Telecom Italia

MARCO PATUANO, CFO
Agenda

- TLC Italian Market and Telecom Italia Group: an Overview
- Telecom Italia 1H 08 highlight
- Strategic Outlook
- Domestic Business
- International Activities
- Closing Remarks
TLC Italian Market: an Overview

Total Telecom Revenues/GDP nominal terms

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>2.7%</td>
<td>2.6%</td>
</tr>
<tr>
<td>Big 5 Europe*</td>
<td>2.5%</td>
<td>2.4%</td>
</tr>
</tbody>
</table>

* Big 5 Europe: UK, Germany, France, Spain and Italy, 2006

The Size of the Italian Market (TLC & ICT)

<table>
<thead>
<tr>
<th>Year</th>
<th>TLC Italian Market</th>
<th>ICT Services**</th>
<th>Advertising and Digital content*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Revenues</td>
<td>Bln€</td>
<td>Bln€</td>
</tr>
<tr>
<td>2007</td>
<td>35.7</td>
<td>14.5</td>
<td>12.1</td>
</tr>
<tr>
<td>2008</td>
<td>36.0</td>
<td>14.8</td>
<td>12.9</td>
</tr>
<tr>
<td>2009</td>
<td>36.3</td>
<td>15.1</td>
<td>13.8</td>
</tr>
<tr>
<td>2010</td>
<td>36.7</td>
<td>15.8</td>
<td>14.8</td>
</tr>
</tbody>
</table>

CAGR '07-10

- +7%
- +3%
- +1%

Italian TLC highlights

- Among the highest weight on GDP in Europe
- High a-cyclical characteristics (TLC spending has a lower correlation to GDP trend)
- A strategic sector for the Italian economy (0.4% of GDP in 2007)
- Growth in innovative services compensate decline in traditional services, suffering for price pressure and regulatory environment
- innovative services drivers:
  - ICT (application, infrastructure, network services)
  - Fixed and Mobile broadband
  - Value Added Services

* Includes total advertising mkt, Pay TV and digital content on PC. Excludes RAI Service Fee
** Includes equipment
Italian TLC Market: a snapshot

An healthy market ...
- 6 fixed operators with TI holding a 80% of mkt share on accesses
- 4 mobile players, of which the top 2 controlling 72% of the market (TIM 39%)
- no cables operators
- higher consolidation opportunities

...where TI solidly maintains a better positioning vs the other European incumbent:
- 62% of mkt share on BB
- >40% on revenues share on mobile
- 43% of Ebitda margin (as off 1H08)

Regulatory Framework
Within EU directive, fixed services mostly regulated due to dominant position of Telecom Italia
Mobile regulation basically is focus on termination price control
Telecom Italia Group: shareholder structure and brief company history

Generali Group 28.1%, Intesa San Paolo Bank S.p.A. 10.6%, Mediobanca S.p.A. 10.6%, Sintonia S.A. 8.4% Telefónica S.A. 42.3%

Brief company history

- July 1995 TIM spin off and IPO
- November 1997, privatization of Telecom Italia
- June 2006 Telecom Italia-TIM merger
- October 2007, Telco S.p.A. became the main Telecom Italia’s shareholder
- December 2007, new management appointed

Telecom Italia stocks are listed on the Milan and New York Stock Exchanges (the latter via ADR)

Market cap was about 20 bln of euro, of which 14.6 bln for ordinary shares and 5 bln for savings shares (average September)

TI shares are included in main international indexes (FTSE Eurotop100, DJ STOXX 600, DJ Stoxx Telecom, S&P Mibtel, MSCI Pan-Euro, MSCI Euro, etc.)

and SRI indexes (DJSI World, DJSI STOXX, FTSE4Goods Europe, ESI Global, etc.)
Telecom Italia Group: company position vs. main European peers

