TELECOM ITALIA GROUP
Santander – XVII Annual Telecommunications Conference

MARCO PATUANO – Head of Domestic Operations
Safe Harbour

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Agenda

- Domestic Repositioning Path
  - Mobile Business
  - Fixed Business
  - Focus on Sales Channel Restructuring

- Outlook
Domestic Revenues – 1Q2010 Results

Euro mln, Organic Data

Domestic Revenues by Technology

<table>
<thead>
<tr>
<th>Segment</th>
<th>1Q09</th>
<th>1Q10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic</td>
<td>5,354</td>
<td>4,974</td>
</tr>
<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>
<tr>
<td>Elim &amp; Adj</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

-7.1% overall change

Domestic Revenues by Customer Segment

<table>
<thead>
<tr>
<th>Segment</th>
<th>1Q09</th>
<th>1Q10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TI Sparkle &amp; Nat.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wholesale</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Top</td>
<td>910</td>
<td>905</td>
</tr>
<tr>
<td>Business</td>
<td>893</td>
<td>829</td>
</tr>
<tr>
<td>Consumer</td>
<td>967</td>
<td>890</td>
</tr>
<tr>
<td>Elim, Adj &amp; Others</td>
<td>2,697</td>
<td>2,440</td>
</tr>
</tbody>
</table>

-7.1% overall change

% yoy change

<table>
<thead>
<tr>
<th>Year</th>
<th>1Q09</th>
<th>2Q09</th>
<th>3Q09</th>
<th>4Q09</th>
<th>1Q10</th>
<th>2Q10</th>
<th>3Q10</th>
<th>4Q10</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>-5%</td>
<td>-5%</td>
<td>-7%</td>
<td>-11%</td>
<td>-7%</td>
<td>-5%</td>
<td>-7%</td>
<td>-5%</td>
</tr>
<tr>
<td>2010</td>
<td>-7%</td>
<td>-4%</td>
<td>-4%</td>
<td>-4%</td>
<td>-4%</td>
<td>-4%</td>
<td>-4%</td>
<td>-4%</td>
</tr>
</tbody>
</table>
Keep Building Momentum on TI Perception

Corporate Image

Customer Satisfaction Index – Fixed

+10.5%

Customer Satisfaction Index – Mobile

+2.8%

Source: GFK Eurisko
Domestic Strategy across all Segments

Mobile

Fixed

Quality & Performance

Caring & Reliability

Value for Money

Elite

Top

Professional

Business

Mass Market

Consumer

New approach on the Value Chain

Breaking the scheme with “Impresa Semplice”

Simplicity & Affordability

Quality & Value
Agenda

- Domestic Repositioning Path
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- Outlook
**Objectives**

- Market share increase
- Mobile BB consolidating leadership

**Actions**

**Consumer**

- Simplified Portfolio offering to strengthen Gross Adds and MNP tactics
- Create and Develop Community (TIM X)
- Boost Ethnic segment penetration with vertical offering
- Advertising pressure with focus on product key-benefits
- Consumer Sales Network restructuring: focus on Franchising & Dealer Multibrand, restyling PoS, new commissions model

**Business**

- Leverage on Integration to:
  - Increase mobile penetration on fixed customer base
  - Improve loyalty and reduce churn
- Leverage on cross selling opportunities
- Strengthen win back and customers’ lock-in and loyalty thanks to convergence
- Shifting competition from price to innovation and quality of service
- Integrated Customer Operations
- Prepaid offer for Business customers

- Leadership on high speed technology
- Focus on medium users to defend price per MB
- Review of Handsets portfolio to stimulate services: automatic upgrade of e-mail and mobile BB
- Taylor-made e-mail offerings for low and heavy users

**Mobile Strategy: Be the “Best Value for Money” Choice**
Mobile Turn-around Strategy by Segment

Price Positioning Evolution

Relative price positioning heavily impacted by consumer repricing

TIM Price Premium*

3rd player
2nd player

Re-aligning relative pricing but still price premium brand

TIM Price Premium*

3rd player
2nd player

New Portfolio Offers

Tutto Compreso 1500
Tutto Compreso 1000
Tutto Compreso 500
Tutto Compreso Ricaricabile
TIMx

Quality & Value

* Voice revs / total traffic volumes
**Reinforce Leadership on Mobile Data**

### Mobile BB: the growth wave

<table>
<thead>
<tr>
<th>Year</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Bn €)</td>
<td>1.4</td>
<td>1.6</td>
<td>1.8</td>
<td>2.3</td>
</tr>
</tbody>
</table>

**CAGR ‘09-’12** +14.5%

| (mln) | Mobile BB users | 8.2 | 11.3 | 14.8 | 23.5 |

### TIM strategy to reinforce leadership

- **Network**
  - Over 80% UMTS coverage
- **Offers & tariffs**
  - HSPA @ 14.4 Mbps already available on all TIM network
  - Transparent and competitive portfolio offer
  - Internet Pack: the concept that changed the market
- **Devices**
  - Internet keys appealing, easy to use, self-installing, PLUG&PLAY

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**Unmatched Proposition for Network Performance and Devices**
Smartphone Market: A Key Driver for Growth

**Smartphone Market**

- Italian Market
  - Volume
    - 259 (1Q09)
    - 834 (1Q10)
    - +222%
  - Free Market
    - 28%
    - +15pp
  - 43%
  - Source: GFK, panel retail

