

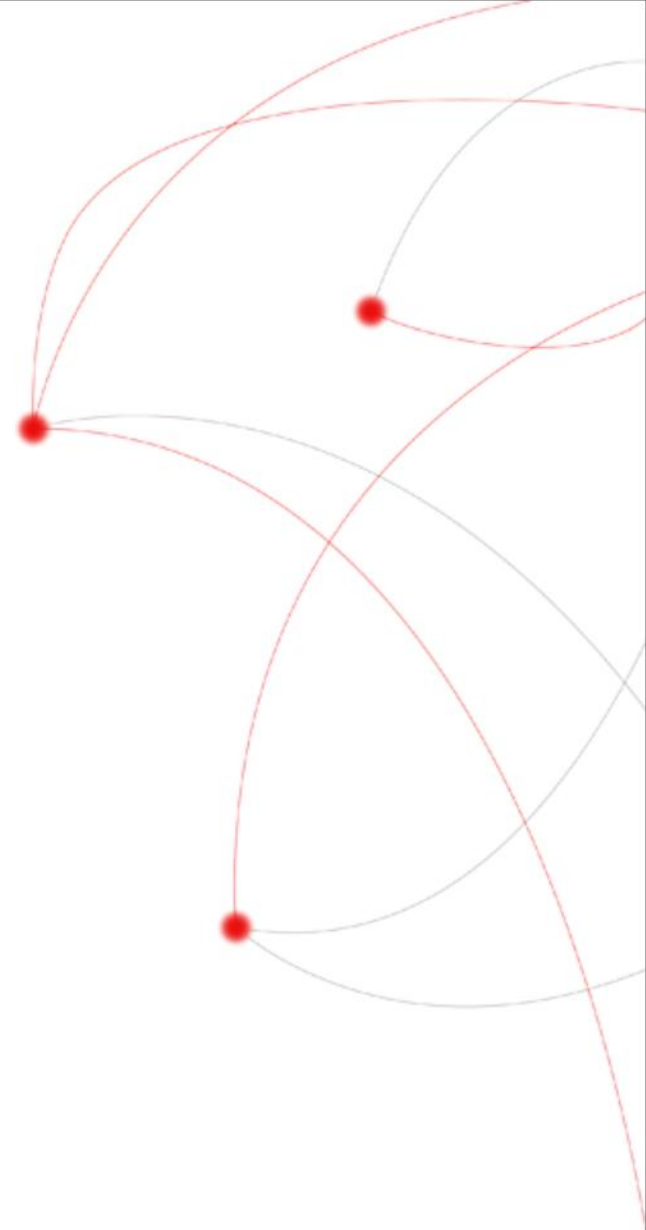
GRUPPO TELECOM ITALIA

1Q 2009 Results

Milan, May 7th, 2009

Telecom Italia 1Q09 Results

FRANCO BERNABE'



Safe Harbour

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Agenda

- ▶ **TI Group Main Achievements**
- ▶ **Focus on Domestic Business**
- ▶ **Focus on TIM Brasil**
- ▶ **Back up**

TI Group 1Q09 – Priorities and Actions

Focus on Core Markets	Cash Cost Control	Financial Discipline
<ul style="list-style-type: none">▶ Customer centric organization: a new management team at work▶ Implementation of new sales distribution channel▶ 2Q09 offer portfolio reshaped to target specific needs of customer segments▶ Clear and strong commercial roadmap in Brazil▶ Intelig deal : complementary industrial and commercial assets	<ul style="list-style-type: none">▶ Cash Cost reduction program fully on track: 25% of FY09 program already achieved▶ Headcount reduction plan going forward (76% already completed)▶ Overall TI Group Cash Costs reduced by 7.5% vs 1Q08▶ Group Cash Cost on Revenues improved by 3p.p.▶ Domestic Cash Cost reduced by 6.9% vs 1Q08	<ul style="list-style-type: none">▶ Diversified and Hedged Debt (~70% Fixed rate; FX fully hedged)▶ Strong Liquidity position post dividend payments: Euro 4.6 bln▶ Euro 2.6 bln refinancing completed keeping cost of debt around 6%▶ Disposal process started

Strong Focus on Profitability and Cash Flow Generation

Key Financial Achievements

Euro mln

KEY FINANCIAL ACHIEVEMENTS

	1Q'08	1Q'09
Organic Revenues	7,063	6,793
Organic EBITDA	2,905	2,835
Net Financial Position	35,436	34,518
CAPEX	1,228	1,025
Operating Free Cash Flow	968	850

KEY POINTS

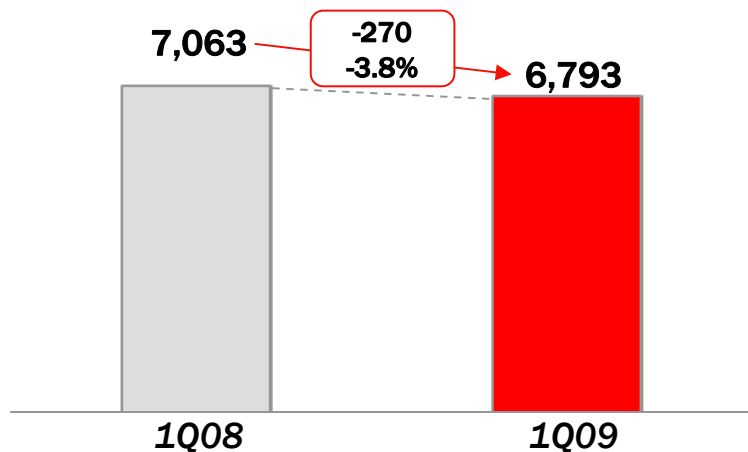
- ▶ **Domestic:**
 - ▶ **Wireline** revenue trend continues to improve (-2% in 1Q09) based on BB and ICT
 - ▶ **Mobile** affected by sales channel reorganization, lighter push on handsets sales, weaker economic environment impacting corporate and SME spending
 - ▶ **Brazil:** transition quarter reflecting the restart phase.
- ▶ **On track to reach EBITDA target**
- ▶ **Confirming NFP/Ebitda target at ~2.9x**
- ▶ **Reduction of Capex in the Domestic business** mainly through lower commercial Capex and positive impact of efficiency programs
- ▶ **Brazil: selective spending** focused on 2G quality and 3G deployment
- ▶ **OFCE/Revenues ~13%** benefiting from cash cost reduction



