

TELECOM ITALIA

Deutsche Bank German & Austrian Corporate Conference

Frankfurt, June 5

Telecom Italia International

STEFANO MAZZITELLI

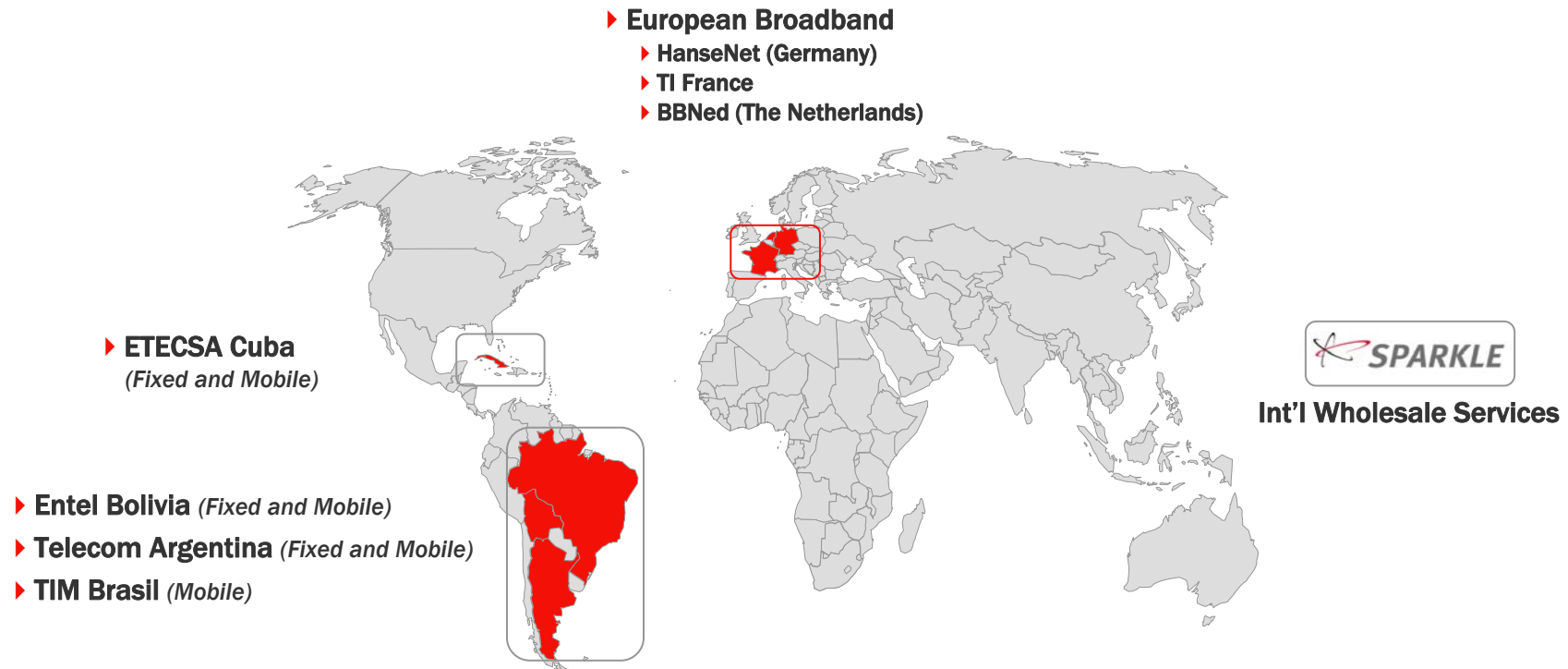
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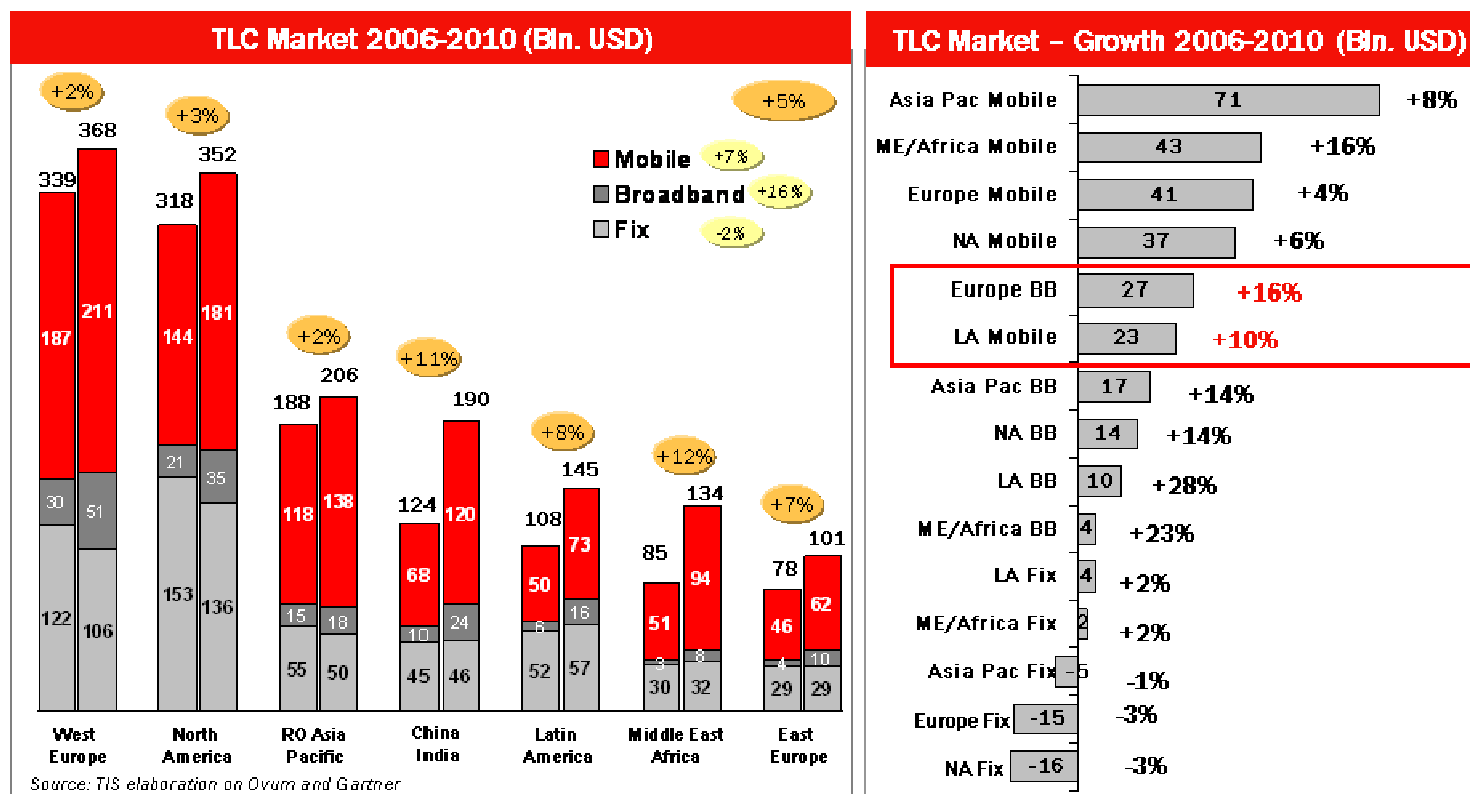
Telecom Italia International Portfolio



