

TELECOM ITALIA

Deutsche Bank 10th German Corporate Conference 2007

Frankfurt, June 20

Telecom Italia

European Broadband Project

STEFANO MAZZITELLI

Safe Harbour

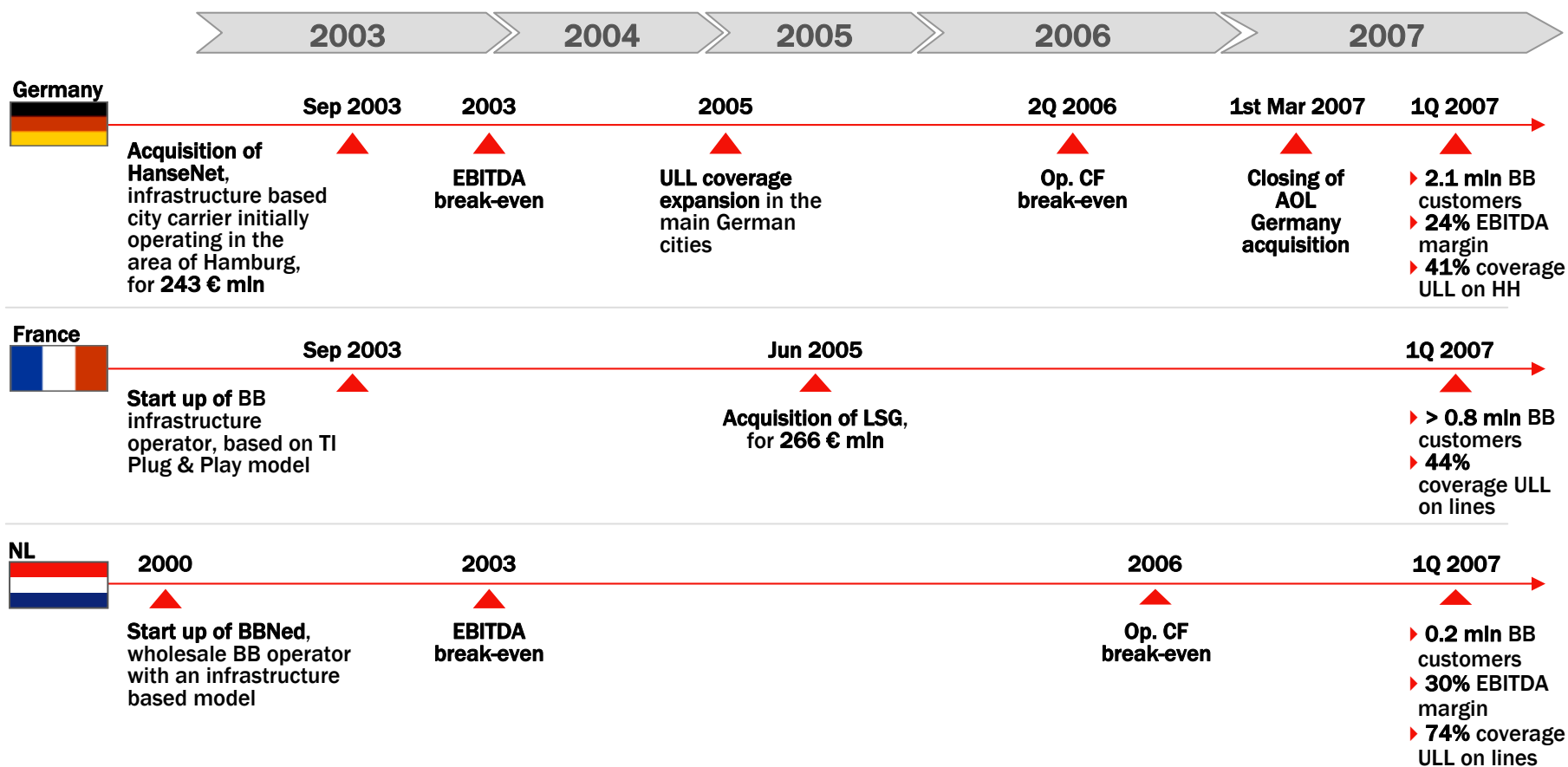
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Telecom Italia European Broadband Project

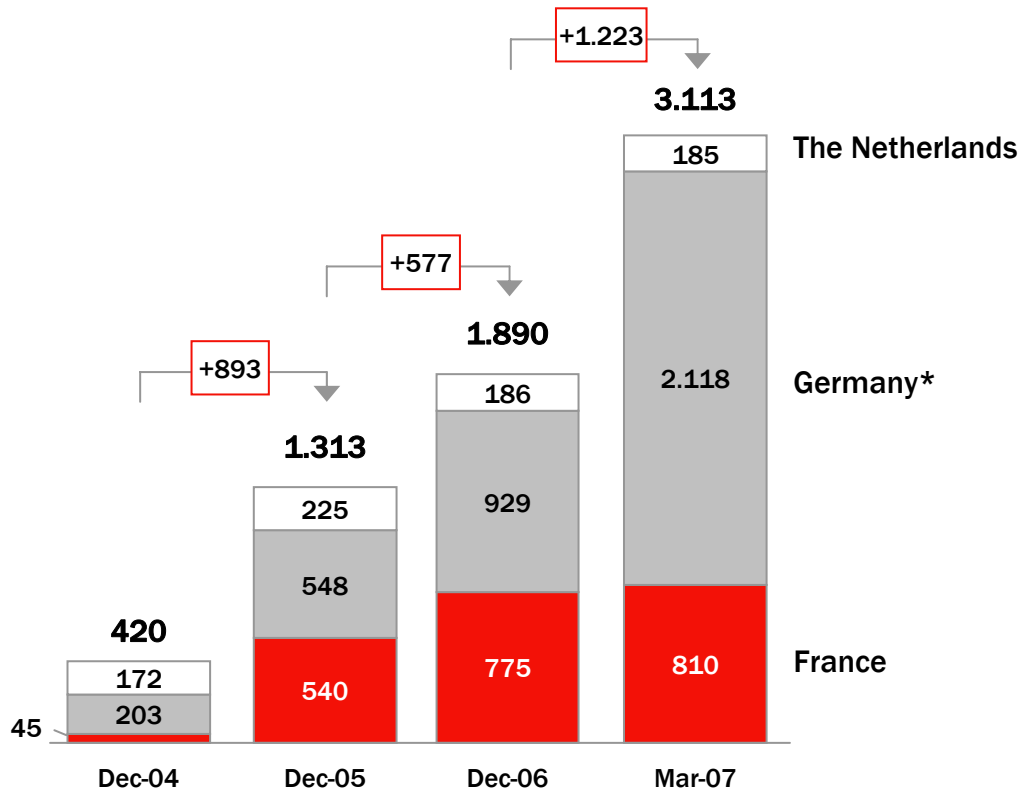
In 4Q 2003 Telecom Italia launched the European Broadband Project exporting ADSL plug&play solutions in high growing European BB markets



