordinary and savings shares they hold (thus excluding treasury shares) on the ex-dividend day:
- € 0.08 for each ordinary share,
- € 0.091 for each savings share,
gross of the withholdings required by law. It is to be understood that net income not distributed as dividends will be allocated to retained earnings;
c. to carry forward the remaining amount;
3. to authorise the Board of Directors - and on its behalf its Chairman - to determine in due course, on the basis of the exact final number of shares for which dividends are paid, the amount of net income distributed to shareholders and the amount carried forward as retained earnings; and to pay the above dividends starting on 24 April 2008, ex-dividend on 21 April 2008”.

The Meeting approved the motion by a majority:
- In favour: 5,250,440,481 shares.
- Abstaining/Not Voting: 11,389,937 shares.
- Against: 21,625,541 shares.
Full details are given in the annexes.

The Chairman gave notice that, with the passing of the resolution proposed by the Board of Directors, the following had been approved by a majority:
- the financial statements of Telecom Italia S.p.A. for the year ended 31 December 2007;
- the allocation of the net income by distribution of a dividend in the amount of € 0.08 for each ordinary share and € 0.091 for each savings share.

***

The Chairman then moved on to the Appointment of the Board of Directors, and therefore:
- stated that there would now be two votes, concerning respectively:
  - the proposals connected with the appointment of the Board, drawn up by the shareholder Telco;
  - the appointment of the Directors using the slate voting system;
- recalled that the shareholder Telco, in the notice published with the slate, had proposed:
  - that the number of Directors should be set at 15;
  - that the Board of Directors which was to be appointed should have a term fixed at three financial years, and therefore until the Shareholders’ Meeting called to approve the financial statements for the year ending 31 December 2010;
that the maximum total annual remuneration of the Board of Directors under Article 2389, paragraph 1 of the Civil Code should be set at 2,200,000.00 Euros, this amount to be divided among its members in accordance with resolutions on the matter adopted by the Board itself;

that candidates for the office of Director should be authorised to pursue the activities indicated in their respective curriculum vitae, and at all events be unfettered by the prohibition on competition, so far as is permitted by Article 2390 of the Civil Code;

- asked shareholders who did not intend to take part in this vote to notify the auxiliary staff in the hall of the fact, so that the corresponding shares would not be taken into account in the voting process for the purposes of calculating the quorum;

- announced that for the purposes of the resolution, at 7:58 p.m., the number of shares represented was 5,283,394,956, entitling the holders to the same number of votes, equivalent to 39.48% of the shares;

- asked shareholders to cast their vote by pressing the key corresponding to their choice of vote, and reminded them that all three of the keys marked respectively In Favour 1, In Favour 2 and In Favour 3 had the identical effect of casting a vote in favour of the motion being put to the vote; he stated that the hall staff were available to provide technical support, and that for any necessity which might arise there was also the ASSISTED VOTING booth at the back of the hall.

- then (at 8:01 p.m.) put to the vote the resolution proposed by the shareholder Telco, which is set forth above.

The Meeting approved the motion by a majority:

- In favour: 4,824,429,563 shares.
- Against: 379,545,903 shares.

Full details are given in the annexes.

The Chairman gave notice that, with the passing of the resolution proposed by the shareholder Telco, the following had been approved by a majority:

- that the number of Directors should be set at 15;
- that the new Board of Directors should have a term fixed at three financial years, and therefore until the Shareholders’ Meeting called to approve the financial statements for the year ending 31 December 2010.
- that the maximum total annual remuneration of the Board of Directors under Article 2389, paragraph 1 of the Civil Code should be set at 2,200,000.00 Euros, this amount to be divided among its members in accordance with resolutions on the matter adopted by the Board itself;
that candidates for the office of Director should be unfettered by the prohibition on competition, so far as is permitted by Article 2390 of the Civil Code.

