

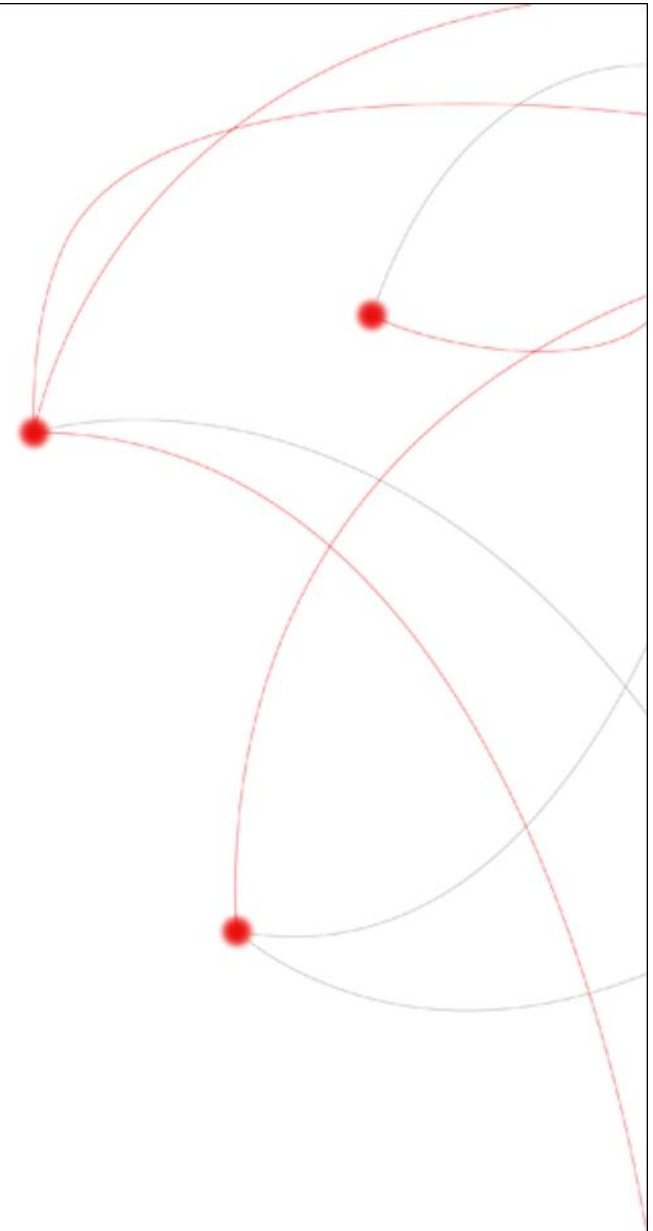
TELECOM ITALIA GROUP

**Morgan Stanley – TMT Conference 2009**

Barcelona, November 18, 2009

# TELECOM ITALIA GROUP

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.

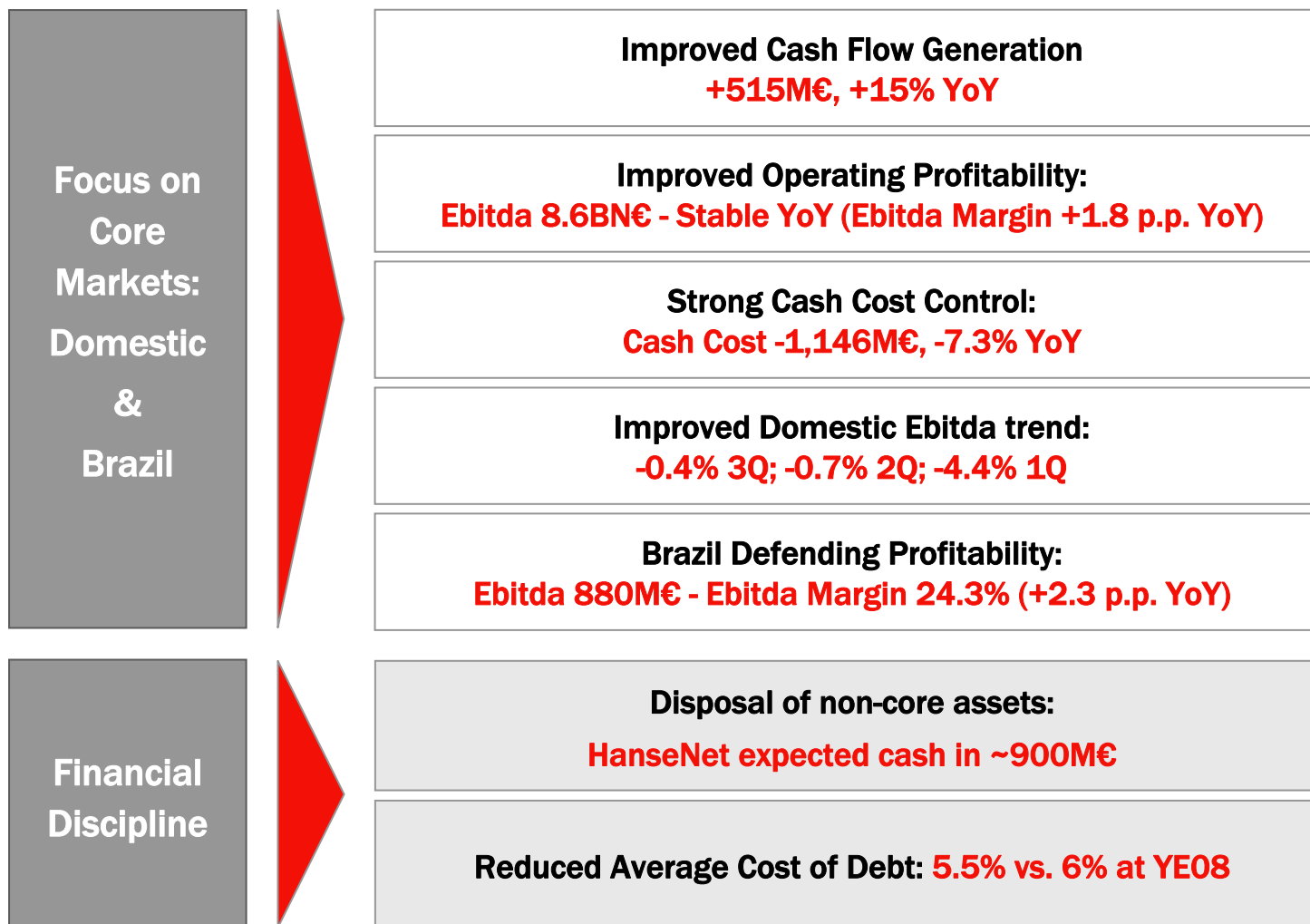
Such forward looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ materially from those in the forward looking statements as a result of various factors.

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 Spa 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 Spa business or acquisition strategy 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.

