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Telecom Italia – Domestic Market FY10 Results & Plan Update

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Safe Harbour

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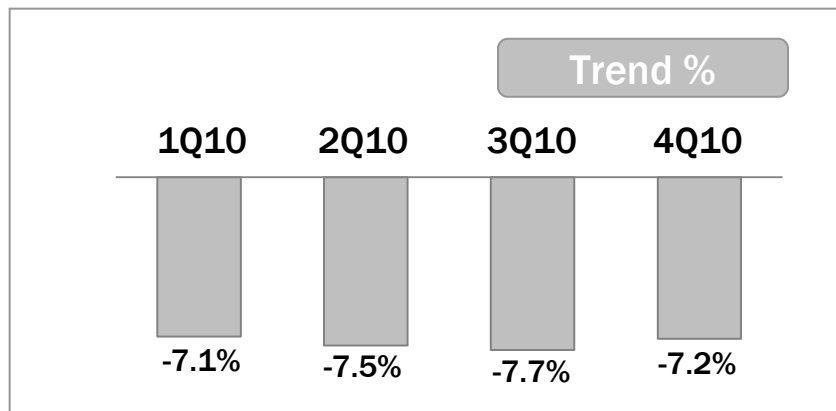
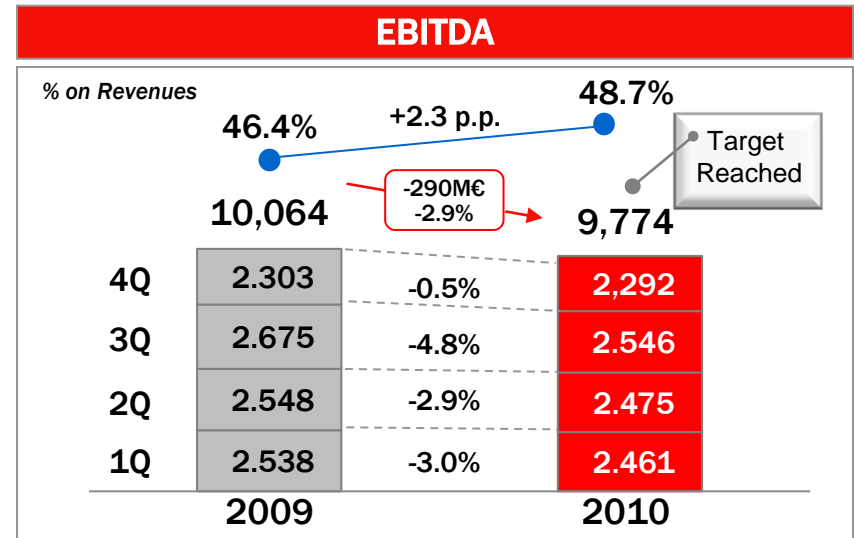
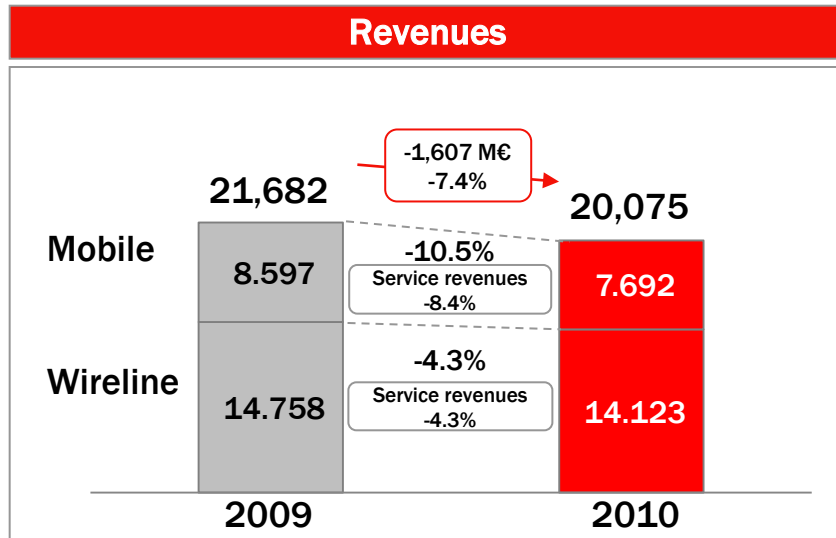
Agenda

- ▶ **Telecom Italia Domestic 2010 Results**

- ▶ **Telecom Italia Domestic Plan**
 - ▶ **Mobile Business**
 - ▶ **Fixed Business**
 - ▶ **Innovative Services**
 - ▶ **Focus on 2011 Domestic EBITDA**

Domestic – Strong Cash Cost Control Invested to Regain Competitiveness in the Mobile Business

