

TELECOM ITALIA GROUP  
Milan - 27 May 2009

# TELECOM ITALIA GROUP

## Deutsche Bank - 10th Italian Conference



FRANCO BERNABE'

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## Agenda

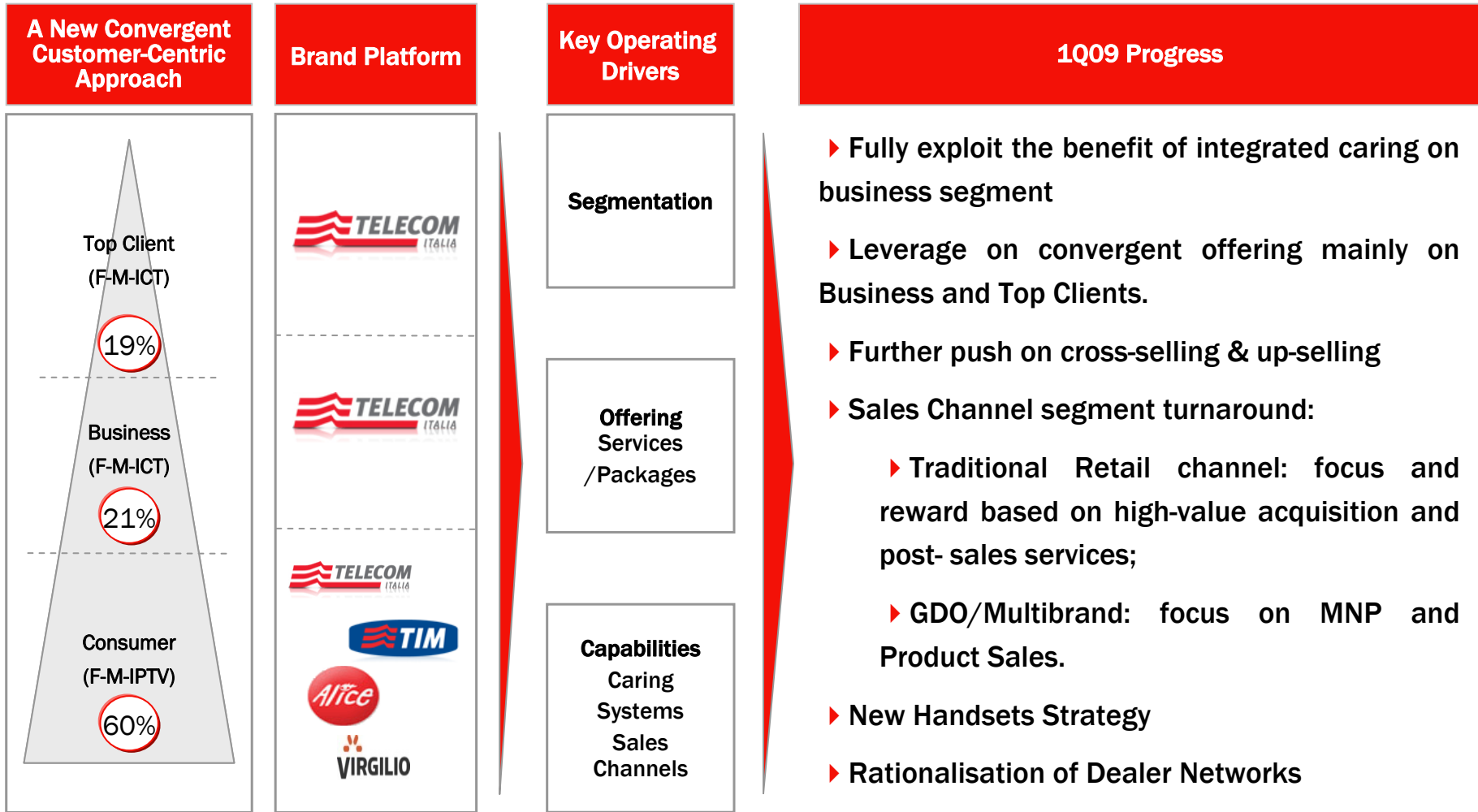
- ▶ **Strategic Framework & 1Q09 Progress**
- ▶ **1Q09 Result Review**
- ▶ **Focus on Cash Cost Control & Financial Discipline**
- ▶ **2009 Outlook**

## Key Objectives and Commitments – 2009-2011

Group Operating Free Cash Flow	~€22.0 Bn cumulative '09 – '11
Domestic Cash Cost Efficiency Plan	~ - €2.0 Bn '11 vs. '08
Domestic Headcount Reduction	9,000 vs 2007 YE <sup>(1)</sup>
Non-Core Asset Disposals	Up to €3.0 Bn
Strong Focus on Deleveraging	Net Debt/Ebitda 2011 ~ 2.3X

<sup>(1)</sup> Including 5,000 announced in June 08

# Customer-Centric Approach



Breakdown of 2008 Domestic Retail Revenues



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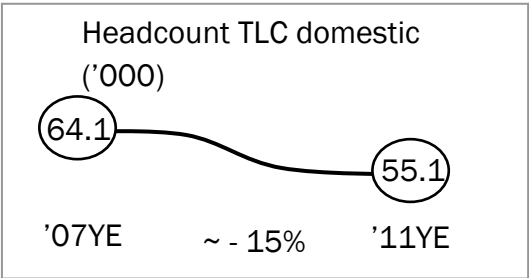
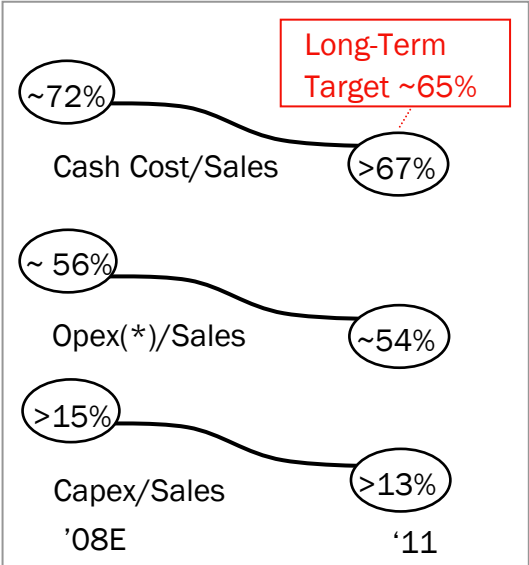
# Reduce Domestic Cash Costs Through A Lean Organization

## Lean Company

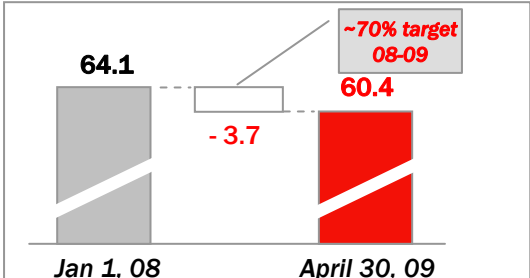
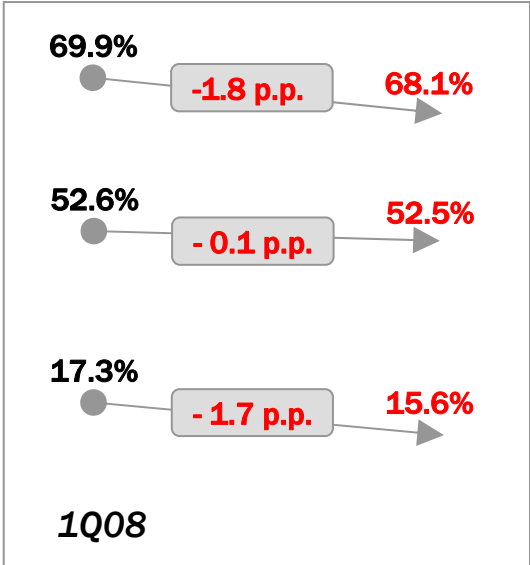
► Infrastructure streamlining and rationalization

