

Telecom Italia Group

Deutsche Bank 8th Italian Conference

Milan May 17, 2007

Telecom Italia

RICCARDO RUGGIERO, CEO

May 17, 2007

Agenda

- ▶ **1Q 2007 Group Results**
- ▶ **TI Group Strategic Guidelines**
- ▶ **2007-2009 Group Targets and Financial Priorities**

TI Group - Key Financial Results

€ mln

	1Q '07 reported	YoY reported	YoY Organic*	2007 Organic Target*
Revenues	7,540	+0.8%	+1.1%	+1.0% / +2.0%
Ebitda	3,154	-4.3%	-3.9%	
Ebitda margin	41.8%	-2.2pp	-2.2pp	-2.5pp / -2.0pp
Ebit	1,763	-11.1%	-6.3%	
Ebit margin	23.4%	-3.1pp	-1.9pp	-3.0pp / -2.5pp
Net Income (post minorities)	775	+4.2%		
Capex	1,160	+135		
Net Debt	37,182	- 0.1 bln vs. YE '06		Net Debt/Ebitda <3x

After the cash out of €669
mln for the AOL Germany
acquisition

Highlights

- ▶ Group results are fully on track with '07 targets
- ▶ Strengthened competitive position across all business
- ▶ Strong performance of International Business (+36% organic top line growth yoy)**
- ▶ Industry prime profitability confirmed
- ▶ Investments to maintain the technology leadership in Italy and development of coverage abroad
- ▶ Deleveraging process as a priority

* Excluding changes in consolidation area, exchange rate impact and other non organic items

** Aggregate figures of European Projects, Brazil mobile and Bolivia

1Q '07 Results – Main Domestic Fixed Revenues Streams

€ Mln, % Delta YoY, Reported data

	4Q '06		1Q '07**	
	Δ yoy	Δ% yoy	Δ yoy	Δ % yoy
Voice Traffic excluding F2M termination cut	-69	-6.6%	-70	-6.9%
Internet	13	3.5%	25	7.6%
Business Data	-109	-19.4%	-50	-11.3%
Total Retail*	-274	-8.0%	-208	-6.7%
Total Revenues excluding F2M termination cut	-133	-3.0%	-155	-3.7%

▶ 1Q '07 growth rates on core business better/in line with 4Q '06

* Voice + Internet + Business Data

** 1Q '06 Restated figures, excluding different accounting for Non Geographic Numbers (-119 mln €: -70 mln€ on voice and -49 mln€ on Internet)
In accordance with AGCOM deliberation 417/06/CONS, starting January 1st 2007, Telecom Italia invoices services rendered by OLO on NNG while does not assume credit risks. These services, since January 1st are thus no longer recorded for as revenues and costs in Telecom Italia accounts

1Q '07 Results - Domestic Broadband and Innovative Voice

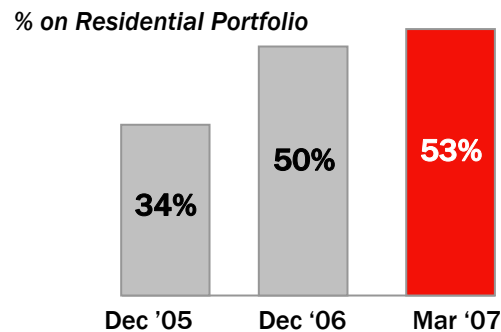
Broadband Portfolio

	'000 Access lines			Δ Dec'06 vs Dec'05	Δ'1Q07 vs EoY06
	Dec '05	Dec '06	Mar '07		
Wholesale	890	1,131	1,212	+241	+81
Retail	4,817	5,639	5,883	+822	+244
Total Domestic	5,707	6,770	7,095	+1,063	+325

