

TELECOM ITALIA ANALYST & INVESTOR BRIEFING
2007 Results & Strategic Guidelines

Building the Foundation for Growth

FRANCO BERNABE'

BUILDING THE FOUNDATION FOR GROWTH

Safe Harbour

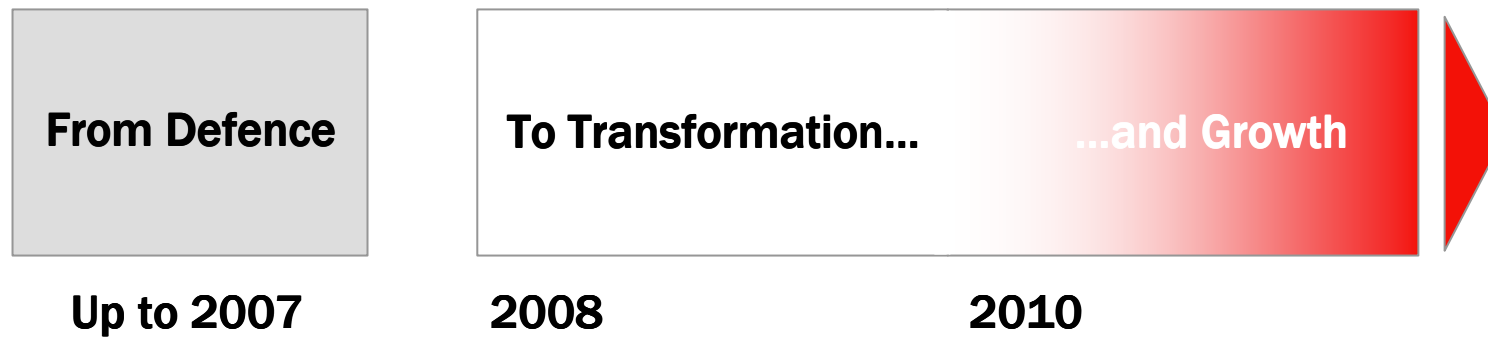
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BUILDING THE FOUNDATION FOR GROWTH