► E2E “customer-centric” process reengineering

► Organization streamlining and rightsizing



## 1Q09 Progress



\* Organic data

# Open Access & TI Undertakings: a Best Practice for Europe

## Telecom Italia Undertakings – Key Highlights

- ▶ 223 undertakings to be implemented by April 2010
- ▶ 66% of undertakings already in place by April 2009
- ▶ Strong commitment on equal treatment through SLA
- ▶ More benefits for final customers

### Promoting a new regulatory approach at retail ...

- ▶ No designation as SMP operator for Telecom Italia in the retail markets, excluded from the EC Recommendations on relevant markets
- ▶ Increased price flexibility allowed at retail level through:
  - ▶ review of price tests
  - ▶ withdrawal of ex-ante communication and approval of price packages and bundle offers by AGCOM
  - ▶ withdrawal of price caps for both residential and business monthly rentals

### ... and wholesale level

- ▶ No designation as SMP operator for Telecom Italia in the wholesale markets, excluded from the EC Recommendation on relevant markets
- ▶ Review of price controls methodologies at wholesale level through:
  - ▶ orientation to LRAIC of access service prices for the legacy network (ULL, bitstream)
  - ▶ increase of the fixed access network WACC
  - ▶ geographical differentiation of bitstream obligations (wholesale broadband access)
  - ▶ no price regulation for the access to the new fiber infrastructures

**Light regulation at retail level & regulation focus on access bottlenecks at wholesale level**

## Agenda

- ▶ **Strategic Framework & 1Q09 Progress**
- ▶ **1Q09 Result Review**
- ▶ **Focus on Cash Cost Control & Financial Discipline**
- ▶ **2009 Outlook**



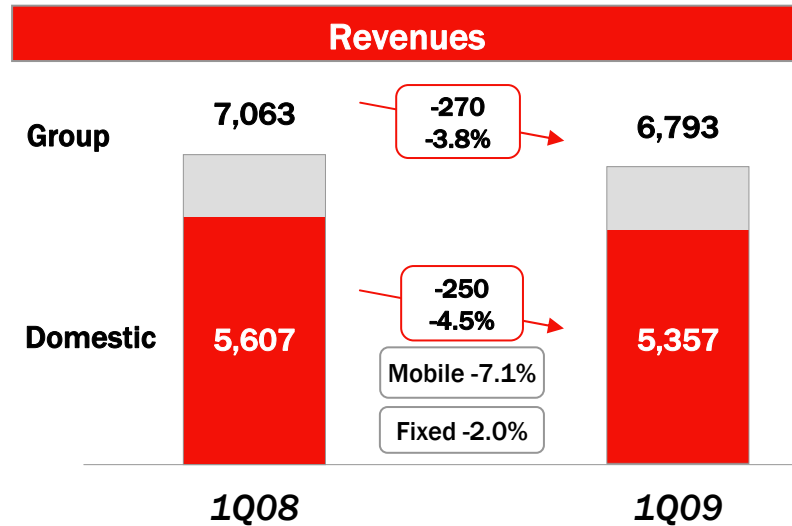
## TI Group 1Q09 – Priorities and Actions

Operating Performance on Core Markets	Cash Cost Control	Financial Discipline
<ul style="list-style-type: none"><li>▶ Domestic<ul style="list-style-type: none"><li>▶ Short-term impact of sales channels restructuring delaying the re-investment of consumer re-pricing in Mobile</li><li>▶ Strong wireline performance driven by BB and ICT</li></ul></li><li>▶ TIM Brasil<ul style="list-style-type: none"><li>▶ Revenue trend reflecting transition quarter</li><li>▶ Efficiencies re-invested for a stronger positioning: sharp improvement on KPIs in April / May.</li></ul></li></ul>	<ul style="list-style-type: none"><li>▶ Continuous reduction of Cash Cost both at Group &amp; Domestic level<ul style="list-style-type: none"><li>▶ Group Cash Cost on Revs. down 2.9pp YoY</li><li>▶ Domestic Cash Cost on Revs. down 1.8pp YoY</li></ul></li><li>▶ Cash Cost reduction program fully on track for FY Target.</li><li>▶ Acceleration of cash cost savings leveraging on new sales channel organization</li><li>▶ Headcount reduction plan: already completed 76%</li></ul>	<ul style="list-style-type: none"><li>▶ Net Debt trend impacted mainly by non-monetary items</li><li>▶ Debt fully hedged and further diversified with the recent Sterling Bond</li><li>▶ Euro 3.5 bln refinancing completed since beginning '09 keeping cost of debt at around 6%</li><li>▶ Strong Liquidity position post dividend payments: Euro 4.6 bln</li><li>▶ Disposal process started</li></ul>

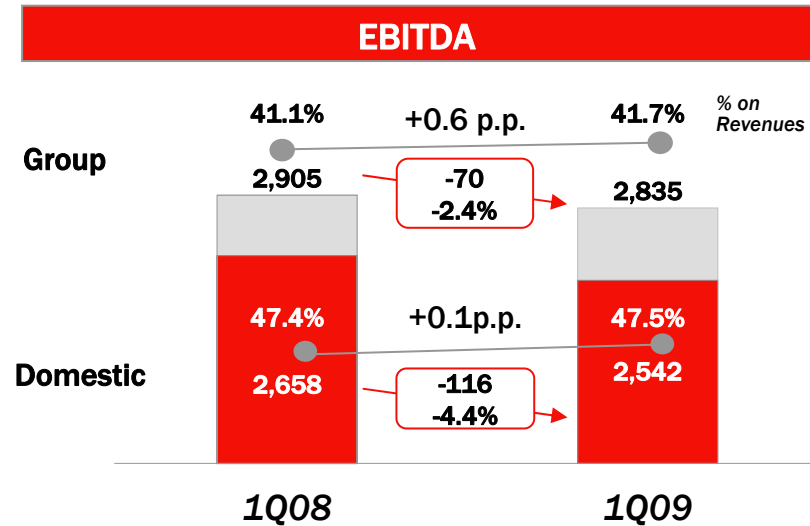
**Strong Focus on Profitability and Cash Flow Generation**

## TI Group & Domestic – Organic Results vs. 2008

Euro mln, %



- ▶ **TI Group:** rapidly changing the revenue mix to protect EBITDA & Cash Flow
- ▶ **Domestic:** slowdown expected, due to the short-term impact of sales channel restructuring and calendar effect.
- ▶ Mobile performance reflects:
  - ▶ lower usage of VAS content;
  - ▶ lower handsets sales vs 1Q08 due to stronger focus on high-margin revenue stream.
- ▶ Improving fixed revenue trend through the positive impact of regulated price increases, steady BB growth and ICT.

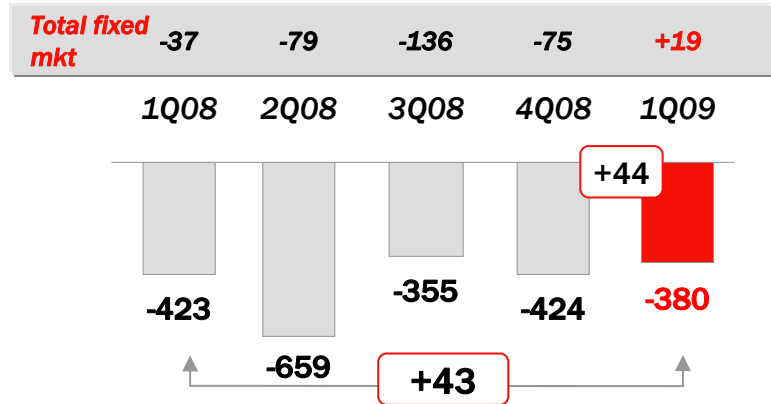


- ▶ **TI Group:** EBITDA margin up for the third consecutive quarter confirms TI as the industry benchmark for profitability.
- ▶ Cost containment result of a true cultural change.
- ▶ **Domestic:** significant OPEX reduction (-134 mln euro YoY) through a selective approach: “rigorous” on fixed costs and “selective” on customer growth related investments.
- ▶ First positive & tangible impact of sales channel re-structuring
- ▶ Fully on track to deliver 2009 cash-cost reduction despite the challenging economic scenario.

