

TELECOM ITALIA GROUP
1st HALF 2007
ATTACHMENTS TO THE PRESS RELEASE

ALTERNATIVE PERFORMANCE MEASURES

In this press release in addition to the conventional financial performance measures established by IFRS, certain alternative performance measures are presented for purposes of a better understanding of the trend of operations and the financial condition of the Telecom Italia Group for the six-month periods ended June 30, 2007 and 2006. These measures are also presented in the Report on Operations included in the periodic reports (annual financial statements, first half and quarterly reports). However, such measures should not be considered as a substitute for those 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:

INCOME FROM CONTINUING OPERATIONS BEFORE TAXES

- + Financial expenses
- Financial income
- +/- Share of losses (profits) of associates and joint ventures accounted for using the equity method

EBIT - OPERATING INCOME

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

EBITDA - OPERATING RESULT BEFORE DEPRECIATION AND AMORTIZATION, CAPITAL GAINS (LOSSES) REALIZED AND IMPAIRMENT REVERSALS (LOSSES) OF NON-CURRENT ASSETS

- **Organic change in Revenues, EBITDA and EBIT.** These measures express 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 believes that the presentation of such additional information allows to understand in a more effective manner the operating performance of the Group (as a whole and at the level of the Business Units). 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 provides 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.

TELECOM ITALIA GROUP

The Statements of Income and the Balance Sheets as well as the Net Financial Debt of the Telecom Italia Group, herewith presented, are the same as those included in the Report on Operations included in the "First Half 2007 Report" and are unaudited. Such statements as well as the Net Financial Debt are however consistent with those included in the Telecom Italia Consolidated Financial Statements for the period ended June 30, 2007.

In addition, the Statements of Cash Flows of the Telecom Italia Group, herewith presented, are those included in the Telecom Italia Consolidated Financial Statements for six-month period ended June 30, 2007.

Please note that the audit work by our independent auditors on the Telecom Italia Consolidated Financial Statements for six-month period ended June 30, 2007 has not yet been completed.

CONSOLIDATED STATEMENTS OF INCOME

(millions of euro)	1 st Half 2007	1 st Half 2006	Change	
	(a)	(b)	(a-b)	%
Revenues	15,470	15,335	135	0.9
Other income	165	311	(146)	(46.9)
Total operating revenues and other income	15,635	15,646	(11)	(0.1)
Purchases of materials and external services	(6,886)	(6,769)	(117)	1.7
Personnel costs	(1,925)	(1,992)	67	(3.4)
Other operating expenses	(832)	(666)	(166)	24.9
Changes in inventories	21	69	(48)	(69.6)
Capitalized internal construction costs	281	230	51	22.2
OPERATING RESULT BEFORE DEPRECIATION AND AMORTIZATION, CAPITAL GAINS (LOSSES) REALIZED AND IMPAIRMENT REVERSALS (LOSSES) OF NON-CURRENT ASSETS (EBITDA)	6,294	6,518	(224)	(3.4)
Depreciation and amortization	(2,853)	(2,843)	(10)	0.4
Gains (losses) on disposals of non-current assets (1)	8	152	(144)	(94.7)
Impairment reversals (losses) on non-current assets	-	(26)	26	-
OPERATING INCOME (EBIT)	3,449	3,801	(352)	(9.3)
Share of profits (losses) of associates and joint ventures accounted for using the equity method	58	25	33	132.0
Financial income	1,243	1,649	(406)	(24.6)
Financial expenses	(2,226)	(2,743)	517	(18.8)
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES	2,524	2,732	(208)	(7.6)
Income taxes	(1,018)	(1,305)	287	(22.0)
NET INCOME FROM CONTINUING OPERATIONS	1,506	1,427	79	5.5
Net income from discontinued operations/assets held for sale	(4)	46	(50)	°
NET INCOME FOR THE PERIOD	1,502	1,473	29	2.0
of which:				
· Net income attributable to equity holders of the Parent	1,500	1,496	4	0.3
· Net income (loss) attributable to Minority Interests	2	(23)	25	°

