

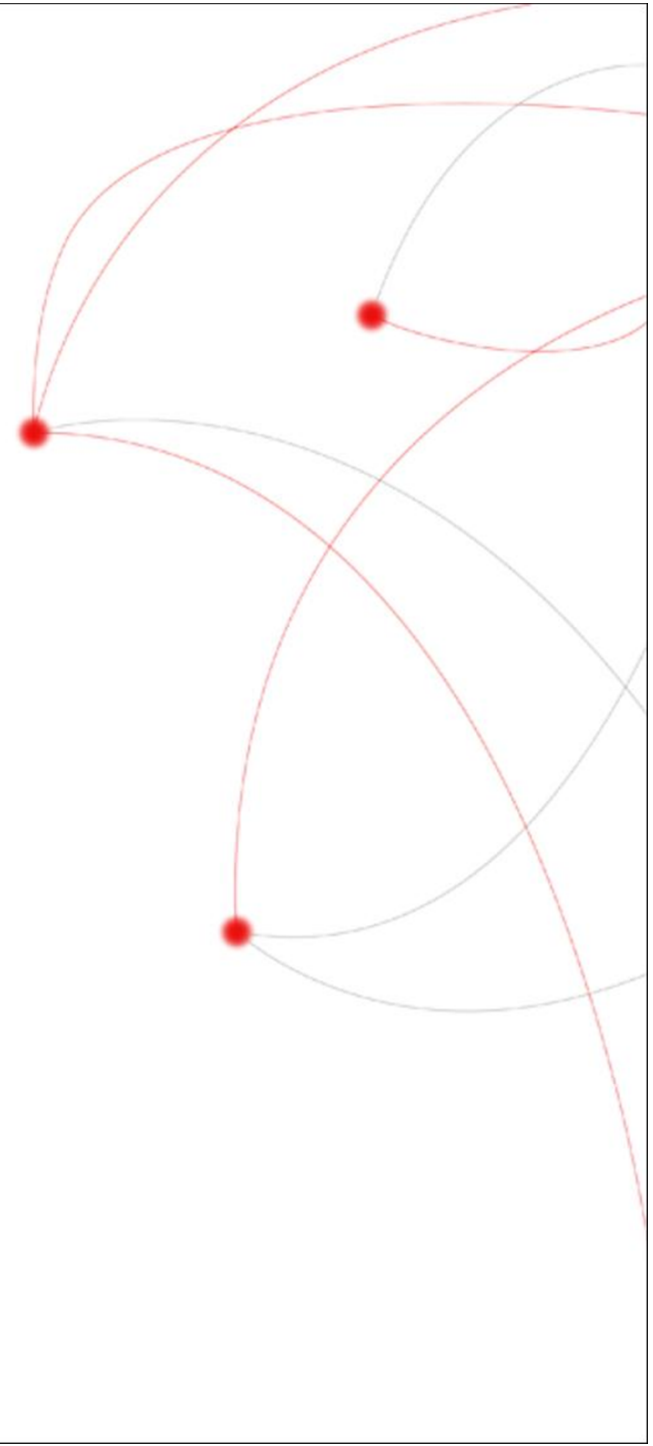
TELECOM ITALIA GROUP

## 1H 2013 Results

Milan, August 2<sup>nd</sup>, 2013

# Telecom Italia Group 1H 2013 Results

FRANCO BERNABE'



## 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.

Such forward looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ materially from those projected or implied in the forward looking statements as a result of various factors. Consequently, Telecom Italia S.p.A. makes no representation, whether expressed or implied, as to the conformity of the actual results with those projected in the forward looking statements.

Forward-looking information is based on certain key assumptions which we believe to be reasonable as of the date hereof, but forward looking information by its nature involves risks and uncertainties, which are outside our control, and could significantly affect expected results.

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The accounting policies and consolidation principles adopted in the preparation of the Half-year Condensed Consolidated Financial Statement at 30 June 2013 have been applied on a basis consistent with those adopted in the Annual Consolidated Financial Statements at 31 December 2012, to which reference can be made, except for the new standards and interpretations adopted by the Group, which, other than for the prospective adoption of IFRS 13 ( Fair Value measurement), didn't impact on the Half-year Condensed Consolidated Financial Statements at 30 June 2013.

Some data for the first quarter 2012, used in comparisons, included into this presentation have been restated as a result of the early adoption, starting from the first half 2012, of the revised version of IAS 19 (Employee Benefits) and the reclassification of Matrix (company that was disposed of on October 31, 2012) from the Business Unit Domestic-Core Domestic to the Business Unit Other Activities.

## Agenda

- ▶ **Key Actions to Stabilize Domestic EBITDA**
- ▶ **TI Group 1H13 Results and Core Markets Performance**
- ▶ **Guidance updated, Debt target confirmed**
- ▶ **Expected Regulatory Timetable related to our Structural Fixed Access Separation Project and Wrap-up**
- ▶ **Appendix**

# What changed in the 2<sup>nd</sup> Quarter

Adverse Regulation in Italy	Economic Slowdown	Domestic Mobile Consumer																				
<b>AgCom Proposal 2013*</b>	<b>Stronger in Italy...</b>	<b>CB Defense Action was needed</b>																				
<p>€/month/line</p> <table border="1"> <caption>Price Changes (€/month/line)</caption> <thead> <tr> <th>Category</th> <th>2012</th> <th>2013</th> <th>% Change</th> </tr> </thead> <tbody> <tr> <td>ULL</td> <td>9.28</td> <td>8.68</td> <td>-6.5%</td> </tr> <tr> <td>WLR POTS</td> <td>11.70</td> <td>11.14</td> <td>-4.8%</td> </tr> <tr> <td>Bitstream Naked</td> <td>19.50</td> <td>15.14</td> <td>-22.4%</td> </tr> <tr> <td>Bitstream Shared</td> <td>7.79</td> <td>6.74</td> <td>-13.5%</td> </tr> </tbody> </table>	Category	2012	2013	% Change	ULL	9.28	8.68	-6.5%	WLR POTS	11.70	11.14	-4.8%	Bitstream Naked	19.50	15.14	-22.4%	Bitstream Shared	7.79	6.74	-13.5%	<ul style="list-style-type: none"> <li>▶ New 2013 GDP forecast at -1.9% (-1.5% in April).</li> <li>▶ Unemployment rate at 12.2% (vs 11.9% in April).</li> <li>▶ Continuous decline in HH consumption (-3.4% YoY**).</li> </ul>	<ul style="list-style-type: none"> <li>▶ Competitors price pressure was prolonged.</li> <li>▶ Robust Customer Base protection strategy was enacted.</li> <li>▶ Repositioning on Mobile Consumer: TIM as offender.</li> </ul>
Category	2012	2013	% Change																			
ULL	9.28	8.68	-6.5%																			
WLR POTS	11.70	11.14	-4.8%																			
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Bitstream Shared	7.79	6.74	-13.5%																			
<b>AGCM</b>	<b>... less so in Brazil</b>																					
<ul style="list-style-type: none"> <li>▶ AGCM final decision (Antitrust case A428) imposed a fine of 104 € mln.</li> <li>▶ Telecom Italia appealed with the Administrative Tribunal (TAR) for Lazio against the decision.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Lower 2013 real GDP forecast now at +2.3% YoY***.</li> <li>▶ Interest rate at 9.3% (7.3% in 2012).</li> </ul>	<ul style="list-style-type: none"> <li>▶ Value and Quality approach was confirmed through Convergent Offers ("Sconta e Raddoppia").</li> <li>▶ A blockbuster summer campaign was introduced: "TIM Special".</li> <li>▶ Low subsidy policy was confirmed, leveraging on loyalty.</li> <li>▶ Churn under control.</li> </ul>																				