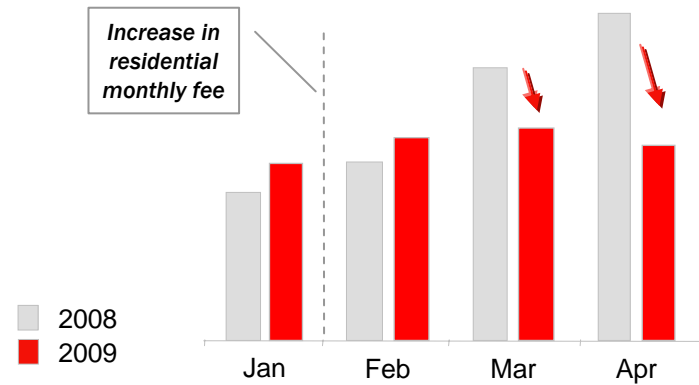
# Domestic Fixed – TI Access Performance & Focus on Alice Casa

'000 access

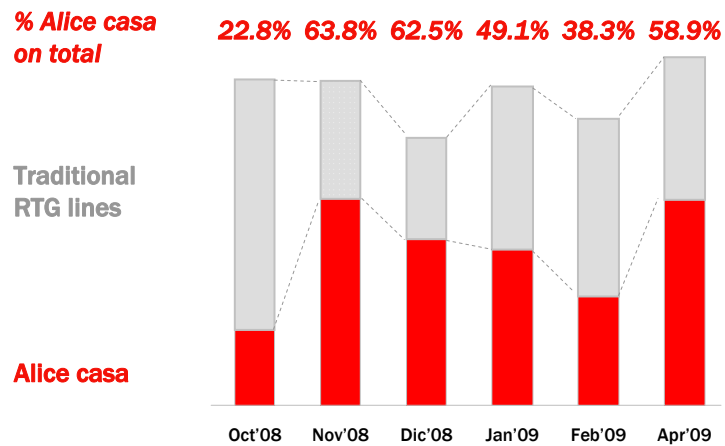
## TI Line Loss Evolution



## TI Accesses: Consumer Churn Rate Trend



## Alice Casa Penetration

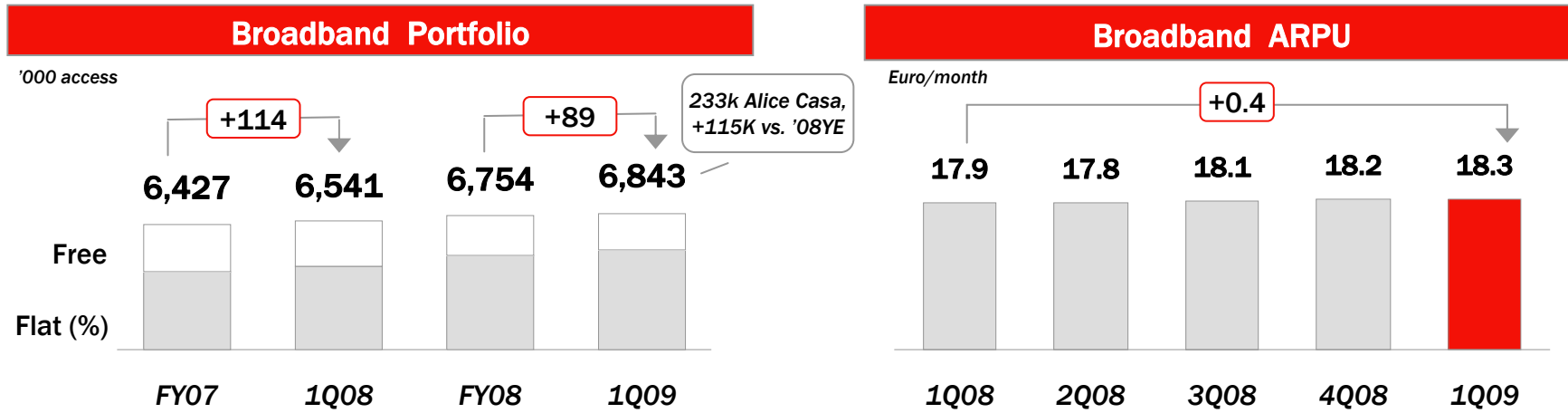


## Alice Casa: a Competitive Pricing(\*)

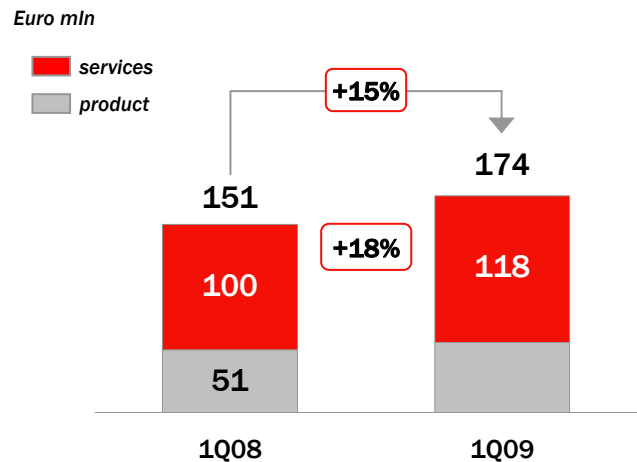
Price €/month	45.00	44.80	39.95	38.90	39.95	39.00
	Alice Casa Maxi Plus	Naviga e Italia senza limiti	Libero Tutto Incluso 8 Mega	Tutto Compreso	Tutto Incluso	Tutto Flat
Special Offer (modem not included)	35.00	16.08	19.98	24.30	Free	39.00
Timing Promo	X 4 months	Until 03/11/09 (7months)	Until 30/09/09 (6months)	Until Dec. '09	x 4 months	10 h/day mobile BB for free, until Dec. '09

(\*) Offers' details as of 26 May 2009

# Domestic Fixed - Focus on BB & ICT

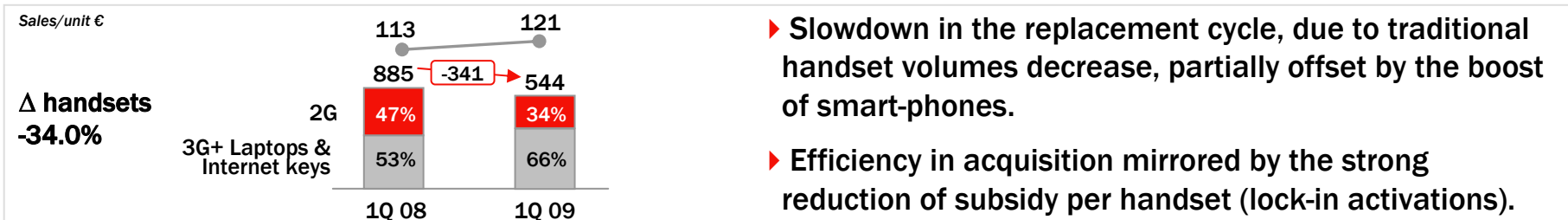
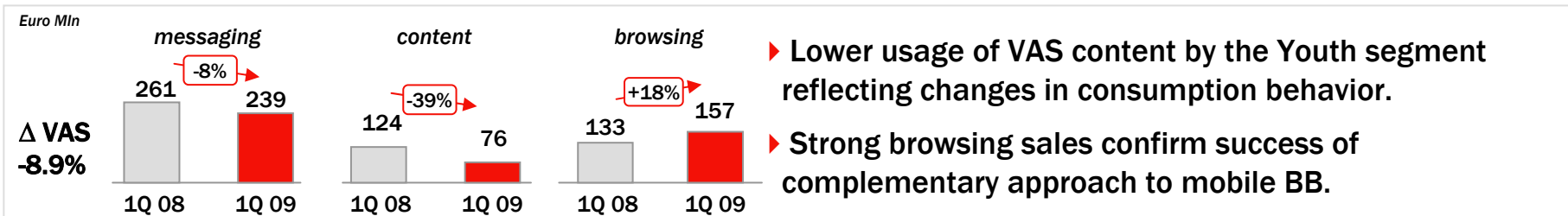
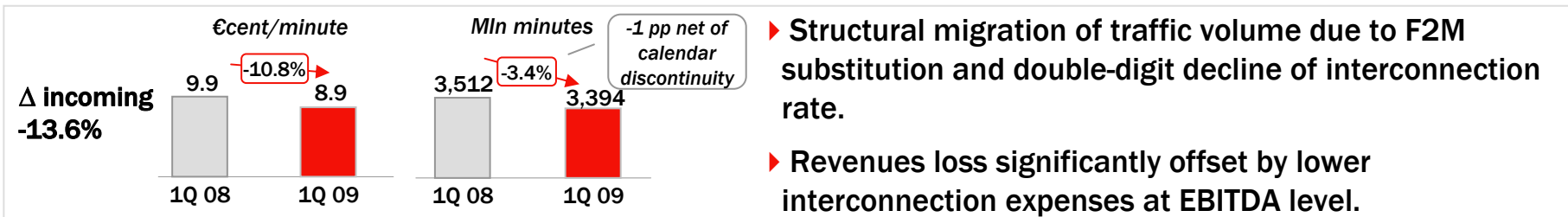