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

CONSOLIDATED BALANCE SHEETS

(millions of euro)	6/30/2007	12/31/2006	Change
	(a)	(b)	(a-b)
ASSETS			
NON-CURRENT ASSETS			
Intangible assets			
Goodwill	44,422	43,739	683
Intangible assets with a finite life	6,848	6,740	108
	51,270	50,479	791
Tangible assets			
Property, plant and equipment owned	15,606	15,690	(84)
Assets held under finance leases	1,478	1,525	(47)
	17,084	17,215	(131)
Other non-current assets			
Investments in associates and joint ventures accounted for using the equity method	519	488	31
Other investments	59	776	(717)
Securities, financial receivables and other non-current financial assets	699	691	8
Miscellaneous receivables and other non-current assets	962	871	91
Deferred tax assets	261	912	(651)
	2,500	3,738	(1,238)
TOTAL NON-CURRENT ASSETS (A)	70,854	71,432	(578)
CURRENT ASSETS			
Inventories	318	291	27
Trade and miscellaneous receivables and other current assets	9,559	8,748	811
Current income tax receivables	212	287	(75)
Securities	265	812	(547)
Financial receivables and other current financial assets	399	433	(34)
Cash and cash equivalents	3,664	7,219	(3,555)
Current assets sub-total	14,417	17,790	(3,373)
Discontinued operations/assets held for sale			
of a financial nature	-	-	-
of a non-financial nature	939	235	704
	939	235	704
TOTAL CURRENT ASSETS (B)	15,356	18,025	(2,669)
TOTAL ASSETS (A+B)	86,210	89,457	(3,247)
EQUITY AND LIABILITIES			
EQUITY			
Equity attributable to equity holders of the Parent	25,029	26,018	(989)
Equity attributable to Minority Interests	1,072	1,080	(8)
TOTAL EQUITY (C)	26,101	27,098	(997)
NON-CURRENT LIABILITIES			
Non-current financial liabilities	38,216	40,803	(2,587)
Employee severance indemnities and other employee-related provisions	1,249	1,262	(13)
Deferred tax liabilities	526	194	332
Provisions for risks and charges	863	775	88
Miscellaneous payables and other non-current liabilities	1,743	1,857	(114)
TOTAL NON-CURRENT LIABILITIES (D)	42,597	44,891	(2,294)
CURRENT LIABILITIES			
Current financial liabilities	5,986	5,653	333
Trade and miscellaneous payables and other current liabilities	11,394	11,596	(202)
Current income tax payables	132	219	(87)
Current liabilities sub-total	17,512	17,468	44
Liabilities relating to discontinued operations/assets held for sale			
of a financial nature	-	-	-
of a non-financial nature	-	-	-
	-	-	-
TOTAL CURRENT LIABILITIES (E)	17,512	17,468	44
TOTAL LIABILITIES (F=D+E)	60,109	62,359	(2,250)
TOTAL EQUITY AND LIABILITIES (C+F)	86,210	89,457	(3,247)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of euro)	1 st Half 2007	1 st Half 2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income from continuing operations	1,506	1,427
<i>Adjustments to reconcile net income from continuing operations to cash flows generated by (used in) operating activities:</i>		
Depreciation and amortization	2,853	2,843
Impairment (reversals) losses of non-current assets (including investments)	(103)	33
Net change in deferred tax assets and liabilities	925	904
Net (gains) losses realized on disposals of non-current assets (including investments)	(9)	(262)
Share of (profits) losses of associates and joint ventures accounted for using the equity method	(58)	(25)
Change in employee severance indemnities and other employee-related provisions	(32)	(11)
Change in other operating assets/liabilities:		
Change in inventories	(26)	(69)
Change in trade receivables and net receivables on construction contracts	(491)	(510)
Change in trade payables	(244)	(826)
Net change in miscellaneous receivables/payables and other assets/liabilities	(66)	(276)
CASH FLOWS GENERATED BY (USED IN) OPERATING ACTIVITIES (A)	4,255	3,228
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions of intangible assets on an accrual basis	(1,046)	(885)
Acquisitions of tangible assets on an accrual basis	(1,428)	(1,331)
Total acquisitions of intangible and tangible assets on an accrual basis	(2,474)	(2,216)
Change in amounts due to fixed asset suppliers	(270)	(433)
Total acquisitions of intangible and tangible assets on a cash basis	(2,744)	(2,649)
Acquisitions of investments in subsidiaries and businesses, net of cash acquired (I)	(669)	-
Acquisitions of other investments	-	(1)
Change in financial receivables and other financial assets	573	582
Proceeds from sale of investments in subsidiaries, net of cash disposed of (II)	1	100
Proceeds from sale/repayment of intangible, tangible and other non-current assets (II)	41	516
CASH FLOWS GENERATED BY (USED IN) INVESTING ACTIVITIES (B)	(2,798)	(1,452)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in current financial liabilities and other liabilities	(415)	(627)
Proceeds from non-current financial liabilities (including current portion)	1,456	2,812
Repayments of non-current financial liabilities (including current portion)	(3,231)	(8,302)
Proceeds from equity instruments	-	2
Dividends paid (distribution of reserves included)	(2,830)	(2,994)
CASH FLOWS GENERATED BY (USED IN) FINANCING ACTIVITIES (C)	(5,020)	(9,109)
CASH FLOWS GENERATED BY (USED IN) DISCONTINUED OPERATIONS/ASSETS HELD FOR SALE (D)	-	(13)
AGGREGATE CASH FLOWS (E=A+B+C+D)	(3,563)	(7,346)
NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD (F)	6,960	9,958
Net effect of foreign currency translation on net cash and cash equivalents (G)	21	1
NET CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (H=E+F+G)	3,418	2,613
ADDITIONAL CASH FLOW INFORMATION:		
(millions of euro)	1 st Half 2007	1 st Half 2006
Income taxes (paid) received	(67)	(269)
Interest expense paid	(2,230)	(1,928)
Interest income received	805	449
Dividends received	13	27

