

TELECOM ITALIA TIM GROUP

1Q'16 Results

Rome, 16 May 2016

1Q'16 Results and Path to Upside

Giuseppe Recchi - Flavio Cattaneo - Piergiorgio Peluso



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, estimates regarding future growth in the different business lines and the global business, financial results and other aspects of the activities and situation 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.

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The financial and operating data, with the exception of some data, have been extracted or derived from the Condensed Consolidated Financial Statements as of and for the three months ended 31 March 2016 which have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and endorsed by the European Union (designated as IFRS). Such interim financial statements are unaudited.

Within the Brazil Business Unit, TIM Brasil's Management recently identified that incorrect accounting entries were made in prior years in connection with the recognition of service revenue from the sale of prepaid traffic. Such incorrect accounting entries, resulted in the early recognition of revenues and consequently the underestimation of deferred revenue liabilities for prepaid traffic not yet consumed. The incorrect accounting entries did not have any impact either in terms of net financial position nor on cash and cash equivalents.

In light of the above, the comparative financial information as of 31 December 2015 and for the three-month period ended 31 March 2015 have been revised, segment information included. Furthermore, such revision did not have any material impact on the income statement of the three-month period ended 31 March 2015 (both at Group and at Brazil Business Unit levels).

Segment information is consistent with the prior periods under comparison with the exception of the Media Business Unit that, starting from 1 January 2016, as a result of the change in the operational mission of Persidera, is included in the Domestic Business Unit.

Agenda

— Opening Remarks - Giuseppe Recchi

Main Value-Creation Lines of Action - Flavio Cattaneo

Domestic, Brazilian & Group Financial 1Q'16 Results - Piergiorgio Peluso

Take-aways - Flavio Cattaneo

Back-up

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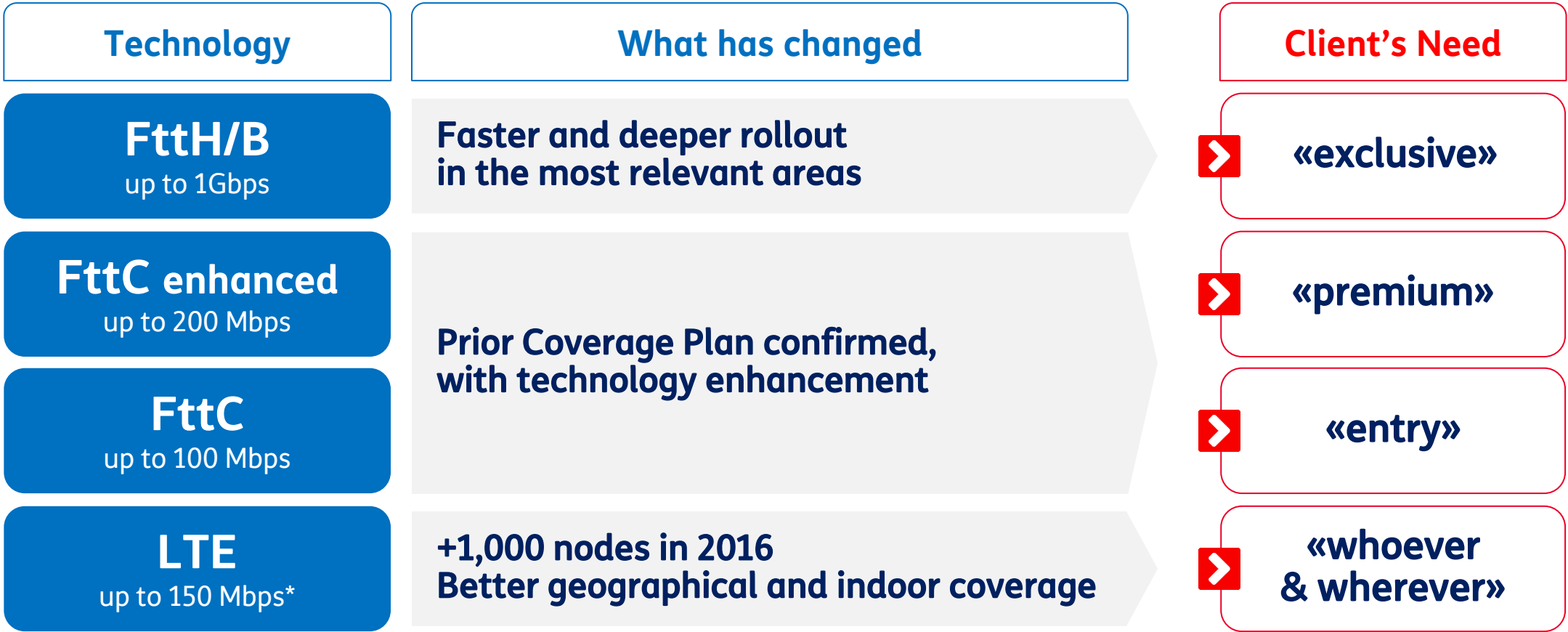
Domestic Revenues: Growing Coverage and Quality for All our Customers

Top line	Today	Our Goals
Mobile	Market Improved, Service Revenues growth	➤ Speed-up LTE coverage to Consolidate our Leadership
Fixed	Fiber gaining traction, commercial approach is changing, line losses reducing	➤ Faster and Deeper Fiber Rollout supports Service Revenues Performance

Focus on Top Line	Consumer	Business	Wholesale
<p><i>We shape the market</i></p> <ul style="list-style-type: none">• 5,000 shops• 42m retail customers• 8.1m wholesale ones (B-to-B-to-C)• 65m contacts x year	<ul style="list-style-type: none">• Tailored and multi-need offering• Enlarge ARPU beyond pure TLC• Re-build Quality positioning	<ul style="list-style-type: none">• Next Frontier for SMEs: 1 Giga connectivity• Enterprise: further step-up innovation• Expand ICT and Cloud Solutions on a Global Base via Sparkle	<ul style="list-style-type: none">• Full Equivalence is an Industrial Project• Faster in Planning, Delivery and Assurance• «Fiber For All»

Italy: Faster and Deeper on Ultra-BroadBand

Bringing Italy to European Best-in-Class Digital Level: we confirm our 2018 targets for NGN (from 45% to ~84% - further coverage subject to Public policy) and LTE (from 92% to 98%)



* shared

Domestic Costs: Recovery Plan



(1) Opex Efficiency Area: Process Driven+Market Driven+Labour Costs
(2) Opex Efficiency Area: Process Driven+Market Driven+Labour Costs (0.7 Bln €) + Volume Driven & Others (0.1 Bln€)

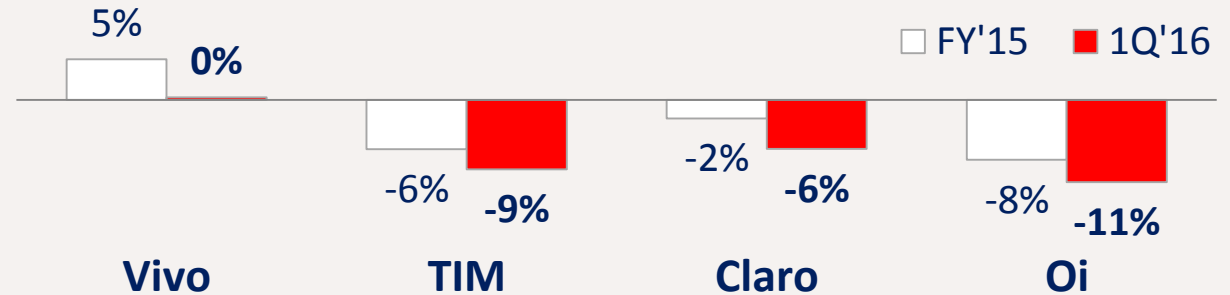
TIM Brasil: Time for a change

Ongoing Tough Macro Environment..

- **High inflation: ~6% expected for 2016**
- **GDP decline: ~-4% expected in 2016**
- **Lower consumer confidence**

...affects Telco operators' ability to generate revenues

Mobile Service Revenues Change YoY *



Business Recovery and further Cost Reduction Needed

Management Change

- **Strengthening the managerial team**, widening competences and skills

Adapt Workforce

- **Workforce reduction** generating ~R\$ 90 mln recurring cost saving
- More internal and external **labour cost streamlining** to be evaluated

Upgrade Network

- **Confirming 4G leadership** (439 cities, 60% of urban pop)
- **Expanding 3G** (1,860 cities covered, 82% of urban pop)
- **Refarming Opportunities on 1,800 MHz**

Further Efficiencies

- Current R\$ 1 bln 2015-17 **efficiency plan** to be reinforced
- **New Targets** to be announced in 2Q'16

* Oi: figures estimated on published data

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1Q'16 - TI Overview

Group Results

- Revenues: **4.4 bln euro**
- Ebitda⁽¹⁾: **1.8 bln euro**



- Capex: **0.9 bln euro**
- Net Debt: **27.1 bln euro**

Domestic Results

- Revenues: **3.5 bln euro**
- Ebitda⁽¹⁾: **1.5 bln euro**



- NGN: **45%** Households & **>1k** Municipalities
- 4G: **>6.2k** Municipalities of which **317** 4G Plus

