



AI Tech-Assinform

*Assinform 2007 Report summary*

# The ICT market in 2006

6th march 2007

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Special thanks for the important contribution to the present document go to NetConsulting, the company specialising in ICT market research and strategic analysis that has been collaborating with the Association for years in the realisation of the annual Report (*Rapporto Assinform sull'Informatica, le Telecomunicazioni e i contenuti Multimediali in Italia*).

## Section 1

### AI TECH-ASSINFORM

AITech-Assinform is the Italian association of Information & Communication Technology companies and an affiliate of the Confindustria (Confederation of Italian Industry) system.

It was established through the unification of two major industry associations (AITech and Assinform). It has a solid member base of more than 420 companies which cover most of the industry that in Italy counts over 370.000 employees and 25.000 businesses, accounting for 20 billion Euro in revenue (2% of national GDP). It is the major reference point for the Italian ICT industry: ranging from software companies, systems and equipment manufacturers, providers of applications, networks and services to Value Added Service and IT related content providers. It is an important chapter of *Confindustria Servizi Innovativi e Tecnologici*, the Federation that brings together organisations from the vast services sector, which includes businesses that offer services relevant to the innovation and new technology sectors: such as IT, telecommunications, digital media and multimedia content.

Owing to its position, a new configuration and an experience of over 30 years of service, Aitech-Assinform is the focal point for IT businesses looking for appropriate support in order to be competitive and well represented. The association's programmes include a broad range of activities to uphold and represent Members and the interests of the IT sector and to affirm a key role for them in contributing to the growth of the Italian economy.

Coordination of the association's activities is overlooked by the Board led and presided by Ennio Lucarelli. Federico Barilli is Director of the Association and responsible for managing activities, initiatives and programmes, which include:

- dialogue with the institutions;
- facilitating supply and demand to meet;
- monitoring and analysing national and international markets;
- fostering contacts among organisations and companies;
- providing services to members.

One of the Association's primary activities is however monitoring and analysis of the market.

Aitech-Assinform publishes an annual Report - *Rapporto Assinform sull'Informatica, le Telecomunicazioni e i contenuti Multimediali*, a tradition that goes back 38 years - which is firmly established as the most important reference for the status and trends of the ICT market in Italy.

**Following are the primary findings of the 2007 Report (data refers to 2006) which together with the recommendations from the Association will be available on the Internet ([www.aitech-assinform.it](http://www.aitech-assinform.it)): to meet the requests of many users registered in Italy and abroad and to provide a more timely service to its Members.**

## EXECUTIVE SUMMARY

### The it sector steps up growth, but needs more momentum

In 2006 the Italian IT industry continued the positive trend that has been underway since the previous year, whereas the telecommunications market registered a slight decline, and the consumer market continued along the lines of a very strong performance. On the whole however the Italian economy needs a stronger thrust in order to catch up with leading countries. These in summary are the overall dynamics of the Italian Information & Communication Technology (ICT) market in 2006.

The ICT market totalled 64.044 billion Euro, up 2.3% on account of the moderately positive growth registered in both sectors: +2.1% in telecommunications, which reached 44.040 billion; and +1.6% for the IT market which totalled 19.804 billion.

These can be viewed as positive signals since the data reflect similar aggregate values to the previous year's but on a more sound basis, with an IT sector that seems to have recovered the motivation - it would be inappropriate to use the term drive - to overcome the worrying stagnation of recent years.

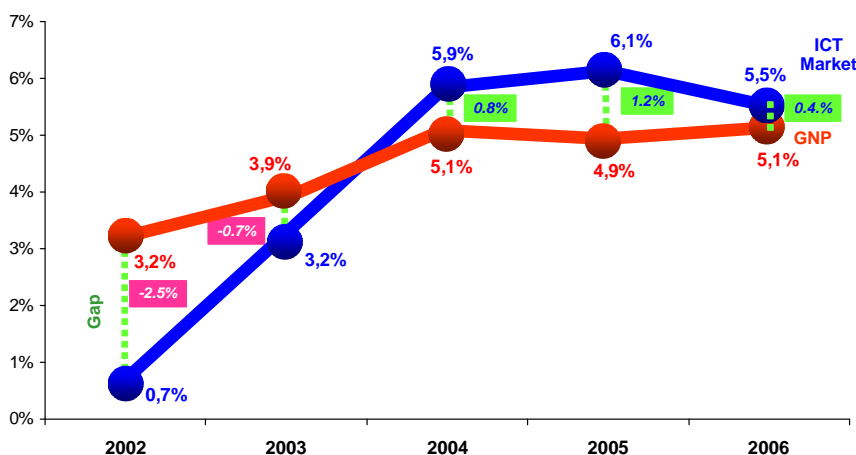
Although the continued strong performance of consumer demand in 2006 is important it was not as significant for the IT sector as much as the modest yet widespread recovery of IT investments across the entire productive system, a fact that is consistent with the current favourable economic situation. In fact IT investments have grown not only among large businesses (+1.3%) and medium companies (+1.7%), but also among small businesses (+0.3%) which on the other hand in 2005 even showed a decline of -1.4%.

This does not change the fact that in light of international trends and due to the clear correlation between investments in ICT and GDP growth there is still much to do for a country that aims at maintaining a primary role on the global scene.

\*\*\*

The year 2006 has been yet another positive year for the ICT sector worldwide, reaching 2,735 billion dollars in revenues. The rate of growth, at 5.5% (resulting from increases in both telecommunications, which grew 5.2%, and IT, +6.1%), has been stronger for the third consecutive year to global GDP growth, which has on the other hand reached the highest levels of the past 20 years.

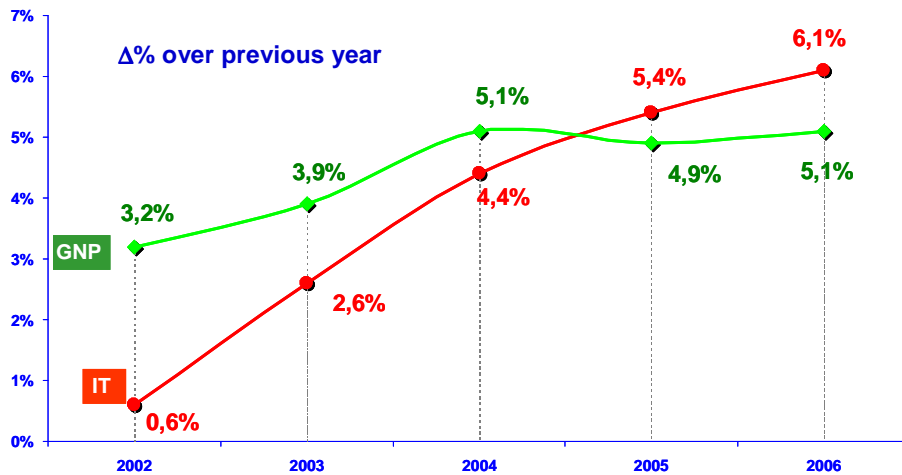
Fig. A – The World ICT market (2002-2006); - Variations in %



Source: AITech - Assinform / NetConsulting

The global economic expansion cycle of recent years owes much of the positive trend to ICT technologies and in particular to the rate of growth in IT investment (fig B.)

