

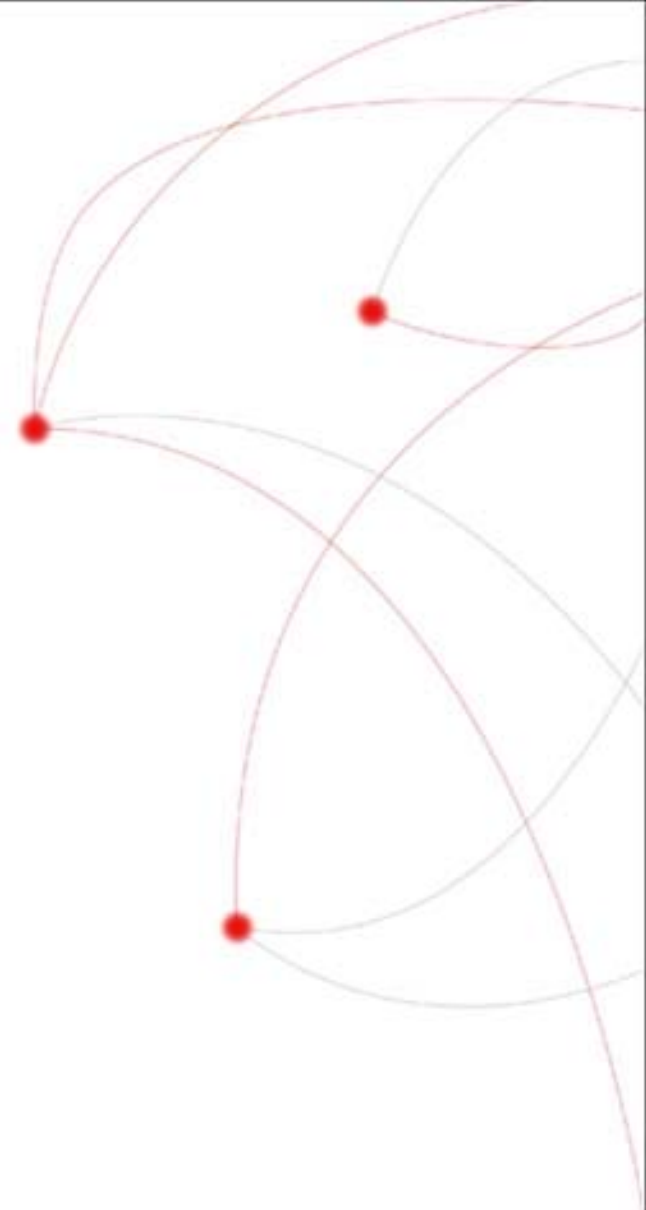
TELECOM ITALIA GROUP

## 9M 2010 Results

Milan, November 4<sup>th</sup>, 2010

# Telecom Italia 9M 2010 Results

MARCO PATUANO



# Safe Harbour

These presentations contain statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear in a number of places in this presentation and include statements regarding the intent, belief or current expectations of the customer base, estimates regarding future growth in the different business lines and the global business, market share, financial results and other aspects of the activities and situation relating to the Company and the Group.

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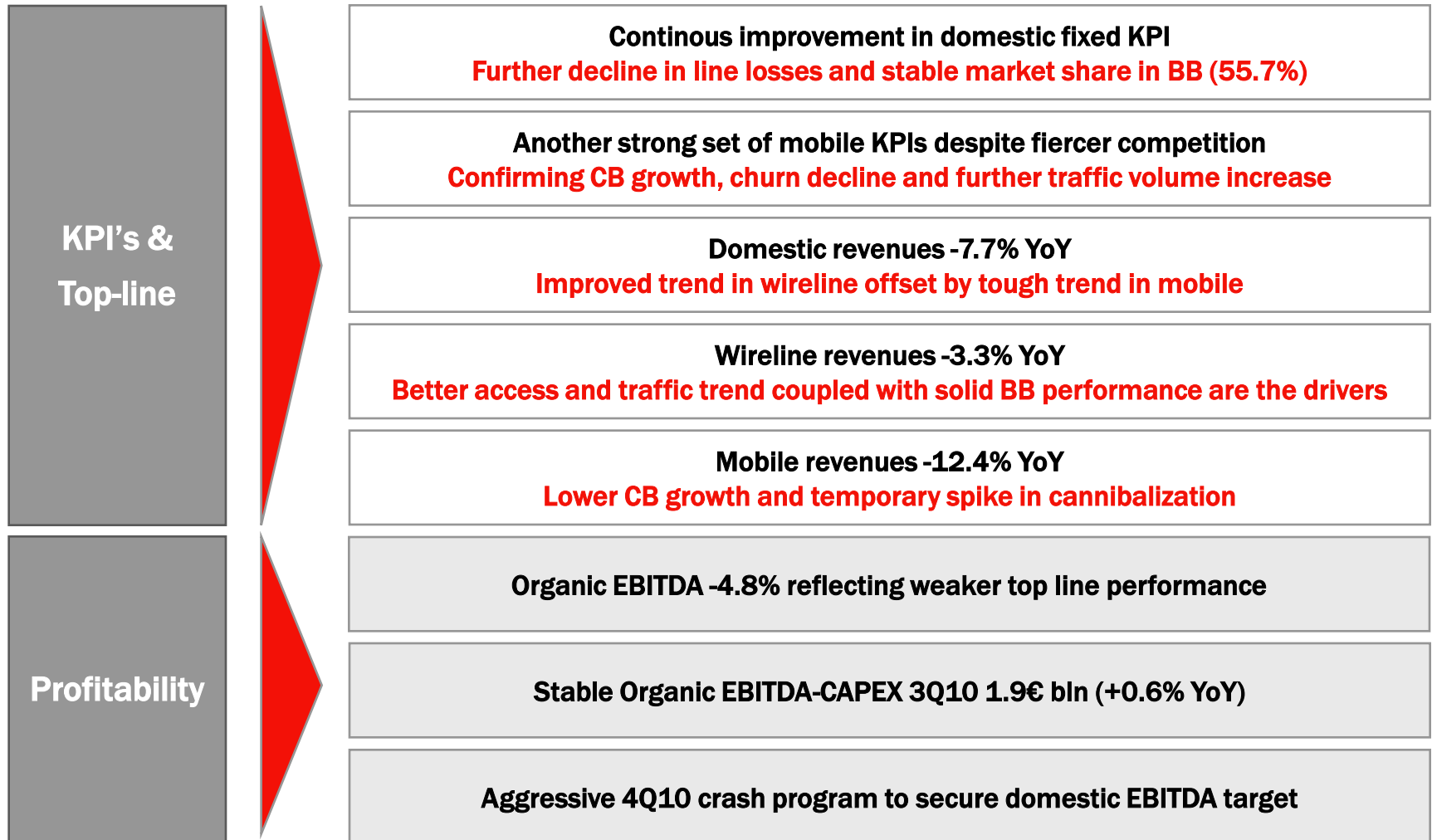
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In addition, it should be noted that starting from the half-year condensed consolidated financial statements at June 30, 2010 of the Telecom Italia Group, following a detailed review of indirect taxes paid by the Group in the various tax jurisdictions, Telecom Italia reclassified some taxes paid in Brazil, previously included in "Other operating expenses", in reduction of "Revenues" and "Other income". In particular, such reclassifications were carried out also in connection with the forthcoming first-time adoption of IFRS by the Tim Brasil group companies and because they allow the alignment of the accounting representation of the Telecom Italia Group to that of the main TLC operators, ensuring a better comparability and intelligibility of the financial information.