▶ **Telecom Italia international footprint consistent with TLC market growth macro trends:**

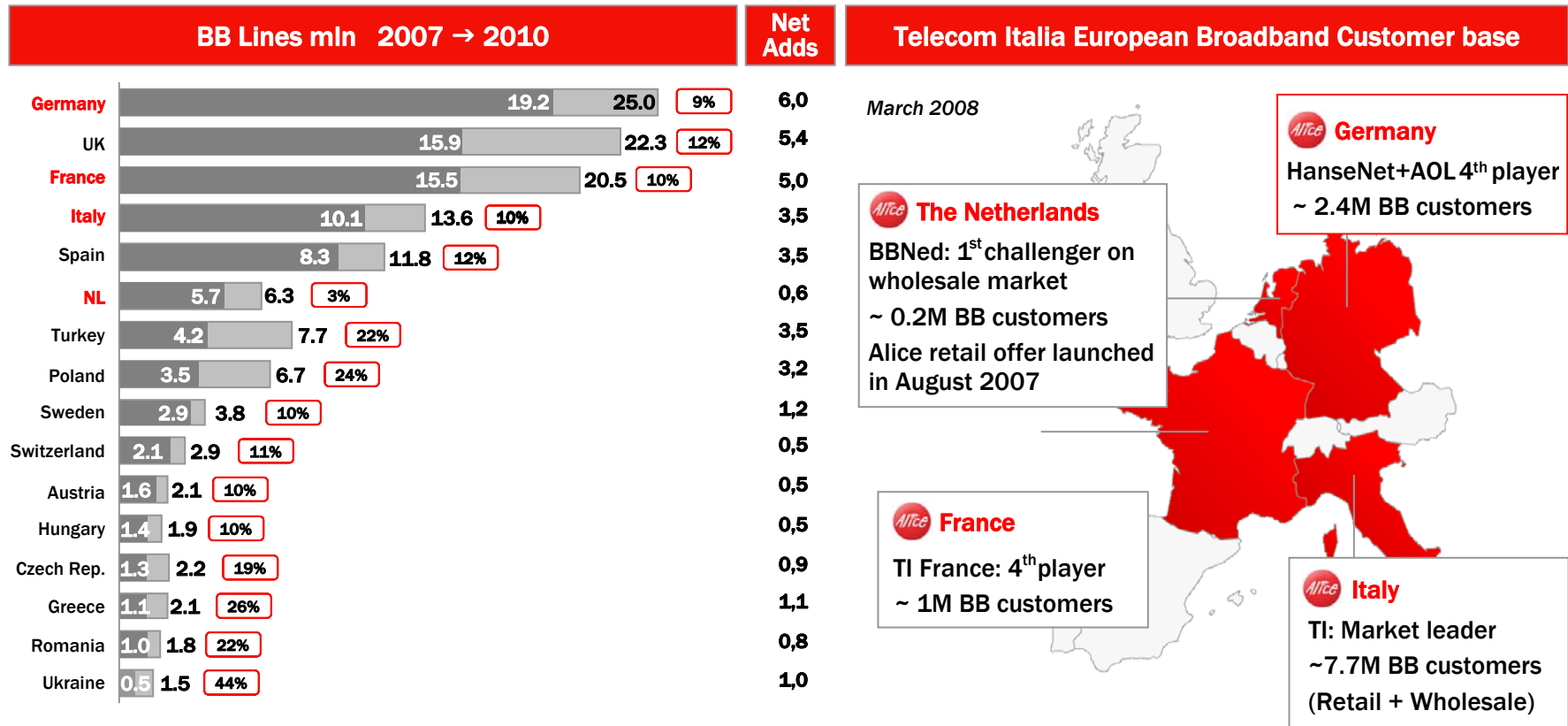
- ▶ **Latin America Mobile with expected 2006-2010 CAGR of +10%**
- ▶ **European BB with expected 2006-2010 CAGR of +16%**

International Market scenario



- ▶ European Broadband and Latin America Mobile are TI's areas of strategic presence and focus, and key growth areas for the TLC market
- ▶ Mobile in Emerging Markets represents an additional opportunity for growth