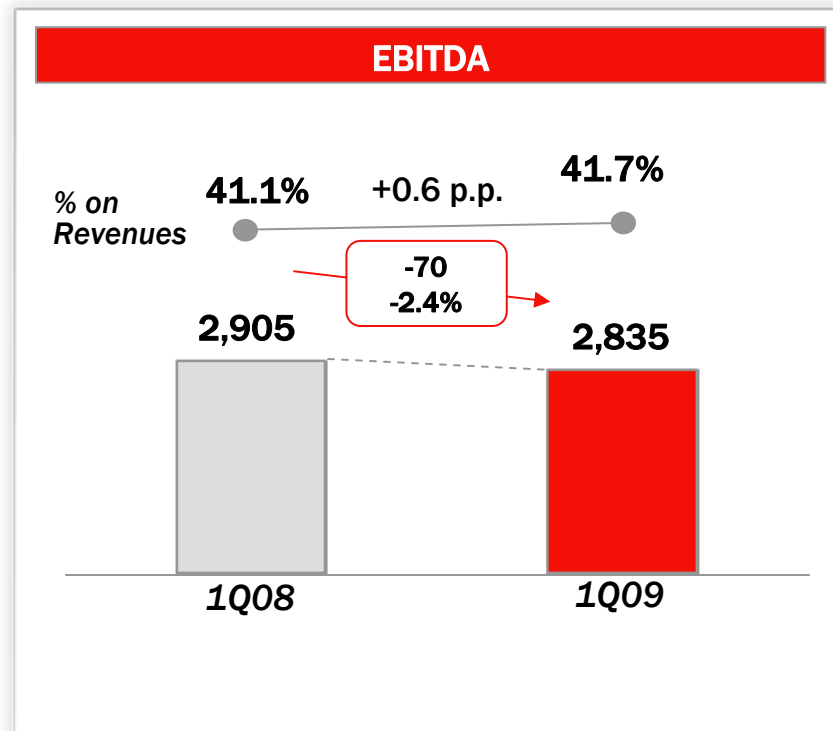
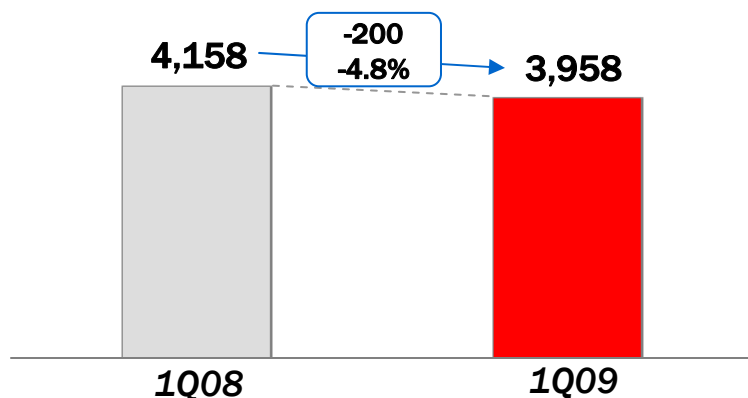
TI Group – Organic results vs. 2008

Euro mln, %

Revenues



Opex



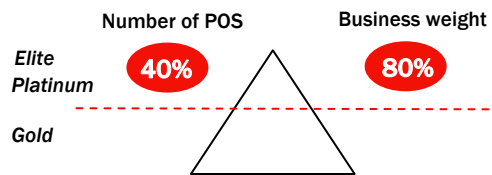
Agenda

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- ▶ Back up

Restructuring Sales Channels

Key Actions

- ▶ New dealer Segmentation targeting to increase upselling & cross selling



- ▶ Rationalisation of Dealer Networks
- ▶ New Handsets Strategy
- ▶ Revision of the Compensation Scheme

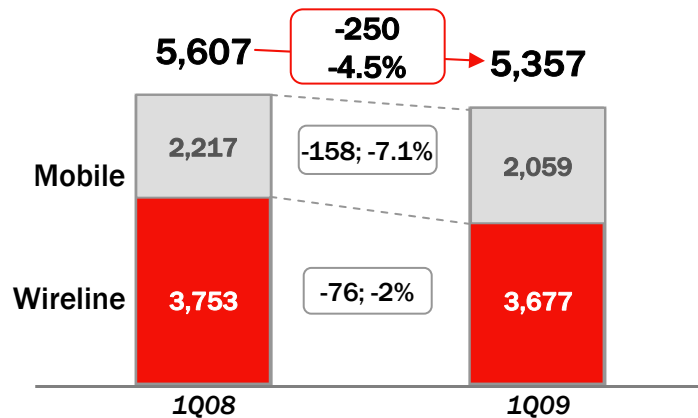
Main Results

- ▶ Upselling: 8 mln TIM clients no TI clients and 15 mln TI clients no TIM clients
- ▶ Cross-selling: 15 mln other TLC customers
- ▶ 230 POS terminated in 1Q09
- ▶ Handsets sold down 38%
- ▶ 3G/Internet Key/Laptop share up to 63% (+13 p.p. vs 1Q08)
- ▶ From acquisition to client value
- ▶ Revenue share concept
- ▶ SAC down by 12% vs 1Q08
- ▶ 2Q portfolio of integrated services as catalyst
- ▶ Focus on handset as service enabler vs compensation driver

Domestic – Steady Cost Control Offsetting Revenue Decline

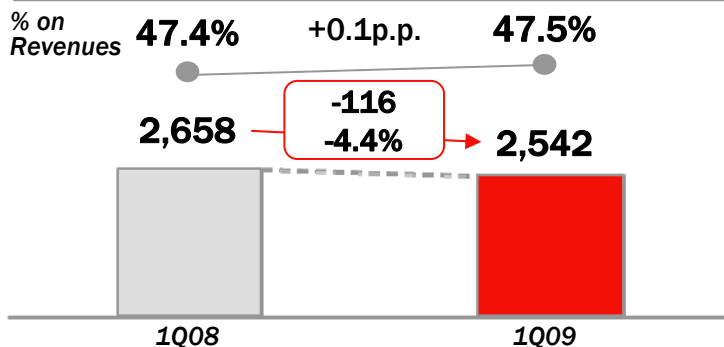
Euro mln, Organic data, %

Revenues



- ▶ Slowdown of domestic revenue performance as expected, mainly due to the short term impact of sales channel restructuring and calendar effect.
- ▶ Mobile performance (-7.1% YoY in 1Q09) reflects:
 - ▶ strong reduction of VAS content from the youth segment;
 - ▶ even stronger focus on high margin revenue stream reflected into significantly lower handsets sales vs 1Q08.
- ▶ Improving fixed revenue trend (-2.0% YoY in 1Q09) through the positive impact of regulated price increase, steady broadband growth boosted by Alice Casa and continuous uptake of ICT.