\* To be confirmed after EC opinion

\*\* Last data available: 1Q2013

\*\*\*Banco Central Do Brasil

## Our Priorities in Italy

### Fixed Market *Execute our Fiber plan*

- ▶ **Sustain Premium Positioning supported by Willingness To Pay for Fixed UBB.**
- ▶ **FTTCab Services** are now available in 29 Italian main cities, and will progressively act as «Anchor» for our convergent offers.
- ▶ **Network Separation Plan** is aimed at accelerating our Fiber investments, on the back of expected updates in Regulatory framework, opening up to the financial contribution of a minority partner.



### Mobile Market *TIM's repositioning in the Mobile Market*

- ▶ **Customer Base successful Defense** aims at KPI improvement, leveraging on our Convergent Strategy and on our leadership in Mobile UBB.
- ▶ **Regulatory Environment is expected to normalize:** the end of a steep fall in MTRs will change the Competitive Behaviour.
- ▶ **Exploit Network Sharing opportunities** to reduce ongoing costs and LTE capex.
- ▶ **We remain strongly supportive of consolidation.**



***These are Key Actions for Domestic EBITDA Stabilization***

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## TI Group 1H13 Results

Focus on  
Core  
Markets

**Revenues: 13.8 bln € (-7.0% YoY, Organic -2.7% YoY)**

**Reported Ebitda: 5.2 bln € (-10.6% YoY)**

**Organic Ebitda: 5.4 bln € (-6.8% YoY)**

**Net Income before GW Writedown, ante Minorities: 1 bln €**

**Net Income before GW Writedown, post Minorities: 0.8 bln €**

**Goodwill Writedown: 2.2 bln €**

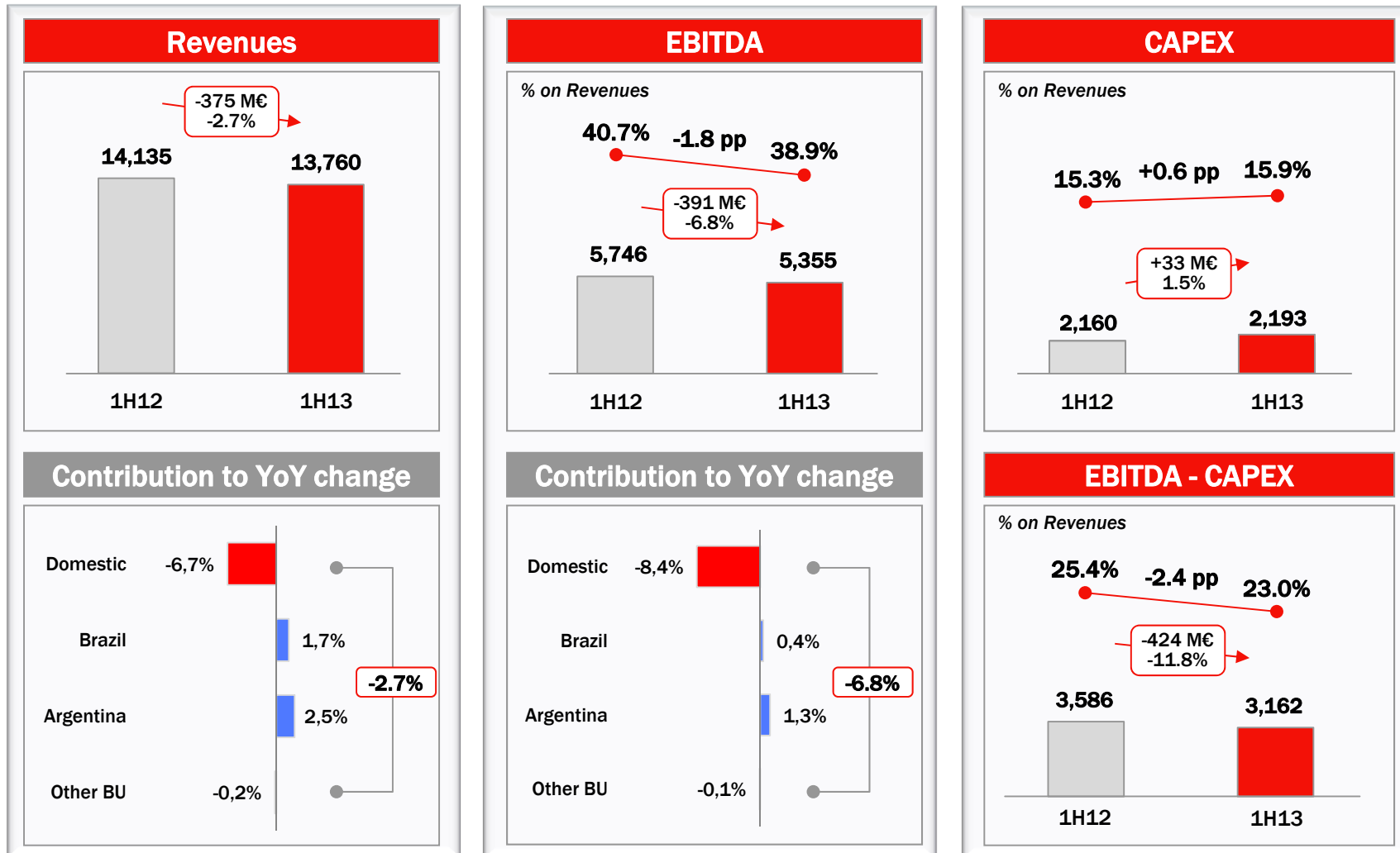
