

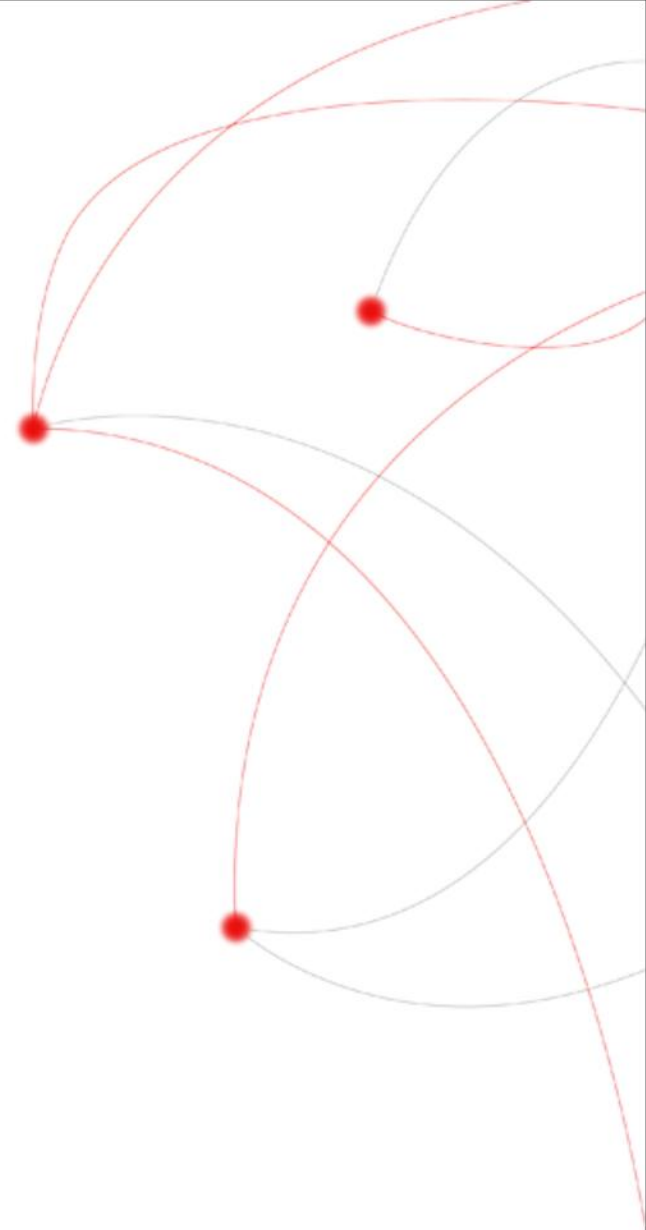
TELECOM ITALIA GROUP

## **1H 2010 Results**

Milan, August 5<sup>th</sup>, 2010

# **Telecom Italia 1H 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.

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. 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.

Analysts are cautioned not to place undue reliance on those forward looking statements, which speak only as of the date of this presentation. Telecom Italia S.p.A. undertakes no obligation to release publicly the results of any revisions to these forward looking statements which may be made to reflect events and circumstances after the date of this presentation, including, without limitation, changes in Telecom Italia S.p.A. business or acquisition strategy or planned capital expenditures or to reflect the occurrence of unanticipated events. Analysts and investors are encouraged to consult the Company's Annual Report on Form 20-F as well as periodic filings made on Form 6-K, which are on file with the United States Securities and Exchange Commission.

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.

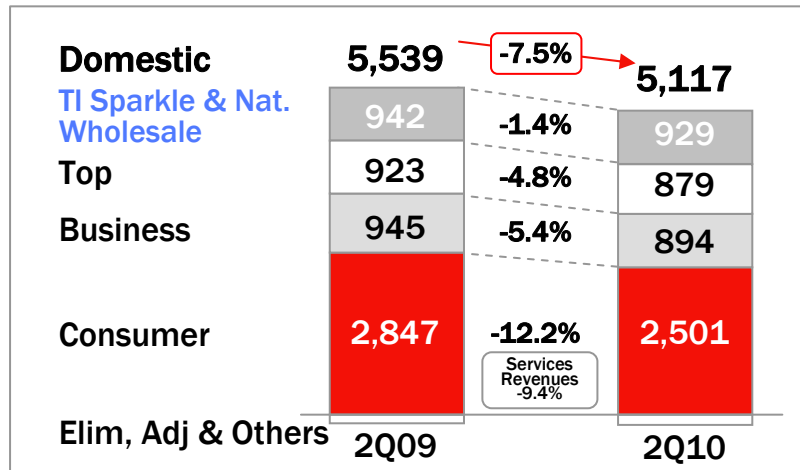
# Agenda

- ▶ **2Q 2010 Main Achievements**
  - ▶ Market & Revenues Trend:
    - ▶ Mobile Business
    - ▶ Fixed Business
- ▶ Progress on Cash Cost Rationalization

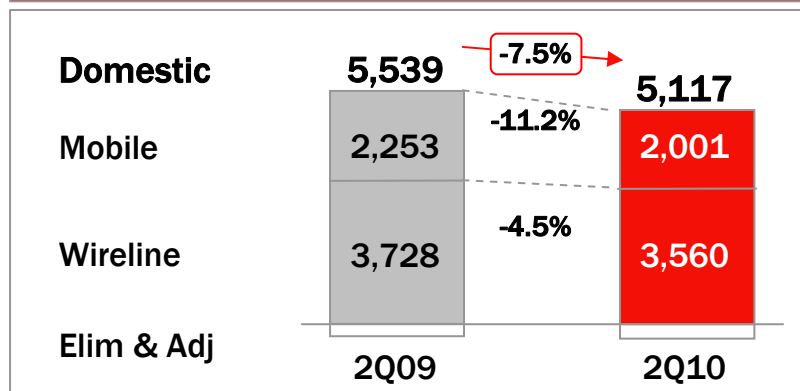
# Domestic Market - 2Q 2010 Main Achievements