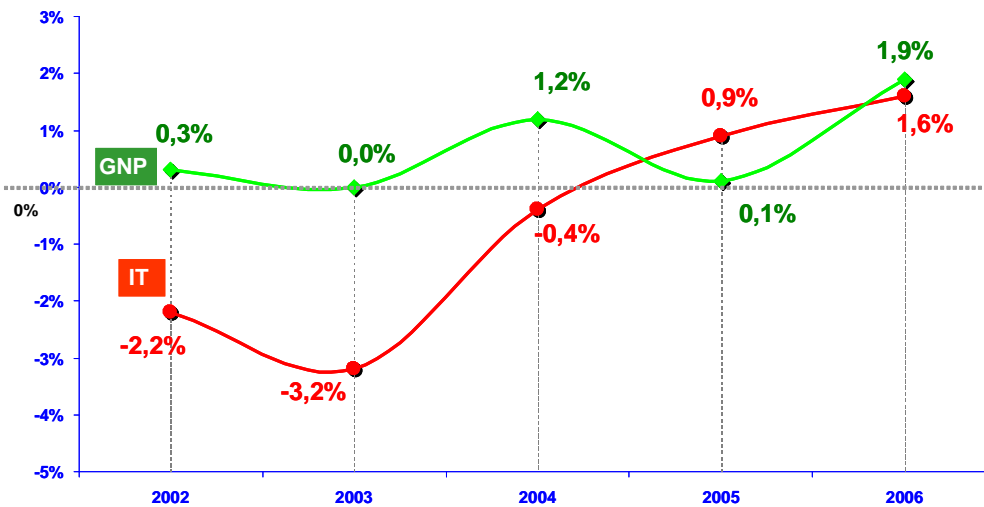
Fig. B – World IT and GDP growth (2002-2006); - Variations in %



Source: AITech - Assinform / NetConsulting

In Italy the IT market value has however had less buoyant performances in recent years. In 2006, the market reached 19.8 billion Euro (up 1.6%) having however grown 2.3 points slower than the European average (3.9%) and 4 points less than US levels. These factors have an inevitable impact on GDP trends (fig. C).

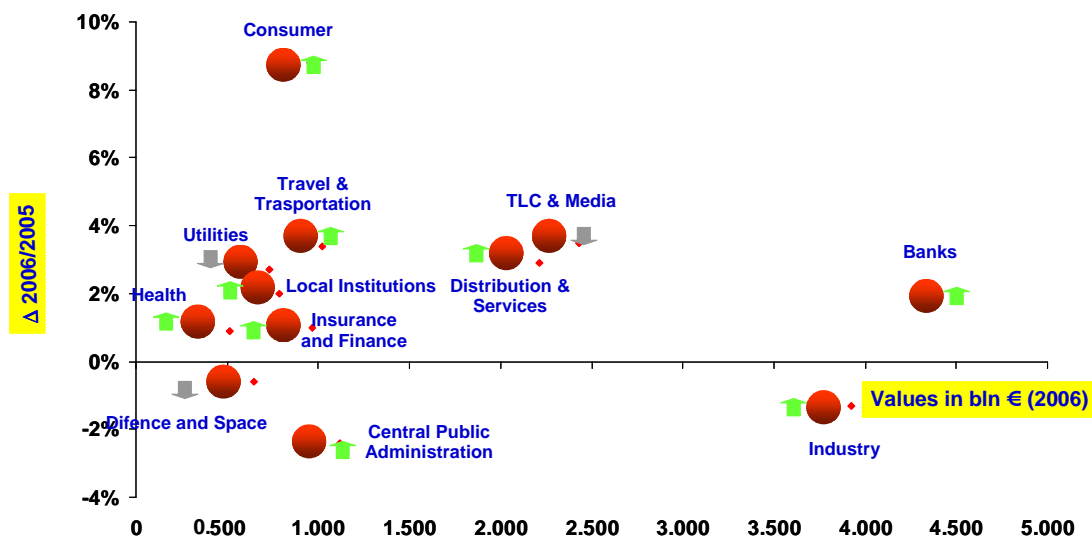
Fig. C – IT and GDP growth in Italy (2002-2006); - Variations in %



Source: AITech - Assinform / NetConsulting

The usual explanation for Italy's ongoing gap – which attributes the responsibility of the slower economic growth to the allegedly narrow-minded small businesses, which account for the majority of the economic system in Italy – is becoming clearly inadequate. Not only because since 2004 the gap in the IT growth rate compared to the rest of the world is steadily recovering: 5.8 in 2003, 4.8 in 2004, 4.3 in 2005, 4.2 in 2006. But also because certain sectors have shown stronger growth, particularly those where businesses have been able to take greater advantage of innovative applications that afford more reliable returns on investment (fig. D).

Fig D – IT market growth by sector; - Values in € millions



Source: AITech - Assinform / NetConsulting

This factor is consistent with the increasingly accredited idea that the cause of slower IT investment in Italy is to be sought mainly in the lack of solutions that address the specific needs of the numerous small and medium businesses.

In order to allow Italian businesses to be more competitive on international markets it would therefore be necessary to set up more favourable conditions for Italian IT companies to invest in the creation of new applications and services, specifically those tailored to the needs of small and medium businesses.

The recovery of the IT sector in Italy is certainly a positive sign in this direction, and it is likely that a new phase may come about due to increasing advantages of the convergence between technology and applications that is becoming ever more apparent.

But it is evident that the acceleration generated by a virtuous cycle in technology innovation would be already at hand if it were accompanied by farther reaching economic and industrial policies and by overcoming the current configuration of the Italian economy which still excludes the Public sector from the market and from real competition.

## Section 2

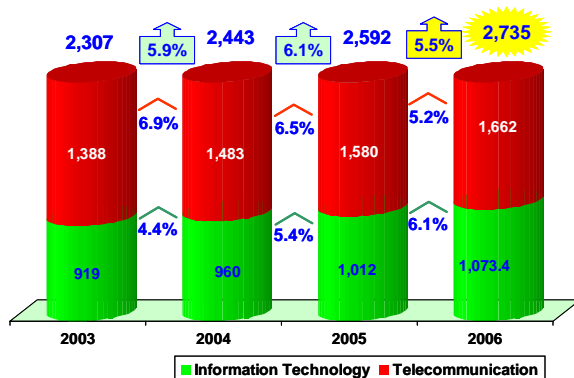
### The World ICT market

The year 2006 has been yet another positive year for the global ICT market, which reached 2,735 billion dollars in value. For the third consecutive year, ICT market growth, at 5.5%, has been higher than global GDP growth, which has on the other hand reached the highest levels of the past 20 years.

Growth has been just a little slower than in 2005 due to a slight downturn in the telecommunications sector, which went up 5.2% as against 6.5% in 2006 on account of tariff reductions which have not been compensated by the increasing rate of penetration and **usage**.

The IT sector on the other hand had a better performance stepping up growth from 5.4% to 6.1% (fig. 1).

Fig. 1 – The world ICT market (2003-2006) - Values in Billion \$ and % variations



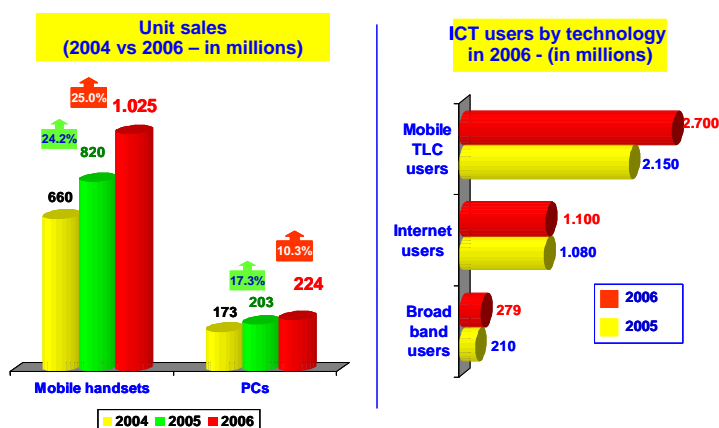
Source: AITech - Assinform / NetConsulting

The aggregation of these values doesn't however show how rapid and widespread new technology is throughout the world and the extent to which 2006 contributed to this. To help put this into focus we must also consider that in 2006:

- 1.025 billion cell phones were sold;
- 224 million PCs have been bought, 10% of which in China;
- mobile phone users totalled 2.7 billion worldwide;
- a census of Internet users has counted over 1.1 billion users (fig. 2).