Building the Foundation for Growth: Our roadmap



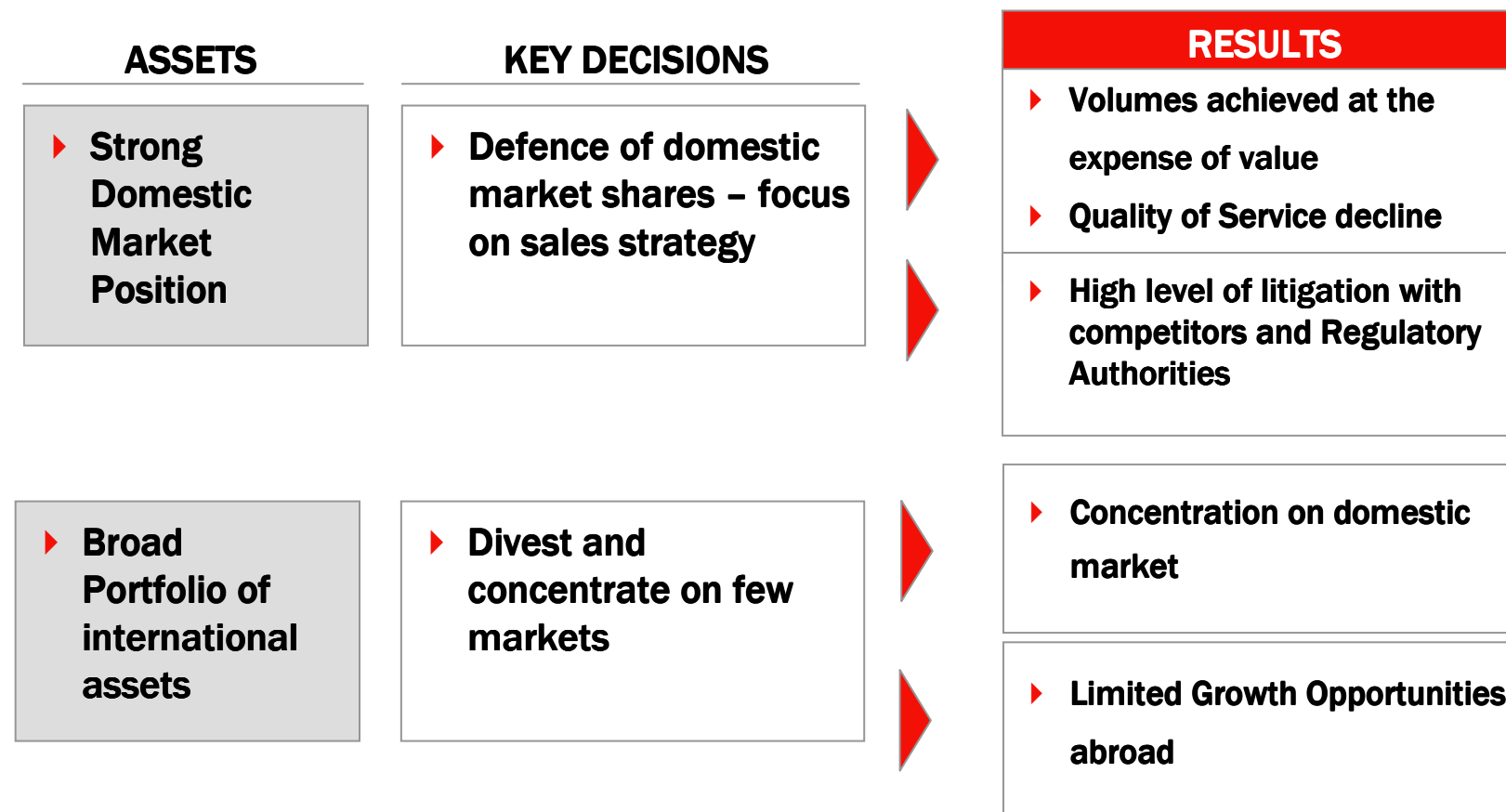
BUILDING THE FOUNDATION FOR GROWTH

Agenda

- ▶ **From Defence to Transformation**
- ▶ An Evolving Industry
- ▶ Pillars of Transformation and Growth
- ▶ Our Targets