## Agenda

- ▶ **TI Group Main Achievements**
- ▶ Domestic Business
- ▶ TIM Brasil
- ▶ Focus on Financial Discipline
- ▶ Wrap Up

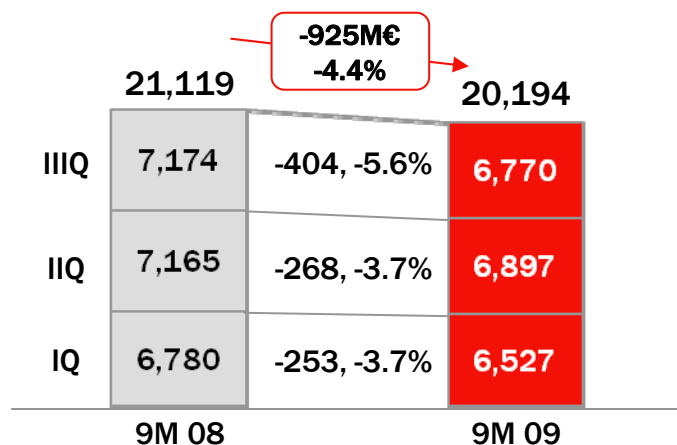
## TI Group 9M 09 Progress Report



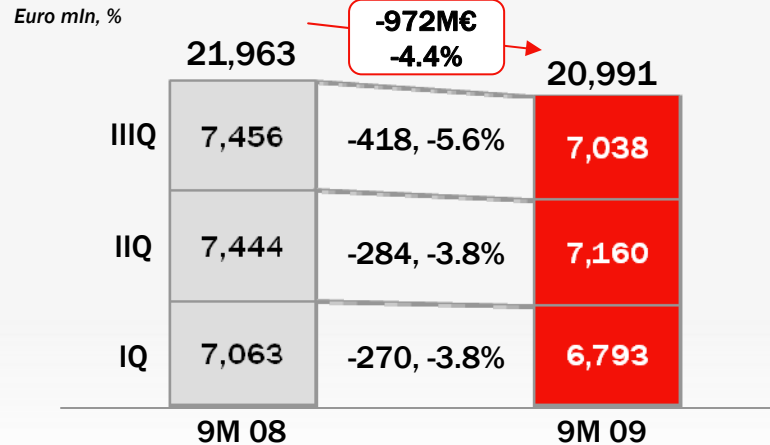
*Figures considering HanseNet classified as Discontinued Operations*

# TI Group Improved Profitability: Organic Results vs. 2008

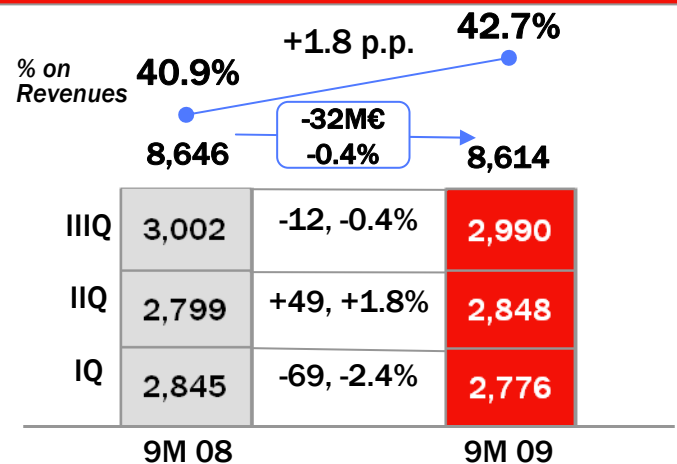
## Revenues



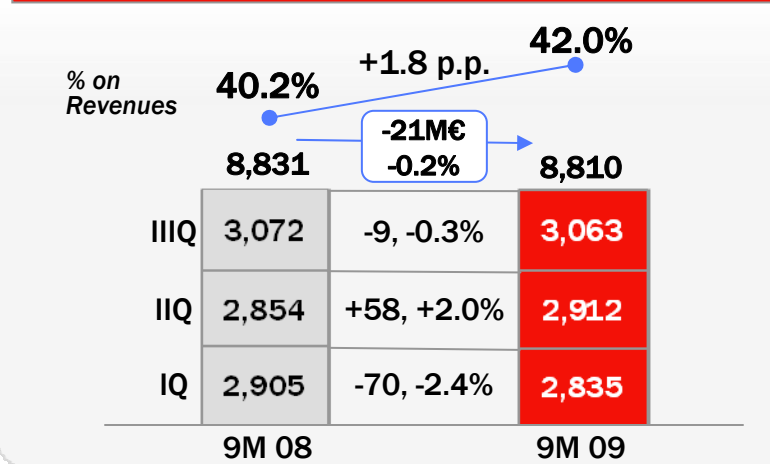
## Revenues – Restated with HanseNet



## EBITDA



## EBITDA – Restated with HanseNet



Figures considering HanseNet classified as Discontinued Operations; Restated Figures include HanseNet consolidated line by line

## Agenda

- ▶ TI Group Main Achievements
- ▶ **Domestic Business**
- ▶ TIM Brasil
- ▶ Focus on Financial Discipline
- ▶ Wrap Up

# Domestic – Steady Cost Control Offsetting Revenue Decline

Euro mln, Organic data, %

## Revenues

	17,159	-920M€ -5.4%	16,239
Mobile	7,085	-589, -8.3%	6,496
Wireline	11,168	-198, -1.8%	10,970
Elim & adj	-1,094		-1,227
	9M 08		9M 09

## EBITDA

% on Revenues	46.1%	+1.7 p.p.	47.8%
	7,913	-145M€ -1.8%	7,768
IIIQ	2,687	-11, -0.4%	2,676
IIQ	2,568	-18, -0.7%	2,550
IQ	2,658	-116, -4.4%	2,542
	9M 08		9M 09

## Key Highlights

- ▶ **Fixed business:**
  - ▶ stable retail service revs\* (down 5% in 3Q09, in line with 2Q09) with strong growth from BB and ICT services.
  - ▶ small decline of total revenues performance vs. 2Q09 due to lower equipment sales in the business segment and lower contribution of wholesale
- ▶ **Mobile business:**
  - ▶ Decline of service revenues trend reflecting impact of repricing in 3Q08
  - ▶ Strong push on mobile BB reflected into strong pick-up of browsing revs
- ▶ 9M 09 EBITDA trend confirms outperforming EBITDA guidance for 2009 (9.9-10 bln euro, down YoY -3/4%)
- ▶ EBITDA margin reached 50% in 3Q09 confirms TI as the industry benchmark for profitability.
- ▶ Effective & selective action on OPEX base

**Ebitda 2009 Target confirmed**

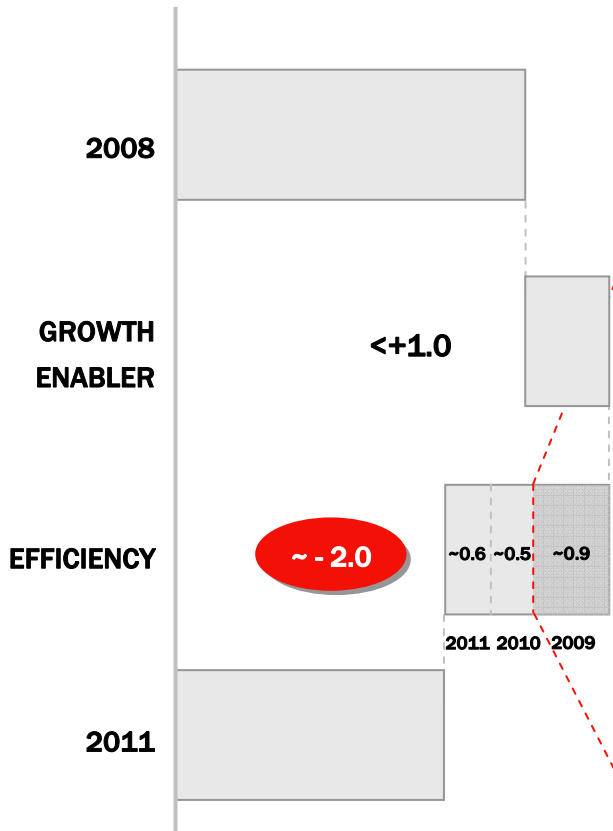
**9.9 – 10.0 BN€ (-3/-4% YoY)**

\* Wireline service revenues net of wholesale revs (both national & intl)