### Revenues growth

**yoy reported**

- TI: -3.3%
- TEF: 1.2%
- FT: 1.5%
- BT: 2.7%
- DT: -3.0%

Reported revenues, bln - local currency

<table>
<thead>
<tr>
<th></th>
<th>1H08</th>
</tr>
</thead>
<tbody>
<tr>
<td>TI</td>
<td>14.8</td>
</tr>
<tr>
<td>TEF</td>
<td>28.1</td>
</tr>
<tr>
<td>FT</td>
<td>26.3</td>
</tr>
<tr>
<td>BT</td>
<td>10.6</td>
</tr>
<tr>
<td>DT</td>
<td>30.1</td>
</tr>
</tbody>
</table>

### Ebitda Margin reported

**average**

- TI: 37.3%
- TEF: 39.5%
- FT: 36.8%
- BT: 27.1%
- DT: 31.6%

Reported EBITDA, bln - local currency

<table>
<thead>
<tr>
<th></th>
<th>1H08</th>
</tr>
</thead>
<tbody>
<tr>
<td>TI</td>
<td>5.5</td>
</tr>
<tr>
<td>TEF</td>
<td>11.1</td>
</tr>
<tr>
<td>FT</td>
<td>9.7</td>
</tr>
<tr>
<td>BT</td>
<td>2.9</td>
</tr>
<tr>
<td>DT</td>
<td>9.5</td>
</tr>
</tbody>
</table>

### Net Debt/Ebitda (x)

**Last 12 months rolling EBITDA**

- TI: 3.4
- TEF: 1.9
- FT: 2.0
- BT: 1.8
- DT: 2.4

Net Debt, bln – local currency

<table>
<thead>
<tr>
<th></th>
<th>1H08</th>
</tr>
</thead>
<tbody>
<tr>
<td>TI</td>
<td>37.2</td>
</tr>
<tr>
<td>TEF</td>
<td>44.0</td>
</tr>
<tr>
<td>FT</td>
<td>38.2</td>
</tr>
<tr>
<td>BT</td>
<td>10.6</td>
</tr>
<tr>
<td>DT</td>
<td>40.6</td>
</tr>
</tbody>
</table>

### FCF/Revenues

**average**

- TI: 17.4%
- TEF: 27.2%
- FT: 24.9%
- BT: 12.2%
- DT: 19.6%

FCF (as Reported EBITDA - Capex), bln – local currency

<table>
<thead>
<tr>
<th></th>
<th>1H08</th>
</tr>
</thead>
<tbody>
<tr>
<td>TI</td>
<td>2.6</td>
</tr>
<tr>
<td>TEF</td>
<td>7.7</td>
</tr>
<tr>
<td>FT</td>
<td>6.5</td>
</tr>
<tr>
<td>BT</td>
<td>1.3</td>
</tr>
<tr>
<td>DT</td>
<td>5.9</td>
</tr>
</tbody>
</table>
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### TI Group – 1H '08 Key Financial Results

€ Mln

<table>
<thead>
<tr>
<th></th>
<th>FY '07 reported</th>
<th>1H '08 reported</th>
<th>1H '07 reported*</th>
<th>YoY reported</th>
<th>YoY organic**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>31,290</td>
<td>14,838</td>
<td>15,337</td>
<td>-3.3%</td>
<td>-3.8%</td>
</tr>
<tr>
<td></td>
<td>11,617</td>
<td>5,535</td>
<td>6,335</td>
<td>-12.6%</td>
<td>-8.3%</td>
</tr>
<tr>
<td>Ebitda margin</td>
<td>37.1%</td>
<td>37.3%</td>
<td>41.3%</td>
<td>-4.0pp</td>
<td>-2.0pp</td>
</tr>
<tr>
<td></td>
<td>5,764</td>
<td>2,608</td>
<td>3,554</td>
<td>-26.6%</td>
<td>-18.8%</td>
</tr>
<tr>
<td>Ebit margin</td>
<td>18.4%</td>
<td>17.6%</td>
<td>23.2%</td>
<td>-5.6pp</td>
<td>-3.6pp</td>
</tr>
<tr>
<td>Net Income</td>
<td>2,448</td>
<td>1,140</td>
<td>1,500</td>
<td>-24.0%</td>
<td></td>
</tr>
<tr>
<td>post minorities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>5,520</td>
<td>2,956</td>
<td>2,412</td>
<td>+544</td>
<td></td>
</tr>
<tr>
<td>Net Debt</td>
<td>35,701</td>
<td>37,172</td>
<td>39,175</td>
<td>-2 € bln</td>
<td></td>
</tr>
</tbody>
</table>

