

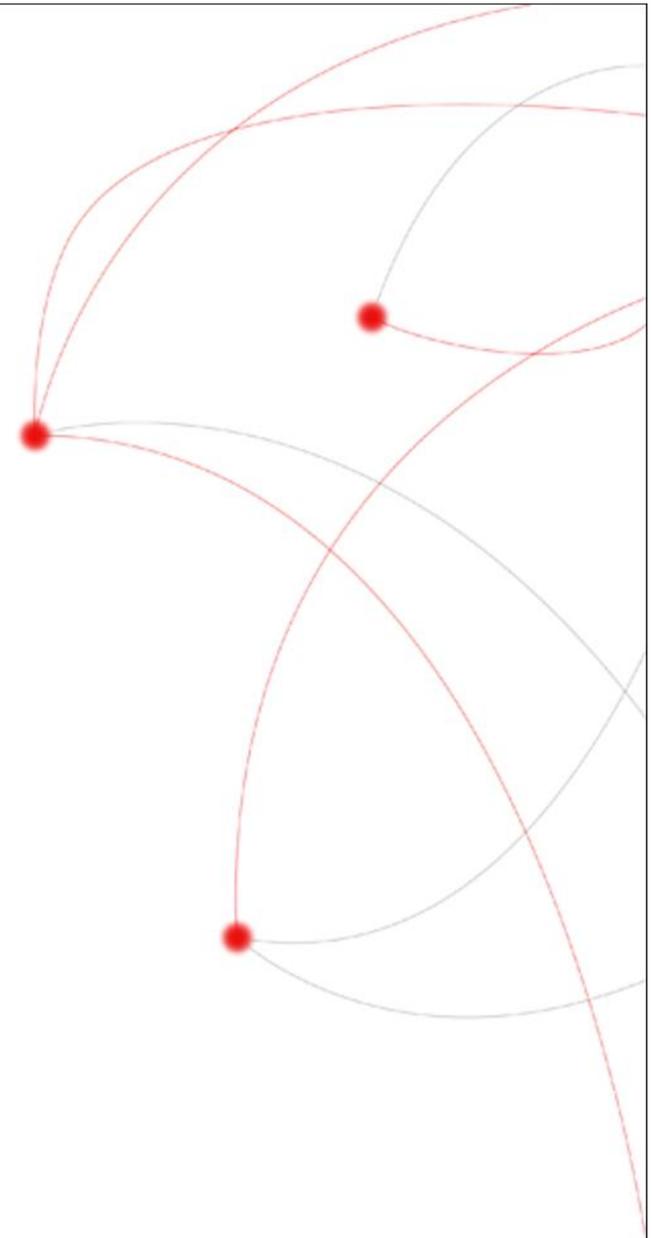
TELECOM ITALIA GROUP

1H 2013 Results

Milan, August 2nd, 2013

Telecom Italia Group 1H 2013 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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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

- ▶ **Domestic 2Q13 Progress Report**

- ▶ **Mobile**
- ▶ **Fixed**

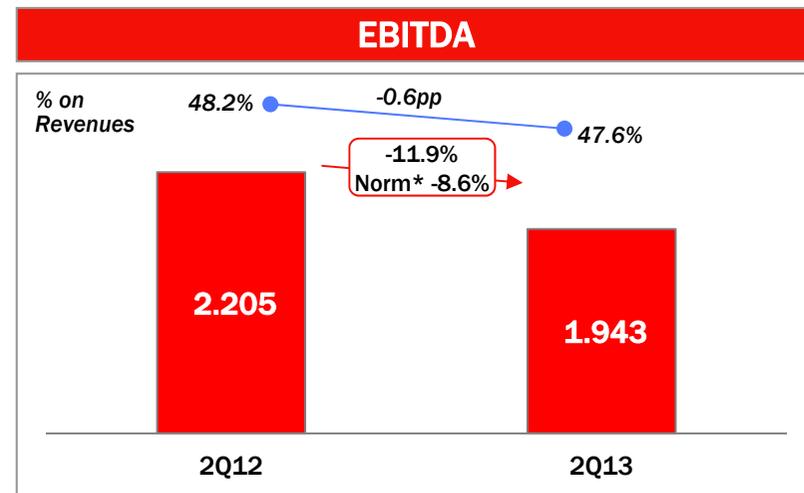
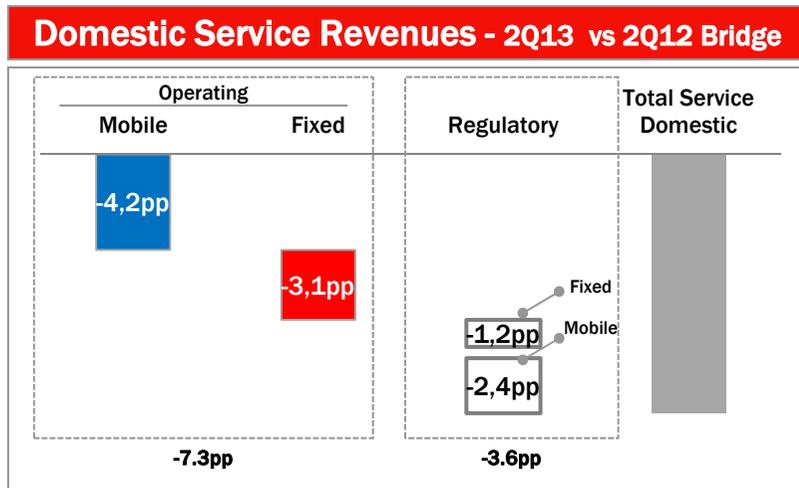
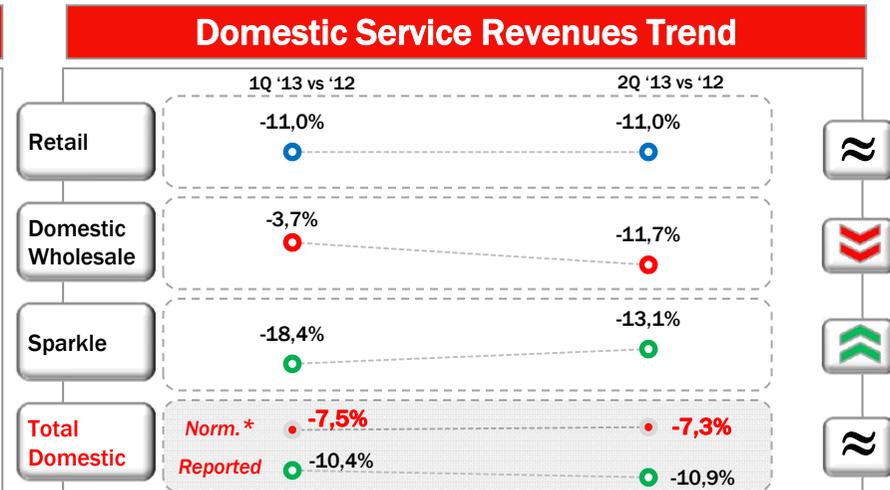
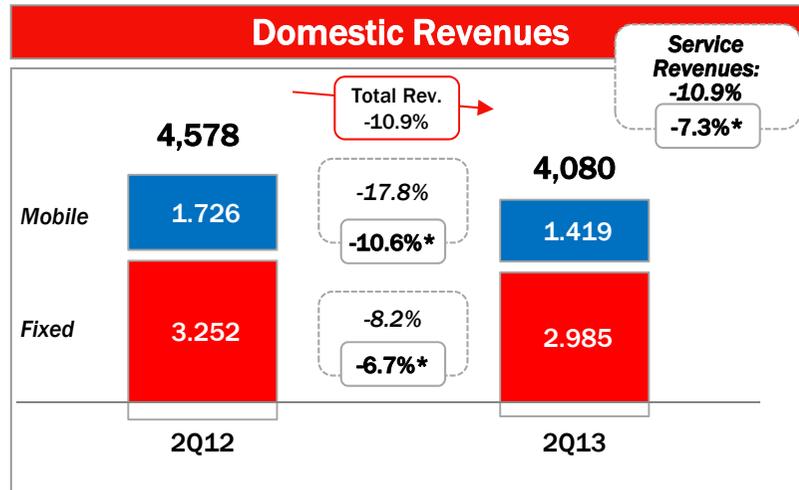
- ▶ **Appendix**