## ICT Revenues: offering & results



- ▶ **Business segment**
  - ▶ Strong leverage on “Impresa Semplice” brand to define TI distinctive position in the SME segment
  - ▶ Extension of the 3Play concept to the SME segment bundling voice (F&M), broadband and browsing in mobility
- ▶ **Top / Large Account segment**
  - ▶ Commercial focus on “core” ICT services and launch of new canvass of ICT 2.0 services
  - ▶ Regional events to promote TI portfolio of ICT services

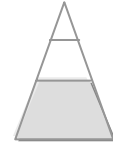
## Domestic Mobile - A Necessary Step to Improve Long Term Positioning



# Domestic Mobile - Focus On Customer Segment

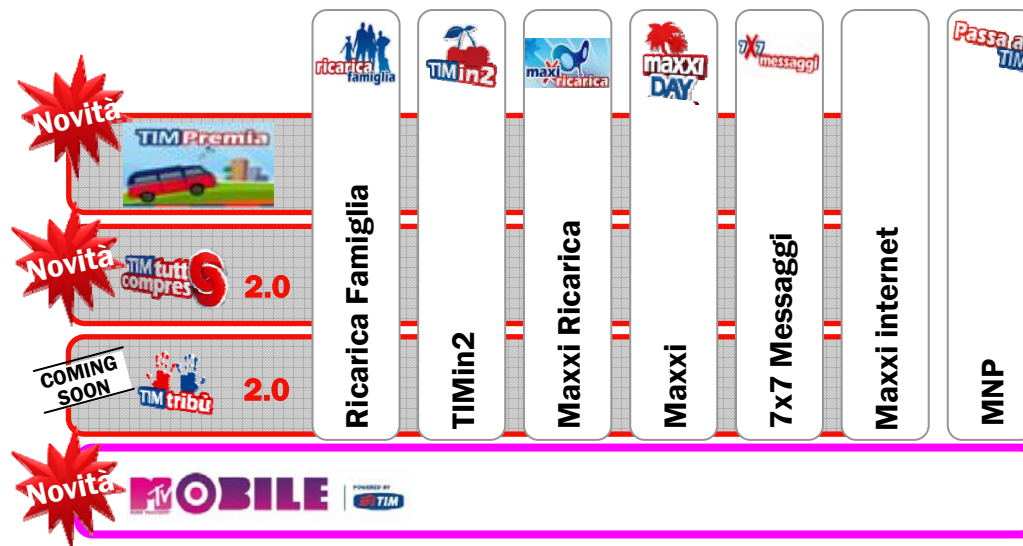
% on service revenues		% CB	ARPU*	Market share	Prices YoY	Volume YoY	
TOP / LA	10%	8%	1.3X	↑	↓	↑	<ul style="list-style-type: none"> <li>▶ Strict cost control to eliminate non-core business services (i.e. VAS content and WAP)</li> <li>▶ Exploitation of price flexibility to defend undisputed leadership in the segment given the current economic scenario</li> </ul>
BUSINESS	17%	8%	1.9X	=	↓	↑	<ul style="list-style-type: none"> <li>▶ Launch of integrated offers to secure market share and total customer value (i.e. "Impresa Semplice" bundling Mobile + Fixed)</li> </ul>
CONSUMER	73%	84%	0.8X	↓	↑	↓	<ul style="list-style-type: none"> <li>▶ Short-term impact of sales channel restructuring: launch of new offers, aimed at reinvesting repricing "goodwill" to increase customer loyalty and regain the Youth segment, postponed to 2Q09</li> </ul>

\*TIM average = 1X

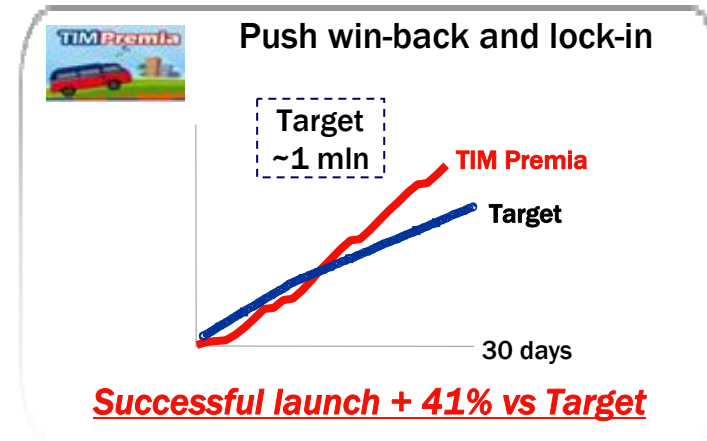


# Domestic Consumer Mobile Action Plan - Customer Segment

- ▶ Few mobile tariffs
- ▶ Simple but effective concept
- ▶ “Carte servizi” compatible with all tariff profiles
- ▶ Lower investment in service creation
- ▶ Greater focus on advertising



\*TIM average = 1X



Push win-back on Youth segment boosting on-net traffic and enlarging social networks, opening to MSN Facebook

One-to-One actions on selected Tribu' customers highlighting offer appeal: redemption was almost double than expected

**Launched May 25th**

**Passa a TIM** SPENDI 15€ E HAI 30€ IN PIÙ


New MNP offer: acquiring valuable clients through a double mechanism of lock-in (handset discount related to voice minutes loyalty bonus)



# Domestic Mobile Action Plan - Business Segment

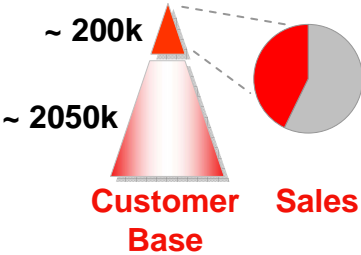
- ▶ Fixed and Mobile offering under the brand “Impresa Semplice”
- ▶ Customized modular packages
- ▶ Tailor-made solutions (Store, Professional, Office, Enterprise)
- ▶ Broad communication campaign
- ▶ Fixed-mobile integration of go-to-market, caring, billing