#### Highlights

- Domestic revenues mainly affected by discontinuities (€ 591 mln). International activities generated 22% of Group turnover in 1H08 (+3pp yoy).
- Broadly stable domestic Ebitda Margin (45.9% org.), among the highest in the industry. Lower international profitability due to competitive pressure in Germany and spill-over from Q1 of non-recurring issues in Brazil.
- D&A increase following higher capital intensity for continued investments in innovation.
- Positive income from tax adjustment allowed by 2008 Financial Law (515 € mln) offset by lower operating income and negative yoy balance from Sofora call option valuations.
- Higher investments in Brazil for 3G licences acquisition (477 € mln).
- Net Debt yoy decrease thanks to cash flow generation.

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* Pro-forma figures (Liberty Surf Group considered as a discontinued operation).
** Excluding changes in consolidation area, exchange rate impact and other non organic items.
Financial Structure at a glance as of June 30 2008

Average Bond Maturity (yrs) 8.34
Fixed Rate Debt 70%
Average cost of debt 5.9%

Gross Debt (1) 43.6
Total Financial Assets (1) (2) 37.2
Net Financial Position

Liquidity Margin

<table>
<thead>
<tr>
<th>€ Bln</th>
<th>4.6</th>
<th>+</th>
<th>6.5</th>
<th>=</th>
<th>11.1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liquidity Position (2)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>€ 4.1</td>
<td>Cash &amp; Cash Equivalents</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>€ 0.5</td>
<td>Marketable Securities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>€ 1.9</td>
<td>Others (1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>€ 6.5</td>
<td>Total Financial Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Undrawn Portion of € 8.0 bln Revolving Facility Maturing in August 2014

(1) Including Liberty Surf Gross Debt (€ 823 mln), of which € 811 mln refers to Intercompany Debt accounted as for Discontinued Operations
(2) Nominal Liquidity Position, represented by cash and marketable securities stands at € 4.6 bln
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Building the Foundations for Growth

Undergoing a transformation process...

2008

ASSETS

- Strong Domestic Market Position
- World Class competencies in the core business
- Selected Presence in International markets

KEY DECISIONS

- Concentrate on quality as a value driver
- Increase total share of wallet (including adjacent sectors)
- Leverage innovation and entrepreneurship in the organisation
- Defend and expand where presence is strong
- Divest weaker positions

RESULTS

- Stabilise and possibly increase ARPU in key businesses
- Create growth opportunities in an otherwise mature market
- Exploit potential of current assets
- Rebuild a solid growth platform
Maintaining a strong financial discipline

- Raise cash from non strategic assets
- Select investments on payback period and return ratio thresholds
- Focus on the deleveraging

<table>
<thead>
<tr>
<th>Targets 2008-2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alice France disposal completed in 2H 08</td>
</tr>
<tr>
<td>BB coverage by 2010:</td>
</tr>
<tr>
<td>Fixed: 90% Adsl2, 8% NGN</td>
</tr>
<tr>
<td>Mobile: 85% High Speed 3G</td>
</tr>
<tr>
<td>Deployment of convergent BB network (FTTx, LTE and Femtocells)</td>
</tr>
<tr>
<td>Service platforms development</td>
</tr>
<tr>
<td>(IPTV, dynamic HDTV, full IP Managed Unified Communication Platform, etc.)</td>
</tr>
<tr>
<td>~ 2.5x by 2010 (NFP/Ebitda)</td>
</tr>
</tbody>
</table>
And improving efficiencies and synergies