TI Domestic 2Q13 Highlights: a Better Foundation for the 2nd Half is set

| | | 2Q13 | 2H13 |
|-----------|---------------|---|---|
| Consumer | Fixed |  Better trend supported by: 1) Price adjustments on voice and access fee and 2) Steady growth in BB service revenues | Continued support from Value Strategy on ADSL. Initial take-up from Fiber adopters. Further contribution from monthly rental fees and price simplification |
| | Mobile |  Hard competition and unchanged MTR drag continued to affect quarterly performance. A turn in marketing approach yields positive KPIs from June | YoY gap narrows-in on the back of positive support from CB recovery, milder competitive arena and more favourable MTR comparison. Focus on "Convergence", Mobile UltraBB and "Segments" (Ethnic, Young etc. ect.) |
| Business | Fixed |  Performance in line with Budget ensured by a different mix: less traditional services partially offset by increasing adoption of ICT & Cloud services | Focus to be kept on innovative services (ICT & Cloud), leveraging now also on FTTCab technology. Continuing development of new streams of business, mainly IaaS and PaaS |
| | Mobile |  Improving QoQ trend. Positive KPIs. Lasting negative effect from MTRs was compensated in part by more voice usage | Maintain «value acquisition per line» strategy and defend ARPU through upselling Leveraging on «BYOD» concept to accelerate penetration and increase innovative services adoption |
| Wholesale | Domestic |  Strong negative impact by new wholesale copper prices announced by AGCOM on July 11°, accounted in 2Q retroactively from January 2013 (~50 mln €) | Negative impact by new regulated prices also in 2H |
| | International |  Gross Revenues gap vs Budget due to low margin voice transits. Ok valuable contracts | Continued improvement on third parties agreements. A flattish YoY performance is expected in the second part of the year |
| Cash Cost | Ebitda |  Before regulated price revisions, harsh competition and difficult macro caused only slight YoY deterioration in 2Q13 vs 1Q13. EBITDA decline (-2pp) in 2Q vs 1Q becomes material due to regulatory impact | Crash program on Opex Extension of site sharing Agreement with primary Operator |
| | Capex |  Domestic Investments confirmed, prioritizing UBB networks | Investments adoption of new technologies goes ahead, notwithstanding the early take-up phase |

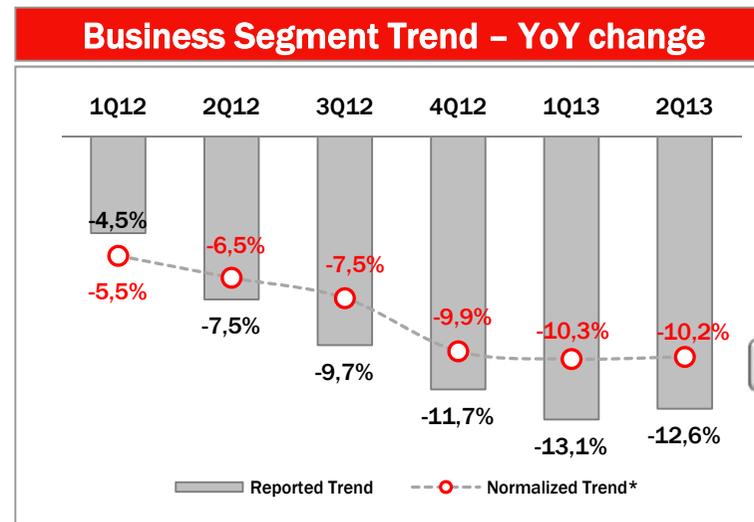
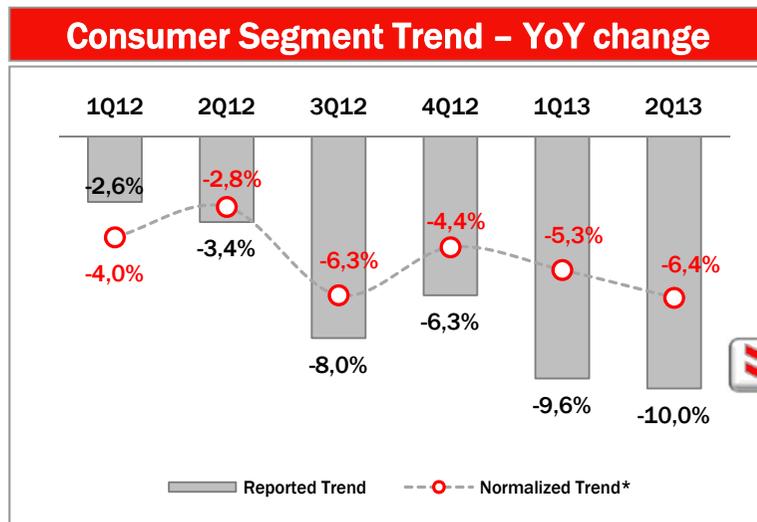
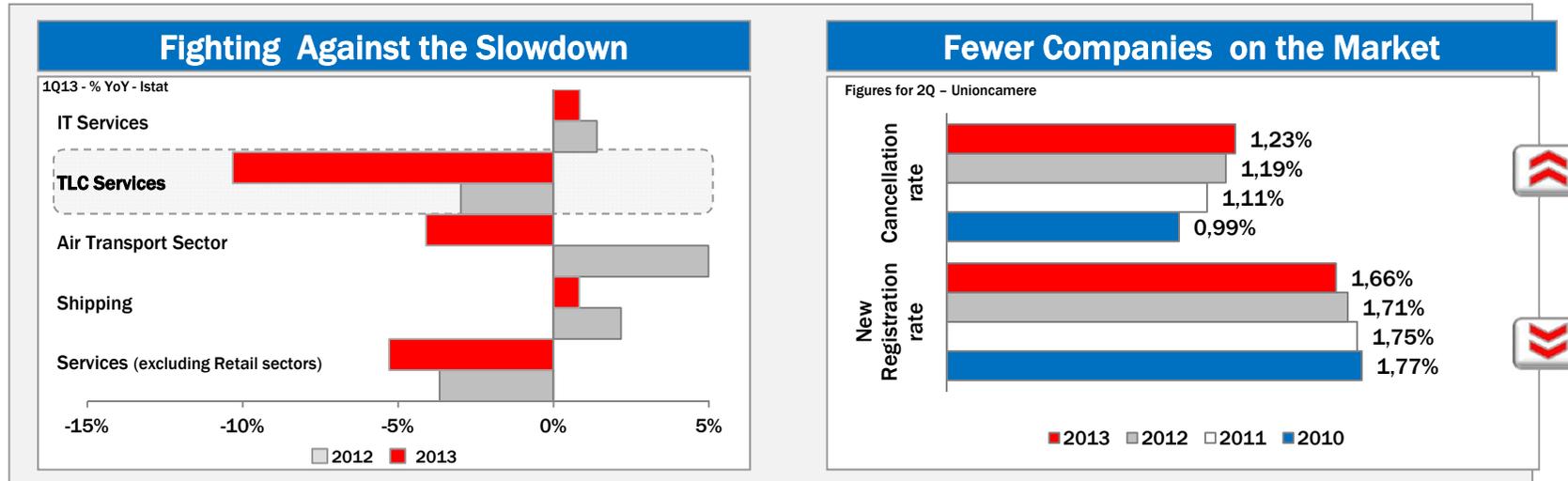
Domestic 2Q13 Financial Highlights

Euro mln, Organic data, %



*Normalized for regulated prices impact and other discontinuities

Service Revenues Trend by Segment: Consumer & Business



*Data Normalized for bad weather and calendar discontinuities; Excluding Regulatory price impact (MTR, Roaming Cap UE, wholesale access price reduction)

TI Ultra-Broadband Plan to play a key role for EBITDA stabilization

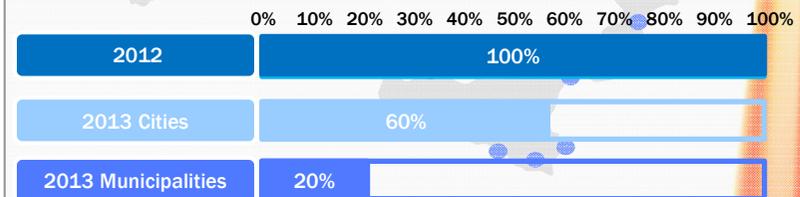
Telecom Italia NGN Network Roll-out

- ▶ Telecom Italia reaffirms its commitment to the National Ultra-Broadband Development Programme: fiber-optics infrastructure already in place in 33 Italian cities & 5 industrial districts, connecting to-date up a total of almost 3 million properties.
- ▶ “Ultra Internet Fibra Ottica” services based on FTTCab technology with speeds of 30 Megabits per second already available in 29 cities.
- ▶ Progressive acceleration in the FTTC daily acquisition