European Broadband Market and Telecom Italia presence



Germany is a strategic market for TI growth in European BB

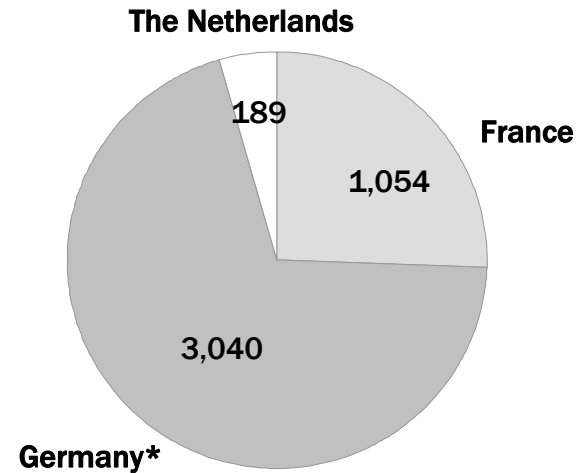
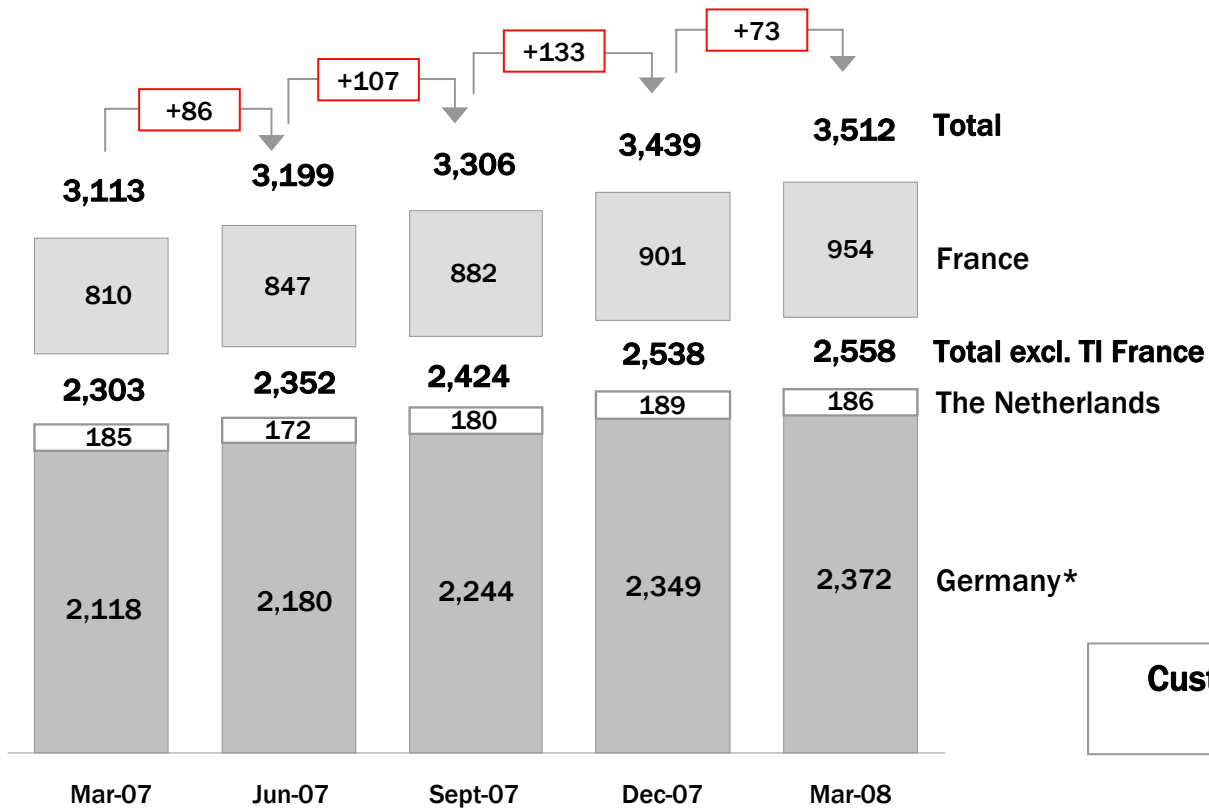
European Broadband: customer base evolution

Broadband Portfolio

'000 BroadBand Access

Total customer portfolio: BB+NB

'000 Access, March 2008



Customer portfolio excluding TI France: 3,172K

* Including AOL Customers, as of March '07 1,083 BB customers and 2,089k total customers

European Broadband: main results by Country

€ Mln., '000 lines, %, Reported Data

	Total European BB*				of which HanseNet + AOL				of which BBNED			
	1Q '08	1Q '07	Δ Abs	Δ%	1Q '08	1Q '07	Δ Abs	Δ%	1Q '08	1Q '07	Δ Abs	Δ%
Revenues	323	216	+107	+49.5%	303	198	+105	+53.0%	20	18	+2	+11.1%
Ebitda	61	54	+7	+13.0%	59	49	+10	+20.4%	2	5	-3	-60.0%
<i>Ebitda margin</i>	<i>18.9%</i>	<i>25.0%</i>	<i>-6.1 pp</i>		<i>19.5%</i>	<i>24.7%</i>	<i>-5.2 pp</i>		<i>10.0%</i>	<i>27.8%</i>	<i>-17.8 pp</i>	
Ebit	6	22	-16	-72.7%	10	21	-11	-52.4%	-4	1	-5	n.m.
<i>Ebit margin</i>	<i>1.9%</i>	<i>10.2%</i>	<i>-8.3 pp</i>		<i>3.3%</i>	<i>10.6%</i>	<i>-7.3 pp</i>		<i>-20.0%</i>	<i>5.6%</i>	<i>-25.6 pp</i>	
Capex	100	110	-10		97	108	-11		3	2	+1	
<i>% on revenues</i>	<i>31.0%</i>	<i>50.9%</i>	<i>-19.9 pp</i>		<i>32.0%</i>	<i>54.5%</i>	<i>-22.5 pp</i>		<i>15.0%</i>	<i>11.1%</i>	<i>+3.9 pp</i>	

* Pro-forma Data excluding TI France (discontinued operations)

HanseNet: 1Q 08 progress on strategic priorities

Market Results

- ▶ **Gross adds continue in line with previous quarter (253k); overall BB net growth suffered from decline of AOL customers also due to data cleaning after end of technical migration**
- ▶ **Strong push on ULL: +8% vs '07YE BB lines**
- ▶ **Mobile customer base increased from 329k to 423k subscribers**
- ▶ **Brand awareness increased to 65,5%* vs. 46% in Q4 07**

Network Extension

- ▶ **ULL coverage reached 68%, increase from ~ 60% in 2007 through 3rd party coverage (target 2008 ~70%)**
- ▶ **Roll-out of FTTx trial in selected area of Hamburg**

Operational Excellence

- ▶ **Since March service levels show strong performance due to operational optimizations:**
 - ▶ **Excellent hotline answering times**
 - ▶ **Low activation backlogs (due to end of delays from incumbent)**
 - ▶ **Substantial cost savings will be reached starting Q2**
- ▶ **Start of customer segmentation strategy**

Expected Profitability

- ▶ **Heavy price competition of 2007 will still negatively impact 2008 EBITDA margin, target revised to almost 24% from previously announced ~26%**

* GFK Eurisko, May 2008

International Wholesale: Strategic guidelines

- ▶ **Enlarge structural presence in strategic markets by developing infrastructure and international services, in line with the TI profile**



Offer a complete set of innovative solutions to Corporate Multinational Customers and protect the high value A-end Italian Customers, through:

- ▶ synergies with TI assets & International Subsidiaries
- ▶ selective partnership agreements

Consolidate the Leadership on the Global Services and Infrastructure market, with focus on fast growing Regions such as MEA, Eastern Europe and South-East Asia