BB portfolio net growth by quarter



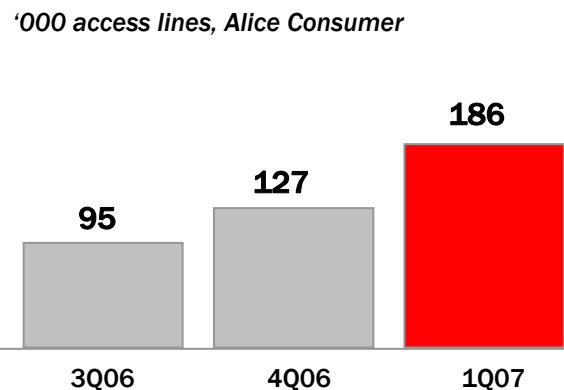
Flat Offers development



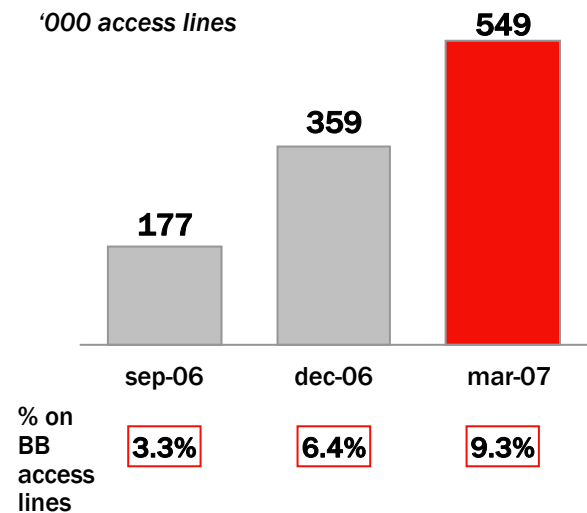
Domestic retail * ADSL ARPU	-10%	-2%
	1Q'06 vs 4Q'05	1Q'07 vs 4Q'06