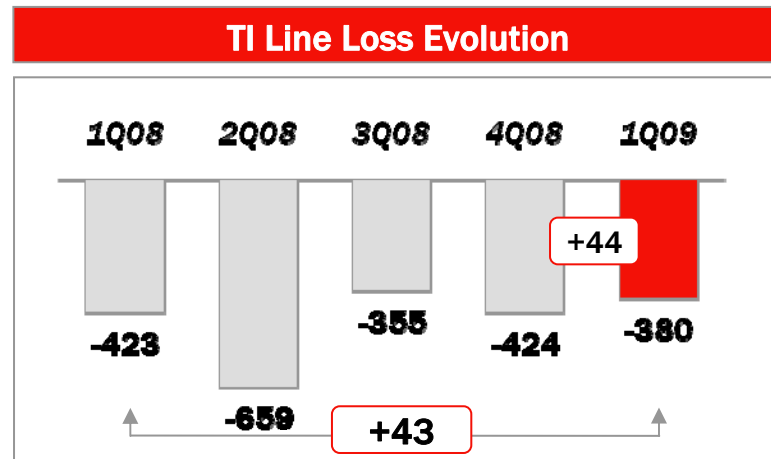
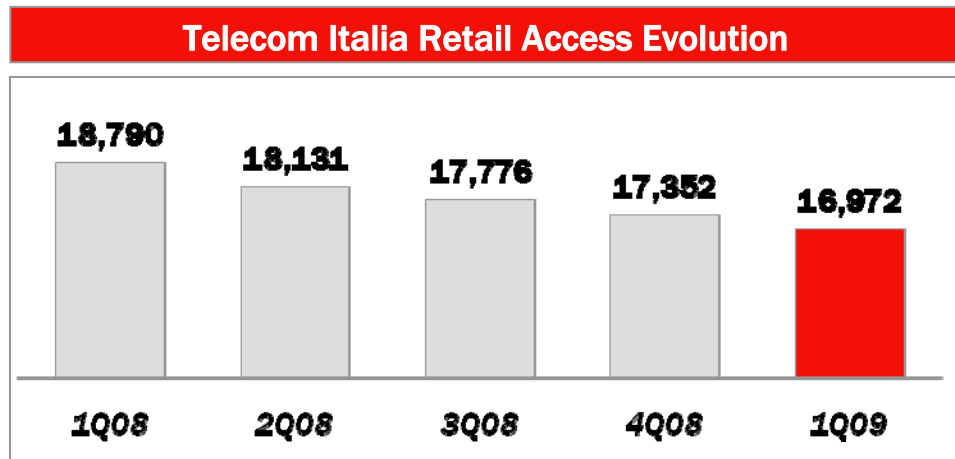
EBITDA



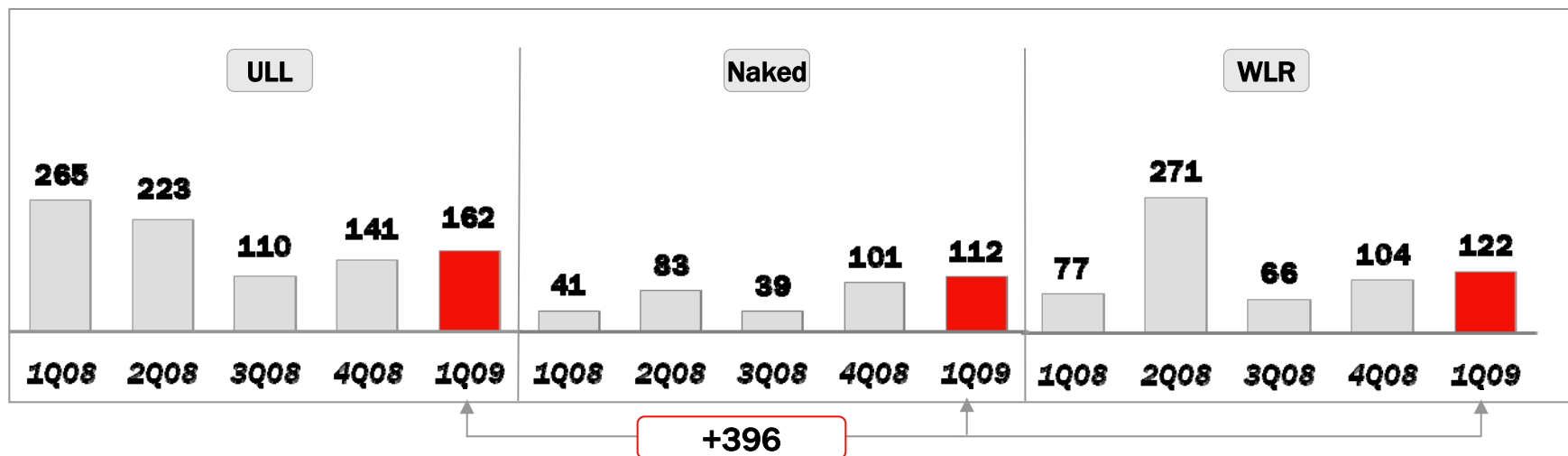
- ▶ Significant OPEX reduction (-134 mln euro YoY) through a selective approach and rigorous cost control.
- ▶ EBITDA margin up for the second consecutive quarter confirms TI as the industry benchmark for profitability.
- ▶ Fully on track to deliver 2009 cash-cost reduction despite the challenging economic scenario.

