

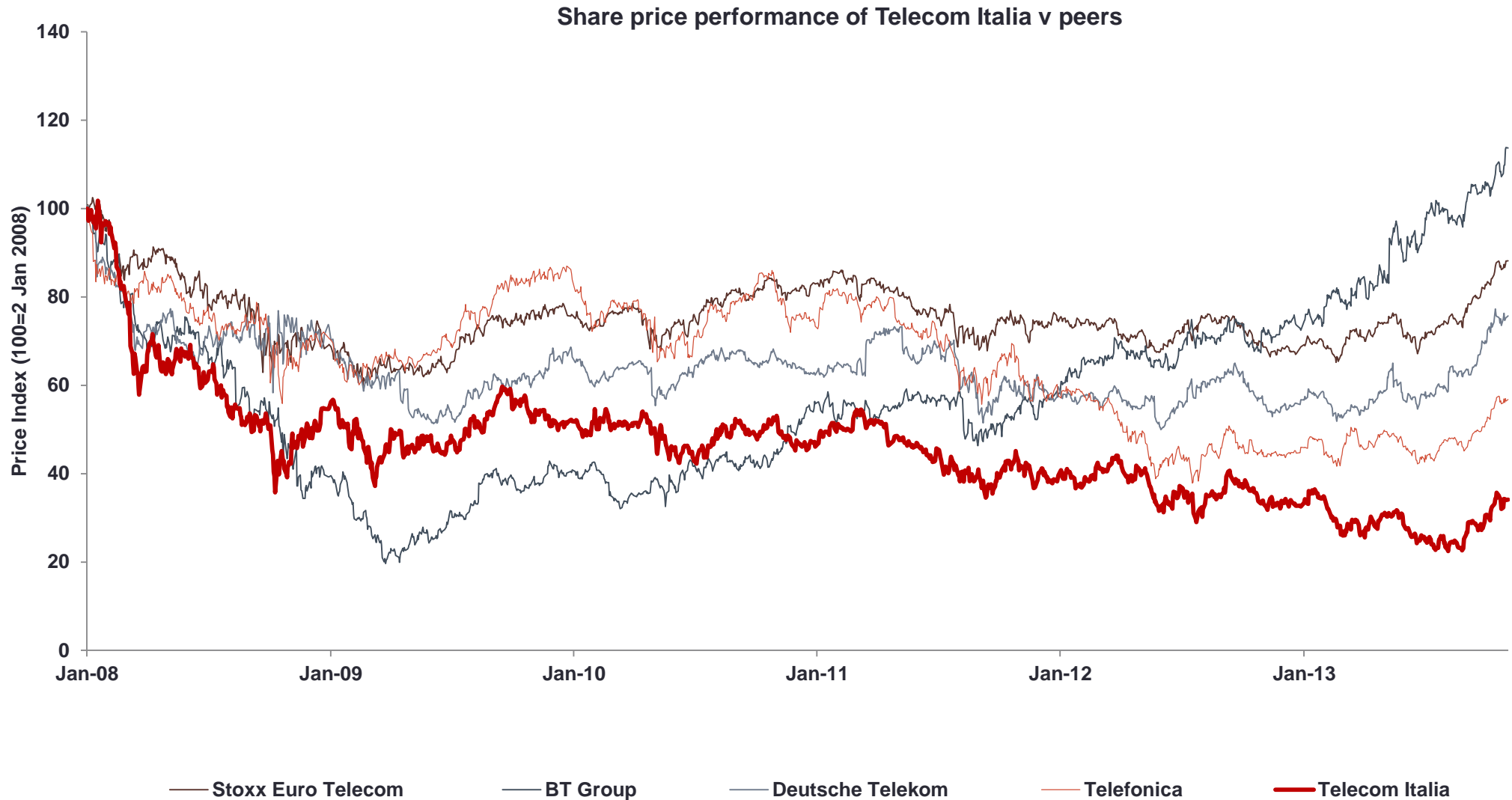
TELECOM ITALIA

CREATING VALUE FOR ALL SHAREHOLDERS

Prepared by FINDIM Group SA

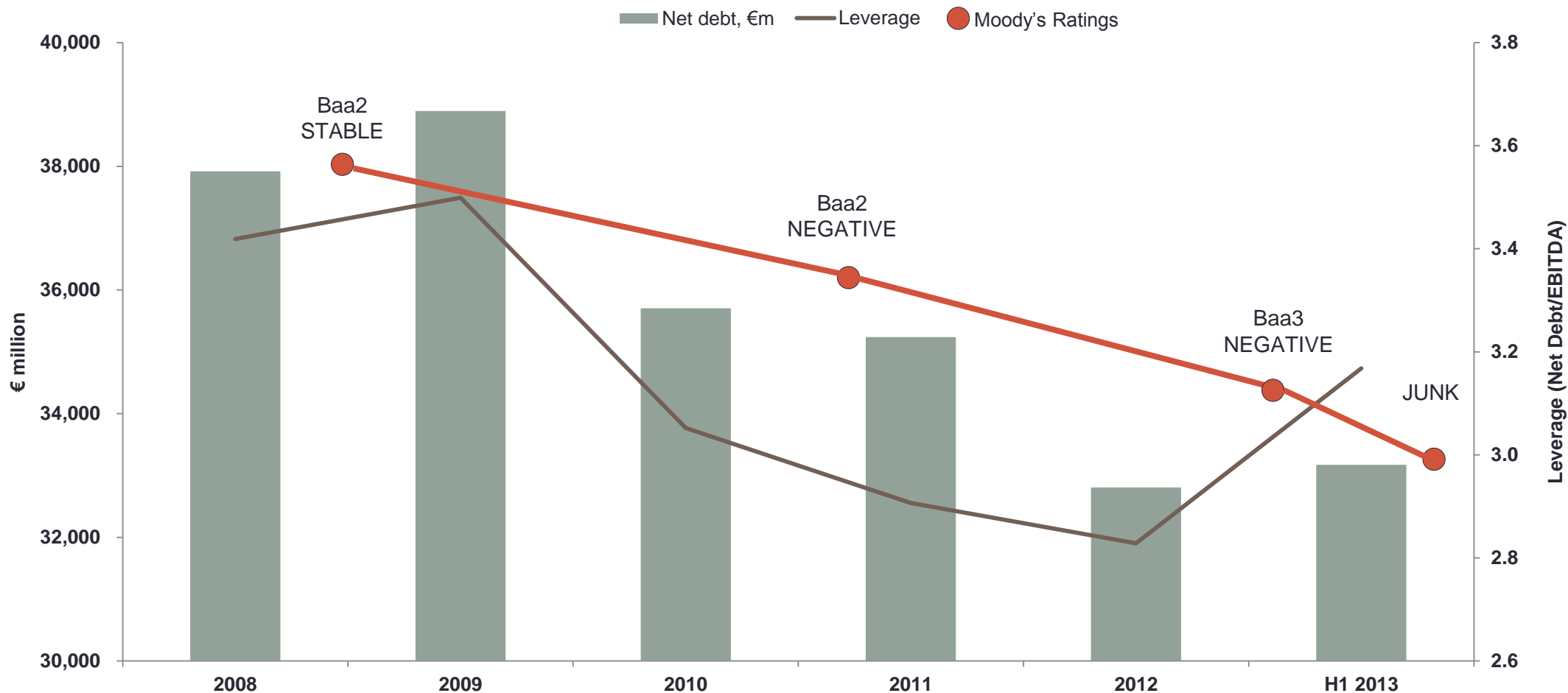
13 November 2013

Why we are here today: consistent poor performance



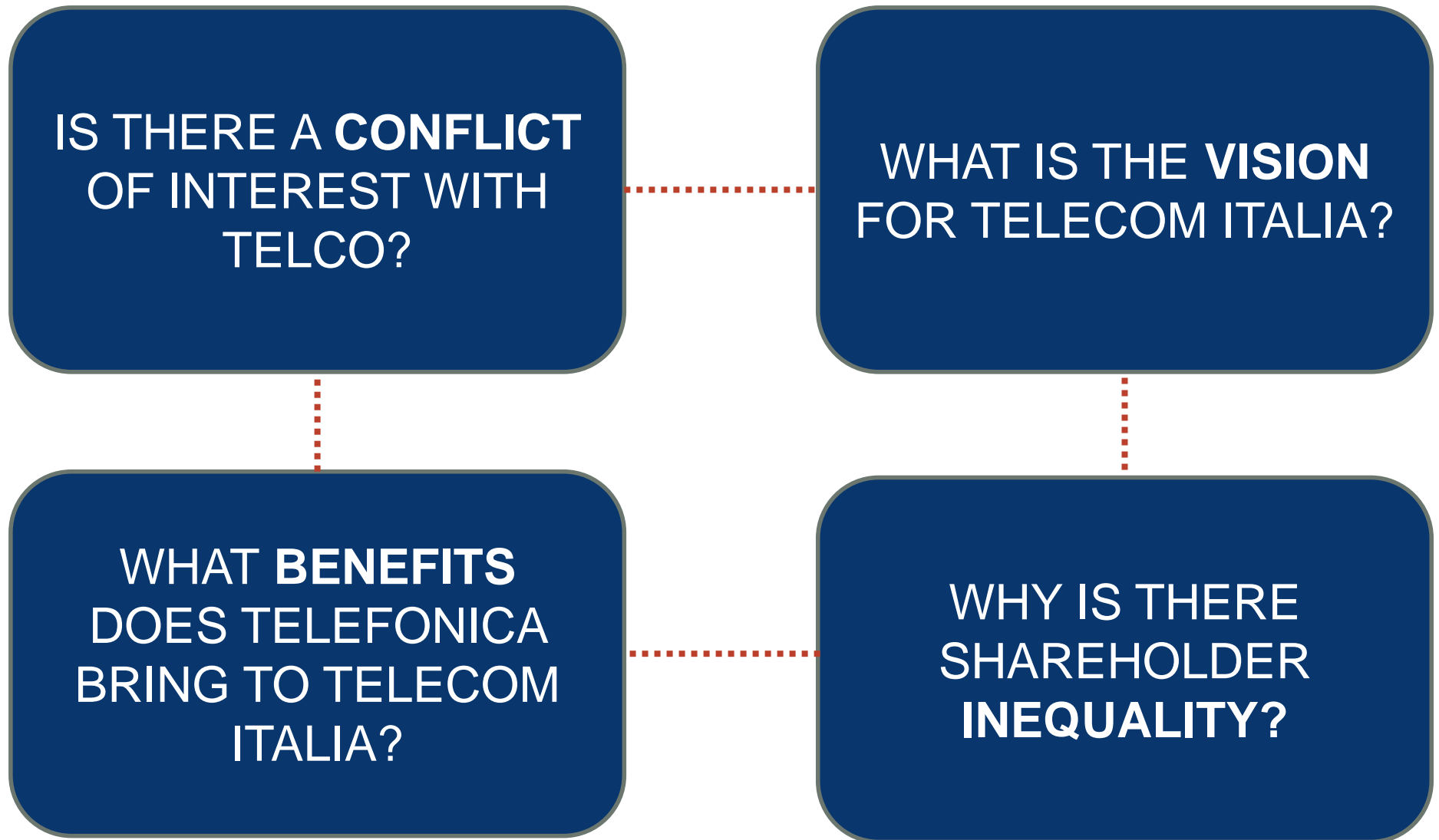
Why we are here today: tactical focus on debt reduction not solving the underlying issues

Net Debt, Leverage and Credit Ratings for Telecom Italia, 2008-2013



Leverage for H1 2013 based on annualised EBITDA calculated using H1 '13 results and net debt as at 30 June 2013. Net debt calculated as gross financial debt less cash and cash equivalents.

Why we are here today: conflicted Board and shareholder inequality



Questions minority shareholders should ask regarding Argentina sale

1

Being sold without an auction process (as occurred with Hansenet). Has the best price been achieved?

2

Being sold at a 31% discount to its enterprise value and 26% discount to its equity value, even though it is a controlling position.¹ Shouldn't a controlling position command a premium to the trading price?

3

Selling the best recent performing asset in the portfolio, which currently contributes 13% of TI's total EBITDA. Is this sale really required given growth is the only way for TI to survive and thrive?

Argentina Telecom (AT) is being sold at a steep discount to market value

Shouldn't controlling stakes command a market premium?

Total market cap of AT (€m) ¹	Equity value of 22.7% stake in AT (€m)	Purchase price for 22.7% stake in AT (€m) ²	Discount from equity value	Discount from enterprise value ³
€4,447m	€1,009m	~€750m	26%	31%

1. Total market cap based on 11 Nov '13 closing price on Buenos Aires stock exchange (symbol TECO2.BA).

2. Based on reported purchase price being considered of \$1billion; assumes exchange rate: USD1=EUR0.75

3. Argentina Telecom had cash and cash equivalents of ~€727m (representing approximately 22% of the purchase price) and net debt of approximately -€700m as at Sep '13.

