

Telecom Italia Group's approach to Sustainability

Enrico Parazzini – CFO Telecom Italia

enrico.parazzini@telecomitalia.it

Paolo Nazzaro – Sustainability Director Telecom Italia

paolo.nazzaro@telecomitalia.it

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TI Group: key financial results

€ mln

	1Q '07 reported	YoY reported	YoY Organic*	2007 Organic Target*
Revenues	7,540	+0.8%	+1.1%	+1.0% / +2.0%
Ebitda	3,154	-4.3%	-3.9%	
Ebitda margin	41.8%	-2.2pp	-2.2pp	-2.5pp / -2.0pp
Ebit	1,763	-11.1%	-6.3%	
Ebit margin	23.4%	-3.1pp	-1.9pp	-3.0pp / -2.5pp
Net Income (post minorities)	775	+4.2%		
Capex	1,160	+135		
Net Debt	37,182	- 0.1 bln vs. YE '06		Net Debt/Ebitda <3x

After the cash out of €669 mln for the AOL Germany acquisition

Highlights

- ▶ Group results fully on track with '07 targets
- ▶ Strengthened competitive position across all business
- ▶ Strong performance of International Business (+36% organic top line growth yoy)**
- ▶ Industry prime profitability confirmed
- ▶ Investments to maintain the technological leadership in Italy and develop coverage abroad
- ▶ Deleveraging process as a priority

* Excluding changes in consolidation area, exchange rate impact and other non organic items

** Aggregate figures of European Projects, Brazil mobile and Bolivia

Financial Performance Overview 1Q '07 vs 2007 Targets

	1Q '07 reported	Δ1Q '07 organic YoY	2007 organic targets
Domestic, (€ mln, %)			
Revenues	6,009	-4.5% -2.6% Excl. NNG*	-3.5%/-2.5%
Fixed Revenues	3,989	-6.8% -4.1%	-3.5% / -2.5%
Mobile Revenues	2,365	-0.2%	-3% / -2%
% EBITDA Margin	47.5%	-2.3 pp at 48.1%	-2.0 / -1.5 pp
European BroadBand, (€ mln, %)			
Revenues	304		Reported data ~1.6 Bn €
% EBITDA Margin	9.9%		>14% mg.
TIM Brasil, (Reais mln, %)**			
Revenues	3,040	+37.4%	>15%
% EBITDA Margin	24.5%		~23%

Revenues Trend
adjusted for B&K***
▶ 1Q 2007: 19.1%
▶ 2007 Target: > 10%

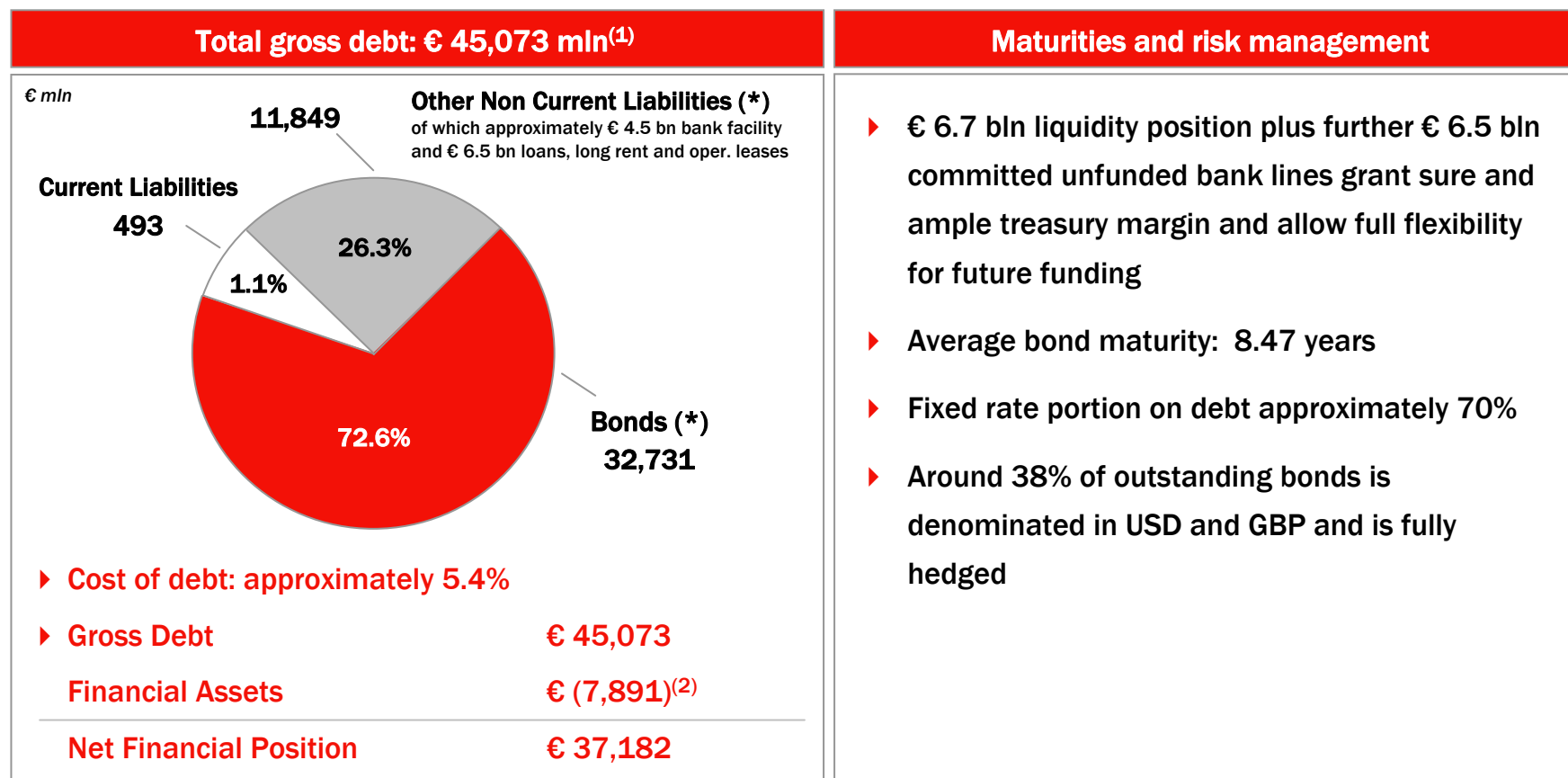
* excluding change in accounting for Non Geographic Numbers (-119 mln € in 2006).