# Agenda

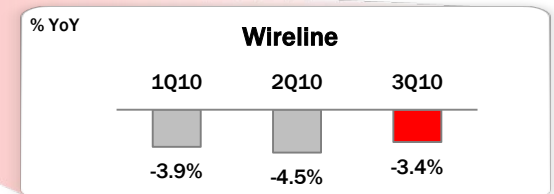
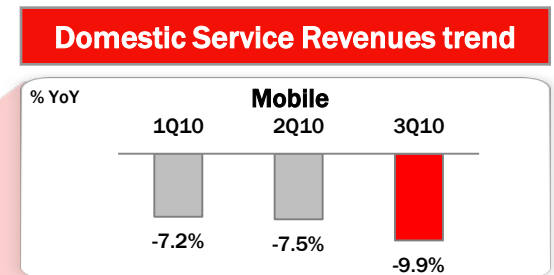
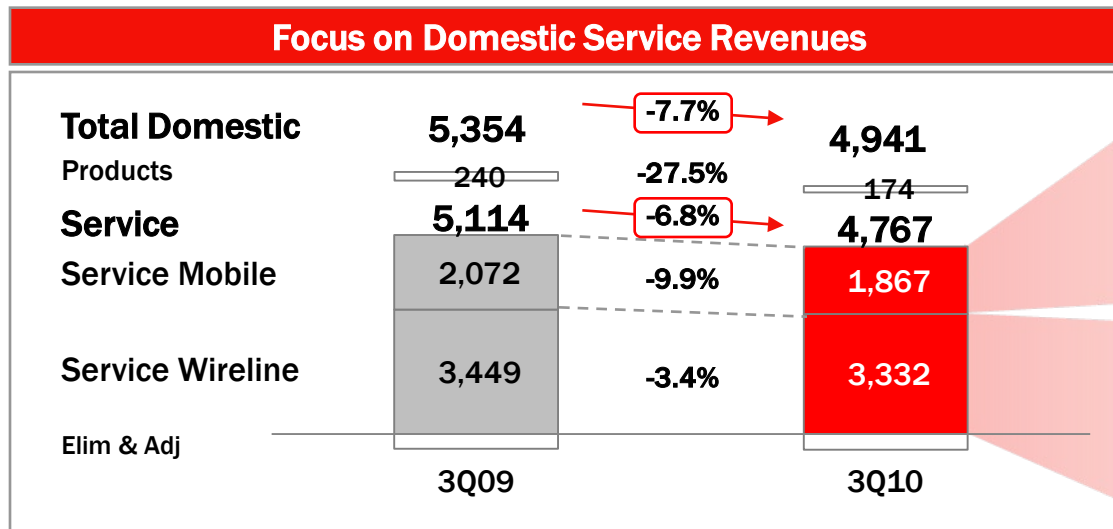
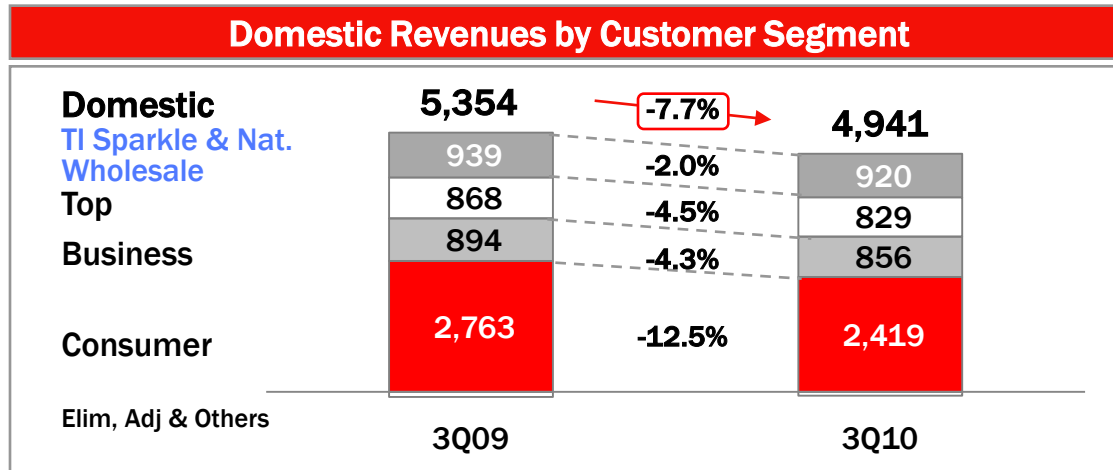
- ▶ **3Q 2010 Results at a Glance**
  - ▶ Market & Revenues Trend:
  - ▶ Fixed Business
  - ▶ Mobile Business
- ▶ Progress on Cash Cost Rationalization
- ▶ Appendix

# Domestic Market - 3Q 2010 Results at a Glance



# Domestic Market - 3Q 2010 Results at a Glance

Euro mln, Organic Data, %

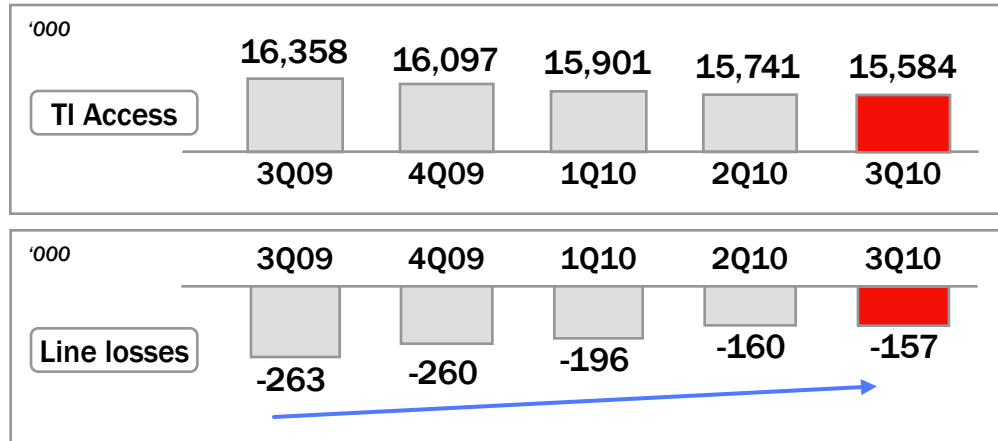


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- ▶ 3Q 2010 Results at a Glance
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# Domestic Fixed: TI Access Performance

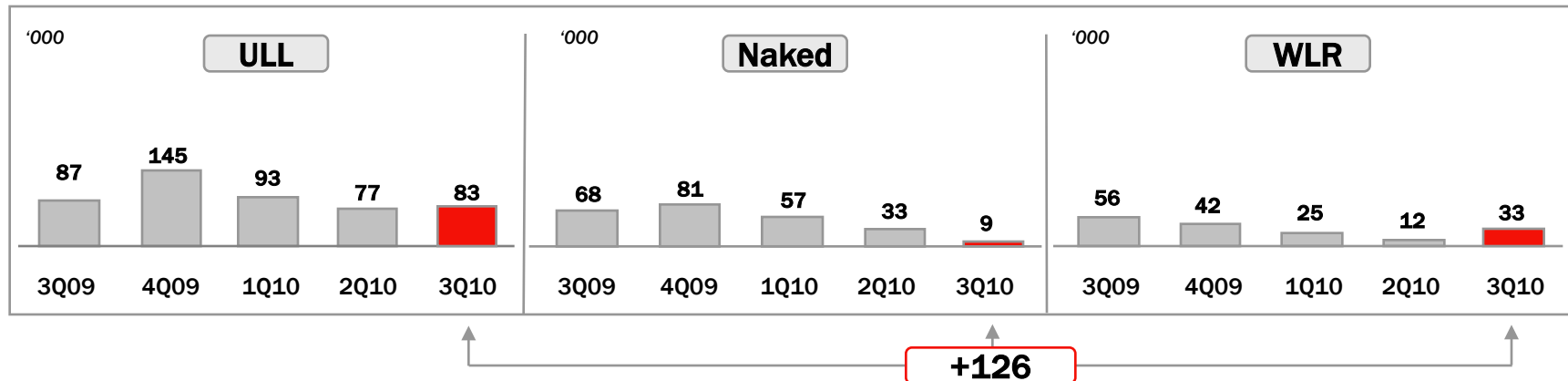
## Telecom Italia Retail Access Evolution & Line Losses



## Key Highlights

- ▶ Confirming a very sound market share in fixed accesses: ~70% in 3Q10
- ▶ Improvement in line losses trend confirmed beating previous quarter performance
- ▶ OLOs more focused on ULL

