

UNOFFICIAL TRANSLATION

The following is an unofficial English translation of the Italian explanatory report prepared by the Common Representative of the Noteholders for the noteholders meeting. In the event of conflict or inconsistency between the Italian report and its English translation, the Italian version shall prevail, as the official document is the Italian version.

**Explanatory Report of the Notice Convening
the Meeting for Holders of**

**“Telecom Italia 1.5% 2001-2010 Convertible Bonds
with Premium upon Redemption”
ISIN IT0003187215**

**“Telecom Italia 2002-2022 Floating Rate Notes,
Exclusive Subscription by Employees and Retired Workers of the Telecom Italia Group”
ISIN IT0003217640**

**“Telecom Italia S.p.A. Euro 750,000,000,000 4.50 per cent. Notes due 2011”
ISIN XS0184374063**

**“Telecom Italia Sp.A. Euro 1,250,000,000 5.375 per cent. Notes due 2019”
ISIN XS0184373925**

Following a brief preliminary statement, this Report sets out the agenda to be discussed and resolved by the meeting of the noteholders, which will be held in Milan on November 19, 2007 on first call, and, if necessary, on November 20, 2007 on second call, or if necessary, on December 5, 2007 on third call, respectively, for each of the following issues:

1. activities carried out by the Common Representative of the noteholders;
2. report on shareholders' meeting held on April 16, 2007. Relevant resolutions;
3. activities to carry on:
 - 3.1. appointment of a group of experts for the selection of the information to be published on the website section organized by the Common Representative of the noteholders and for the organization and coordination of a web forum dedicated to the noteholders;
 - 3.2. determination of the criteria for possible appointments to evaluate the economical and financial situation of the Issuer and its Group and transactions announced or implemented by the Issuer and/or its Group;
 - 3.3. proposals on further activities to carry on, aimed at full defence of the common interests of the noteholders;
4. fund of the office of the Common Representative of the noteholders, allocation of funds for the activities to be carried on; compensation of the Common Representative of the noteholders.

Preliminary Statement

In the absence of resolutions by the noteholders, the Common Representative, Francesco Pensato, lawyer, has independently attended to the establishment of an office at his own professional Firm in Milan, 5 Via Brera, with the aid of a secretary and advisors for the performance of the activities connected to the examination of the regulations and documents relating to the Issuer and notes, the calling of meetings, the attendance at shareholders' meetings, relations with the Issuer, etc.

The establishment of the aforementioned office was necessary in order to allow the Common Representative of the noteholders to adequately fulfil the tasks attributed to him by the law. He has the obligations, rights and powers generically set out in articles 2415, 2418 and 2422 of the Italian civil code, all provided to protect the noteholders' common interests.

1) Activities carried out by the Common Representative of the noteholders.

1.1) The Common Representative's office has obtained Telecom Italia S.p.A.'s financial accounts and consolidated balance sheets relating to the years 2004, 2005 and 2006 for the purpose of examining and evaluating, in relation to each year, the balance sheet, the income statement and explanatory notes – as well as the quarterly and six-monthly reports, operations of extraordinary administration, documents that can be consulted on the Issuers' websites www.telecomitalia.it and www.telecomitalia.com.

1.2) The Common Representative has organized an area on the Issuer's website dedicated to the noteholders (<http://www.telecomitalia.com/noteholdersrepresentative>).

The area has five Subsections: an Introductory Note, an Interactive Section, a Section dedicated to the Issuer's consolidated economic-financial data, a Section dedicated to the individual loans and an Explanatory Section.

The Interactive Section offers the noteholders the possibility of being continuously updated via fax, sms and email on the main activities relating to the Telecom Italia Group, on any information concerning the notes held and on economic-financial press releases.

The Issuer data Section allows the noteholders to gain information on the Issuer's situation. This subsection contains all the documents on the subject that can be consulted: annual financial accounts and six-monthly and quarterly reports, credit analyses – the Issuer's rating, auditors' reports, indication of the consolidated indebtedness (highlighting the debt to banks and to noteholders), financial and industrial strategy already made public by management. Furthermore, the Common Representative has prepared a synoptic table containing the basic balance sheet data that may help the noteholders to reconstruct the development of Telecom Italia's consolidated financial-economic position from the time the notes were issued. The synoptic table can be found in the area dedicated to economic-financial data.

The Section dedicated to individual loans offers the investor a comprehensive overview of the documents regarding individual issues (for example, issue and listing prospectuses and related

updates, governing rules, decrees of appointment of the Common Representative, notices of meeting calls, illustrative reports, etc.).

The Explanatory Section is aimed at supplying the noteholders with fact-finding and interpretative tools useful for understanding their investment.

1.3) The Common Representative has constantly and continuously looked after relations with the Issuer, meeting the head of the legal office, financial office and web communications on numerous occasions.

He has maintained high levels of correspondence with Telecom Italia, asking for explanations on information released by the Press (by way of mere example, following the Board of Directors' meeting held on 11.09.2006), on notes issue prospectuses, financial accounts, and requesting documents and explanations on decisions taken by the Board of Directors.

1.4) In April 2006, as in April 2007 (see point 2 below for further information), the Common Representative attended the shareholders' meeting. He also attended meetings between the Issuer and the financial community and conferences calls with institutional investors.

1.5) The Common Representative called the noteholders' meetings, as prescribed by the law, through the publication of call notices in the Official Gazette of the Italian Republic, in national and, depending on the case, international newspapers, as well as on the Issuer's websites www.telecomitalia.it and www.telecomitalia.com.

The quorum required for the meetings was not met at any of the previous calls.

The noteholders can consult the meeting call notices, the explanatory reports of the matters on the agenda, as well as the minutes of the previous meetings called, by visiting the informative section organized by the Common Representative and referred to above at point 1.2), and specifically by visiting the following links: www.telecomitalia.it/prestitiobbligazionari and www.telecomitalia.com/prestitiobbligazionari.

1.6) Furthermore, the Common Representative met numerous technical experts in the economic-financial sector, experts in industrial strategies and experts in communication technologies, thoroughly examining questions linked to the development and progress of these matters. He attended congresses on communications technology, competition and market, and organized some technical meetings between people and companies operating in the sector.