# Domestic Efficiency on Track

## Organic Domestic Cash Costs Plan

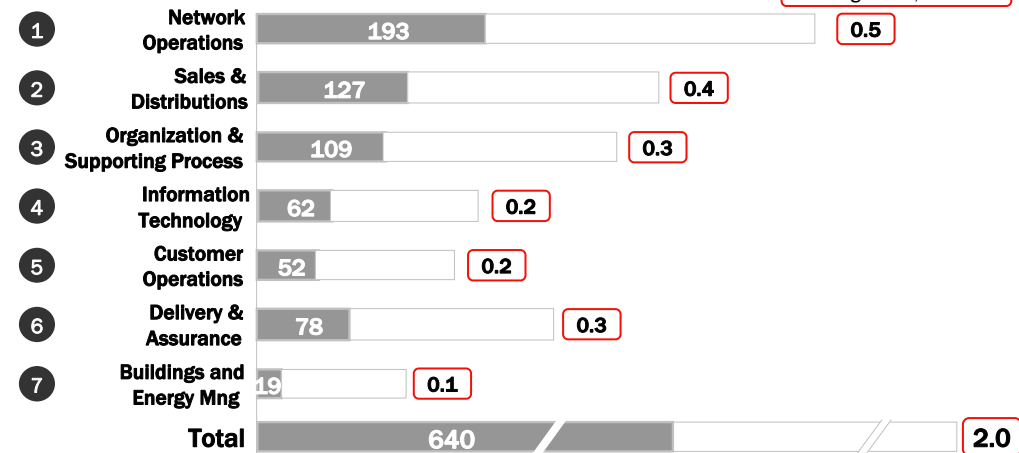
Euro Bln



## Efficiency 9M 09 vs Strategic Plan 09-11

Euro Mln, Organic Data,

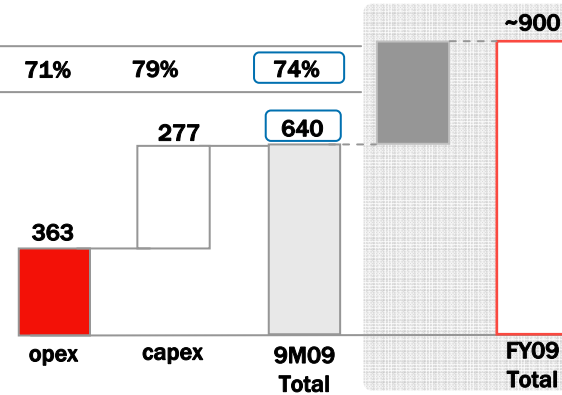
Strategic Plan, Euro Bln



## 9M 09 Efficiency Program

Euro Mln, %

% 9M 09 on FY Target

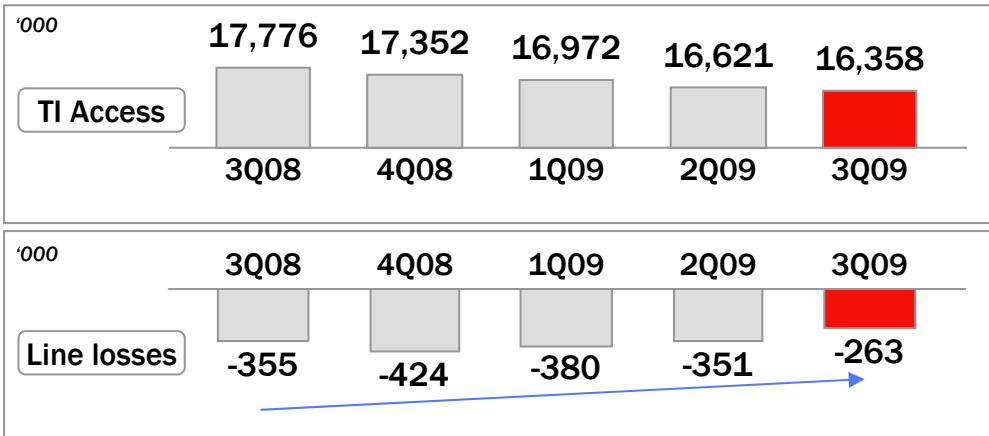




# Domestic Fixed - TI Access & Broadband Performance

'000 access

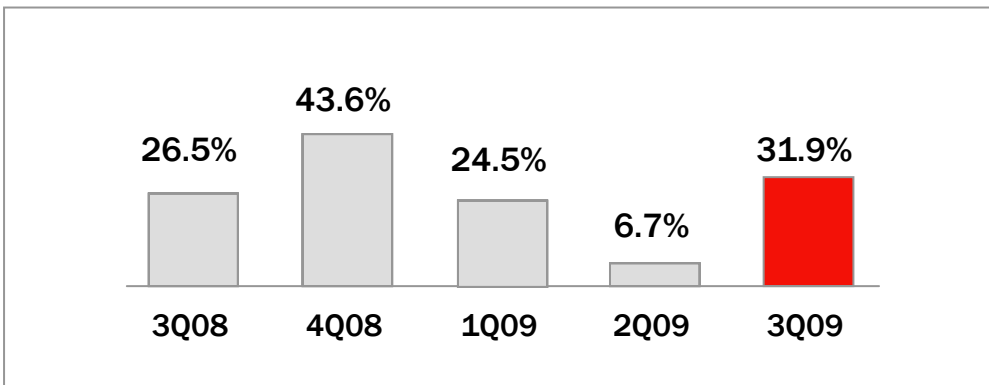
## Telecom Italia Retail Access Evolution & Line Losses



## Key Highlights

- ▶ Lowest line losses level since third quarter 2007 through successful retention activities
- ▶ Competitors increasingly relying on wholesale product such as Wholesale Line Rental and Naked

## Market Share on BB Net Adds



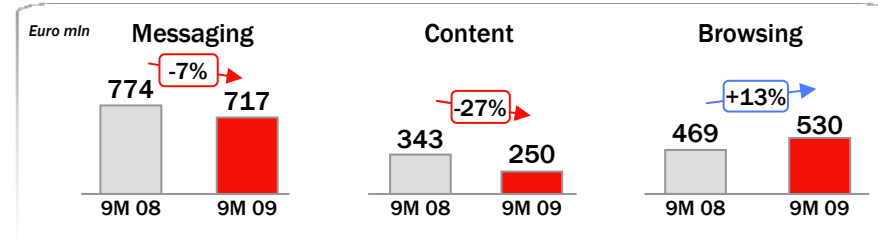
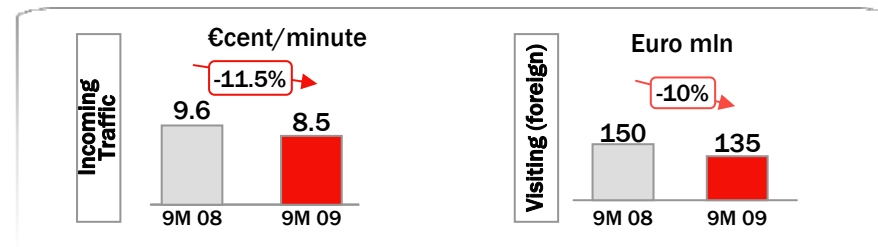
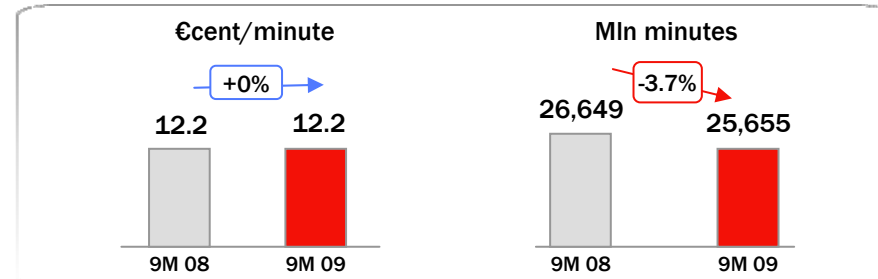
## Key Highlights

