

TELECOM ITALIA

9th Deutsche Bank Italian Conference

Milan, May 29th, 2008

Telecom Italia

ENRICO PARAZZINI, CFO



TI Group – 1Q '08 Key Financial Results

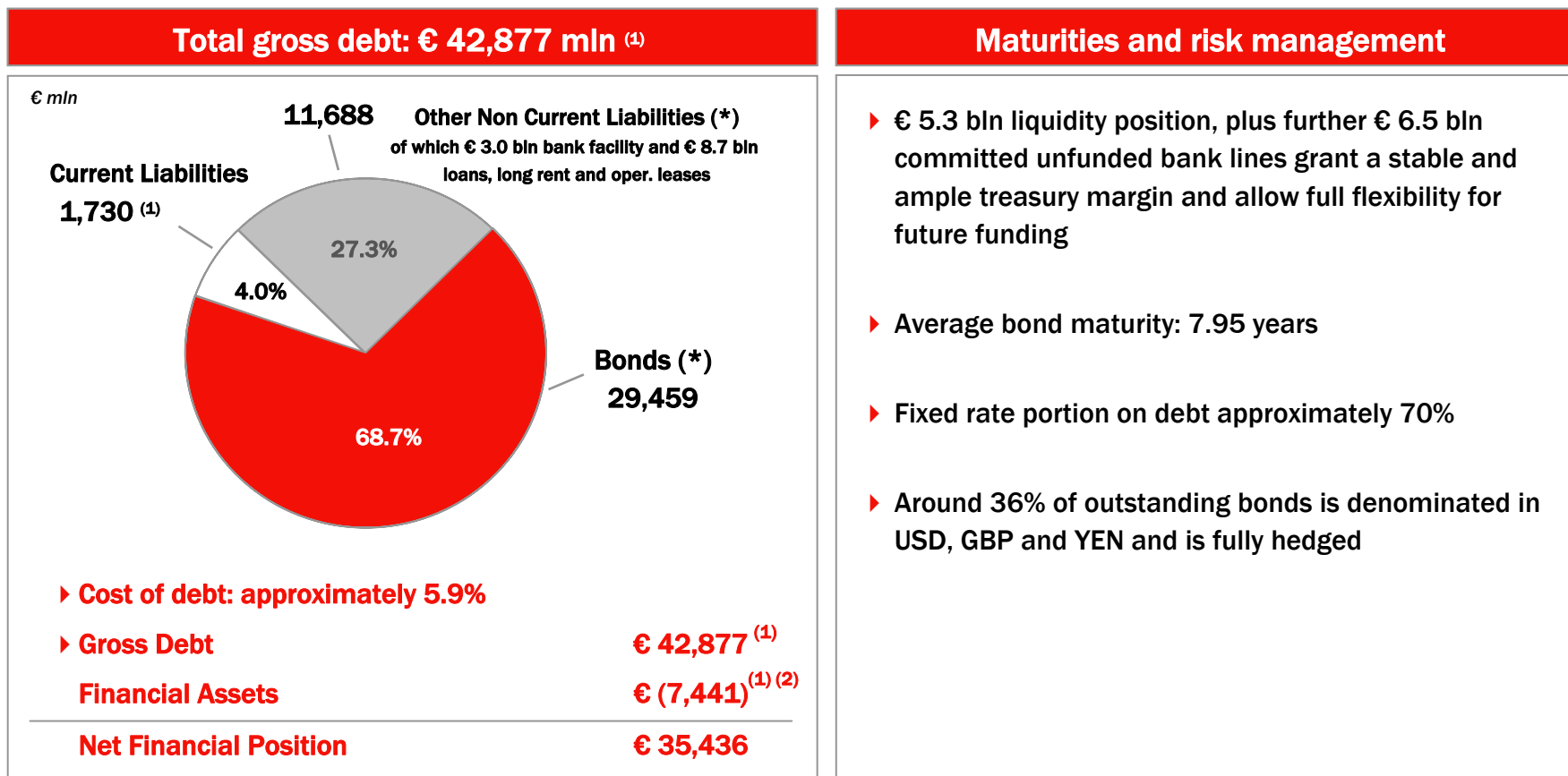
€ Mln	1Q '08 reported	1Q '07 reported*	YoY reported	YoY organic**	Highlights
Revenues	7,298	7,475	-2.4%	-4.0%	<ul style="list-style-type: none"> ▶ Domestic revenues mainly affected by regulatory discontinuities (€ 260 mln). International activities generated 22% of Group turnover in 1Q08 (+4pp yoy). ▶ Stable domestic Ebitda Margin (47.5%), among the highest in the industry. Lower international profitability due to competitive dynamics and non recurring bad debt in Brazil. ▶ D&A increase following higher capital intensity for continued investments in innovation. ▶ Bottom-line discounts lower operating income and a negative yoy balance from Sofora call options valuation. ▶ Higher investments in Italy for broadband coverage and quality improvement. ▶ Net Debt decrease thanks to cash flow generation.
Ebitda	2,966	3,178	-6.7%	-6.7%	
<i>Ebitda margin</i>	40.6%	42.5%	-1.9pp	-1.2pp	
Ebit	1,528	1,817	-15.9%	-16.0%	
<i>Ebit margin</i>	20.9%	24.3%	-3.4pp	-2.9pp	
Net Income post minorities	501	775	-35.4%		
Capex	1,228	1,128	+100		
Net Debt	35,436	37,182	-1,746		

-265 vs 35,701
€ mln YE'07

* Pro-forma figures (TI France considered as a discontinued operation).

** Excluding changes in consolidation area, exchange rate impact and other non organic items. In line with '08-'10 Company Guidance, restructuring costs are accounted as recurring items and no longer included among the non organic items.

