

TELECOM ITALIA

1H '06 Financial Results

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Telecom Italia Group 1H '06 Financial Results

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Safe Harbour

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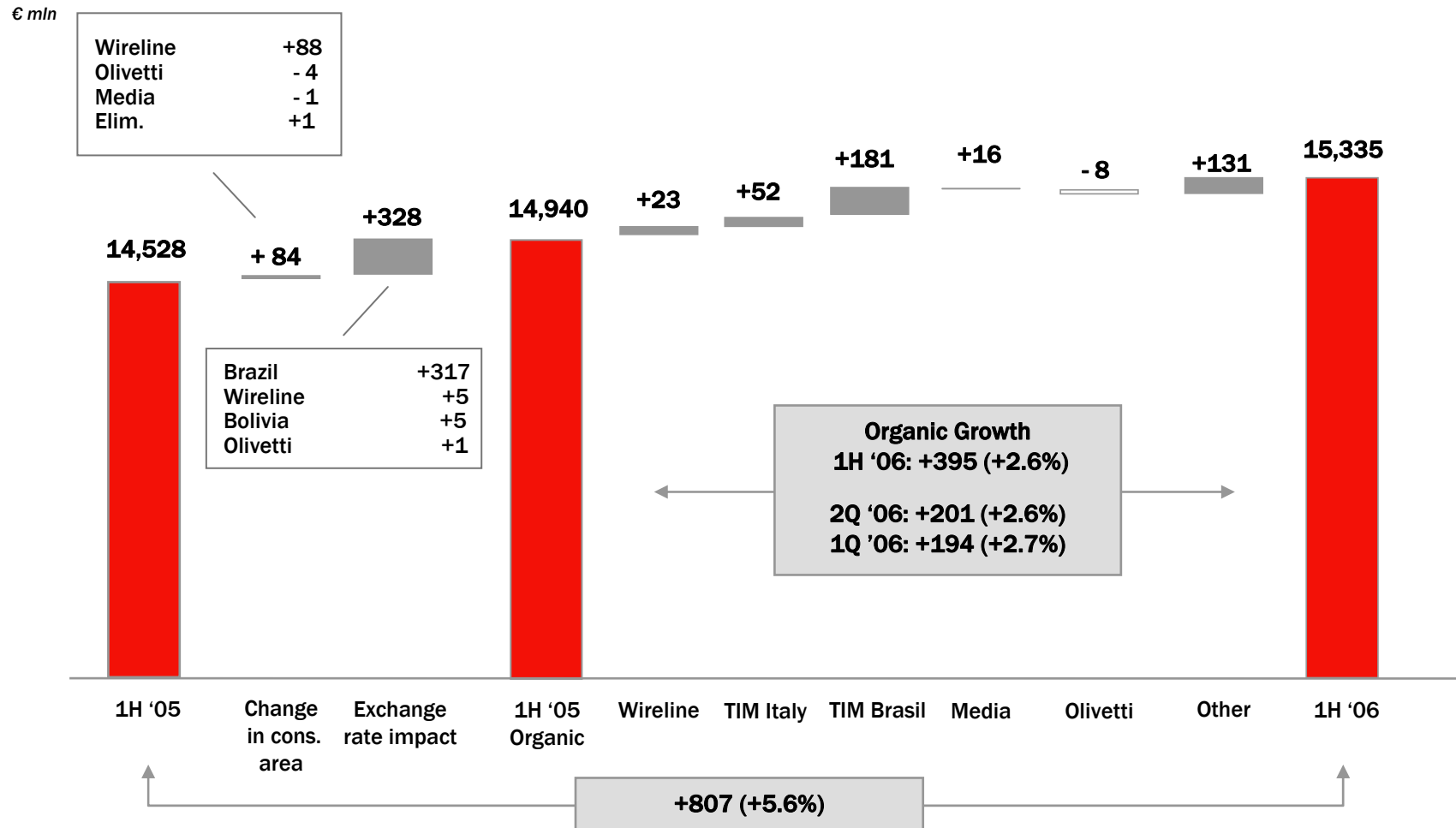
TI Group: Key Financial Results 1H '06

€ mln

	1H '06 reported	YoY reported	YoY Organic*	Highlights
Revenues	15,335	+5.6%	+2.6%	<ul style="list-style-type: none"> ▶ Strong market share performance across businesses and borders ▶ Main KPIs growth notwithstanding 2Q06 fewer working days “calendar effect” ▶ Ebitda margin resiliency in light of commercial push and domestic regulatory impacts (termination and directories business) ▶ D&A increase following higher capital intensity and growing weight of software component
Ebitda	6,518	+0.5%	+0.3%	
Ebitda margin	42.5%	-2.1pp	-1.0pp	
Ebit	3,801	-4.5%	-6.1%	
Ebit margin	24.8%	-2.6pp	-2.3pp	
Net Income <i>(post minorities)</i>	1,496	-15.7%		<ul style="list-style-type: none"> ▶ TIM PTO and Brazilian assets reorganization benefits offset by lower contribution from asset disposals vs 1H05
Capex	2,216	+48		
Net Debt	41,315	+1.5 bln vs. ye 2005		

