

TELECOM ITALIA

FY 2005 Financial Results

Milan, March 7, 2006

Telecom Italia Operations: 2005 Results

RICCARDO RUGGIERO



olivetti



Agenda

- ▶ **Wireline financial performance and operational overview**
- ▶ **Mobile financial performance and operational overview**
- ▶ **Appendix**

Wireline financial highlights

€ Mln, Reported Data,
IAS-IFRS

	YoY					
	2005	2004	D Abs	D %	YoY organic	
Revenues	17,802	17,431	371	+2.1%	+1.6%	+1,9% excluding F2M cut
Domestic*	17,236	17,161	75	+0.4%	+0.6%	
European Project**	566	270	296	n.m	+41.5%	
EBITDA	7,597	7,809	-212	-2.7%	+1.0%	Includes 199 mln. restructuring charge
Domestic*	7,599	7,804	-205	-2.6%	+1.1%	
European Project**	-2	5	-7	n.m	n.m	
Margin	42.7%	44.8%	-2.1 pp		-0.2pp	Stable organic Margin 45.2% in 2005 vs 45.0 in 2004
Domestic*	44.1%	45.5%	-1.4 pp		+0.2 pp	
European Project**	-0.4%	1.9%	-2.3 pp		-1.2pp	
EBIT	4,566	4,756	-190	-4.0%	0.0%	
Domestic*	4,683	4,817	-134	-2.8%	+0.9%	
European Project**	-117	-61	-56	-91.8%	-58.1%	
Margin	25.6%	27.3%	-1.6 pp		-0.4 pp	
Domestic*	27.2%	28.1%	-0.9 pp		+0.1 pp	
European Project**	-20.7%	-22.6%	+1.9 pp		-2.2 pp	
CAPEX	2,670	2,267	+403			
Domestic*	2,366	2,098	+268			
European Project**	304	169	+135			

*Includes wholesale international activities

**France (Including Liberty Surf since May 2005), Germany and The Netherlands



Wireline: Main Results YtD December 2005 vs 2004

€ Mln, %

+1,9% excluding F2M cut

	Organic Growth				Reported Data			
	2005 Organic	2004 Organic	Δ Abs	Δ %	2005 Reported	2004 Reported	Δ Abs	Δ %
Revenues	17,802	17,530	+272	+1.6%	17,802	17,431	+371	+2.1%
Ebitda	7,789	7,713	+76	+1.0%	7,597	7,809	-212	-2.7%
Ebitda %	43.8%	44.0%	-0.2pp		42.7%	44.8%	-2.1 pp	
Ebit	4,787	4,787	0	0.0%	4,566	4,756	-190	-4.0%
Ebit %	26.9%	27.3%	-0.4 pp		25.6%	27.3%	-1.6 pp	
Capex					2,670	2,267	+403	
Capex/Rev.					15.0%	13.0%	+2.0 pp	

Wireline: Main Results – Organic growth by Quarter

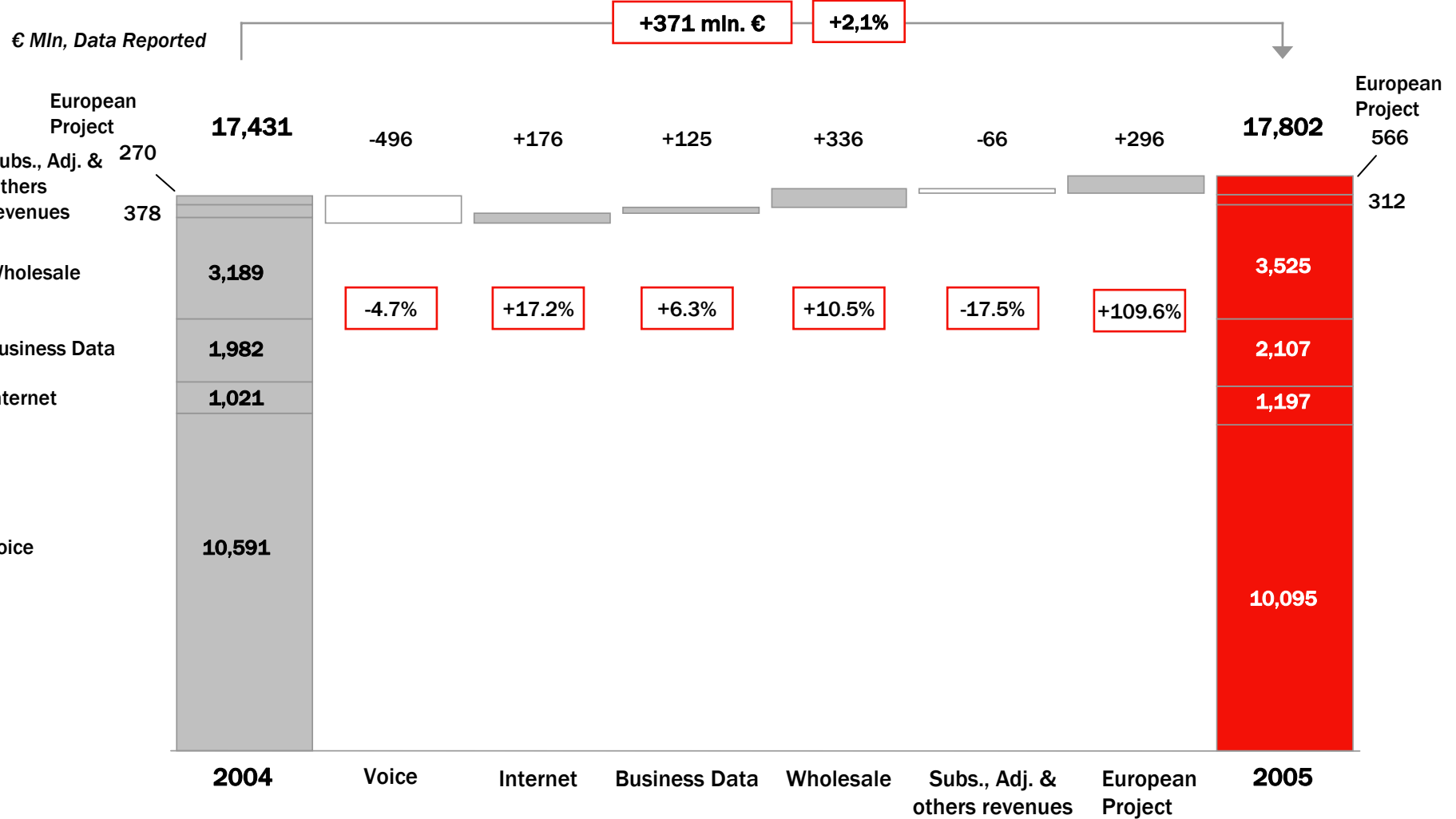
€ Mln, %

Δ % excluding
F2M cut

Quarterly	1Q05		2Q05		3Q05		4Q05		
	2005 vs 2004		2005 vs 2004		2005 vs 2004		2005 vs 2004		
	Δ Abs	Δ %	Δ Abs	Δ %	Δ Abs	Δ %	Δ Abs	Δ %	
Revenues	+68	+1.6%	+127	+2.9%	+104	+2.5%	-27	-0.6%	+0,4% (+2.8% in 3Q 05)
Ebitda	+58	+3.0%	-4	-0.2%	+6	+0.3%	+16	+0.8%	
Ebit	+28	+2.3%	-12	-0.9%	-4	-0.3%	-12	-1.1%	
<ul style="list-style-type: none"> No F2M cut impact on revenues In 1Q'05 limited decrease in voice traffic revenues impacts growth and margin positively 					<ul style="list-style-type: none"> F2M cut impact on revenues Voice traffic revenues decrease accelerates vs 1Q'05 			<ul style="list-style-type: none"> 1H06 affected by the same factors 	

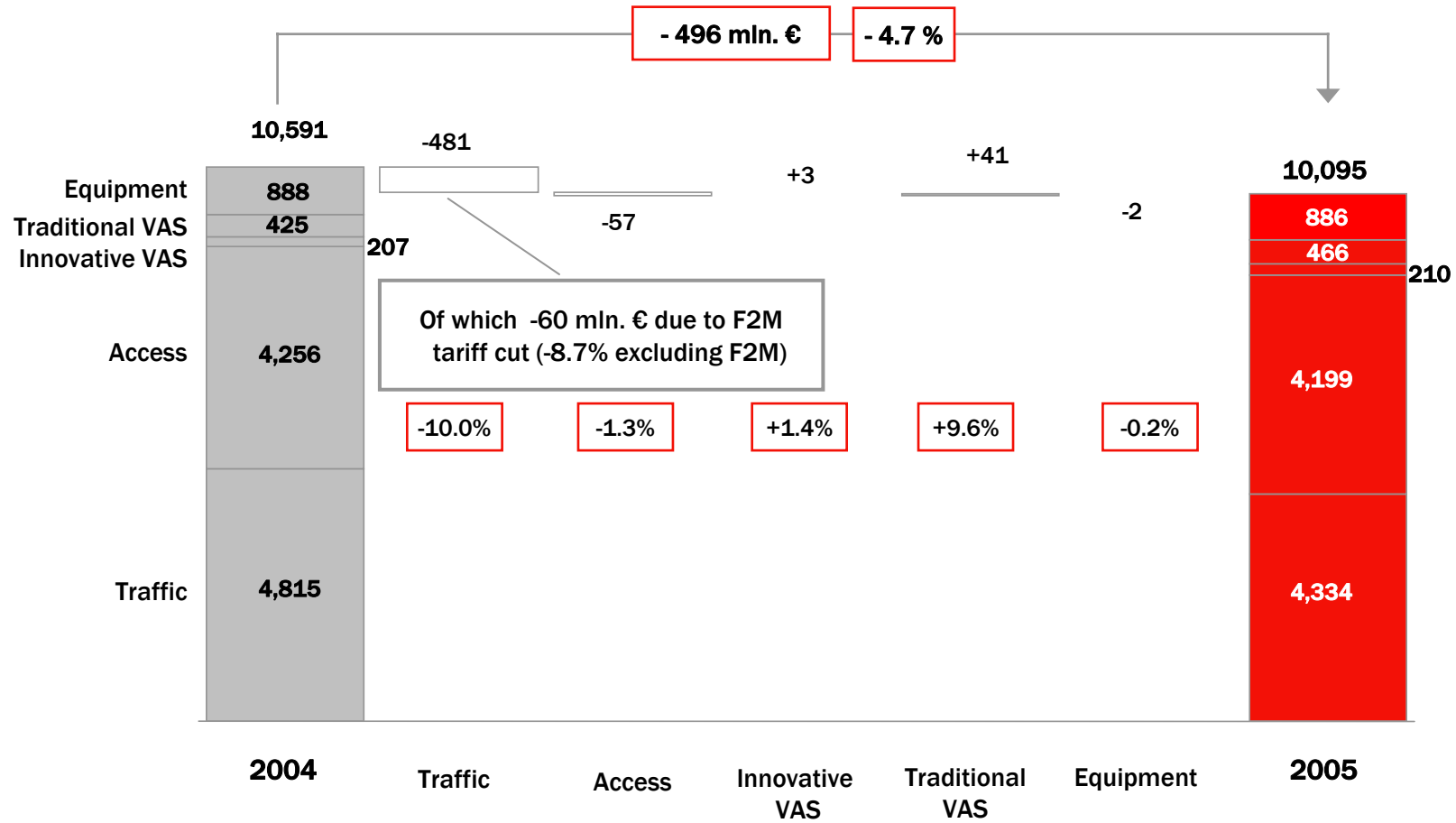
YTD	Mar-05 YTD		Jun-05 YTD		Sep-05 YTD		Dec-05 YTD		
	2005 vs 2004		2005 vs 2004		2005 vs 2004		2005 vs 2004		
	Δ Abs	Δ %	Δ Abs	Δ %	Δ Abs	Δ %	Δ Abs	Δ %	
Revenues	+68	+1.6%	+195	+2.3%	+299	+2.3%	+272	+1.6%	+1.9% (+2.4% at Sep-05 YTD)
Ebitda	+58	+3.0%	+54	+1.4%	+60	+1.0%	+76	+1.0%	
Ebit	+28	+2.3%	+16	+0.6%	+12	+0.3%	0	0.0%	

