

# TELECOM ITALIA GROUP

## 1° QUARTER 2007 – ATTACHEMENTS TO THE PRESS RELEASE

### ALTERNATIVE PERFORMANCE MEASURES

In this press release in addition to the conventional financial performance measures established by IFRS, certain non-IFRS measures are presented for purposes of a better understanding of the trend of operations and the financial condition of the Group for the first quarter of 2007 and 2006. However, such measures should not be construed as a substitute for the operating and financial information required by IFRS.

Specifically, the non-IFRS alternative performance measures used are described below:

- **EBITDA.** This financial measure is used by Telecom Italia as the financial target in internal presentations (business plans) and in external presentations (to analysts and investors). It represents a useful unit of measurement for the evaluation of the operating performance of the Group (as a whole and at the level of the Business Units), in addition to **EBIT**. These measures are calculated as follows:

<b>Income from continuing operations before taxes</b>
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- |  |
|--|
| + Financial expenses   |
| - Financial income   |
| +/- Share of losses / (profits) of associates and joint ventures accounted for using the equity method |

<b>EBIT (Operating Income)</b>
--------------------------------

- |  |
|--|
| +/- Impairment losses / (reversals) on non-current assets        |
| +/- Losses / (gains) realized on disposals of non-current assets |
| + Depreciation and amortization                                  |

<b>EBITDA (Operating income before depreciation and amortization, Capital gains / (losses) realized and Impairment reversals / (losses) on non-current assets)</b>
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- **Organic change in Revenues, EBITDA and EBIT.** This measure expresses changes (amount and/or percentage) in Revenues, EBITDA and EBIT, excluding, where applicable, the effects of the change in the scope of consolidation, exchange differences and non-organic components constituted by non-recurring items and other non-organic income/expenses. Telecom Italia deems that the presentation of such additional information allows the operating performance of the Group (as a whole and of the Business Units) to be interpreted in a more effective manner. The organic change in Revenues, EBITDA and EBIT is also used in presentations to analysts and investors.
- **Net Financial Debt.** Telecom Italia believes that the Net Financial Debt represents an accurate indicator of its ability to meet its financial obligations. It is represented by Gross Financial Debt less Cash and Cash Equivalents and other Financial Assets.

The Statements of Income, the Balance Sheets, the Statements of Cash Flows as well as the Net Financial Debt of the Telecom Italia Group, herewith presented, are the same as those included in the First Quarter 2007 Report and are unaudited.

**TELECOM ITALIA GROUP**  
**CONSOLIDATED STATEMENTS OF INCOME**

(millions of euro)	1 <sup>st</sup> Quarter	1 <sup>st</sup> Quarter	Change	
	2007 (a)	2006 (b)	(a-b)	%
Revenues	7,540	7,482	58	0.8
Other income	73	111	(38)	(34.2)
<b>Total operating revenues and other income</b>	<b>7,613</b>	<b>7,593</b>	<b>20</b>	<b>0.3</b>
Purchases of materials and external services	(3,239)	(3,090)	(149)	4.8
Personnel costs	(1,013)	(1,018)	5	(0.5)
Other operating expenses	(377)	(314)	(63)	20.1
Changes in inventories	35	12	23	°
Capitalized internal construction costs	135	112	23	20.5
<b>OPERATING RESULT BEFORE DEPRECIATION AND AMORTIZATION, CAPITAL GAINS (LOSSES) REALIZED AND IMPAIRMENT REVERSALS (LOSSES) OF NON-CURRENT ASSETS (EBITDA)</b>	<b>3,154</b>	<b>3,295</b>	<b>(141)</b>	<b>(4.3)</b>
Depreciation and amortization	(1,400)	(1,428)	28	(2.0)
Gains (losses) on disposals of non-current assets (1)	9	118	(109)	(92.4)
Impairment reversals (losses) on non-current assets	-	(1)	1	-
<b>OPERATING INCOME (EBIT)</b>	<b>1,763</b>	<b>1,984</b>	<b>(221)</b>	<b>(11.1)</b>
Share of profits (losses) of associates and joint ventures accounted for using the equity method	29	12	17	141.7
Financial income	1,057	793	264	33.3
Financial expenses	(1,513)	(1,372)	(141)	10.3
<b>INCOME FROM CONTINUING OPERATIONS BEFORE TAXES</b>	<b>1,336</b>	<b>1,417</b>	<b>(81)</b>	<b>(5.7)</b>
Income taxes	(561)	(656)	95	(14.5)
<b>NET INCOME FROM CONTINUING OPERATIONS</b>	<b>775</b>	<b>761</b>	<b>14</b>	<b>1.8</b>
Net income from discontinued operations/assets held for sale	-	11	(11)	-
<b>NET INCOME FOR THE PERIOD</b>	<b>775</b>	<b>772</b>	<b>3</b>	<b>0.4</b>
of which:				
- Net income attributable to equity holders of the Parent	775	744	31	4.2
- Net income (loss) attributable to Minority Interests	-	28	(28)	°

(1) Excludes capital gains/losses realized on disposals of investments classified as discontinued operations/assets held for sale and investments other than in subsidiaries.