Mandatory convertible bond issue – a capital raising in disguise – is a “day light robbery” of minority shareholders

- This convertible bond is simply a capital raising in disguise, with poor terms for minority shareholders.
 - TI pay Telco over 6% for 3 years. Minority shareholders have not been offered this rate.
 - By contrast, the current average yield for BBB- rated bond issues with 3-year duration is ~3%¹
- Telefonica is participating in the offer but Findim and other minority shareholders were not given the opportunity to subscribe.
 - It was an excellent deal for “insiders”, which they fully subscribed to, but not one they wanted to share minority shareholders.
- As a pure capital raise, this deal should had been brought to General Assembly first.
 - If not approved at the future GA, TI must still pay some penalty interest to buyers including Telefonica.
- Convertible bond holders are being offered conversion terms of €0.68 (minimum price) and €0.83 (maximum price).
 - Based on 6% yield, this equates to a €0.57 minimum price and €0.70 maximum price, a good deal for the holders as the current share price at ~€0.68.²

1. Based on analysis of S&P Capital IQ data of current yields for outstanding bonds with 3-year duration issued by BBB- rated telecom sector companies.

2. Assumes maximum and minimum conversion prices are discounted over three years at 6%. Current share price as at 12 Nov 2013.

Brazil: TI claim they are not selling TIM-B, but is this believable?

TI are claiming the sale will not happen as it is a desirable asset to retain *but...*

- TEF has increased their stake in Telco and now bought the Mandatory Convert. Their control of TI will provoke Brazilian regulators to force a sale of TIM because of the obvious conflict of interest TEF has created.
- Because of Brazilian anti-trust laws, TI will likely be asked to sell TIM Brazil because TEF will control both TIM & VIVO (a “win-win” scenario for TEF).

TEF is aware TI will need to sell TIM-B, so they will achieve their desired outcome due to the conflict of interest they have created and now increased.

A key question minority shareholders should ask

Why does this board act so fast – without general shareholder consensus – on very important issues?

An Alternative Vision to Consider

Creating long term value for all shareholders

1 New democratic, independent Board that will fairly represent all shareholders.

2 Defer sale of TIM-B until business strategy is optimised and market environment can yield maximum price.

3 Execute new group strategy focused on driving organic growth from the existing portfolio and through partnerships.

4 Address leverage without selling core assets.

Organising TI into three capability-based operating units can facilitate organic growth

1

Encourage each unit to adopt best practice.

2

Facilitate business heads to think outside the box to capture new growth opportunities.

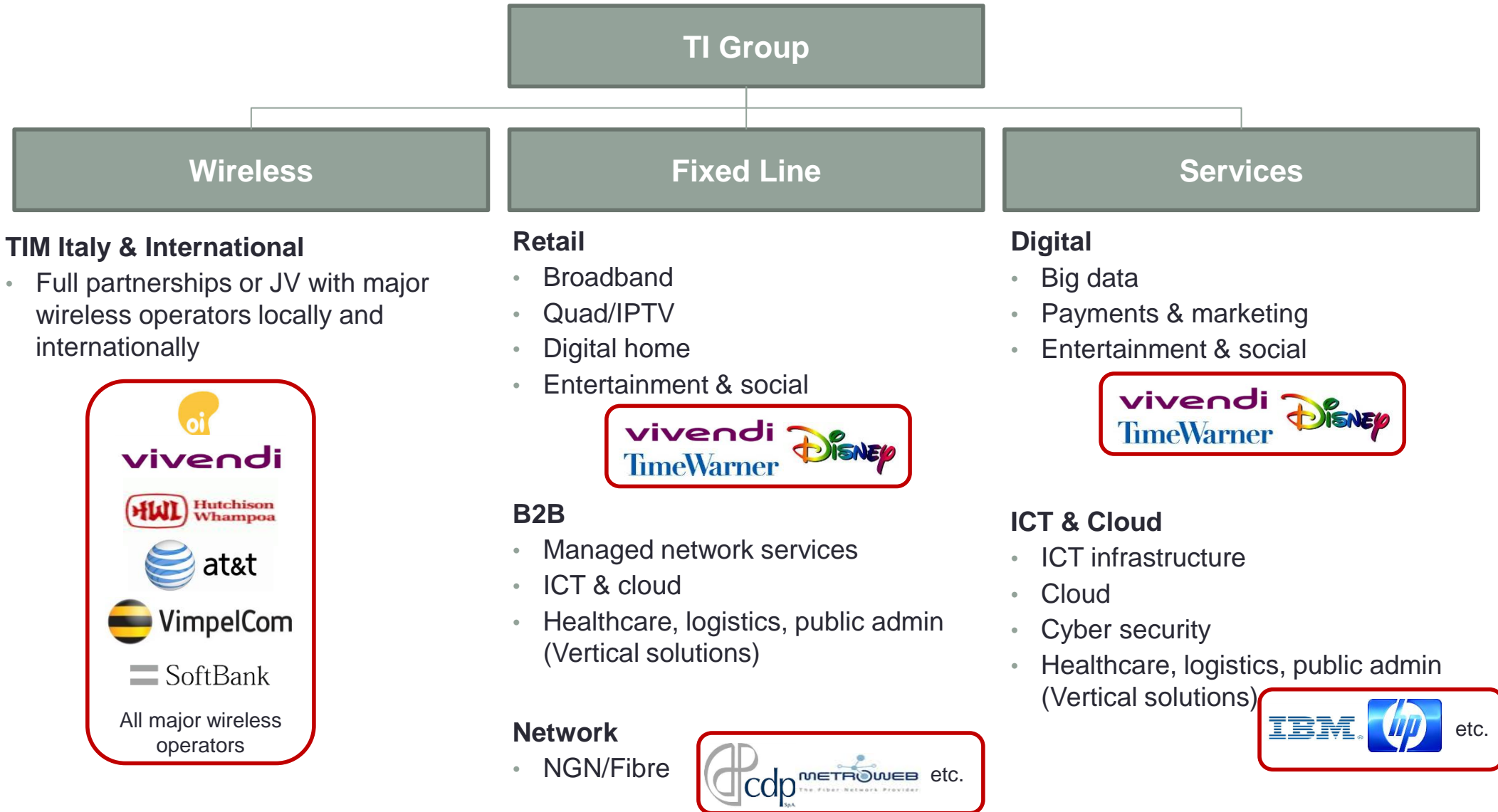
3

Allow business to form strategic partnerships (best-in-class).

4

Create environment for businesses to evolve from monopolistic-utility mind-set to entrepreneur-growth mind-set.