- ▶ Strong commercial push with the continued uptake of Alice Casa (around 490K customers) and the launch of Alice Day, the new pay-as-you go offer
- ▶ Successful advertising campaign with a high popularity rating
- ▶ Confirm high single digit BB service revenues growth

# Domestic Mobile Revenues

Euro mln

	9M'09	Δ% YoY	
<b>Total</b>	<b>6,496</b>	<b>(8.3)</b>	=
<b>Handsets</b>	<b>339</b>	<b>(33.3)</b>	(2.4)
<b>Outgoing Voice</b>	<b>3,508</b>	<b>(5.5)</b>	(2.9)
<b>o/w Roaming</b>	<b>177</b>	<b>(16.9)</b>	(1.8)
<b>Business Received *</b>	<b>1,152</b>	<b>(10.1)</b>	(1.8)
<b>VAS</b>	<b>1,497</b>	<b>(5.6)</b>	(1.2)

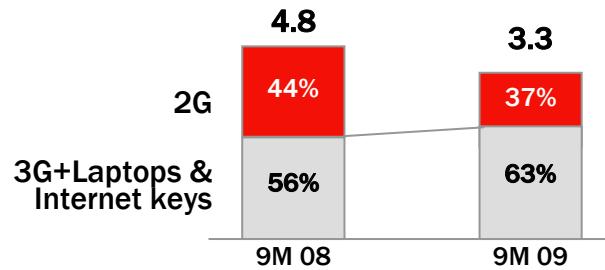


(\* Incoming, Visiting and Other Revenues)

