

## 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 and the Parent, Telecom Italia, for the years ended December 31, 2006 and 2005. 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) and of the Parent, in addition to **EBIT**. These measures are calculated as follows:

<b>Income from continuing operations before taxes</b>
---

- |  |
|--|
| + 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>
--

(\*) caption in Group consolidated financial statements only

- **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) and the Parent 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 and the Balance Sheets as well as the Net Financial Debt of the Telecom Italia Group and the Parent, herewith presented, are the same as those included in the Report on Operations of the 2006 Annual Report and are unaudited. Such statements as well as the Net Financial Debt are however consistent with those included in the Telecom Italia Consolidated and Separate Financial Statements for the year ended December 31, 2006.

In addition, the Statements of Cash Flows of the Telecom Italia Group and the Parent, herewith presented, are those included in the Telecom Italia Consolidated and Separate Financial Statements for the year ended December 31, 2006, respectively.

Please note that the audit work by our independent auditors on the Telecom Italia Consolidated and Separate Financial Statements for the year ended December 31, 2006 has not yet been completed.

## TELECOM ITALIA GROUP

### CONSOLIDATED STATEMENTS OF INCOME

(millions of euro)	Year	Year	Change	
	2006	2005	(a-b)	%
	(a)	(b)		
Revenues	31.275	29.919	1.356	4,5
Other income	606	678	(72)	(10,6)
<b>Total operating revenues and other income</b>	<b>31.881</b>	<b>30.597</b>	<b>1.284</b>	<b>4,2</b>
Purchases of materials and external services	(14.191)	(12.937)	(1.254)	9,7
Personnel costs	(3.801)	(4.142)	341	(8,2)
Other operating expenses	(1.543)	(1.468)	(75)	5,1
Changes in inventories	8	(4)	12	(300,0)
Capitalized internal construction costs	496	471	25	5,3
<b>OPERATING RESULT BEFORE DEPRECIATION AND AMORTIZATION, CAPITAL GAINS (LOSSES) REALIZED AND IMPAIRMENT REVERSALS (LOSSES) OF NON-CURRENT ASSETS (EBITDA)</b>	<b>12.850</b>	<b>12.517</b>	<b>333</b>	<b>2,7</b>
Depreciation and amortization	(5.487)	(5.232)	(255)	4,9
Gains (losses) on disposals of non-current assets (1)	95	242	(147)	0,0
Impairment reversals (losses) on non-current assets	(21)	(28)	7	(25,0)
<b>OPERATING INCOME (EBIT)</b>	<b>7.437</b>	<b>7.499</b>	<b>(62)</b>	<b>(0,8)</b>
Share of profits (losses) of associates and joint ventures accounted for using the equity method	51	23	28	121,7
Financial income	3.041	3.144	(103)	(3,3)
Financial expenses	(5.014)	(5.131)	117	(2,3)
<b>INCOME FROM CONTINUING OPERATIONS BEFORE TAXES</b>	<b>5.515</b>	<b>5.535</b>	<b>(20)</b>	<b>(0,4)</b>
Income taxes	(2.519)	(2.395)	(124)	5,2
<b>NET INCOME FROM CONTINUING OPERATIONS</b>	<b>2.996</b>	<b>3.140</b>	<b>(144)</b>	<b>(4,6)</b>
Net income (loss) from discontinued operations/assets held for sale	7	550	(543)	(98,7)
<b>NET INCOME FOR THE YEAR</b>	<b>3.003</b>	<b>3.690</b>	<b>(687)</b>	<b>(18,6)</b>
of which:				
• Net income attributable to equity holders of the Parent	3.014	3.216	(202)	(6,3)
• Net income (loss) attributable to Minority interests	(11)	474	(485)	(102,3)