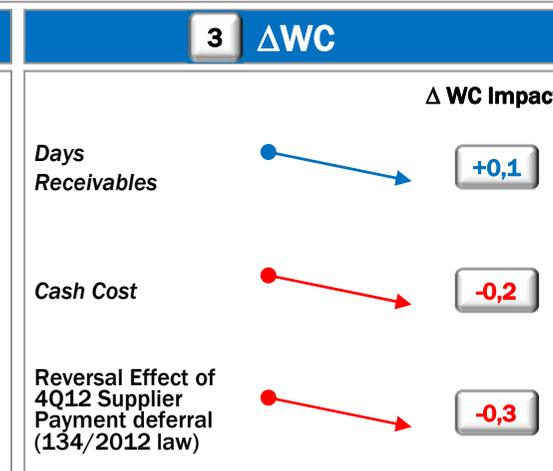
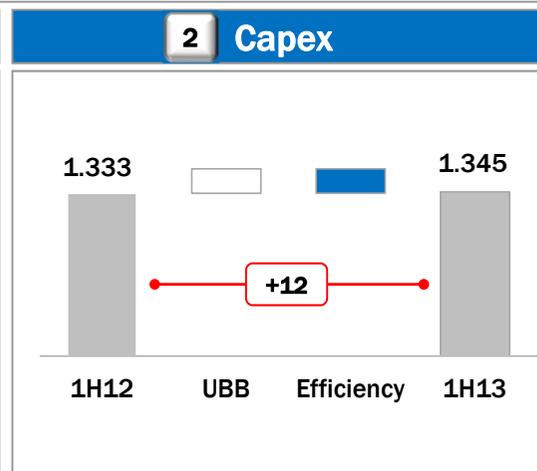
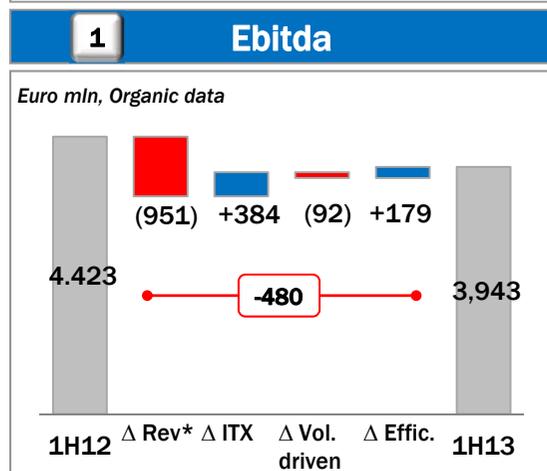
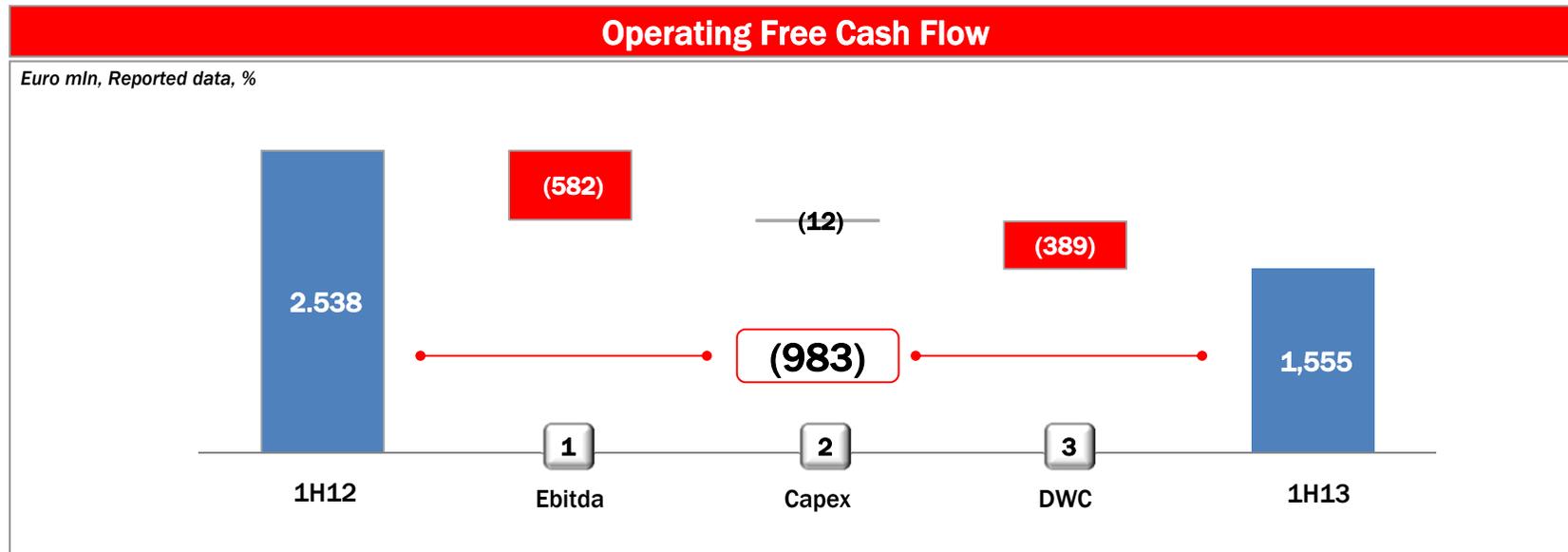
TIM LTE Coverage

- ▶ In parallel to our Fiber Plan, TIM is rolling-out its LTE programme, supporting its leading position in providing quality and speed on-the-move.
- ▶ Nationwide distribution already reached 1/4 of the population.

Target LTE Coverage



Operating Free Cash Flow

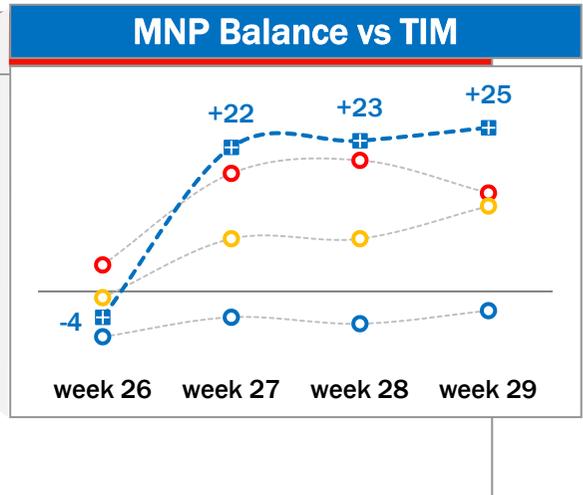
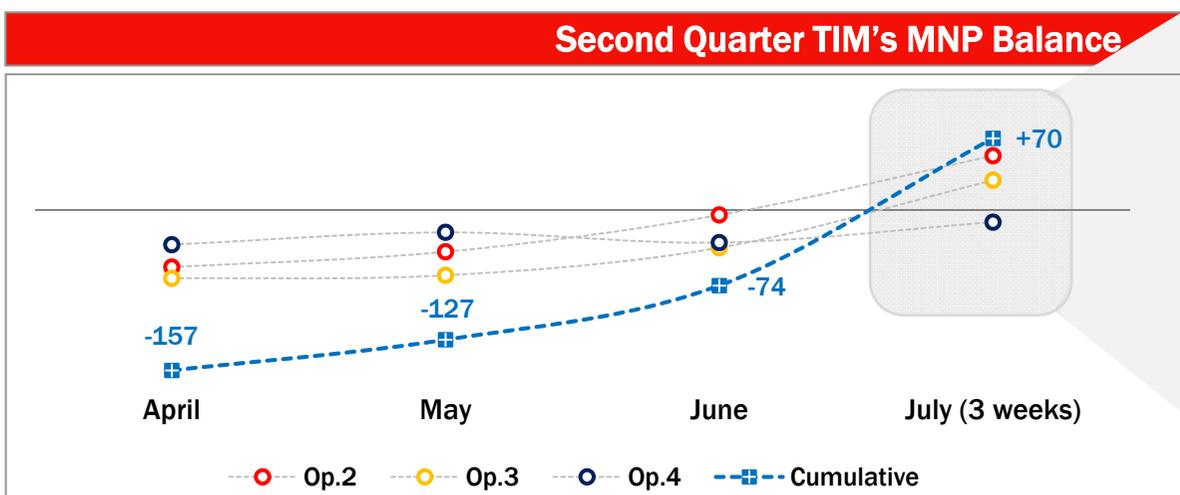
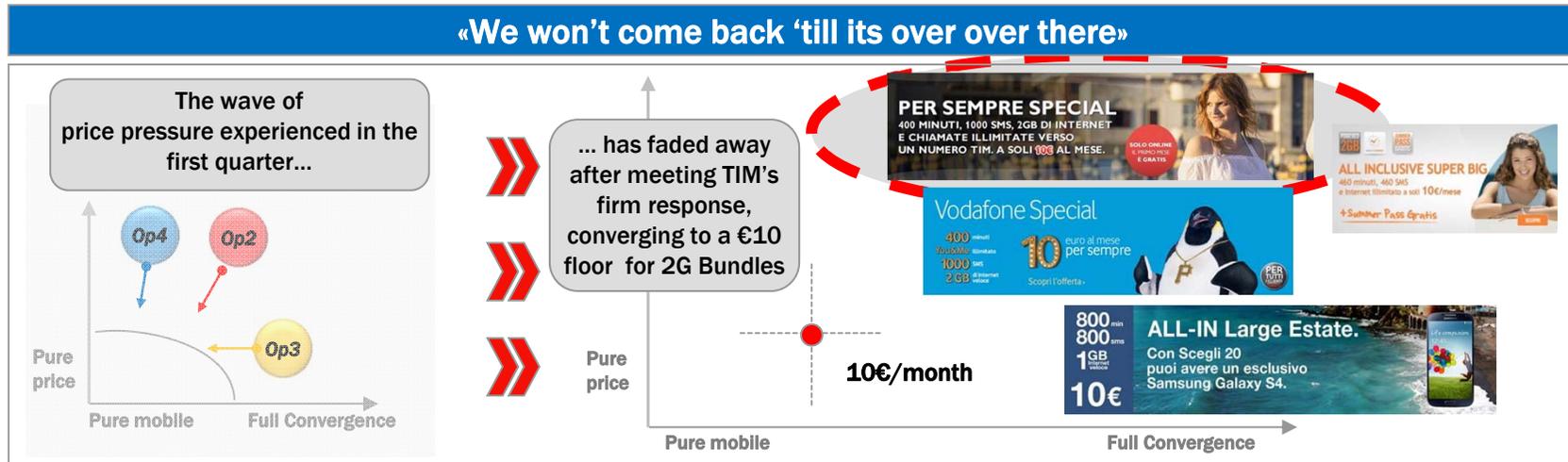