Euro mln, Organic data, %

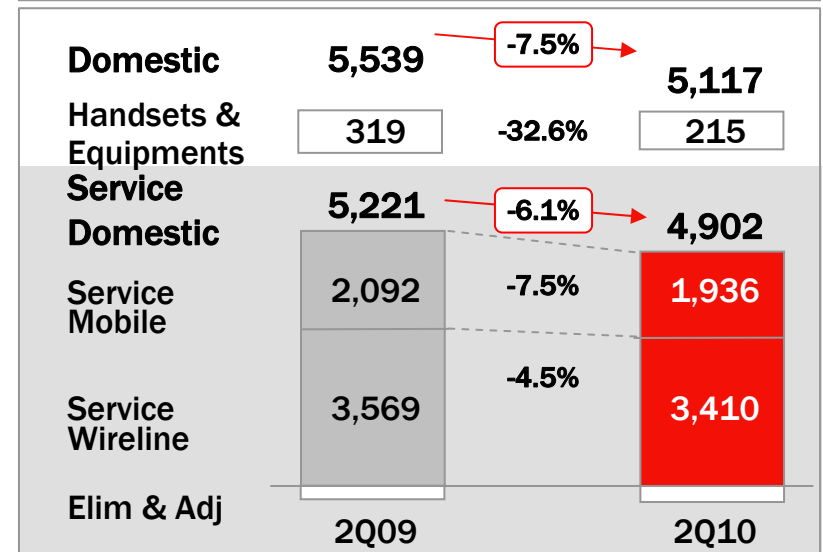
## Domestic Revenues by Customer Segment



## Domestic Revenues by Technology



## Focus on Domestic Services Revenues



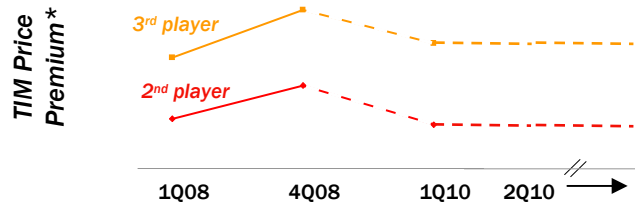
# Agenda

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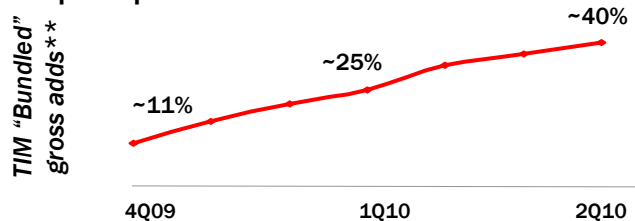
# Domestic Mobile: Update on Competitive Dynamics

## Price Positioning Evolution

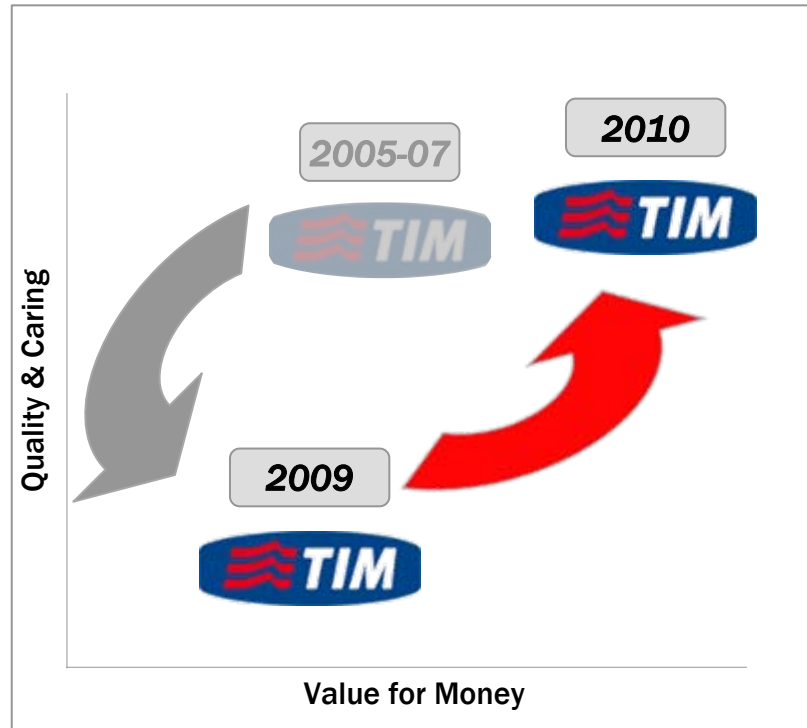
- ▶ From unsustainable to appropriate price positioning, ensuring a good trade-off between price & value



- ▶ Changing the rules of the game: shifting the focus from price per minute to ARPU