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

**CONSOLIDATED BALANCE SHEETS**

(millions of euro)	12/31/2006	12/31/2005	Change
	(a)	(b)	(a-b)
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
<b>Intangible assets</b>			
Goodwill and other intangible assets with an indefinite life	43.739	43.980	(241)
Intangible assets with a finite life	6.740	6.810	(70)
	<u>50.479</u>	<u>50.790</u>	<u>(311)</u>
<b>Tangible assets</b>			
Property, plant and equipment owned	15.690	16.443	(753)
Assets held under finance leases	1.525	1.598	(73)
	<u>17.215</u>	<u>18.041</u>	<u>(826)</u>
<b>Other non-current assets</b>			
Investments in associates and joint ventures accounted for using the equity method	488	781	(293)
Other investments	776	561	215
Securities, financial receivables and other non-current financial assets	691	996	(305)
Miscellaneous receivables and other non-current assets	871	825	46
Deferred tax assets	912	2.793	(1.881)
	<u>3.738</u>	<u>5.956</u>	<u>(2.218)</u>
<b>TOTAL NON-CURRENT ASSETS (A)</b>	<b>71.432</b>	<b>74.787</b>	<b>(3.355)</b>
<b>CURRENT ASSETS</b>			
Inventories	291	294	(3)
Trade and miscellaneous receivables and other current assets	8.748	8.856	(108)
Current income tax assets	287	335	(48)
Securities	812	378	434
Financial receivables and other current financial assets	433	509	(76)
Cash and cash equivalents	7.219	10.323	(3.104)
<b>Current assets sub-total</b>	<b>17.790</b>	<b>20.695</b>	<b>(2.905)</b>
<b>Discontinued operations/assets held for sale</b>			
of a financial nature	-	37	(37)
of a non-financial nature	235	491	(256)
	<u>235</u>	<u>528</u>	<u>(293)</u>
<b>TOTAL CURRENT ASSETS (B)</b>	<b>18.025</b>	<b>21.223</b>	<b>(3.198)</b>
<b>TOTAL ASSETS (A+B)</b>	<b>89.457</b>	<b>96.010</b>	<b>(6.553)</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Equity attributable to equity holders of the Parent	26.018	25.662	356
Equity attributable to Minority interests	1.080	1.323	(243)
<b>TOTAL EQUITY (C)</b>	<b>27.098</b>	<b>26.985</b>	<b>113</b>
<b>NON-CURRENT LIABILITIES</b>			
Non-current financial liabilities	40.803	42.146	(1.343)
Employee severance indemnities and other employee-related provisions	1.262	1.351	(89)
Deferred tax liabilities	194	137	57
Provisions for risks and future charges	775	797	(22)
Miscellaneous payables and other non-current liabilities	1.857	2.113	(256)
<b>TOTAL NON-CURRENT LIABILITIES (D)</b>	<b>44.891</b>	<b>46.544</b>	<b>(1.653)</b>
<b>CURRENT LIABILITIES</b>			
Current financial liabilities	5.653	9.812	(4.159)
Trade and miscellaneous payables and other current liabilities	11.596	12.157	(561)
Current income tax liabilities	219	227	(8)
<b>Current liabilities sub-total</b>	<b>17.468</b>	<b>22.196</b>	<b>(4.728)</b>
<b>Liabilities relating to discontinued operations/assets held for sale</b>			
of a financial nature	-	143	(143)
of a non-financial nature	-	142	(142)
	<u>-</u>	<u>285</u>	<u>(285)</u>
<b>TOTAL CURRENT LIABILITIES (E)</b>	<b>17.468</b>	<b>22.481</b>	<b>(5.013)</b>
<b>TOTAL LIABILITIES (F=D+E)</b>	<b>62.359</b>	<b>69.025</b>	<b>(6.666)</b>
<b>TOTAL EQUITY AND LIABILITIES (C+F)</b>	<b>89.457</b>	<b>96.010</b>	<b>(6.553)</b>

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(millions of euro)	Year 2006	Year 2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income from continuing operations	2.996	3.140
<i>Adjustments to reconcile net income from continuing operations to cash flows generated by (used in) operating activities:</i>		
Depreciation and amortization	5.487	5.232
Impairment (Reversals) losses on non-current assets (including investments)	1	3
Net change in deferred tax assets and liabilities	1.843	1.347
Net (gains) losses realized on disposals of non-current assets (including investments)	(317)	(327)
Share of (profits) losses of associates and joint ventures accounted for using the equity method	(51)	(23)
Change in employee severance indemnities and other employee-related provisions	(114)	255
Change in other operating assets/liabilities:		
Change in inventories	-	(5)
Change in trade receivables and net receivables on construction contracts	(461)	329
Change in trade payables	(10)	184
Net change in miscellaneous receivables/payables and other assets/liabilities	(180)	(357)
<b>CASH FLOWS GENERATED BY (USED IN) OPERATING ACTIVITIES (A)</b>	<b>9.194</b>	<b>9.778</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
<i>Acquisitions of intangible assets on an accrual basis</i>	(2.187)	(1.785)
<i>Acquisitions of tangible assets on an accrual basis</i>	(2.927)	(3.388)
Total acquisitions of intangible and tangible assets on an accrual basis	(5.114)	(5.173)
<i>Change in amounts due to fixed asset suppliers</i>	10	158
Total acquisitions of intangible and tangible assets on a cash basis	(5.104)	(5.015)
Acquisitions of investments in subsidiaries and businesses, net of cash acquired (I)	-	(390)
Acquisitions of other investments	(206)	(14.544)
Change in financial receivables and other financial assets	(264)	(474)
Proceeds on sale of investments in subsidiaries, net of cash disposed of (II)	345	2.052
Proceeds on sale / repayments of intangible, tangible and other non-current assets (II)	1.038	950
<b>CASH FLOWS GENERATED BY (USED IN) INVESTING ACTIVITIES (B)</b>	<b>(4.191)</b>	<b>(17.421)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net change in current financial liabilities and others liabilities	(204)	(1.053)
Proceeds from non-current financial liabilities (including current portion)	5.222	15.357
Repayments of non-current financial liabilities (including current portion)	(9.995)	(3.151)
Proceeds from equity instruments	2	102
Share capital increases/repayments	-	(160)
Dividends paid (distribution of reserves included)	(2.997)	(2.328)
<b>CASH FLOWS GENERATED BY (USED IN) FINANCING ACTIVITIES (C)</b>	<b>(7.972)</b>	<b>8.767</b>
<b>CASH FLOWS GENERATED BY (USED IN) DISCONTINUED OPERATIONS/ASSETS HELD FOR SALE (D)</b>	<b>(13)</b>	<b>26</b>
<b>AGGREGATE CASH FLOWS (E=A+B+C+D)</b>	<b>(2.982)</b>	<b>1.150</b>
<b>NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR (F)</b>	<b>9.958</b>	<b>8.667</b>
Net effect of foreign currency translation on net cash and cash equivalents (G)	(16)	141
<b>NET CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (H=E+F+G)</b>	<b>6.960</b>	<b>9.958</b>