TI Group: debt structure as of March 31st, 2008

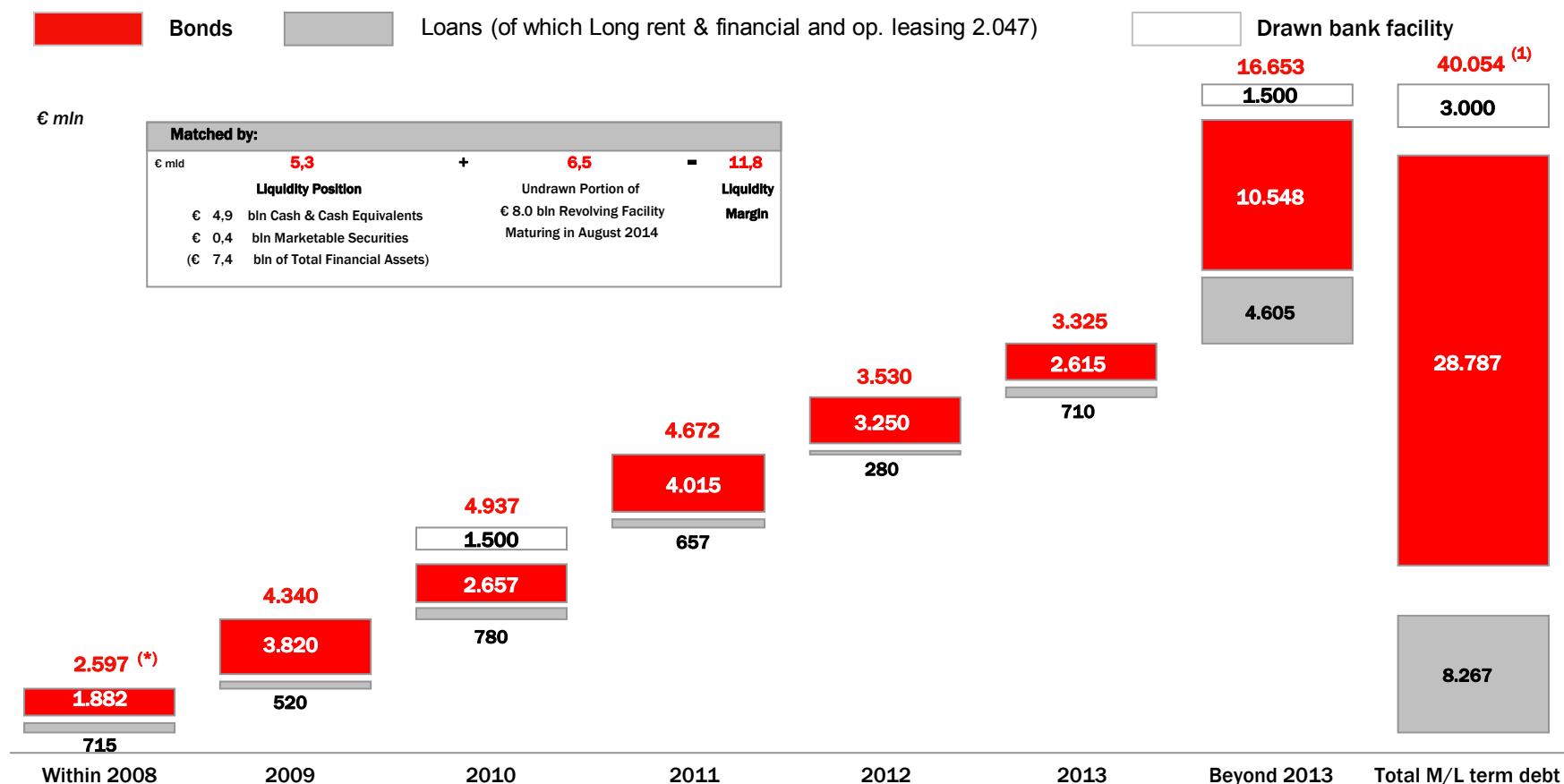


(1) Including Liberty Surf Intercompany Debt accounted as for Discontinued Operations (€ 762 mln)

(2) Nominal Liquidity Position, represented by cash and marketable securities stands at € 5.3 bln

(*) Including the current portion of non current liabilities (maturing within 12 months) for € 5,329 mln (of which bonds € 4,125 mln and other € 1,204 mln)

TI Group: medium-long term debt Maturity profile as of March 31st, 2008



(1) € 40.054 mln is the nominal amount of outstanding medium-long term debt, by adding IAS adjustments (€ 1.094 mln), current liabilities (€ 967 mln) and Liberty Surf intercompany debt accounted for as discontinued operations (€ 762 mln), the gross debt figure of € 42.877 mln is reached.

(*) of which euro 499.7 mln refer to bonds maturing September 14th 2008 with extendable option to bondholders; each extension period is for 21 months; ultimate maturity March 2012.

N.B. Debt maturities are net of € 95 mln (face value) of repurchased own bonds (TI Spa € 850 mln 5.25% Notes due 2055) and include € 14 mln of discontinued operations/assets held for sale relating to Liberty Surf. Furthermore, Liberty Surf current intercompany debt (€ 30 mln) due to TI Capital (maturing Sept 2008) has not been included.

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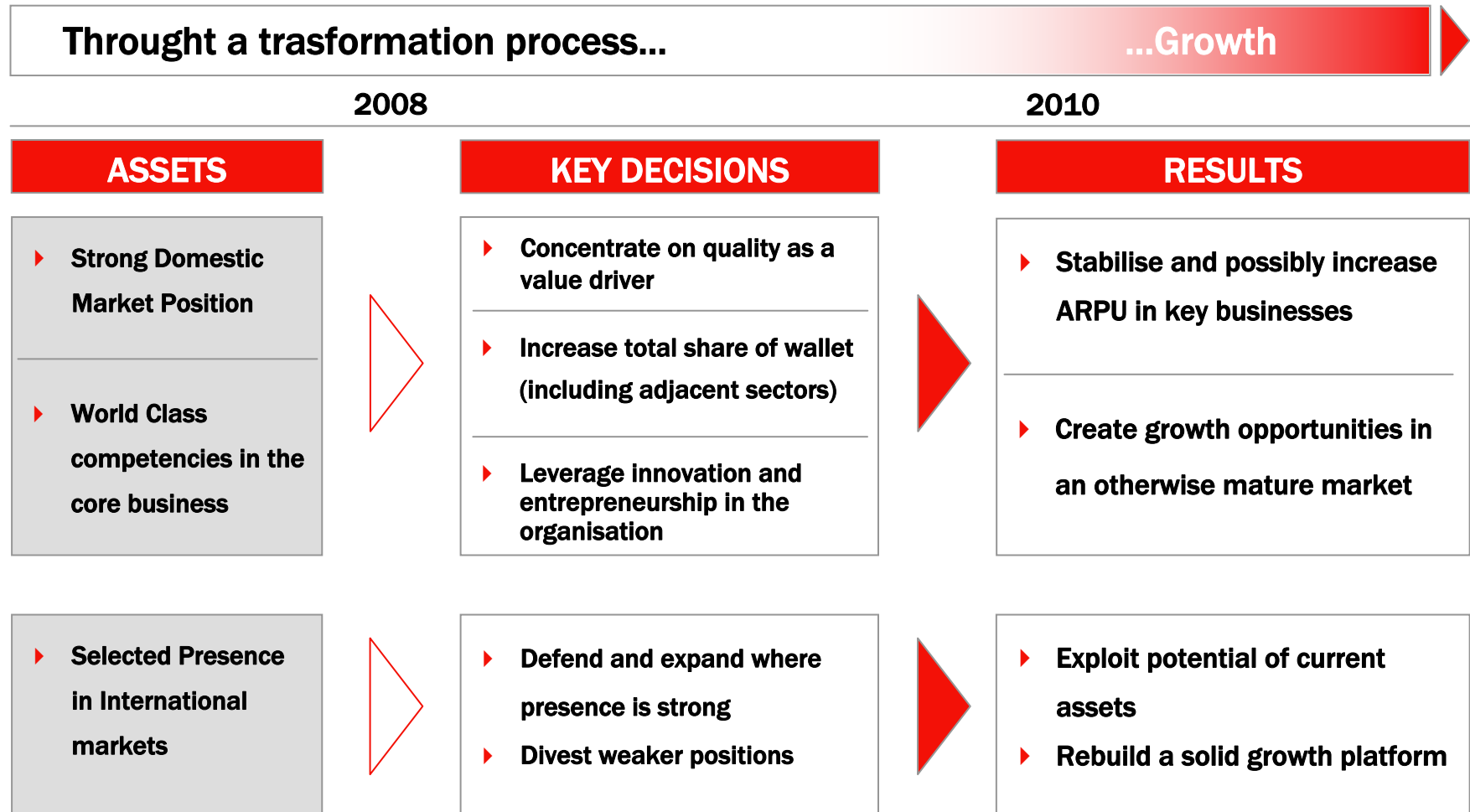
FRANCO BERNABE', CEO



