

Telecom Italia Analyst & Investor Briefing
2009 Results & Strategic Plan Update
Milan, April 13th, 2010

Telecom Italia Group 2009 Results & Strategic Plan Update

FRANCO BERNABE'



Safe Harbour

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Agenda

- ▶ **TI Group 2009 Results**
- ▶ **TI Group 2010-2012 Strategic Plan Update**
 - ▶ Focus on Domestic Market

Confirming Organic 2009 Group Results

Focus on
Core
Markets:
Domestic
&
Brazil

Financial
Discipline

Operating Free Cash Flow: 6.3 bln € (+12% YoY)

Organic Domestic Ebitda: 10.1bln € (-2.1% YoY)
Organic Ebitda Margin: 46.5% (+2.3 p.p. YoY)

TARGET REACHED

Domestic Cash Cost Efficiencies: 0.9 bln €

TARGET REACHED

TIM Brasil Ebitda: 1,289 mln € (+9.6% YoY)
Ebitda Margin: 25.7% (+2.3 p.p. YoY)

TARGET REACHED

**NFP Adj.: 33,949 mln € at YE09 (-577 mln € vs
YE08)**

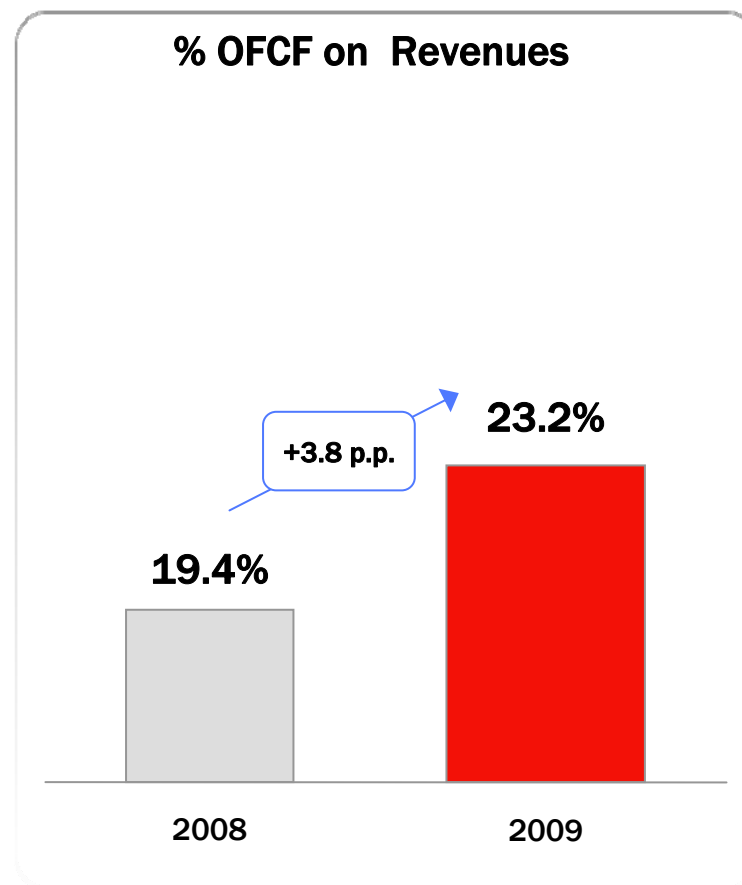
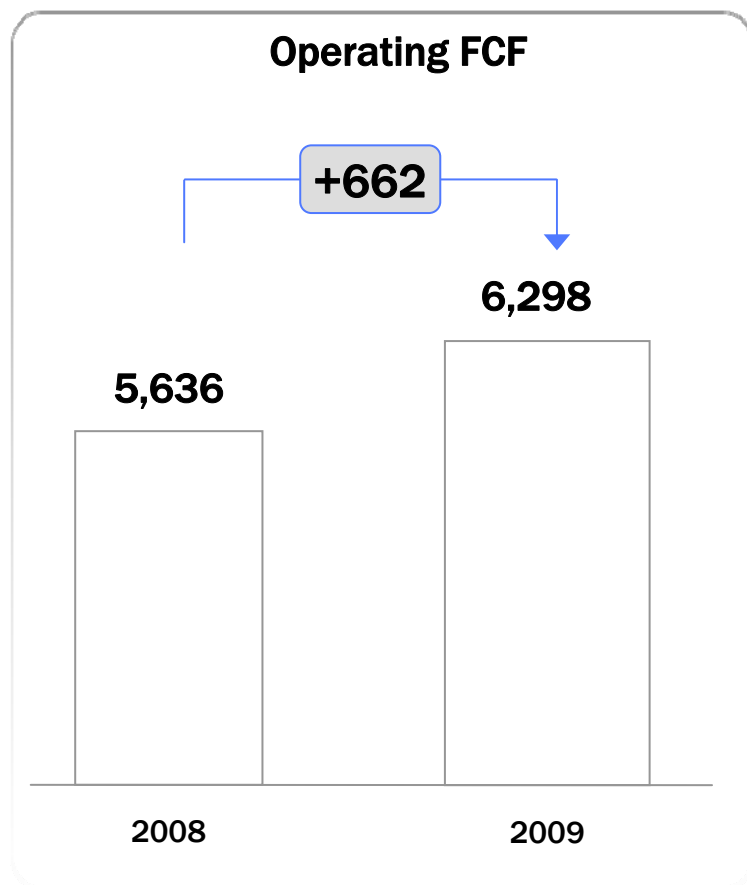
TARGET REACHED