**Basic and Diluted Earnings Per Share (EPS) (\*)**

(euro)	1 <sup>st</sup> Quarter	1 <sup>st</sup> Quarter
	2007	2006
Basic and Diluted EPS per:		
- Ordinary Share	0.04	0.04
- Savings Share	0.05	0.05
Of which:		
- From continuing operations		
- Ordinary Share	0.04	0.04
- Savings Share	0.05	0.05
- From discontinued operations/assets held for sale		
- Ordinary Share	-	-
- Savings Share	-	-

(\*\*) Basic EPS is equal to Diluted EPS.

**TELECOM ITALIA GROUP**  
**CONSOLIDATED BALANCE SHEETS**

(millions of euro)	3/31/2007	12/31/2006	Change
	(a)	(b)	(a-b)
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
<b>Intangible assets</b>			
Goodwill	44,453	43,739	714
Intangible assets with a finite life	6,691	6,740	(49)
	51,144	50,479	665
<b>Tangible assets</b>			
Property, plant and equipment owned	15,626	15,690	(64)
Assets held under finance leases	1,498	1,525	(27)
	17,124	17,215	(91)
<b>Other non-current assets</b>			
Investments in associates and joint ventures accounted for using the equity method	507	488	19
Other investments	756	776	(20)
Securities, financial receivables and other non-current financial assets	657	691	(34)
Miscellaneous receivables and other non-current assets	971	871	100
Deferred tax assets	625	912	(287)
	3,516	3,738	(222)
<b>TOTAL NON-CURRENT ASSETS (A)</b>	<b>71,784</b>	<b>71,432</b>	<b>352</b>
<b>CURRENT ASSETS</b>			
Inventories	328	291	37
Trade and miscellaneous receivables and other current assets	8,886	8,748	138
Current income tax receivables	34	287	(253)
Securities	253	812	(559)
Financial receivables and other current financial assets	484	433	51
Cash and cash equivalents	6,497	7,219	(722)
<b>Current assets sub-total</b>	<b>16,482</b>	<b>17,790</b>	<b>(1,308)</b>
<b>Discontinued operations/assets held for sale</b>			
of a financial nature	-	-	-
of a non-financial nature	235	235	-
	235	235	-
<b>TOTAL CURRENT ASSETS (B)</b>	<b>16,717</b>	<b>18,025</b>	<b>(1,308)</b>
<b>TOTAL ASSETS (A+B)</b>	<b>88,501</b>	<b>89,457</b>	<b>(956)</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Equity attributable to equity holders of the Parent	26,870	26,018	852
Equity attributable to Minority Interests	1,083	1,080	3
<b>TOTAL EQUITY (C)</b>	<b>27,953</b>	<b>27,098</b>	<b>855</b>
<b>NON-CURRENT LIABILITIES</b>			
Non-current financial liabilities	39,125	40,803	(1,678)
Employee severance indemnities and other employee-related provisions	1,260	1,262	(2)
Deferred tax liabilities	196	194	2
Provisions for risks and charges	786	775	11
Miscellaneous payables and other non-current liabilities	1,836	1,857	(21)
<b>TOTAL NON-CURRENT LIABILITIES (D)</b>	<b>43,203</b>	<b>44,891</b>	<b>(1,688)</b>
<b>CURRENT LIABILITIES</b>			
Current financial liabilities	5,948	5,653	295
Trade and miscellaneous payables and other current liabilities	11,195	11,596	(401)
Current income tax payables	202	219	(17)
<b>Current liabilities sub-total</b>	<b>17,345</b>	<b>17,468</b>	<b>(123)</b>
<b>Liabilities relating to discontinued operations/assets held for sale</b>			
of a financial nature	-	-	-
of a non-financial nature	-	-	-
	-	-	-
<b>TOTAL CURRENT LIABILITIES (E)</b>	<b>17,345</b>	<b>17,468</b>	<b>(123)</b>
<b>TOTAL LIABILITIES (F=D+E)</b>	<b>60,548</b>	<b>62,359</b>	<b>(1,811)</b>
<b>TOTAL EQUITY AND LIABILITIES (C+F)</b>	<b>88,501</b>	<b>89,457</b>	<b>(956)</b>