These figures are in large part due to the demand generated by large emerging countries (Brazil, Russia, India, China) that account for a total population of about 3 billion and have rapidly developing markets.

Fig. 2 – World ICT diffusion indicators - millions of units

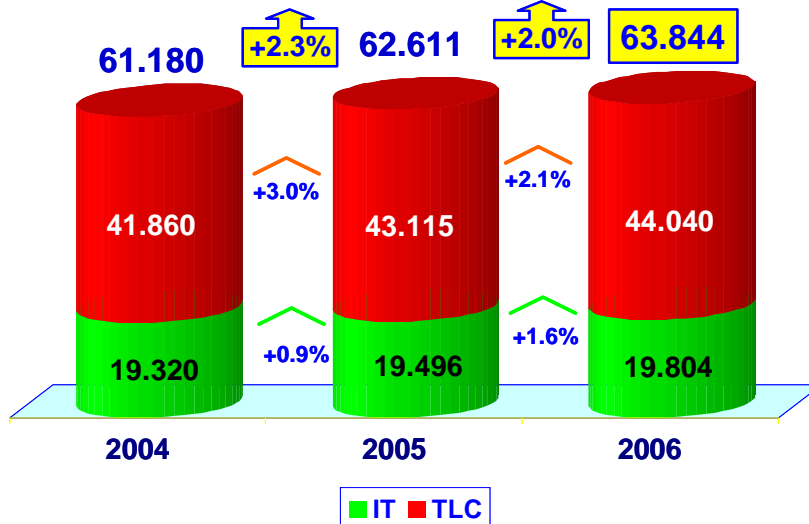


Source: AITech - Assinform / NetConsulting

## The ICT market in Italy

The Italian ICT market (63.844 billion €) has enjoyed similar growth to the previous year, with a gap of 3.5 points compared to the global average, showing a slight drop in telecommunications which went down from 3% to 2.1%; while the IT sector grew 1.6% as against 0.9% in 2005 (fig 3).

Fig. 3 – The ICT market in Italy (2004-2006) - Values in € billions and in %



Source: AITech - Assinform / NetConsulting

This positive performance does not modify the internal composition of the ICT market (64 billion Euro) which sees telecommunications accounting for 69% of total revenue.

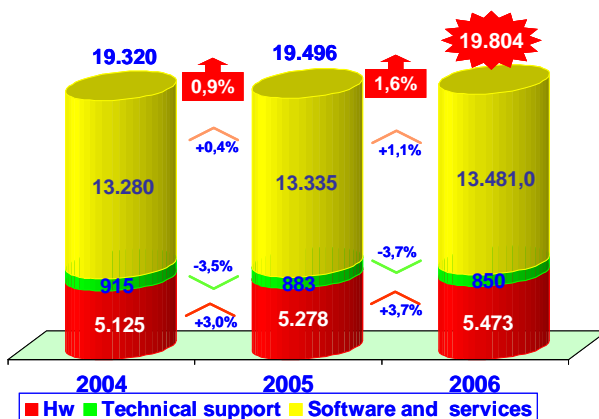
## The IT Market in Italy in 2006

In all major countries the IT market has grown at a faster rate than in 2005, a situation which was confirmed also for Italy that, however, showed a gap of 2.3 points compared with the European average. However this must not be interpreted only from a negative perspective. In fact, the growth rate has stabilised since 2004 and has increased considerably in 2006 reaching the 19.8 billion Euro mark (fig 4).

All major sectors have shown positive trends:

- the hardware sector grew 3.7%, moving in the opposite direction compared to major countries, which on the other hand have slowed down;
- software and services grew at an overall rate of 1.1%.

Fig. 4 – The IT market in Italy (2004-2006) – Values in € billions



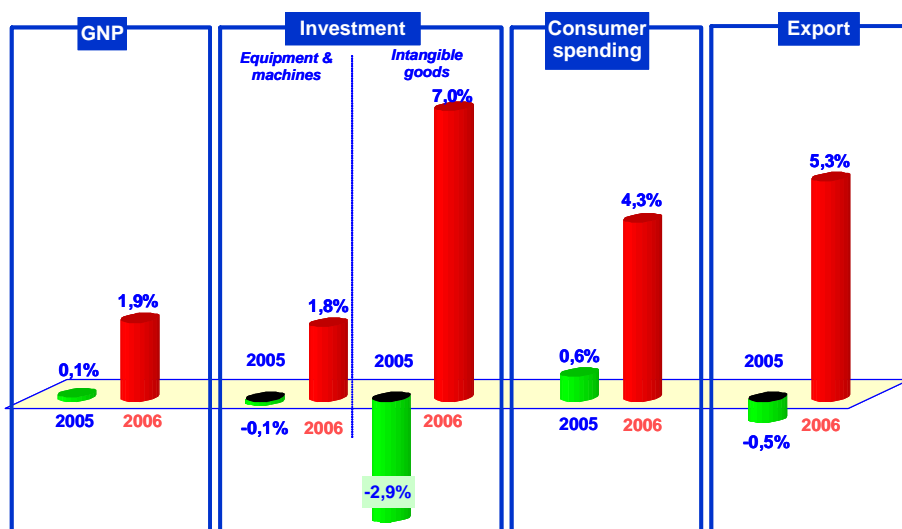
Source: AITech - Assinform / NetConsulting



A significant impulse to growth in IT expenditure and investments came from favourable conditions of the economy – which in 2006 has showed the healthiest setting since 2000 – and especially from those GNP constituents which have the greatest influence on IT and ICT demand:

- investments in machines and equipment, which grew 1.8%;
- investments in intangible goods (which includes the software and services sector) that have gone from a 2.9% contraction to a 7% increase;
- family expenditure grew 1.5% (fig. 5).

Fig. 5 – Performances of the Italian economy - % variations



Source: Istat (March 1st 2007)

Although these values are lower than levels in Europe (+3.9%) and the United States (+5.8%), Italy's performance took place within a new economic situation based on a solid foundation connected to a moderate upturn which involves the entire productive system.

In fact in 2006 the role of family expenditure was still significant, but also the business sector stepped into the picture (fig. 6). Despite being modest and diversified, growth was positive for all types and sizes of business and has had an important impact on the market. IT investments have grown in large businesses (10.696 billion, +1.3%, against +0.9% in 2005), as well as in medium (4.678 billion, +1.8% maintaining the previous year's trend) and small businesses (3.475 billion, + 0.3%, against a 1.4% drop in 2005).