Illustrative “partnering-for-growth” vision



Example partnering potential: with GVT in Brazil

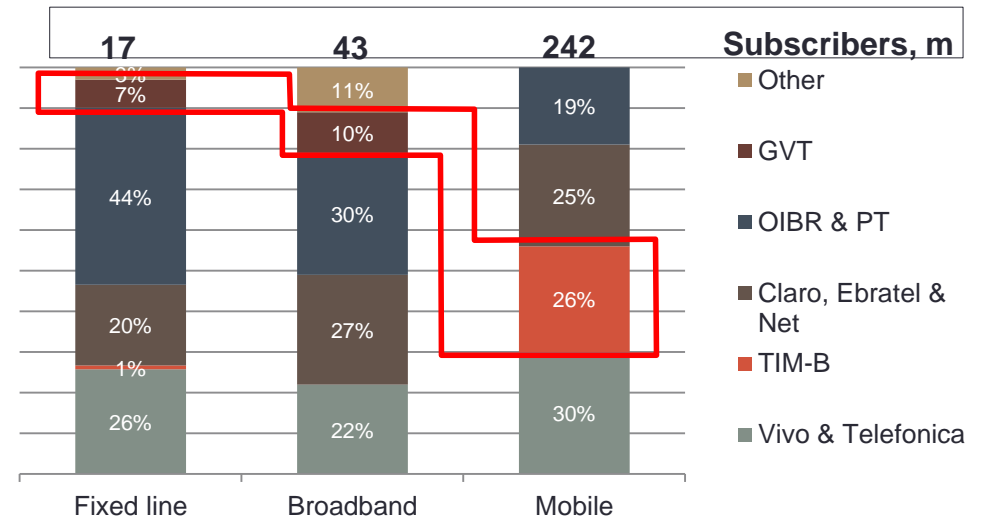
Would an impartial TI Board seriously consider a potential partnership if the valuation was reasonable?

- GVT is recording rapid growth and considerable scope for expansion.
- A GVT + TIM-B combination is of concern to other carriers and would make for stronger competition – especially to Vivo/TEF.

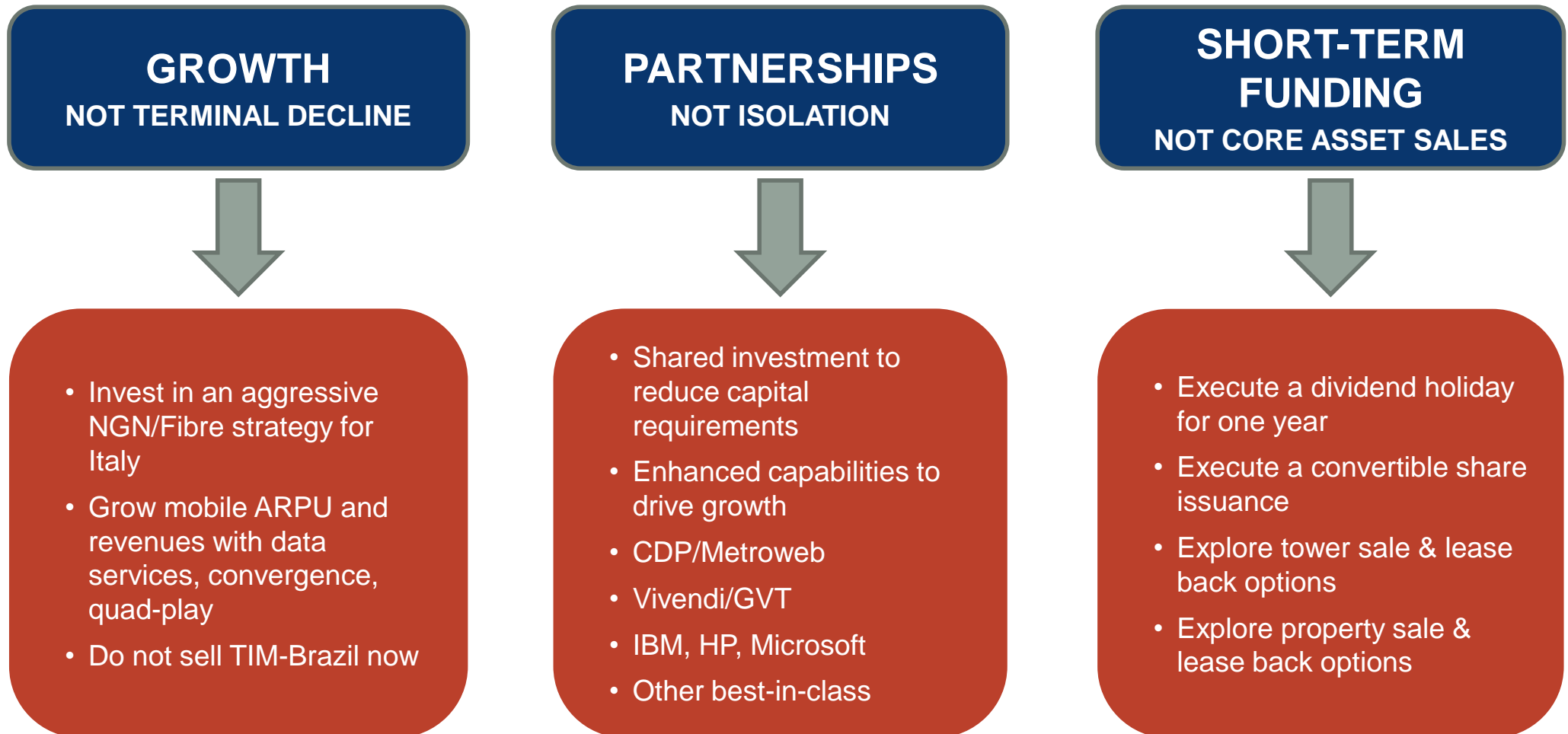
Regional Brazilian services and competitors

	REGIONS					
	1		2		3	
Competitive Presence	Fixed	Mob.	Fixed	Mob.	Fixed	Mob.
GVT	✓		✓			
TIM-B		✓		✓		✓
OIBR & PT	✓	✓	✓	✓	✓	✓
Claro, Ebratel & Net	✓	✓	✓	✓	✓	✓
Vivo & Telefónica		✓		✓	✓	✓

Fixed line, broadband and mobile subscribers in Brazil



Long-term vision benefiting all shareholders equally



Deleverage Through a Growth Agenda

Questions minority shareholders should ask

1 Why would Telco sell shares to TEF if the upcoming plan was solid and attractive?

2 Why should Telco receive €1.09/share vs ~70cents for the rest?

3 Would Telco vote for a GVT-style deal if it creates a stronger competitor to Vivo (TEF)?

4 Can non-TEF members of Telco act impartially given the call option?

Appendix 1: Why Should Performance to Date be Challenged?

