

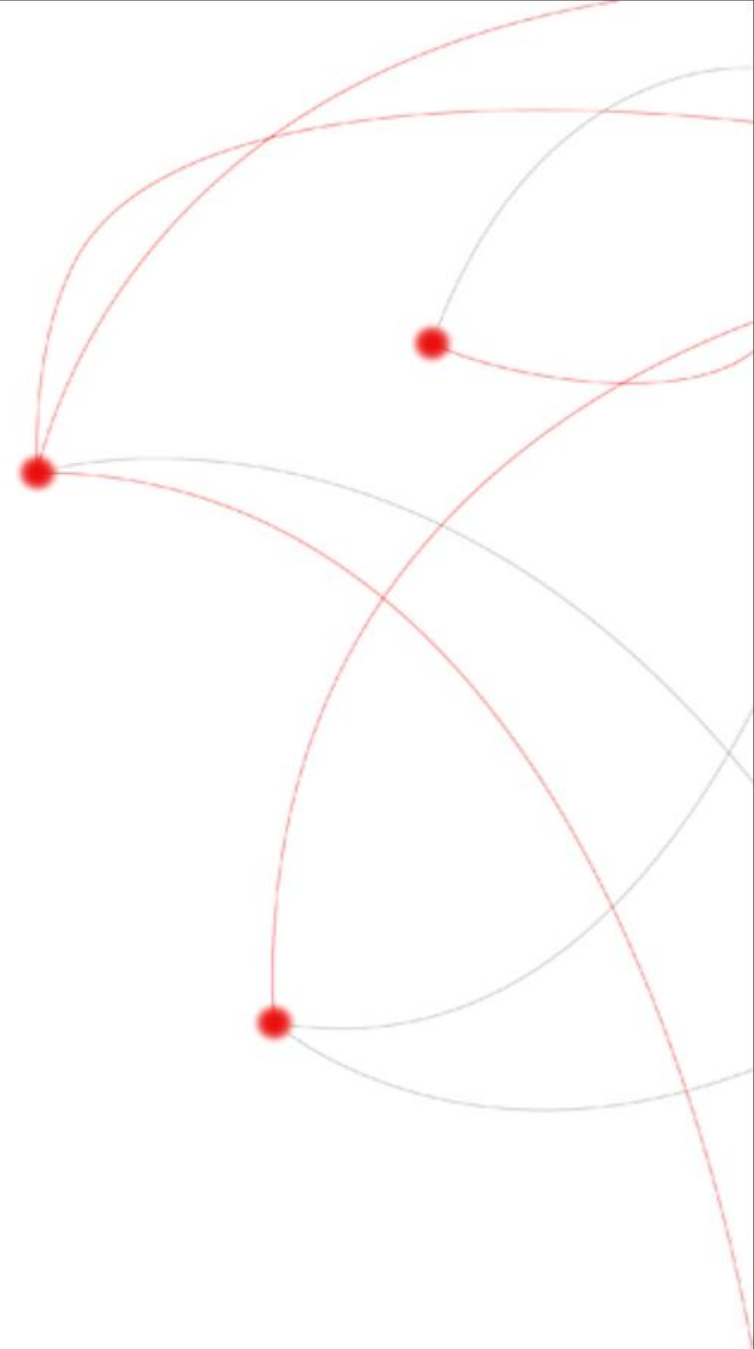
GRUPPO TELECOM ITALIA

## Sanford Bernstein - Strategic Decisions Conference

London, 15 September 2009

# TELECOM ITALIA GROUP

FRANCO BERNABE'



# Safe Harbour

These presentations contain statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear in a number of places in this presentation and include statements regarding the intent, belief or current expectations of the customer base, estimates regarding future growth in the different business lines and the global business, market share, financial results and other aspects of the activities and situation relating to the Company.

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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**