*Including Residential, SOHO and SME's customers

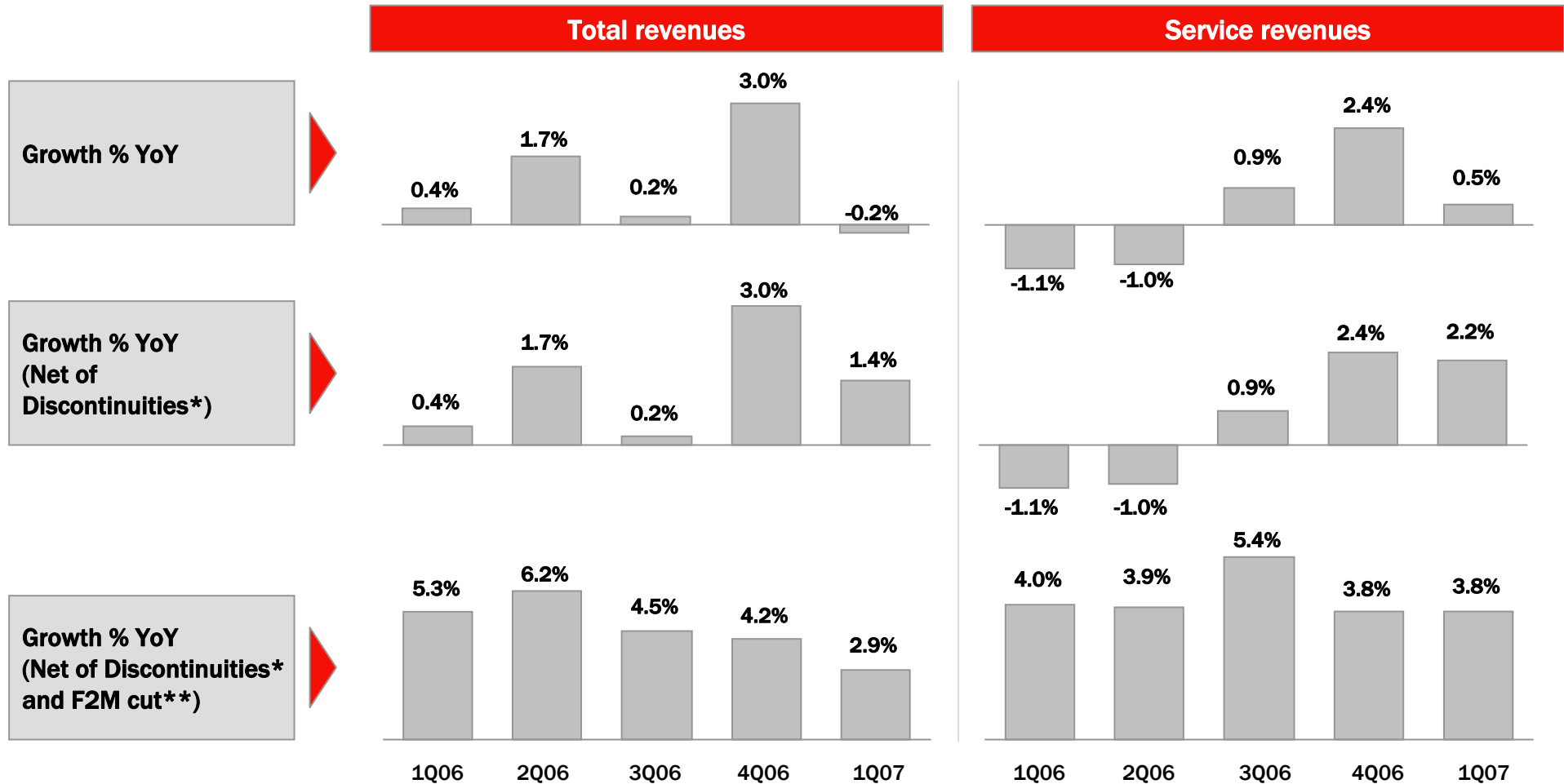
Upselling Free vs Flat



VoIP portfolio



1Q '07 Results - Domestic mobile Revenue Trends by Quarter



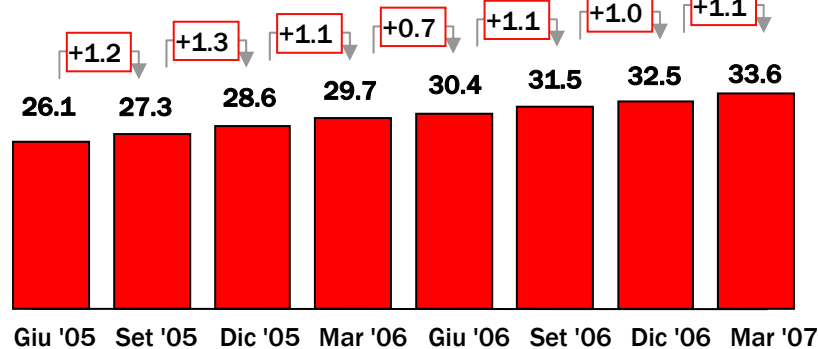
* Bersani Decree (30 mln € from March 5th 2007) and self-regulation on Visitors traffic (in line with European Commission guidelines: 8mln €)

**36 mln € in 1Q2007

1Q '07 Results - Domestic Mobile Operational highlights

Customer Base

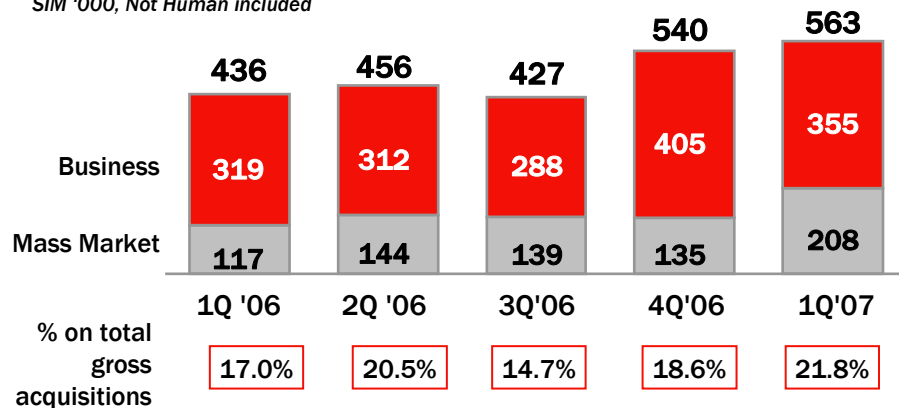
Mln lines



Category	Giu '05	Set '05	Dic '05	Mar '06	Giu '06	Set '06	Dic '06	Mar '07
MShare TIM (%)	39.4%	39.7%	40.0%	40.3%	40.5%	40.3%	40.4%	40.4%
UMTS customers	2,2	3,0	3,4	3,9	4,2	4,7		
UMTS Penetration	8%	10%	11%	12%	13%	14%		