Revenues growth analysis



Voice retail revenues in line with market trends

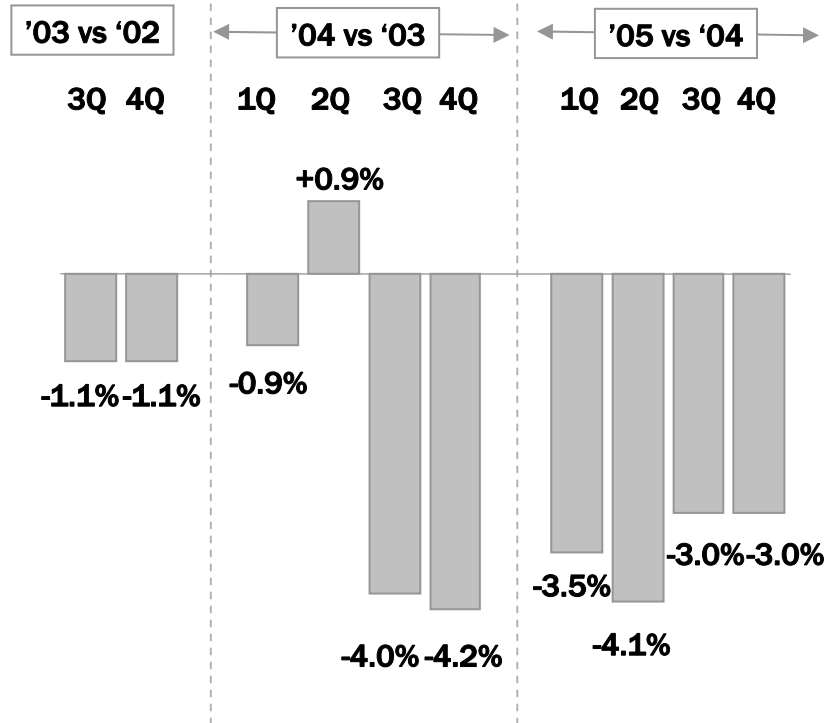
€ Mln, %



Wireline: Voice Traffic performance

Domestic voice traffic market trend

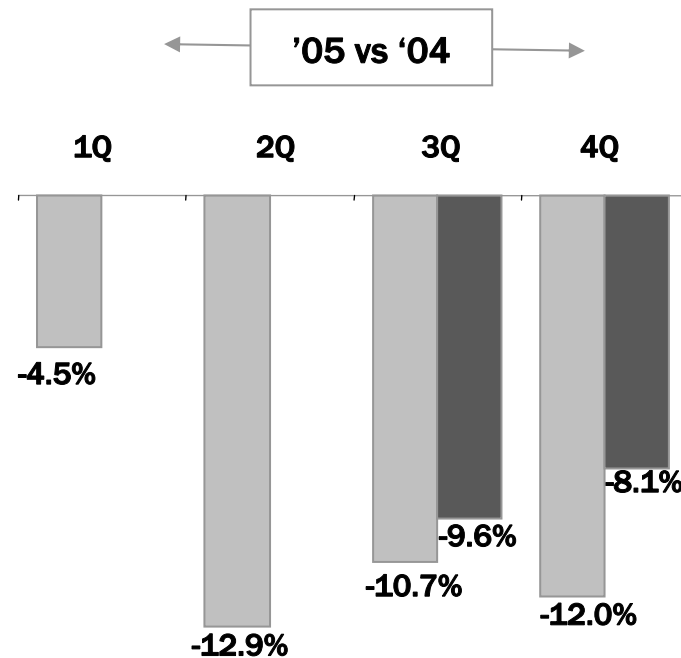
% chg. YoY on traffic volumes



Wireline Voice Traffic revenues trend

% chg. YoY on Voice Traffic revenues

- Including F2M cut
- Excluding F2M cut

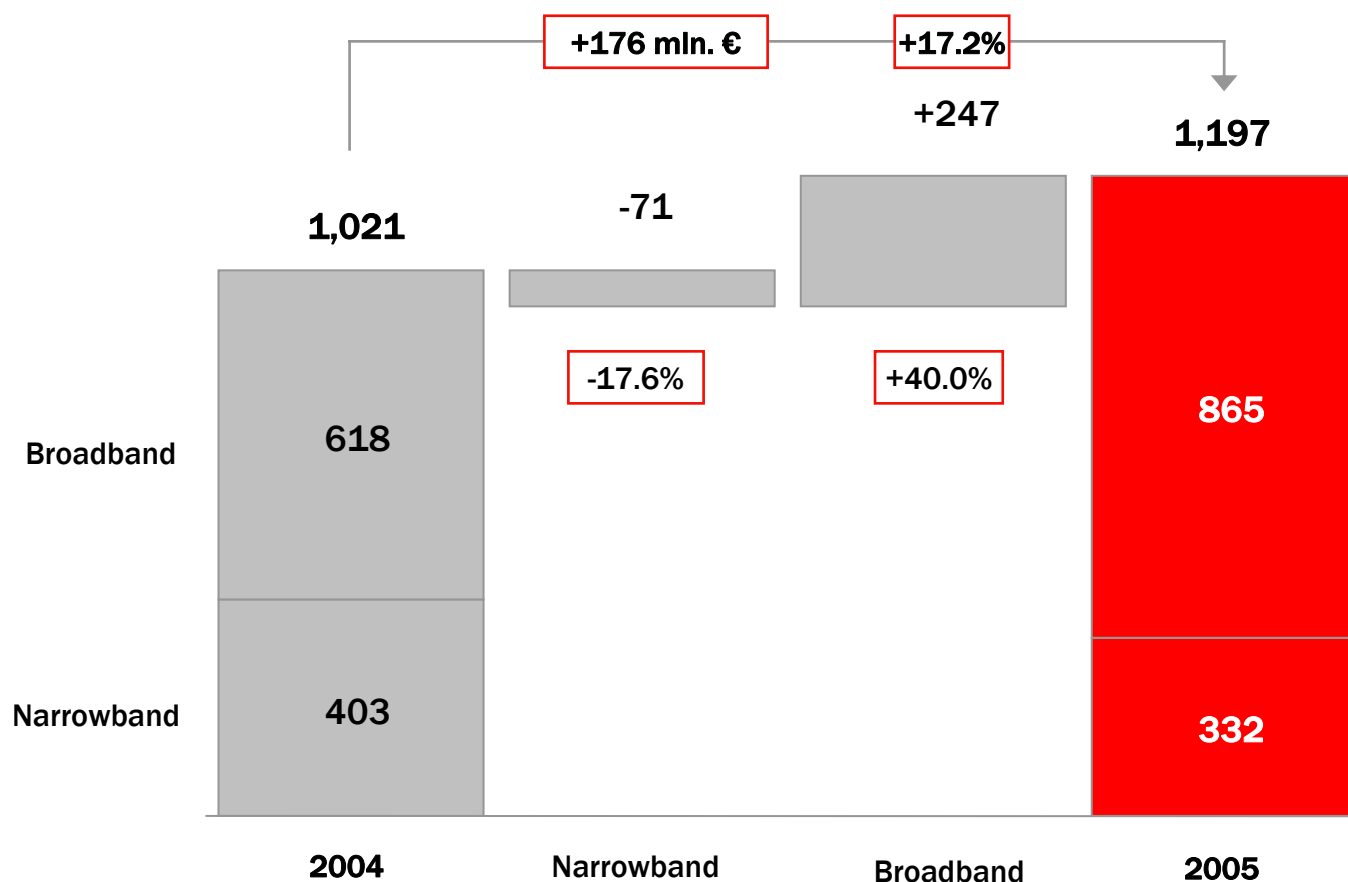


Source: Company Data, Analyst Estimates, NRA



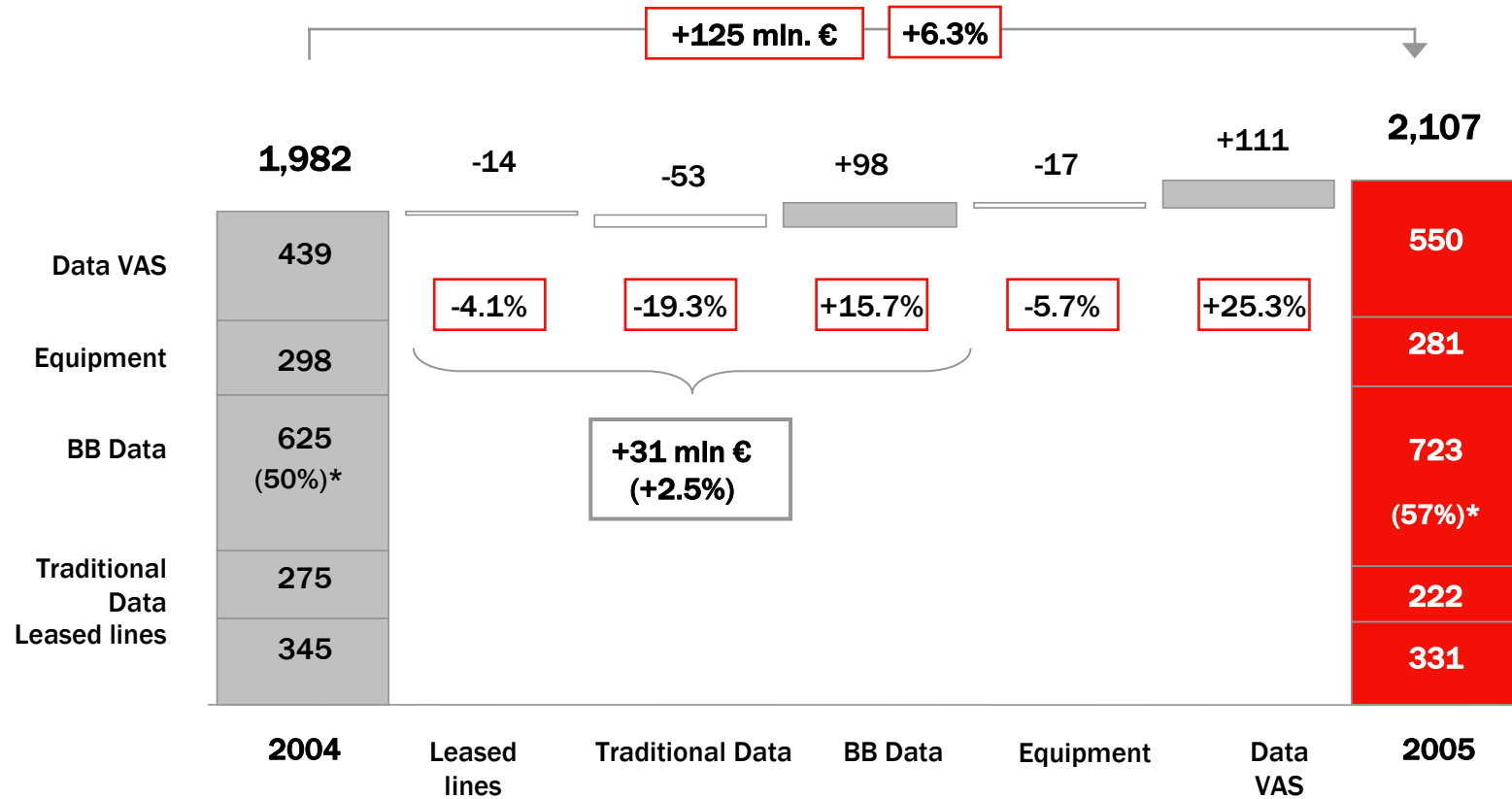
Consumer Internet revenues: BrodBand continues to grow

€ Mln, %



Business data revenues: BroadBand and VAS drive growth

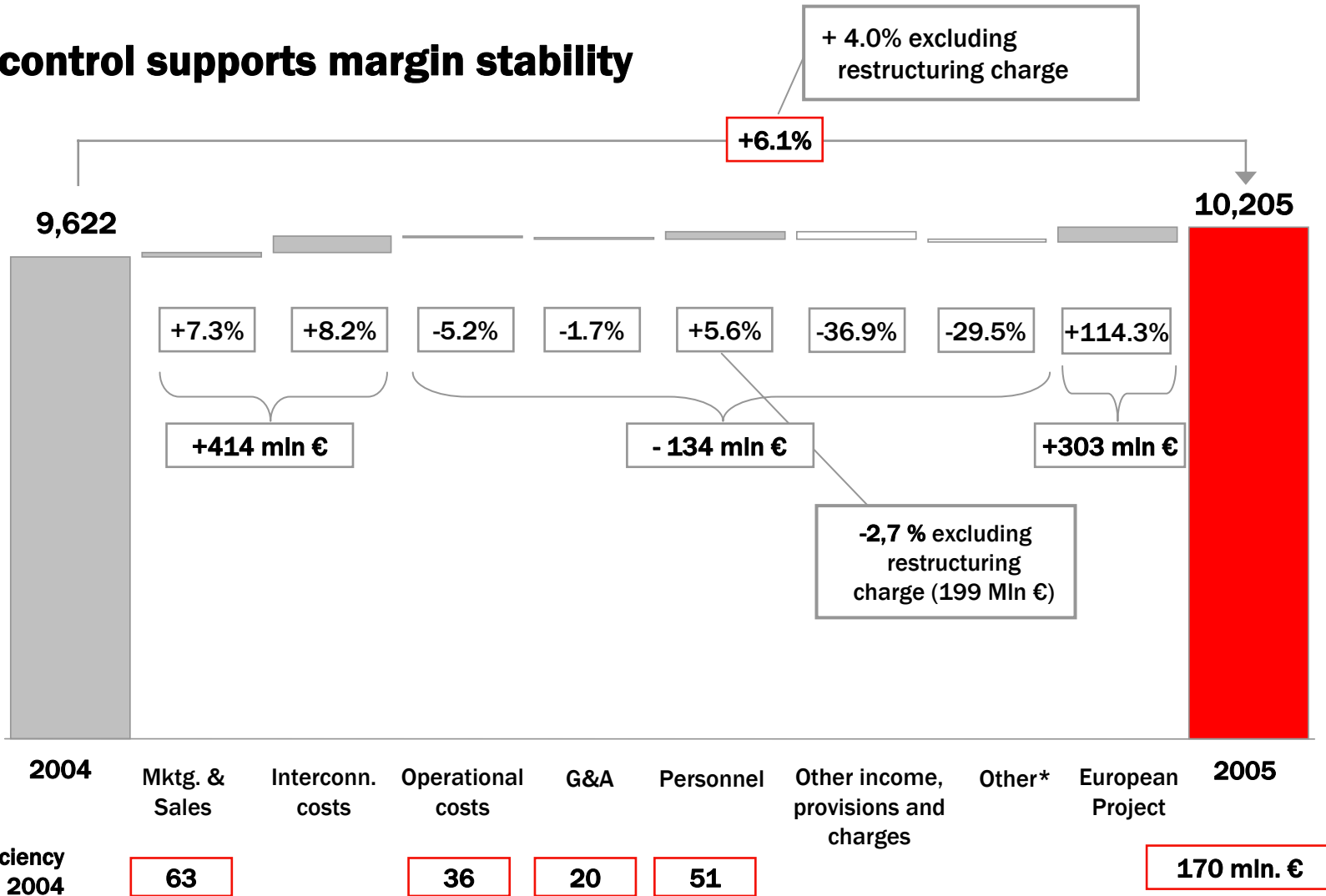
€ Mln, %



* % on Total Data Revenue excluding Equipment and Data VAS

Cost control supports margin stability

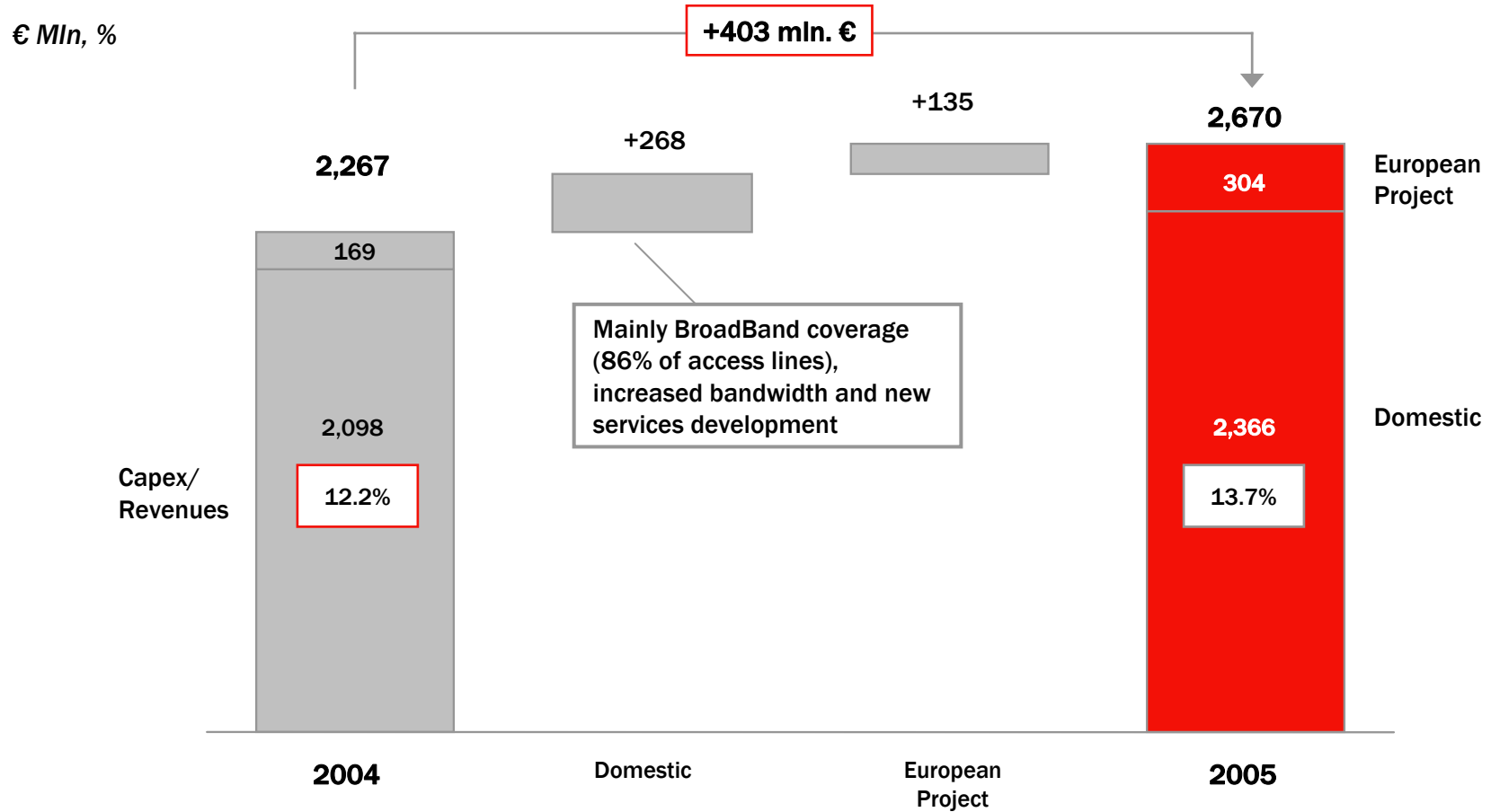
€ Mln, %



* Includes subsidiaries, adjustments and cost capitalization (-)