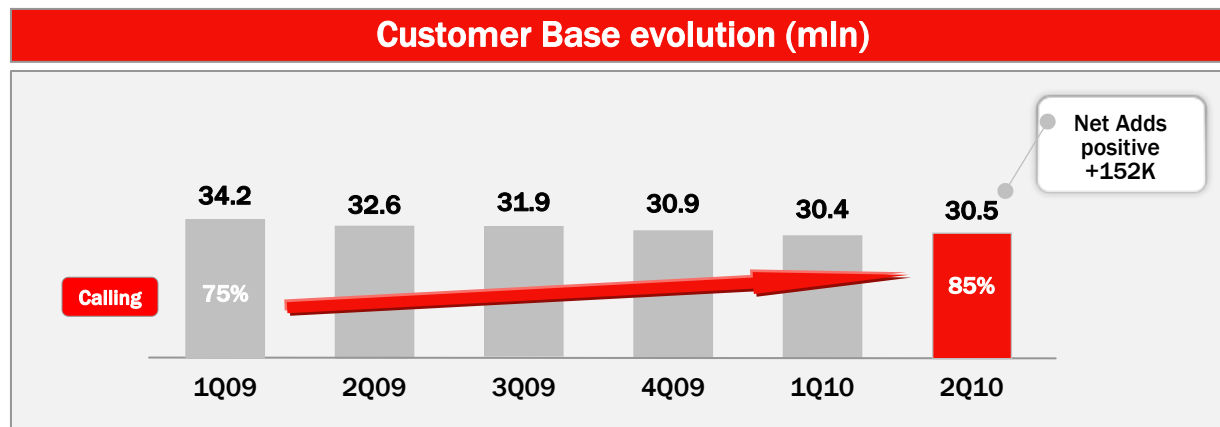
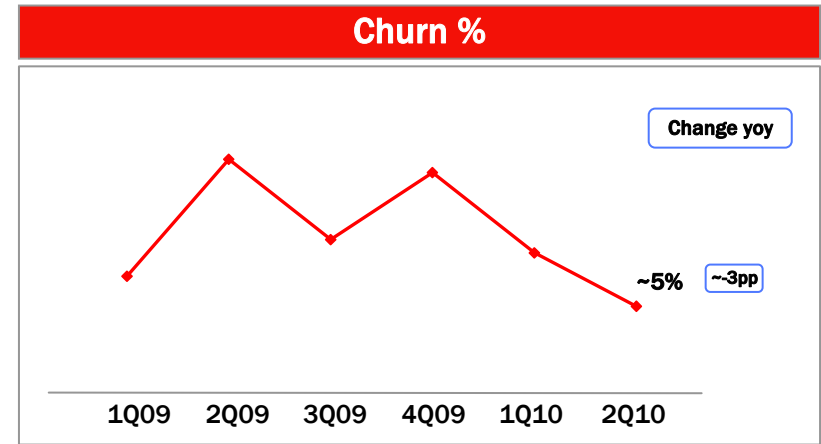
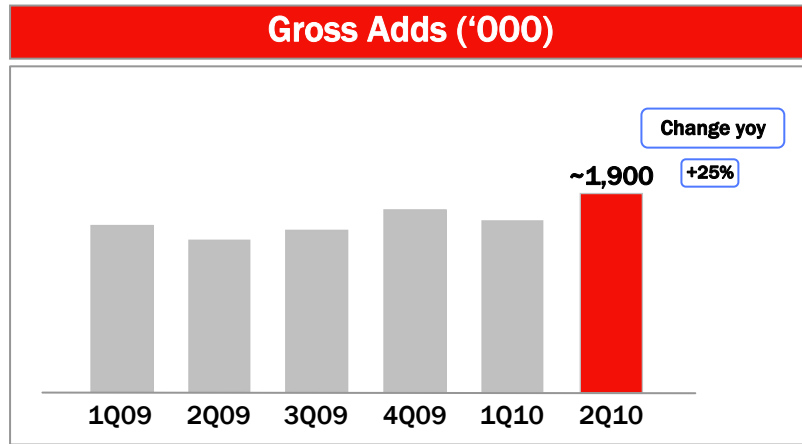
## TIM Positioning



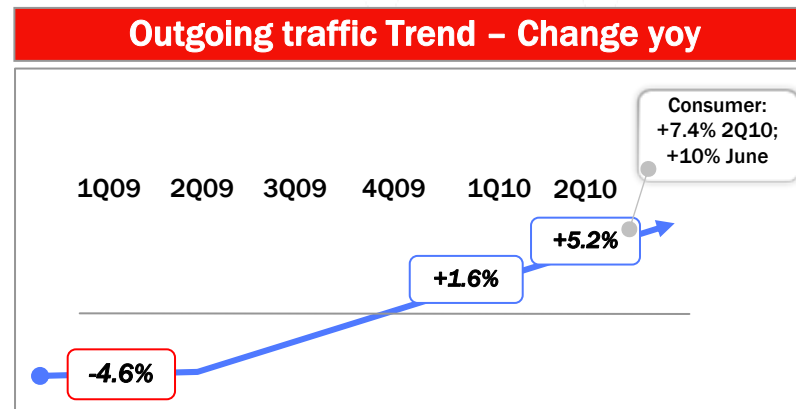
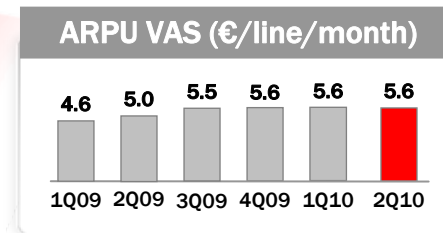
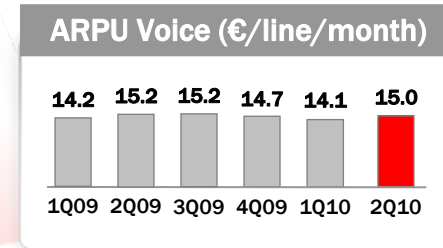
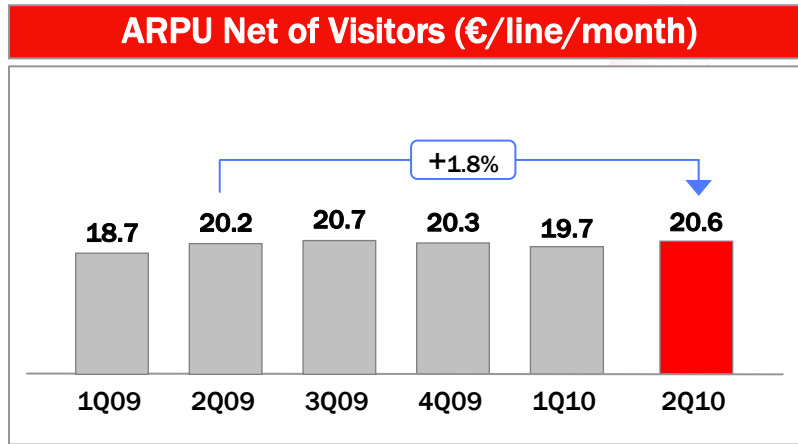
## Focus on maintaining a healthy market

\* Voice revs / total traffic volumes  
 \*\* % of TIM customers being currently on TIMx plan, Tutto Compreso and other bundle plans

