

TELECOM ITALIA GROUP

2Q'15 Results

Rome, August 7th, 2015

Telecom Italia Group

2Q'15 Results

Marco Patuano
Piergiorgio Peluso



Agenda

TI 2Q'15 Results

- ▶ Marco Patuano

Financial Update

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Take-Aways

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Safe Harbour

This presentation contains 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 estimates regarding future growth in the different business lines and the global business, financial results and other aspects of the activities and situations relating to the Telecom Italia Group. Such forward looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ materially from those projected or implied in the forward looking statements as a result of various factors. Consequently, Telecom Italia makes no representation, whether expressed or implied, as to the conformity of the actual results with those projected in the forward looking statements. Forward-looking information is based on certain key assumptions which we believe to be reasonable as of the date hereof, but forward looking information by its nature involves risks and uncertainties, which are outside our control, and could significantly affect expected results. Analysts and investors are cautioned not to place undue reliance on those forward looking statements, which speak only as of the date of this presentation. Telecom Italia undertakes no obligation to release publicly the results of any revisions to these forward looking statements which may be made to reflect events and circumstances after the date of this presentation, including, without limitation, changes in Telecom Italia business or acquisition strategy or planned capital expenditures or to reflect the occurrence of unanticipated events. Analysts and investors should consult the Company's Annual Report on Form 20-F as well as periodic filings made on Form 6-K, which are on file with the United States Securities and Exchange Commission which may identify factors that affect the forward looking statements included herein.

The accounting policies adopted in the preparation of the Half-Year Condensed Consolidated Financial Statements as of and for the six months ended 30 June 2015 have been applied on a basis consistent with those adopted in the Annual Consolidated Financial Statements at 31 December 2014, to which reference should be made, except for the new standards and interpretations adopted by the Telecom Italia Group starting from 1 January 2015 which had no effects on the Half-Year Condensed Consolidated Financial Statements as of and for the six months ended 30 June 2015. Please note that the limited review on the Telecom Italia Group Half-Year Condensed Consolidated Financial Statements at 30 June 2015 has not yet been completed.



2Q'15 Main Events

Domestic

- ▶ Improving trends both on Domestic Service Revenues (+1.6pp QoQ) & Underlying Ebitda (+2.1pp QoQ)
- ▶ Further recovery in Mobile Service Revenues: -2.5% YoY vs -4.2%YoY in 1Q'15
- ▶ Solid performance in Fixed Service Revenues: -1.9%YoY vs -4.4% YoY in 1Q'15

Brazil

- ▶ Positive performance on Mobile Business Generated (+1.1% YoY), supported by very strong performance in Innovative Mobile VAS (+44% YoY)
- ▶ Negative Service Revenues Trend affected by MTRs, Reduction in Prepaid lines, weak Macro and slowdown in Traditional (-13.9% YoY)
- ▶ Solid postpaid CB growth: +525k lines in 2Q'15

Inwit

- ▶ Successful IPO ~36% of Inwit (*greenshoe* excluded) delivered to TI in 2Q'15 a net total consideration of 784 mln euro
- ▶ Related Group-level Net Worth strengthening of 253 mln euro

Charges & Risk Provisions

- ▶ 369 mln euro posted in our 1H'15 Accounts include charges and risk provisions resulting from:
 - ▶ regulatory disputes and penalties and the liabilities related to those expenses,
 - ▶ disputes with former employees, and
 - ▶ liabilities with customers and/or suppliers

Real Estate Plan

- ▶ Overall savings of > 150 mln euro per annum from 2018
- ▶ Lease renegotiations as of June 30 carry a IAS-17 impact on Debt of 676 mln euro; yearly cost reduced, no impact on liquidity
- ▶ Expected Ebitda contribution on FY'15 from the ongoing Plan is about 50 mln euro

Net Debt

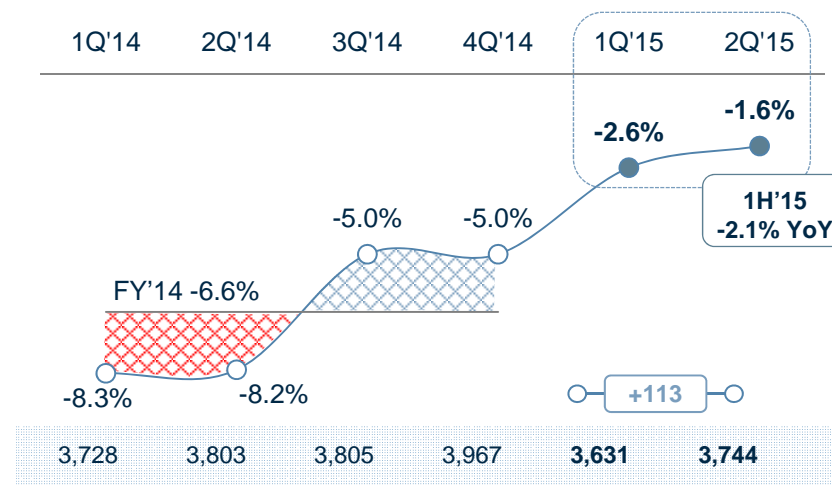
- ▶ Net debt reduction to ~27 bln euro in 2Q'15 vs ~27.4 bln euro in 1Q'15 incorporates:
 - ▶ ~ -0.7 bln euro from operations, M&A and special projects;
 - ▶ ~ +0.1 bln euro for 4G license clean-up costs in Brazil
 - ▶ ~ +0.2 bln euro for dividend payments



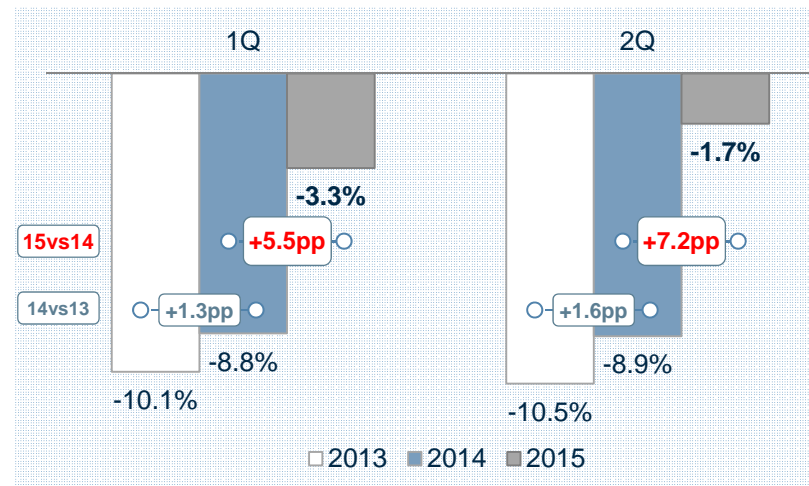
Domestic Revenues are Accelerating their Uptrend

