

TELECOM ITALIA GROUP

Full-Year 2012 Preliminary Results and 2013-2015 Plan Outline

February 8th · 2013

Telecom Italia – Domestic Market Full-Year 2012 Preliminary Results and 2013-2015 Plan Outline

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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

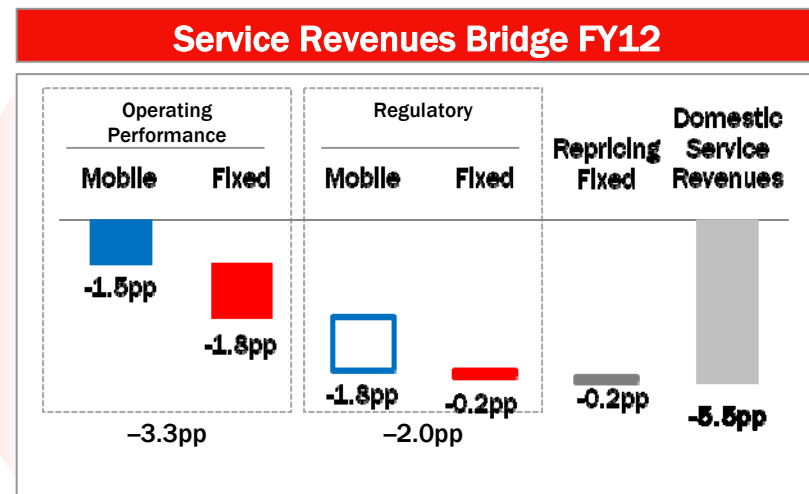
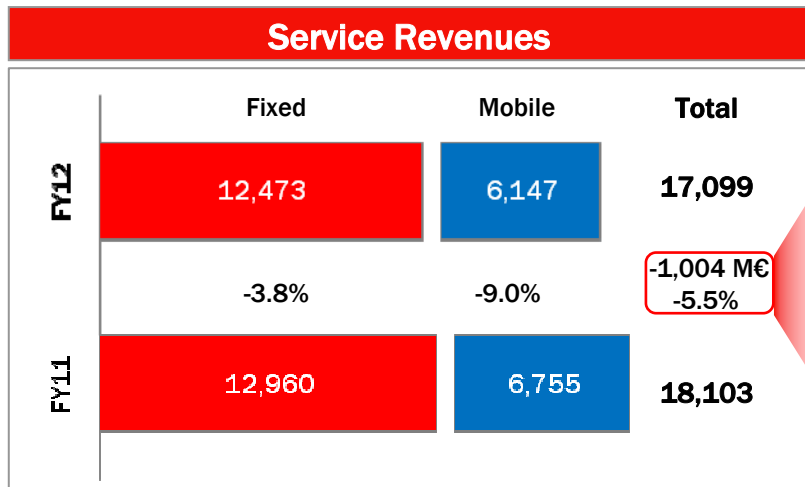
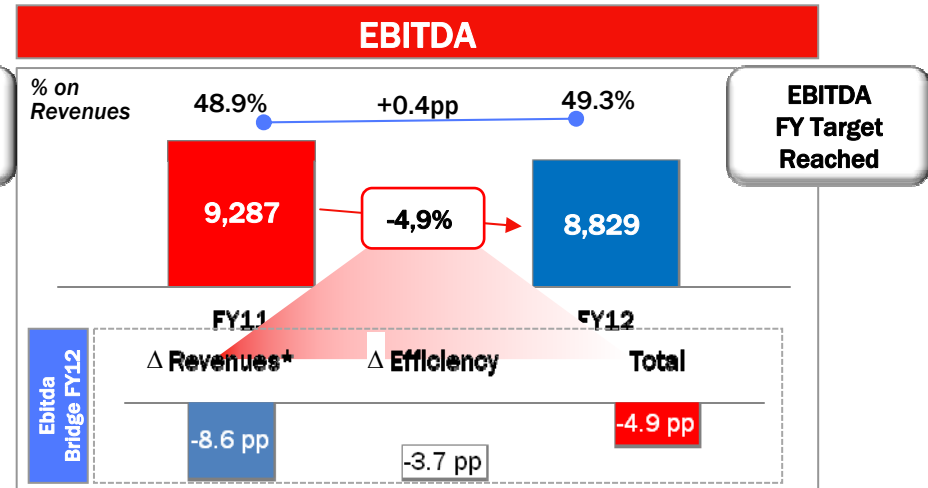
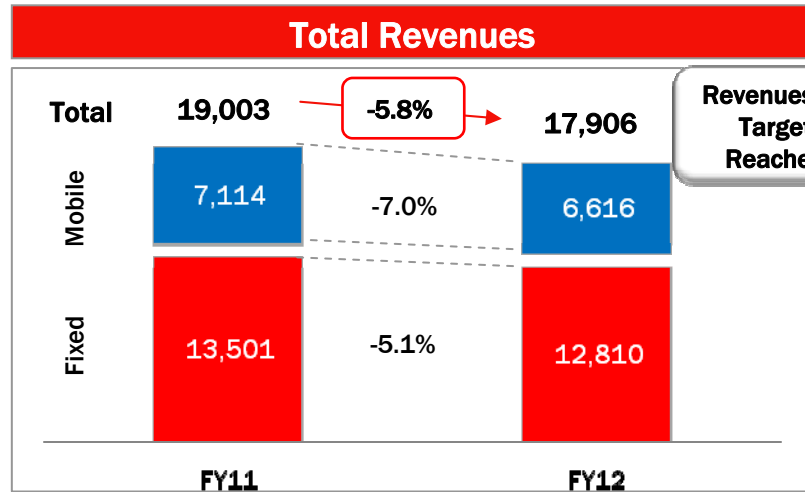
- ▶ **Domestic 2012 Preliminary Results**

- ▶ **Telecom Italia Domestic Plan**
 - ▶ Consumer Segment
 - ▶ Business Segment
 - ▶ Cost Efficiencies
 - ▶ NGN & LTE Deployment

 - ▶ Take-Aways
 - ▶ Appendix

Domestic Results: 2012 Figures

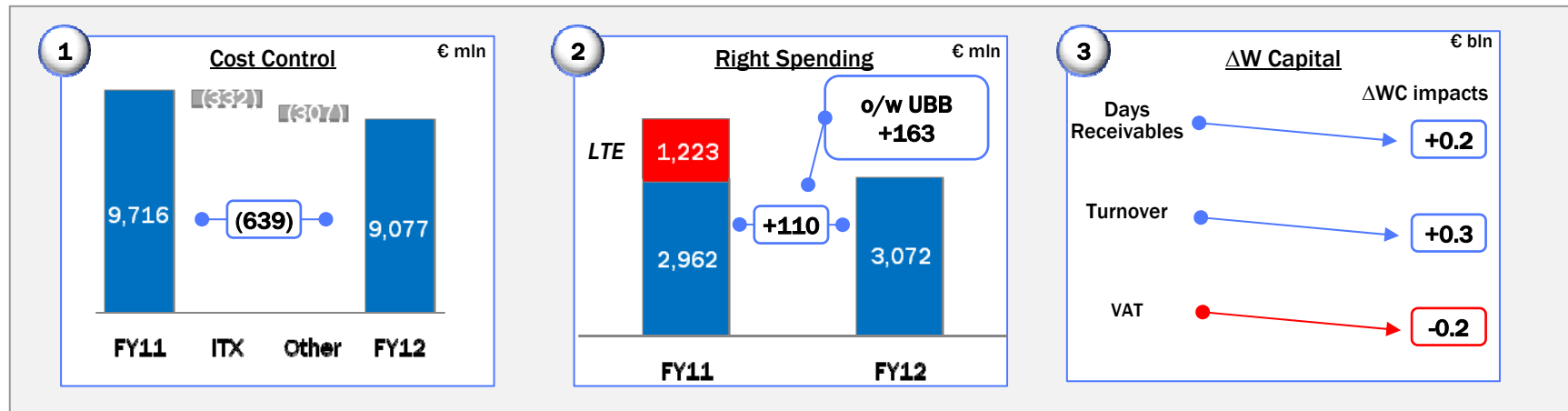
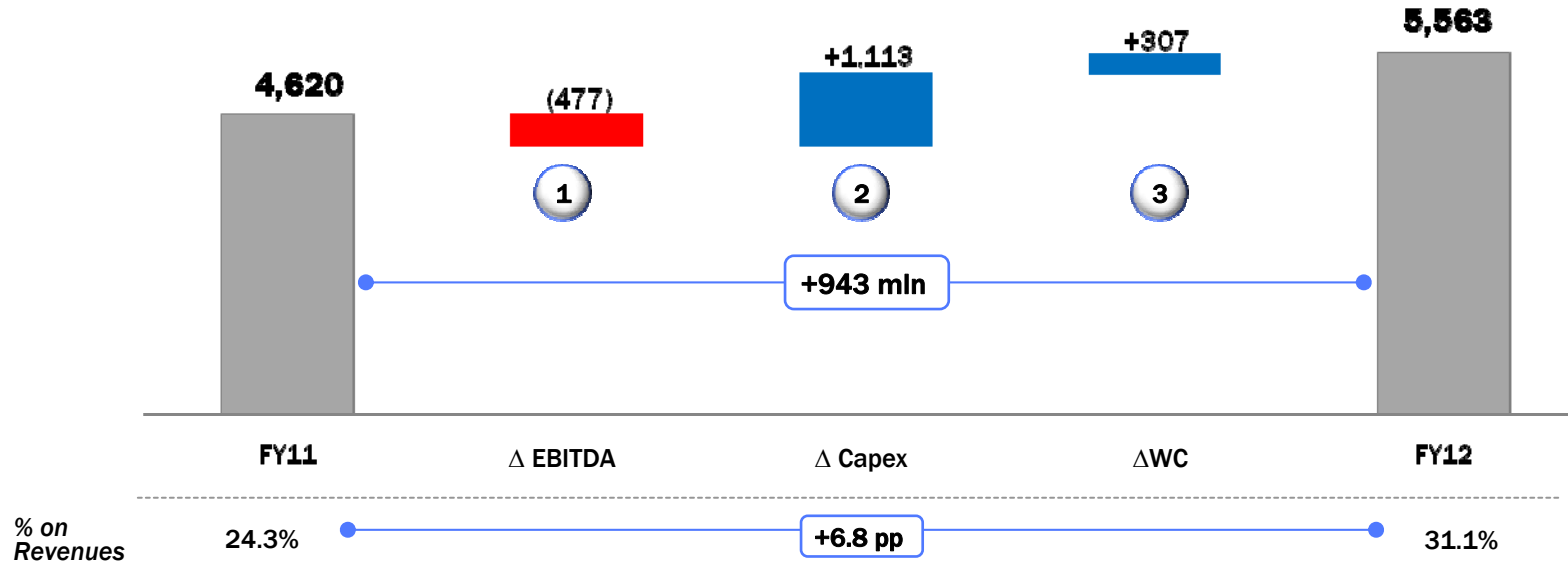
Euro mln, Organic data, %