Agenda

- ▶ **TI Strategic Outlook**
- ▶ **Domestic Business: TI Value Approach**
- ▶ **International Activities**

Building the Foundation for Growth



Maintaining a strong financial discipline

- ▶ Raise cash from non strategic assets
-

- ▶ Select investments on payback period and return ratio thresholds
-

- ▶ Focus on the deleveraging

Targets 2008-2010

- ▶ Alice France disposal by 2008

- ▶ BB coverage by 2010:
Fixed: 90% Adsl2, 8% NGN
Mobile: 85% High Speed 3G
Deployment of convergent BB network
(FTTx, LTE and Femtocells)
- ▶ Service platforms development
(IPTV, dynamic HDTV, full IP Managed Unified
Communication Platform, etc.)

- ▶ ~ 2.5x by 2010 (NFP/Ebitda)

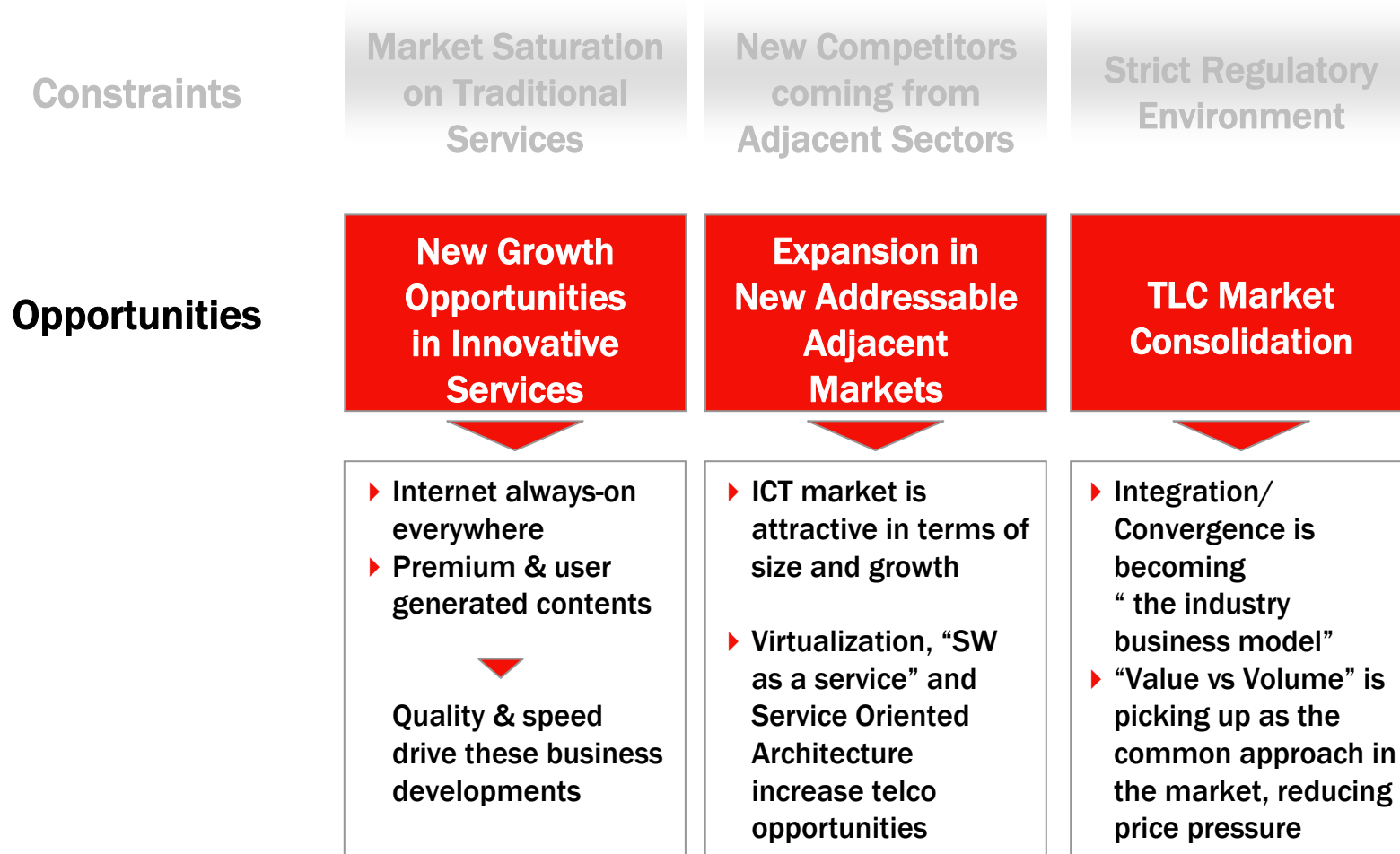
And improving efficiencies through

- ▶ Implementation of a new lean organization
- ▶ Strict cost control
- ▶ Cash cost reduction plan already identified