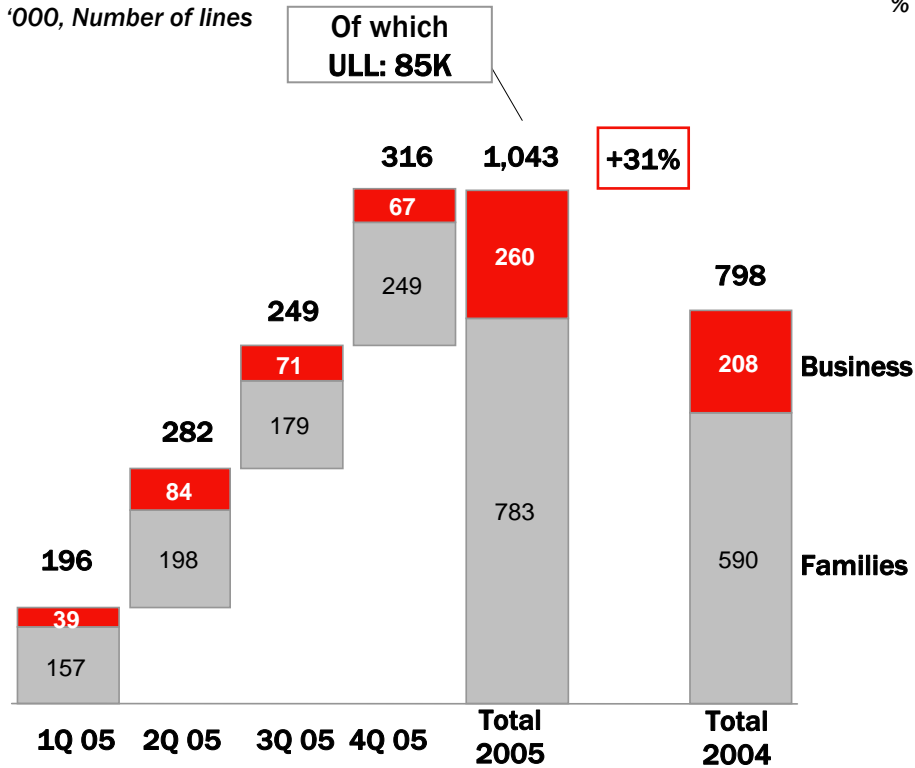
CAPEX driven by BroadBand and new services



Retention campaign and traffic Market Share

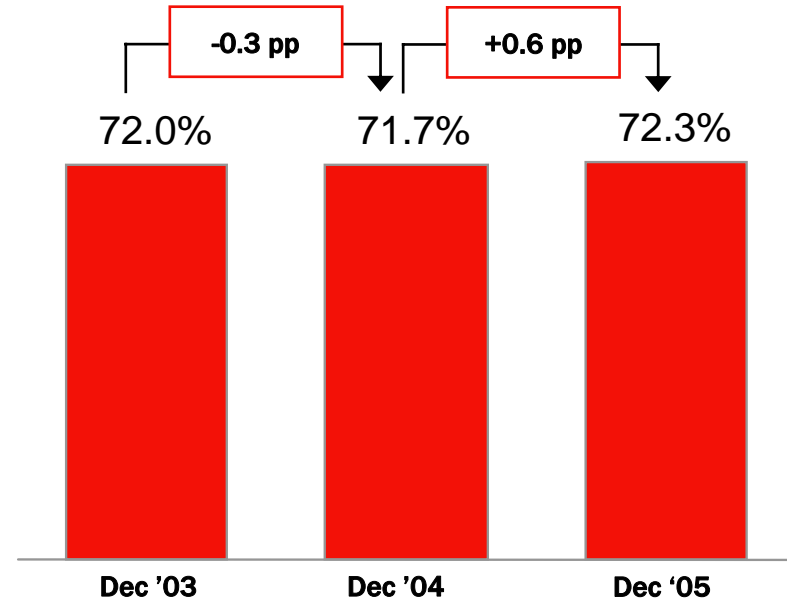
Retention campaign

'000, Number of lines



Traffic Market Share

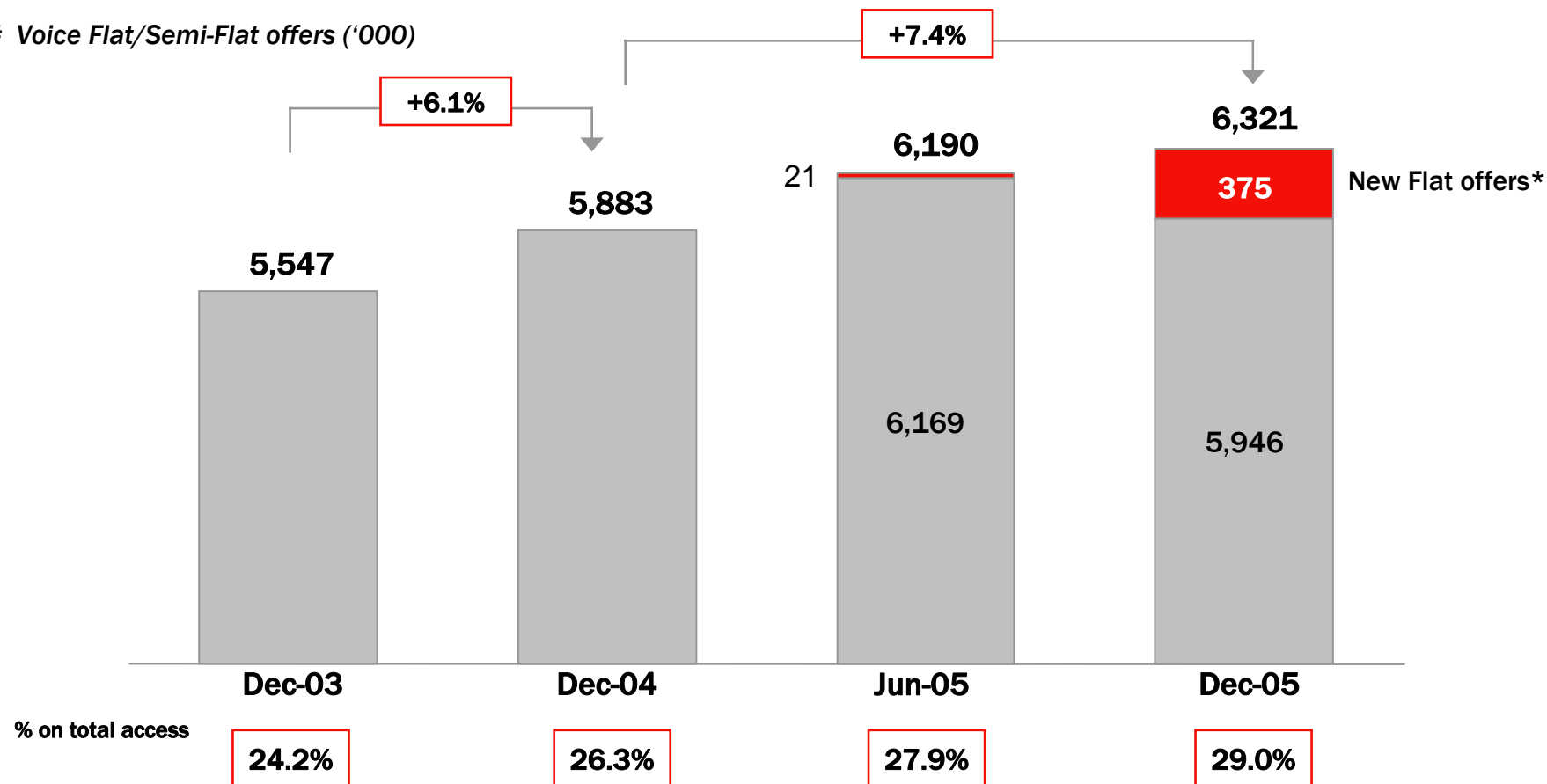
% on total monthly traffic volumes



Retention campaign supports Traffic Market Share stabilization

Voice Flat Offers

Voice Flat/Semi-Flat offers ('000)

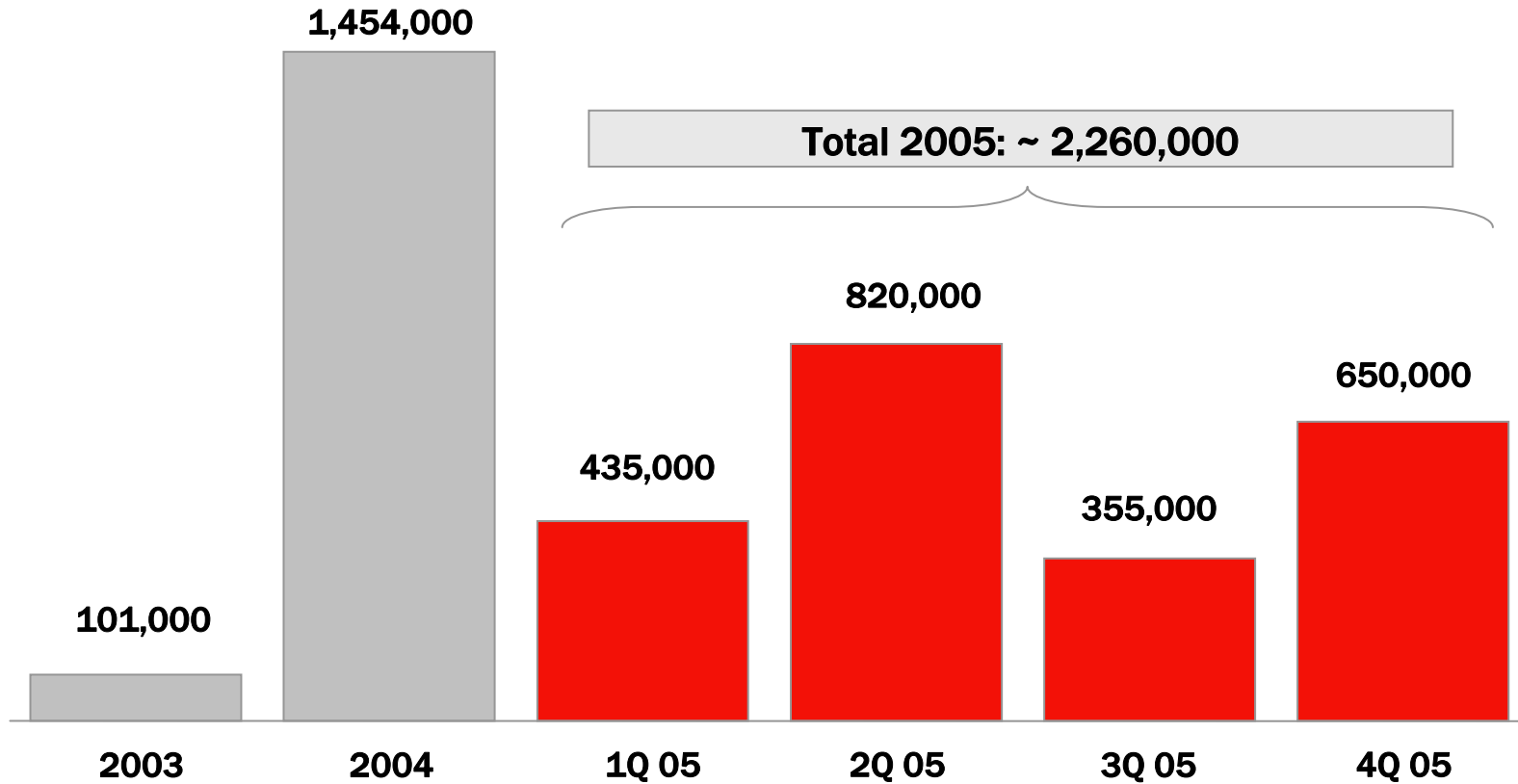


* Alice Mia Voce Consumer and Teleconomy Alice Business Nazionale (2Play-VoIP) + Teleconomy No Problem (15€/month and unlimited national calls) + Teleconomy Famiglia (F2M packages)

Sales of Innovative Handsets

Innovative Handsets sold

**3.8 Mln innovative
handsets sold in more
than 2 years**



Faster penetration of innovative handsets supports customer retention and increases voice usage