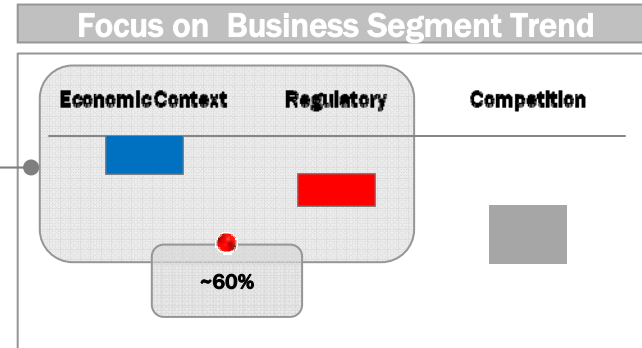
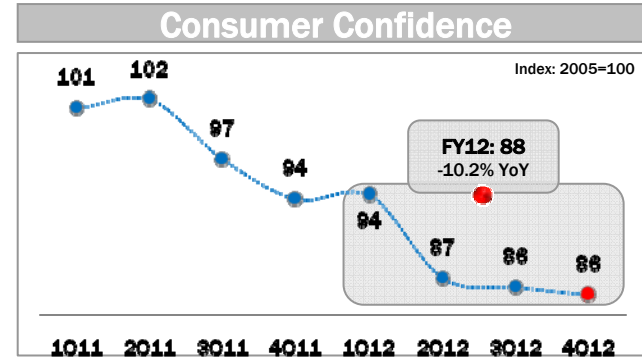
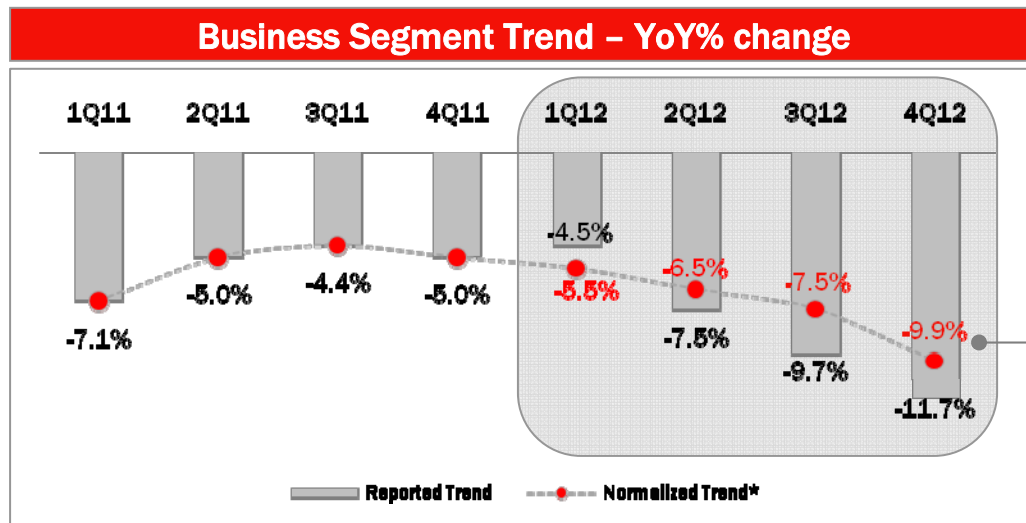
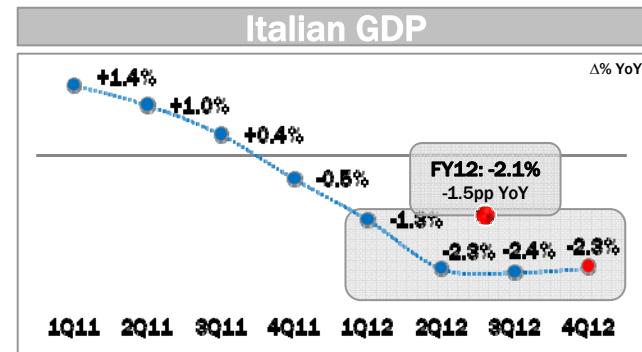
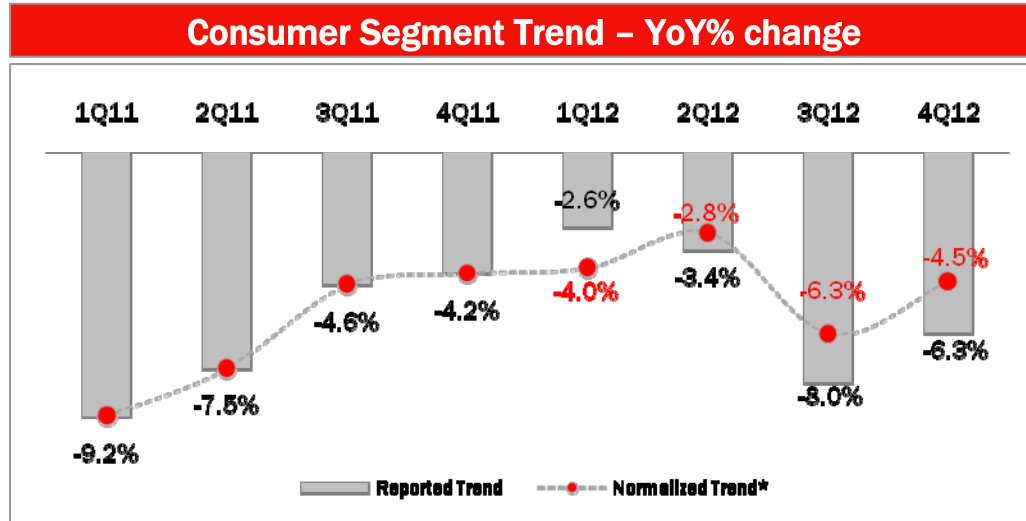
*net of Interconnection cost

Domestic Operating Free Cash Flow Evolution

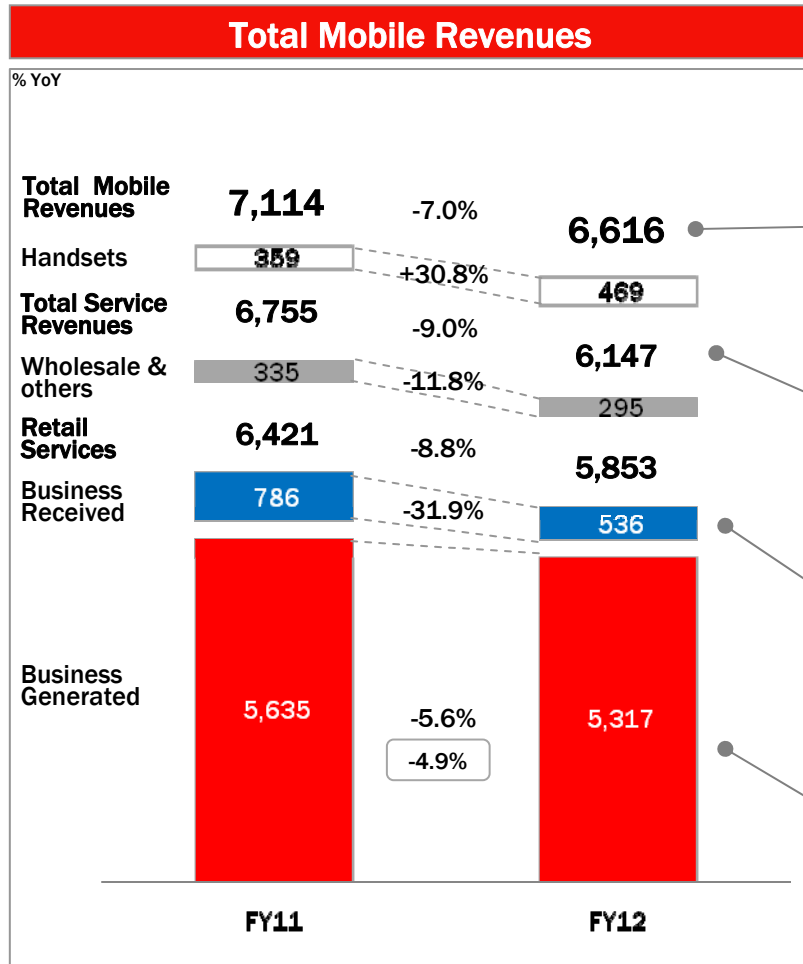
Euro mln, Reported Data



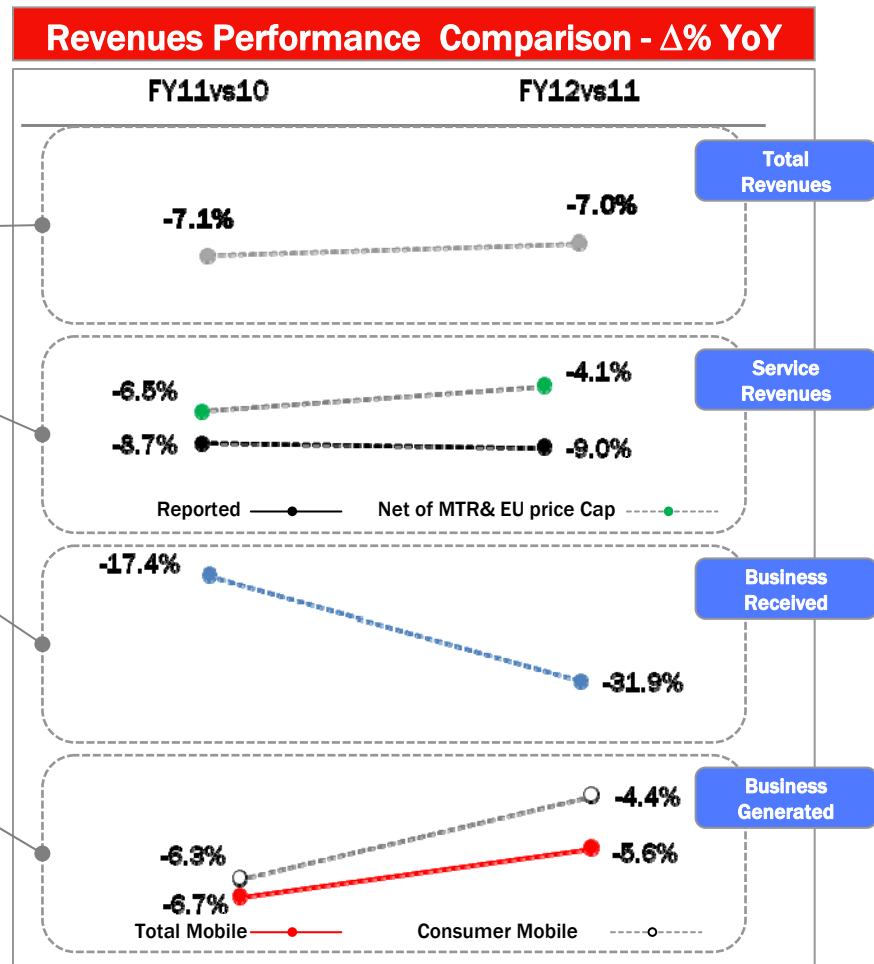
Service Revenues Trend by Segment: Consumer & Business



