Telecom Italia Group Update

Sanford C. Bernstein -  Pan-European Strategic Decisions Conference

London, September 19th 2012

Franco Bernabè – Executive Chairman and Group CEO
Safe Harbour

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Some data for the 2011 financial year used in comparisons included into this presentation are restated as a result of the early adoption of the revised IAS 19 (Employee Benefits) version and the reclassification of Matrix from the Business Unit Domestic—Core Domestic to the Business Unit Other Activities.
Agenda

- **Key TI Group Update**

- **The Access Network Structural Separation Option**
  - Where do we come from
  - A Transformational Opportunity

- Appendix
### Report Revenues

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Reported Revenues</th>
<th>YoY %</th>
<th>Organic Revenues</th>
<th>YoY %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1Q</td>
<td>14,543</td>
<td>+1.7%</td>
<td>14,359</td>
<td>+3.1%</td>
</tr>
<tr>
<td>2Q</td>
<td>7,401</td>
<td>-0.9%</td>
<td>7,410</td>
<td>+1.0%</td>
</tr>
</tbody>
</table>

### Organic Revenues

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Organic Revenues</th>
<th>YoY %</th>
<th>Organic EBITDA</th>
<th>YoY %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1Q</td>
<td>7,392</td>
<td>+5.3%</td>
<td>7,392</td>
<td></td>
</tr>
<tr>
<td>2Q</td>
<td>7,410</td>
<td>+1.0%</td>
<td>7,410</td>
<td></td>
</tr>
</tbody>
</table>

### EBITDA Trends

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Reported EBITDA</th>
<th>YoY %</th>
<th>Organic EBITDA</th>
<th>YoY %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1Q</td>
<td>5,956</td>
<td>-1.6%</td>
<td>5,952</td>
<td>-1.0%</td>
</tr>
<tr>
<td>2Q</td>
<td>2,886</td>
<td>-4.3%</td>
<td>2,886</td>
<td></td>
</tr>
</tbody>
</table>

### Organic EBITDA Trends

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Organic EBITDA</th>
<th>YoY %</th>
<th>Organic EBITDA</th>
<th>YoY %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1Q</td>
<td>2,973</td>
<td>+0.5%</td>
<td>2,973</td>
<td></td>
</tr>
<tr>
<td>2Q</td>
<td>2,917</td>
<td>-2.5%</td>
<td>2,917</td>
<td></td>
</tr>
</tbody>
</table>
### Net Debt Evolution

**Net Debt Dynamics**

<table>
<thead>
<tr>
<th>Year</th>
<th>Operating FCF</th>
<th>Dividends</th>
<th>Disposals &amp; Fin. Investment</th>
<th>Cash Fin./Taxes &amp; other Impacts</th>
<th>1H12 Adjusted</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011YE</td>
<td>30,414</td>
<td>(2,243)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1H11</td>
<td>1,027</td>
<td>(18)</td>
<td></td>
<td></td>
<td>1,180</td>
</tr>
<tr>
<td>FY11</td>
<td>30,360</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- EBITDA: 5,859
- CAPEX: +2,269
- \(\Delta WC \& Others\): +1,347
- Operating FCF: (2,243)

**Adj. Net Financial Position**

- 1H11: 31,119
- FY11: 30,414
- 1H12: 30,360

(759)

(705)

\((2.4 \text{ } \text{€ } \text{ bln})\)

Normalized*

* Excluding cashout in 2H11 for LTE spectrum in Italy (1.223€mln), AES acquisition (446€mln), and the incremental economic interest in TA (56€mln)
Deleverage Targets Confirmed

Cash Flow Generation on Track

- In excess of Euro 1bln 2Q12 Group Dividend net cash-out entirely financed from Operations
- 1H12 YoY lower Working Capital absorption in line with FY target and recovering from 1Q12 trend
- TI Media disposal progressing
- Domestic MTR >50% cut to be broadly neutralized on an EBITDA level
- Latam to continue operating on a self-financed basis

Ongoing Liquidity Efficiently Ensured

- Portion of Euro 4bln in Flagship Bank Facility extended until 2017, more than fully covering funded 2014 bank maturities well in advance
- Euro 2.5bln Bonds issued in 2012 (including September 13th Eur1bn deal) show an average cost of 5.1%, well below the Group’s Debt average 5.4%.
- About Euro 800mln short-maturity Bonds bought-back yield future interest cost savings

Deleverage to Proceeds according to Plan *

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Debt</th>
<th>2012-14 targets confirmed</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>35.9</td>
<td>~5.5 € bln</td>
</tr>
<tr>
<td>2011</td>
<td>30.4</td>
<td>~27.5</td>
</tr>
<tr>
<td>2012</td>
<td>~27.5</td>
<td>~25</td>
</tr>
<tr>
<td>2013</td>
<td>~25</td>
<td></td>
</tr>
<tr>
<td>2014 &amp; Onwards</td>
<td></td>
<td>Inside 2x Net Debt/EBITDA</td>
</tr>
</tbody>
</table>

Current Dividend Confirmed as Floor for ‘12-14

* Excluding Latam spectrum licences acquisitions
Agenda

- Key TI Group Update
- The Access Network Structural Separation Option
  - Where do we come from
  - A Transformational Opportunity
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Telecom Italia’s Open Access Separation Model

In 2002, AGCOM imposed regulatory provisions concerning the internal-external parity of treatment between TI Retail and OLOs.