The Chairman, with respect to the appointment of the Board of Directors, to be elected using the slate voting system:
- gave notice that, given that the Shareholders’ Meeting had set the number of the members of the Board of Directors at fifteen (15), twelve (12) Directors (corresponding to four fifths of the total) should be drawn from the slate which obtained the largest number of votes. The remaining Directors, however, should be drawn from the other slates;
- he read out once more the slates duly presented and transcribed below:

**TELCO slate – identified for the present vote as Slate 1**
(Presenting shareholder: Telco S.p.A.)
1. Cesar Alierta Izuel  
2. Tarak Ben Ammar  
3. Franco Bernabè  
4. Elio Cosimo Catania  
5. Jean Paul Fitoussi  
6. Gabriele Galateri di Genola  
7. Berardino Libonati  
8. Julio Linares Lopez  
9. Gaetano Miccichè  
10. Aldo Minucci  
11. Gianni Mion  
12. Renato Pagliaro  
13. Clemente Rebecchini  
14. Filippo Maria Bruno  
15. Karl Pardaens

**Investment Funds slate – identified for the present vote as Slate 2**
1. Luigi ZINGALES  
2. Stefano CAO
3. Aldo Roveri
4. Francesco Vella

**Findim Group slate – identified for the present vote as Slate 3**
(Presenting shareholders: Findim Group S.A.)
1. Paolo Baratta
2. Roland Berger
3. Gianemilio Osculati

The Chairman then:
- asked shareholders who did not intend to take part in this vote to notify the auxiliary staff in the hall of the fact, so that the corresponding shares would not be taken into account in the voting process for the purposes of calculating the quorum;
- announced that for the purposes of the resolution, at 8:04 p.m., the number of shares represented was 5,283,371,626, entitling the holders to the same number of votes, equivalent to 39.48% of the shares;
- invited shareholders to cast their votes by pressing the key corresponding to their choice of vote, and reminded them that:
  - the key marked In Favour 1 was to be used for casting a vote in favour of Slate 1 (Telco);
  - the key marked In Favour 2 was to be used for casting a vote in favour of Slate 2 (Investment Funds);
  - the key marked In Favour 3 was to be used for casting a vote in favour of Slate 3 (Findim Group);
  - the key marked In Favour 1 was to be used for casting a vote abstaining with respect to all three slates;
  - the key marked Against was to be used for casting a vote against all three slates;
- reminded shareholders that the hall staff were available to provide technical support, and that for any necessity which might arise there was also the ASSISTED VOTING booth at the back of the hall;
- then (at 8:06 p.m.) put to the vote the slates of candidates which had been read out.

The Chairman then read out the results of the voting as shown below:

- Telco slate: 3,588,317,001 votes
- Investment Funds slate: 385,290,381 votes
• Findim Group slate: 670,887,342 votes
• Against all the slates: 377,348,506 shares
• Abstaining: 261,520,696 shares.
• Not Voting: 7,700 shares.

Full details are given in the annexes.

The Chairman then gave notice that:
- the slate which was found to have obtained the majority of the votes cast by shareholders was the Telco Slate, from which twelve Directors were therefore to be drawn, according to the order in which they were listed on the slate, namely:

- Cesar Alierta Izuel
- Tarak Ben Ammar
- Franco Bernabè
- Elio Cosimo Catania
- Jean Paul Fitoussi
- Gabriele Galateri di Genola
- Berardino Libonati
- Julio Linares Lopez
- Gaetano Miccichè
- Aldo Minucci
- Gianni Mion
- Renato Pagliaro

- under the Bylaws, the remaining three Directors were to be drawn from the other slates; in particular, applying the criteria laid down by Article 9 of the Company’s Bylaws, the following were elected:
  ✓ Mr Luigi Zingales, drawn from the Investment Funds slate;
  ✓ Messrs Paolo Baratta and Roland Berger, drawn from the Findim Group slate;

- the task of ascertaining that the newly-appointed Directors possess the necessary requirements would be carried out by the Board of Directors itself at the first effective meeting, as indicated in the Company’s Self-Regulatory Code.

***
The Chairman then moved on to the vote concerning the **Stock option plan reserved for the Top Management of the Company** - authorisation for the Company to buy and dispose of its own shares - related and consequent resolutions, and therefore:

- asked shareholders who did not intend to take part in this vote to notify the auxiliary staff in the hall of the fact, so that the corresponding shares would not be taken into account in the voting process for the purposes of calculating the quorum;
- announced that for the purposes of the resolution, at 8:09 p.m., the number of shares represented was 5,283,241,626, entitling the holders to the same number of votes, equivalent to 39.48% of the shares;
- asked shareholders to cast their vote by pressing the key corresponding to their choice of vote, and reminded them that all three of the keys marked respectively In Favour 1, In Favour 2 and In Favour 3 had the identical effect of casting a vote in favour of the motion being put to the vote; he stated that those who did not cast any vote would be classified as ‘Not Voting’; he then reminded shareholders that the hall staff were available to provide technical support, and that for any necessity which might arise there was also the ASSISTED VOTING booth at the back of the hall;
- then (at 8:11 p.m.) put to the vote, by a show of hands, the resolution proposed by the Board of Directors, which is transcribed below:

“The ordinary Shareholders’ meeting of Telecom Italia S.p.A., having examined the explanatory report of the Board of Directors (the “Report”),

resolves

1. to authorise, for the maximum period permitted by applicable law and starting from the date of the present shareholders’ resolution, the purchase, on one or more occasions and at any time, of ordinary shares in Telecom Italia S.p.A., up to a maximum number of 11,400,000 ordinary shares and thus up to 0.059% of the share capital. The consideration for the purchases 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 S.p.A. in the last ten days of trading before the purchase date, respectively decreased or increased by 10%. The purchase of the treasury shares must in any case be made within the limits of the available reserves as stated in the latest approved annual financial statements at the time the transaction is carried out. The purchases must be made on regulated markets and according to the procedures allowed by the statutory and regulatory provisions in force;

2. to approve the stock-option plan reserved to the Company’s executive directors as set out in the Report and information document published pursuant to the applicable rules and regulations (the “2008 Top Plan”);
3. to authorise, within the time limits necessary for the implementation of the 2008 Top Plan and on the conditions contemplated in the 2008 Top Plan, the disposal to its beneficiaries, on one or more occasions and at any time, of the Telecom Italia S.p.A. ordinary shares acquired as specified above or otherwise or already held by Telecom Italia S.p.A. at the date of this resolution;

to confer all the necessary and appropriate powers on the Board of Directors to make the purchases of treasury shares and implement the 2008 Top Plan and, in general, to carry out all the transactions that are the subject of this resolution, including the mandate to make the consequent entries in the accounting records, in accordance with the statutory provisions and accounting standards applicable on each occasion”.

The Meeting approved the motion by a majority:
- In favour: 4,402,083,627 shares.
- Abstaining/Not Voting: 806,726,955 shares.
- Against: 74,431,044 shares.

Full details are given in the annexes, it being stated that the outcome reported is that deriving from the voting; notice is however given that one shareholder (Findim Group S.p.A.), subsequently to the vote and its announcement, declared that it had erroneously omitted to cast its vote with its treasury shares (595,645,531), it having been its intention to vote against the motion (the alteration to the count does not however affect the approval of the above resolution).

The Chairman gave notice that, with the passing of the resolution proposed by the Board of Directors, the following had been approved by a majority:

- the stock option plan, on the terms and in the quantities indicated;
- the purchase and disposal of ordinary shares in service of the plan.

***

As the matters on the Agenda for the ordinary session had all been dealt with, the shareholders’ meeting moved on to deal with the extraordinary part of the Agenda, which is the subject of separate minutes.

The time was 8:15 p.m.

Secretary Chairman
Shareholders,

in a few moments Franco Bernabè will comment on 2007 and, above all, will tell you how we see 2008 and the medium term.

For my part, I would like to make just a few short introductory comments.

Firstly, though, allow me to say – as I said last December when we were appointed – that we are happy, and indeed honoured, to have been appointed to the board and we hope that this board will be renewed. We feel all the responsibility, but also and even more so, we feel stimulated to do the job, and to do it well.

Telecom Italia is a great company, and it is structurally healthy. It has the people, the technologies and the products to overcome its problems and grasp the great development opportunities it has before it. We are confident.

1. Confidence in governance

Our confidence is based, first of all, on the high-profile governance that the Company can rely on.

The new reference shareholders are also high profile: Telco is owned by Generali, IntesaSanPaolo, Mediobanca, Sintonia and Telefónica. These are major, robust and reliable companies. This all constitutes a great competitive advantage: this allows us to work on a broad front, in the medium to long term, for the growth of Telecom Italia.

With Telefónica, in particular, we will develop all the synergies possible, always within the rules and restrictions placed by the regulatory authorities.

I would also take the opportunity to say that there are no plans to merge with Telefónica and no plans to increase the share capital of the Company.

The Corporate Governance system we have found in Telecom Italia is also high profile – a system that is certainly best-in-class, characterised by rules, procedures and an internal organisation for the Board of Directors that is particularly effective. The relationship between the Board and the management is simple and smooth.