Telecom Italia European Broadband: Customer Base Evolution

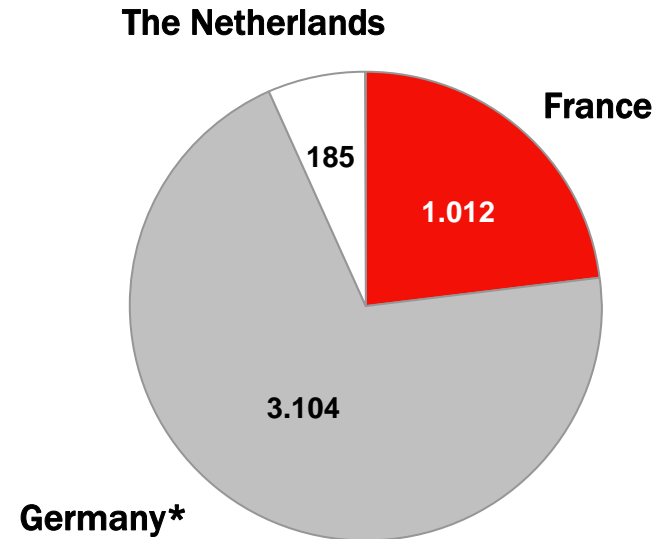
Broadband Portfolio

'000 BroadBand Access



Total customer portfolio: BB+NB

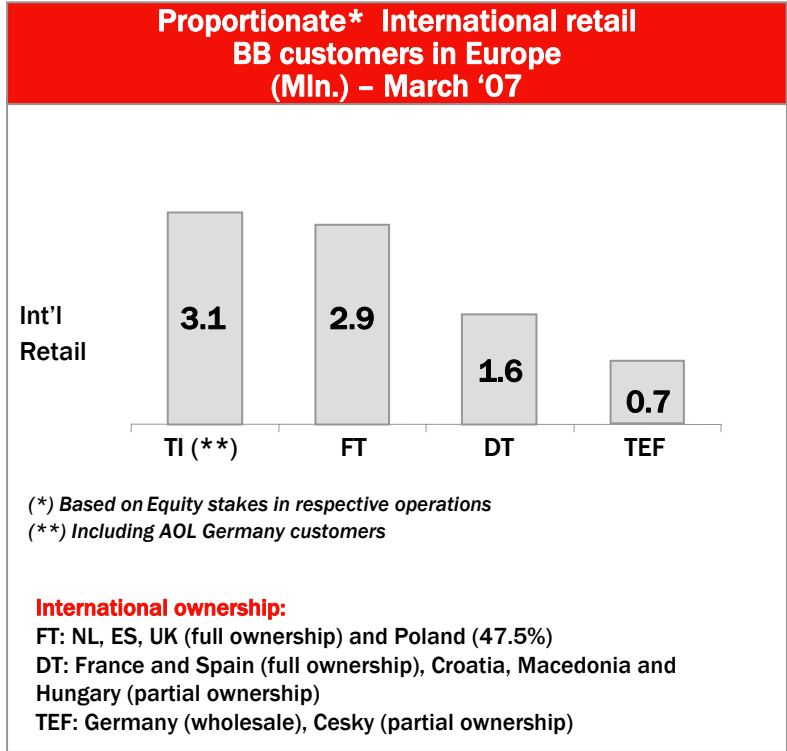
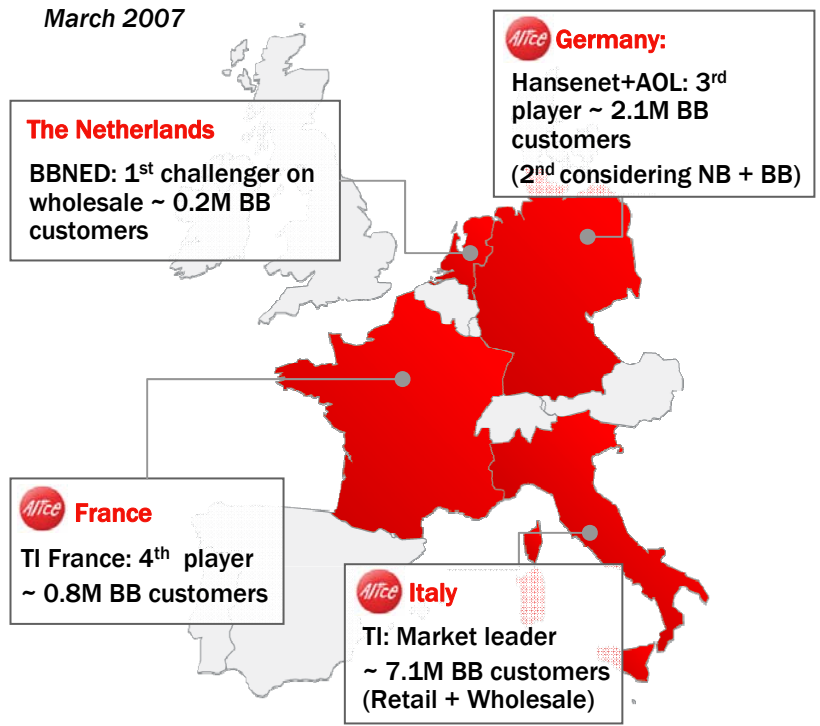
'000 Access