**HanseNet Disposal: 0.9 bln € Net Debt Reduction
in Feb.'10**

2009 DPS
Ord.: 5.0 €/cents
Sav.: 6.1 €/cents

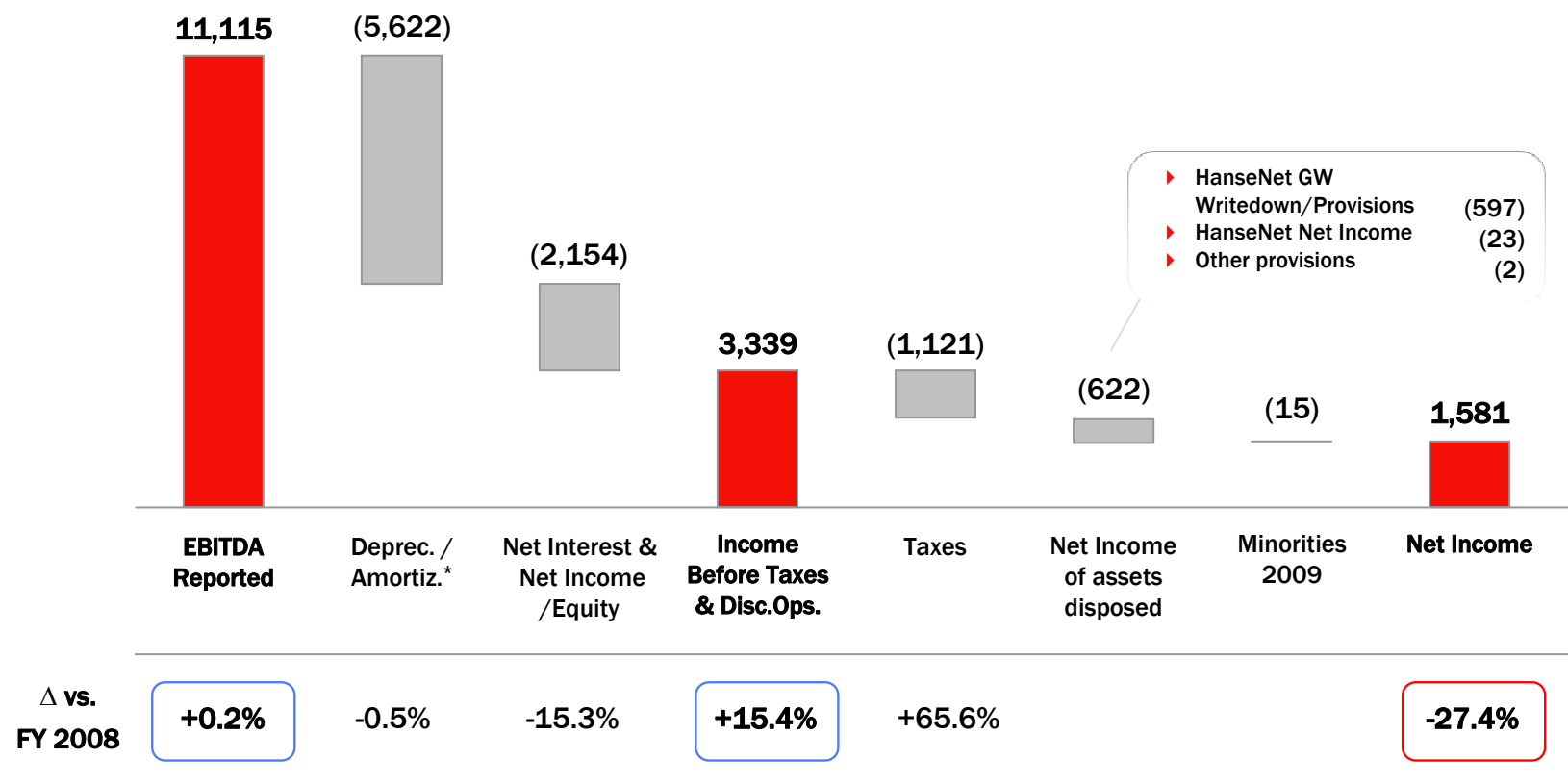
Strong Operating Free Cash Flow

Euro mln, Reported data



Figures considering HanseNet classified as Discontinued Operations.