Obviously, further improvements are always possible. The new rules on transactions with related parties that we have recently approved are one example of this. Telecom Italia was already aligned with best practices. This now allows us to be an example, certainly at national level, but also internationally.

2. Confidence in the prospects of the telecommunications industry
Our confidence is also based on other foundations, linked to the strategic role played by telecommunications in development and growth, a role that has strengthened further in the last ten years.

Certainly, the international economic scenario is deteriorating. Things are by no means good in the United States. Europe is holding for now, but things cannot go well here if its biggest partner is suffering, and cannot hold for long if the euro/dollar exchange rate remains at these levels. The emerging economies continue to be very lively, but for them too a deceleration is likely. Italy, which for structural reasons always grows much less than Europe as a whole, will feel the slowdown more sharply.

However, the economies of the United States and Europe remain robust. And, in addition, the world today is much more flexible, and can rely on the new markets to absorb crises.

If there is a rigidity problem, this relates to commodities (energy and food in particular) and their price. The risk of inflation might represent a factor that further slows business activities.

These are turbulent economic times in which we are operating.

With what consequences? Three points.

**The first: telecommunications is one of the industries least affected by the economic cycle**

The data throughout this first part of the decade show that the correlation between growth in the market value of telecommunications, and growth in GDP is a tiny one, both in Italy and throughout Europe.

The volumes of traffic continue to grow, led by constant innovations in technology and service (an industry characteristic) and also facilitated by the spread of flat rate offers (which have now penetrated 34% of the fixed telephony market and 71% of the fixed broadband market), and pay-as-you-go arrangements in mobile telephony (approaching 15% of the market, which means over 5.3 million connections), and also by the development of mobile internet services.

**The second point: telecommunications is and will continue to be a segment that is a bulwark against inflationary tendencies.**

No other public utility sector – from energy to rail transport – has continued to limit inflation in the way telecommunications have done.

In Italy, over the last ten years – since the liberalisation of telecommunications – consumer prices for telephone services have fallen by almost 16% overall, while consumer prices have risen by 24% and the prices of other public utility services have grown at rates even higher than inflation.

Technological innovation will continue to promote this virtuous behaviour for many years to come.

**The third point: the convergence of telecommunications and information technology can – and in my view must – be exploited as an extraordinary tool for efficiency, growth in productivity and the competitive repositioning of economic systems.** Particularly the Italian system, which as a whole tends to lag behind the other major countries in terms of exploitation of new technologies.

There are signs it is catching up, particularly in the business world.
They should be strengthened and consolidated, and technological innovation should become an opportunity to not only review and compress the entire cost structure, but also to adopt new and more sophisticated approaches to world markets and income growth.

Fixed and mobile broadband can amplify the positive effects of information technology to a very great extent, particularly in terms of labour productivity, which is an Achilles heel of the Italian economy.

So there is a great opportunity to be seized. Seized by the business community, certainly, but also with the stimulation and planning of politics and government, particularly given the potential leading role that modernisation of public offices could play.

So, in a nutshell, we are facing a complicated scenario, dominated by uncertainty about the prospects. But for telecommunications, there is still plenty of space for development.

3. Confidence in a higher share price

The final area I will comment on concerns the prospects for Telecom Italia’s share price.

The deep discomfort engendered by its performance in the last three months is only too understandable. And it is more than reasonable to ask the management of the Company what has happened and why.

Since January we have seen two types of market behaviour:

- the first, until mid-February, in which the shares performed slightly better than the telecommunications market as a whole (about 1% better): this was a classic case of “buying on expectations” based on rumours and inferences that fundamentally concerned the future of the access network;
- in mid-February, however, we saw another classic manoeuvre of “selling on news” – the announcement of the reorganisation of technological and network infrastructures together with other, baseless, rumours about the 2007 results, the expected dividend, and the financial solidity of the Group.
  - After this, in a turbulent market dominated by fears of an economic slowdown in America and the world credit crisis, positions developed based on speculations of a falling price. The downward trend forced some shareholders to put their holdings on the market at almost the same time as our presentation of the 2007 results and the 2008-2010 three year plan.

I remember, specifically, that Hopa S.p.A. held about 500 million ordinary shares, equivalent to 3.97% of the ordinary share capital. According to Consob, this shareholder’s holding fell to zero.

500 million shares – more than double the average daily trading volume – arriving on the market over a short period of time represents a hammer blow for the share price. Such a flow of shares for sale was inevitably hard to absorb, in a market that was already on a downward trend, and this caused the share to underperform by -10.32% after the presentation of the results on 20 March.