Reported data, € mln, %YoY

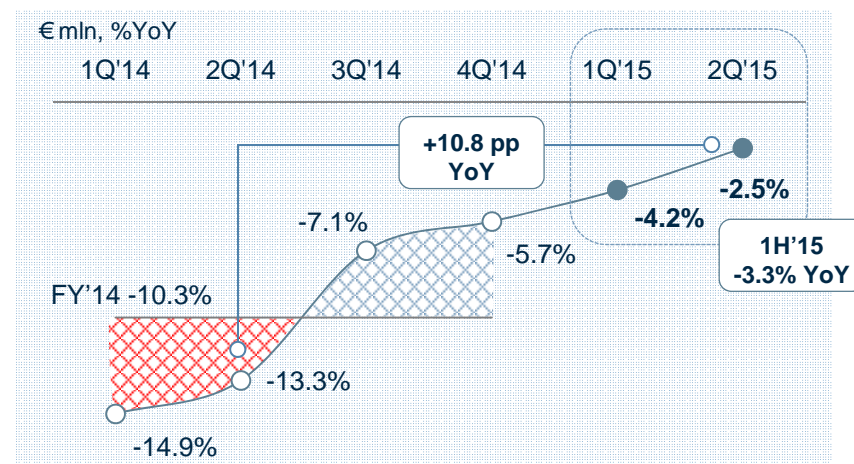
Total Revenues



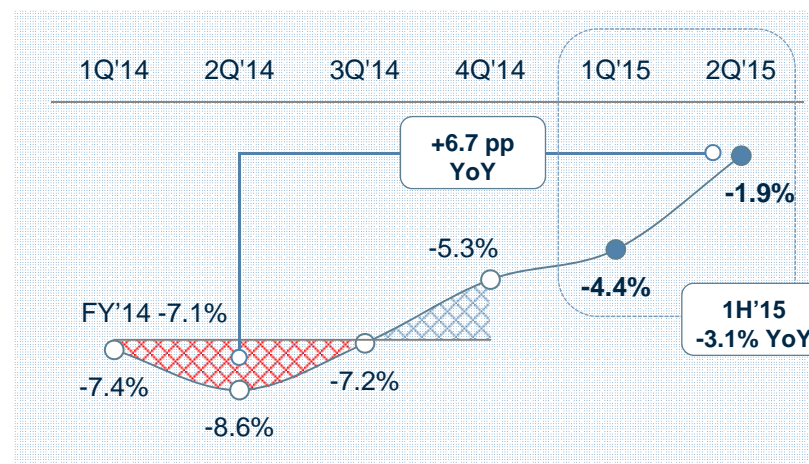
Service Revenues



Mobile Service Revenues



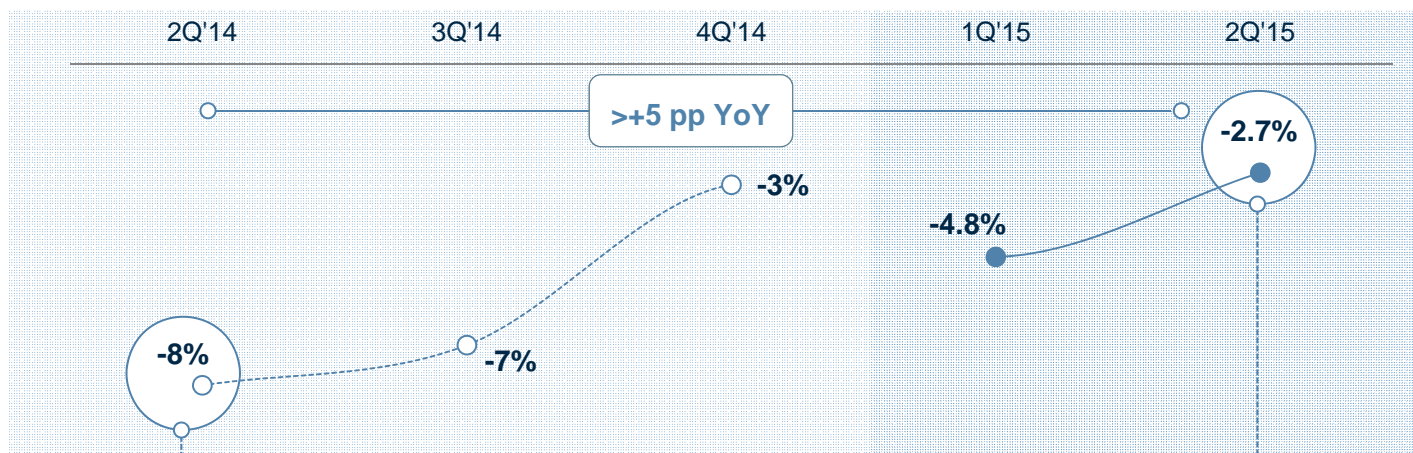
Fixed Service Revenues



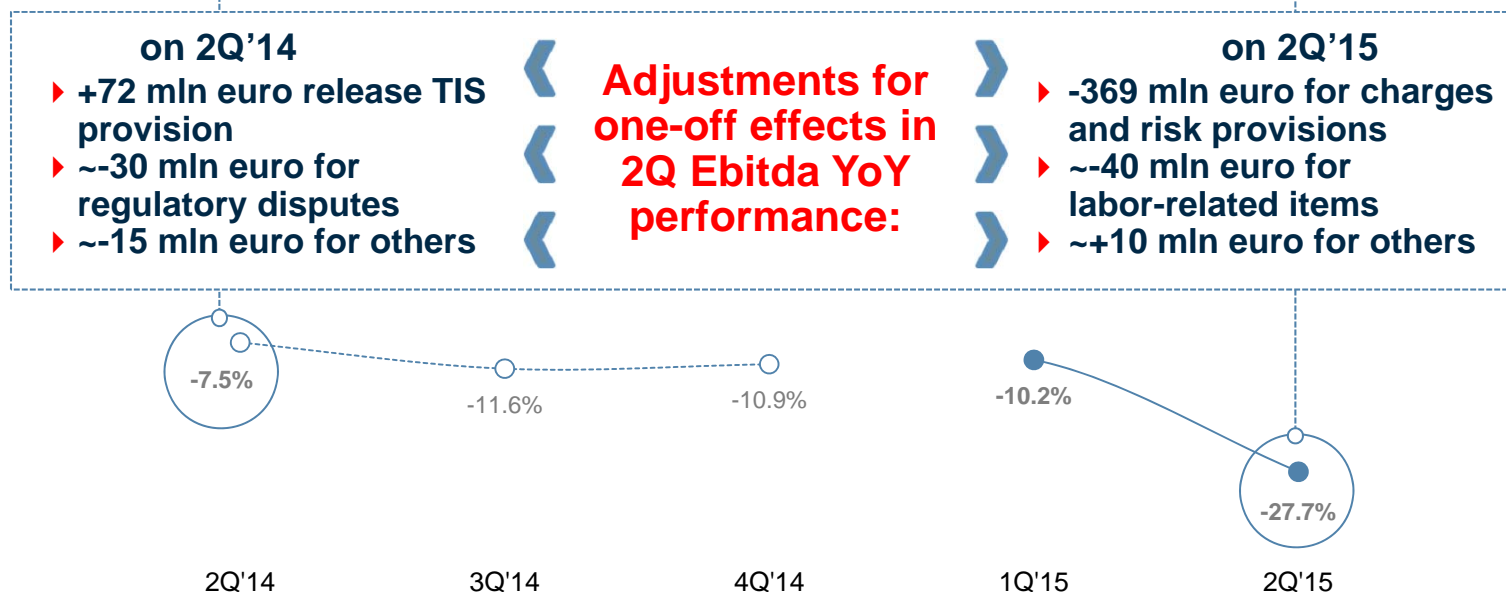
Further Improvement in Underlying Domestic Ebitda

€ mln, %YoY

Underlying
Ebitda

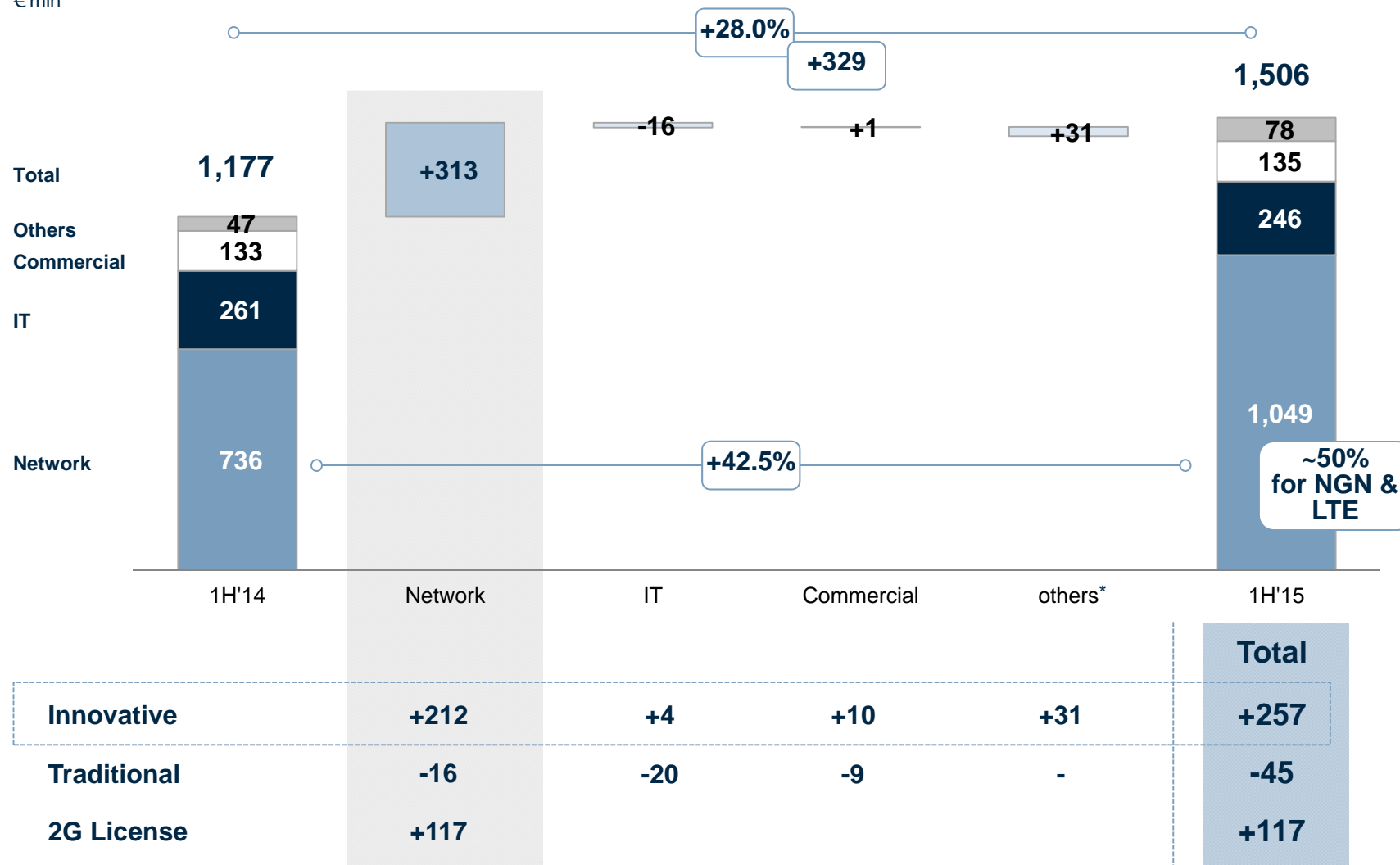


Reported
Ebitda



Domestic Capex: continued growth on Innovative

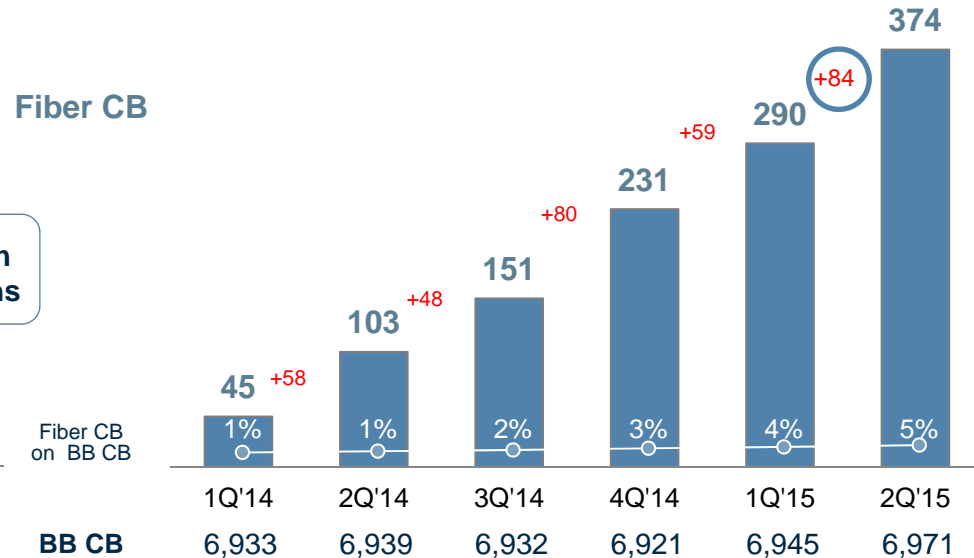
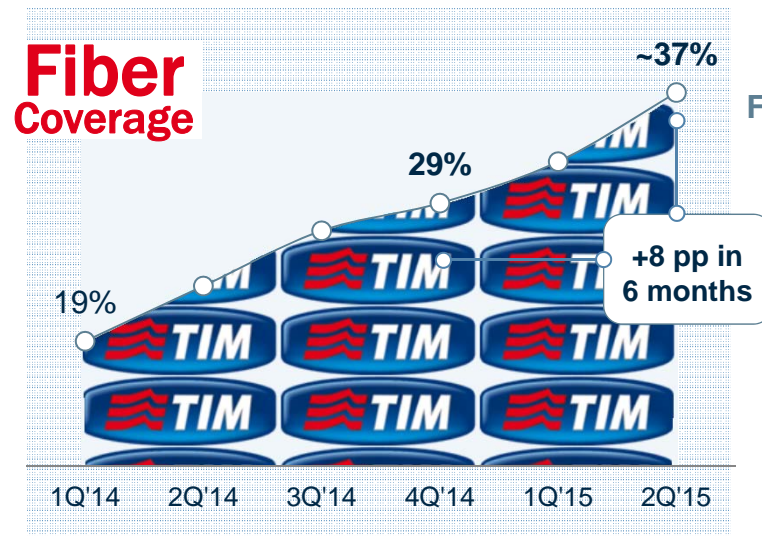
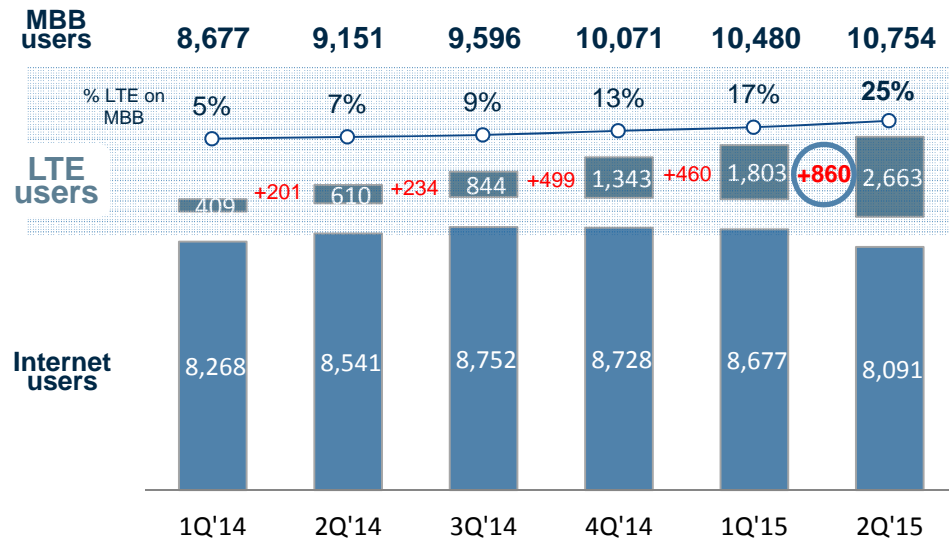
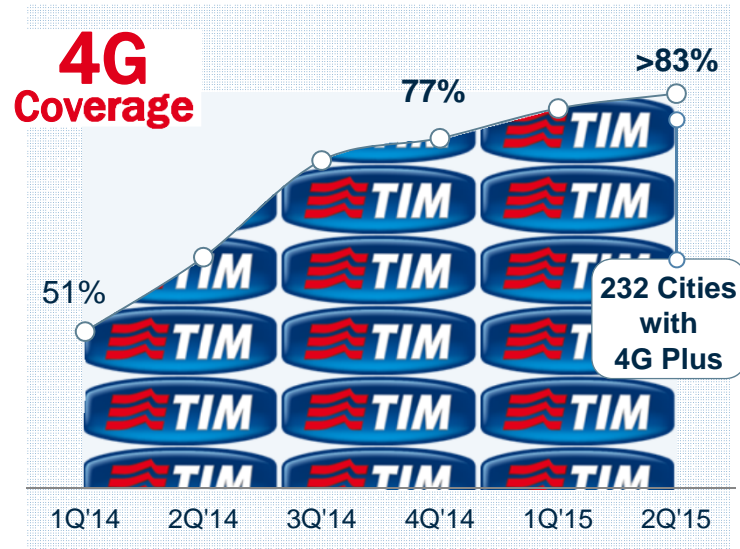
€ mln