Financial  
Evolution

**Sound Liquidity Margin at 12.8 bln €**

**NFP Adj. : 28.8 bln € (+0.5 bln € temporary increase vs FY12 post 0.5 bln € 2013 Dividend Payment)**

# TI Group Main Results

Euro mln, Organic data, %





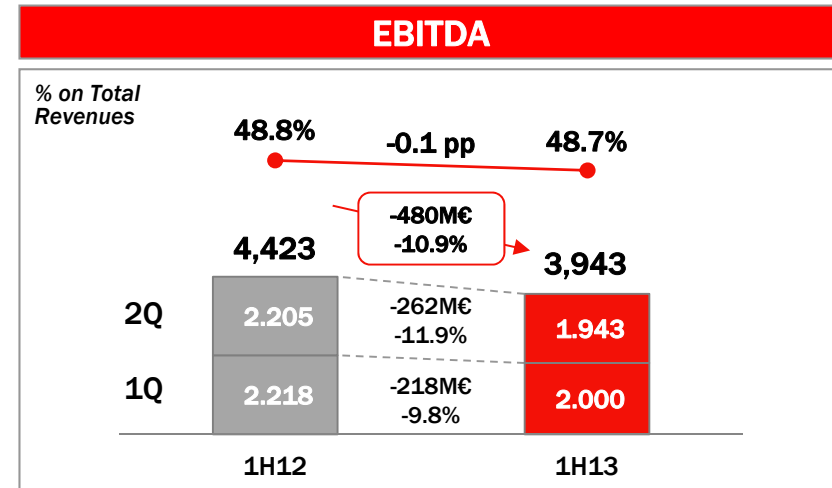
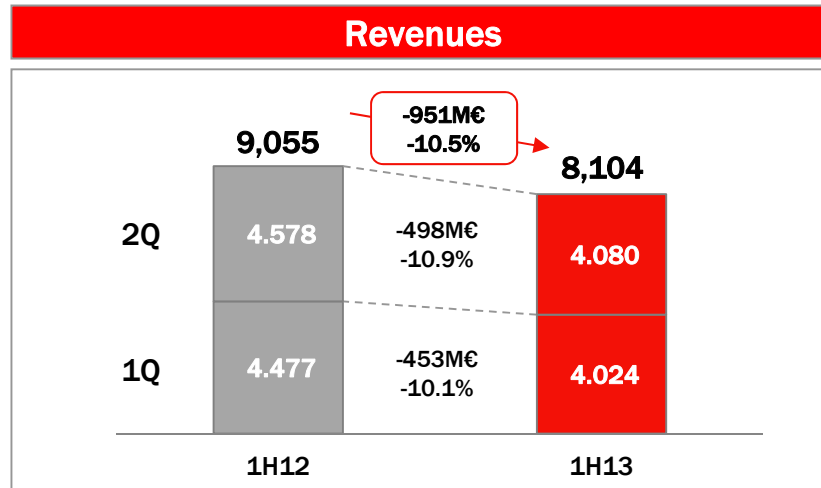
# TI Group Core Markets Performance

Euro mln, Organic data

	Weight on TI Group		TI Group		Domestic		Brazil		Argentina	
	1H13	Δ% yoy	1H13	Δ% yoy	1H13	Δ% yoy	1H13	Δ% yoy	1H13	Δ% yoy
<b>Revenues</b>	<b>13,760</b>	<b>-2.7%</b>	<b>8,104</b>	<b>-10.5%</b>	<b>3,620</b>	<b>+7.1%</b>	<b>1,890</b>	<b>+22.5%</b>		
			~59%		~26%		~14%		~40%	
<b>EBITDA</b>	<b>5,355</b>	<b>-6.8%</b>	<b>3,943</b>	<b>-10.9%</b>	<b>919</b>	<b>+2.8%</b>	<b>537</b>	<b>+15.5%</b>		
			~74%		~17%		~10%		~27%	
<b>EBITDA-CAPEX</b>	<b>3,162</b>	<b>-11.8%</b>	<b>2,598</b>	<b>-15.9%</b>	<b>322</b>	<b>+9.4%</b>	<b>306</b>	<b>+15.4%</b>		
			~82%		~10%		~10%			

# Domestic

Euro mln, Organic data, %



## Highlights

### Top Line Performance:

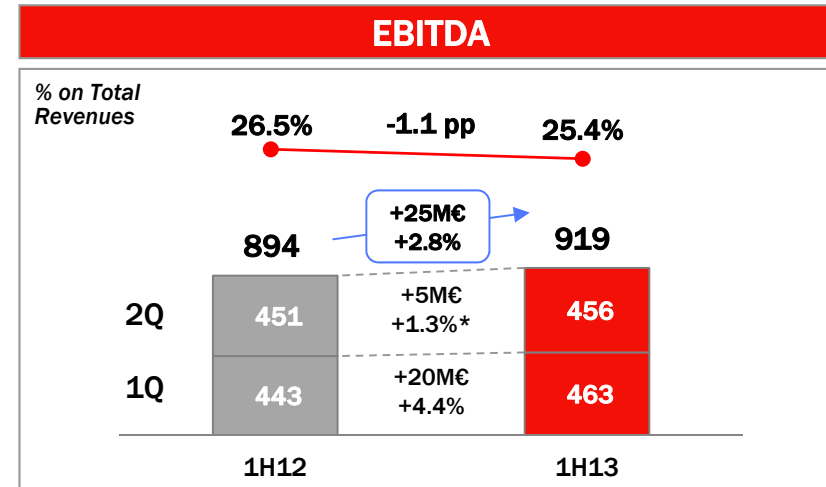
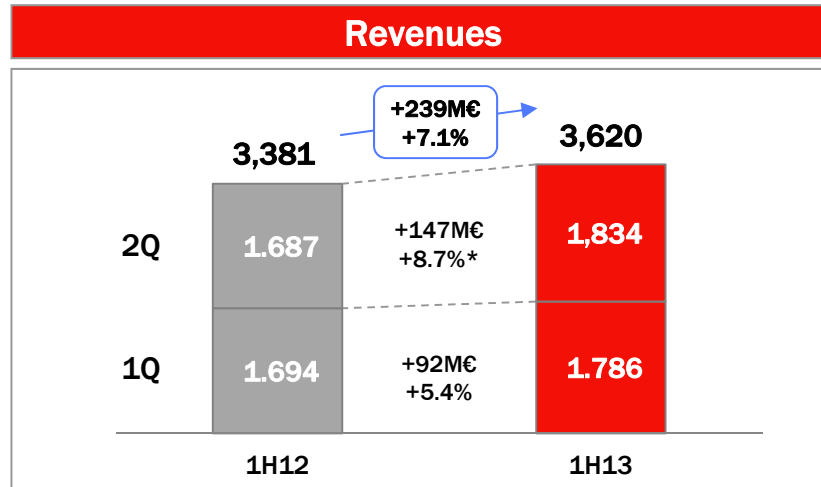
- ▶ **Mobile Service Revenues** still affected by unchanged MTR drag and harsh competitive environment.
- ▶ **Fixed Revenues** moving at different speeds:
  - ▶ Stable performance in Consumer & Business Segments.
  - ▶ Improving trend in Sparkle.
  - ▶ Double-digit reduction in Domestic Wholesale due to a steep decrease in regulated prices.