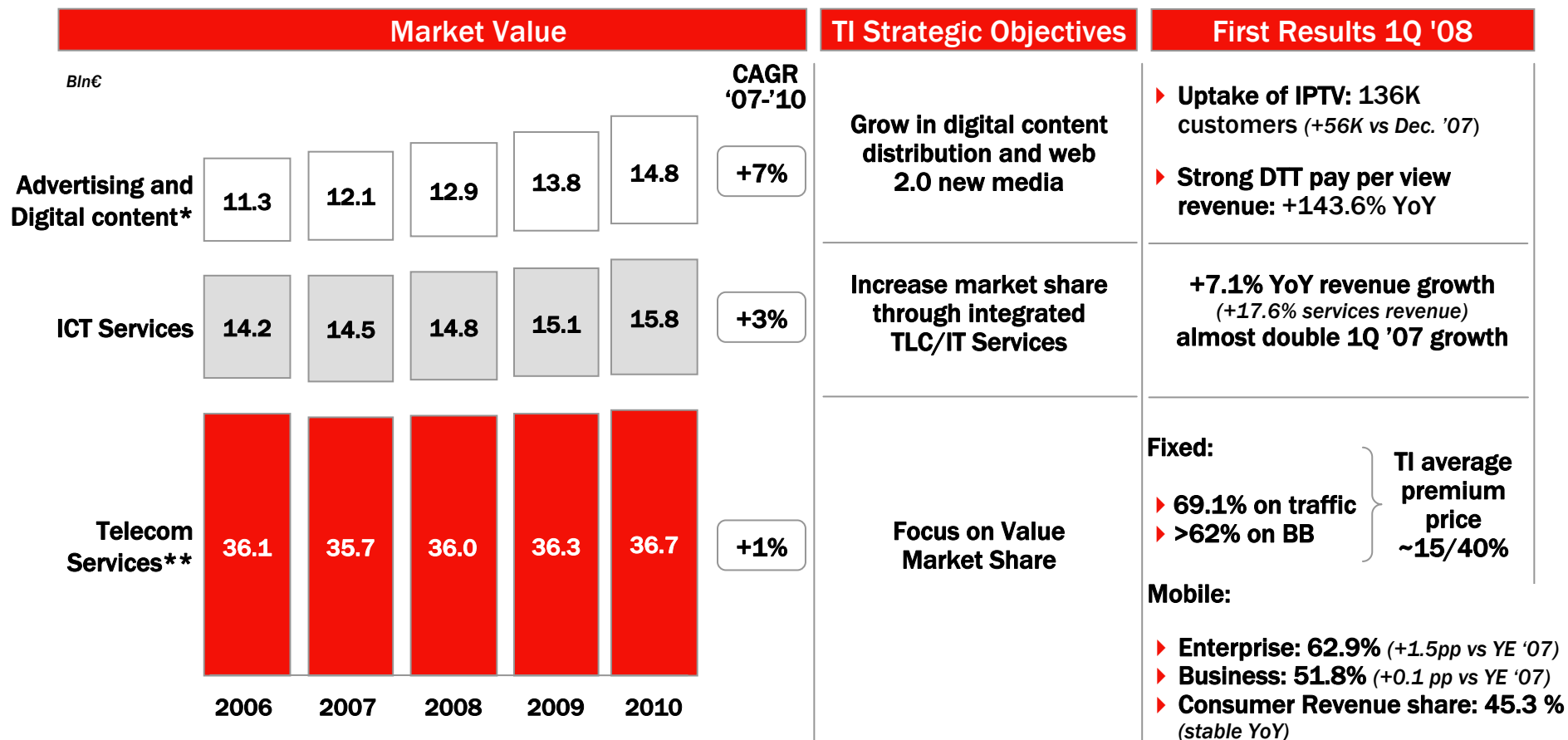
Cash Cost reduction 2008–2010: 1.2 Bn €

▶ Access	0.3 B€
▶ IT	0.55 B€
▶ Network	0.15 B€
▶ Technical Infrastructures	0.2 B€

An Evolving Industry – Constraints and Opportunities



Consolidate and Transform Domestic Business: Focus on Share of Wallet



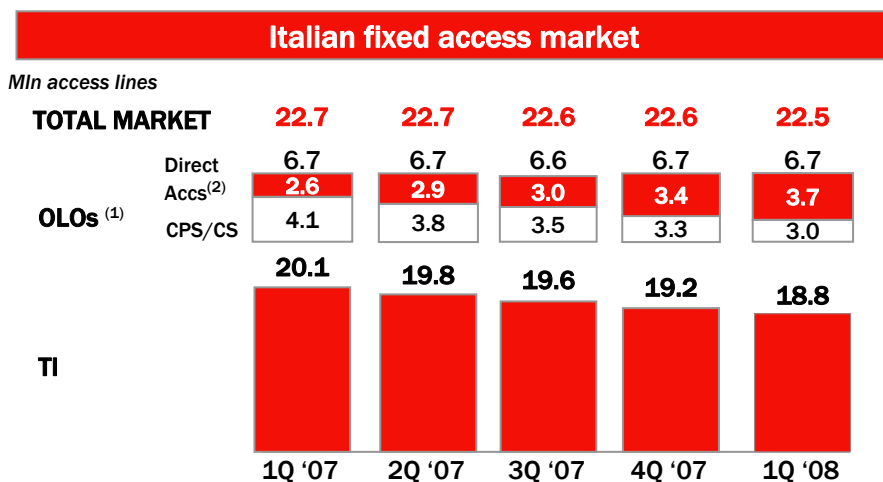
* Includes total advertising mkt, Pay TV and digital content on PC. Excludes RAI Service Fee

** Includes equipment

Agenda

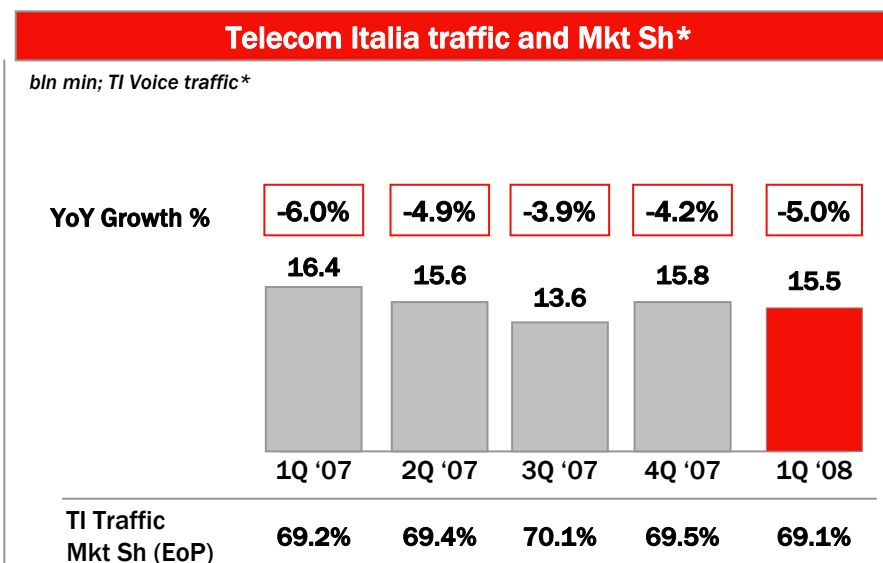
- ▶ TI Strategic Outlook
- ▶ **Domestic Business: TI Value Approach**
- ▶ International Activities

Stabilizing the trend in fixed traditional business...



1) Telecom Italia estimates
2) ULL/WLR/FIBER, ETC.

- ▶ 1Q '08 TI line loss stable YoY
- ▶ Introduction of Wholesale Line Rental in 1Q '08
- ▶ Lower increase of ULL customers in 1Q '08