* TIS & others



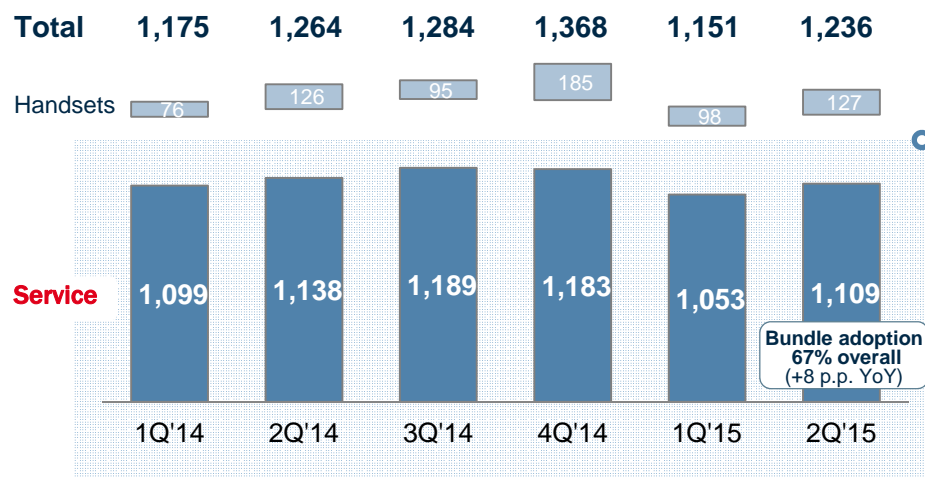
Speeding Up on LTE & NGN



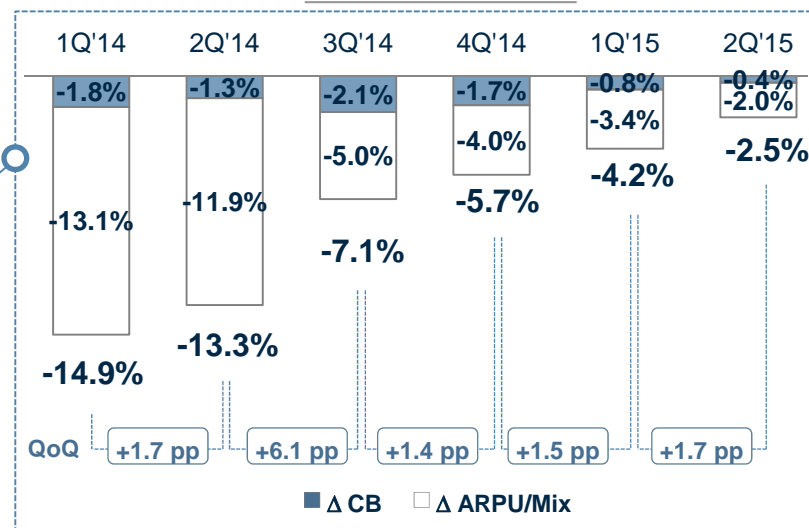
Domestic Mobile

€ mln, %YoY

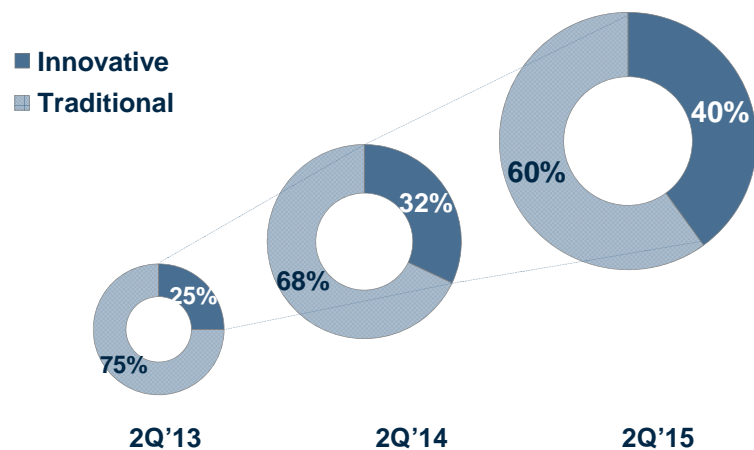
Total Revenues



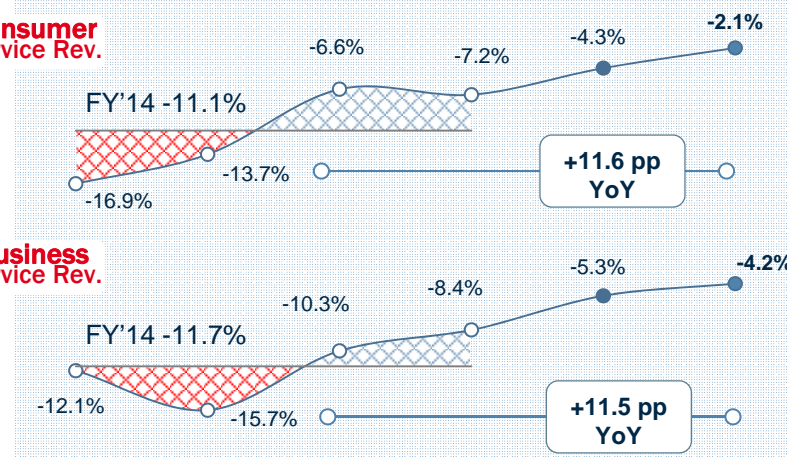
Service Revenues - Trend YoY



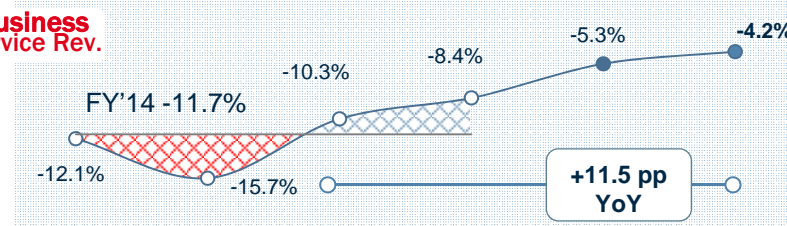
Innovative vs. Traditional



Consumer Service Rev.

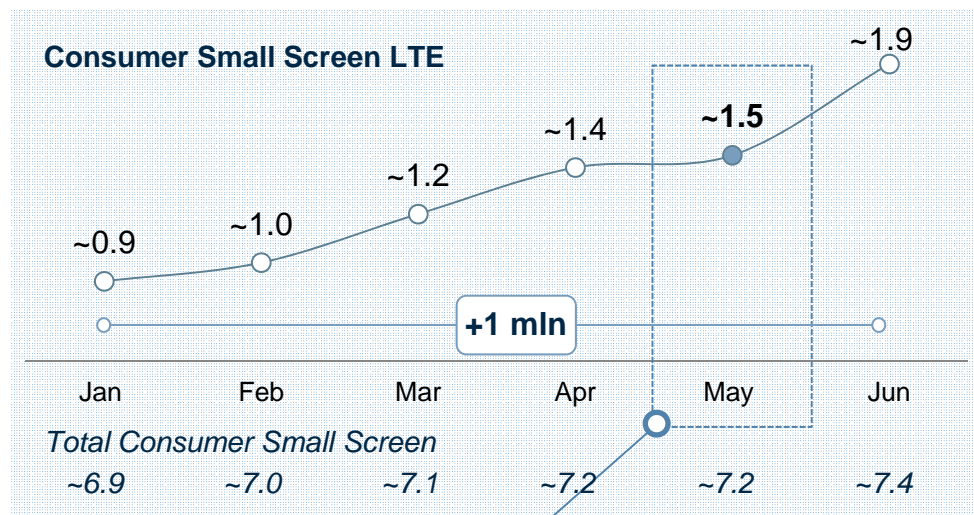


Business Service Rev.



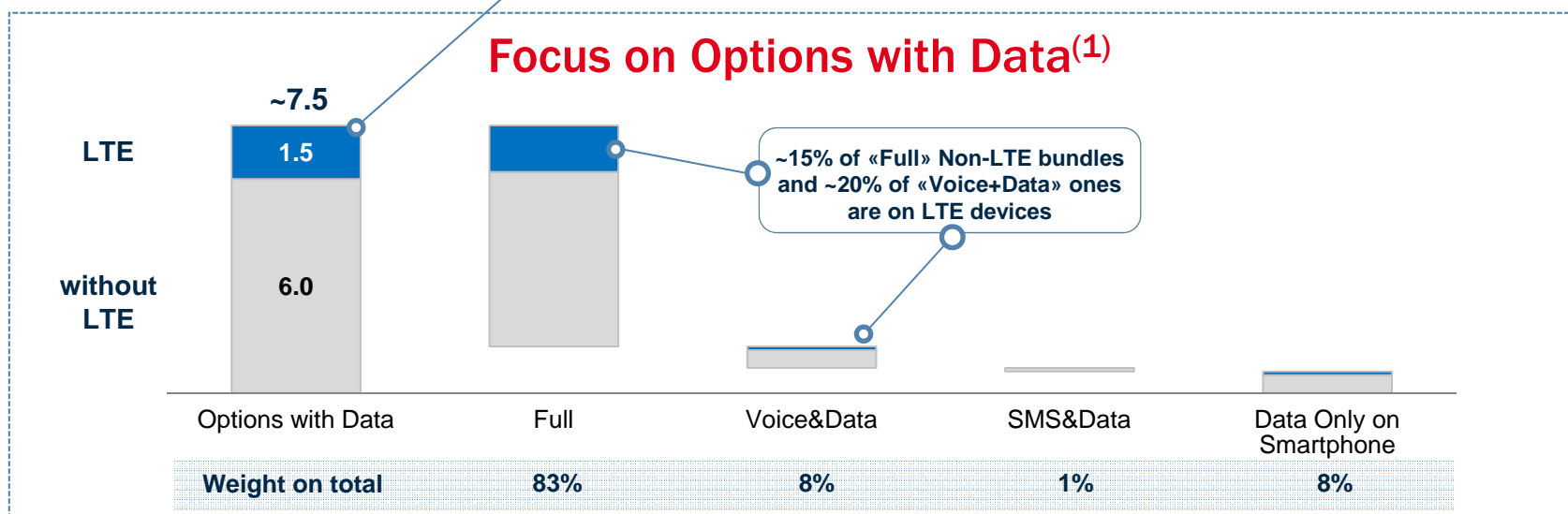
2Q'15 Results
Marco Patuano

Mobile Consumer: Offer Simplification & Evolution



Commercial Strategy

- Innovation through Simplification
- Continuous Offer Evolution
- Maximise reach of LTE on our Customer Base