In accordance with AGCOM deliberation 417/06/CONS, starting January 1st 2007, Telecom Italia invoices services rendered by OLO on NNG while does not assume credit risks. These services, since January 1st are thus no longer recorded for as revenues and costs in Telecom Italia accounts

** IAS Gaap

*** Figures adjusted considering Bill & Keep elimination starting from 01/01/05

Debt structure as of March 31, 2007



(1) Including € 1,289 mln of IAS adj of which € 404 mln on bonds

(2) Liquidity Nominal Position, represented by cash and marketable securities stands at € 6.7 bn

(*) including the current portion of non current liabilities (maturing within 12 months) for € 5,455 mln (of which bonds € 4,154 mln and other € 1,301 mln)

Group operating targets 2007-2009

€ bn, %

	2006	2007 Targets**	2009 Targets w/o Argentina	2009 with Argentina
	Organic 2007 base	Organic vs. 2006	Organic vs. 2007	Organic vs. 2007
Revenues <i>growth</i>	31.6 *	+ 1.0% + 2.0%	+ 1.0% + 2.0% CAGR 2007 - 2009	adds approx. +0.5%
EBITDA	13.1			
EBITDA Margin	41.5%	- 2.5pp - 2.0pp	Broadly Stable	Broadly Stable
EBIT	7.6			
EBIT Margin	24.0%	- 3.0pp - 2.5pp	Broadly Stable	Broadly Stable
CAPEX	5.1		∑ 07-09 ~ 15Bn€	
% on sales	16.4%		< 13% on sales	< 13% on sales
Net Financial Position	37.3	NFP reducing	NFP reducing	NFP reducing
NFP/ Ebitda		< 3.0 X	< 3.0 X	< 3.0 X

* 31.3 mln € Organic Revenues 2006 + AOL perimeter and other variations +0.3 mln € = 31.6 mln €

