

TELECOM ITALIA ANALYST & INVESTOR BRIEFING
2007 Results & Strategic Guidelines

**Telecom Italia European
Broadband Project – Germany**

HARALD RÖSCH

Safe Harbour

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Agenda

- ▶ **2007 Results and Achievements**
- ▶ **Outlook 2008 - 2010**

What we committed on vs. what we delivered

	Guidance	What we did	
Economics	▶ Revenues: ca. 1.1 bln €	▶ Revenues 1,074 bln €	✓
	▶ EBITDA: 25% of revenues - 275 mln €	▶ EBITDA: 26% - 281 mln €	✓
	▶ Positive Operational Free Cash Flow	▶ Operational Free Cash Flow: +16 M€	✓
BB Customers	▶ 2,5 mln Broadband Customers EOY	▶ 2,35 mln Broadband Customers	✗
Operations	▶ Leading edge innovative product portfolio will be created	▶ Development of full quadruple play offer ▶ Launch of new AOL/Alice portal now among top 50 German sites ▶ Introduction of state of the art ISP services	✓
	▶ Network: 60% ULL coverage reaching - 24 mln Households	▶ Network: ULL coverage has reached 60% , impacting positively on ARPU and margins	✓
	▶ AOL integration	▶ Consolidation since 1st March 2007 ▶ Completion of customer migration to TI systems ▶ Ongoing upselling of AOL customers to ULL	✓