Total customer portfolio: 4.301.000

* Including AOL Customers, as of March 1°, 1.083 BB customers and 2.089k total customers

Telecom Italia European Broadband: market positioning



Source: Company Data

▶ Alice is the leading European BB brand outside domestic market with 3.1 million BB customers

Telecom Italia European Broadband: integrated approach

The benefits of TI Plug & Play

- Pan-regional visibility of “Alice” common brand
- Capitalization of TI Group broadband marketing and technical know-how and platforms
- Solutions “quick and easy” to be exported in different markets
- Economies of scale
- TI Group synergies add levers in Pan-EU propositions to multinational corporations (MNCs)
 - TI Sparkle European footprint and capabilities
 - local BB access in EU countries



European BroadBand Operations: Main Results 1Q '07 vs '06

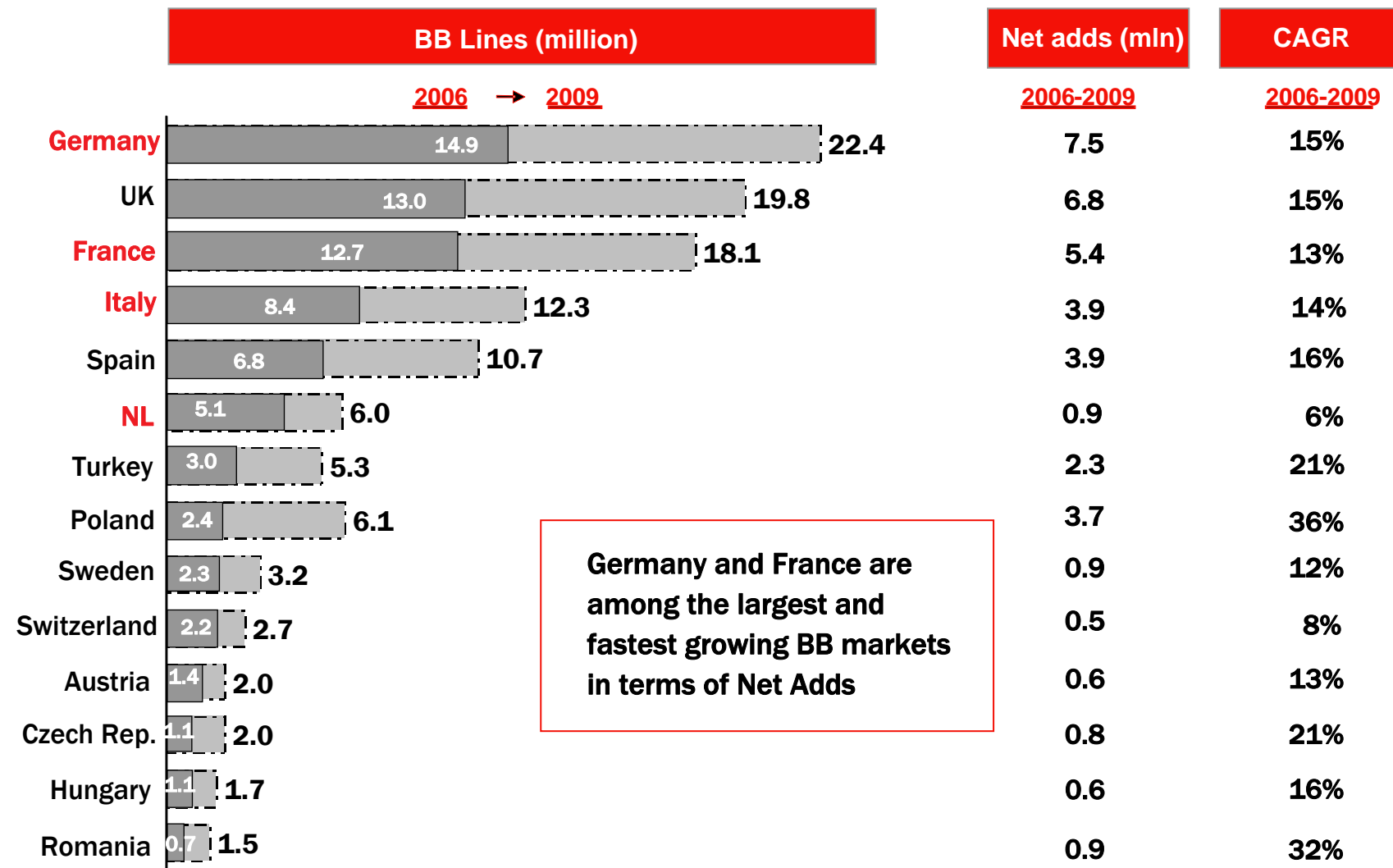
€ Mln, %

	Reported Data				Organic Growth	
	1Q '07	1Q '06	Δ	Δ %	Δ	Δ %
Revenues	304	204	+100	+49.0%	+62	+25.6%
Ebitda	30	2	+28	nm	+22	+275.0%
<i>Ebitda %</i>	9.9%	1.0%	+8.9pp		+6.6pp	
Ebit	-31	-38	+7	+18.4%	+1	+3.1%
<i>Ebit %</i>	-10.2%	-18.6%	+8.4pp		+3.0pp	
Capex	142	95	+47	+49.5%		
<i>% on revenues</i>	46.7%	46.6%	+0.1pp			