Growth on MNCs Market

Goal

- ▶ Develop capabilities and advanced solutions for Italian and European Multinational Customers

DRIVERS

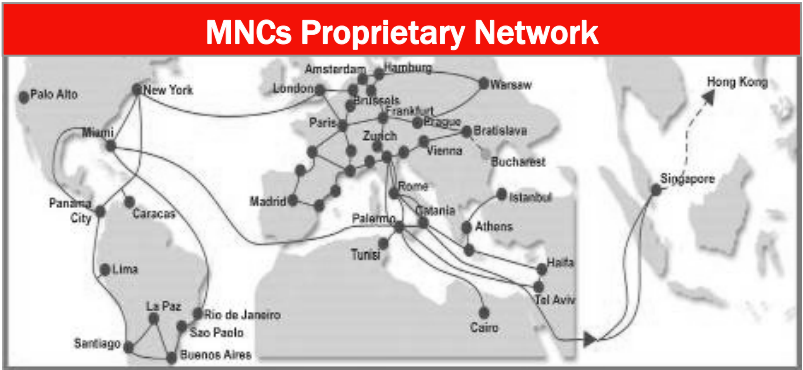
Intra-Group Synergies

- ▶ TI Sparkle global capabilities
- ▶ Telecom Italia new ICT focus
- ▶ Telecom Italia's Int'l Operations

Partnership

- ▶ Synergies with Telefónica
- ▶ Partners to complement TI geographical presence

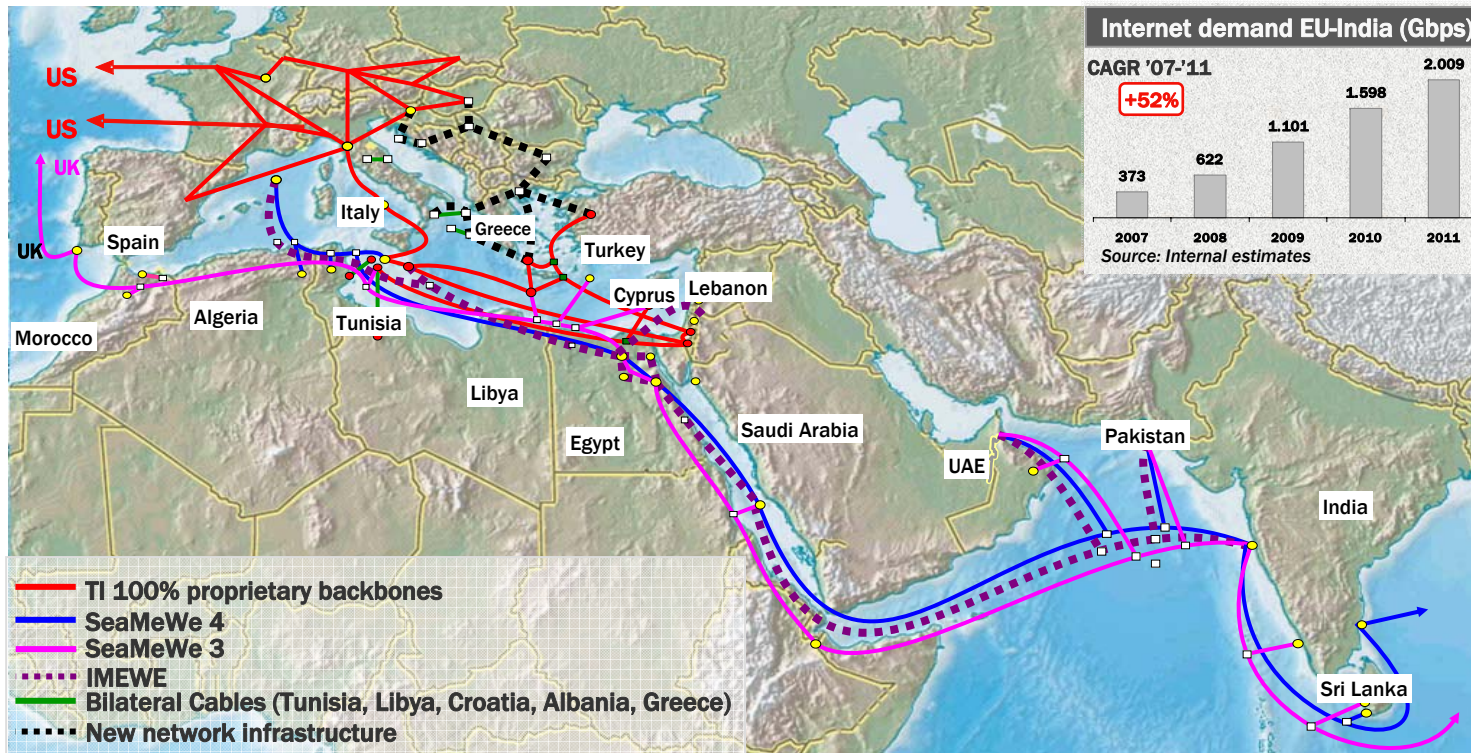
NETWORK COVERAGE



TI global presence through:

- ▶ Proprietary Network (115 access POPs)
- ▶ Partnership agreements with Global Carriers (i.e. C&W, Verizon) and Regional Operators (i.e. CPCNet, Tunisie Telecom, Batelco, GTS)