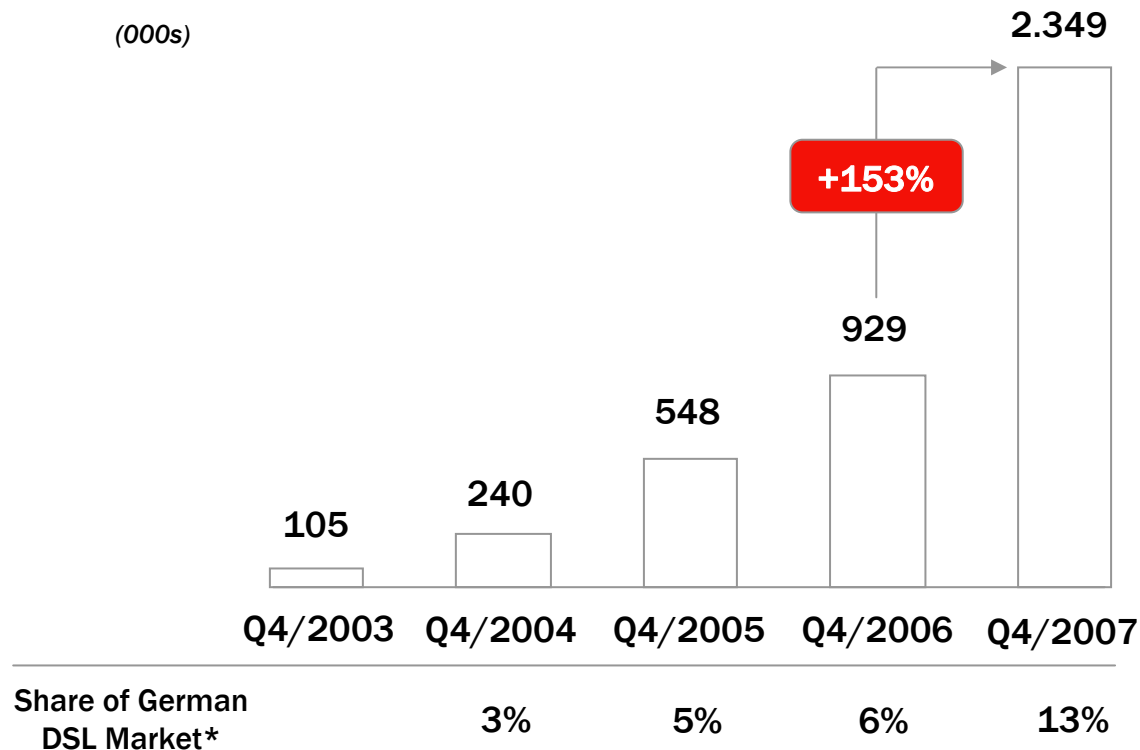
HanseNet: 2007 Key Financial Results

Reported data	2006	2007	Growth '07 vs '06	% Growth '07 vs '06	Main drivers of organic growth	
Revenues	528 Mln €	1,074 Mln €	+546 Mln €	+ 103% (18% Organic)		<ul style="list-style-type: none"> ▶ BB ARPU slightly growing QoQ throughout 2007 as upselling of AOL customers* and introduction of options were offsetting impact of deflationary market ▶ Growth of gross margin due to additional customers ▶ Cost savings also due to synergies from AOL merger (>25 mln €) ▶ Enlargement of own ULL network ▶ Migration of AOL customers to TI systems and network
EBITDA	145 Mln €	281 Mln €	+136 Mln €	+ 94% (45% Organic)		