# Domestic Mobile: Back to a Healthy Customer Base Growth...



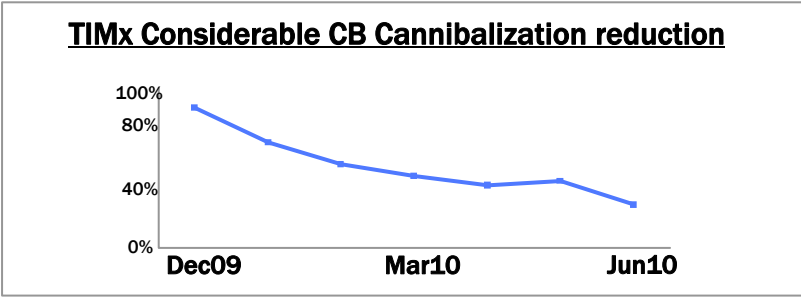
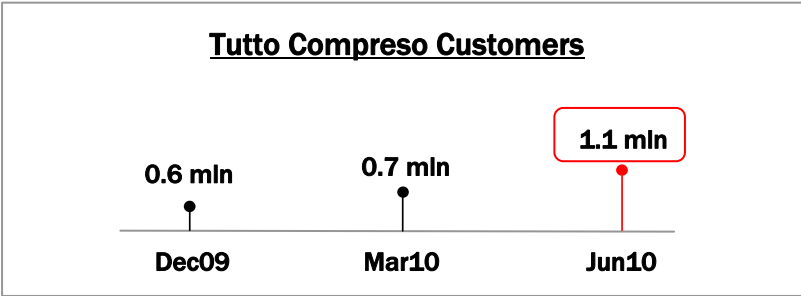
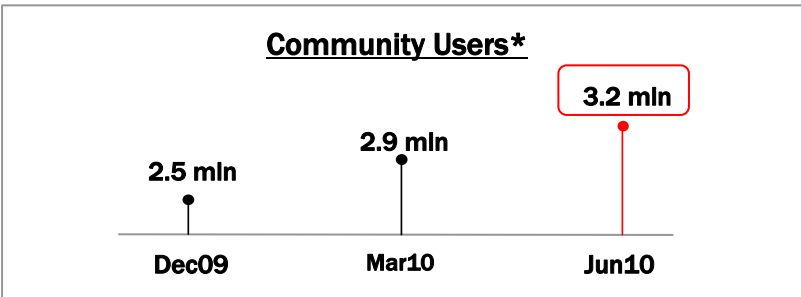
# Domestic Mobile: ...Protecting ARPU





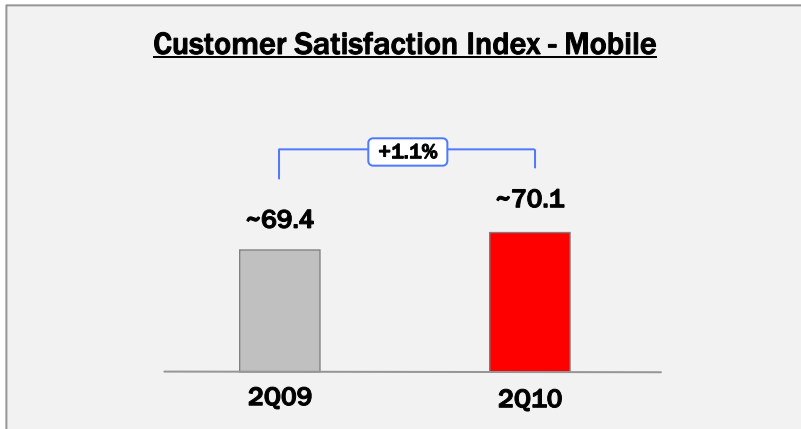
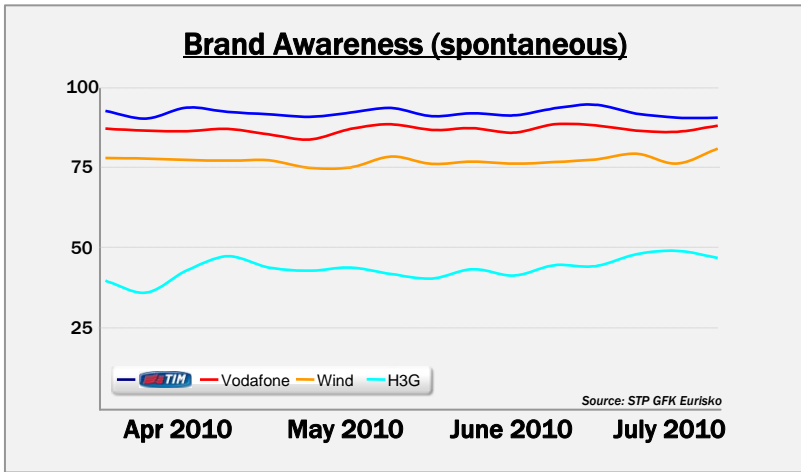
# Domestic Mobile: Focus on Consumer Segment

## Community Concept to Stimulate ARPU and...



\* TIMx and TIM Tribù customers

## ...Deliver Value to the Customer

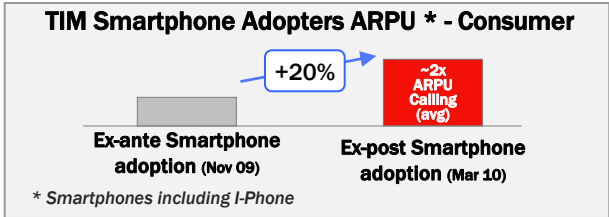


# Domestic Mobile Broadband: Small Screen & Big Screen Right Formula

**Mobile BB leadership consolidation**

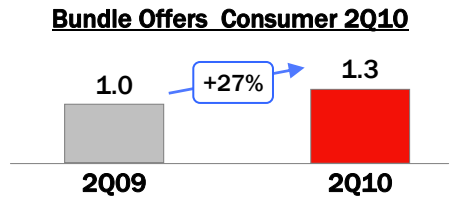
## Small Screen

- ▶ Smartphones enable higher ARPU and decrease churn



Ad-hoc offering to stimulate Data usage:

- ▶ Flat offering .....



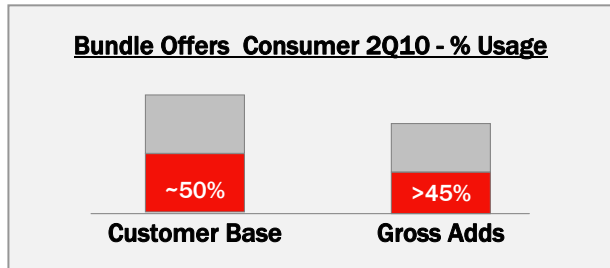
Smartphone Portfolio

- ▶ 13 cutting-edge devices for all customer segments

**2Q10 Small Screen Revenues\***  
 +~15% YoY

## Big Screen

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



Internet keys

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

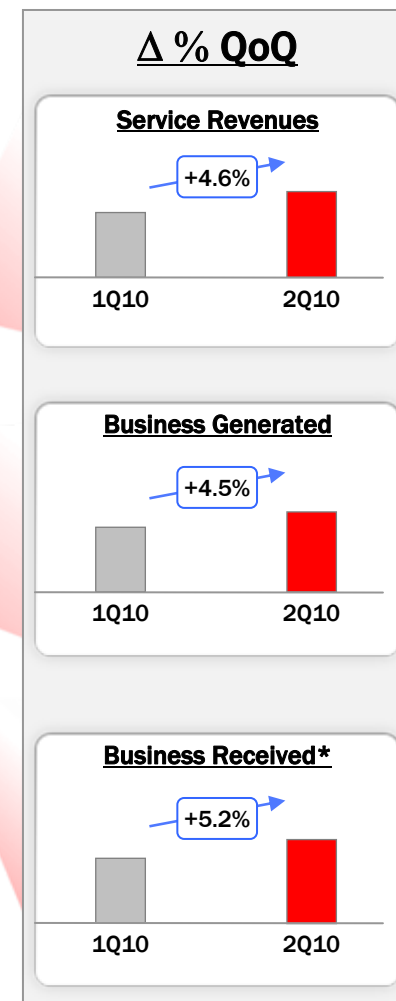
**2Q10 Big Screen Revenues\***  
 +~43% YoY