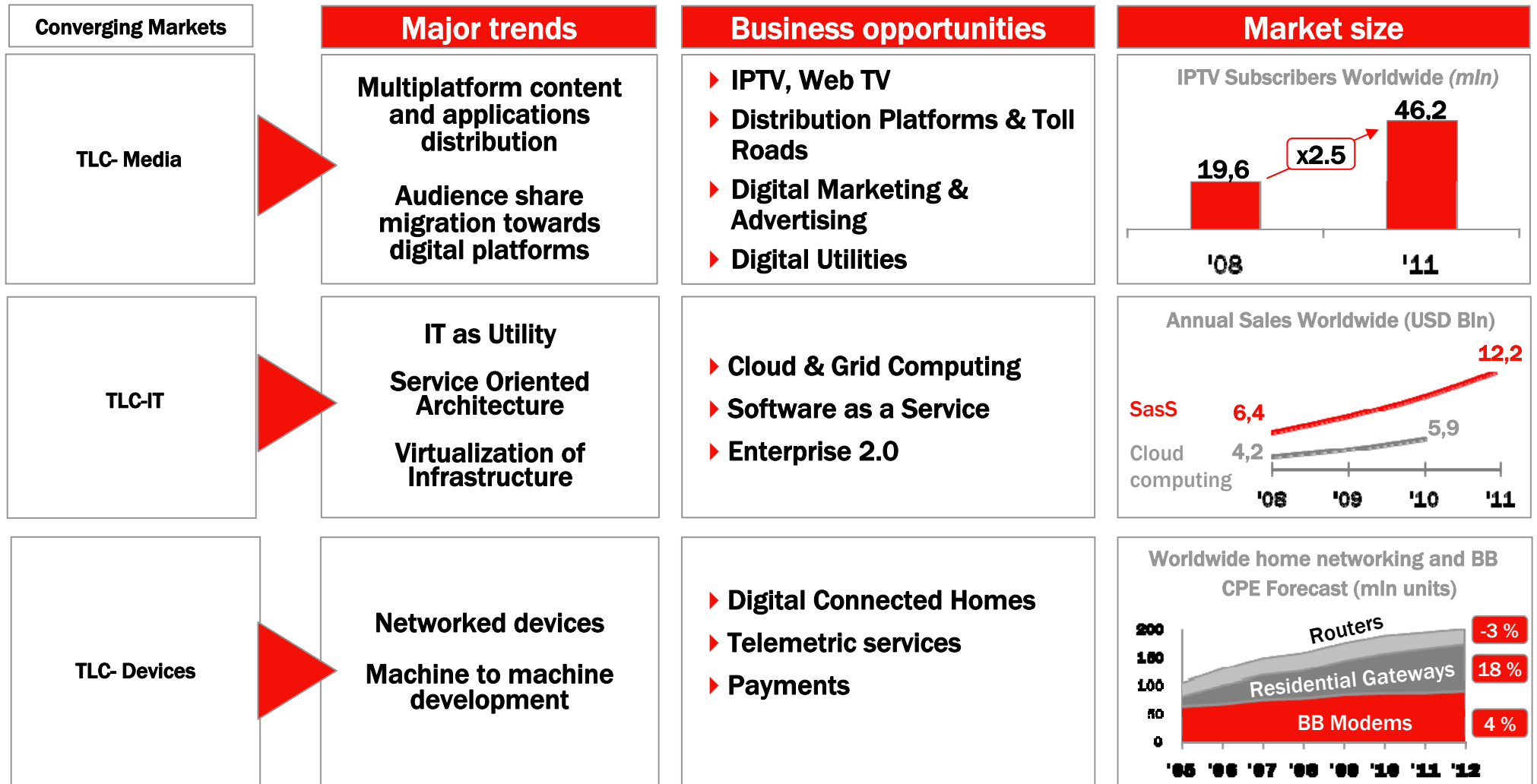
## Technological developments

- ▶ **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



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

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

# Agenda

- ▶ How we see the TLC industry
- ▶ **Telecom Italia Strategy**
- ▶ Key 1H09 Progress
- ▶ Closing remarks

# Telecom Italia: the Transformation underway



# Ti: advantages gained through a Customer Centric model

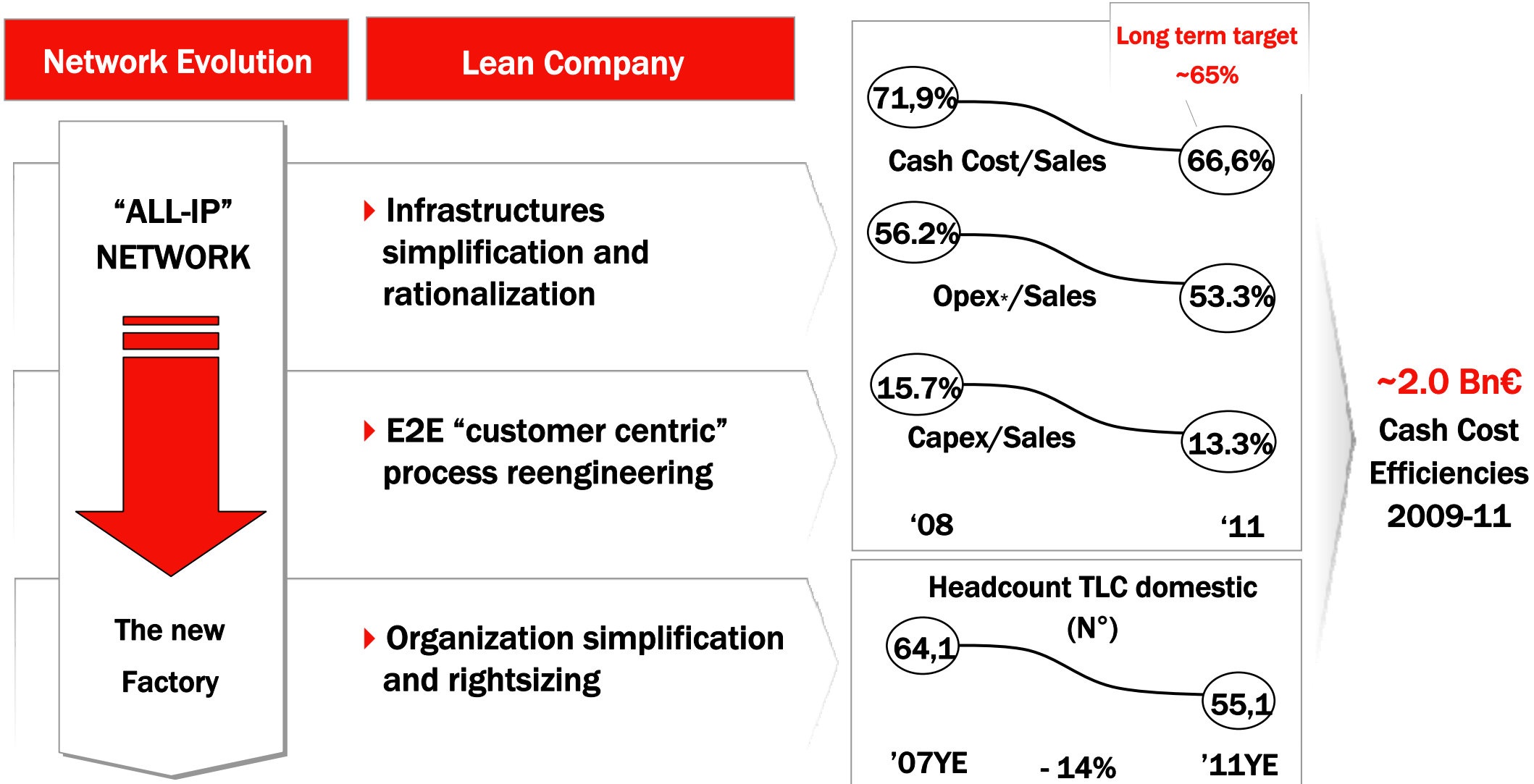
	Key Advantages	Key rationales												
Offer	<p><b>Increasingly “tailored” approach to client segments</b></p>	<div style="text-align: center;"> <p>Top Client 19%</p> <p>SME/SoHo 21%</p> <p>Consumer 60%</p> </div> <ul style="list-style-type: none"> <li>▶ F-M-ICT integration to address business client needs</li> <li>▶ Deeper segmentation keeping F-M-BB offers “separate”</li> </ul> <p style="text-align: right; font-size: small;">□ Breakdown of 2008 Domestic Retail Revenues</p>												
Sales & Distribution	<p><b>Rationalization and E2E management to improve go2market keeping costs in check</b></p>	<div style="display: flex; justify-content: space-around;"> <div style="text-align: center;"> <p>Upselling/ Cross selling Potential</p> <table border="1"> <tr><th>CLIENT BASIN</th><th>Potential</th></tr> <tr><td>TIM + VICE</td><td>4 mln</td></tr> <tr><td>TIM + TELECOM</td><td>7 mln</td></tr> <tr><td>TELECOM + VICE</td><td>15 mln</td></tr> <tr><td>TIM</td><td>8 mln</td></tr> <tr><td>No Telecom Italia</td><td>15 mln</td></tr> </table> </div> <div style="text-align: center;"> <p>Acquisition Potential</p> <p>Acquisition Quotas of Main Common Channels</p> <div style="display: flex; justify-content: space-around;"> <div style="text-align: center;"> <p><b>Mobile</b></p> <p>Co.s: 1%</p> <p>PoS/Agents: 70%</p> <p>Large Distribution: 23%</p> </div> <div style="text-align: center;"> <p><b>Fixed</b></p> <p>Co.s: 34%</p> <p>PoS/Agents: 36%</p> <p>Large Distribution: 1%</p> <p>Telesales: 29%</p> </div> </div> </div> </div>	CLIENT BASIN	Potential	TIM + VICE	4 mln	TIM + TELECOM	7 mln	TELECOM + VICE	15 mln	TIM	8 mln	No Telecom Italia	15 mln
CLIENT BASIN	Potential													
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TIM	8 mln													
No Telecom Italia	15 mln													
Customer Operations	<p><b>Process reengineering bettering quality of service delivering cost efficiencies</b></p>	<ul style="list-style-type: none"> <li>▶ Integrated caring to improve customer satisfaction</li> <li>▶ Rationalize Headcount '08-'11 FTE Reduction*:</li> </ul> <div style="text-align: center;"> <p>13,700 (Jan 1, 08)</p> <p>-2,150</p> <p>11,550 (Dec 31, 11)</p> </div>												