(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 st Half 2007	1 st Half 2,006
NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD:		
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)
	6,960	9,958
NET CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD:		
Cash and cash equivalents - from continuing operations	3,664	2,958
Bank overdraft repayable on demand - from continuing operations	(246)	(345)
	3,418	2,613

CONSOLIDATED NET FINANCIAL DEBT

(millions of euro)		6/30/2007	12/31/2006	Change
		(a)	(b)	(a-b)
Non-current financial liabilities (*):				
Financial payables		34,688	37,391	(2,703)
Finance lease liabilities		1,834	1,847	(13)
Non-current liabilities for hedging derivatives		1,693	1,451	242
Other financial liabilities		1	114	(113)
	(1)	38,216	40,803	(2,587)
Less:				
Non-current financial receivables for lessors' net investments		(261)	(229)	(32)
Non-current assets for hedging derivatives		(298)	(243)	(55)
		(559)	(472)	(87)
TOTAL NON-CURRENT FINANCIAL LIABILITIES (*)	(A)	37,657	40,331	(2,674)
Current financial liabilities (*):				
Financial payables		5,353	5,143	210
Finance lease liabilities		254	269	(15)
Current liabilities for hedging and non-hedging derivatives		259	231	28
Other financial liabilities		120	10	110
	(2)	5,986	5,653	333
Less:				
Current financial receivables for lessors' net investments		(137)	(148)	11
Current assets for hedging derivatives		(172)	(207)	35
		(309)	(355)	46
TOTAL CURRENT FINANCIAL LIABILITIES (*)	(B)	5,677	5,298	379
Financial liabilities relating to discontinued operations/assets held for sale	(C) (3)	-	-	-
TOTAL GROSS FINANCIAL DEBT (*)	(D=A+B+C)	43,334	45,629	(2,295)
Current financial assets (*):				
Securities		(265)	(812)	547
Financial receivables and other current financial assets		(399)	(433)	34
Cash and cash equivalents		(3,664)	(7,219)	3,555
	(4)	(4,328)	(8,464)	4,136
Less:				
Current financial receivables for lessors' net investments		137	148	(11)
Current assets for hedging derivatives		172	207	(35)
		309	355	(46)
	(E)	(4,019)	(8,109)	4,090
Financial assets relating to discontinued operations/assets held for sale	(F) (5)	-	-	-
TOTAL CURRENT FINANCIAL ASSETS (*)	(G=E+F)	(4,019)	(8,109)	4,090
NET FINANCIAL DEBT AS OF CONSOB COMMUNICATION N. DEM/6064293/2006	(H=D+G)	39,315	37,520	1,795
Non-current financial assets (*):				
Securities other than investments		(10)	(12)	2
Financial receivables and other non-current financial assets		(689)	(679)	(10)
	(6)	(699)	(691)	(8)
Less:				
Non-current financial receivables for lessors' net investments		261	229	32
Non-current assets for hedging derivatives		298	243	55
		559	472	87
TOTAL NON-CURRENT FINANCIAL ASSETS (*)	(I)	(140)	(219)	79
NET FINANCIAL DEBT	(L=H+I)	39,175	37,301	1,874
COMPOSITION OF THE NET FINANCIAL DEBT:				
Total gross financial debt:				
Non-current financial liabilities	(1)	38,216	40,803	(2,587)
Current financial liabilities	(2) + (3)	5,986	5,653	333
		44,202	46,456	(2,254)
Total gross financial assets:				
Non-current financial assets	(6)	(699)	(691)	(8)
Current financial assets	(4) + (5)	(4,328)	(8,464)	4,136
		(5,027)	(9,155)	4,128
		39,175	37,301	1,874

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

DEBT STRUCTURE, BOND ISSUES AND EXPIRING BONDS

In June 2007, new bonds were issued pursuant to Telecom Italia's Euro Medium Term Note Programme, as follows:

- 850 millions of euro maturing on June 2010;
- 400 millions of euro maturing on June 2016.