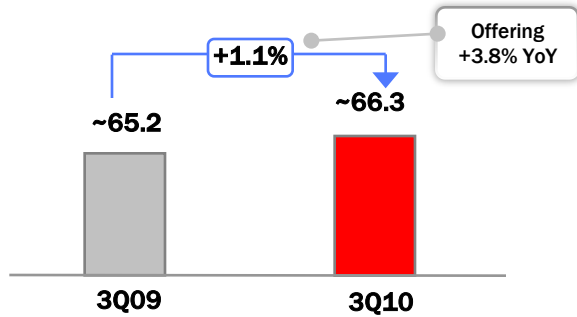
## OLO Access Growth (TI Wholesale)



# Domestic Fixed: Line Losses Reduction Key Drivers

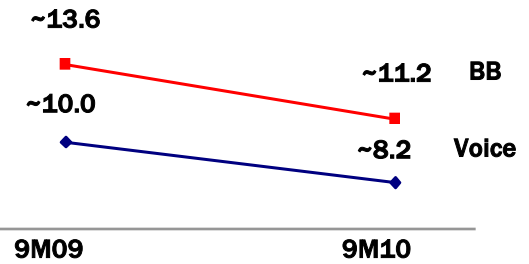
## Improved Customer Satisfaction

Customer Satisfaction Index - Fixed



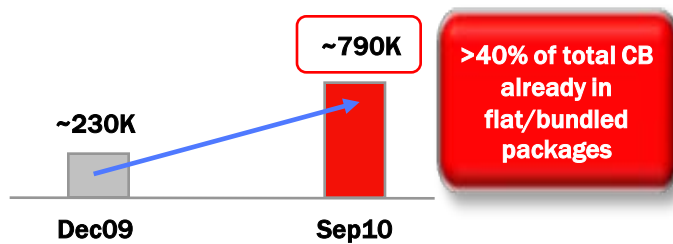
## Lower Churn

Cumulative Churn %



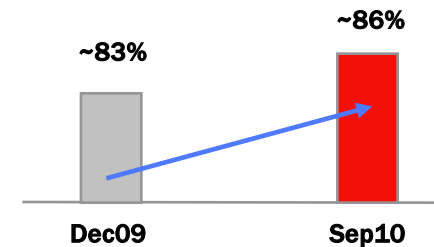
## Secure Access Value

Uptake of Flat Offerings launched in the period



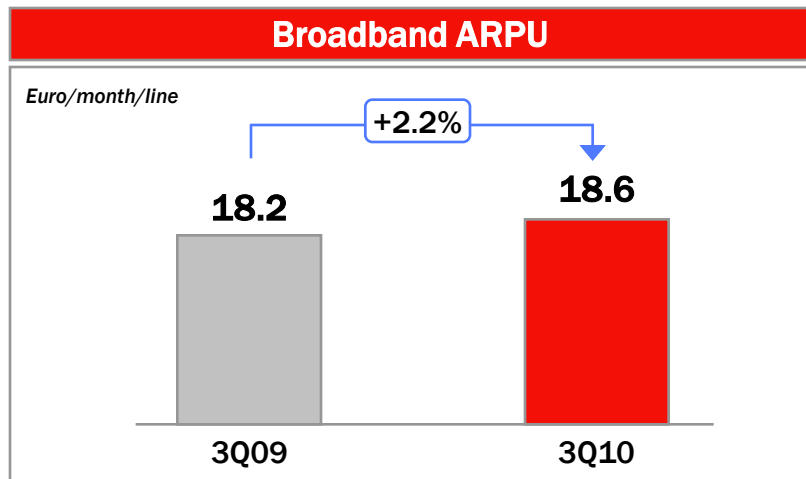
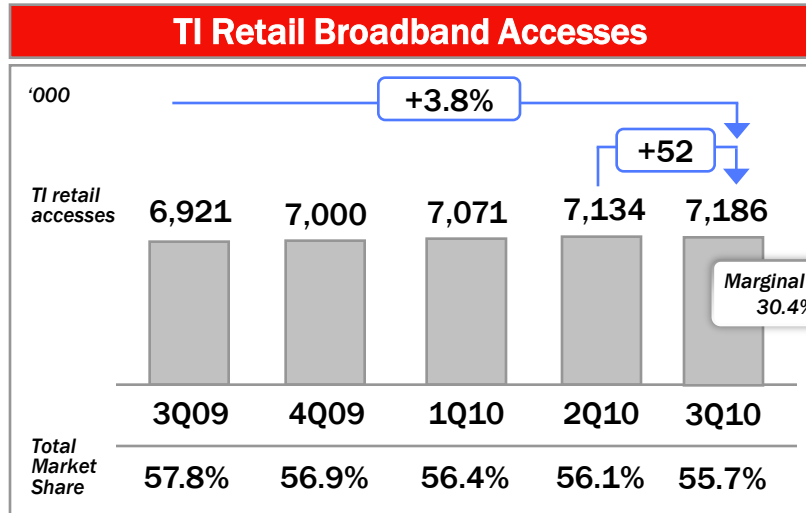
## Bundling Broadband

Flat Offerings to Active Retail Users

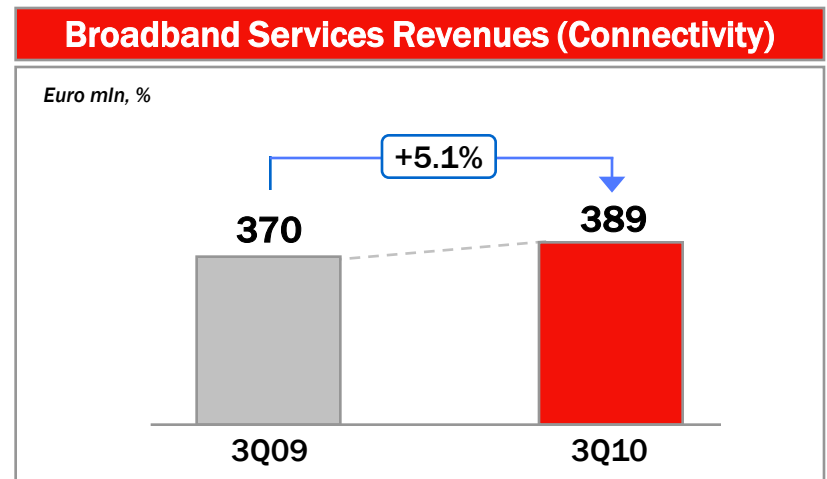




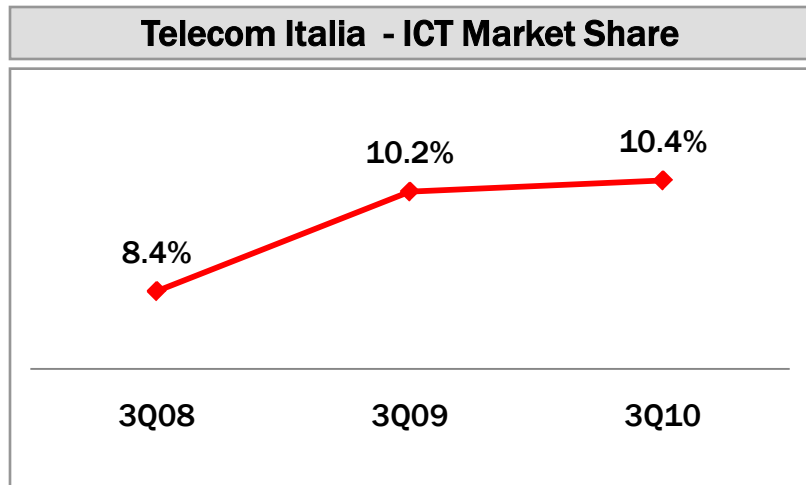
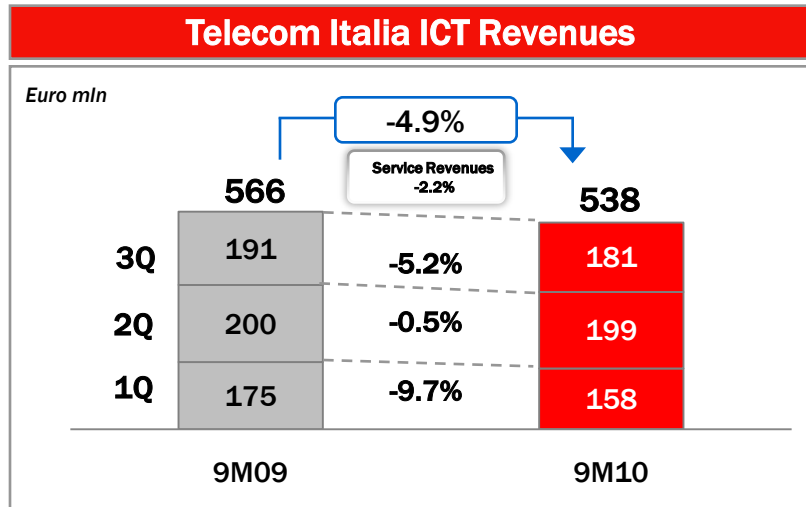
# Domestic Fixed: Focus on Broadband