Brazilian Results

- Revenues: **0.9 bln euro**
- Ebitda⁽¹⁾: **0.3 bln euro**



- 4G: **60%** Coverage, **439** Cities
- 3G: **82%** Coverage, **1,860** Cities

Argentina Sale

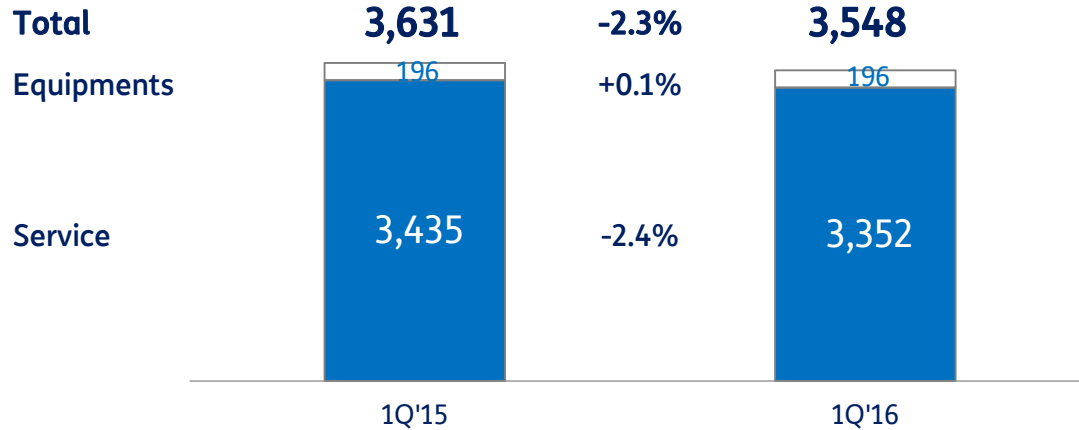
- **Completed**

(1) before non recurring items

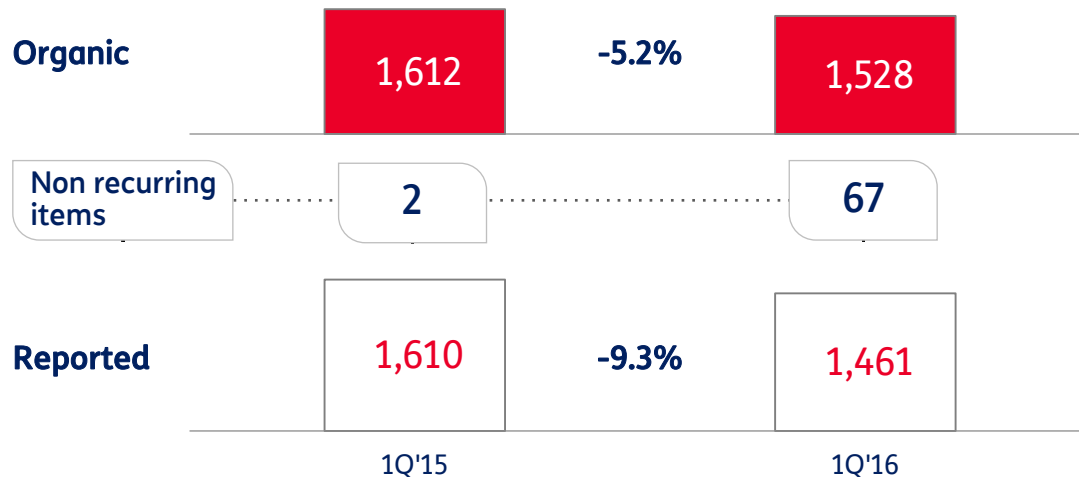
Domestic 1Q'16: Revenues & Ebitda

000, €mln, % YoY

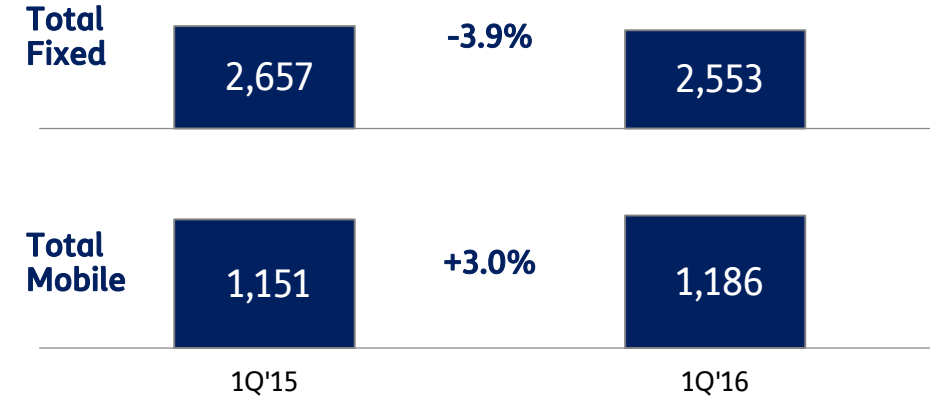
Total Domestic Revenues



Domestic Ebitda



Total Domestic Revenues Breakdown



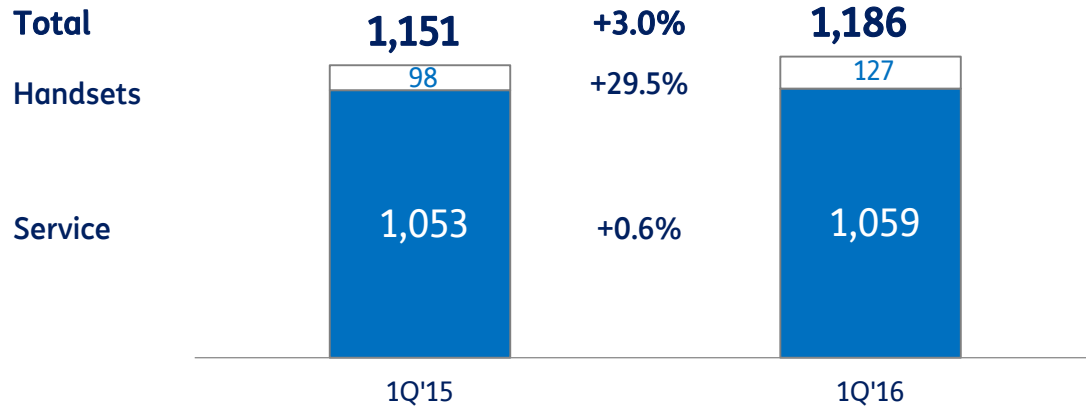
Ebitda Highlights

- Slight Organic Ebitda QoQ erosion (-0.9pp vs 4Q'15) due to wholesale price impact revision and higher volume driven costs related to handsets
- Reported Ebitda impacted by 67 mln euro of non recurring items related to costs for labour restructuring program

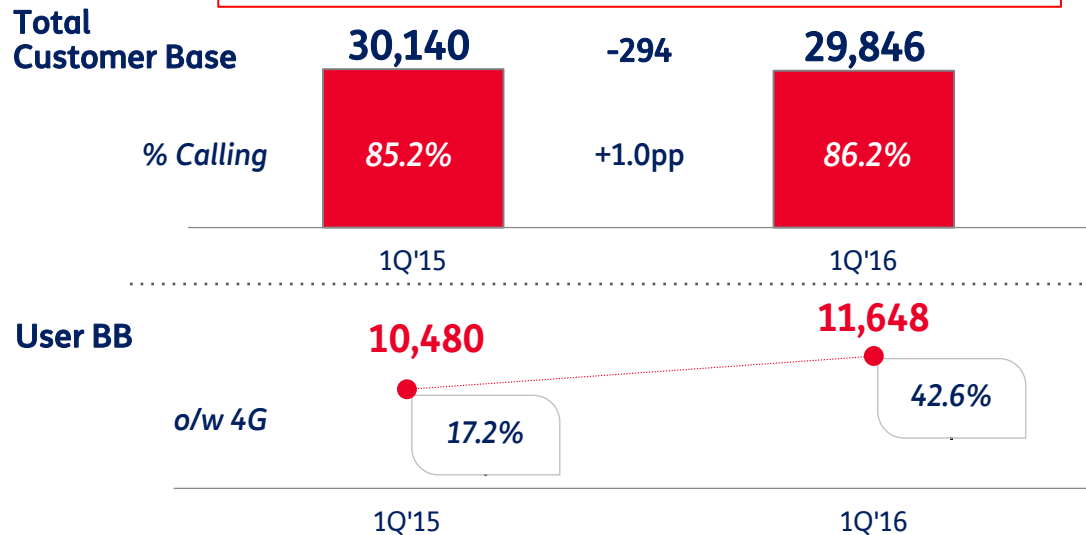
Domestic Mobile Performance

000, €mln, % YoY

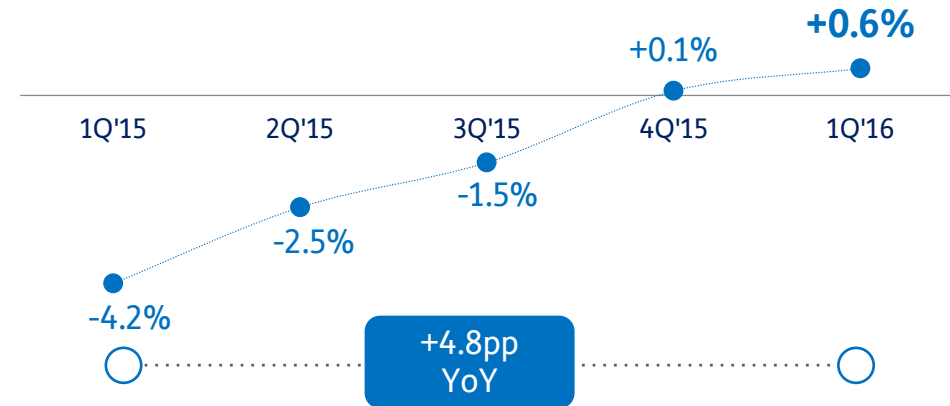
Domestic Mobile Revenues



Domestic Mobile Main KPI's



Domestic Mobile Service Revenues Trend



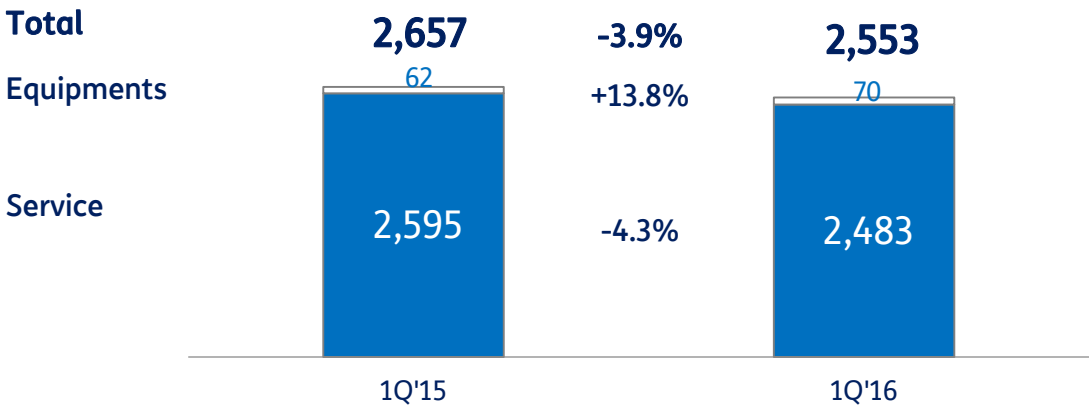
Domestic Mobile Highlights

- **Continued improvement in Mobile Service Revenues Trend confirmed.** Sound growth in Consumer Segment (+5% YoY). Slower Business Segment performance affected by Consip contract renewal
- **Solid KPIs** driven by growing number in calling customer base (+52k YoY) and wider adoption of Mobile BB services, supported by strong growth in 4G clients