**ADDITIONAL CASH FLOW INFORMATION:**

(millions of euro)	Year 2006	Year 2005
Income taxes (paid) received	(566)	(708)
Interest expense paid	(3.108)	(2.796)
Interest income received	1.156	1.067
Dividends received	63	61

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

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

**TELECOM ITALIA GROUP****ANALYSIS OF NET CASH AND CASH EQUIVALENTS:**

	Year	Year
(millions of euro)	2006	2.005
<b>NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR:</b>		
Cash and cash equivalents - from continuing operations	10.323	8.746
Bank borrowings repayable on demand - from continuing operations	(383)	(248)
Cash and cash equivalents - classified as discontinued operations/assets held for sale	37	210
Bank borrowings repayable on demand - classified as discontinued operations/assets held for sale	(19)	(41)
	<b>9.958</b>	<b>8.667</b>
<b>NET CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR:</b>		
Cash and cash equivalents - from continuing operations	7.219	10.323
Bank borrowings repayable on demand - from continuing operations	(259)	(383)
Cash and cash equivalents - classified as discontinued operations/assets held for sale	-	37
Bank borrowings repayable on demand - classified as discontinued operations/assets held for sale	-	(19)
	<b>6.960</b>	<b>9.958</b>

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

(millions of euro)		12/31/2006	12/31/2005	Change
		(a)	(b)	(a-b)
<b>Non-current financial liabilities (*)</b>				
Financial payables		37.391	39.522	(2.131)
Finance lease liabilities		1.847	1.894	(47)
Non-current liabilities for hedging derivatives		1.451	730	721
Other financial liabilities		114	-	114
	(1)	40.803	42.146	(1.343)
Less:				
Non-current financial receivables for lessors' net investments		(229)	(212)	(17)
Non-current assets for hedging derivatives		(243)	(276)	33
		(472)	(488)	16
<b>TOTAL NON-CURRENT FINANCIAL LIABILITIES (*)</b>	<b>(A)</b>	<b>40.331</b>	<b>41.658</b>	<b>(1.327)</b>
<b>Current financial liabilities (*)</b>				
Financial payables		5.143	9.323	(4.180)
Finance lease liabilities		269	234	35
Current liabilities for hedging and non-hedging derivatives		231	249	(18)
Other financial liabilities		10	6	4
	(2)	5.653	9.812	(4.159)
Less:				
Current financial receivables for lessors' net investments		(148)	(122)	(26)
Current assets for hedging derivatives		(207)	(195)	(12)
		(355)	(317)	(38)
<b>TOTAL CURRENT FINANCIAL LIABILITIES (*)</b>	<b>(B)</b>	<b>5.298</b>	<b>9.495</b>	<b>(4.197)</b>
<b>Financial liabilities relating to discontinued operations/assets held for sale</b>	<b>(C) (3)</b>	<b>-</b>	<b>143</b>	<b>(143)</b>
<b>TOTAL GROSS FINANCIAL DEBT (*)</b>	<b>(D=A+B+C)</b>	<b>45.629</b>	<b>51.296</b>	<b>(5.667)</b>
<b>Current financial assets (*)</b>				
Securities		(812)	(378)	(434)
Financial receivables and other current financial assets		(433)	(509)	76
Cash and cash equivalents		(7.219)	(10.323)	3.104
	(4)	(8.464)	(11.210)	2.746
Less:				
Current financial receivables for lessors' net investments		148	122	26
Current assets for hedging derivatives		207	195	12
		355	317	38
	<b>(E)</b>	<b>(8.109)</b>	<b>(10.893)</b>	<b>2.784</b>
<b>Financial assets relating to discontinued operations/assets held for sale</b>	<b>(F) (5)</b>	<b>-</b>	<b>(37)</b>	<b>37</b>
<b>TOTAL CURRENT FINANCIAL ASSETS (*)</b>	<b>(G=E+F)</b>	<b>(8.109)</b>	<b>(10.930)</b>	<b>2.821</b>
<b>NET FINANCIAL DEBT AS OF CONSOB COMMUNICATION N. DEM/6064293/2006</b>	<b>(H=D+G)</b>	<b>37.520</b>	<b>40.366</b>	<b>(2.846)</b>
<b>Non-current financial assets (*)</b>				
Securities other than investments		(12)	(8)	(4)
Financial receivables and other non-current financial assets		(679)	(988)	309
	(6)	(691)	(996)	305
Less:				
Non-current financial receivables for lessors' net investments		229	212	17
Non-current assets for hedging derivatives		243	276	(33)
		472	488	(16)
<b>TOTAL NON-CURRENT FINANCIAL ASSETS (*)</b>	<b>(I)</b>	<b>(219)</b>	<b>(508)</b>	<b>289</b>
<b>NET FINANCIAL DEBT</b>	<b>(L=H+I)</b>	<b>37.301</b>	<b>39.858</b>	<b>(2.557)</b>
<b>COMPOSITION OF THE NET FINANCIAL DEBT:</b>				
<b>Total gross financial debt:</b>				
Non-current financial liabilities	(1)	40.803	42.146	(1.343)
Current financial liabilities	(2) + (3)	5.653	9.955	(4.302)
		<b>46.456</b>	<b>52.101</b>	<b>(5.645)</b>
<b>Total gross financial assets</b>				
Non-current financial assets	(6)	(691)	(996)	305
Current financial assets	(4) + (5)	(8.464)	(11.247)	2.783
		<b>(9.155)</b>	<b>(12.243)</b>	<b>3.088</b>
		<b>37.301</b>	<b>39.858</b>	<b>(2.557)</b>