- ### Key Highlights
- ▶ Progressive stabilization on market share
  - ▶ Improved TI net adds trend reflecting both higher gross adds and lower churn: symmetry on win-backs is a key positive
  - ▶ BB penetration is reaching PC penetration: further push of bundled PC and ADSL sales
  - ▶ Continuous increase of flat offering driving ARPU YoY
  - ▶ BB sales in September also pushed by “Back to School” campaign with PC bundle with Adsl



# Domestic Fixed: Focus on ICT



## Key Highlights

- ▶ Launch of “*La Nuvola Italiana*” brand, voted to new IT Cloud Computing offering for Top Clients: 30 mln € revenues in less than 2 months
- ▶ New Cloud Computing services (Server virtualization for Large Corporate Customers and Public Institutions, SaaS solutions for document, HR and Energy Mng;..)
- ▶ Contract with Generali Assicurazioni for Generali Data Center re-engineering
- ▶ Telecom Italia was awarded “*Premio per l’Innovazione nell’IMCT*”, organized by Confindustria, thanks to its MyDoctor@home solution.  
MyDoctor@Home is an integrated and multichannel solution for telemedicine and telemonitoring application.

# Domestic Wireline Revenues

Euro mln, Organic data, %

	3Q09	3Q10	Δ% YoY
<b>Total</b>	<b>3,575</b>	<b>3,458</b>	<b>(3.3)</b>
<b>Services</b>	<b>3,449</b>	<b>3,332</b>	<b>(3.4)</b>
<i>o/w Voice</i>	<i>1,615</i>	<i>1,471</i>	<i>(8.9)</i>
<i>o/w Internet</i>	<i>407</i>	<i>413</i>	<i>+1.5</i>
<i>o/w Business Data</i>	<i>308</i>	<i>297</i>	<i>(3.6)</i>
<i>o/w Wholesale</i>	<i>1,018</i>	<i>1,044</i>	<i>+2.6</i>
National	714	759	+6.3
International	304	285	(6.3)
<i>o/w Other</i>	<i>101</i>	<i>107</i>	<i>n.m.</i>
<b>Equipment</b>	<b>126</b>	<b>126</b>	<b>-</b>

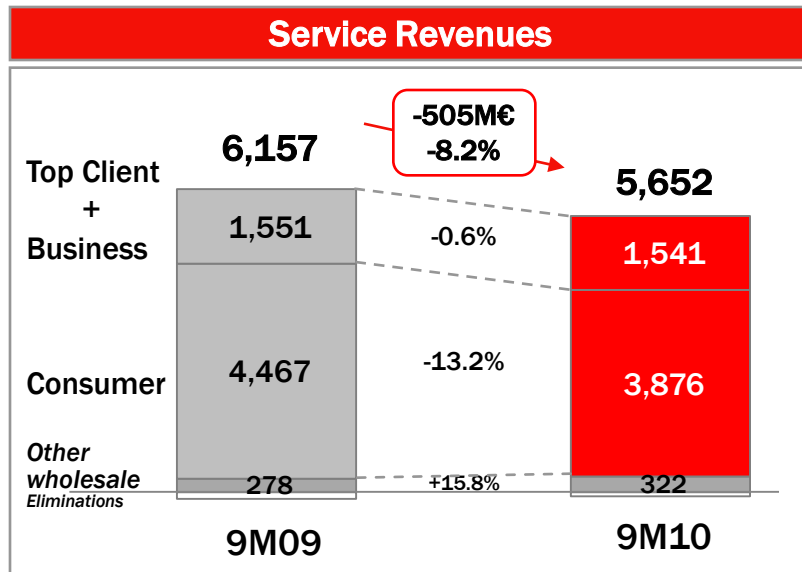
**BB Services**  
**+5.1%**

# Agenda

- ▶ 3Q 2010 Results at a Glance
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    - ▶ **Mobile Business**
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# Domestic Mobile: A Snapshot on Customer Segments Performance

Euro mln, Organic Data, %



## Key Highlights

### Top & Business

- ▶ Positive Customer Base dynamics, both in the low/high-end private and in the public segment, thanks to the extension of the CONSIP contract.
- ▶ Winning strategy based on offering segmentation, in order to avoid generalized price reductions
- ▶ Broadening data offering, both small-screen and large-screen, in order to increase our customer base

### Consumer

- ▶ Stabilizing Calling CB with bundle approach delivering strong improvement in loyalty.
- ▶ Customer Base growing with a lower than expected recovery vs. 2008/2009.
- ▶ ARPU dilution caused by the CB repositioning/cannibalization and push on promos caused by increased competition.

# TI Strategy in the Consumer Segment

1 > Speed-up **Customer Base Recovery Plan** vs 2008/2009



2 > Accelerate **TIM Community Development**



3 > Carefully monitoring **Cannibalization and ARPU erosion**



4 > Reduce **Silent Customers** adopting new offers



5 > Reduce **Churn Rate**



6 > Increase **Usage**



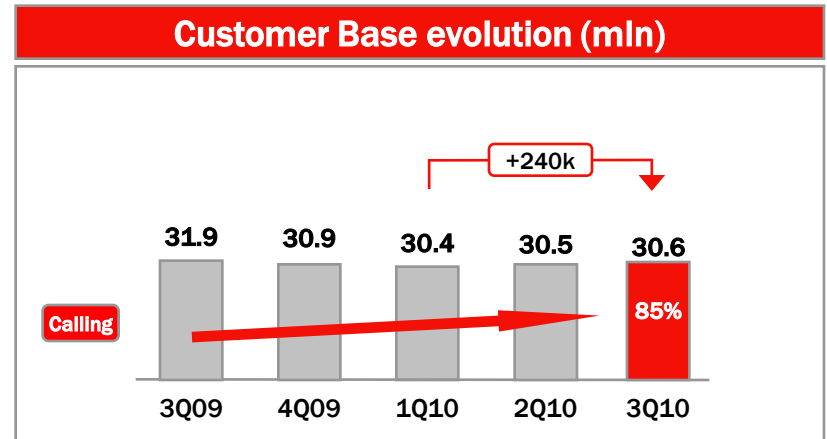
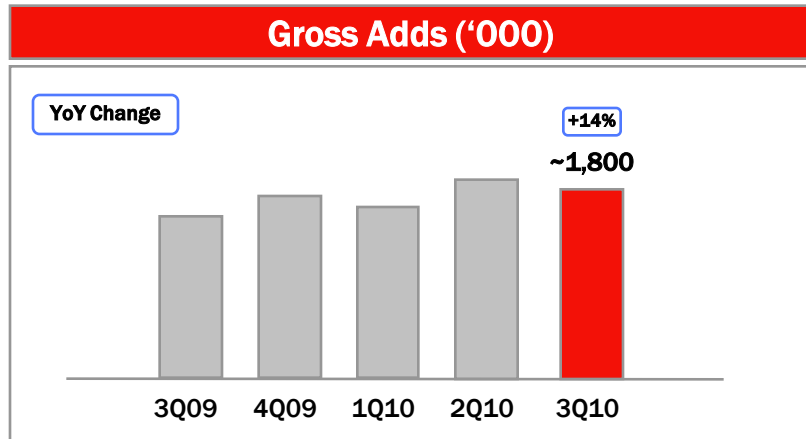
7 > Improve **Customer Satisfaction** through better perceived **Offering and Caring**



