TELECOM ITALIA GROUP
Deutsche Bank 11th Italian Conference Italian Champions
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Agenda

- Domestic Repositioning Path
  - Mobile Business
  - Fixed Business
- Outlook
Domestic Revenues: On the Right Track

Euro mln, Organic Data

Domestic Revenues by Technology

<table>
<thead>
<tr>
<th></th>
<th>1Q09</th>
<th>1Q10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobile</td>
<td>2,059</td>
<td>1,907</td>
</tr>
<tr>
<td>Wireline</td>
<td>3,674</td>
<td>3,498</td>
</tr>
</tbody>
</table>

Domestic Revenues by Customer Segment

<table>
<thead>
<tr>
<th></th>
<th>1Q09</th>
<th>1Q10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top</td>
<td>910</td>
<td>905</td>
</tr>
<tr>
<td>Business</td>
<td>967</td>
<td>893</td>
</tr>
<tr>
<td>Consumer</td>
<td>2,697</td>
<td>2,440</td>
</tr>
</tbody>
</table>

% yoy change

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>1Q09</td>
<td>-5%</td>
<td>-7%</td>
</tr>
<tr>
<td>2Q09</td>
<td>-5%</td>
<td>-7%</td>
</tr>
<tr>
<td>3Q09</td>
<td>-7%</td>
<td>-7%</td>
</tr>
<tr>
<td>4Q09</td>
<td>-11%</td>
<td>-7%</td>
</tr>
<tr>
<td>1Q10</td>
<td></td>
<td>-7%</td>
</tr>
<tr>
<td>2Q10</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3Q10</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4Q10</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

FY09: -7%
FY10: -4% / -5%
Keep Building Momentum on TI Perception

Corporate Image

Customer Satisfaction Index – Fixed

Customer Satisfaction Index – Mobile

Source: GFK Eurisko
Domestic Strategy across all Segments

**Mobile**
- Quality & Performance
- Caring & Reliability
- Value for Money

**Fixed**
- New approach on the Value Chain
- Breaking the scheme with “Impresa Semplice”
- Simplicity & Affordability

**Segments**
- Elite
- Top
- Professional
- Business
- Mass Market
- Consumer

Quality & Value
Agenda

- Domestic Repositioning Path
  - Mobile Business
  - Fixed Business
- Outlook
# Mobile Strategy: Be the “Best Value for Money” Choice

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Actions</th>
<th>Business</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Market share increase</strong></td>
<td><strong>Consumer</strong></td>
<td><strong>Leverage on Integration to:</strong></td>
</tr>
<tr>
<td><strong>Mobile BB consolidating leadership</strong></td>
<td>‣ Simplified Portfolio offering <strong>to strengthen</strong> Gross Adds and MNP tactics</td>
<td>‣ <strong>Increase mobile penetration on fixed customer base</strong></td>
</tr>
<tr>
<td></td>
<td>‣ <strong>Create</strong> and Develop <strong>Community</strong> (TiMx) and boost Ethnic segment</td>
<td>‣ <strong>Improve loyalty and reduce churn</strong></td>
</tr>
<tr>
<td></td>
<td>‣ <strong>Advertising</strong> pressure with focus on product key-benefits</td>
<td>‣ <strong>Shifting competition from price to innovation and quality of service</strong></td>
</tr>
<tr>
<td></td>
<td>‣ <strong>Consumer Sales Channels restructuring:</strong> (Add Multibrand, restyling PoS, new commissioning model)</td>
<td>‣ <strong>Integrated Customer Operations</strong></td>
</tr>
<tr>
<td></td>
<td>‣ <strong>Leadership on high speed technology</strong></td>
<td>‣ <strong>Prepaid offer for Business customers</strong></td>
</tr>
<tr>
<td></td>
<td>‣ Focus on medium users to <strong>defend price per MB</strong></td>
<td></td>
</tr>
</tbody>
</table>
Mobile - New Communication Strategy

- Continuous TV presence
- New format and testimonials
- Advertising campaigns strongly focused on the offers
- Focus on quality, value for money and “fair” offers
- Leadership in Advertising Awareness

Source: STP GFK Eurisko

Spontaneous Advertising Awareness

Source: STP GFK Eurisko
**Mobile - Simplified Offer Portfolio**

<table>
<thead>
<tr>
<th>Voice &amp; Traditional VAS</th>
<th>Mobile BroadBand</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Value Customers</strong></td>
<td><strong>Web &amp; Wap Browsing</strong></td>
</tr>
<tr>
<td><strong>Community Users</strong></td>
<td></td>
</tr>
</tbody>
</table>

- **Best Value for Money Proposition** for both “Community users” and “Value Customers”
- Narrowing **Price Premium** gap while widening **Quality Premium** spread
- “Hit & Run” approach with aggressive **Limited Edition plan**
- Enjoy the benefit of the **largest mobile community in Italy**