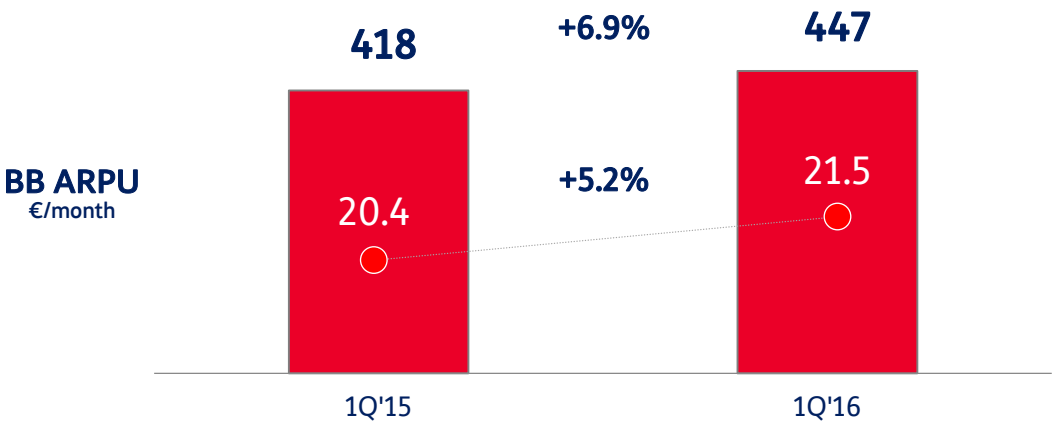
Domestic Fixed Performance

000, €mln, % YoY

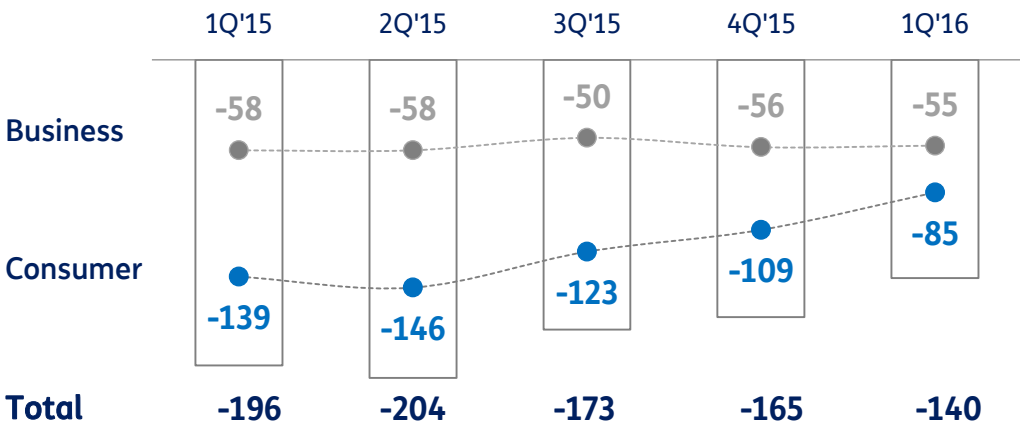
Domestic Fixed Revenues



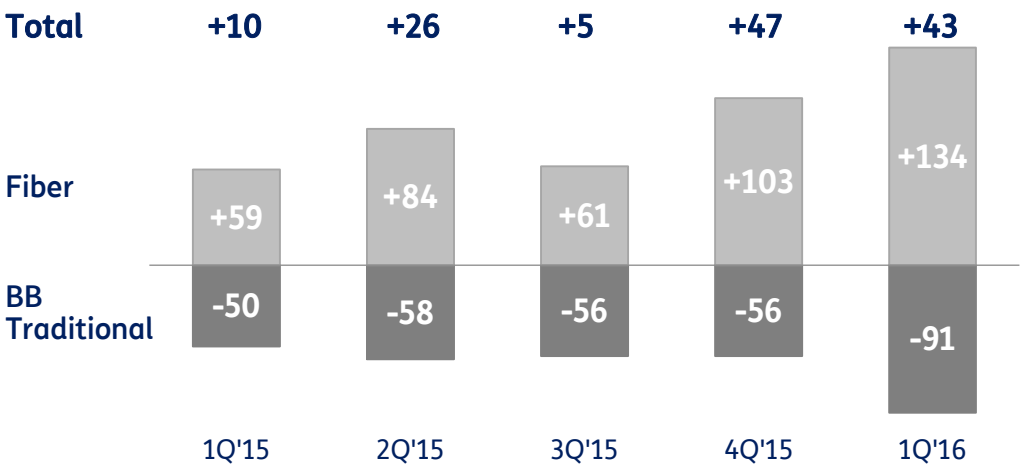
Domestic BB Service Revenues



Domestic Fixed Access



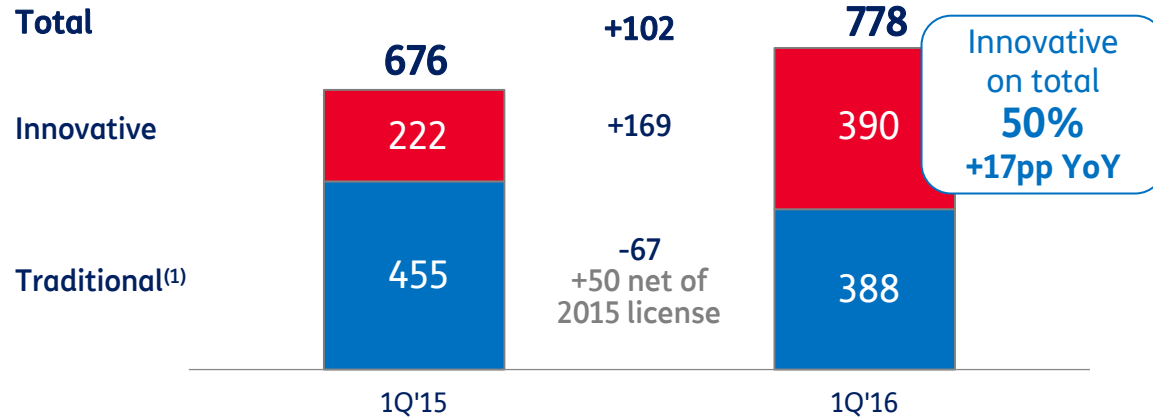
Domestic BB Net Adds



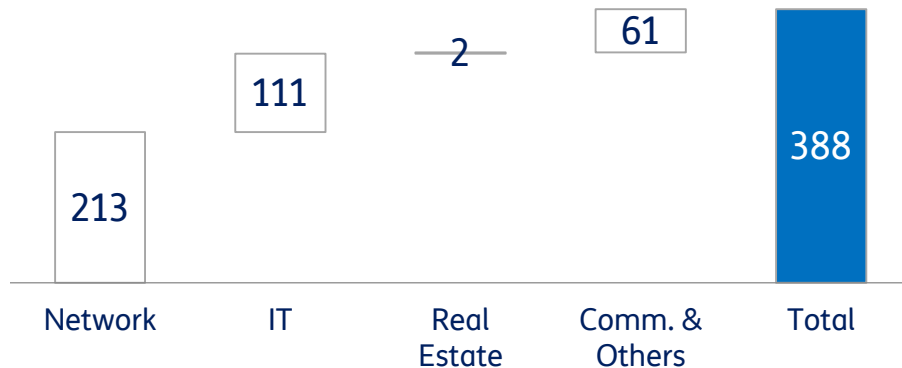
Domestic 1Q'16: Focus on Investments

000, €mln

Total Domestic Capex

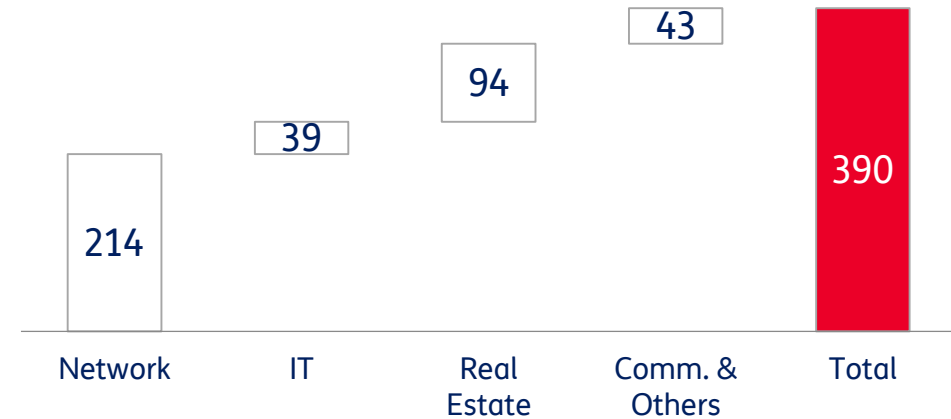


Traditional Capex Breakdown – 1Q'16



(1) Including 117 €mln for 2G license renewal in 2015

Innovative Capex Breakdown - 1Q'16

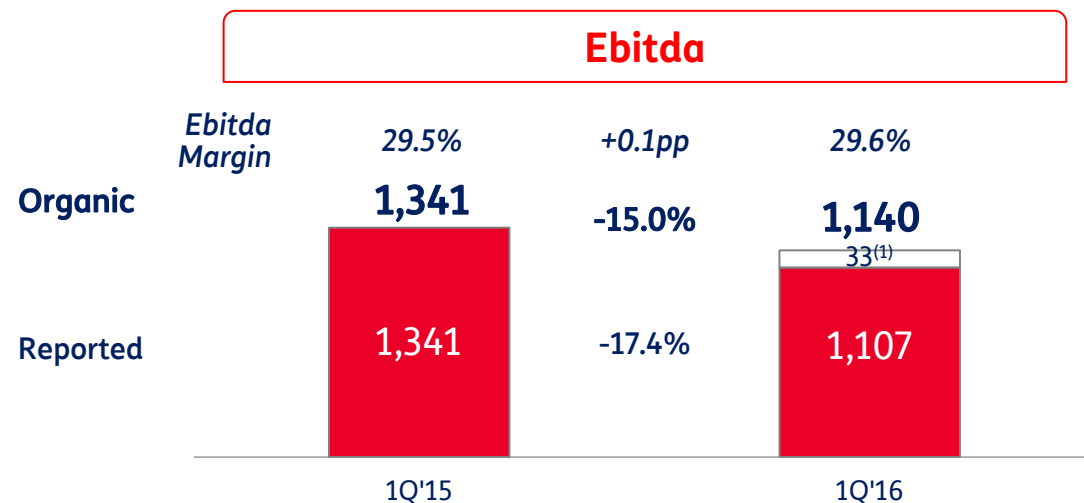
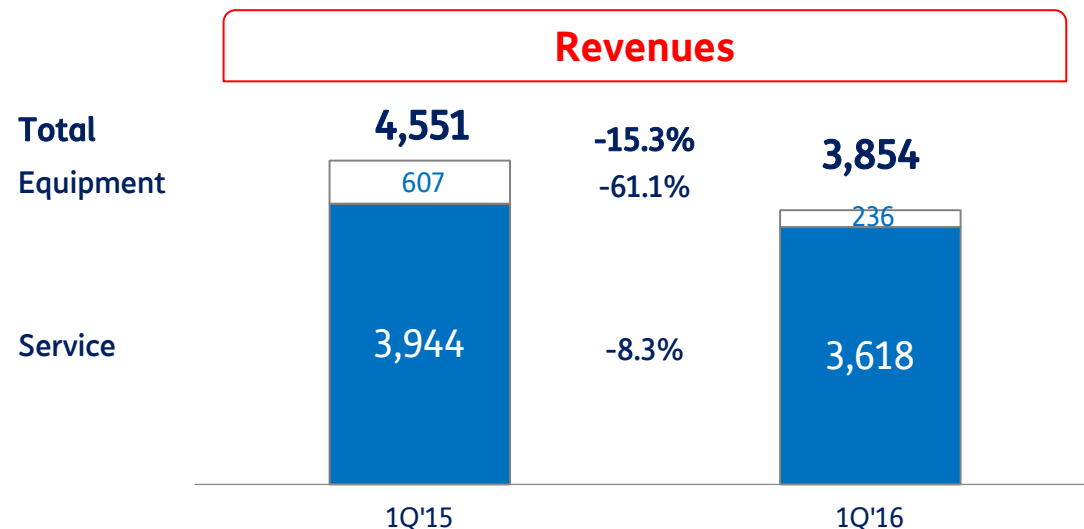


Domestic Capex Highlights

- **Sound growth in Innovative Investments (+169 €mln YoY) driven by a faster pace in NGN & LTE components and additional Capex in Transformation Projects**
- **Net of 117 €mln occurred in 2015 for 2G license renewal, +50 €mln YoY Traditional Capex growth is mainly driven by increasing expenditure on decommissioning & site sharing projects**