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

## TELECOM ITALIA GROUP

### STRUTTURA DEL DEBITO, EMISSIONI OBBLIGAZIONARIE E OBBLIGAZIONI IN SCADENZA

Il Gruppo Telecom Italia, negli ultimi anni, ha migliorato significativamente le caratteristiche del proprio debito, estendendone la vita media a 8 anni (rispetto ai 4,6 anni del 2001), contenendo allo stesso tempo il costo medio del debito intorno al 5%.

Nel corso del 2006, il Gruppo Telecom Italia ha effettuato tre nuove emissioni rientranti nell'Euro Medium Term Note Programme da 15 miliardi di euro:

- a) in data 19 maggio 2006, emissione Telecom Italia S.p.A. *dual-tranche* a tasso fisso rispettivamente di (a.1) 750 milioni di euro e (a.2) GBP 400 milioni;
- b) in data 9 giugno 2006, emissione Telecom Italia S.p.A da 750 milioni di euro a tasso variabile;
- c) in data 14 settembre 2006, parziale estensione di scadenza del prestito obbligazionario "Telecom Italia Finance S.A. Euro 499.717.000 Guaranteed Floating Rate Extendable Notes Due 2006" fino al 14 settembre 2008. Al 31 dicembre 2006 il debito nominale residuo di questo prestito risulta pari a euro 499.669.000.

In data 18 luglio 2006 Telecom Italia Capital S.A. ha emesso sul mercato USA un prestito obbligazionario *multi-tranche* per un importo complessivo di 2.600 milioni di dollari americani (tre *tranche* rispettivamente pari a USD 850 milioni, 750 milioni e 1.000 milioni).

Il valore di rimborso, al netto dei titoli propri riacquistati, dei prestiti obbligazionari in scadenza nei 18 mesi successivi alla chiusura al 31 dicembre 2006 emessi da Telecom Italia S.p.A. e Telecom Italia Finance con garanzia Telecom Italia S.p.A., è pari a 5379 milioni di euro circa così articolati:

- 1.250 milioni di euro, scadenza 1 febbraio 2007, già regolarmente rimborsato;
- 1.720 milioni di euro, scadenza 24 aprile 2007;
- 1.658,86 milioni di euro, scadenza 24 gennaio 2008;
- 750 milioni di euro, scadenza 9 giugno 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 September 30, 2006 for euro 1.740 million, 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 year-end 2006, composed of the Revolving Credit Facility, amount to euro 8 billion so splitted:

- an undrawn credit line of euro 2 billion expiring in March 2007;
- a credit line of euro 6 billion expiring in August 2012, drawn for euro 1.5 billion.

Such composition and level have been reached after some reimbursements of the credit line expiring in 2012 in combination with some partial early cancellation of the one expiring in 2007 took place during the year.

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.

Therefore the global amount of available committed credit lines is equal to euro 8 billion.

Moreover, at December 31, 2006, the total unused and available committed credit lines 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.