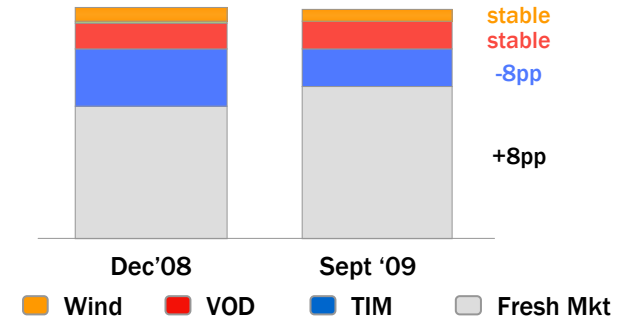
# A Rationalized Handsets Strategy

## Mobile Handsets

Mln



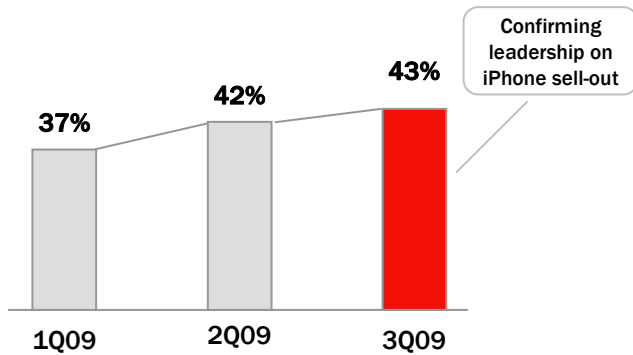
## 2G Market share on sell-out



Source: GFK

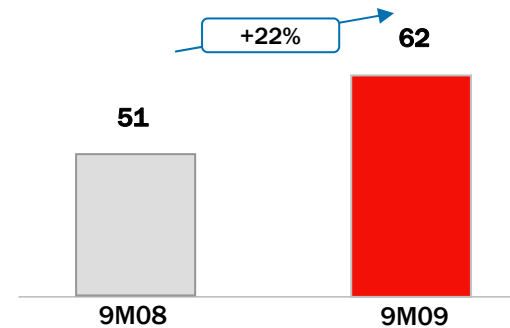
## Smartphone TIM share on sell-out

%

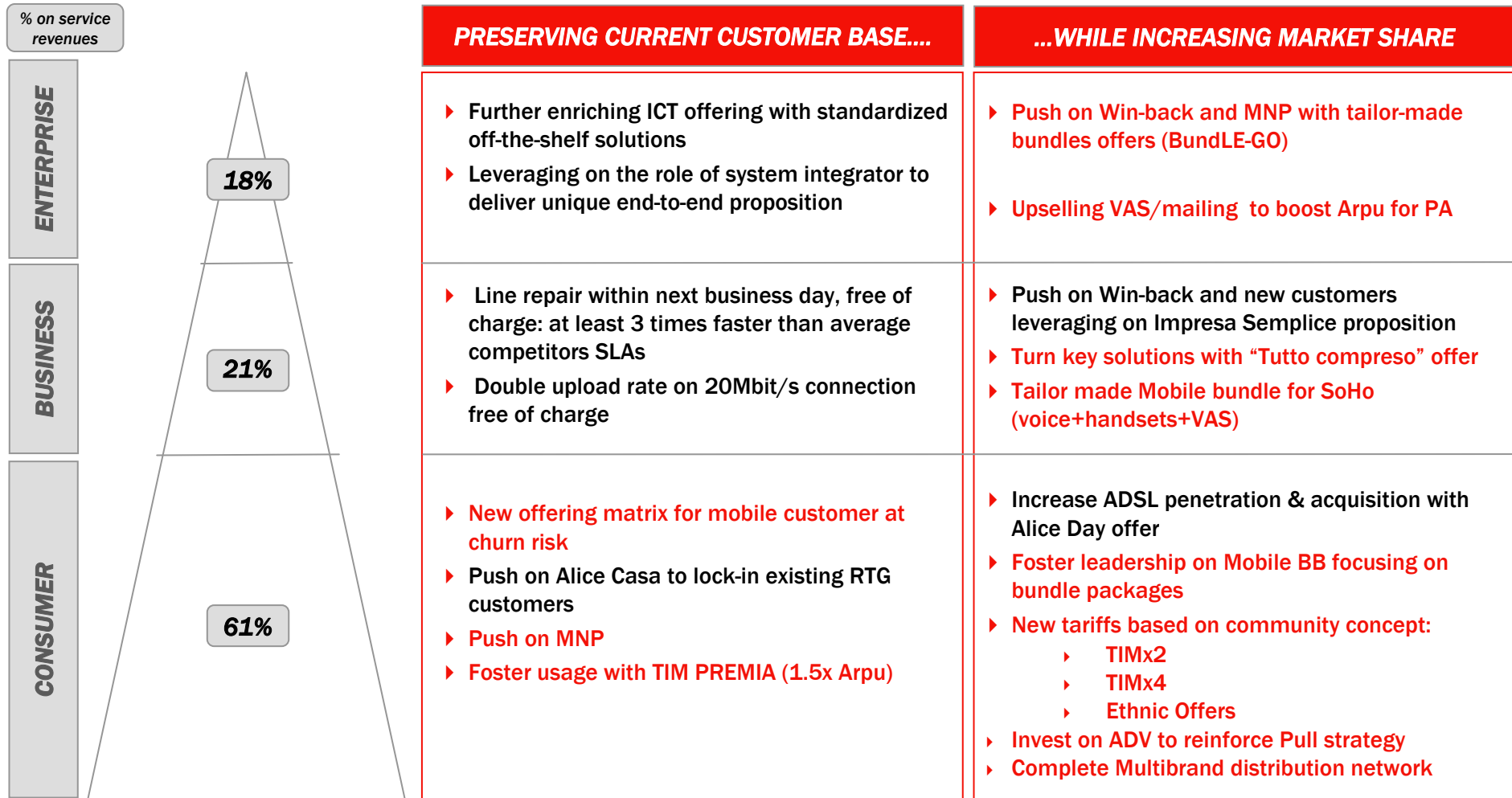


## Handsets Subsidy

€/Handset



# Marketing Activities 4Q09



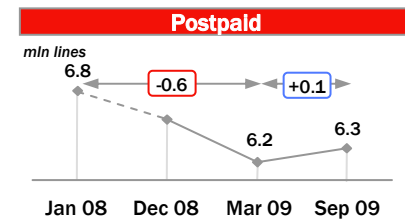
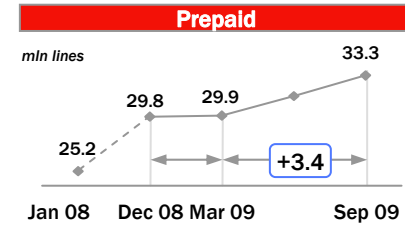
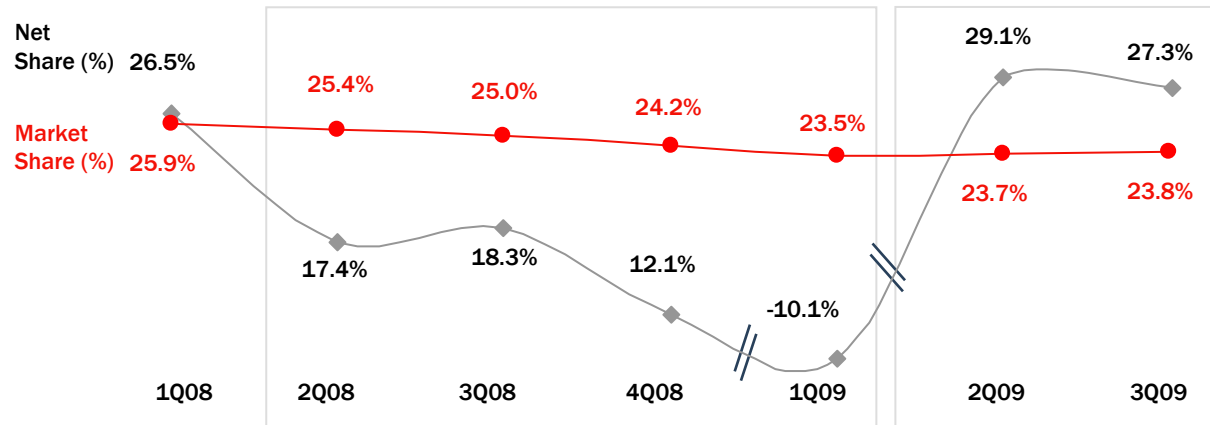
\* Domestic Market Operations perimeter (as of 9M09)

## Agenda

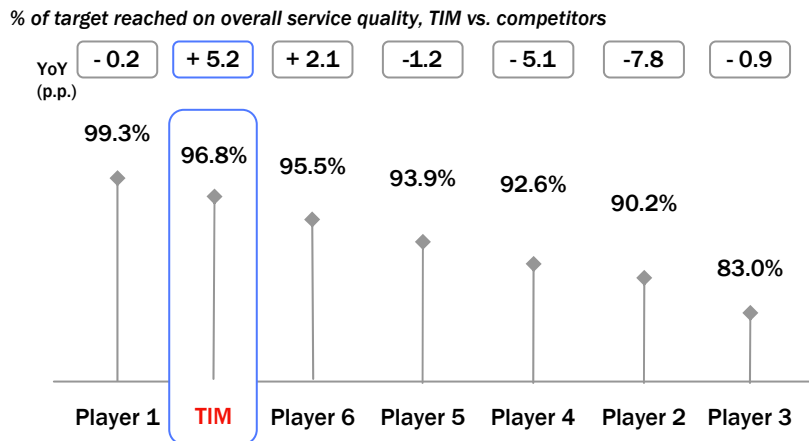
- ▶ TI Group Main Achievements
- ▶ Domestic Business
- ▶ **TIM Brasil**
- ▶ Focus on Financial Discipline
- ▶ Wrap Up

# TIM Brasil: Improving Market Share & Quality Service

## Market Share Evolution

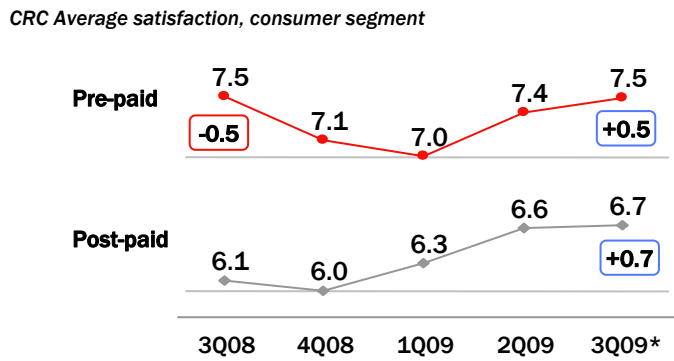


## Overall Quality Service –YTD 2009



Source: Anatel

## Customer Satisfaction



\* Jul/09 e Aug/09  
 Sources: TIM Brasil - 12nd Customer Satisfaction Monitoring - may-jun/09;  
 CRC Monthly Satisfaction Research



FRANCO BERNABE'

# TIM Brasil: Organic Main Results

## Revenues

Euro mln, %

	3,588	+34M€ +1.0%	3,622
IIIQ	1,336	-13, -1.2%	1,323(*)
IIQ	1,198	+40, +3.4%	1,238
IQ	1,054	+7, +0.7%	1,061
	9M 08		9M 09

## EBITDA

% on Revenues	22.0%	+2.3 p.p.	24.3%
	790	+90M€ +11.5%	880
IIIQ	328	-4, -2.0%	324
IIQ	254	+50, +20.1%	304
IQ	208	+44, +20.7%	252
	9M 08		9M 09

## Key Highlights

- ▶ Top line limited growth affected by long tail effects from 2008 loss in post-paid customer base
- ▶ Good performance of Value Added Services fuelled by microbrowsing stimulated through exclusive and distinctive offers of smartphones
- ▶ Lower push on 2G handset sales in order to stimulate a “Chip-only” approach
- ▶ Regain market share, increasingly working on customer satisfaction, network quality and innovation
  
- ▶ Ebitda margin increase driven by:
  - ▶ Lower bad debt
  - ▶ Continued cash cost efficiencies
  - ▶ Improved revenue mix

**Ebitda 2009 Target confirmed**  
**~3.6 BNR\$**

(\*) 80 million reais (approx. 28 million euro) reclassified from “Other Operating Income” to “Other Service Revenues”  
 No EBITDA impact. No reclassification of previous year needed at TI Group level

## Agenda

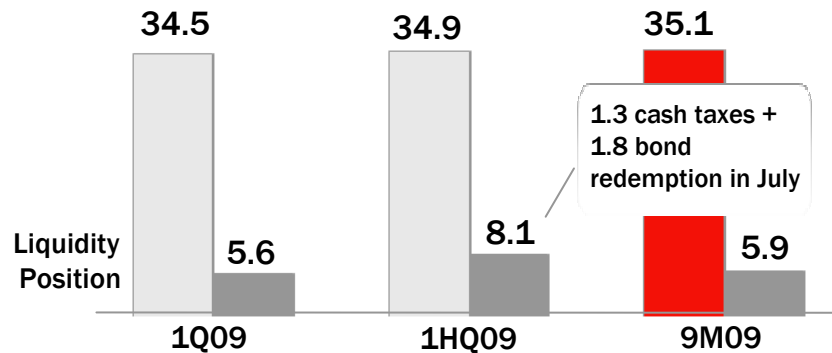
- ▶ TI Group Main Achievements
- ▶ Domestic Business
- ▶ TIM Brasil
- ▶ **Focus on Financial Discipline**
- ▶ Wrap Up