**Sound EBITDA margin** at ~48.7%.

- ▶ **Networks:** Strong focus on **NGN & LTE deployment** as a key driver for distinctive and innovative services in the market.
- ▶ **Cash Cost Programs:**
  - ▶ Extra effort on **Opex & Capex rationalization**, in order to achieve ever increasing efficiencies.
  - ▶ **Exploit Network Sharing opportunities** to reduce ongoing costs and LTE capex.

# Brazil

Euro mln, Organic data, %



## Highlights

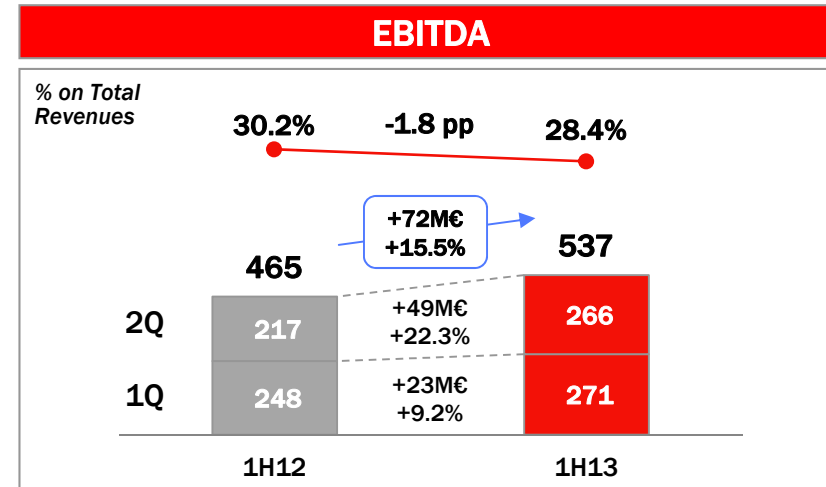
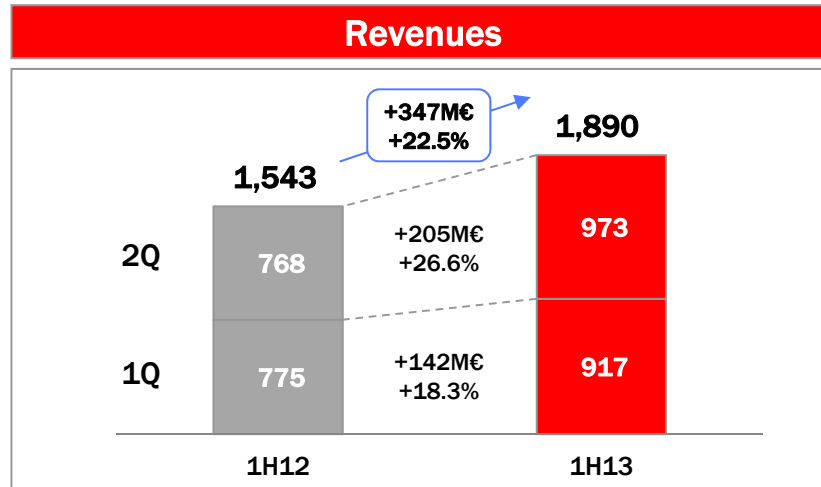
- ▶ **Strong commercial momentum:** Captured more than half of market net adds in 2Q (57.0% market share, +25.8pp YoY).
- ▶ **Top Line:** Strong VAS growth sustains total service revenues trend (+2.0% YoY in 2Q13 vs +1.8% YoY in 1Q13). Impressive growth in handset sales (+56% YoY in 2Q13 vs +38% YoY in 1Q13).
- ▶ **EBITDA:** Commercial costs kept under control in 1H. In 2Q reinvesting efficiency gains in commercial activity boosting growth. No subsidy capitalization.

- ▶ **Commercial Strategy:** Competitive new portfolio addressing all segments and driving traffic improvement.
- ▶ **Network:** Infrastructure evolution to foster voice demand and to support Mobile Data.
- ▶ **Quality & Transparency:** Caring Improvements to increase customer satisfaction and reduce complaints. Recent polls showed good recovery in customer preference.

\* 2Q Revenues and EBITDA performance was affected by one-off impacts related to interconnection disputes. Excluding this one-off, both trends are materially improving QoQ.

# Argentina

Euro mln, Organic data, %



## Highlights

### Solid progression on Top Line:

#### Mobile:

- ▶ Leading in revenue share and revenue growth (+25% YoY in 1H) while optimizing commercial costs.
- ▶ Postpaid segment continues delivering stable growth.
- ▶ ARPU up +21% YoY in 2Q13 thanks to increasing VAS penetration and usage.

#### Fixed:

- ▶ Fixed broadband ARPU rose +28% YoY in 2Q13.
- ▶ Positive quarterly fixed lines and BB net adds.

### EBITDA:

- ▶ Strict cost control to mitigate labor related costs, inflation and turnover tax impact.
- ▶ Mobile subsidies elimination in certain segments contributed to the overall subsidy reduction.

### Capex:

- ▶ Reinforced quality improvement commitment, aiming at doubling the 3G network capacity by year-end.
- ▶ Accelerating FTTx rollout deployment speed to be able to launch UBB commercial offer by YE2013.

### Financials:

- ▶ Strong Financial Position.
- ▶ Share buyback program was launched in May 2013.