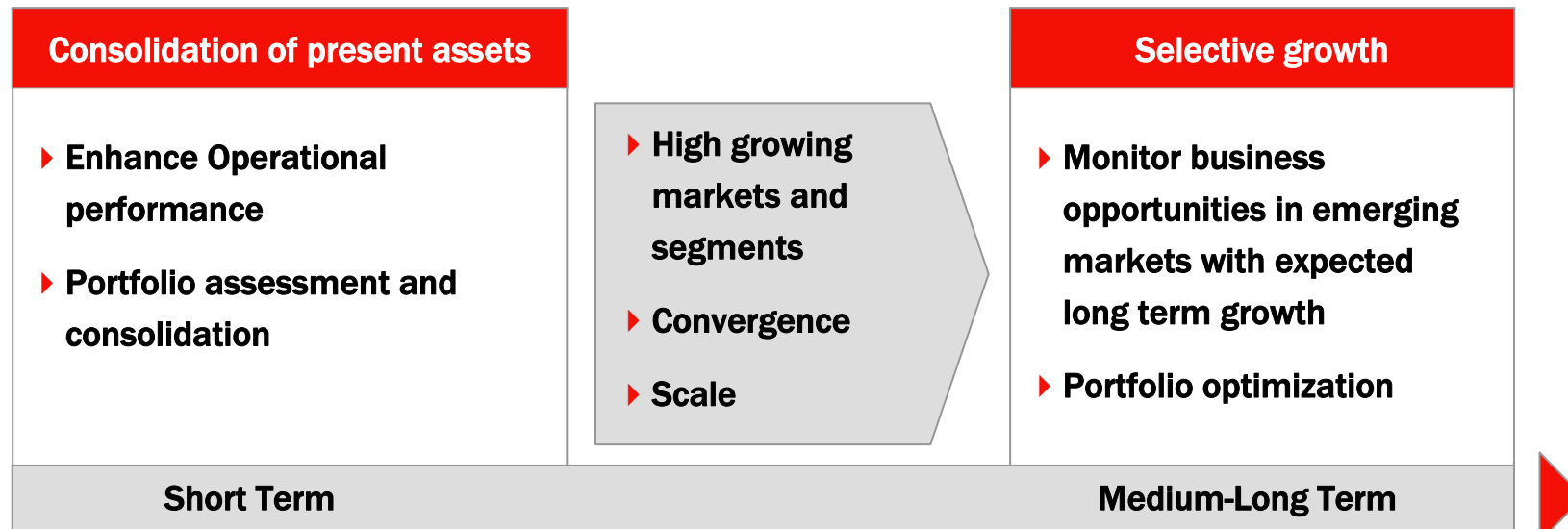
Focus on Mediterranean Infrastructure growth



- ▶ Italy through Palermo and Catania is a key point of interconnection for major cable systems connecting Europe, US and South-East Asia
- ▶ Leadership position to capture the high traffic growth driven by large demand for new BB services in emerging markets

Building on current assets for future growth

- ▶ Consolidate presence in market where Telecom Italia can sustain a long term profitable position
- ▶ Monitor opportunities in emerging high growing markets and segments



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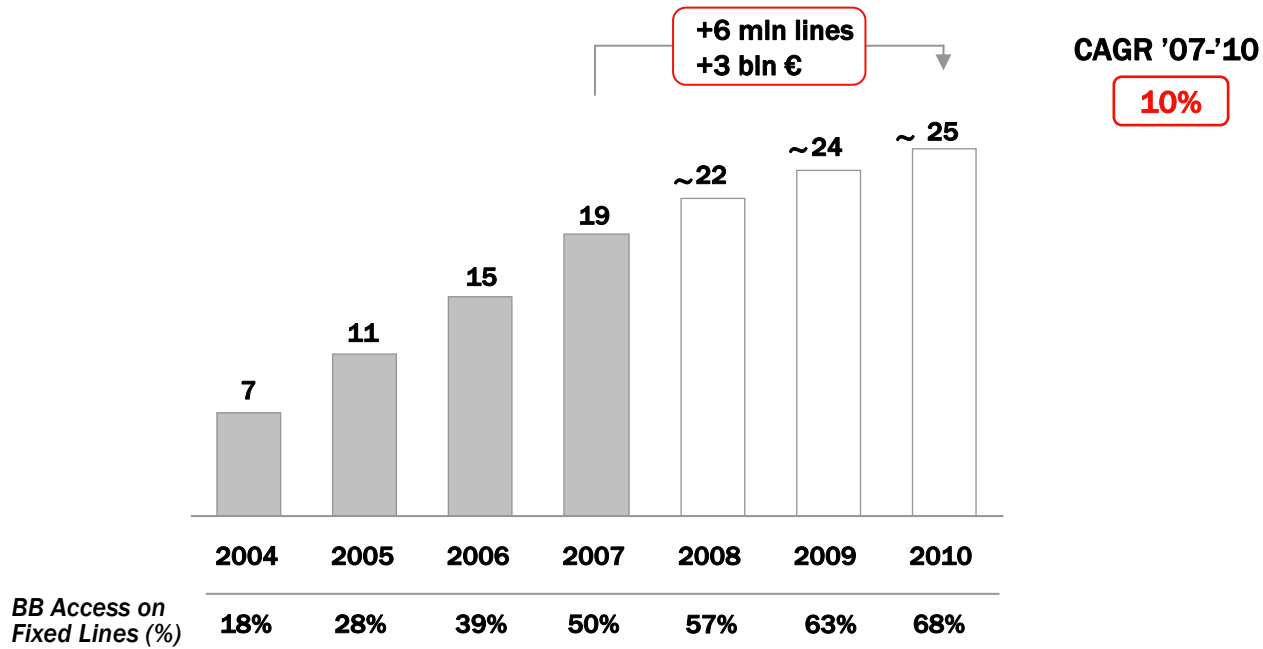
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**Telecom Italia
HanseNet/Alice in Germany**