2) Report on the shareholder's meeting held on April 16, 2007. Relevant resolutions.

On April 16, 2007 the Common Representative attended the shareholders' meeting.

The Common Representative examined Telecom Italia's financial accounts and consolidated balance sheet, and met the financial officers to get explanations on the main issues.

With formal written correspondence, he asked for explanations on the Board of Directors' proposals at the meeting.

In subsequent communications, the Common Representative also asked for explanations on some questions raised by shareholders during the meeting, also appearing in the transcription of the speeches that noteholders can examine by visiting the following links:

http://www.telecomitalia.it/TIPortale/docs/investor/Verbale_Ass_Ord_TI_16aprile2007corr_def_def.pdf and

http://www.telecomitalia.it/TIPortale/docs/investor/Verbale_TI_16aprile2007_STRAOR_def.pdf.

The speeches of some shareholders, together with the Issuer's replies, are set out here and taken in full from the aforementioned minutes:

“Landi wonders if, had the network been divested from the start, we would still be witnessing what he considers to be the failure of one of the Country's most ambitious liberalizations. He thinks not. In declaring himself a very minor shareholder, as well as the head of Adiconsum, he states that he has followed Telecom Italia for 20 years. He therefore wonders if the management of this large service business has been positive, as stated in the “Shareholder's Guide” distributed in the entrance hall, which reports something more similar to a Guinness record. On the other hand he believes that, in the eyes of the common people, the picture is very different. In the first place, the share price has gone from ten euros to little more than two, causing great damage to savers and creating a big business for shareholders of cascade companies - the so-called “Chinese Box” companies. In the meantime there has been an enormous delay in the investments, with particular reference to broadband, which is the future in this business. This is because the indebtedness has not been used to make investments, but to pay the “Chinese boxes”.

Coming to the quality of the services, he remembers having reported the problem two years ago, pointing out the customers' alienation from Telecom Italia caused by the charge on the bill for un-requested services and the delay in line connections and repairs to a universal service, despite the presence of specific regulations.

Telecom Italia's only strong point – he stated two years ago – was the lack of serious competitors on fixed lines. The much-publicized new products have become the joke of television programmes, with a serious crisis of credibility in customer relations, whilst the maintenance has been outsourced, with results that he judges disastrous in terms of management and quality of service.

Telecom Italia is a large service business that has transferred its real estate properties and now has its productive services structure in leasing. He believes that the sale of the assets even occurred with a conflict of interests, but this circumstance was not mentioned in the very long Board of Auditors' report read at the start of the meeting.

The shareholder notes that nobody had understood at the time the reason for the merging of Telecom Italia – TIM, which we now discover has produced the only result that a company that was doing well, and which did not have customer relation problems, today has them, as does all of Telecom Italia, with heavy employment consequences and well-known problems linked to wire-tapping activity, which has landed the managing group with a serious credibility problem. It either didn't know this, in which case it should step down, or if it did know, it should assume the responsibility for it.

After this general digression on the management of Telecom Italia, the shareholder asks how they can justify the high management remunerations and stock options, when confronted by a result that he judges as a failure. He also deems fit a closer examination of possible areas of conflict of interest both in relation to the transfer of assets and real estate property and in relation to the payment of 90 million euros to providers of added value services, made despite the condemnation from the Authority. He states that he does not understand this choice, just as he does not understand – in relation to the ethics code – the distribution of pornographic contents.

As regards the separation of the network, he wonders if this may be an effective solution, taking into consideration the new technologies also mentioned by Grillo. Moreover he believes that this

process of separation must be favoured, creating true competition. He believes that up until today Telecom Italia was not interested in investing on the network because, by doing so, it would also give an advantage to the competitor: hence the lack of those investments which, had they been made, would mostly likely have resolved many of the problems stated today. He therefore asks which standpoint the Board of Directors intends to take on this subject: cooperation or resistance and opposition.

Given that significant investments are required to develop broadband, he asks where the necessary resources will be found. He asks if foreign buyers will supply them, or if they will launch a new speculative financial operation, to the detriment of the Country, the shareholders and the consumers. In the shareholder's opinion the real problem is the industrial plan, about which he knows very little: the prospects of the "Chinese box" shareholders (who protect themselves) are not the problem, but those of the saver shareholders.

In relation to the problem of the quality of service and the charges on the bill for un-requested services, the shareholder holds the opinion that Telecom Italia deserves a prize for incorrect commercial practices. He therefore invites the company to undertake some initiatives, fearing that this phenomenon may have a considerable impact on the financial results. By way of example, he mentions the experience of a relation who received substantial charges for Internet services that had never been used and which have been improperly ascribed to the Company's revenues. Action is therefore required to restore creditability to the Company and regain the trust of both the shareholders and the customers."

Telecom Italia had the following response:

"The Chairman, in response to Landi, returns to the matter of un-requested services, to remind the meeting that Telecom Italia has set up a "satisfied or reimbursed" procedure, started up in October 2006, following an agreement signed with the Consumers' Association. A free phone/fax number has been activated to which residential customers can send their claims. The introduction of this procedure allows an effective check on marketing activity, limiting the instance of un-requested services to a percentage of cases that can certainly be defined as physiological.

With regard to Top Management remunerations, he points out that the executive directors' pay and the general guidelines for top management compensations were suggested to the Board of Directors by the Committee for remuneration, on the basis of closely examined benchmarks made by primary sector companies specialized in executive compensation. As regards the stock options, he emphasises what has already been stated, which is that the plan being examined by the meeting today is a plan of free share allocation subject to the attainment of challenging three-year goals of the total shareholder return of Telecom Italia. The stock option plans, the last of which was approved in 2002, are reserved for employees and not the executive directors. He adds that Dr. Ruggiero, as General Manager, is the holder of 200,000 options of the 2002 Plan with an exercise price of 2.788053 euros: yesterday the remaining options granted in 2001 to the same Dr. Ruggiero were forfeited. He further adds that during 2006 there was no record of options being exercised by managers with strategic responsibilities in the company.

He then returns to the matter of the network, to stress again that Telecom Italia wishes to actively collaborate with AGCOM and has already begun to do so from last November.