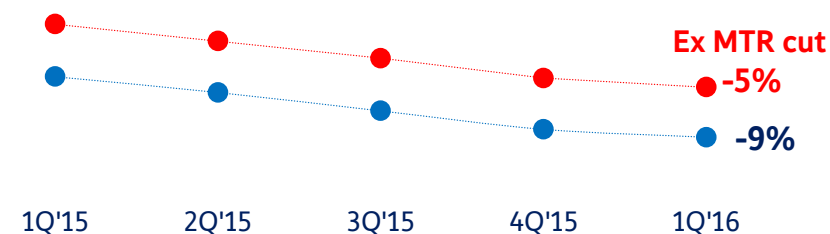
TIM Brasil: 1Q'16 Results

R\$mIn, % YoY

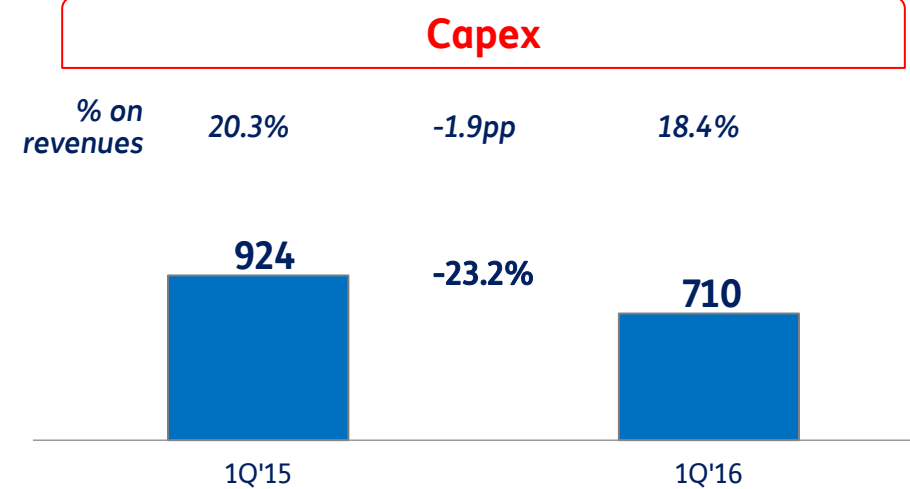


(1) labour costs restructuring program

Focus on Mobile Service Revenues

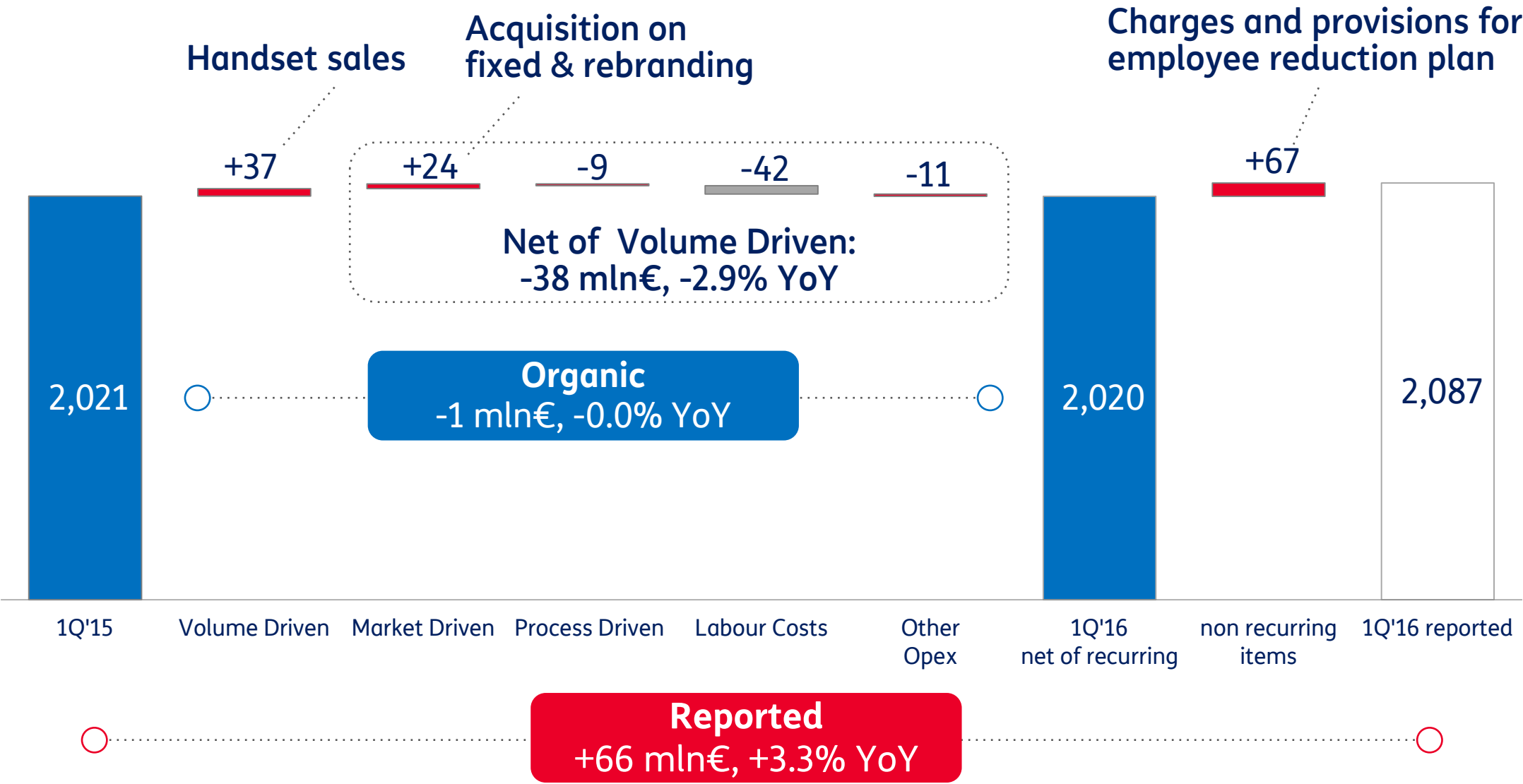


- **MTR Cut:** 2016 is the last year of material impact (revenue exposure ~7%)
- **Weaker Macro:** high inflation, GDP decline, lower consumer confidence



Focus on Domestic Opex

000, €mln, % YoY



Domestic Costs: Areas of Action

Enforce tight cost control and ROI analysis approach

Commercial

- Acquisition unit cost reduction
- Channel rationalization
- Self caring & self provisioning
- Media Plan evolution
- Sponsorship optimization
- New Handsets policy

Industrial

- Increase internal productivity and insourcing on delivery and assurance activities
- Automation of recursive activities
- Application and platform delayering
- Supplier consolidation