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## New Guidance for 2013

Organic Data\*

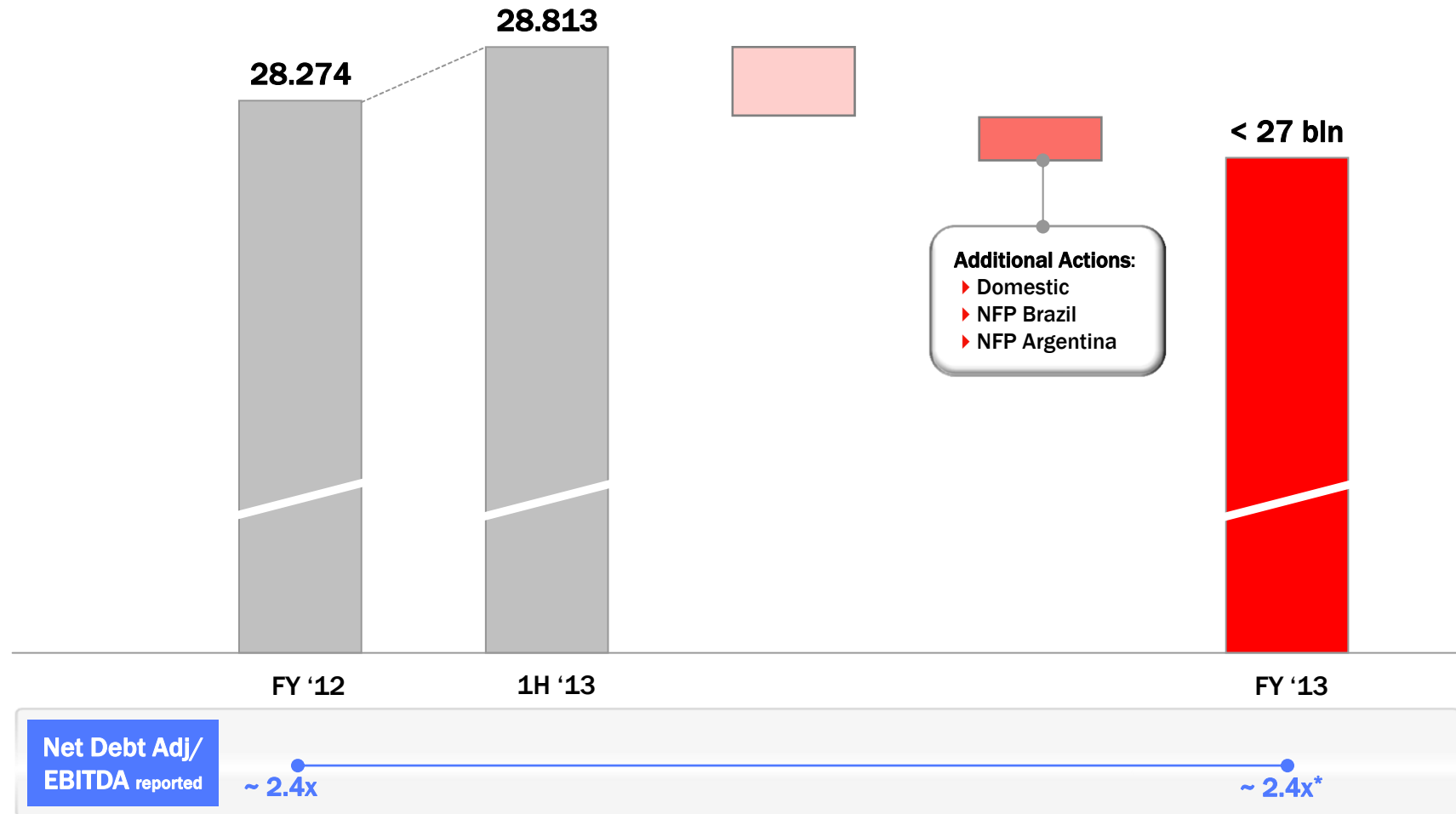
TI Group - 2013 targets		
<b>Revenues</b>	Stable YoY	Confirmed
<b>EBITDA</b>	Mid-single digit decline YoY (from Low-single digit decline YoY)	Revised
<b>NFP Adj.**</b>	< 27 € bln	Confirmed
TI Domestic - 2013 targets		
<b>Revenues</b>	Mid-single digit decline YoY	Confirmed
<b>EBITDA</b>	High-single digit decline YoY (from Mid-single digit decline YoY)	Revised
<b>Capex (Cum 2013-15)</b>	~9 € bln	Confirmed

\* Excluding impact from non-organic items and FX. Average exchange rates: R\$/€ 2.563 for '13-'15; ARS/€ 6.613 for '13, ARS/€ 7.963 for '14, ARS/€ 9.413 for '15.

\*\* Excluding spectrum licences.

# FY 2013 Net Financial Position Target is confirmed

Euro mln



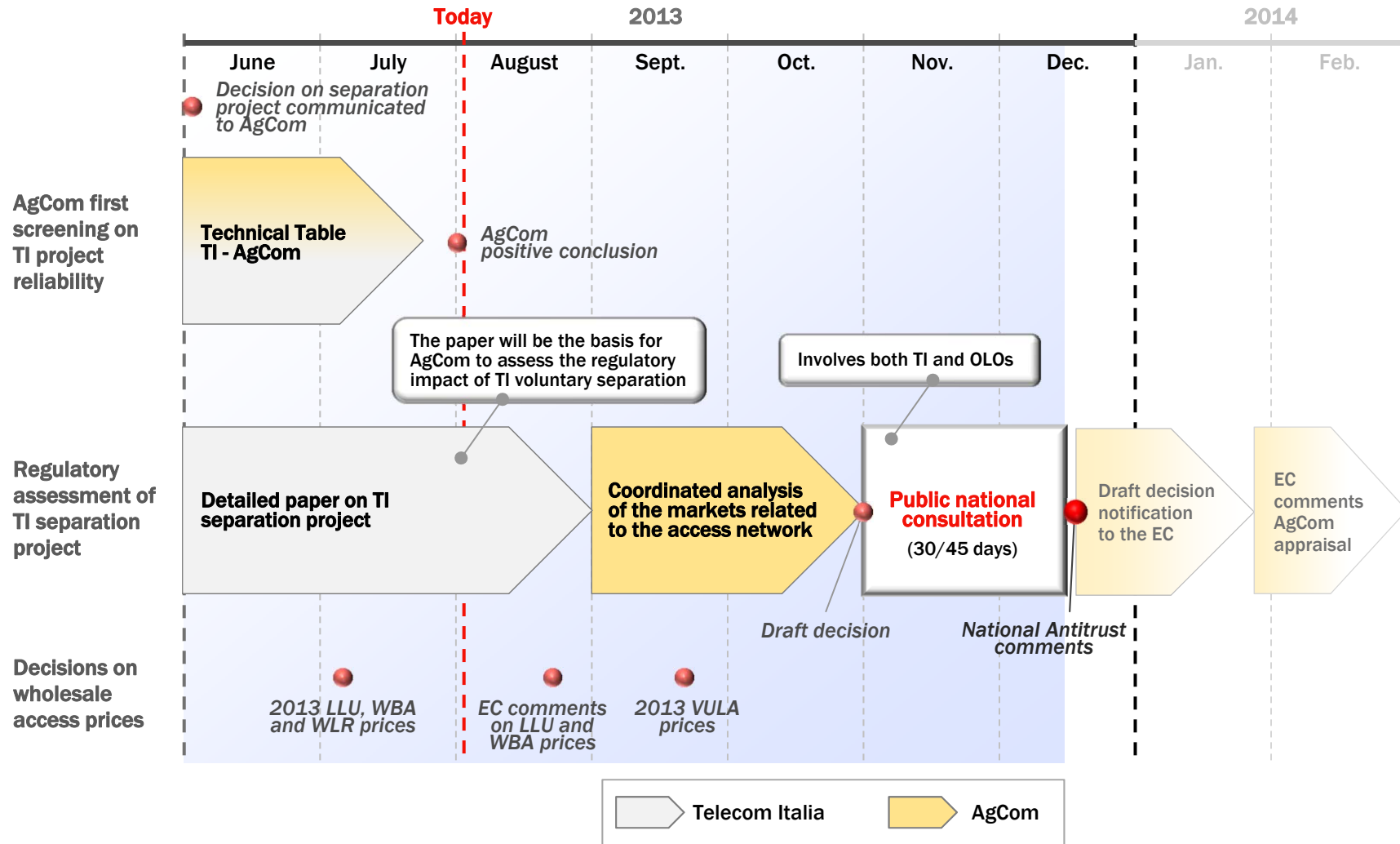
\* Includes contribution of further non-organic actions