In recent years, he continues in response to Landi, considerable investments have been made on the network. The total amount of the investments has consistently been above 5 billion euros, and this

trend has been confirmed in the industrial plan 2007-2009. The technical investments are essentially stable and total approximately 3 billion euros, of which 1.8 billion euros for the network, 0.4 billion euros for field services, 0.6 billion euros for information technology and 0.2 billion euros for the equipments. In terms of realization capacity arising from this level of investment we should consider that it is growing because of the recognized fundamental skills of the Group, which are the following. In the first place, the Group makes use of technological innovations which allow, with increasing speed, the replacement of network components with innovative technologies and systems that, functions being equal, considerably reduce the necessary investment, and this is true for the investments in equipment and electronic systems. Secondly, the Company makes use of competition in purchase tenders, which are carried out in a global context among telecommunication suppliers, with highly competitive purchase procedures that allow purchases to be made at much lower prices than those of the recent past. The third factor goes back to the adoption of integration strategies between fixed and mobile networks, a project initiated at the end of 2004, with a progressive increase in the level of synergy, allowing a growing number of technical infrastructures and service platforms to be placed as a common factor. Therefore these factors, together with the confirmation of the above-mentioned levels of investment, allow the Company to maintain its service platforms and to renew them in accordance with market requirements.

As for the request (still by Landi) for a close examination of the industrial plan, he reminds the meeting that the 2007-2009 industrial plan was approved by the Board of Directors of Telecom Italia on 8 March 2007 and submitted to the financial community on 9 March. The documents that explain and describe its basic assumptions are public and are available on the Company's website."

“Quintarelli is sorry that the Meeting is not broadcast via web-cast. Making reference to the Chairman's presentation at the start of the meeting, he is confused by the hurried manner in which the Company's current positioning and strategic evolution were examined. The aspects considered were related to market macrotrends and relations with competitors from which three guidelines were derived: focusing on the core business, growth in related and innovative markets and pushing international business. He complains that he would have expected more in-depth consideration of the great technological discontinuities that are occurring and that he deems fundamental in the course of an analysis of the strategic evolution beyond the short-term. He reports that a meeting on the future of telephone operators was held at the International Communication Union in Geneva at the start of the year : by now there is little doubt that the vertically integrated structure of the telephony business is about to wane. There was a time when the telephone service was one and the same with the network, but the arrival of the internet protocol and the evolutionary push of consumer electronics has revolutionized the outlooks. Telephony is now divided into two layers: the transport of bits and the telephone service. This is now a service like many others that is above the level of bit transportation. Therefore vertically integrated telephony no longer exists and telephone, web and email services are either out of the area of operator centralized control, or they are offered by the operator at zero cost. Forcedly recreating vertical integration, with closed services, is, according to the shareholder, contrary to technological evolution, in addition to being prohibited by the laws that govern obligations deriving from interoperability. If one then considers offering voice services at zero cost (as is inferred by some advertising which in his opinion is of dubious legitimacy), the shareholder wonders where the Company will earn. He doubts, taking into consideration the same official Company presentations, that the solution of offsetting the drop in

revenues and margins of telephony by selling contents may work, essentially, as he believes, for the arrival on the market of a player of the pipeline with strong contractual power, namely the contents owner. He observes, however, that the first offers of this type date back to 2003, but until now the management, who certainly has access to numerical data on the efficiency of the initiative, has never communicated these data to the shareholders. To sum up, taking into account the regulatory obligations on the subject of access to the network, interoperability and anti-trust law, taking into account the disappointing margins deriving from the sale of contents, taking into account the price of telephony that is going down to zero (whereas Telecom Italia is a company that, compared to the European scene, according to the Economist, is among the most dependent on telephonic traffic), the shareholder asks what strategy the Company is thinking of adopting to manage the situation arising from the technological evolution.”

“**Sergio Cusani** reports that Banca della Solidarietà, together with the Auditing Company Practice Audit, were engaged by the Sindacato dei lavoratori della Comunicazione CGIL (National Communication Workers Union CGIL) to carry out an economic and financial analysis of the accounts of the Telecom Italia Group from 1999 to date. This analysis led him to the question that, as an individual shareholder, he subjects to the attention of the meeting.

In the first place he comments on transactions performed with related parties, described in detail in the financial accounts, limiting himself to some contracts implemented with the Pirelli Group. They seem inconsistent and in contrast to the autonomous and independent management of a large industrial group such as Telecom Italia: with regard to this, he mentions the contracts relating to real property services and IPR - Intellectual Property Rights (brands and patents). By reading the relevant financial statement it becomes unequivocal that the Pirelli group managed to sign a series of contracts with Telecom Italia for the supplying of services that Telecom Italia should be able to perform independently, with its own structure. This feature is symptomatic of the power that Pirelli has over Telecom Italia in virtue of the proprietary structures: in the event that Pirelli leaves the control of Telecom, as recently commented upon by the media, he asks the current Board of Directors, the former Chairman Guido Rossi who approved these financial accounts, and the independent directors to clarify the length of the individual contracts existing, the relative annual cost, possible penalties for advanced termination, possible effects on the organization of Telecom Italia. He asks if the Board of Directors has taken all this into account.

Cusani then goes on to examine the topic of the classification of the revenues. He explains that, in drafting the balance-sheet, the proper indication of the revenue items is an extremely important element, as the financial community considers it a highly sensitive datum for the purpose of its analyses. The revenues of the telecommunication services are recorded in the Telecom Italia financial statement gross of the share due to third party operators. The amounts on the 2006 financial account are: gross revenues 28.8 billion euros, revenue shares to be transferred to other operators recorded as costs for supply of services of 5.7 billion euros. The aforementioned classification may not be in line with the international accounting principles, which provide that the substance must prevail over the form. Following the approach of substance over form, the net revenues for the supply of services would be recorded on the financial accounts for an amount of 23.1 billion euros compared to 22.7 billion euros in 2005, highlighting an actual growth rate of 1.86%. On the other hand the Company, recording gross revenues for 28.8 billion euros on the balance sheet, against the 27.5 billion euros of 2005, shows a growth rate of 4.78% higher than the actual growth rate. The lower growth rate arises from the fact that the shares of revenue due to third parties have grown by 20%, passing from 4.8 billion euros in 2005 to 5.7 billion euros in

2006, whilst the gross revenues have grown by only 4.78%. The shareholder then asks why the revenues for the supply of services are not recorded net of the items not due to the Company and, in the case in point, of the shares of revenue that, due to contractual agreements, must be transferred to third parties. He adds that, for 2006, Telecom Italia paid AGCOM an annual contribution (to be calculated on the revenues recorded in the last approved balance sheet) of approximately 23.9 million euros, calculated applying certain parameters on the net revenues of 23.1 billion euros. He asks therefore if that contribution should be calculated on the net revenues or the gross revenues and asks if the calculation applied to settle the contribution is consistent with the classification system for revenues used by the Company.