Rental & Power, Support

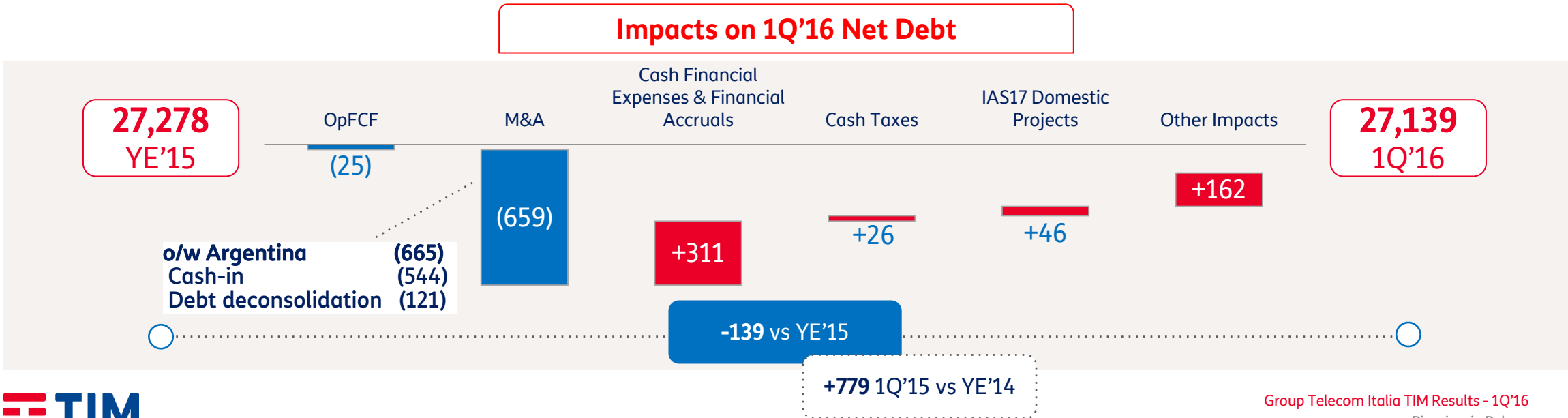
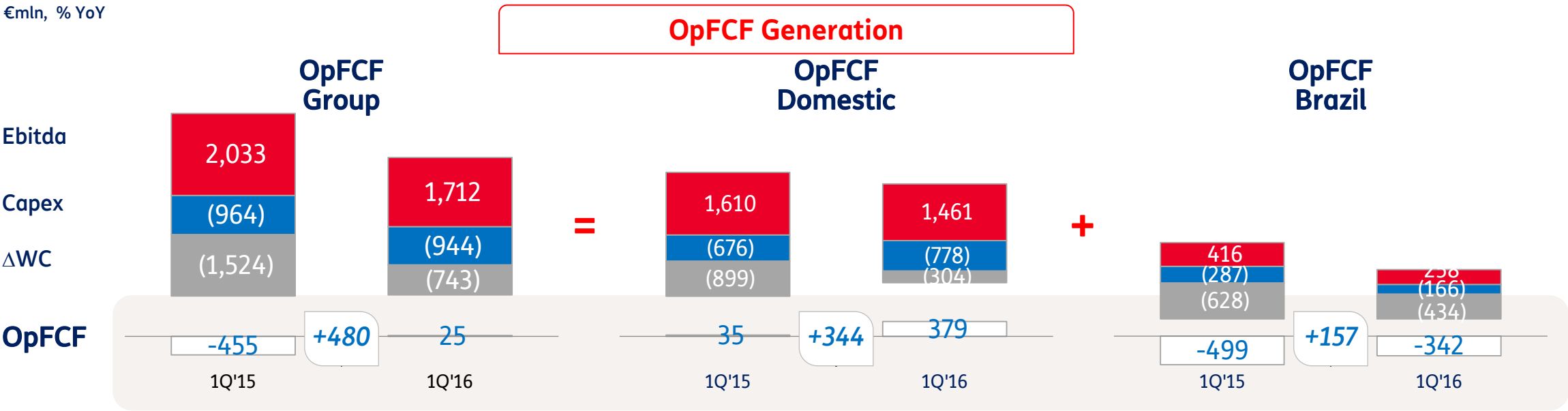
- Zero-base budget approach
- Space optimization
- Reduction on travel, lodge, facilities and all overhead costs
- Energy saving project
- Supplier consolidation

Labour Cost

- Rewarding and welfare policy review
- Productivity increases
- Non-strategic IT branches outsourcing
- Creation of back office shared service center

OpFCF Generation & Net Debt Evolution

€mln, % YoY



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Take Aways

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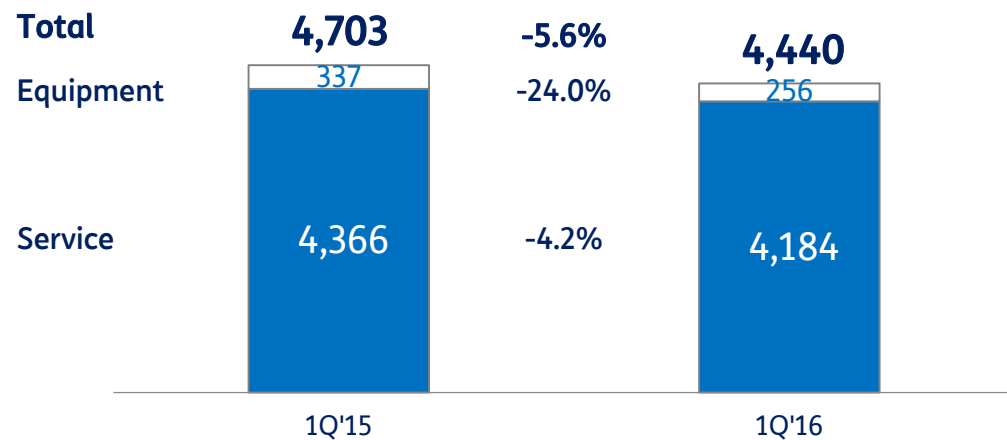
Take-aways - Flavio Cattaneo