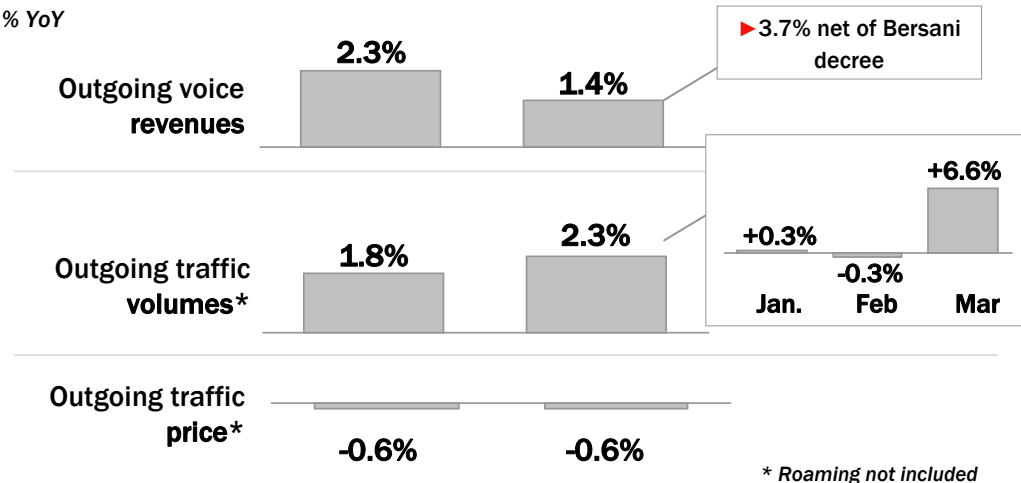
Post paid Gross Acquisitions

SIM '000, Not Human included



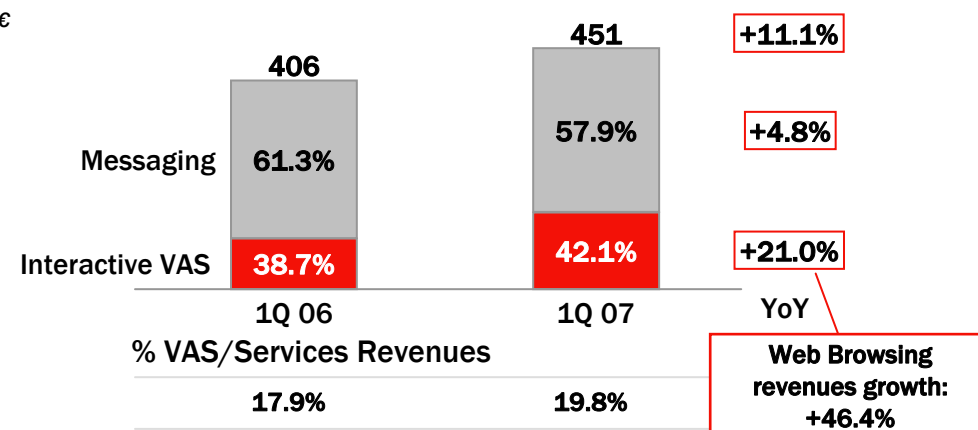
Outgoing Voice

Δ % YoY



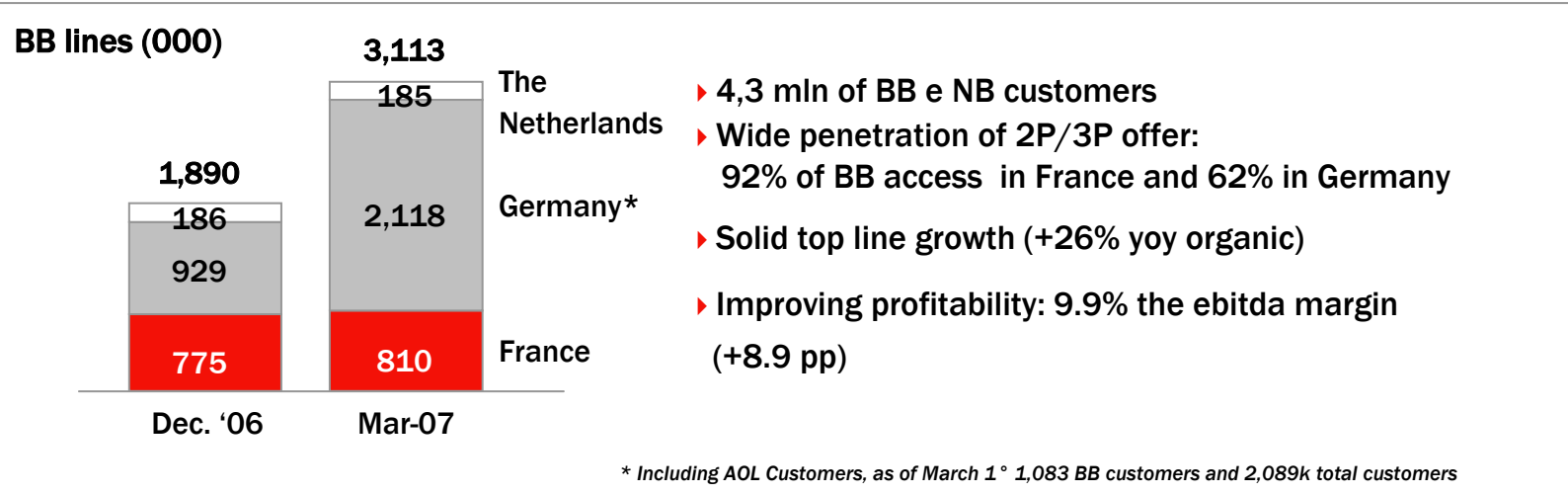
VAS Revenues

mIn €

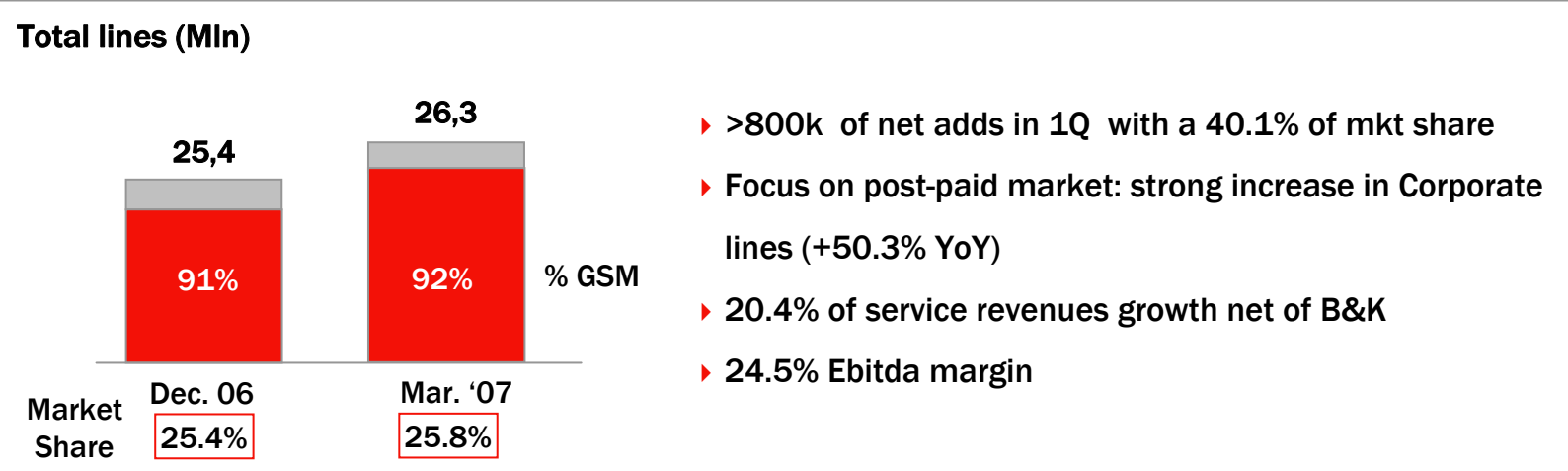


1Q'07 Results: International activities

Consolidate our positioning in European Broadband



Volume & Value Growth in Brazil continues



Agenda

- ▶ **1Q 2007 Group Results**
- ▶ **TI Group Strategic Guidelines**
- ▶ **2007-2009 Group Targets and Financial Priorities**

Market trend and competitive scenario: TI Strategic “must”