European Broadband: market trends and TI guidelines

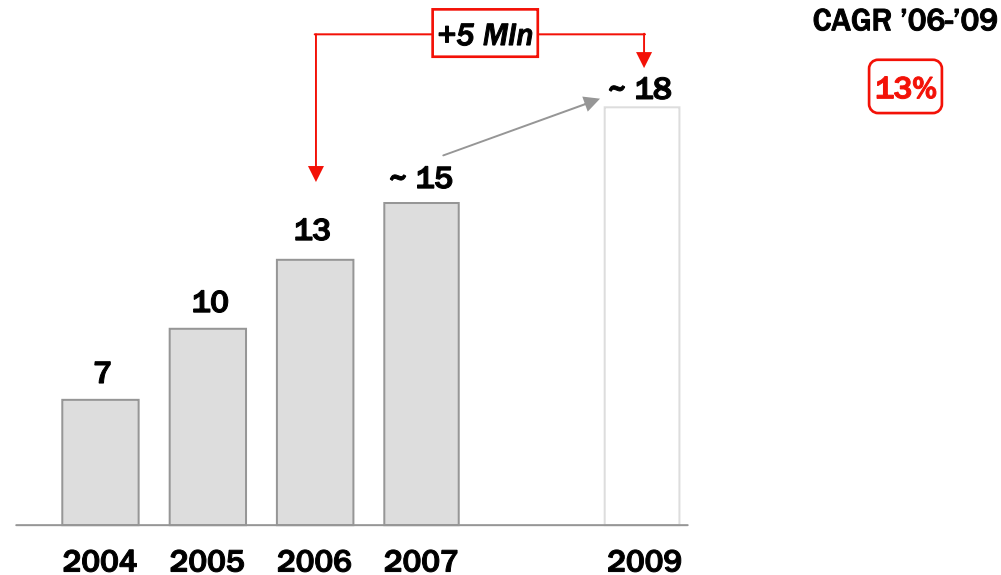
Market trends 2007-2009	TI strategic guidelines	1Q 2007 evidence
<p>Market consolidation in main EU countries and sustained BB growth in all markets</p>	<ul style="list-style-type: none"> ▶ Focus on business growth and operational efficiency ▶ Constant monitoring of market consolidation and new opportunities in Europe 	<ul style="list-style-type: none"> ▶ Germany: Closing of AOL acquisition (1st March '07) – No. 3 BB operator in Germany (14% market share) ▶ France: turnaround improving efficiency and quality of services
<p>Increase of alternative operator ULL coverage and early stage VDSL/Fiber Network project</p>	<ul style="list-style-type: none"> ▶ Increase of ULL Coverage via own network deployment and partnerships ▶ Evaluation of ultra-broadband project 	<ul style="list-style-type: none"> ▶ Germany: 41% ULL coverage in 1Q '07, on track with 2007 EoY target (~60%) ▶ France: 44% ULL coverage in 1Q 07, reaching original 2007 EoY target ▶ The Netherlands: launch of fiber project with local municipalities (7K customers as of April '07)
<p>Diffusion of 2/3 play offers and development of Fixed – Mobile Convergent offers</p>	<ul style="list-style-type: none"> ▶ Continuous Portfolio innovation with 2/3 P offers ▶ Launch of convergent offers through MVNOs ▶ Development of MNCs services on Corporate segment, leveraging on TI international capabilities and infrastructure 	<ul style="list-style-type: none"> ▶ France: enhancement of 3P offer via partnership with Canal+ (March 12th) total 3P customers ~ 55K as of May '07 ▶ Germany: launch of Alice MVNO (April '07) ~ 90K * customers as of May '07 ▶ Investigating MVNO option in France ▶ Development of integrated pan-EU IP-VPN solutions

European Broadband: market evolution



Development of Broadband market in France

Mln accesses



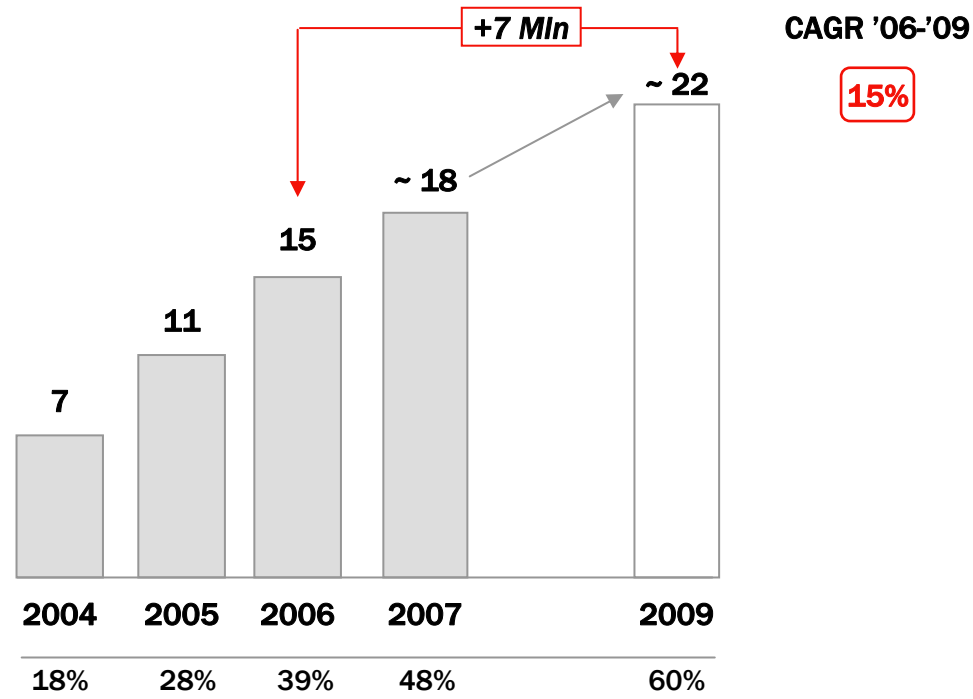
BB Access on Fixed Lines (%)