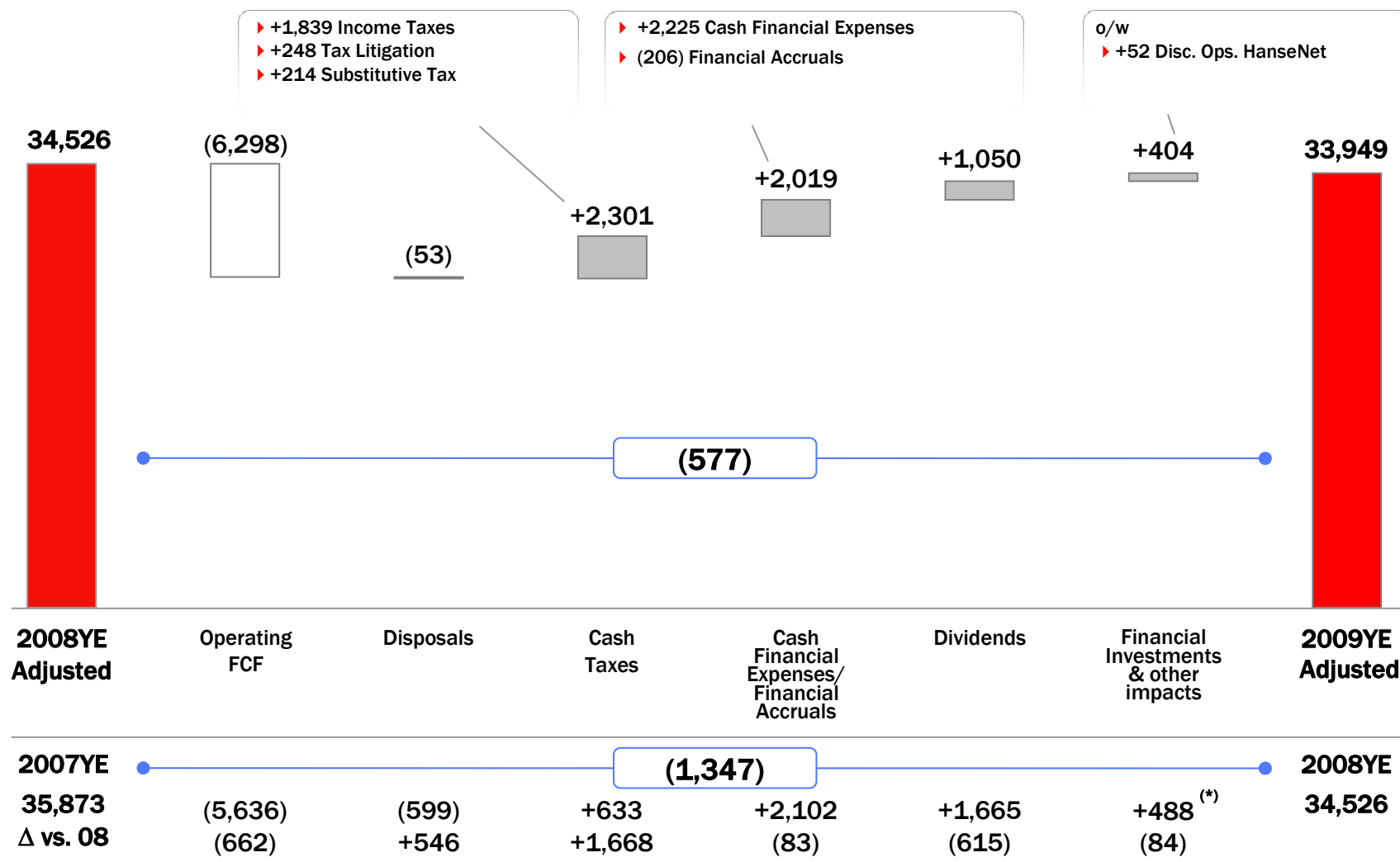
Net Income Evolution



* Including gains/losses of non current assets realization

Net Debt Dynamics

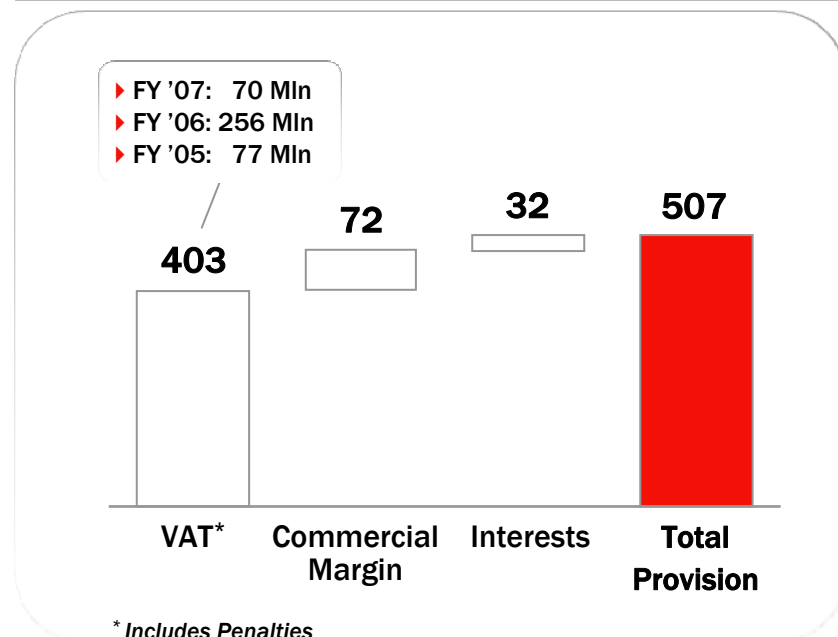
Euro mln



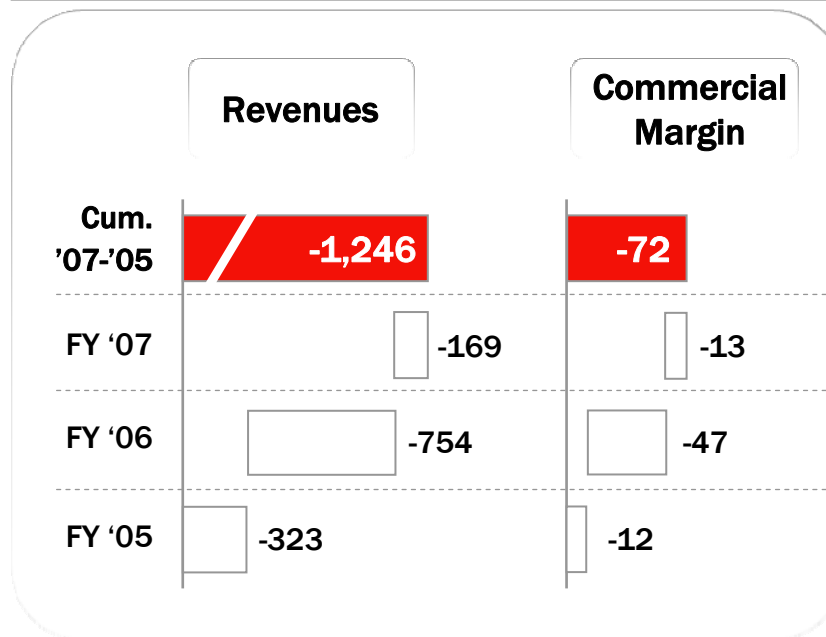
Focus on TI Sparkle Provision

Euro mln

TI Sparkle Provision 2005-2009



2005-2007 Revenues and Commercial Margin Restatement

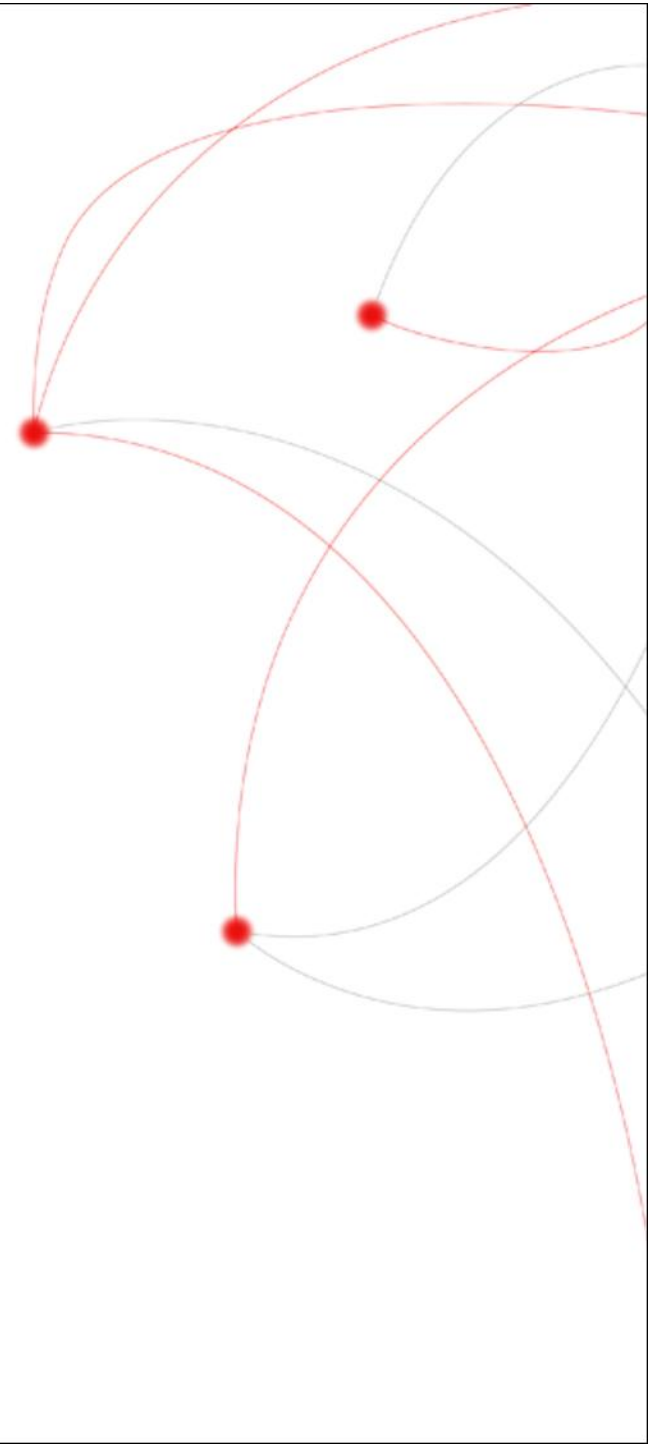


- ▶ No Impact on 2008-2009 Revenues and Ebitda
- ▶ 2008-2009 Net Income impacted by €10 mln of Annual Financial Charges

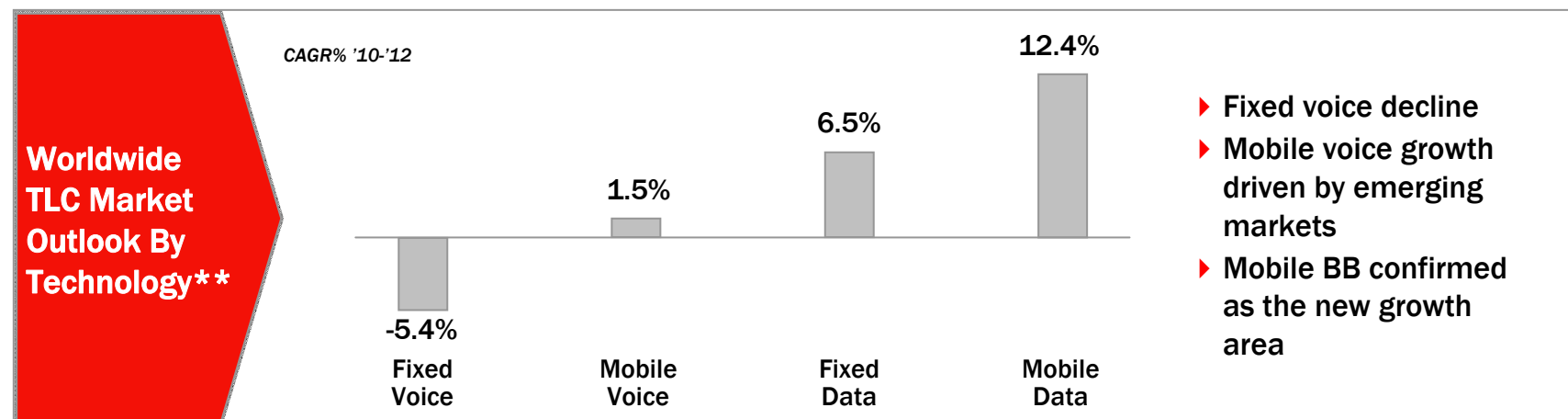
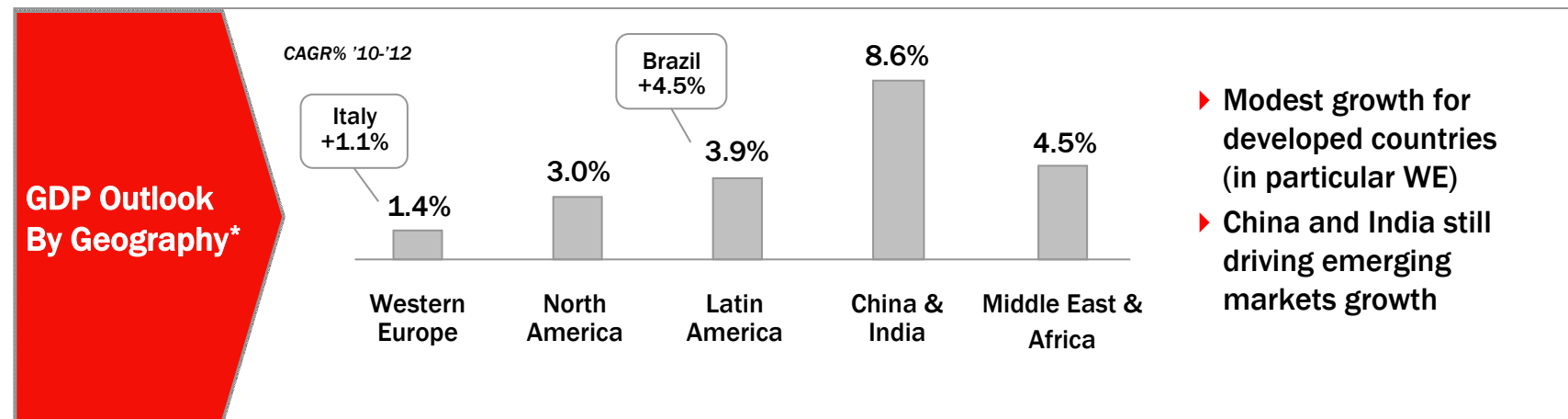
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Telecom Italia Group Strategic Plan Update