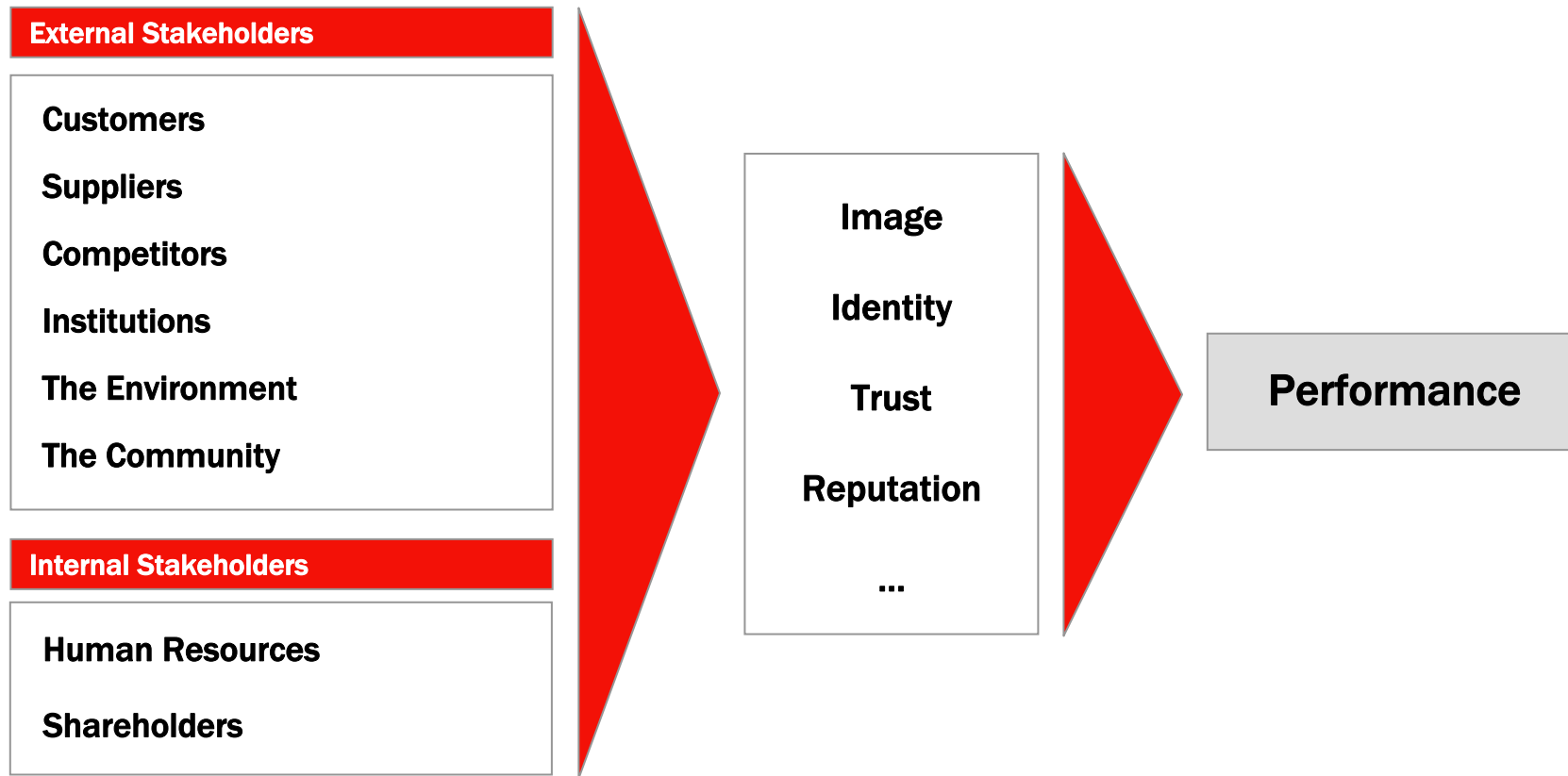
** Includes Bersani Decree Impact

Highlights

Highlights

- ▶ **Sustainability Reporting integrated in the Financial Statement**
- ▶ **Sustainability management embedded in planning and controlling processes**
- ▶ **Focus on communication to investors and analysts**
- ▶ **Focus on intangible assets**