TI Wireline Broadband portfolio evolution

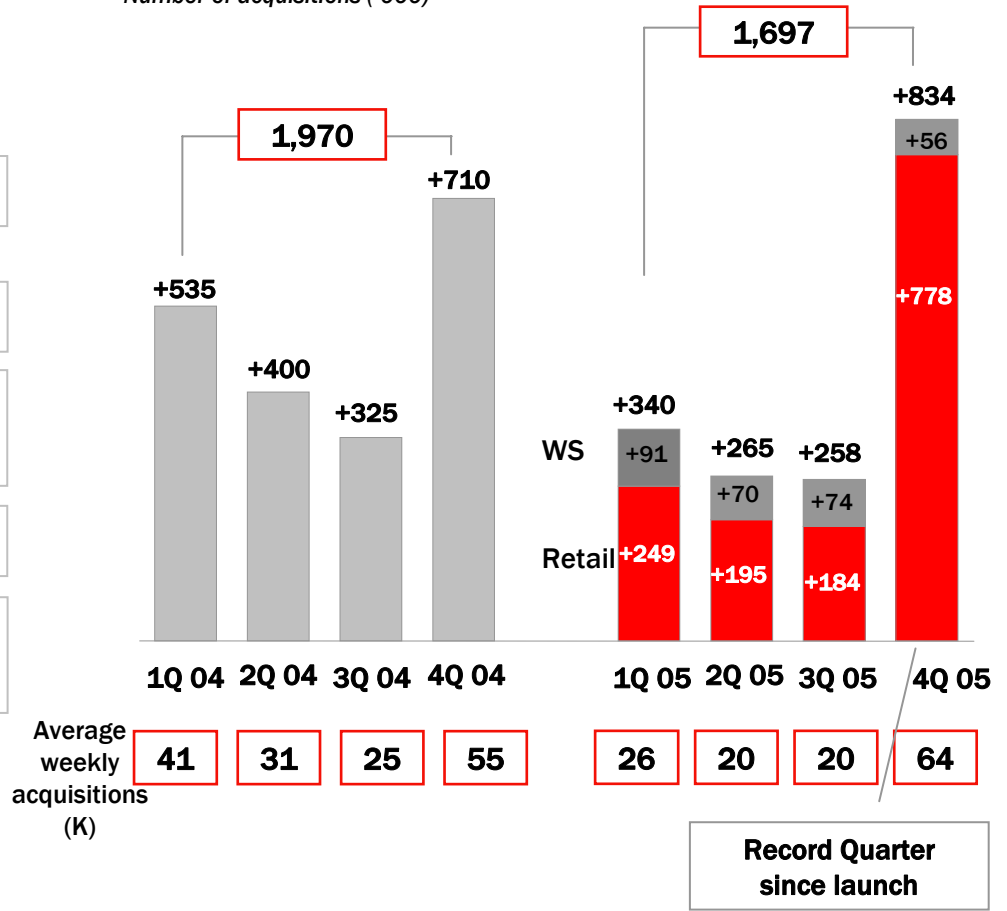
Broadband total portfolio

Number of access lines ('000)

	Dec '04	Dec '05	Δ vs Dec '04
Wholesale	599	890	+291
Retail	3,411	4,817	+1,406
Total Domestic	4,010	5,707	+1,697
International BB	420	1,313*	+893
Wireline Total	4,430	7,020	+2,590

Domestic portfolio: growth trend

Number of acquisitions ('000)



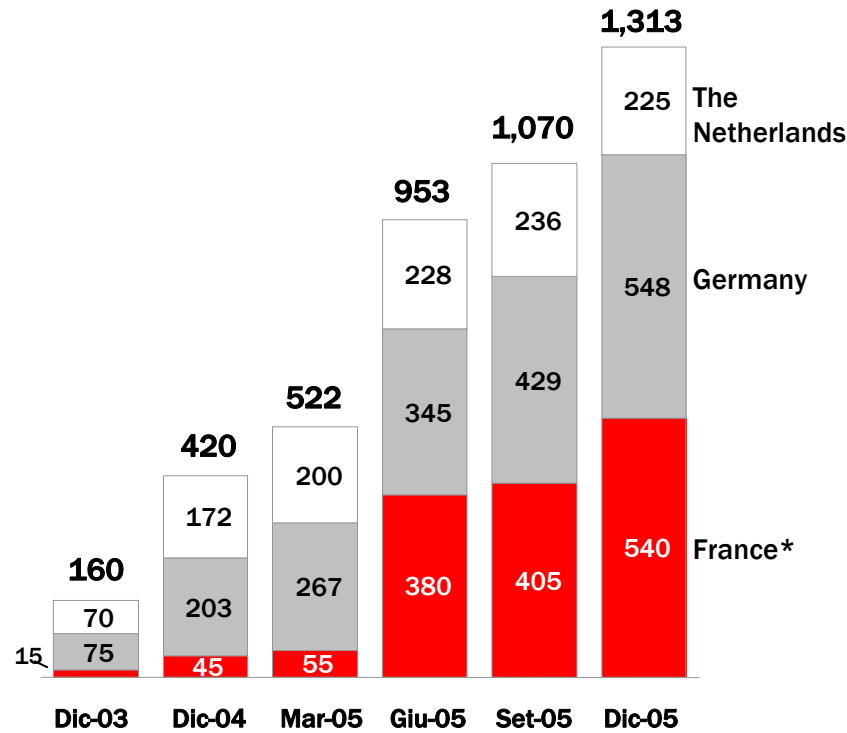
*Including Liberty Surf's BB customers

European Projects: Key facts

Broadband Portfolio

'000 BroadBand Access

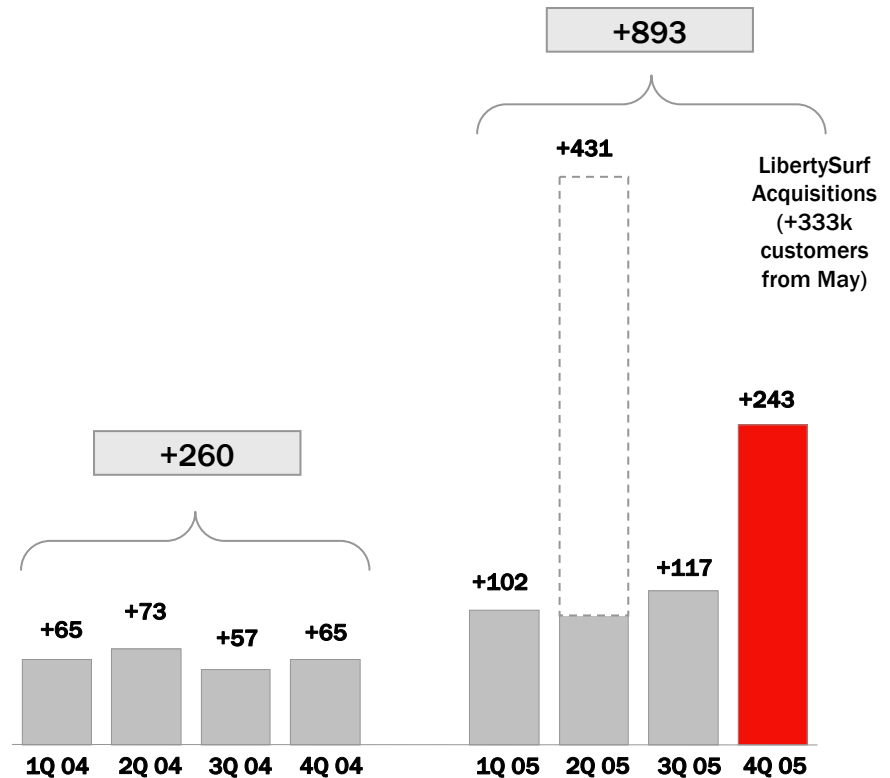
Total Customer Base as of Dec.'05: **1,791k**



* LSG included since May 2005

Broadband portfolio: trend by quarter

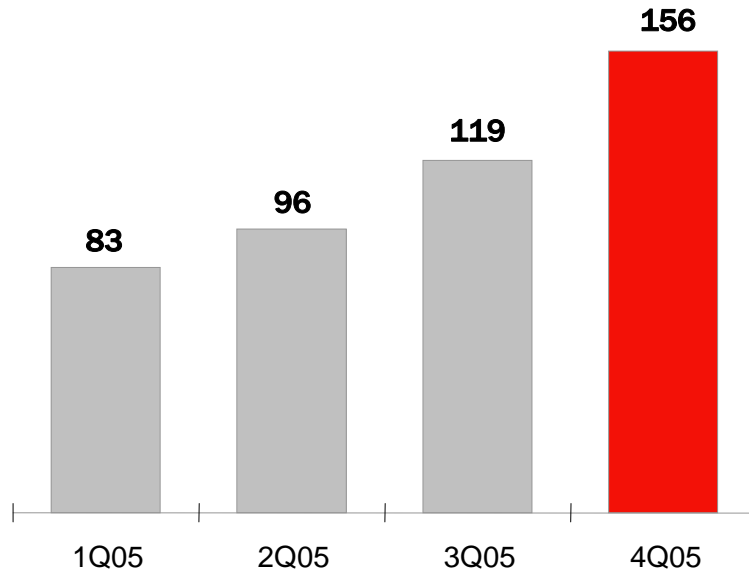
'000 BroadBand Access, net adds



European Projects: gross additions

Hansenet: BB customers trend

'000; Broadband gross additions/ Quarter

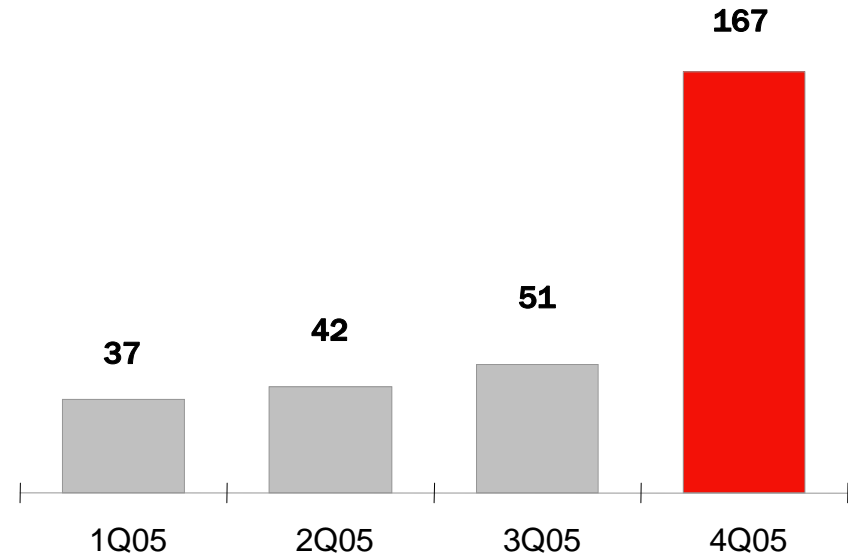


Weekly Gross Adds

6,390	7,379	9,177	12,015
-------	-------	-------	--------

TI France: BB customers trend

'000; Broadband gross additions/Quarter



Weekly Gross Adds

2,066	2,979	3,945	12,864
-------	-------	-------	--------

Agenda

- ▶ **Wireline financial performance and operational overview**
- ▶ **Mobile financial performance and operational overview**
- ▶ **Appendix**

Mobile financial highlights*

YoY

€ Mln, Reported Data,
IAS-IFRS

	2005	2004	Δ Ass	Δ %	YoY organic**
Revenues	12,963	11,712	+1,251	10.7%	6.3%
Italy	10,076	9,923	+153	1.5%	1.5%
Brazil	2,900	1,798	+1,102	61.3%	34.2%
EBITDA	5,540	5,421	+119	2.2%	6.2%
Italy	5,086	5,181	-95	-1.8%	1.5%
Brazil	466	253	+213	84.2%	169.2%
Margin	42.7%	46.3%	-3.6 pp		-0.0 pp
Italy	50.5%	52.2%	-1.7 pp		-0.1 pp
Brazil	16.1%	14.1%	+2.0 pp		+8.2pp
EBIT	3,661	3,850	-189	-4.9%	+3.4%
Italy	3,856	4,010	-154	-3.8%	0.4%
Brazil	-190	-129	-61	-47.3%	38.5%
Margin	28.2%	32.9%	-4.7 pp		-0.8 pp
Italy	38.3%	40.4%	-2.1 pp		-0.5 pp
Brazil	-6.5%	-7.2%	+0.7 pp		+7.0pp
CAPEX	2,118	2,288	-170		
Italy	1,276	1,469	-193		
Brazil	842	817	+25		

3.2% excluding
termination cut3.3% excl.
termination cut

▶ Aggressive strategy on market share rebound: new offers stimulate traffic volume
▶ Mobile termination cut on last 4 months

▶ Handset and sales costs increase due to commercial policy discontinuity

▶ Stable Margin

*Results are net of the economic impact of discontinued operations (TIM Hellas and Digitel and Perù)

**Excluding exchange rate impact and except. items

Agenda

- ▶ **Wireline financial performance and operational overview**

- ▶ **Mobile financial performance and operational overview**
 - ▶ **TIM Italy**

 - ▶ **TIM Brasil**

- ▶ **Appendix**

TIM Italy: Main Results YtD December 2005 vs 2004

€ Mln, %

	Organic				Reported Data			
	YtD 2005 Organic	YtD 2004 Organic	Δ Abs	Δ %	YtD 2005 Reported	YtD 2004 Reported	Δ Abs	Δ %
Revenues	10,076	9,923	153	1.5%	10,076	9,923	153	1.5%
Ebitda	5,101	5,027	74	1.5%	5,086	5,181	-95	-1.8%
Ebitda %	50.6%	50.7%			50.5%	52.2%		
Ebit	3,871	3,856	15	0.4%	3,856	4,010	-154	-3.8%
Ebit %	38.4%	38.9%			38.3%	40.4%		
Capex	1,276	1,469	-193	-13.1%	1,276	1,469	-193	-13.1%
Capex/Rev.	12.7%	14.8%			12.7%	14.8%		

3.2% excluding
termination cut3.3% excluding
termination cut

TIM Italy: Main Results – Organic growth by Quarter

Δ % excluding
termination cut

€ Mln, %

Quarterly	1Q05		2Q05		3Q05		4Q05		
	2005 vs 2004		2005 vs 2004		2005 vs 2004		2005 vs 2004		
	Δ Abs	Δ %	Δ Abs	Δ %	Δ Abs	Δ %	Δ Abs	Δ %	
Revenues	+68	3.0%	+74	3.0%	+1	0.0%	+10	0.4%	+5.2% (+1.7% in 3Q)
Ebitda	+43	3.4%	+42	3.3%	-84	-6.1%	+73	6.6%	+12.8% (-4.6% in 3Q)
Ebit	+2	0.2%	+21	2.1%	-83	-7.7%	+75	9.7%	

