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Agenda

- How we see the TLC industry
- Telecom Italia Strategy
- Key 1H09 Progress
- Closing remarks
Global TLC: Scenario 2009-2011

**Macroeconomic and Industry trends**
- TLC recovery expected to be early cycle with spending pick up ahead of 2010E economic upturn
- Regulation will continue to play a central role in the stance of NGN development
- Voice is moving on Mobile with BB remaining the growth engine

**Technological developments**
- Revenue and Traffic decoupling driven by strong BB growth
- Access capacity and higher speed fundamental to provide enhanced user experience
- New technology to reduce cost “per Mbyte” (eg. NGN)
- Flexible & Open standard-based architecture to address customer personalized experiences

**Incumbent evolution**
- Streamline processes and rationalize infrastructure costs to achieve lean operations ensuring efficiency and effective focus on service provision
- Intra-market consolidation to improve competitive positioning and increase economies of scale
- Opportunities arising from converging markets trigger new models of competition/cooperation
Global TLC: Main new growth drivers

<table>
<thead>
<tr>
<th>Converging Markets</th>
<th>Major trends</th>
<th>Business opportunities</th>
<th>Market size</th>
</tr>
</thead>
<tbody>
<tr>
<td>TLC- Media</td>
<td>Multiplatform content and applications distribution, Audience share migration towards digital platforms</td>
<td>IPTV, Web TV, Distribution Platforms &amp; Toll Roads, Digital Marketing &amp; Advertising, Digital Utilities</td>
<td>IPTV Subscribers Worldwide (mln)</td>
</tr>
<tr>
<td></td>
<td>IT as Utility, Service Oriented Architecture, Virtualization of Infrastructure</td>
<td>Cloud &amp; Grid Computing, Software as a Service, Enterprise 2.0</td>
<td>Annual Sales Worldwide (USD Bln)</td>
</tr>
<tr>
<td>TLC- Devices</td>
<td>Networked devices, Machine to machine development</td>
<td>Digital Connected Homes, Telemetric services, Payments</td>
<td>Worldwide home networking and BB CPE Forecast (mln units)</td>
</tr>
</tbody>
</table>

Technological evolution drives convergence stimulating customer needs creating new opportunities for Telcos

*S Source Gartner, ** Source: IDC, Bain, *** Source: In-Stat

Franco Bernabè, Telecom Italia/CEO
Agenda

- How we see the TLC industry
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Telecom Italia: the Transformation underway

Focus on individuals, communities & business to answer more personal, convergent communication needs

Flexibility and time-to-market rather than traditional control of network infrastructure

Trend in mature markets overturned acting at different levels, no single killer app

Solid emerging economies will continue to show superior growth

Deliver superior Customer Experience

Efficiency on Operating Expenses ("Lean & Clean")

Improve Regulatory Dialogue

Rebound & Consolidation in Brazil
TI: advantages gained through a Customer Centric model

**Key Advantages**

**Offer**
- Increasingly “tailored” approach to client segments

**Sales & Distribution**
- Rationalization and E2E management to improve go2market keeping costs in check

**Customer Operations**
- Process reengineering bettering quality of service delivering cost efficiencies

**Key rationales**
- F-M-ICT integration to address business client needs
- Deeper segmentation keeping F-M-BB offers “separate”

**Upselling/ Cross selling Potential**

**Acquisition Potential**

---

*FTE related to efficiency Program, Includes MKT Support & DA FTE*
TI: Domestic Cash Costs Rationalization

Network Evolution

- "ALL-IP" NETWORK
- The new Factory

Lean Company

- Infrastructures simplification and rationalization
- E2E “customer centric” process reengineering
- Organization simplification and rightsizing

Cash Cost/Sales

- '08: 71.9%
- '11: 66.6%

Opex*/Sales

- '08: 56.2%
- '11: 53.3%

Capex/Sales

- '08: 15.7%
- '11: 13.3%

Headcount TLC domestic (N°)