\* \* \*



**TELECOM ITALIA S.P.A.**

**TELECOM ITALIA S.P.A. - STATEMENTS OF INCOME**

(millions of euro)	Year 2006	Year 2005	Change	
	(a)	(b)	(a-b)	%
Revenues	22.721	15.913	6.808	42,8
Other income	405	422	(17)	(4,0)
<b>Total operating revenues and other income</b>	<b>23.126</b>	<b>16.335</b>	6.791	41,6
Purchases of materials and external services	(9.180)	(6.482)	(2.698)	41,6
Personnel costs	(3.004)	(2.907)	(97)	3,3
Other operating expenses	(751)	(715)	(36)	5,0
Changes in inventories	5	(31)	36	°
Capitalized internal construction costs	414	277	137	49,5
<b>OPERATING RESULT BEFORE DEPRECIATION AND AMORTIZATION, GAINS (LOSSES) REALIZED AND IMPAIRMENT REVERSALS (LOSSES) OF NON-CURRENT ASSETS (EBITDA)</b>	<b>10.610</b>	<b>6.477</b>	4.133	63,8
Depreciation and amortization	(3.934)	(2.940)	(994)	33,8
Gains (losses) on disposals of non-current assets (1)	110	262	(152)	°
Impairment reversals (losses) on non-current assets	(4)	(8)	4	°
<b>OPERATING INCOME (EBIT)</b>	<b>6.782</b>	<b>3.791</b>	2.991	78,9
Financial income	2.883	2.242	641	28,6
Financial expenses	(3.415)	(3.276)	(139)	4,2
<b>INCOME BEFORE TAXES</b>	<b>6.250</b>	<b>2.757</b>	3.493	°
Income taxes	(2.106)	(923)	(1.183)	°
<b>NET INCOME FOR THE YEAR</b>	<b>4.144</b>	<b>1.834</b>	2.310	°

**TELECOM ITALIA S.P.A. - BALANCE SHEETS**

(millions of euro)	<b>12/31/2006</b> (a)	<b>12/31/2005</b> (b)	Change (a-b)
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
<b>Intangible assets</b>			
Goodwill and other intangible assets with an indefinite life	40.013	39.184	829
Intangible assets with a finite life	4.897	1.679	3.218
	<b>44.910</b>	<b>40.863</b>	<b>4.047</b>
<b>Tangible assets</b>			
Property, plant and equipment owned	12.476	10.665	1.811
Assets held under finance leases	1.512	1.558	(46)
	<b>13.988</b>	<b>12.223</b>	<b>1.765</b>
<b>Other non-current assets</b>			
Investments	10.913	16.110	(5.197)
Securities, financial receivables and other non-current financial assets	670	647	23
Miscellaneous receivables and other non-current assets	542	1.090	(548)
Deferred tax assets	714	2.399	(1.685)
	<b>12.839</b>	<b>20.246</b>	<b>(7.407)</b>
<b>TOTAL NON-CURRENT ASSETS (A)</b>	<b>71.737</b>	<b>73.332</b>	<b>(1.595)</b>
<b>CURRENT ASSETS</b>			
Inventories	125	76	49
Trade and miscellaneous receivables and other current assets	6.853	6.450	403
Current tax assets	258	300	(42)
Financial receivables and other current financial assets	266	196	70
Cash and cash equivalents	5.208	6.601	(1.393)
<b>TOTAL CURRENT ASSETS (B)</b>	<b>12.710</b>	<b>13.623</b>	<b>(913)</b>
<b>TOTAL ASSETS (A+B)</b>	<b>84.447</b>	<b>86.955</b>	<b>(2.508)</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
- Share capital issued	10.674	10.668	6
. less: Treasury shares	(1)	(1)	-
- Share capital	10.673	10.667	6
- Reserves	7.934	10.759	(2.825)
- Retained earnings, including net income for the year	5.916	1.101	4.815
			-
<b>TOTAL EQUITY (C)</b>	<b>24.524</b>	<b>22.528</b>	<b>1.996</b>
<b>NON-CURRENT LIABILITIES</b>			
Non-current financial liabilities	40.069	41.140	(1.071)
Employee severance indemnities and other employee-related provisions	1.143	1.104	39
Deferred tax liabilities	134	-	134
Provisions for risks and future charges	646	393	253
Miscellaneous payables and other non-current liabilities	1.680	1.880	(200)
<b>TOTAL NON-CURRENT LIABILITIES (D)</b>	<b>43.672</b>	<b>44.517</b>	<b>(845)</b>
<b>CURRENT LIABILITIES</b>			
Current financial liabilities	6.690	12.869	(6.179)
Trade and miscellaneous payables and other current liabilities	9.436	7.032	2.404
Current tax liabilities	125	9	116
<b>TOTAL CURRENT LIABILITIES (E)</b>	<b>16.251</b>	<b>19.910</b>	<b>(3.659)</b>
<b>TOTAL LIABILITIES (F=D+E)</b>	<b>59.923</b>	<b>64.427</b>	<b>(4.504)</b>
<b>TOTAL EQUITY AND LIABILITIES (C+F)</b>	<b>84.447</b>	<b>86.955</b>	<b>(2.508)</b>