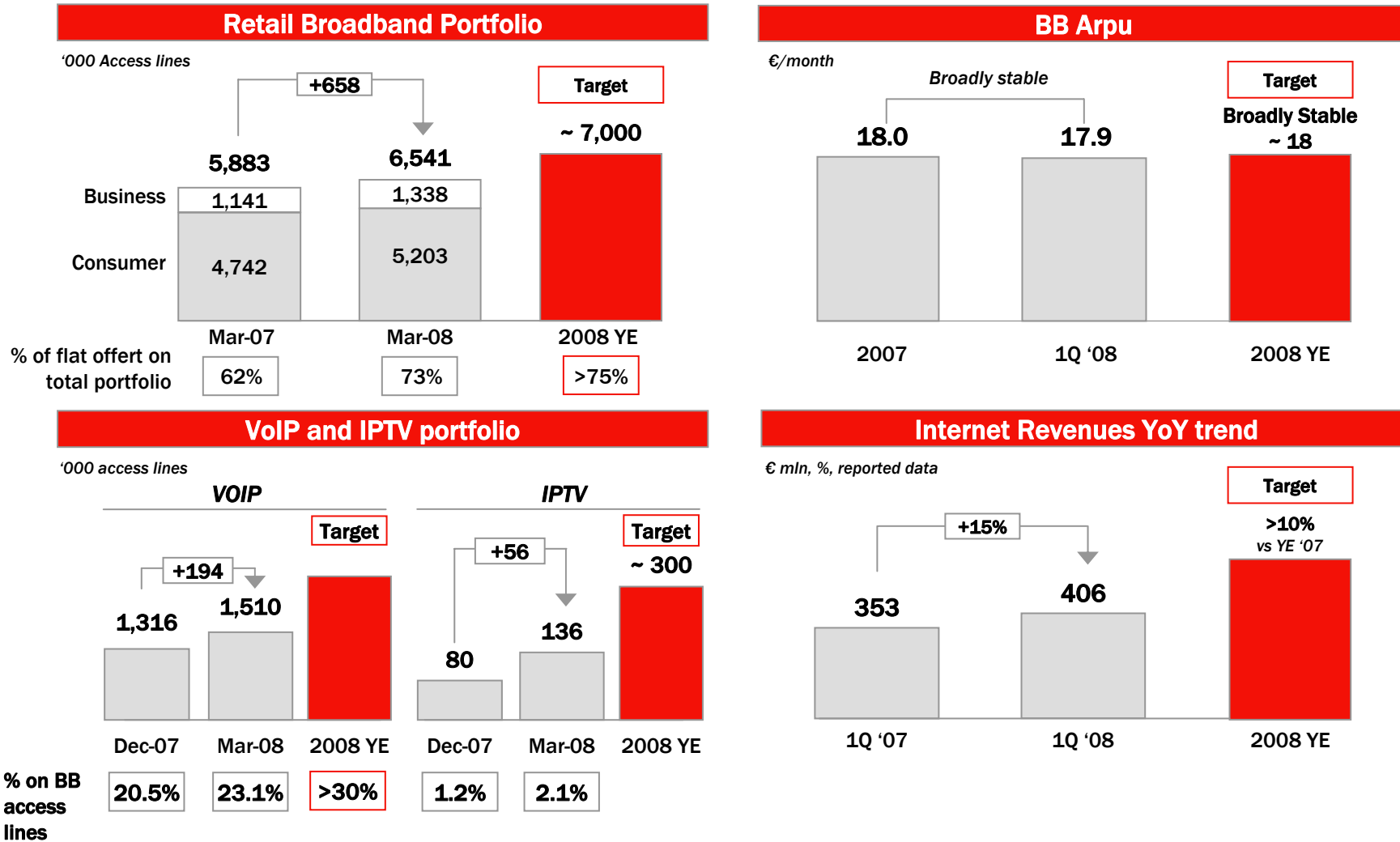


- ▶ Stable TI Traffic M/S in last 15 months thanks to success of Telecom Italia Retention Campaign and stabilization of OLO market

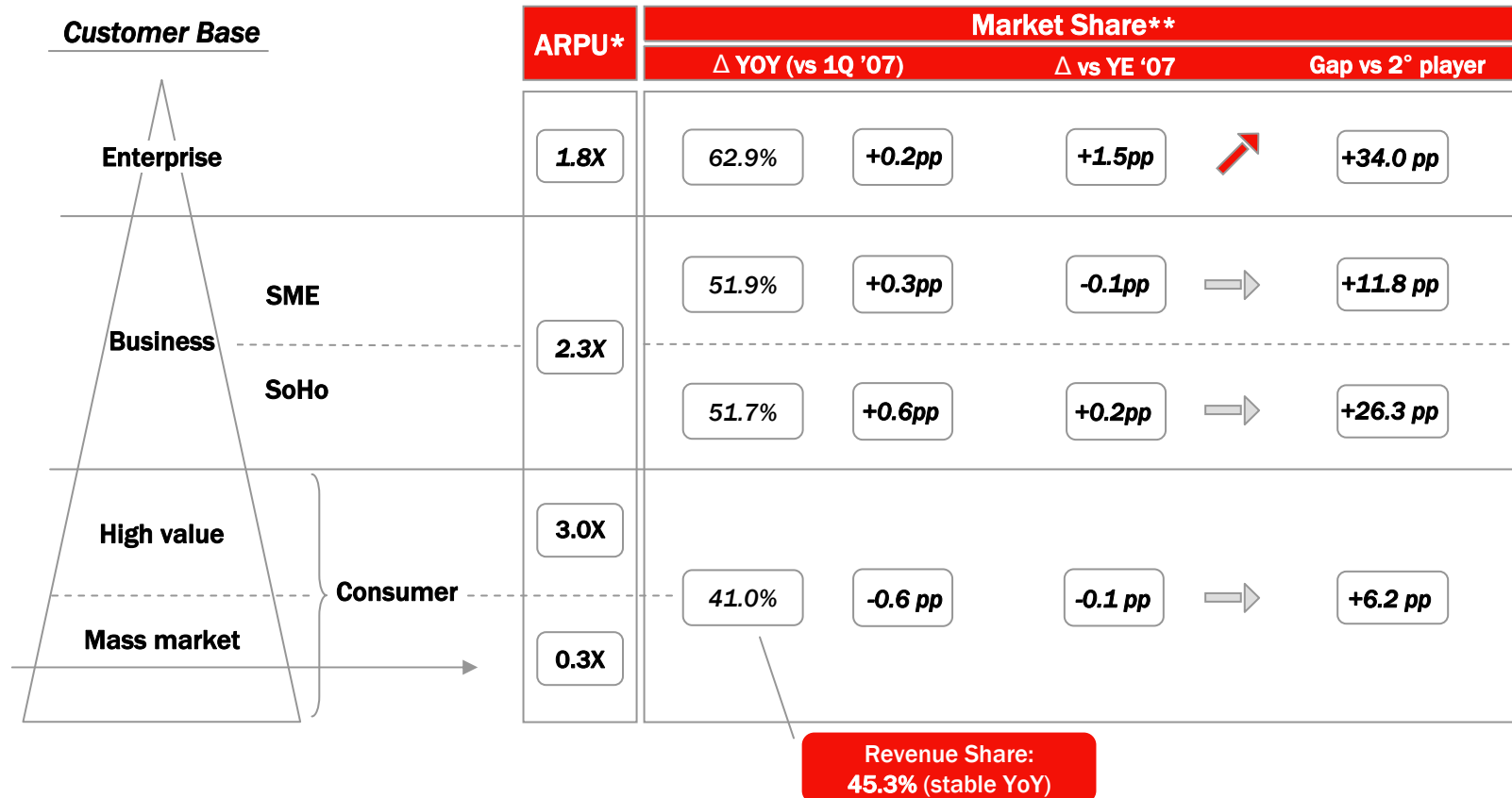
...with a strong improvement in customer satisfaction index: +2pp YoY*

* Source: Customer Satisfaction & Loyalty wireline (Doxa for 2007, GFK EURISKO for 2008)