(1) excluding data only

Domestic Fixed

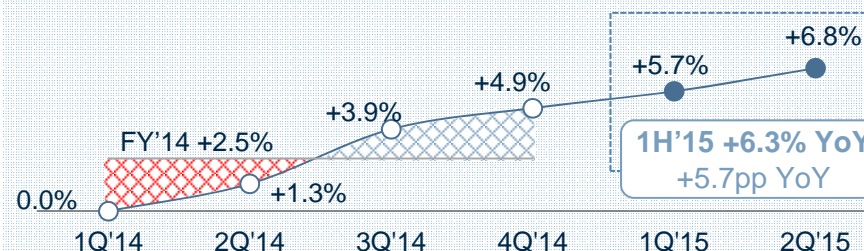
€ mln, %YoY

Fixed Revenues Breakdown

Total	2,737	-1.8%	2,688
Handset	73	+1.4%	74
Fixed Service	2,664	-1.9%	2,614
Sparkle Group	300	+8.3%	325
Domestic Wholesale	586	-6.4%	549
Retail Service	1,805	-2.0%	1,768
Innovative Service	541	+7.8%	583
Traditional Service	1,263	-6.2%	1,185
	-24		-26
	2Q'14		2Q'15

Focus on Broadband

BB Service Revenues

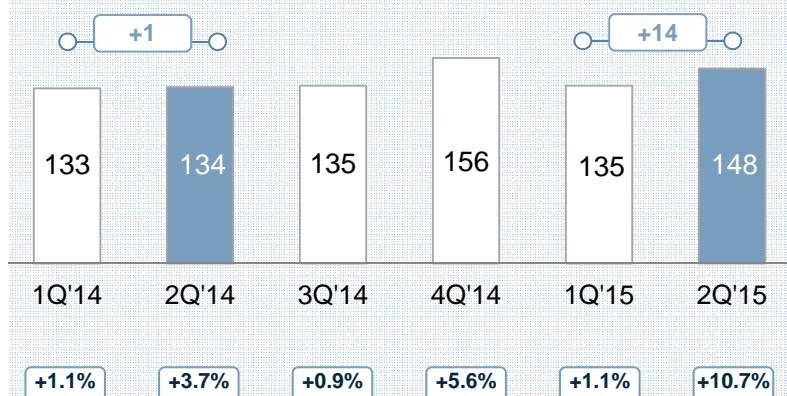


BB ARPU - €/month

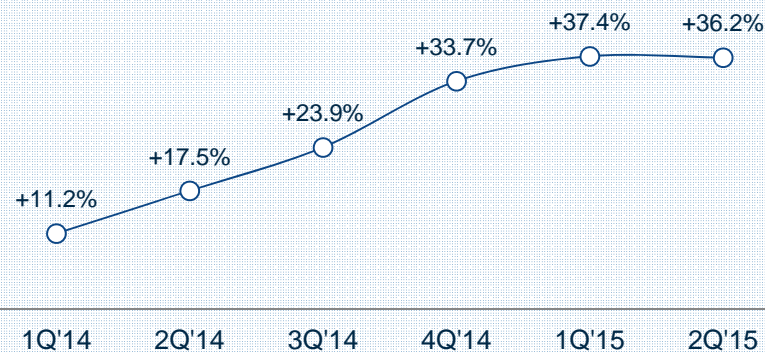
19.2	19.6	20.0	20.2	20.4	20.9
+1.9%	+2.5%	+4.1%	+5.2%	+6.0%	+6.7%

Focus on ICT & Cloud

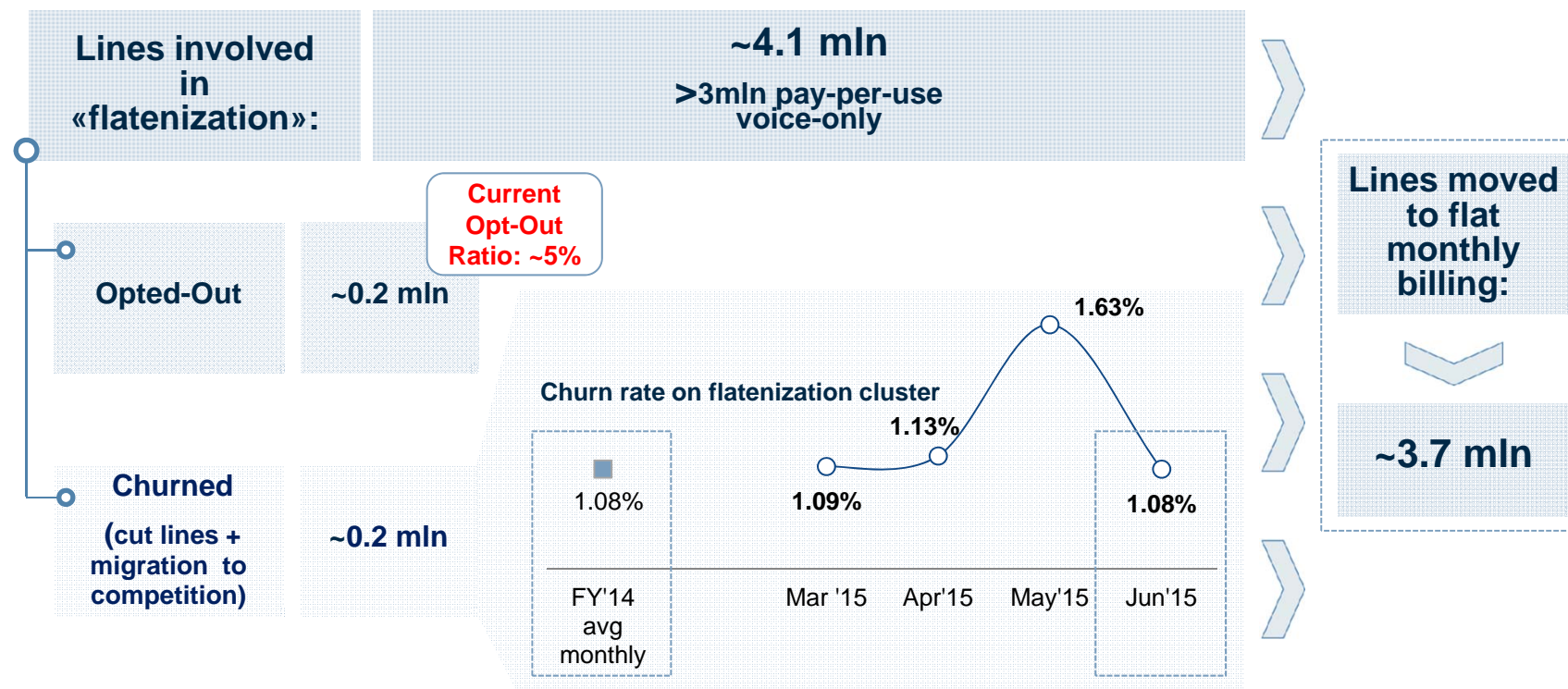
ICT



Cloud Revenues



Consumer Fixed: the “Tutto Voce” Campaign pushes ahead



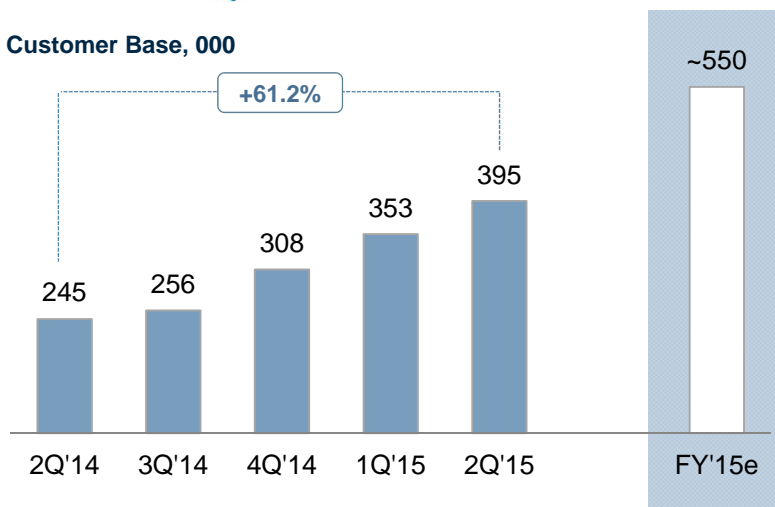
After peaking in May on the back of Media and Competitors increased intensity, churn of cluster targeted by “Tutto Voce” is back at 2014 levels

Overall net fixed line losses expected to start reducing from 4Q'15, including structural winback effect from Mobile-Only and continued good performance in Fixed Gross Adds (~+20% YoY in 2Q'15)

Pay-TV Gains Momentum



Customer Base, 000

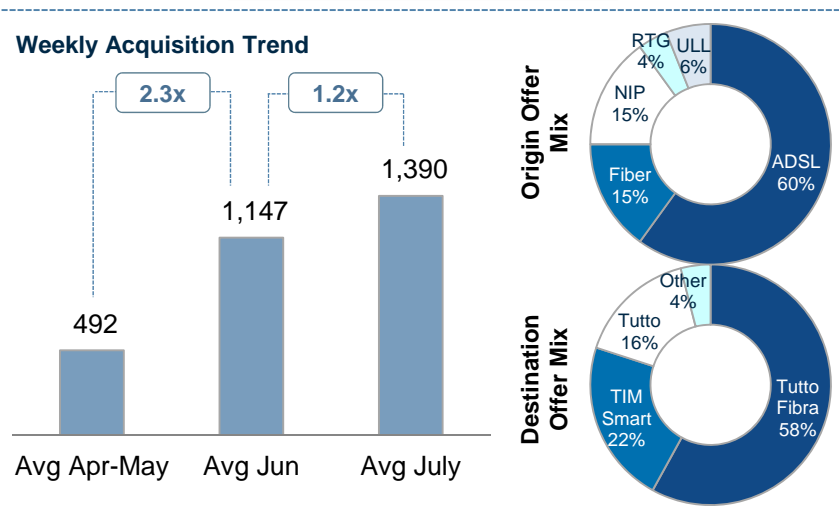


- ▶ Netflix service integrated into Tim Vision Set-top-box
- ▶ 3 year agreement – no exclusivity
- ▶ Revenues share model
- ▶ Billing available in TIM invoice