8 > Enhance **Brand Awareness**



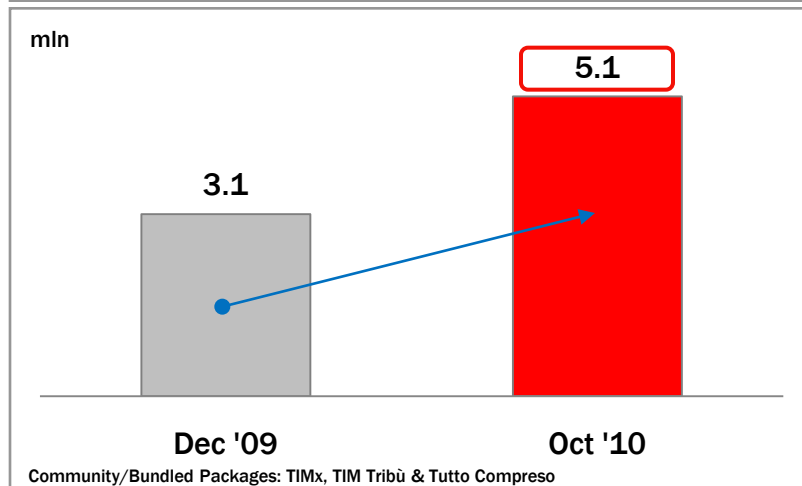
# 1 Speed-up Customer Base Recovery Plan



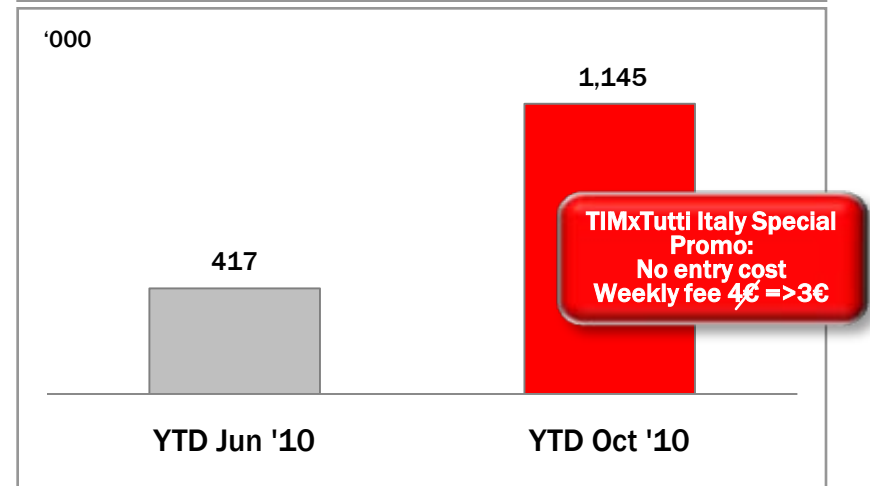
**Customer Base  $\Delta\%$  YoY**  
**Q1: -11% Q2: -6% Q3: -4%**

## 2 Accelerate TIM Community Development to Lock-in CB

### Accelerating the push on bundled tariff plan



### TIMxTutti Italy users: Summer Push

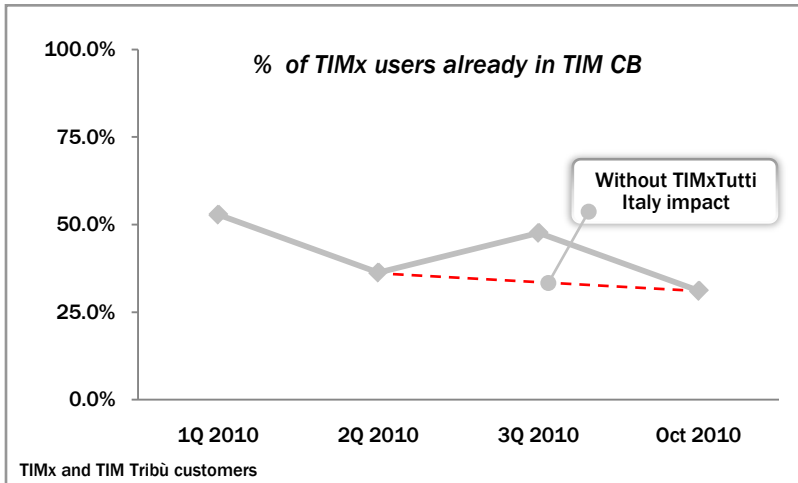


~ 30% of total CB already in flat/bundled packages

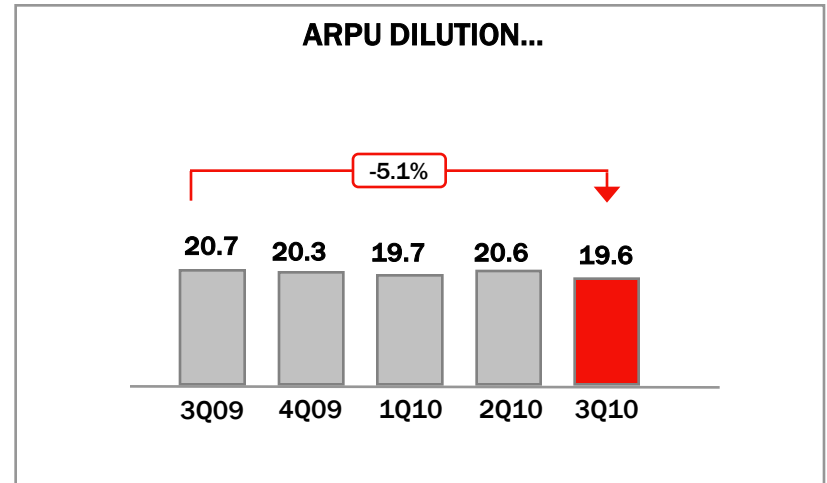


### 3 Carefully monitoring Cannibalization and ARPU erosion

#### Temporary increase of TIMx Cannibalization



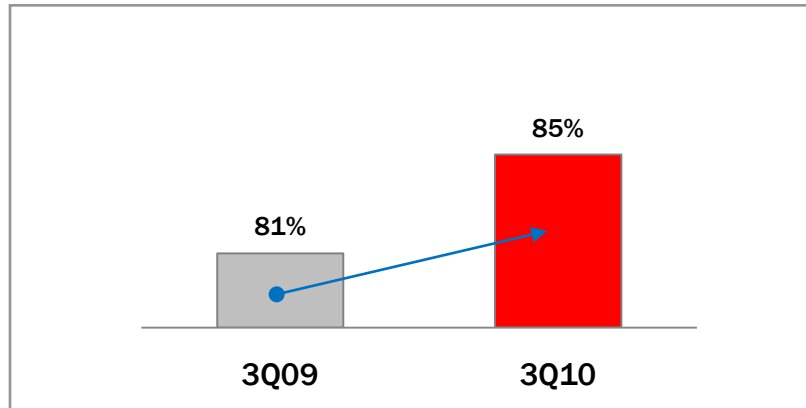
#### ARPU Net of Visitors (€/line/month)



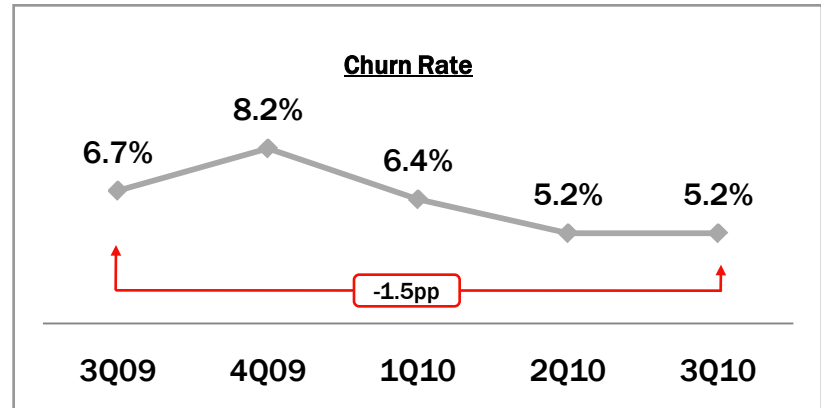
**-10€ Million Revenues in the 3Q to be considered as an investment to lock-in customers → pay-back period <24 months**