- However, the fact that the fall in share price was due more to speculators than to real sellers was evident in the performance recorded since Easter (a rise of about 20%, 15% more than
the telecommunications sector), and last Friday, thanks to a slight increase in the share held by Telco, the rise increased from 23.9% to 24.5%.

This significant and greatly appreciated sign of confidence – together with the positive feedback from the European and North American road-shows, and in the recovery of the share – has allowed Telecom Italia shares to achieve better prices, although they still do not fully represent the value of the Group.

4. Confidence in a realistic business plan

It is our firm objective to work to ensure that this higher value is achieved by implementing the strategic policies that we have explained to the financial community in the most transparent and realistic way, making it clear that financially we will be adhering to a rigorous discipline.

5. Confidence in our recovery of a solid development path - Conclusion

Shareholders,

the Company's skills, the quality and dedication of its people and management, the stability of the control core, and the growth potential of the industry are a fundamental foundation for creating a healthy, balanced, “normal” development path.

It is a path with no short cuts: it will take the time and efforts of any industrial development. We are able to do it.

We know what and where the problems are. We have developed the initiatives to resolve them. We will put the customer at the centre, we will work on efficiency and internal and external synergies, we will invest in innovation, we will strengthen our presence in the foreign markets we operate in.

There is no reason why a group like Telecom Italia, so rich in professional skills and talents, should not once again give the satisfactions that everyone – from the shareholders to the management and the employees – rightly expects from a Company that is a leader on the market, in innovation and in know-how.

We have confidence in the future. We ask for your confidence, and that you judge us on what counts: the reliable and lasting creation of value.

I will now introduce Franco Bernabè.
SHAREHOLDERS’ MEETING  
Milan, 14 April 2008  
Dr. Franco Bernabè.

Thank you, Mr. Chairman.

Shareholders,

Since the documentation on the financial statements discussed today is not only available at the registered offices of the Company, but has also been sent to those who requested it, and distributed among those in attendance, I will confine my remarks to a very brief summary of the principal results of last year.

I will then explain the fundamental strategies we have defined to restore the competitive vigour of the group, positioning it adequately and strongly in the new scenario of the Information and Communication Technology industry, creating the conditions to respond best to the expectations of investors, customers, employees and, more generally, of the economic and social systems in which we operate.

1. 2007 in detail

During 2007, Group revenues, totalling 31.3 billion euros, were in line with those of 2006, with strong international growth (up 20% at 2006 exchange rates), which compensated for the erosion of domestic revenues, due primarily to competition and the actions of the regulator.

**EBITDA**, totalling 11.6 billion euros, was 9.6% lower than in 2006, and was influenced by extraordinary and non-recurring items for about 800 million euros. Of these, the sum of about 500 million euros was due to regulatory impacts (I would mention the Bersani decree, which worsened matters by over 400 million, and the manoeuvre on termination tariffs which added a further 100 million).

**EBITDA** net of the extraordinary items, exceptional provisions and costs, and changes in the perimeter and exchange rates (**the so-called organic EBITDA**), at 39.6% of revenues, had fallen 1.8 percentage points compared to 2006.
The need to support growth abroad, and to maintain existing services in Italy while developing new ones, led to an increase in investments, which grew from the 16.4% of revenues of 2006 to 17.6% in 2007. This trend is reflected in operating Free Cash Flow (6.3 billion euros), which was about 20% of turnover in the 2007 financial year (from 22% in 2006), a fall of 682 million euros compared to 2006, which continued a trend that had started in earlier years.

The increase in **depreciation and amortisation**, due to the higher investment in Italy and abroad, influenced the trend in **EBIT**. The ratio of Organic EBIT to revenues was 20.9%, 3 percentage points lower than in 2006.

**The financial and fiscal performance** of the Group was better than in 2006. The **Net Earnings** were 2.4 billion euros.

***

Against these net earnings the Board of Directors decided to propose a dividend of 8 eurocents per share for ordinary shares and 9.1 eurocents per share for savings shares.

This dividend is lower than last year, when the Shareholders’ Meeting resolved to pay a dividend of 14 eurocents per share for ordinary shares and 15.1 eurocents per share for savings shares.

The payout ratio of the Group was thus sustainable, and substantially in line with the mean of the other European operators.