Launch in October



Weekly Acquisition Trend



- ▶ Partnership with Mediaset Premium (DTT) and Mediaset Premium Online (BB)
- ▶ 3 year agreement – exclusivity in the telco arena
- ▶ Mediaset Premium Online integrated into Tim Vision Set-top-box
- ▶ Billing Integration - exclusive pricing for TIM

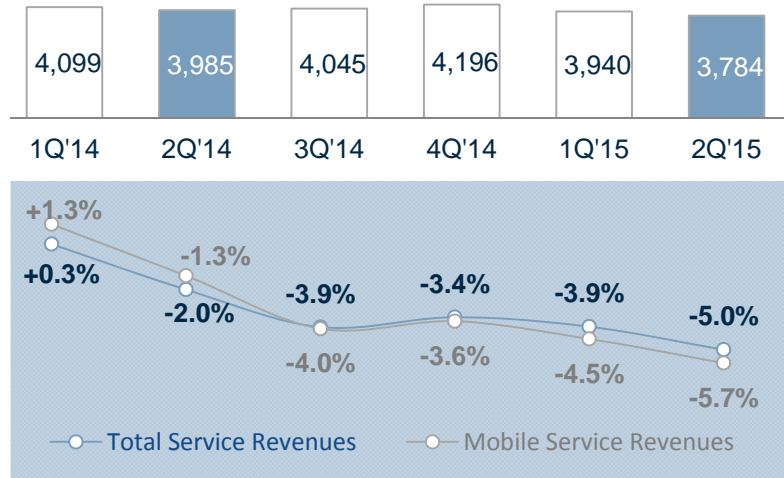
Launch in September



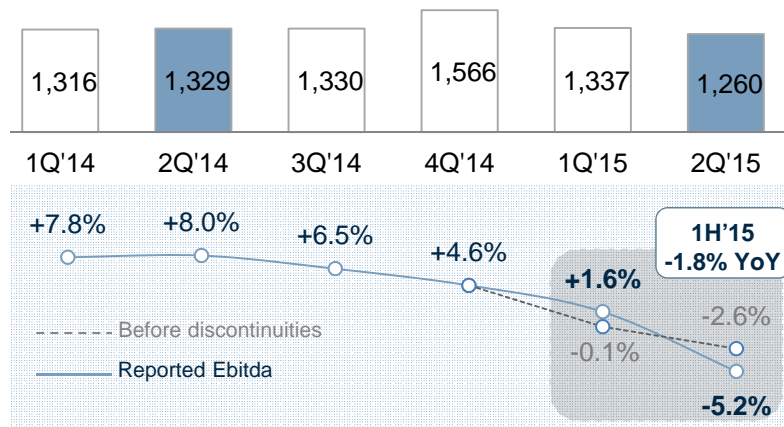
TIM Brasil: More Data & Postpaid fight erosion on Traditional

Reported data, R\$ mln, %YoY

Total Service Revenues

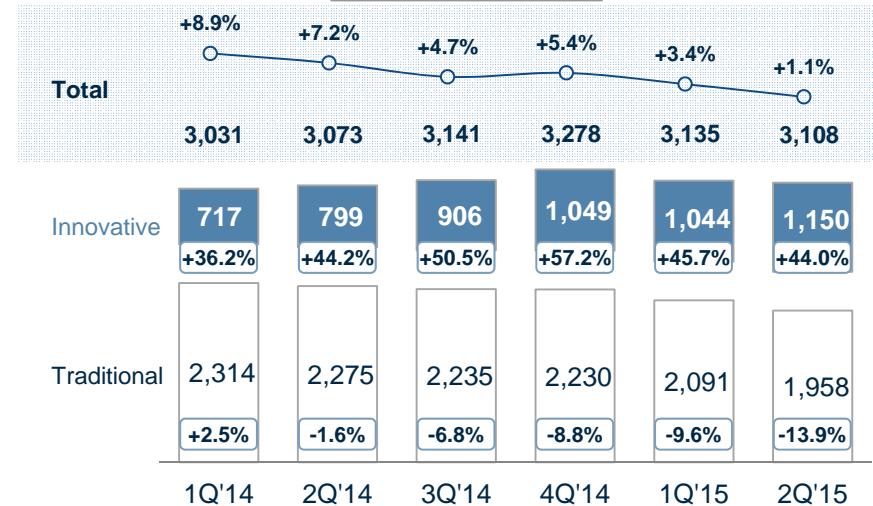


EBITDA



(1) Excluding revenues from: non-TIM clients, wholesale and others

Focus on Mobile Generated⁽¹⁾ Service



Highlights

- ▶ **Resilient Performance despite Challenges & Headwinds:** Macro, MTR cut (-33% YoY in 1H) and OTT driving Traditional Services decline
- ▶ Outstanding pace on **Innovative Service Revenues growth: +44% YoY** in 2Q
- ▶ **Strong Postpaid performance: CB +11% YoY** with 525K net adds in 2Q
- ▶ **Fixed Revenues growth** (+14% YoY in 2Q) thanks to Intelig's business repositioning and positive Fiber Live contribution
- ▶ **EBITDA margin progression** (29.2% in 1H, +1.3pp YoY) supported by cost cutting initiatives
- ▶ **Network investments (capex +27% YoY in 1H) driving better quality** to support a solid position in data: 157 cities now covered with MBB project. 4G investments: 112% YoY growth in 2Q'15



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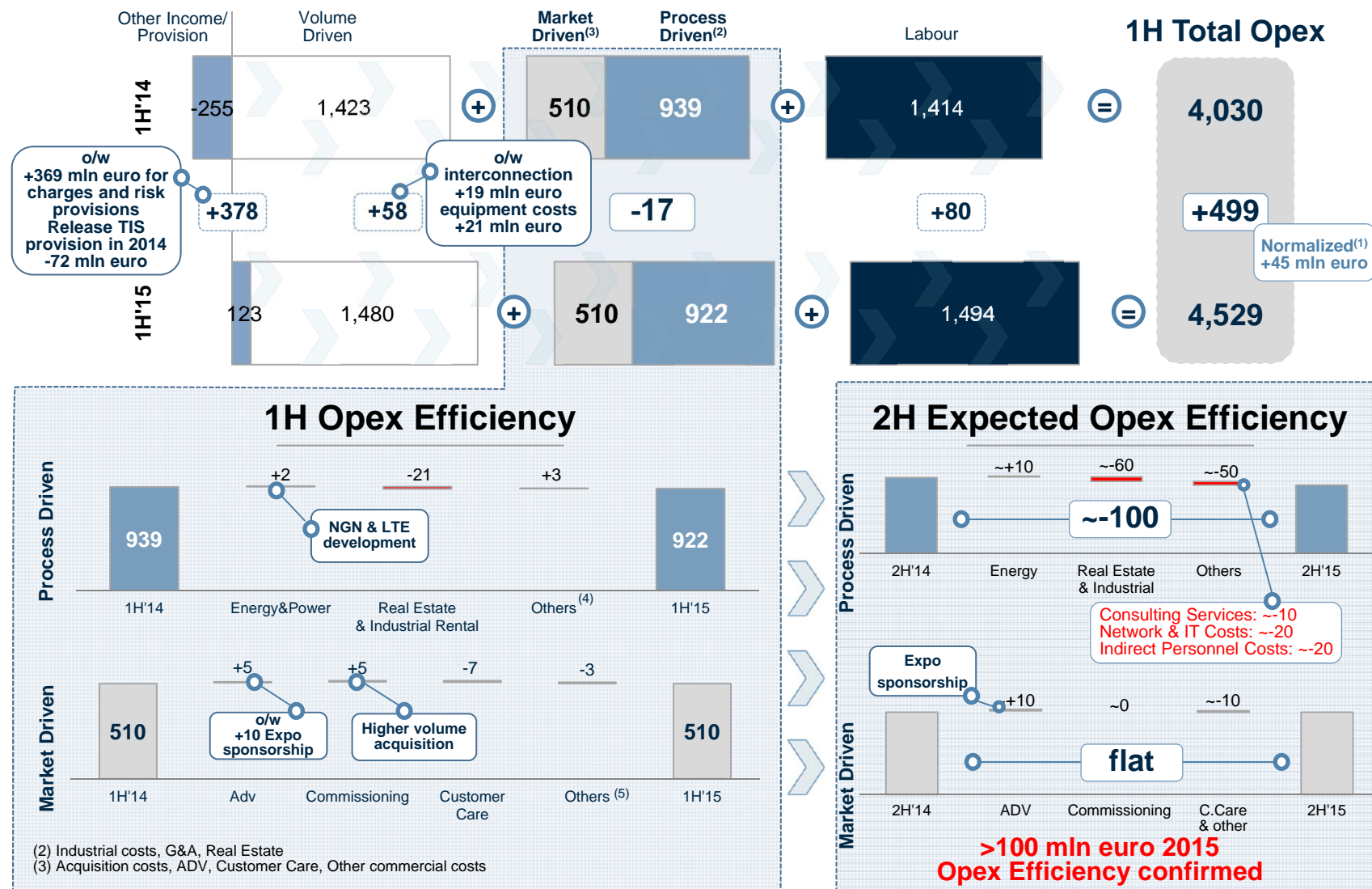
Take-Aways

▶ Marco Patuano

Appendix



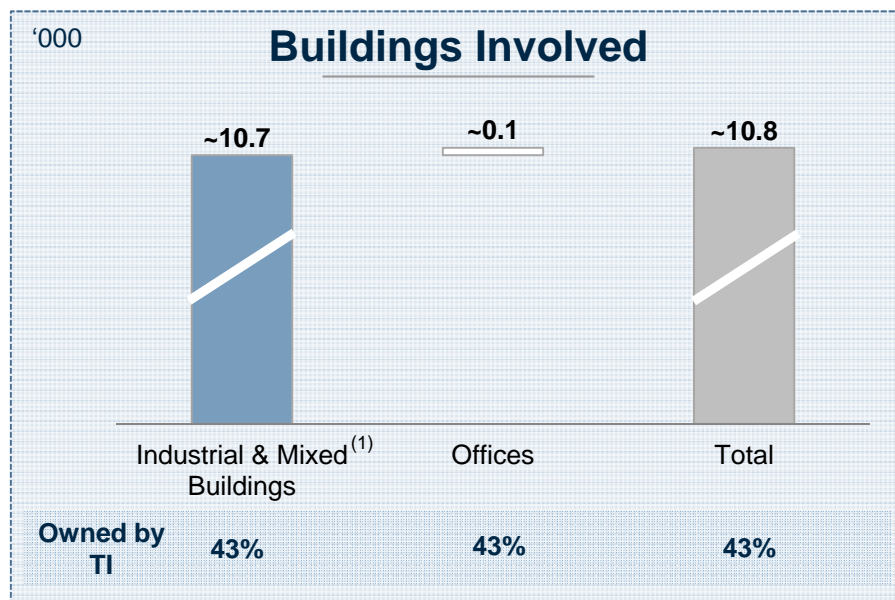
Focus on Domestic Opex



(1) Normalized for:
 - in 2015, +369 mln euro for charges and risk provisions & +24 mln euro for employee reduction plan & others;
 - in 2014, -72 mln euro for release TIS provision +9 mln euro for others
 (4) Included Legal Services & other G&A costs; (5) included National Wholesale Penalty