Deterioration over six years

SHARE PRICE

-70%

€2.35 TO €0.71

LOSS OF
MARKET CAP

€28B

RATING STATUS

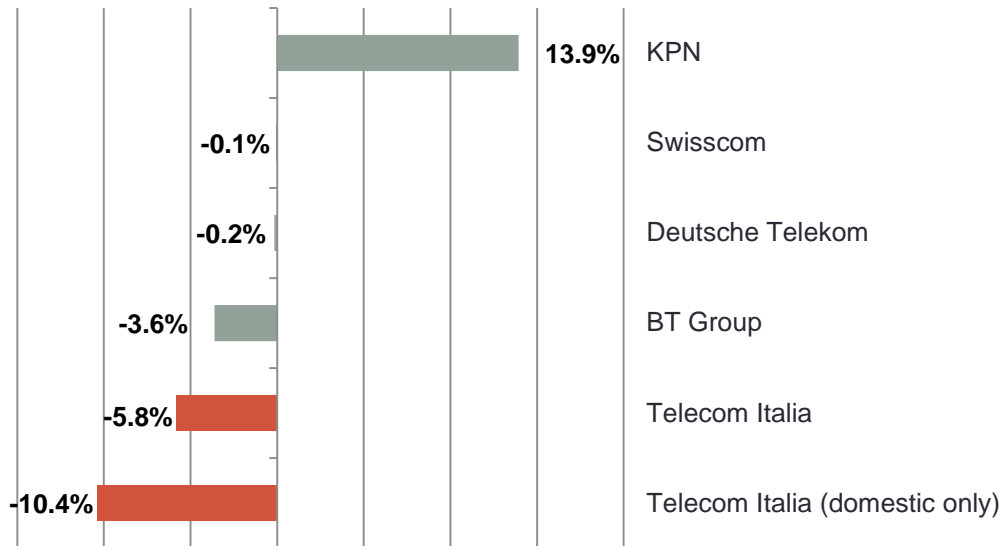
STABLE TO
JUNK

DECLINE IN EPS*

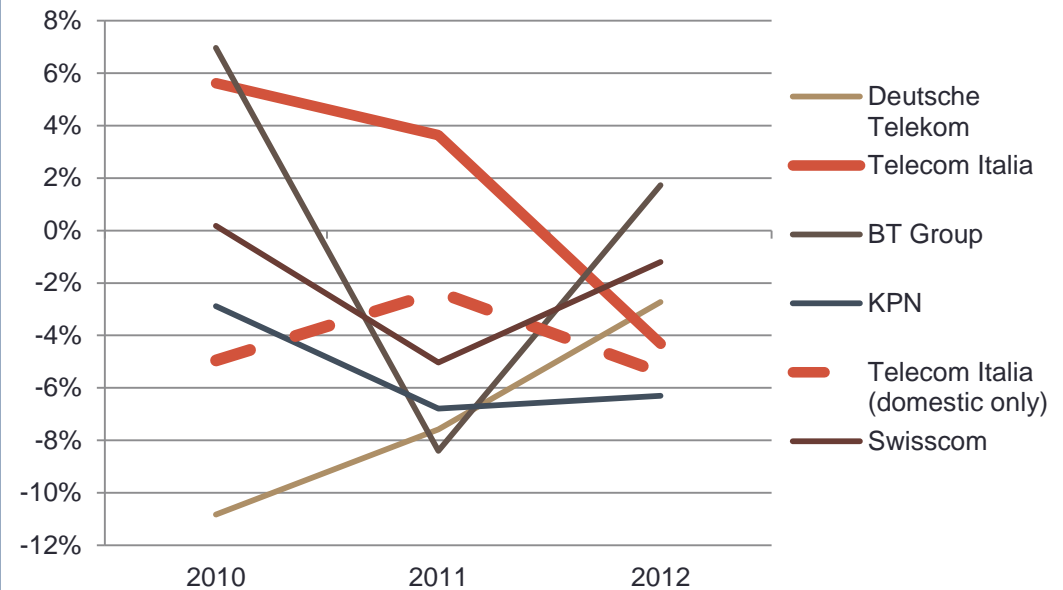
25%

Deteriorating performance v peers