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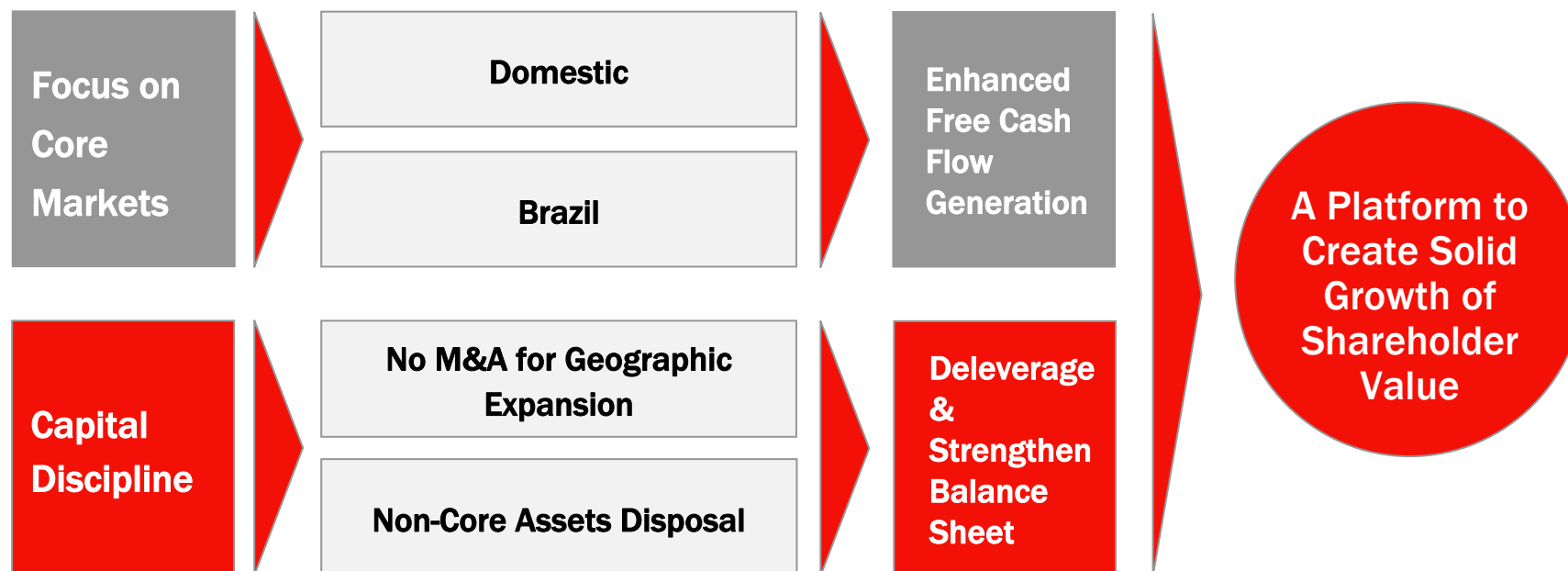
Global Macro Economic and TLC Market Outlook



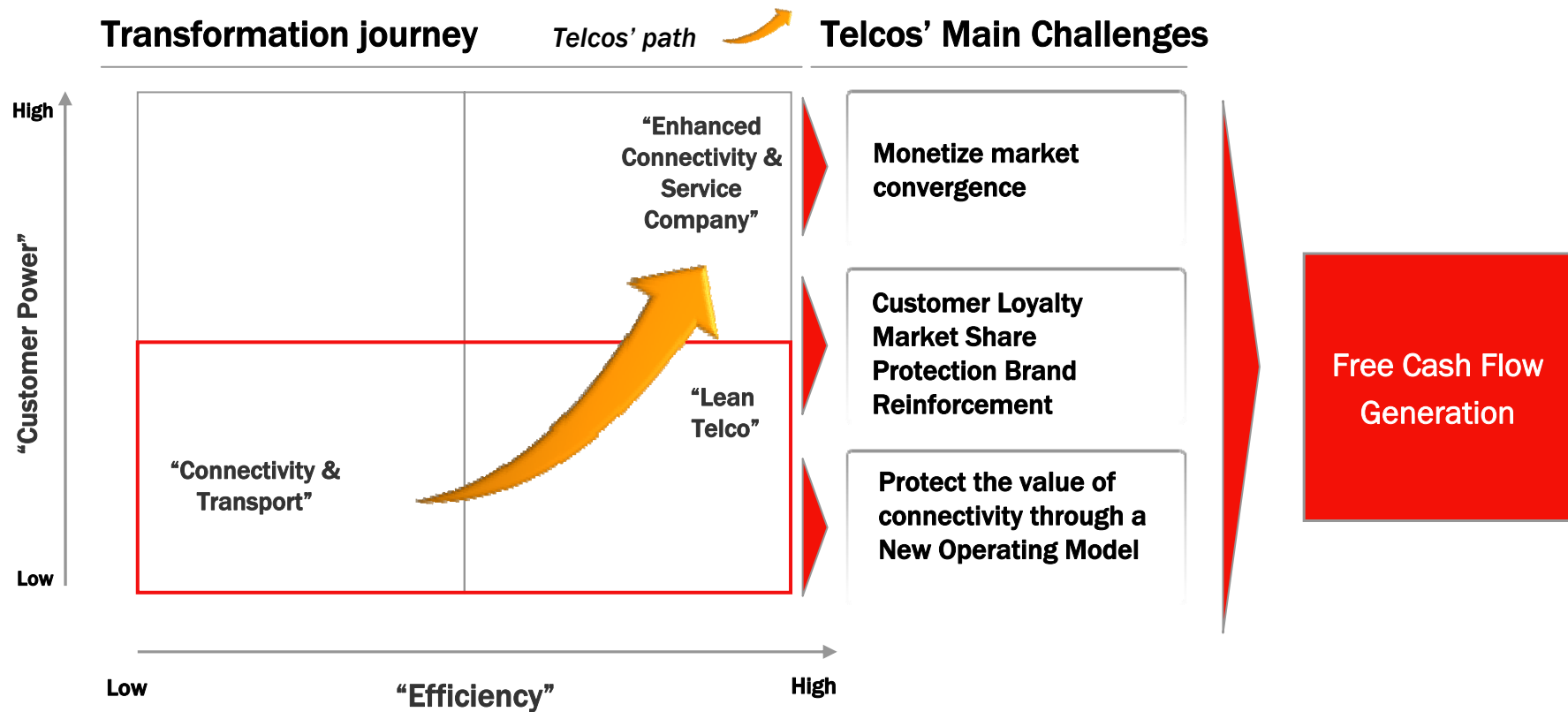
*Source: TI processing on Global Insight data