2Q'15 Results
 Piergiorgio Peluso

Real Estate Plan



Goals

- ▶ Optimize the number of real estate assets being used as offices or for mixed use in 10 major cities
- ▶ Improve efficiency in the use of space and implement refurbishments
- ▶ Plan to apply technological and architectural evolution of the access network (fiber, migration to IP, technology miniaturization) to all mixed-use and industrial real estate assets in order to prepare a roadmap for their use in the medium and long term
- ▶ Lease contracts renegotiations have already started in size to reduce yearly cost against the extension of the agreements

Economic Impacts of the “10-Cities Project”

	1H'15		FY'15		FY'16		FY'18/'19 onwards
Cash Savings	-		~50 mln euro		~80 mln euro		>150 mln euro
Impact on Net Debt	~0.7 Bln euro	+0.7	~1.4 Bln euro	+0.4	~1.8 Bln euro	+0.2	~2.0 Bln euro
Pre tax net Results⁽²⁾⁽³⁾							~80 mln euro

(1) office & Industrial Building

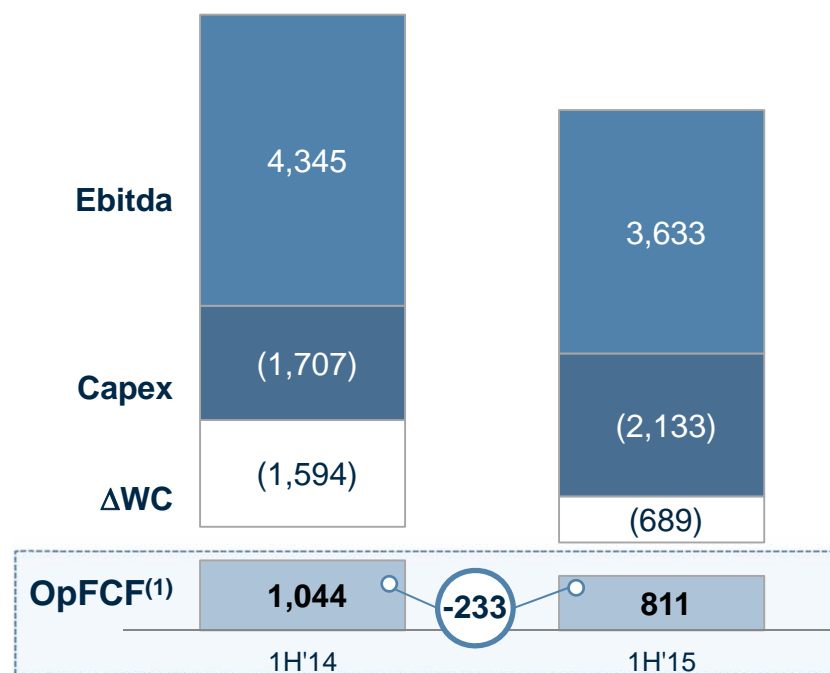
(2) Including financial charges and D&A

(3) in compliance with IAS17



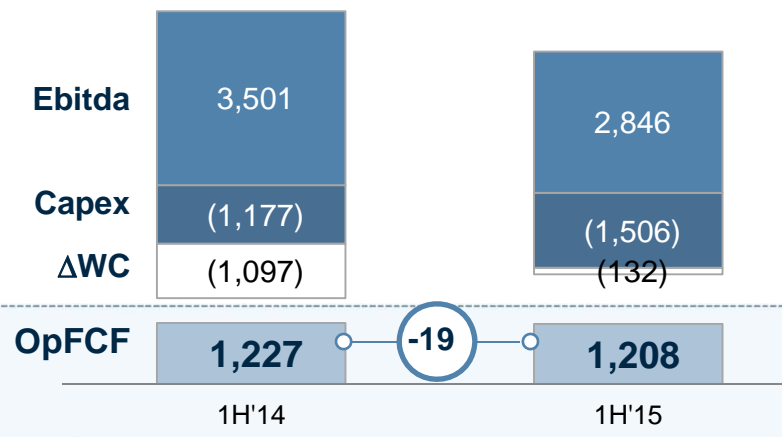
OpFCF Evolution

Group OpFCF⁽¹⁾

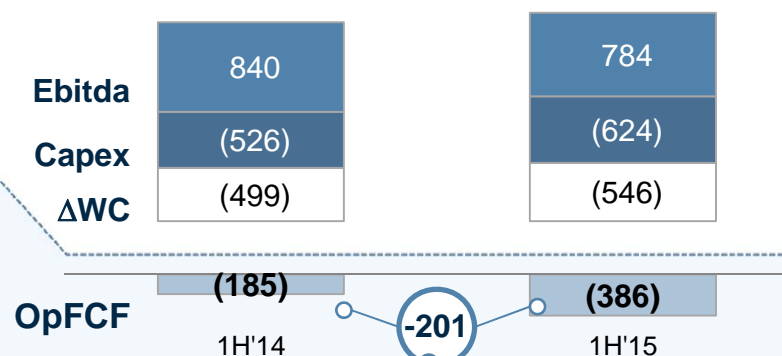


1H OpFCF Breakdown by Business Units

Domestic OpFCF



Brazil OpFCF⁽¹⁾



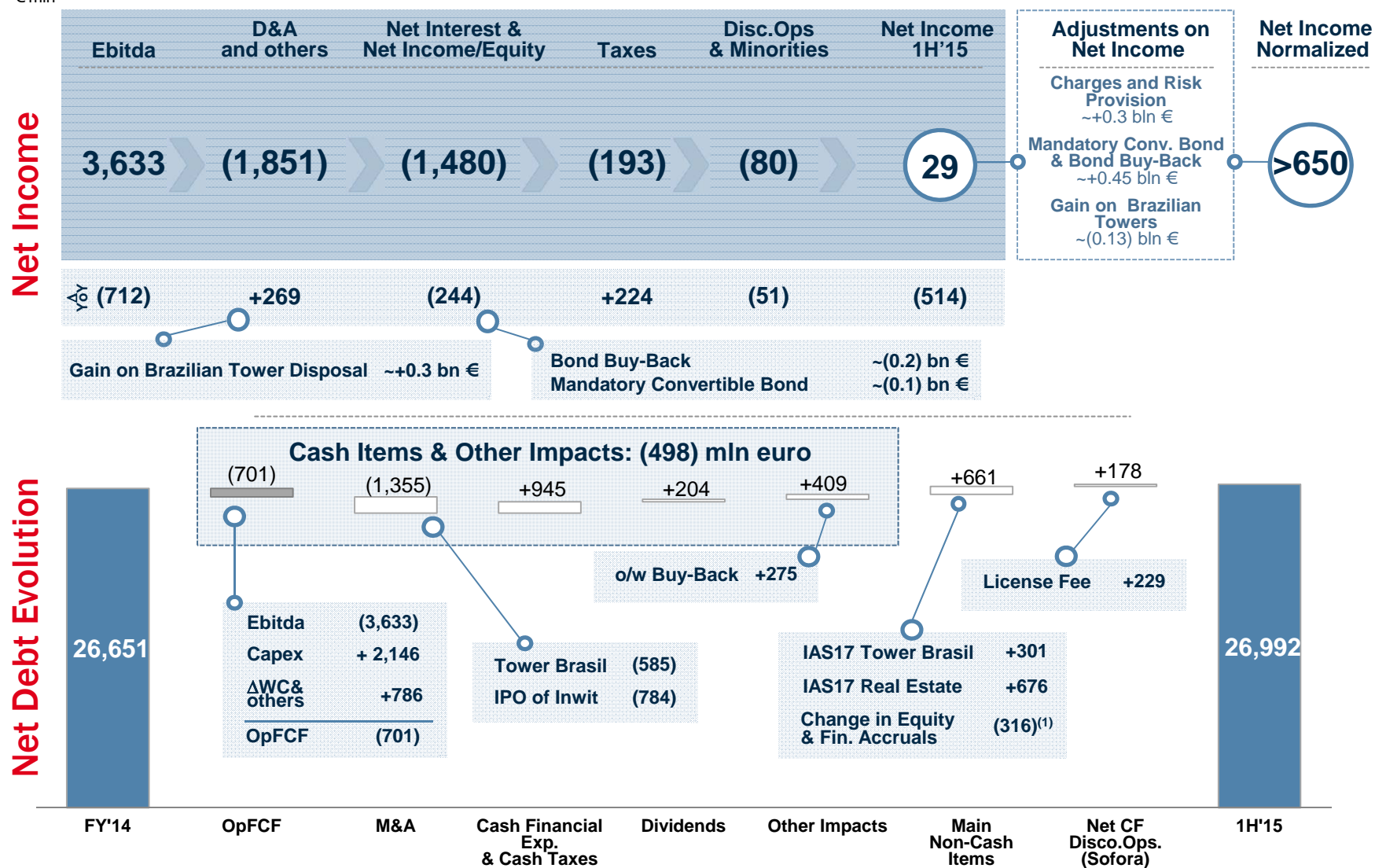
(1) Normalized for Brazilian clean-up costs/700 Mhz excluded Impact on 1H'15:
-110 mln euro of which -13 mln on Capex and -97 mln euro on ΔWC

o/w
--60 Leasing LT Amazonas impacted on 2Q'14
--100 for accelerated Capex 1Q'15 vs 1Q'14



1H'15 Net Income & Net Debt Evolution

€ mln



IPO

- ▶ Free float (incl. greenshoe): **40% minority stake** (240 mln shares)
- ▶ Listed on the **Milan Stock Exchange market**
- ▶ IPO Pricing: **3.65 € per share**
- ▶ Market Demand totaled **~2bln shares**
- ▶ Net proceeds: **858 mln €**
 - ▶ Cash in 2Q'15: **784 mln €**
 - ▶ Cash-in 3Q'15 (greenshoe): **74 mln €**



Shareholder Composition



■ Telecom Italia ■ Retail ■ Institutional

Assets

The largest independent operator of wireless network infrastructure in Italy, resulting from the carve out of TI entire Tower Business.

About **11.5k towers, with superior asset quality due to presence in top locations**

~18,300 tenants (ca. 1.59x tenancy ratio)

Long term options on:

- Technological network evolution
- M&A opportunities
- Tower market consolidation

2Q'15 Results

▶ Revenues:	79.0 mln €
▶ EBITDA:	34.9 mln €
▶ Net Income:	21.3 mln €
▶ New Tenants:	508 tenants
▶ Decommissioned Sites	40 sites
▶ Renegotiated Sites	1,056 sites



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Take-Aways

Results

- › **Italy:** Beyond quarterly performance, operational improvements are fully in line with our expectations. In-market consolidation speaks for more rationality.
- › **Brazil:** Difficult 2Q'15, but path is set to pursue new value generation from our current 50% MBB Coverage of Urban Population.

Investments

- › **Italy:** Fiber development remains a priority. About half of the households to be covered by YE'15.
- › **Brazil:** Significant 4G buildout on-track to drive further data penetration.

Future Outlook

- › **Italian Market Context:** Working for regulatory peace.
- › **Plan Targets Confirmed:** Y-o-Y 2016 Ebitda stabilization in Italy, back to Revenues and Ebitda growth in Brazil.