— Back-up

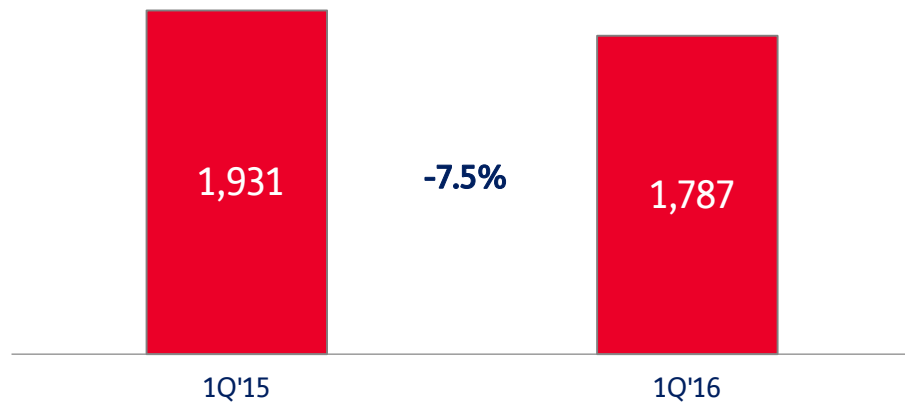
Group 1Q'16: Revenues & Ebitda

Organic figures, €mln, % YoY

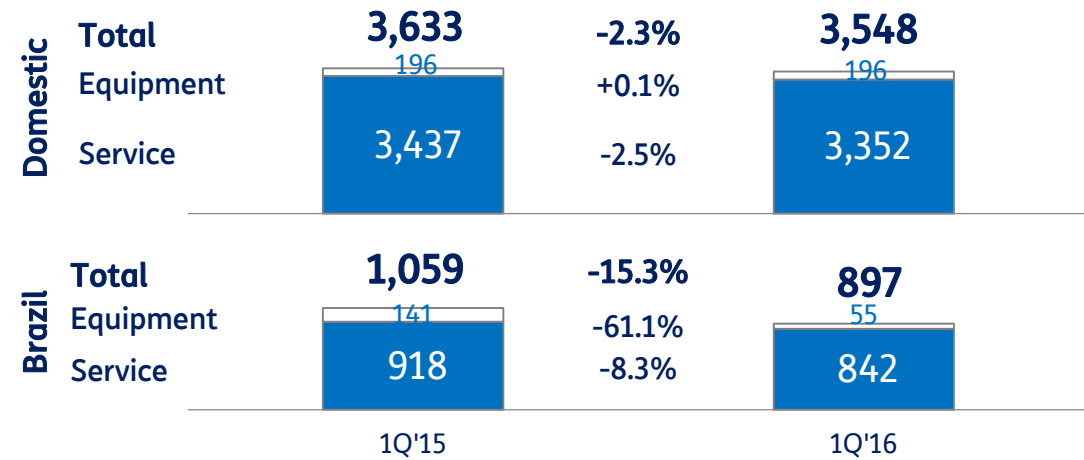
Group Revenues



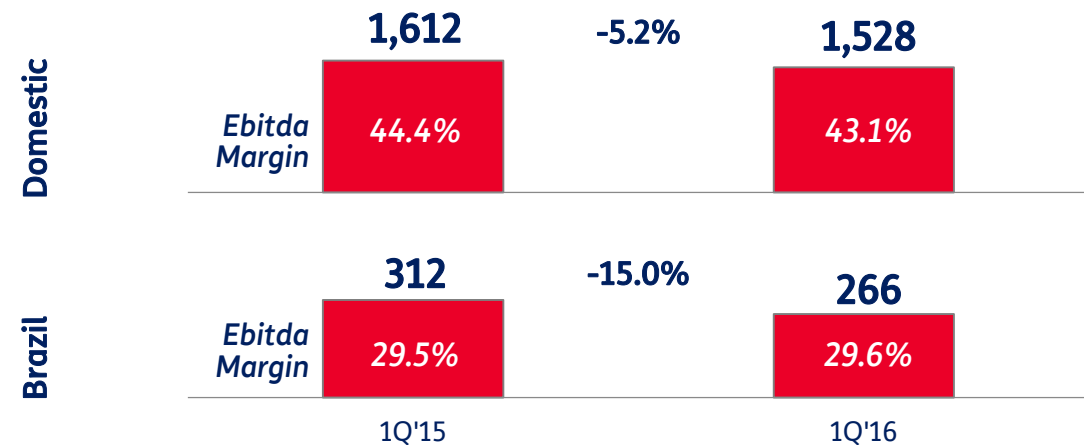
Group Organic Ebitda⁽¹⁾



Revenues Breakdown



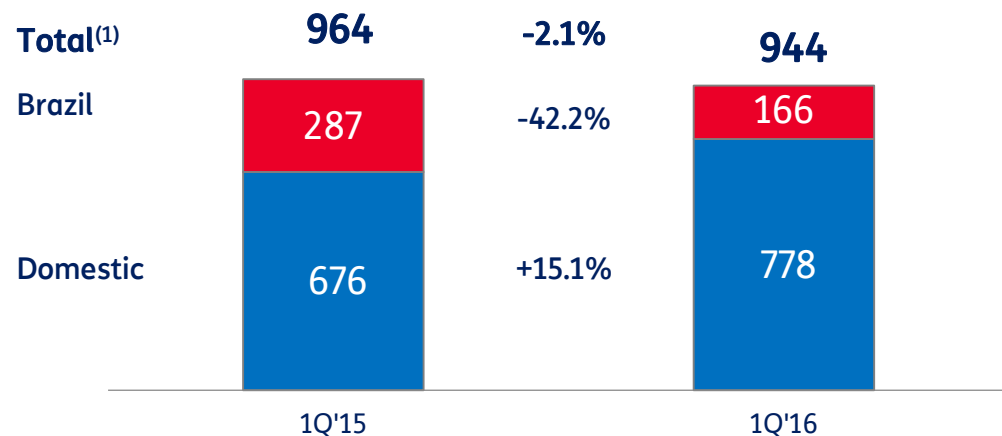
Organic Ebitda Breakdown⁽¹⁾



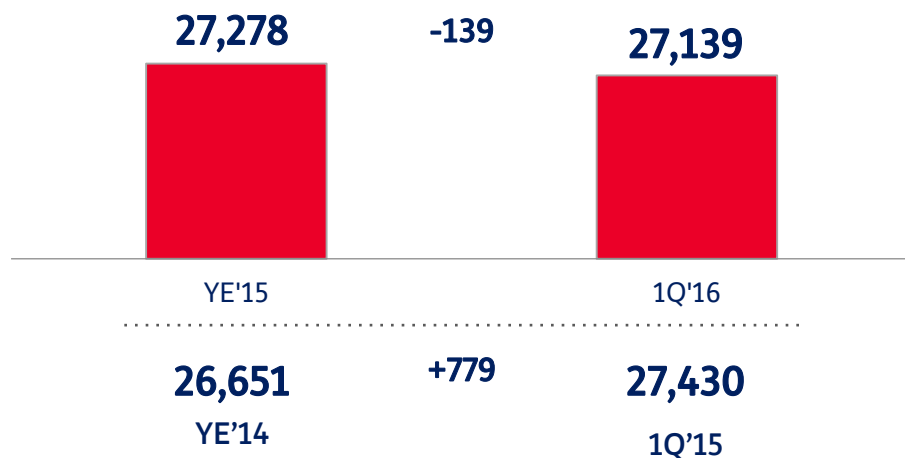
Group 1Q'16: Capex & Net Debt

Reported figures, 000, €mln, % YoY

Group Capex



Group Net Debt



Capex Highlights

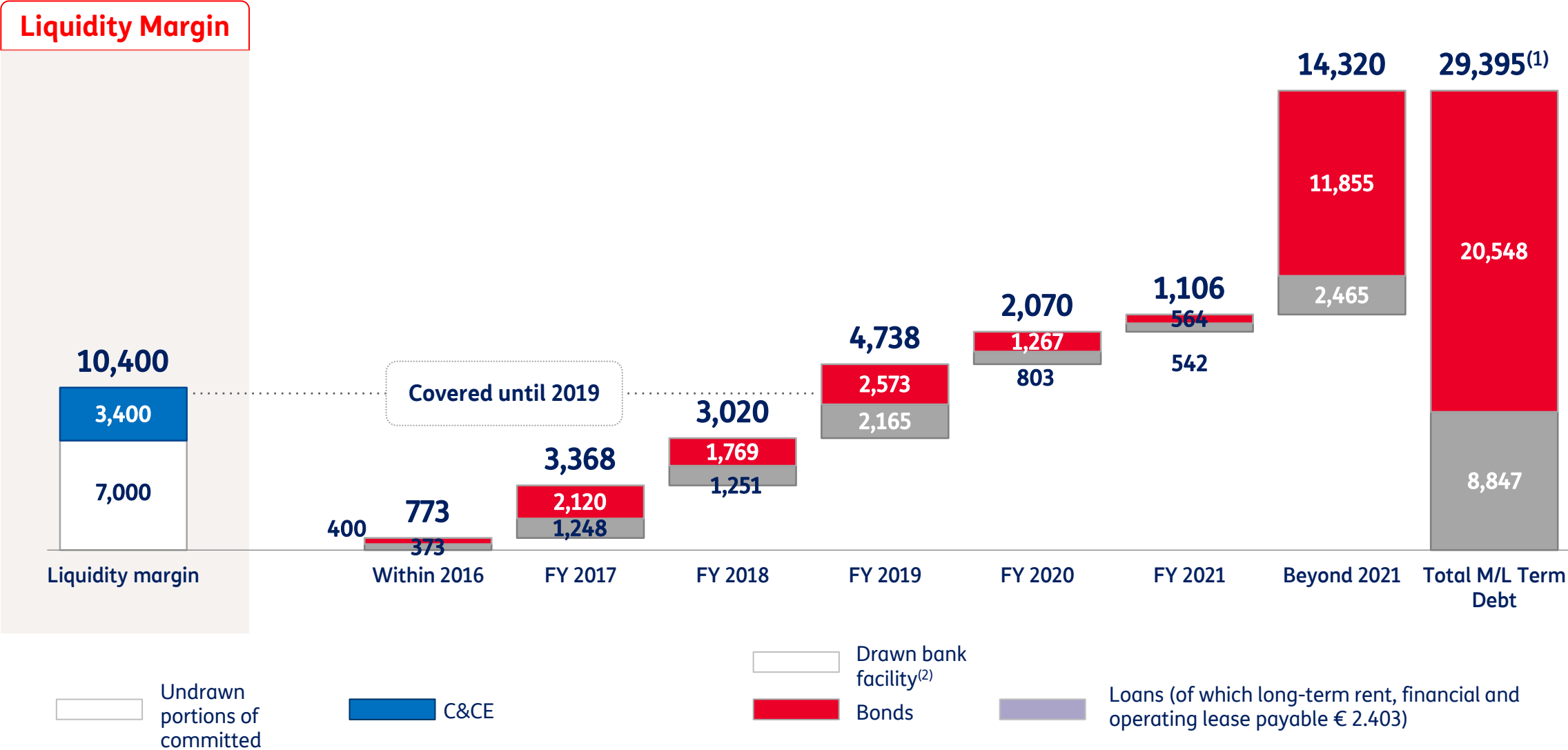
- Group Capex reduction due to different mix:
 - An efficiency gain and better negotiation process in **Brazil**
 - More investment in **Italy** mainly driven by **UBB Network roll-out & Transformational Projects**

Net Debt Highlights

- Net Debt reduction vs YE'15 due to the **successful disposal of Telecom Argentina** that more than offset the **seasonality impact of ΔWC in 1Q16 for Trade Payable dynamic** and for **Brazilian Fistel payment** occurred in **1Q'16**

Maturities & Liquidity Margin

€mln

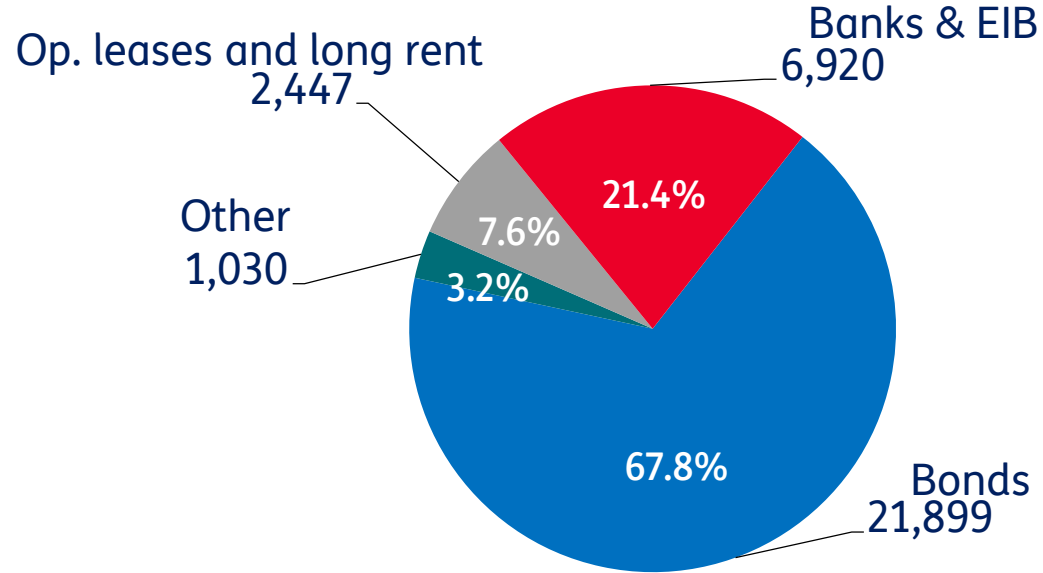


(1) € 29,395 mln is the nominal amount of outstanding medium-long term debt. By adding Mandatory Convertible Bond (€ 1,300 mln), IAS adjustments (€ 1,004 mln) and current financial liabilities (€ 597 mln), the gross debt figure of € 32,296 mln is reached

(2) Committed Bank lines are undrawn

Well Diversified and Hedged Debt

€mln



Gross debt

32,296

Financial Assets

(5,157)

of which C&CE and marketable securities

(3,400)

- C & CE

(2,665)

- Marketable securities

(735)

- Government Securities

(265)

- Other

(470)

Net financial position

27,139

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 2,498 €/mln (of which 394 €/mln on bonds)

- the impact on Financial Assets is equal to 1,404 €/mln.

Therefore, the Net Financial Indebtedness is adjusted by 1,094 €/mln.

The difference between total financial assets (€ 5,157 mln) and C&CE and marketable securities (€ 3,400 mln) is equal to € 1,757 mln and refers to positive MTM derivatives (accrued interests and exchange rate) for € 1,577 mln, financial receivables for lease for € 111 mln and other credits for € 69 mln.