Revenue Growth Over Prior Year, H1 2013 YoY

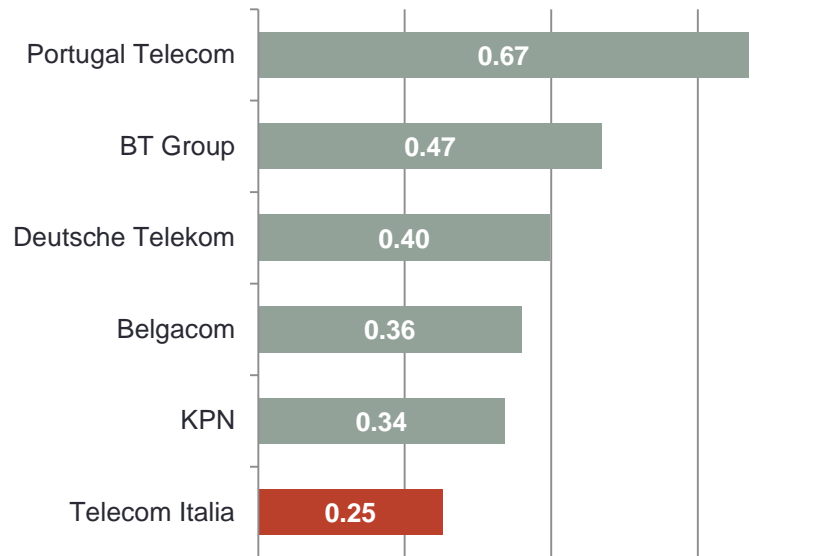


EBITDA Growth, 2010-12 YoY

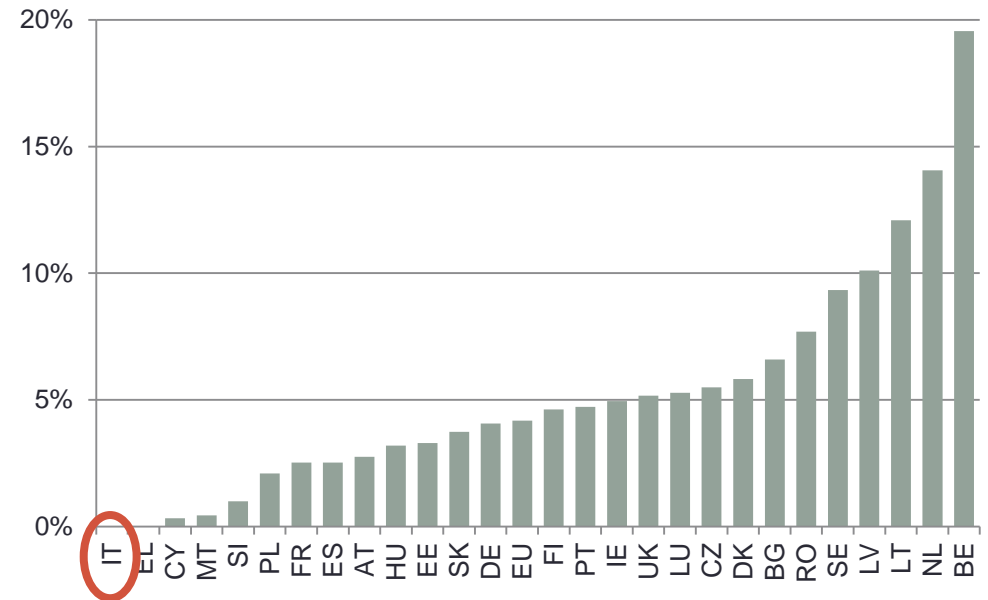


Limited investment

Capex/EBITDA Ratio, 2010-12

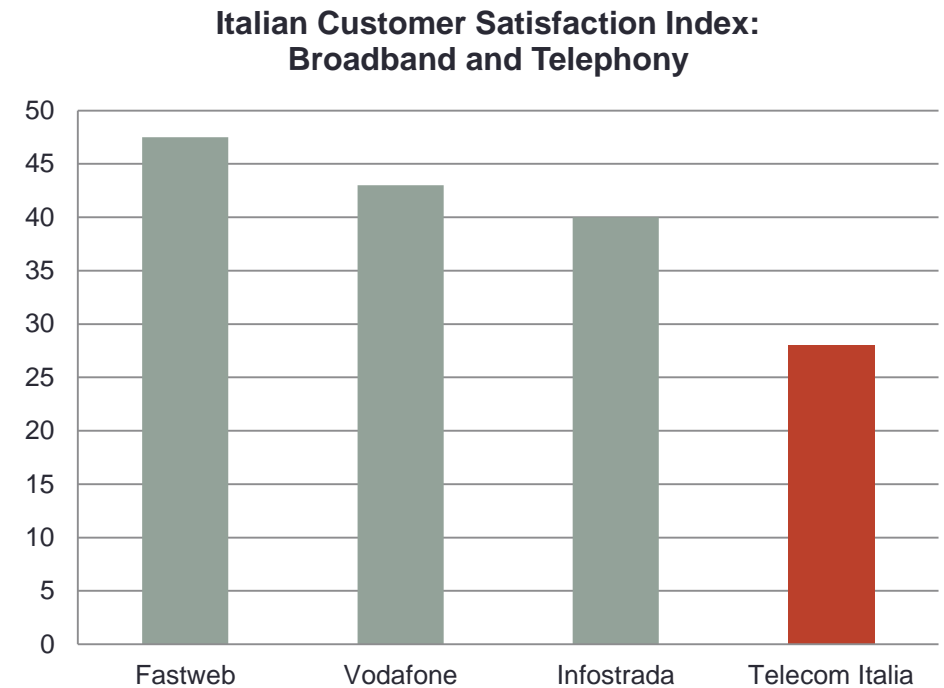
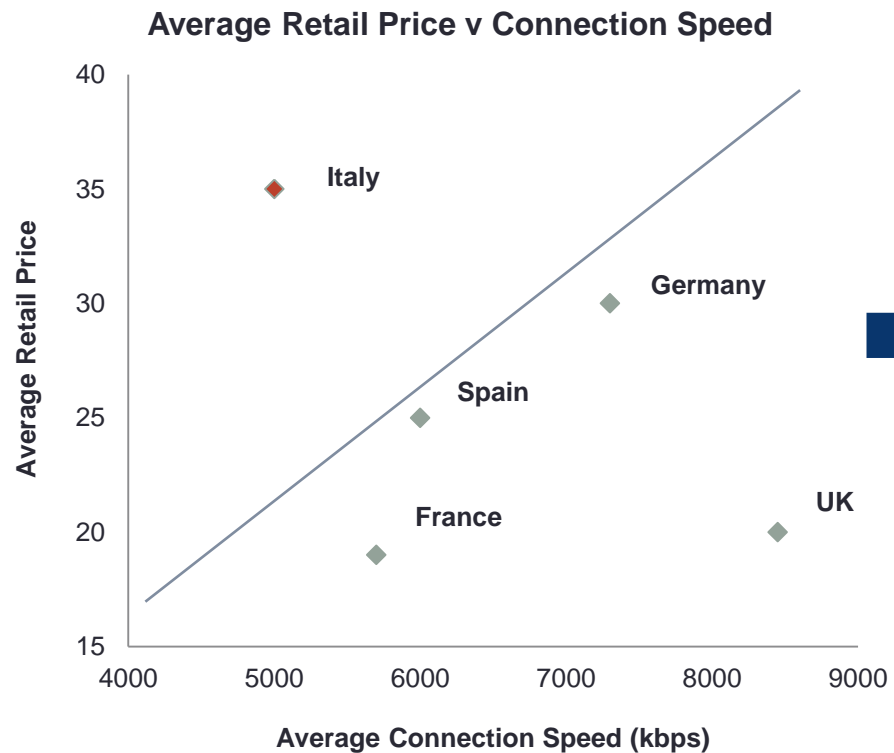