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Appendix



Domestic Mobile Breakdown

€ mln, QoQ

Quarterly Mobile Revenues Breakdown

	2Q'15	2Q'14	YoY
Total	1,236	1,264	-2.2%
Service	1,109	1,138	-2.5%
Handsets	127	126	+0.1%
Traditional Service	622	726	-14.3%
o/w Outgoing	455	531	-14.3%
o/w Incoming	62	56	+9.9%
o/w Messaging	106	139	-24.0%
Innovative Service	416	342	+21.8%
o/w Browsing	339	281	+20.7%
o/w Internet Content	77	61	+27.3%
Wholesale Service	71	69	+2.1%

Service Revenues Trend YoY



Domestic Fixed Breakdown

€ mln, QoQ

Quarterly Fixed Revenues Breakdown

	2Q'15	2Q'14	YoY
Total	2,688	2,737	-1.8%
Service	2,614	2,664	-1.9%
Equipment	74	73	+1.4%
Traditional Service	1,185	1,263	-6.2%
o/w Voice	1,015	1,093	-7.1%
o/w Business Data & other	170	171	-0.5%
Innovative Service	583	541	+7.8%
o/w Broadband	430	403	+6.8%
o/w Content	5	5	+4.8%
o/w ICT Service	148	134	+10.7%
Domestic Wholesale	549	586	-6.4%
TIS Group	325	300	+8.3%
Subs., Adj. & others	-28	-27	-3.3%

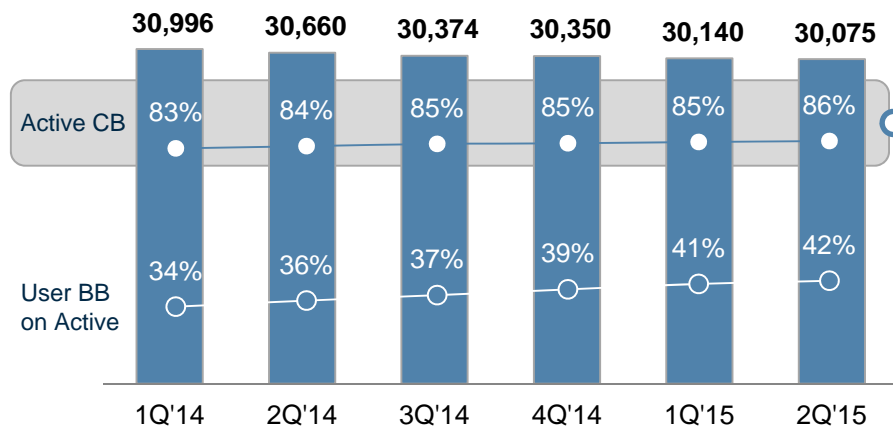
Service Revenues Trend YoY



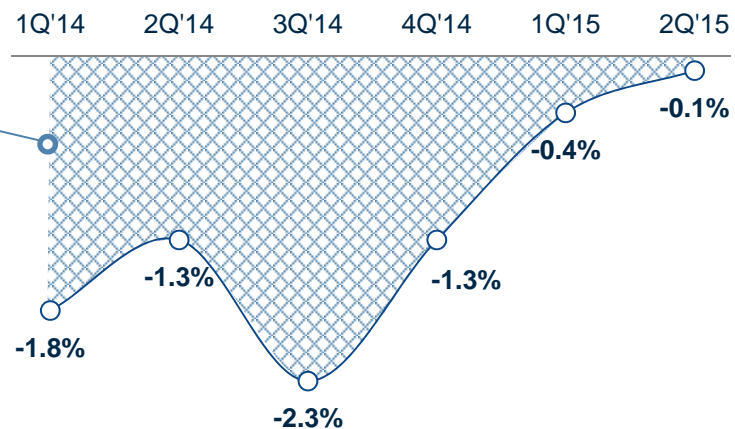
Domestic Mobile KPIs

'000

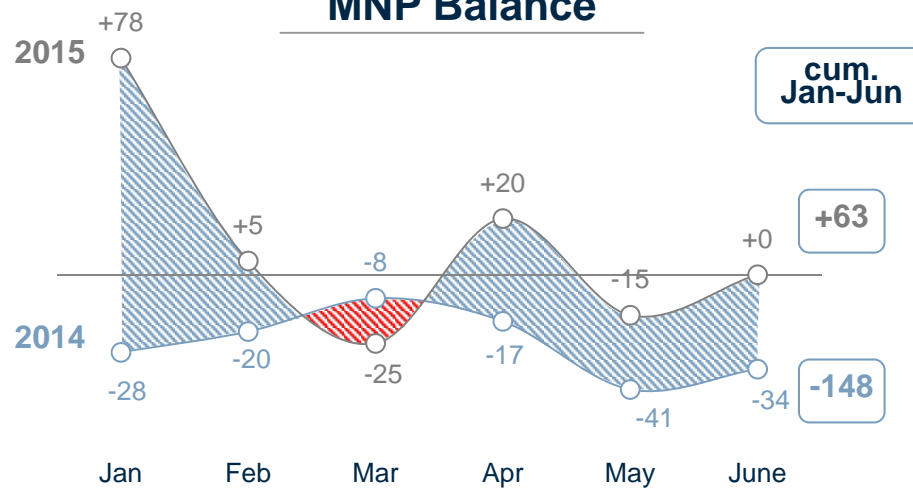
Mobile CB



Active CB - YoY Trend



MNP Balance



Highlights

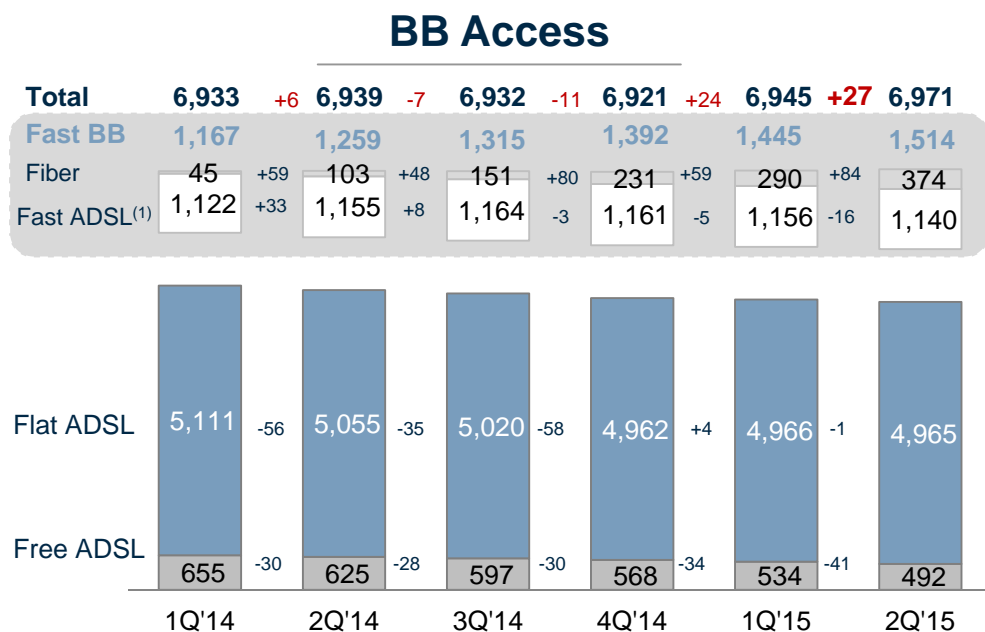
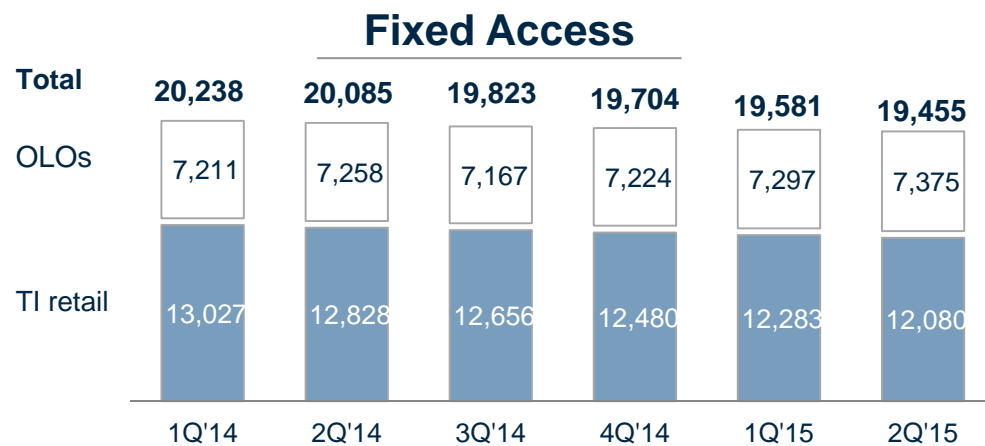
Constant KPIs improvement:

- ▶ **Better MNP Balance vs. 2014**
→ +63k in 1H'15 vs. -148k in 1H'14
- ▶ **Constant increase in Active CB on Total CB**
→ 86%, +2pp vs. 2Q'14
- ▶ **YoY gap on Active CB narrowed**
→ -0.1% YoY

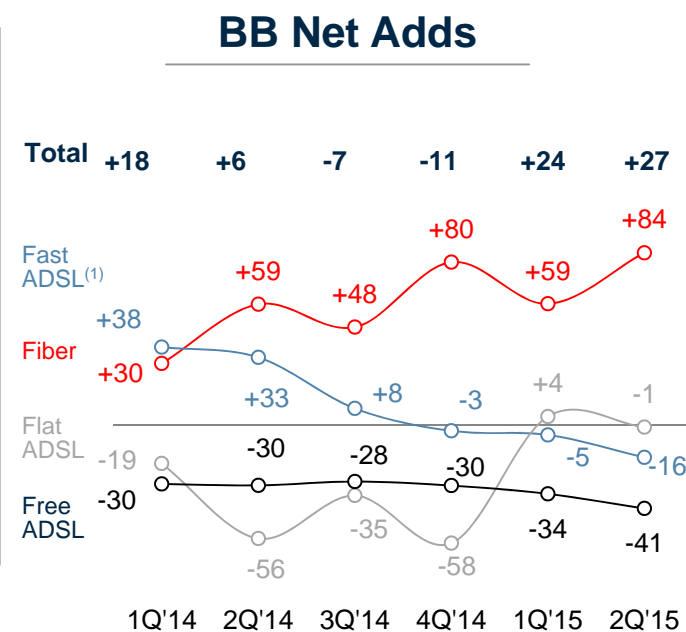
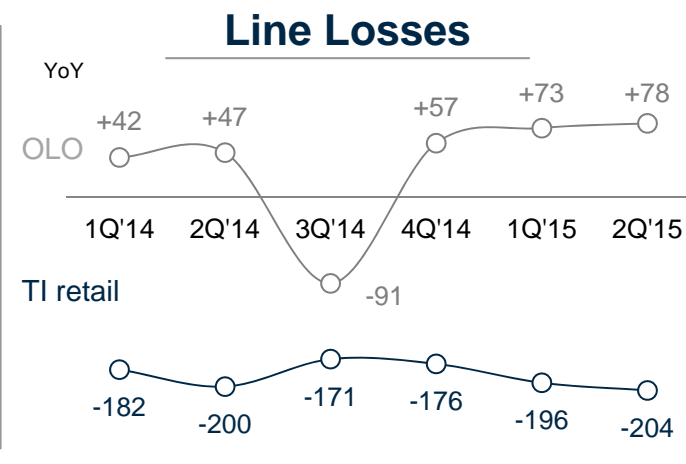