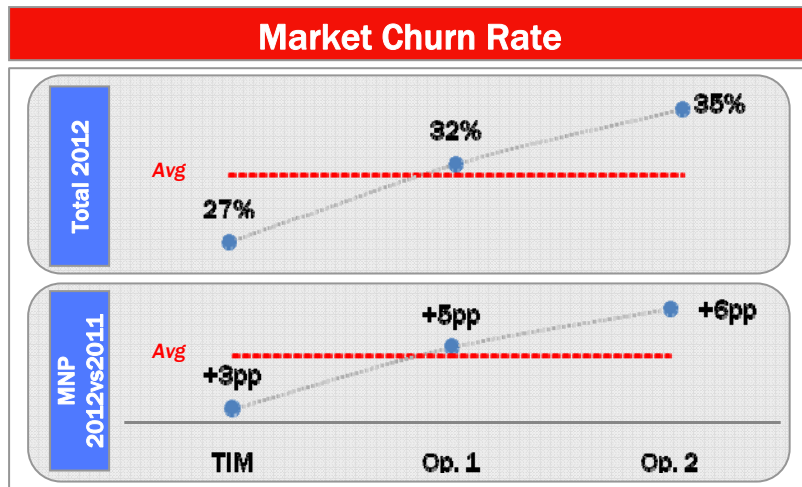
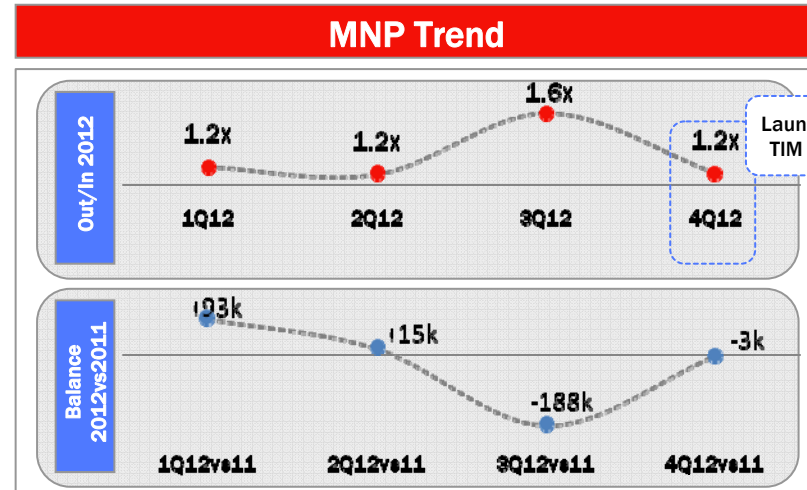
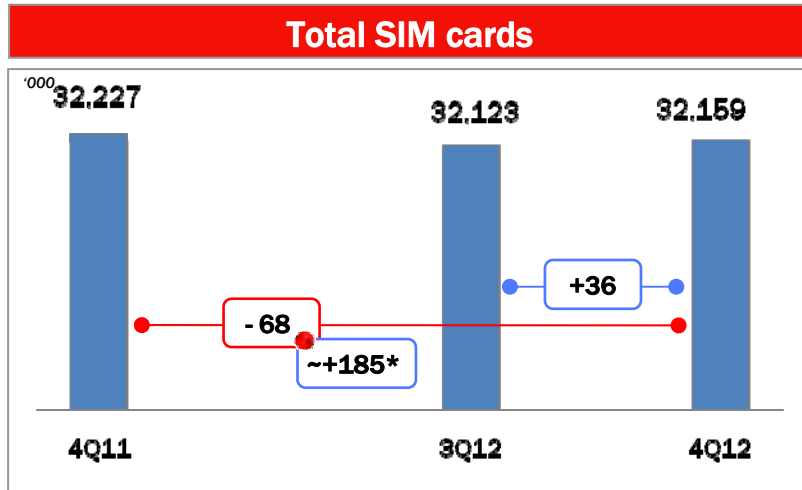
Domestic Mobile Overview



 Excluding EU Roaming impacts



Domestic Mobile: Customer Base Trend

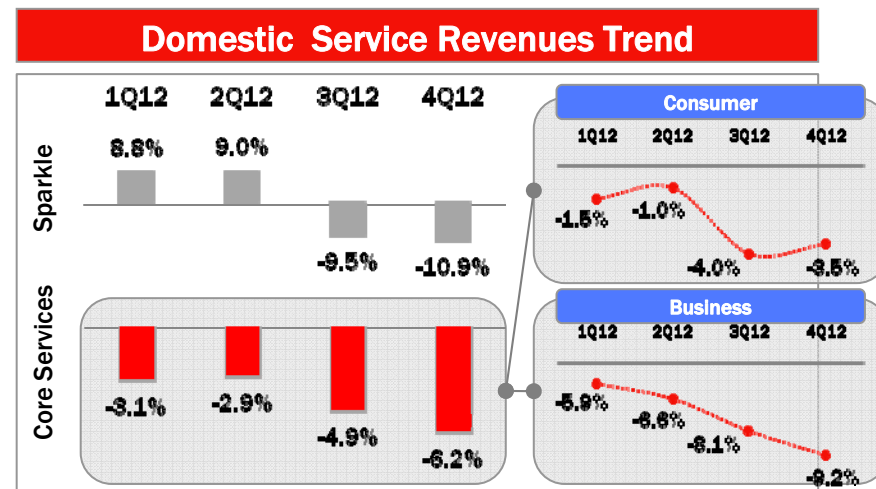
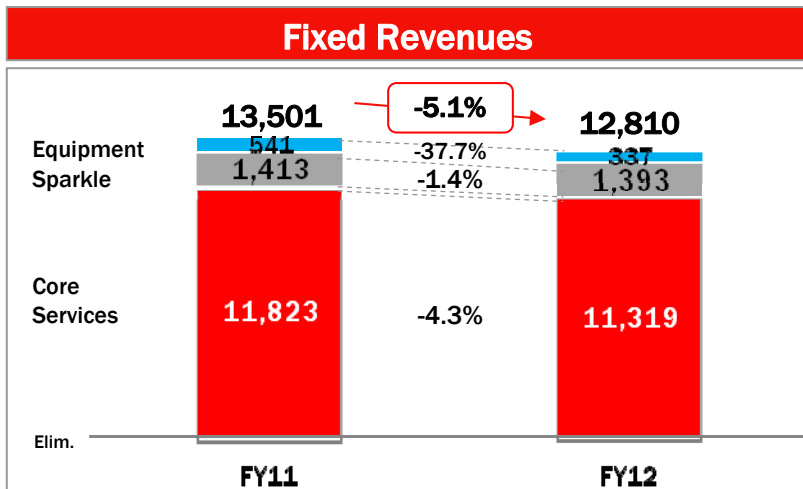
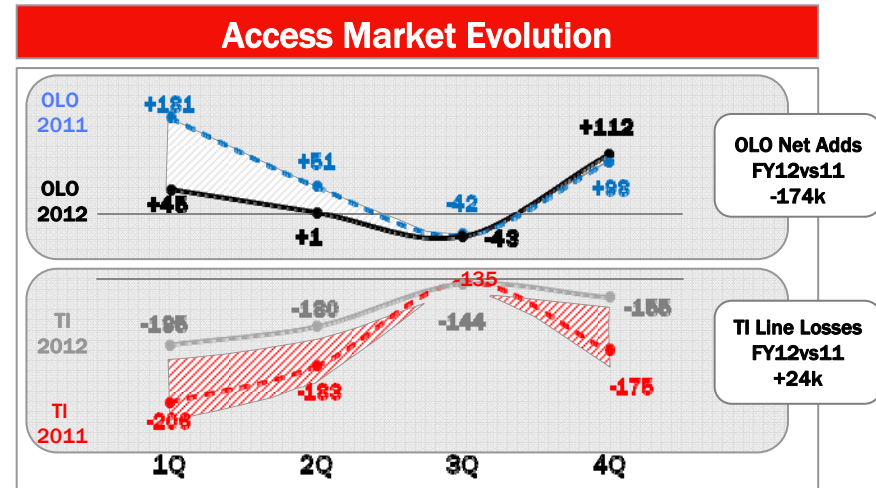
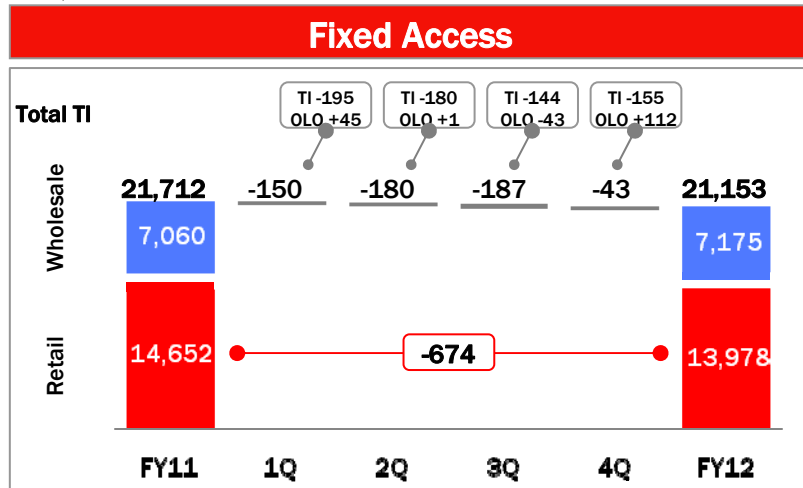


* Excluding MTV (powered by TIM) MVNO lines discontinuation occurred in 2Q12

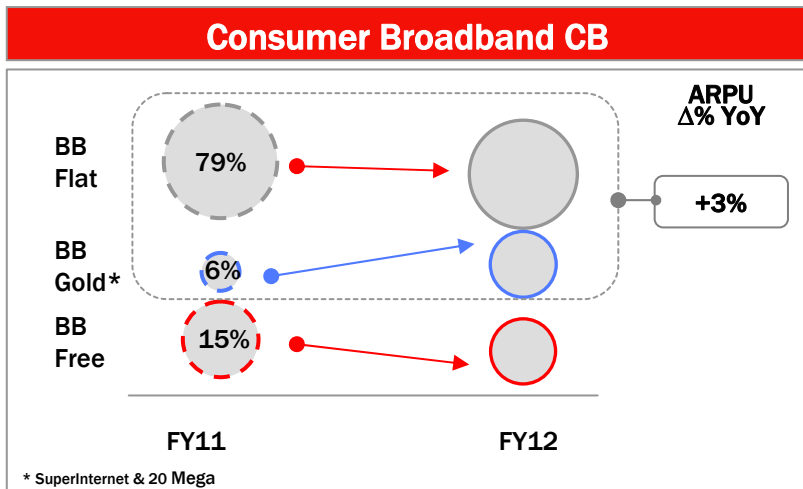
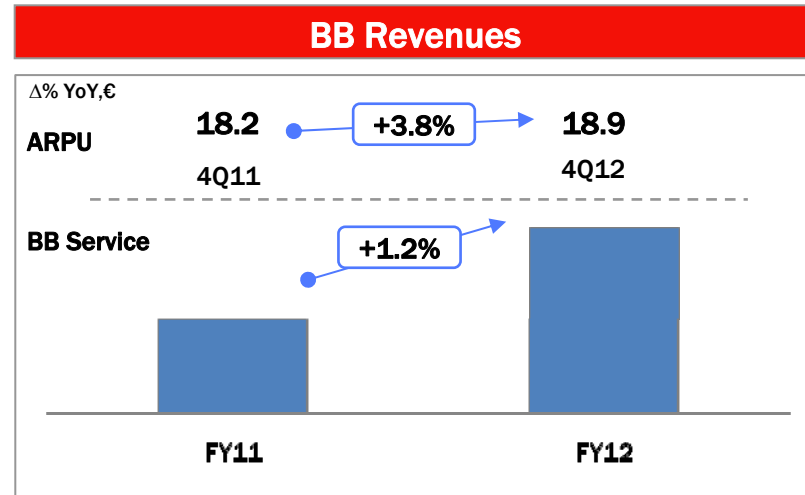
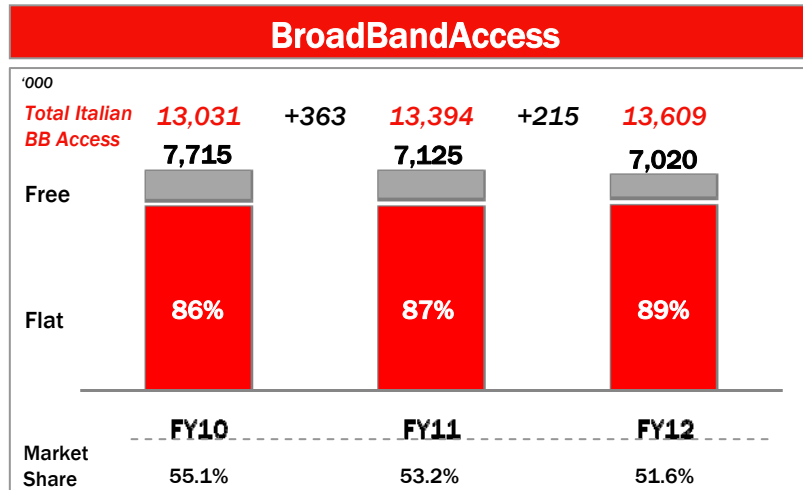
- ### Highlights
- ▶ Stable YoY performance in Net Adds, confirming leadership in the Italian Mobile Market
 - ▶ MNP Balance reduced in 4Q, after New Offers Portfolio launched in October
 - ▶ Best-in-class position in Churn Rate confirmed