** TLC Services Revenue. Source: TI processing on Ovum data

Key Objectives and Strategic Levers Confirmed

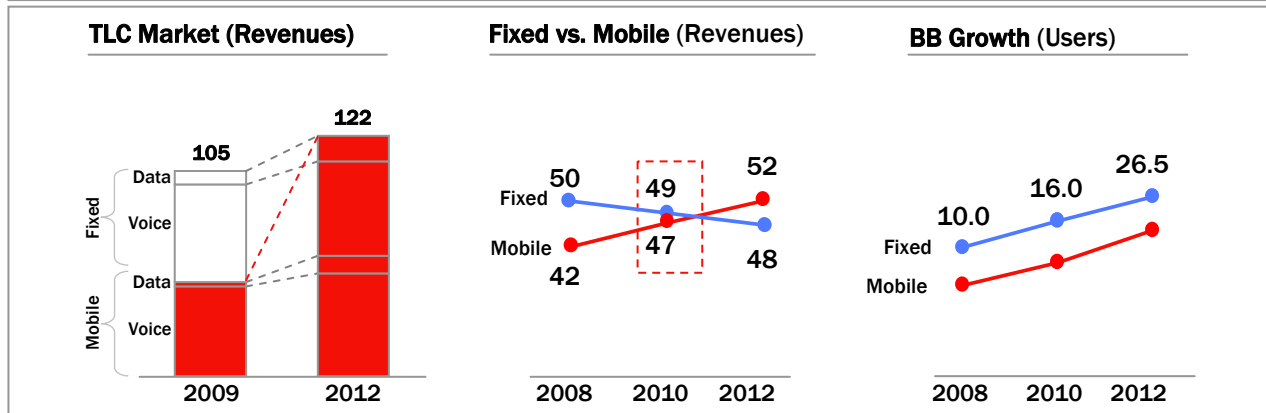


TI Domestic: the Transformation Journey

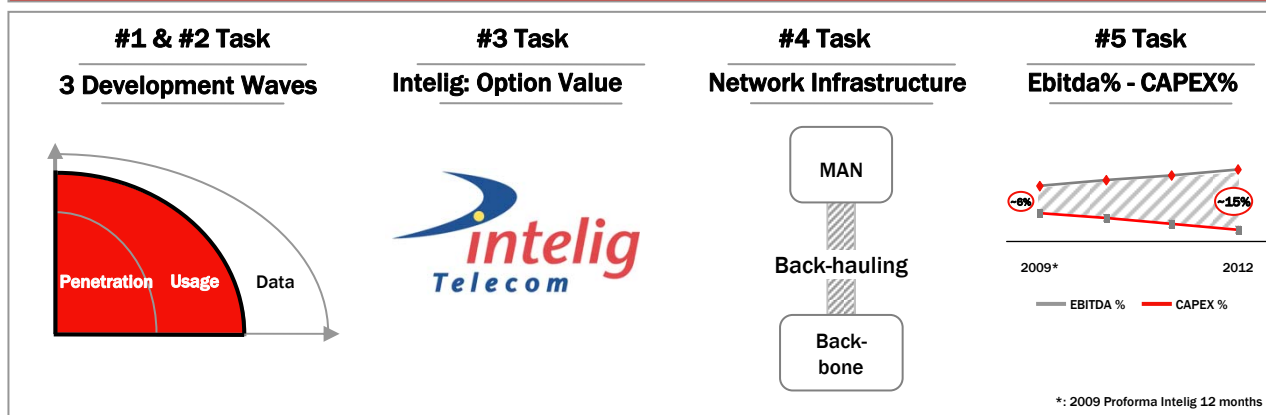


TIM Brasil: a Solid Platform for Growth

Exploiting Market Opportunities

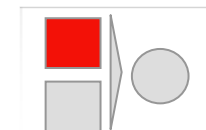


Building a Platform of Growth

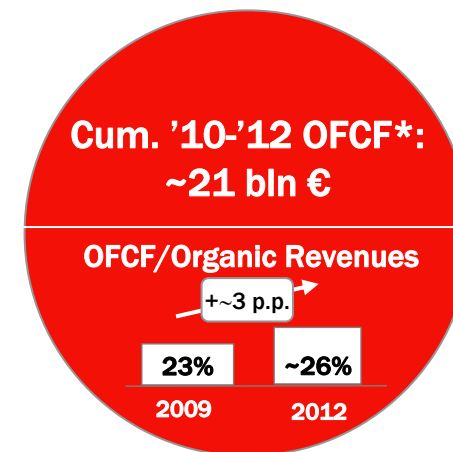
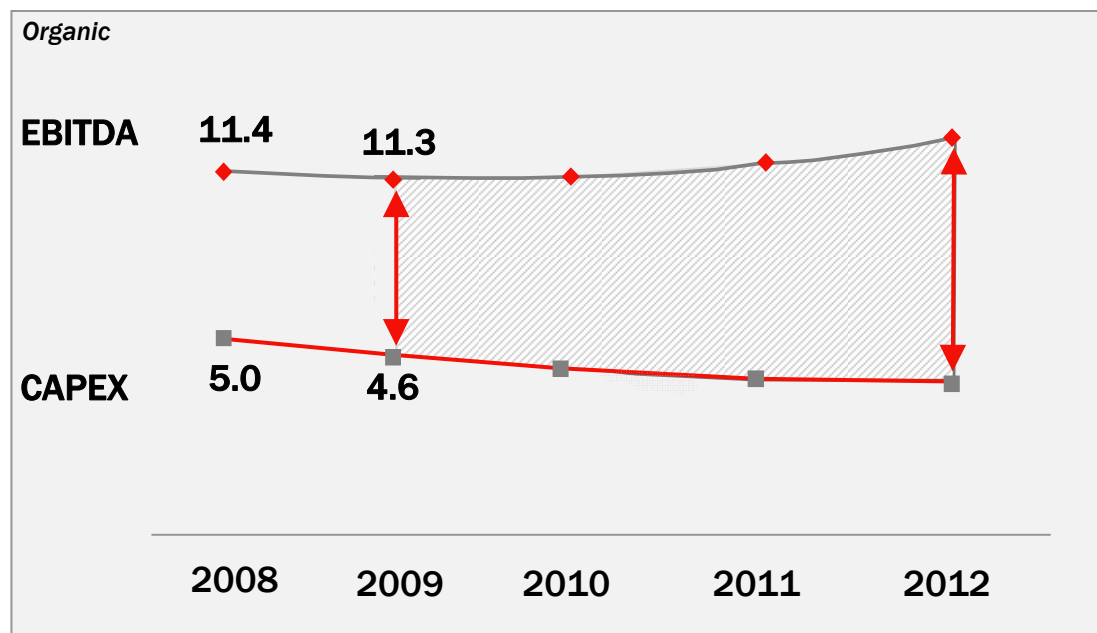
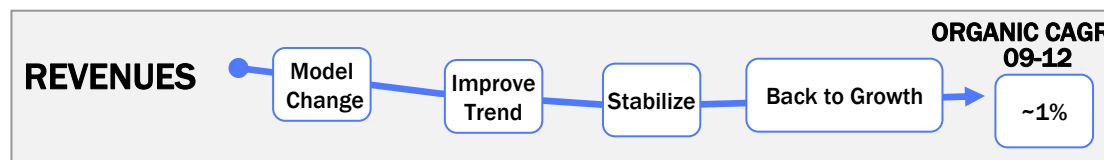


Service Revenues Growth & Margin Improvements

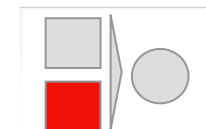
Source: TIM Brasil Estimates



Cash Flow Generation Remains our Key Priority

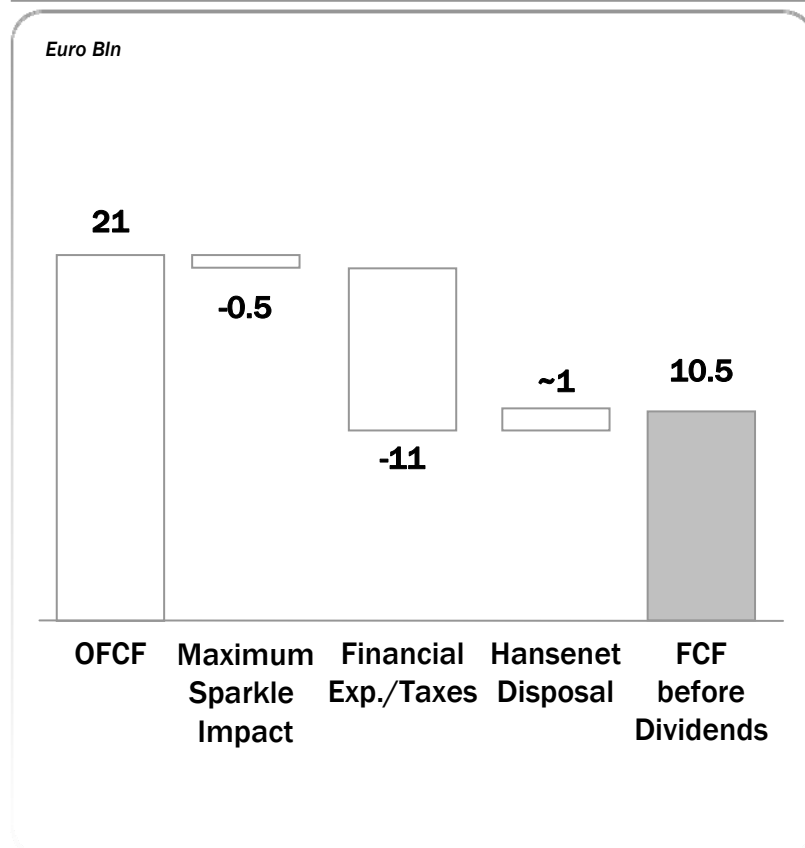


* Based on reported Ebitda and Capex, including Δ working Capital & excluding Sparkle impact.