Moving on to another topic, the shareholder reports that a contract provides that Teleleasing, a company currently belonging to the Mediobanca Group, manages the equipment leasing business. Teleleasing buys the equipment from Telecom Italia and leases it to the customer under the full rental formula, with the leasing contracts guaranteed by Telecom Italia, who looks after the fee collection after having acquired the collection rights. Telecom Italia also grants financing for the purchase of the equipment: 229 million euros for medium and long-term and 148 million euros for short-term. The Chamber of Commerce public records show that the managing director of Teleleasing is also a director in Pirelli RE Franchising Holding, attorney for Telecom Italia and director of Tiglio. He therefore wishes to know: the economic grounds of the agreement; why Telecom Italia relinquishes this business, on the assumption that it will produce a margin; why Telecom Italia financed the purchases of Teleleasing for considerable sums; why the managing director of Teleleasing also holds an office in both Pirelli Real Estate and Telecom Italia. He asks, likewise, if this represents a conflict of interests; if there are put and call agreements among Telecom Italia and Mediobanca and Teleleasing; if the whole operation represents a portage.

With regard to the divestment of corporate property, the divestment plan for real estate assets, capital goods and other assets, aimed at the reduction of the debt continued also in 2006 for a transfer value of over 1,300 million euros, against a carrying value of approximately 1,000 million euros. The most important transfers were made in favour of closed-end real estate funds where Pirelli RE held an interest of 35%. The transferred real estate properties are subject to medium and long-term leaseback in favour of Telecom Italia, even for a duration of 30 years as they are fundamental for the continuity of the business.

He asks why in many cases the property transfer values are below the potential market values; if these operations represent a conflict of interests in that the ownership of the funds refers to the banking system that finances Telecom Italia, or in that a related party such as Pirelli RE participates to the capital of the funds in a considerable way.

With regard to the dividends policy, Cusani comments that in recent years Telecom Italia has made "alchemic operations", distributing dividends in amounts above the generated income in years that suffered losses. A historical study of the payout ratio shows that the Company favoured the maximization of the remuneration of the risk capital over supporting the other productive factors (investments in particular). He suggests that to the contrary the distribution policy should take into account the need to maintain considerable investments, adopting the same criteria adopted by Fiat, namely the distribution of the dividend at 25% of the net income starting from 2007, whilst for 2006 he suggests distribution at 50% of the net income (equal to 2 billion euros) instead of 67.8% (equal to 2.8 billion euros), as suggested by the Board of Directors.

Lastly, the shareholder addresses the fourth matter on the Meeting agenda, regarding the plan of free allotment of own shares (the shareholder defines it as a stock option), subject to authorization for the purchase of a maximum of 25 million ordinary shares, equivalent to approximately 60

million euros at current stock market values. After having summarized the basic characteristics of the plan, the shareholder observes that over the years Telecom Italia has already launched a series of stock option plans, some however, for all intents and purposes, could not be exercised due to the collapse of values on the Stock Market. The ploy of this new plan is in the gratuitousness of the allotment: essentially, he states, it is a gift to the beneficiaries. In relation to this, he complains that the gratuitousness of the allotment to the beneficiaries is most unusual, whilst the advanced allotment (in the event of the beneficiary's exit or revocation) using the pro-quota calculation method appears to be in clear contradiction of the declared purpose of fidelization. For these reasons he asks the meeting to reject the proposal. Finally, he delivers the text of a further question concerning the assignment of debts and the factoring."

Telecom Italia had the following reply:

"Dr Buora then addresses the questions put by Sergio Cusani.

First of all he specifies that, in compliance with the international accounting principles, the revenues from telephone traffic for interconnections or roaming are recorded gross of the shares due to the other telecommunications operators. In particular, in the absence of a specific definition of the subject in the IFRS (International Financial Reporting Standards), it is necessary to refer to the U.S. GAAP (Generally Accepted Accounting Principles), and in particular to the EITF (Emerging Issue Task Force) 99-19 (reporting revenue gross as a principal versus net as an agent). Therefore, Telecom Italia has classified the telephone traffic revenues gross of the shares due to third party operators as, on the basis of the mentioned EITF criteria, among other things:

- the credit risk is its responsibility;*
- it is the first debtor in the contract with the customer;*
- it has discretionary power in establishing prices and rates, in the scope of the regulatory context;*
- it can change the offer or perform part of the service;*
- it is involved in determining the product specifications and services provided.*

As for operations with related parties, he mentions that, on the organizational level, activities and services can be carried out within ("make" option) or entrusted outside ("buy" option), usually to specialized providers able to ensure excellent services, often better than those that can be obtained by using internal resources.

Under this profile Telecom Italia's choice was to focus on its own core business, entrusting to specialized third parties tasks that they can perform better than the Company.

There is then the theme of relations between related parties under the profile of corporate governance. These relations, he remembers, are not prohibited, but simply they require that special precautions are respected, aimed at ascertaining their fairness, in order to avoid that these relations are governed under improper conditions. In relation to this, Telecom Italia has specific principles of behaviour and a special procedure. Telecom Italia has chosen to submit to the top administrative body, namely the Board of Directors, all the transactions with related parties that were not typical, usual or under standard conditions, that is to say: all the operations considered "unusual" either for the object or the conditions applied. Insofar as those principles and procedures are respected, and therefore the profile of fairness of the relationship is defended, there is not reason not to turn to Pirelli and the companies of its group, if they are able to ensure excellent services. And, he concludes, Pirelli was able to ensure excellent services relating to IPR.