Domestic Fixed Business

'000, € mln



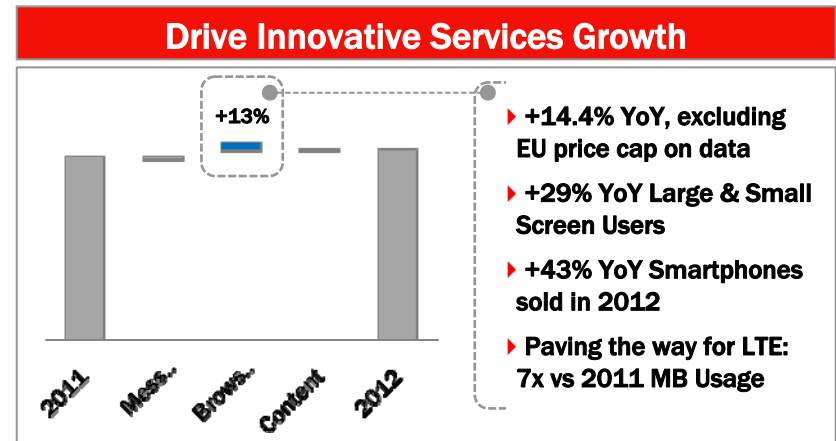
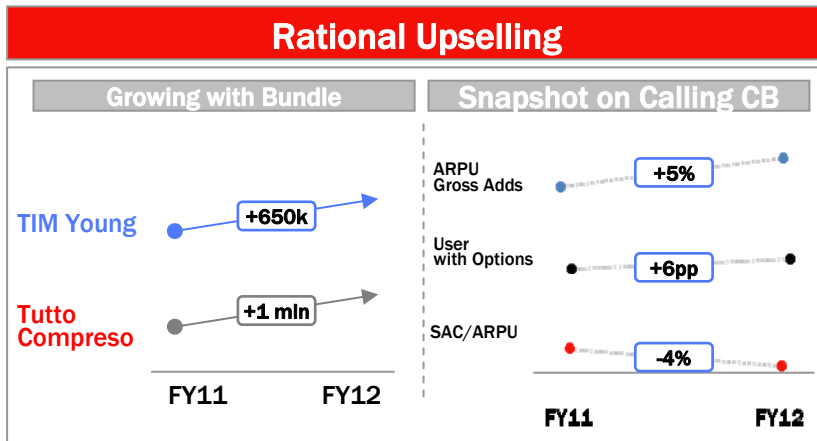
Domestic Fixed BroadBand Business



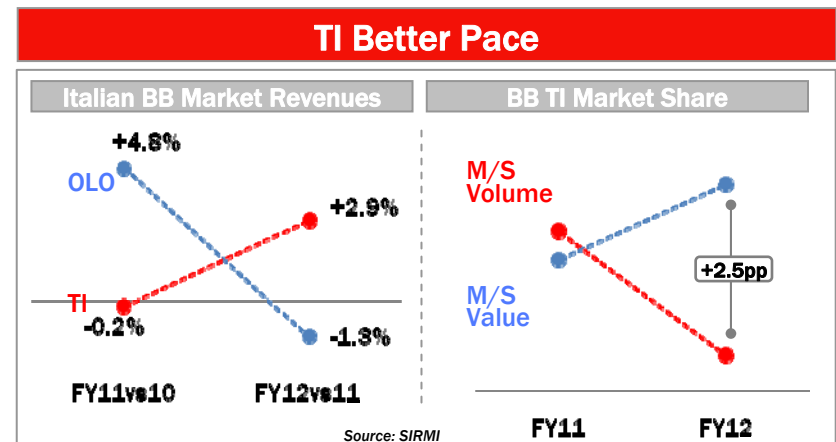
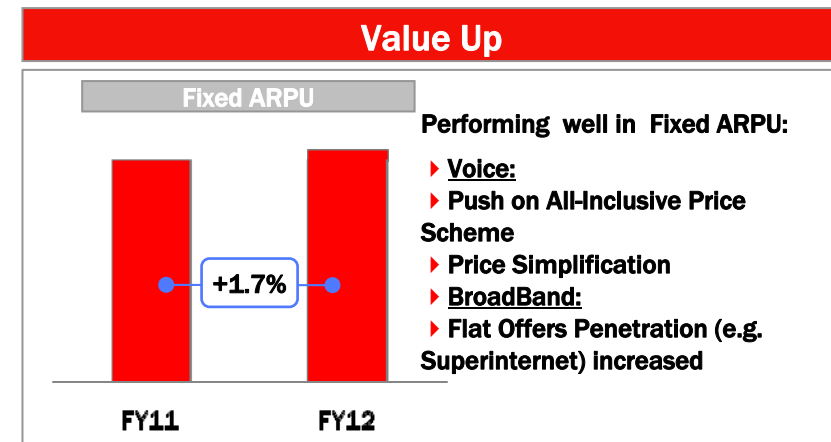
- ### Highlights
- ▶ Weaker BB Market Performance
 - ▶ Constant increase of flat offers, reaching almost 90% of TI Customer Base, combining solid growth in BB ARPU and in Service Revenues
 - ▶ Successful Premium campaign (Superinternet and other Gold Offers) on Consumer Segment, paving the way for growing demand for UltraBB Services