In the first half year the following expired bonds were regularly repaid:

- 1,250 millions of euro in February by Telecom Italia S.p.A.;
- 1,720 millions of euro in April by Telecom Italia Finance S.A. (the original amount was 1,750 millions of euro, subsequently reduced as a consequence of the repurchase of securities on the market and the subsequent cancellation of 30 millions of euro).

The total reimbursement amount, net of the Group's debt buy-back, for the bonds expiring in the following 18 months as of June 30, 2007, issued by Telecom Italia S.p.A., Telecom Italia Finance S.A. and Telecom Italia Capital S.A. (fully and unconditionally guaranteed by Telecom Italia S.p.A.), totals approximately 3,649 millions of euro, with the following details:

- 1,659 millions of euro, expiring on January 24, 2008;
- 750 millions of euro, expiring on June 9, 2008;
- 500 millions of euro, expiring on September 14, 2008;
- 740 millions of euro, expiring on November 15, 2008.

Furthermore, we underline that 1,000 millions of euro related to the bank facility (Term Loan) expiring in 2010 (for a total amount of 3,000 millions of euro) were partially early repaid before maturity in July 2007 by using the high level of liquidity available drawing from the new bond issues, too.

Bonds issued by companies of the Group to third parties do not contain either financial covenants or clauses which can result in 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 there are 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 June 30, 2007 for 1,771 millions of euro (1,760 millions of euro, 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 350 millions of euro). 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 line as of June 30, 2007, composed of the Revolving Credit Facility, amounts to 8 billions of euro expiring in August 2012, drawn for 1.5 billions of euro. We point out that in August 2007 the expiration date of the *Revolving Credit Facility* of 8 billions of euro has been extended for two years until August 2014.

Moreover, at June 30, 2007, the total unused and available committed credit lines (revolving and bilateral) amount to 6,550 millions of euro.

It should be stressed that Telecom Italia's syndicated bank lines (Revolving Credit Facility maturing on 2014 and Term Loan maturing on 2010) 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 operating requirements). 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.

The above mentioned syndicated bank lines (as well as a contract of export credit agreement for the nominal amount of 150 millions of euro on June 30, 2007) consider the case where a subject, other than the current relative majority shareholder or other permitted acquiring shareholders, acquire control of Telecom Italia individually or jointly; in that case, a thirty-day period is established during which the parties shall negotiate the terms to continue the relationship.

Finally, we point out that on June 30, 2007, none of the covenants, negative pledges or other clauses regarding the above described debt positions have been breached or violated in any way.

The effect of **non recurring events and transactions** on the single items of the Statement of Income of the Telecom Italia Group is set below as required by the Consob Communication DEM/6064293 dated July 28, 2006

(millions of euro)	1st Half 2007 (a)	1st Half 2006 (b)	Change (a - b)
Purchases of materials and external services, Other operating expenses:			
Corporate reorganization costs	-	(9)	9
Industrial reconversion costs	-	(5)	5
Provision for risk regarding Antitrust fine	(20)	-	(20)
IMPACT ON EBITDA	(20)	(14)	(6)
Gains (losses) realized on disposals of non-current assets:			
Gains on sale of properties	10	123	(113)
Gain on sale of Ruf Gestion	-	27	(27)
Impairment reversals (losses) on non-current assets:			
Writedown of the investment in Telecom Italia Learning Services	-	(25)	25
IMPACT ON EBIT	(10)	111	(121)
Financial income (expenses):			
Release of AVEA I.H.A.S. provisions	-	17	(17)
Gain on sale of Neuf Télécom	-	110	(110)
Other gains	1	-	1
IMPACT ON INCOME FROM CONTINUING OPERATIONS BEFORE TAXES	(9)	238	(247)
Income taxes	(2)	(43)	41
Discontinued operations	(4)	31	(35)
IMPACT ON NET INCOME FOR THE PERIOD	(15)	226	241