Continuing on this theme, Dr Buora stresses that contracts with Pirelli have always been executed in respect of the special principles and procedures that Telecom Italia has chosen to adopt. These

principles are aimed at ensuring fairness in the relations with these qualified counterparties. It follows that no member of the Board of Directors needs to worry today about the Pirelli's exit from Telecom Italia's shareholding (remembering that in any case it is an indirect shareholder), and this is simply because with Pirelli, Telecom Italia over time signed contracts that are fully comparable to those concluded with different suppliers and counterparties.

With regard to the annual contribution to AGCOM, he specifies that Telecom Italia, in implementing the AGCOM deliberation on "measures and methods of payment of the contribution due to the Authority to guarantee communications", considered as a taxable base – for the purpose of the contribution referred to under article 1, subsection 66, law 23 December 2005 no. 266 - the revenues net of the share reserved to third party operators.

The Chairman, still replying to Cusani, examines the issue of Teleleasing, and reminds the meeting that Telecom Italia sold 80% of that company to Mediobanca in 2000, maintaining the remainder share of 20%, as it does not come within its core activity. In the scope of the overall agreements relative to this sale, the Company also signed a marketing agreement on the basis of which Telecom Italia provides the goods, typically equipment and switchboards, and sells them to Teleleasing, who in its turn offers them for lease through Telecom Italia's sales network. The Managing Director of Teleleasing does not hold positions in Telecom Italia. There is nothing for him to comment on in relation to the fact that the same Managing Director holds positions in companies of the Pirelli group. Telecom Italia, he concludes, does not finance Teleleasing's investments.

The Chairman comes back to the theme of the transfer of the real estate properties, and stresses that all the sales of assets made by the companies of the Group were made under market conditions for the specific type, and validated by surveys carried out by leading companies in the evaluation of real estate including CB Richard Ellis for the most part. As regards the conflict of interests with Pirelli Real Estate, he also stresses that the relevant divestments were treated as operations with related parties and that therefore they followed the procedure provided by the Group's corporate governance system to protect the Company's interests, also in relation to potential, and not current, situations of conflict due to the presence of related parties in the transactions being spoken about.

Dr. Buora returns to Teleleasing and reminds the meeting that Telecom Italia is not a legal subject authorized to perform leasing activities that, as is well-known, is an activity reserved for financial subjects. However, leasing is believed, and not only recently, to be a synergic instrument in commercial activity oriented towards the business segment of the Telecom Italia customers. Telecom Italia, he repeats, sold 80% of Teleleasing to Mediobanca in 2000; at the time of the sale a marketing agreement was signed on the basis of which Telecom Italia provides the goods, typically equipment and switchboards, and sells them to Teleleasing, who in its turn offers them for lease via the Telecom sales network.

There are no put and call agreements with Mediobanca in relation to the holding in Teleleasing. He also acknowledges (still in answer to Cusani) the suggestions for the distribution of the dividend relating to 2006. He points out that in future Cusani must put his suggestions to the relevant meetings as they are called.

As for the comments on the stock option plan, he reminds the meeting again that the plan being voted on today is not a stock option plan, but a free allotment of shares subjected to the attainment of the total shareholder return objectives, taking into account the comparison with the Dow Jones Stoxx TLC Index. The international benchmarks indicate the progressive spread of this kind of instrument as a replacement of or in addition to stock option plans. The total shareholder return (that is the trend of the share added to the dividends of the period) is chosen as a performance parameter because this parameter forms the best way of adjusting management interests to those of

the shareholders. The extent of the shares allotment proposal was defined on the basis of the total compensation benchmark that the company had specialized companies perform. The purpose of management retention is not therefore the only purpose of the proposed plan. The anticipated cases of advanced allotment are in any case residual compared to the possible grounds to terminate the working relationship with the Group: for example it is not anticipated in the case of resignation or termination of the relationship at the initiative of the company.

Furthermore, he refers to the “securitization” item, in order to point out that during the first six-months of 2006 commercial credits were assigned via the securitization programme: these credits refer to services rendered to consumers and micro-businesses with regard to fixed telephony. In the second half of the year credit transfer contracts of the same type as the aforementioned securitization operation were undersigned; in addition, credits due from the Public Administration, local health units and TIM dealers were assigned. The cost of the securitization, consistent with the market conditions for the type of credit assigned, was 55 basis points above the euribor in 2006. The average cost of the other factoring operations was equal to 1.41% of the nominal value of the credits assigned with a certain variability owing to the type of operation and the target of the accounts receivables assigned. Finally he reminds us that the goal of the factoring operation is, among other things, to optimize the internal processes and structure of the working capital, freeing up resources designated for business development. The cost of the credit risk can be calculated at approximately 0.24% on euribor rates mix (1, 3 and 5 months) relative to the ex-securitization credits, whilst for the other transfers the cost was equal to approximately 0.7% above the euribor at 3 months.”

“Tarditi expresses appreciation for the previous management as well as the current, who had to face difficult situations. He then states that the absolute value of the goodwill is too high, considering that 40 billion euros is the equivalent of the entire Stock Market capitalization of the Company; this sum should be lowered in relation to past years, as – in his opinion – there is a progressive loss of value due to greater competition, the increase in the restrictions imposed by the Authority, the increased Government interventions and the impact of the elimination of the recharging costs, as well as the anticipated interventions on the separation of the networks, all factors that progressively reduce the Company’s ability to generate profits. The shareholder believes that the need to reduce the goodwill value has become even stronger with the merging of Tim, in that the goodwill of the latter company has been incorporated into that of Telecom Italia, but at values that are too high, considering the share exchange rate applied in within the scope of the merger and the current value of the Company’s stock. Furthermore, the merger has increased the indebtedness, weakening the Company’s power and therefore its business potential, as expressed in the goodwill. In his analyses, the shareholder specifies that he had not considered a progressive and inexplicable ill-will of the institutions towards the Company, that even he has verified lately. Whilst before the adoption of the European accounting principles the progressive lowering of the goodwill value translated into depreciation, with the new standards it is necessary, in his opinion, to carry out an annual depreciation of approximately 5-6% through the impairment test, and this also to be consistent with the fiscal limits relative to the depreciation. The shareholder believes it is urgent to proceed as described, considering that this move will progressively produce more transparency on the market with a fairer ratio between capitalization and the book value and a realistic consideration of the net profit created, with the consequent tax saving of 700-800 million euros.