\* Organic figures

# Domestic Mobile Revenues

Euro mln, Organic data, %

	2Q09	2Q10	Δ % YoY
<b>Total</b>	<b>2,253</b>	<b>2,001</b>	<b>(11.2)</b>
<b>Services</b>	<b>2,092</b>	<b>1,936</b>	<b>(7.5)</b>
<b>o/w Outgoing Voice</b>	<b>1,186</b>	<b>1,057</b>	<b>(10.9)</b>
<b>o/w VAS</b>	<b>498</b>	<b>512</b>	<b>+2.8</b>
<b>o/w Incoming</b>	<b>315</b>	<b>291</b>	<b>(7.6)</b>
<b>Handsets</b>	<b>161</b>	<b>65</b>	<b>(59.6)</b>



(\*) Incoming + Visitors & Others

# Domestic Mobile 2H10 Action Plan

## Market Share Recovery

- ▶ Continuing **push on TIMx proposition** to keep on developing the TIM Community (high loyalty, high value)
- ▶ **Play up “TuttoCompreso”** concept fostering ARPU
- ▶ **Push on MNP** leveraging on appealing promos and adhoc offerings
- ▶ **Keep on restructuring the Sales channel** (focus on high potential areas)

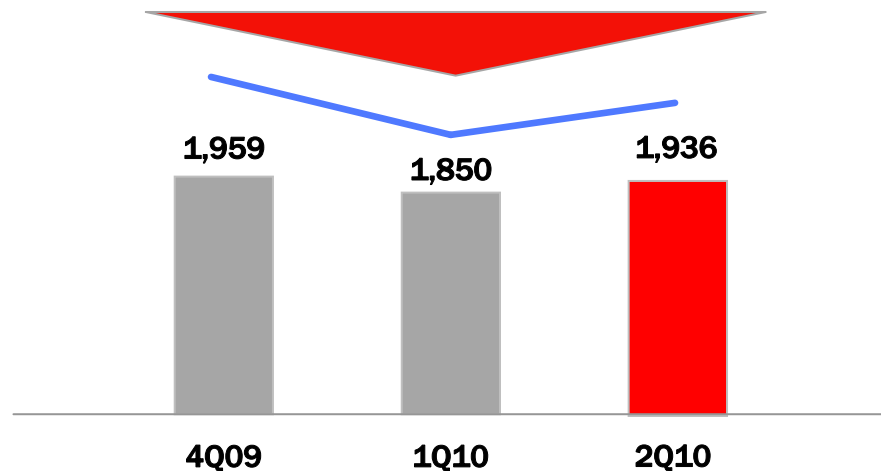
## Push on CB Loyalty, Up-selling & Pre-retention

- ▶ **Upselling of flat and semi-flat offerings** on customer base **reducing further cannibalization and developing community**
- ▶ **Improving caring & pre-retention** through inbound and automatic channels
- ▶ **Leveraging on CRM** to increase the closeness to customer needs

## Mobile Internet

- ▶ **Enhance big screen portfolio** targeting Entry level customers, and continuing to attract high-end customers
- ▶ **Increase small screen users** by focusing on bundle offering (service&product)

**Mobile Service Revenues (mln €)**

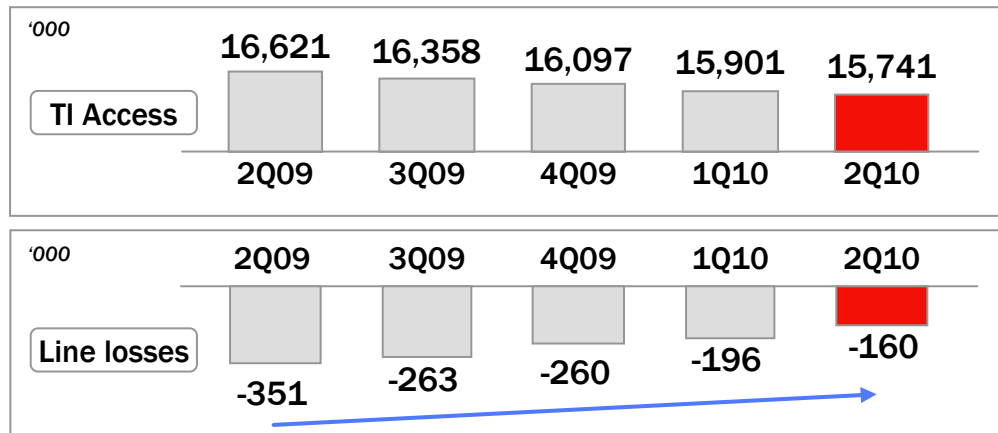


# Agenda

- ▶ 2Q 2010 Main Achievements
  - ▶ **Market & Revenues Trend:**
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# Domestic Fixed: TI Access Performance