Value based BB strategy boosts growth



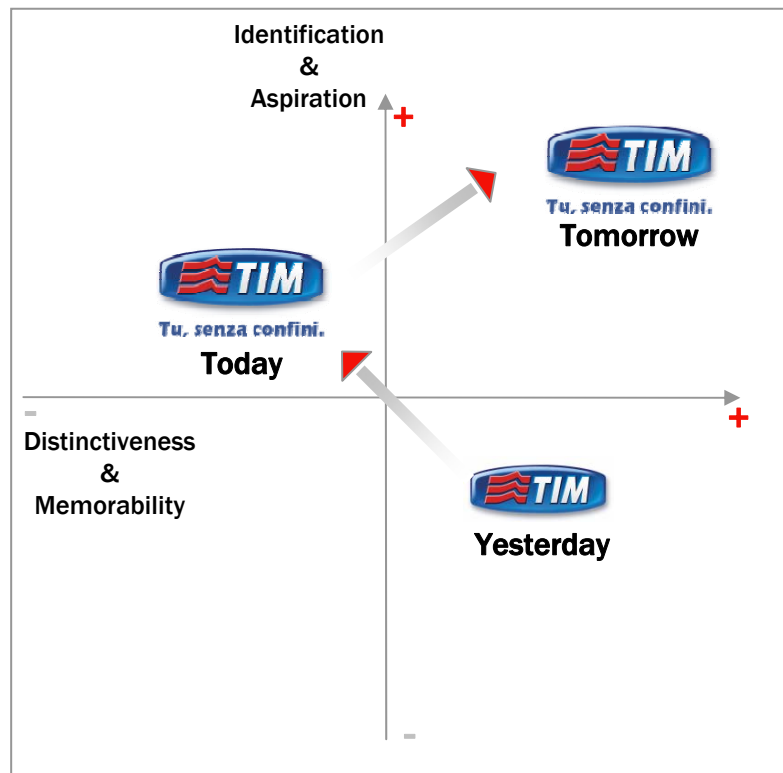
TIM: defended leadership in most valuable market segments



Source: Internal analysis based on CRA Research, GFK-Eurisko surveys
 NB: Excluding inactive lines, migrants and kids < 11 for Consumer
 * TIM average = 1X
 ** Enterprise Market Share: Dec '07 vs. July '07

TIM Brand re-positioning: closer to our customers

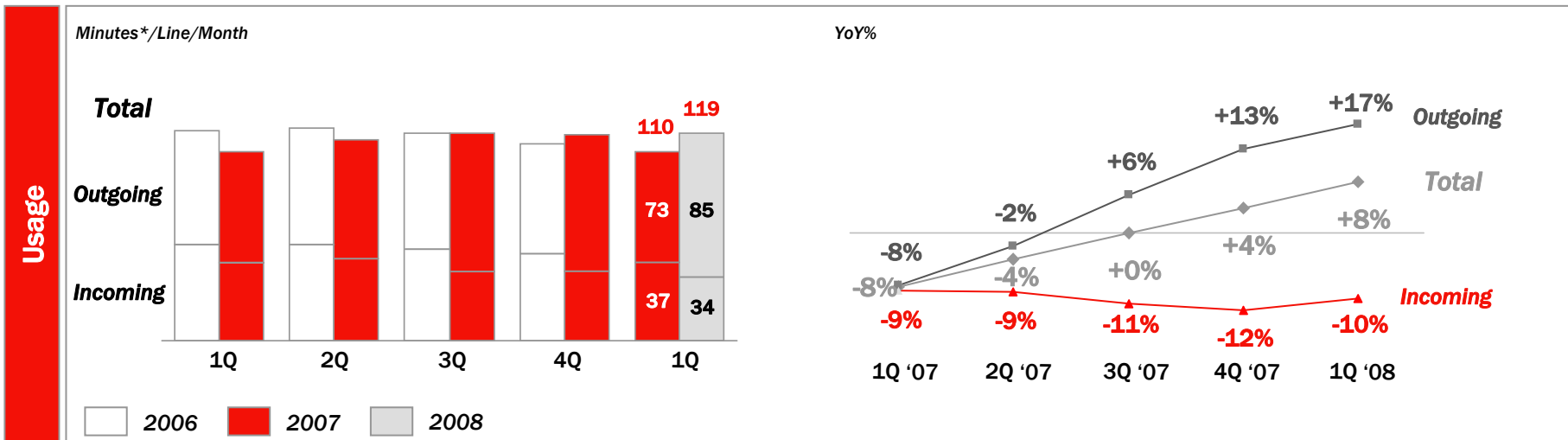
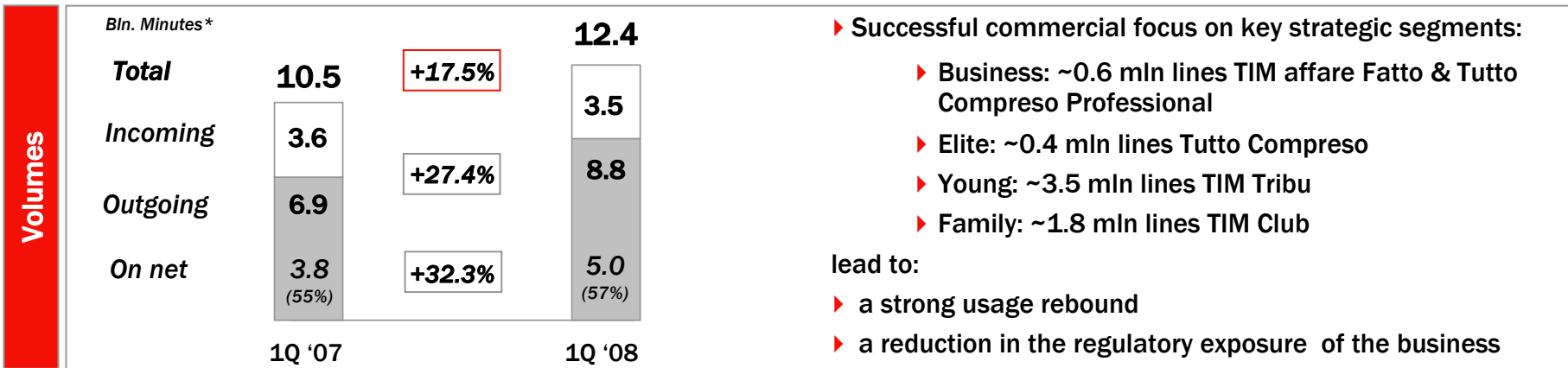
Tim brand re-positioning



New format launch

- ▶ **Discontinuity** and innovation attract attention and curiosity
 - ▶ **More emotions**, lower focus on the “product” to encourage instinctive behaviour as opposed to rationality
 - ▶ **Focus on the customer base** to strengthen feeling of affiliation and move the Brand closer to customer needs
- ▼
- ▶ The new format addresses **youth/adults** who value:
 - ▶ **Innovation and discontinuity** from the past and formats of other operators
 - ▶ **Empathy**: A brand closer to their wishes and aspirations
 - ▶ **Identification**: no celebrities but ordinary people in longed-for situations
 - ▶ **“Humanization”**: Customers’ needs are met through products & offers
 - ▶ Offers that are **easy to understand**