**Push on innovative services**



- ICT services
- Advertising
- Convergent BB


**Customer Portfolio Control**



~ 200k  
~ 2050k

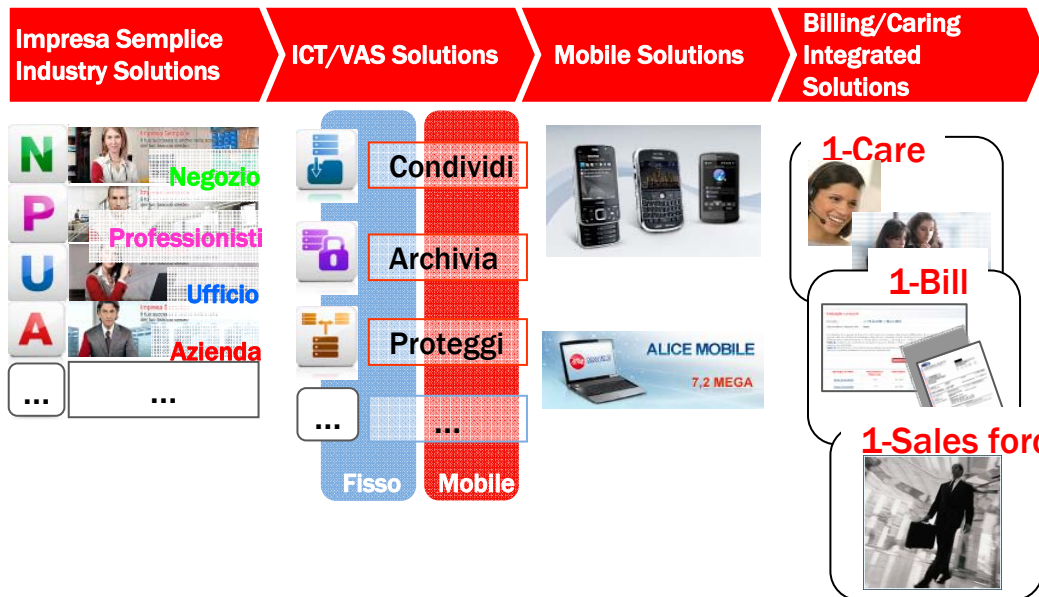
**Customer Base**      **Sales**

**From Volume to Value**



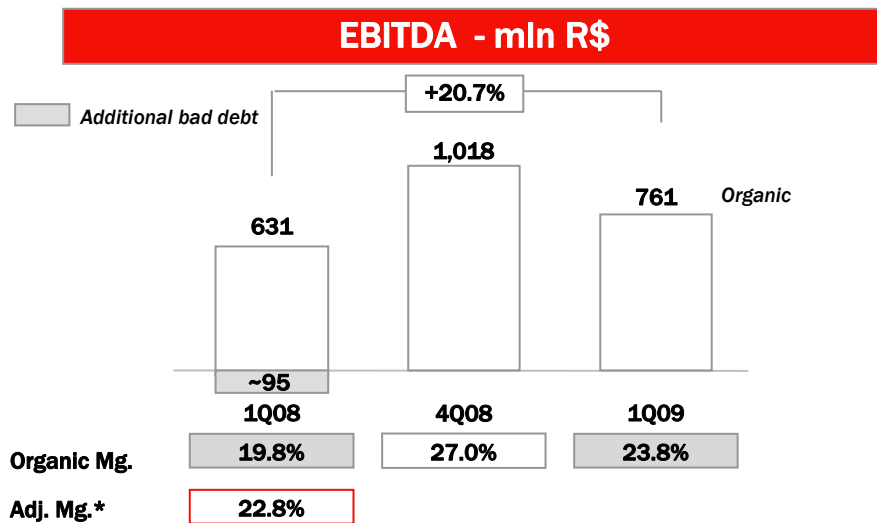
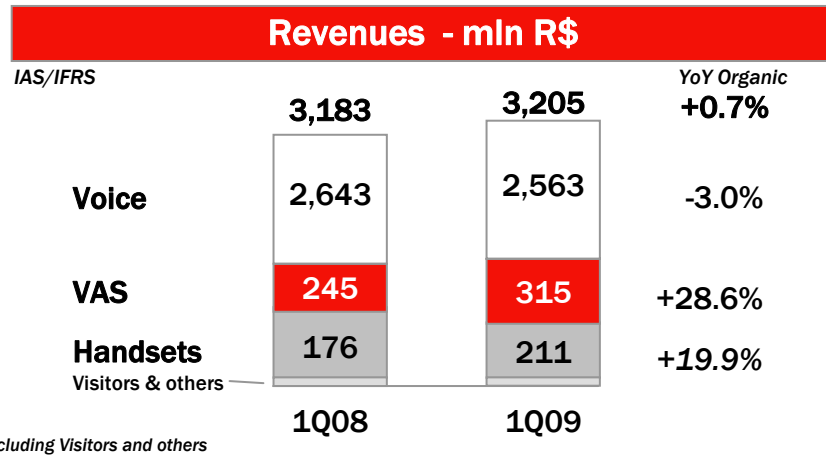
Commissioning aimed at improving product quality:

- SAC/ARPU improvement
- Churn reduction
- Silent customer reduction
- Late payment reduction
- Cancellation reduction





## TIM Brasil – Revenues & OPEX Review



\* adjusted for additional bad debt levels stemming from one-off write-off in 3Q07 and telesales-related bad debt in 1Q-3Q08

### ▶ Top-line performance reflecting a transitional quarter

- ▶ VAS revenues (+28.6% YoY): steady innovative VAS growth (~80% of total VAS) with TIM Web and TIM Fixo outperforming vs. expectations in the mass market
- ▶ Handsets portfolio: ~1 mln handsets sold in recent dealer convention with massive mix improvement towards high end
- ▶ Price repositioning completed: gained flexibility for next quarters
- ▶ Postpaid mix decline of -3.7 p.p.
- ▶ Reduction in pre-paid MOU
- ▶ Less incoming revenues -4%

### ▶ EBITDA margin rebound combined with a selective approach on cost:

- ▶ Double-digit decline in discretionary cost
- ▶ Further improvement in ITX and network OPEX
- ▶ Significant reduction in bad debt levels with new control rules/ stricter credit analysis
- ▶ Strong effort on advertising leading to a massive increase in brand awareness

# TIM Brasil – Latest Evidence on KPIs

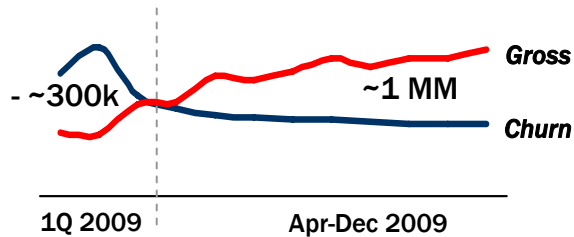
Market share	<ul style="list-style-type: none"> <li>▶ March: market share erosion trend stopped</li> <li>▶ April: leadership in net adds market share (+~340k)</li> </ul> <p style="text-align: center;"><b>Back to Growth in Customer Base</b></p>	<p><i>Incremental market share, 2009</i></p> <table border="1"> <caption>Incremental market share, 2009</caption> <thead> <tr> <th>Month</th> <th>Market Share</th> </tr> </thead> <tbody> <tr> <td>Jan</td> <td>11%</td> </tr> <tr> <td>Feb</td> <td>-198%</td> </tr> <tr> <td>Mar</td> <td>29%</td> </tr> <tr> <td>Apr</td> <td>38%</td> </tr> </tbody> </table> <p>AVG 2008: 17.4%</p> <p>Clean-up: ~1MIn lines</p>	Month	Market Share	Jan	11%	Feb	-198%	Mar	29%	Apr	38%								
Month	Market Share																			
Jan	11%																			
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Post paid	<ul style="list-style-type: none"> <li>▶ Inverting the trend in post paid base</li> <li>▶ May: positive post paid net adds thanks to high value acquisition programs</li> <li>▶ Lower churn thanks to more aggressive retention and loyalty offers</li> </ul>	<table border="1"> <caption>Post Paid Metrics</caption> <thead> <tr> <th>Period</th> <th>Churn</th> <th>Gross adds</th> <th>Net adds</th> </tr> </thead> <tbody> <tr> <td>Q1*</td> <td>High</td> <td>Low</td> <td>-</td> </tr> <tr> <td>Apr</td> <td>Medium</td> <td>Medium</td> <td>-</td> </tr> <tr> <td>May E</td> <td>Low</td> <td>High</td> <td>+</td> </tr> </tbody> </table>	Period	Churn	Gross adds	Net adds	Q1*	High	Low	-	Apr	Medium	Medium	-	May E	Low	High	+		
Period	Churn	Gross adds	Net adds																	
Q1*	High	Low	-																	
Apr	Medium	Medium	-																	
May E	Low	High	+																	
MNP	<ul style="list-style-type: none"> <li>▶ Positive balance in the Consumer segment</li> <li>▶ Improving trend in post paid and corporate segment</li> <li>▶ Positive balance in the North East and Centre West regions</li> </ul>	<p><i>Post - paid %MNP-in/out</i></p> <table border="1"> <caption>Post-paid %MNP-in/out</caption> <thead> <tr> <th>Month</th> <th>Consumer</th> <th>Corporate</th> </tr> </thead> <tbody> <tr> <td>Jan</td> <td>0</td> <td>0</td> </tr> <tr> <td>Feb</td> <td>Positive</td> <td>Negative</td> </tr> <tr> <td>Mar</td> <td>Positive</td> <td>Negative</td> </tr> <tr> <td>Apr</td> <td>Positive</td> <td>Negative</td> </tr> <tr> <td>May 1st 2 weeks</td> <td>Positive</td> <td>Negative</td> </tr> </tbody> </table>	Month	Consumer	Corporate	Jan	0	0	Feb	Positive	Negative	Mar	Positive	Negative	Apr	Positive	Negative	May 1st 2 weeks	Positive	Negative
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Mar	Positive	Negative																		
Apr	Positive	Negative																		
May 1st 2 weeks	Positive	Negative																		