4 5 6 **Reduce Silent Customers, Reduce Churn & Increase Usage**

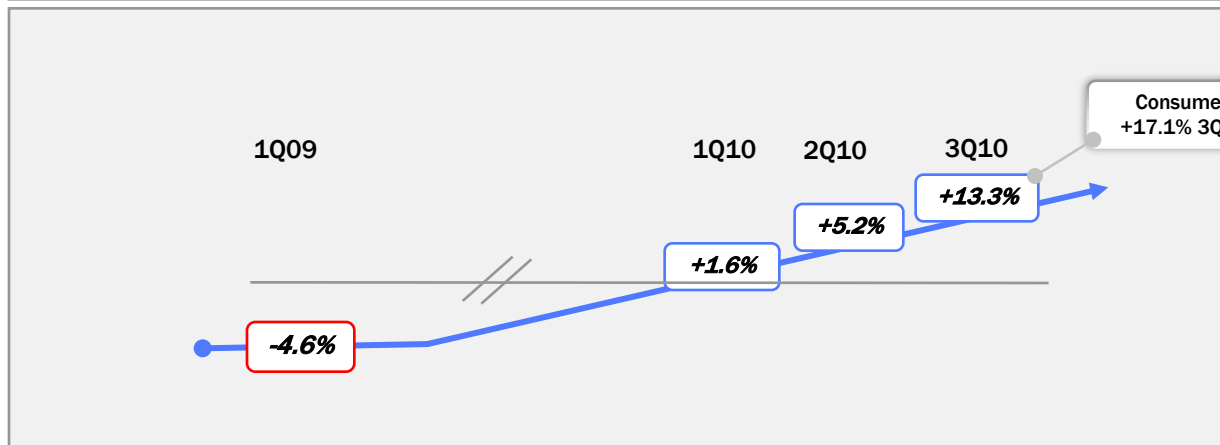
**Sharp increase of Calling Customers...**



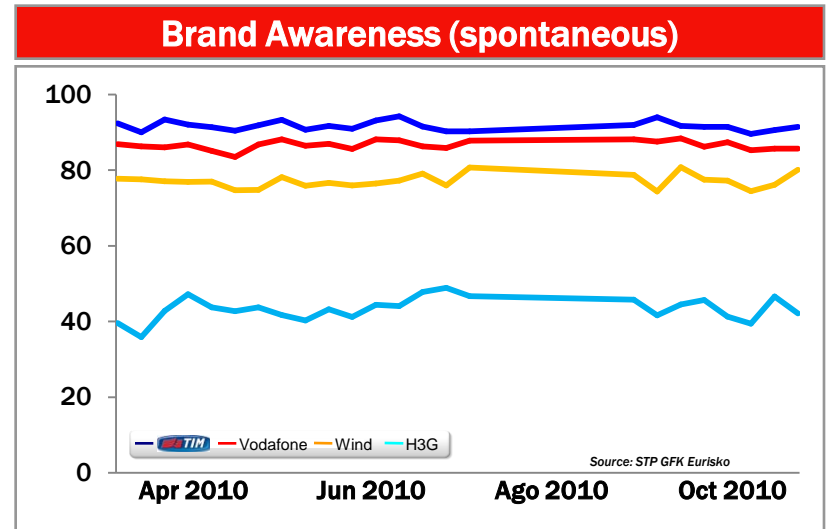
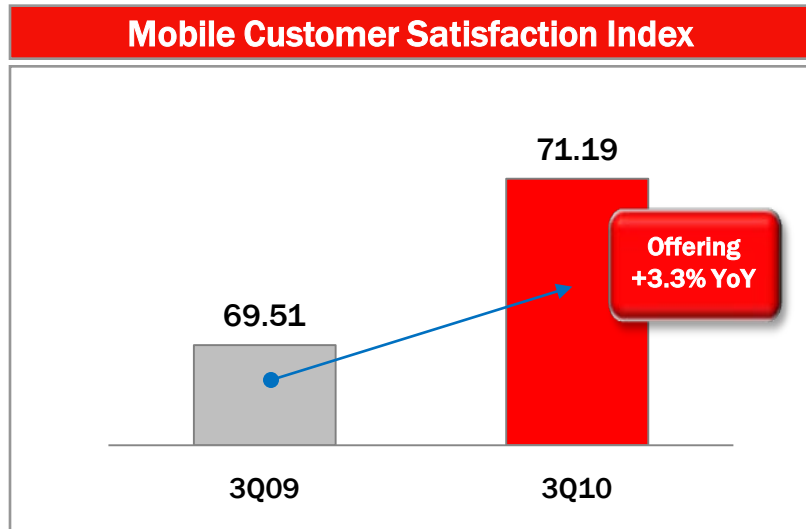
**...leading to a steady improvement in loyalty**