2004	21%
2005	30%
2006	40%
2007	49%
2009	59%

- ▶ French BB market shows interesting growth in the next 3 years: +5 Mln of BB access
- ▶ Strong competition based on portfolio innovation (launch of ADSL 2+, 1° market for VoIP and IPTV penetration in Europe) while 3Play price stabilized at ~ 30€/month for all players
- ▶ Market consolidation (merger Neuf/Cegetel and following acquisition of AOL France, Tele 2 acquisition by SFR, ...) will continue

Development of Broadband market in Germany

Mln accesses



- ▶ Germany is the first BB market in Europe in terms of size: 15 mln BB access, ~ 8 Bln € in value
- ▶ BB growth will continue at high rate (+15%) and penetration will reach 60% on fixed lines in 2009
- ▶ Highest Net adds in Europe: +7 Mln of BB access, +4 Bln € of revenues will be distributed over the next 3 years

European Broadband Project*: 2007 - 2009 Targets

Reported data	2006 Actual	2007 Targets	2009 Targets
BB Customer Portfolio (MLN Access)	1.9	> 3.5 (EoY 2007)	> 5.0 (EoY 2009)
Revenues	0.9 Bln €	~ 1.6 Bln € (Year 2007)	> 2.2 Bln € (Year 2009)
EBITDA margin	8.9%	> 14 % (Year 2007)	> 22% (Year 2009)
CAPEX	0.5 Bln €		~ 1.2 Bln € (Cum. '07-09)
Op. Free Cash Flow	- 0.3 Bln €		Positive from 2009

* Germany, France, The Netherlands

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Focus on HanseNet

HARALD ROESCH

Germany: market trends and HanseNet 2007 objectives

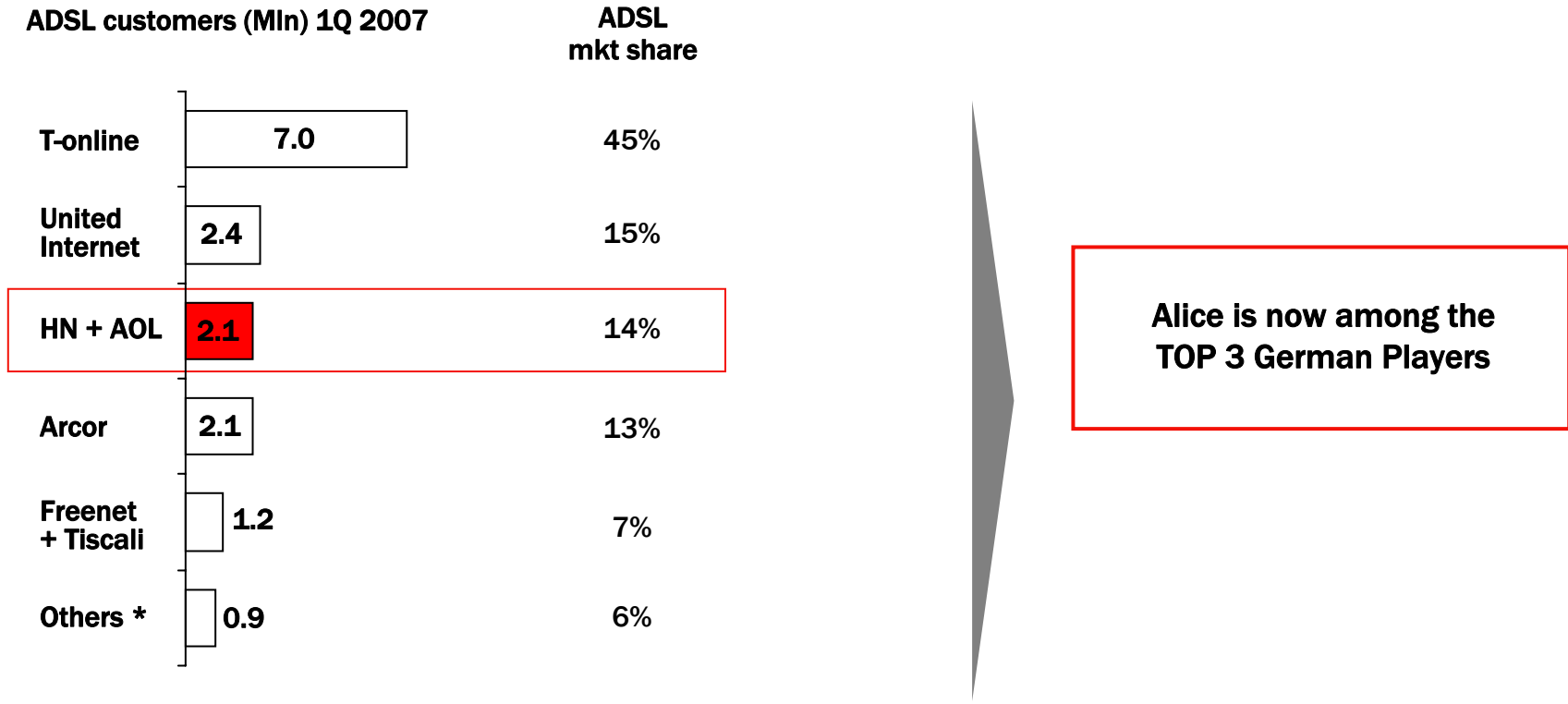
Market Trends

- ▶ German BB market growth is expected to continue at high rates (CAGR 06-09 +15%)
- ▶ Market concentrated among 4/5 competitors with room for further consolidation
- ▶ German ARPU, 40-50 €/month for bundle Voice + DSL, above European average
- ▶ Deutsche Telekom VDSL Plan and relevant regulation still under debate