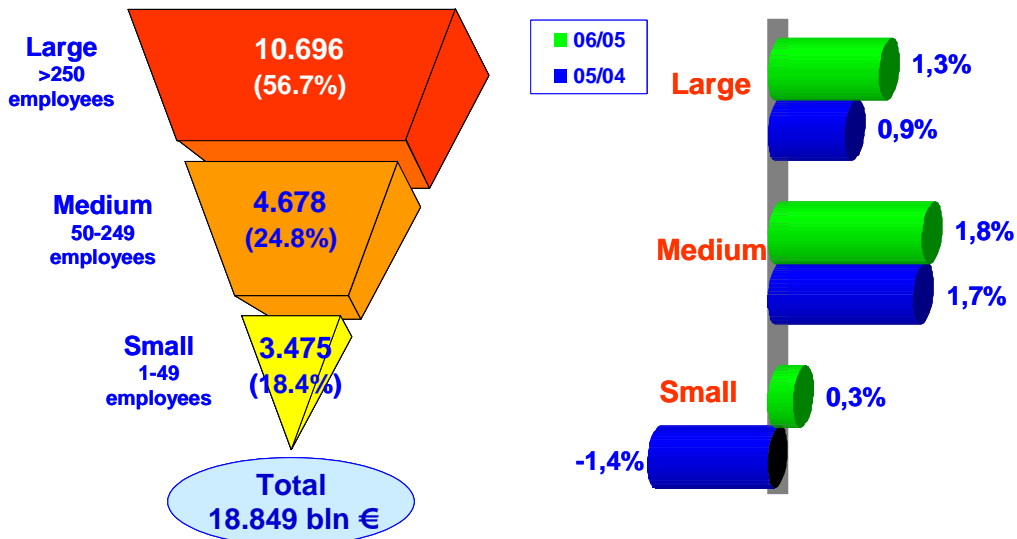
More specifically:

- small businesses have gone back to investing, primarily as a result of the improvements in economic performances that have allowed allocation of greater than expected budgets for IT investments;
- medium businesses continued investments in line with the transformations underway in the past two years in order to meet internationalisation challenges and will continue to require investments

in order to streamline processes, functionality enhancements, and a better understanding of the markets;

- investment by large businesses increased more than the previous year owing to a mix of factors including the rationalisation and enhancement of technological and applicative infrastructures and product and process innovation (fig. 6).

**Fig. 6 – Growth of the IT market by company size (2005-2006) – € Billions, % on total and Δ% excluding consumer segment**



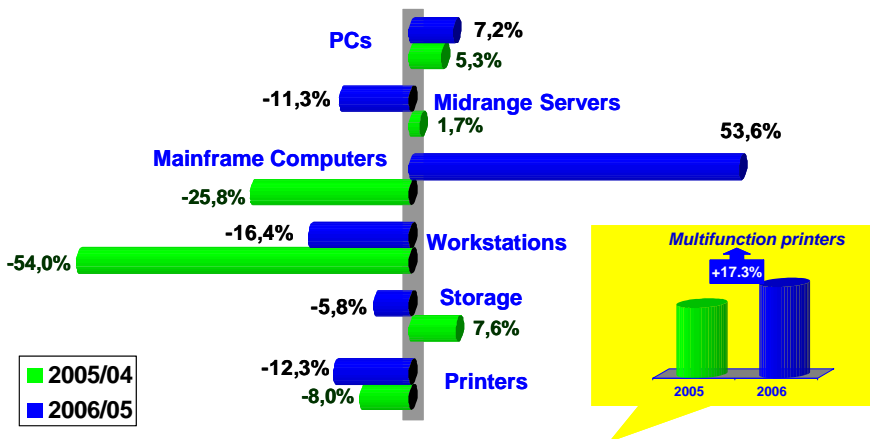
Source: AITech - Assinform / NetConsulting

### Hardware

Sales for hardware (systems, printers and other peripherals) were €5.473 billion, up by 3.7% and with a wide range of growth rates among product categories.

With reference to the values (fig. 7) for PCs sales (laptops, desktops and PC servers), the sector showed an increase of 7.2%, while mid-range servers showed a steep decline (-11.3%), due to inroads from PC servers on one side and low-end mainframes on the other. Unix workstations can now be considered a niche product, and also fell considerably (-16.4%). While not being as important a sector as it once was, the mainframe market expanded considerably (+53% in terms of MIPS) owing to a fortuitous convergence of the upgrade cycles in the banking and public sectors. Although it grew in terms of capacity, the storage sector declined by 5.8% in value due to price cutting and a cooling off of demand from telecommunications. Printers continued their downward trend (-12.3%), but this was partly offset by the strong performance of multifunction models with fax, photocopier and scanner, which showed a growth of 17% and are now widespread in the consumer and SOHO market.

Fig. 7 – Changes in the Italian hardware market in revenue by segment - Variations in % 2006 – 2005

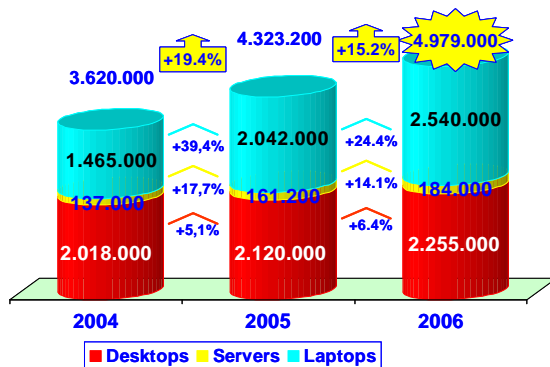


Source: AITech - Assinform / NetConsulting

A more detailed look at unit sales of PCs reveals that the 4,979,000 mark was reached, with significant differences between market segments. Notebook computer sales (2,540,000 units) have now overtaken those of desktops, and grew 24.4% thanks primarily to consumer demand. Desktop sales (2,255,000 in 2006) continue to be in demand for business and grew by 6.4% thanks to price discounting, increased performance, easy maintenance and the availability – at constantly falling prices – of space-saving flat-screen displays.

Fig. 8 – The Italian market for personal computers (2004-2006)

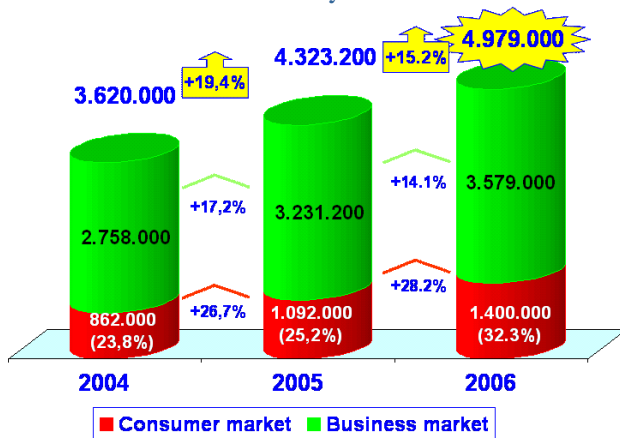
Unit sales, variations in %



Source: AITech - Assinform / NetConsulting

More interesting still is the way the consumer segment has driven the PC market. The increase in unit sales to families was 28.2% (as against 14.1% to business), exceeding the already significant gains made in 2005 (fig. 9). The impetus came from the new internet-based services and entertainment possibilities (music, information and movies), ever more power-hungry games and new individual content production possibilities, starting with digital photography.

Fig. 9 – The Italian PC market by client sectors in 2006 – Unit sales, variations in %



Source: AITech - Assinform / NetConsulting

Purchases for the family accounted for 32.3% of the market, and now contribute considerably to the total number of installed PCs which reached 24.7 million units in 2006.

### Software

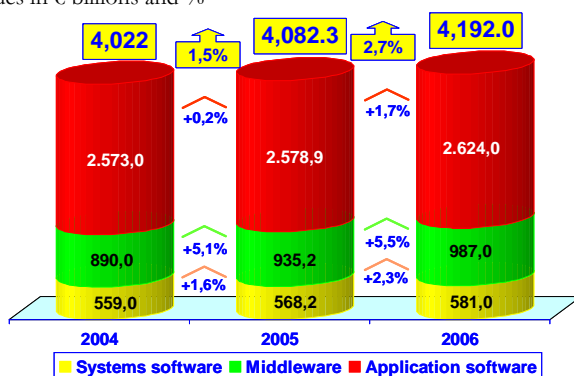
Growth in the software market (€4.192 billion) accelerated to reach 2.7% in 2006, due to strong sales in all the main areas.

