

TELECOM ITALIA GROUP

Merrill Lynch - TMT Conference

MARCO PATUANO

Safe Harbour

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Agenda

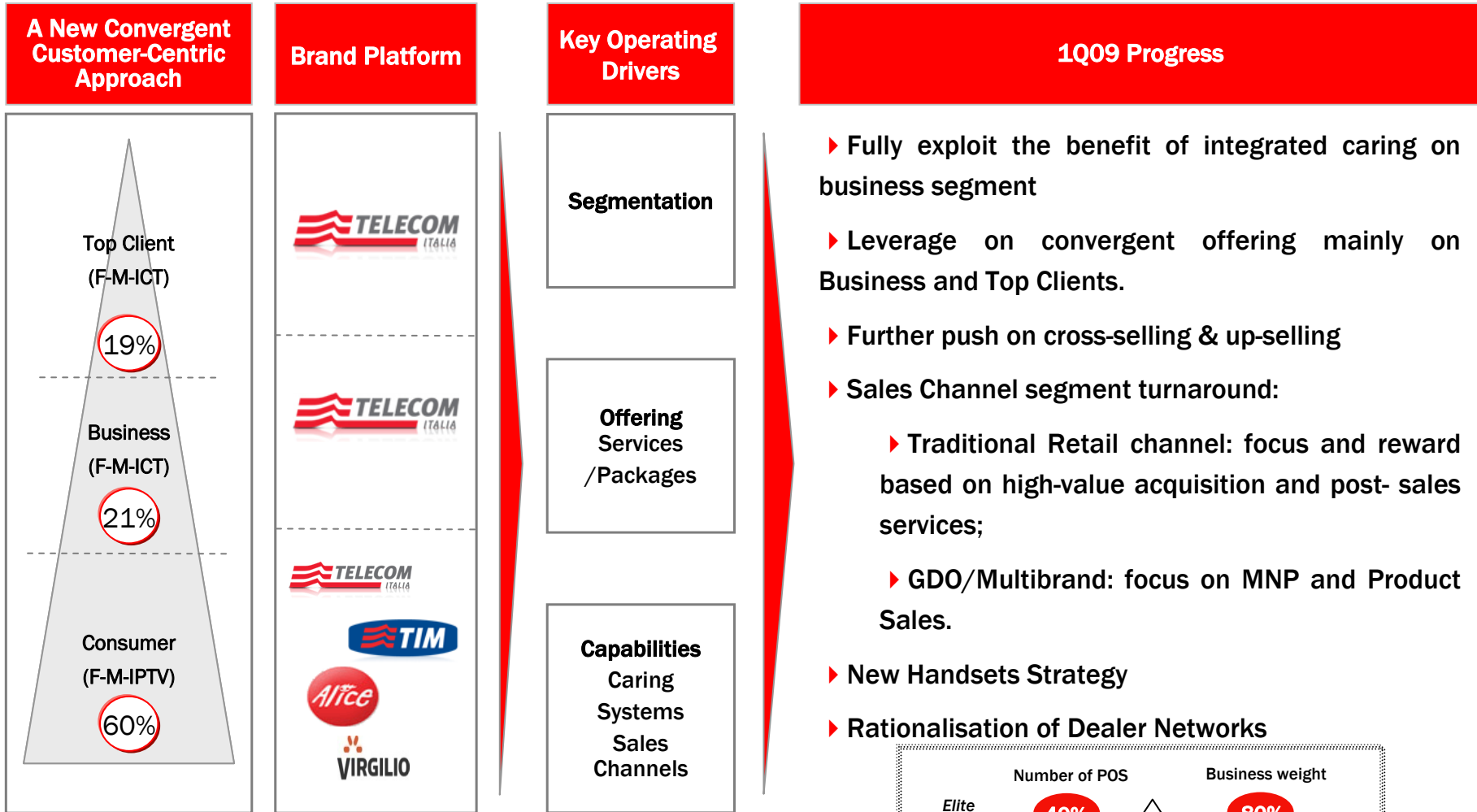
- ▶ **Strategic Framework & 1Q09 Progress**
- ▶ **1Q09 Result Review**
- ▶ **Focus on Cash Cost Control & Financial Discipline**
- ▶ **2009 Outlook**

Key Objectives and Commitments – 2009-2011

Group Operating Free Cash Flow	~€22.0 Bn cumulative '09 – '11
Domestic Cash Cost Efficiency Plan	~ - €2.0 Bn '11 vs. '08
Domestic Headcount Reduction	9,000 vs 2007 YE ⁽¹⁾
Non-Core Asset Disposals	Up to €3.0 Bn
Strong Focus on Deleveraging	Net Debt/Ebitda 2011 ~ 2.3X

⁽¹⁾ Including 5,000 announced in June 08

Customer-Centric Approach



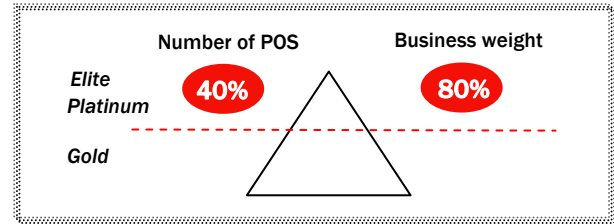
○ Breakdown of 2008 Domestic Retail Revenues



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1Q09 Progress

- ▶ Fully exploit the benefit of integrated caring on business segment
- ▶ Leverage on convergent offering mainly on Business and Top Clients.
- ▶ Further push on cross-selling & up-selling
- ▶ Sales Channel segment turnaround:
 - ▶ Traditional Retail channel: focus and reward based on high-value acquisition and post-sales services;
 - ▶ GDO/Multibrand: focus on MNP and Product Sales.
- ▶ New Handsets Strategy
- ▶ Rationalisation of Dealer Networks



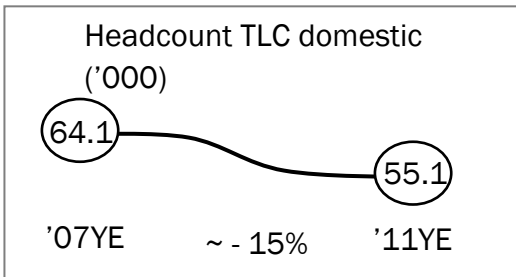
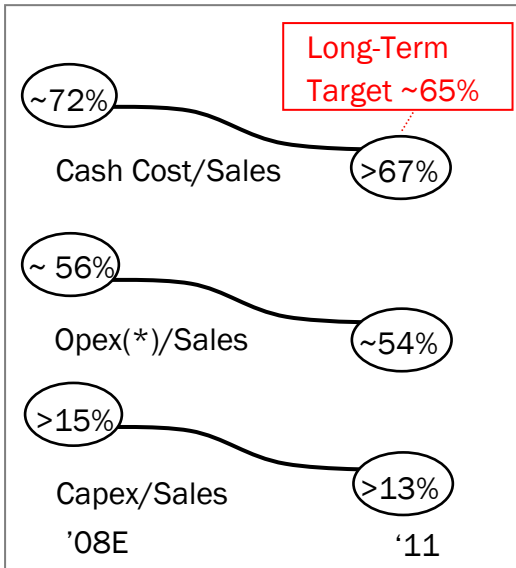
Reduce Domestic Cash Costs Through A Lean Organization