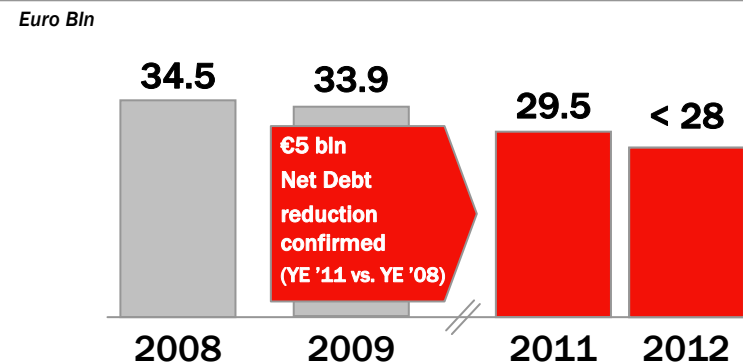


Cash Allocation Priorities: Continuous Deleveraging and Shareholders Remuneration

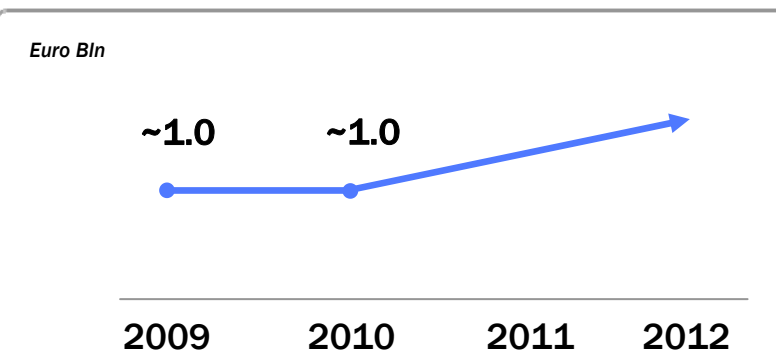
Free Cash Flow Generation Cum. 2010 - 2012



Net Financial Position Adjusted



Total Shareholders Remuneration

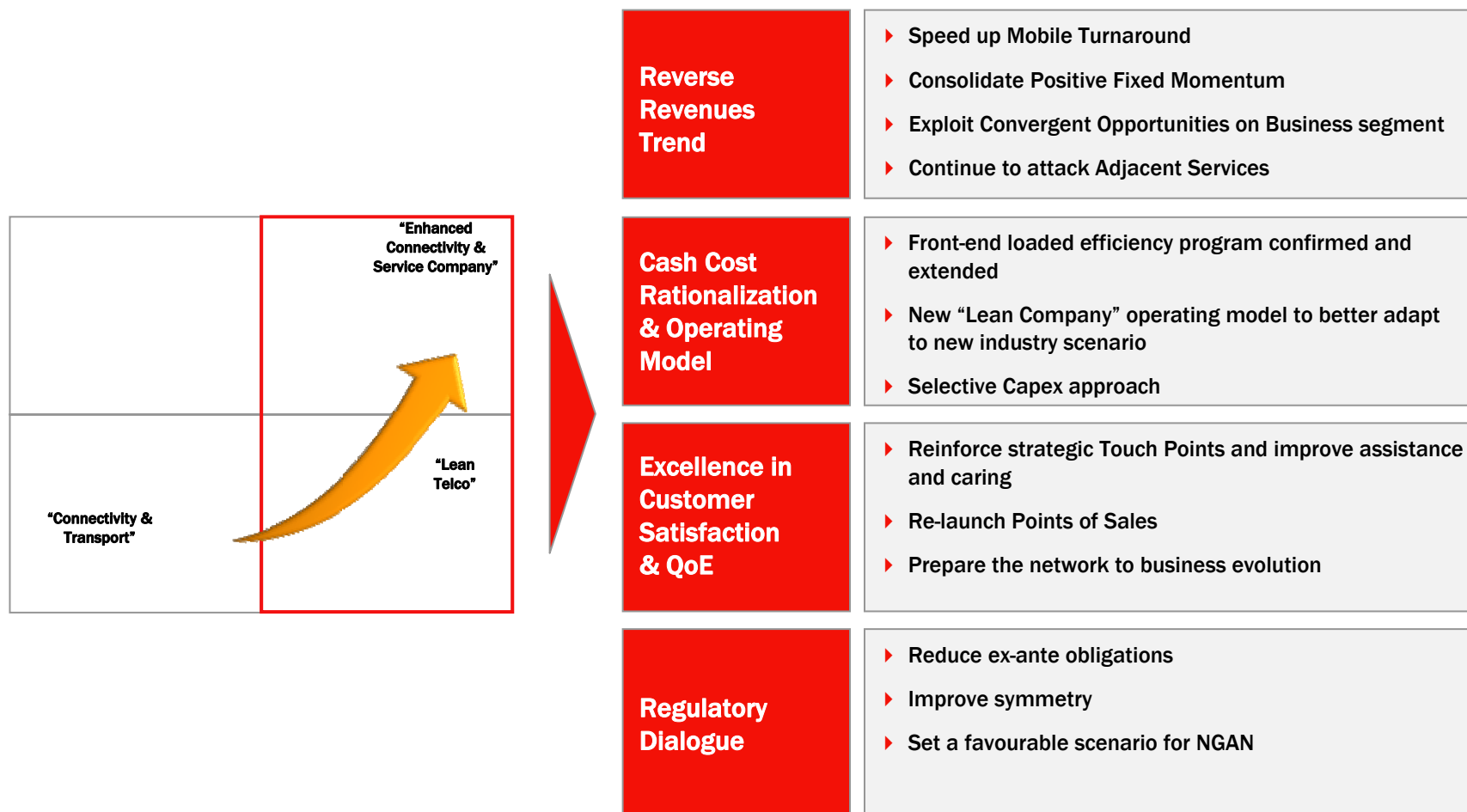


* Source: UBS

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- ▶ **TI Group 2010-2012 Strategic Plan Update**
 - ▶ **Focus on Domestic Market**

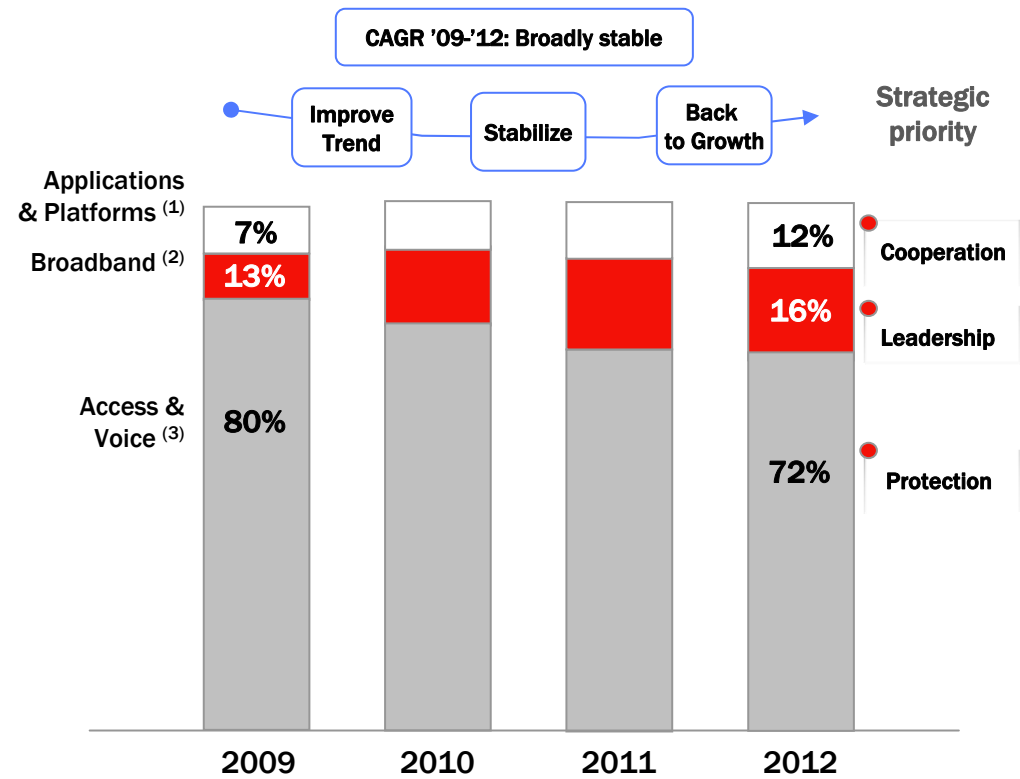
The Transformation Journey: Business and Operating Model