High Speed Broadband Penetration¹, Jan 2013



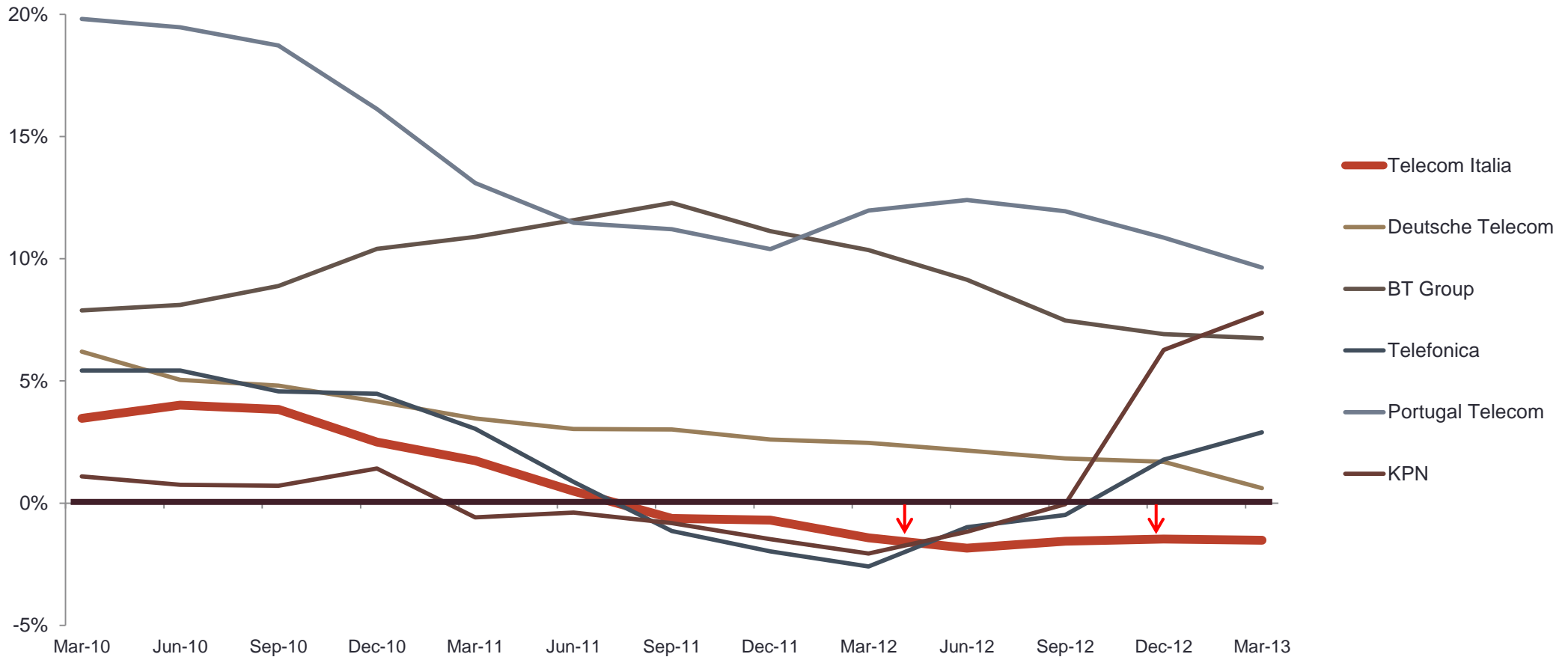
1. High speed considered at least 30 Mbps. Total subscriptions by households and enterprises divided by population.

...resulting in poor service and dissatisfied customers



... and customer desertion

Broadband Subscriptions, Growth YoY



Appendix 2: Strategy, What Strategy?

Questionable decisions:

Telecom Argentina's monopoly issues

Telefónica's involvement has led to sub-optimal outcomes for TI shareholders

2008-2010:

TI likely forced into a suboptimal deal with Grupo Wertheim (W)

- TEF's ownership of TI violated local monopoly situation.
- W litigated for 2 years; including actions with Argentine Government.
- Anti-monopoly commission and local court suspended TI options.

2013:

Increased anti-monopoly pressure from Government

- Having a TEF controlled board increases nationalisation risks.
- For the second time Argentine Planning Minister requested that the CDNC review TEF actions within Telco Holding.
- Risking exposure to competitors.

Was Telecom Italia forced into a bad deal due to the Telefónica conflict?

Questionable decisions:

Fire Sale of Hansenet

Rushed disposal of growing broadband business did not maximise value

- 2003** Acquired Hansenet for €250m.
- 2006** Acquired Time Warner's AOL Germany Internet access business for €675m (\$870m equity value) in cash.
- 2007** EBITDA increased by 94% to €281m, 26% EBITDA on a growing basis, and with a positive cash flow on a full year basis, revenues increased by 103%.
- 2008** Telecom Italia is Germany's second-largest broadband provider.
- 2009** TI sells Hansenet to TEF at an undisclosed multiple for €900m.
- No public auction: the Company was not put up for sale.
 - Board said sale would allow TI to concentrate on its core markets of Italy and Brazil.
 - Average multiple paid for telecom services in 2009 was 7.3x EBITDA¹, valuing Hansenet at ~€1.9b.
 - Findim opposed this process.

Did Telco act in the best interest of all shareholders?

History of ignoring suggested alternatives

Management have not been open to alternative suggestions to improve shareholder value

In early 2009, Findim met with TI senior management and presented alternative options to consider

Oi/TIM-B merger

- Findim met with Oi's controlling shareholders who were receptive to explore potential merger talks. No follow-up was executed by TI

Look into partnering in network (CDP)

- Findim suggested a strategic partnership opportunity existed with CDP for investment and fibre deployment acceleration.

Higher NGN investment

- Findim recommended higher investment in NGN to address weakening competitiveness in Italy.

Sell Telecom Media

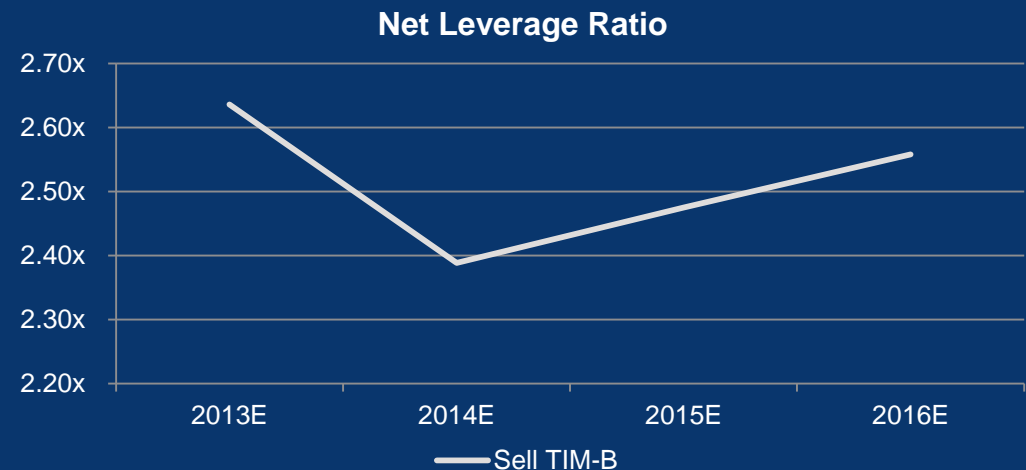
- Findim suggested to senior management the divestiture of Telecom Italia Media.

Management made no attempt to execute against any of the suggestions or follow-up with Findim

Is now the time for Telecom Italia to sell TIM-B?