- Market Share (excluding Free Market)
  - Volumes ~41%
  - Value ~47%

- Average Price/unit
  - €345 (1Q09)
  - -27%
  - €250 (1Q10)
  - -8%

**TIM Strategy on Arpu driven Smartphones**

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

**TIM Smartphone Adopters ARPU * - Consumer**

- Ex-ante Smartphone adoption (Nov 09)
- Ex-post Smartphone adoption (Mar 10)
- +20%

**TIM Micro-browsing Users ARPU - Consumer**

- +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 - 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

**Advertising Investments (GRP’s)**

<table>
<thead>
<tr>
<th>1Q09</th>
<th>1Q10</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>~2x</td>
</tr>
</tbody>
</table>

**Spontaneous Advertising Awareness**

- Vodafone
- Wind
- TIM
- H3G

*Source: STP GFK Eurisko*
Mobile - Main Evidences

**Value Customers**

- **“Tutto Compreso” Gross Adds +**
  - Jan10: 1.7 mln
  - Apr10: 2.5X
  - (*) pre-paid & post-paid

**Community Users**

- **TIMX Users**
  - Sept09: 1.7 mn
  - May10: Stabilized

**Mobile BroadBand**

- **Internet Pack Activations (’000)**
  - Dec09: 200k
  - April10:

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

- 1Q09: -762
- 2Q09: -544
- 3Q09: -537
- 4Q09: -401
- 1Q10: Stabilized

**Mobile BB Users (mln)**

- 1Q09: 3.8
- 1Q10: 5.1
  - +1.3
  - +33%
Agenda

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- 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

**Consumer**

- **VOCE SENZA LIMITI**
- **INTERNET SENZA LIMITI**
- **TUTTO SENZA LIMITI**

- 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 - Main Evidences

**Consumer**

**Customer Base ('000)**

<table>
<thead>
<tr>
<th></th>
<th>1Q09</th>
<th>4Q09</th>
<th>1Q10</th>
<th>Apr10</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;Voce Senza Limiti&quot;</td>
<td>138</td>
<td>250</td>
<td>126</td>
<td>97</td>
</tr>
<tr>
<td>&quot;Internet Senza Limiti&quot;</td>
<td>0</td>
<td>126</td>
<td>97</td>
<td>337</td>
</tr>
<tr>
<td>&quot;Tutto Senza Limiti&quot;</td>
<td>0</td>
<td>126</td>
<td>97</td>
<td>337</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>~27</td>
<td>61</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>&quot;Voce Senza Limiti&quot;</td>
<td>100</td>
<td>177</td>
<td>214</td>
</tr>
<tr>
<td>&quot;Internet Senza Limiti&quot;</td>
<td>0</td>
<td>177</td>
<td>214</td>
</tr>
<tr>
<td>&quot;Tutto Senza Limiti&quot;</td>
<td>0</td>
<td>177</td>
<td>214</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>Certified Mail</th>
<th>Rule 274</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Waiting Days</td>
<td>39%</td>
<td>61%</td>
</tr>
</tbody>
</table>
Domestic - Focus on Efficiency Plan Progress

### 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
- Revenues: 2,538
- Δ OPEX: -380
- EBITDA 1Q10: 2,461

-77 m€, -3.0%
Agenda

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Consumer Sales Channels: Deep Changes Underway

**Structure**
- Change Sales Channel Mix and Size

**Profitability**
- Change Commissioning Scheme based on Value
- Improve profitability (Bill Size)

**Image**
- Own Shop Restyling
- Improve Customer Experience

**Number of Points of Sale**
- 2009: Own Shops ~4,500, Franchising ~6,200
- 2010: Own Shops ~6,200

**Productivity (Avg.)**
- Weekly Gross Adds/PoS: +25%

**New Own Shop Layout**
Business Sales Channels: Fully Exploit up/cross Selling Opportunities

<table>
<thead>
<tr>
<th></th>
<th>Fixed</th>
<th>F &amp; M</th>
<th>Mobile</th>
<th>Needs</th>
</tr>
</thead>
</table>
| High | 3% | 46% | 5% | Fixed & Mobile Voice  
Taylor made BB configuration + data solutions  
ICT solutions |
| Medium | 22% | 29% | 23% | Basic and advanced fixed and mobile Voice + BB connectivity |
| Low | 75% | 11% | 72% | Traditional F&M voice services  
BB fixed & mobile  
Devices |

Customers ~1.9 mln ~0.5

* Customer mix: % of High/Medium Human Gross Adds  
** Customer quality: Churn rate (%) Gross Adds

Sales Channel Strategy

Push on integrated Partner

Push on Quality

+37pp 95%

Jan '09  
Dec '09

+13pp*  
-6pp**

4Q08 4Q09 2008 2009
Agenda

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- Outlook
### Outlook

<table>
<thead>
<tr>
<th>Mobile Business</th>
<th>Fixed Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Speed-up Gross Adds</td>
<td>Churn control</td>
</tr>
<tr>
<td>Churn control</td>
<td>Confirm 1Q trend on line losses</td>
</tr>
<tr>
<td>Continuous Mobile BB growing trend and focus on Smartphones</td>
<td>Lead the wave of new ICT solutions for SME and SOHO</td>
</tr>
<tr>
<td>Availability of Restyled Sales Channels</td>
<td>Leadership consolidation in BB</td>
</tr>
</tbody>
</table>