• No termination cut impact on revenues/EBITDA
• Light commercial push

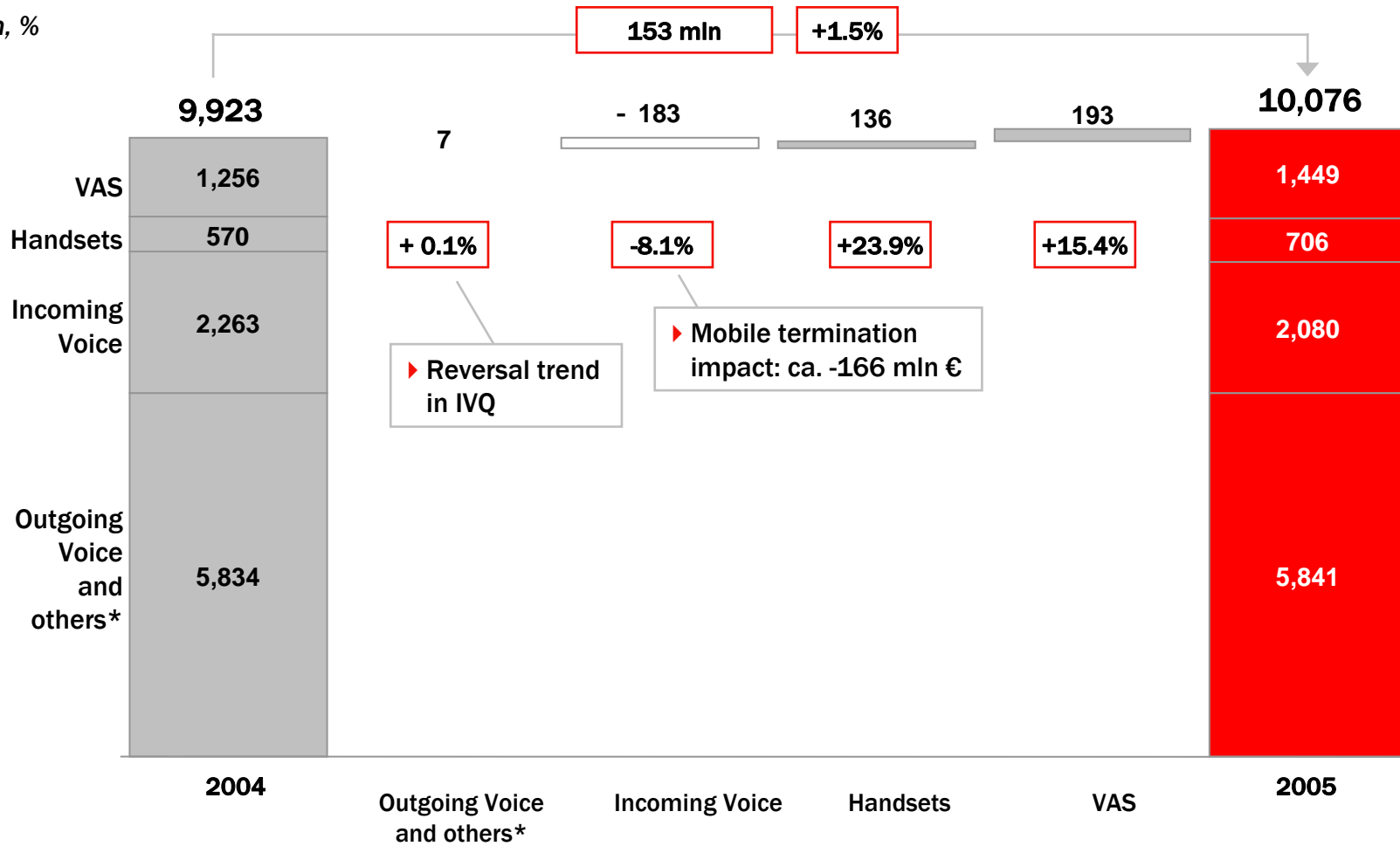
• Termination cut impact on revenues/EBITDA
• Strong commercial push

• 1H06 affected by the same factors

YTD	Mar-05 YTD		Jun-05 YTD		Sep-05 YTD		Dec-05 YTD		
	2005 vs 2004		2005 vs 2004		2005 vs 2004		2005 vs 2004		
	Δ Abs	Δ %	Δ Abs	Δ %	Δ Abs	Δ %	Δ Abs	Δ %	
Revenues	+68	3.0%	+142	3.0%	+143	1.9%	+153	1.5%	+3.2% (+2.5% at Sep. 05 YTD)
Ebitda	+43	3.4%	+85	3.3%	+1	0.0%	+74	1.5%	+3.3% (+0.6% at Sep. '05 YTD)
Ebit	+2	0.2%	+23	1.2%	-60	-1.9%	+15	0.4%	

TIM Italy: Revenues growth analysis

€ Mln, %

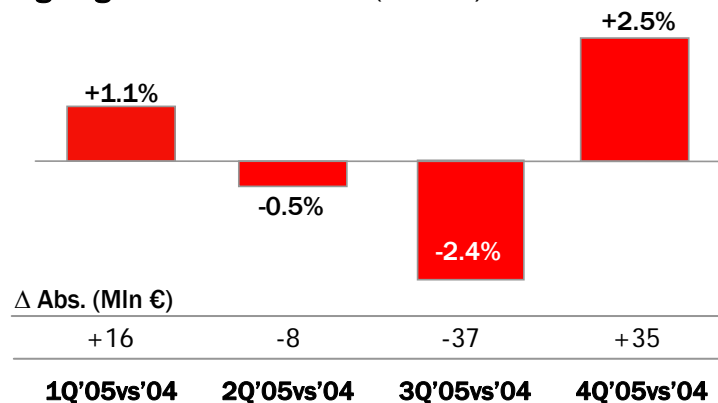


*Connection, recharges, rental fees etc.

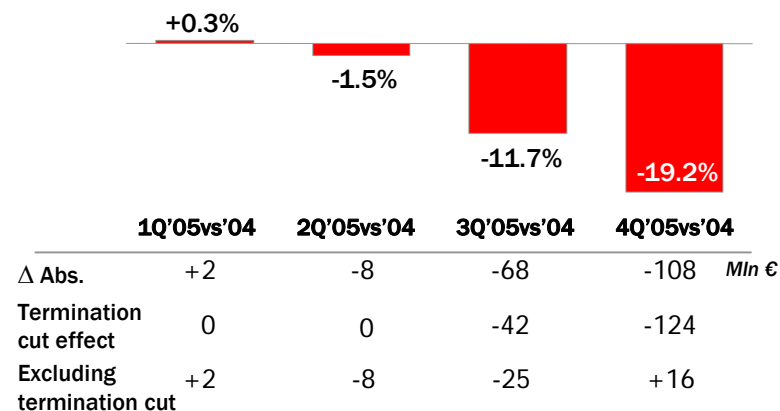


TIM Italy: Revenues analysis by quarter

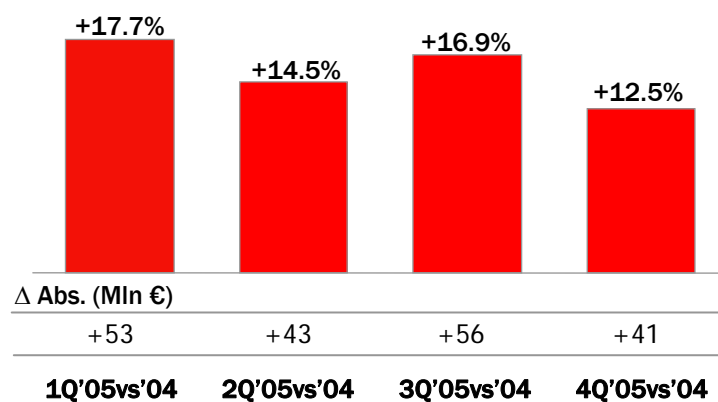
Outgoing Voice and others* (Δ % YoY)



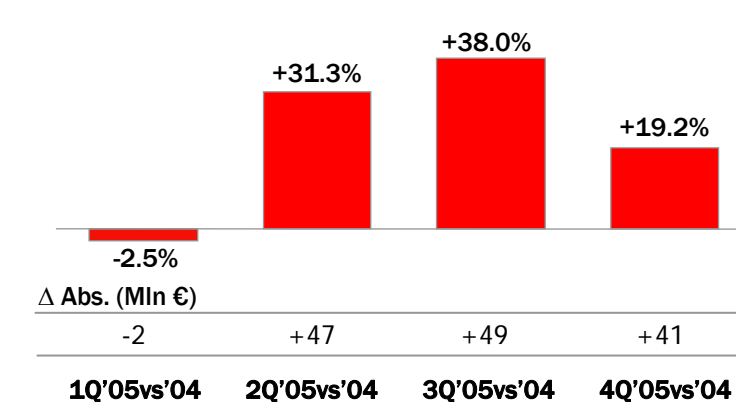
Incoming Voice (Δ % YoY)



VAS (Δ % YoY)



Handsets (Δ % YoY)

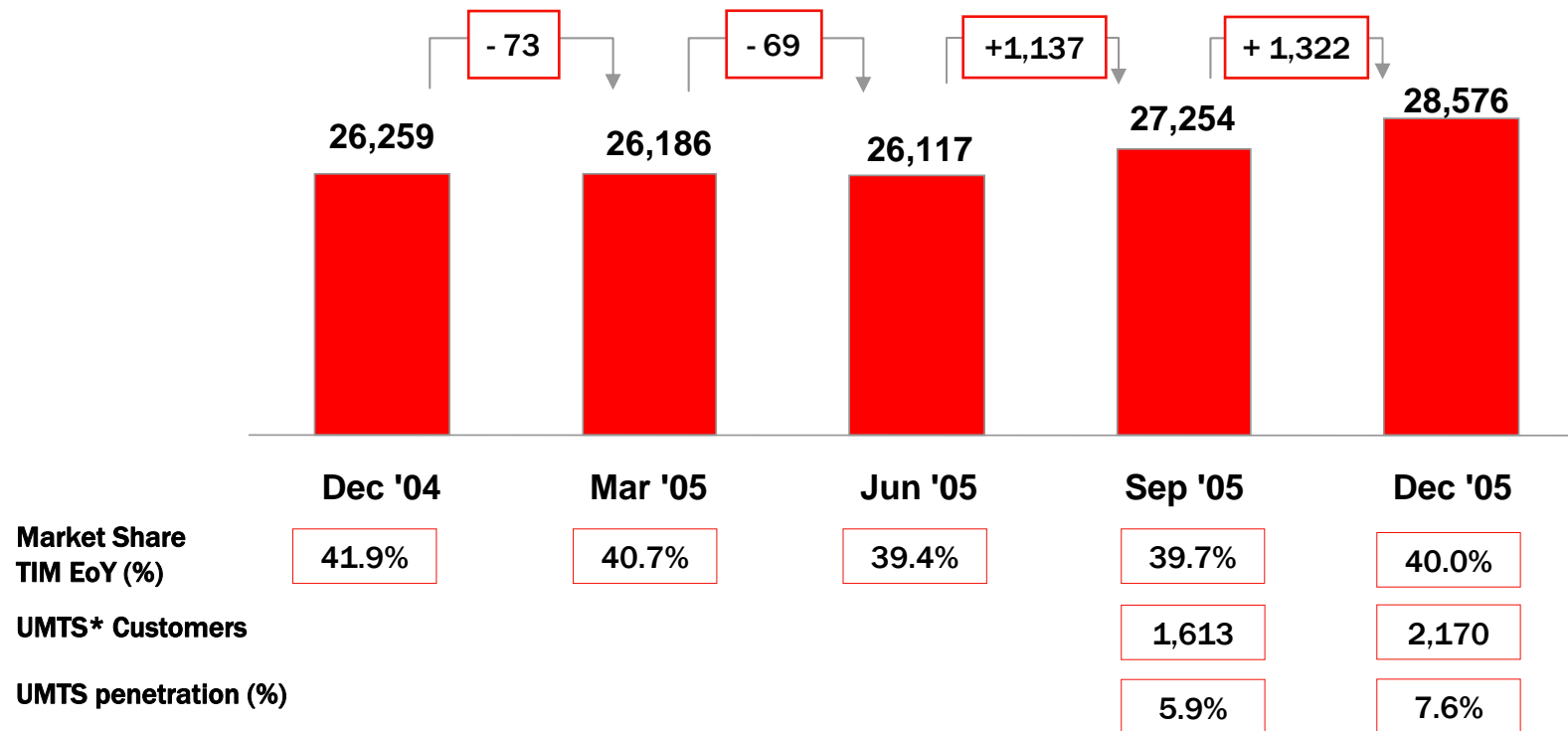


*Connection, recharges, rental fees etc.

TIM Italy: Customer Base Trend

SIM, '000

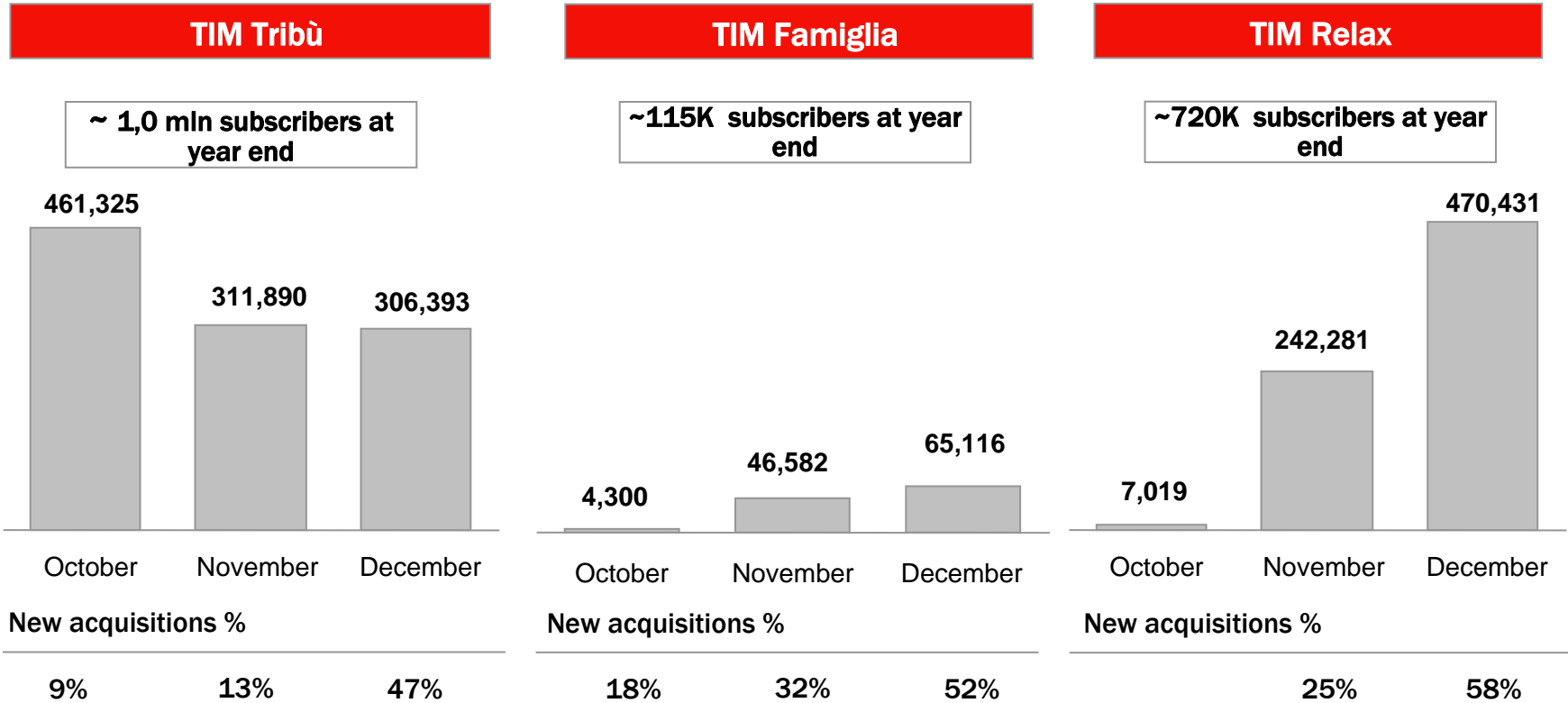
Net Adds '05 vs '04: +2,317
Mkt share trend reversal