CARLOS LAMBARRI

Germany: Broadband Market evolution

mln lines

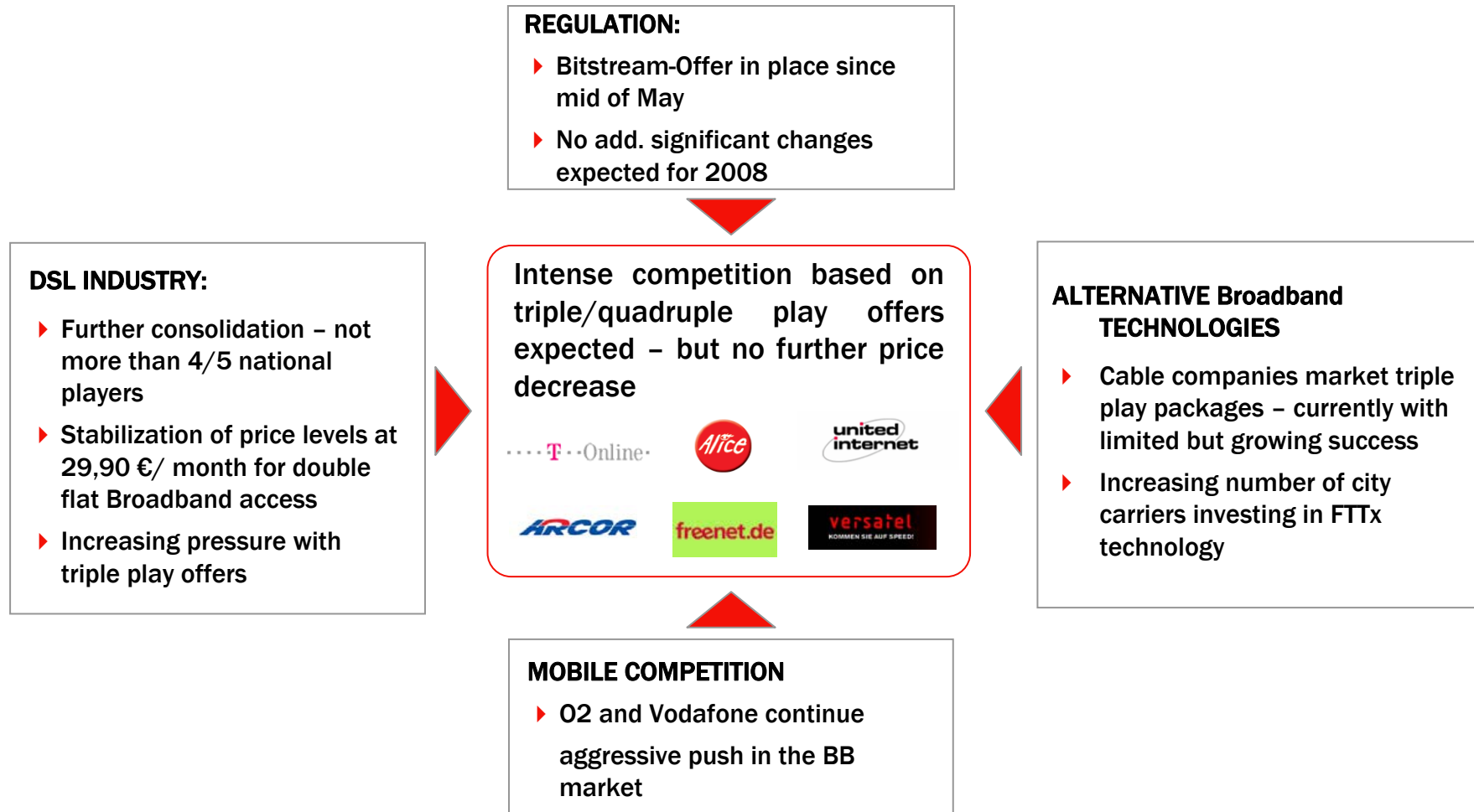


German BB market will still experience a **sustained growth** in the next 3 years (+10%): **~6 Mln of BB access** will be added

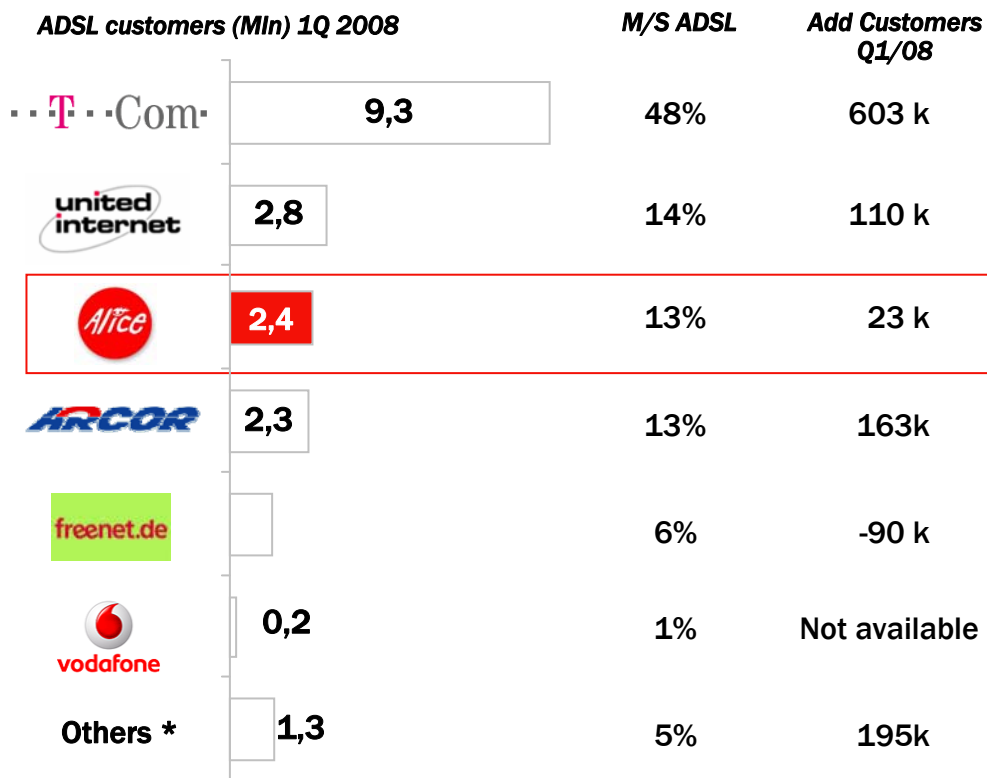
With ARPU exceeding 40 € per month, **this new market will be worth ~3 Bln €**

Penetration will reach the European average in 2010 (68% on fixed lines)

Competitive scenario 2008



Alice Germany Market Position



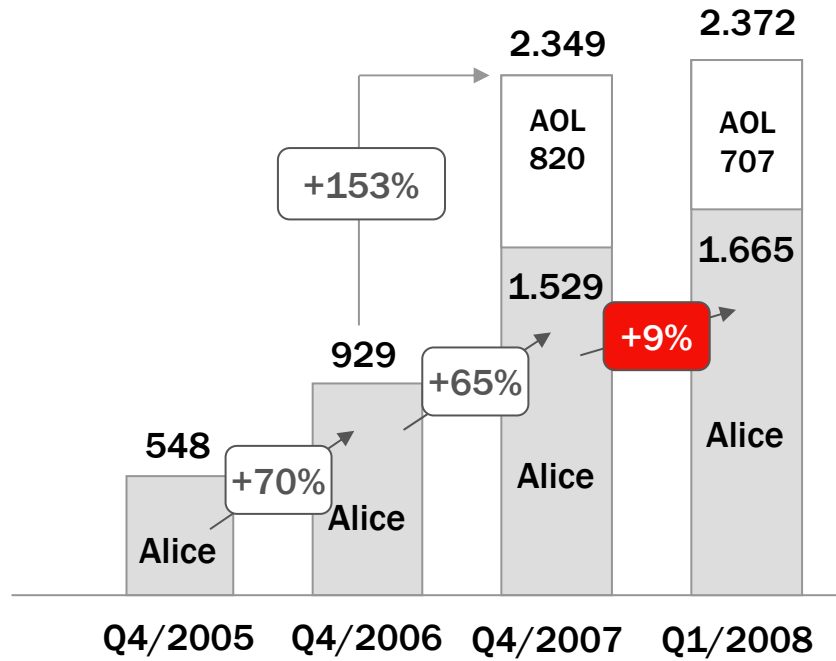
- ▶ Alice is now clearly positioned among the TOP 4 German Players
- ▶ Critical path for Alice's future growth in profitability and customer retention is the share of ULL customers which grew in Q1 by 8 % to 1,5 mln (64% of total)