Hansenet 2007 objectives

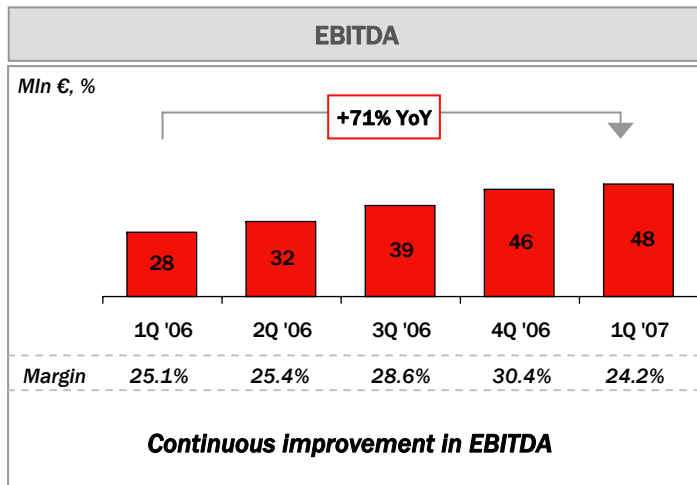
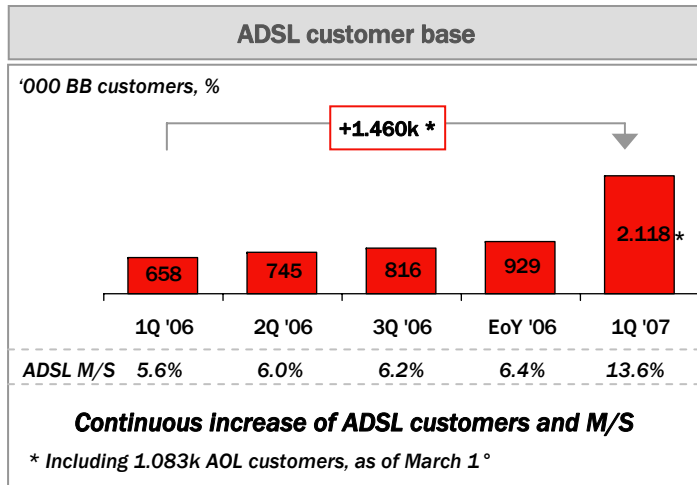
- ▶ Hansenet is in a very good position to capture the incremental market growth: Customer Base Target : ~ 2.5 mln BB customers
- ▶ Coherent marketing strategy to ensure continued success story
- ▶ Portfolio enhanced to maintain leadership in innovation in the market
- ▶ Network coverage expanded to ~ 60% of Households (~ 24 mln HH) with strong focus on cost efficiency

HanseNet: Alice Germany market position

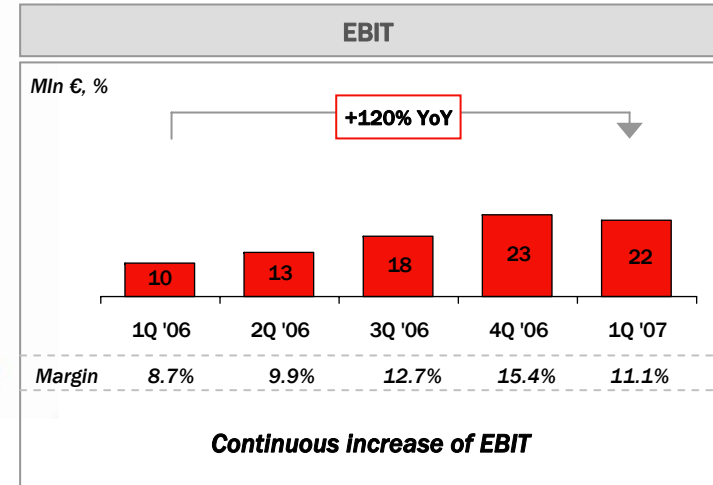
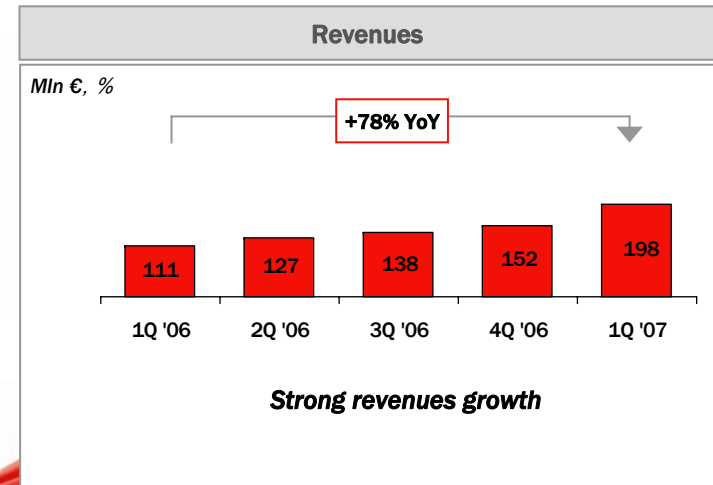


* Others include Versatel, Net Cologne, EWE Tel and other alternative operators

HanseNet: a success story



Die schönste Verbindung.



HanseNet: key elements of success



Fair,
Uncomplicated,
Clear,
Value for money

Product

- ▶ Attractive Voice and DSL bundles
- ▶ Innovation Leader (e.g. IPTV)
- ▶ High quality service
- ▶ Increase availability through ULL coverage development

Pricing

- ▶ Simple and transparent (e.g. no minimum contract period)
- ▶ In line with competition and 10€ less than T-COM