* Including ~50 mln€ for regulated price revision

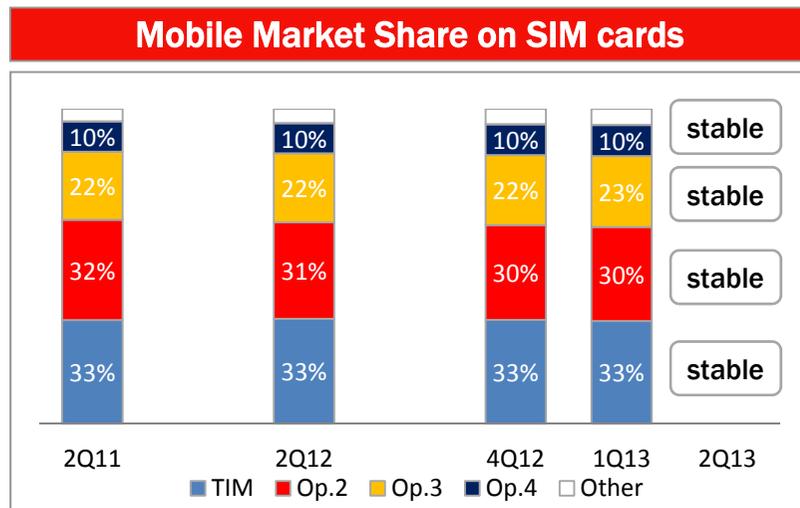
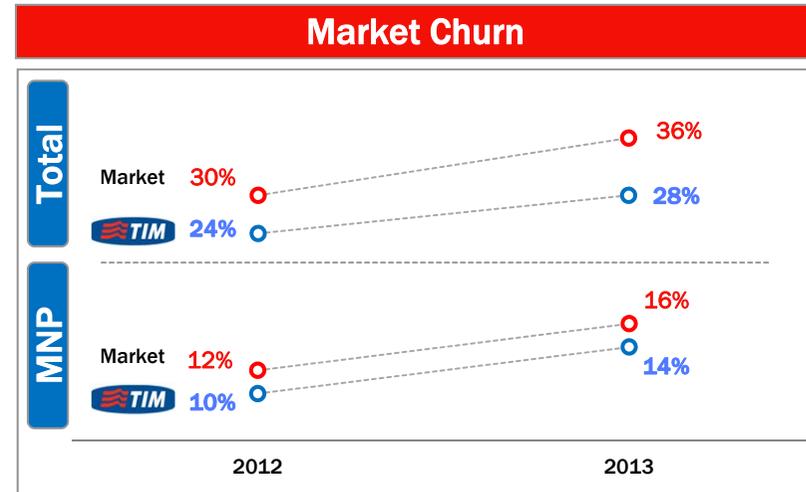
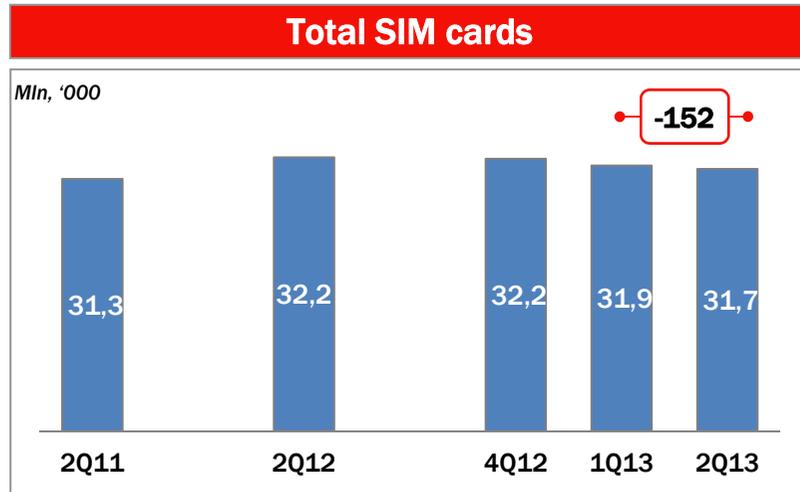
Agenda

- ▶ Domestic 2Q13 Progress Report
 - ▶ **Mobile**
 - ▶ Fixed
- ▶ Appendix

Playing the Price War to stop it: TIM's repositioning has laid a new Base for Mobile Consumer



Domestic Mobile: Customer Base Trend



- ### Highlights
- ▶ Slightly reduction in Mobile CB reaching 31.7 SIM card
 - ▶ Confirmed best-in-class position on churn rate both at Total Market and MNP
 - ▶ Almost no M/S reshuffle among operators after 2 years of strong competition

Mobile Consumer Segment: Sticking to Value

Convergence

- ▶ Focus on our distinctive Fixed & Mobile assets: convergence approach through Telecom Italia & TIM services to strengthen our market share and push upselling strategy. One million customer already into convergence



Lock-in

- ▶ Retention and Value protection strategy through tailored offers
- ▶ Targets lock-in actions to retain high-end historical customers, rewarding via device substitution

Focus on Segments

- ▶ “Multi-segment approach” with distinctive positioning and customized caring services to preserve Value



Young



Ethnic



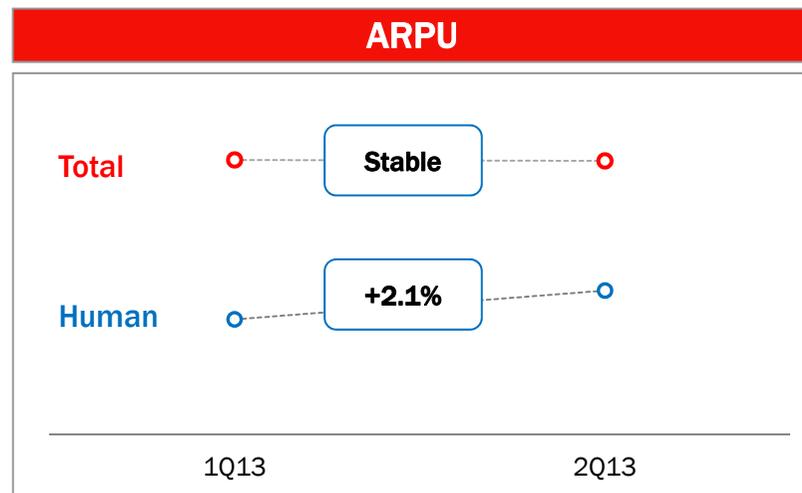
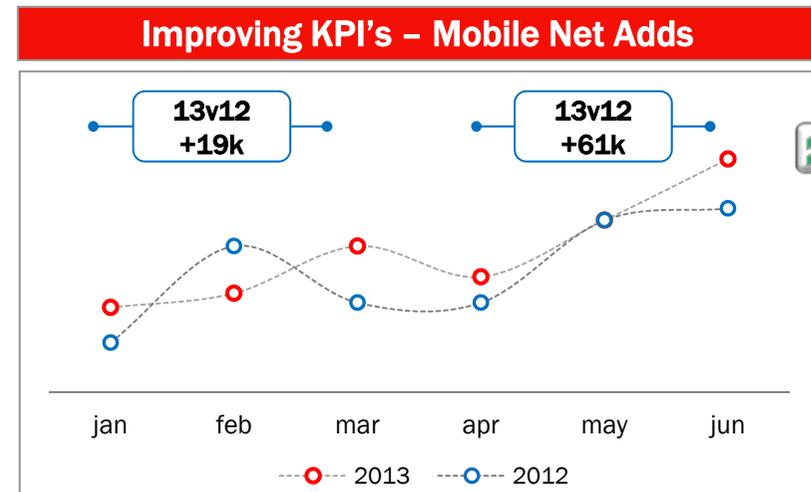
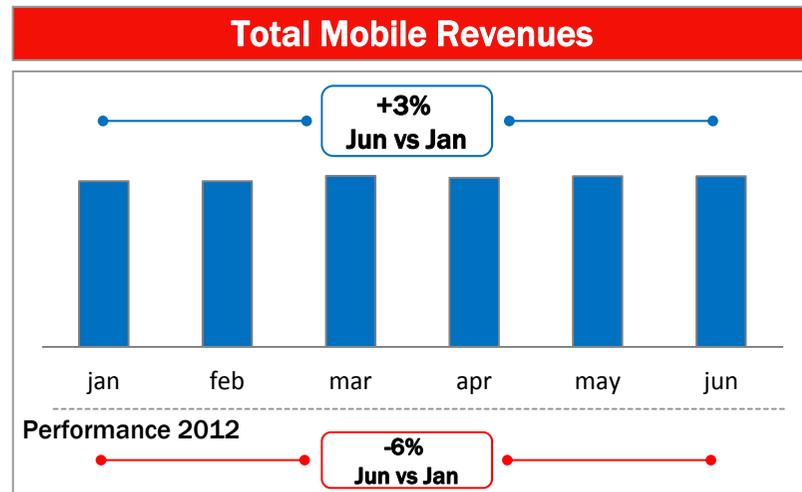
High-end