**TELECOM ITALIA GROUP**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(millions of euro)	1 <sup>st</sup> Quarter 2007	1 <sup>st</sup> Quarter 2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income from continuing operations	775	761
<i>Adjustments to reconcile net income from continuing operations to cash flows generated by (used in) operating activities:</i>		
Depreciation and amortization	1,400	1,428
Impairment (reversals) losses of non-current assets (including investments)	(93)	4
Net change in deferred tax assets and liabilities	289	238
Net (gains) losses realized on disposals of non-current assets (including investments)	(9)	(118)
Share of (profits) losses of associates and joint ventures accounted for using the equity method	(29)	(12)
Change in employee severance indemnities and other employee-related provisions	(8)	(16)
Change in other operating assets/liabilities:		
Change in inventories	(37)	(16)
Change in trade receivables and net receivables on construction contracts	56	(35)
Change in trade payables	(411)	(624)
Net change in miscellaneous receivables/payables and other assets/liabilities	382	187
<b>CASH FLOWS GENERATED BY (USED IN) OPERATING ACTIVITIES (A)</b>	<b>2,315</b>	<b>1,797</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
<i>Acquisitions of intangible assets on an accrual basis</i>	(478)	(411)
<i>Acquisitions of tangible assets on an accrual basis</i>	(682)	(614)
Total acquisitions of intangible and tangible assets on an accrual basis	(1,160)	(1,025)
<i>Change in amounts due to fixed asset suppliers</i>	(367)	(370)
Total acquisitions of intangible and tangible assets on a cash basis	(1,527)	(1,395)
Acquisitions of investments in subsidiaries and businesses, net of cash acquired (I)	(669)	-
Acquisitions of other investments	-	-
Change in financial receivables and other financial assets	543	215
Proceeds from sale of investments in subsidiaries, net of cash disposed of (II)	2	111
Proceeds from sale/repayments of intangible, tangible and other non-current assets (II)	15	256
<b>CASH FLOWS GENERATED BY (USED IN) INVESTING ACTIVITIES (B)</b>	<b>(1,636)</b>	<b>(813)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net change in current financial liabilities and others liabilities	(381)	(343)
Proceeds from non-current financial liabilities (including current portion)	182	89
Repayments of non-current financial liabilities (including current portion)	(1,298)	(4,218)
Proceeds from equity instruments	-	2
Share capital increases/repayments	-	-
Dividends paid (distribution of reserves included)	(18)	(37)
<b>CASH FLOWS GENERATED BY (USED IN) FINANCING ACTIVITIES (C)</b>	<b>(1,515)</b>	<b>(4,507)</b>
<b>CASH FLOWS GENERATED BY (USED IN) DISCONTINUED OPERATIONS/ASSETS HELD FOR SALE (D)</b>	<b>-</b>	<b>9</b>
<b>AGGREGATE CASH FLOWS (E=A+B+C+D)</b>	<b>(836)</b>	<b>(3,514)</b>
<b>NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD (F)</b>	<b>6,960</b>	<b>9,958</b>
Net effect of foreign currency translation on net cash and cash equivalents (G)	10	29
<b>NET CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (H=E+F+G)</b>	<b>6,134</b>	<b>6,473</b>

**ADDITIONAL CASH FLOW INFORMATION:**

(millions of euro)	1 <sup>st</sup> Quarter 2007	1 <sup>st</sup> Quarter 2006
Income taxes (paid) received	(29)	(5)
Interest expense paid	(1,217)	(1,006)
Interest income received	345	167
Dividends received	5	12

(I) Net of change in payables following the related acquisition.

(II) Net of change in receivables following the related disposal.