- '07YE: 64.1
- '11YE: 55.1

Long-term target: ~65%

~2.0 Bn€ Cash Cost Efficiencies 2009-11

* Organic data
## TI: playing Regulatory Forces positively

### Key Highlights

<table>
<thead>
<tr>
<th>Retail Regulated Markets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Withdrawal of obligations from relevant markets as by EU Recommendation</td>
</tr>
<tr>
<td>Elimination of asymmetry in migration procedures between TI and OLOs</td>
</tr>
<tr>
<td>Review of “price squeeze” tests for bundles</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Wholesale Regulated Mkts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Withdrawal of obligations from relevant markets as by EU Recommendation</td>
</tr>
<tr>
<td>Orientation of access charges to fwd-looking incremental costs, upping ULL rental fee</td>
</tr>
<tr>
<td>Symmetry of F-F termination</td>
</tr>
<tr>
<td>Safeguard M-voice termination as set by NRA</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>NGAN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limit NGAN rules to TI Undertakings approved by NRA</td>
</tr>
</tbody>
</table>

### Main advantages

| Improve competitiveness of TI Retail Divisions |
| Create conditions of “fair and symmetric” competition with OLOs |

| Avoid undue competitive disadvantages due to prices lower than the economic value of the acquired network services |
| Recover all incurred network costs |
| Generate positive cash flow to invest in maintenance and update of traditional network |

| Avoid competitive disadvantages due to regulation of access to active elements of NGAN |
| Exploit advantages of “Risk sharing” where co-investment agreements viable |
### TI: making Infrastructure a Competitive Advantage

<table>
<thead>
<tr>
<th>Key features</th>
<th>Main advantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Integrated</td>
<td>Seamless experience across different technologies</td>
</tr>
<tr>
<td>Integrated network</td>
<td>Deeper customer knowledge with more effective CRM capabilities</td>
</tr>
<tr>
<td>‣ Integrated OSS and BSS systems</td>
<td></td>
</tr>
<tr>
<td>‣ Service platform</td>
<td></td>
</tr>
<tr>
<td>‣ multimedia contents</td>
<td></td>
</tr>
<tr>
<td>‣ ICT services for business customers</td>
<td></td>
</tr>
<tr>
<td>&quot;All IP&quot; backbone and transport network</td>
<td>Handling 600 gigabit/s in 2008, 1800 gigabit/s in 2011</td>
</tr>
<tr>
<td>supporting voice, data</td>
<td>Huge backhauling capacity to support mobile Ultra BB growth</td>
</tr>
<tr>
<td>&quot;All IP&quot; coverage reaching all metropolitan areas</td>
<td>CAPEX and OPEX aligned to the best practices</td>
</tr>
<tr>
<td>Ready to support Next Generation Services</td>
<td>Acquisition of third mobile carrier</td>
</tr>
<tr>
<td>&quot;3 Campus Data Centers, 460 IT applications</td>
<td></td>
</tr>
<tr>
<td>for internal processes and ICT offer</td>
<td></td>
</tr>
<tr>
<td>2K internal servers, 28K CPU, 7000 Tbyte of</td>
<td></td>
</tr>
<tr>
<td>managed storage capacity</td>
<td></td>
</tr>
<tr>
<td>Strong position to support increasing penetration</td>
<td></td>
</tr>
<tr>
<td>of net centric application (Cloud Computing,</td>
<td></td>
</tr>
<tr>
<td>Software as a Service, etc...)</td>
<td></td>
</tr>
<tr>
<td>Positive contribution to safeguard environment</td>
<td></td>
</tr>
<tr>
<td>thanks to a lower Energy consumption (-40%)</td>
<td></td>
</tr>
</tbody>
</table>
Brazil: realize full potential of Brazilian Asset

Key Macro-Economic Trends
- Nominal GDP return to growth: rebound as of 2Q 09 and 2010 still ~4%*
- Above average salary growth
- Stable Outlook BB Sovereign Rating
- Improving country risk profile across the economic crisis

Key TLC Industry Trends
- Strong TLC market growth with penetration rapidly approaching 100%
- Underpenetrated wireline market due to low competition
- Significant demand for BB services
- Fierce competition resulting from 4 strong nationwide player putting profitability under pressure