\* FTE related to efficiency Program, Includes MKT Support & DA FTE

■ Retail Point    ■ Large Distribution  
■ Agency        ■ Telesales



# TI: Domestic Cash Costs Rationalization



\* Organic data

# TI: playing Regulatory Forces positively

	Key Highlights	Main advantages
Retail Regulated Markets	<ul style="list-style-type: none"> <li>▶ Withdrawal of obligations from relevant markets as by EU Recommendation</li> <li>▶ Elimination of asymmetry in migration procedures between TI and OLOs</li> <li>▶ Review of “price squeeze” tests for bundles</li> </ul>	<ul style="list-style-type: none"> <li>▶ Improve competitiveness of TI Retail Divisions</li> <li>▶ Create conditions of “fair and symmetric” competition with OLOs</li> </ul>
Wholesale Regulated Mkts	<ul style="list-style-type: none"> <li>▶ Withdrawal of obligations from relevant markets as by EU Recommendation</li> <li>▶ Orientation of access charges to fwd-looking incremental costs, upping ULL rental fee</li> <li>▶ Symmetry of F-F termination</li> <li>▶ Safeguard M-voice termination as set by NRA</li> </ul>	<ul style="list-style-type: none"> <li>▶ Avoid undue competitive disadvantages due to prices lower than the economic value of the acquired network services</li> <li>▶ Recover all incurred network costs</li> <li>▶ Generate positive cash flow to invest in maintenance and update of traditional network</li> </ul>
NGAN	<ul style="list-style-type: none"> <li>▶ Limit NGAN rules to TI Undertakings approved by NRA</li> </ul>	<ul style="list-style-type: none"> <li>▶ Avoid competitive disadvantages due to regulation of access to active elements of NGAN</li> <li>▶ Exploit advantages of “Risk sharing” where co-investment agreements viable</li> </ul>

# TI: making Infrastructure a Competitive Advantage

	Key features	Main advantages
Integrated network	<ul style="list-style-type: none"> <li>▶ Integrated                             <ul style="list-style-type: none"> <li>▶ OSS and BSS systems</li> <li>▶ Service platform</li> <li>▶ multimedia contents</li> <li>▶ ICT services for business customers</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▶ Seamless experience across different technologies</li> <li>▶ Deeper customer knowledge with more effective CRM capabilities</li> </ul>
All IP Architecture	<ul style="list-style-type: none"> <li>▶ “All IP” backbone and transport network supporting voice, data</li> <li>▶ Extensive “All IP” coverage reaching all metropolitan areas</li> <li>▶ Ready to support Next Generation Services</li> </ul>	<ul style="list-style-type: none"> <li>▶ Handling 600gigabit/s in 2008, 1800gigabit/s in 2011</li> <li>▶ Huge backhauling capacity to support mobile Ultra BB growth</li> <li>▶ CAPEX and OPEX aligned to the best practices</li> <li>▶ Acquisition of third mobile carrier</li> </ul>
Data Center	<ul style="list-style-type: none"> <li>▶ 3 Campus Data Centers, 460 IT applications for internal processes and ICT offer</li> <li>▶ 2K internal servers, 28K CPU, 7000 Tbyte of managed storage capacity</li> </ul>	<ul style="list-style-type: none"> <li>▶ Strong position to support increasing penetration of net centric application (Cloud Computing, Software as a Service, etc...)</li> <li>▶ Positive contribution to safeguard environment thanks to a lower Energy consumption (-40%)</li> </ul>