# Net Debt Dynamics and Cost of Debt

## Net Financial Position Adj and Liquidity

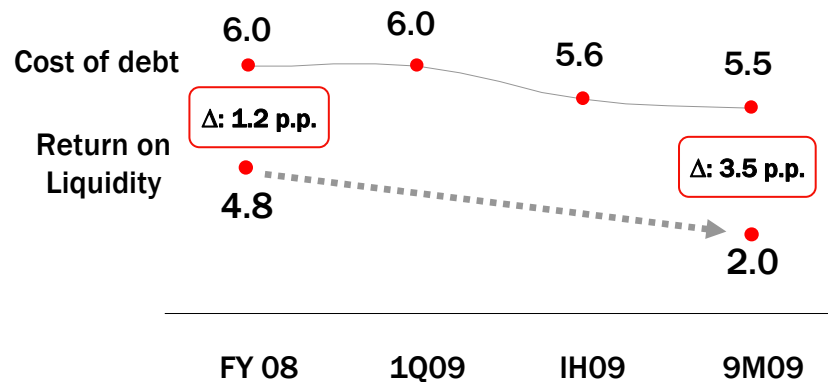
Euro billion



**FY09 NFP Adjusted Estimate:**  
**~34BN€**

## Cost of Debt - Return on Liquidity (%)

Euro million

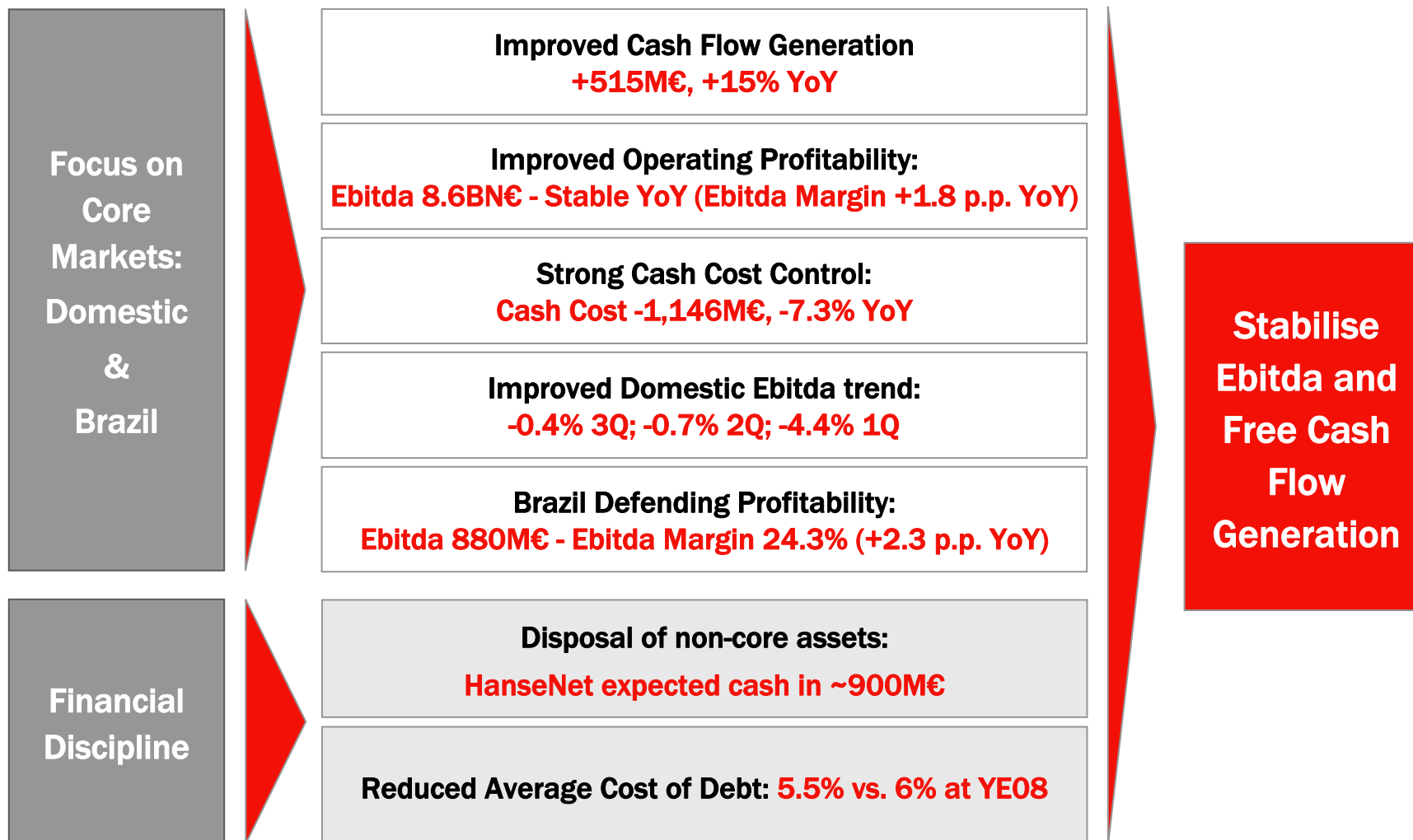


- ▶ Average debt maturity: 7.7 years (bond only 8.30 years)
- ▶ Fixed rate portion on gross debt approximately 65%

## Agenda

- ▶ TI Group Main Achievements
- ▶ Domestic Business
- ▶ TIM Brasil
- ▶ Focus on Financial Discipline
- ▶ **Wrap Up**

# TI Group 9M 09 Progress Report

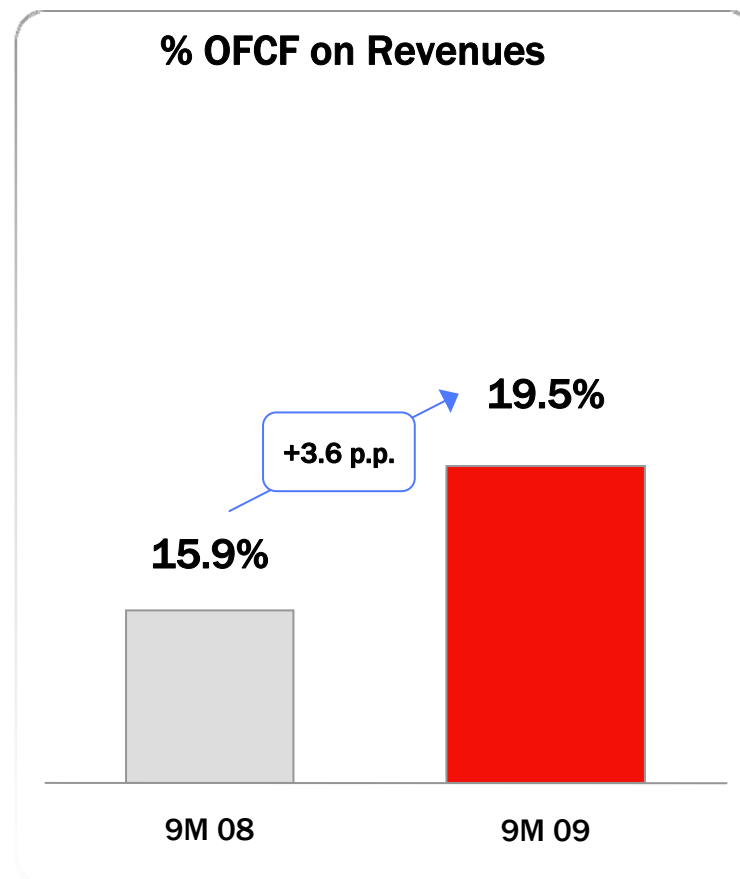
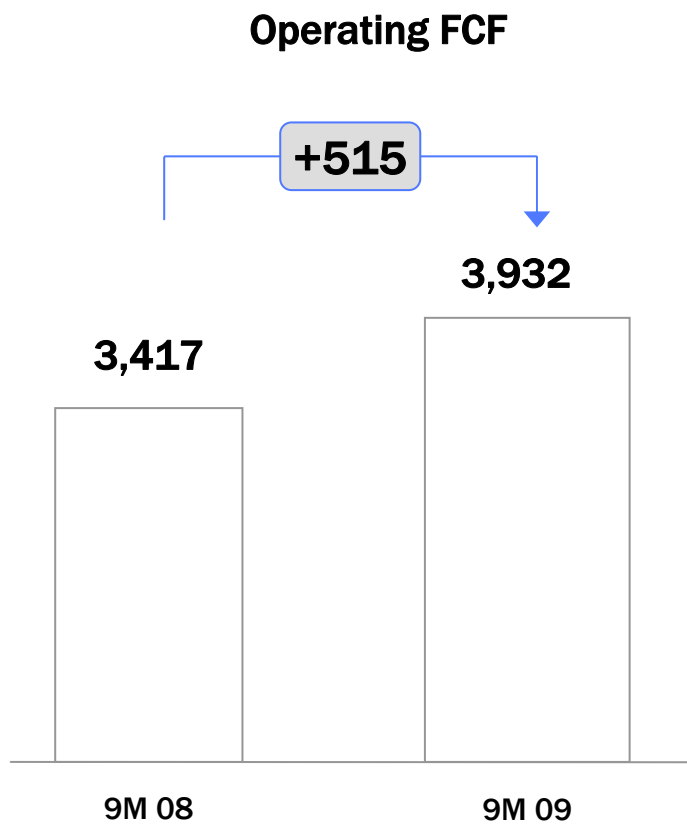