*Customers with 1 UMTS handsets that in the last 90 days have generated traffic on 3G network

TIM Italy: performances of the new mass market offers

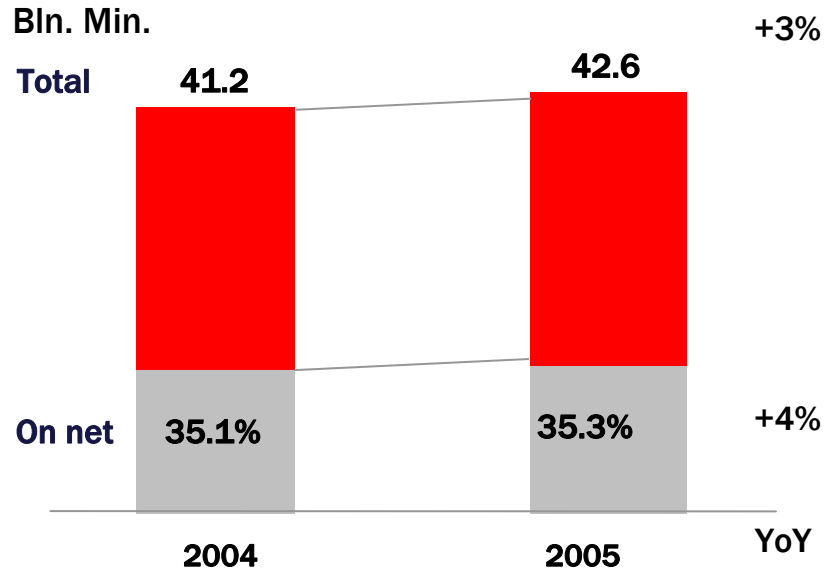
SIMs (net additions + upselling)



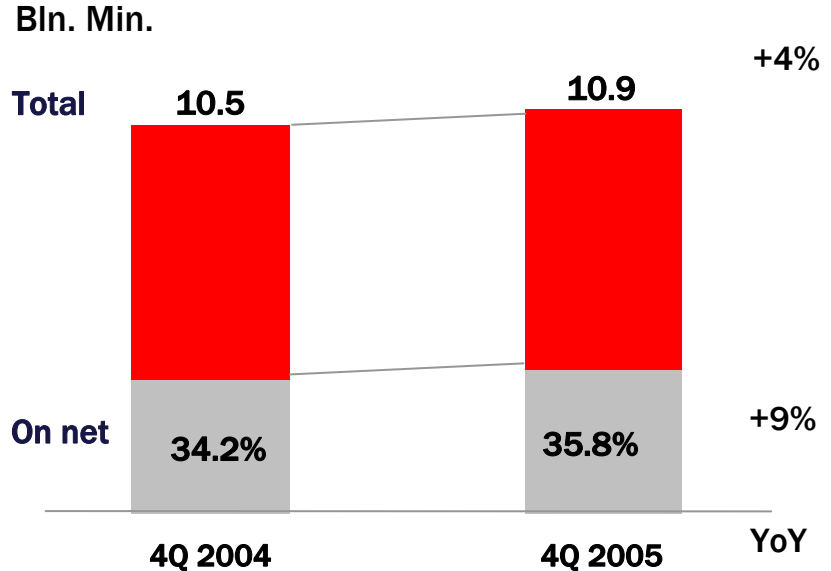
► Success of new offers continues and new customer acquisitions outweigh TIM customers up-selling

Voice: traffic volumes increase

Total Traffic Volumes



4Q Traffic Volumes



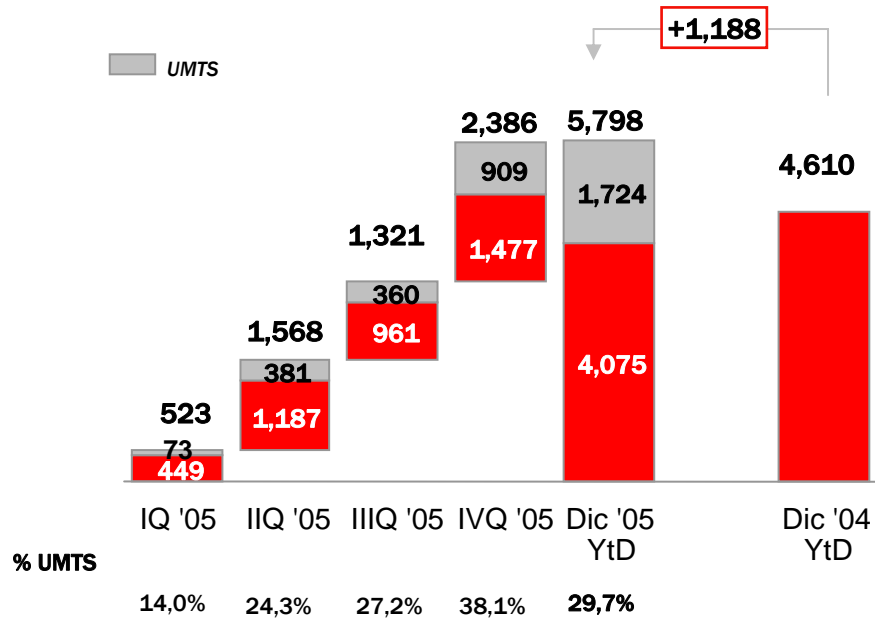
- ▶ Moving from promotions to offer segmentation, to achieve:
 - ▶ Strong line acquisitions and market share growth
 - ▶ Churn rate stabilization
 - ▶ Growth in Traffic Volumes

TIM accelerates in UMTS and interactive VAS penetration

Handsets sold

'000, %

UMTS

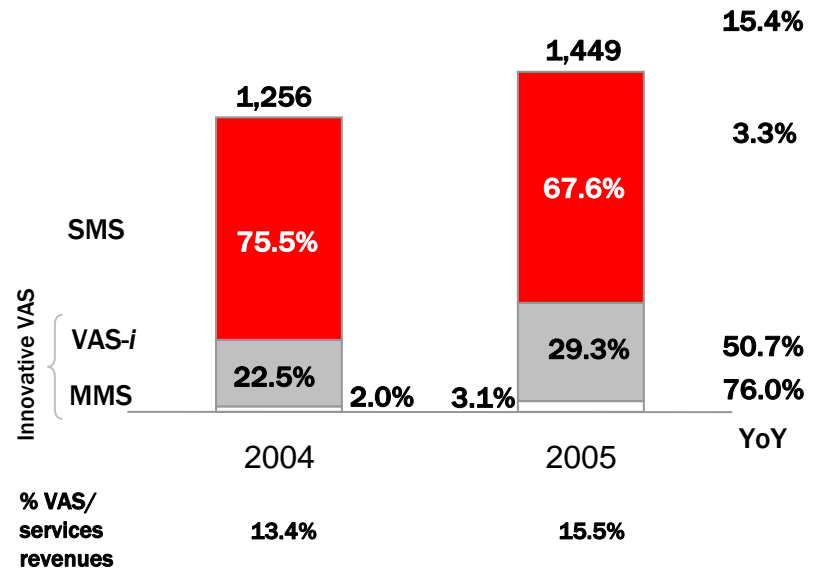


TIM 3G successful strategy:

- ▶ the largest & most sophisticated 3G catalogue available
- ▶ a combined voice and VAS offer
- ▶ Coverage acceleration

VAS Revenues

(mln €)

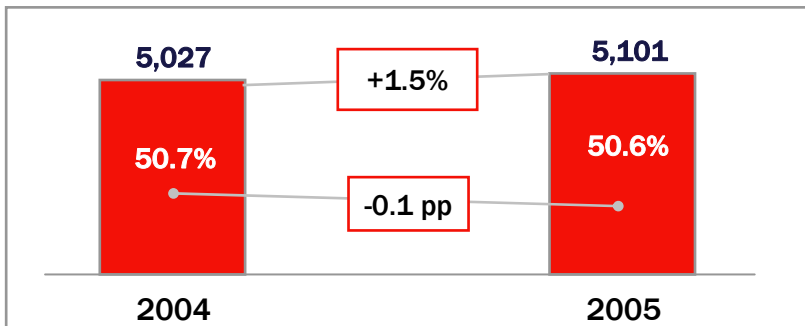


- ▶ SMS a mature business
- ▶ Interactive VAS and MMS as growth drivers

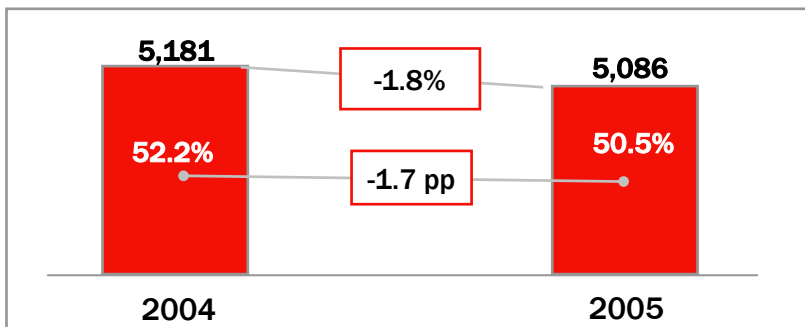
TIM Italy: Profitability Analysis

€ Mln.

EBITDA ORGANIC Growth



EBITDA REPORTED Growth



*Includes other income & charges, positive impact of capitalised costs

sales costs increase due to commercial policy discontinuity

Weight on Revenues

Costs	2004	2005	YoY
Commercial	17.2%	19.1%	+1.9pp
Industrial	22.8%	22.2%	-0.6 pp
Labor cost	5.2%	5.1%	-0.1pp
G&A	4.2%	3.6%	- 0.6 pp
Other*	-0.1%	-0.7%	-0.6pp
			-0.1 pp
Except.items	-1.6%	0.1%	1.7 pp
			+1.7pp

Efficiency vs. 2004

143

80

45

268 mln. €

Agenda

- ▶ **Wireline financial performance and operational overview**

- ▶ **Mobile financial performance and operational overview**
 - ▶ **TIM Italy**

 - ▶ **TIM Brasil**

- ▶ **Appendix**

TIM Brasil*: Main Results YTD December 2005 vs 2004 Organic Growth

IAS/IFRS (mln R\$)

	2005	2004	Δ Abs	Δ %
Revenues	8,784	6,545	2,239	34.2%
Ebitda	1,435	533	902	169.2%
<i>Ebitda %</i>	<i>16.3%</i>	<i>8.1%</i>	<i>8.2 pp</i>	
Ebit	-523	-851	328	38.5%
<i>Ebit %</i>	<i>-6.0%</i>	<i>-13.0%</i>	<i>6.9 pp</i>	
CAPEX	2,551	2,973	-423	-14.2%
<i>CAPEX/Revs</i>	<i>29.0%</i>	<i>45.4%</i>	<i>-16.4 pp</i>	

* Includes also Starcel, TIM Brasil (holding company) & eliminations

TIM Brasil*: Main Results YTD December 2005 vs 2004 Data Reported

IAS/IFRS

Data Reported - Euro

Data Reported - Reais

Million Euro, %

Million R\$, %

	2005	2004	Δ Abs	Δ %	2005	2004	Δ Abs	Δ %
Revenues	2,900	1,798	1,102	61.3%	8,784	6,545	2,239	34.2%
Ebitda	466	253	213	84.2%	1,412	920	492	53.5%
<i>Ebitda %</i>	16.1%	14.1%	2.0 pp		16.1%	14.1%	2.0 pp	
Ebit	-190	-129	-61	-47.3%	-574	-471	-103	-21.9%
<i>Ebit %</i>	-6.5%	-7.2%	0.6 pp		-6.5%	-7.2%	0.6 pp	
CAPEX	842	817	25	3.1%	2,551	2,973	-423	-14.2%
<i>CAPEX/Revs</i>	29.0%	45.4%	-16.4 pp		29.0%	45.4%	-16.4 pp	

* Includes also Starcel, TIM Brasil (holding company) & eliminations

TIM Brasil* Track Record 2005: volume and value growth

IAS/IFRS (€)

	1Q	2Q	3Q	4Q	2005	2005 organic**
Customer growth	+1.1 mln	+2.1 mln	+1.6 mln	+1.8 mln	+6.6 mln	
Revenues growth YoY	+46.4%	+60.7%	+66.9%	+67.3%	+61.3%	+34.2%
Service Rev. growth YoY	+51.4%	+67.8%	+77.4%	+84.6%	+71.4%	+42.8%
EBITDA growth YoY	n.s.	n.s.	+103.8%	+17.4%	+84.2%	+169.2%
EBITDA Margin	16.1%	12.2%	13.9%	20.7%	16.1%	
EBIT growth YoY	+25.0%	+4.2%	-41.7%	-118.0%	-47.3%	+38.5%
EBIT Margin	- 8.2%	- 10.0%	- 8.9%	- 1.0%	- 6.5%	

* Includes also Starcel, TIM Brasil (holding company) & eliminations

** Excluding exchange rate impact and except. items

TIM Brasil Financial Highlights – 4Q 2005

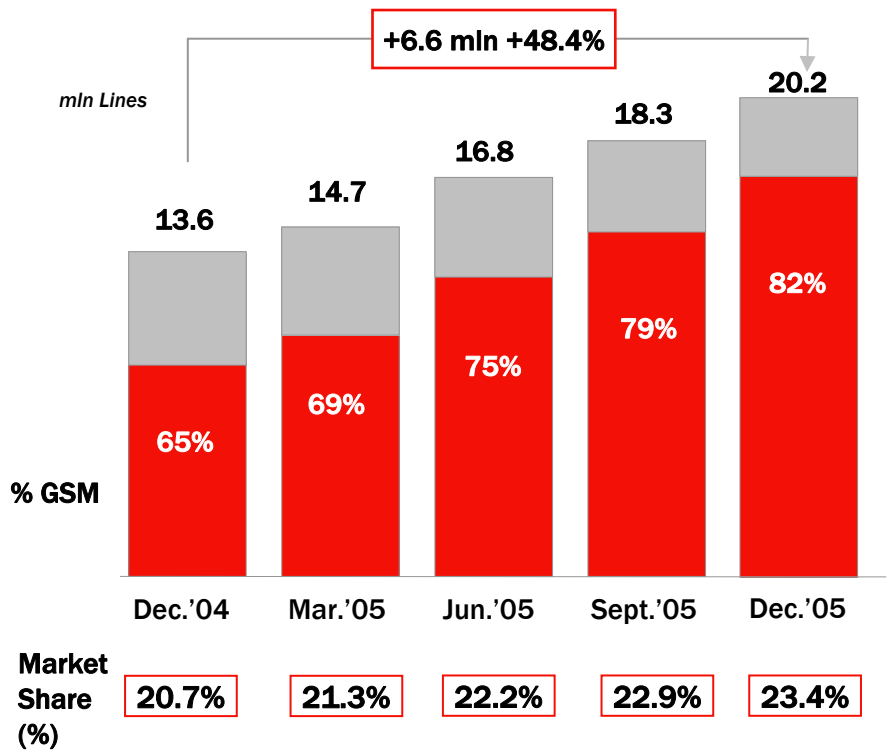
IAS/IFRS (mln €)	Ongoing		TIM Celular		TIM Brasil*		
	4Q '05	YoY	4Q '05	YoY	4Q '05	YoY	YoY organic **
Revenues	436	+47.8%	502	+98.4%	915	+67.3%	+27.5%
Service Rev.	389	+65.5%	400	+117.4%	773	+84.6%	+39.2%
of which VAS	26	+107.0%	22	+128.9%	47	+113.7%	+68.4%
Handsets	47	- 21.7%	102	+47.5%	142	+9.0%	- 10.4%
EBITDA	153	+104.0%	38	+65 mln	189	+17.4%	+196.8%
EBITDA %	35.1%	+9.7 pp	7.6%	+18.3 pp	20.7%	- 8.7 pp	+12.4 pp
EBIT	69	+263.2%	- 75	+7.4%	- 9	n.s.	+ 104.0%
EBIT %	15.8%	+ 9.4 pp	- 14.9%	+17.1 pp	- 1.0%	- 10.1 pp	+12.8 pp
Capex	177	+49 mln	201	- 31 mln	377	+18 mln	