Domestic Fixed KPIs

'000



(1) SuperInternet & 20 Mega



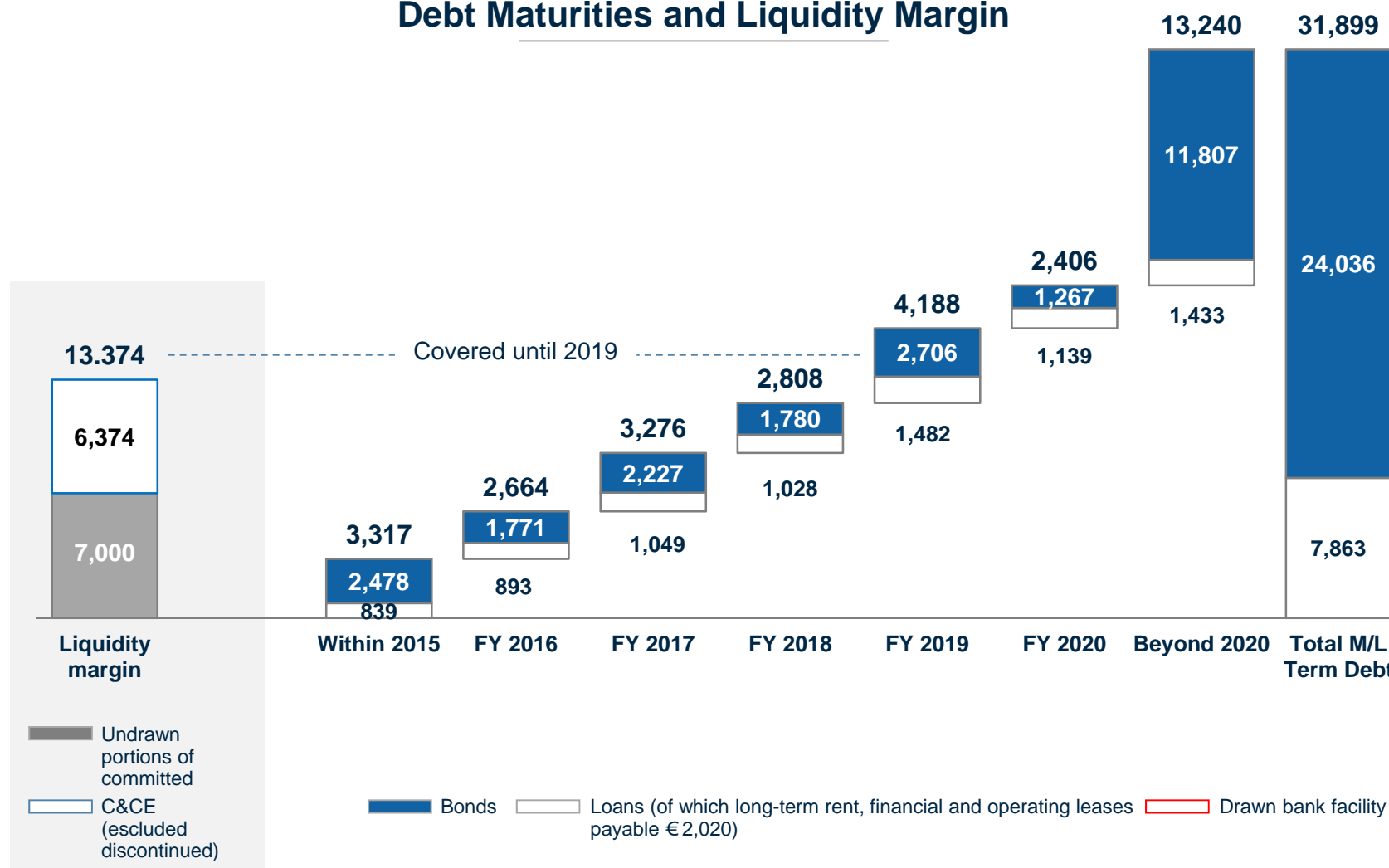
Adjustments on Domestic Ebitda

	2014			2015			Δ % YoY		
	IQ	IIQ	I Half	IQ	IIQ	I Half	IQ	IIQ	IH
EBITDA Reported	1,792	1,709	3,501	1,610	1,236	2,846	-10.2%	-27.7%	-18.7%
Exchange Rate Fluctuation	(5)	(5)	(10)	-	(393)	(393)			
Non Recurring Items	-	71	71	-	(393)	(393)			
Release TIS provisioning		72	72		-	-			
Employee reduction plan		-	-		(24)	(24)			
Charges and Provisions for risks		(1)	(1)		(369)	(369)			
EBITDA Organic net non recurring items	1,797	1,643	3,440	1,610	1,629	3,239	-10.4%	-0.9%	-5.8%
Discontinuities	60	(41)	19	(45)	(9)	(54)			
Labour cost discontinuities	21	-	21	(23)	(18)	(41)			
Other discontinuities	39	(41)	(2)	(22)	9	(13)			
EBITDA Underlying	1,737	1,684	3,421	1,655	1,638	3,293	-4.8%	-2.7%	-3.8%

Record-rate Refinancing Continues

€ mln

Debt Maturities and Liquidity Margin

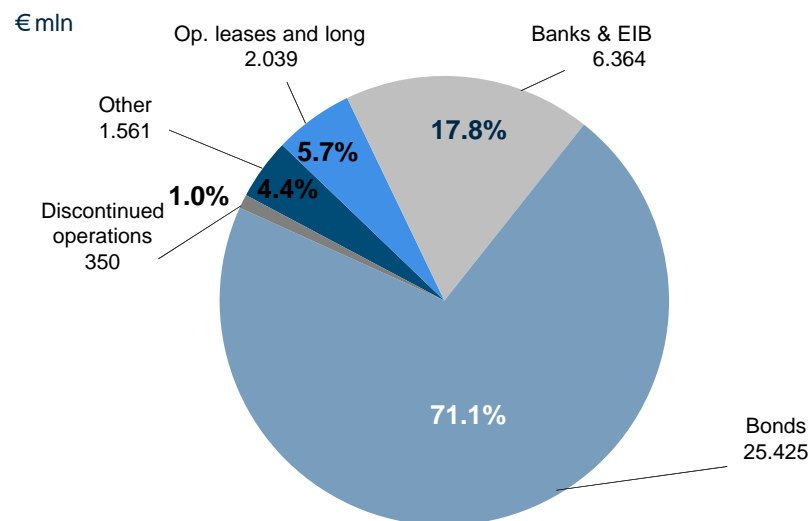


(1) € 31,899 mln is the nominal amount of outstanding medium-long term debt. By adding Mandatory Convertible Bond (€ 1,300 mln), discontinued operations (€ 350 mln), IAS adjustments (€ 1,388 mln) and current financial liabilities (€ 768 mln), the gross debt figure of € 35,705 mln is reached.



Well-Diversified and Hedged Debt

**Total Gross Debt net of Adjustment:
Euro 35,739 mln**



Gross debt	35,739
(of which €350 mln discontinued operations)	
Financial assets	(8,453)
of which Cash & CE and marketable securities	(6,374)
Cash & Cash Equivalent	(4,752)
Marketable securities	(1,622)
Government Securities	(979)
Other	(643)
Discontinued operations	(294)
Net Financial Position	26,992

N.B. The figures are net of the adjustment due to the fair value measurement of derivatives and related financial liabilities/assets, as follows:

- the impact on Gross Financial Debt is equal to 2,433 €/mln (of which 419 €/mln on bonds)
- the impact on Financial Assets is equal to 1,067 €/mln.

Therefore, the Net Financial Indebtedness is adjusted by 1.366 €/mln.

N.B. The difference between total financial assets (€8,453 mln) and C&CE and marketable securities (€6,374 mln) is equal to €2,079 mln and refers to positive MTM derivatives (accrued interests and exchange rate) for €1,895 mln, financial receivables for lease for €129 mln and other credits for €55 mln.

Maturities and Risk Management

- ▶ Average m/l term maturity: **7.31 years** (bond only 7.78 years)
- ▶ Fixed-rate portion on gross debt approximately **72.1%**
- ▶ Around **43%** of outstanding bonds (nominal amount) is denominated in USD, GBP and YEN and is fully hedged



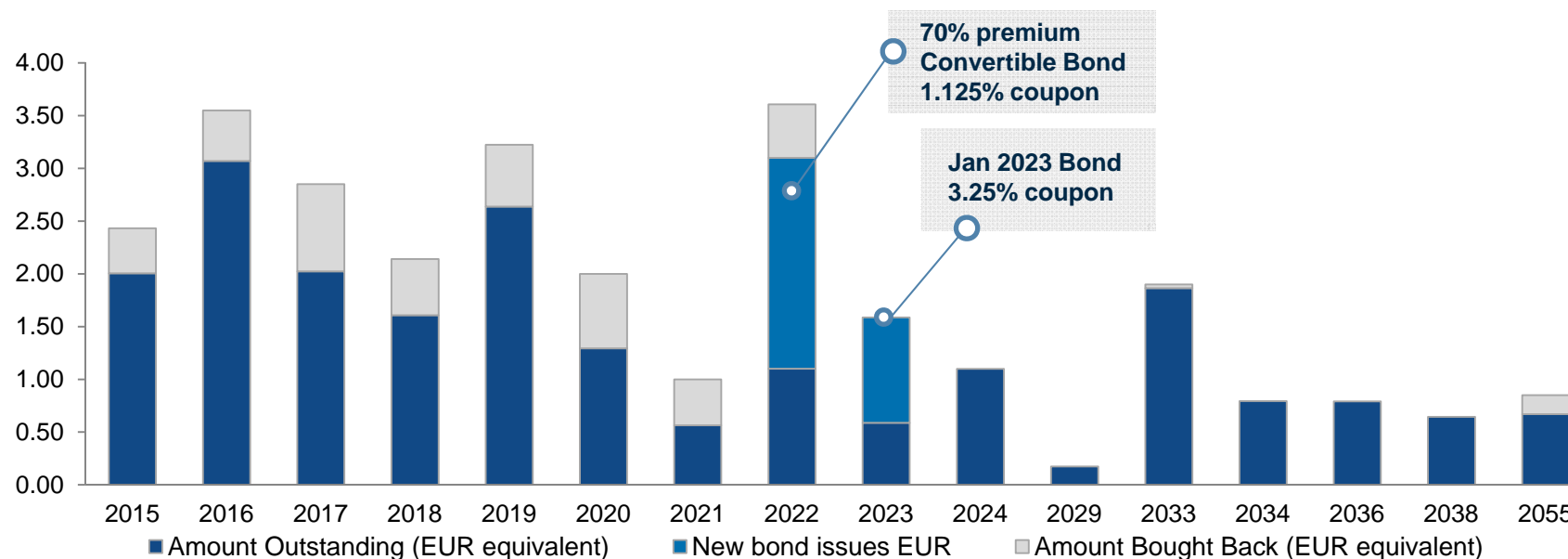
Cost of debt:
~ **5.3%**



Building Up Large Savings from our Multi-Currency Liability Management

€ Bln

Average all-in yield* on liquidity deployed >2%



2015 YTD Results from our 2015 Group Capital Markets Activity

Benefitting from January and March **record-low coupon bond funding**, worth in aggregate **E3bn**, TI successfully executed to-date **3 bond buybacks targeting EUR and USD notes worth in total €3.8 Bln**, considerably improving the yield of its liquidity.

YTD 2015 Buybacks will deliver more than €350 mln pre-tax coupon savings until 2022 net of 2015 negative impact

* including above-par buyback price effect and derivatives unwind impact