Euro mln, Organic data, %

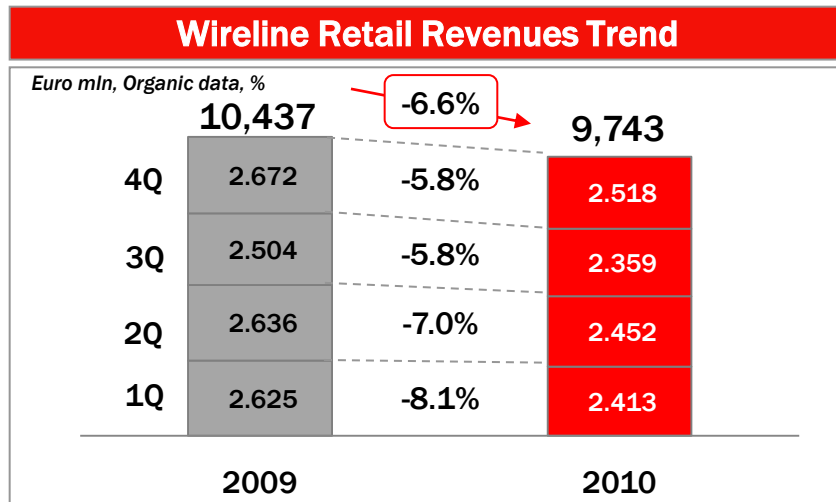
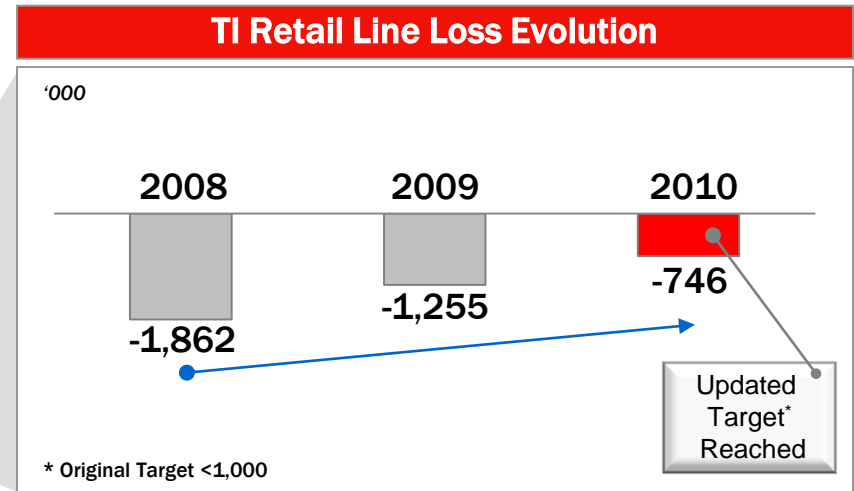
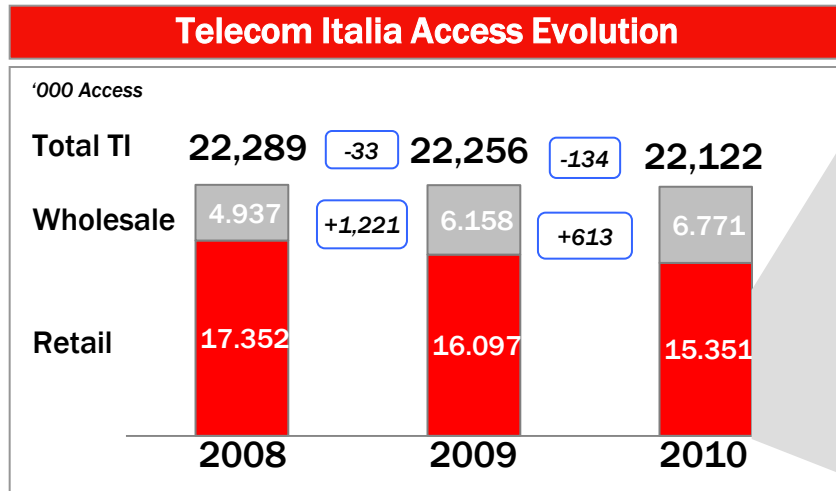


Highlights

- ▶ Improving quarter on quarter Fixed retail revenues
- ▶ Mobile revenues impacted by significant customer base repositioning
- ▶ Continued progress on COGS, G&A and Personnel costs reduction
- ▶ Positive cash flow generation* (+1.8% YoY) through capex discipline

*EBITDA-CAPEX

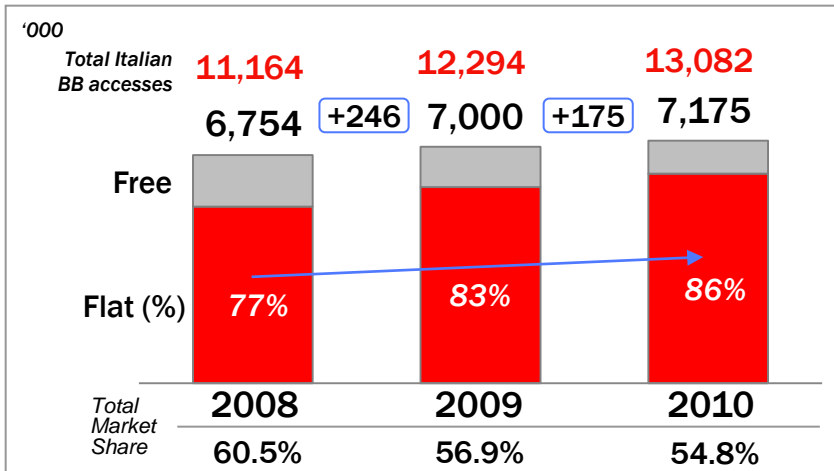
Domestic Fixed: TI Access Performance



- ### Highlights
- ▶ Strong improvement in 2010 line losses trend
 - ▶ 4Q10 line losses (233k) affected by :
 - ▶ aggressive competitors' promos
 - ▶ reduction of TI advertising pressure
 - ▶ TI confirms its focus on Quality of Service to sustain price premium

Domestic Fixed: Focus on Broadband

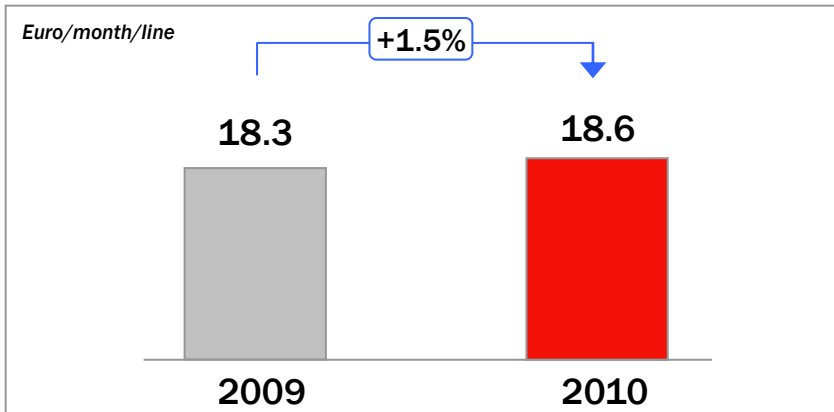
TI Retail Broadband Accesses



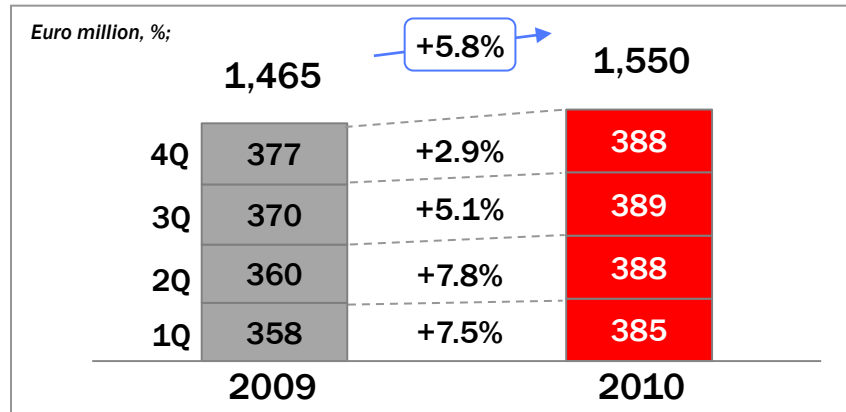
Highlights

- ▶ 2010 ARPU supported by a strong increase of Flat offers penetration
- ▶ 4Q10 BB net adds affected by strong OLOs aggressiveness
- ▶ 4Q10 ARPU: competitive pressure in Top segment, stable in Consumer and Business