Lean Company

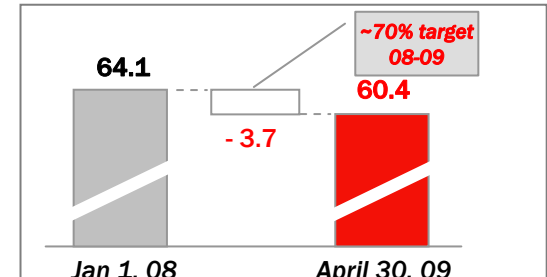
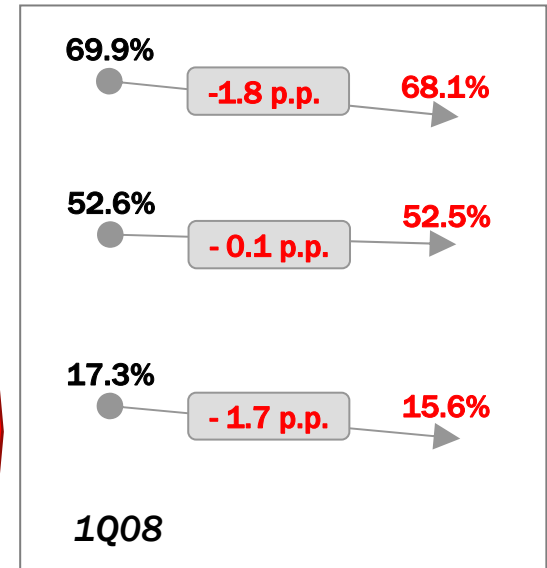
► Infrastructure streamlining and rationalization

► E2E “customer-centric” process reengineering

► Organization streamlining and rightsizing



1Q09 Progress



* Organic data

Open Access & TI Undertakings: a Best Practice for Europe

Telecom Italia Undertakings – Key Highlights

- ▶ 223 undertakings to be implemented by April 2010
- ▶ 66% of undertakings already in place by April 2009
- ▶ Strong commitment on equal treatment through SLA
- ▶ More benefits for final customers

Promoting a new regulatory approach at retail ...

- ▶ No designation as SMP operator for Telecom Italia in the retail markets, excluded from the EC Recommendations on relevant markets
- ▶ Increased price flexibility allowed at retail level through:
 - ▶ review of price tests
 - ▶ withdrawal of ex-ante communication and approval of price packages and bundle offers by AGCOM
 - ▶ withdrawal of price caps for both residential and business monthly rentals

... and wholesale level

- ▶ No designation as SMP operator for Telecom Italia in the wholesale markets, excluded from the EC Recommendation on relevant markets
- ▶ Review of price controls methodologies at wholesale level through:
 - ▶ orientation to LRAIC of access service prices for the legacy network (ULL, bitstream)
 - ▶ increase of the fixed access network WACC
 - ▶ geographical differentiation of bitstream obligations (wholesale broadband access)
 - ▶ no price regulation for the access to the new fiber infrastructures

Light regulation at retail level & regulation focus on access bottlenecks at wholesale level

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TI Group 1Q09 – Priorities and Actions

Operating Performance on Core Markets

- ▶ Domestic
 - ▶ Short-term impact of sales channels restructuring delaying the re-investment of consumer re-pricing in Mobile
 - ▶ Strong wireline performance driven by BB and ICT
- ▶ TIM Brasil
 - ▶ Revenue trend reflecting transition quarter
 - ▶ Efficiencies re-invested for a stronger positioning: sharp improvement on KPIs in April / May.

Cash Cost Control

- ▶ Continuous reduction of Cash Cost both at Group & Domestic level
 - ▶ Group Cash Cost on Revs. down 2.9pp YoY
 - ▶ Domestic Cash Cost on Revs. down 1.8pp YoY
- ▶ Cash Cost reduction program fully on track for FY Target.
- ▶ Acceleration of cash cost savings leveraging on new sales channel organization
- ▶ Headcount reduction plan: already completed 76%

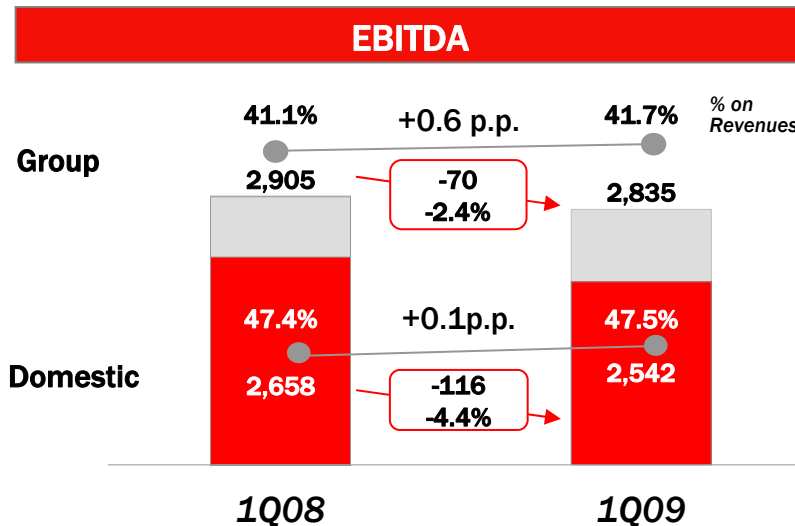
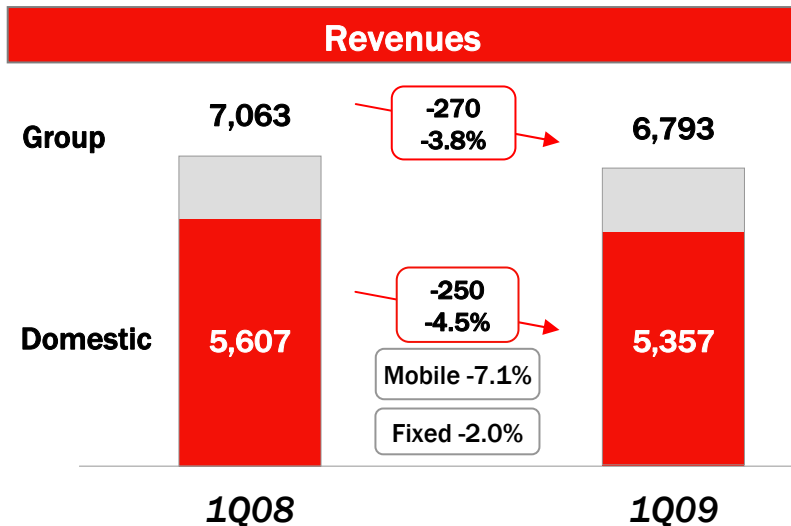
Financial Discipline

- ▶ Net Debt trend impacted mainly by non-monetary items
- ▶ Debt fully hedged and further diversified with the recent Sterling Bond
- ▶ Euro 3.5 bln refinancing completed since beginning '09 keeping cost of debt at around 6%
- ▶ Strong Liquidity position post dividend payments: Euro 4.6 bln
- ▶ Disposal process started