Domestic	Reverse Revenues Trend
	Operating Model
	Customer Satisfaction
	Regulatory Dialogue

Reverse Revenues Trend: TI Priorities

- Speed-up Mobile turnaround
- Consolidate positive Fixed momentum
- Exploit Convergent Opportunities on Business Segment
- Continue to Attack Adjacent Services



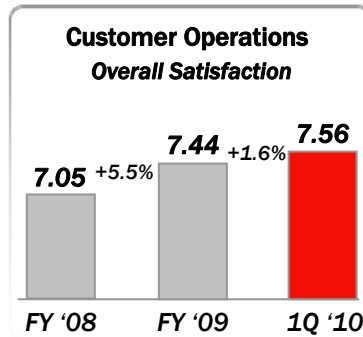
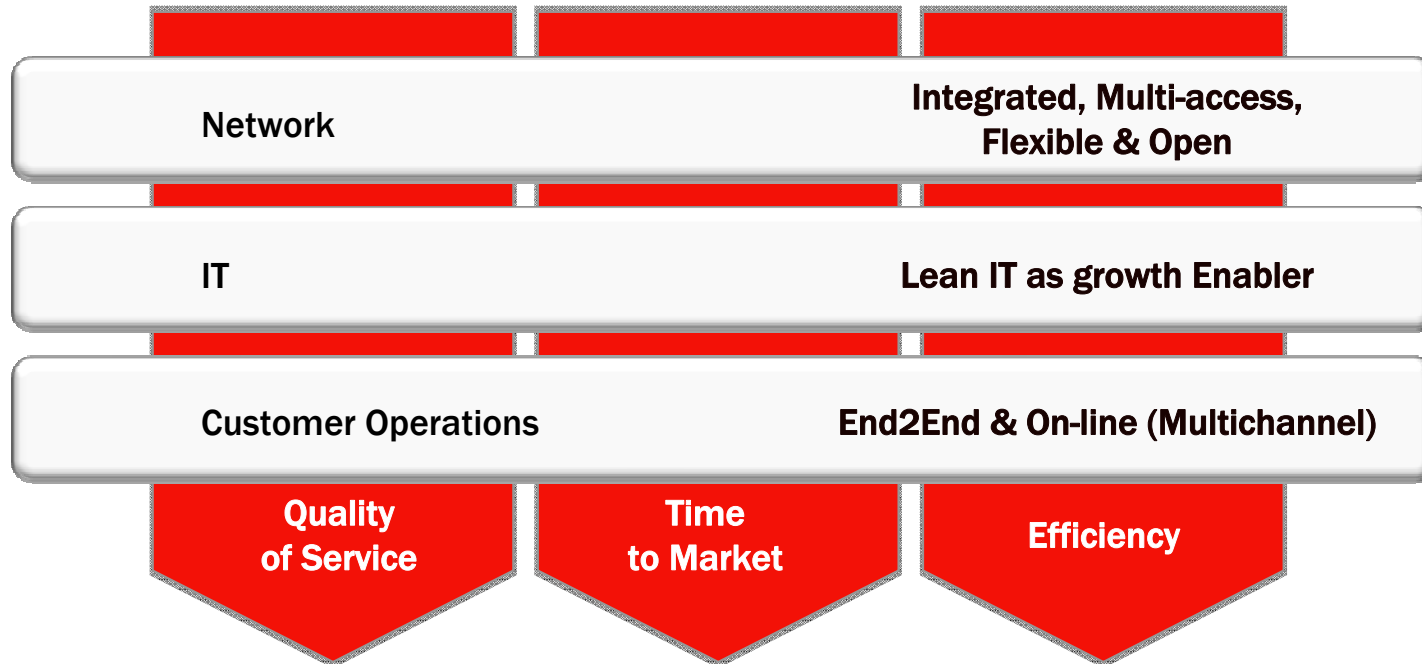
⁽¹⁾ ICT Services, BB Content (Adv., IPTV), Mobile VAS Content

⁽²⁾ Mobile BB, Fixed BB (Access)

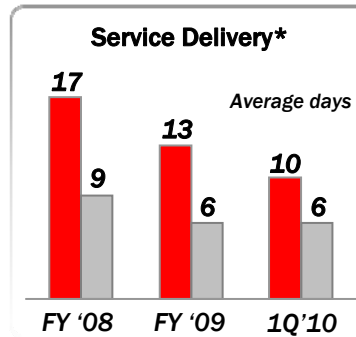
⁽³⁾ Fixed: Access, Outgoing Voice, Voice VAS, Business Data, Handsets; Mobile: Outgoing Voice, Messaging, Handsets

Domestic	Reverse Revenues Trend
	Operating Model
	Customer Satisfaction
	Regulatory Dialogue