Domestic Fixed - TI Access Performance

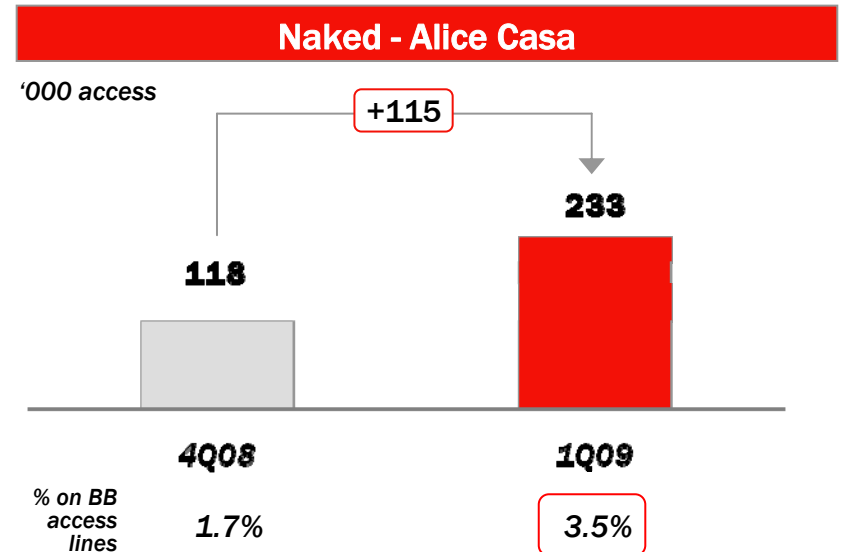
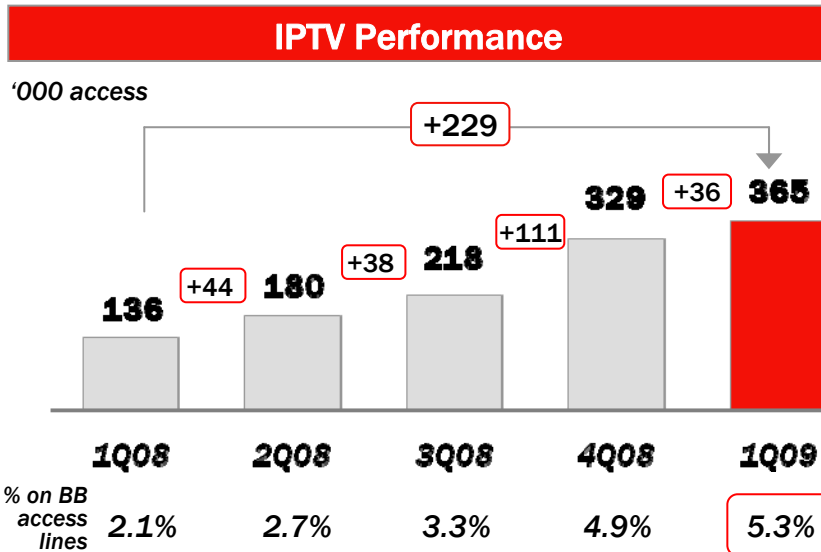
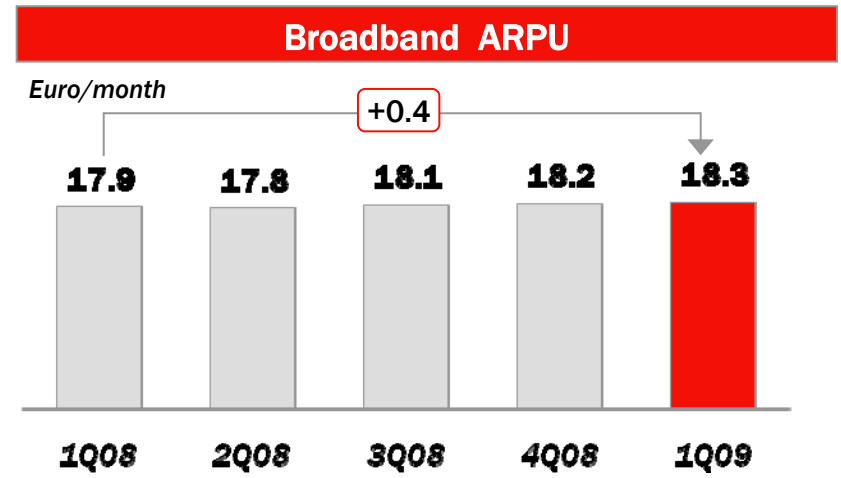
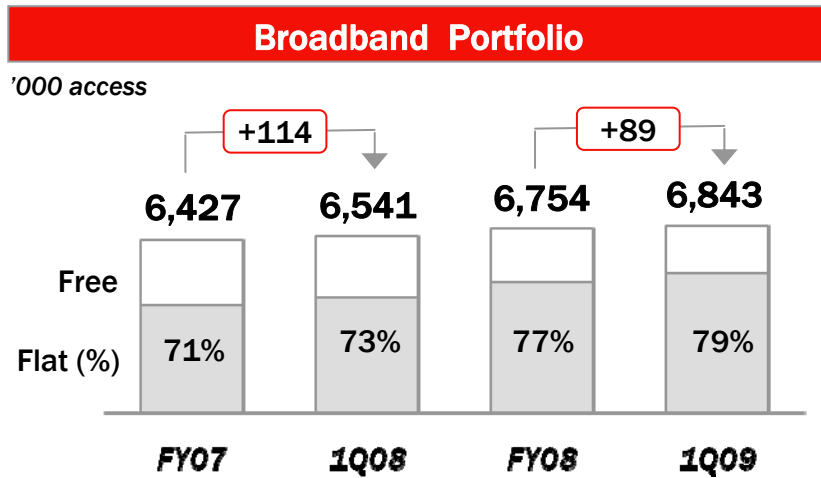
'000 access



OLO Access Growth (TI Wholesale)