EBITDA margin	28%	26%				
CAPEX	196 Mln €	344 Mln €	+148 Mln €	+ 76%		
Capex on revenues	37%	32%				
Op. Free Cash Flow	- 13 Mln €	16 Mln €				

* Upselling from AOL to Alice products requires individual customer opt-in but doubles ARPU and multiplies margins 4x in ULL area

Growth of Broadband customer base

Residential and Business Broadband Customers EOP



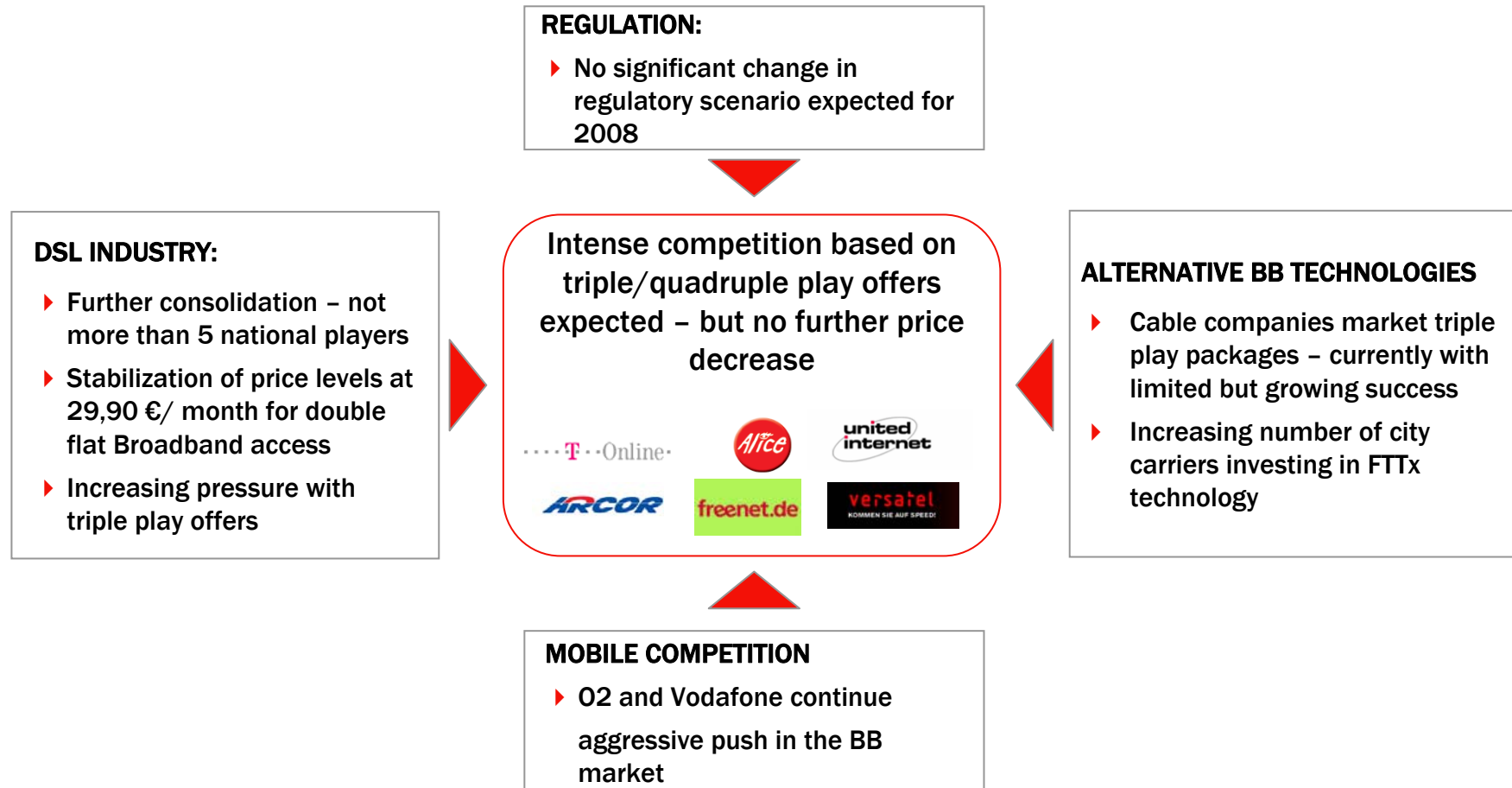
- ▶ Alice is clearly among top 4 broadband players in Germany
- ▶ Broadband customer base has increased to 2,349,000 including 1,083,000 acquired from AOL
- ▶ Organic growth Q4: 105,000
- ▶ More than 50% of new orders done through internet and inbound calls