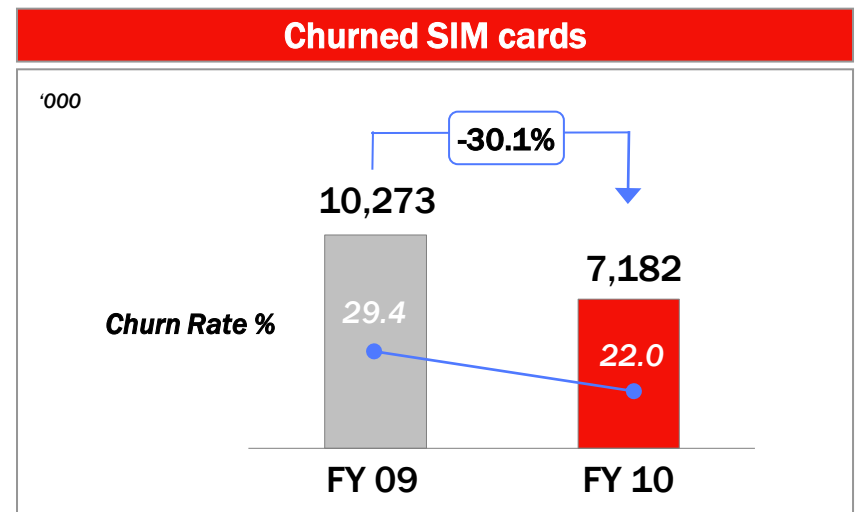
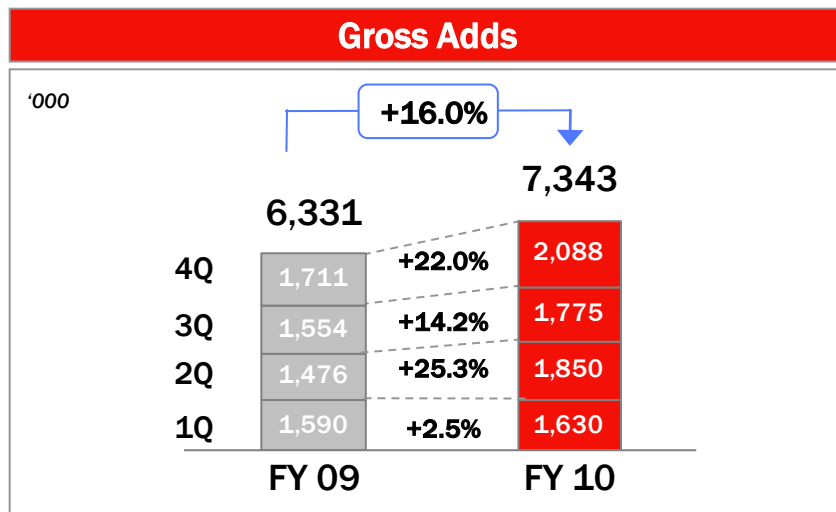
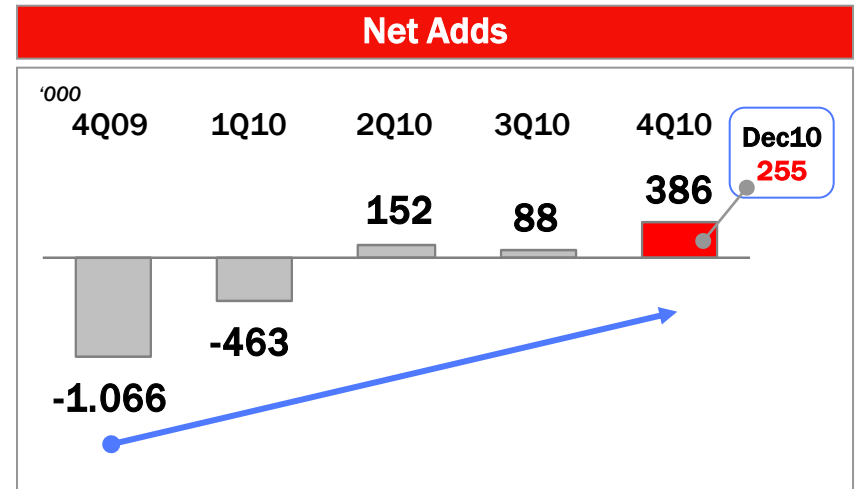
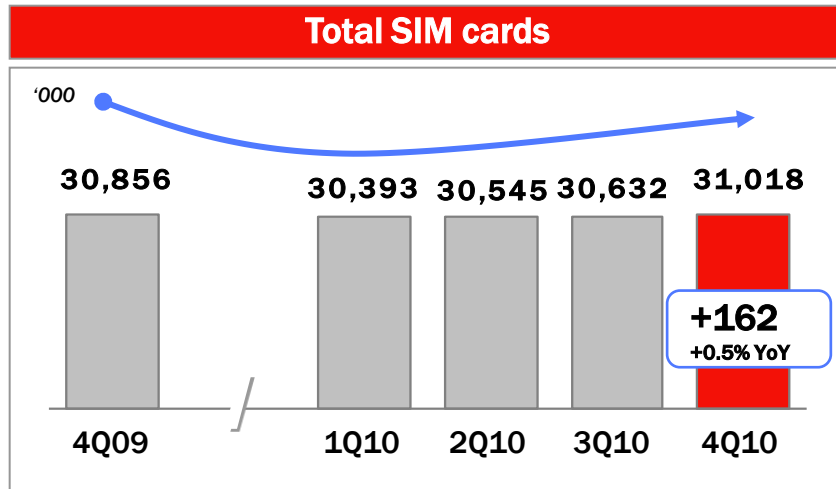
Broadband ARPU