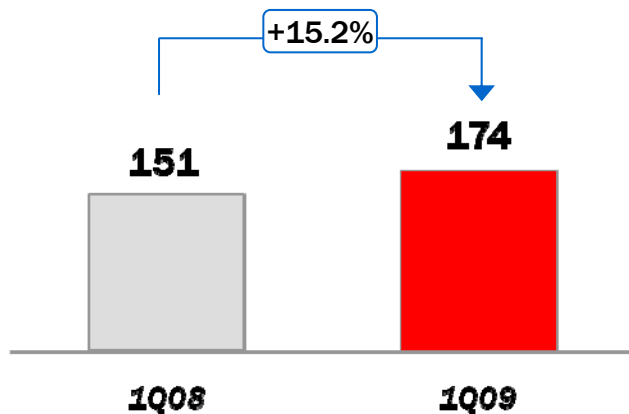
Domestic Fixed - Focus on BB



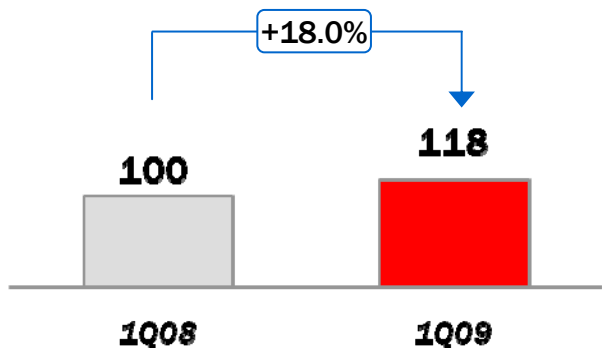
Domestic Fixed - Focus on ICT

Euro mln

ICT Revenues



Focus on service revenues



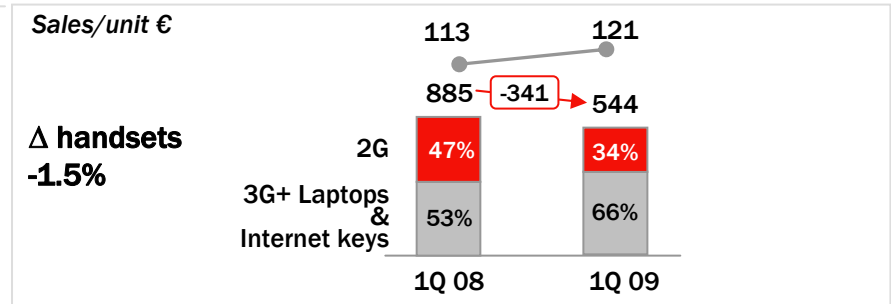
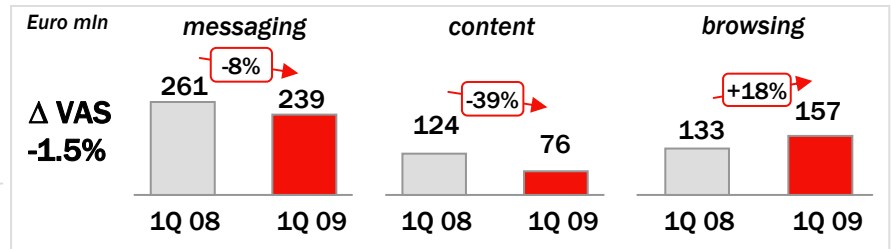
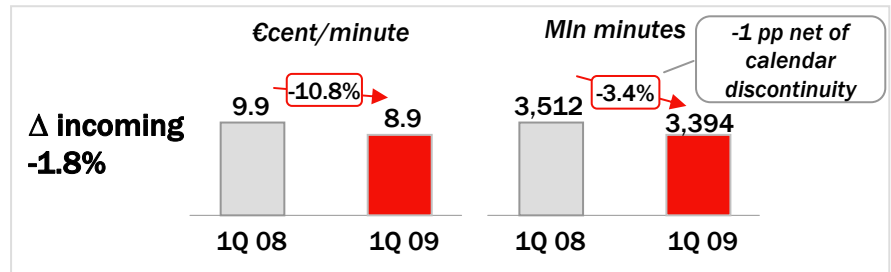
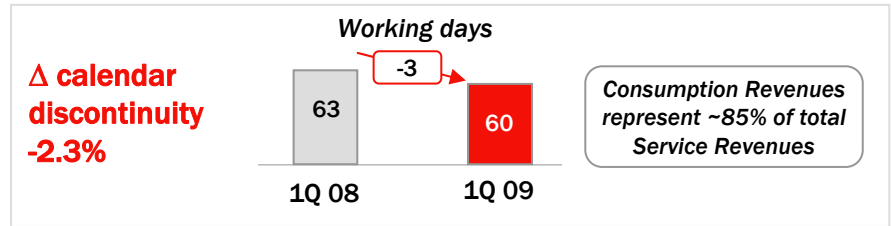
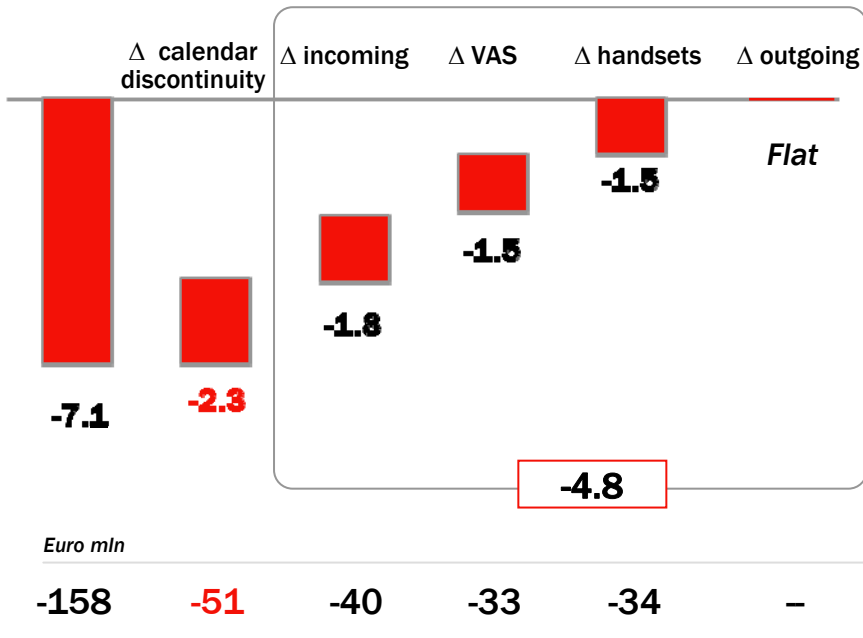
Marketing offers: main strategic guidelines

- ▶ **Business segment**
 - ▶ Strong leverage on “Impresa Semplice” brand to define TI distinctive position in the SME segment
 - ▶ Launch of new packages of ICT services such as certified e-mail, web collaboration
 - ▶ Extension the 3Play concept to the SME segment bundling voice (F&M), broadband and browsing in mobility

- ▶ **Top / Large Account segment**
 - ▶ Commercial focus on “core” ICT services and launch of new canvass of ICT 2.0 services
 - ▶ Regional events to promote TI portfolio of ICT services
 - ▶ Launch of a Blackberry campaign targeted to 4 customer clusters to further increase e-mail use in mobility

Domestic Mobile - Top Line Under Pressure

Revenues change YoY (%)



Domestic Mobile - Focus On Customer Segment

% on service revenues

% CB	ARPU*	Prices Trend YoY	Volume Trend YoY
------	-------	------------------	------------------

ENTERPRISE	10%	8%	1.3X	↓	↑	<ul style="list-style-type: none"> ▶ Strict cost control to eliminate non core business services (i.e. VAS content and WAP) ▶ Exploitation of price flexibility to defend indisputable leadership in the segment in the current economic scenario
BUSINESS	17%	8%	1.9X	↓	↑	
CONSUMER	73%	84%	0.8X	↑	↓	<ul style="list-style-type: none"> ▶ Short term impact of sales channel restructuring: launch of new offers aimed at reinvesting repricing "goodwill" to increase customer loyalty and regain the Young segment postponed to 2Q09

*TIM average = 1X

2Q09 Consumer Offer Roadmap

Mobile

Acquisitions

TIM Premia



- ▶ Push on customer win back through a new offer with clear and long-lasting loyalty mechanism

TIM Tribù 2.0



- ▶ New TIM Tribù to win-back youth segment, boost on net traffic, opening to MSN and Facebook communities with tailor-made solutions

Tutto Compreso in TI bill



- ▶ Potential market growth thanks to bank account domiciliation for “Lock in” offers

MNP



- ▶ New MNP handset discount based on voice traffic
- ▶ Continuous push on valued MNP

Mobile Internet



- ▶ Sustain mobile broadband penetration

Traffic

Seasonal “Carte Servizi”

- ▶ Push on voice and sms volumes during holidays with add-on roaming offer for high end customers (“travellers”)

Loyalty

- ▶ New customer segmentation based on value
- ▶ Pre-retention approach

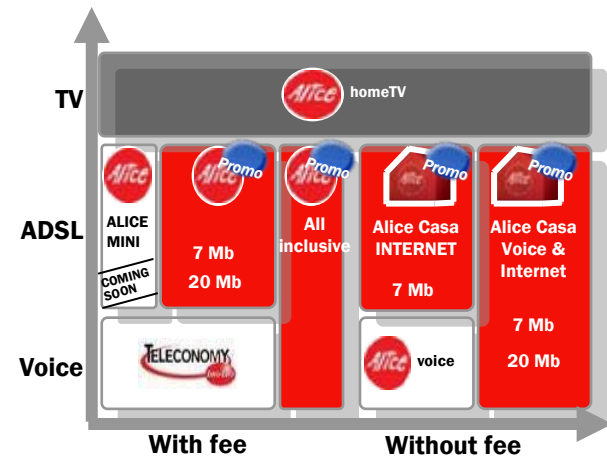
Wireline

Acquisitions

Alice Casa INTERNET

Further enrichment of Alice Casa with the new offer “Casa Internet”: the new ADSL offer of Telecom Italia without monthly fee for web-browsing without limits at home

Touch screen fixed PC in TIM/Alice POS on TI bill



Loyalty

Reduce Line losses trend

- ▶ Maximize pre-retention approach using predictive models

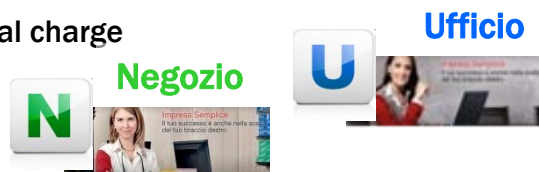
2Q09 Business Offer Roadmap

Small / Medium Enterprises

Further enriching Impresa Semplice portfolio

Negozio & ufficio

- ▶ “All inclusive” concept bundling Telecom Italia lines, unlimited F-F and Broadband without monthly fee and activation fee
- ▶ Mobile call feature available at additional charge