Illustrative TI Financials with Sale of TIM-B

	2013E	2014E	2015E	2016E
Revenue	28,715	20,509	19,829	19,188
EBITDA	10,920	8,465	8,056	7,670
Net Debt	28,782	20,219	19,939	19,622
Capex	4,852	5,215	4,343	3,895
Operating Cash Flow	6,068	3,250	3,713	3,775
OCF % of Revenue	21.1%	15.8%	18.7%	19.7%



- **Selling the growth engine of TI leaves diminished options for future growth.**
- **Potential of forced sale of TIM-B due to anti-trust issues, resulting in sub-optimal value**
- **Potential need to split TIM-B in order to sell, also diminishing value**
- **CAPEX will not decline due to network improvement commitments.**
- **Proceeds from a sale are not sufficient to materially deleverage the company.**
 - Lose ~€1.9b of on-going EBITDA margin; lose growth optionality.

A forced sale of TIM-B will not realise full value

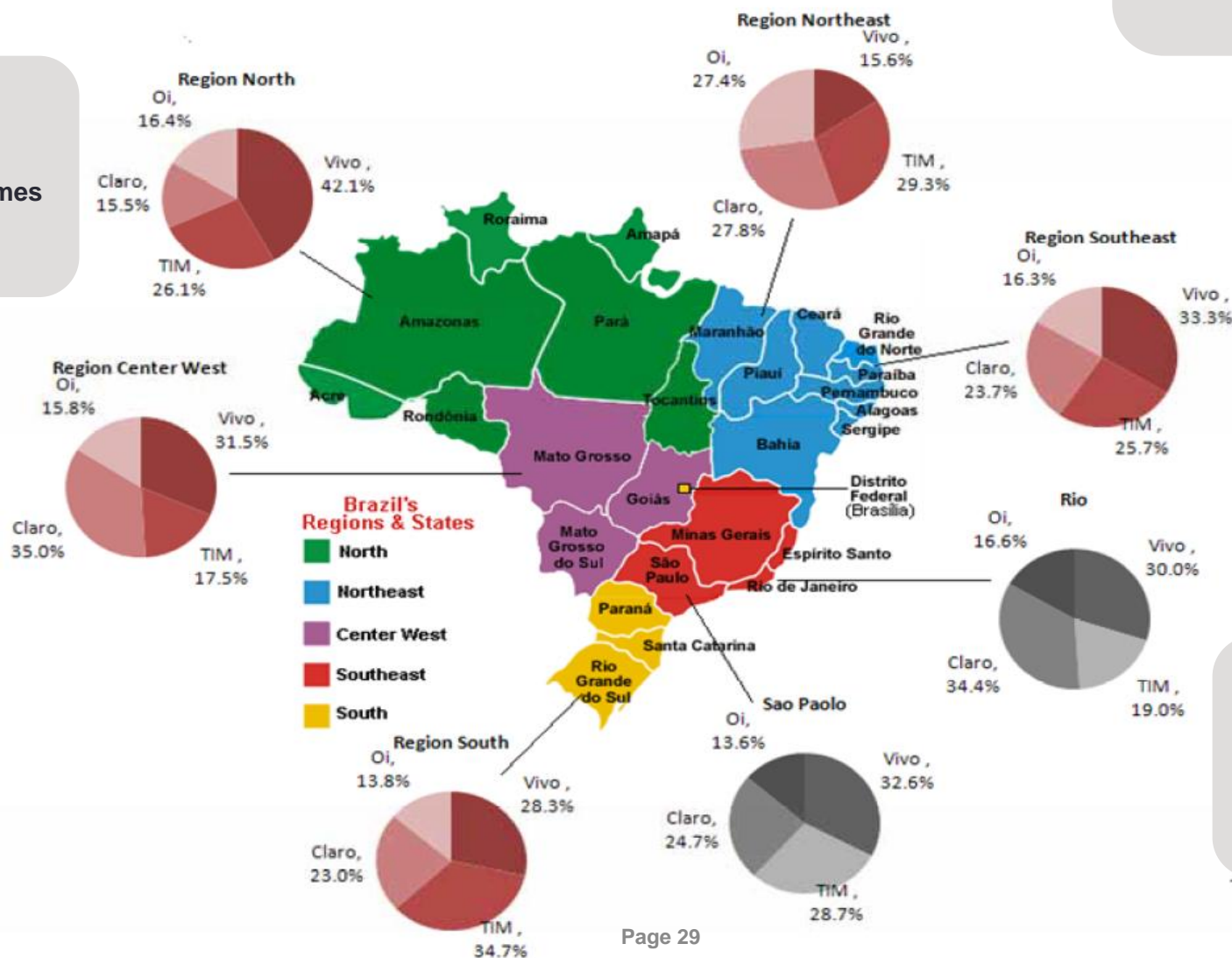
- A distressed process will yield last-minute bidding and poor multiples.
- Nobody wins if *only* Vivo, OIBR and AMX are allowed to show up.
- Sale to competitors will be scrutinised by antitrust authority (CADE) and Anatel.
- National market shares only part of the picture.
 - ... regional & state level info more complicated.
- The timing to sell now is not appropriate:
 - Potential MTR reductions are depressing valuations until elasticity benefits offset cuts.
 - Market has underperformed YTD – but mobile data revenues may boost growth.
 - 2014 World Cup considerations (e.g., visibility, migration risks).

TIM-B's value is in its entirety

A Break-up Destroys Entity Value

Brazil is a prepaid market where users have multiple SIM cards and use them per promotions and with friends/family on same network.

Break-up would impact on-net national call volumes and revenues.



A breakup will open complex migration and service interruption risks.

Brazil is still an attractive market

MISCONCEPTIONS

Substantial synergies to be derived from business combinations.

TIM-B lacks an incumbent copper network.

Brazil is mature market with mobile penetration >130%.

Slowing voice wireless revenues.



REALITY

Synergies on their own are unlikely to be a strong argument to convince regulators unless timing is right and material customer benefits can be proven.

TIM-B can target fixed-to-mobile substitution with little cannibalization.

Brazil is a 85% prepaid market. High concentration of customers carrying multiple SIM cards – 40% of prepaid users carry more than 1 SIM card.

4G Data penetration should remain strong.

The “white knight” scenario – where TEF buys TI post TIB-B sale – is *suspect*

Illustrative Consolidated TEF + TI Financials (Post TIM-B Sale)



1. Net debt based as at 30 June 2013. TIM-B sale assumptions: 7x exit; 80% of cash proceed used for debt reduction; 3% transaction costs; no capital gain tax assumed. Assumes TEF net leverage ratio (net debt/EBITDA) of 2.7x for H1 2013, which remains at 2.7x in post-merger scenario.

2. Additional CAPEX assumes \$3.5B incremental capex for network upgrade commitments in Italy within the next 3-5 years.

3. Service revenue growth rates based on BofAML estimates for Q2 2012. Selected growth rates for other markets: Argentina 20.1%, Germany 3.3%, UK -2.3%, France -8.5% and Spain -11.8%.

Sources: BofAML Global Research, company financials