***

If we now consider the **financial situation** of the Group, in December 2007 **gross debt** totalled 43.6 billion euros, mainly debenture loans totalling about 32 billion with a mean term of about 8 years, as you can see lower down on the slide. So this is a term that leaves margins in the choice of refinancing arrangements and timing.

Moreover, about 70% of the debt is at fixed rates, which guarantees the stability of Group financial charges on the existing debt over time.

The presence of 7.9 billion euros of **financial assets** allowed the group to achieve **net debt of 35.7 billion euros**, a 1.6 billion euro decrease from the figure at 31 December 2006, thanks to **generation of cash and the balance of acquisitions and divestments** that compensated for the **dividend** payout of 2.8 billion euros and the expenditure on financial charges and taxes during the period.

Of the 7.9 billion euros of financial assets I just mentioned, 6.8 billion (the total **cash and banks** and negotiable securities) represents the actual liquidity of the Group. The **cash** is mainly invested in fixed term bank deposits.

The **cost of the debt** remained substantially stable at around 5.6%.

***

I would like to emphasise some particularly important aspects of the Group financial situation.
1. Telecom Italia has reported no losses of liquidity, despite the severe crises that affected the money and banking market in the last months of the year.

2. The available liquidity (6.8 billion euros) and the unused and irrevocable credit line available, which expires in 2014 (6.5 billion euros), together allow the company to comfortably meet the debt repayments due over the next four years (equal to an average of 4.5 billion each year).

**2. A rapidly evolving market**

These, then, are the results for last year. Results that confirm the substantial validity of the company business portfolio, even in circumstances in many respects exceptional.

Today these circumstances are behind us, as the Chairman explained a short while ago. Today we are able to again start thinking about the future, and build on a solid and strengthened base, as the evolution of the market requires... with all the opportunities that this evolution will offer, and which we want to prepare ourselves to grasp, relying on strengthened leadership and competitive excellence.

I think it is appropriate to say a few words about how we see demand developing.

The world telecommunications market is growing at a fast pace, between 3 and 5% per year. This growth is not homogeneous:

- it is particularly strong in the emerging markets, about 10% per year, where it is led primarily by mobile telephony;

- it is lower, around 2-2.5%, in the established major markets (Europe, North America, Japan), and is concentrated on growth in broadband and mobile services.

In Italy in particular, the telecommunications sector is currently passing through a phase of great changes. In 2007, the market exhibited a distinctly non-linear trend, because of the significant change in the regulatory context which to all intents and purposes cancelled out the growth in value (fixed mobile manoeuvre, reduction in terminations of international roaming, elimination of recharging costs, reduction of SMS interconnection).

For the immediate future, the expected growth in services is around 2% per year in monetary terms, equivalent to 1.5% if the terminals market is included. So we expect a trend that is slightly flatter than the European average, with a downturn partially due to the recently adopted regulatory and legislative provisions.

The more interesting aspect is the evolution of the major components of the demand. What is happening, essentially, is the consolidation of three phenomena:
• firstly, the value of traditional services (voice and access), which still represent over half the market, continues to fall, and the erosion in prices will not be offset by a growth in volumes;
• secondly, the migration from Fixed to Mobile services is continuing, particularly in the phone traffic segment: Mobile services (with growth of 3.5% per year) will absorb approximately 60% of per capita expenditure on telecommunications services by 2010;
• thirdly, and, from a strategic perspective, most significantly, the developed of broadband in both Fixed and Mobile segments is destined to speed up.

In 2010, we will have about 15 million fixed broadband accesses in Italy, roughly 50% more than today, with annual growth of 13% and penetration of almost 70% of total lines by the end of the period.

But in the same year, users of Mobile broadband services should also reach 15 million, five times the current figure.

The diffusion of broadband is the prime motor for a series of convergences of technologies, services and markets. In the business world, the increase in network speeds and the pervasive spread of the internet protocol (IP) underlies a progressive integration of telecommunications and information technology, while in the consumer world new service paradigms for interpersonal communication, information and home entertainment are establishing themselves, prefiguring a gradual integration of telecommunications with media and advertising markets.

3. Competition and rules

I would like to offer some observations on a point that is crucial for the future development of telecommunications. This is competition and rules.

Competition in telecommunications networks and services, guided by the regulatory authorities, has been one of the principal engines of market development which, by lowering the entrance barriers, has permitted the growth of infrastructure, the diffusion of innovative services and the reduction of prices.