Mobilità

- ▶ Unique offer available for the professional segment bundling voice, email and browsing in mobility with clear cost and customizable packages...a true office in full mobility
- ▶ Technical assistance and dedicated caring for Gold and Platinum packages



Enterprises

- ▶ Very attractive packages combining the highest levels of service and technology and full control over spending
- ▶ Workstations are available from a competitive entry point, inclusive of domestic phone calls and unlimited Internet, security functions, VoIP telephone and switchboard functions, and LAN configuration and management



Top clients / LA

Data services

Customer network update and value services offer: fully managed, full IP, ICT (i.e. videoconferencing on IP, data backup for both fixed and mobile)

Technology upgrade

Alice Business Tutto IP: one system managed by TI, one LAN infrastructure, one service centre

Upselling Data Center Services

The co-location offer allows customers to outsource the company data center, entrusting TI with facility management and operations management activities

PBX

Substitution of the old PBX with a new leased one through co-marketing with 8 Vendors in partnership with Alice Corporate IPPBX

Advanced Voice ALL caring services with toll free number in the profiles

Domestic – Working On Efficiency

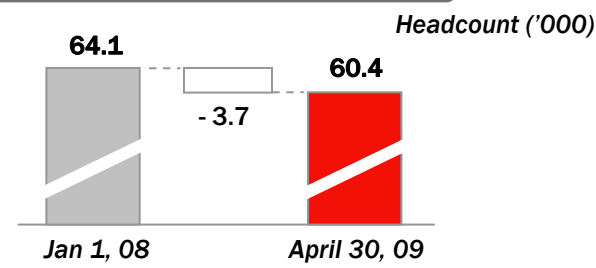
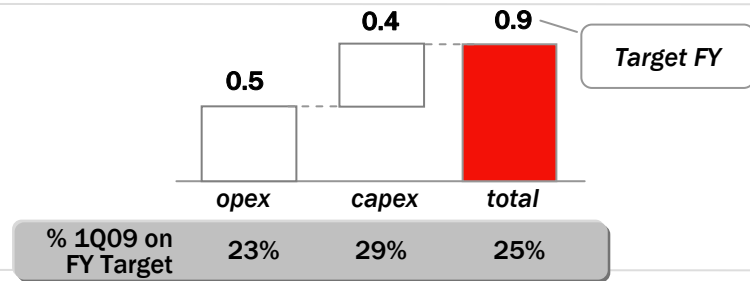
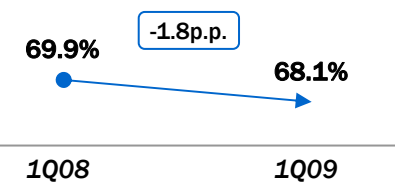
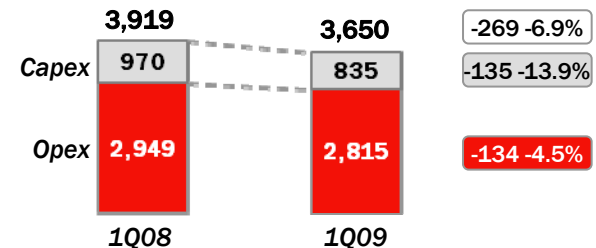
Euro mln, Organic data, %, units

Strong Cash Cost-Cutting Program

Reducing Cash Cost on Revenues

Efficiency on Track vs. FY Target

Moving towards a Lean Organization



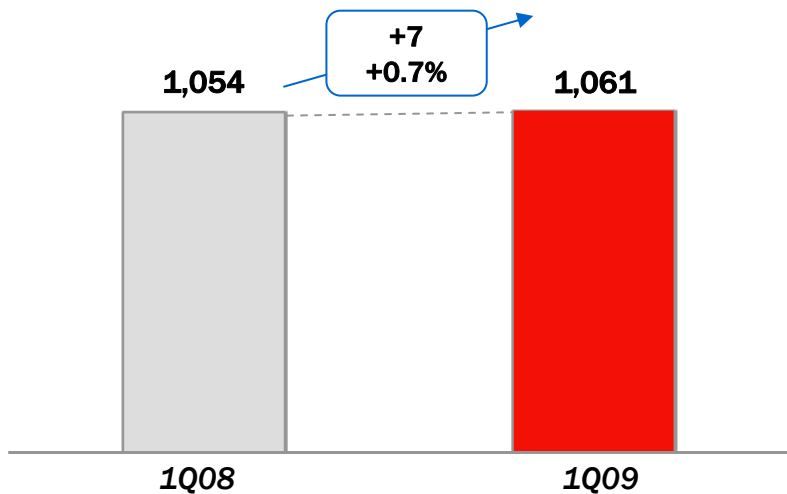
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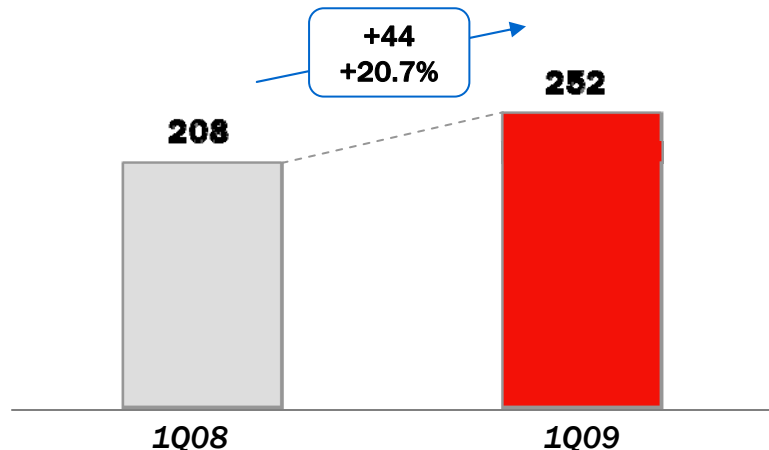
TIM Brasil – Organic Main Results