He then believes that the dividends total would be reduced to approximately 1.3-1.5 billion euros parallel to an equal lowering of the net profit due to the depreciation of the asset. With respect to this lowering of the payout, there would be a recovery arising from lower rates, with a net profit that would only reduce by 1.3 billion euros.

Reducing the dividend sum by approximately 1.3-1.5 billion, and operating in parallel an equal reduction of the net profit due to the depreciation of the goodwill, and keeping the payout constant even in future years, we could then reduce the indebtedness to approximately 2.5 billion per year: the shareholder believes that there could be a saving of 2.5 billion per year, divided into 1.3 billion euros of minor dividends paid out, 800 million euros of lower taxes and 250-300 million euros of lower financial charges, to the point where over four to five years a total saving of 10 billion would be reached, and the indebtedness practically lowered to reasonable proportions.

Tarditi then goes on to consider the general advertising approach, stating that three brands to support was too much (Telecom Italia, Tim and Alice), above all in light of the convergence. He also states that the communication is too promotional without a strong impact on the basic concept. The slogan "Vivere senza confini" (Live without boundaries), for example, seems too remiss to him; he believes that the purpose of every communication should depend on rational and emotional value. He believes the historical communicational power of the slogan "il telefono allunga la vita" (the telephone prolongs life), perhaps updating it to the version "il telefono che allunga la vita" (the telephone that prolongs life), should be used and optimized.

Telecom Italia had the following replies:

"In regard to Tarditi's observations, the Chairman emphasises that the goodwill in the consolidated financial statement amounts to 43.7 billion euros. This goodwill is divided as follows (in billions of euros): Wireline: 15.4; Domestic Mobile 26.9; Brasil Mobile 1.2; Media 0.2.

This year, he continues, we again performed the impairment test, in accordance with principle IAS 36, which did not give rise to any depreciation. As specified on page 239 of the report, a sensitivity analysis was carried out on the discounting back rate, which confirmed that in all cases the values in use remain above the accounting values. For the evaluation of the impairment test, the Board of Directors took advantage of the advice of an external well-known professional, specialized in this sector.

With reference to the comments on the Group's advertising, Dr. Buora notes that the apparent crowding of publicized brands is due to the fact that Telecom Italia covers all the telecommunications business segments in Italy (fixed, mobile, internet, portables, contents, directory), which is different to all the other operators who essentially only operate in one market. Outside the emotional considerations and personal enjoyment, from the research of specialized studies (Eurisko) it turns out that the Telecom Italia publicity is the most effective both in terms of enjoyment and in terms of being memorable.

Proof of it is the shareholder's personal memory evoked by the historic campaign "una telefonata allunga la vita" (a telephone call prolongs life). Telecom Italia's last institutional campaign, he goes on, was the Ghandi campaign, an outstanding international success. It has been decided to wait until the end of the media overexposure to which the Group has been subjected in this period to resume the follow-up to that communication. In the meantime, you will have certainly noticed Tim's timely institutional spot on violence in the stadiums, which has recorded a large impact and a high level of enjoyment in both the public and insiders."

“Gianfranco d’Atri announces the wish to integrate the complaint ex article 2408 of the Italian civil code previously submitted by Zola, pointing out that this complaint, setting aside direct regulatory or statutory breaches, wishes to investigate the behaviour of the Chairman of the meeting. He believes that the discretionary power attributed to the same in the management of the Company’s activities cannot be exercised in an arbitrary way, and with regard to this he considers necessary an in-depth analysis by the Board of Auditors, on the basis of any current regulations, for the purpose of ascertaining if, in reality, the Chairman’s behaviour has created an obstacle to the control of the Company by the shareholders, even if no specific regulation has been violated. He then complains of a lack of clarity surrounding Pirelli-Olimpia’s participation in the meeting, which - in aggregate form - would be over the 18% mentioned (estimate nearly 20%). With regard to this, he wishes to know why in the Consob data only Olimpia’s holding is shown without any reference to that of the supposed controlling Pirelli, asking which are the formal and substantial limits of this type of regulatory information. He hopes for greater clarity of information on the shareholders’ holding in relation to this issue.

He observes that, in his speech, the Banca d’Italia did not stop to look at the financial accounts, whilst the Banca d’Italia, as a shareholder – in his opinion – should assume a firmer position.

He mentions Grillo’s prior contribution who, not yet being a large economic subject, could become significant if other shareholders actually joined him and even a Minister of the Republic was to share the positions.

He therefore asks for information on the payment of taxes that, in his opinion, are equal to approximately 46%; he asks why the Company has at its disposal substantial tax credits that cannot be recovered, fearing that perhaps, when programming the transactions and budget policy, the fiscal structure was not optimized. He then goes on to consider the creditors as company stakeholders, believing them to be even more important than the shareholders, since, compared to an overall financial debt of approximately 45 billion euros, the cost of the debt is equal to approximately 5 billion euros, which represents a percentage above 10%. He then asks if, during the years, credits were assigned, asking to know, for the protection of all the shareholders, how said transactions occurred and what percentage the credits were transferred at. In the specific instance he complains that, with respect to the four assignment operations, he never personally received a communication on the assignment having taken place; he hopes for a Company intervention where the bodies to which the credits were assigned are subject to an information procedure and they do not comply.

The shareholder goes on to ask the value of the network that they intend to separate and if an evaluation was carried out; he asks if Pirelli has been made aware of this information, in consideration of a “conjunction of offices”, noting that in this case it would be proper that everybody was made aware of this information.

He asks for a description of the assets that constitute the network and which are the relevant items on the balance sheet.

He then goes on to consider foreign notes, part of which appear to him to be issued according to Dutch law; with regard to this he maintains that the same must be called “bonds” and not notes (obbligazioni), as they do not involve notes equivalent to the Italian securities, but rather bills detained by banks which they have then put back into circulation if necessary. With regard to this, he asks to know if there are securities among the Company’s notes that correspond to a contractual type which is not equivalent to the note (obbligazione) as governed by Italian law. He asks if the Company supplies information to the noteholders’ Representative, in relation to whom he points out the continued lack of compensation for the job; in his opinion, the noteholders’ representative does

not receive adequate information from the Company. He then reminds us of his role of promoter in the process of appointing the same representative, for whom a specific statement had been presented to the Chairman of the Court of Milan. He also invites the above mentioned representative to supply the information that he may have received from the Company.