Figures considering HanseNet classified as Discontinued Operations

## Appendix

# Improved Operating Free Cash Flow

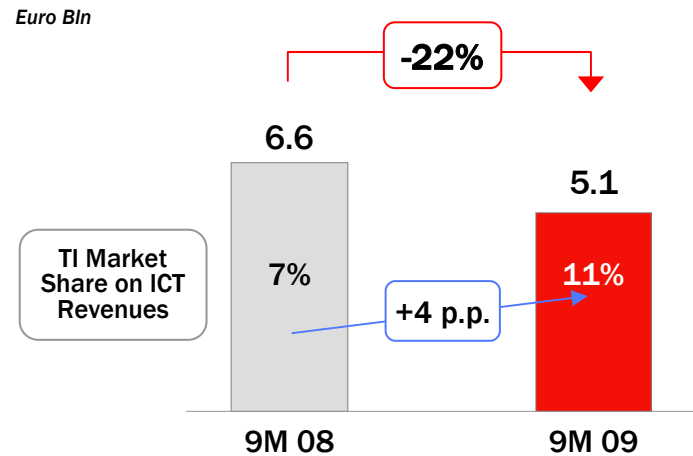
Euro mln, Reported data



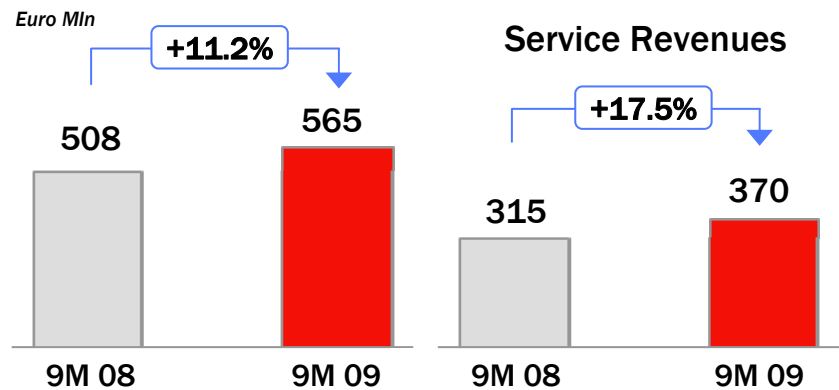
Figures considering HanseNet classified as Discontinued Operations

# Domestic Fixed: Focus on ICT

## Italian ICT Market Revenues Trend (\*)



## Focus Telecom Italia ICT Revenues



(\*) Source SIRMI

## Key Highlights

Continuously improving TI scale in a highly fragmented ICT Market with an unique end-to-end proposition

### Top / Large Account segment

#### Public Administration

- ▶ Fully maximize the value of CNIPA contract won in 2007, through
  - ▶ Successful Web hosting, data center and application/desktop management for big Customers such as INPS, INAIL and Ministry of Justice

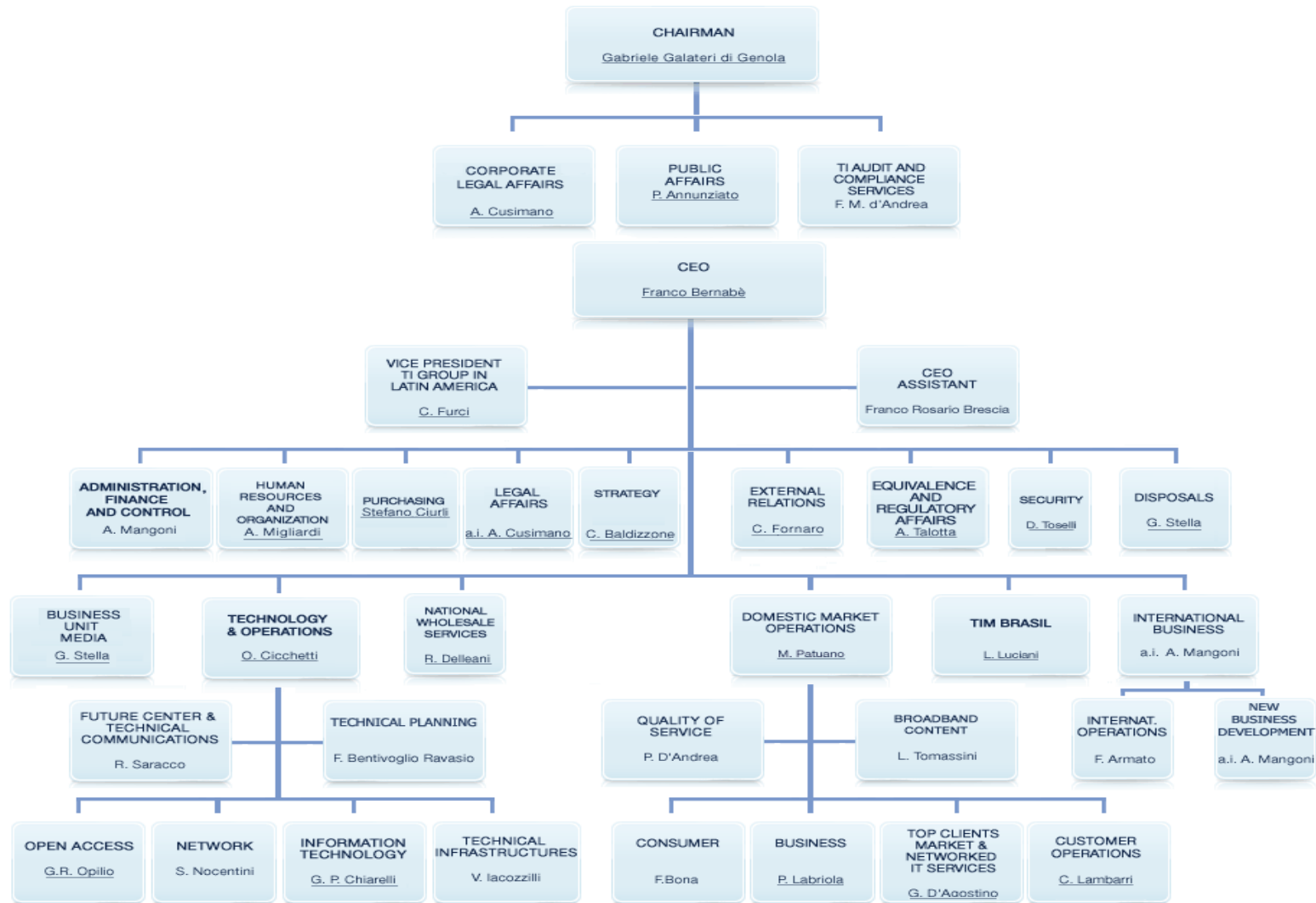
#### Private sector

- ▶ Continuous up-take of an *Infrastructure as a service* business model based on monthly fee pricing structure