FY2012: Focus on Domestic Consumer Segment

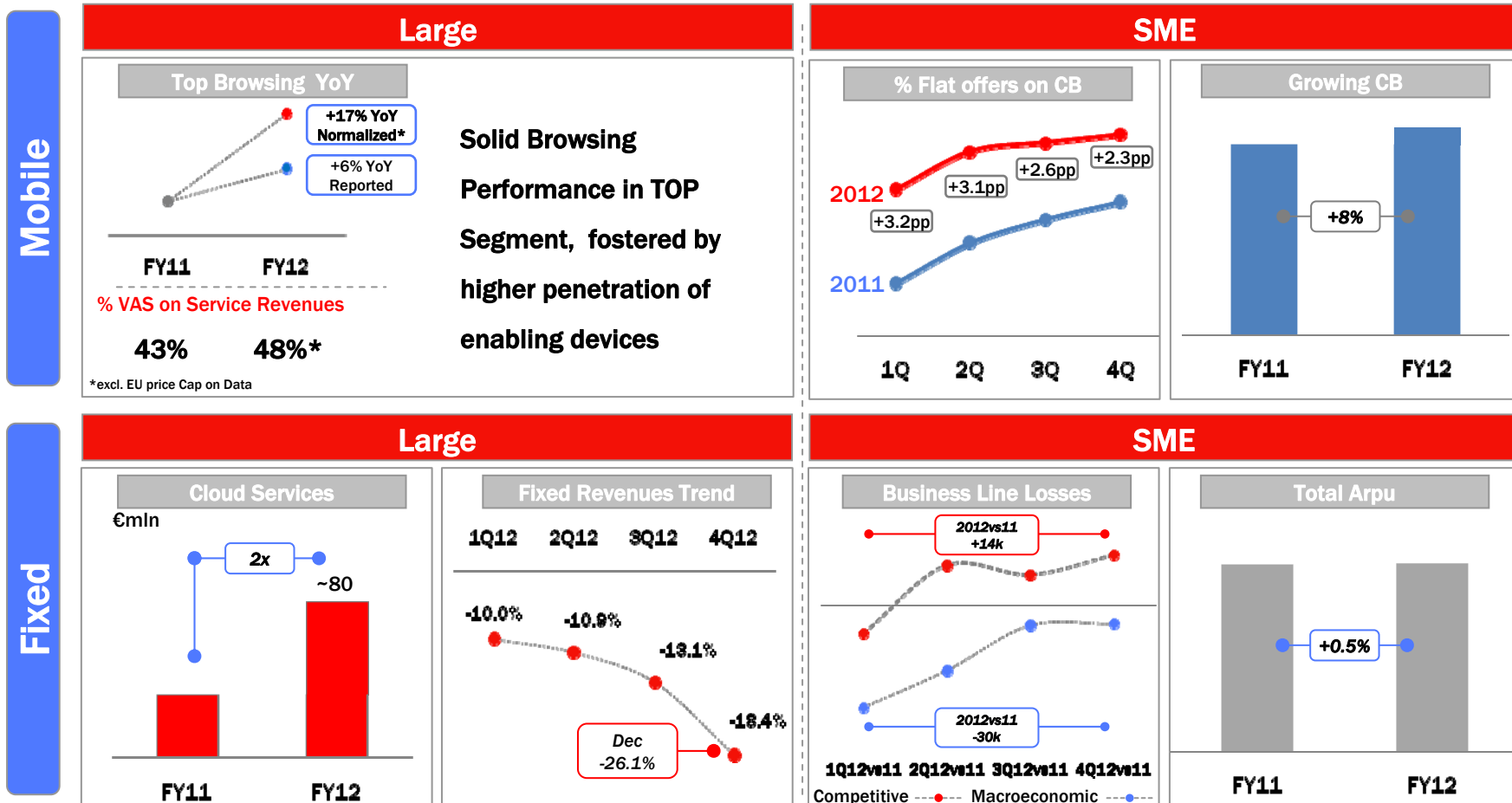
Mobile



Fixed



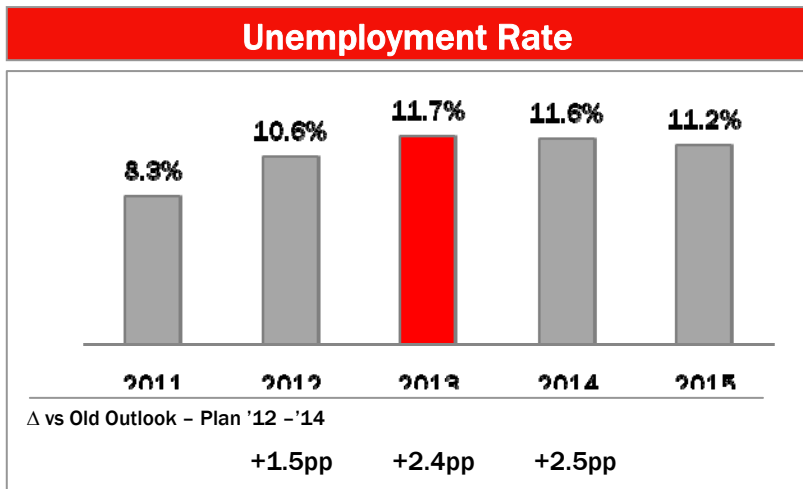
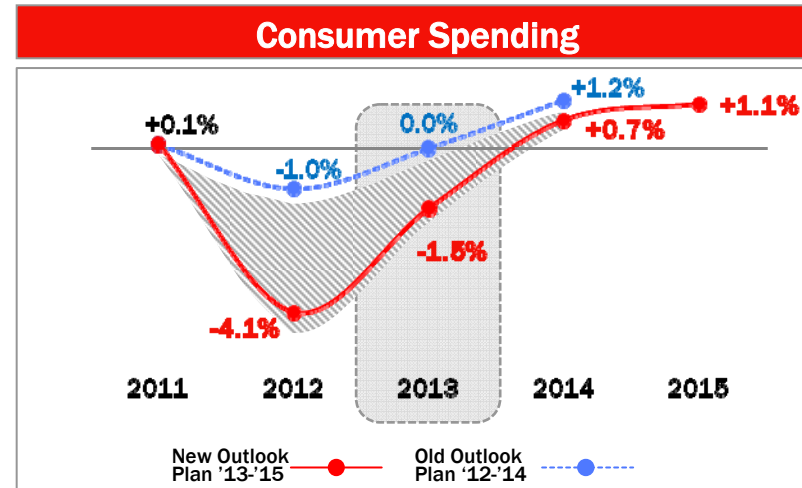
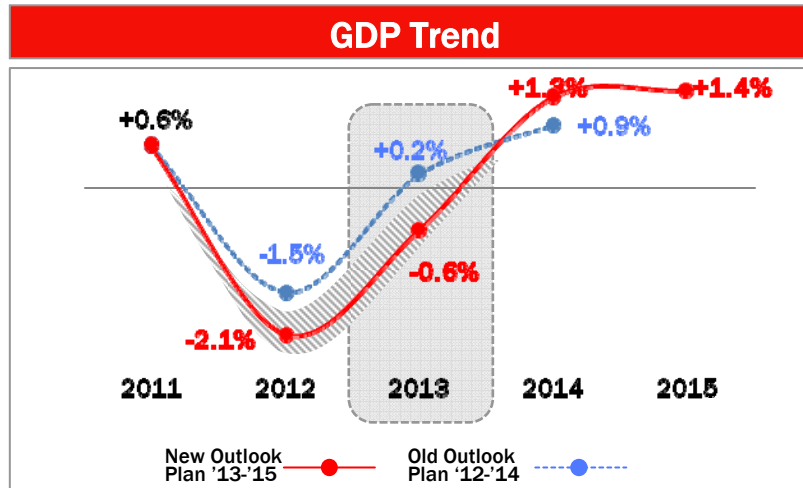
FY2012: Focus on Domestic Business Segment



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- ▶ Appendix

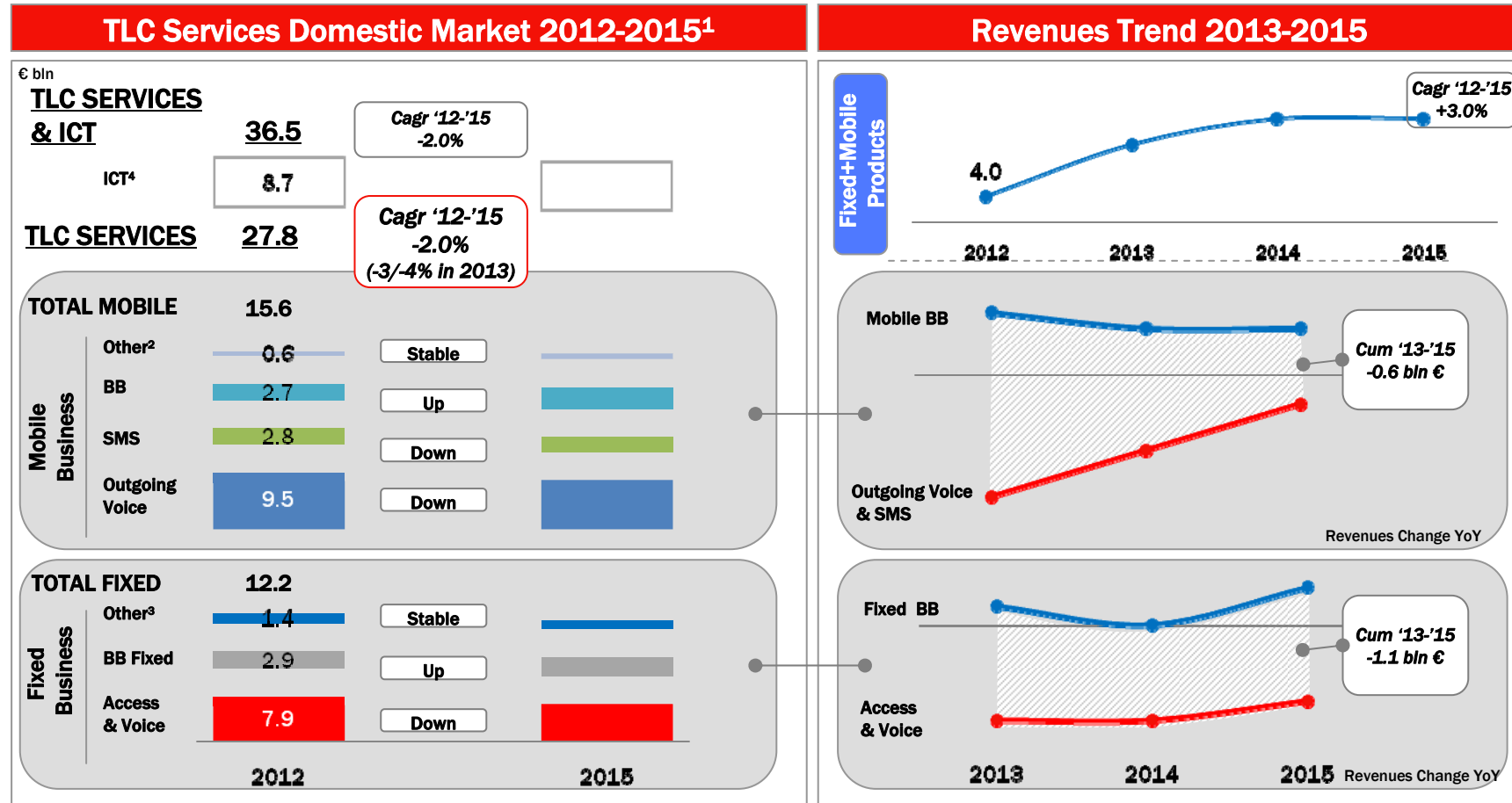
Italian Economic Outlook: Growth Forecasts Postponed



- ### Highlights
- ▶ Lower than expected Italian GDP growth, negative also in 2013
 - ▶ Consumer spending contraction confirmed in 2013, after bad performance in 2012
 - ▶ Protracted period of high unemployment

Source: ISTAT, Prometeia

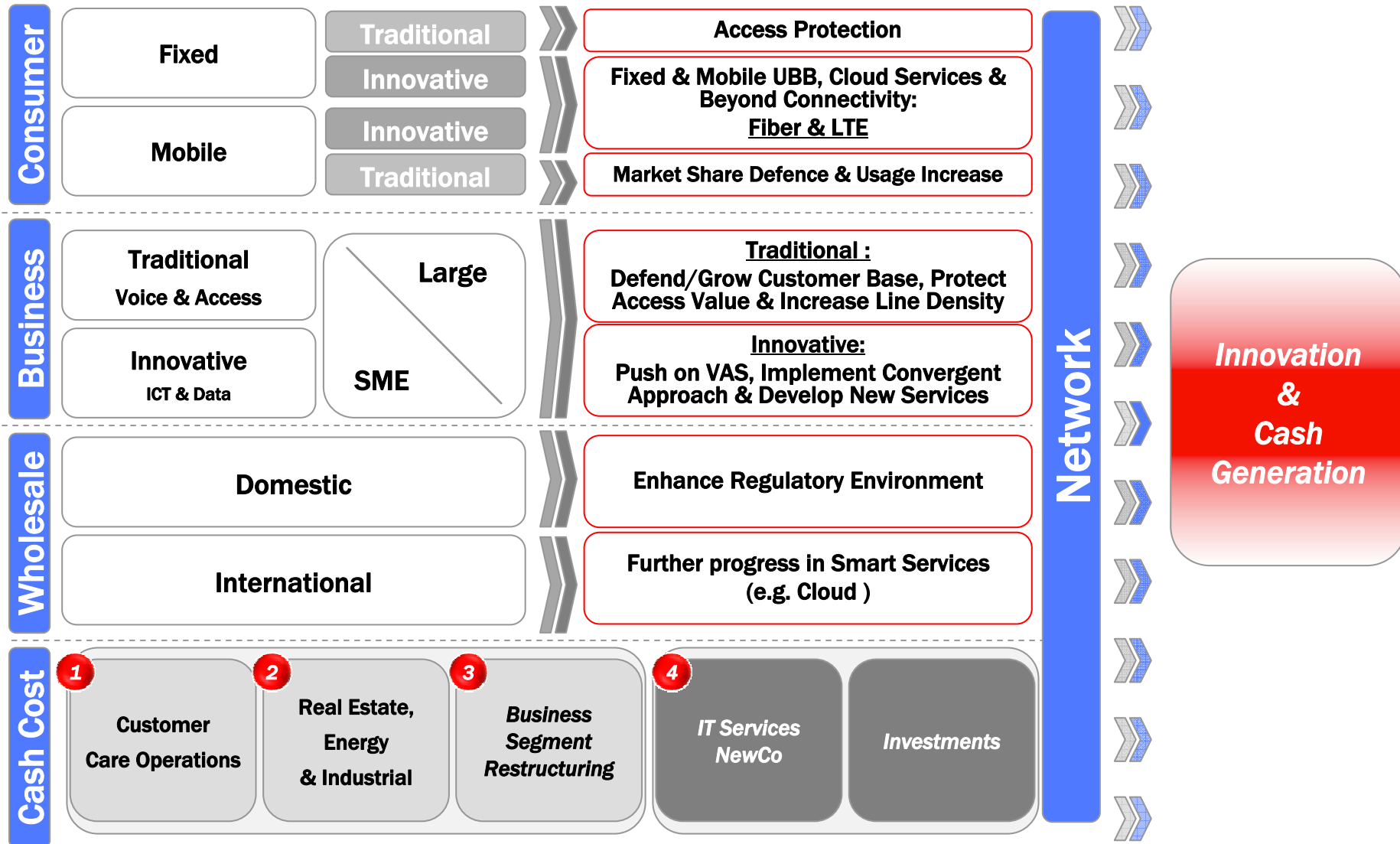
Italian TLC Market Evolution



¹ Excluding Incoming Mobile Traffic; ² Interactive Mobile VAS; ³ Business Data; ⁴ Addressable Market

Source: SIRMI, Milan University, Internal Estimates

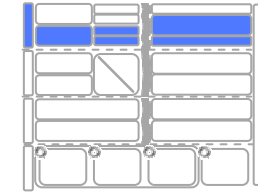
TI Domestic: Business Layers & Actions



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 - ▶ **Appendix**

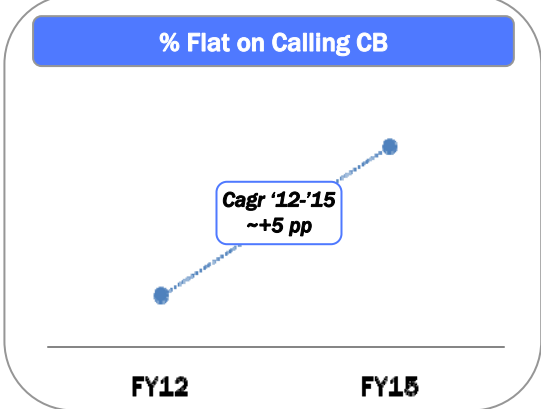
TI Domestic: Consumer Segment (1/2)