Senior



Mobile Business Segment: Improving Trends



- ### Highlights
- ▶ Strong effort and targeted investments led to:
 - ▶ Customer Base Increase
 - ▶ ARPU stabilization on quarterly basis
-
- ▶ Positive trend on Mobile Revenues month by month

Mobile BB: positive track record driven by Small Screen and UBB

Consumer

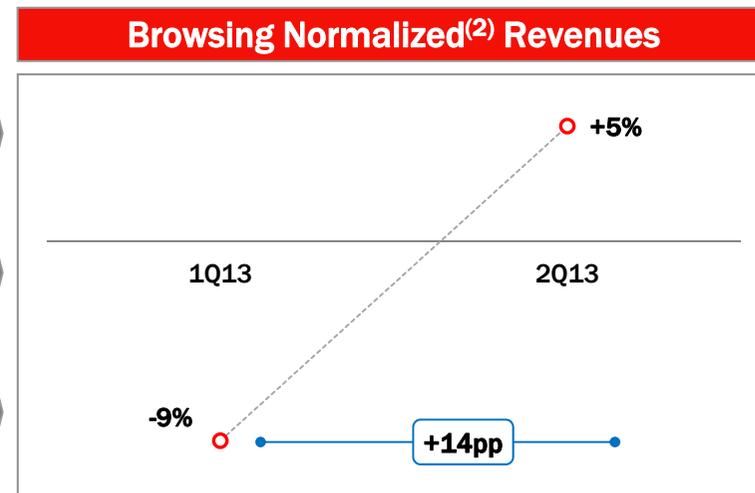
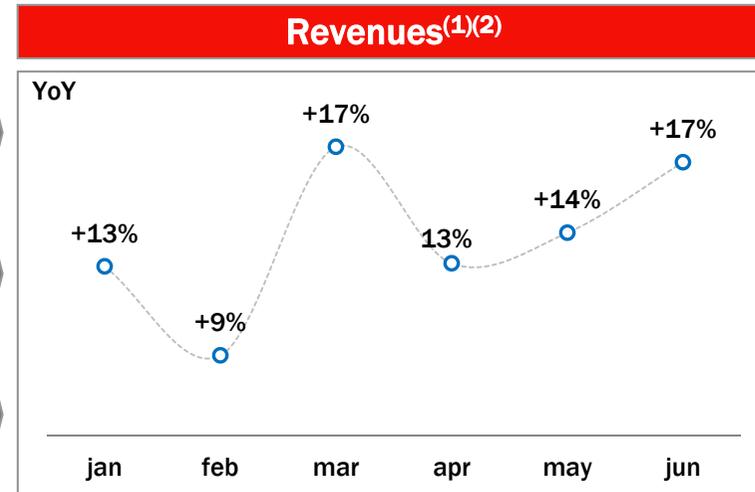
KPI's

- ▶ **6.8 mln clients (+25.8% YoY)**
 - ▶ Large Screen: 2.7 mln clients (+4.4% YoY)
 - ▶ Small Screen: 4.1 mln clients (+45.3% YoY)
- ▶ **Double digit growth on Revenues**

Business

KPI's

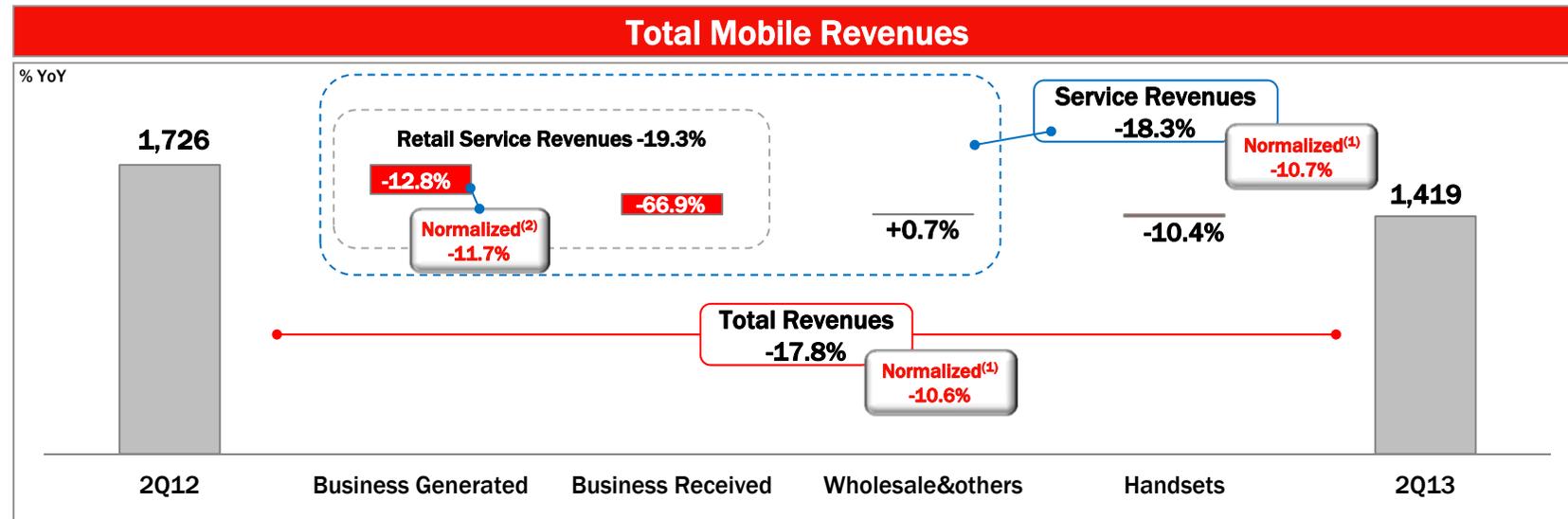
- ▶ **2.3 mln clients (+4.5% YoY)**
 - ▶ Large Screen: 1.2 mln clients (-7.7% YoY)
 - ▶ Small Screen: 1.1 mln clients (+21.9% YoY)
- ▶ **Sound Revenues trend improvement after negative performance due to repricing**



(1) excluding Prova TIM
(2) excluding EU Roaming impacts

Mobile Revenues: 2Q13 Results at a Glance

Euro mln, Organic Data



Service Revenues

Business Generated:

- ▶ Outgoing Voice performance still affected by harsh competition
- ▶ Improving performance on VAS :
 - ▶ Growing trend in Interactive due to browsing : +8.4% YoY in Q2 normalized⁽²⁾ (+2.4% YoY Reported)
 - ▶ Decreasing trend in Messaging as a result of growing SMS volume in our bundle in order to defend this traditional service from OTT applications

Business Received:

- ▶ Incoming Voice performance still impacted by strong MTR cut (-72% YoY)

Handsets

% smartphone on total handsets sales – Consumer segment

| Quarter | % Smartphone | o/w LTE |
|---------|--------------|---------|
| 1Q12 | 69% | - |
| 2Q12 | 73% | - |
| 1Q13 | 77% | 8% |
| 2Q13 | 82% | 24% |

- ▶ Constant increase in smartphone penetration on Handsets sold (+9pp YoY in 2Q13)
- ▶ Positive kick-off in LTE Handsets sales