Systems software (€581 million) grew by 2.3%, driven by new PC and large systems sales, while the middleware market (€987 million) was up 5.5% thanks to a wholesale upgrading of corporate systems through systems integration, virtualization and greater security provisions (fig. 10).

The new momentum in the applications market (€2.624 billion, +1.7%) is associated with increased demand in vertical markets, i.e. solutions that include specific processes for relevant business sectors.

Fig. 10 – The Italian software market in 2006

Values in € billions and %



Source: AITech - Assinform / NetConsulting

### IT Services

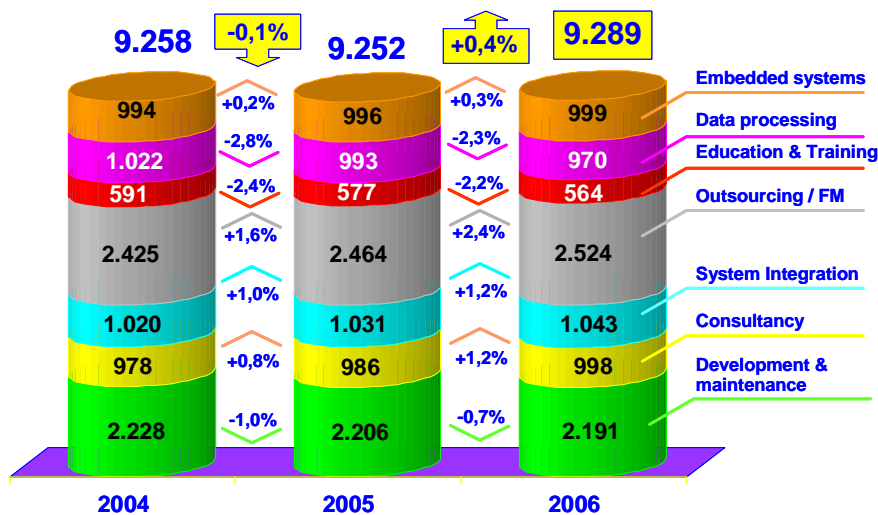
The services sector (€9.289 billion) has begun to show some signs of recovery (up 0.4%) after a difficult three year period. Although the overall trend is up, some sectors have seen a downturn, such as software development and maintenance (-0.7%) and data processing (-2.3%), which continue to suffer from competitive price-cutting (fig. 11), while the market for training also continued to contract in 2006. For some time now the training sector has suffered the consequences of investment

“prioritization” which sees all companies choose not to set aside resources for training, and to make use of it only on a contingency basis (the introduction of new systems and technologies, etc.).

In contrast, outsourcing services have fared better (+2.4%). Although clients tend to have much greater bargaining power (contracts are re-negotiated annually, based on service parameters), companies are beginning to perceive these services in terms of the concrete benefits they bring, rather than as costs to be cut.

Similarly, there has been some moderate growth in the consultancy and systems integration sectors (both up 1.2%), owing to an approach to projects that tightly links the definition of operational requirements and strategy with a re-design of the structural model and the implementation of solutions. Investment has been particularly focused in the range of key requirement areas: from infrastructural projects, such as consolidation and virtualization, through to verticalization and business alignment aimed at process optimization.

Fig. 11 – The Italian IT services market in 2006 - Values in € billions and %



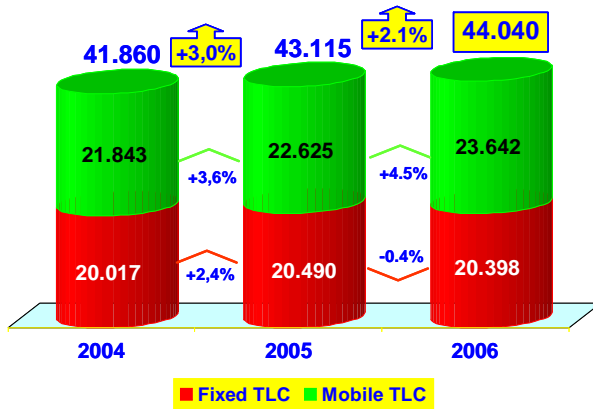
Source: AITech - Assinform / NetConsulting

### The Telecommunications Market in 2006

The Italian telecommunications market (equipment, terminal devices and services for fixed and mobile networks) generated revenues of €44.040 billion in 2006, and increase of 2.1% on 2005. Compared to the previous year, when growth was 3%, there has been a slight slowdown which sets Italy apart from the more sustained level of European growth (+3.7%). However, this slow-down should not be viewed in an overly pessimistic light, due to the expansion of value added services, the continued strength of fixed and mobile network services, and the healthy market in systems and terminal devices (including mobile handsets).

The fixed network sector saw revenues fall by 0.4% as a proportion of the entire telecoms market, down to €20.398 billion. This was due to a combination of downpricing and a reduction in traffic volume. However, the mobile sector has been a beneficiary, showing growth of 4.5%, which takes it to 53.7% of the entire telecoms market (fig. 12).

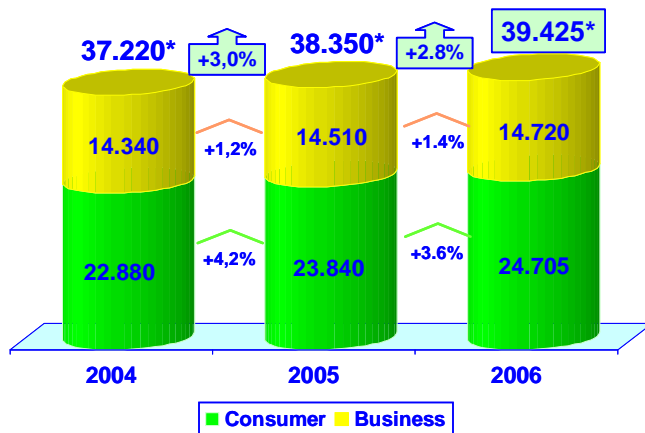
Fig. 12 – The Italian TLC market by fixed and mobile sectors (2004-2006) – Values in € billions and %



Source: AITech - Assinform / NetConsulting

The consumer segment, which, excluding infrastructure, accounts for 62% of the telecoms market, has again been the strongest performer. Total consumer demand for equipment and services reached €24.705 billion, up 3.6% (fig. 13), while the business sector was up 1.4% to €14.720 billion. Despite the more modest gains in the business sector, there has been a shift in corporate perception, with ever greater numbers now viewing telecommunications as a key technological asset rather than a mere cost to keep in check.

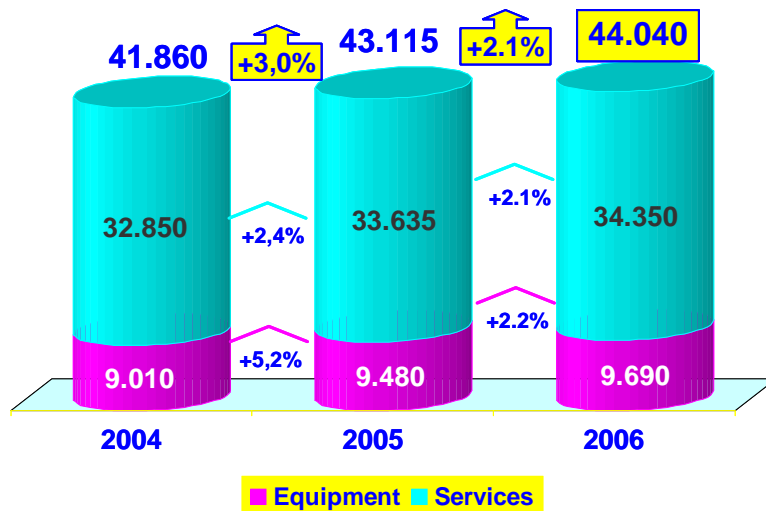
Fig. 13 – The Italian TLC market by client sectors (2004-2006) - Values in € billions and %



Source: AITech - Assinform / NetConsulting

Another notable factor in 2006 has been the change in the equipment and service sectors, with services up 2.1% - only slightly less than the previous year - to €34.350 billion and 78% of the total market, while the equipment sector (€9.690 billion, +2.2%) showed a marked slow-down in year-on-year growth (fig. 14).