Mobile

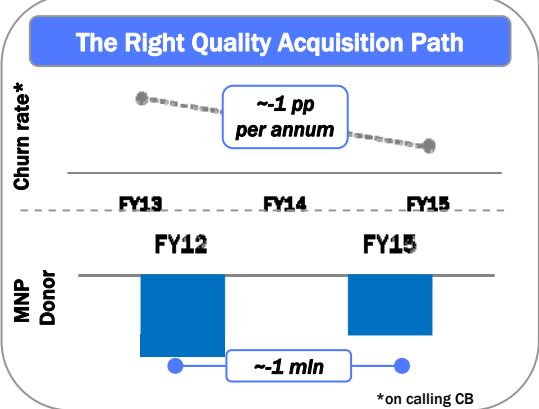
Lock-in existing CB & ARPU

- ▶ Defend CB through right repositioning & lock-up
- ▶ Materially increase penetration of bundles and pack offers, in order to:
 - ▶ defend prices and step-up along the value ladder;
 - ▶ prevent cannibalization on traditional services (as done with «Tim Young»)
- ▶ New ARPU-tailored Caring Model



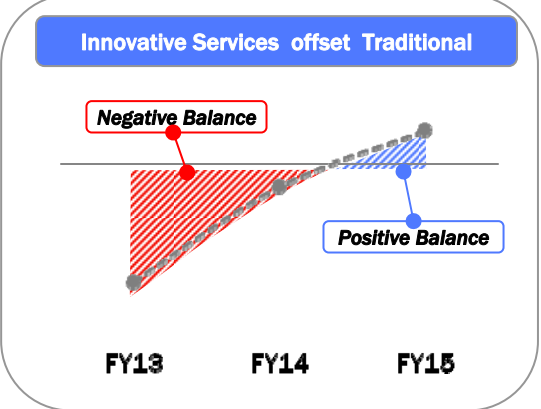
Increase Value

- ▶ Maintain best-in-class Churn Rate leveraging on our Premium Quality
- ▶ Keep on balancing Quality Acquisition Mix, progressively reducing MNP exposure
- ▶ Cross-selling and M&F Convergence
- ▶ Attack & Attract New Segments

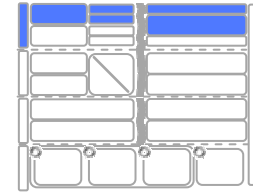


Focus on Mobile Broadband

- ▶ Increase MBB penetration via new enabling devices
- ▶ Enhance Innovative Services (i.e. Personal Cloud, Music and Soccer games Streaming)
- ▶ Deliver LTE/HSDPA new applications through our Superior Network



TI Domestic: Consumer Segment (2/2)



Fixed

Defend Customer Base Value

- ▶ Protect CB increasing penetration of flat offers
- ▶ Use Loyalty Levers for High Value Customers
- ▶ Cross-selling & Convergence between F&M Customers

Leverage on Premium Position

- ▶ Sustain Top Positioning through TI processes Excellence
- ▶ Increase QoS & Customer Experience
- ▶ Service Differentiation via Technological Leadership

Enhance Value

- ▶ Increase Service Penetration & Broadband Options
- ▶ Upsell High-Speed BB (Fiber) & New Data Product (i.e. Intelligent Home and Content Platform) to Value Customers

BB Customer Base Mix

FY12 FY15

Customer Satisfaction Index

▶ Constant increase in overall CSI in the last 2 year

1Q11 2Q11 3Q11 4Q11 1Q12 2Q12 3Q12 4Q12

- ▶ Top of Mind:
- ▶ Strong Value Perception on Reliability
- ▶ Technical Support
- ▶ Customer Care

BB Revenues

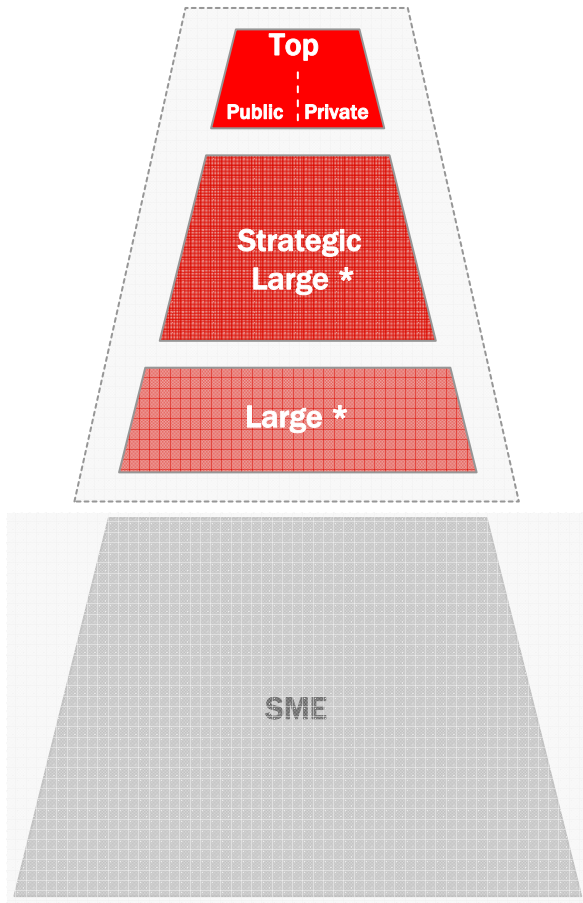
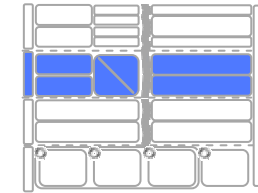
FY12 FY15

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TI Domestic: Business Segment (1/2)

Total CB Large+SME:
More than 1.7 mln Customers

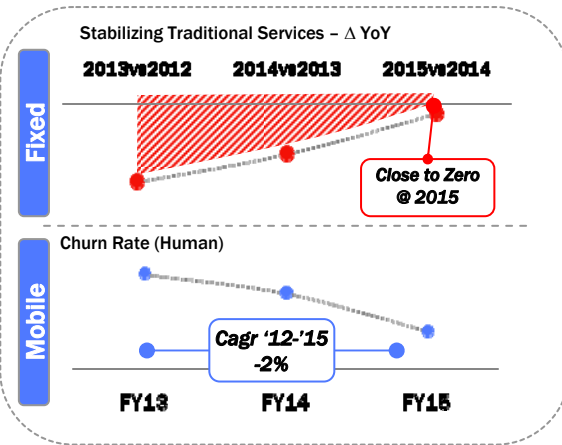


Large

Traditional Services

Fixed Mobile

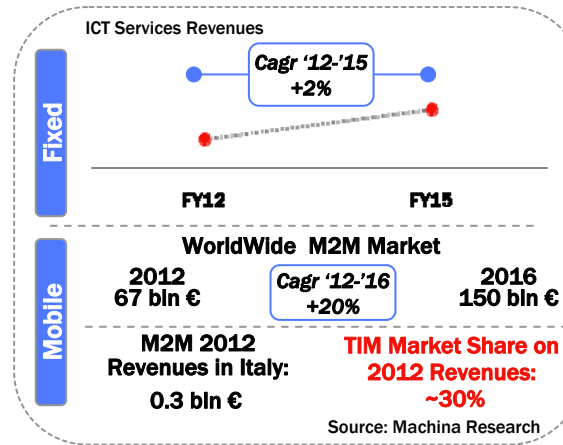
- ▶ Customer profiling aimed at maintaining current low churn rate and high market share
- ▶ Aim to further increase current leading presence in the Public Administration
- ▶ Maintain Value Acquisition per Line
- ▶ Increase Line Density per Customer



Innovative Services

Fixed Mobile

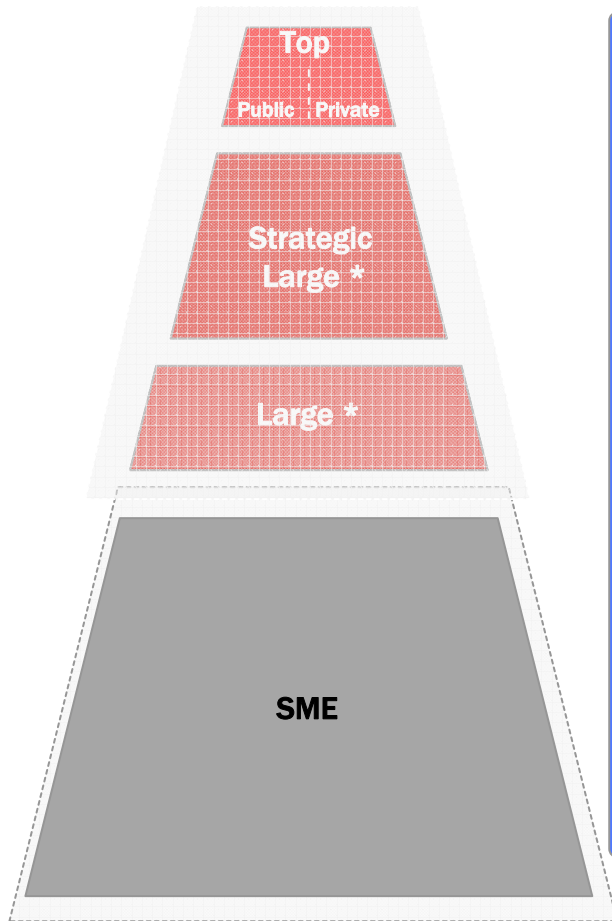
- ▶ Increase penetration of current Cloud & ICT Services, and leverage on new ones
- ▶ Develop new streams of business, like M2M, Digital Health, Device Management, etc.
- ▶ Defend ARPU also through upselling
- ▶ Foster the «BYOD» concept to accelerate penetration



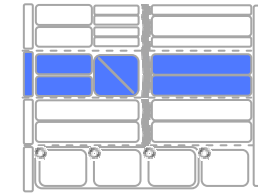
* Both Public Administration and Private

TI Domestic: Business Segment (2/2)

Total CB Large+SME:
More than 1.7 mln Customers



* Both Public Administration and Private



SME	Traditional Services		Innovative Services	
	Fixed	Mobile	Fixed	Mobile
	<ul style="list-style-type: none"> ▶ Customer profiling aimed at reducing churn rate ▶ Protect Access Value leveraging on new offers derived (and simplified) from «Large» segment 		<ul style="list-style-type: none"> ▶ Push on VAS & focus on Convergent Offers ▶ Leverage on «Value for Money»: drive FTTCab adoption, enrich packages with more Value Added Services ▶ Capitalize on existing high penetration of innovative devices introducing a simpler and more effective commercial approach 	
	<p>Balance CB in/out</p> <p>Fixed</p> <p>FY12 FY13 FY14 FY15</p> <p>Cagr '12-'15 -3%</p>		<p>Convergent CB: Fixed customers with Mobile offers</p> <p>Fixed</p> <p>2015vs13 4x</p> <p>FY13 FY14 FY15</p>	
	<p>Churn Rate (Human)</p> <p>Mobile</p> <p>FY12 FY15</p> <p>Cagr '12-'15 -5%</p>		<p>Traditional vs Innovative Services - Δ YoY</p> <p>Mobile</p> <p>2013vs2012 2014vs2013 2015vs2014</p> <p>Negative Balance</p> <p>Positive Balance</p>	