* Excluding changes in consolidation area, exchange rate impact and other changes

TI Group - Revenues 1H '06 vs. 1H '05



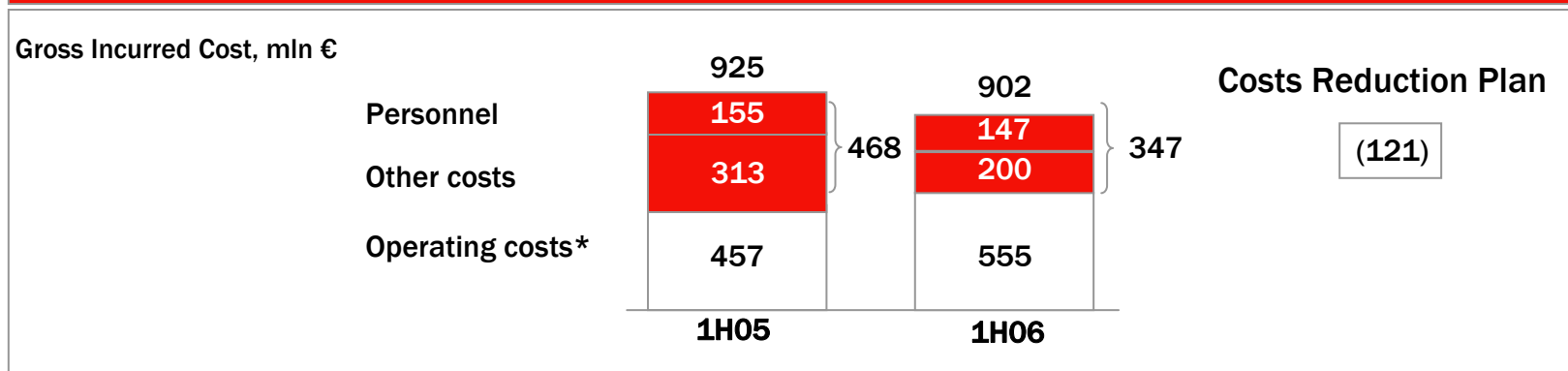
Update on Opex Convergence Synergies

Opex Savings (€ Bn)		06E vs 05A	1Q06 progress on FY target	1H06 progress on FY target
Operational Costs	▶ Network and IT infrastructure integration	0.10	61%	122%
Mktg & Sales	▶ Commercial channels' integration and rationalization of compensation policies	0.10	24%	68%
Purchasing, G&A	▶ Savings from sourcing and cost rationalisation	0.16	9%	26%
Personnel	▶ Personnel downsizing (to compensate for inflation)	0.10	8%	23%
Domestic operations		0.46	23%	55%
Corporate		0.17	12%	71% (*)
Total		0.63	20%	60%