### Business segment

- ▶ Strong push on segment-specific offerings under the "Impresa Semplice" brand
- ▶ Standardizing off-the-shelf solutions for SME customers, by creating bundles of products, to simplify the marketing process /adoption of solutions

# Telecom Italia's New Company Chart



# Focus on Consumer Main Achievements in 3Q09

	Key Activities	Key Evidence
<b>Offer</b>	<ul style="list-style-type: none"> <li>▶ Increased push on mobile BB</li> <li>▶ Enriching TIM community products</li> <li>▶ Further push to improve fixed BB penetration</li> </ul>	<div style="display: flex; justify-content: space-around;"> <div style="text-align: center;"> <p>TIM market share on Internet Keys*</p> <p>39% 40% 45%</p> <p>Dec '08 Jun '09 Sep '09</p> </div> <div style="text-align: center;"> <p>TIM x 2 ARPU uplift</p> <p>&gt;70%</p> <p>Consumer Pre-paid AVG TIM x 2</p> </div> </div> <ul style="list-style-type: none"> <li>▶ Continuous reduction of BB churn rate</li> </ul>
<b>Advertising</b>	<ul style="list-style-type: none"> <li>▶ A new format with very popular testimonials for both fixed and mobile</li> <li>▶ Highly commercial communication style to maximize acquisitions</li> <li>▶ Continued on air presence until year-end</li> </ul>	<ul style="list-style-type: none"> <li>▶ Strong improvement of spontaneous awareness</li> </ul>
<b>Sales &amp; Distribution</b>	<ul style="list-style-type: none"> <li>▶ Push of multi-brand channels to improve win-back capabilities</li> <li>▶ New geomarketing approach in segmenting points of sale</li> <li>▶ Strong push on BB acquisition through Telemarketing channel</li> </ul>	<ul style="list-style-type: none"> <li>▶ Continuous increase in multi-brand targeting 200 PoS by YE</li> <li>▶ Launch of a specific sales channel fully focused on Ethnic segment</li> <li>▶ Around 60% of BB September activation through 187 channel</li> </ul>

(\*) Source GFK



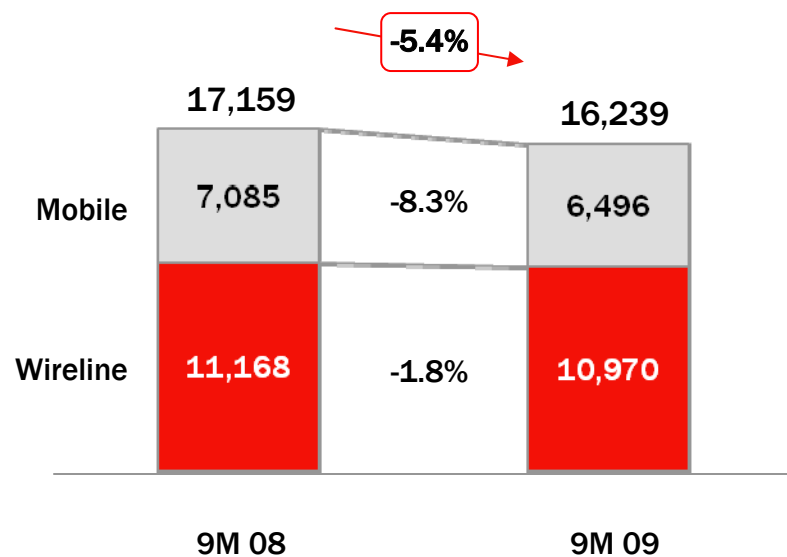
# Focus on Business Main Achievements in 3Q09

	Key Activities	Key Evidence																				
<b>Offer</b>	<ul style="list-style-type: none"> <li>▶ Improved TI positioning based on Impresa Semplice brand and higher Quality of Service</li> <li>▶ Increased commercial effort to improve percentage of BB services on Win-back and new customers</li> <li>▶ BB Churn reduction due to higher Quality of Services</li> <li>▶ Launch of new bundle offers: device + browsing / mailing services (to be continued in 4Q)</li> </ul>	<div style="border: 1px solid gray; padding: 5px; margin-bottom: 10px;"> <p>Net adds ('000 lines)</p> <table border="1"> <thead> <tr> <th></th> <th>1Q09</th> <th>2Q09</th> <th>3Q09</th> </tr> </thead> <tbody> <tr> <td>Fixed</td> <td style="background-color: #ff0000; color: white;">-23,0</td> <td style="background-color: #ff0000; color: white;">-21,0</td> <td style="background-color: #ff0000; color: white;">-13,6</td> </tr> <tr> <td>Mobile*</td> <td style="background-color: #cccccc;">-48,0</td> <td style="background-color: #cccccc;">-34,0</td> <td style="background-color: #cccccc;">-16,0</td> </tr> </tbody> </table> <p style="text-align: right;">* Human</p> </div> <div style="border: 1px solid gray; padding: 5px;"> <p>Mobile BB Access Net Adds ('000 lines)</p> <table border="1"> <thead> <tr> <th></th> <th>1Q09</th> <th>2Q09</th> <th>3Q09</th> </tr> </thead> <tbody> <tr> <td></td> <td style="background-color: #ff0000; color: white;">188</td> <td style="background-color: #ff0000; color: white;">190</td> <td style="background-color: #ff0000; color: white;">195</td> </tr> </tbody> </table> </div>		1Q09	2Q09	3Q09	Fixed	-23,0	-21,0	-13,6	Mobile*	-48,0	-34,0	-16,0		1Q09	2Q09	3Q09		188	190	195
	1Q09	2Q09	3Q09																			
Fixed	-23,0	-21,0	-13,6																			
Mobile*	-48,0	-34,0	-16,0																			
	1Q09	2Q09	3Q09																			
	188	190	195																			
<b>Customer Satisfaction</b>	<ul style="list-style-type: none"> <li>▶ Improved competitiveness and simplicity of both Fixed and Mobile offering</li> <li>▶ New go-to-market approach, with fixed-mobile sales force integration and customer portfolio management</li> </ul>	<div style="border: 1px solid gray; padding: 5px;"> <p>Customer Satisfaction Index (out of 100)</p> <table border="1"> <thead> <tr> <th></th> <th>1Q09</th> <th>2Q09</th> <th>3Q09</th> </tr> </thead> <tbody> <tr> <td></td> <td style="background-color: #ff0000; color: white;">60,86</td> <td style="background-color: #ff0000; color: white;">62,33</td> <td style="background-color: #ff0000; color: white;">62,74</td> </tr> </tbody> </table> </div>		1Q09	2Q09	3Q09		60,86	62,33	62,74												
	1Q09	2Q09	3Q09																			
	60,86	62,33	62,74																			

# Domestic – Revenues by Customer Segment and Technology

Euro million, %, Organic data

## Domestic Revenues by Technology



	1Q09	2Q09	3Q09
<b>Domestic</b>	<b>5,357</b>	<b>5,534</b>	<b>5,348</b>
Mobile	2,059	2,253	2,184
Wireline	3,677	3,724	3,569

## Domestic Revenues by Customer Segment