He asks if the summary list of the balance sheet data of the associated companies was placed in the balance sheet publication, complaining that he did not find it: with regard to this he asks if it is possible to consult the financial statements of the affiliated companies even after the meeting, and even at the Company offices.

The shareholder goes on to ask for a list, even summarized, of the real estate properties, even in leasing, still held by the Company, taking into account the fact that such properties, on the basis of the accounting principles, must be shown in the financial statement; he also asks with respect to the properties that may be in leasing, for a comparison between the rent values, the value of the properties sold and then leased back, in order to verify if the sale followed by leaseback has actually been a favourable transaction for Telecom Italia.

At the end of his contribution d'Atri asks the Board of auditors if it can confirm with certainty that none of the companies held by Telecom Italia should reduce its share capital; he then foretells of the proposal for responsibility action towards the directors, in accordance with the law limited to the events of 2006, distinguishing between the ex Chairman, Dr. Tronchetti Provera, and the subsequent Chairman, Professor Rossi. With regard to the responsibility action, he clarifies that it will concern omissions and not the positive behaviour they have had: with regard to this, he in fact believes that Professor Rossi has behaved extremely badly, demonstrating absolute contempt towards the stakeholders. Taking into account that the same was the Chairman of Telecom Italia and not Tronchetti Provera's attendant, the shareholder believes that his self-certification as the attendant is absolutely unacceptable; in regard to this, he asks that this is reported in the minutes of the meeting so that his contribution can be read to the ex Chairman, who, should he be offended by his words, can go ahead and sue him.

*The **Chairman** intervenes in relation to this and asks d'Atri if he would like to formulate his proposal for responsibility action right now.*

The shareholder replies that he would not."

Telecom Italia had the following responses:

"The Chairman, passing to Gianfranco d'Atri, specifies that, with regard to the composition of the shareholding, the publicity obligations only concern, in accordance with the Consob Rules for Issuers, holdings above 2% whilst the holdings of the company of the Pirelli group, as far as he knows, are below that threshold.

The credit recovery actions, he continues, are always based on the nominal value of the credit increased by the legal interests. Credit recovery activities take place through internal personnel contacting debtor clients. Telecom Italia does not assign the credit, but entrusts the recovery of the credits to external companies only after the relationship with the customer has been brought to termination due to the delay in payment. This company is expressly prohibited from asking for sums above the capital sum and legal interests to be paid by the debtor party. As for the warning made by the shareholder, Dr. Buora invites the same to provide further details for the purpose of performing all the necessary checks and being able to respond in the shortest time possible.

Still in reply to d'Atri, he states that the Group's actual tax rate is equal to 46% and is composed as follows: Ires (corporate tax) 36% (up three percentage points compared to the nominal rate of 33%

for non deductible costs and charges), Irap (Italian regional tax) 10% (the Irap rate of 4.25% is calculated on a larger taxable base than Ires). The activities for advance taxes recorded in the financial statement constitute deferred deductible items, and will already be mostly used in the year 2007.

With regard to the value of the network, about which the shareholder also asked for information, he emphasises how it is not possible to identify a precise value at this time, as the network is not currently a separate company and therefore it is not possible to give an answer to this question, which has come up several times. However, some quantitative and qualitative elements can be supplied which may assist whoever wishes to get some practice in this activity. In relation to the access network perimeter, it can be noted that, even if the orientation of the Telecommunications Authority is not yet well-known, it is likely that the perimeter of the assets that form the "network" includes the traditional copper cables network, the more innovative optical cables network, the laying infrastructures (canalization, tubing and rows of poles) and all the external and internal connection termination elements (division and exchanger cabinets). In addition to these resources the possibility of even assigning the electronic elements that form the new generation broadband network is under discussion, in that this network will considerably change the formulation of the international regulations in the sector. In any case, the contacts that they have today with the Authority seem to confirm that the model that will be recommended will be that proposed by the Company, which will keep the ownership of the network firmly within Telecom Italia, so that the network will become a separate operational division, with transparent governance and a way of accessing its resources that will be the same among the market divisions of Telecom Italia itself and the other operators.

As for the network activities and installations, he notes that activities of the aforementioned perimeter employ approximately 30,000 resources that perform activation and repair of the services supplied to clients and engineering activities for the development of the infrastructure. The network is an extremely important asset: approximately 105 million km of copper connection wires, approximately 4 million km of fibre optical connections, as well as 20,000 km of canalization, approximately 9 million poles with an aerial trace of over 250,000 km, 10,000 plants of which 60% have ADSL technology, 15,000 sites for mobile coverage (55% of which have UMTS technology), a network of backbone data with a capacity of over 600 billion bits per second (Gbit/s) that doubles approximately every 18 months, a network of 10 large data centres with the availability of the most modern information structures for the application of the company information systems and for innovative offers to the business market.

The debt instruments issued by the foreign controlled companies, Telecom Italia Finance and Telecom Italia Capital, are unconditionally guaranteed by Telecom Italia S.p.A. and correspond to the "obbligazioni" according to Italian law, in English notes or bonds. The law applicable to the notes issued by Telecom Italia Finance is the English law, whilst the law applicable to the notes issued by Telecom Italia Capital is the law of the state of New York.

Still in reply to the questions put by d'Altri, the Chairman, furthermore, confirms that the noteholders' common representative receives the same information that the Company makes available to the market, like the periodic reports and press releases, and is invited to various presentations directed at analysts and investors such as for example the Investor Day on 9 March. Upon his request, avv. Pensato also receives the internal press digest so that he can easily gain access to the media's opinions and thereby get a complete informative picture. Furthermore, avv. Pensato has over time had meetings with the Company management for explanations, during which clearly no information other than that available to the public was provided.

To do so would be to violate the market abuse regulation, and would be illegitimate.