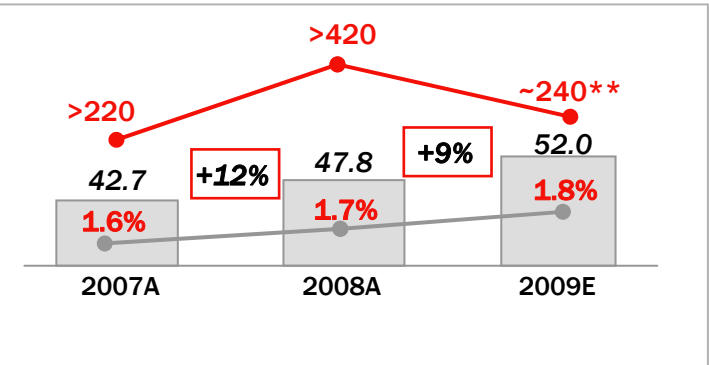
**No cable operators in Italy,  
 TI is the main fiber provider**

# 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

—○— : Country risk EoP (JPM EMBI+, Brazil country risk spread over US Treasury in bp)  
 —●— : Mobile rev/GDP      □ : Mobile revenues (bln R\$)



## 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

## TIM Brasil drivers of success

Commercial strategy strongly focused on valuable clients (post-paid, MNP) & superior CCare

Push F-M substitution leveraging on a pure mobile positioning

Further improve structural efficiency (IT, network) & sales channels rationalization

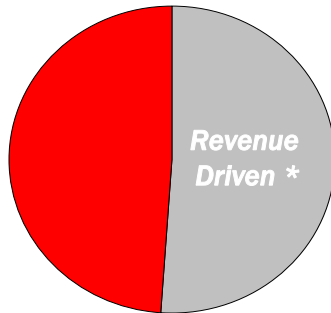
\* Source: Global Insight July 2009

\*\* Sept 2009

# Telecom Italia: FCF generation a Key Reference in Managing Business

## Strong cost flexibility

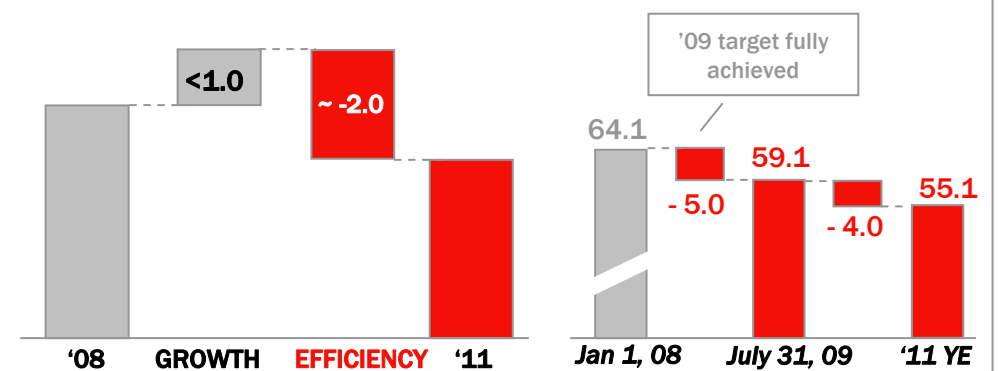
Group OPEX 1H09



## Aggressive efficiency program

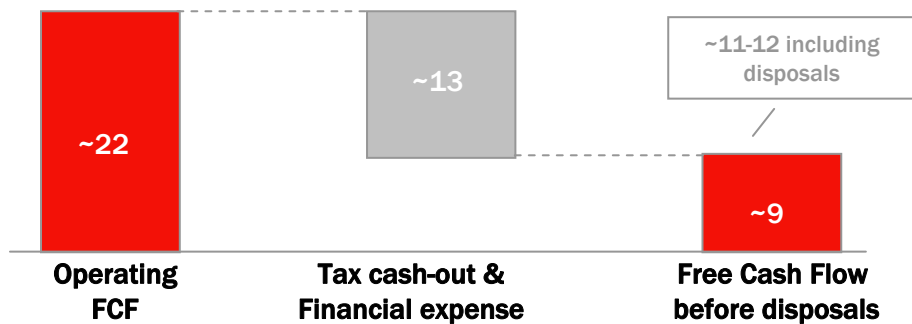
Org. Domestic Cash Costs (€ Bn)

Domestic Headcount ('000)