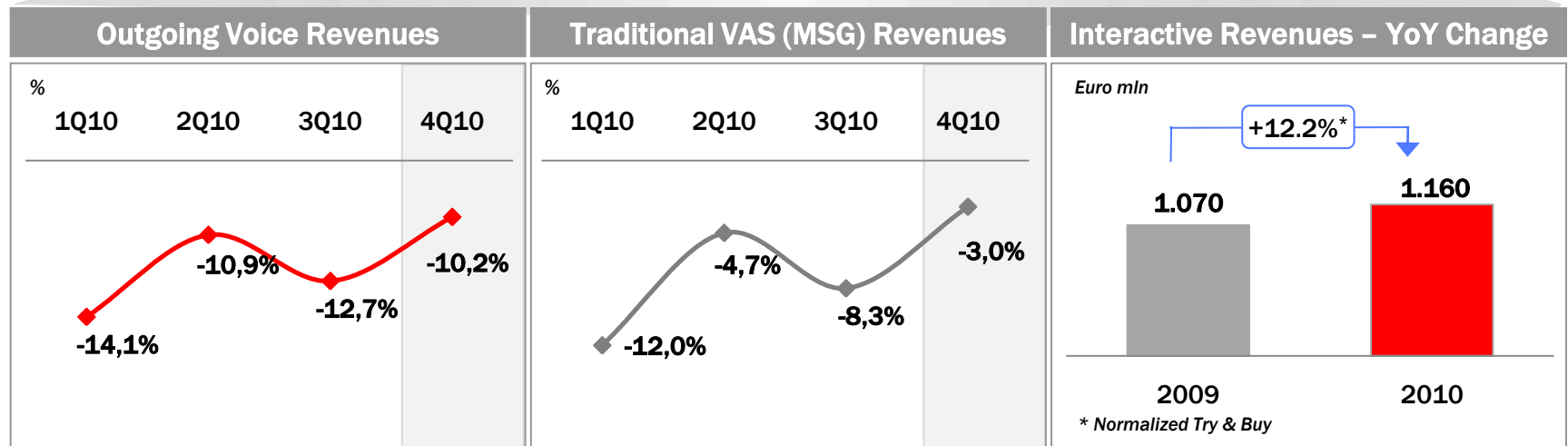
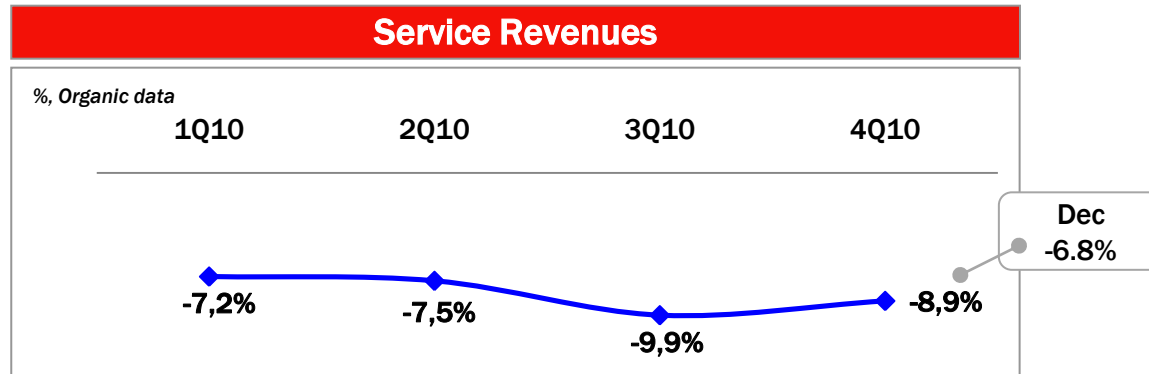
Broadband Service Revenues



Domestic Mobile: Customer Base Trend



Domestic Mobile: Service Revenues Key Trends

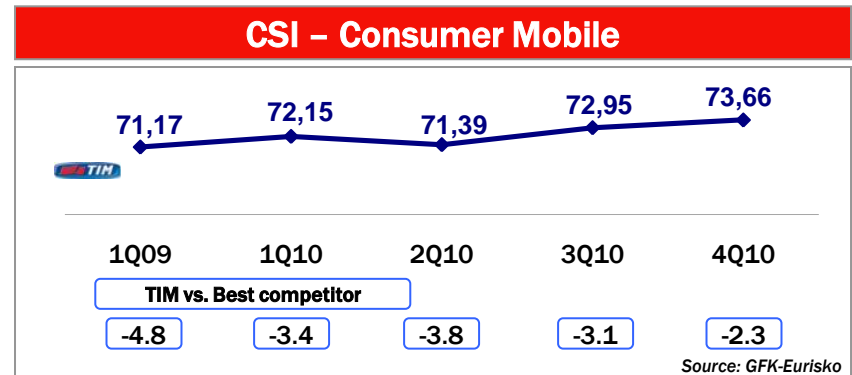
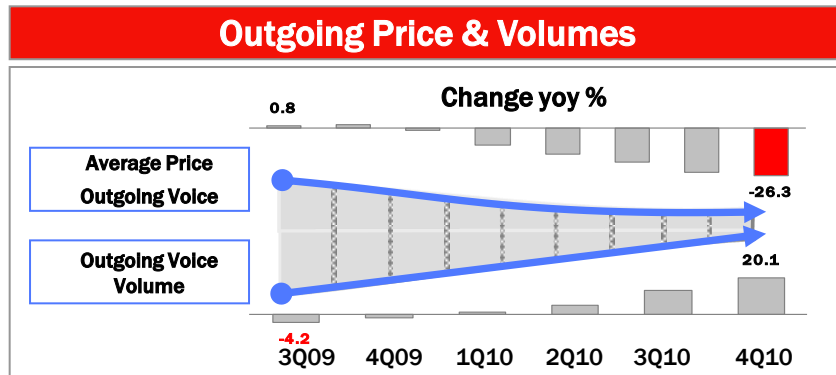


Mobile Business in 2010: Investing to be Back in the Market

Repositioning Strategy

- ▶ **Value for Money** proposition to improve **Customer Satisfaction** as a long term retention strategy
- ▶ Close the **price gap** vs competitors on traditional services and stimulate a significant **volume rebound**
- ▶ Focus on **Mobile Data** and new markets

| | From | ➔ | To |
|----------------------------|---------------|---|-----------------------------------|
| CB | Decreasing | | Increasing |
| | | | |
| Traffic/usage | Decreasing | | Increasing |
| | | | |
| Financials based on | Premium Price | | Cash Cost savings reinvestment |



...with some execution shortfalls

- ▶ Aggressive Promos
- ▶ Reduced efficacy in high value customers lock-in
- ▶ Low focus on Messaging
- ▶ Limited use of handsets to increase CB loyalty and trigger BB Mobile revenue growth

Consumer Mobile Broadband: Big Screen “OK”, Small Screen “Acceleration Needed”