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# Expected Regulatory Timetable in connection with TI's Structural Fixed Access Separation Project



## Wrap-up: Envisaged Structural Changes

### Fixed Market *Access network Spin-off is still on*

- ▶ We welcome AgCom go-ahead for the spin-off and we will follow their future assessments.
- ▶ We expect EC remarks by mid-August on the recent AgCom copper access wholesale decisions for 2013. In any case, we are confident a more pro-investment attitude will be adopted for the next years 2014-2016.
- ▶ We confirm our commitment to the Spin-off project and intend to support the next steps along the Regulatory roadmap by providing to AgCom, following its 26 July request, all the required details regarding our Eol proposal for copper and fiber access.
- ▶ This project could improve the prospects of the entire Italian Fixed Business, allow us to better preserve and increase value and work in unison with structural changes within the TI Group.



### Mobile Market *Consolidation would lead to market repair*

- ▶ Current pricing pressure required a change in strategy to reposition ourselves in the domestic mobile consumer segment.
- ▶ A natural selection will take place since the market can not sustain four infrastructured operators.
- ▶ Consolidation is the best structural choice for the entire market: an option we didn't drop.

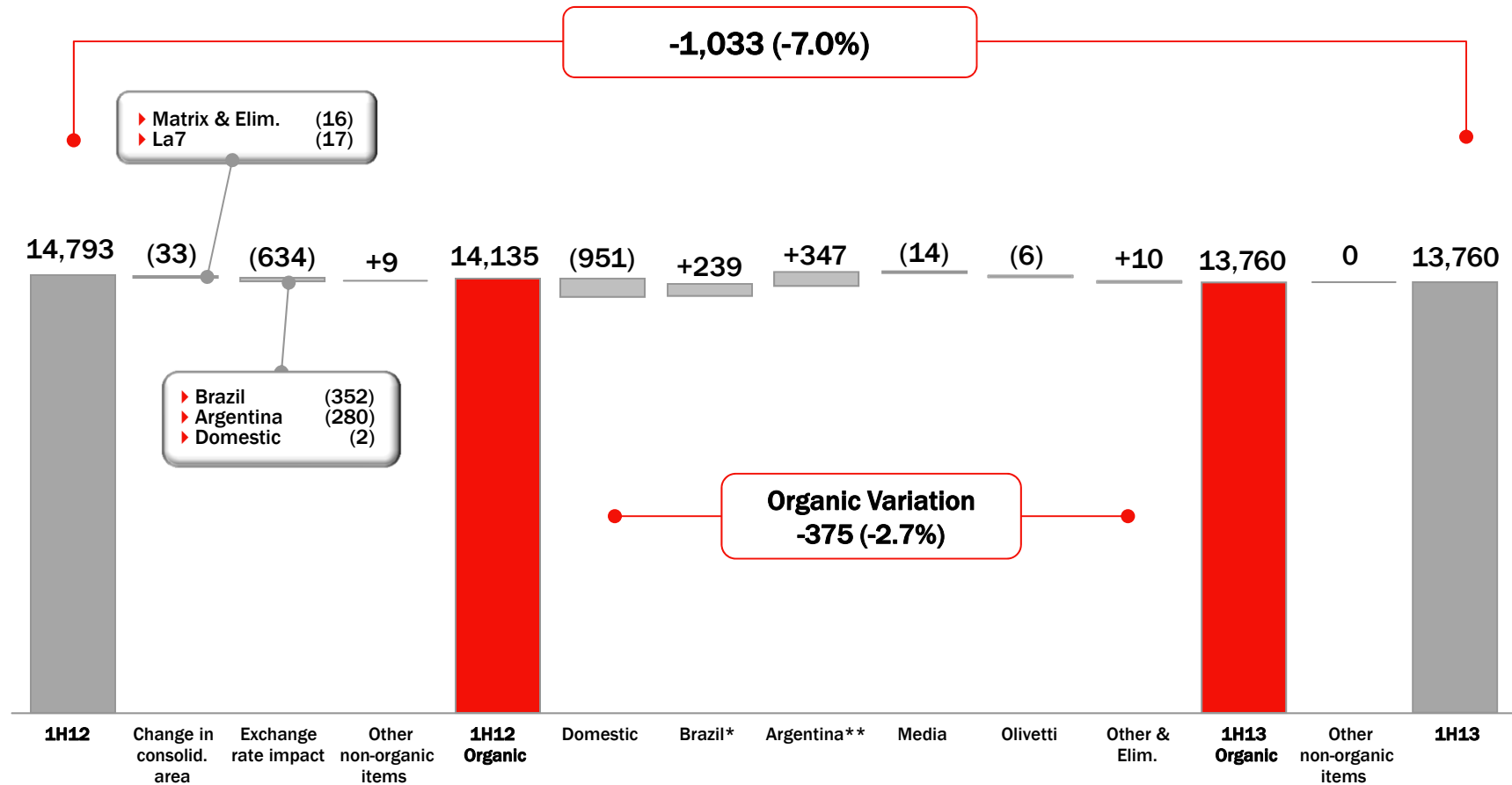


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# TI Group - Revenues Evolution