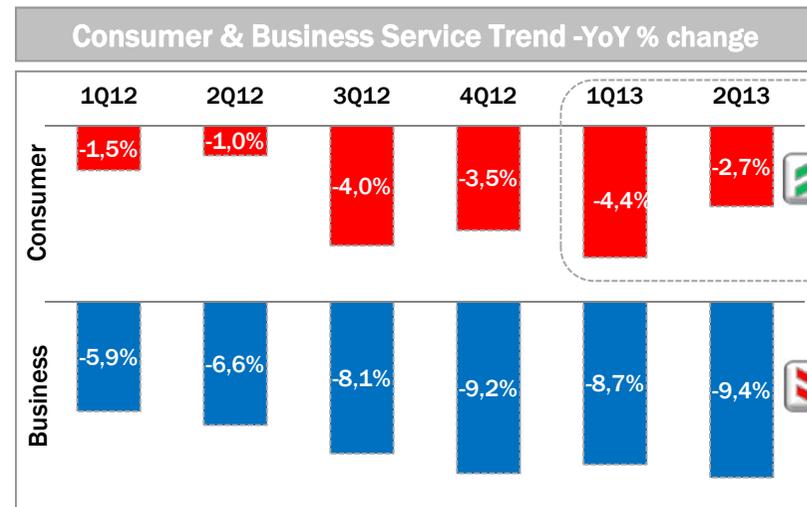
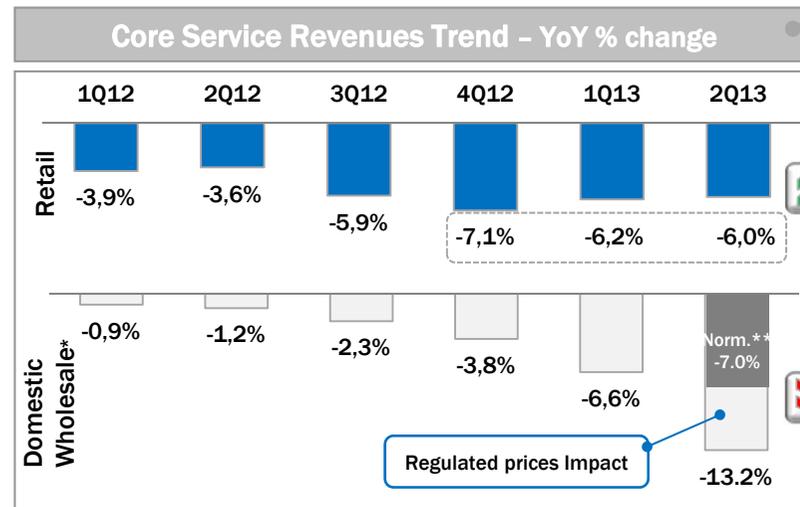
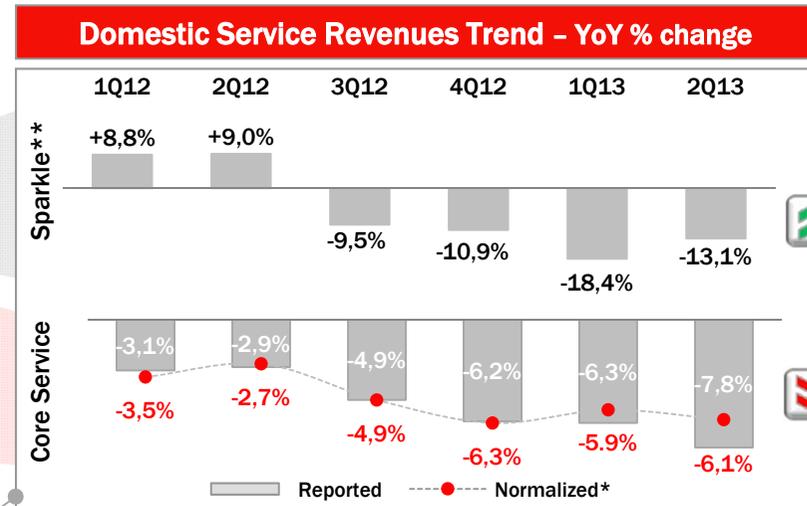
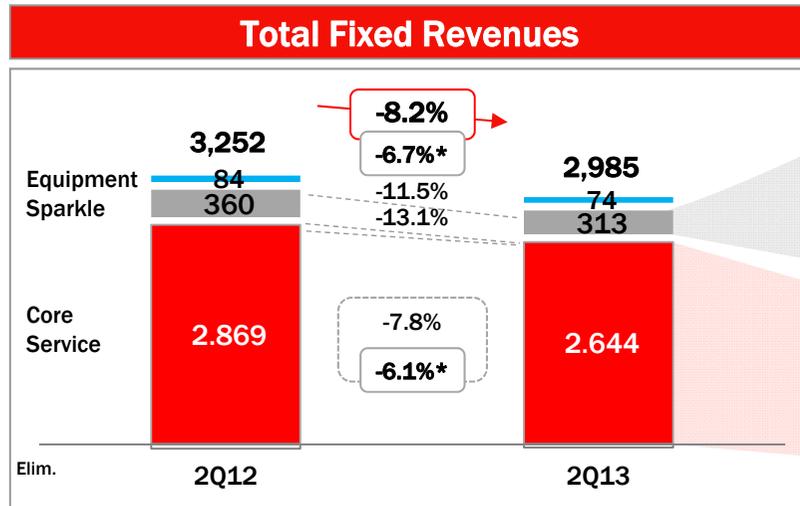
(1) Data Normalized for bad weather and calendar discontinuities; Excluding Regulatory Impact (Δ MTR and EU Roaming price cap)
(2) Excluding EU Roaming impacts

Agenda

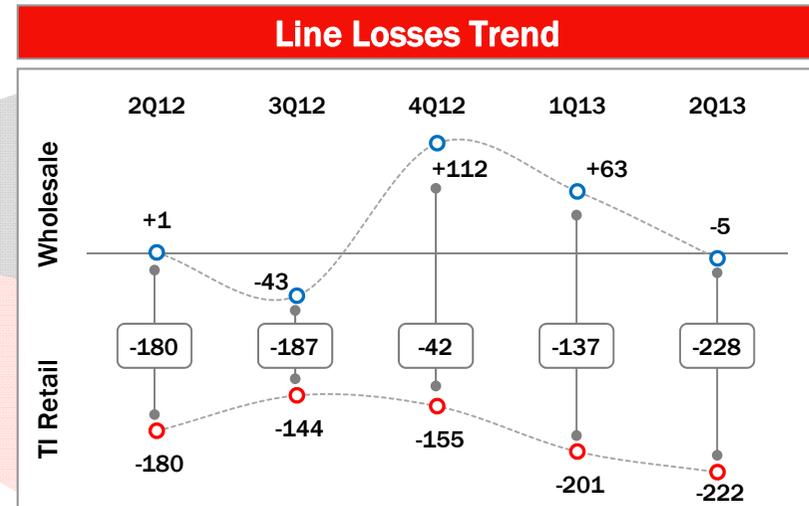
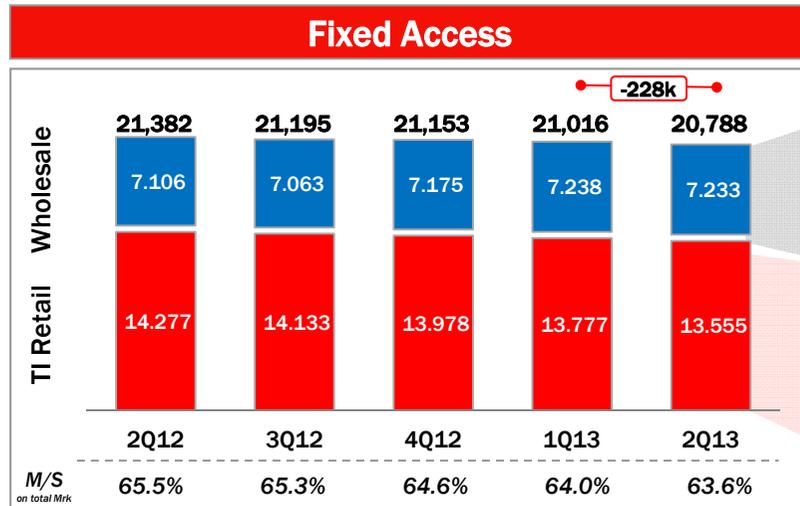
- ▶ Domestic 2Q13 Progress Report
 - ▶ Mobile
 - ▶ **Fixed**
- ▶ Appendix