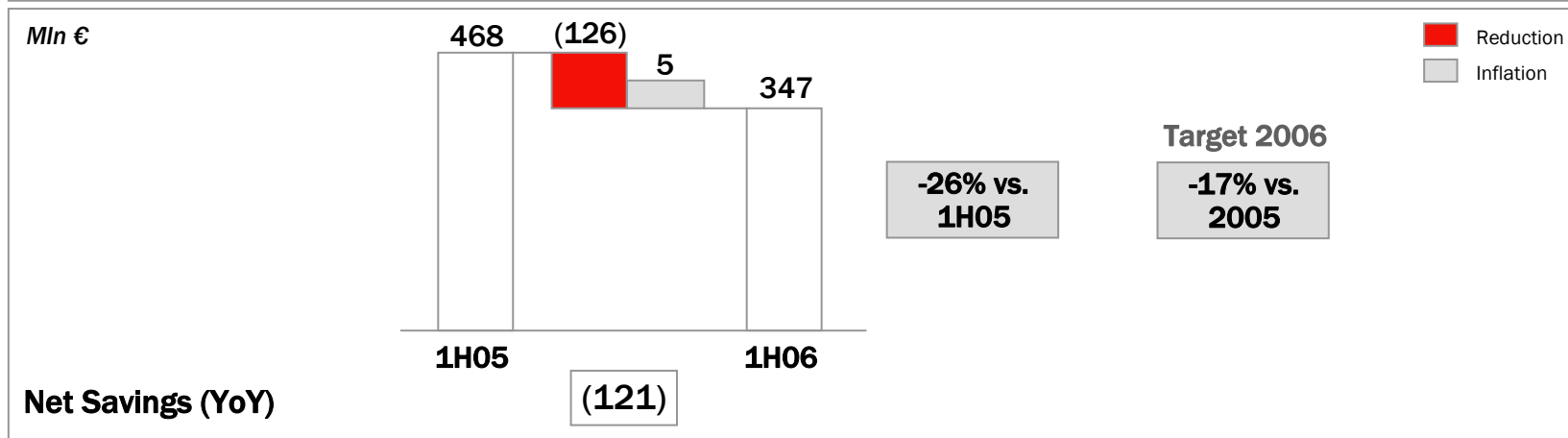
(*) 71% also on organic OPEX

Update on corporate cost reduction plan

2006 Corporate Cost Base – 1H '06



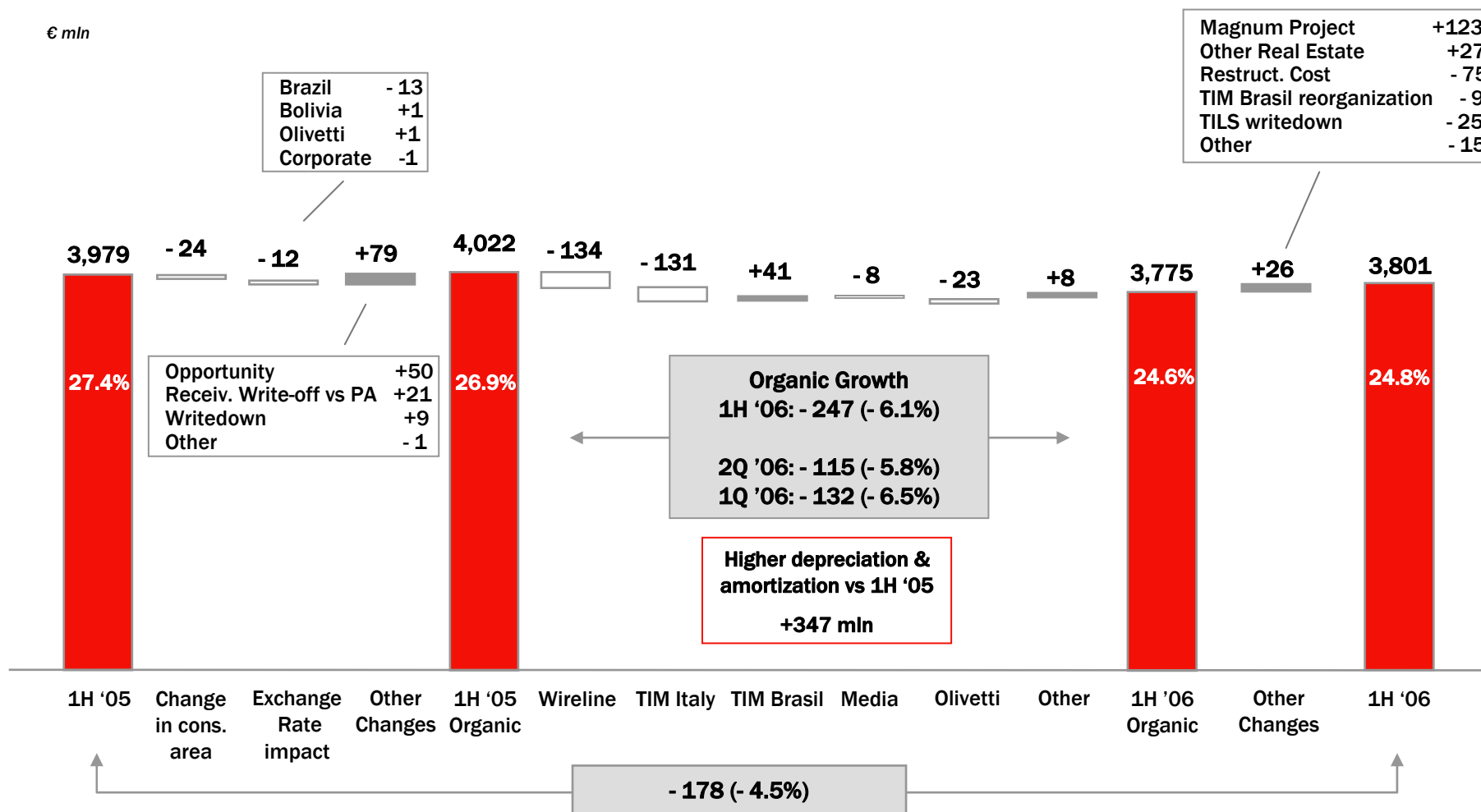
2006- Savings- 1H '06



* Fully charged to Business Units

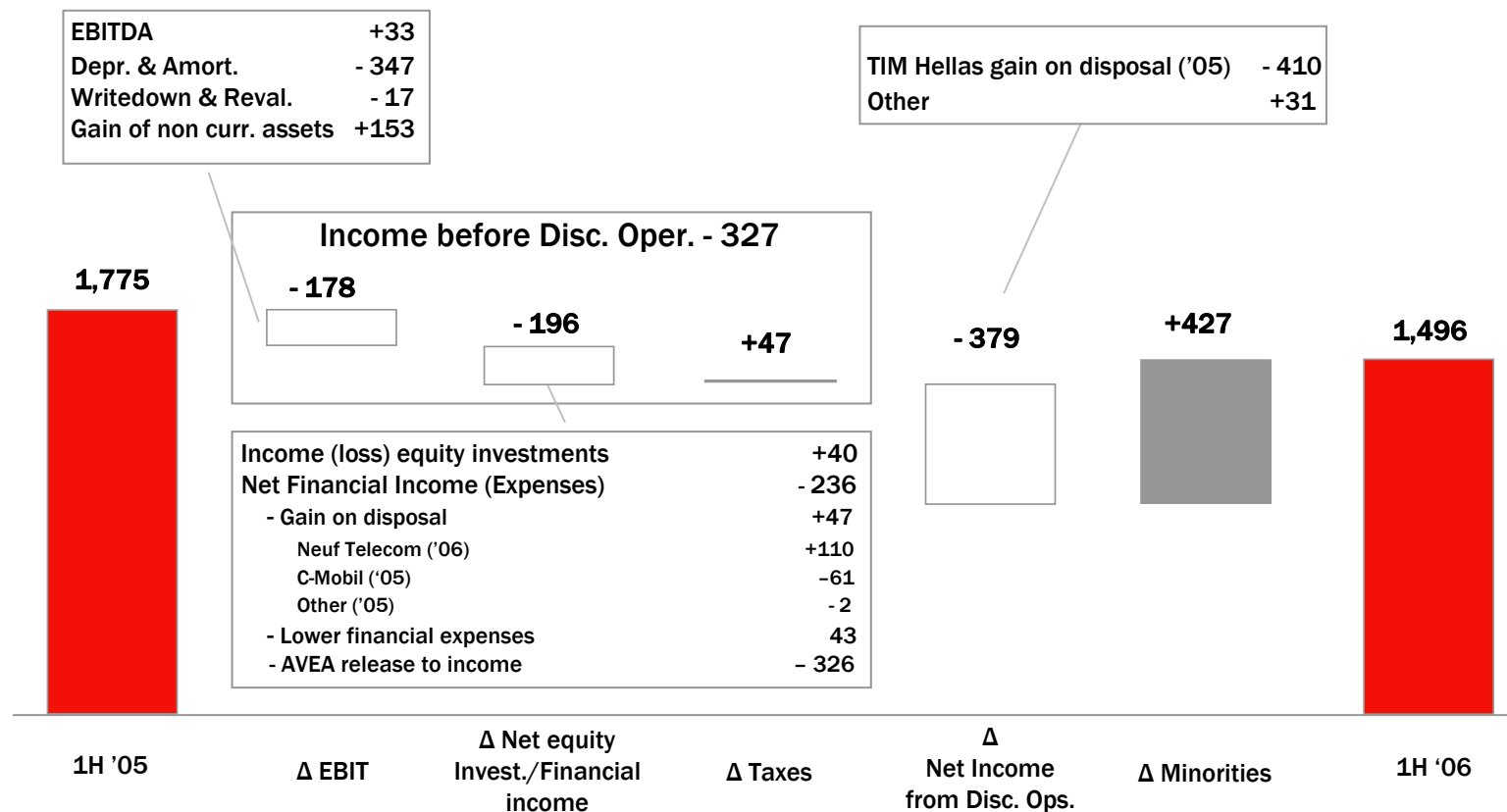