**ANALYSIS OF NET CASH AND CASH EQUIVALENTS:**

(millions of euro)	1 <sup>st</sup> Quarter 2007	1 <sup>st</sup> Quarter 2006
<b>NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD:</b>		
Cash and cash equivalents - from continuing operations	7,219	10,323
Bank overdraft repayable on demand – from continuing operations	(259)	(383)
Cash and cash equivalents - from discontinued operations/assets held for sale	-	37
Bank overdraft repayable on demand – from discontinued operations/assets held for sale	-	(19)
	<b>6,960</b>	<b>9,958</b>
<b>NET CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD:</b>		
Cash and cash equivalents - from continuing operations	6,497	6,734
Bank overdraft repayable on demand – from continuing operations	(363)	(304)
Cash and cash equivalents - from discontinued operations/assets held for sale	-	43
Bank overdraft repayable on demand – from discontinued operations/assets held for sale	-	-
	<b>6,134</b>	<b>6,473</b>

**TELECOM ITALIA GROUP - CONSOLIDATED NET FINANCIAL DEBT**

(millions of euro)		3/31/2007	12/31/2006	Change
		(a)	(b)	(a-b)
<b>Non-current financial liabilities (*)</b>				
Financial payables		35,642	37,391	(1,749)
Finance lease liabilities		1,830	1,847	(17)
Non-current liabilities for hedging derivatives		1,540	1,451	89
Other financial liabilities		113	114	(1)
	(1)	39,125	40,803	(1,678)
<i>Less:</i>				
Non-current financial receivables for lessors' net investments		(232)	(229)	(3)
Non-current assets for hedging derivatives		(209)	(243)	34
		(441)	(472)	31
<b>TOTAL NON-CURRENT FINANCIAL LIABILITIES (*)</b>	<b>(A)</b>	<b>38,684</b>	<b>40,331</b>	<b>(1,647)</b>
<b>Current financial liabilities (*)</b>				
Financial payables		5,431	5,143	288
Finance lease liabilities		274	269	5
Current liabilities for hedging and non-hedging derivatives		234	231	3
Other financial liabilities		9	10	(1)
	(2)	5,948	5,653	295
<i>Less:</i>				
Current financial receivables for lessors' net investments		(155)	(148)	(7)
Current assets for hedging derivatives		(255)	(207)	(48)
		(410)	(355)	(55)
<b>TOTAL CURRENT FINANCIAL LIABILITIES (*)</b>	<b>(B)</b>	<b>5,538</b>	<b>5,298</b>	<b>240</b>
Financial liabilities relating to discontinued operations/assets held for sale	(C) (3)	-	-	-
<b>TOTAL GROSS FINANCIAL DEBT (*)</b>	<b>(D=A+B+C)</b>	<b>44,222</b>	<b>45,629</b>	<b>(1,407)</b>
<b>Current financial assets (*)</b>				
Securities		(253)	(812)	559
Financial receivables and other current financial assets		(484)	(433)	(51)
Cash and cash equivalents		(6,497)	(7,219)	722
	(4)	(7,234)	(8,464)	1,230
<i>Less:</i>				
Current financial receivables for lessors' net investments		155	148	7
Current assets for hedging derivatives		255	207	48
		410	355	55
	(E)	(6,824)	(8,109)	1,285
Financial assets relating to discontinued operations/assets held for sale	(F) (5)	-	-	-
<b>TOTAL CURRENT FINANCIAL ASSETS (*)</b>	<b>(G=E+F)</b>	<b>(6,824)</b>	<b>(8,109)</b>	<b>1,285</b>
<b>NET FINANCIAL DEBT AS OF CONSOB COMMUNICATION N. DEM/6064293/2006</b>	<b>(H=D+G)</b>	<b>37,398</b>	<b>37,520</b>	<b>(122)</b>
<b>Non-current financial assets (*)</b>				
Securities other than investments		(11)	(12)	1
Financial receivables and other non-current financial assets		(646)	(679)	33
	(6)	(657)	(691)	34
<i>Less:</i>				
Non-current financial receivables for lessors' net investments		232	229	3
Non-current assets for hedging derivatives		209	243	(34)
		441	472	(31)
<b>TOTAL NON-CURRENT FINANCIAL ASSETS (*)</b>	<b>(I)</b>	<b>(216)</b>	<b>(219)</b>	<b>3</b>
<b>NET FINANCIAL DEBT</b>	<b>(L=H+I)</b>	<b>37,182</b>	<b>37,301</b>	<b>(119)</b>
<b>COMPOSITION OF THE NET FINANCIAL DEBT:</b>				
<b>Total gross financial debt:</b>				
Non-current financial liabilities	(1)	39,125	40,803	(1,678)
Current financial liabilities	(2) + (3)	5,948	5,653	295
		45,073	46,456	(1,383)
<b>Total gross financial assets</b>				
Non-current financial assets	(6)	(657)	(691)	34
Current financial assets	(4) + (5)	(7,234)	(8,464)	1,230
		(7,891)	(9,155)	1,264
		37,182	37,301	(119)

(\*) Net of assets for hedging derivatives and financial receivables for lessors' net investments.