Domestic Fixed: Focus on Core Service Revenue Performance

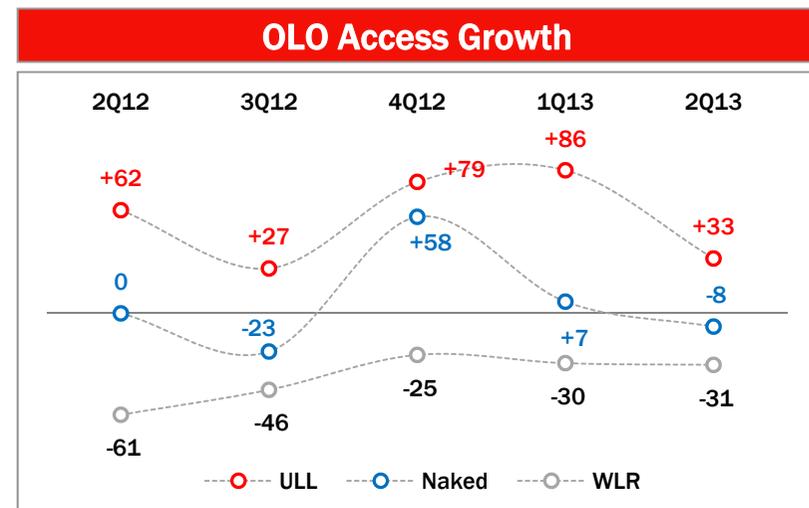
Euro mln, Organic Data, %



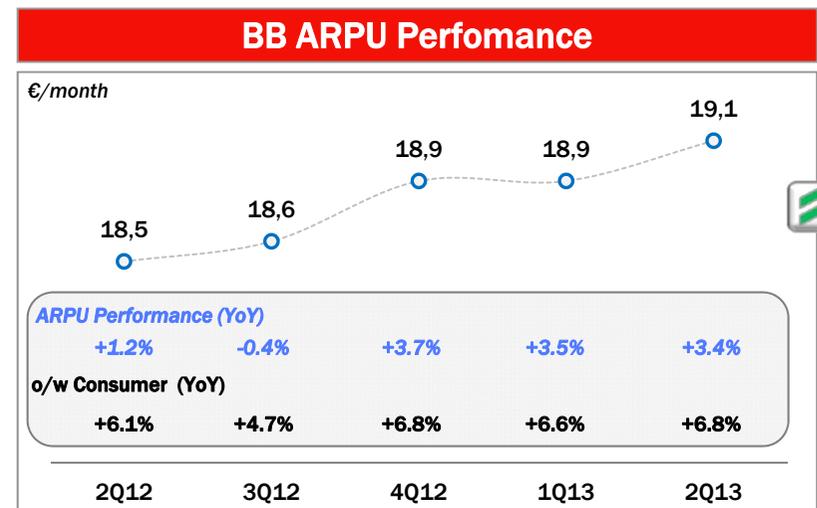
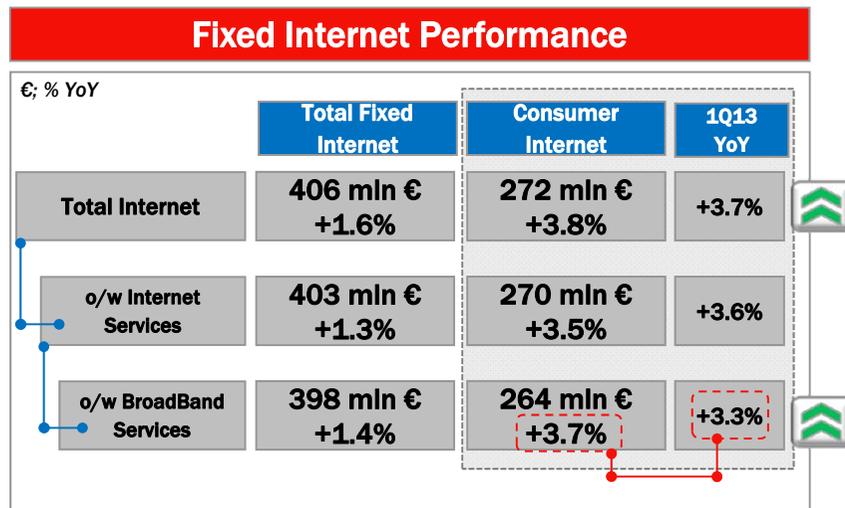
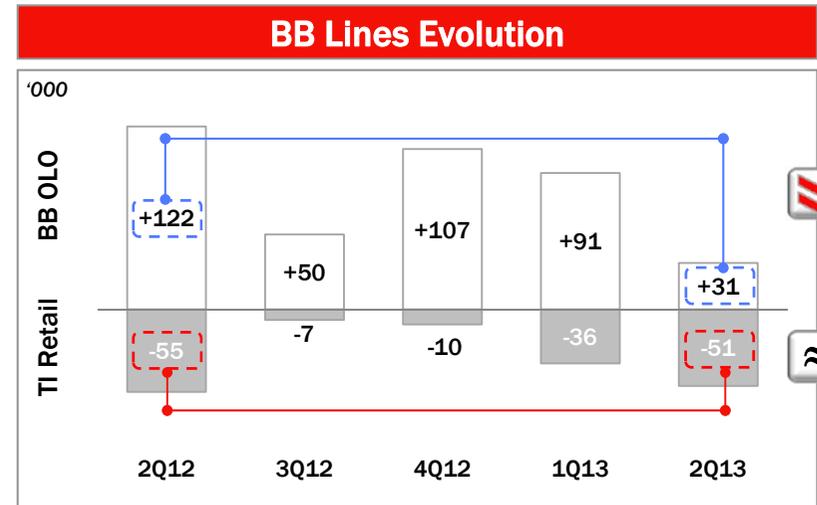
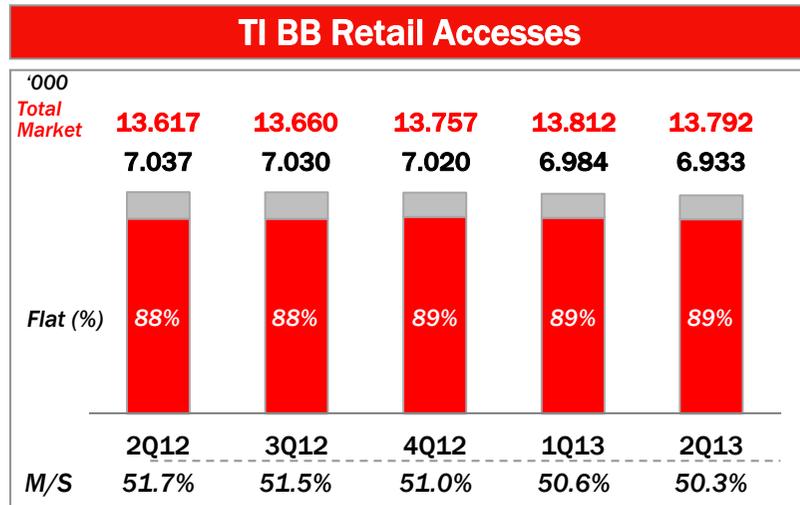
Domestic Fixed: TI Access Performance



- ### Highlights
- ▶ Access Market reduction as result of constant decrease TI's fixed lines and meaningful drop in OLO's acquisition
 - ▶ TI's line losses:
 - ▶ Consumer segment: pressure on mobile prices drives low-value line disconnections on fixed ("voice only")
 - ▶ Business Segment: Multi-lines rationalization due to continued spending review process in Corporate and Soho/SMEs



Domestic Fixed: Broadband Figures



Agenda

- ▶ Domestic 2Q13 Progress Report
 - ▶ Mobile
 - ▶ Fixed
- ▶ **Appendix**

Domestic Mobile Revenues

Euro mln, Organic Data, %

| | 2Q12 | 2Q13 | YoY % | 1H13vs12 YoY % |
|------------------------------------|--------------|--------------|---------------|-------------------|
| Total | 1,726 | 1,419 | (17.8) | (17.1) |
| Wholesale (*) | 74 | 74 | 0.7 | 0.5 |
| Retail | 1,652 | 1,345 | (18.6) | (17.9) |
| o/w Services | 1,533 | 1,238 | (19.3) | (18.9) |
| o/w Business Generated (**) | 1,351 | 1,177 | (12.8) | (12.4) |
| o/w Outgoing Voice | 837 | 694 | (17.0) | (15.8) |
| o/w VAS | 514 | 483 | (6.0) | (7.0) |
| o/w Incoming | 182 | 60 | (66.9) | (67.6) |
| Handsets | 120 | 107 | (10.4) | (1.5) |

(*) Including Visitors

(**) Total Retail Service Revenues net of Incoming

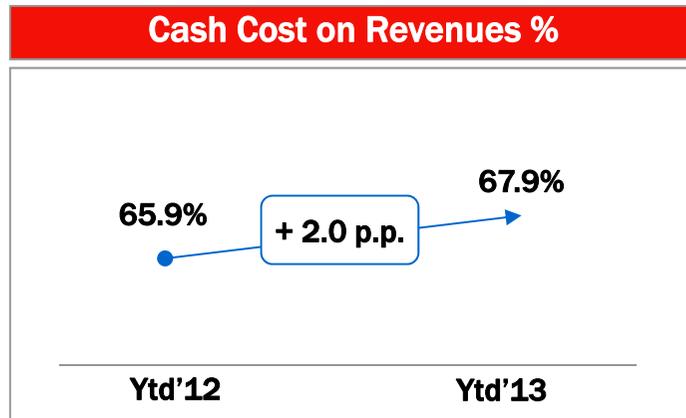
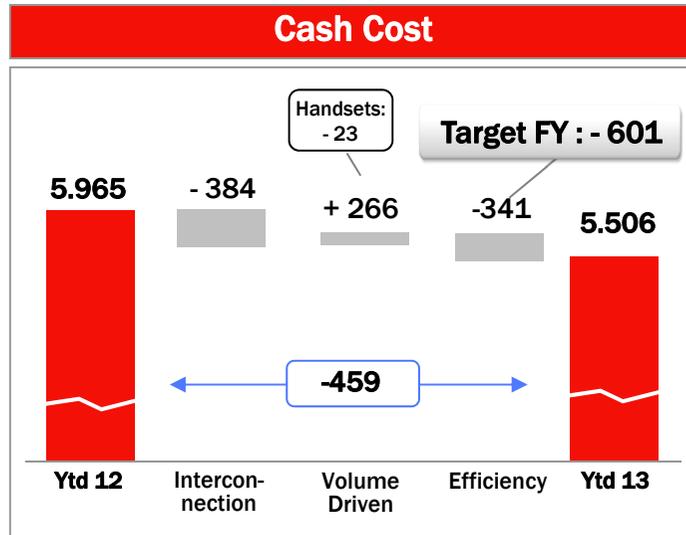
Domestic Fixed Revenues

Euro mln, Organic Data, %

| | 2Q12 | 2Q13 | YoY % | 1H13vs12 YoY % |
|-------------------------------|--------------|--------------|---------------|-------------------|
| Total | 3,252 | 2,985 | (8.2) | (7.9) |
| Sparkle Group | 360 | 313 | (13.1) | (15.7) |
| Domestic Core Services | 2,869 | 2,644 | (7.8) | (7.1) |
| Voice & Access | 1,353 | 1,247 | (7.8) | (8.5) |
| Internet | 398 | 403 | 1.3 | 1.5 |
| Business Data | 288 | 268 | (6.8) | (4.4) |
| National Wholesale | 760 | 660 | (13.2) | (9.9) |
| Other & Subs | 70 | 66 | n.m. | n.m. |
| Products | 84 | 74 | (11.5) | (13.9) |
| Elimination | (61) | (46) | n.m. | n.m. |