# TIM Brasil – Action Plan for 2009

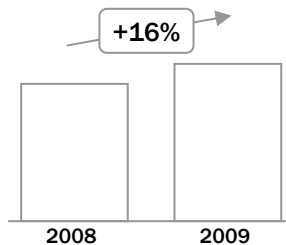
## Back to Growth

### Trend Reversal: Back to Growth

#### Reversing customer growth trend



#### SAC



**New Offering, Focus on Value**

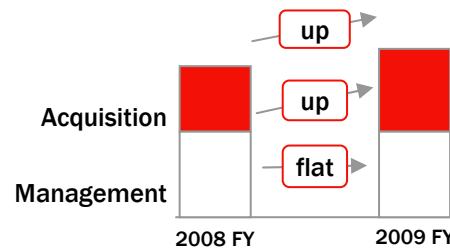
### Efficiency Plan

#### Reinvesting important efficiencies

- ▶ Optimization of collection & dunning processes
- ▶ Leaner organization
- ▶ Make vs. Buy
- ▶ Rationalization & renegotiation of network OPEX (leased lines) and IT
- ▶ Deep revision of G&A policy

#### ...to finance growth

#### Total commercial spending



**Strong EBITDA and OFCF Protection**

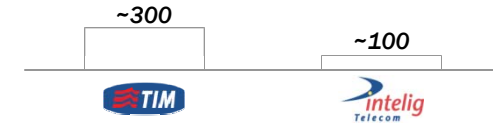
### Intelig

#### Network and trasport efficiencies

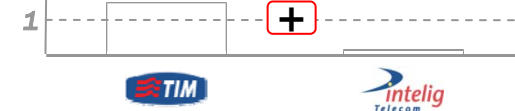
- ▶ Leverage on Intelig Backbone (14,500 km fiber optic cable) and MAN (800 km in 18 cities)
- ▶ Upselling and crossselling Intelig and Tim Brasil customers
- ▶ New offers for long-distance services to TIM Brasil clients

#### ..& improving positioning on LD & Top Clients

#### Business clients ('000 CNPJ)



#### LD revenues (R\$ Bln)



**TIM & Intelig Complementary Assets**

## Agenda

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- ▶ **2009 Outlook**

## Financial Priorities and Achievements

### Keep Efficiency on Track

- ▶ Overall TI Group Cash Cost reduced by 0.4 bln or 7.5% YoY (organic)
- ▶ Cash Cost on Revenues improved by 3 p.p.
- ▶ Domestic Cash Cost reduced by 0.3 bln or 6.9% YoY (organic) with percentage on Revenues down to 68% (70% in 1Q08)
- ▶ Domestic Efficiency on track (25% of Full Year '09 program achieved)
- ▶ Group Operating Free Cash Flow at ~13% on Revenues and broadly in line with 1Q08 despite Top Line decline
- ▶ Net Income at 6.8% of Revenues (+0.1 p.p. vs 1Q08)

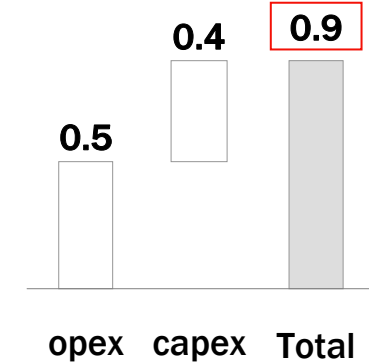
### Refinancing

- ▶ Euro 3.5 bln refinanced since beginning 2009 through various sources, reaping opportunities from cost-efficient ones (EIB)
- ▶ Appropriate balance of Bank Loans vs Bond Market
- ▶ Taking opportunities from cost-efficient sources (EIB)
- ▶ Keep risk profile under control:
  - ▶ no FX Risk
  - ▶ maintain Fixed/Variable mix (70/30)
  - ▶ no monetary volatility on Financial Expenses thanks to hedging policies