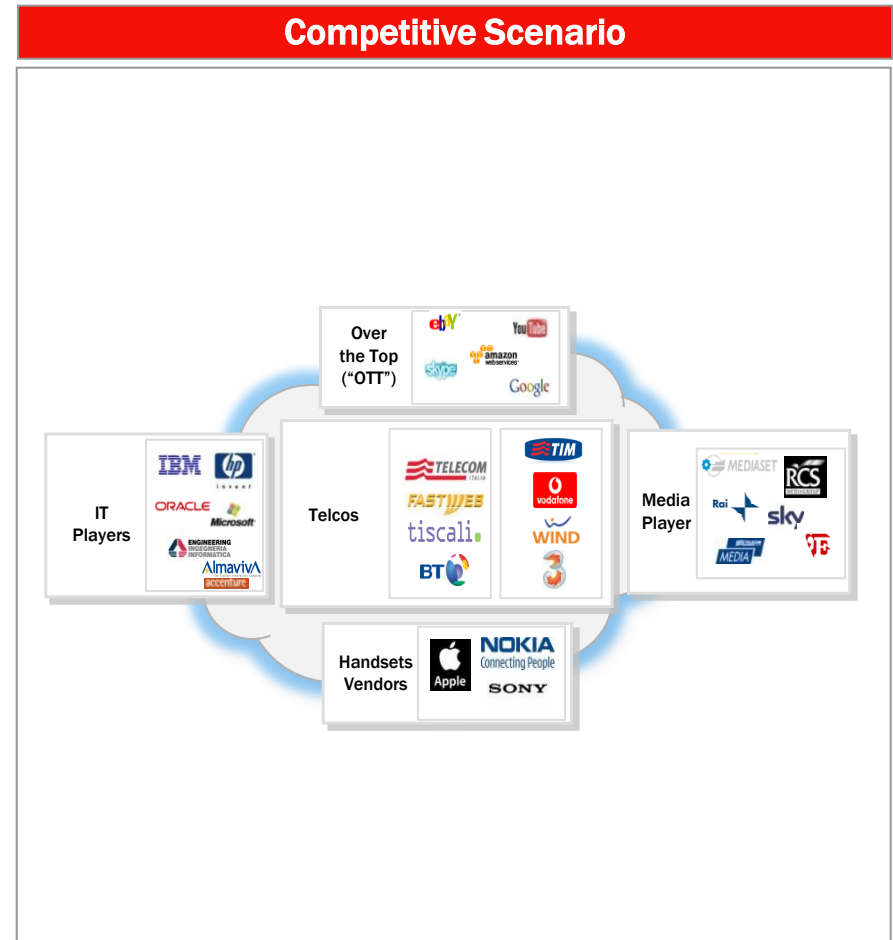
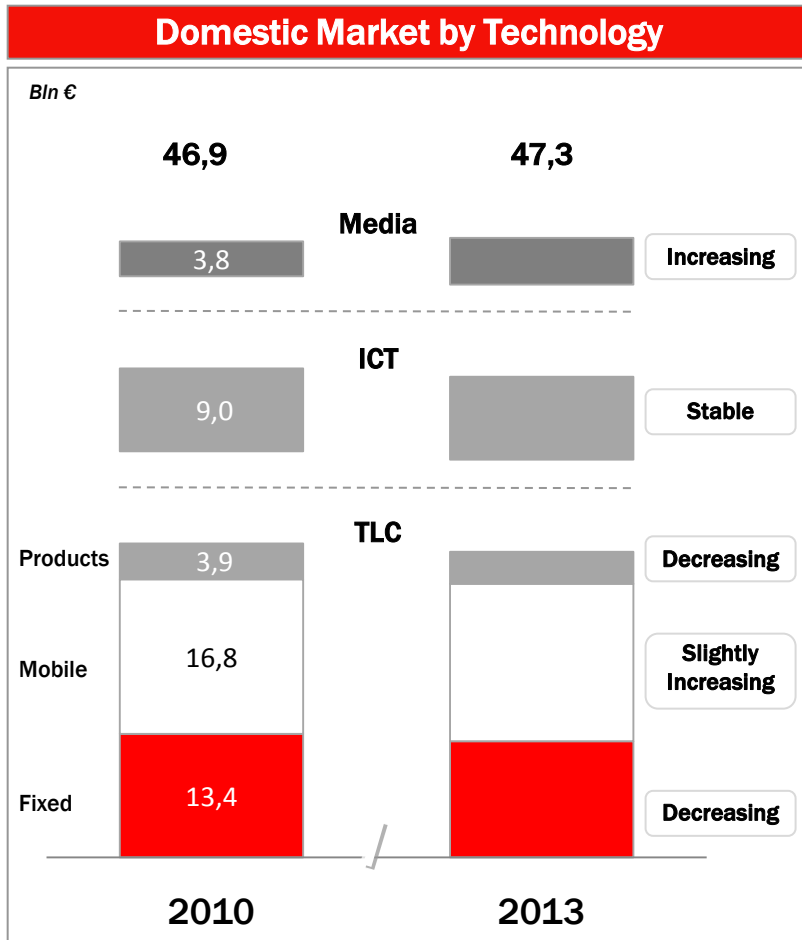
| | Market features and value proposition | Network impact/ Arpu* Generation | TIM Positioning |
|---------------------|--|---|--|
| BIG SCREEN | <p>Addressable market</p> <ul style="list-style-type: none"> Customers with Laptops <p>Customers priorities</p> <ul style="list-style-type: none"> Always On Price Speed <p>Operators priorities</p> <ul style="list-style-type: none"> Pricing schemes to protect MBs value Quality of Service | <p>~2.3GB ~13.7€</p> <p>GB/month Arpu</p> | <p>Market leadership (36% M/S) Excellent QoS</p> <p>Big Screen Gross adds (mln)</p> <p>0.75 1.2</p> <p>2009 2010</p> |
| SMALL SCREEN | <p>Addressable market</p> <ul style="list-style-type: none"> Whole CB <p>Customers priorities</p> <ul style="list-style-type: none"> Devices Fast connection <p>Operators priorities</p> <ul style="list-style-type: none"> Policy for handsets (selective subsidy) ARPU uplift | <p>~0.3GB ~7.8€</p> <p>GB/month Arpu</p> | <ul style="list-style-type: none"> Focus only started in 4Q10 Product portfolio enhancement Development of offer+product bundles <p>TIMx Smartphone (000) Smartphones Sold (000)</p> <p>>210 3.5x ~120 ~240</p> <p>Jun10 Dec10 1Q10 4Q10</p> <p>Dec'10 Smartphones on total H/S sold ~35%</p> |