Euro mln

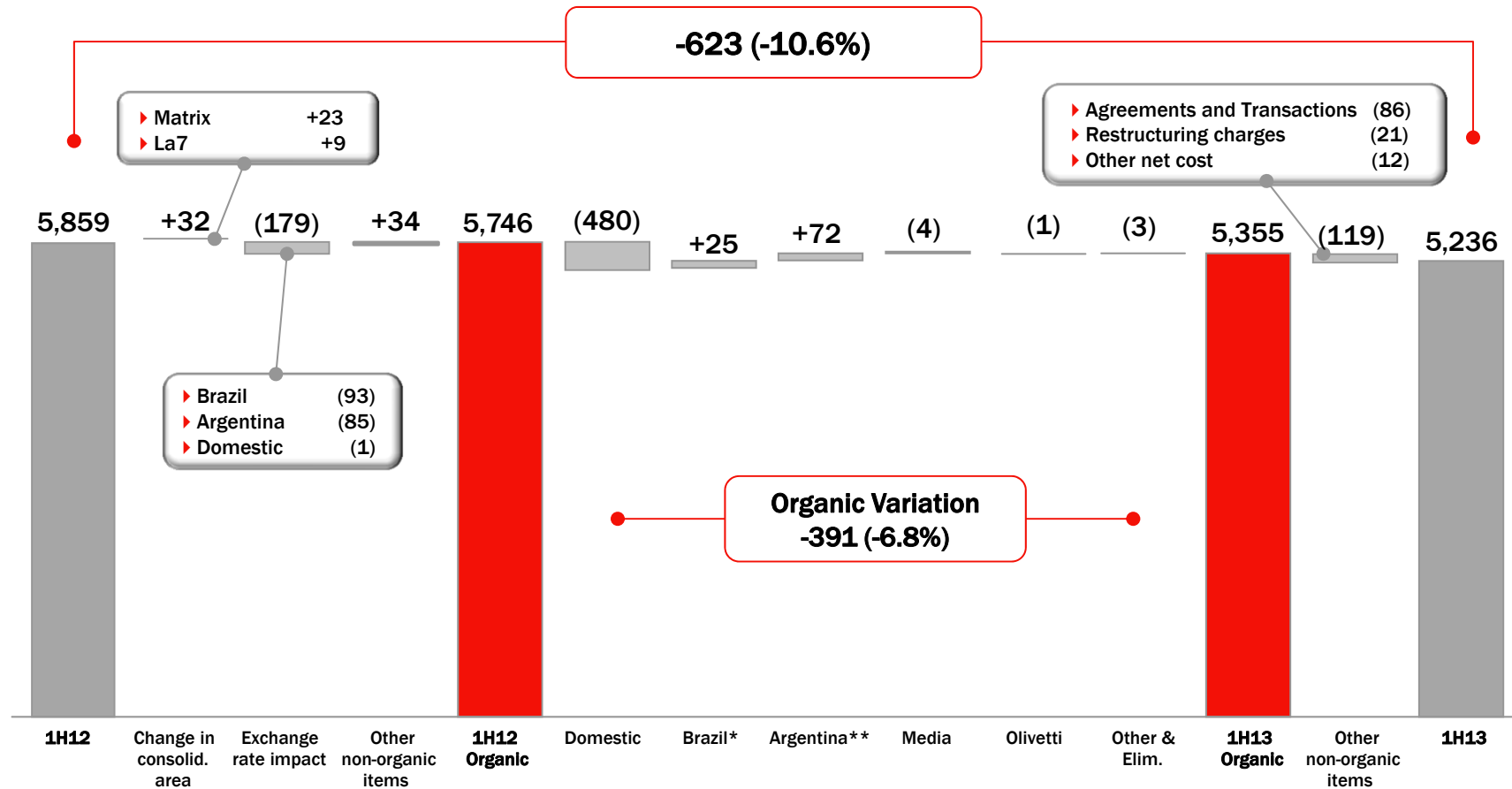


\* Average Exchange rate (Real/Euro): 2.67 in 2013, 2.42 in 2012

\*\* Average Exchange rate (Peso/Euro): 6.73 in 2013, 5.69 in 2012

# TI Group - EBITDA Evolution

Euro mln

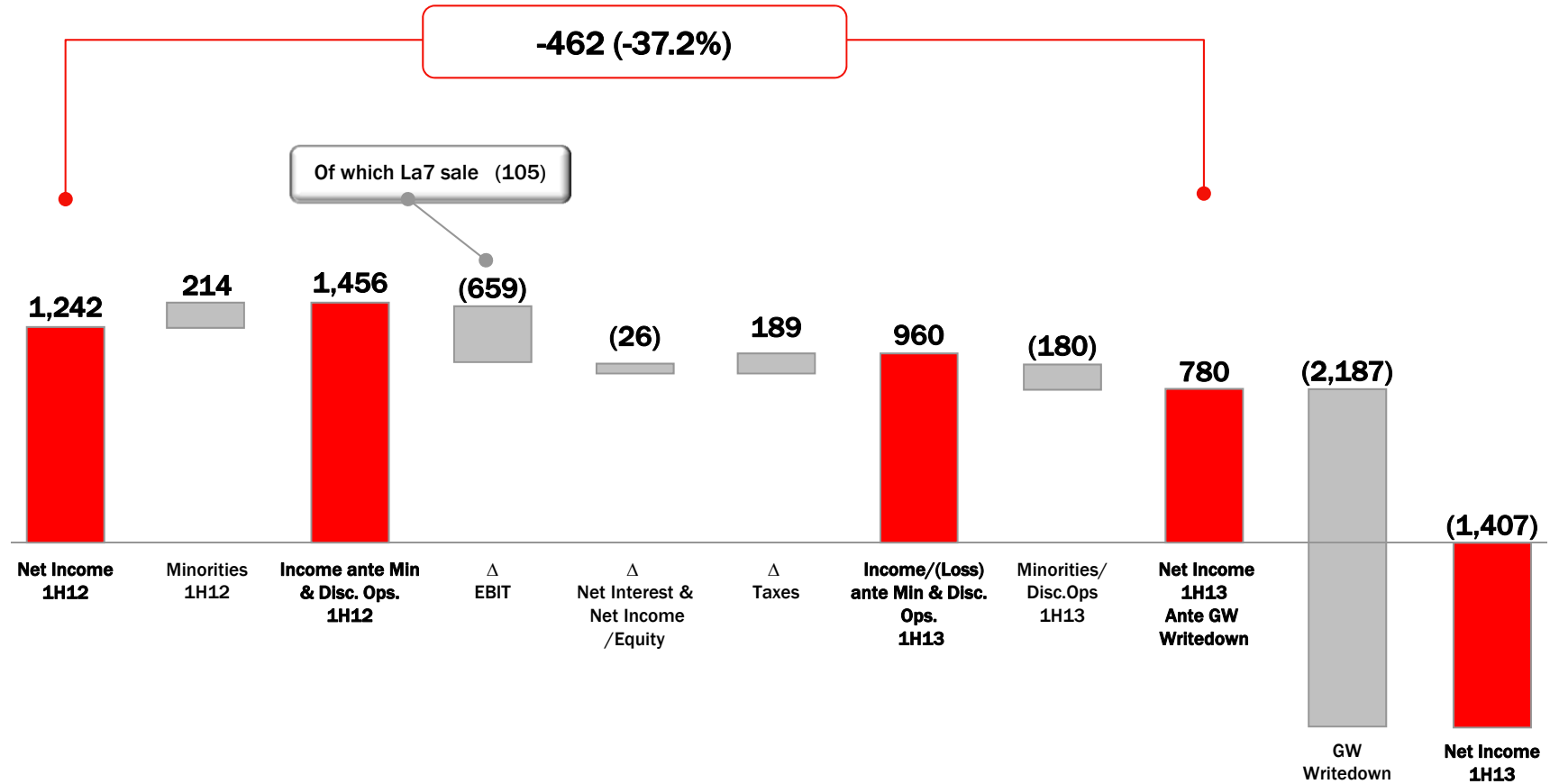


\* Average Exchange rate (Real/Euro): 2.67 in 2013, 2.42 in 2012

\*\* Average Exchange rate (Peso/Euro): 6.73 in 2013, 5.69 in 2012

# TI Group - Net Income Evolution

Euro mln



# TI Group 1H13 Results - P&L

Euro mln - Reported Data

	I Half			
	2013	2012	Δ Abs.	Δ %
<b>REVENUES</b>	<b>13,760</b>	<b>14,793</b>	<b>(1,033)</b>	<b>(7.0)</b>
Other Operating Income	110	108	2	1.9
<b>TOTAL REVENUES &amp; OTHER INCOME</b>	<b>13,870</b>	<b>14,901</b>	<b>(1,031)</b>	<b>(6.9)</b>
Total Purchases of materials and external services	(6,154)	(6,500)	346	(5.3)
Personnel	(1,931)	(2,006)	75	(3.7)
of which payroll	(1,880)	(1,965)	85	(4.3)
Other operating costs	(941)	(897)	(44)	4.9
Change in inventories	114	62	52	(83.9)
Capitalized internal constructions costs	278	299	(21)	(7.0)
<b>EBITDA</b>	<b>5,236</b>	<b>5,859</b>	<b>(623)</b>	<b>(10.6)</b>
<i>% on Revenues</i>	38.1%	39.6%		
Depreciation & Amortization	(2,589)	(2,676)	87	(3.3)
Writedowns and revaluations of non current assets	(2,213)	-		
Gains/losses of non current assets realization	(81)	16	(97)	-
<b>EBIT</b>	<b>353</b>	<b>3,199</b>	<b>(2,846)</b>	<b>(89.0)</b>
<i>% on Revenues</i>	2.6%	21.6%		
Income (loss) equity invest. valued equity method	0	(4)	4	
Other income ( expenses ) from investments	2	0	2	
Net Financial Income / (Expenses)	(949)	(917)	(32)	
<b>Income before Taxes &amp; Disc. Ops.</b>	<b>(594)</b>	<b>2,278</b>	<b>(2,872)</b>	
<i>% on Revenues</i>	-4.3%	15.4%		
Taxes	(633)	(822)	189	
<b>Income before Disc. Ops.</b>	<b>(1,227)</b>	<b>1,456</b>	<b>(2,683)</b>	