**TELECOM ITALIA S.P.A. - STATEMENTS OF CASH FLOWS**

	Year	Year
(thousands of euro)	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income for the year	4.143.577	1.833.583
<i>Adjustments to reconcile net income to cash flows generated by (used in) operating activities</i>		
Depreciation and amortization	3.934.599	2.940.595
Impairment (reversals) losses on non-current assets (including investments)	325.269	380.310
Net change in deferred tax assets and liabilities	1.729.521	1.382.607
Net (gains) losses realized on disposals of non-current assets (including investments)	(64.751)	(238.825)
Change in employee severance indemnities and other employee-related provisions	(117.830)	186.046
Change in other operating assets/liabilities:		
Change in inventories	1.144	37.911
Change in trade receivables and net receivables on construction contracts	(138.317)	411.897
Change in trade payables	286.436	(218.297)
Net change in miscellaneous receivables/payables and other assets/liabilities	(261.123)	(920.071)
<b>CASH FLOWS GENERATED BY (USED IN) OPERATING ACTIVITIES (A)</b>	<b>9.838.525</b>	<b>5.795.756</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
<i>Acquisitions of intangible assets on an accrual basis</i>	(1.537.046)	(741.767)
<i>Acquisitions of tangible assets on an accrual basis</i>	(2.187.544)	(1.687.503)
Total acquisitions of intangible and tangible assets on an accrual basis	(3.724.590)	(2.429.270)
<i>Change in amounts due to fixed asset suppliers</i>	319.379	307.611
Total acquisitions of intangible and tangible assets on a cash basis	(3.405.211)	(2.121.659)
Acquisitions of investments and businesses (I)	(149.129)	(15.701.068)
Acquisition of cash and cash equivalents as a result of the merger with Tim Italia and Tin.it	1.354.493	
Change in financial receivables and other financial assets	(70.656)	(45.439)
Proceeds on the distribution of dividends by Telecom Italia Media	361.654	
Proceeds on sale/repayments of intangible, tangible and other non-current assets (II)	414.868	1.532.174
<b>CASH FLOWS GENERATED BY (USED IN) INVESTING ACTIVITIES (B)</b>	<b>(1.493.981)</b>	<b>(16.335.992)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net change in current financial liabilities and other liabilities	(3.403.108)	1.238.357
Proceeds from non-current financial liabilities (including current portion)	6.512.474	14.938.459
Repayments of non-current financial liabilities (including current portion)	(9.695.258)	(3.368.477)
Proceeds from equity instruments		29.200
Dividends paid (distribution of reserves included)	(2.782.728)	(1.922.980)
<b>CASH FLOWS GENERATED BY (USED IN) FINANCING ACTIVITIES (C)</b>	<b>(9.368.620)</b>	<b>10.914.559</b>
<b>AGGREGATE CASH FLOWS (D=A+B+C)</b>	<b>(1.024.076)</b>	<b>374.323</b>
<b>NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR (E)</b>	<b>5.812.567</b>	<b>5.438.244</b>
<b>NET CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (F=D+E)</b>	<b>4.788.491</b>	<b>5.812.567</b>
(I) Net of change in payables following the related acquisition.		
(II) Net of change in receivables following the related disposal.		
<b>ANALYSIS OF NET CASH AND CASH EQUIVALENTS:</b>		
	Year	Year
(thousands of euro)	2006	2005
<b>NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>		
Cash and cash equivalents	6.601.126	6.007.554
Bank borrowings repayable on demand	(788.559)	(569.310)
	<b>5.812.567</b>	<b>5.438.244</b>
<b>NET CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>		
Cash and cash equivalents	5.207.976	6.601.126
Bank borrowings repayable on demand	(419.485)	(788.559)
	<b>4.788.491</b>	<b>5.812.567</b>
<b>ADDITIONAL CASH FLOW INFORMATION:</b>		
	Year	Year
(thousands of euro)	2006	2005
Income taxes (paid) received	(647.180)	(586.725)
Interest expense paid	(2.334.590)	(1.606.340)
Interest income received	511.460	368.630
Dividends received	2.167.152	1.403.787