TI Group - EBIT 1H '06 vs. 1H '05

€ mln



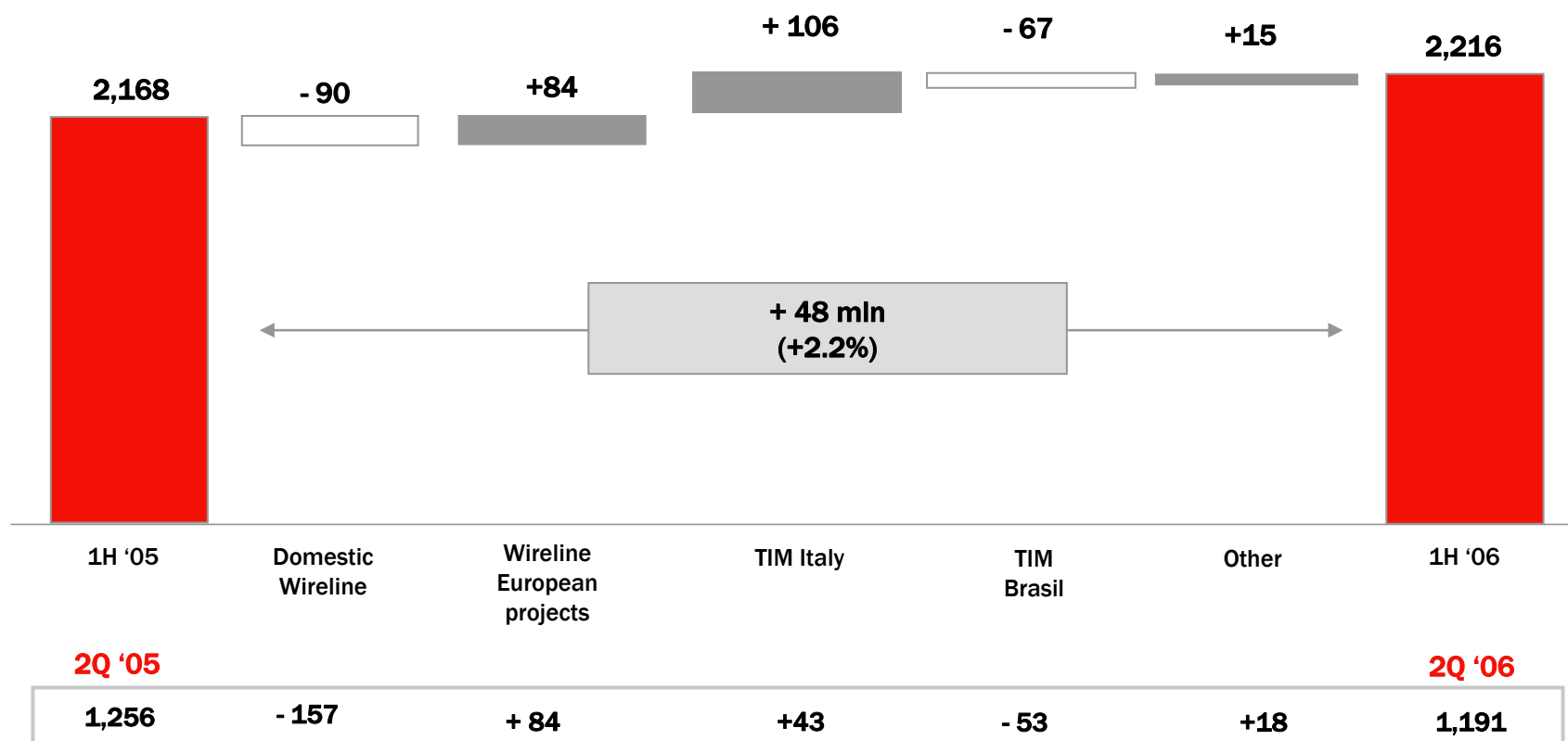
TI Group - Net Income 1H '06 vs. 1H '05

€ mln

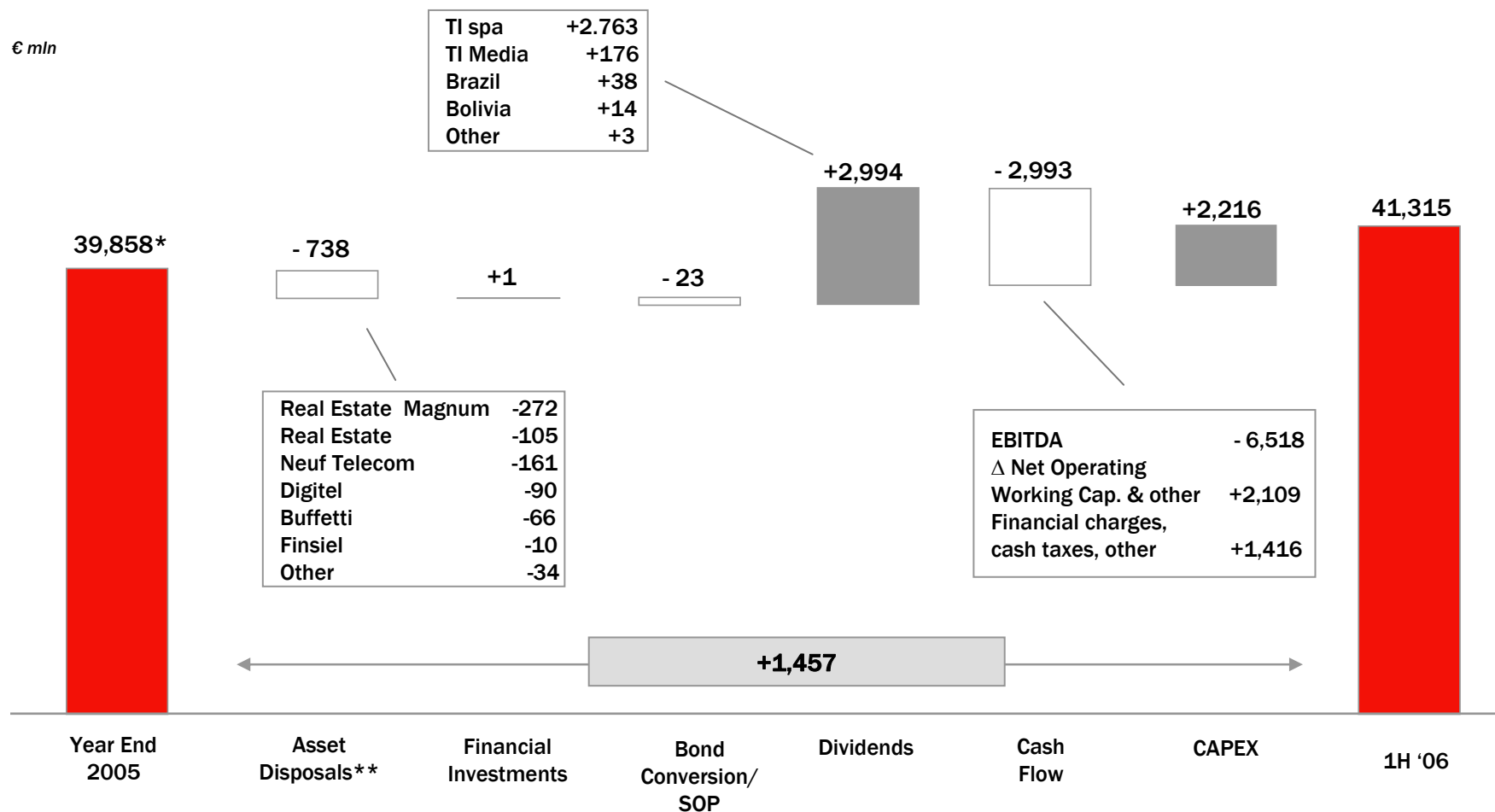


Capex 1H '06 vs 1H '05

€ mln



TI Group - Net Financial Position 1H '06 vs. YE '05



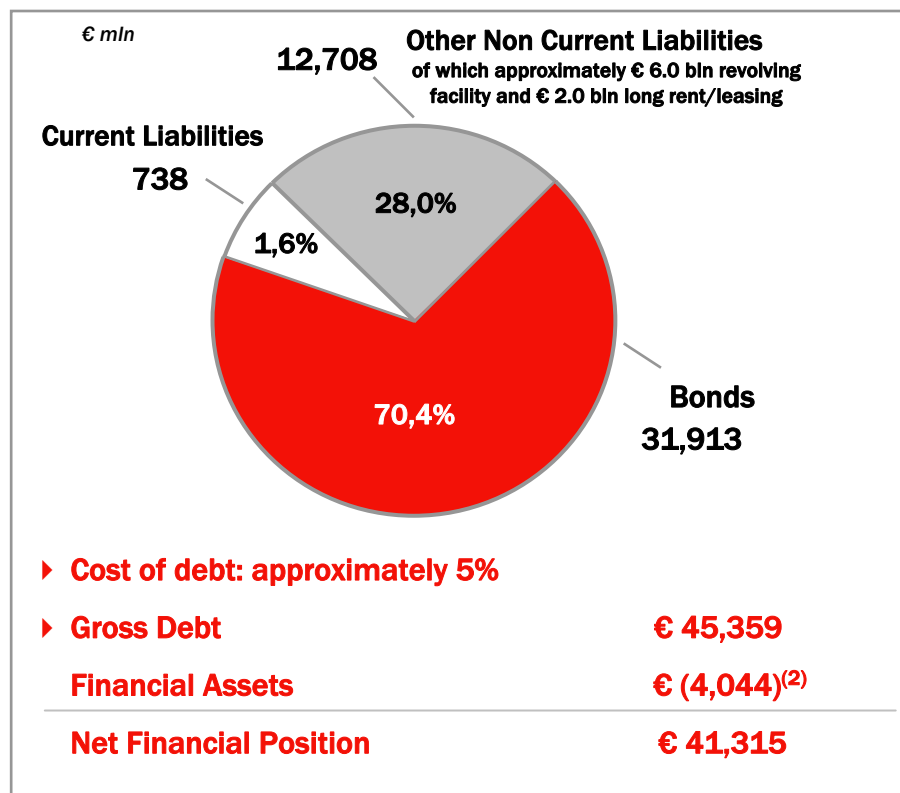
* Includes net financial position of discontinued operations

** Includes 23 mln € of Net Cash Flow from Digitel

Debt structure as of June 30, 2006

Total gross debt: € 45,359 mln⁽¹⁾

Maturities and risk management



- ▶ **After July \$ 2.6 bln bond issue, liquidity position, which stands at € 3.2 bln as of June 30, raises to € 5.3 bln granting full coverage of forthcoming debt maturities up to YE 2007**
- ▶ **Average bond maturity: 8.53 years (8.79 years after July \$ 2.6 bln bond issue)**
- ▶ **Fixed rate portion on debt still approximately 70%**