Euro mln, %

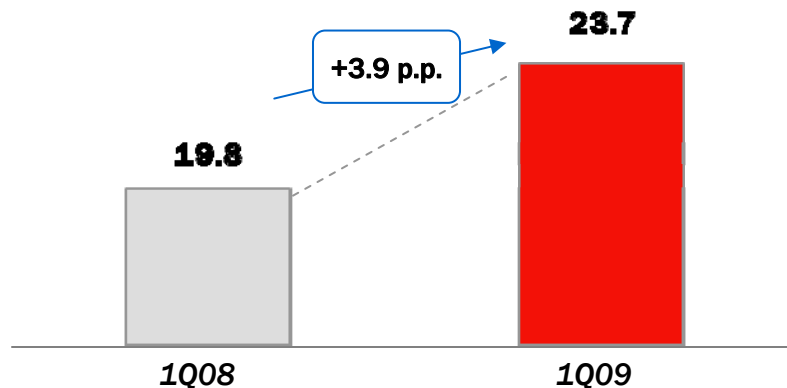
Revenues



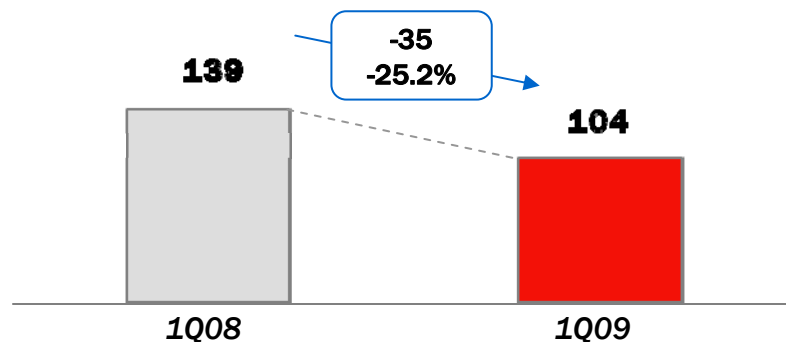
EBITDA



EBITDA Margin



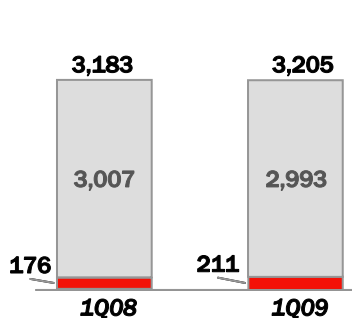
CAPEX



TIM Brasil – Revenues & OPEX Review

Top Line Performance Reflecting a Transitional Quarter

R\$ Million



ΔYoY

+0.7%

-0.4%

+19.9%

— Net Service Revenues
— Net Product Revenues

Lights...

VAS revenues (+28.6% YoY)

▶ Steady innovative VAS growth (~80% of total VAS) with TIM Web and TIM Fixo outperforming expectations in the mass market

Handsets portfolio

▶ ~1 mln handsets sold in recent dealer convention with massive mix improvement towards high end devices

Price repositioning completed: gained flexibility for next quarters

...& shadows

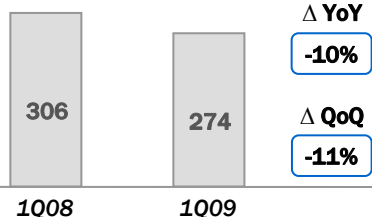
Revenue growth at lower pace YoY due to...

- ▶ Postpaid mix decline of -3.7 p.p.
- ▶ Reduction in pre-paid MOU
- ▶ Less incoming revenues -4%

Rigorous Financial Discipline On “Non Growth” Related Investments

Efficiency in Discretionary Costs*...

R\$ Million



Δ YoY

-10%

Δ QoQ

-11%

% of Net Revenues

1Q08

9.6%

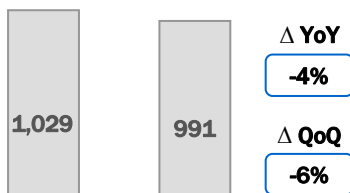
1Q09

8.6%

*G&A, Personnel

...optimizing interconnection & Network Costs...

R\$ Million



Δ YoY

-4%

Δ QoQ

-6%

% of Net Revenues

1Q08

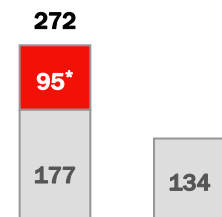
32.3%

1Q09

30.9%

...Bad debt under control...