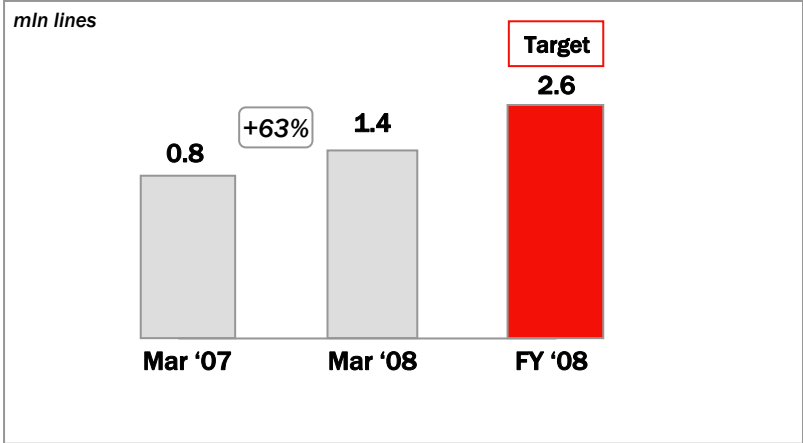
Voice: TIM Community & High Valuable customers drive usage rebound



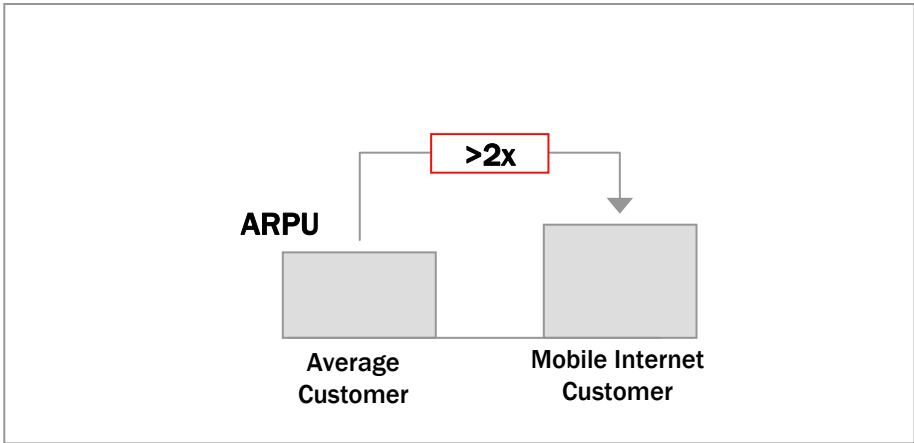
* Excluding Visitors and roaming

A Successful Mobile Internet Strategy

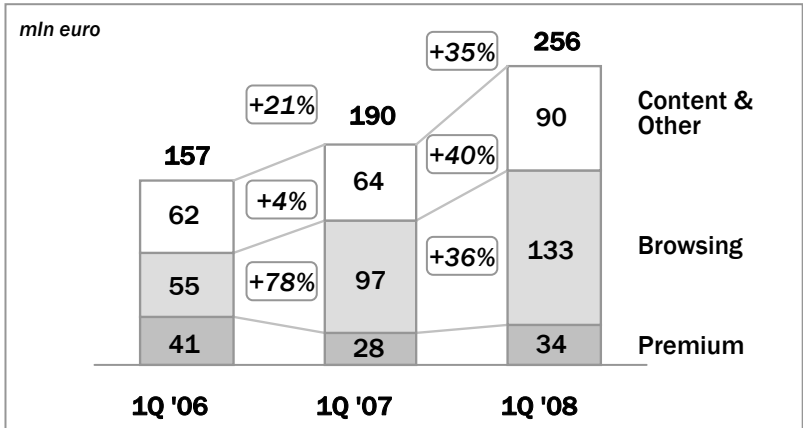
An increasing customer base



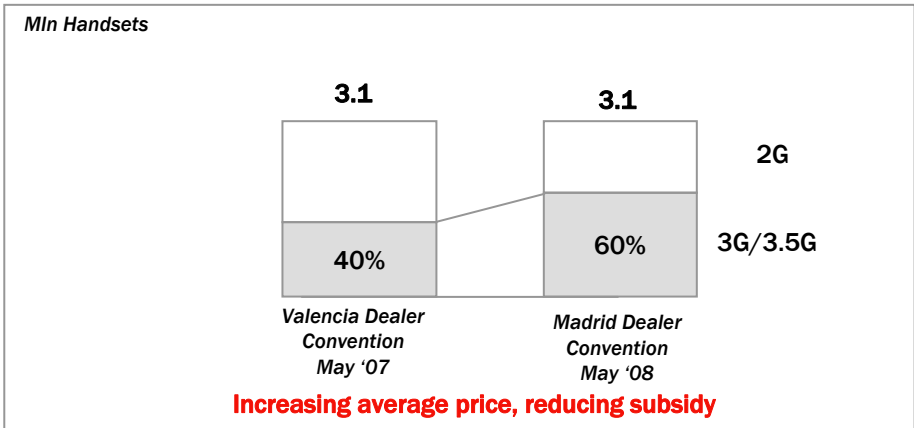
A value-added business



A strong revenue contribution - Interactive VAS



A quality handset portfolio



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HanseNet: 1Q '08 progress on strategic priorities

Market Results

- ▶ **Gross adds continue in line with previous quarter (253k); overall BB net growth suffered from strong decline of AOL customers also due to data cleaning after end of migration**
- ▶ **Mobile customer base increased from 329k to 423k subscribers**
- ▶ **Brand awareness increased to 51%* vs. 46% in 4Q '07**

Operational Excellence

- ▶ **Since March service levels show strong performance due to operational optimizations:**
 - ▶ **Excellent hotline answering times**
 - ▶ **Low activation backlogs (due to end of delays from incumbent)**
 - ▶ **Substantial cost savings will be reached starting 2Q**

Network Extension

- ▶ **ULL coverage reached 68%, increase from ~ 60% in 2007 through 3rd party coverage (target 2008 ~70%)**
- ▶ **Roll-out of FTTB trial in selected area of Hamburg**

Expected Profitability

- ▶ **Heavier price competition will negatively impact 2008 EBITDA margin, target revised to almost 24% from previously announced ~26%**

* GFK Eurisko, February 2008

TIM Brasil: investing for the future

▶ **Maintaining aspirational, innovative brand attributes**

▶ **Marking the market**

- ▶ **Stable market share:** 25.9% share in an increasingly competitive environment
- ▶ **Leader in gross adds:** ~26% share thanks to promotions on traffic and 'TIM-Chip only' sales
- ▶ **Focus on high-end:** post paid 20.8% of total lines vs competitors 18.6%
- ▶ **Maintaining strong prepaid base** through loyalty programs and development of low-income class model