(*) browsing related

Agenda

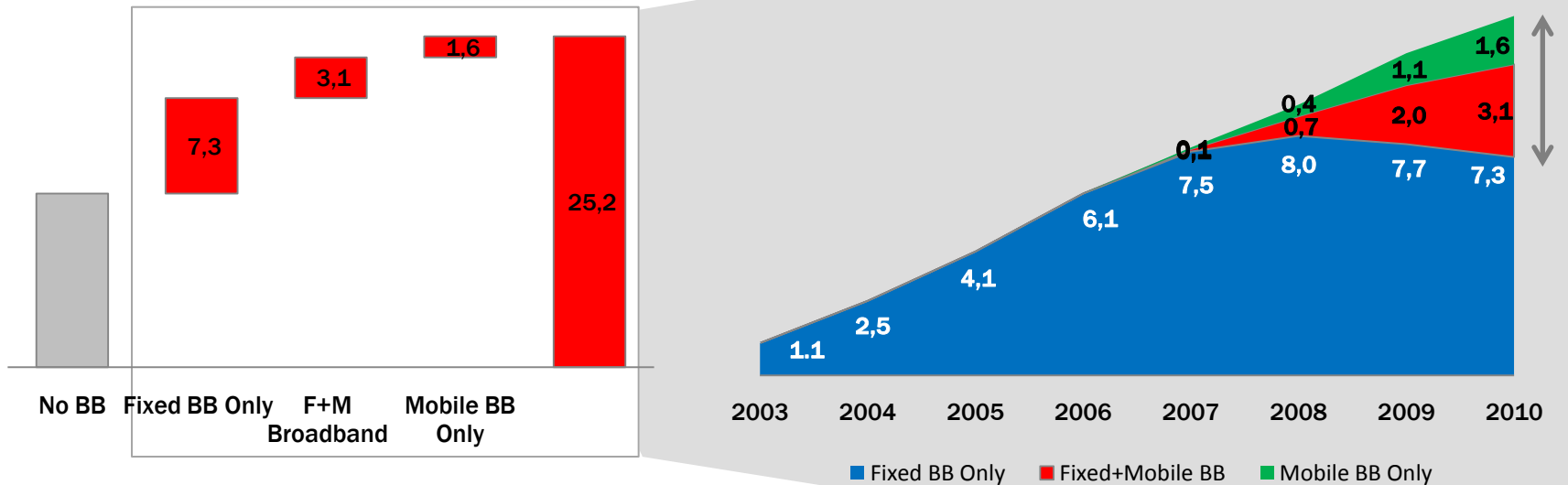
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Italian TLC Market Evolution and Competitive Scenario



Fixed and Mobile BB: Consumer Market Evolution

~25.2 Mln Households:
 ~12.0 Mln Broadband
 (Fixed and/or Mobile)



A fresh market still to be tapped
Mobile BB is complementary to Fixed BB

* Source: Between - Broadband Report July 2010, Company data

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Mobile: Traditional Core Services

Objectives

Strengthen the Customer Base

CRM to Protect Value

Actions

GROWTH

- ▶ Maintain competitive pressure on gross adds, with limited use of promotional offers
- ▶ Moving towards MNP break-even

VALUE

- ▶ Offers segmentation: Lock-in offers for High Value customers, continuous push on Community
- ▶ Push on bundle offers
- ▶ Price per minute stabilization

SATISFACTION

- ▶ Improve Customer Satisfaction and reduce the gap vs. best competitor

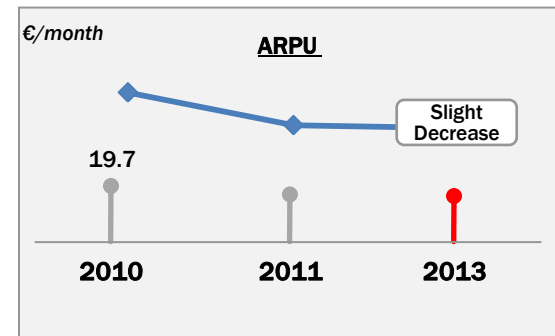
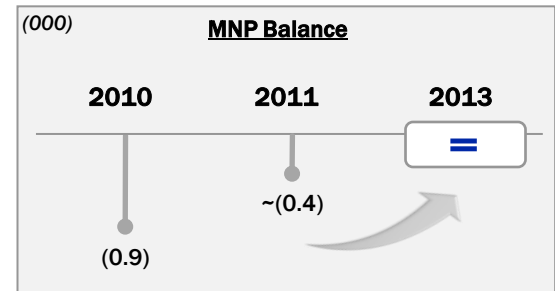
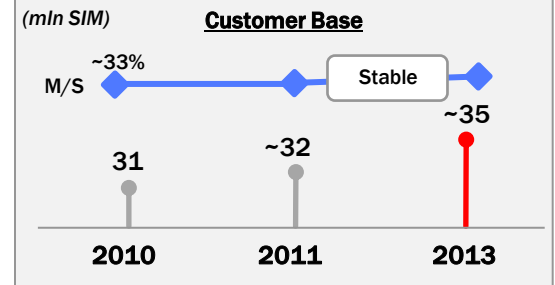
VALUE

- ▶ Different promos for different clusters of customers approached on a 1:1 basis
- ▶ Maintain focus on loyalty and up-selling with particular focus on High Value customers
- ▶ Win-back valuable customers

LOCK-IN

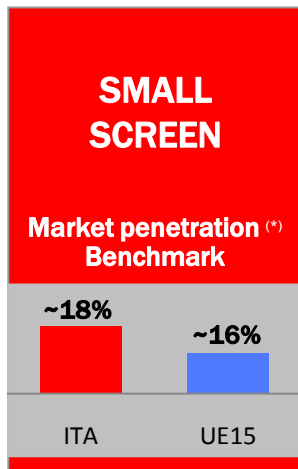
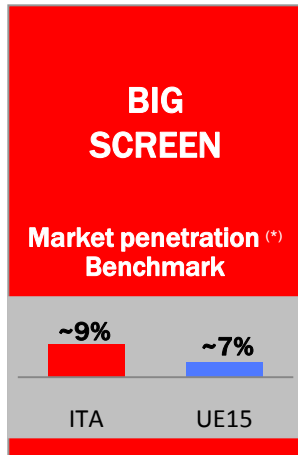
- ▶ Lock-in offers with Smartphone at favourable conditions
- ▶ Customer Pre-retention Unit for High Value customers