**Outgoing traffic Trend - YoY Change**

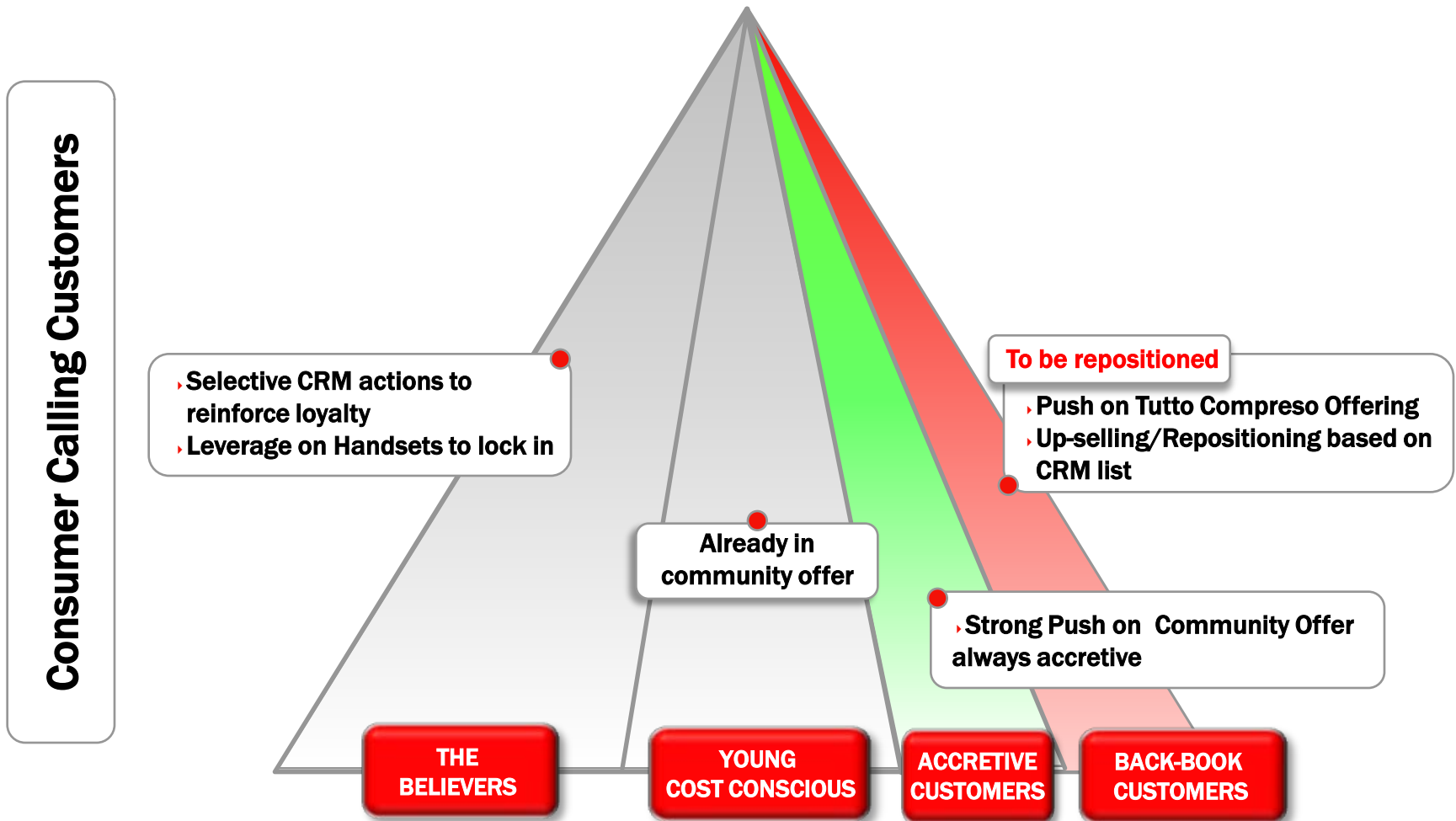


# 7 8 Improve Customer Satisfaction and Enhance Brand Awareness



**CSI improvement driven by positive perception for both offers and customer care  
TIM is confirmed Top of Mind**

# Domestic Mobile: CB Repositioning Plan



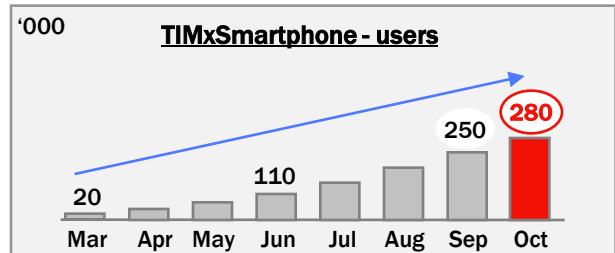
# Domestic Mobile Broadband: Small Screen & Big Screen Right Formula

Mobile BB leadership consolidation

## Small Screen

### Smartphone Portfolio

- ▶ 13 cutting-edge devices for all customer segments
- ▶ Ad-hoc offering to stimulate Data usage: Flat offering



**9M10 Small Screen Revenues\***  
+~16% YoY

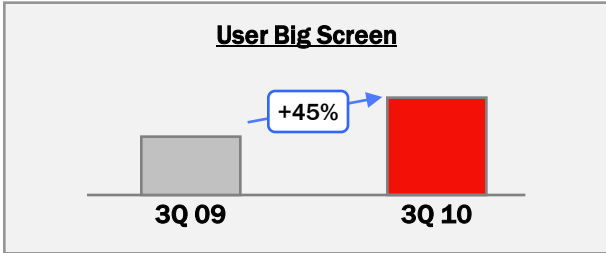
## Big Screen

- ▶ Transparent and competitive portfolio offering including Internet Pack: the concept that changed the market

**Internet Pack up-take**

500k

Dec 09 Sep 10



- ### Internet keys
- ▶ appealing, easy to use, self-installing, PLUG&PLAY

**9M10 Big Screen Revenues\***  
+~31% YoY

\* Organic figures

# Domestic Mobile Revenues

Euro mln, Organic data, %

	3Q09	3Q10	Δ% YoY
<b>Total</b>	<b>2,184</b>	<b>1,914</b>	<b>(12.4)</b>
<b>Services</b>	<b>2,072</b>	<b>1,867</b>	<b>(9.9)</b>
<i>o/w Outgoing Voice</i>	<b>1,168</b>	<b>1,020</b>	<b>(12.7)</b>
<i>o/w VAS</i>	<b>528</b>	<b>514</b>	<b>(2.7)</b>
<i>o/w Business Received (*)</i>	<b>376</b>	<b>332</b>	<b>(11.7)</b>
<b>Handsets</b>	<b>112</b>	<b>47</b>	<b>(58.0)</b>

Normalized  
of Try & Buy  
+2.9%

(\*) Incoming + Visitors &amp; Others

# Domestic Mobile: Repositioning Path and 4Q10 Action Plan

<b>1</b> CB Growth	<ul style="list-style-type: none"><li>▶ Acquisitions driven not only by price&amp;promo but also by service, VAS and equipment</li><li>▶ Christmas Campaign to sustain seasonality and upsell/push on elasticity</li></ul>
<b>2</b> CB Lock-in	<ul style="list-style-type: none"><li>▶ Accretive CRM campaign in order to improve customers on community/bundle offer with ARPU increase</li><li>▶ Protect valuable customers through dedicated bundle offers also using high-end handsets and Smartphones</li></ul>
<b>3</b> VAS & Mobile BB	<ul style="list-style-type: none"><li>▶ Wide range of smart devices, including mid/low end Smartphones, in order to stimulate internet services</li><li>▶ Defend our market share in dongles also by boosting our Christmas campaign</li><li>▶ Reinforce TIM leadership on new VAS innovation through the launch of 21 MB service (for Business/Professional only), TIM App Store, Tablets, E-book</li></ul>

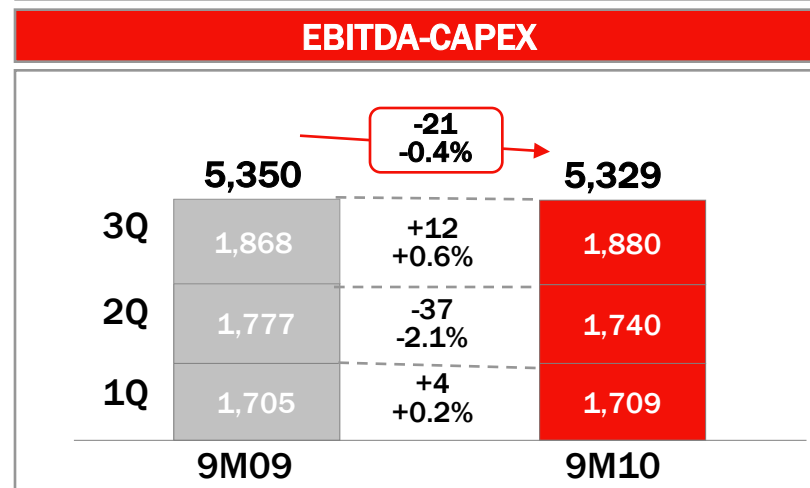
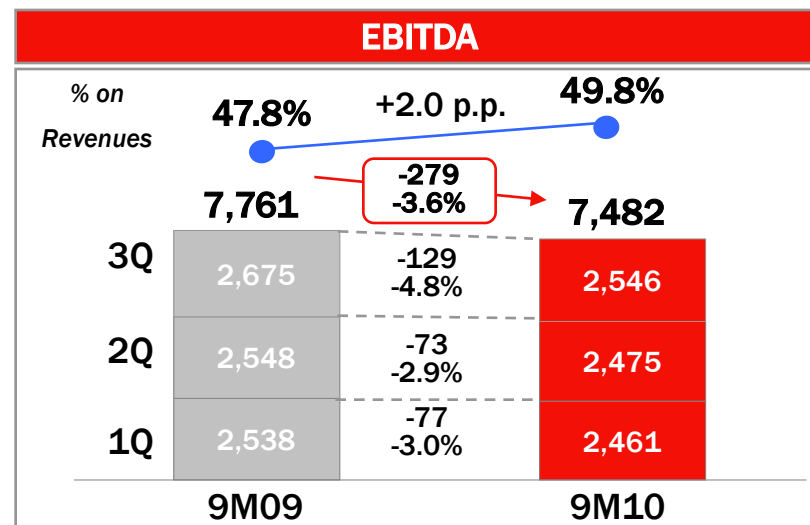
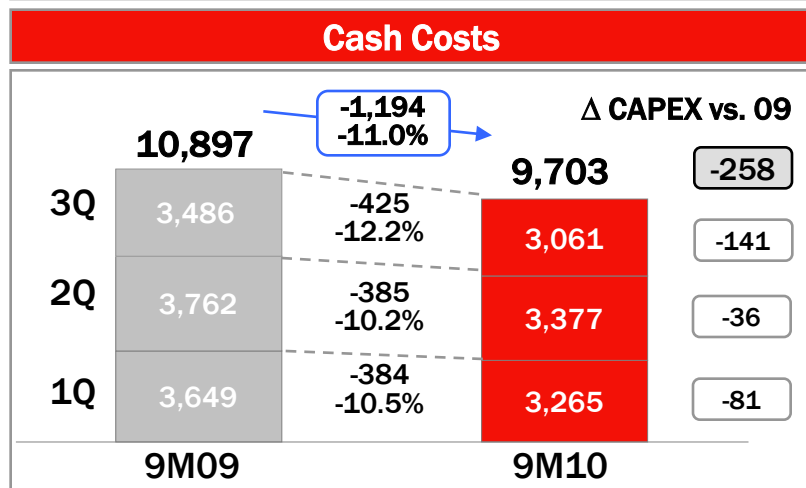
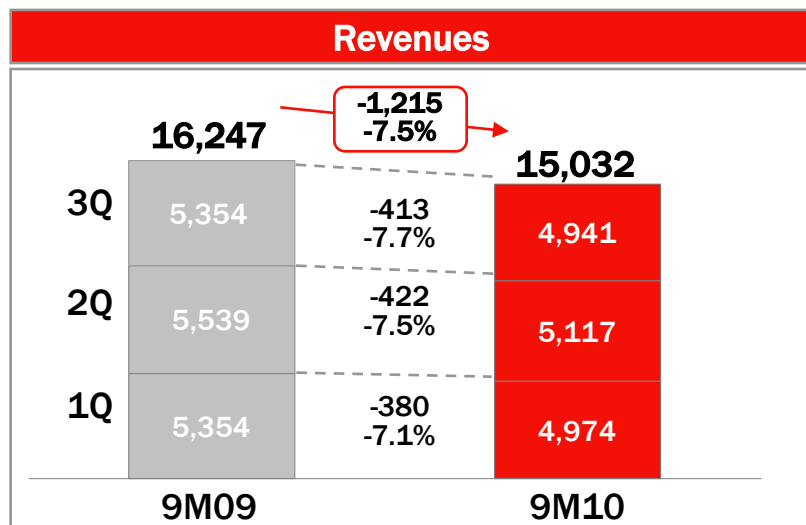
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- ▶ Appendix