* Source: HanseNet Analysis

Agenda

- ▶ 2007 Results and Achievements
- ▶ **Outlook 2008 - 2010**

Competitive scenario 2008



HanseNet: Strategic Priorities in 2008

- ▶ **Focus on market success and operational excellence/efficiency to ensure profitable growth in a challenging market environment**

Market Success

- ▶ **Grow BB customer base enhancing existing quadruple play offer**
- ▶ **Increase brand awareness to 75% (vs. 46 in 2007)**

Operational Excellence

- ▶ **Streamline operational processes and technical quality to optimize customer experience and decrease costs for customer management**

Network Extension

- ▶ **Further increase ULL coverage only through 3rd parties**
- ▶ **Launch FTTB trial in selected areas of Hamburg**

Profitability

- ▶ **Keep Opex (including SAC and advertising) stable**
- ▶ **Balance impact of price war on ARPU through push of options and upselling to ULL products**

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 Germany

Internet Access



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

- ▶ IPortal
- ▶ FttB

Coverage: 100% of Germany

Mobile



- Main offers:
- ▶ Optional SIM card offering free calls between Alice fixed and Mobile numbers

- ▶ New: Mobile Internet

- ▶ Other Calls at 15 ct/minute

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: 25%

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

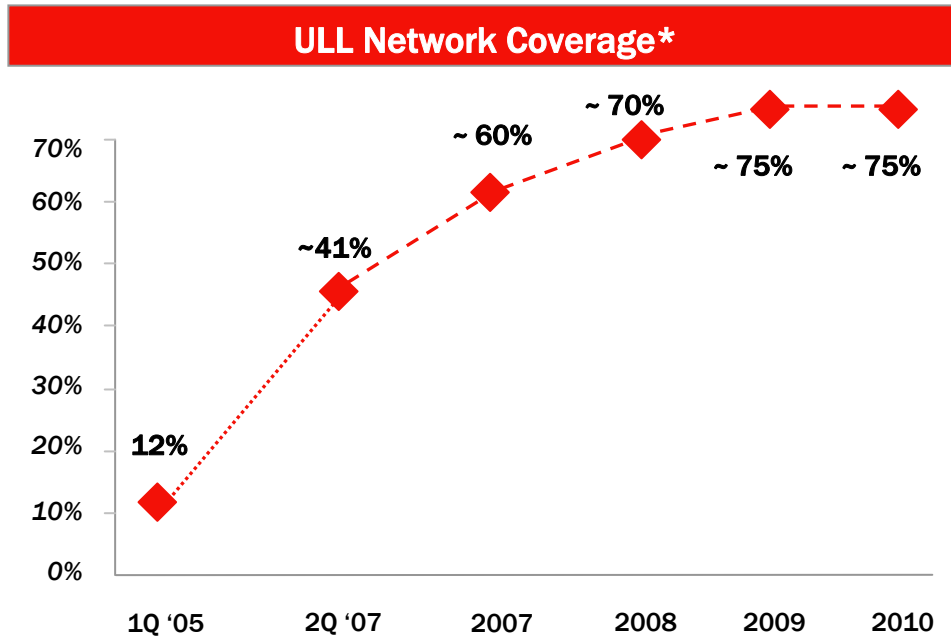
Optimize customer-facing processes

- ▶ 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

Network Development: 2008-10



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

* % on Households, HH (mIn)