**TELECOM ITALIA S.P.A. - NET FINANCIAL DEBT**

(millions of euro)		12/31/2006	12/31/2005	Change
		(a)	(b)	(a-b)
<b>Non-current financial liabilities (*)</b>				
Financial payables		37.466	38.760	(1.294)
Finance lease liabilities		1.823	1.855	(32)
Non-current liabilities for hedging derivatives		780	525	255
	(1)	40.069	41.140	(1.071)
Less:				
Non-current financial receivables for lessors' net investments		(222)	(203)	(19)
Non-current assets for hedging derivatives		(156)	(31)	(125)
		(378)	(234)	(144)
<b>TOTAL NON-CURRENT FINANCIAL LIABILITIES (*)</b>	<b>(A)</b>	<b>39.691</b>	<b>40.906</b>	<b>(1.215)</b>
<b>Current financial liabilities (*)</b>				
Financial payables		6.305	12.536	(6.231)
Finance lease liabilities		258	215	43
Current liabilities for hedging and non-hedging derivatives		118	114	4
Other financial liabilities		9	4	5
	(2)	6.690	12.869	(6.179)
Less:				
Current financial receivables for lessors' net investments		(141)	(113)	(28)
Current assets for hedging derivatives		(91)	(66)	(25)
		(232)	(179)	(53)
<b>TOTAL CURRENT FINANCIAL LIABILITIES (*)</b>	<b>(B)</b>	<b>6.458</b>	<b>12.690</b>	<b>(6.232)</b>
<b>TOTAL GROSS FINANCIAL DEBT (*)</b>	<b>(C=A+B)</b>	<b>46.149</b>	<b>53.596</b>	<b>(7.447)</b>
<b>Current financial assets (*)</b>				
Financial receivables and other current financial assets		(266)	(196)	(70)
Cash and cash equivalents		(5.208)	(6.601)	1.393
	(3)	(5.474)	(6.797)	1.323
Less:				
Current financial receivables for lessors' net investments		141	113	28
Current assets for hedging derivatives		91	66	25
		232	179	53
<b>TOTAL CURRENT FINANCIAL ASSETS (*)</b>	<b>(D)</b>	<b>(5.242)</b>	<b>(6.618)</b>	<b>1.376</b>
<b>NET FINANCIAL DEBT AS OF CONSOB COMMUNICATION N. DEM/6064293/2006</b>	<b>(E=C+D)</b>	<b>40.907</b>	<b>46.978</b>	<b>(6.071)</b>
<b>Non-Current financial assets (*)</b>				
Financial receivables and other non-current financial assets	(4)	(670)	(647)	(23)
Less:				
Non-current financial receivables for lessors' net investments		222	203	19
Non-current assets for hedging derivatives		156	31	125
		378	234	144
<b>TOTAL NON-CURRENT FINANCIAL ASSETS (*)</b>	<b>(F)</b>	<b>(292)</b>	<b>(413)</b>	<b>121</b>
<b>NET FINANCIAL DEBT</b>	<b>(G=E+F)</b>	<b>40.615</b>	<b>46.565</b>	<b>(5.950)</b>
<b>COMPOSITION OF THE NET FINANCIAL DEBT:</b>				
<b>Total gross financial debt:</b>				
Non-current financial liabilities	(1)	40.069	41.140	(1.071)
Current financial liabilities	(2)	6.690	12.869	(6.179)
		<b>46.759</b>	<b>54.009</b>	<b>(7.250)</b>
<b>Total gross financial assets</b>				
Non-current financial assets	(4)	(670)	(647)	(23)
Current financial assets	(3)	(5.474)	(6.797)	1.323
		<b>(6.144)</b>	<b>(7.444)</b>	<b>1.300</b>
		<b>40.615</b>	<b>46.565</b>	<b>(5.950)</b>

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

## TELECOM ITALIA GROUP

Details of underlying growth:

(millions of euro)	2006 (a)	2005 (b)	Change	
			(a-b)	%
<b>HISTORICAL BASIS REVENUES</b>	<b>31,275</b>	<b>29,919</b>	<b>1,356</b>	<b>4.5</b>
Effect of change in the scope of consolidation		82		
Effect of change in exchange rates		385		
<b>COMPARABLE REVENUES</b>	<b>31,275</b>	<b>30,386</b>	<b>889</b>	<b>2.9</b>

(millions of euro)	2006 (a)	2005 (b)	Change	
			(a-b)	%
<b>HISTORICAL BASIS EBITDA</b>	<b>12,850</b>	<b>12,517</b>	<b>333</b>	<b>2.7</b>
Effect of change in the scope of consolidation	-	(58)		
Effect of change in exchange rates	-	91		
<b>Non-organic (Income) Expenses</b>	<b>232</b>	<b>416</b>		
Non-recurring (Income) Expenses:	28	290		
Release of provision for risks relating to Antitrust fine	-	(37)		
Expenses for mobility agreements under ex lege 223/91 and extraordinary manager termination program	-	273		
Settlement with Opportunity	-	50		
Corporate restructuring costs	13	4		
Industrial reconversion expenses	13	-		
Additional Antitrust fine	2	-		
Other non-organic (Income) Expenses:	204	126		
Restructuring costs	107	32		
Settlements with customers and other operators	61	38		
Other (Income) Expenses, net	36	56		
<b>COMPARABLE EBITDA</b>	<b>13,082</b>	<b>12,966</b>	<b>116</b>	<b>0.9</b>