Strong Focus on Profitability and Cash Flow Generation

TI Group & Domestic – Organic Results vs. 2008

Euro mln, %



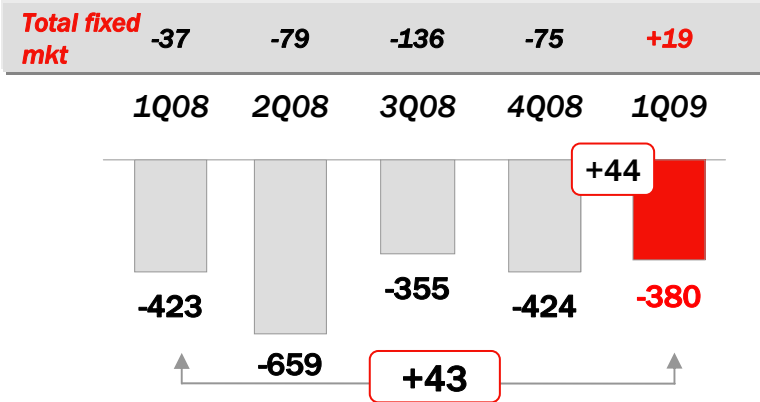
- ▶ **TI Group:** rapidly changing the revenue mix to protect EBITDA & Cash Flow
- ▶ **Domestic:** slowdown expected, due to the short-term impact of sales channel restructuring and calendar effect.
- ▶ Mobile performance reflects:
 - ▶ lower usage of VAS content;
 - ▶ lower handsets sales vs 1Q08 due to stronger focus on high-margin revenue stream.
- ▶ Improving fixed revenue trend through the positive impact of regulated price increases, steady BB growth and ICT.

- ▶ **TI Group:** EBITDA margin up for the third consecutive quarter confirms TI as the industry benchmark for profitability.
- ▶ Cost containment result of a true cultural change.
- ▶ **Domestic:** significant OPEX reduction (-134 mln euro YoY) through a selective approach: “rigorous” on fixed costs and “selective” on customer growth related investments.
- ▶ First positive & tangible impact of sales channel re-structuring
- ▶ Fully on track to deliver 2009 cash-cost reduction despite the challenging economic scenario.

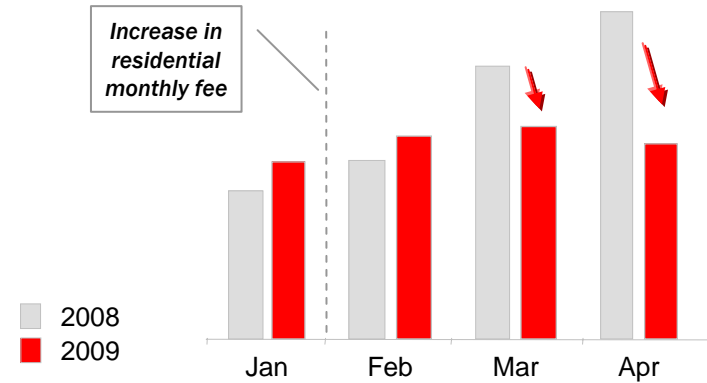
Domestic Fixed – TI Access Performance & Focus on Alice Casa

'000 access

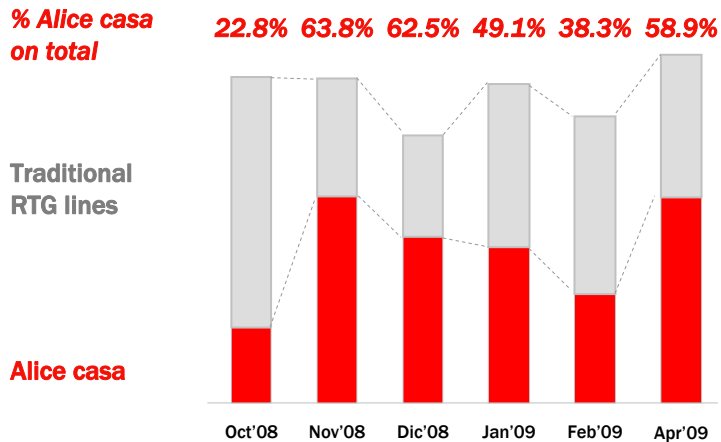
TI Line Loss Evolution



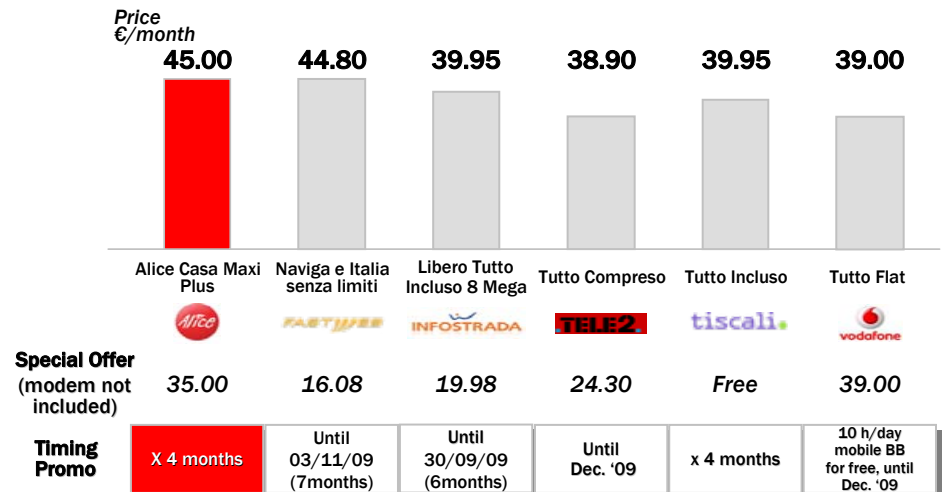
TI Accesses: Consumer Churn Rate Trend



Alice Casa Penetration



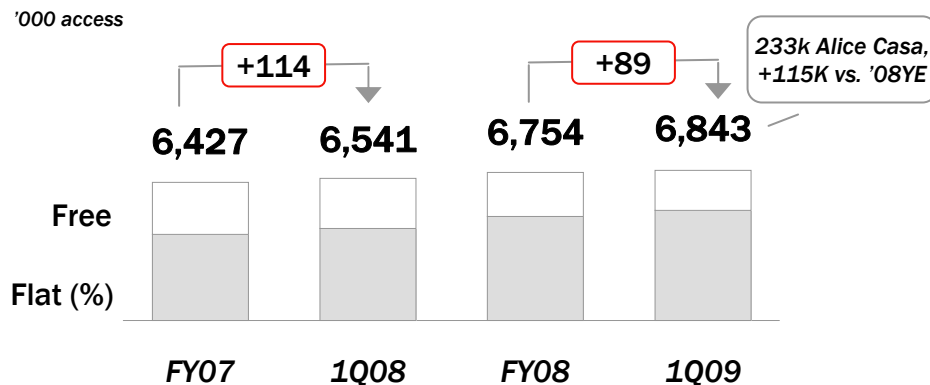
Alice Casa: a Competitive Pricing(*)