- ▶ HanseNet will not extend further own ULL network as development of NGNs might reduce timeframe for usage (see NL)
- ▶ 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
- ▶ HanseNet will start a FTTB trial in an area of Hamburg where market share on households is > 40% - final coverage will reach 130,000 households

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 further commissions per gross add growing mainly through low cost channels (web and call center)
- ▶ Achieve higher efficiency through operational excellence

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

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%	~ 26%	~ 29%
CAPEX	0.3 Bln €	~ 0.3 Bln €	< 0.7 Bln € (cum '08-'10)

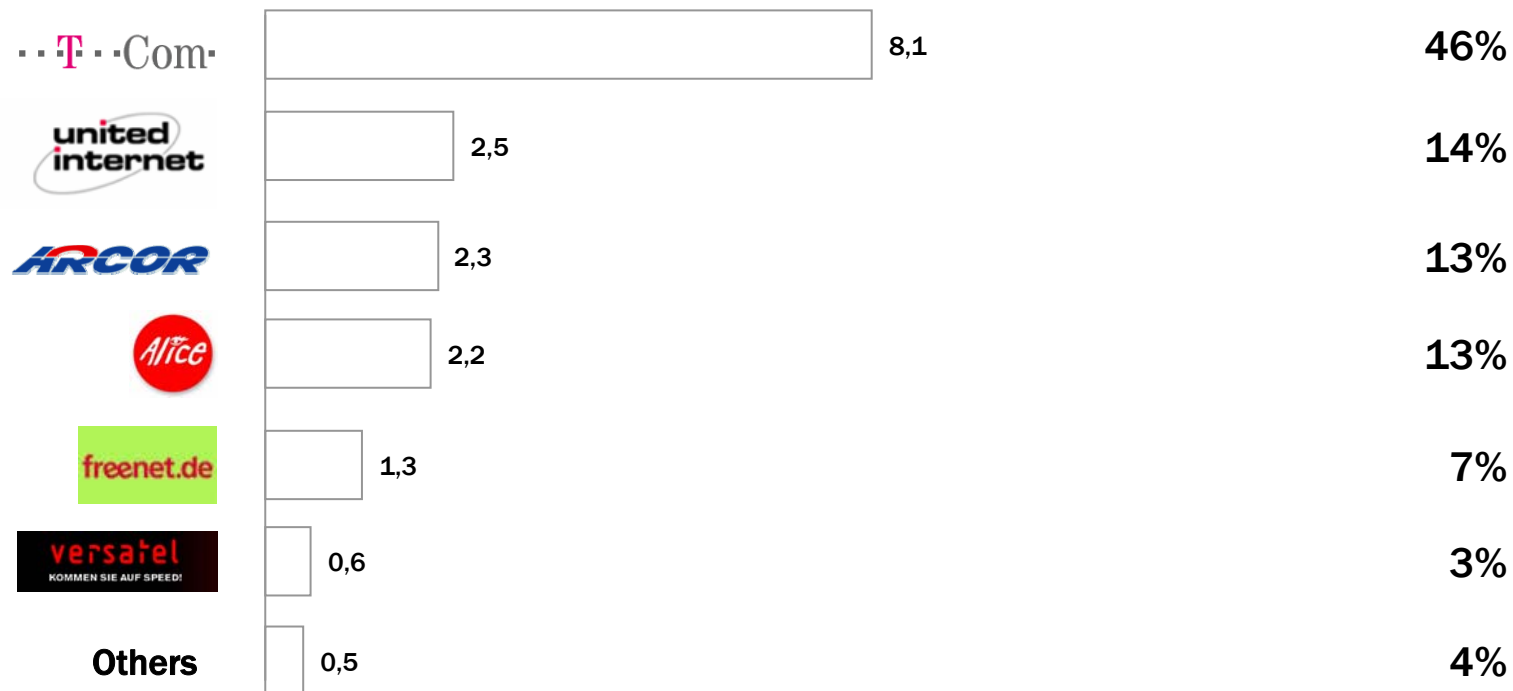
Appendix

TELECOM ITALIA EUROPEAN BROADBAND PROJECT - GERMANY

Alice is clearly among top 4 broadband players in Germany

mln DSL customers, Q 3 2007

Market Share

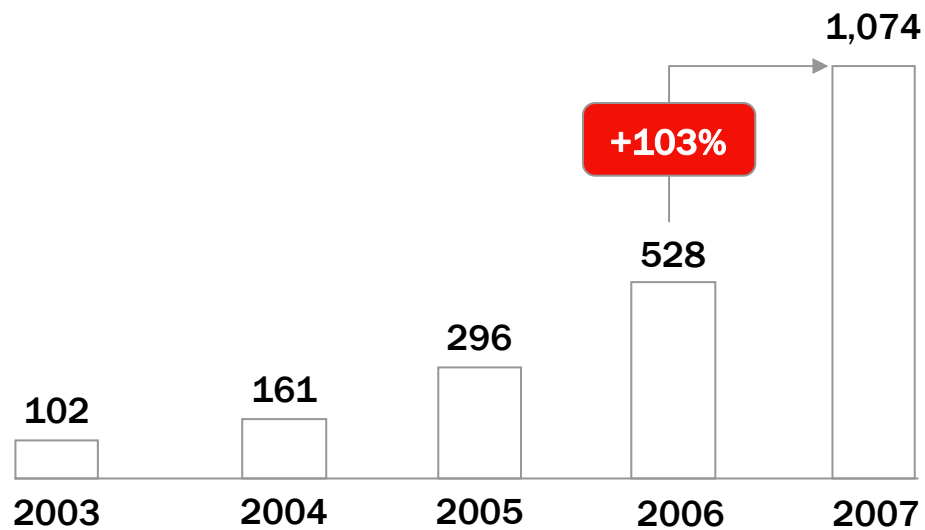


Source: Press Releases, HanseNet Analysis

TELECOM ITALIA EUROPEAN BROADBAND PROJECT - GERMANY

Revenues have reached **1,074 mln €**

Mln €



► Revenues are increasing by 103% and reached 1,074 mln €

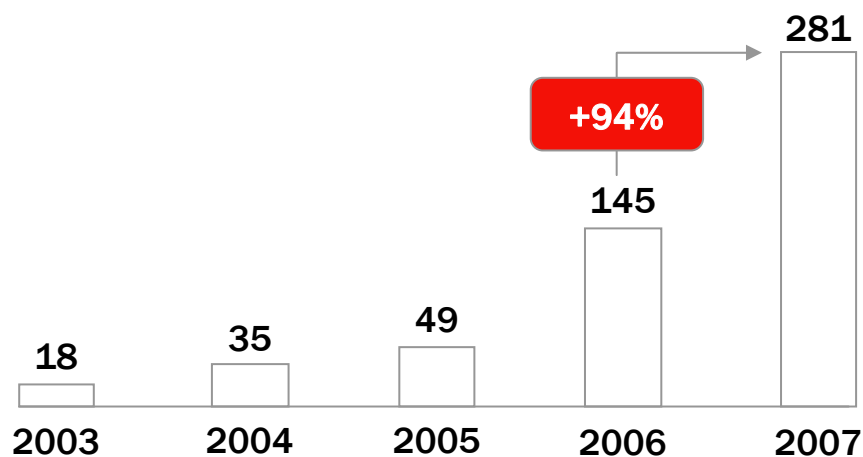
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EBITDA reached 281 mln €

Mln €, %



- ▶ EBITDA is increasing by 94% to 281 mln €
- ▶ Cash flow positive on a full year basis

	2003	2004	2005	2006	2007
% EBITDA on revenues	18%	22%	17%	28%	26%
Cash flow	-13	-17	-76	-13	+16