KPIs



Mobile Broadband Consumer: Catching Growth Opportunities

Objectives



Actions

Protect Leadership

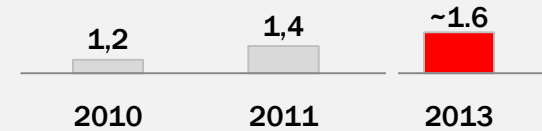
- ▶ Maintain leadership in a 4 Players market
- ▶ Offers based on QoS (Priority) for Premium customers
- ▶ Push cross selling activities for ADSL consumers
- ▶ CRM plan to contrast inactivity/churn

Fully Exploit Growth Opportunities

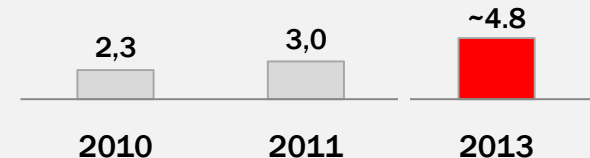
- ▶ Strong presence in the handsets market
- ▶ Keep subsidies under control
- ▶ Continuous push on "Tutto Compreso" with Smartphones
- ▶ Upselling on Customer Base
- ▶ New markets opportunities: Tablet, e-readers
- ▶ Apps as Mobile Internet: boost on TIMStore (synergy with TEF)

KPIs

Big Screen Gross Adds (mln)



Web Users (mln)

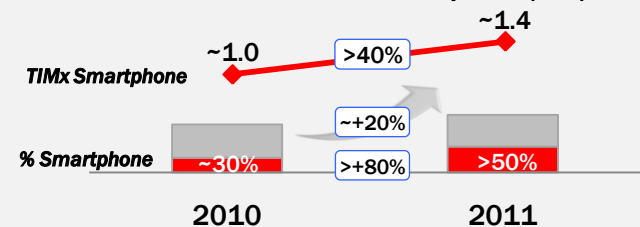


Market Share

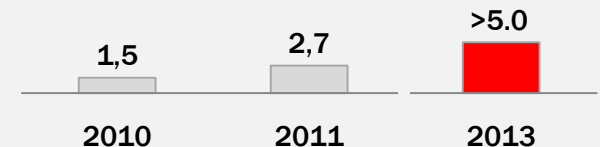
~ 36%

~ 37%

Handsets sell-in and TIMx Smartphone (mln)



Small Screen Active Users (mln)



*Source: COCOM Report

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Fixed: Continued Access Value Protection

Objectives

Protect
Access

Actions

ACQUISITIONS

- ▶ Push on win-back
- ▶ Advertising: continuous presence with mix on media channels differentiated depending on customer segments
- ▶ Distribution channels: re-balancing acquisition mix with stronger contribution from Push channels and renewed focus on shops

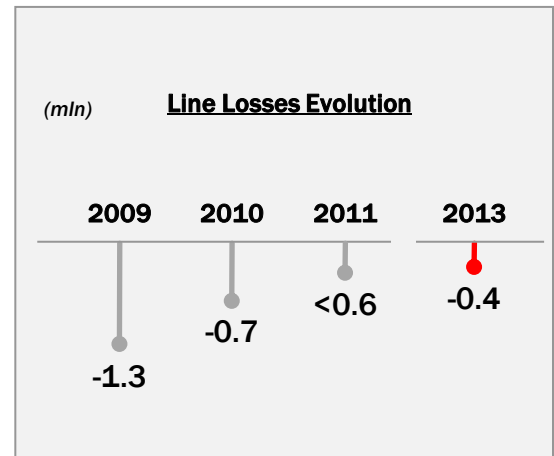
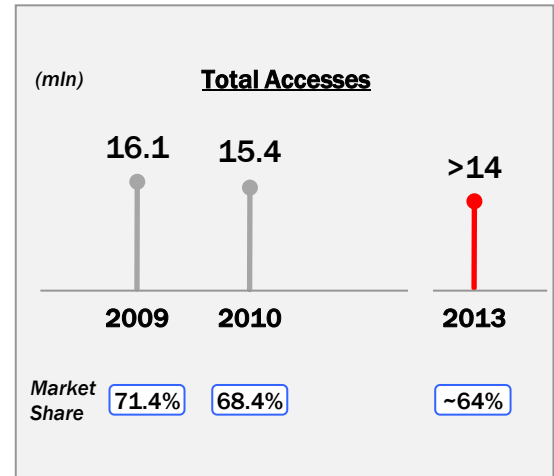
VALUE

- ▶ Greater efficiencies on loyalty with focus on High-End customers
- ▶ Increase penetration of flat/bundle offers

VALUE PROPOSITION

- ▶ Quality
- ▶ Innovation

KPIs



Fixed Broadband: Leveraging on Innovation

Objectives

Broad Band

Innovative Services

Actions

Defend market position and market share

- ▶ New promotions: no price war
- ▶ Offer segmentation
- ▶ New services to drive up ARPU and differentiate offering (e.g.: Pronto PC assistance)

Innovation in access to support ARPU

- ▶ High Quality ADSL
- ▶ Fiber: launch in 2H 2011

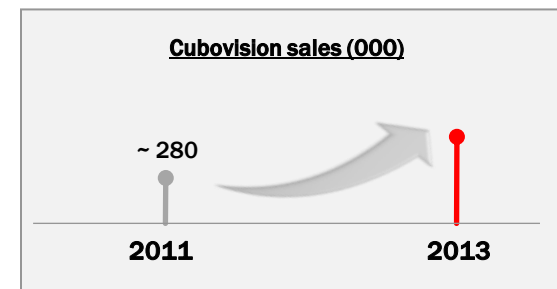
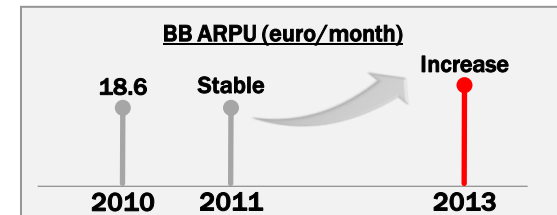
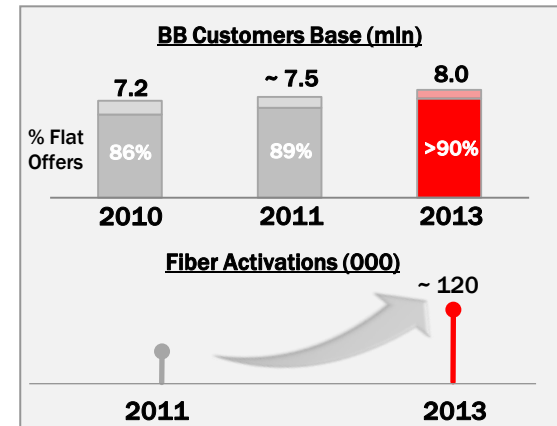
Develop new ways to use ADSL