Net income (loss) of assets disposed	3	0	3	
<b>Net Income (ante Minorities)</b>	<b>(1,224)</b>	<b>1,456</b>	<b>(2,680)</b>	
<i>% on Revenues</i>	-8.9%	9.8%		
Minorities	(183)	(214)	31	
<b>Net Income (post Minorities)</b>	<b>(1,407)</b>	<b>1,242</b>	<b>(2,649)</b>	
<i>% on Revenues</i>	-10.2%	8.4%		

# TI Group 1H13 - Main Results by BU

Euro mln

Reported	I Half			
	2013	2012	Δ Abs.	Δ %
<b>REVENUES</b>				
Domestic	8,104	9,048	-944	(10.4)
Wireline Domestic	5,961	6,468	-507	(7.8)
Tim Domestic	2,798	3,376	-578	(17.1)
Brazil	3,620	3,733	-113	(3.0)
Argentina	1,890	1,823	67	3.7
Media	88	119	-31	(26.1)
Olivetti	124	130	-6	(4.6)
Other Activities & Elim.	-66	-60	-6	-
<b>TI Group</b>	<b>13,760</b>	<b>14,793</b>	<b>-1,033</b>	<b>(7.0)</b>

	I Half			
	2013	2012	Δ Abs.	Δ %
<b>EBITDA</b>				
Domestic	3,824	4,406	-582	(13.2)
Brazil	919	987	-68	(6.9)
Argentina	537	550	-13	(2.4)
Media	-11	-16	5	31.3
Olivetti	-23	-38	15	39.5
Other Activities & Elim.	-10	-30	20	-
<b>TI Group</b>	<b>5,236</b>	<b>5,859</b>	<b>-623</b>	<b>(10.6)</b>
<b>EBITDA margin</b>	<b>38.1%</b>	<b>39.6%</b>	<b>- 1.5 pp</b>	

Organic	I Half			
	2013	2012	Δ Abs.	Δ %
<b>REVENUES</b>				
Domestic	8,104	9,055	-951	(10.5)
Wireline Domestic	5,961	6,475	-514	(7.9)
Tim Domestic	2,798	3,376	-578	(17.1)
Brazil	3,620	3,381	239	7.1
Argentina	1,890	1,543	347	22.5
Media	88	102	-14	(13.7)
Olivetti	124	130	-6	(4.6)
Other Activities	-66	-76	10	-
<b>TI Group</b>	<b>13,760</b>	<b>14,135</b>	<b>-375</b>	<b>(2.7)</b>

	I Half			
	2013	2012	Δ Abs.	Δ %
<b>EBITDA</b>				
Domestic	3,943	4,423	-480	(10.9)
Brazil	919	894	25	2.8
Argentina	537	465	72	15.5
Media	-11	-7	4	(57.1)
Olivetti	-23	-22	-1	(4.5)
Other Activities & Elim.	-10	-7	-3	-
<b>TI Group</b>	<b>5,355</b>	<b>5,746</b>	<b>-391</b>	<b>(6.8)</b>
<b>EBITDA margin</b>	<b>38.9%</b>	<b>40.7%</b>	<b>-1.8 pp</b>	