Market trend

- ▶ **Pure TLC market is slightly increasing** due to the rise in Mobile and broadband market
- ▶ **Margins erosion** due to price competition and technological discontinuities
- ▶ **Opportunities** for “Pure TLC” Operators in adjacent “dilutive” markets (eg. pay-TV, ICT)
- ▶ **TLC fragmented sector** under pressure from supplier’s consolidation and new “global” player expansion
- ▶ **Local Regulatory Authorities** future decision to influence TLC’s industry evolution (i.e.: NGN, Net Neutrality)

Competitors scenario

- ▶ **Maintaining domestic core business**
- ▶ **Growth in international emerging markets** and in adjacent markets (eg. pay-TV, ICT)
- ▶ **Industrial alliances** to achieve scale
- ▶ **Negotiation with Local Regulatory Authorities** on network access transparency and evolution (NGN)

TI Group strategic guidelines

- ▶ **Focus on core business**
- ▶ **Growth in innovative/adjacent markets**
- ▶ **Push on international businesses**

Clear Leadership Targets in Domestic Market Through Innovation and Convergence

Wireline

- ▶ Increase Broadband penetration
- ▶ Maintain customers and traffic on fixed network developing:
 - ▶ flat all inclusive 2/3play offers for consumers
 - ▶ integrated solutions for business customers
- ▶ Winback and retention on traffic and access
- ▶ Development of Innovative ICT and IPTV services

Mobile

- ▶ Volume and Value Strategy
- ▶ Market and offers segmentation (TIM Tribù, TIM Club,...)
- ▶ 3G/High Speed innovation and development in order to drive VAS growth
- ▶ Push on Flat and Post-Paid offers

Convergence

- ▶ Convergence as a distinctive factor in market positioning
- ▶ Convergent offers:
 - ▶ integrated voice (product and services)
 - ▶ convergent fixed-mobile BB
 - ▶ integrated messaging and mail
 - ▶ integrated content

Integrated BroadBand, Mail and Instant Messaging

Integrated BroadBand offer



- ▶ **Integrated fixed-mobile broadband offer**
 - ▶ internet wireline indoor connectivity on Wi-Fi Modem and DSL connectivity (pay per use or flat)
 - ▶ internet mobile connectivity on HSDPA up to 3.6 Mbps (and soon 7.2Mbps)
 - ▶ Seamless fixed-mobile interface
 - ▶ Wireline connection time and mobile connection volume included
- ▶ Prepaid or postpaid pricing schemes

Convergent Fixed-Mobile Mail and Messenger

- ▶ Alice Mail available on the move (push mail) and on fixed broadband
- ▶ TIM phones 90% compliant
- ▶ Packaging
 - ▶ Monthly Service Card
 - ▶ Bundle with Internet access
 - ▶ Bundle with Blackberry



- ▶ Alice Messenger: Instant Messaging available on the move and on fixed broadband
- ▶ Packaging:
 - ▶ Monthly Service Card
 - ▶ Bundle with Internet access



Convergent Voice Offer

UNICA:
the integrated fixed and
mobile voice brand



▶ UNICA BASIC OFFER

- ▶ Fixed Voice traffic:
 - ▶ National F2F
 - ▶ International F2F
 - ▶ F2M (towards selected mobile numbers)
- ▶ Mobile Voice traffic:
 - ▶ In-door at-home to Fixed
 - ▶ M2F
 - ▶ M2M on net (towards TIM numbers)

**Available
from 3Q 2007**

▶ UNICA PREMIUM OFFER

- ▶ UNICO Basic Offer
 - + { ▶ BroadBand Connection (corded and cordless) up to 20 Mega
 - ▶ Dual mode handset

▶ Pricing schemes

- ▶ Both flat and pay per use
- ▶ One single price per minute

Content offers Evolution

IPTV Offer

Telecom Italia 3Play Offer:



VoIP



Internet:
ADSL up to 20 M



IPTV:
Alice Home TV

Alice Home TV:
~800/1000
acquisitions/day

- ▶ Launch of DTT integrated Set top box
 - ▶ end of May 2007
- ▶ Microsoft platform on trial
 - ▶ commercial launch summer 2007
- ▶ Contents
 - ▶ Rebroadcasting TV channels : ~ 60 (basic + Premium)
 - ▶ VOD: rich basic and premium library; events