▶ **Developing wireless broadband**

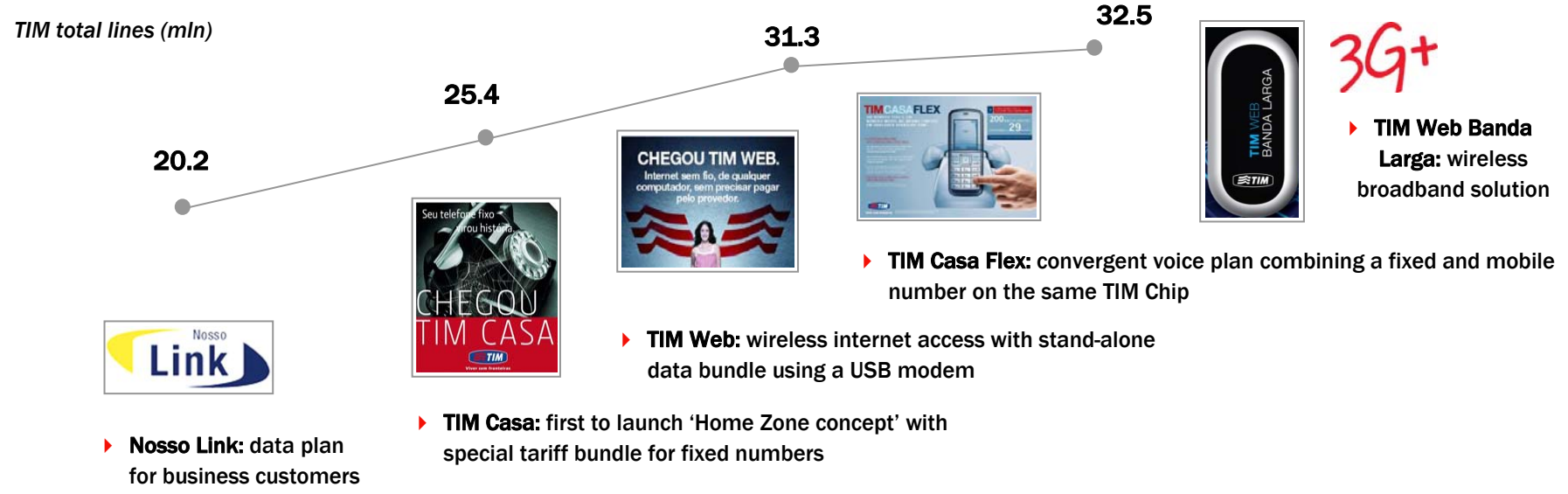
- ▶ **Launch of 3G service in 8 major cities:** 850 Mhz - April 16th, 2.1 Ghz - May 1st
- ▶ **Step ahead in TIM convergent offer** through wireless broadband: **speed upgrade 1-7Mbps** is automatic, seamless and free of charge for all covered areas/enabled devices
- ▶ **Innovation to encourage usage and revenue:** VAS already at 8.1% of service revenues (+1.4 pp YoY)

▶ **Delivering on results:**

2008 company targets already factored in an increasingly competitive scenario, 1Q '08 slowdown has prompted remodeling of voice tariff plans and kick-off of fixed cost control plan

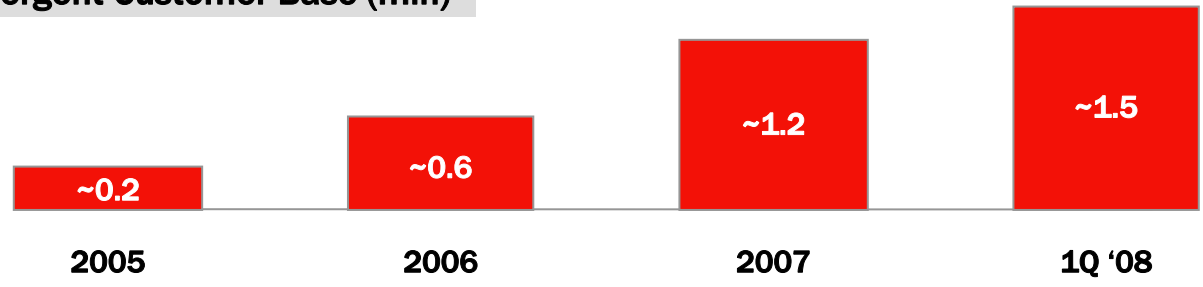
- ▶ **Revenues:** 2008 target revision to ~9% YoY organic growth
- ▶ **All other 2008 targets confirmed**

TIM Brasil: convergent offer roadmap



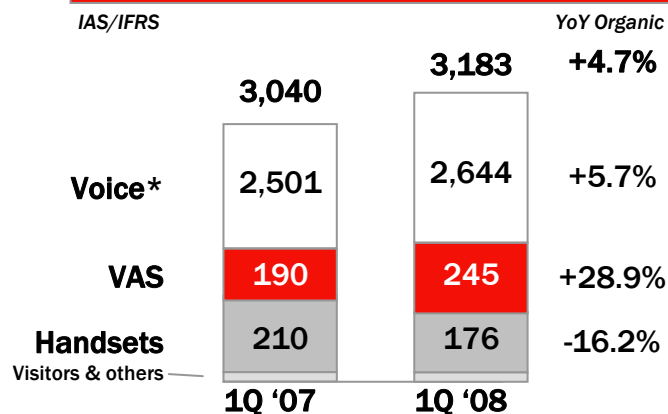
3G+

TIM Convergent Customer Base (mln)



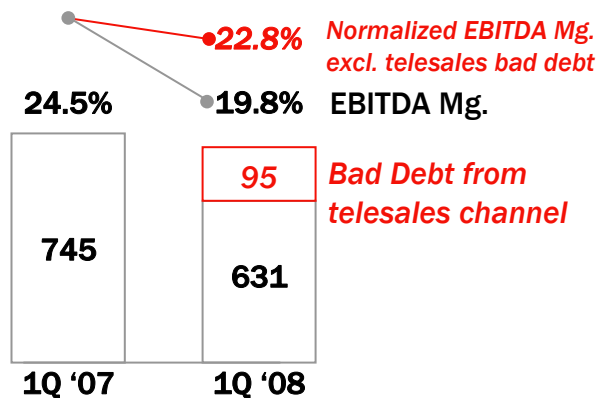
TIM Brasil: main performance drivers

Revenues - mln R\$



- ▶ **Promotions on traffic to drive on-net usage and M-F calls on a “hot spot” basis:**
 - ▶ Outperforming market adds in target areas
 - ▶ Blended MOU up to 94 (+5% YoY), again above peer average
- ▶ **Push on VAS and promote “education” on data in light of 3G+ launch (April 16, 2008): innovative services drive VAS up to 8.1% of service revs (+1.4 pp YoY)**
- ▶ **Lower handset revenues due to strong reduction in handset prices and lower volumes from ‘TIM-Chip only’ strategic focus on services**

EBITDA – mln R\$ - and EBITDA margin



- ▶ **Commercial price aggressiveness as investment for the future**
 - ▶ + interconnection expenses from strong outbound traffic increase
 - ▶ + VAS content and web promotions driving to 3G
 - ▶ - SAC through balance of improved commissions policy and subsidy focus on value customers
- ▶ **Bad Debt exceptional increase (9.0% of service revs; +2.9 pp) from aggressive 2H '07 acquisition campaign via telesales channel**
 - ▶ increased control against frauds had led to disconnection “bad credit” postpaid lines
 - ▶ **2008 bad debt back to historical levels (~6% of service revs) thanks to new rules implemented in telesales process and stricter credit analysis**

*Excluding Visitors and others