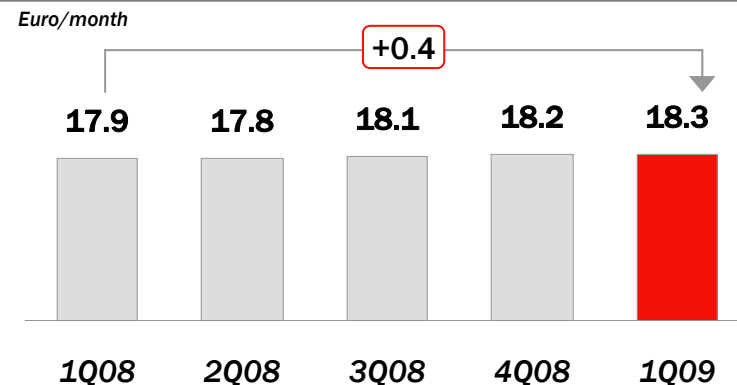
(*) Offers' details as of 26 May 2009

Domestic Fixed - Focus on BB & ICT

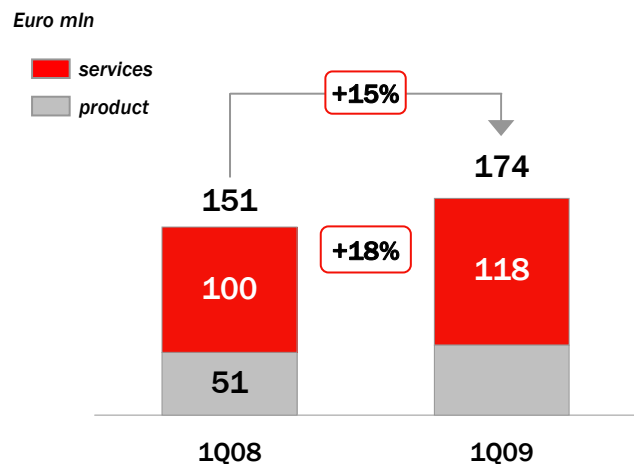
Broadband Portfolio



Broadband ARPU

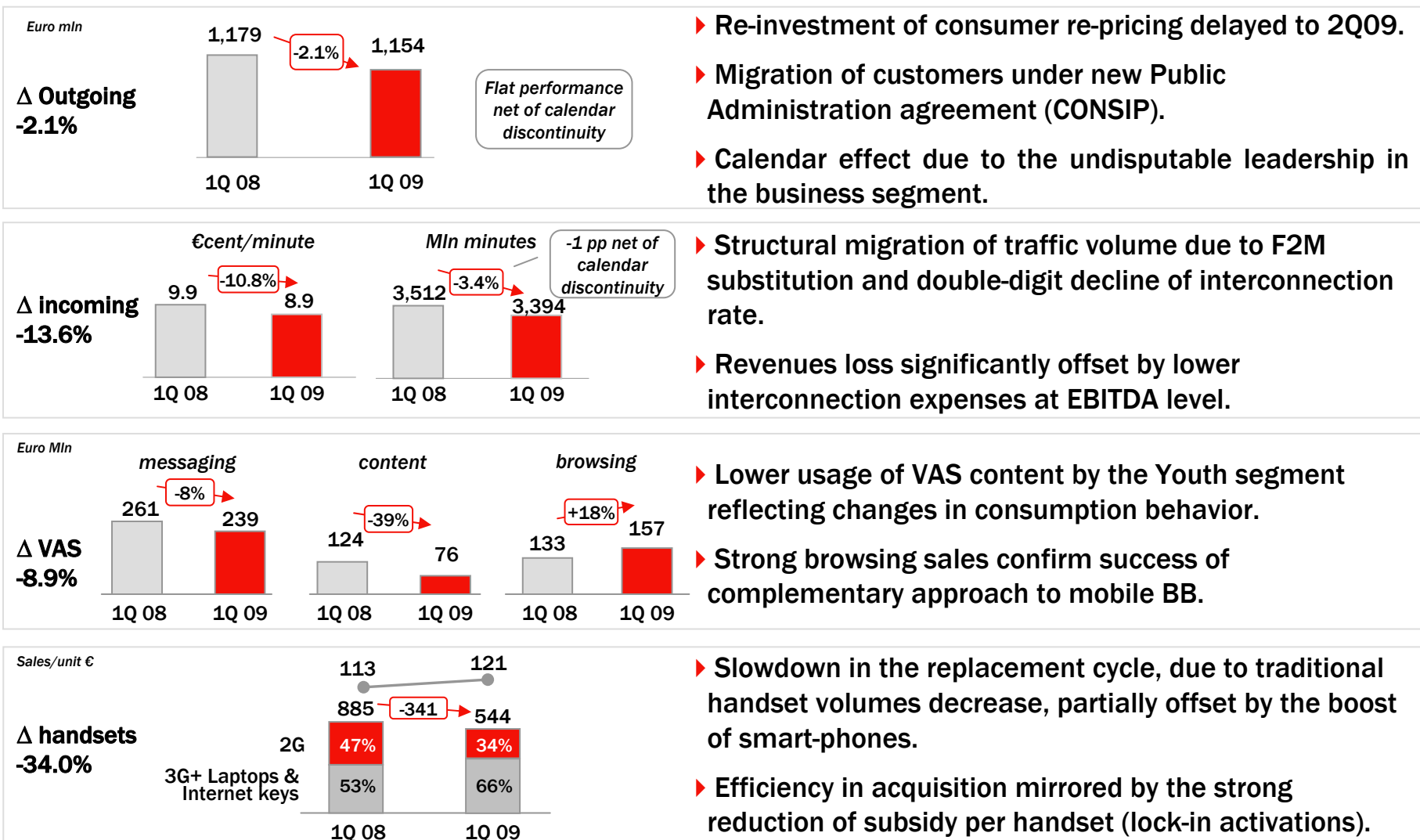


ICT Revenues: offering & results



- ▶ **Business segment**
- ▶ Strong leverage on “Impresa Semplice” brand to define TI distinctive position in the SME segment
- ▶ Extension of 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

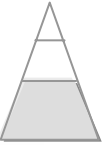
Domestic Mobile - A Necessary Step to Improve Long Term Positioning



Domestic Mobile - Focus On Customer Segment

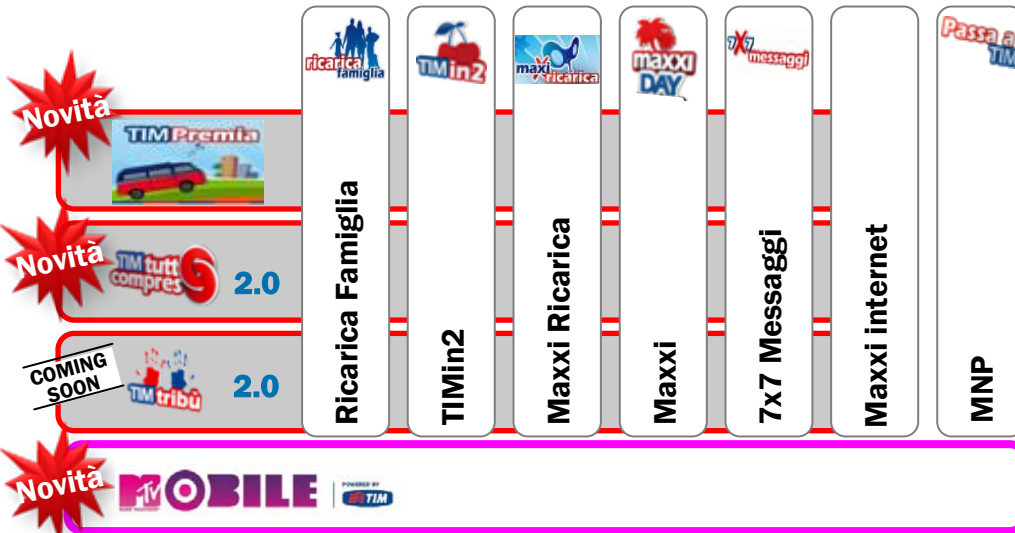
% on service revenues		% CB	ARPU*	Market share	Prices YoY	Volume YoY	
TOP / LA	10%	8%	1.3X	↑	↓	↑	<ul style="list-style-type: none"> ▶ Strict cost control to eliminate non-core business services (i.e. VAS content and WAP) ▶ Exploitation of price flexibility to defend undisputable leadership in the segment given the current economic scenario
BUSINESS	17%	8%	1.9X	=	↓	↑	<ul style="list-style-type: none"> ▶ Launch of integrated offers to secure market share and total customer value (i.e. "Impresa Semplice" bundling Mobile + Fixed)
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 Youth segment, postponed to 2Q09