# Domestic: Fully Committed to FCF Generation

Euro mln, Organic Data, %

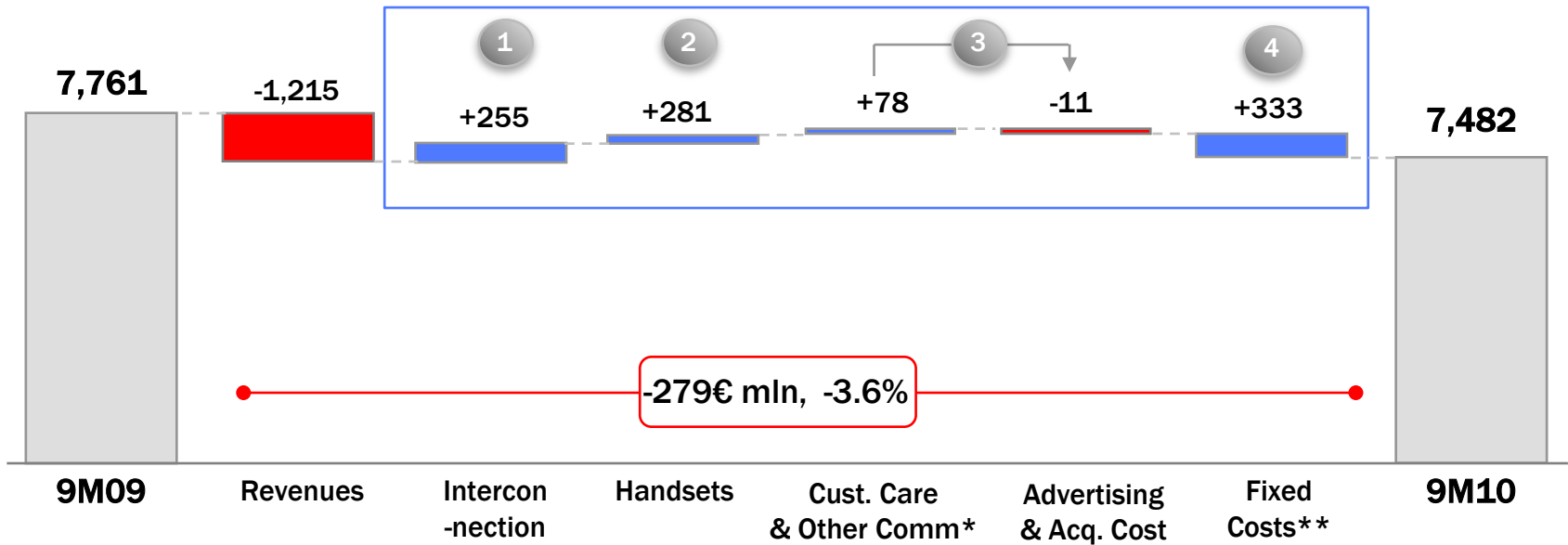


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- ▶ **Appendix**

# Domestic: EBITDA Analysis

Euro mln, Organic Data, %



<p>1</p> <p>Focusing on on-net traffic and MTR impact</p>	<p>3</p> <p>Increasing expenses on Advertising and Acquisition (offset by efficiency on Other Commercial Costs)</p>
<p>2</p> <p>Completing revenues mix re-engineering</p>	<p>4</p> <p>Accelerating on efficiency programs (90% of FY10 Target on opex)</p>

(\*) Marketing & Sales (\*\*) Includes Industrial+Personnel+G&A+Other

# Progress on Domestic Efficiency Plan

Euro mln, Organic data, %

Delta Cash Cost 9M10 vs 9M09			Δ ITX	Δ Vol. Driven	Δ Efficiency
	9M10	Δ Abs '10 vs '09			90% of FY10 Target
<b>Total Opex</b>	<b>7,550</b>	<b>-936</b>	<b>-255</b>	<b>-258</b>	<b>-423</b>
ITX	2,075	-255	-255	-	-
Mktg & Sales	1,826	-348	-	-207	-141
Industrial	751	-63	-	-15	-48
Personnel	2,347	-123	-	-25	-98
G&A & Other	551	-147	-	-11	-136
<b>Total Capex</b>	<b>2,153</b>	<b>-258</b>	<b>-</b>	<b>+5</b>	<b>-263</b>
					74% of FY10 Target
<b>Total Cash Cost</b>		<b>-1,194</b>	<b>-255</b>	<b>-253</b>	<b>-686</b>

# Progress on Domestic Fixed 4Q10 Action Plan

## Consumer

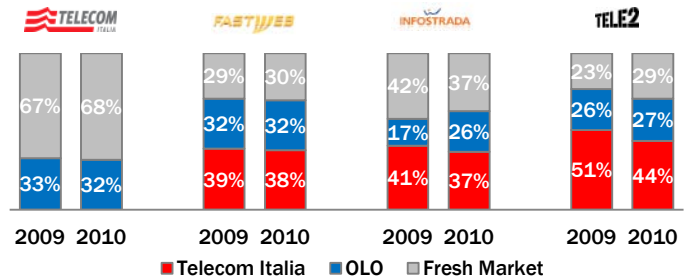
- ▶ To complete “the new portfolio stream ling” with the launch of “TELECOM ZERO” pay-per-use voice offering
- ▶ To leverage on New “Governments subsidies” (November), with communication campaign, in order to push on ADSL adoption

## Business

- ▶ Launch of Broadband “Premium” offering with post-sales services included (Next Business Day) with a special 6-month promotion for customers subscribing within the end of the year
- ▶ Push on winback ULL with a promotion on “Tra Noi” convergent offer.

## Main Evidence/Key Targets

### Broadband lines origination - Q3 '10 v Q3 '09



- ▶ Confirm TI leadership in the fresh market (68% MS)
- ▶ Intra-OLO competition starts to take place reducing the pressure on TI BB Customers
- ▶ Continued good TI performance: strong increase of ULL winbacks and steady leadership in BB.
- ▶ New “PC Tuttocompreso” and “Internet Premium Impresa Semplice” offering launched to support the adoption of ICT services by SMEs and SoHOs.

## Ultra Broadband – Fiber

On October 29, TI announced to the Italian Regulator the commercial launch of its retail ultra-broadband offering for consumer and business customers in Milan, Rome and Catania, by December 2010, and in Turin, Venice, Naples, Genoa, and Bari throughout 2011.