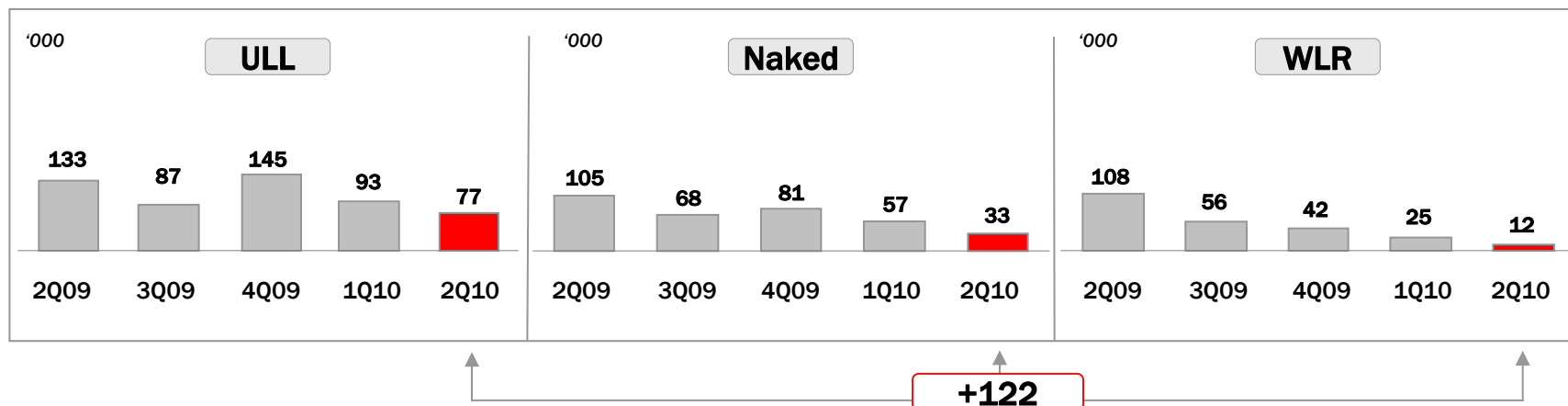
## Telecom Italia Retail Access Evolution & Line Losses



## Key Highlights

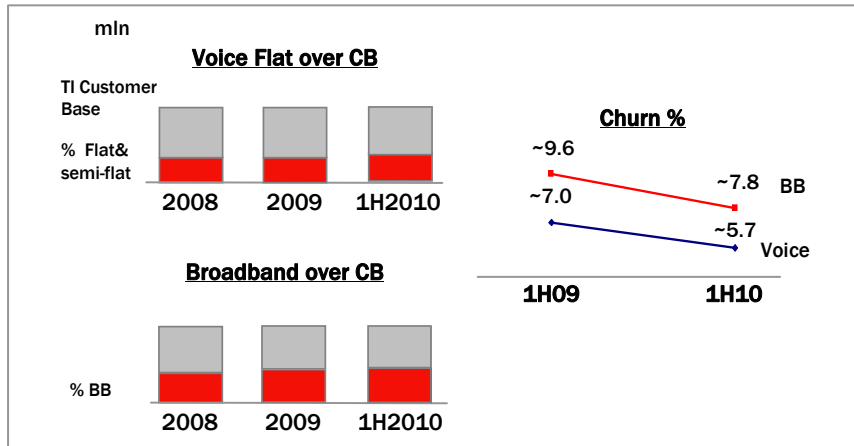
- ▶ Confirming a very solid market share on fixed accesses: 70% as of 1H10
- ▶ Continuous improvement of line losses trend posting the best quarterly trend since 2Q05
- ▶ Sharp decline in OLOs commercial activity with competitors more focused on ULL