*TIM average = 1X

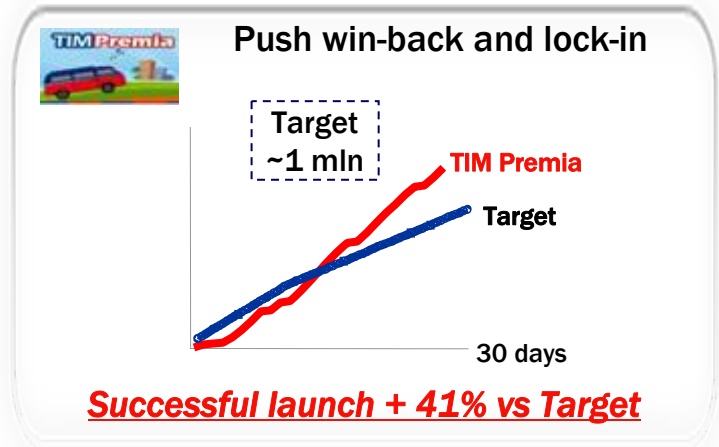


Domestic Consumer Mobile Action Plan - Customer Segment

- ▶ Few mobile tariffs
- ▶ Simple but effective concept
- ▶ “Carte servizi” compatible with all tariff profiles
- ▶ Lower investment in service creation
- ▶ Greater focus on advertising



*TIM average = 1X



Push win-back on Youth segment boosting on-net traffic and enlarging social networks, opening to MSN Facebook

One-to-One actions on selected Tribu' customers highlighting offer appeal: redemption was almost double than expected

Launched May 25th

New MNP offer: acquiring valuable clients through a double mechanism of lock-in (handset discount related to voice minutes loyalty bonus)



Domestic Mobile Action Plan - Business Segment

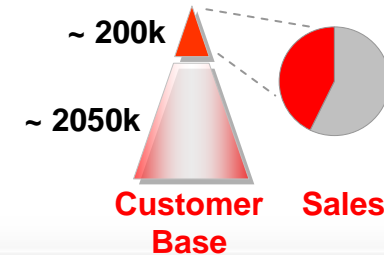
- ▶ Fixed and Mobile offering under the brand “Impresa Semplice”
- ▶ Customized modular packages
- ▶ Tailor-made solutions (Store, Professional, Office, Enterprise)
- ▶ Broad communication campaign
- ▶ Fixed-mobile integration of go-to-market, caring, billing

Push on innovative services



- ICT services
- Advertising
- Convergent BB

Customer Portfolio Control

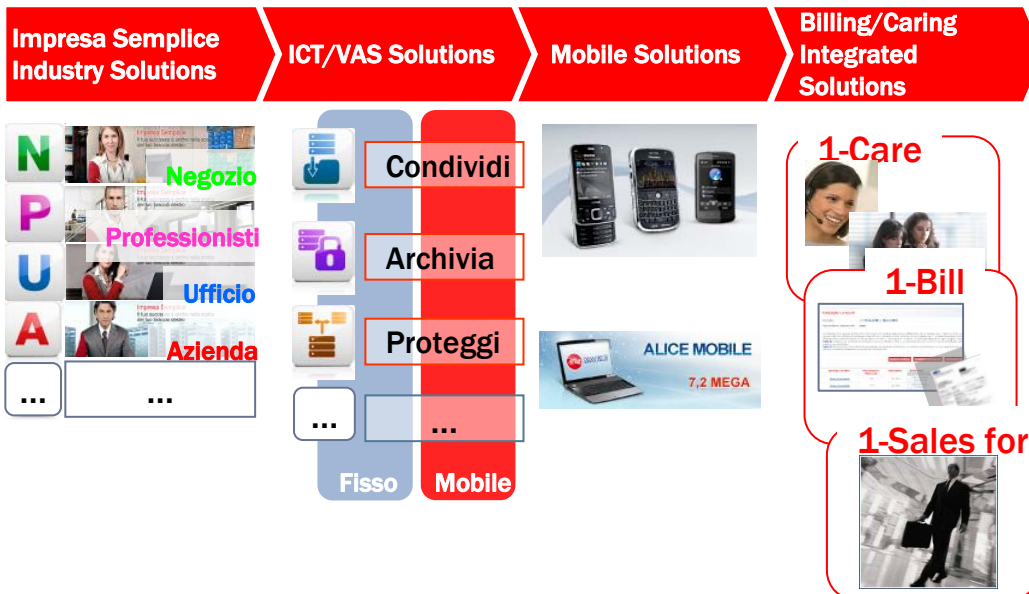


From Volume to Value

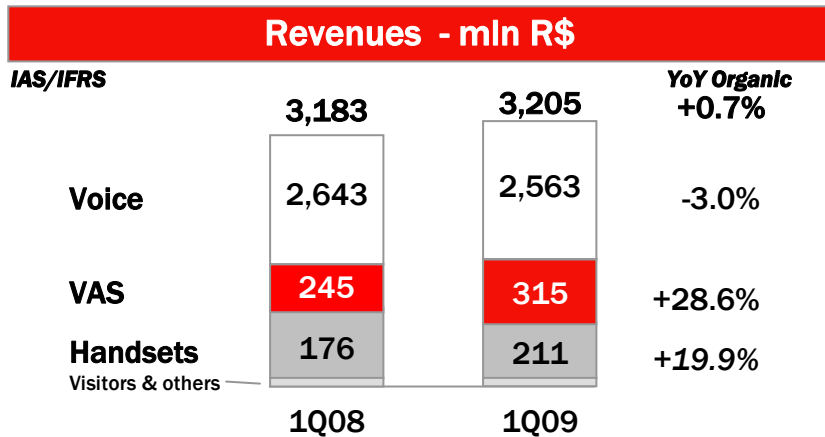


Commissioning aimed at improving product quality:

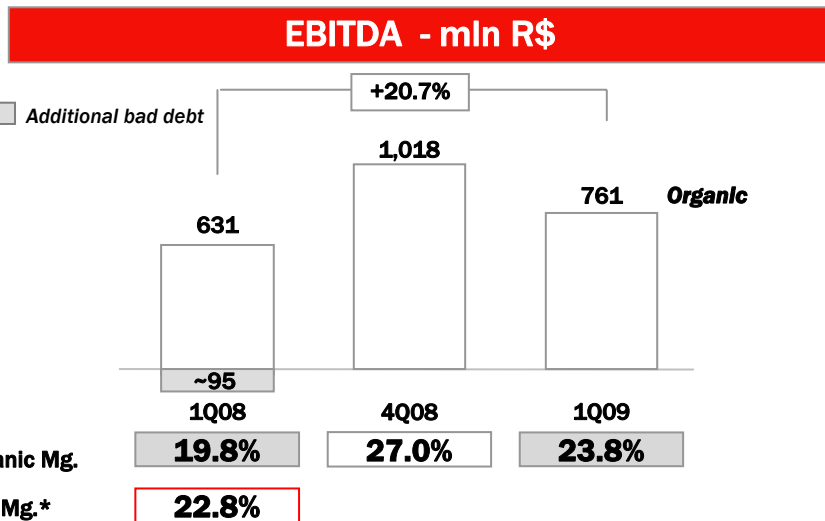
- SAC/ARPU improvement
- Churn reduction
- Silent customer reduction
- Late payment reduction
- Cancellation reduction



TIM Brasil – Revenues & OPEX Review



*Excluding Visitors and others



Organic Mg.