(1) Including € 892 mln of IAS adj of which € -38 mln on bonds

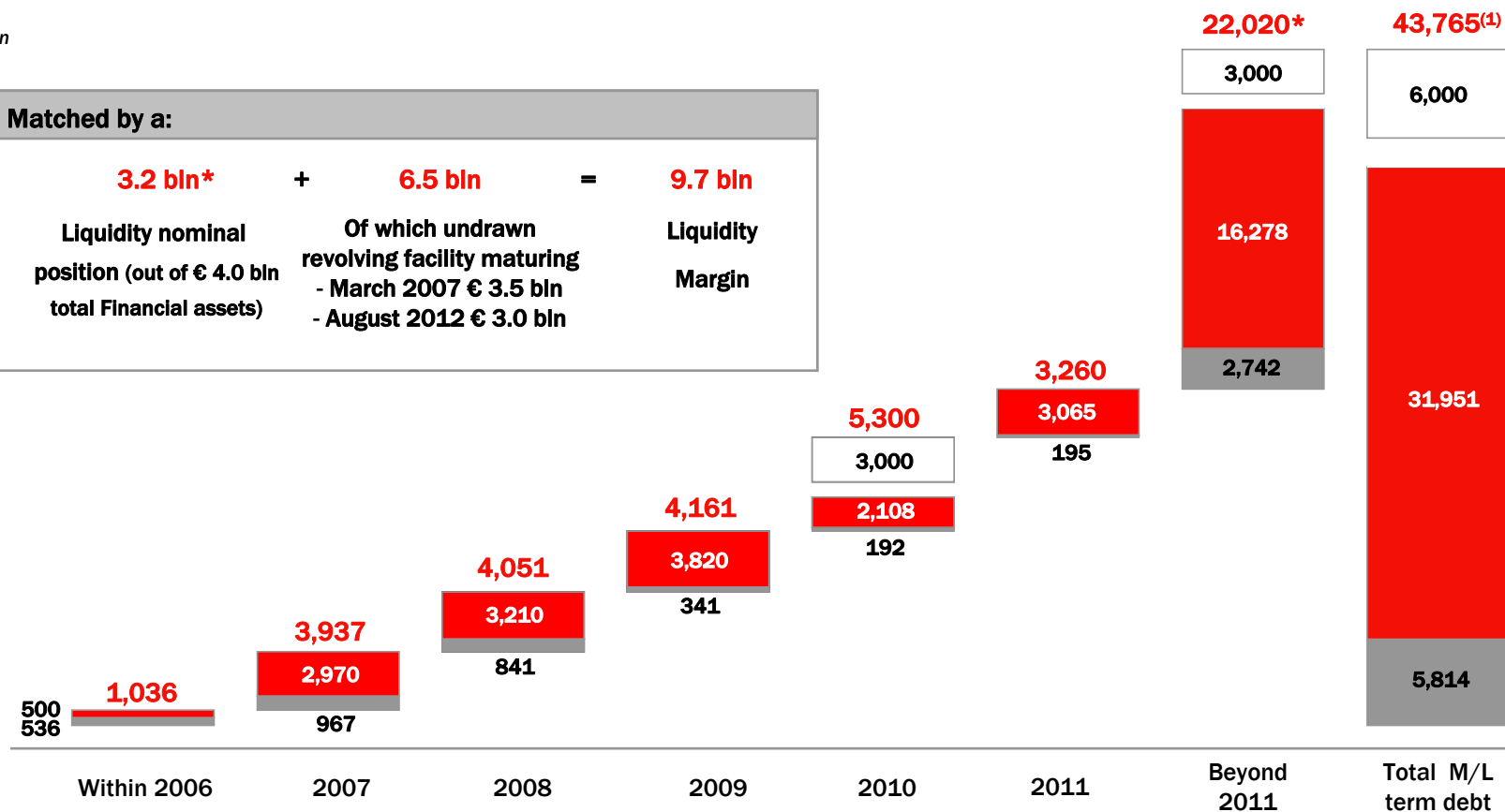
(2) Liquidity Nominal Position represented by cash and marketable securities stands at € 3.2 bln

Medium-long term debt Maturity Profile as of June 30, 2006

Bonds
 Loans and Long rent and op. leasing (€ 2,005)
 Drawn revolving facility

€ mln

Matched by a:				
3.2 bln*	+	6.5 bln	=	9.7 bln
Liquidity nominal position (out of € 4.0 bln total Financial assets)		Of which undrawn revolving facility maturing - March 2007 € 3.5 bln - August 2012 € 3.0 bln		Liquidity Margin



(1) € 43,765 mln is the nominal amount of outstanding medium-long term debt; by adding IAS adjustments (€ 856 mln) and current liabilities (€ 738 mln), the gross debt figure of € 45,359 mln is reached

(NB) Maturities are net of € 100 mln (face value) of repurchased own bonds

* Liquidity nominal position raises to € 5.3 bln after July \$ 2.6 bln bond issue and grants full coverage of forthcoming debt maturities up to YE 2007. Furthermore, debt maturities 2011 raise from € 3,260 mln to € 4,524 mln and beyond 2011 raise from € 22,020 mln to € 22,811 mln