## OLO Access Growth (TI Wholesale)

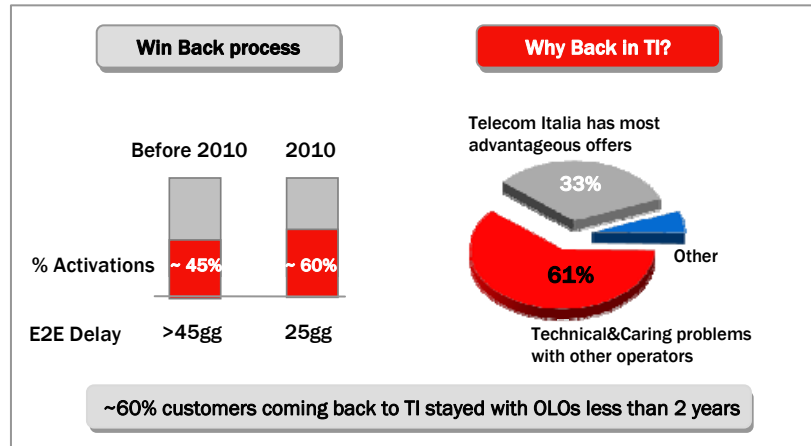


# Domestic Fixed: Line Losses Reduction Key Drivers

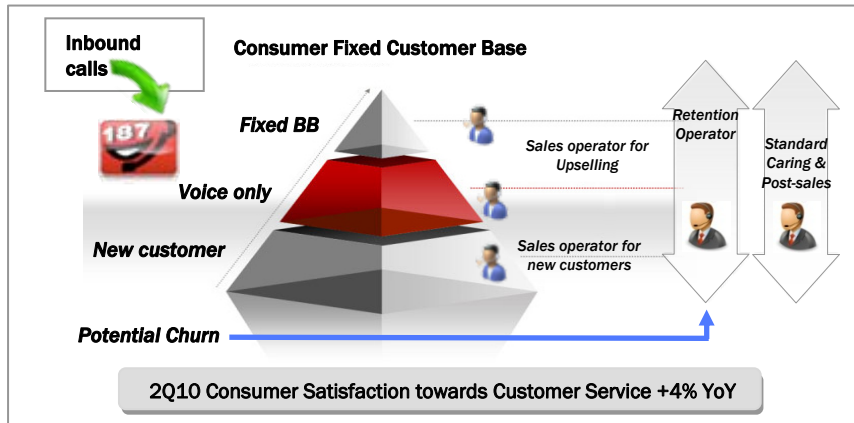
## Flat Offers & Churn Reduction



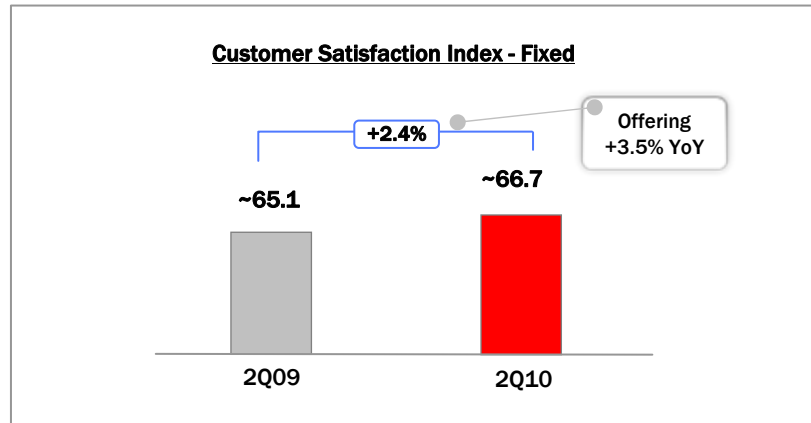
## More Win back



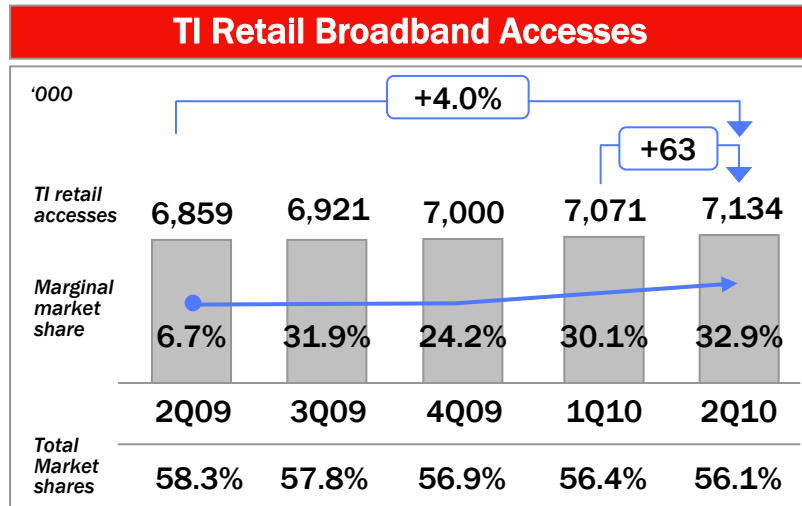
## Taylor-made Caring to meet Customer Needs



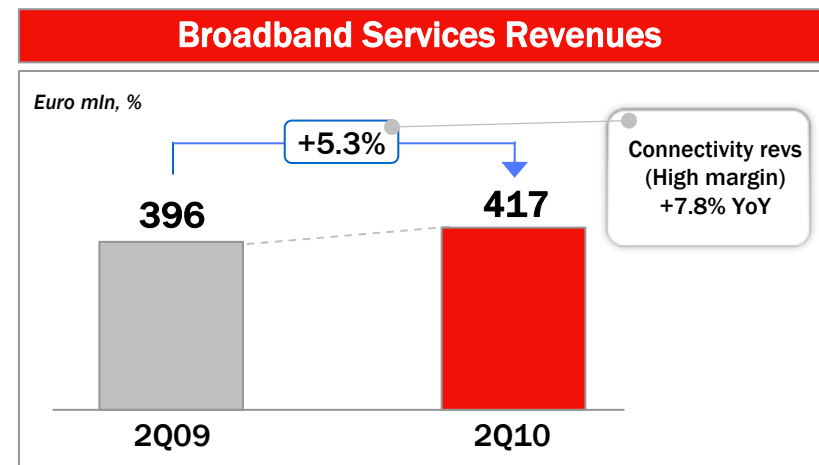
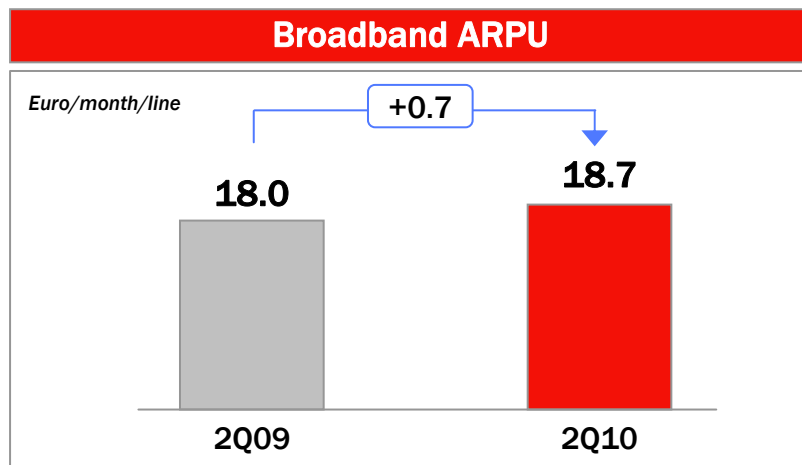
## Improved Customer Satisfaction



# Domestic Fixed: Focus on Broadband



- ### Key Highlights
- ▶ Continued good TI performance
  - ▶ 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 ahead on bundled PC and ADSL sales
  - ▶ Continuous increase of flat offer driving up ARPU YoY

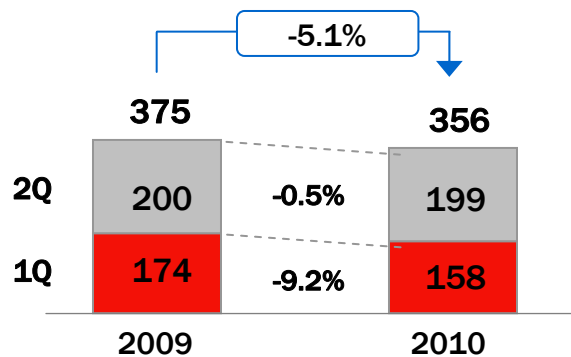




# Domestic Fixed: Focus on ICT & Public Sector Exposure

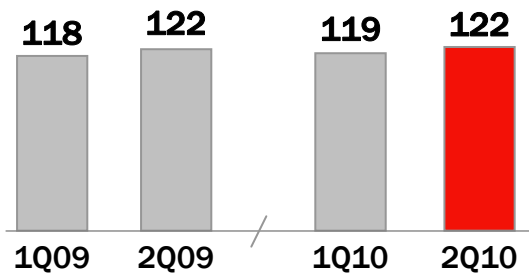
## Telecom Italia ICT Revenues

Euro mln



## Telecom Italia ICT Service Revenues

Euro mln



## Highlights

- ▶ Launch of IT Smart services to support PA in rationalizing spending (energy and public lighting) and offering new services (info mobility, video surveillance, Wi-Fi connectivity)
- ▶ Deployment of Certified E-mail in partnership with Poste Italiane
- ▶ Launch of the new Impresa Semplice service "Certific@" (certified email) for SMEs and SOHOs in cooperation with trade associations and the Government