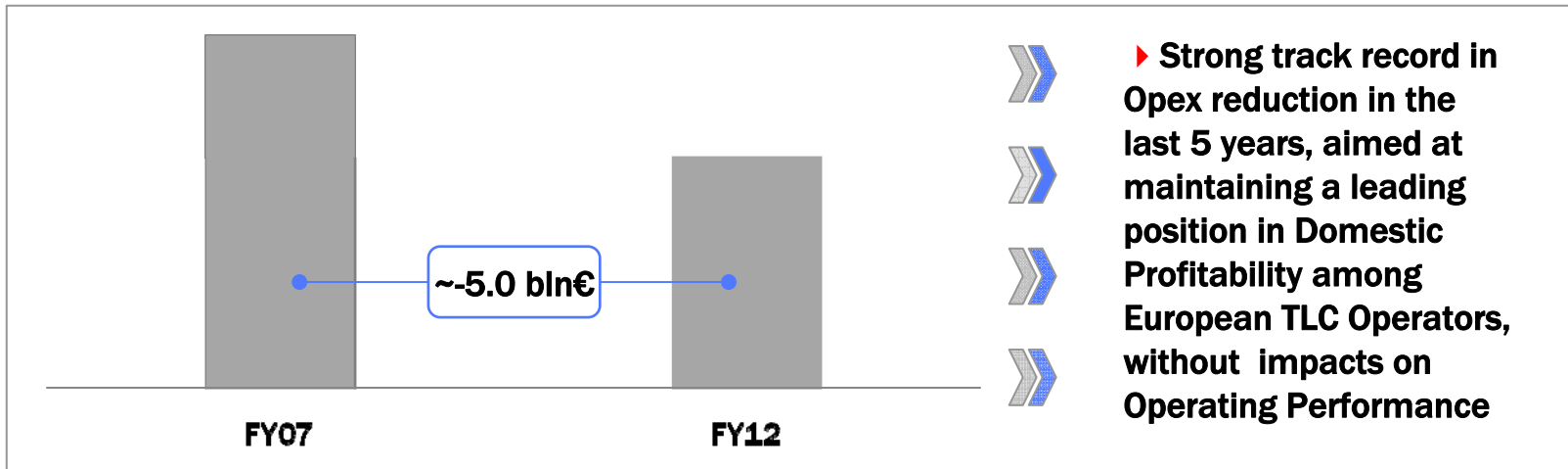
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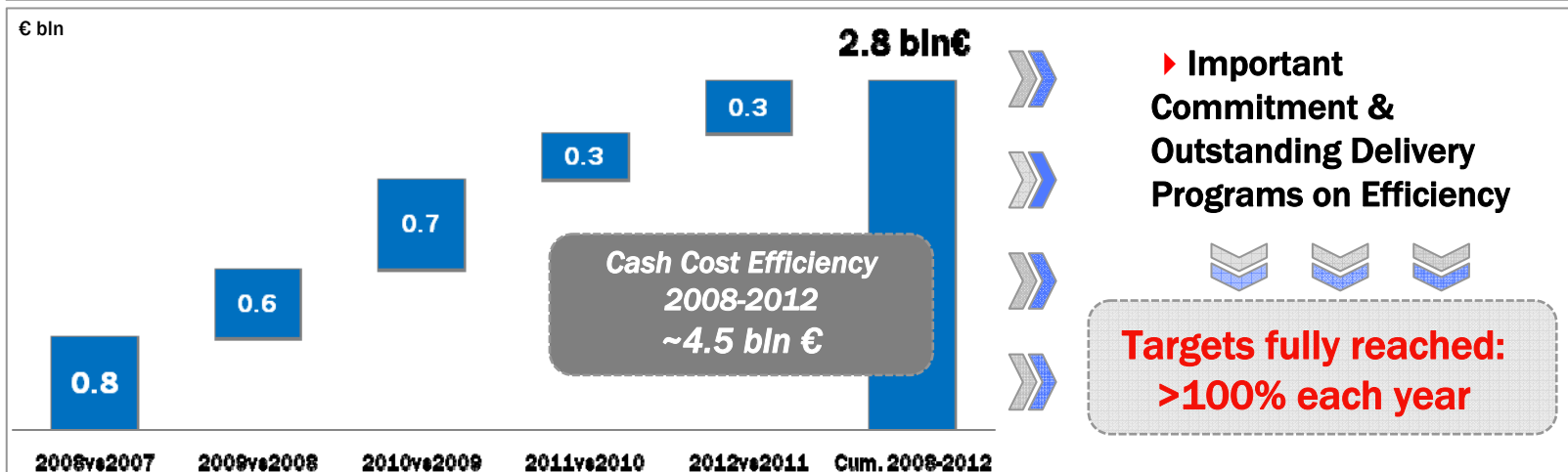
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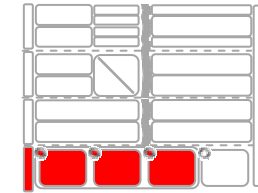
TI Domestic Efficiency Programs: Our Track Record

Cumulative Opex Reduction 2008-2012



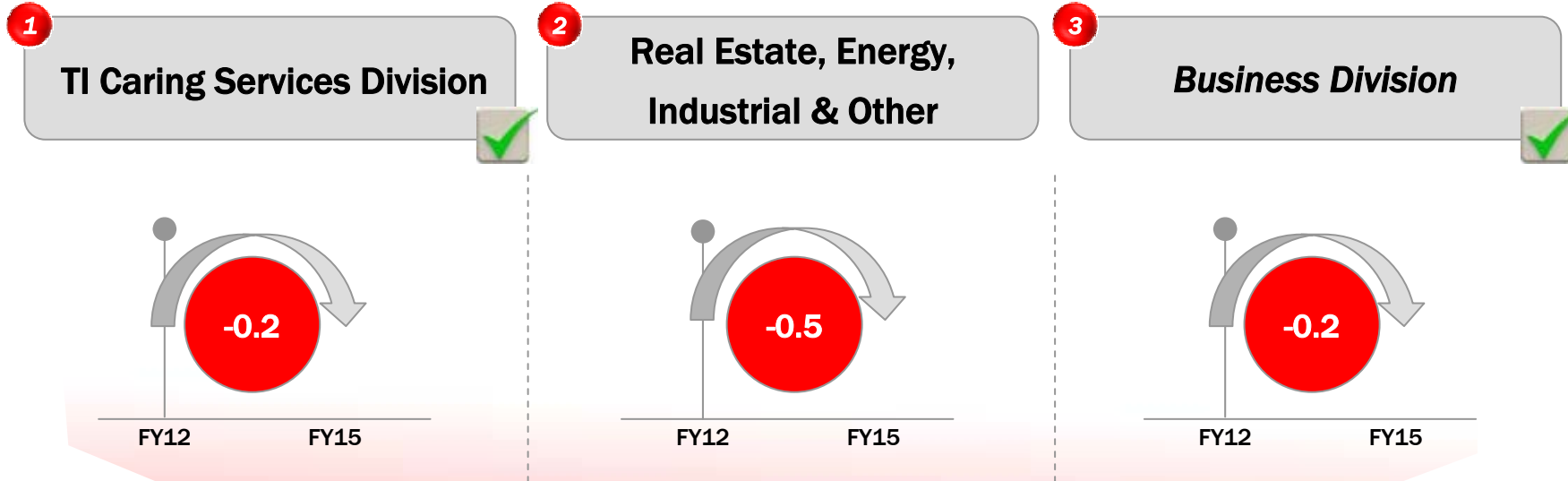
Opex Efficiency Programs Delivery 2008-2012



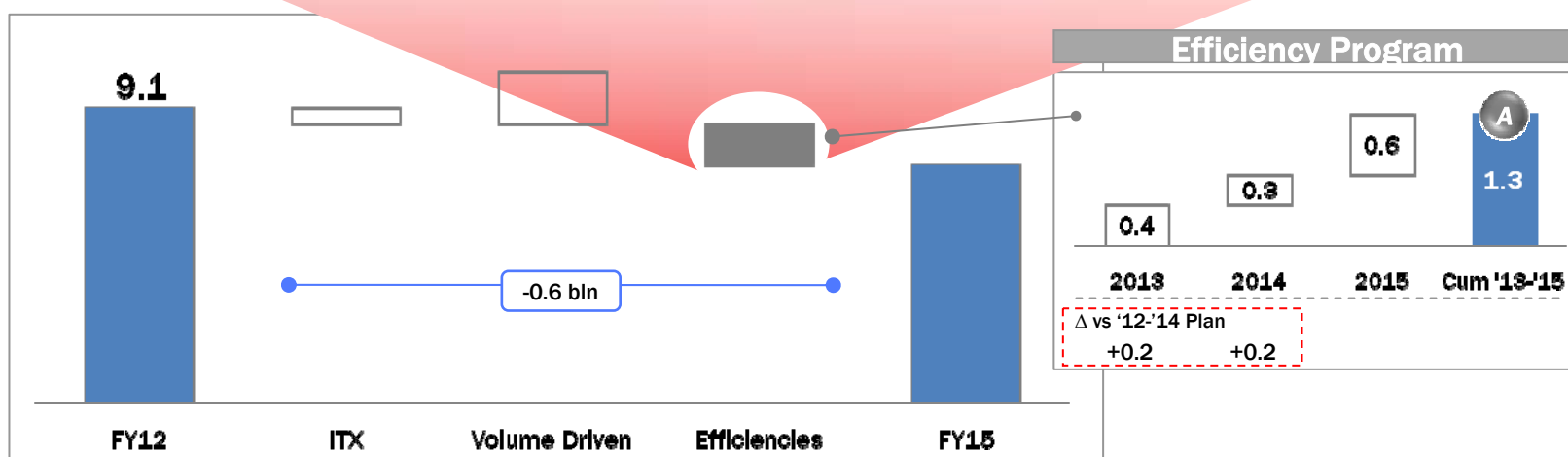


TI Domestic: New Efficiency Programs

€ bln



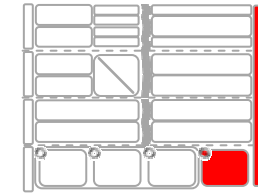
Domestic Opex



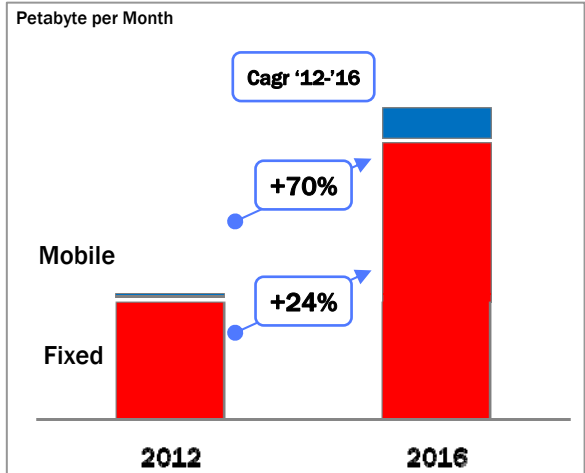
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Investments: from “Value for Money” to “Money for Value”