After having mentioned that the list of the main holdings of the Group is shown in note 48 of the consolidated balance sheet from page 332 to page 339, Dr. Buora states again that, in reference to the real estate properties sold to the Raissa and Spazio Industriale funds from December 2005 to December 2006, the information requested can be summarized taking into consideration that we are speaking of approximately 1,280 properties. In summary, Telecom Italia sold approximately 1,279 properties for a total sale value of approximately 1 billion and 13 million euros and a total annual rental of approximately 83 million euros. There are two properties strictly in financial leasing for the use of Telecom Italia; the total opening value of the leasing is approximately 71 million euros, with an annual leasing rent of approximately 9.6 million euros.

*At this point, having finished replying to d'Altri, the **Chairman of the Board of Auditors** confirms that, in reference to the request to know if any of the Group's companies finds itself in the conditions referred to in article 2447 civil code (reduction of the capital below the legal limit), at 31 December 2006 none of the companies of the Telecom Italia Group find themselves in this situation.*

As for the complaint ex article 2408 of the Italian civil code submitted to the Board of Auditors during the shareholders' meeting by Pierluigi Zola, to whom Gianfranco d'Atri is associated, requesting a verification by the same Board of the lawfulness and legitimacy in light of the current by-law provision and meeting regulations on the methods of carrying out the discussion, namely jointly for all the points on the agenda of the ordinary part, he states that the Board of Auditors acknowledges the formulated complaint."

Considered as a whole, the explanations requested by the Common Representative concerned:

- the balance-sheet item "Goodwill";
- the balance-sheet item "Risk fund and charges";
- the distribution of dividends;
- the reduction of the indebtedness;
- the funds for investment;
- the sale of properties;
- the industrial strategies and projects;
- the margins of the productive segments;
- the cash-flow.

Taking the aforementioned into consideration, which will be more closely reported and examined during the meeting, and considering the outcomes that will result from the discussion, the noteholders will be able to formulate proposals, and consequently deliberate upon them.

3 activities to carry on:

- 3.1. appointment of a group of experts for the selection of the information to be published on the website section organized by the Common Representative of the noteholders and for the organization and coordination of a web forum dedicated to the noteholders;*
- 3.2. determination of the criteria for possible appointments to evaluate the economical and financial situation of the Issuer and its Group and transactions announced or implemented by the Issuer and/or its Group;*

3.3. proposals on further activities to carry on, aimed at full defence of the common interests of the noteholders;

3.1) Previous point 1.2) described the web area organized and coordinated by the Common Representative, published on the Issuer's website, entirely aimed at creating an easy flow of information for the noteholders.

This informative activity may be carried out even more efficiently with the aid of a group of experts in the economic-financial sector who, acting in agreement with experts in the sector of communication technologies, would attend to the selection of the technical information of greatest interest.

These experts may if necessary become promoters of a forum dedicated to the discussion of problems and the exchange of opinion useful to the noteholders and suited to their interests.

The noteholders will be able to discuss and deliberate on:

i) the opportunity to assign tasks, and the relative duration and timing of the interventions, to experts in economics-finance, and/or experts in technological communications, so that:

- they select the economic-financial and technical information to be published on the web area dedicated to the noteholders' information:

<http://www.telecomitalia.it/rappresentanteobbligazionisti> ; and/or

- they become promoters of a forum dedicated to the discussion of problems and the exchange of opinions useful to the noteholders;

ii) extent and method for the establishment of the fund necessary to assign the tasks;

iii) delegate the Common Representative, or another person identified by the noteholders, to arrange for all the activities necessary for the assigning of the tasks, as well as the payment of the remuneration of the experts with the fund established by the noteholders.

3.2) Taking into account the above in relation to point 2) on the agenda, the Common Representative believes it fit to have a formal survey drawn up by an economic-financial expert, which will also make use of the advice of an expert in the field of communications technology, to provide the noteholders with an objective picture on the economic-financial situation of the Issuer and the Telecom Italia Group, in the medium and long-term, and for the evaluation of operations announced or executed by the Group, all this also taking into consideration the evolution of technologies and the telecommunications market.

The noteholders will be able to discuss and deliberate on:

i) the opportunity to assign a task to an expert on economics-finance, so that he/she provides advice on the economic and financial situation of the Issuer and the Telecom Italia Group in the medium-term (2010-2011) and/or in the long-term (2019-2022), and on the operations executed or announced by the companies of the Telecom Italia Group and on their industrial projects, also taking into account the prospects in the communications sector. The Common Representative will negotiate the best economic conditions for the assignment of the task in the common interests of the noteholders;

ii) the duration or the timing of the task;

iii) extent and method for the establishment of the fund necessary to assign the tasks;

iv) delegate the Common Representative, or another person identified by the noteholders, to arrange for all the activities necessary for the assigning of the tasks, as well as the payment of the remuneration of the experts with the fund established by the noteholders.

3.3) The noteholders will be able to suggest, discuss and deliberate the opportunity to arrange further informative tools and/or further activity to be performed in their common interest, and the relative procedures.

4. *Fund of the office of the Common Representative of the noteholders, allocation of funds for the activities to be carried on; compensation of the Common Representative of the noteholders.*

4.1) As mentioned above, having examined the disposition of article 2418 of the Italian civil code, in the absence of ad hoc meeting resolutions despite previous calls, the Common Representative considered it necessary to independently arrange, at his own expense, for the establishment of an office in his professional firm, in order to fulfil his duties.

4.2) The Italian law provides that remuneration of the Common Representative is due (article 2417 of the Italian civil code).

In light of the fact that the previous noteholders meetings were not validly constituted, the Common Representative requested the Court of Milan for the appointment of a special administrator, to represent the noteholders in the debate on the subject of the determination of the remuneration and refund of the expenses sustained.

The Court of Milan, with decrees dated February 16, 2007, appointed the special administrator Mr. Antonio Adinolfi of the Milan law courts.

The noteholders will be able to suggest and deliberate on the remuneration of the Common Representative, as well as establish the method of payment of the same remuneration and the refund of the expenses sustained. In case the quorum of the meeting is not reached, the decision will be entrusted to the judiciary authority.

4.3) As regards the activities that the noteholders consider can or must be performed by the Common Representative in future, the same will need to be supported by an adequate funding.

The extent of the funding as well as its constitution and use, for any type of activity, must be discussed and deliberated by the meeting.

The Common Representative of the Noteholders
Avv. Francesco Pensato