Fig. 14 – The Italian TLC market – Equipment vs Services (2004-2006) - Values in € billions and %



Source: AITech - Assinform / NetConsulting

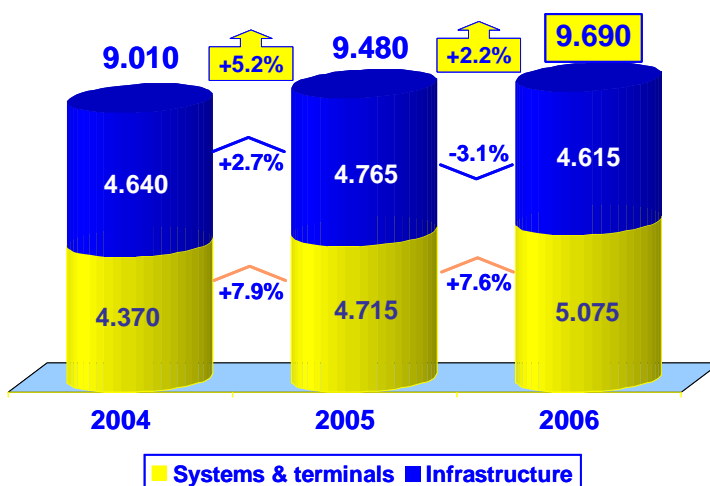
### Telecommunications Equipment

The fall in demand for equipment sector is a result of divergent trends in the markets for its two main constituents.

Systems and terminal devices have maintained a health rate of growth (7.6%), thanks in part to mobile handset sales which exceeded 20 million units in 2006. Infrastructure fared less well with spending at €4.615 billion, a fall of 3.1%, as opposed to an increase of 2.7% in 2005 (fig. 15).

However, the decline in infrastructure spending can also be put down to some investment in UMTS and Broadband originally scheduled for 2006 having been brought forward to 2005.

Fig. 15 – The Italian TLC equipment market (2004-2006) - Values in € billions and %



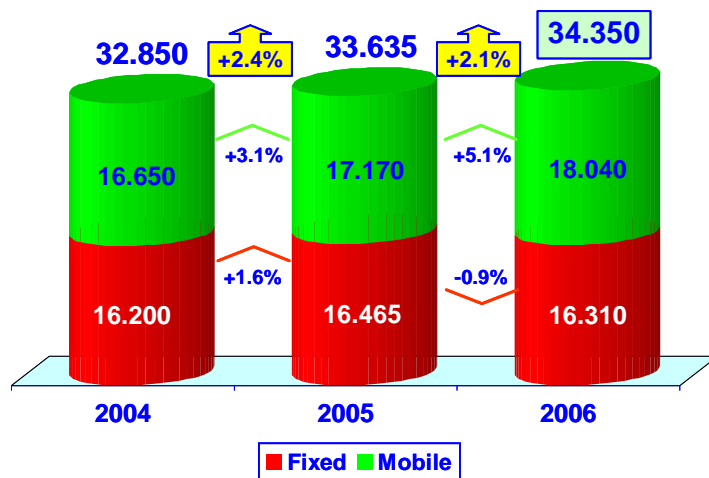
Source: AITech - Assinform / NetConsulting

### Fixed and Mobile Network Services

There has been an increase in the divergence between the growth rates of fixed and mobile services. Mobile network services (€18.040 billion) were up by 5.1% in 2006, almost double the previous year's gains thanks to the roll-out of new services which have offset the lower growth in voice services. Fixed

network services (€16.310 billion) have shown an overall decline of 0.9%, as against an increase of 1.6% in 2005 (fig. 16).

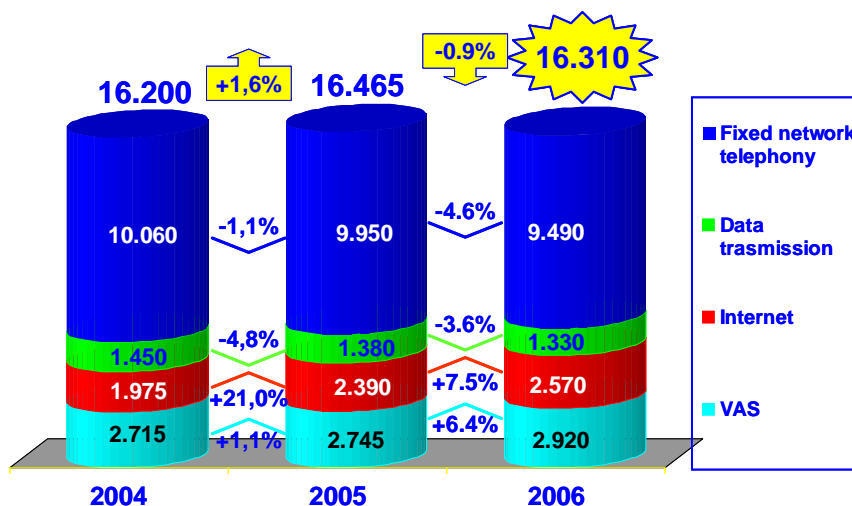
Fig. 16 – The Italian TLC services market (2004-2006) - Values in € billions and %



Source: AITech - Assinform / NetConsulting

The fixed network services market has suffered most from falls in its most mature constituents, particularly voice telephony revenues (€9.490 billion, -4.6%) due to a variety of factors ranging from migration to mobile connections, a fall in traffic, and flat-rate tariffs to increased business use of VOIP (fig. 17). The overall downward trend remains in spite of strong performance by value added services (€2.920 billion, +6.4%) such as contact centers, web and outsourcing services, as well as Internet connection services (€2.570 billion, +7.5%), now with over 8.5 million broadband connections (+27.5%), of which 324,000 are fibre optic. (Fig. 18).

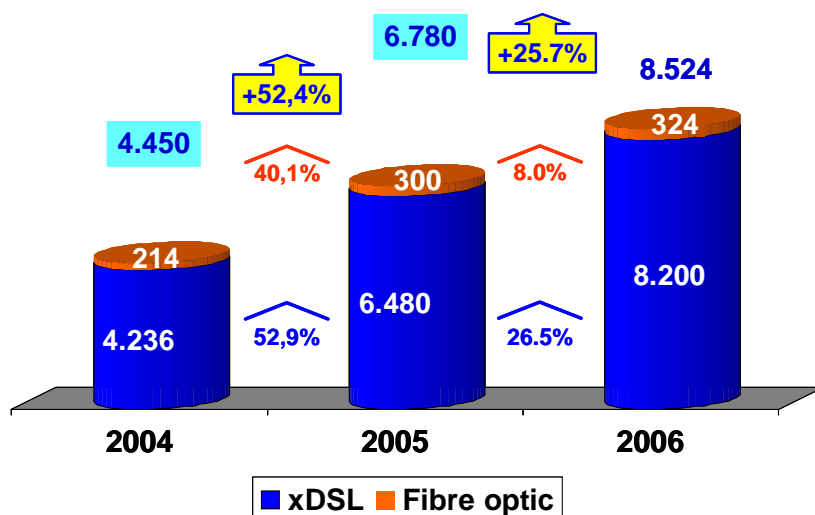
Fig. 17 – The Italian fixed network services market (2004-2006) - Values in € billions and %