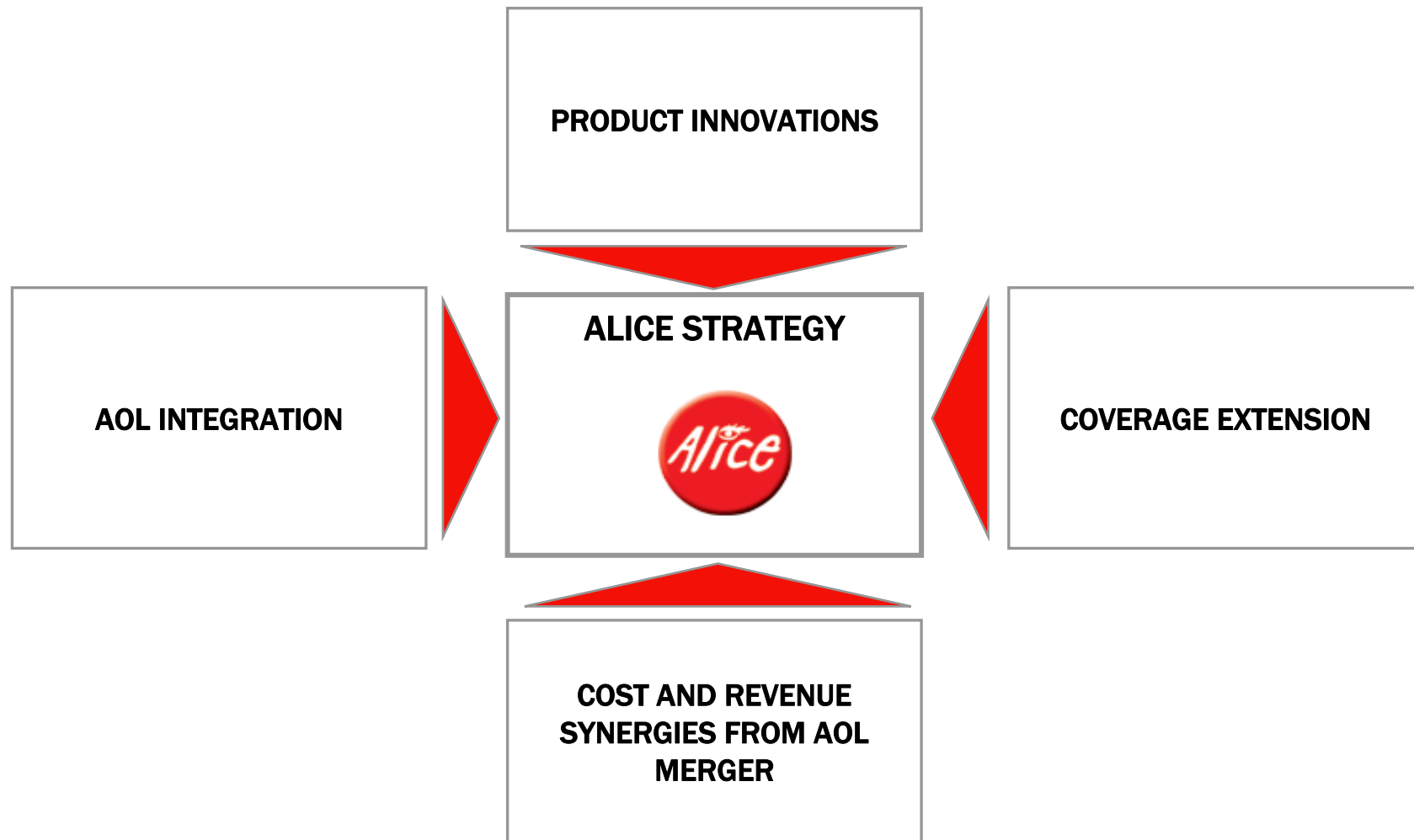
Distribution

- ▶ Multi-channel strategy leveraging on Web and Call Center sales channels

Promotion

- ▶ Communication Strategy: emotional and not only price driven
- ▶ Local communication approach

HanseNet: Alice Germany's strategic focus



HanseNet product innovations: IPTV

Description IPTV Offer

- ▶ Basic TV subscription for 9.90€/month (All public and all major private German TV channels)
- ▶ Video-On-Demand offering films from several Hollywood majors (e.g. Disney)
- ▶ Additional 40 TV channels in Pay-TV packages

Launched in
Hamburg in
September 2006

Current Results

- ▶ Currently ca. 10.000 subscribers with ARPU of >10 Euro per month and Gross Margin > 50%
- ▶ Ongoing customer growth
- ▶ Technical stability reached with high quality video; no issues with scalability



2007 Developments

- ▶ Extension of coverage to ca. 8 Million Households (Berlin opened in May)
- ▶ Additional Content (TV and radio channels, VoD films) to enhance attractiveness
- ▶ Additional features (e.g. Time-Shift-TV as legally possible) and usability improvements
- ▶ Alternative forms of usage

HanseNet product innovations: Alice Mobile

Description Mobile Offer

- ▶ Option Alice Mobile available for subscribers to Alice Broadband services
- ▶ Monthly Fee: 0 €
- ▶ Calls from Alice to Alice (Mobile-Mobile, Fixed-Mobile, Mobile-Fixed): 0 cent
- ▶ All other national calls (mobile or fixed): 15 cent/minute

**Launched in
May 2007**

Current Results

- ▶ During first 6 weeks ca. 40.000 subscribers to Alice Mobile option
- ▶ Total mobile customer base ca. 90.000 (including also AOL Mobile)

2007 Developments

- ▶ Integration with Online Services (e.g. Mail and Portal)