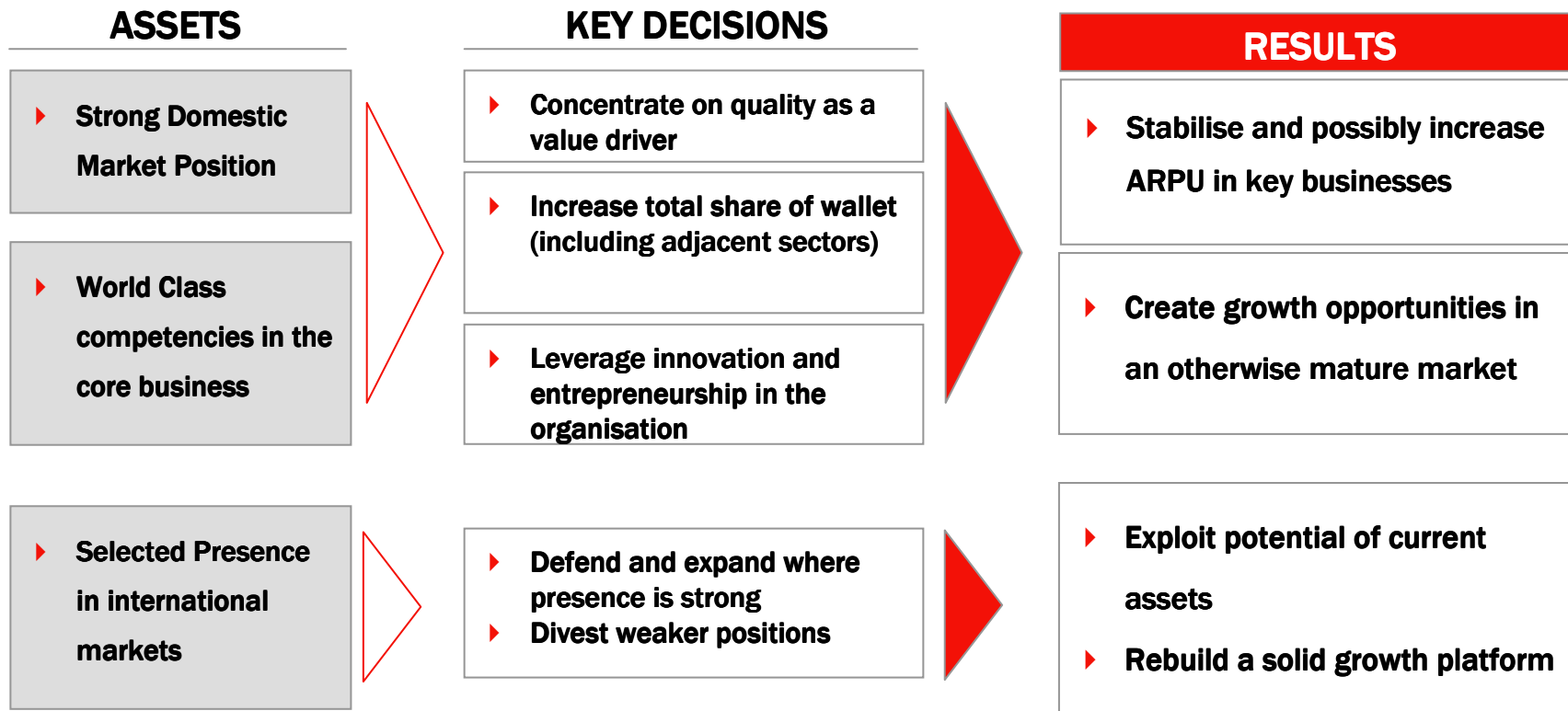
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From a Defence Strategy....



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...to a Transformation Strategy ...



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...maintaining a strong financial discipline

- ▶ **Raise cash from non strategic assets and pursue non cash intensive growth where there is a strong market opportunity**
- ▶ **Select investments on payback period and return ratios thresholds**
- ▶ **Mine efficiencies across the organization and synergies with Telefonica and other partners whenever possible**
- ▶ **Focus on the deleveraging**

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- ▶ From Defence to Transformation
- ▶ **An Evolving Industry**
- ▶ Pillars of Transformation and Growth
- ▶ Our Targets