DVB-H

From start-up phase to mass marketing



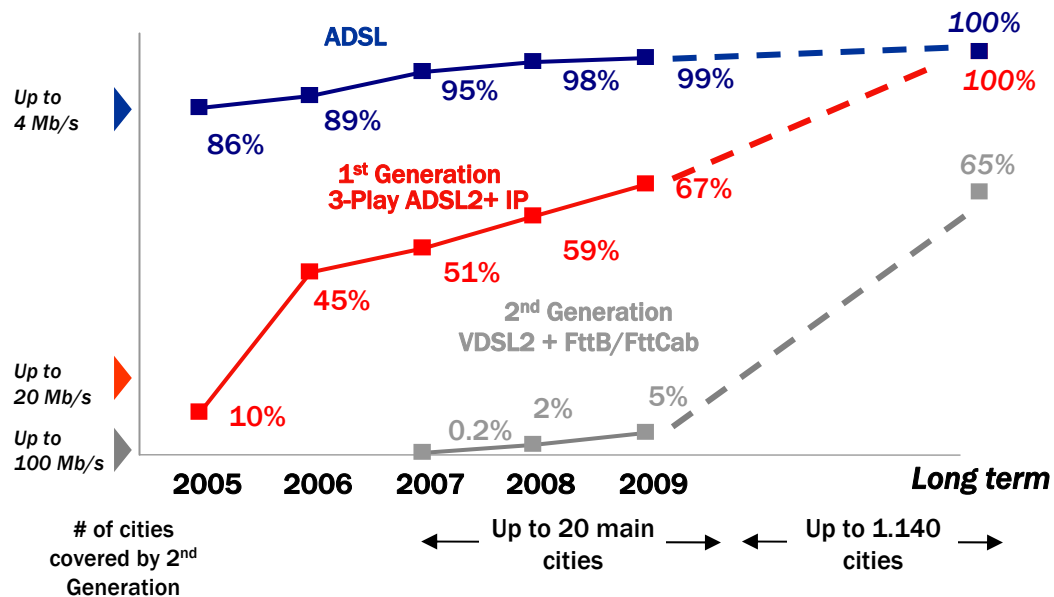
▶ New handset



- ▶ New content
and handset packaging
(all Serie A soccer
championship games)

Increase BB Coverage and invest in NGN2 project

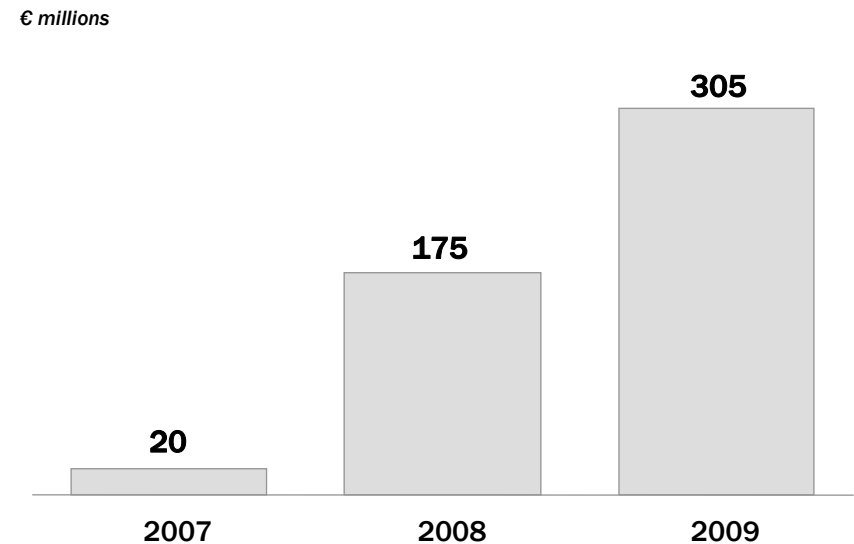
Fixed Network Broadband Coverage Evolution



▶ Careful market driven development of fiber solutions and coverage

- ▶ Mainly FttCab, with FttB in main cities
- ▶ FttP for TOP clients

NGN2 Capex for Fixed and Mobile Access



- ▶ Full Project CAPEX cumulated: ca. 6.5 B€
- ▶ Investments in NGN2 will NOT generate an increase in total capex/year vs. 2007 (self financing project)
- ▶ Strong reduction on Network capex-opex requirements at project end (over 1 Bln €)