Adj. Mg.*

▶ Top-line performance reflecting a transitional quarter

- ▶ VAS revenues (+28.6% YoY): steady innovative VAS growth (~80% of total VAS) with TIM Web and TIM Fixo outperforming vs. expectations in the mass market
- ▶ Handsets portfolio: ~1 mln handsets sold in recent dealer convention with massive mix improvement towards high end
- ▶ Price repositioning completed: gained flexibility for next quarters
- ▶ Postpaid mix decline of -3.7 p.p.
- ▶ Reduction in pre-paid MOU
- ▶ Less incoming revenues -4%



▶ EBITDA margin rebound combined with a selective approach on cost:

- ▶ Double-digit decline in discretionary cost
- ▶ Further improvement in ITX and network OPEX
- ▶ Significant reduction in bad debt levels with new control rules/ stricter credit analysis
- ▶ Strong effort on advertising leading to a massive increase in brand awareness

* adjusted for additional bad debt levels stemming from one-off write-off in 3Q07 and telesales-related bad debt in 1Q-3Q08

TIM Brasil – Latest Evidence on KPIs

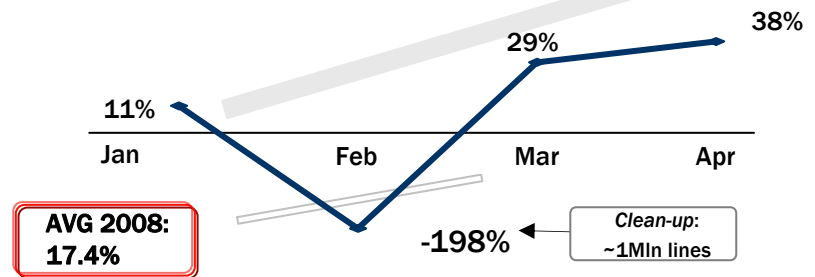
Market share

- ▶ March: market share erosion trend stopped
- ▶ April: leadership in net adds market share (+~340k)



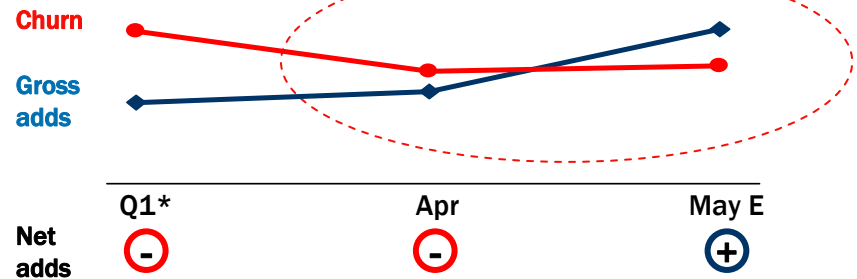
Back to Growth in Customer Base

Incremental market share, 2009



Post paid

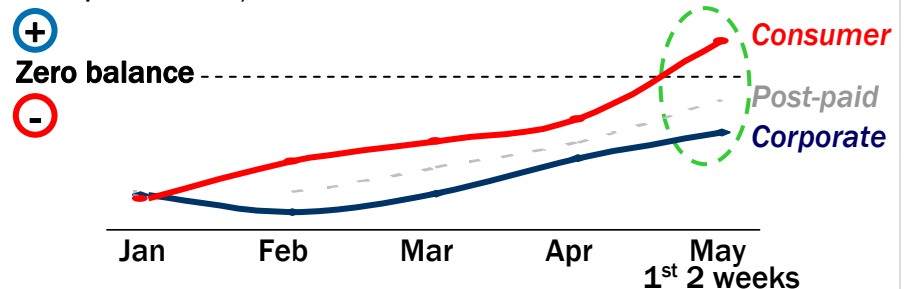
- ▶ Inverting the trend in post paid base
- ▶ May: positive post paid net adds thanks to high value acquisition programs
- ▶ Lower churn thanks to more aggressive retention and loyalty offers



MNP

- ▶ Positive balance in the Consumer segment
- ▶ Improving trend in post paid and corporate segment
- ▶ Positive balance in the North East and Centre West regions

Post - paid %MNP-in/out

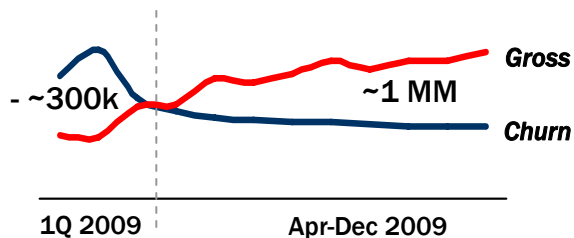


TIM Brasil – Action Plan for 2009

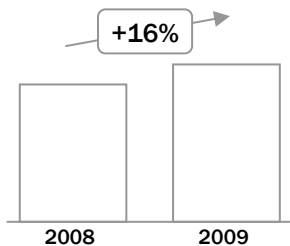
Back to Growth

Trend Reversal: Back to Growth

Reversing customer growth trend



SAC



New Offering, Focus on Value

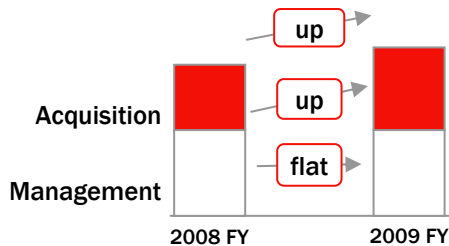
Efficiency Plan

Reinvesting important efficiencies

- ▶ Optimization of *collection & dunning* processes
- ▶ Leaner organization
- ▶ Make vs. Buy
- ▶ Rationalization & renegotiation of network OPEX (leased lines) and IT
- ▶ Deep revision of G&A policy

...to finance growth

Total commercial spending



Strong EBITDA and OFCF Protection

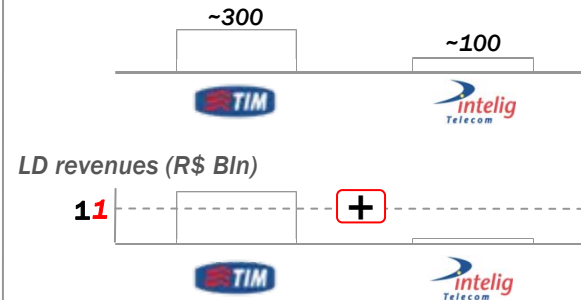
Intelig

Network and trasport 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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Financial Priorities and Achievements

Keep Efficiency on Track

- ▶ Overall TI Group Cash Cost reduced by 0.4 bln or 7.5% YoY (organic)
- ▶ Cash Cost on Revenues improved by 3 p.p.
- ▶ Domestic Cash Cost reduced by 0.3 bln or 6.9% YoY (organic) with percentage on Revenues down to 68% (70% in 1Q08)
- ▶ Domestic Efficiency on track (25% of Full Year '09 program achieved)
- ▶ Group Operating Free Cash Flow at ~13% on Revenues and broadly in line with 1Q08 despite Top Line decline
- ▶ Net Income at 6.8% of Revenues (+0.1 p.p. vs 1Q08)