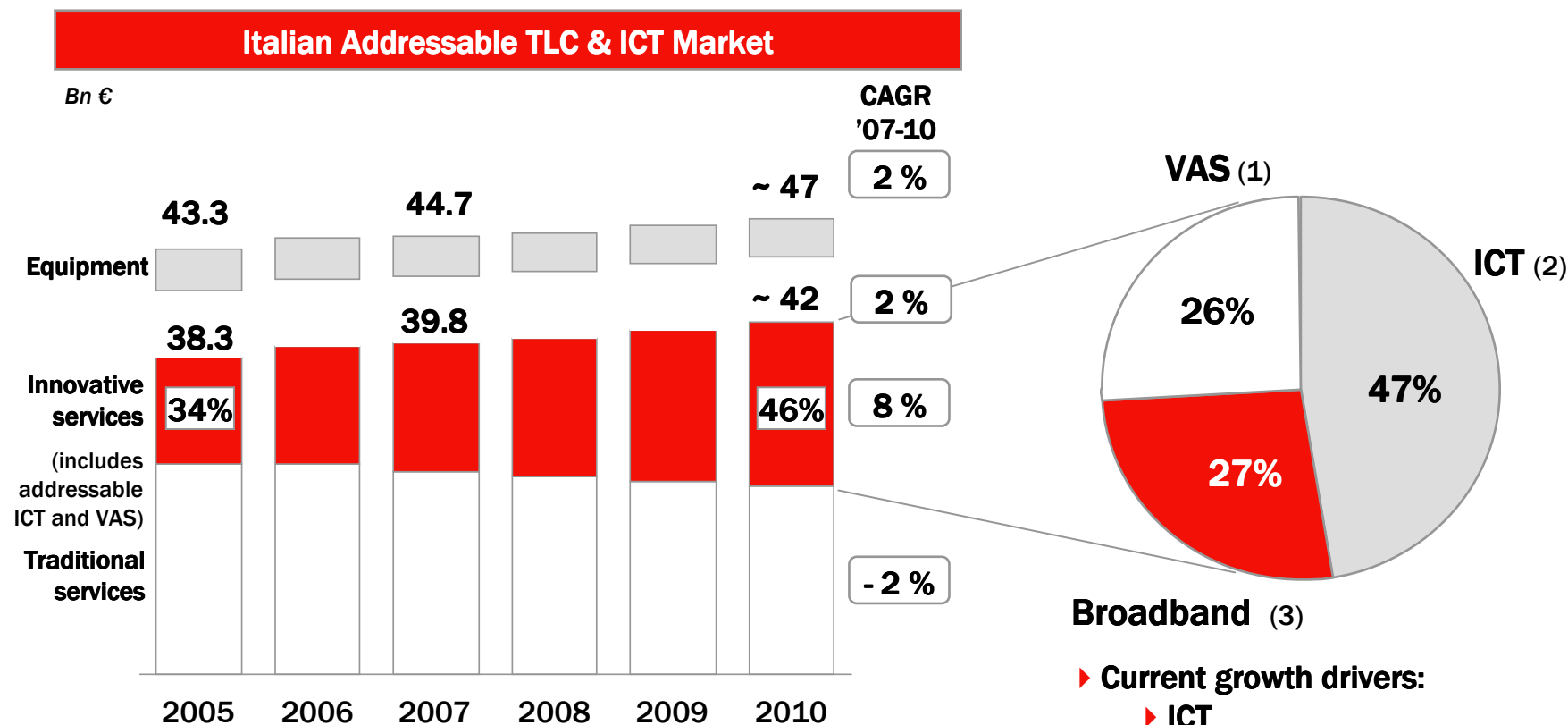
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An Evolving Industry – Constraints and Opportunities

Constraints	Market Saturation on Traditional Services	New Competitors coming from Adjacent Sectors	Strict Regulatory Environment
Opportunities	New Growth Opportunities in Innovative Services	Expansion in New Addressable Adjacent Markets	TLC Market Consolidation

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An Evolving Industry – Engines of Domestic Growth



(1) Interactive VAS, Adv on-line & Contents distribution, messaging

(2) Applications, infrastructures, network services ..