BroadBand in Europe

NETHERLANDS



- ▶ Preparing to launch residential retail offer

GERMANY



Leveraging on AOL acquisition to consolidate growth, profitability and cash generation

- ▶ Integration is on track
 - ▶ Integrated organization is fully in place
 - ▶ AOL customers are being migrated to Alice offers
- ▶ 41% coverage reached in 1Q '07
- ▶ Alice Complete offer launch (26th April): BB + fixed and mobile voice (based on MVNO agreement)

FRANCE



- ▶ **Company industrial turn around to achieve operating and economic efficiency**
 - ▶ Coverage expansion to maximize returns from market growth is on track , 44% coverage reached in 1Q'07
 - ▶ Maximum commercial focus on ULL areas (weight of ULL customers on new customers +42%)
 - ▶ 3-play offer launch (March 12th), leveraging on agreement with Canal+
 - ▶ Investigating MVNO option

Launch of 3play and 4play Offers

France – Alice Home TV

Internet + Phone + TVoIP
ALICEBOX



Exceptional TV Content

CANAL+
LEBOUQUET
and/or
CANALSAT



The offer card features the Alice logo at the top right. On the left, a red box lists 'ADSL Wi-Fi', 'TÉLÉPHONIE', and 'TÉLÉVISION'. Below this, the 'ALICEBOX' and 'CANAL+' logos are displayed. A photo of a woman is on the bottom left. The price '39,95€ /mois' is prominently shown, with smaller text below it: 'en zone dégroupée pack remboursé 49€' and 'EDITION LIMITEE'. At the very bottom, it says 'ASSISTANCE TÉLÉPHONIQUE GRATUITE 24h/24'.

Commercial launch: March 12th 2007

Germany - MVNO Offer launch

▶ “Alice Complete”:

- ▶ BroadBand
- ▶ Fixed Voice services
- ▶ Mobile Voice services

starting from 59.90€ /month

Commercial launch: April 26th 2007

TIM BRASIL: community, convenience, integration and innovation

Implementing the strategy

Brand: constant building of leading quality/ inspirational image

Consumer: foster TIM Community and develop F-M convergence

- ▶ Push on-net offers to increase traffic and safeguard margins
 - ▶ TIM Chip-only free of charge subject to recharge promotions stimulate usage, control churn while lower SAC
 - ▶ Expand home-zone offer to capture additional revenues from fixed-market, "TIM Casa" 1Q'07 results: >400K clients
-

Top customers/ Large accounts: leverage on nationwide presence and innovation to maximize quality & flexibility

- ▶ National tariff plans for multiregional companies
 - ▶ Mobile office solutions, enhanced tariff plans and flexible corporate services
-

VAS: push on media content and interactivity

Multichannel sales: constant quest for efficiency and profitability

- ▶ Reduced subsidy strategy
 - ▶ Incentives on postpaid acquisitions and commissioning based on value
 - ▶ Expansion of alternative/ low-cost recharge channels
-

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Group operating targets 2007-2009

€ bn, %

	2006	2007 Targets**	2009 Targets w/o Argentina	2009 with Argentina
	Organic 2007 base	Organic vs. 2006	Organic vs. 2007	Organic vs. 2007
Revenues <i>growth</i>	31.6*	+ 1.0% + 2.0%	+ 1.0% + 2.0% CAGR 2007 - 2009	adds approx. +0.5%
EBITDA	13.1			
EBITDA Margin	41.5%	- 2.5pp - 2.0pp	Broadly Stable	Broadly Stable
EBIT	7.6			
EBIT Margin	24.0%	- 3.0pp - 2.5pp	Broadly Stable	Broadly Stable
CAPEX	5.1			
% on sales	16.4%		∑07-09~15Bn€ < 13% on sales	< 13% on sales
Net Financial Position	37.3			
NFP/ Ebitda		NFP reducing < 3.0 X	NFP reducing < 3.0 X	NFP reducing < 3.0 X

* 31.3 mln € Organic Revenues 2006 + AOL perimeter and other variations +0.3 mln € = 31.6 mln € ** Includes Bersani Decree Impact

Increasing the weight of international* operations

Reported Data

Weight of Int'l on TI Group Figures (%)