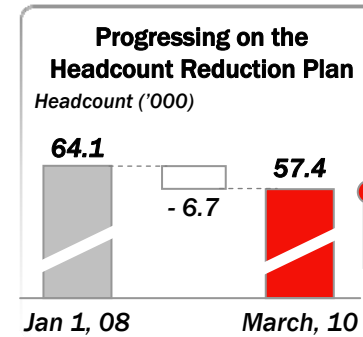
TI Operating Model



* Consumer



■ Voice Retail ■ ADSL Retail

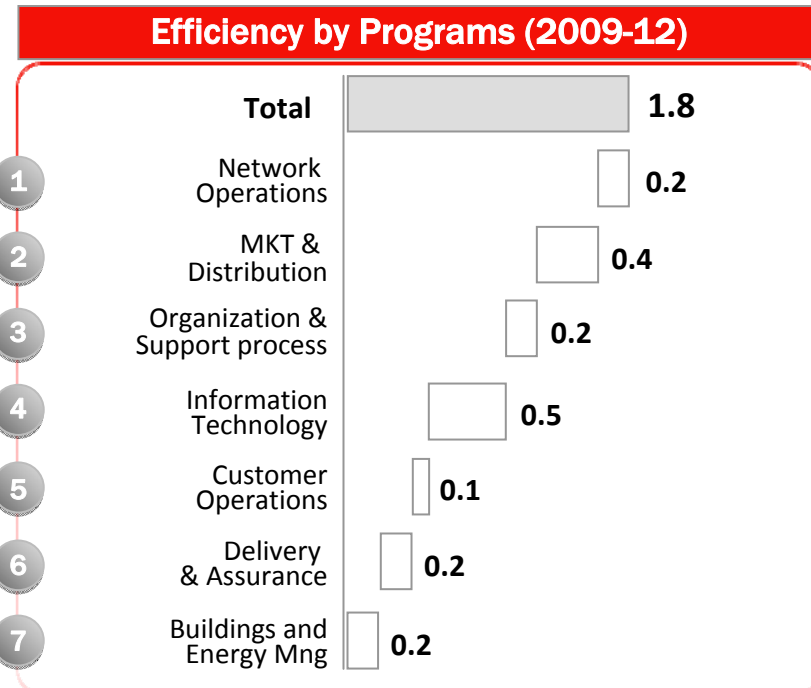
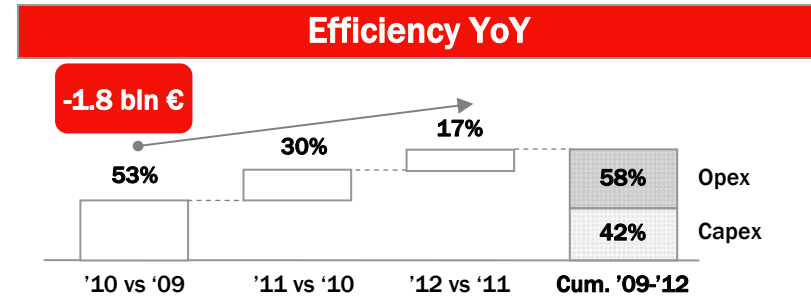
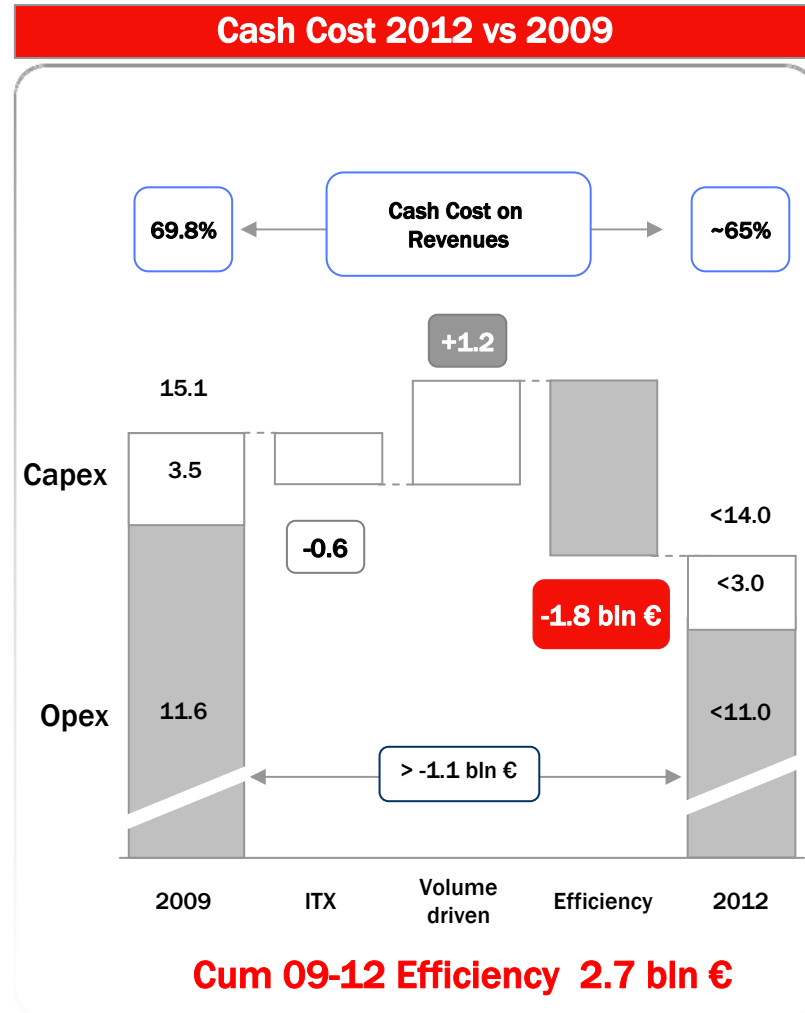


- 10% of workforce vs Jan. 2008

Domestic	Reverse Revenues Trend
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Cash Cost Rationalization and Efficiency Plan

Euro bln, Organic data

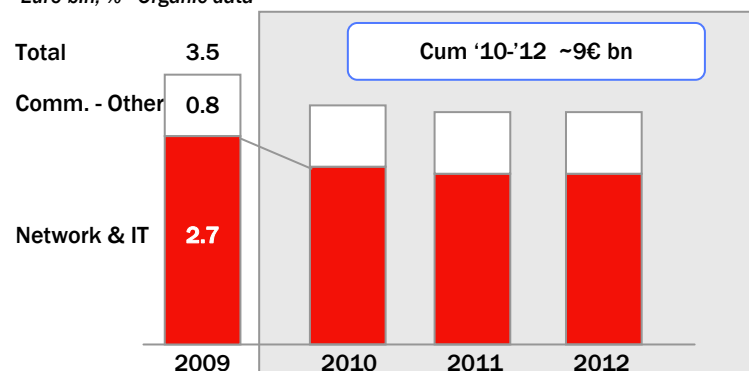


Domestic	Reverse Revenues Trend
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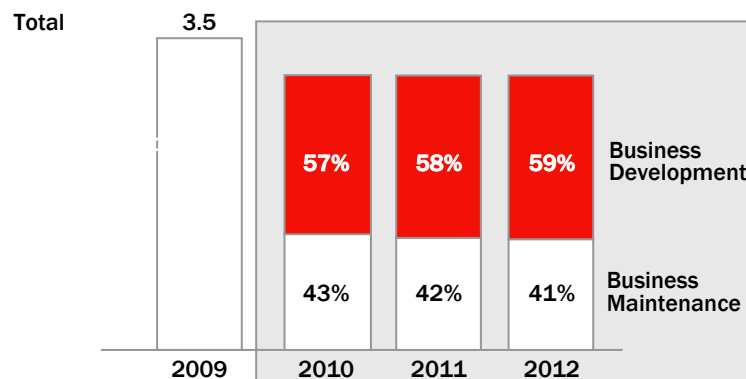
Selective Capex Approach

Capex by Function

Euro bln, % - Organic data



Capex by Destination



Key Highlights

- ▶ Rebalancing Commercial Capex: strong effort to reposition Sales Network PoS self-financed by lower handset subsidies
- ▶ Access Network Capex focused on BroadBand development (Fixed and Mobile)
- ▶ IT reduction driven by leaner architectures and vendors consolidation
- ▶ Business Maintenance slight reduction driven by network optimization
- ▶ Increasing focus on Capex related to business development to improve network capacity and efficiency
- ▶ Selective approach on NGN development

Domestic	Reverse Revenues Trend
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Excellence in Customer Satisfaction & Quality of Experience

Goals	Actions	KPIs																		
<p>Reach excellence in Customer service increasing perceived quality of the most important “Touch Point” for the Customer</p>	<ul style="list-style-type: none"> ▶ Brand and Communication: <ul style="list-style-type: none"> ▶ Consistency and uniqueness in Communication Plan ▶ Offer Proposition: <ul style="list-style-type: none"> ▶ Portfolio simplification ▶ Solid and consistent “Customer centric” value proposition ▶ Closeness to the customers with re-launch of the Points of Sales as strategic Touch Points and new initiatives for selected Business/TOP customers ▶ Technical Quality increase technical quality of broadband network (F-M) and reduce fault rates. Leverage on past strong investment in capacity to support mobile data traffic 	<p>Customer Satisfaction Index</p> <table border="1"> <caption>Customer Satisfaction Index</caption> <thead> <tr> <th>Period</th> <th>Value</th> </tr> </thead> <tbody> <tr> <td>IQ '08</td> <td>66.16</td> </tr> <tr> <td>IVQ '09</td> <td>68.60</td> </tr> <tr> <td>Tgt '12</td> <td>72.70</td> </tr> </tbody> </table> <p>Mobile Broadband Accessibility</p> <table border="1"> <caption>Mobile Broadband Accessibility</caption> <thead> <tr> <th>Year</th> <th>Value (%)</th> </tr> </thead> <tbody> <tr> <td>2009</td> <td>98.7%</td> </tr> <tr> <td>2010</td> <td>99.4%</td> </tr> <tr> <td>2011</td> <td>99.5%</td> </tr> <tr> <td>2012</td> <td>99.5%</td> </tr> </tbody> </table>	Period	Value	IQ '08	66.16	IVQ '09	68.60	Tgt '12	72.70	Year	Value (%)	2009	98.7%	2010	99.4%	2011	99.5%	2012	99.5%
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Regulatory Main Goals

Retail markets

- ▶ Reduction of the ex-ante obligations enhancing pricing flexibility on access and traffic services
- ▶ New pricing test rules aimed at improving TI's retail competitiveness

Wholesale markets

- ▶ Reduce the gap with the European average on ULL monthly fee
- ▶ Achieve a real symmetry in fixed termination charges between TI and Alternative Operators

NGAN

- ▶ Fully NGAN symmetrical regulatory approach where no bottlenecks exist
- ▶ NGAN access prices based on a "risk premium"
- ▶ Geographical differentiation of NGAN access obligations and pricing