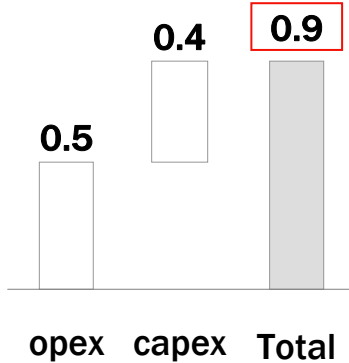
Refinancing

- ▶ Euro 3.5 bln refinanced since beginning 2009 through various sources, reaping opportunities from cost-efficient ones (EIB)
- ▶ Appropriate balance of Bank Loans vs Bond Market
- ▶ Taking opportunities from cost-efficient sources (EIB)
- ▶ Keep risk profile under control:
 - ▶ no FX Risk
 - ▶ maintain Fixed/Variable mix (70/30)
 - ▶ no monetary volatility on Financial Expenses thanks to hedging policies

Focus On Domestic Opex Evolution

Euro Mln

FY09 Efficiency Program



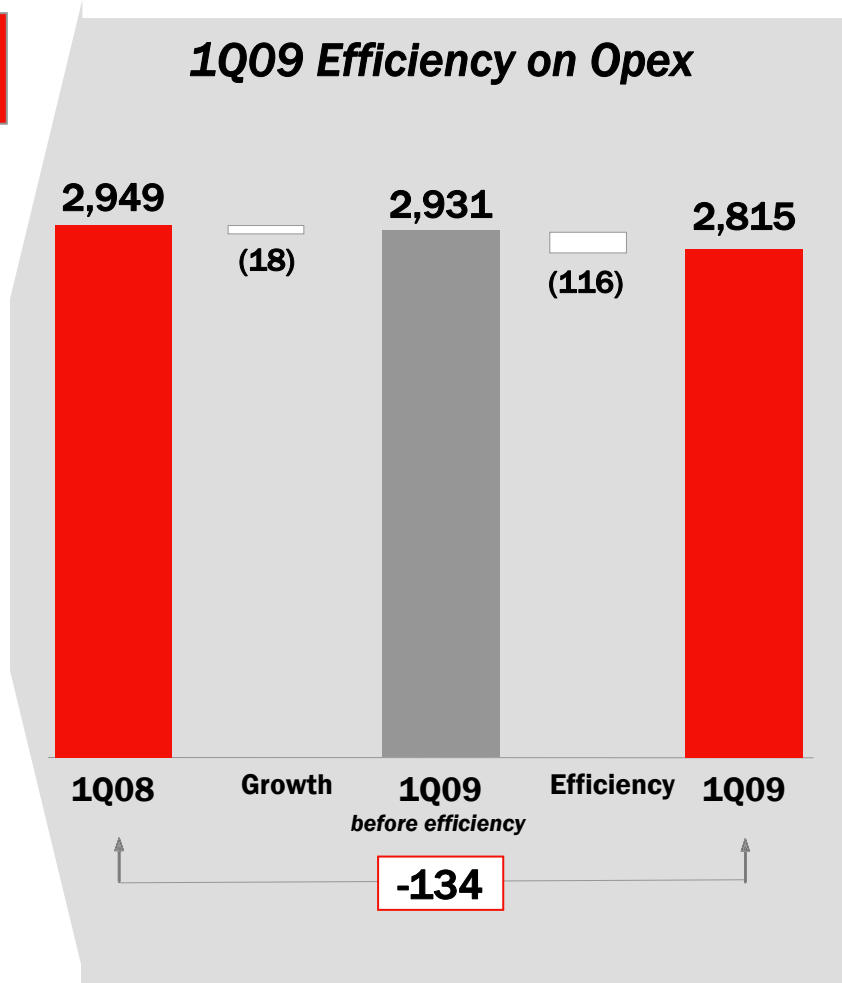
% 1Q09 on FY Target

23% 29% **25%**

1Q09 YoY Absolute Change

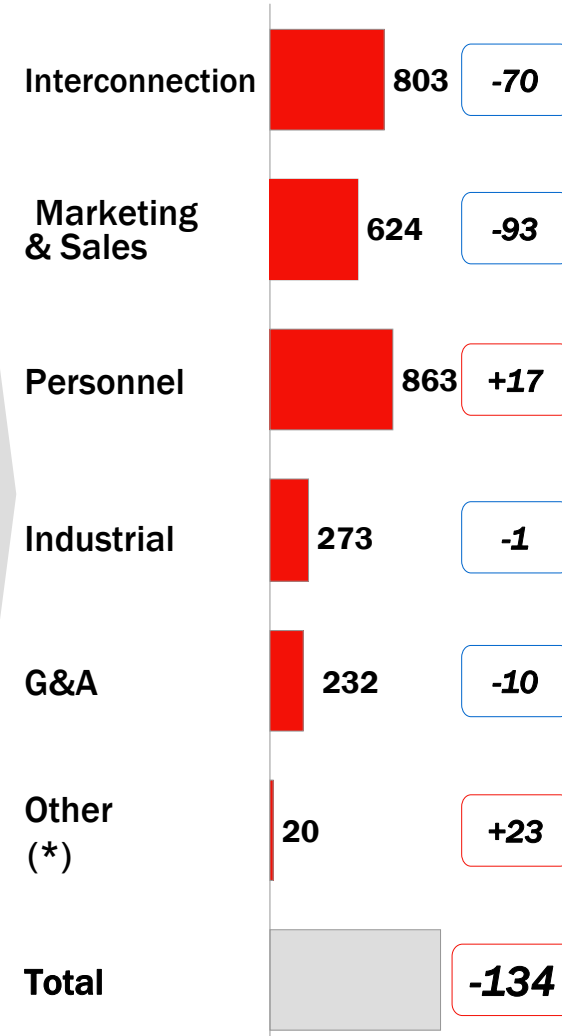
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1Q09 Efficiency on Opex