R\$ Million



272

95*

Normalized

Δ YoY

-24%

Δ QoQ

+3%

% of Net Service Revenues

1Q08

5.9%

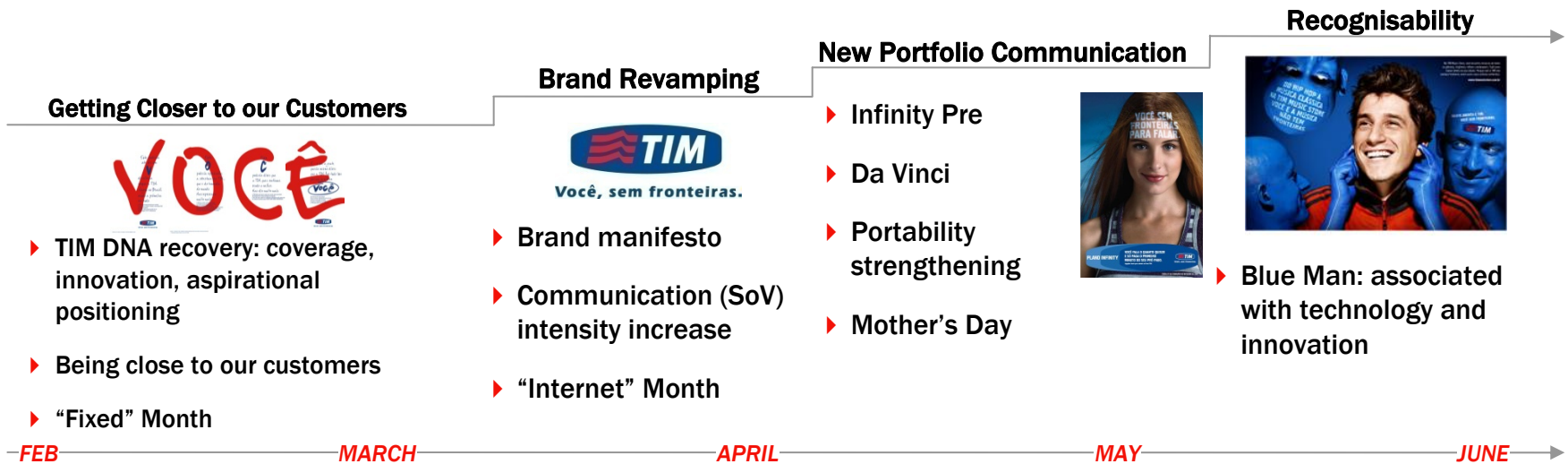
1Q09

4.5%

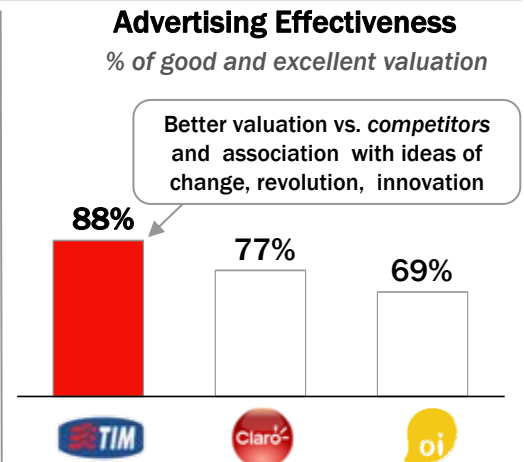
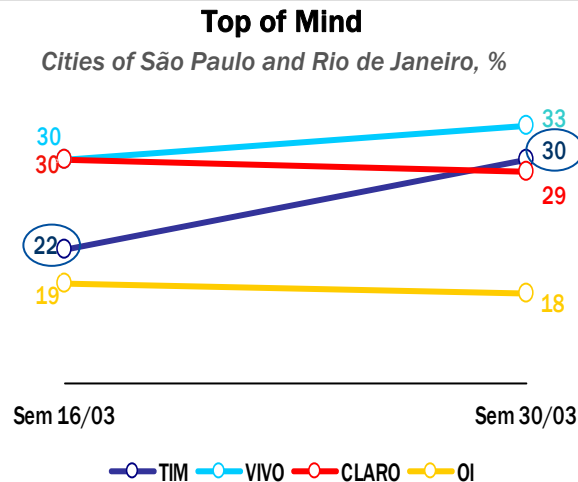
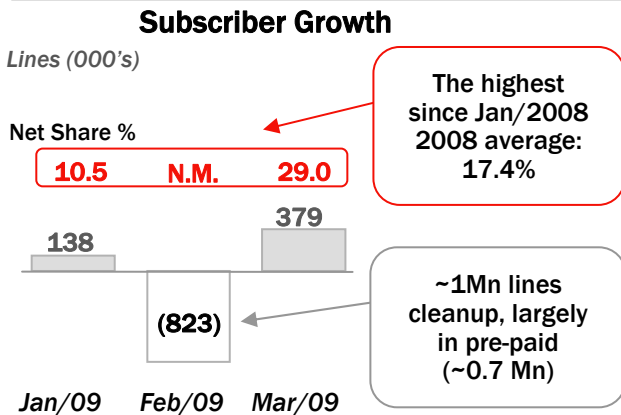
* Telesales additional impact

TIM Brasil – Focus On Commercial Effort And Data for March

Clear and Strong Commercial Roadmap...



...Starting to Paying Off



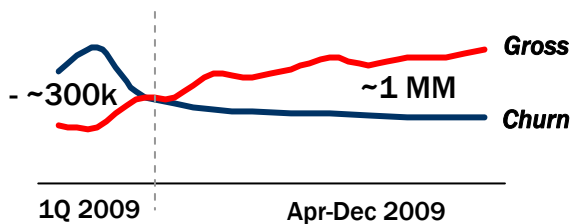
TIM Brasil – Action plan for 2009

Back to Growth

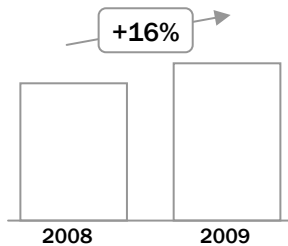
Trend Reversal: Back to Growth

Inverting customer growth trend

March: 29% marginal market share



SAC



New Offering, Focus on Value

Efficiency Plan

Reinvesting important efficiencies

Bad debt

- ▶ Optimization of collection & dunning processes

Human Resources

- ▶ Leaner organization
- ▶ Make vs. Buy

Network & IT

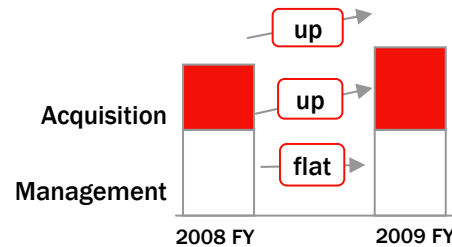
- ▶ Rationalization & renegotiation of network OPEX (leased lines) and IT

G&A

- ▶ Deep revision of G&A policy

...to finance growth

Total commercial spending



Strong EBITDA and OFCF Protection

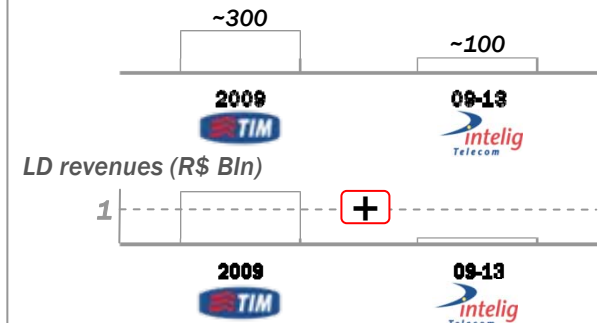
Intelig

Network and transport efficiencies

- ▶ Leverage on Intelig Backbone (14,500 km fiber optic cable) and MAN (800 km in 18 cities)
- ▶ Upselling and crossselling Intelig and Tim Brasil customers
- ▶ New offers for long distance services to TIM Brasil clients

..& improving positioning on LD & Top Clients

Business clients ('000 CNPJ)



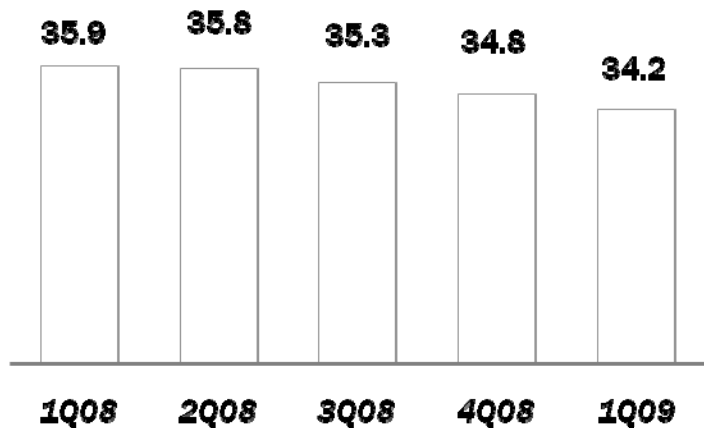
TIM & Intelig Complementary Assets

Agenda

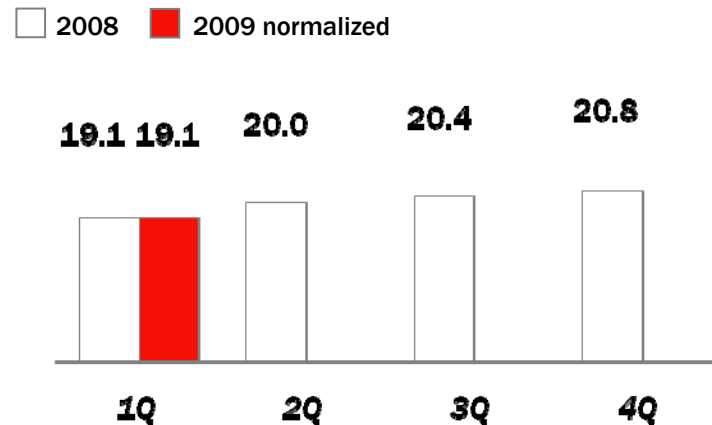
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Domestic Mobile - ARPU Stabilization

TIM Customer Base (SIM, mln)



ARPU (€/month/line)



Focus on Outgoing