As the European Commission itself has emphasised, we believe that the role played by the Authorities in the last ten years of market liberalisation has been important and incisive.
The strong development of electronic communications has not happened “in spite of” the Authority and its decisions, but also thanks to them.

Now and over the next few years, the regulatory authorities will be meeting new challenges to supervise the rules of a world characterised by the great speed of technological evolution and continually changing business models.

The first challenge is to adapt the system of rules to promote real innovation in infrastructure and service. By its nature, innovation is a risk – a costly one, particularly in a sector such as electronic communications, with high capital intensity and subject to continual technological changes, and to promote risk-taking, the rules must be certain, simple and coherent.

The second challenge concerns market consolidation. After the extreme fragmentation generated in the early years of the opening of the markets, today a progressive consolidation is under way, due to the growing convergence of fixed network and mobile services, and between the characteristic telecommunications market and the media and information technology markets.

The future system of rules must take this into account, encouraging business models that are sustainable in the long term, and that meet the needs of the economies of scale that will be required to sustain the investments in new generation services and networks in a positive way.

Big operators, high rates of innovation and a tendency for prices to fall are not contradictions. That is what is happening in the world.

In this situation of great technological and market changes, we hope that the system of rules will gradually lighten, and become more economically sustainable.

I would add: we believe in competition, and we believe that fostering it is a sacrosanct principle. We believe that competition, carried on by those strong enough to shoulder the burden of investing in innovation, is good for the market and, as a stimulus to work well, good for us as well.

In this sense we firmly believe in a constant, smooth and collaborative relationship with the regulatory authorities, accompanied by in-depth and transparent information. We have already started to move in this sense. The reorganisation of our network businesses and the creation of Open Access are moves in this direction: Open access is a very important step, not only for greater transparency in the equality
of internal and external processing, but also for better service to other operators while allowing us at the same time to strengthen the *wholesale* component of our revenue stream.

### 4. The transformation and growth of Telecom Italia

To respond to the evolution of the external context, and to resume a path of virtuous growth, the Group has started along a road that is based on three strategic pillars:
- the transformation of our domestic business,
- the strengthening of our international presence, and
- the recovery of efficiency.

All of this by exploiting the strong technological and business skills present in the company, and maintaining strict financial discipline.

**Transformation of our domestic business**

In a context that includes the growing integration of technologies, services and markets, we are introducing a customer-centred organisational model to the company, with the dual aim of building stable and lasting relationships and progressively extending the range of services offered.

To do this we are building on three factors:
- quality of service;
- broadband;
- convergence, both Fixed-Mobile and between adjacent markets.

Improving service quality is the aspect on which our repositioning on the domestic market is based. We must recover a situation in which we lag behind the other major European operators. We have already started to implement a detailed plan of action with the involvement of management and operational personnel to improve the performance of our network platforms (the plan envisages 100 million euros per year of investment in access network maintenance over its lifetime), to improve the customer care and technical assistance processes, to ensure that the new services offered to the market are stable and simple to use, and to create sales processes that are effective but transparent, and that respect the customer’s wishes.

We are focussing on **broadband** to grow the domestic market.
The Italian market has great potential for expansion in this field. In the Mobile sector, for example the demand testing period was very short, just a couple of years. Accesses had already risen to 6.3 million by 2008, a rise of 133%.

In the Fixed sector, which can rely on a base that is considerably more solid, accesses will rise by almost 15%.
In both sectors we will make additional efforts to accelerate these growth rates, with renewed offers for the various categories of customer.

But it is not only the numbers that count, their range… their significance, count too.

Such large numbers mean that all the services imagined at the end of the 1990s and never fulfilled because of a lack of bandwidth have now become possible and usable on a large scale.

And when I talk about services I don't just mean those that we can offer. More generally, I am thinking about those services that could be developed and supplied by an industrial universe of companies that is growing steadily wider, that will have at its disposal a very powerful tool for meeting the requirements of individuals, companies and institutions in a creative and innovative way.
Since the number of broadband users will grow from around ten million to some thirty million, Italian society will have taken a decisive step forward towards the “information society”. This means that the economy of our country will be able to open itself to a new model for growth with higher development potential, much closer to that of the more advanced countries.