HanseNet product innovations: Portal and Value Added Services

Alice Portal



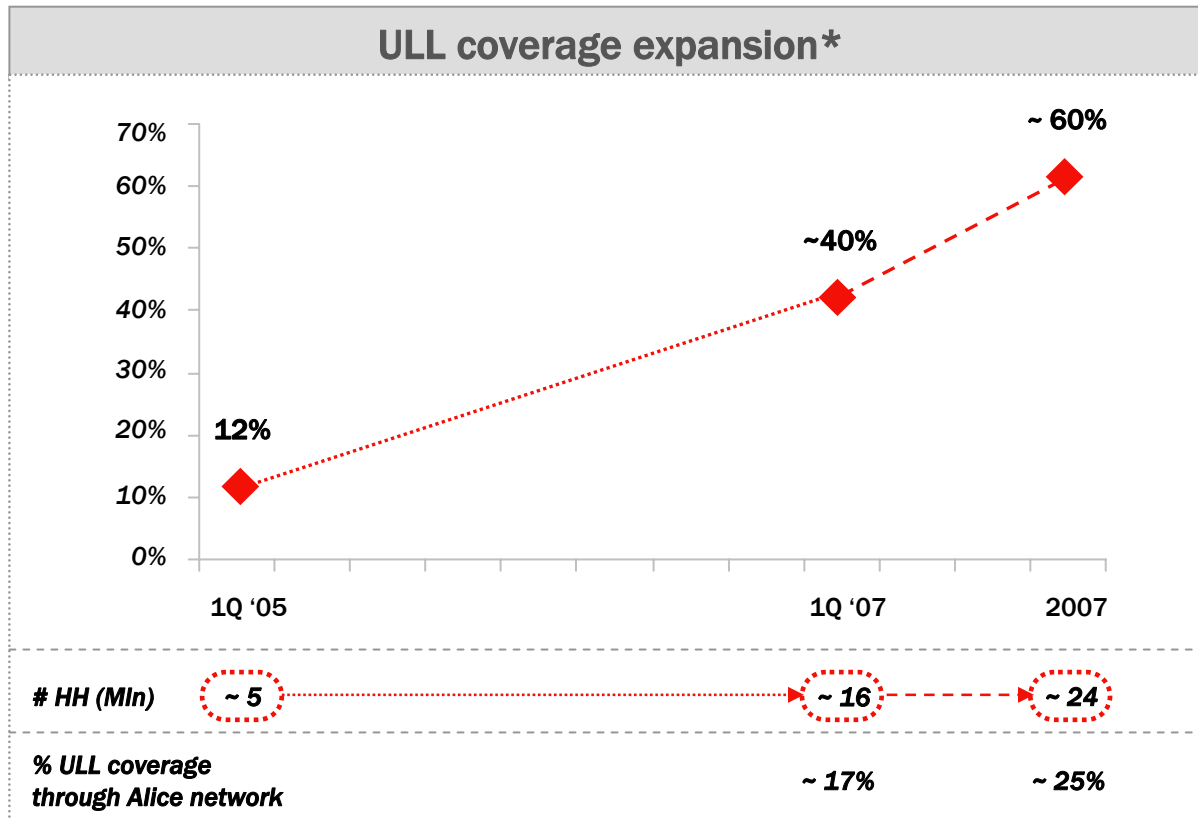
Current Status

- ▶ Since April all Alice customers have the joint AOL-Alice Portal (operated by AOL) as default home page
- ▶ New Value Added Services such as options for Internet Security and a new Mail Service have been introduced recently

Outlook

- ▶ Focus will be on growth of portal traffic and generation of additional ARPU from VAS

HanseNet : development of geographic coverage



* % on Households, HH (mln)

- Strong focus on ULL coverage, reaching ca. 60% EOY '07 (25% own network and additional coverage through partnership with Telefonica and QSC)
- ULL coverage considered key to success in the market
- Own network gives <10 Euro margin advantage per month compared to wholesale ULL (payback period for CAPEX ca. 2 years)
- “Make and Buy” approach gives flexibility to react to evolution of regulatory environment and quality of platforms

AOL Integration

Activities	Status	
▶ Legal Merger	▶ Closing 1st of March 2007 (Start of consolidation of AOL accounts) ▶ Legal Merger of all AOL Companies in HanseNet done in June 2007	✓
▶ Organization	▶ Integrated organization in place since March	✓
▶ Products and Channels	▶ Alice product line and brand has been adopted for new company	✓
▶ Customer Migration to Alice CRM systems	▶ Migration ongoing. Already 20% of customers have been successfully migrated. Finalization of migration by end of 2007.	✓
▶ Upselling of AOL customers	▶ Upselling of AOL Narrowband and Broadband customers to Alice products (and network) is ongoing ▶ Upselling requires individual opt-in but doubles ARPU and multiplies margins by 4 in ULL areas	✓
▶ Synergies	▶ Cost saving projects are under way with target of 25-40 Million € benefits per year	✓

Hansenet: 2007 – 2009 Targets

Reported data

	2006 Actual	2007 Targets	2009 Targets
BB Customer Portfolio (‘MLN Access)	0.9	~ 2.5 (*) (EoY 2007)	> 3.2 (EoY 2009)
Revenues	0.5 Bln €	~ 1.1 Bln € (Year 2007)	> 1.5 Bln € (Year 2009)
EBITDA margin	28%	~ 25% (Year 2007)	> 30% (Year 2009)
CAPEX	0.2 Bln €		< 0.8 Bln € (Cum. ‘07-09)
Op. Free Cash Flow	0.0 Bln €	Positive cash flow	~ 15% on revenues (Year 2009)

(*) Including about 1,1 Mln customers from AOL acquisition

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Back up

Regulatory Impacts 2007

Subject	Impact
<ul style="list-style-type: none">▶ New ULL monthly and set-up fees	<ul style="list-style-type: none">▶ No significant price decrease has been granted on monthly ULL Fees▶ Decision on one-time fees expected for the end of June – in current political environment no significant economic benefits are expected
<ul style="list-style-type: none">▶ Access to Deutsche Telecom Ducts and Street Cabinets	<ul style="list-style-type: none">▶ Improves HanseNet possibilities to evaluate further network enhancements in high market share areas (VDSL/Fiber)▶ Business case will depend on pricing for duct/cabinet access
<ul style="list-style-type: none">▶ Introduction of naked DSL/Bitstream Access	<ul style="list-style-type: none">▶ Could potentially improve margins in areas without ULL coverage (Expectation ~5 € margin increase per month with respect to Deutsche Telekom's Resale conditions)▶ Customers will not need telephone connection from Deutsche Telekom anymore