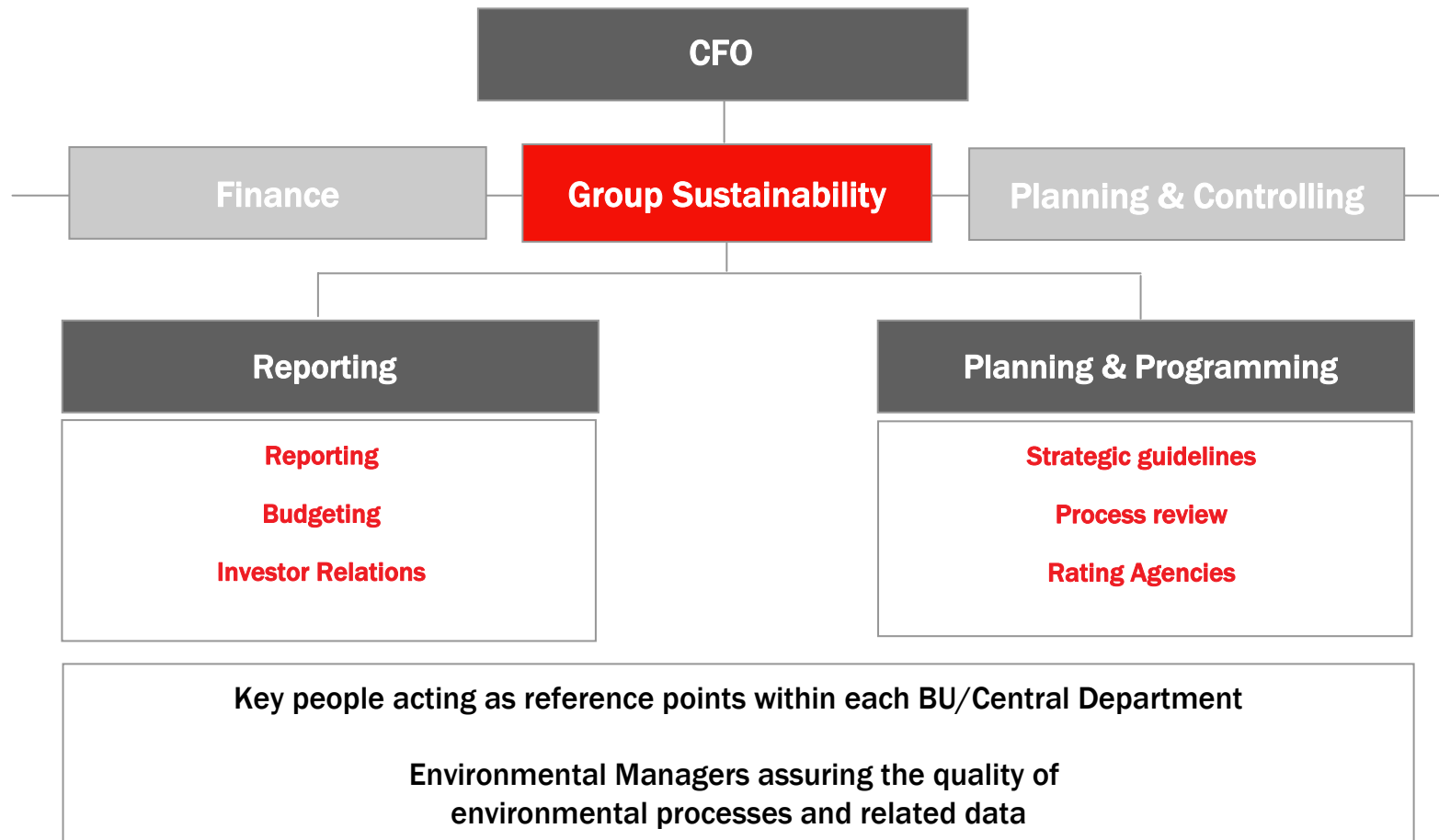
Approach



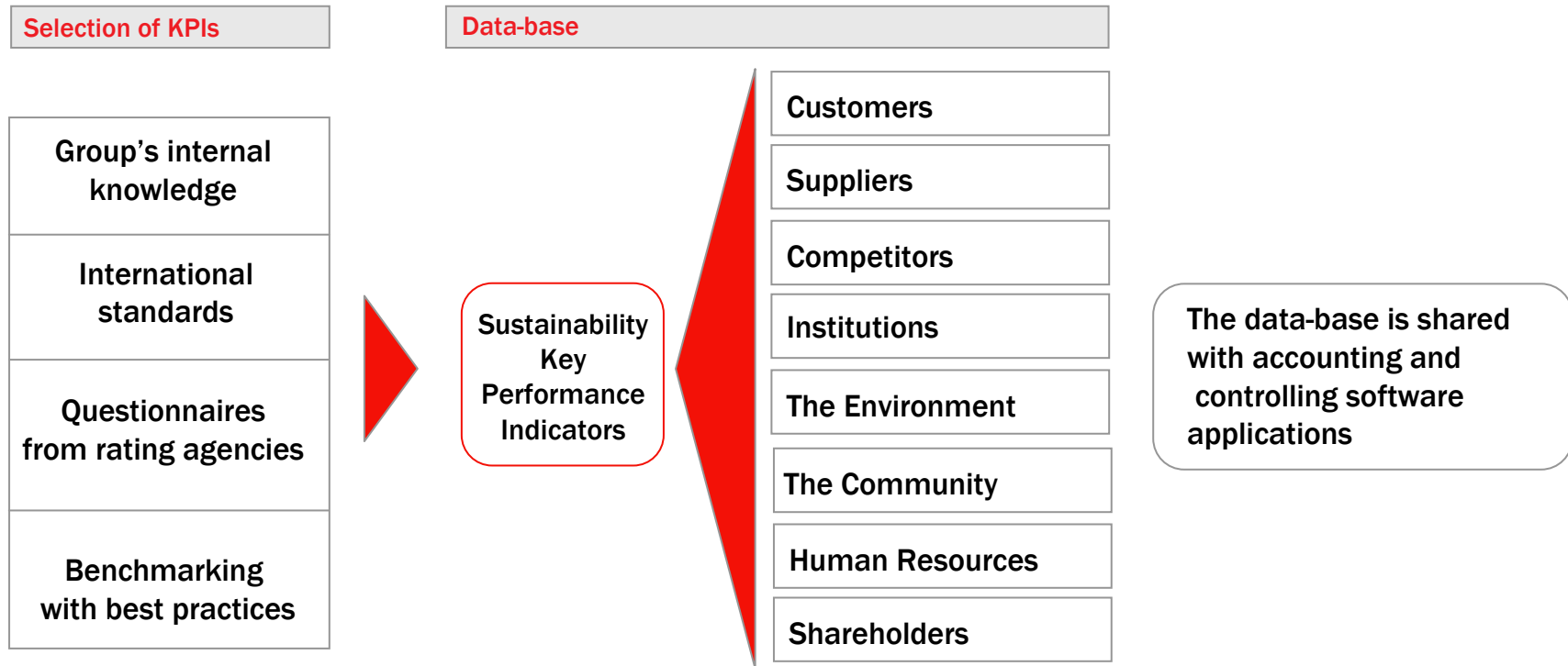
Evolution

	◀ 1997 - 1999 ▶	◀ 2000 - 2001 ▶	◀ 2002 - 2007 ▶
Charters and Codes	<ul style="list-style-type: none"> ▶ Environmental Charter ▶ Charter of Values 	<ul style="list-style-type: none"> ▶ TIM's Code of Ethics ▶ Charter of Services 	<ul style="list-style-type: none"> ▶ Group's Code of Ethics ▶ Code of Conduct for insider dealing
Reporting	<ul style="list-style-type: none"> ▶ Socio-environmental reports 		<ul style="list-style-type: none"> ▶ Integration of Sustainability Reporting into the Group Financial Statement (TBL)
Involvement with other Organizations	<ul style="list-style-type: none"> ▶ ETNO ▶ Sodalitas ▶ CSR Europe 		<ul style="list-style-type: none"> ▶ Global Compact (UN) ▶ European Road Map (EU) ▶ European Alliance on CSR
Governance			<ul style="list-style-type: none"> ▶ Internal reporting system ▶ Sustainability Plan in the Group Industrial Plan