Maturities and Risk Management

Average m/l term maturity:
7.94 years (bond only 8.31 years)

Fixed rate portion on gross debt approximately **69.9%**

Around **39% of outstanding bonds** (nominal amount) denominated in **USD, GBP and YEN** and is **fully hedged**

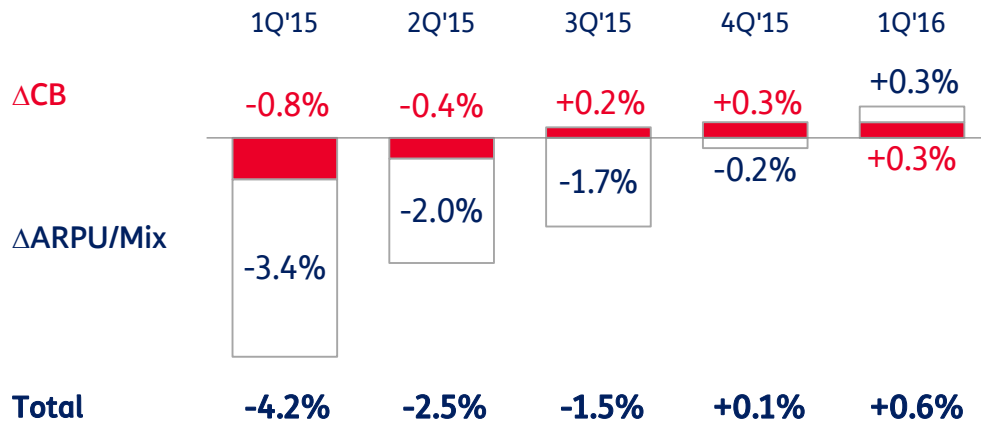


Cost of debt: ~5.3 %

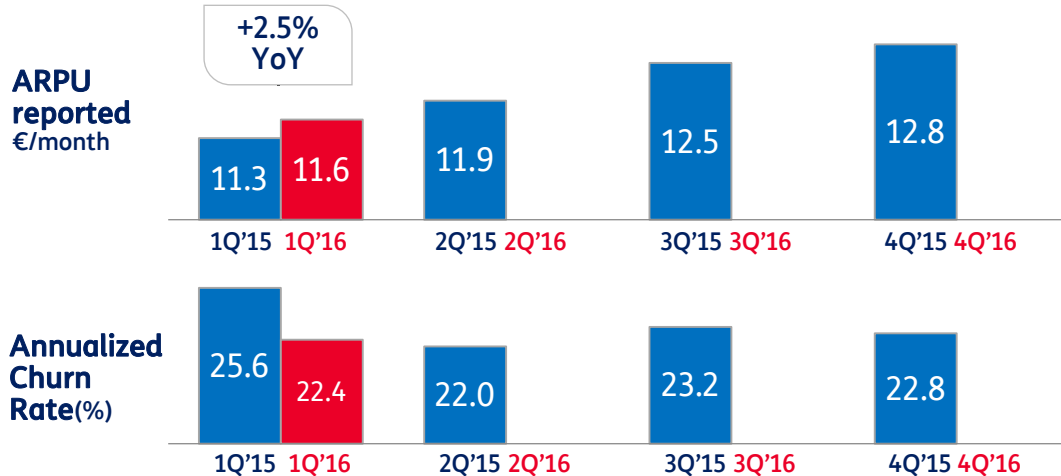
Domestic Mobile Details

000, €mln, % YoY

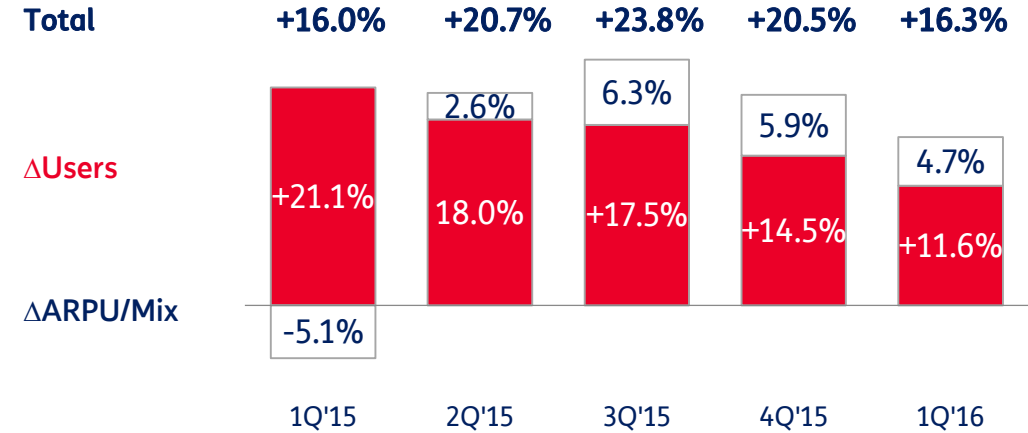
Mobile Service Revenues Trend



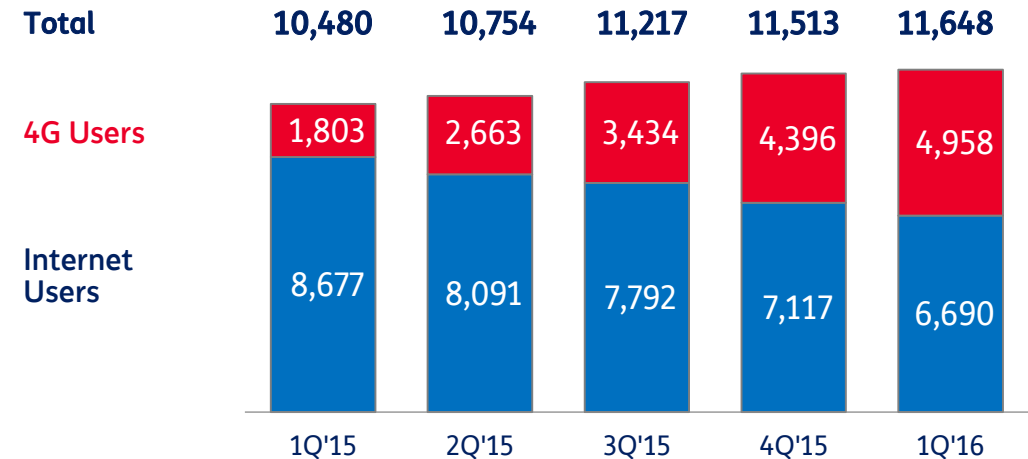
ARPU & Churn Rate



Mobile BB Service Revenues Trend



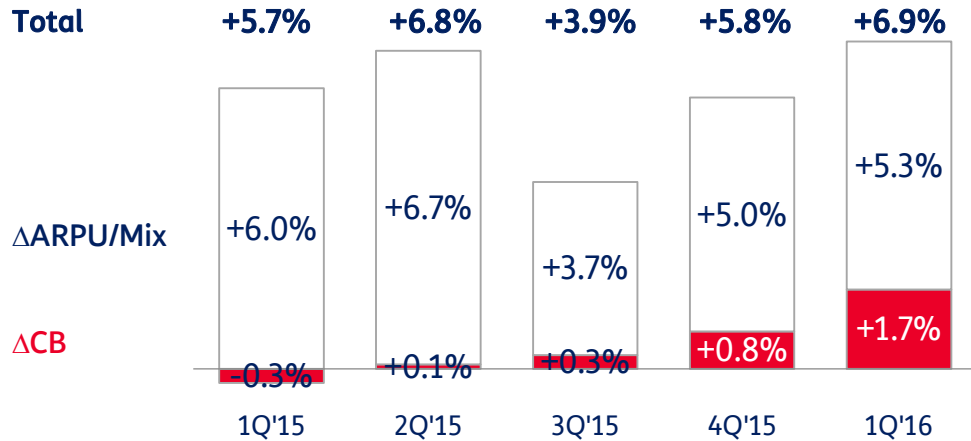
Mobile BB Customer Base



Domestic Fixed Details

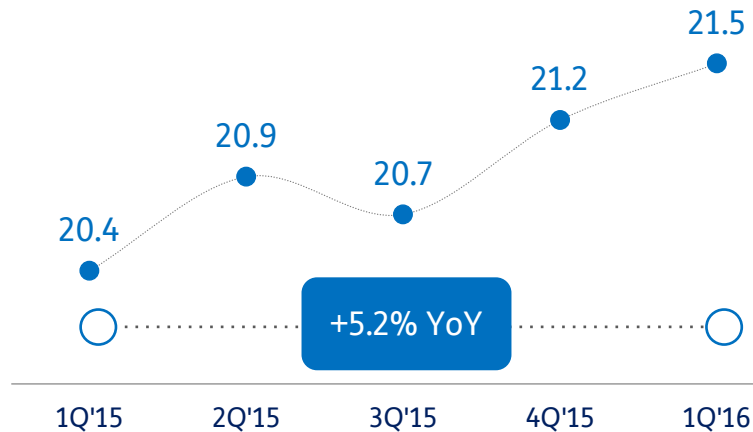
000, €mln, % YoY

Fixed BB Service Revenues Trend

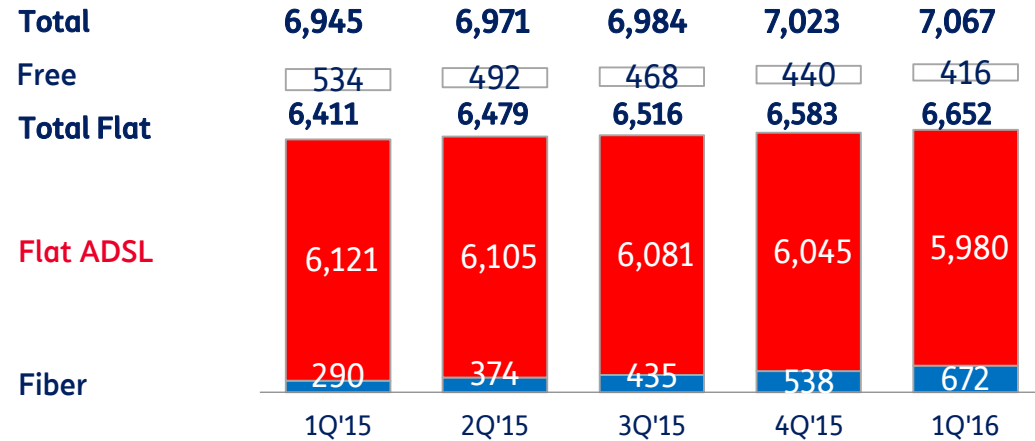


Fixed BB ARPU

€/month



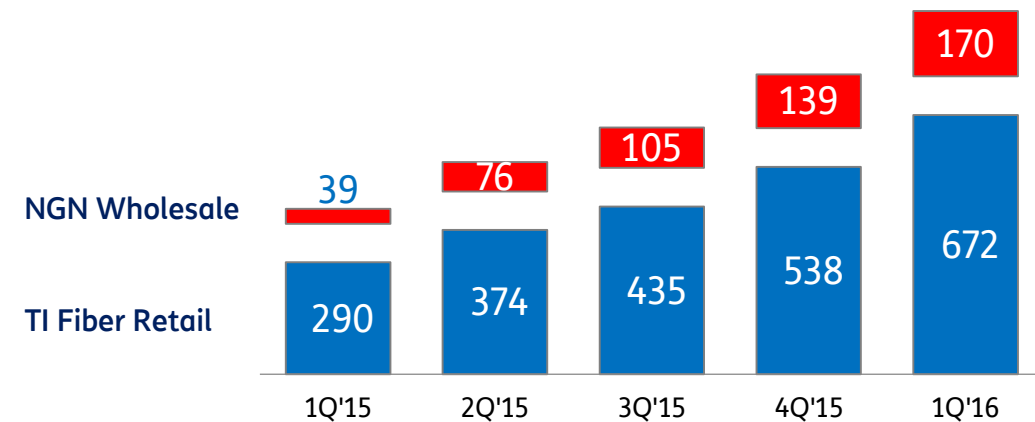
Fixed BB Customer Base



Flat ADSL

Fiber

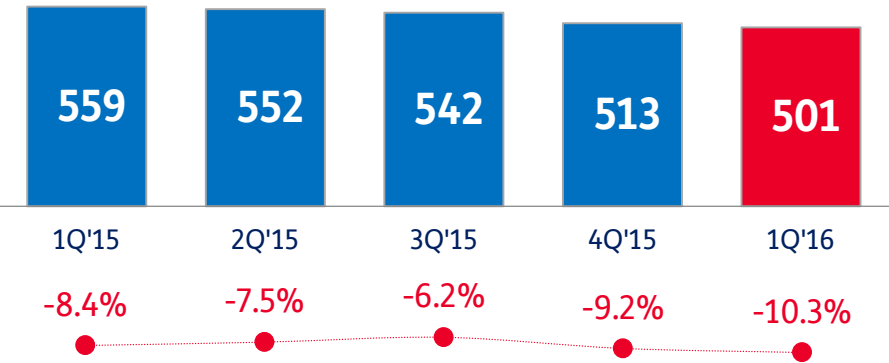
Focus on Fiber Users



Business Segment Revenues Breakdown

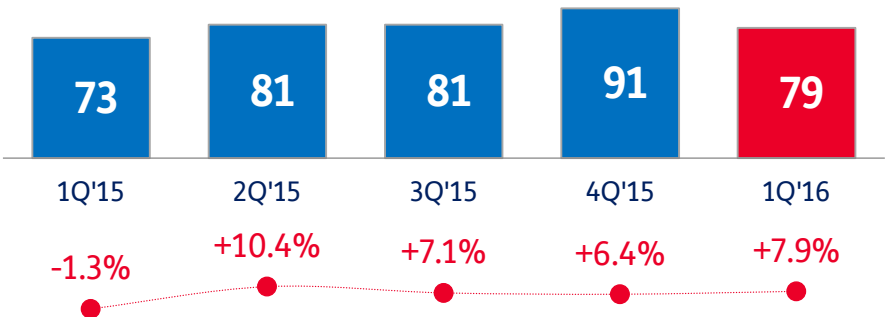
€mln, % YoY

Communicate



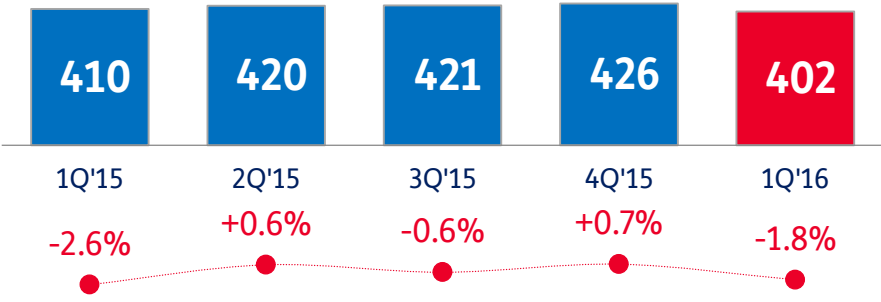
Fixed Voice, Mobile Voice, SMS

Compute



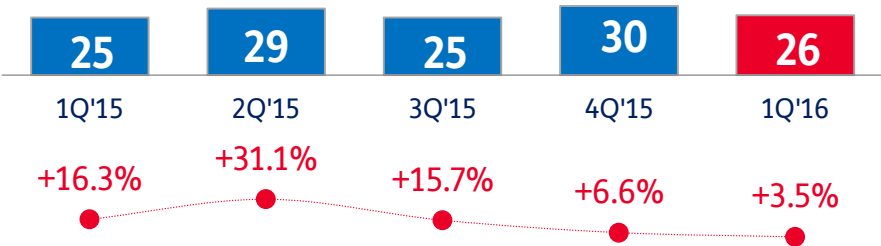
Infrastructure Management, IT Device Management

Connect



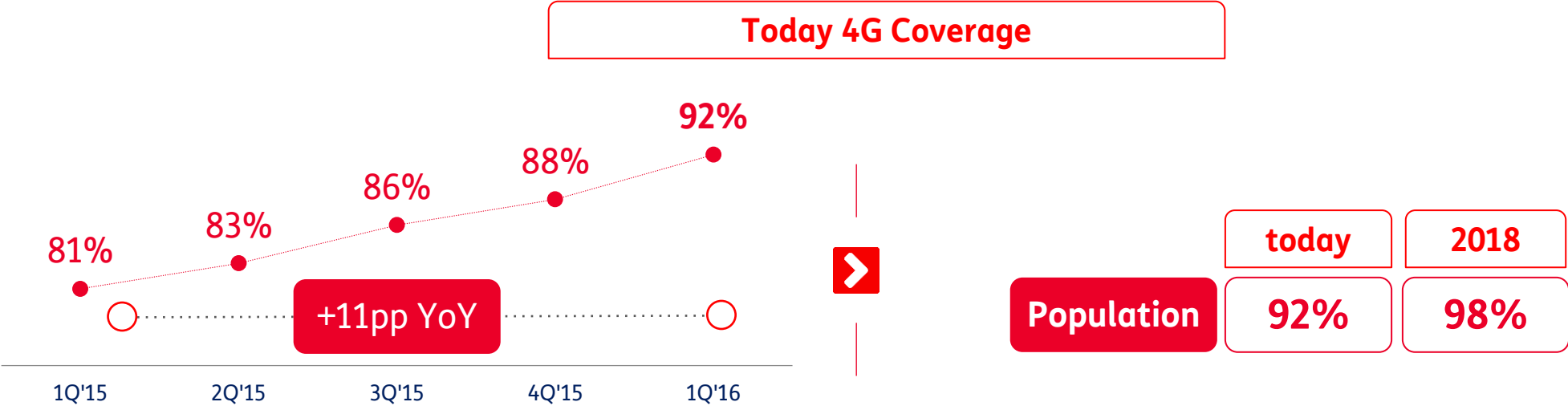