- Complete and competitive offer portfolio
  - **Widest product portfolio**, best design, materials and colors
  - Handsets with embedded functionalities to facilitate up-selling of BB services

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**TELECOM ITALIA GROUP**
Deutsche Bank 11th Italian Conference Italian Champions

**MARCO PATUANO**
Smartphone Market: A Key Driver for Growth

**Smartphone Market**

- **Volume**
  - *Italian Market* (excluding Free Market)
    - +222% (Source: GFK, panel retail)
    - Market Share
      - Free Market: 28%, 2010: 43%
      - +15pp

- **Average Price/unit**
  - *Italian Market* (excluding Free Market)
    - 2009: €345, 2010: €250
    - -27%
    - -8%

**TIM Strategy on Arpu driven Smartphones**

- **Smartphones**:
  - Key driver for higher quality customers (lower churn, higher ARPU)

- **TIM Smartphone Adopters ARPU**
  - Ex-ante Smartphone adoption (Nov 09)
  - Ex-post Smartphone adoption (Mar 10)
  - +20% ARPU ceiling (end)

- **TIM Micro-browsing Users ARPU**
  - +49%

- **Ad-hoc offering to stimulate Data usage**:
  - "TIMx Smartphone": up to 200MB of data traffic at 2€/week
  - Smartphone Portfolio
  - 13 cutting-edge devices for all customer segments

**Focus on high-end, service enabler Smartphones**
Mobile - Main Evidences

**Value Customers**

- "Tutto Compreso" Gross Adds *
  - Jan10
  - Apr10
  - 2.5X

(*) pre-paid & post-paid

**Community Users**

- TIMX Users
  - Sept09
  - May10
  - 1.7 mn

**Mobile BroadBand**

- Internet Pack Activations ('000)
  - 200k

- Dec 09
- April10

**Outgoing traffic Trend – Change YoY**

<table>
<thead>
<tr>
<th>1Q09</th>
<th>2Q09</th>
<th>3Q09</th>
<th>4Q09</th>
<th>Feb10</th>
<th>Apr10</th>
</tr>
</thead>
<tbody>
<tr>
<td>-4.6%</td>
<td>flat</td>
<td>-3%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Customer Base Calling - Change YoY ('000)**

<table>
<thead>
<tr>
<th>1Q09</th>
<th>2Q09</th>
<th>3Q09</th>
<th>4Q09</th>
<th>1Q10</th>
</tr>
</thead>
<tbody>
<tr>
<td>-762</td>
<td>-544</td>
<td>-537</td>
<td>-401</td>
<td>Stabilized</td>
</tr>
</tbody>
</table>

**Mobile BB Users (mln)**

<table>
<thead>
<tr>
<th>1Q09</th>
<th>1Q10</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.8</td>
<td>5.1</td>
</tr>
</tbody>
</table>

+1.3
+33%
Agenda

‌‌Domestic Repositioning Path
‌‌Mobile Business
‌‌Fixed Business

‌‌Outlook
Fixed Strategy: Consolidate Positive Momentum

**Objectives**
- **Defend Customer Base Value and Minimize Lines Loss reduction**
- **Increase BB Customer Penetration and Value**

**Actions**

**Consumer**
- **Portfolio simplification** and “NO Canone” offers deployment
- **Continuous quality improvement** to sustain loyalty
- **Pre-retention** inbound and outbound (churn predictive models) with customized offers on specific targets
- **Distinctive communication format** with stable presence in the media

**Business**
- Launch of new over-the-top services
- Lead ICT evolution through “Ready to Use” offer and vertical services on horizontal platform
- Customer base segmentation in order to serve each cluster with the most appropriate go-to-market model
- Simplification of Operators migration procedures

**Defend market share and reduce churn on BB**
- Launch of BB entry fee tariff and bundle package with PC and push on flat offers
- Cross-selling of Mobile BB to Fixed Customer Base to increase customer value
**Fixed - Defend Customer Base Value: Simplified Offer Portfolio**

<table>
<thead>
<tr>
<th>Consumer</th>
<th>Business</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image" alt="Voice Unlimited" /></td>
<td><img src="image" alt="Business Offer" /></td>
</tr>
<tr>
<td><img src="image" alt="Internet Unlimited" /></td>
<td><img src="image" alt="First Convergent Option" /></td>
</tr>
<tr>
<td><img src="image" alt="Everything Unlimited" /></td>
<td><img src="image" alt="Impresa Semplice" /></td>
</tr>
</tbody>
</table>

- **Consumer**
  - Customer’s first choice with a wide range of **Bundled Offers** at a **fair price** to satisfy all customer needs