Organizational model



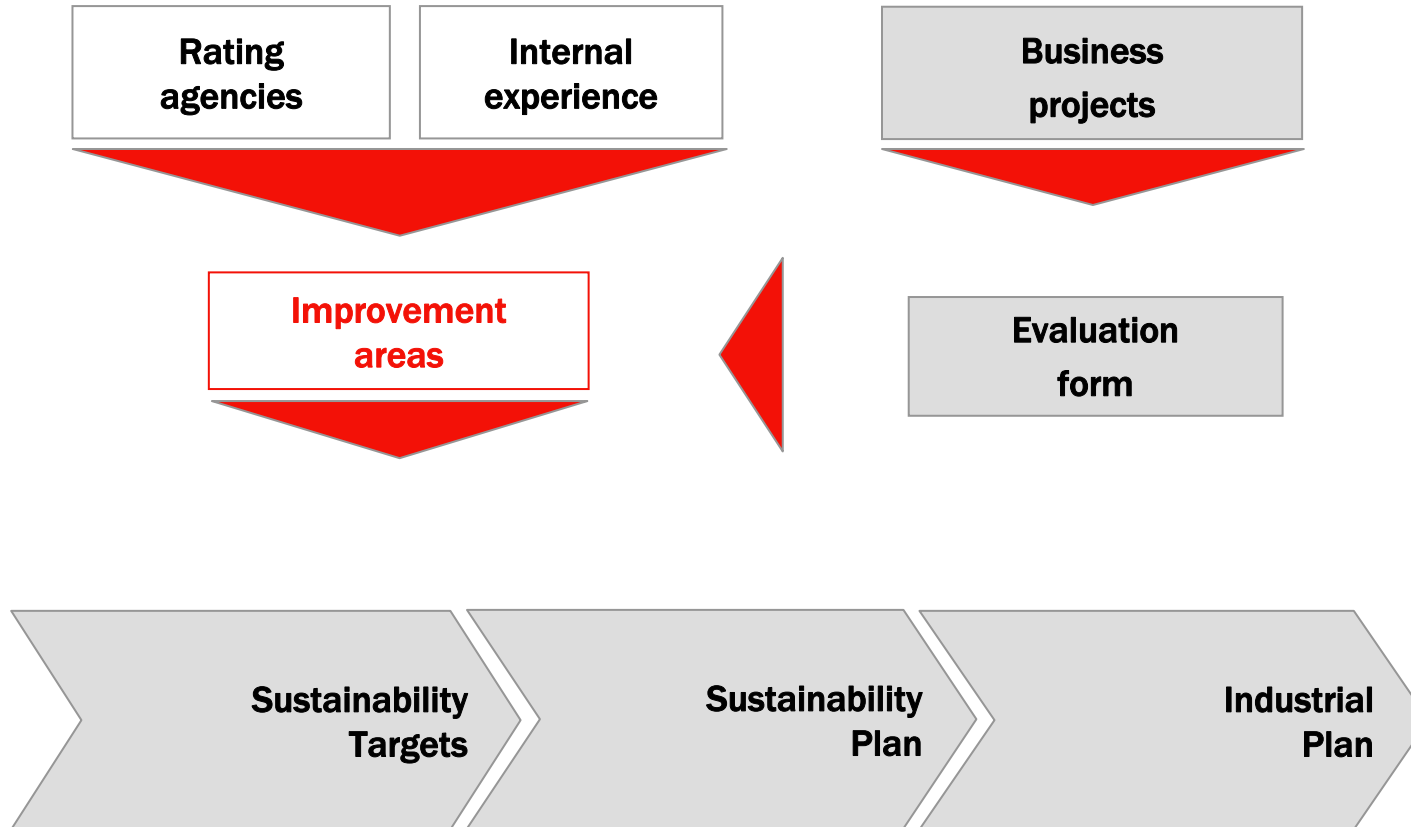
Internal reporting system



KPI Main areas

Customers	Suppliers	Competitors	Institutions
<ul style="list-style-type: none"> ▶ Number of Lines ▶ Customer Relationship Management ▶ Service Quality ▶ Claims ▶ Services for customers with special needs ▶ Involvement 	<ul style="list-style-type: none"> ▶ Supply chain management ▶ Joint actions ▶ Involvement 	<ul style="list-style-type: none"> ▶ Involvement ▶ Anti-trust procedures and claims ▶ Legislation updates 	<ul style="list-style-type: none"> ▶ Tax and added value ▶ Grants ▶ Involvement ▶ Legislation updates
Environment	Community	Human Resources	Shareholders
<ul style="list-style-type: none"> ▶ Natural resources consumption (energy, water, fuel, etc..) ▶ Emissions ▶ Waste Management ▶ Electromagnetism 	<ul style="list-style-type: none"> ▶ Donations ▶ Investments ▶ R & D ▶ Involvement 	<ul style="list-style-type: none"> ▶ Compensation policies ▶ Training and development ▶ Health and Safety ▶ Equal opportunities ▶ Industrial relations ▶ Welfare ▶ Human rights and labour standards 	<ul style="list-style-type: none"> ▶ Dividends ▶ Net debt ▶ Corporate Governance ▶ Risk management