* Source: Global Insight July 2009
** Sept 2009

Franco Bernabè, Telecom Italia/CEO
**Telecom Italia: FCF generation a Key Reference in Managing Business**

**Strong cost flexibility**

- **Group OPEX 1H09**
  - Revenue Driven *

**Aggressive efficiency program**

- **Org. Domestic Cash Costs (€ Bn)**
  - '08 GROWTH: <1.0
  - '11 EFFICIENCY: ~-2.0

- **Domestic Headcount (’000)**
  - ‘09 target fully achieved

- **Domestic Headcount (’000)**
  - Jan 1, 08: 64.1
  - July 31, 09: 59.1
  - ‘11 YE: 55.1

**Strong FCF generation even in a difficult scenario**

- **€ Bn**
  - Operating FCF: ~22
  - Tax cash-out & Financial expense: ~13
  - Free Cash Flow before disposals: ~9

- ~11-12 including disposals

**Progressive deleverage**

- **Net debt to EBITDA**
  - 2008: <3x
  - 2009: ~2.9x
  - 2010: ~2.65x
  - 2011: ~2.3x

- Spike in cash tax payment (~2.3 € Bn)

* COGS + Commercial OPEX
Agenda

- How we see the TLC industry
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- Closing remarks
TI Group 1H 09 Progress Report

**Focus on Core Markets**

- Enhanced Regulatory Dialogue
- Improved Customer Satisfaction
- Reshaped Revenue Mix
- Recovered in Fixed Business
- Late on Consumer Mobile Performance
- Continued Cash Cost Rationalization

**Domestic**

- Reversed Commercial Kpis
- Safeguarded Profitability

**Brazil**

- Refinancing Completed
- Reduced Average Cost of Debt

**Financial Discipline**

Stabilize Ebitda and Improve Free Cash Flow Generation

- Safeguarded Profitability
- Refinancing Completed
- Reduced Average Cost of Debt
Improved Operating Cash Flow

Euro mln, Reported data

<table>
<thead>
<tr>
<th></th>
<th>I Half 08</th>
<th>I Half 09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating FCF</td>
<td>1,583</td>
<td>2,170</td>
</tr>
<tr>
<td>%OFCF on Revenues</td>
<td>10.7%</td>
<td>15.6%</td>
</tr>
</tbody>
</table>

Franco Bernabè, Telecom Italia/CEO
### TI Group Improved Profitability: Organic Results vs. 2008

**Euro mln, %**

<table>
<thead>
<tr>
<th></th>
<th>I Half 08</th>
<th>I Half 09</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>2,252</td>
<td>2,299</td>
</tr>
<tr>
<td>TIM Brasil</td>
<td>11,428</td>
<td>10,891</td>
</tr>
<tr>
<td>Domestic</td>
<td>14,507</td>
<td>13,953</td>
</tr>
<tr>
<td><strong>Opex</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>1,790</td>
<td>1,743</td>
</tr>
<tr>
<td>TIM Brasil</td>
<td>6,202</td>
<td>5,799</td>
</tr>
<tr>
<td>Domestic</td>
<td>8,748</td>
<td>8,206</td>
</tr>
</tbody>
</table>

#### EBITDA

<table>
<thead>
<tr>
<th></th>
<th>I Half 08</th>
<th>I Half 09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other</td>
<td>462</td>
<td>556</td>
</tr>
<tr>
<td>TIM Brasil</td>
<td>5,759</td>
<td>5,747</td>
</tr>
<tr>
<td>Domestic</td>
<td>5,226</td>
<td>5,092</td>
</tr>
</tbody>
</table>

- **Other**
  - TIM Brasil: -134, -2.6%
  - Domestic: -12M€, -0.2%
- **Domestic**
  - TIM Brasil: +94, +20.4%
  - Domestic: -403, -6.5%
- **Other**
  - TIM Brasil: +94, +20.4%
  - Domestic: -403, -6.5%

% on Revenues:
- **Other**
  - TIM Brasil: +1.5 p.p.
  - Domestic: +94, +20.4%
- **Domestic**
  - TIM Brasil: +20.4%
**Domestic: a Revised Revenues Mix...**