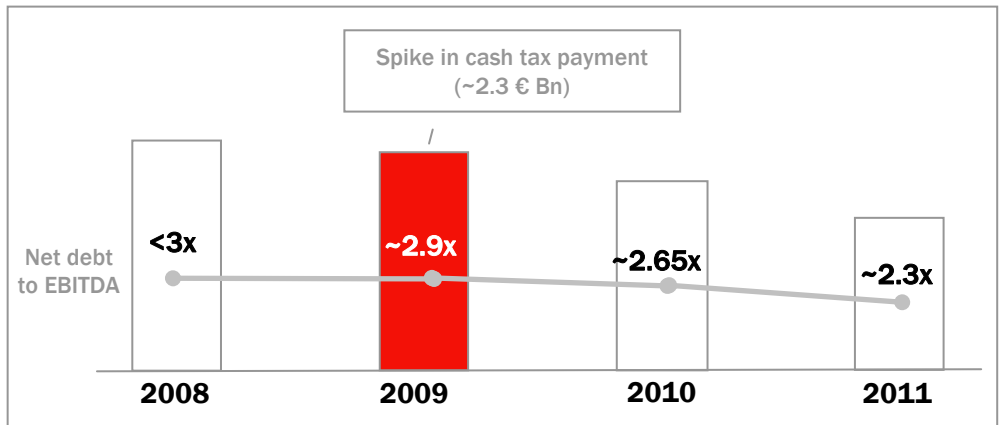


## Strong FCF generation even in a difficult scenario

€ Bn



## Progressive deleverage

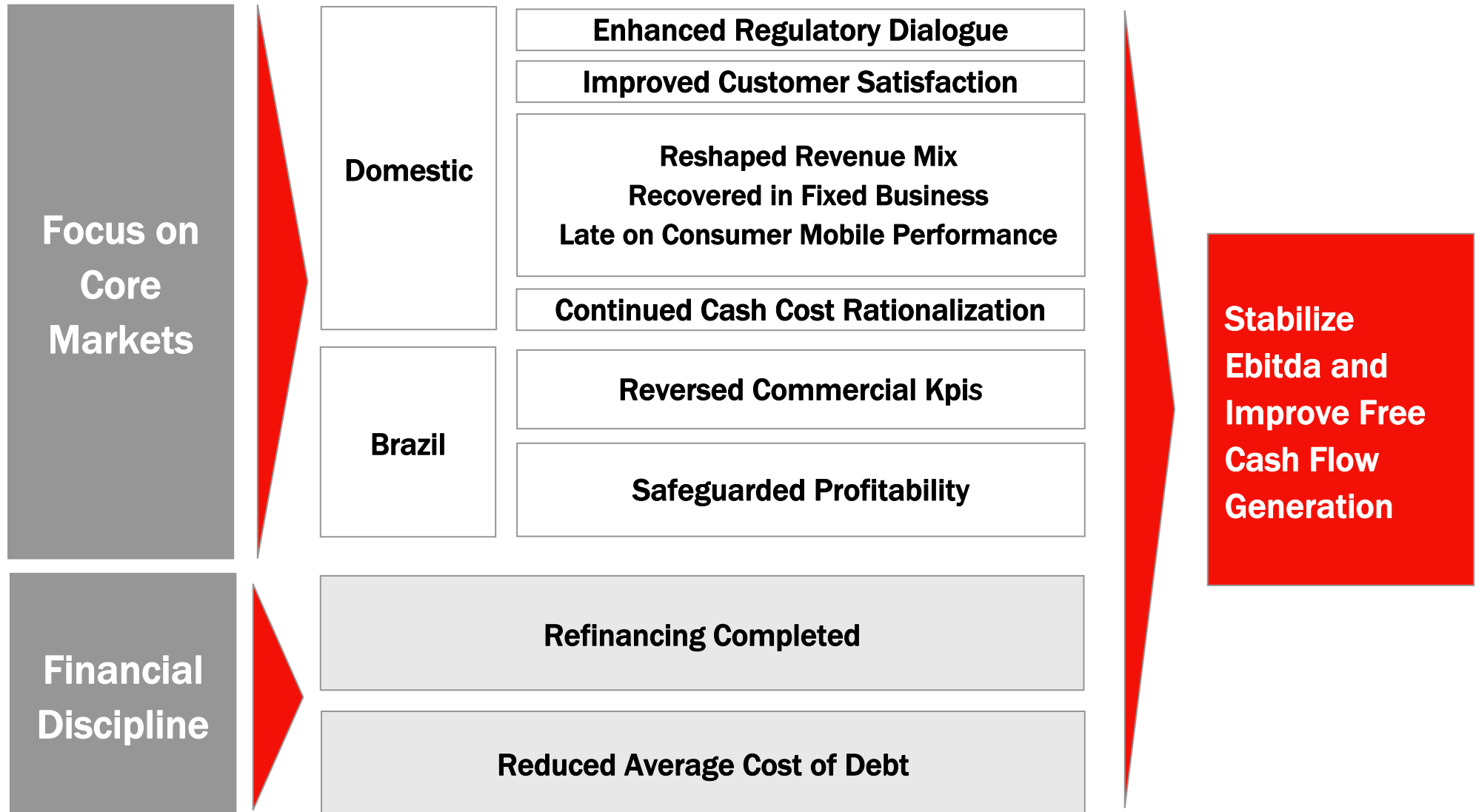


\* COGS + Commercial OPEX

# Agenda

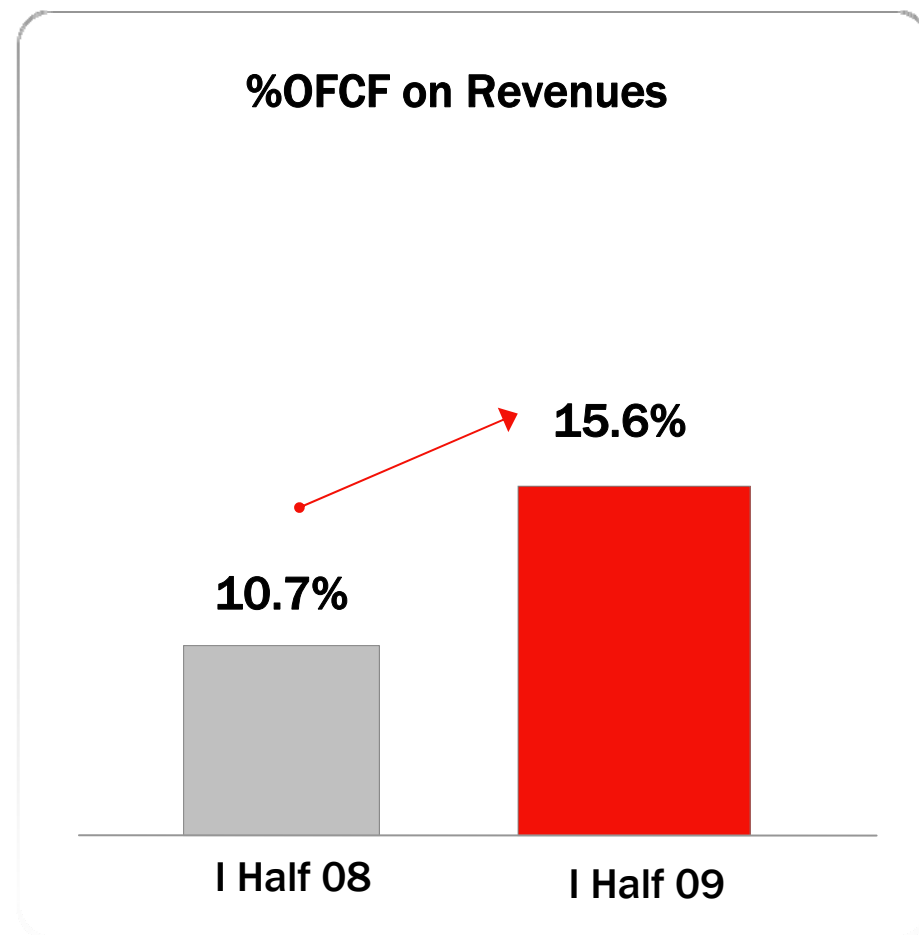
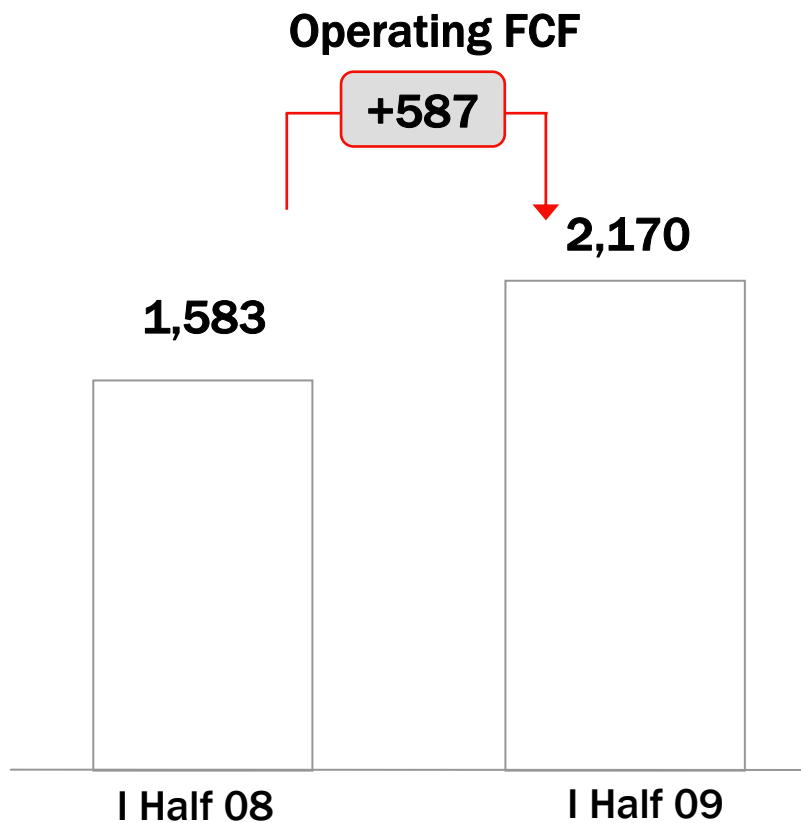