Planning



2006 Results - Environmental Targets

- ▶ Eco-Efficiency indicator (Bit/Joule) shows a 60% improvement versus last year.
- ▶ Photovoltaic plants and fuel cells projects in place.
- ▶ Specific Absorption Rate verified in 88% of technologically advanced and most widespread mobile phones.
- ▶ 15% reduction in electromagnetic emissions in selected Base Transceiver Stations, thanks to power management measures.



Results – Environmental Targets

- ▶ Waste recycling program (covering paper, wood, glass, metal and plastic) in the main Group's offices.
- ▶ Awareness campaign in order to reduce paper consumption and to promote the use of recycled one.
- ▶ Carbon dioxide emissions saved by replacing old cars and heating plants.
- ▶ Contribution to the drafting of a Code of Conduct (CoC) aimed at minimising energy consumptions for broadband technology. The CoC has been promoted by the European Union through the Joint Research Centre.

Results – Other Targets

- ▶ **Performance Improvement on customer service – Evolution Project (accuracy and punctuality up to 98% for new fixed lines and 97% for ADSL)**
- ▶ **Sustainability Internet web site renewal (TI among the three best in class Italian companies in “Webranking 2006”)**
- ▶ **Human Rights and Labour Standards Policy applied to all subsidiaries in order to assure adequate protection in the countries where the Group operates.**
- ▶ **Supply Chain Management Policy to safeguard ethical, environmental and social values, in line with the Code of Ethics principles.**

Planning

Description ^[1]	Measurement unit	Actual 2006	Target 2007
Percentage of APPOINTMENTS KEPT by technicians at the customer's premises	%	98	98
Percentage of TELEPHONE LINES activated through "Ready access" ^[2]	%	15	18
SATISFACTION of employees measured through the "Group Photo" questionnaire	Average satisfaction level ^[3]	6.21	≥6.21
TRAINING AND EDUCATION	Hours per-capita ^[4]	29.2	29.3
HEALTH: percentage of sickness hours with respect to working hours	%	3.5	≤3.5
EQUAL OPPORTUNITIES: women working with respect to total staff	%	26.7	26.8
ENERGY: eco-efficiency indicator	Bit/Joule	600	850
ELECTROMAGNETISM: reduction of the power emitted by UMTS base transceiver station cells ^[5]	No. of cells with second carrier	0	500
ELETTRROMAGNETISM: SAR (Specific Absorption Rate) qualification	% ^[6]	88	95
WASTE: offices with over 100 employees equipped for differentiated collection	No. of offices	32	70
PAPER: purchased recycled paper	% ^[7]	2	40
Replacement of Euro3 VEHICLES with Euro4 vehicles ^[8]	No. of replaced vehicles	1500	1000
Replacement of oil BOILERS with methane boilers	Tons of CO ₂ not emitted	800	500
DIGITAL DIVIDE: ADSL coverage	% ^[9]	89.4	94.5
DIGITAL DIVIDE: IPTV coverage	% ⁹	45	51
DIGITAL DIVIDE: UMTS coverage	% ^[10]	70.8	77

- ^[1] Unless otherwise indicated objectives refer to Telecom Italia S.p.A. activities.
^[2] Ready access: fast and automatic activation of telephone lines without the technician intervention at the customer's premises.
^[3] Data refer to the Group's activities in Italy and is calculated on a 10-point scale.
^[4] Data include classroom, online and training on the job education.
^[5] In high traffic conditions the use of two radiofrequency carriers instead of a single one reduces total power emitted by the station by 15%.

- ^[6] The percentage is calculated on the most technologically innovative and widespread handsets models.
^[7] Measured with respect to the total purchased paper.
^[8] Euro4 vehicles allow an approximate 30% reduction of CO₂ emission as compared to Euro3.
^[9] The percentage refers to fixed telephone lines.
^[10] The percentage refers to residential population.