(millions of euro)	2006 (a)	2005 (b)	Change	
			(a-b)	%
<b>HISTORICAL BASIS EBIT</b>	<b>7,437</b>	<b>7,499</b>	<b>(62)</b>	<b>(0.8)</b>
Effect of change in the scope of consolidation		(41)		
Effect of change in exchange rates		-		
<b>Non-organic (Income) Expenses</b>	<b>127</b>	<b>201</b>		
Non-organic (Income) Expenses already described under EBITDA	232	416		
Additional non-recurring (Income) Expenses	(120)	(264)		
Gains on sale of properties to funds	(135)	(264)		
Gain on sale of Ruf Gestion	(27)	-		
Loss on sale of Telecom Italia Learning Services	33	-		
Loss on sale of "Radiomaritime Activities"	9	-		
Additional non-organic (Income) Expenses:	15	49		
Other Losses (Gains)	(3)	-		
Other (Income) Expenses	18	49		
<b>COMPARABLE EBIT</b>	<b>7,564</b>	<b>7,659</b>	<b>(95)</b>	<b>(1.2)</b>

## TELECOM ITALIA GROUP

Details of non-recurring items:

	2006 (a)	2005 (b)	Change (a - b)
(millions of euro)			
<b>Other income:</b>			
Release of provision for risks relating to Antitrust fine	-	37	(37)
<b>Personnel costs:</b>			
Expenses for mobility agreements under ex lege 223/91 and extraordinary manager termination program	-	(273)	273
<b>Purchases of materials and external services, Other operating expenses:</b>			
Settlement with Opportunity	-	(50)	50
Corporate restructuring costs	(13)	(4)	(9)
Industrial reconversion expenses	(13)	-	(13)
Additional Antitrust fine	(2)	-	(2)
<b>IMPACT OF NON-RECURRING ITEMS ON EBITDA</b>	<b>(28)</b>	<b>(290)</b>	<b>262</b>
<b>Capital gains (losses) realized on disposals of non-current assets:</b>			
Gains on sale of properties to funds	135	264	(129)
Gain on sale of Ruf Gestion	27	-	27
Loss on sale of Telecom Italia Learning Services	(33)	-	(33)
Loss on sale of "Radiomaritime Activities"	(9)	-	(9)
<b>IMPACT OF NON-RECURRING ITEMS ON EBIT</b>	<b>92</b>	<b>(26)</b>	<b>118</b>
<b>Financial Income (Expenses):</b>			
Release of provision relating to Avea I.H.A.S.	121	423	(302)
Gain on sale of Avea I.H.A.S.	72	-	72
Gain on sale of Neuf Télécom	148	-	148
Gain on sale of C-Mobil	-	61	(61)
Gain on sale of Intelsat and Golden Lines	-	7	(7)
Other gains	2	18	(16)
Other financial expenses	(4)	-	(4)
<b>IMPACT OF NON-RECURRING ITEMS ON INCOME FROM CONTINUING OPERATIONS BEFORE TAXES</b>	<b>431</b>	<b>483</b>	<b>(52)</b>
Effect on income taxes	(72)	(40)	(32)
Effect on discontinued operations	(8)	506	(514)
<b>IMPACT OF NON-RECURRING ITEMS ON NET INCOME FOR THE YEAR</b>	<b>351</b>	<b>949</b>	<b>(598)</b>

**TELECOM ITALIA S.P.A.**

Details of non-recurring items:

(thousands of euro)	2006 (a)	2005 (b)	Change (a - b)
<b>Other income:</b>			
Release of provision for risks relating to Antitrust fine	-	37,000	(37,000)
<b>Personnel costs:</b>			
Expenses for mobility agreements under ex lege 223/91 and extraordinary manager termination program	-	(263,257)	263,257
<b>Other operating expenses:</b>			
Settlement with Opportunity	-	(50,368)	50,368
Additional Anitrust fine	(2,500)	-	(2,500)
<b>IMPACT OF NON-RECURRING ITEMS ON EBITDA</b>	<b>(2,500)</b>	<b>(276,625)</b>	<b>274,125</b>
<b>Gains (losses) realized on disposals of non-current assets:</b>			
Gains on sale of properties	141,423	278,844	(137,421)
Loss on sale of "Radiomaritime Activities"	(9,197)	-	(9,197)
<b>IMPACT OF NON-RECURRING ITEMS ON EBIT</b>	<b>129,726</b>	<b>2,219</b>	<b>127,507</b>
<b>Financial Income (Expenses):</b>			
Release of provision relating to Avea I.H.A.S.	90,701	78,577	12,124
Loss on sale of investments	(45,389)	(23,334)	(22,055)
Other financial expenses	(4,100)	-	(4,100)
<b>IMPACT OF NON-RECURRING ITEMS ON INCOME BEFORE TAXES</b>	<b>170,938</b>	<b>57,462</b>	<b>113,476</b>
Effect on income taxes	(80,185)	(43,622)	(36,563)
<b>IMPACT OF NON-RECURRING ITEMS ON NET INCOME FOR THE YEAR</b>	<b>90,753</b>	<b>13,840</b>	<b>76,913</b>