<table>
<thead>
<tr>
<th>EBITDA Margin</th>
<th>I Half '09</th>
<th>Change YoY</th>
<th>Strategic Priority</th>
</tr>
</thead>
<tbody>
<tr>
<td>ICT Services</td>
<td></td>
<td>18%</td>
<td>Growth</td>
</tr>
<tr>
<td>Mobile BroadBand</td>
<td></td>
<td>12%</td>
<td></td>
</tr>
<tr>
<td>Wireline BroadBand</td>
<td></td>
<td>8%</td>
<td></td>
</tr>
<tr>
<td>Wireline Access*</td>
<td></td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Outgoing Mobile Voice</td>
<td></td>
<td>-3%</td>
<td>Defend &amp; Recover</td>
</tr>
<tr>
<td>Mobile Messaging</td>
<td></td>
<td>-5%</td>
<td></td>
</tr>
<tr>
<td>Wireline Business Data</td>
<td></td>
<td>-7%</td>
<td></td>
</tr>
<tr>
<td>Outgoing Fixed Voice</td>
<td></td>
<td>-13%</td>
<td></td>
</tr>
<tr>
<td>Wireline Handsets</td>
<td></td>
<td>-9%</td>
<td>Reduce</td>
</tr>
<tr>
<td>Mobile Handsets</td>
<td></td>
<td>-30%</td>
<td></td>
</tr>
<tr>
<td>Wireline Voice VAS</td>
<td></td>
<td>-22%</td>
<td>Reposition</td>
</tr>
<tr>
<td>Mobile VAS Content</td>
<td></td>
<td>-29%</td>
<td></td>
</tr>
</tbody>
</table>

(*) Retail and Wholesale (includes Naked Fees)
TI: first showings from the adoption of Customer Centric model

**TOP/ SME Business**

- **Italian ICT Market (€Bln)**
  - IH08: 4.6
  - IH09: 4.2
  - Ti Market Share on ICT Revenues: 7.1% +2 p.p. to 9.0%

**Consumer**

- **TIM Premia**
  - ARPU: 2x Target
  - >1 Million in 4 months from launch

**Main 4Q 09 Actions**

- Strong push on acquisitions investing on price elasticity
- New advertising format leveraging on impact and recognizability
- Aligning share of voice and Adv presence to main competitors

**Sales & Distribution**

- Improving Mix of SME Acquisitions
  - % Higher/Med value on total adds
  - FY08: 38%
  - 2Q09: 52%
  - +14pp

- Bettering Quality of Mobile Acquisitions
  - % calling lines/total adds
  - June '08: 60%
  - June '09: 70%

**Customer Operations**

- In H1, completed alignment between Business F-M client segmentation as first step towards launch of integrated Caring in October 2009:

**Customer Satisfaction (CSI): from 65 in 2007 YE to 68 in 2009**
TIM Brasil: the Path undertaken with a Focus on Profitability

**1Q09A**
- Return to n.1 in Brand Awareness
- Focus on 2G network quality reaching highest improvement in Brazilian ranking
  - 2G: excellence in voice
  - 3G: right on spot

**2Q09A**
- New offer portfolio
  - Infinity prepaid reached 2.5 mln lines in 3 months from launch
- Improving customer satisfaction, overcoming 1° player as of May
- Market share progressively increasing to 23.7%
  - TIM n.1 in net adds share

**3Q09E**
- Focus on fostering usage
  - Increase market share:
    - Postpaid voice
    - Push on prepaid Infinity

**4Q09E**
- Commercial Push
- Dubling Node-B in 3G coverage
- Closing Intelig and first synergies captured
- Back to Top of Mind and Customer Preference

Restructuring the company, recovering strong positioning, sustaining profitability and cash flow
Agenda

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The Customer Centric approach and Integrated IP Network deliver substantial structural competitive advantages

Significant change in domestic revenue mix, strong commitment on cash cost efficiency plan and financial discipline are the clear drivers for 2009

Turnaround repositions TIM Brasil as first choice for High Users while driving profitability

Solid FCF generation is the key reference to managing business while ensuring levels of investment at the right “pace & place”

On track to deliver 2009 FY targets on EBITDA and Debt reduction