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

Growth of Hansenet broadband customer base

Residential and Business Broadband Customers EOP

(000s)

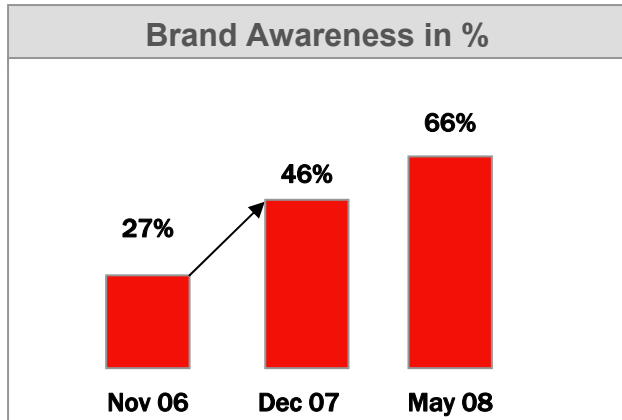


- ▶ Broadband customer base has increased to 2,372,000 in a 23k net
- ▶ Alice customer grew by 136,000 in Q1 2008
- ▶ Organic growth of Alice products in Q1 is 9%, partly done by migration from AOL products
- ▶ Majority of migration will be completed within 2008

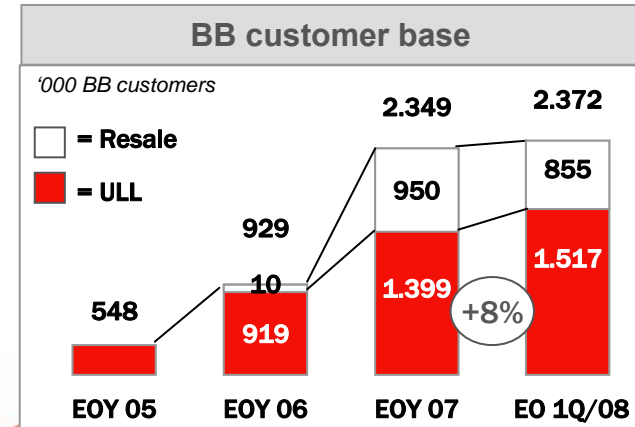
Share of German DSL Market*

* Source: HanseNet Analysis

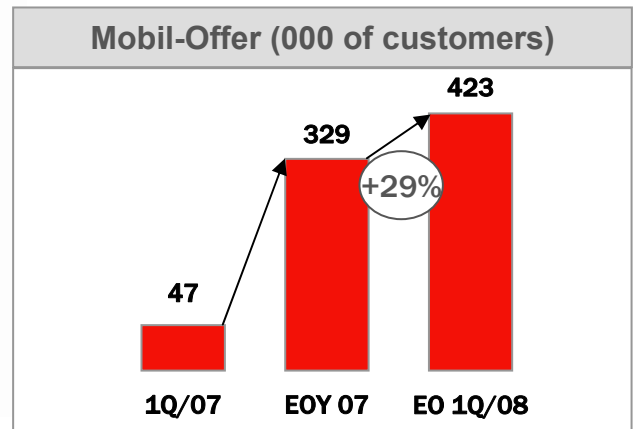
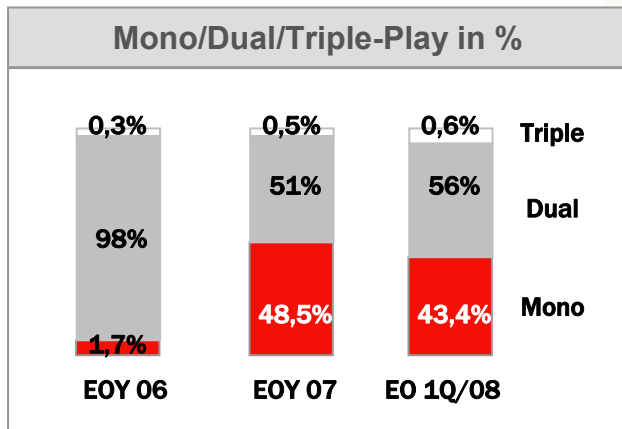
Key elements of success



Die schönste Verbindung.



Resale share will decrease from 36% as of today to 30% end of the year



HanseNet: main results

€ Min, %

	Reported Data				Organic Growth	
	1Q '08	1Q '07	Δ	Δ %	Δ	Δ %
Revenues	303	198	+105	+53.0%	+37	+13.9%
Ebitda	59	49	+10	+20.4%	+3	+5.4%
<i>% on revs</i>	<i>19.5%</i>	<i>24.7%</i>	<i>-5.2 p.p.</i>		<i>-1.6 p.p.</i>	
Capex	97	108	-11		-11	
<i>% on revs</i>	<i>32.0%</i>	<i>54.5%</i>	<i>-22.5p.p.</i>		<i>-22.5 p.p.</i>	

Main economic performance drivers

- ▶ HanseNet maintained ~13% market sh. ytd
- ▶ German market in 1Q was characterized by stronger than expected price competition
- ▶ Higher than expected marketing and sales expenses
- ▶ Price and gross margin pressure in Q1. Reference price dropped to 29.90€/month for a dual play flat-rate offer and led Alice customers to adopt new price plans more rapidly than expected
- ▶ For the rest of 2008 we expect ARPU and Gross Margin per customer to remain stable
- ▶ Reduction of churn through up-selling of AOL customers
- ▶ Higher customer service cost due to process reengineering which have improved quality to best in class performance (Answering rate from 84% in Dec to 91% in March) and which will generate cost efficiency in the following quarters

Market success: enhancement of existing quadruple play product

Fixed voice



- Main offers:
- ▶ National fixed calls included in DSL Bundles
 - ▶ Optional int'l flatrate

Coverage: 100% of ADSL BB market

Internet Access



- Main offers:
- ▶ DSL flatrate at 16 Mbs
 - ▶ Portal
- ▶ Portal
 - ▶ FTTx

Coverage: 100% of ADSL BB market

Mobile



- Main offers:
- ▶ Optional SIM card offering free calls between Alice fixed and Mobile numbers
 - ▶ Other Calls at 15 ct/minute
- ▶ New: Mobile Internet

Coverage: 100% (only available for Alice DSL subscribers)

IPTV



- Main offers:
- ▶ 100 basic TV channels + access to video-on-demand
- ▶ New channels and features

Coverage: ~28% of ADSL BB market

Market success: enhancement of existing quadruple play product

Brand



Die schönste Verbindung.