Source: AITech - Assinform / NetConsulting



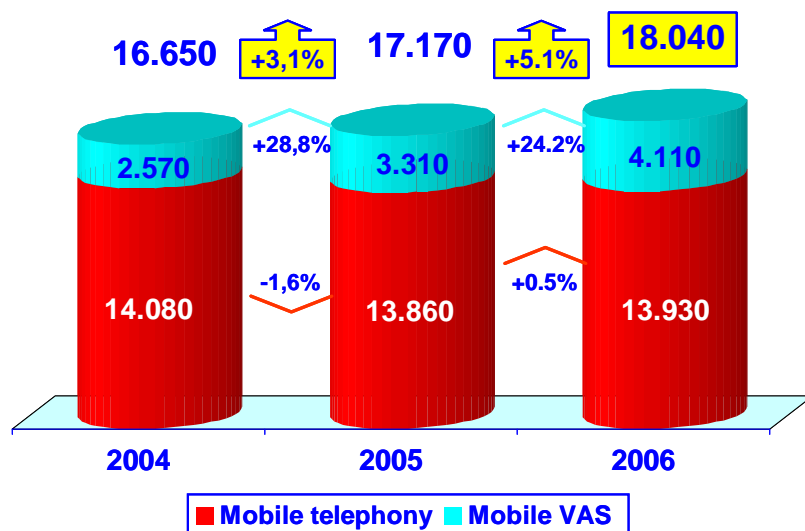
Fig. 18 – Broadband connections in Italy (2004-2006) – Connections in 000s, variations in %



Source: AITech - Assinform / NetConsulting

In mobile network services (€18.040 billion), the consumer segment has again generated the vast majority of revenues (over 75%), and has further more driven growth in other sectors. Voice traffic has increased greatly by volume but not in value (€13.930, +0.5%), due both price cutting imposed both by regulatory intervention and competition between carriers. Mobile value added services (SMS, MMS, etc) have again shown sustained growth (+24.2%), and having reached €4.110 billion now constitute almost a quarter of total mobile service revenues (fig. 19).

Fig. 19 – The Italian mobile network services market (2004-2006) - Values in €billions and %

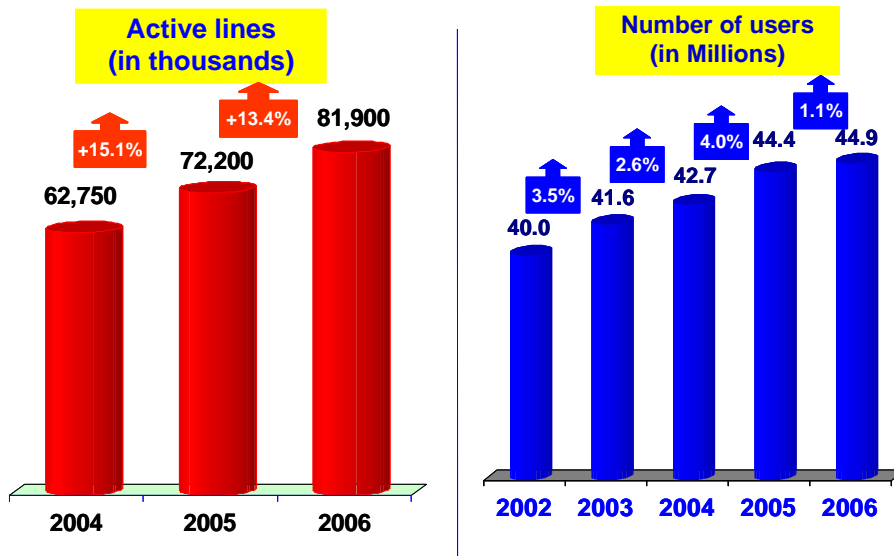


Source: AITech - Assinform / NetConsulting

The continued growth in mobile network services is attributable to both an increase in the number of active lines and unit traffic (fig. 20).

The number of active mobile lines has again increased to 81.9 million (+13.4%), largely due to handset promotions which include a SIM card, although there has also been a 1.1% increase in the number of active users, which has now reached the surprising level of 44.9 million.

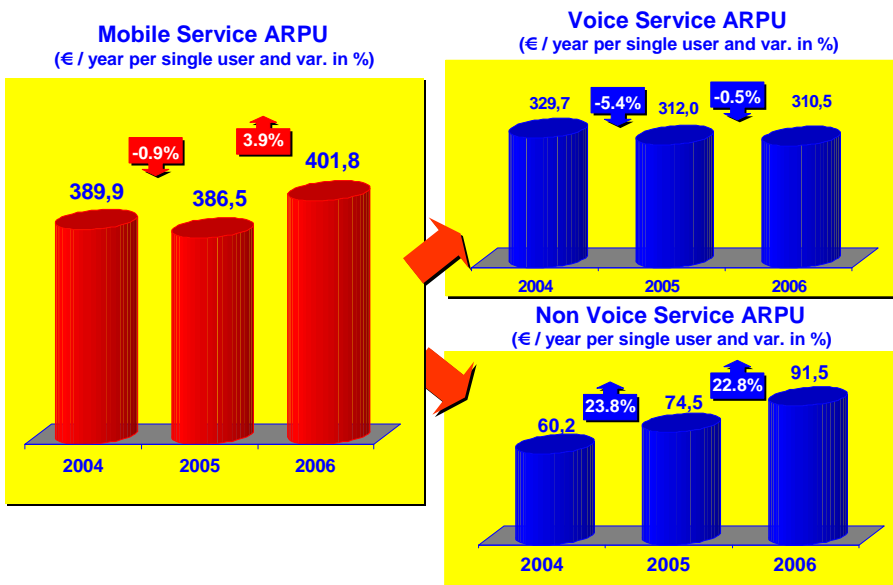
Fig. 20 – Active lines and number of users for mobile telephony in Italy (2004-2006)



Source: AITech - Assinform / NetConsulting

Total ARPU (Average Revenue Per User) has reached almost €402, up 3.9%, with much more substantial growth in data services (+22.8%) which have reached an ARPU of €91, while voice ARPU fell 0.5% to €314.7 (fig. 21).

Fig. 21 – Mobile services ARPU in Italy (2004 – 2006)



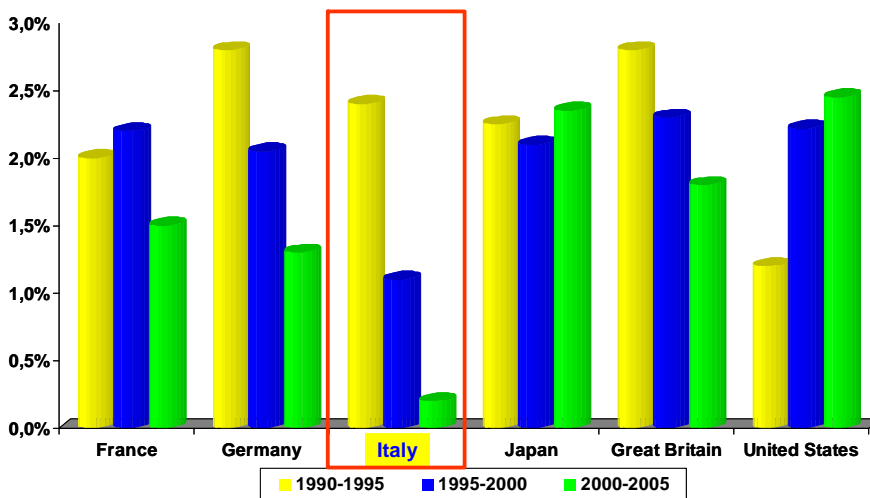
Source: AITech - Assinform / NetConsulting

## Trends and Challenges for 2007

Other things being equal, the outlook for 2007 is growth in the telecoms sector roughly in line with that of 2006, while IT sector growth will increase slightly, resulting in the two sectors tending towards a growth rate around the 2% mark. Nevertheless, Italy requires a quantum leap in ICT usage to bridge the accumulated gap and must overcome the four key challenges to grow.