## DEBT STRUCTURE, BOND ISSUED AND EXPIRY BOND

During the first quarter 2007, the Telecom Italia Group has not issued new bonds, except for the increase of the Telecom Italia S.p.A. 2002-2022 bond set aside for subscription by Group's Employees, for total euro 22 millions.

The total reimbursement amount, net of the Group's debt buy-back, for the bonds expiring 18 month after 31 March 2007, issued by Telecom Italia S.p.A. and Telecom Italia Finance S.A. (fully guaranteed by Telecom Italia S.p.A.), has amounted to 4629 euro millions, with the following details:

- 1,720 millions of euro, expiring on April 24, 2007, fully repaid;
- 1,658.86 millions of euro, expiring on January 24, 2008;
- 750 millions of euro; expiring on June 9, 2008;
- 499.67 millions of euro, expiring on September 14, 2008.

Bonds issued by companies of the Group to third parties do not contain either financial covenants or clauses which can cause the early repayment of the bonds except in the event of the insolvency of the Telecom Italia Group. Furthermore, the repayment of the bonds and the payment of interest are not covered by specific guarantees nor are there commitments provided relative to the assumption of guarantees, except for the full and unconditional guarantees provided by Telecom Italia S.p.A. for the bonds issued by Telecom Italia Finance S.A. and Telecom Italia Capital S.A..

It should be underscored that all of the contracts for loans, other than bond issues, granted directly by the European Investment Bank (EIB), which are recorded in the financial statements at March 31, 2007 for euro 1,903 million (euro 1,895 million, nominal amount), are covered by bank guarantees for the full and exact amount of the company's economic obligations (with the exception of a single loan for euro 350 million). These guarantees have been issued by banks that have credit ratings of not less than "A-" assigned by Standard & Poor's or an equivalent level assigned by other agencies. The loan contracts contain negative pledge clauses, that is limitations regarding activities of the company which could influence its ability to produce profits and therefore meet the commitments undertaken, yet leaving ample operating possibilities in line with international contract best practice.

Moreover, the major bank loans carried by the subsidiaries in Brazil provide for personal and real guarantees, financial covenants (i.e. obligations of the company to respect certain financial indexes), negative pledge clauses and other covenants.

The existing committed credit lines as of March 31, 2007, composed of the Revolving Credit Facility, amount to euro 8 billion expiring in August 2012, drawn for euro 1.5 billion.

Furthermore, the euro 2 billion of residual amount of the syndicated credit line expiring in March 2007, has been cancelled on January 15, 2007. At once, the Revolving Credit Facility maturing in 2012's plafond has been increased by the same amount.

Moreover, at March 31, 2007, the total unused and available committed credit lines (revolving and bilateral) amount to euro 6.6 billion.

It should be stressed that Telecom Italia's syndicated bank lines do not contain financial covenants for non-compliance which require the repayment of the existing loan. They do provide for the normal negative pledge clauses (within the limits of requirements for operations). These credit lines are subject, only with regard to the interest margin, to variations in the ratings which would pertain to the credit risk of the company, on the basis of a pre-set grid.

**DETAILS OF NON-RECURRING ITEMS** (Comunicazione Consob n. DEM/6064293 del 28 luglio 2006):

(millions of euro)	1st quarter 2007 (a)	1st quarter 2006 (b)	Change (a – b)
<b>Purchases of materials and external services, Other operating expenses:</b>			
Corporate restructuring costs	-	(9)	9
<b>IMPACT OF NON-RECURRING ITEMS ON EBITDA</b>	-	(9)	9
<b>Capital gains (losses) realized on disposals of non-current assets:</b>			
Gains on sale of properties	10	85	(75)
Gain on sale of Ruf Gestion	-	27	(27)
<b>IMPACT OF NON-RECURRING ITEMS ON EBIT</b>	<b>10</b>	<b>103</b>	<b>(93)</b>
<b>IMPACT OF NON-RECURRING ITEMS ON INCOME FROM CONTINUING OPERATIONS BEFORE TAXES</b>	<b>10</b>	<b>103</b>	<b>(93)</b>
Effect on income taxes	(2)	(29)	27
<b>IMPACT OF NON-RECURRING ITEMS ON NET INCOME FOR THE PERIOD</b>	<b>8</b>	<b>74</b>	<b>(66)</b>