Certific@

2.7 mln associates

- ▶ Launch of new advanced hosting offerings for the next generation data center (NGDC) server virtualization
- ▶ Launch of new offering for high definition video-communication
- ▶ Entry in the managed services business for Automatic Teller Machines (ATM)
- ▶ Started "Last Mile Partner" model for Cloud Computing Services

# Domestic Wireline Revenues

Euro mln, Organic data, %

	2Q09	2Q10	Δ% YoY	Δ% QoQ
<b>Total</b>	<b>3,728</b>	<b>3,560</b>	<b>(4.5)</b>	
<b>Services</b>	<b>3,569</b>	<b>3,410</b>	<b>(4.5)</b>	<b>+0.1</b>
<b>o/w Voice</b>	<b>1,704</b>	<b>1,530</b>	<b>(10.2)</b>	<b>(1.4)</b>
<b>o/w Internet</b>	<b>403</b>	<b>423</b>	<b>+5.0</b>	
<b>o/w Business Data</b>	<b>307</b>	<b>297</b>	<b>(3.3)</b>	<b>+1.0</b>
<b>o/w Wholesale</b>	<b>1,039</b>	<b>1,057</b>	<b>+1.7</b>	
<i>National</i>	<i>727</i>	<i>761</i>	<i>+4.7</i>	
<i>International</i>	<i>311</i>	<i>296</i>	<i>(4.8)</i>	
<b>o/w Other</b>	<b>117</b>	<b>103</b>	<b>n.m.</b>	
<b>Equipments</b>	<b>159</b>	<b>150</b>	<b>(5.7)</b>	

# Domestic Fixed 2H10 Action Plan

## Consumer

- ▶ “Back to School” campaign pushing on ADSL, leveraging on increasing PC penetration
- ▶ Push new simplified portfolio
- ▶ Increase Value for Money perception through a steady Communication with call to action through “187” channel



## Business

- ▶ Push the adoption of free and flat BB offers through
  - ▶ 2play bundle
  - ▶ Product bundled with ICT services



Post sales premium services



- ▶ Leverage on our customer base to push for convergent offer adoption starting from voice through BB and ICT services

OPZIONE Tra Noi



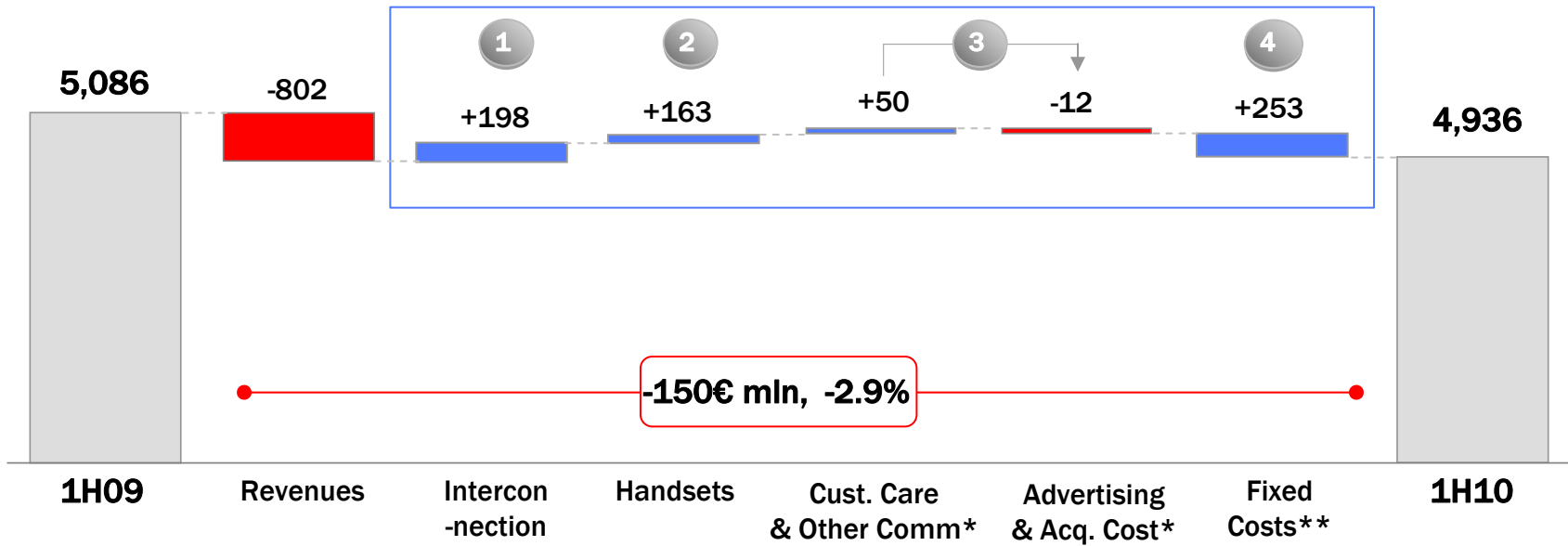
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- ▶ **Progress on Cash Cost Rationalization**

# Domestic: EBITDA Analysis

Euro mln, Organic data, %



<p><b>1</b></p> <p>Focusing on on-net traffic and MTR impact</p>	<p><b>3</b></p> <p>Increasing expenses on Advertising and Acquisition (offset by efficiency on Other Commercial Costs)</p>
<p><b>2</b></p> <p>Completing revenues mix re-engineering</p>	<p><b>4</b></p> <p>Accelerating on efficiency programs (61% 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 1H10 vs 1H09			Δ ITX	Δ Vol. Driven	Δ Efficiency
	1H10	Δ Abs '10 vs '09			61% of FY10 Target
<b>Total Opex</b>	<b>5,155</b>	<b>-652</b>	<b>-198</b>	<b>-166</b>	<b>-288</b>
ITX	1,416	-198	-198	-	-
Mktg & Sales	1,266	-201	-	-121	-80
Industrial	527	-39	-	-16	-23
Personnel	1,627	-95	-	-27	-68
G&A & Other	319	-119	-	-2	-117
<b>Total Capex</b>	<b>1,487</b>	<b>-117</b>	<b>-</b>	<b>+22</b>	<b>-139</b>
					46% of FY10 Target
<b>Total Cash Cost</b>		<b>-769</b>	<b>-198</b>	<b>-144</b>	<b>-427</b>