The first challenge is that of productivity, where the gap between Italy and other major markets has widened over the years. This challenge can be overcome with the knowledge that effective gains in business productivity and efficiency can be made not just by cost-cutting but by the intensive and strategic application of IT in business practices (fig. 22). This is the key ingredient in

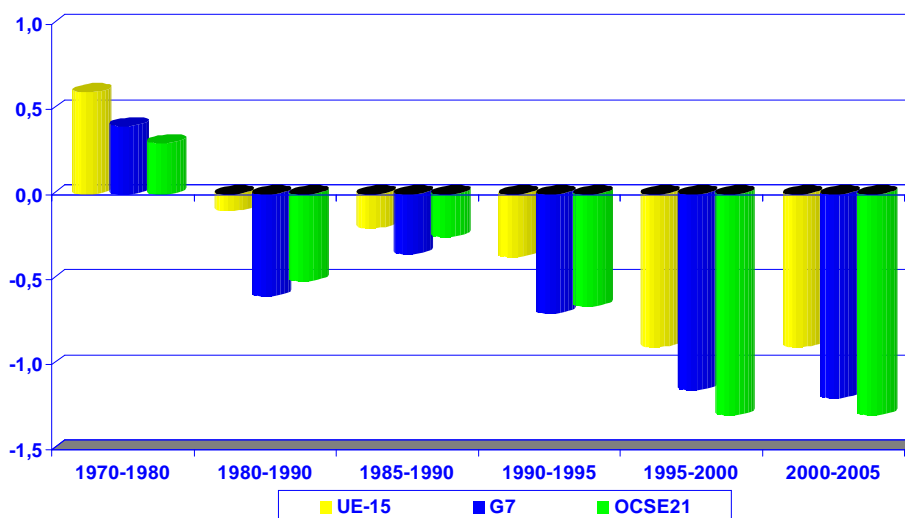
Fig. 22 – The productivity challenge – Annual productivity gains for major markets (1990-2005)



Source: OCSE

overcoming the second, more difficult challenge: the growth of the Italian economy as a whole. Not only must Italy's economy expand to bridge the accumulated gap, but it must do so at a steady and sizeable rate (fig. 23).

Fig. 23 – The growth challenge – GDP growth comparison between Italy and major international groupings

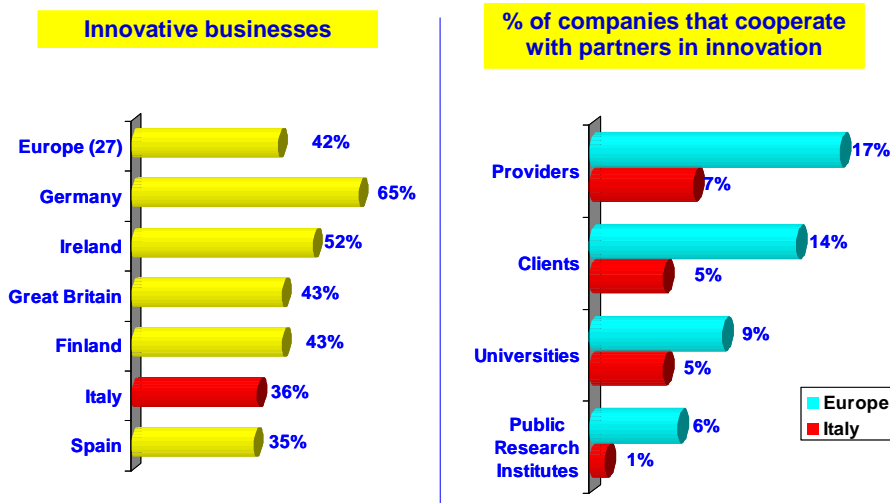


Source: processing by CSC on OCSE data

For this to come about, technologies have to be applied throughout at all levels throughout the country, by means of, for example, the commissioning of major projects requiring the co-operation of all the market's major players.

The third challenge to overcome is that of innovation. Currently the proportion of businesses in Italy which innovate is far too low (36% as against 42% for Europe). Above all, and in marked contrast with practices in other countries, innovation by Italian businesses does not take place on a co-operative basis which sees the involvement of other entities. In other words, innovation in Italy is not carried out in a systematic fashion. (fig. 24).

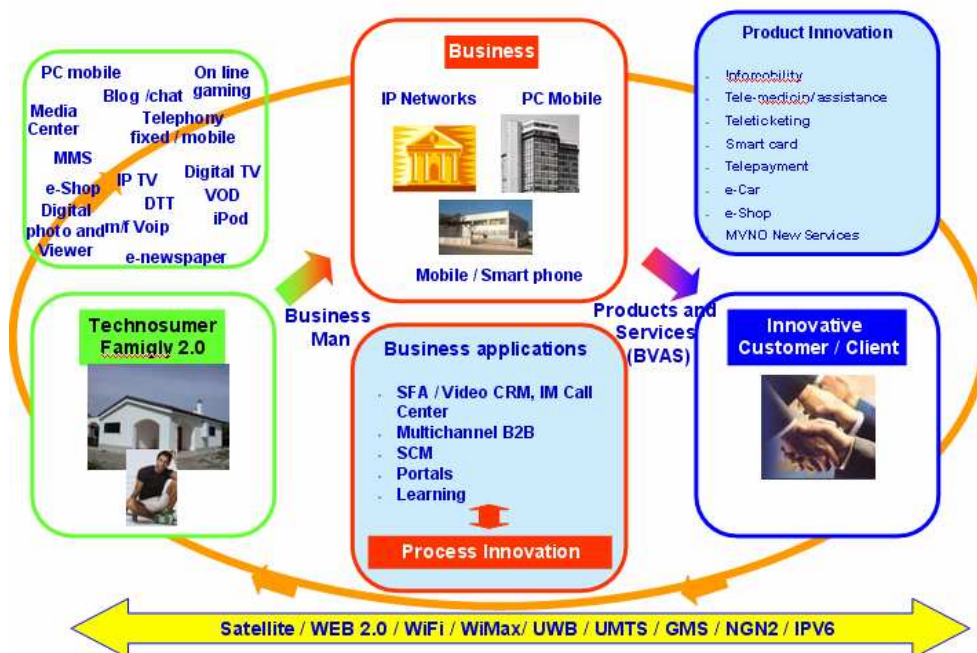
Fig. 24 – The challenges of innovation



Source: EUROSTAT, Fourth Community Innovation Survey (february 2007)

The fourth and last challenge is that of convergence (fig. 25), which in Italy is still only in its infancy, empowering the consumer, but which already presages a technological cross-over on the back of tangible applied benefits.

Fig. 25 – The challenges of convergence



Source: NetConsulting (2007)

Even this challenge is not insurmountable. Or, at any rate, it will no longer be so once a more mature view of the benefits convergence can bring to business is widespread. The sooner this happens, driven by the

entry of new technology into the family home and economic policies favouring investment, a new generation of Italian entrepreneurs will be born, capable of creating innovative solutions and creating export markets for them as well.

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