* Includes also Starcel, TIM Brasil (holding company) & eliminations

** Excluding exchange rate impact and except. items

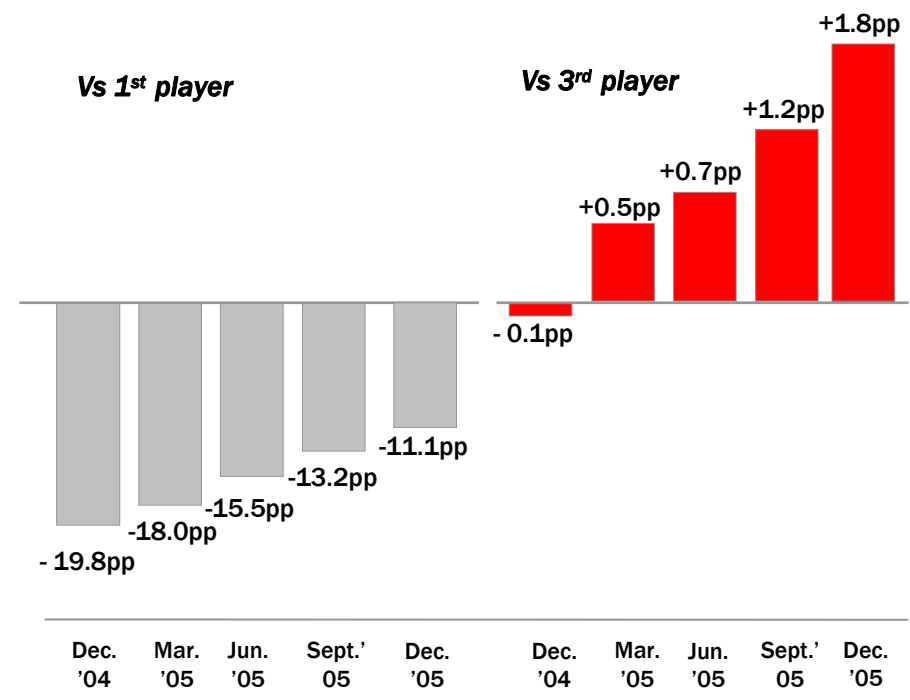
TIM Brasil: still improving the market position

TIM Brasil Customers Portfolio



► Gaining market share on Volume & Value by leveraging on a Top-of-Mind brand

Market Share Gap vs. main competitors

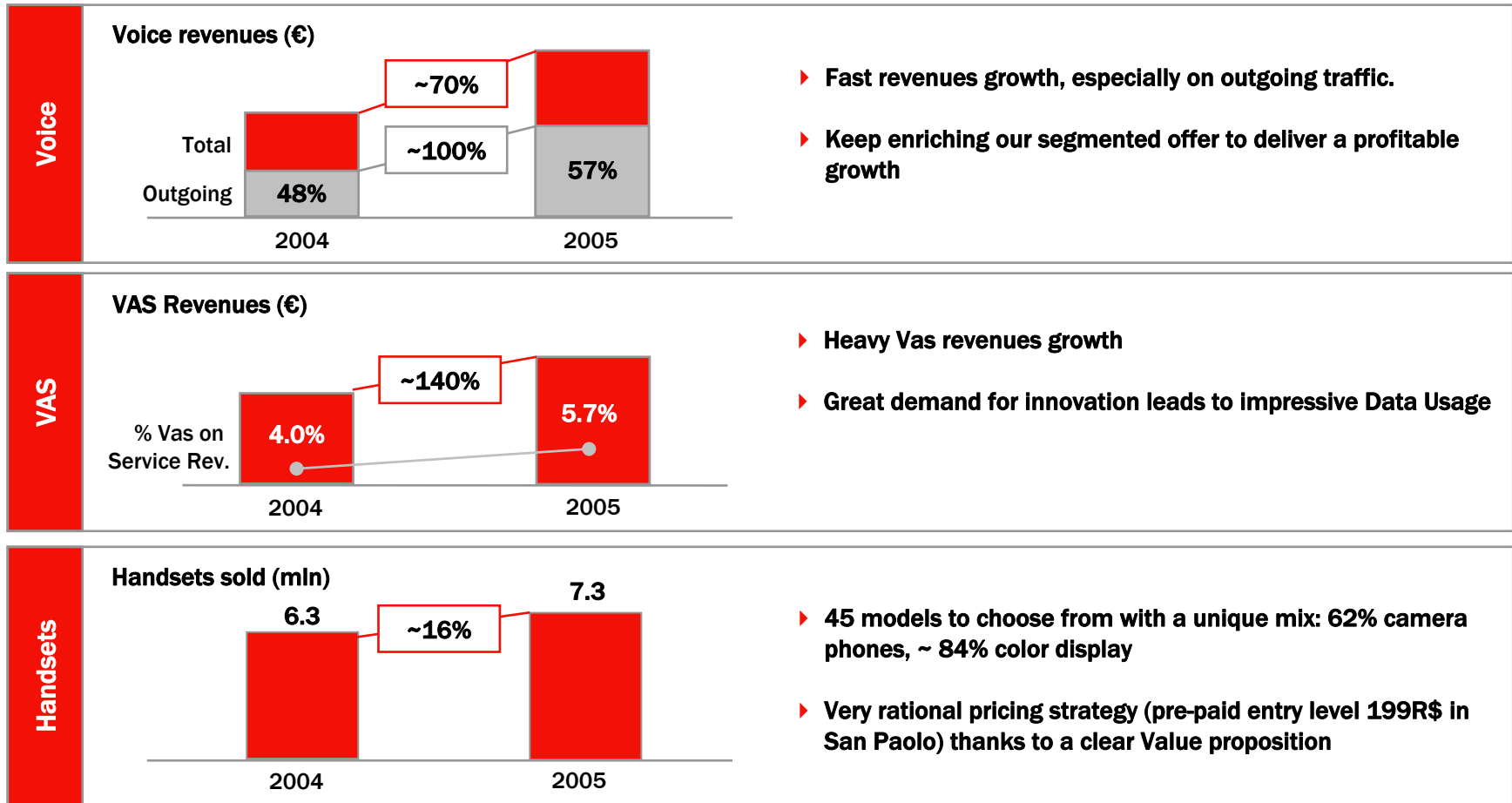


► Since 2005 TIM Brasil has become the second operator and is still improving its position



TIM Brasil's Offer: here are our "weapons"

IAS/IFRS



Agenda

- ▶ **Wireline financial performance and operational overview**
- ▶ **Mobile financial performance and operational overview**
- ▶ **Appendix**

Agenda

- ▶ **Appendix**

- ▶ **Wireline**

- ▶ **TIM Italy**

- ▶ **TIM Brasil**

Wireline: Main Results – Organic Growth YTD December 2005

Mln. €

Organic Growth

	2004 Reported (IAS)	Changes in consolid. Area*	Exchange rate impact	Exceptional items	2004 Pro-Forma	2005 Reported	Exceptional items	2005 Pro-Forma	2005 vs 2004	
									Δ Abs	Δ %
Revenues	17,431	+99	0		17,530	17,802		17,802	+272	+1.6%
Ebitda	7,809	-6	0	-90	7,713	7,597	+192	7,789	+76	+1.0%
Ebit	4,756	-12	0	+43	4,787	4,566	+221	4,787	0	0.0%

Includes :

- '99 licence fee -362 mln €
- Antitrust fine +152 mln €

Includes:
restructuring
charge 199 mln.€

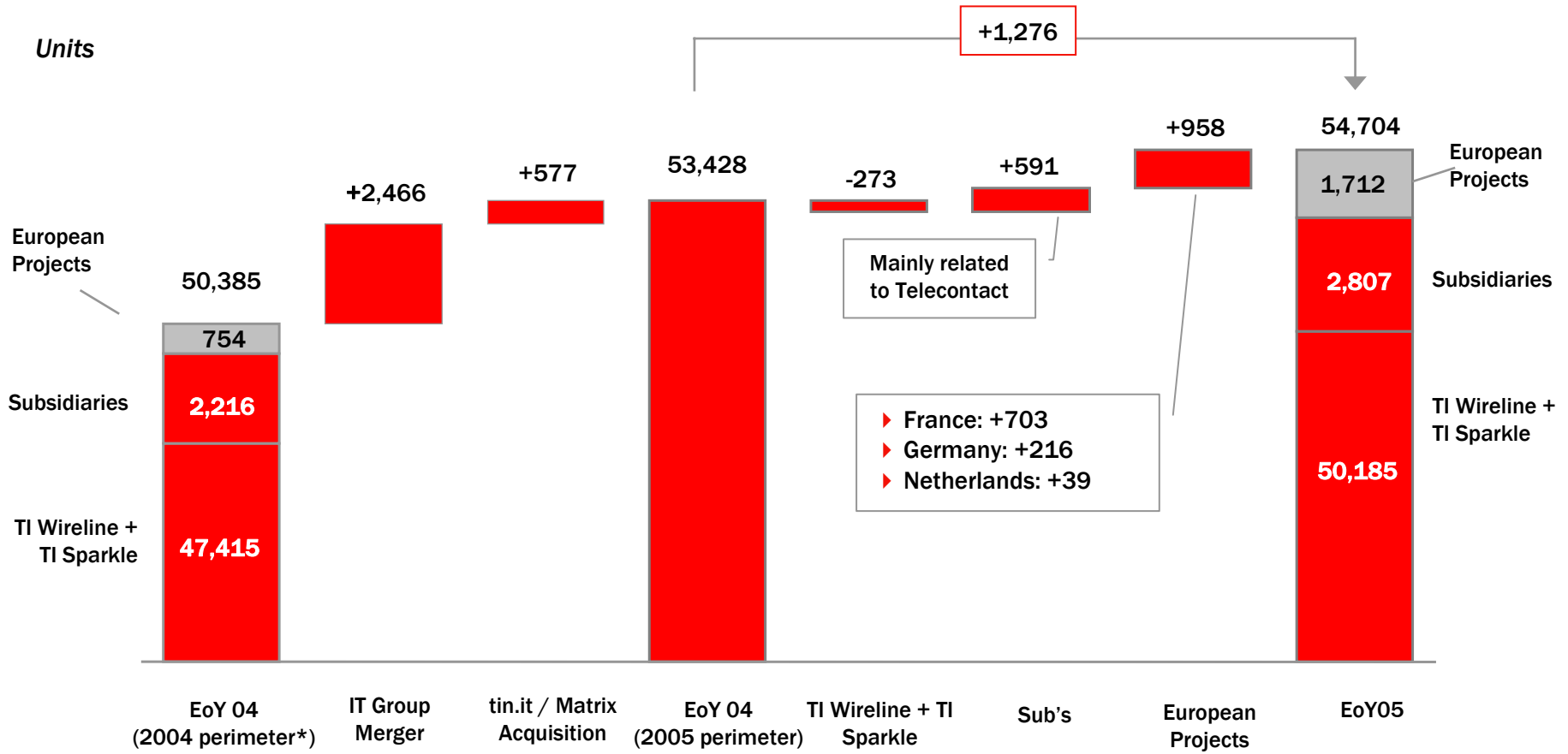
* Atesia sale (2004 Economics : Revenues 31 Mln€; EBITDA 4 Mln€; Ebit -1 Mln€) and Liberty Surf acquisitions (Economics 2004: Revenues 130 Mln€; EBITDA -2 Mln€; Ebit -13 Mln€)

Access lines

	2002	2003	2004	2005
<i>million access</i>				
TI Wireline Retail Access	23.7	23.0	22.4	21.7
<i>'000 access</i>				
OLO Access (on TI infrastructure)				
ULL	119	510	759	1,117
Shared Access (ADSL)*	n.a.	n.a.	29	141