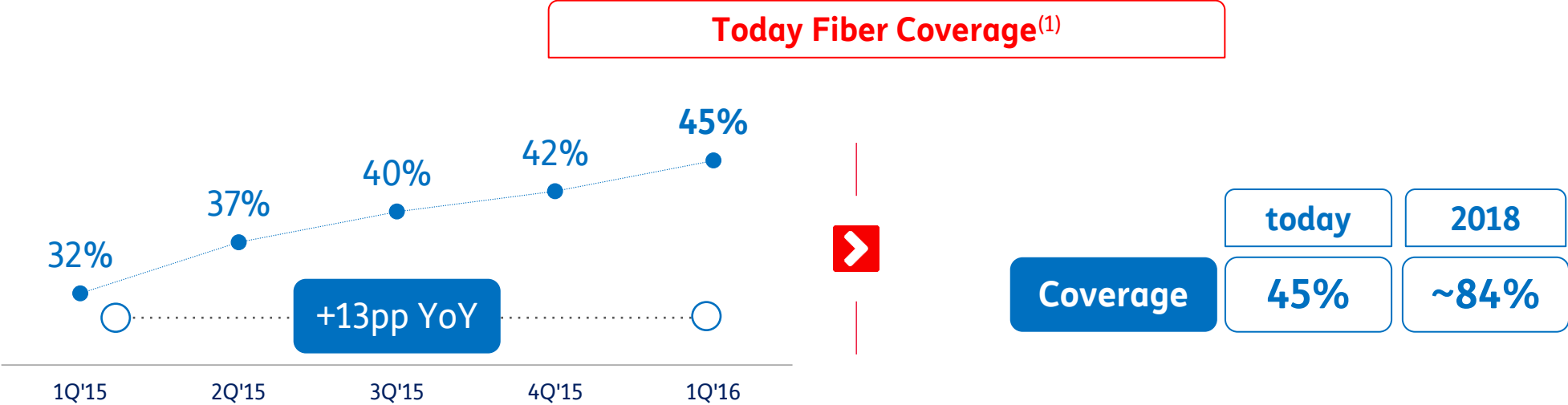
Fixed & Mobile Data Transmission, IT Network Management

IT Solutions



IT Application, Trust, Parallels

Domestic Fiber & LTE Coverage Trend



Scenarios of UBB Bandwidth Consumption

Technology	Speed	Price	Bandwith consumption ⁽¹⁾
FttH/B	up to 1 Gbps ➤ «exclusive»	➤	>2 TV 8K + >2 Tablet + >3 Smartphone + >1 game pad
FttC enhanced	up to 200 Mbps ➤ «premium»	➤	2 TV 4K + 2 Tablet + 3 Smartphone + 1 game pad
FttC	up to 100 Mbps ➤ «entry»	➤	1 TV 4K + 2 Tablet + 3 Smartphone

(1) Web Streaming via Smartphone: 0.5-2 Mbps, Cloud Gaming: 6-8 Mbps, TV 4K: 20 Mbps, TV 8K: 85 Mbps

Balance to New Efficiency Target

Run rate @2018

	Original '16-'18 Efficiency Target		Additional Efficiency '16-'18 Target	New Efficiency '16-'18 Target
Process Driven Costs	0.2 bln€	➤	+0.12 bln€	0.32 bln€
Market Driven Costs	0.1 bln€	➤	+0.13 bln€	0.23 bln€
Labour Costs	0.1 bln€	➤	+0.1 bln€	0.2 bln€
Other Costs	-	➤	+0.05 bln €	0.05 bln€
Total Opex	0.4 bln€		+0.4 bln€	0.8 bln€
Traditional	0.2 bln€	➤	+0.3 bln€	0.5 bln€
NGN Optimization	-	➤	+0.15 bln€	0.15 bln€
Real Estate & Other	-	➤	+0.15 bln€	0.15 bln€
Total Capex	0.2 bln€		+0.6 bln€	0.8 bln€
Total Cash Cost Efficiency	0.6 bln€		+1.0 bln€	1.6 bln€

For further questions please contact the IR Team

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