Dual Play (Basic Offer)

► Best Offer in The Market:

29,90€

16Mb Adsl

Flat Internet

Flat voice (national fix)

Best in class e.mail services

IP-TV

- Coverage from 10 to 150 cities
- Zapping time from 3 to 1,5 sec
- New UI



Convergence

- First really convergent offer: free OnNet calls across fix & mobile network



Operational Excellence: 2008 priority

Key elements

Improve Quality of existing products and services

- ▶ Reach truly excellent availability for DSL and Telephone Services (99,99% on own ULL network)
- ▶ Significantly reduce perceived difference in quality between Voip based telephone services and traditional technology
- ▶ Publish audited technical and call center performance on web

Optimize customer-facing processes

- ▶ Complete roll-out of decision support tool in customer service to ensure that agents provide correct and coherent information also in a highly complex environment
- ▶ Significantly improve Trouble Shooting (higher first call fix rate at front office, reduced mean time to repair)
- ▶ Further reduce average answering times at call center

Streamline and adapt internal processes

- ▶ Increase degree of automation of internal processes to save cost and reduce error rates

Customer segmentation

- ▶ Ensure that each customer (mono, dual, triple ... play) receives the best service he requires

Profitability: 2008

Key elements

Keep ARPU stable

- ▶ Continue upselling to ULL products – weight of customers on DTs resale network will decrease to 30% (down from >40% EOP 2007)
- ▶ Push options such as mobile (target > 600.000 subs, 8-9 Euro ARPU), IPTV (target >50.000 subs, 10 Euro ARPU), content and ISP services

Grow Gross Margin*

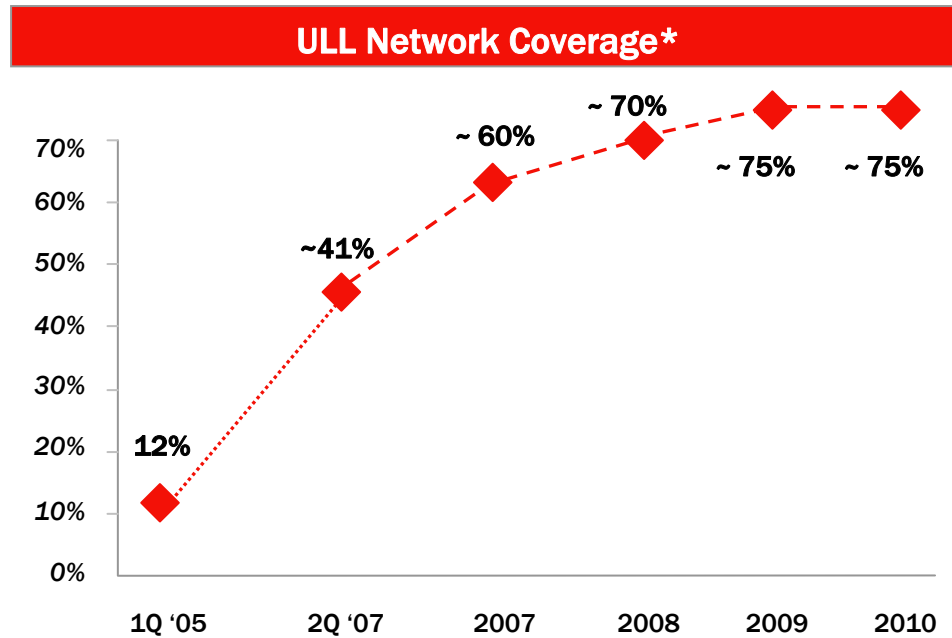
- ▶ Gross margin will grow in absolute terms because of higher customer numbers although higher weight of customers on 3rd party ULL networks and higher mobile revenues could decrease the percentage level (55% in 2007)

Keep Opex stable at <25% revenues

- ▶ Achieve high brand awareness target with advertising budget at 2007 level
- ▶ Reduce or rationalize cost of sales per gross add enhancing ULL push acquisition
- ▶ Achieve higher efficiency through operational excellence

* Gross margin = revenues – variable network costs (COGS)

Network Development: 2008-2010



# BB HH (Mln)	~ 5	~ 16	~ 24	~ 28	~ 30	~ 30
% ULL coverage through Alice network*		~ 18%	~ 26%	~ 26%	~ 26%	~ 26%

* % on BB Households

- ▶ HanseNet will not extend further own ULL network as development of NGNs might reduce timeframe for usage
- ▶ ULL coverage will be expanded to 70% of households through 3rd parties. Telefónica will be preferred (but not exclusive) supplier
- ▶ The remaining 30% will continue to be covered through DTs resale network
- ▶ FTTx trial in Hamburg area where market share on households is > 40% - final coverage will reach 130,000 households

Vision

Key elements

One face for many needs

- ▶ Alice will be the contact point not only for all Telecommunication services (Broadband, Fix, Mobile and TV) but also for the applications delivered: security, portal, contents, HW and SW even from third parties.

Convergence

- ▶ Alice will integrate Fix, Mobile and TV providing one common platform for contents and services

Segmentation

- ▶ Alice will deliver for any type of customer the best solution according to his needs

Brand

- ▶ Alice! What else?

HanseNet: 2008 - 2010 Targets

<i>Reported data</i>	2007 Actual	2008 Targets	2010 Targets
BB Customer Portfolio (<i>mln Access - EoY</i>)	2.3	2.6-2.7	~ 3.4
Revenues	1.1 Bln €	~ 1.3 Bln €	~ 1.7 Bln €
EBITDA margin	26%	~ 24%	~ 29%
CAPEX	0.3 Bln €	~ 0.3 Bln €	< 0.7 Bln € (cum '08-'10)