Progress on Domestic Efficiency Plan

Euro mln, Organic Data, %



Delta Cash Cost Ytd 13 vs FY 12

| | Ytd '13 | Δ Abs '13 vs '12 | Δ ITX | Δ Vol. Driven | Δ Efficiency |
|------------------------|--------------|------------------|-------|---------------|--------------|
| Total Opex* | 4.161 | -471 | -384 | +92 | -179 |
| ITX | 711 | -384 | -384 | - | - |
| Mktg & Sales | 1.231 | -87 | - | -23 | -64 |
| Industrial | 528 | +21 | - | +46 | -25 |
| Personnel | 1.408 | -64 | - | -6 | -58 |
| G&A & Other ** | 283 | +43 | - | +75 | -32 |
| Total Capex | 1.345 | +12 | - | +174 | -162 |
| Total Cash Cost | 5.506 | -459 | -384 | +266 | -341 |

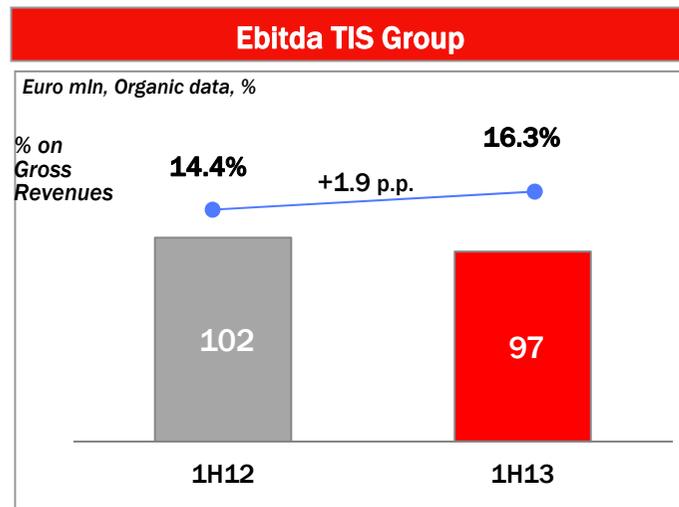
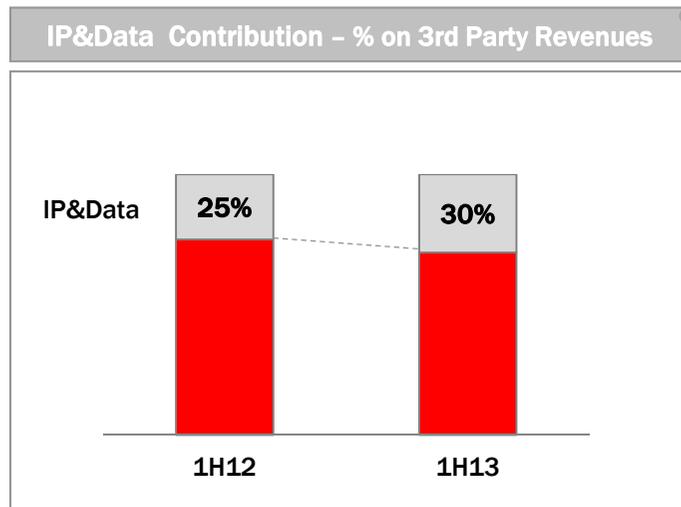
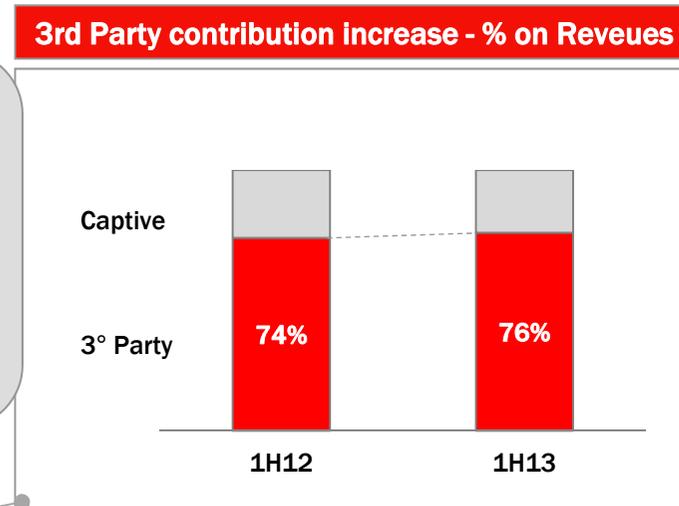
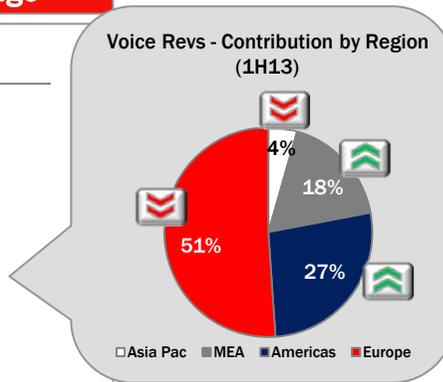
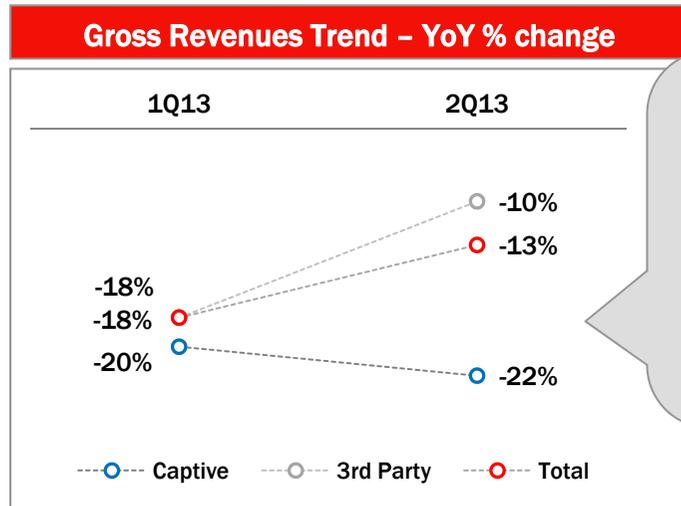
48% of FY13 Target (Total Opex)

70% of FY13 Target (Total Capex)

57% of FY13 Target (Total Cash Cost)

Sparkle: 3rd Party and Data contribution to Profitability

Euro mln, Organic Data, %



Caring Services – Progress 1H13

Engagement - Front End - Back Office

Market Dynamics

- ▶ Operators' busy time downwards trend continue in 2Q

Internal Actions started to increase production capacity

- ▶ Stamping on system ✓
- ▶ Shift revision *on going* ✓
- ▶ Job conversion ✓
- ▶ IT access time reduction ✓
- ▶ TI/TCC synergies (Telecontact) ✓
- ▶ Site reduction (-9 vs 26 year target) ✓
- ▶ System reengineering on track ✓

Front End

In-House Growth

In-House answers

+4%

In-House processing

+66%

Back Office

Operators Calls Received (mln calls)

| Year | 2012 | 2013 |
|--------|------|------|
| Value | 31 | 29 |
| Change | | -5% |

In-House Incidence

| Year | 2012 | 2013 |
|------------|------|------|
| Answers | 48% | 52% |
| Processing | 34% | 52% |

Performance

- ▶ Quality levels in line with 4Q12
- ▶ Commercial performance on track
- ▶ Higher In-House productivity with less staff (-559 FTE average)
- ▶ Start of new Solidarity Contract (April)
- ▶ Lower cost of external staff
- ▶ Lower labour cost

I Half

| Category | 2012 | 2013 | Change | % of FY Target |
|----------------------------|------|------|--------|--------------------|
| Staff | 325 | 304 | -22 | ~ 56% of FY Target |
| - Internal | 227 | 218 | -9 | -4% |
| External Costs | 98 | 85 | -13 | -7% |
| - Organic CS (# resources) | | | -559 | |

Domestic - Focus on Delta Operating Working Capital

Euro mln, Reported Data

Delta Operating Working Capital (impact on 1H13 Cash Flow)

| | Inventories | Trade Receivables | Trade Payables | Net Other Receivables/ Payables | Δ Severance Indemnities, Funds & Other | ΔOWC & Other 1H13 |
|----------------------------------|-------------|-------------------|----------------|---------------------------------|--|-------------------|
| | (59) | +108 | (985) | +38 | (26) | (924) |
| Change vs 1H12 Reported | (35) | (221) | (65) | (69) | +1 | (389) |
| OLO TRANSACTION | - | +350 | (432) | +83 | - | +1 |
| Change vs 1H12 Normalized | (35) | +129 | (497) | +14 | +1 | (388) |

o/w:
 +94 improved avg. cash-in days (-1,7 days yoy)
 +35 invoice delta/Other

o/w:
 -310 suppliers' payment deferrals
 -104 cash cost reduction/Other