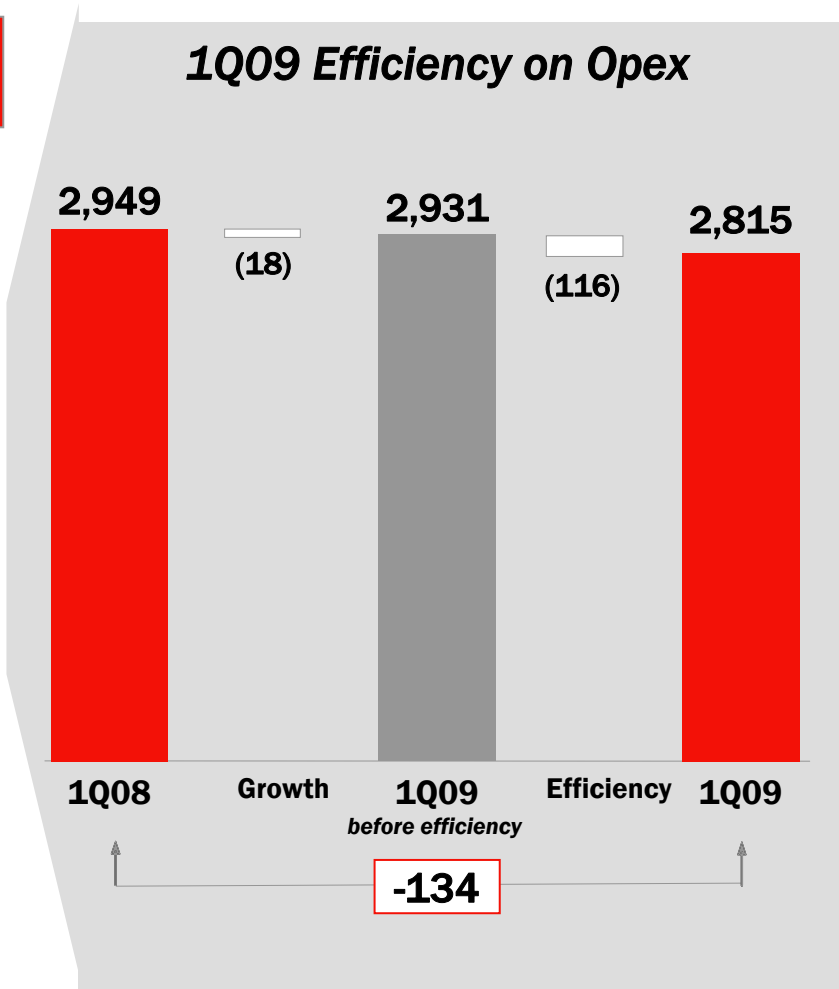
# Focus On Domestic Opex Evolution

Euro Mln

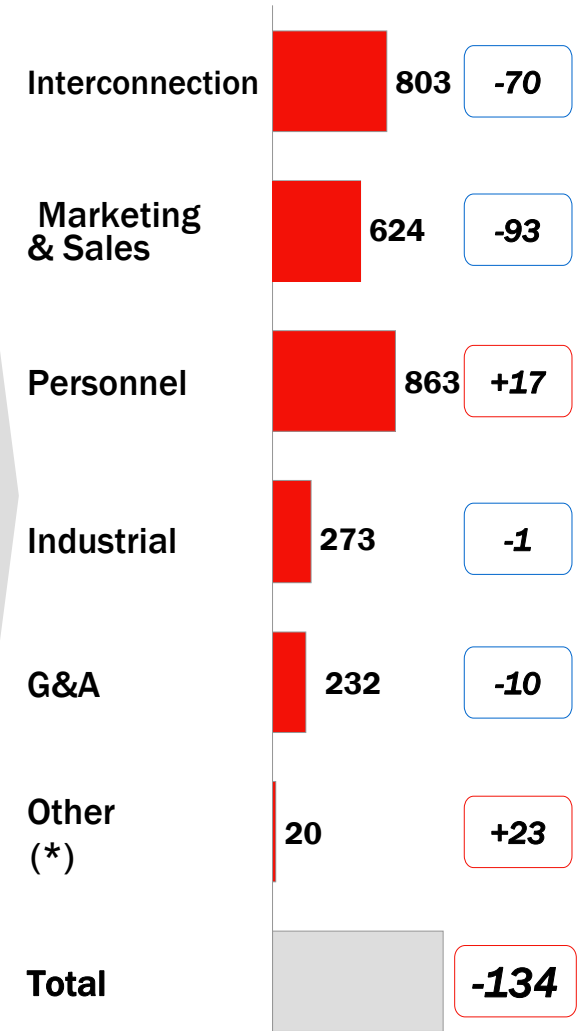
## FY09 Efficiency Program



% 1Q09 on FY Target		
23%	29%	25%
1Q09 YoY Absolute Change		
116	102	218

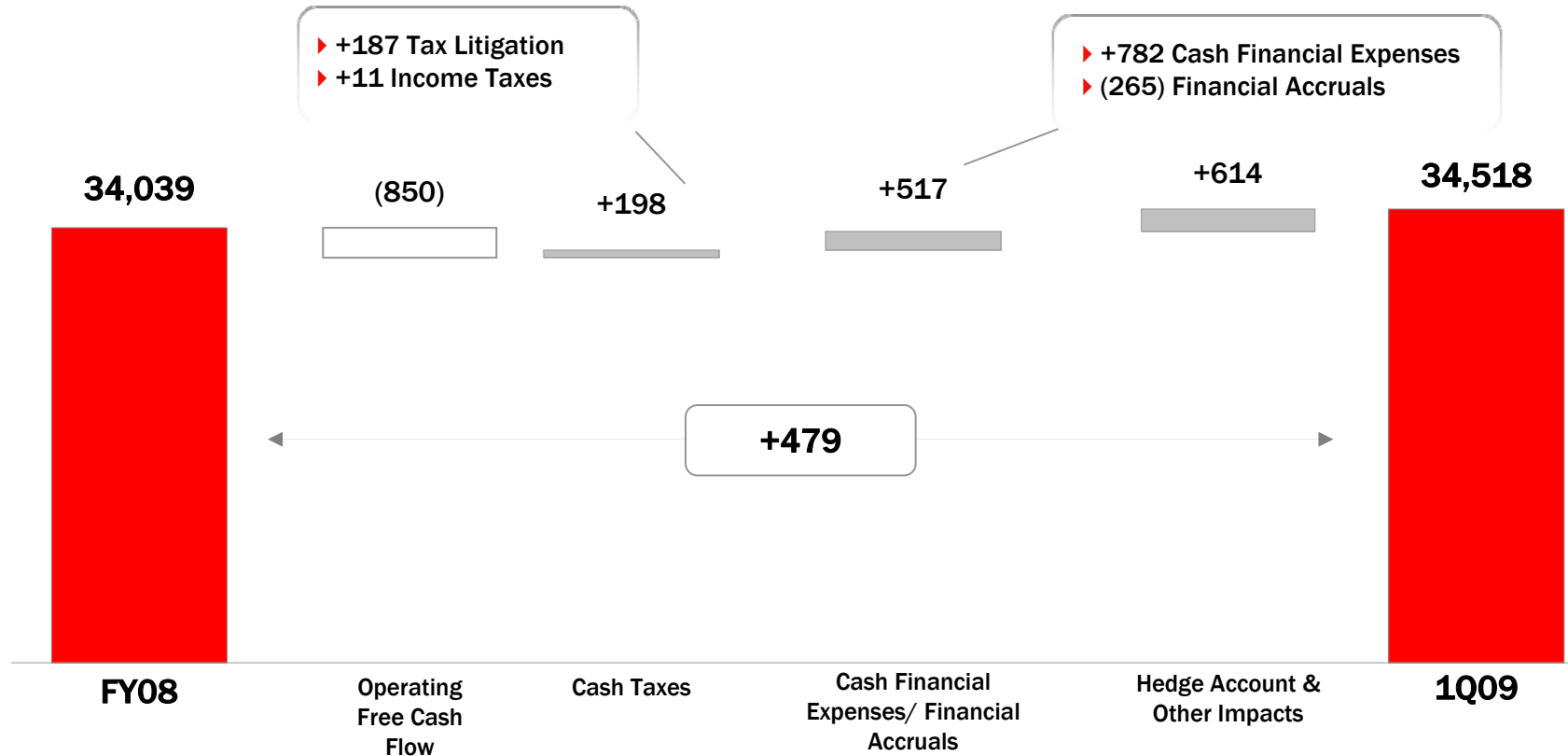


## Organic OPEX 1Q09 Change vs 1Q08



## Net Debt Affected By Non-Monetary Adjustments

Euro mln



1Q08	<b>35,701</b>	(968)	+23	+505	+175	<b>35,436</b>
Δ		+118	+175	+12	+439	

## Agenda

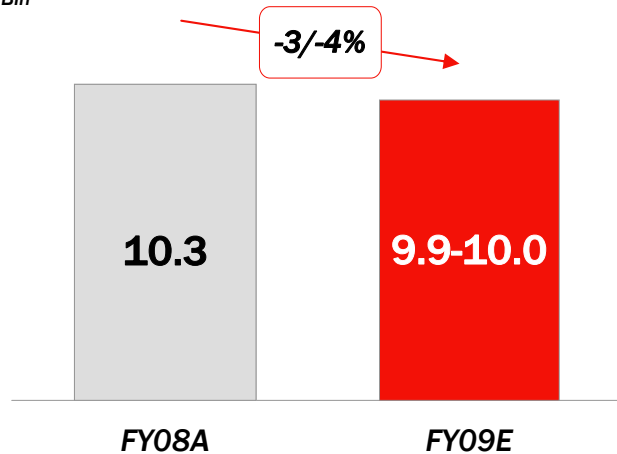
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## 2009 Domestic Outlook

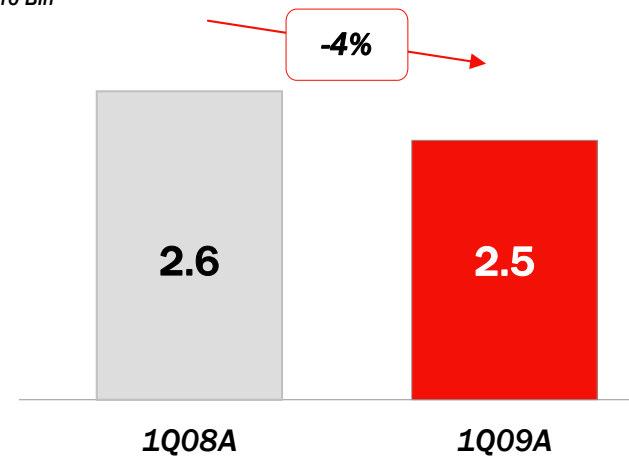
### Domestic: FY09 EBITDA Guidance

Euro Bln



### Domestic: 1Q09 EBITDA

Euro Bln



#### 1Q DOMESTIC EBITDA in low range of FY Guidance despite:

- Calendar discontinuity in 1Q affecting Mobile business (1 p.p. recovery in YoY change)
- Retail Market Operations re-organization and resizing (progressive positive contribution to revenues and margins during 2009).