- ▶ **Cubovision Device** OTTV with lower bandwidth requirements: addressable market from 40% (IPTV) to 90% (Cubo) BB lines
- ▶ **Cubo de-materialization**: access content with a multi-platform approach (Connected TV, Blu-Ray, pc)
- ▶ **Hybrid devices**: Tablet, smartphones (wi-fi enabled)

Adjacent markets

- ▶ Open the content distribution platform to Content Providers
- ▶ Launch of **Content Cubovision Suite** : VOD, catch-up TV, MUSIC, gaming, betting, ...
- ▶ **Quality of content ensured E2E** thanks to CDN

KPIs



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Business Segment: Innovative Integrated Approach Confirmed

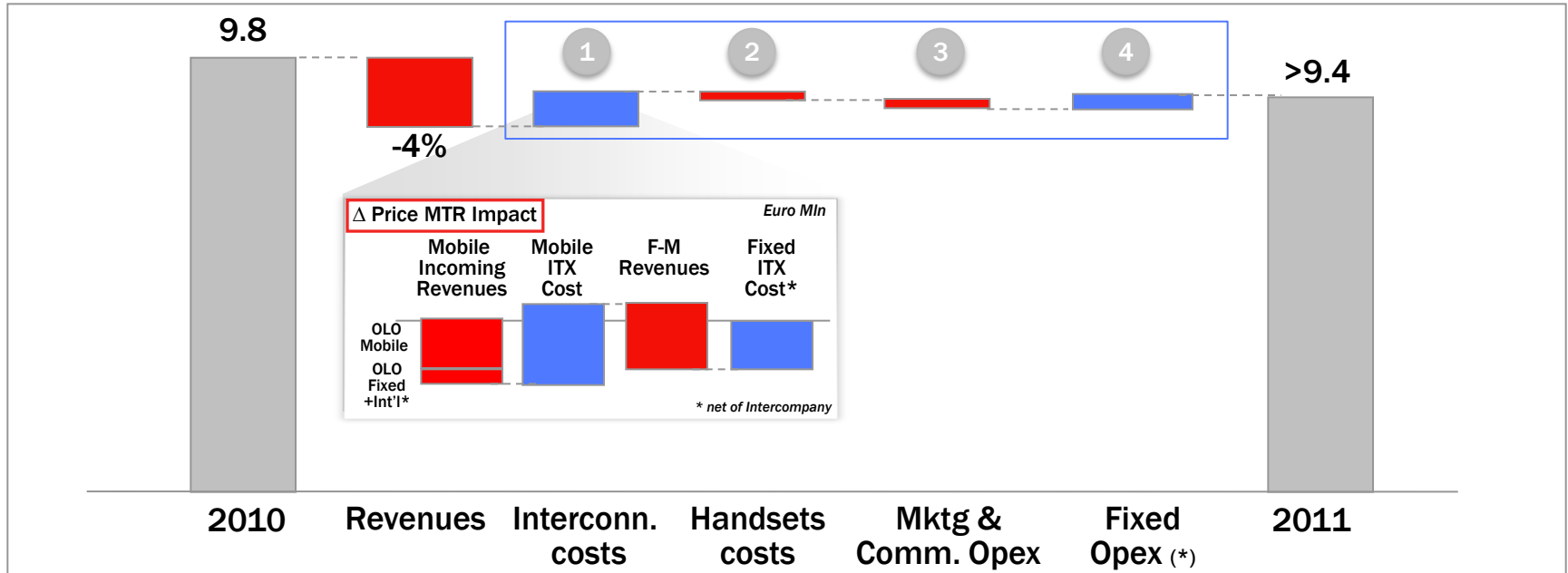
| Objectives | Actions | KPIs | | | | | | |
|--|--|--|------|-----|------|------|------|------|
| <p>Defend Value</p> <p>Ramp-up in Innovative Services Penetration</p> <p>Evolve towards the Cloud Computing model</p> | <ul style="list-style-type: none"> ▶ Leverage on Impresa Semplice distinctive branding in the SME market ▶ Improve quality ▶ Develop F-M Integrated Systems (single billing, single caring) ▶ Increase line winback rate from OLO's | <p>Market share on fixed access (%)</p> <table border="1"> <tr> <td>69,4</td> <td>~68</td> <td>~66</td> </tr> <tr> <td>2010</td> <td>2011</td> <td>2013</td> </tr> </table> | 69,4 | ~68 | ~66 | 2010 | 2011 | 2013 |
| | 69,4 | ~68 | ~66 | | | | | |
| | 2010 | 2011 | 2013 | | | | | |
| <ul style="list-style-type: none"> ▶ Push on mobile BB penetration ▶ Encourage IT services adoption rate through bundle with our best selling integrated offer | <p>Market share on mobile human lines (%)</p> <table border="1"> <tr> <td>46,2</td> <td>~46</td> <td>~48</td> </tr> <tr> <td>2010</td> <td>2011</td> <td>2013</td> </tr> </table> | 46,2 | ~46 | ~48 | 2010 | 2011 | 2013 | |
| 46,2 | ~46 | ~48 | | | | | | |
| 2010 | 2011 | 2013 | | | | | | |
| <ul style="list-style-type: none"> ▶ Further develop TLC + IT solutions of IaaS and PaaS through the E2E control of the network ▶ Develop offerings for vertical markets ▶ Go-to market partnership with system integrators w/o infrastructures ▶ Upgrade IT delivery and assurance processes to the Telco standards | <p>ICT Revenues (€mln)</p> <table border="1"> <tr> <td>818</td> <td></td> <td></td> </tr> <tr> <td>2010</td> <td>2011</td> <td>2013</td> </tr> </table> <p>+~12% Cagr '10-'13</p> | 818 | | | 2010 | 2011 | 2013 | |
| 818 | | | | | | | | |
| 2010 | 2011 | 2013 | | | | | | |

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Focus on 2011 Domestic EBITDA

Euro Bln, Organic Data, %



- 1 MTR reduction and symmetry glide path offsetting related Top Line decline
- 2 Selective growth of Handset/Smartphone Revenues to support Mobile BB development

- 3 Supporting BB and Mobile Customer Base growth
- 4 Consolidating Efficiency Programs Results on Fixed Opex

(*) Industrial + Personnel + G&A = Fixed Opex