Let's consider the convergence of technologies, services and markets.
In the consumer world, the convergence of fixed and mobile services has immediate impact, and will translate into new families of personal communication services that will combine fixed and mobile, and guarantee access to digital content at home and on the move in similar ways.
There will then be significant growth in new generation broadband services. I am referring to services linked to the concept of the digital home, new forms of information and entertainment that combine the potential of Television and Internet, to the new and promising businesses of the Web 2.0 world (community management, on-line advertising, P2P services).
In the business world, alongside fixed-mobile integrated services, the greatest opportunities will be derived from our ability to guide the migration of networks and services to the Internet Protocol, and to propose new Integrated Business Communications Solutions (voice, messaging, video, data) and new
net-centred IT services (software as service, processing resources and centralised archiving) to the market.

**Strengthening the international dimension**

In this context our plan envisages, firstly, consolidating and adding value to those of our existing assets that can guarantee strong competitive positioning and prospects for growth. In particular, we intend:

- to develop our presence in Brazil, continuing along the strategic path, forged by TIM Brasil, of strengthening our mobile business and developing converging offers.
- to strengthen our position in Germany, seizing opportunities linked to the market consolidation process, and focussing on operational excellence and efficiency.
- to undertake the actions needed to acquire control of Telecom Argentina, which presents operations that are financially and economically solid, with very attractive development prospects.
- to consolidate our leadership position in the international voice and data traffic market, focussing particularly on the Mediterranean and the Middle East/South East Asia.
- to evaluate the feasibility of disengaging from business segments or markets that are not particularly attractive, or where we believe the Group does not have the critical size to compete in the medium to long term.

We will also monitor development opportunities in emerging markets, characterised by high growth, particularly in the mobile sector, and focusing on enhancing the capacity of the group to act in mature and emerging markets in traditional and innovative business areas. Any further international expansion should respect our commitment to reduce borrowing, and must therefore be sustained by possible sales of assets of lesser strategic impact, or by financial partnerships.

**Recovering efficiency**

The new conditions of the telecommunications markets require much higher levels of efficiency and selectivity in expenditure and investment than in the past. This means identifying a different business model: integrated processes, slim structures, correct internal/external allocation of activities. Management models that encourage innovation, participation and learning must be adopted.
Progressive review of the organisation of the business thus becomes essential for reaching levels of excellence in terms of services offered to the customer, efficiency in production, generation and management of innovation, and a flexible approach to change.

We expect this review, and the synergies with Telefónica, to produce efficiencies of about 1.2 billion euros in costs and investments for the 2008-2010 period, and a decisive improvement in our quality and speed of response to the market. We expect the main improvements to occur in territorial operational activities, the development and management of company information technology, the slimming down of staff structures, and the rationalisation of sales and post-sales structures.

We are also convinced that a constant focus on efficient and selective investments will allow us to identify further space for optimisation and rationalisation in the years to come.

Financial Discipline

In implementing the policies in the Plan, we will adhere to a rigorous financial discipline to reduce the ratio of debt to gross earnings to the level of the major European operators.

We have already adopted a dividend policy that is sustainable in the long term.

We will assess the possibility of selling off further non-strategic assets.

We will make prudent and selective investment decisions based on rigid criteria for return times and risks of execution.

5. 2008 objectives and conclusion

Shareholders,

a patient but exciting task awaits us – to transform our domestic business, consolidate our international business, and enhance efficiencies and synergies – and we intend to complete it within three years.

Over the last month we have taken a road-show throughout Europe and the United States to explain what we are going to do. We have observed that investors have confidence in us.
It is clear to everyone that the most tangible results of the work we do will become evident as we approach the end of the period of the plan.

We have set realistic objectives for 2008:

- revenues of about 31 billion euros, compared to the 30.9 billion euros for the same perimeter in 2007,
- gross earnings of 38.5%
- net financial indebtedness less than 3 times gross earnings, in line with the mean of the other major European operators.

In this plan we have envisaged revenues growing by 1 to 2% per year during 2009-2010, thanks to growth in our international activities and recovery on the domestic market, with stable gross earnings of around 39% and net financial indebtedness at the end of the three-year period that will be 2.5 times gross earnings, as is happening with the other major European operators.

These are realistic objectives that reflect the current potential of the company. They are objectives that build a fundamental structure of consolidation, transformation and relaunch, which lays the foundations for future growth.

I believe that it is a duty for myself and the management of the company to maintain the commitments we have given and to constantly seek to improve. The path we embarked upon four months ago has precisely this ambition.