- ▶ How we see the TLC industry
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# TI Group 1H 09 Progress Report



# Improved Operating Cash Flow

Euro mln, Reported data

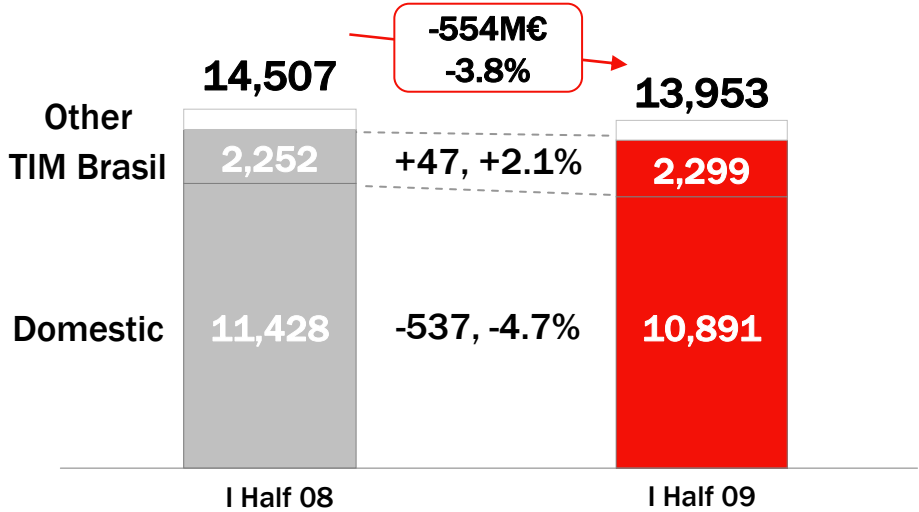




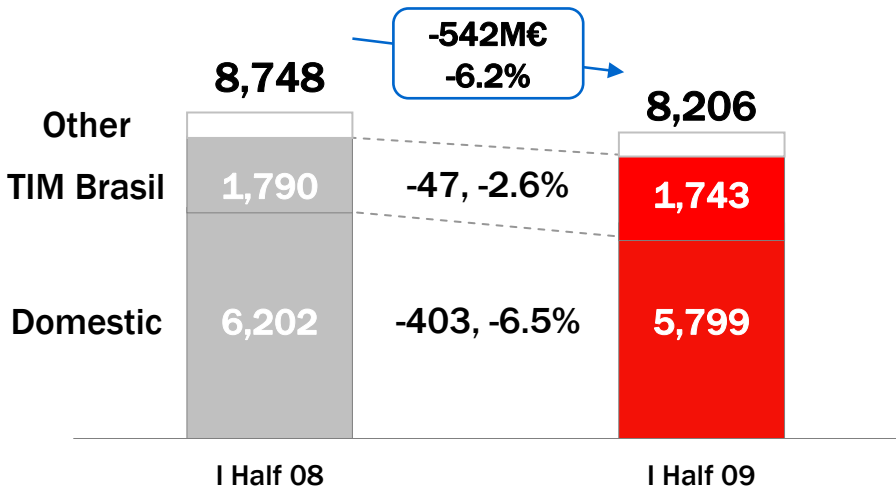
# TI Group Improved Profitability: Organic Results vs. 2008