Sustainability Strategy 2007-2009

- ▶ **Stakeholder involvement into business processes**
- ▶ **Increasing compliance with the Global Reporting Initiative (GRI) guidelines**
- ▶ **Setting of quantitative objectives (Customers, HR, Environment, Digital Divide)**
- ▶ **Integration between Sustainability and Innovation: a specific section within the Technological Plan is devoted to Corporate Responsibility**
- ▶ **Inclusion of specific questions regarding the Sustainability model adopted by the Group into Customers Satisfaction questionnaires**
- ▶ **Confirmation of the Group's international Sustainability commitments**
- ▶ **Monitoring of the sustainability targets set into managers' MBO (see next chart)**



Sustainability into Managers' MBO

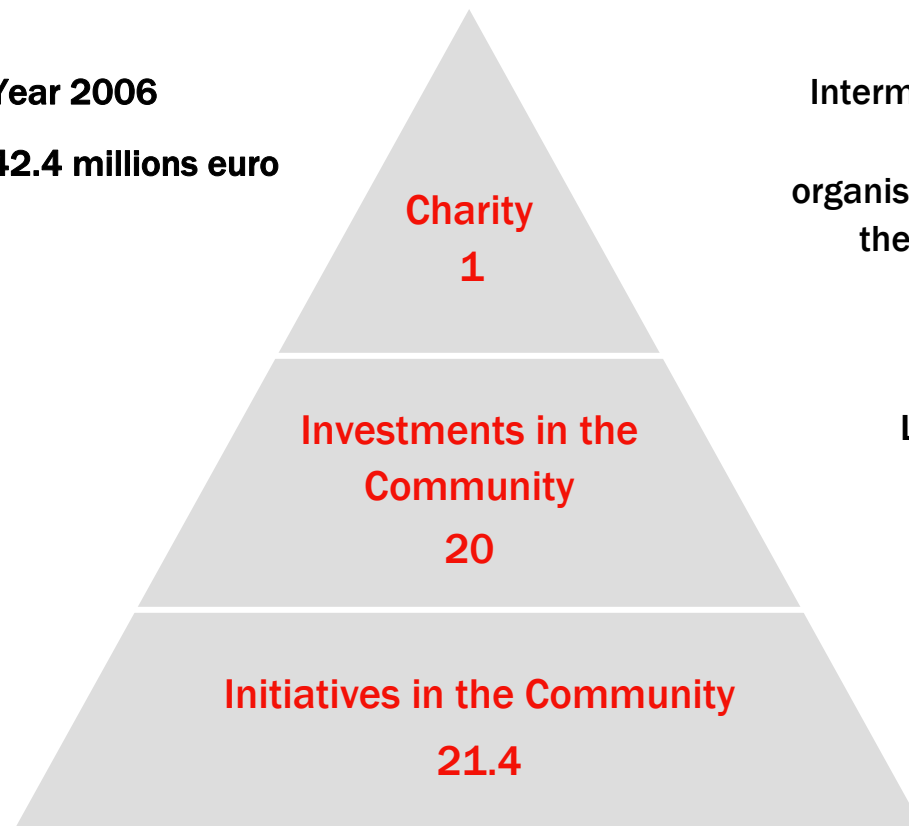
Stakeholder	Objectives
Customers	<ul style="list-style-type: none">▶ Customer Satisfaction▶ Quality of provided service
Human Resources	<ul style="list-style-type: none">▶ Surveys on employees' satisfaction▶ Employees' health and safety▶ Training on safety and environmental issues▶ Training programs and professional development▶ Welfare activities for employees
Environment	<ul style="list-style-type: none">▶ Consumption of materials, energy and water▶ Emissions▶ Waste management▶ Environmental remediation
Market and Institutions	<ul style="list-style-type: none">▶ Compliance with laws, regulation and codes▶ Quality and promptness of company communication
Suppliers	<ul style="list-style-type: none">▶ Environmental controls on suppliers
Community	<ul style="list-style-type: none">▶ Organisation of cultural initiatives▶ Quality of the initiatives/projects for the Community

Contribution to the Community

LBG (London Benchmarking Group) Model

Year 2006

42.4 millions euro



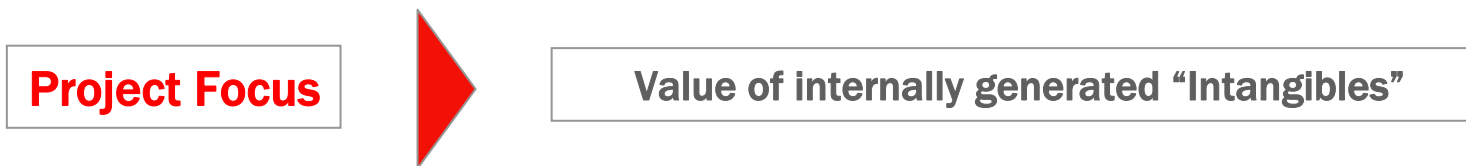
Intermittent support to a wide range of “social” issues in response to the needs and appeals of community organisations , increasingly through partnerships between the company, its employees, customers and suppliers

Long-term strategic involvement of the company to address a limited range of “social” issues

Activities in the Community usually by commercial departments to support directly the success of the company, also in partnership with charities and community-based organisations

The “Intangibles” project - objectives

TI Group in partnership with Bocconi University embarked on a study on the relationship between financial and non financial performance in the TLC sector



The first phase of the project investigated the relationship existing between financial and non financial performance

The second phase defined the theoretical model to represent some specific intangible assets