In February 2008, TI decided to put in place Open Access as a Division of our Domestic Business.

TI’s Legally binding Undertakings were approved by AGCOM and entered into force on January 1st, 2009.

EC endorsed TI’s Undertakings.

AGCOM approved TI’s Undertakings turning most of them into remedies.

Open Access implementation was fully completed by 31st March 2010.

Telecom Italia’s 2008 Access Separation Model has been well serving its purposes, and is currently in place.
TI’s Open Access vs BT’s Openreach: Models of Equivalence

Open Access: Equivalence of Output

Openreach: Equivalence of Input
No action followed the “Tavolo Romani” meetings

Inappropriate Technological Path:
Next Generation Network Deployment via only FTTH solutions (P2P and GPON)

Unsatisfactory Governance in the NewCo:
«Condominium» approach with OLOs holding minority stakes

Unacceptably low Return from Investment:
Excessive Capital Deployment without Value Creation for Stakeholders

A wrong solution for the Company was avoided
Current Conditions offer a Transformational Opportunity

- Copper Access supported by new Regulatory Environment
- Equivalence of Input allows new Commercial Approach on NGA
- Improved Flexibility from Technology
- Rewards from Structural Separation appear to Outweigh Risks

TI’s Fixed Access Network

Structural Separation Option
The 4 main EU Regulatory changes introduced by Mrs N. Kroes

- **Stability of regulation until 2020**
  - Definition of a stable and consistent regulatory framework for both copper and fiber until 2020, supporting the delivery of the EC Digital Agenda targets.

- **Safeguarding of the Wholesale copper price**
  - Publication of a “Access Costing” Recommendation; copper unbundling prices in Europe should gradually converge towards an ~€9-per-month area; low copper prices are acknowledged not to favor NGAN investments.

- **Equivalence of input**
  - Publication of a “Non-discrimination” Recommendation to impose “equivalence of input” obligations and replicability tests.

- **Wholesale NGAN price flexibility**
  - Where “equivalence of input” is ensured and there is an adequate competitive context, the EC proposes that NRAs do not need to apply cost orientation to NGA wholesale access services.
No constraint on Technological Approach points to FTTC

FTTC ensures:

- Rapid Deployment
- Wider Coverage
- Lower Invasiveness in Buildings
- Cost Efficiency
- Support of Copper Infrastructure Long Term Value

The Best Choice for EU Incumbents
Rewards appear to outweigh Risks

<table>
<thead>
<tr>
<th>Rewards</th>
<th>Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) A predictable regulatory treatment of wholesale copper access services, 2) the possible introduction of a RAB approach and 3) providing for wholesale fiber access prices to be no longer cost-based could drive:</td>
<td>The establishment of a separate Access Network Company would involve time and costs which can be recovered only if material, long-term Regulation improvements are ensured;</td>
</tr>
<tr>
<td>- a material increase in Commercial Flexibility,</td>
<td>- Not all Regulatory aspects might be crystallized before a separate Company is set up, so this area needs to be carefully monitored.</td>
</tr>
<tr>
<td>- a long-term growth (positive “g”) for TI’s Access Network business, and</td>
<td></td>
</tr>
<tr>
<td>- significant Value Creation for all TI’s Stakeholders.</td>
<td></td>
</tr>
<tr>
<td>The project could entail:</td>
<td>TI’s voluntary, self-driven approach to Structural Separation implies that the risks of an unbalanced Governance with any possible minority partner would be avoided – but this remains nevertheless an area of attention.</td>
</tr>
<tr>
<td>- a decreasing risk of regulatory litigation and antitrust allegations, and</td>
<td></td>
</tr>
<tr>
<td>- a better Institutional framework, further promoting infrastructure investments such as the Italian Government’s «Digital Agenda» (push on e-Government, e-Learning, e-Health, etc.).</td>
<td></td>
</tr>
<tr>
<td>An Institutional Investor Partner with minority stake could allow ongoing business and financial Risk Sharing/Reduction.</td>
<td>The Market-Demand risk for high speed fixed UBB services needs to continuously evaluated vis-à-vis CAPEX, ensuring TI’s demand-driven approach to be maintained.</td>
</tr>
</tbody>
</table>
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TI’s UBB Plan: Maintain Technological Leadership

Capex Allocation

<table>
<thead>
<tr>
<th>Network Capex</th>
<th>2011</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Service &amp; Traffic Driven</td>
<td>52%</td>
<td></td>
</tr>
<tr>
<td>Network Development</td>
<td>13%</td>
<td></td>
</tr>
<tr>
<td>Network Maintenance</td>
<td>35%</td>
<td></td>
</tr>
</tbody>
</table>