- New lean organization according to customer segments
  - Personnel rightsizing plan: 5000 lay-offs by 2010 with 300 mln€ savings
  - “Customer Centric” model: restructuring of Domestic Market Division in place as of 2008ye
  - Restructuring of T&O Division: creation of Open Access
  - Staff rationalization: rebalancing of the staff-to-line ratio

- Strict cost control and infrastructure cash cost reduction plan enhanced by industrial synergies and best practice sharing with Telefónica

<table>
<thead>
<tr>
<th>Cash Cost reduction 2008–2010: 1.2 Bn €</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access</td>
</tr>
<tr>
<td>IT</td>
</tr>
<tr>
<td>Network</td>
</tr>
<tr>
<td>Technical Infrastructure</td>
</tr>
</tbody>
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In a Changing Industry...

### Constraints
- Market Saturation on Traditional Services
- New Competitors coming from Adjacent Sectors
- Strict Regulatory Environment

### Opportunities
- New Growth Opportunities in Innovative Services
- Expansion in New Addressable Adjacent Markets
- TLC Market Consolidation

- Internet always-on everywhere
- Premium & user generated contents
- Quality & speed drive these business developments
- ICT market is attractive in terms of size and growth
- Virtualization, “SW as a service” and Service Oriented Architecture increase telco opportunities
- Integration/Convergence is becoming “the industry business model”
- “Value vs Volume” is picking up as the common approach in the market, reducing price pressure
...TI is Evolving to a Customer Driven Model...
...Extending Coverage and Capacity in BB Access...

Fixed Access

Traffic Volumes (Petabytes)

BB coverage (% of POTS)

Mobile Access

Traffic Volume (Petabytes)

BB Coverage (% of population)

Domestic Capex Cum. 2008-10: ~11.0 bln€
...to Transform and Gear Domestic Business to Value

Bin €

Advertising and Digital content*  12.1  12.9  13.8  14.8  +7%  ~2%

ICT Services  14.5  14.8  15.1  15.8  +3%  ~7%**

Telecom Services***  35.7  36.0  36.3  36.7  +1%  ~55%

Grow in digital content distribution and web 2.0 new media synergizing media contents among TI Group platform

Increase market share through integrated TLC/IT Services leveraging on virtualization, “SW as a service” approach and Service Oriented Architecture

Focus on Value Market Share shifting to a “needs-based” segmentation

*CAGR ‘07-’10  ** On addressable market  *** Includes equipment

* Includes total advertising mkt. Pay TV and digital content on PC. Excludes RAI Service Fee
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**International Consolidation and Development**

**Europe**
- Enhance TI positioning, eventually exploiting opportunities in the consolidation process
- Continue to profitably expand activities in Germany, focusing on market build-up, operational excellence and efficiency

**Latin America**
- Grow in Brazil recovering operating performance, strengthening mobile proposition and exploiting convergence
- Focus to increase the participation in Sofora (Telecom Argentina)

**Int.l Wholesale**
- Focus on the Italian Hub for the Mediterranean, Middle-East, South-East Asia
- Innovative solutions for Multinational Companies

**Additional Points**
- Increase contribution to Group results and growth prospects
- Monitor business opportunities on high growing markets
- Build Financial Partnerships and Alliances
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Telecom Italia Roadmap to Growth

**Transform Domestic Business**
- Improve quality
- Customer knowledge
- Convergent offers
- Develop ICT market

**Consolidate International Business**
- Continue Growth in Latin America
- Strengthen Position in Germany
- Portfolio Monitor

**Exploiting Efficiencies and Synergies**
- Customer segment organization
- Convergent Network and IT model
- Development of efficiencies and synergies

**Financial Discipline**
- Investment and Portfolio Management
- Shareholder Remuneration

- Domestic revenue trend reversed in 3 years time
- Focus on International Growth
- Group EBITDA Improvement
- Deleveraging