Organic OPEX 1Q09


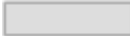

Change vs 1Q08



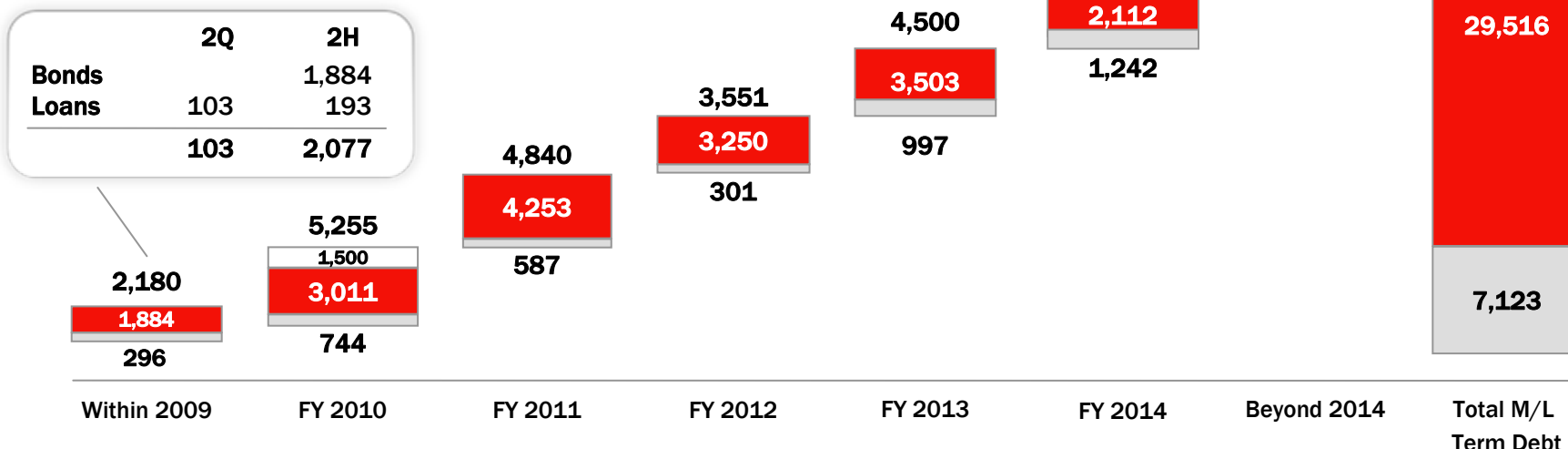
Even and Back-Loaded Maturities

Euro mln

Average Maturity: 7.84 yrs

 Bonds  Loans (of which long-term rent, financial and operating lease payable € 1,935)  Drawn bank facility

Matched by:					
€ bln	5.6	+	6.5	=	12.1
	Liquidity Position		Undrawn Portion of		Liquidity Margin
	€ 4.9 bln Cash & Cash Equivalents		€ 8.0 bln Revolving Facility		
	€ 0.7 bln Marketable Securities		Maturing in August 2014		



(1) € 39,639 mln is the nominal amount of outstanding medium-long term debt. By adding IAS adjustments (€ 2,513 mln) and current liabilities (€ 756 mln), a gross debt figure of € 42,908 mln is reached.

N.B. Debt maturities are net of repurchased own bonds of which: € 180 mln TI Spa € 850 mln 5.25 % Notes due 2055, € 77 mln TI Spa € 750 mln 4.75 % Notes due 2014, € 326 mln TIF € 2,210 mln 5.575 % Notes due 2009, € 17 mln TIF € 139 mln 4.629 % Notes due 2010 and € 35 mln TIF € 1,050 mln 7.75 % Notes due 2033.

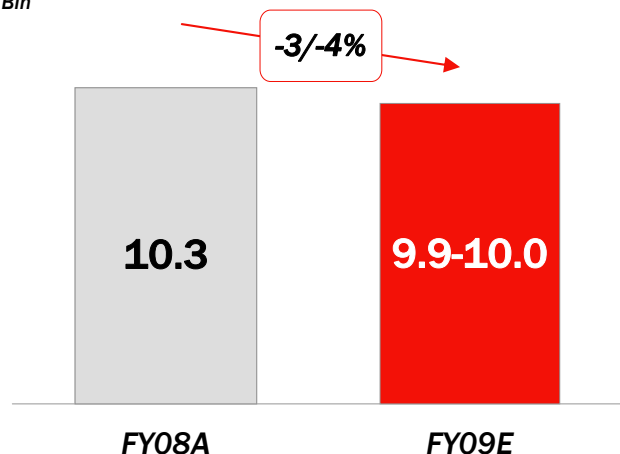
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2009 Domestic Outlook

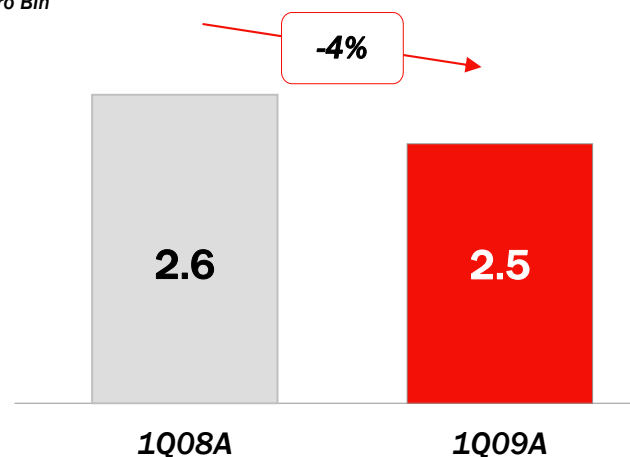
Domestic: FY09 EBITDA Guidance

Euro Bln



Domestic: 1Q09 EBITDA

Euro Bln



1Q DOMESTIC EBITDA in low range of FY Guidance despite:

- Calendar discontinuity in 1Q affecting Mobile business (1 p.p. recovery in YoY change)
- Retail Market Operations re-organization and resizing (progressive positive contribution to revenues and margins during 2009).

Further flexibility and savings on cost available:

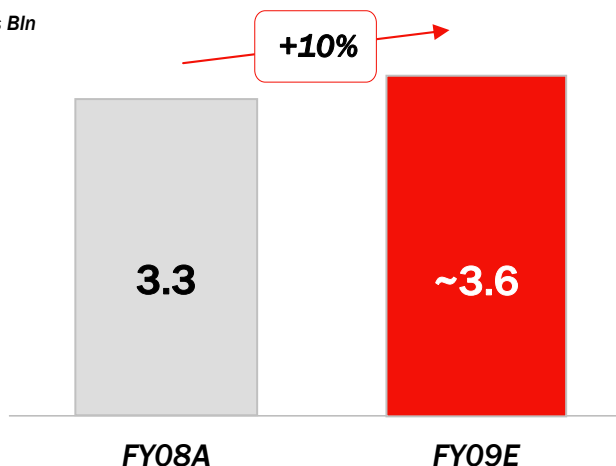
- to secure margins (reduced SAC/gross, revenues mix improvement)...
- ... and support commercial activities (advertising, caring, win-back)

**Full Year Domestic
Ebitda Guidance:
9.9-10.0
confirmed**

2009 Brazil Outlook

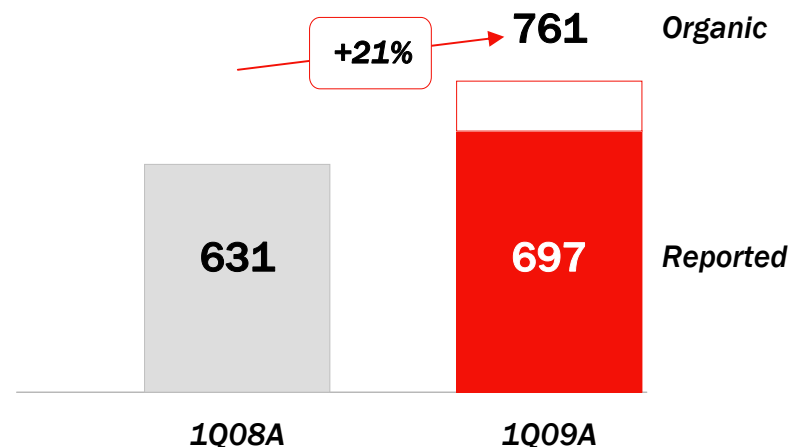
Brazil: FY09 EBITDA Guidance

Reais Bln



Brazil: 1Q09 EBITDA

Reais Mln



1Q Brazil EBITDA in line with YoY expected Growth:

- excluding one-off impact of Embratel agreement 1Q09 is +21% vs 2008
- strong commercial effort to boost growth in 2H09

Further flexibility and savings on cost available:

- commercial programs, multi-channels & re-negotiation of outsourcing agreement for Customer Care

**Full Year Ebitda
Guidance:
3.6 bln R\$
confirmed**