Euro mln, %

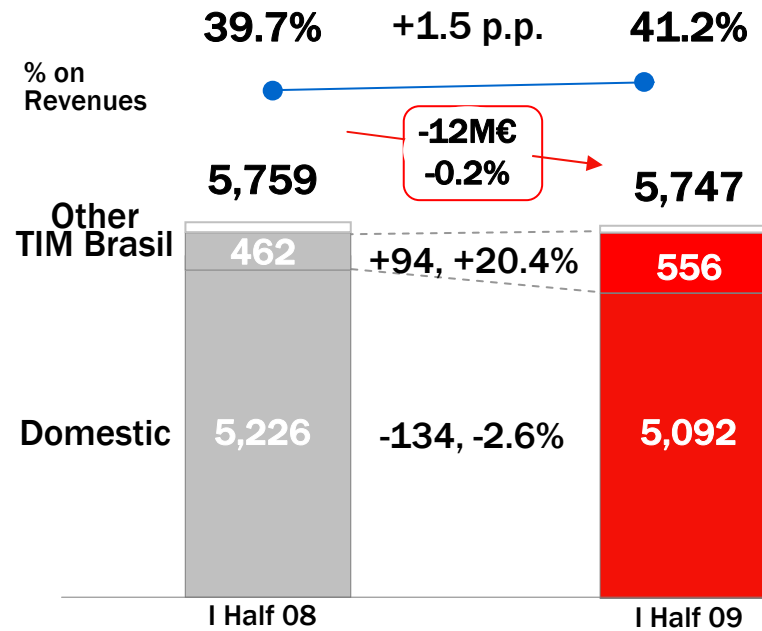
## Revenues



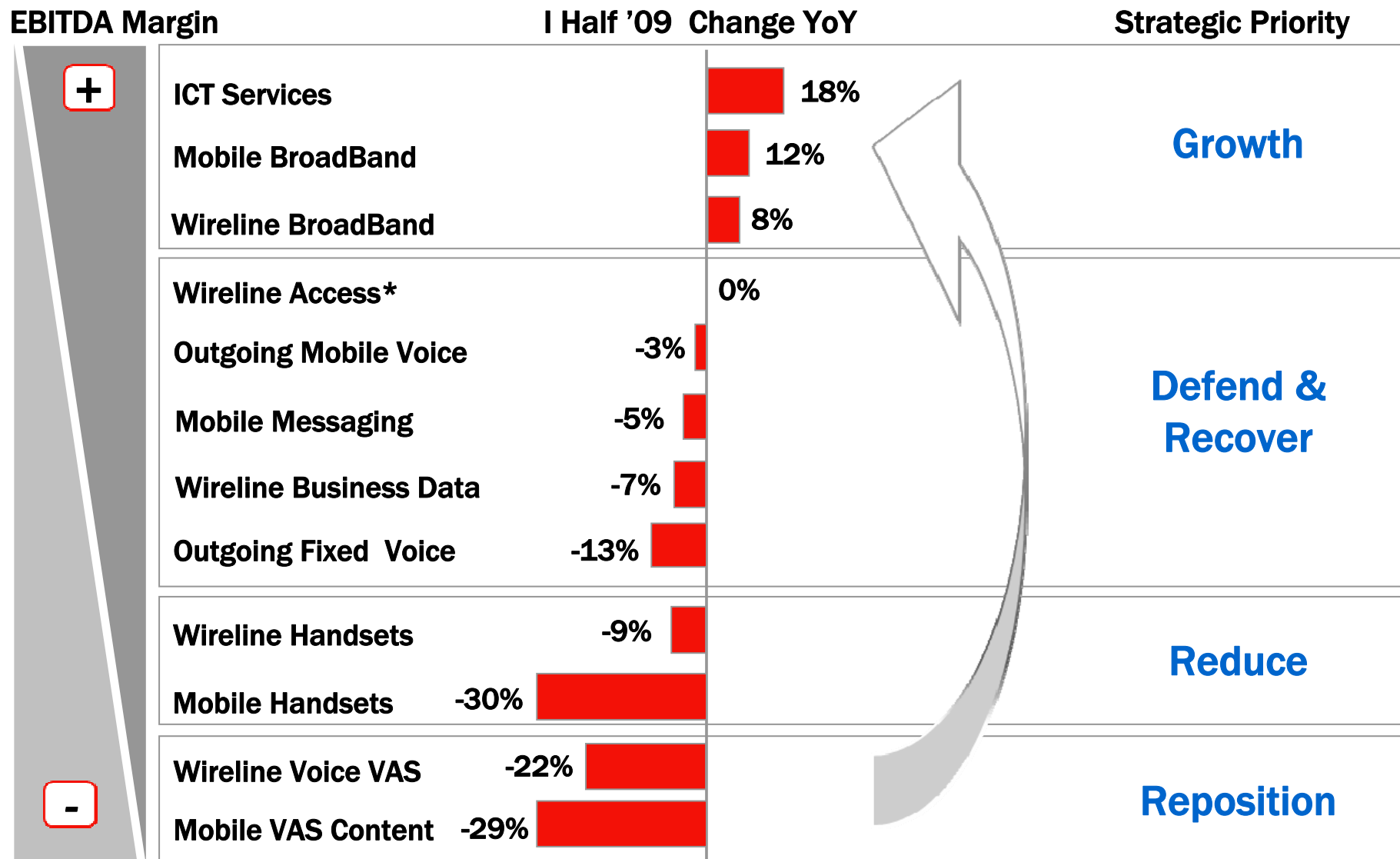
## Opex



## EBITDA



# Domestic: a Revised Revenues Mix...

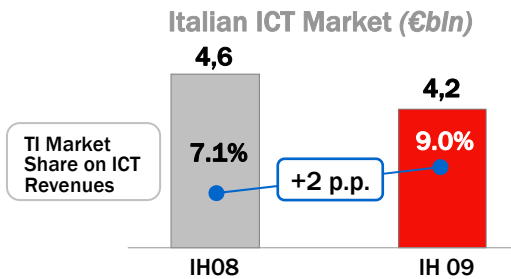


(\*) Retail and Wholesale (includes Naked Fees)

# TI: first showings from the adoption of Customer Centric model

Offer

## TOP/ SME Business



## Consumer



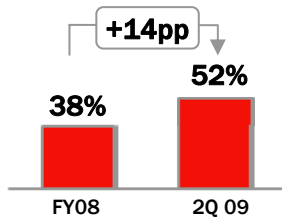
## Main 4Q 09 Actions

- ▶ 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

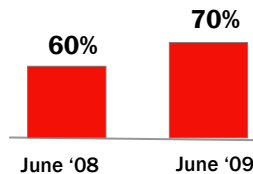
### Improving Mix of SME Acquisitions

% Higher /Med value on total adds