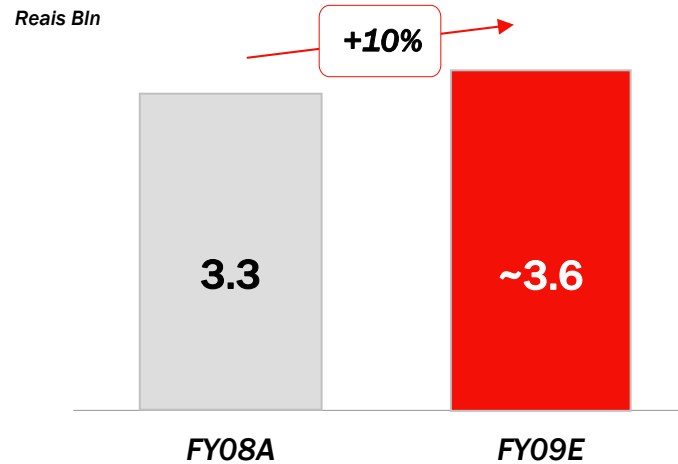
#### Further flexibility and savings on cost available:

- to secure margins (reduced SAC/gross, revenues mix improvement)...
- ... and support commercial activities (advertising, caring, win-back)

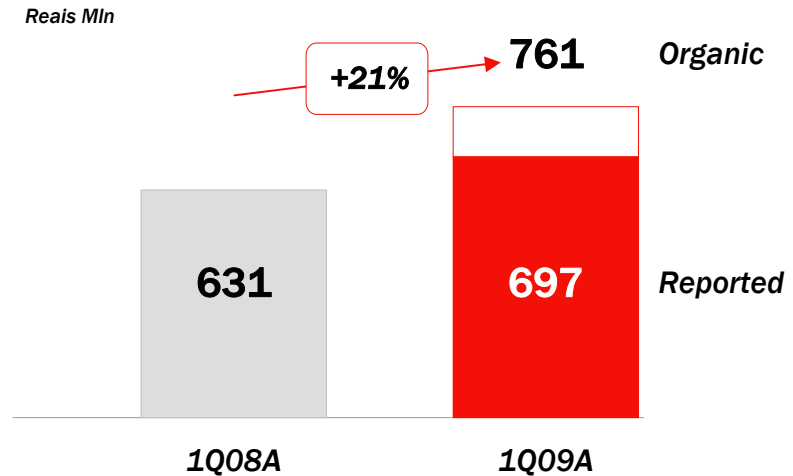
**Full Year Domestic  
Ebitda Guidance:  
9.9-10.0  
confirmed**

## 2009 Brazil Outlook

### Brazil: FY09 EBITDA Guidance



### Brazil: 1Q09 EBITDA



#### 1Q Brazil EBITDA in line with YoY expected Growth:

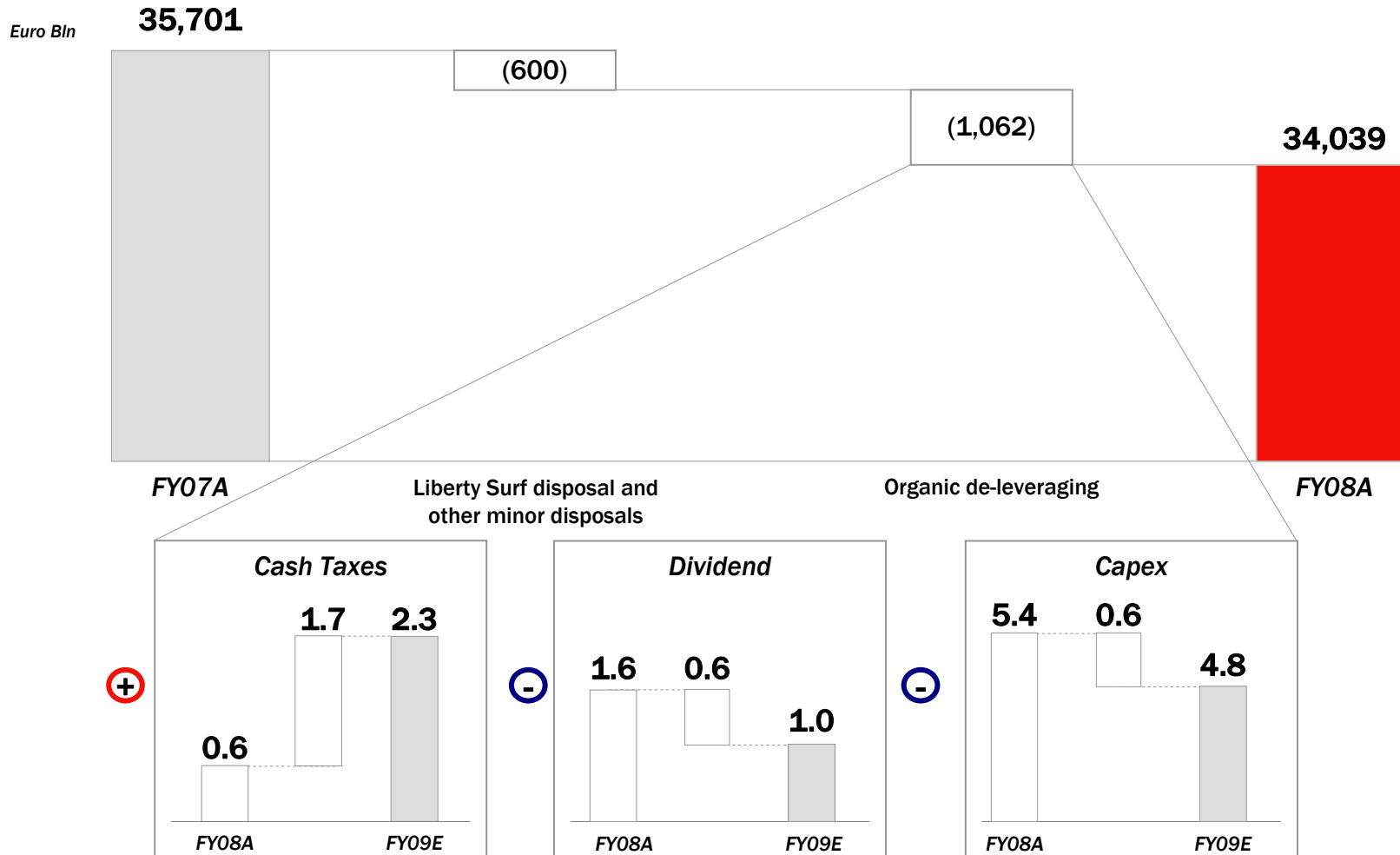
- excluding one-off impact of Embratel agreement 1Q09 is +21% vs 2008
- strong commercial effort to boost growth in 2H09

#### Further flexibility and savings on cost available:

- commercial programs, multi-channels & re-negotiation of outsourcing agreement for Customer Care

**Full Year Ebitda  
Guidance:  
3.6 bln R\$  
confirmed**

# 2009 De-Leveraging Outlook



**Focus on de-leveraging is our priority**