The “Intangibles” project – 1ST phase conclusions

1

KLD Ratings - S&P 500 companies – Stepwise regression

2

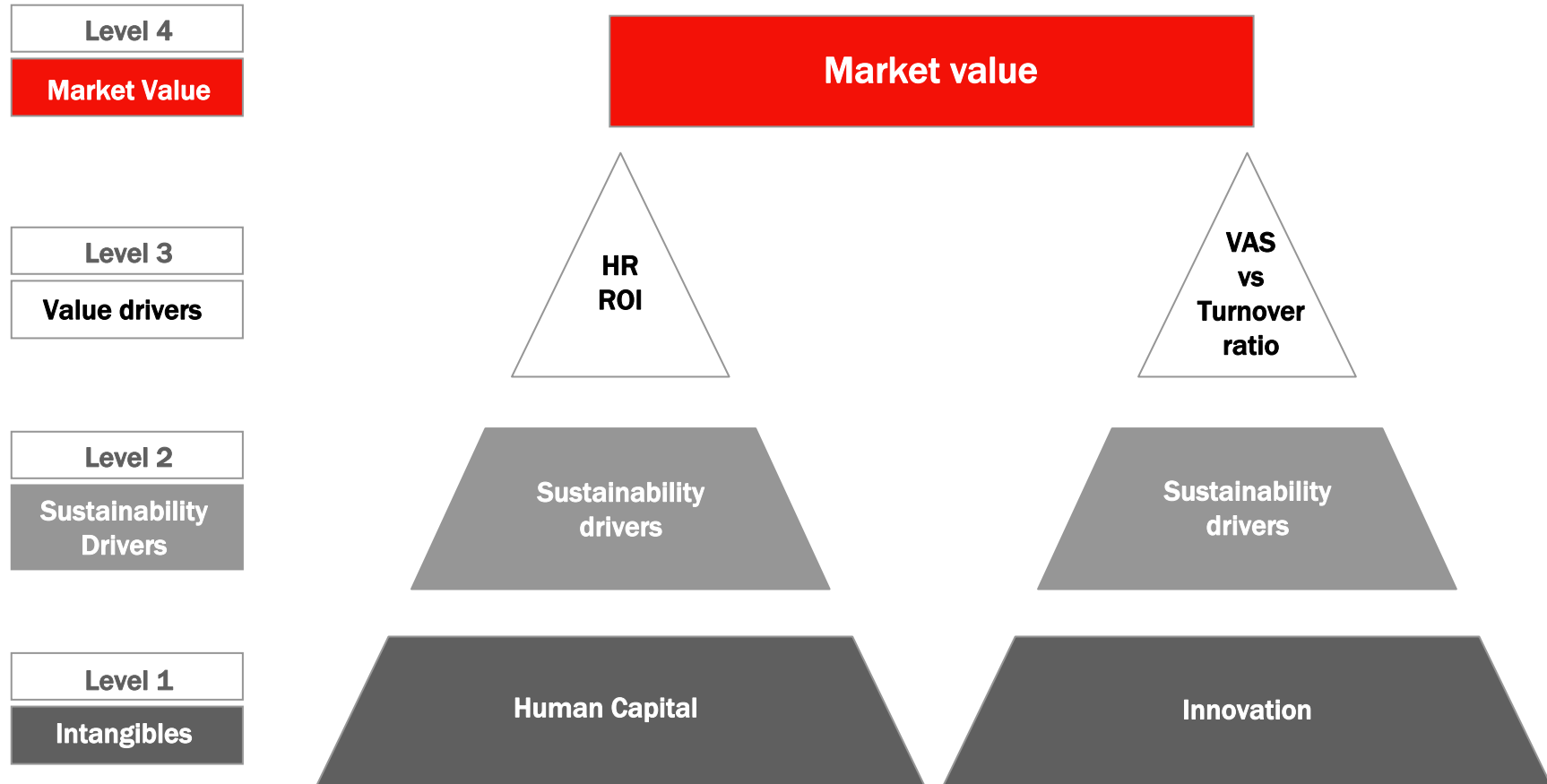
Empirical evidence has been provided in favour of the existence of a relation between financial and non financial performance (S&P 500 companies)

3

The communication of Sustainability should focus on the following topics:

- ▶ Relations with Community
- ▶ Human Capital
- ▶ Product Quality and Innovation

The “Intangibles” project – 2nd phase model



Aknowledgments

Telecom Italia S.p.A. confirmed in the following indexes:

- ▶ Dow Jones: **DJSI World** (318 companies worldwide); **DJSI STOXX** (162 companies in Europe);
- ▶ FTSE4Good (tradeable and non tradeable): **FTSE4Good Global** (100 companies); **FTSE4Good Europe** (50 companies);
- ▶ **Pioneer** managed by ESI (Ethibel Sustainability Index – 200 Companies);
- ▶ **ASPI** (Advanced Sustainable Performance Index) Eurozone (120 companies) managed by Vigeo;
- ▶ **ECPI Global** (300 securities) and **ECPI Europe** (150 securities) managed by E.Capital Partners;
- ▶ **Euro Ethical** and **Euro CSR** (40 securities) managed by Axia.

TI included among the top 100 companies worldwide in the “Global Reporters 2006 Survey of Corporate Sustainability Reporters” (SustainAbility, UNEP, Standard & Poor’s)