- **Business**
  - **All Inclusive HW + MS Office Pro + PEC + Anti virus + Assistance** (36 months instalments)
  - **First Convergent Option:** Free to call solutions for Intercom (F-M, M-F)
  - **Impresa Semplice** The New Business Concept

- **Sustain price premium positioning & Improve Quality of Services**
- **Bundling PC and ICT services** to broaden certified @mail and data backup penetration
**Fixed - Distinctive Communication Format**

**Consumer**
- Alignment trend of Fixed TV presence to Mobile
- New format and testimonials for an Advertising campaign strongly focused on Telecom touch points in order to increase acquisitions and caring channels awareness
- Focus on quality, value for money, caring
- Leadership in TOP of Mind

**Business**
- Effective Advertising Campaign to affirm the Value of “Impresa Semplice” concept as the first choice for enterprises
- Synergic use of different Media:
  - TV – Recognition
  - Press – Description
  - Radio+Press – Call to Action
- “Impresa Semplice” Leadership In Advertising awareness

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**Top of Mind - Advertising Awareness (Impresa Semplice)**

![Graph showing Advertising Awareness over Waves 1 to 4 for Vodafone, Infostrada, and Fastweb.](source.png)

*Source: Wave Research MEC*
**Fixed - Main Evidences**

### Consumer

#### Customer Base ('000)

<table>
<thead>
<tr>
<th></th>
<th>Apr10</th>
<th>Apr10</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;Voce Senza Limiti&quot;</td>
<td>250</td>
<td>138</td>
</tr>
<tr>
<td>&quot;Internet Senza Limiti&quot;</td>
<td>126</td>
<td>0</td>
</tr>
<tr>
<td>&quot;Tutto Senza Limiti&quot;</td>
<td>337</td>
<td>97</td>
</tr>
</tbody>
</table>

### Business

#### "Azienda Tutto Compreso" net adds (4Q09 Avg=100)

<table>
<thead>
<tr>
<th></th>
<th>4Q09</th>
<th>1Q10</th>
<th>Apr10</th>
</tr>
</thead>
<tbody>
<tr>
<td>138</td>
<td>177</td>
<td>214</td>
<td></td>
</tr>
</tbody>
</table>

#### Line Losses ('000)

<table>
<thead>
<tr>
<th></th>
<th>1Q09</th>
<th>4Q09</th>
<th>1Q10</th>
<th>Apr10</th>
</tr>
</thead>
<tbody>
<tr>
<td>-380</td>
<td>-260</td>
<td>-196</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### % ULL Activated/Acquired (March’10)

<table>
<thead>
<tr>
<th>Certified Mail</th>
<th>Rule 274</th>
</tr>
</thead>
<tbody>
<tr>
<td>39%</td>
<td>61%</td>
</tr>
</tbody>
</table>

**Average Waiting Days**

- 47
- ~27
## Domestic - Focus on Efficiency Plan Progress

<table>
<thead>
<tr>
<th>Category</th>
<th>Delta Cash Cost (€ mln)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Opex</td>
<td>2,513</td>
</tr>
<tr>
<td>ITX</td>
<td>703</td>
</tr>
<tr>
<td>Mktg &amp; Sales</td>
<td>583</td>
</tr>
<tr>
<td>Industrial</td>
<td>243</td>
</tr>
<tr>
<td>Personnel</td>
<td>834</td>
</tr>
<tr>
<td>G&amp;A &amp; Other</td>
<td>151</td>
</tr>
<tr>
<td>Total Capex</td>
<td>752</td>
</tr>
<tr>
<td>Total Cash Cost</td>
<td>-384</td>
</tr>
</tbody>
</table>

### Domestic Turn-around Self-financing

- Energy: -27 mln euro
- Consultancies: -5 mln euro
- Personnel: -36 mln euro
- Customer Care: -15 mln euro
- Advertising: +16 mln euro

### Defending Domestic Profitability

<table>
<thead>
<tr>
<th>Revenues</th>
<th>Δ OPEX</th>
<th>EBITDA 1Q09</th>
<th>EBITDA 1Q10</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,538</td>
<td>+303</td>
<td>2,461</td>
<td></td>
</tr>
</tbody>
</table>

- Δ Efficiency: 26% of FY10 Target
- Δ OPEX: -77 mln, -3.0%
Agenda

- Domestic Repositioning Path
  - Mobile Business
  - Fixed Business

- Outlook
Outlook

2Q - 3Q 2010

- Speed-up Gross Adds
- Churn control on mobile and fixed
- Customer Base Calling: gradual increase
- Continuous Mobile BB growing trend
- Reinforced focus on Smartphones

Year End 2010

- Revenues rebound
- Confirm 1Q trend on line losses
- Availability of Restyled Sales Channels
- Lead the wave of new ICT solutions for SME and SOHO
- Leadership consolidation in BB