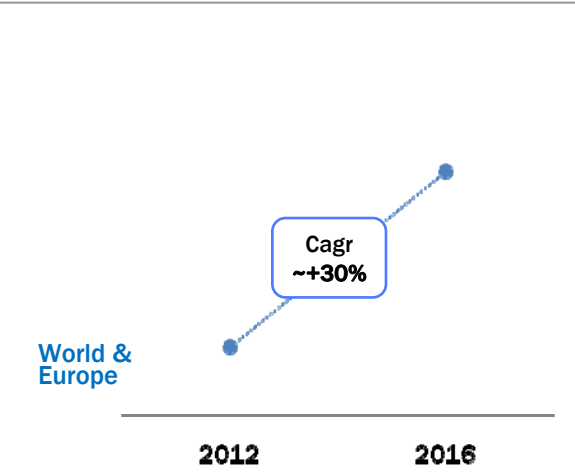


Internet Demand is Surging



Source: Cisco VNI, 2012 & 2013

Double Digit Growth

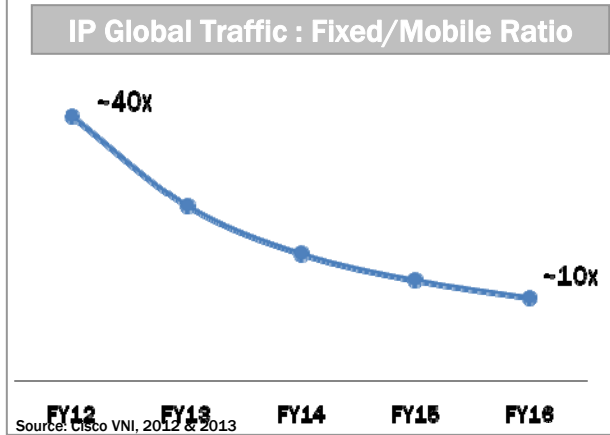


Deliver Content & Convergence

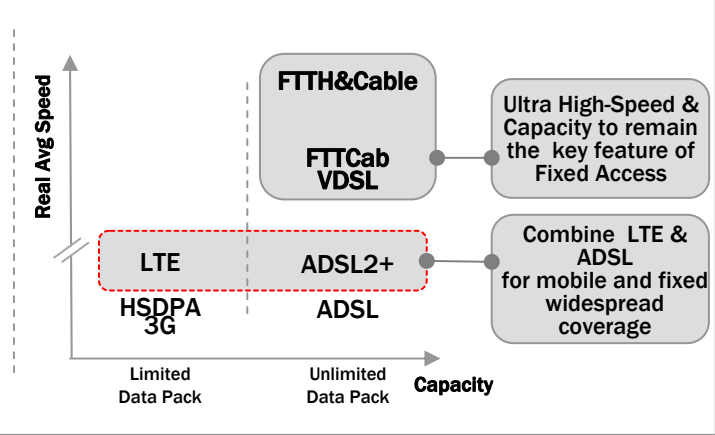
To deliver requested Fixed & Mobile BroadBand Capacity will be of paramount importance :

- ▶ ~3x High Video Quality Traffic, of which 90% on Fixed Lines
- ▶ New BB Services like Cloud Computing need High Speed in Up&Down link , both in Fixed & Mobile
- ▶ Ensure the Best Customer Experience in order to grow in all Service Clusters

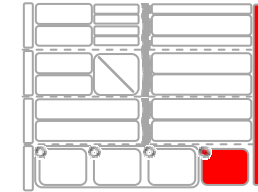
LTE & FttCab: Two Complementary Technologies



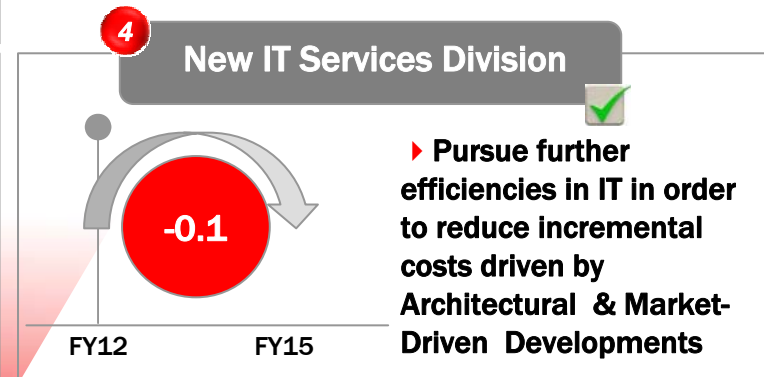
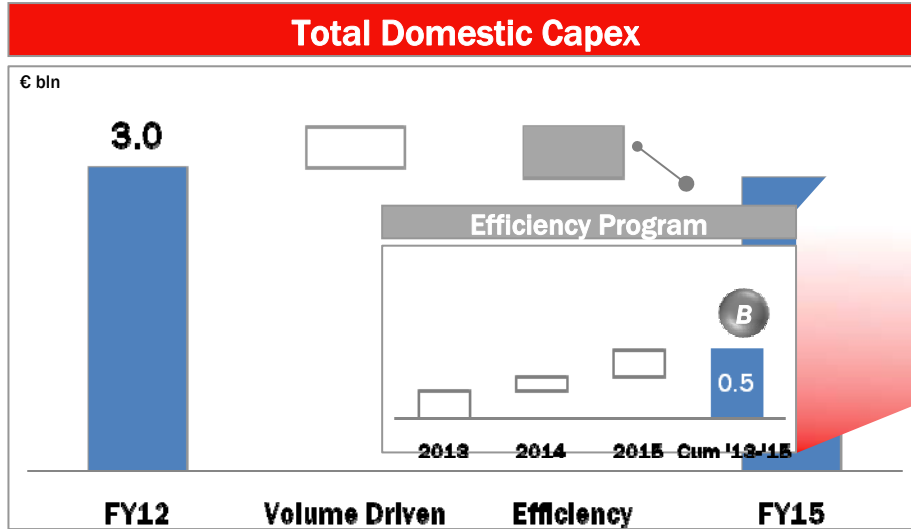
Source: Cisco VNI, 2012 & 2013



Develop the Fiber & LTE Networks for a Convergent approach on Full-IP Technologies



TI Domestic Investments: Sustaining Technological Evolution



Cash Cost Efficiency (A + B)

Total Efficiency Program '13-'15: 1.8 bln€

2015 UBB Targets

NGAN

- Cover largest 125 Cities and main Industrial Districts
- ~35% of Housing units made connectable* at >30 Mb/s Speed

LTE

- NGAN Cities + other Areas (including Prime Tourist locations and Auction requirements)
- More than NGAN footprint, always maintaining Leading Mobile UBB Coverage and Capacity

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Take-aways on main TI Domestic trends

Organic data

Revenues

- ▶ Macro-economic drag on Business Segment, impact from Regulation (MTR + Roaming Cap) and continued competitive pressure suggest a 2013 YoY performance similar to 2012. Trend is expected to gradually improve during 2014 and 2015, on the back of a better Italian economy and a growing contribution from Innovative Services.
- ▶ We expect a negative Low-Single Digit Top Line 2012-2015 Cagr

EBITDA

- ▶ Consistence in pursuing our Value—Driven Strategy and relentless Cost Control and Efficiencies will gradually improve margin erosion. However, 2013 YoY performance is expected to be similar to 2012, also taking into consideration continued negative impact from Economy and Regulation (Roaming Cap).
- ▶ We expect a negative Low-Single Digit Ebitda 2012-2015 Cagr

Capex

- ▶ Continued strengthening of the Network infrastructure with a strong focus on Fiber and LTE deployment, to support wave of data growth, ensuring quality and performance excellence in fixed and mobile access.
- ▶ Cumulative Domestic 2013-15 Capex will be kept ~ €9bln, as Increase in Innovative will be balanced by Efficiencies & Rightspending in other areas

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Domestic Mobile Revenues

<i>Euro mln, Organic Data, %</i>	FY11	FY12	Δ% YoY
Total	7,114	6,616	(7.0)
Wholesale (*)	335	295	(11.8)
Retail	6,779	6,321	(6.8)
o/w Services	6,421	5,853	(8.8)
o/w Business Generated (**)	5,635	5,317	(5.6)
o/w Outgoing Voice	3,600	3,279	(8.9)
o/w VAS	2,034	2,038	+0.2
o/w Incoming	786	536	(31.9)
o/w Handsets	359	469	30.8

(*) Including Visitors

(**) Total Retail Services Revenues net of Incoming

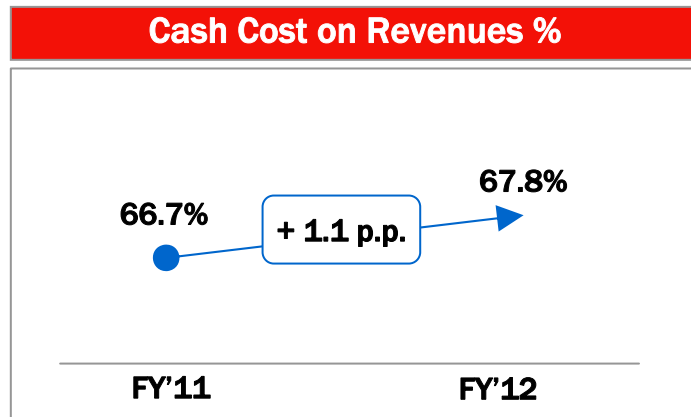
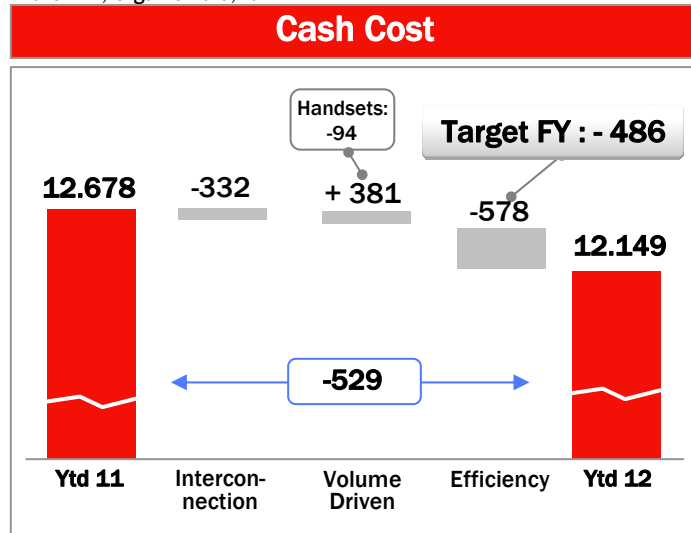
Domestic Fixed Revenues

Euro mln, Organic Data, %

	FY11	FY12	YoY %
Total	13,501	12,810	(5.1)
Sparkle Group	1,413	1,393	(1.4)
Domestic Core Services	11,823	11,319	(4.3)
Voice & Access	5,615	5,253	(6.5)
Internet	1,573	1,592	+1.2
Business Data	1,201	1,132	(5.7)
National Wholesale	3,177	3,093	(2.6)
Other & Subs	256	248	(3.1)
Products	541	337	(37.7)
Elimination	(276)	(239)	n.m.

Domestic Efficiency Plan

Euro mln, Organic Data, %



Delta Cash Cost FY 12 vs FY 11		Δ ITX	Δ Vol. Driven	Δ Efficiency	
Total Opex*	9.077	-639	-332	+37	-344 (105% of FY12 Target)
ITX	1.948	-332	-332	-	-
Mktg & Sales	2.772	-217	-	-149	-68
Industrial	1.060	+100	-	+111	-11
Personnel	2.841	-172	-	+1	-173
G&A & Other**	456	-18	-	+74	-92
Total Capex	3.072	+110	-	+344	-234 (149% of FY12 Target)
Total Cash Cost	12.149	-529	-332	+381	-578 (119% of FY12 Target)