* Included in TI Retail Access

Wireline: Headcount Evolution



* Atesia not included



Agenda

- ▶ **Appendix**

- ▶ **Wireline**

- ▶ **TIM Italy**

- ▶ **TIM Brasil**

TIM Italy: Main Results - 2005 vs 2004 – Organic Growth

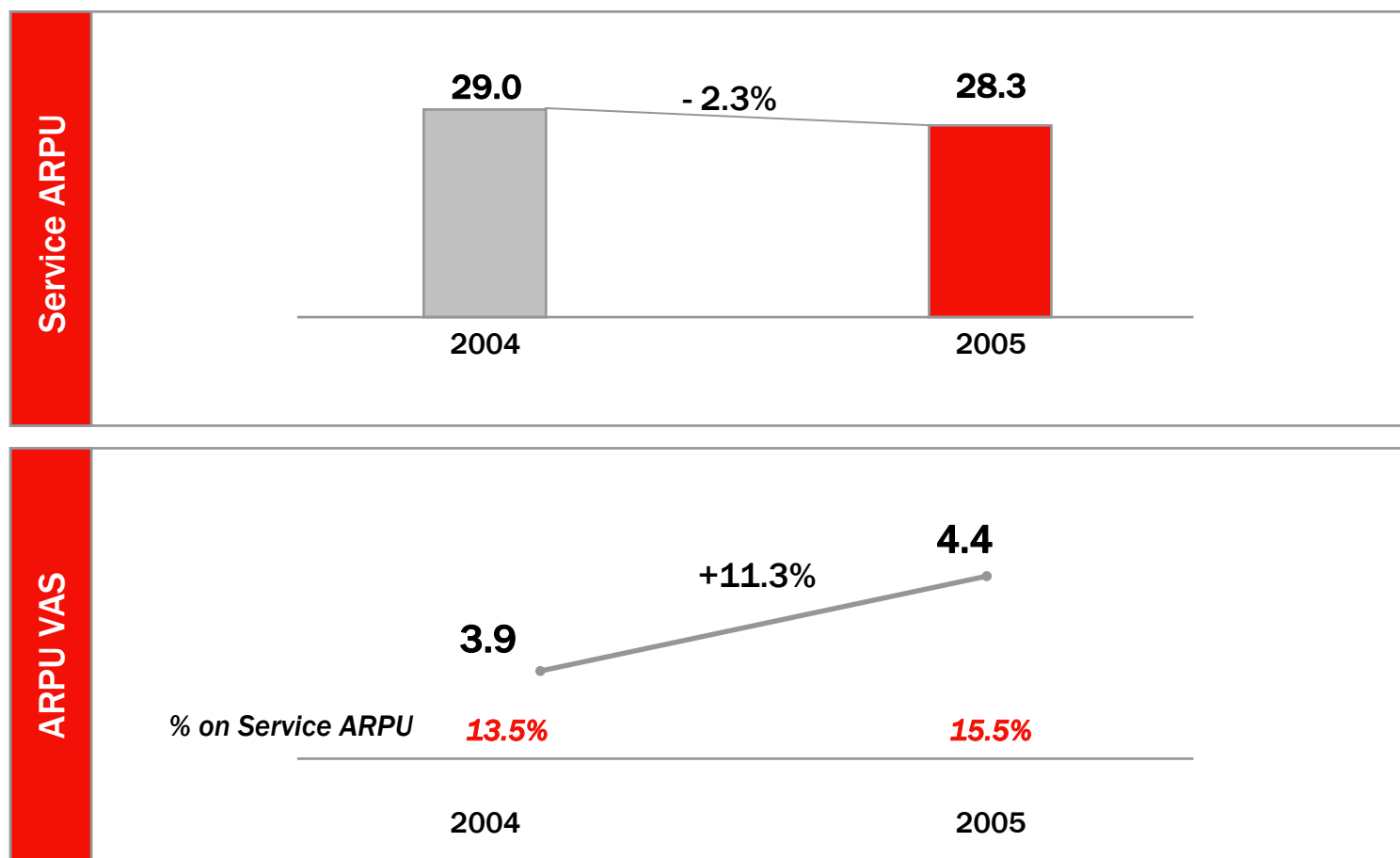
€ Mln, %	2004			2005			Organic Growth	
	2004 Reported (IAS)	Exceptional items	2004 Organic	2005 Reported	Exceptional items	2005 Organic	Δ Abs	Δ %
Revenues	9,923		9,923	10,076		10,076	+153	+1.5%
Ebitda	5,181	-154	5,027	5,086	+15	5,101	+74	+1.5%
Ebit	4,010	-154	3,856	3,856	+15	3,871	+15	+0.4%

• Licence fee	-184
• Others	+ 30

• Includes restructuring charge	+33
• Others	-18

TIM Domestic Service ARPU Trend (net of Visitor)

IFRS (mln €)



Agenda

▶ **Appendix**

▶ **Wireline**

▶ **TIM Italy**

▶ **TIM Brasil**

TIM Brasil*: Main Results YTD December 2005 vs 2004 Organic Growth in LC

IAS/IFRS - Million Reais, %

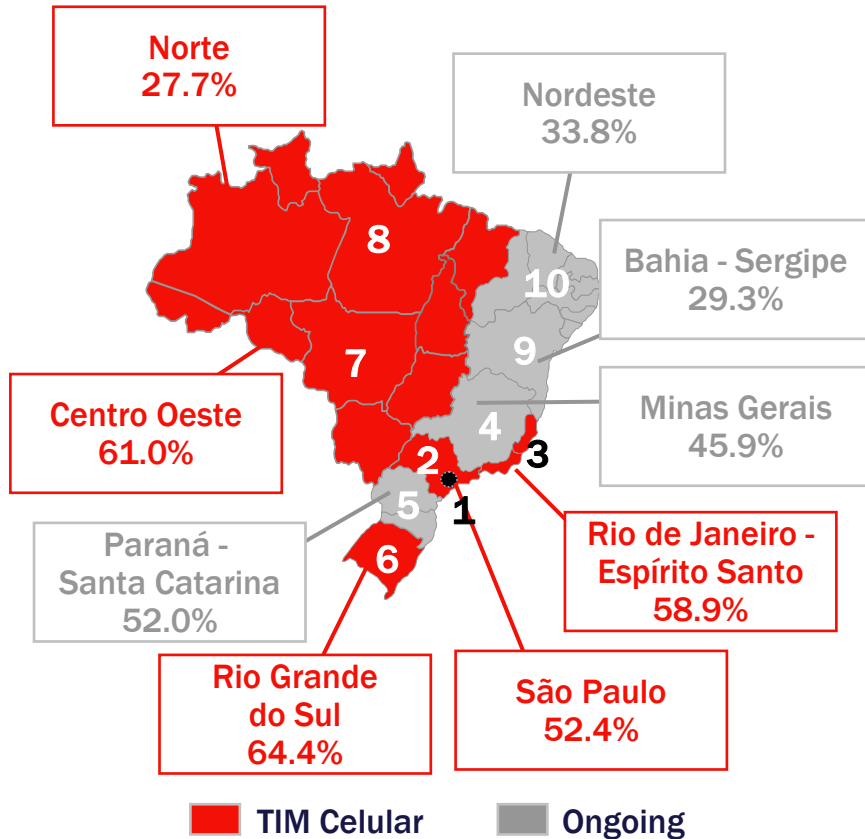
	2004			2005			Organic Growth '05 vs '04	
	2004 Reported	Exceptional Items	2004 Organic	2005 Reported	Exceptional Items	2005 Organic	Delta ass	Delta %
Revenues	6,545		6,545	8,784		8,784	2,239	34.2%
Ebitda	920	-387	533	1,412	23	1,435	902	169.2%
Ebitda %	14.1%		8.1%	16.1%		16.3%		
Ebit	-471	-380	-851	-574	51	-523	328	38.5%
Ebit %	-7.2%		-13.0%	-6.5%		-6.1%		

Mainly due to release of PCS tech.
risk fund

* Includes also Starcel, TIM Brasil (holding company) & eliminations

Brazilian mobile market in 2005

Overall Brazilian penetration rate: 46.6%

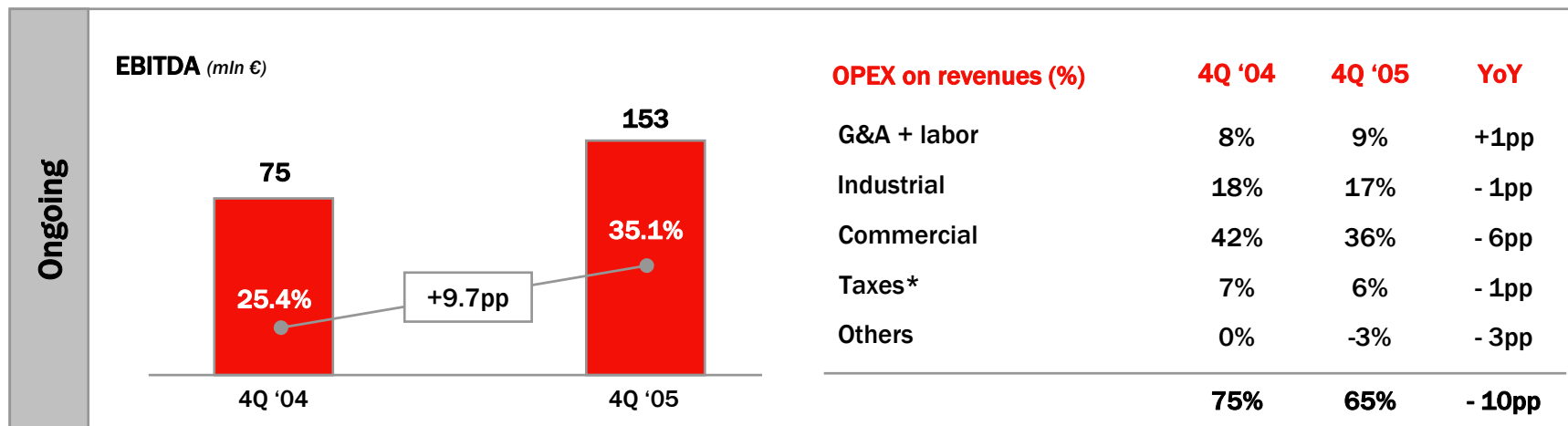
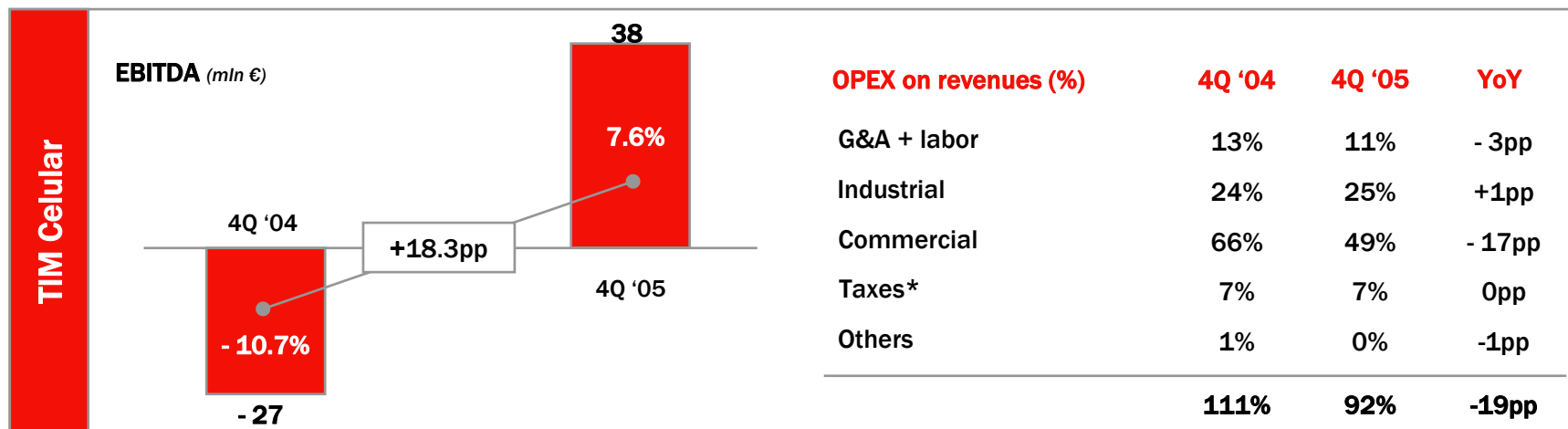


Source: Anatel as of December 2005

Market evolution as of 2005	Lines (,000)	Change YoY
Market	86,210	+31.4%
net adds 2005	20,604	+7.1%
Competitors	66,039	+27.0%
TIM	20,171	+48.4%
TIM Celular	9,086	+64.8%
Ongoing	11,085	+37.3%
TIM net adds 2005	6,583	+24.6%
TIM Celular	3,573	+17.4%
Ongoing	3,010	+34.3%

TIM market share as of 2005	Final	Marg. in '05
On total market	23.4%	32.0%
Only GSM	37.2%	35.1%

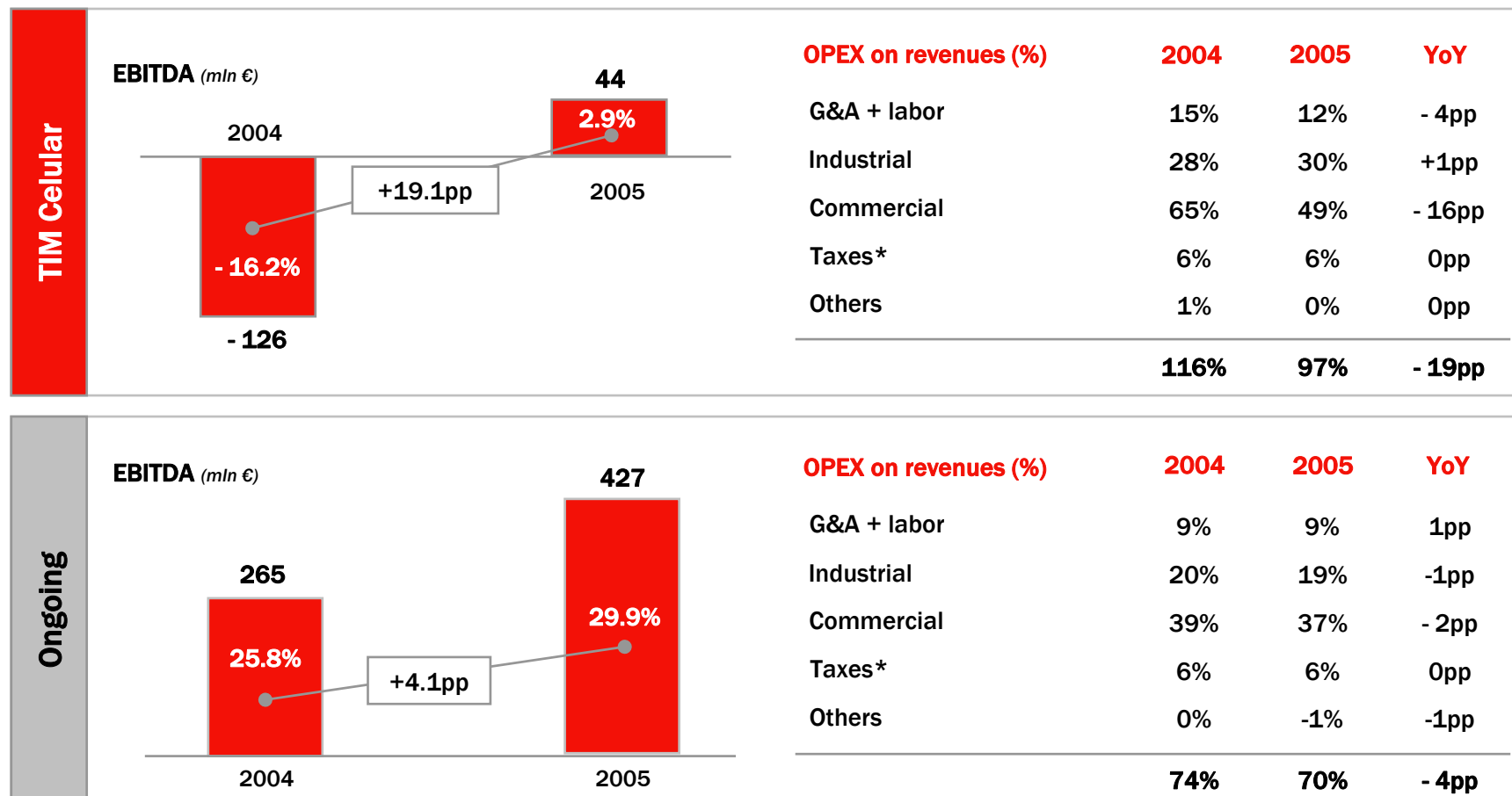
TIM Brasil's Profitability Analysis



* Taxes = PIS & COFINS taxes

TIM Brasil's Profitability Analysis

IAS/IFRS



* Taxes = PIS & COFINS taxes