- Optimize Network Investment to maintain excellent quality in TLC services
- Increase the effort in Network Development and Innovation to confirm Technological Leadership and grant the Best Experience on the Net

UltraBB Roadmap

NGAN Roll-out

- 2014
  - 100 Cities (including all main ones) covered through FTTH&Cab Technology
  - ~¼ of Housing units passed with >30 Mb/s Speed

Mobile Coverage

- 2014
  - More than 40% of population covered by LTE

- 2011
  - HSPDA 42 Mbps

- 2014
  - LTE
**TI’s 2-step strategy on NGAN**

### Step 1: FTTCab

**30 - 100 Mbps**

- **Use of existing copper VDSL2 network**
  - 30+50 Mbps down; 3+20 Mbps up
- **Use of existing cable ducts**
- **Use of existing cabinet, fiber element addiction**
- **No intervention inside the building**
- **Only a new access gateway needed**

### (Possible) Step 2: FTTH

**100 Mbps – 1 Gbps**

- **Use of existing network elements:**
  - Cable ducts
  - Cabinets
  - Copper SLL

#### Deployment costs > 3x FTTCab

- **Use of FTTCab primary network**
- **Use of FTTCab primary network deployment**
  - 0.1+1 Gbps symmetric; technology: Gpon or GbE
- **Use of existing cabinet, passive splitter addiction**
- **New fiber network in new cable ducts**
- **New network to be deployed into the building**
- **New installation needed**

#### New elements

- Fiber secondary network
- Fiber deployment in the customer’s building
- New modem in the customer’s house
TI’s Fixed UBB Plan

2012 - 1H13

30 cities

About 60% cities target in the North (i.e. Milan, Turin, Genoa); NewCo Trentino NGN for Trento region

About 20% cities located in the Central part of the country (i.e. Rome, Florence)

2014

100 cities

Driver for NGAN Plan:

- Density of population;
- Leverage on existing infrastructure (i.e. ducts already in place in most of 100 targeted cities)

within 2020

Moving towards DAE Targets
Some Italian examples from the Market

### ENI vs Snam

<table>
<thead>
<tr>
<th>EV/NTM EBITDA</th>
<th>Current</th>
<th>Avg. Last Month</th>
<th>Avg. Last 6 Months</th>
<th>Avg. Last Year</th>
<th>Avg. Last 3 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>ENI</td>
<td>3.7x</td>
<td>3.5x</td>
<td>3.1x</td>
<td>3.1x</td>
<td>3.7x</td>
</tr>
<tr>
<td>Snam</td>
<td>8.7x</td>
<td>8.5x</td>
<td>8.4x</td>
<td>8.4x</td>
<td>8.9x</td>
</tr>
</tbody>
</table>

### Enel vs Terna

<table>
<thead>
<tr>
<th>EV/NTM EBITDA</th>
<th>Current</th>
<th>Avg. Last Month</th>
<th>Avg. Last 6 Months</th>
<th>Avg. Last Year</th>
<th>Avg. Last 3 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enel</td>
<td>6.0x</td>
<td>5.8x</td>
<td>5.4x</td>
<td>5.6x</td>
<td>6.3x</td>
</tr>
<tr>
<td>Terna</td>
<td>8.7x</td>
<td>8.7x</td>
<td>6.9x</td>
<td>7.8x</td>
<td>8.9x</td>
</tr>
</tbody>
</table>

Source: CapitalIQ as of 14 Sept. 2012
European Regulated Sectors vs. Telcos

### EV/EBITDA 2012 & 2013

<table>
<thead>
<tr>
<th>Sector</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Integrated Utilities(1)</td>
<td>6.2x</td>
<td>5.9x</td>
</tr>
<tr>
<td>Gencos(2)</td>
<td>8.0x</td>
<td>7.5x</td>
</tr>
<tr>
<td>Airports &amp; Motorways(3)</td>
<td>8.4x</td>
<td>7.7x</td>
</tr>
<tr>
<td>Regulated Infrastructure(4)</td>
<td>8.2x</td>
<td>7.9x</td>
</tr>
<tr>
<td>Telcos(5)</td>
<td>4.9x</td>
<td>4.7x</td>
</tr>
</tbody>
</table>

### Notes
1. Includes Centrica, Scottish & Southern, EDF, GDF-Suez, E.ON, RWE, PPC, Acea, A2A, Enel, EDP, Endesa, Iberdrola, Gas Natural
2. Includes Drax, Essar Energy, Enel Green Power, CEZ, PGE, Fortum, Acciona, EDP Renovaveis, Verbund, RusHydro, Inter Rao
3. Includes Abertis, AdP, Atlantia, Brisa, Vinci, Eurotunnel, Ferrovial, Fraport, Vienna Airport, Zurich Airport
5. Includes Belgacom, Bouygues, BT Group, Deutsche Telekom, France Telecom, KPN, OTE, Portugal Telecom, Swisscom, TDC, Tele2, Telecom Italia, Telekom Austria, Telenor, Vodafone

Source: Morgan Stanley Research as of 14-Sep-2012