### Bettering Quality of Mobile Acquisitions

% calling lines/total adds



- ▶ New commissioning scheme to incentivize services and value of acquisitions
- ▶ Ongoing rationalization of sales network with introduction of new multi-brand PoS

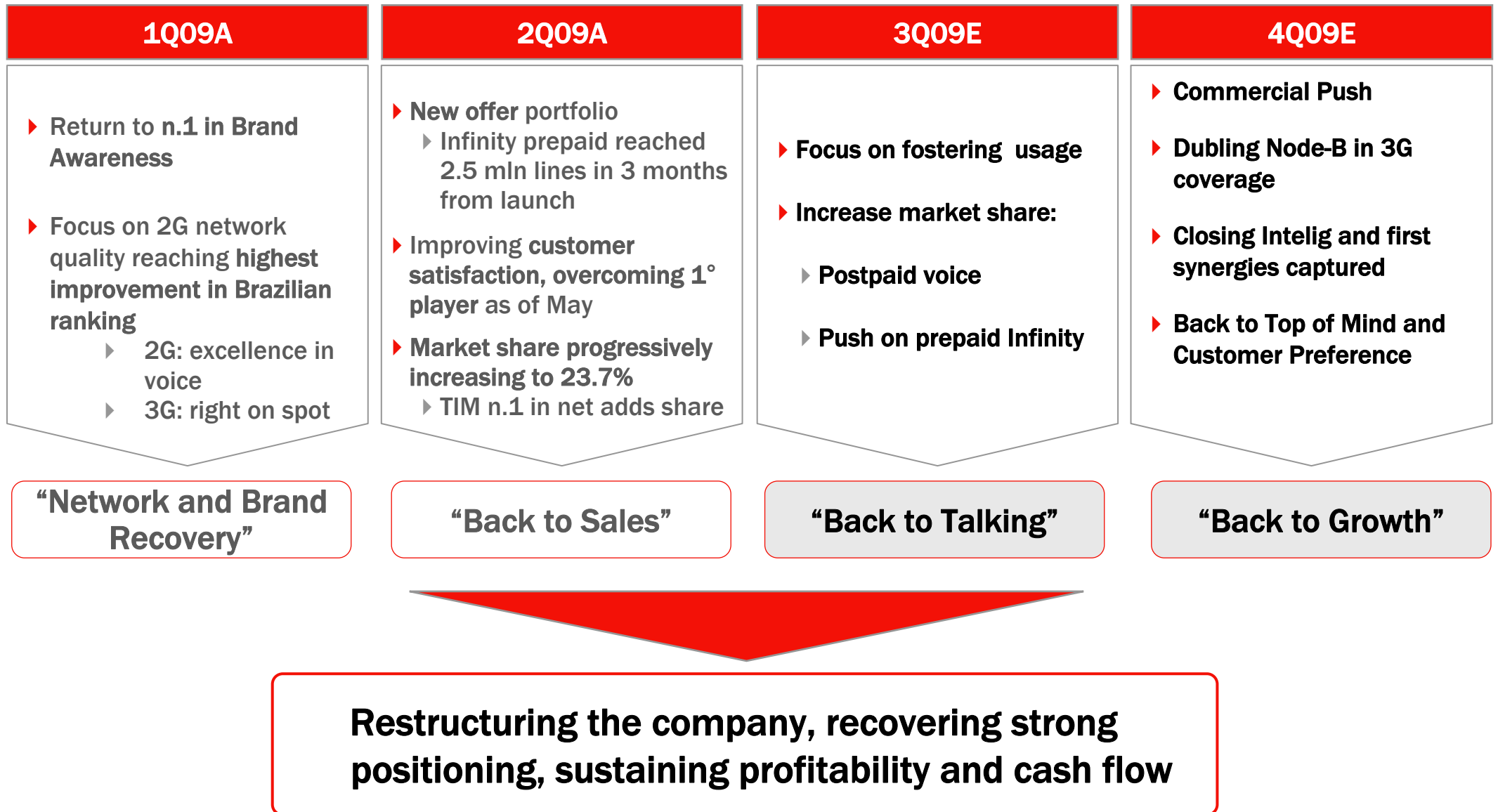
Customer Operations

- ▶ 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



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- ▶ **How we see the TLC industry**
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- ▶ **Closing remarks**

- ▶ **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**