Appendix

TI Group – Break up Main Results by BU

€ mln, reported data

	I Quarter			II Quarter		
	2006	2005	Δ %	2006	2005	Δ %
REVENUES						
Wireline	4.471	4.356	2,6	4.506	4.505	0,0
TIM Italy	2.370	2.361	0,4	2.612	2.569	1,7
TIM Brasil	837	546	53,3	885	678	30,5
Media	44	35	25,7	54	48	12,5
Olivetti	94	108	(13,0)	118	115	2,6
Other Activities	355	314	13,1	407	324	25,6
Elimin. & Adj	-689	-697		-729	-734	
TI Group	7.482	7.023	6,5	7.853	7.505	4,6
EBITDA						
Wireline	1.983	2.000	(0,9)	1.919	1.990	(3,6)
TIM Italy	1.260	1.293	(2,6)	1.293	1.343	(3,7)
TIM Brasil	181	88	105,7	173	83	108,4
Media	-28	-27	(3,7)	-24	-24	0,0
Olivetti	-12	4	-	-14	-2	-
Other Activities	-81	-68	(19,1)	-127	-180	29,4
Elimin. & Adj	-8	-6		3	-9	
TI Group	3.295	3.284	0,3	3.223	3.201	0,7
EBIT						
Wireline	1.175	1.255	(6,4)	1.118	1.232	(9,3)
TIM Italy	925	984	(6,0)	949	1.041	(8,8)
TIM Brasil	-36	-45	20,0	-42	-68	38,2
Media	-41	-36	(13,9)	-38	-31	(22,6)
Olivetti	-17	0	-	-18	-6	-
Other Activities	-31	-130	76,2	-168	-240	30,0
Elimin. & Adj	9	4		16	19	
TI Group	1.984	2.032	(2,4)	1.817	1.947	(6,7)

TI Group – Profit and Loss – 1H '06 vs. 1H '05

€ mln	I Half	2006	2005	Δ Abs.	Δ %
	REVENUES	15.335	14.528	807	5,6
	Other Operating Income	311	223	88	39,5
	TOTAL REVENUES & OTHER INCOME	15.646	14.751	895	6,1
	Total Purchases of materials and external services	(6.769)	(5.978)	(791)	13,2
	Personnel	(1.992)	(1.929)	(63)	3,3
	Other operating costs	(666)	(642)	(24)	3,7
	Capitalized Cost and Others	299	283	16	5,7
	EBITDA	6.518	6.485	33	0,5
	% on Revenues	42,5%	44,6%		
	Depreciation & Amortization	(2.843)	(2.496)	(347)	13,9
	Writedowns and revaluations of non current assets	(26)	(9)	(17)	188,9
	Gains/losses of non current assets realization	152	(1)	153	-
	EBIT	3.801	3.979	(178)	(4,5)
	% on Revenues	24,8%	27,4%		
	Income (loss) equity invest. valued equity method	25	(15)	40	
	Net Financial Income / (Expenses)	(1.094)	(858)	(236)	
	Income before Taxes & Disc. Ops.	2.732	3.106	(374)	
	% on Revenues	17,8%	21,4%		
	Taxes	(1.305)	(1.352)	47	
	Income before Disc. Ops.	1.427	1.754	(327)	
	Net income (loss) of assets disposed	46	425	(379)	
	Net Income (ante Minorities)	1.473	2.179	(706)	
	% on Revenues	9,6%	15,0%		
	Minorities	23	(404)	427	
	Net Income (post Minorities)	1.496	1.775	(279)	
	% on Revenues	9,8%	12,2%		

TI Group – Balance Sheet – 1H '06 & FY '05

		30.06.2006	31.12.2005
€ mln	Intangible Assets	50.583	50.790
	Tangible Assets	17.345	18.041
	Financial Assets	1.608	1.700
	Deferred Tax Assets	1.747	2.793
	TOTAL NET ASSETS	71.283	73.324
	Working Capital	(1.985)	(4.373)
	Total net inventories	363	294
	Total net trade accounts receivable	7.468	6.978
	Trade accounts payable	(5.562)	(6.836)
	Other current assets/liabilities	(3.509)	(3.893)
	Total Reserves within 12 months	(745)	(916)
	Severance Indemnities	(1.376)	(1.351)
	Other Allowances	(1.047)	(1.106)
	No fin. assets/liabilities of Disc. Ops.	0	349
	NET INVESTED CAPITAL	66.875	66.843
	Shareholders Equity	25.560	26.985
	Net Financial Position	41.315	39.858
	Net Financial Position of Disc. Ops.	0	106
	Net Financial Position excluding Disc. Ops.	41.315	39.752
	INVESTMENTS	30.06.2006	31.12.2005
	Capital Expenditures	2.216	5.173
	Financial Investments	1	14.934
	TOTAL	2.217	20.107