(3) fixed and mobile

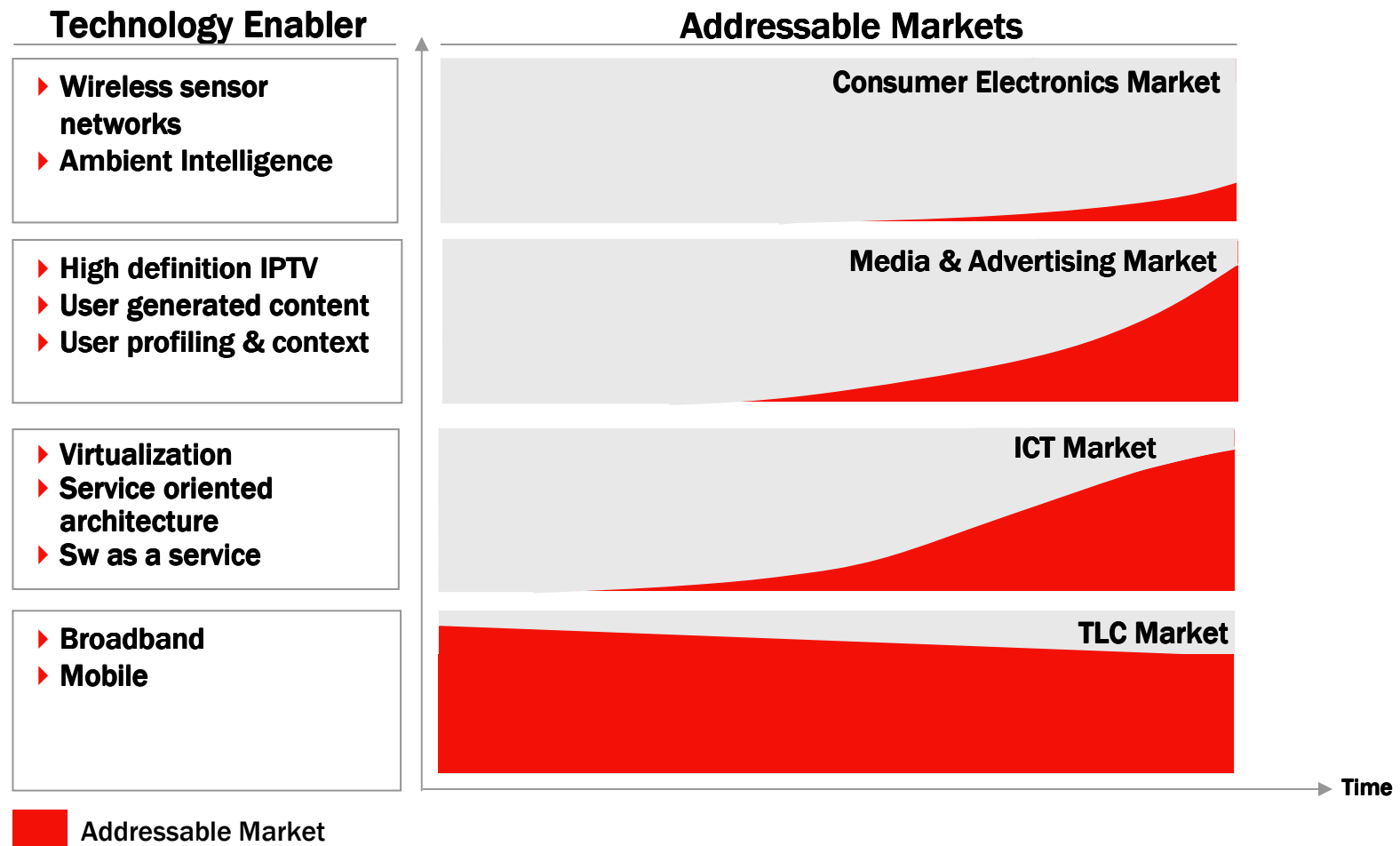
Source: internal estimates based on OVUM, Gartner, IDC, Assinform and Sirmi data

▶ **Current growth drivers:**

- ▶ ICT
- ▶ Fixed broadband
- ▶ Mobile broadband
- ▶ Value Added Services

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An Evolving Industry – Expansion of Adjacent Markets



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An Evolving Industry - Telecommunications Market Consolidation

Liberalization

The Market contains more players than the fundamental economics can justify

Demand Evolution

- ▶ **Bandwidth-hungry applications** require investments in broadband infrastructures
- ▶ **Fixed-Mobile Convergence**
- ▶ **High quality services**



Tlc Consolidation

Market will evolve, in a convergence framework, towards a greater stability in competition dynamics

- ▶ Reduced number of players in wireline (and possibly mobile)
- ▶ Market shifting focus to value rather than volume, reducing pressure on prices

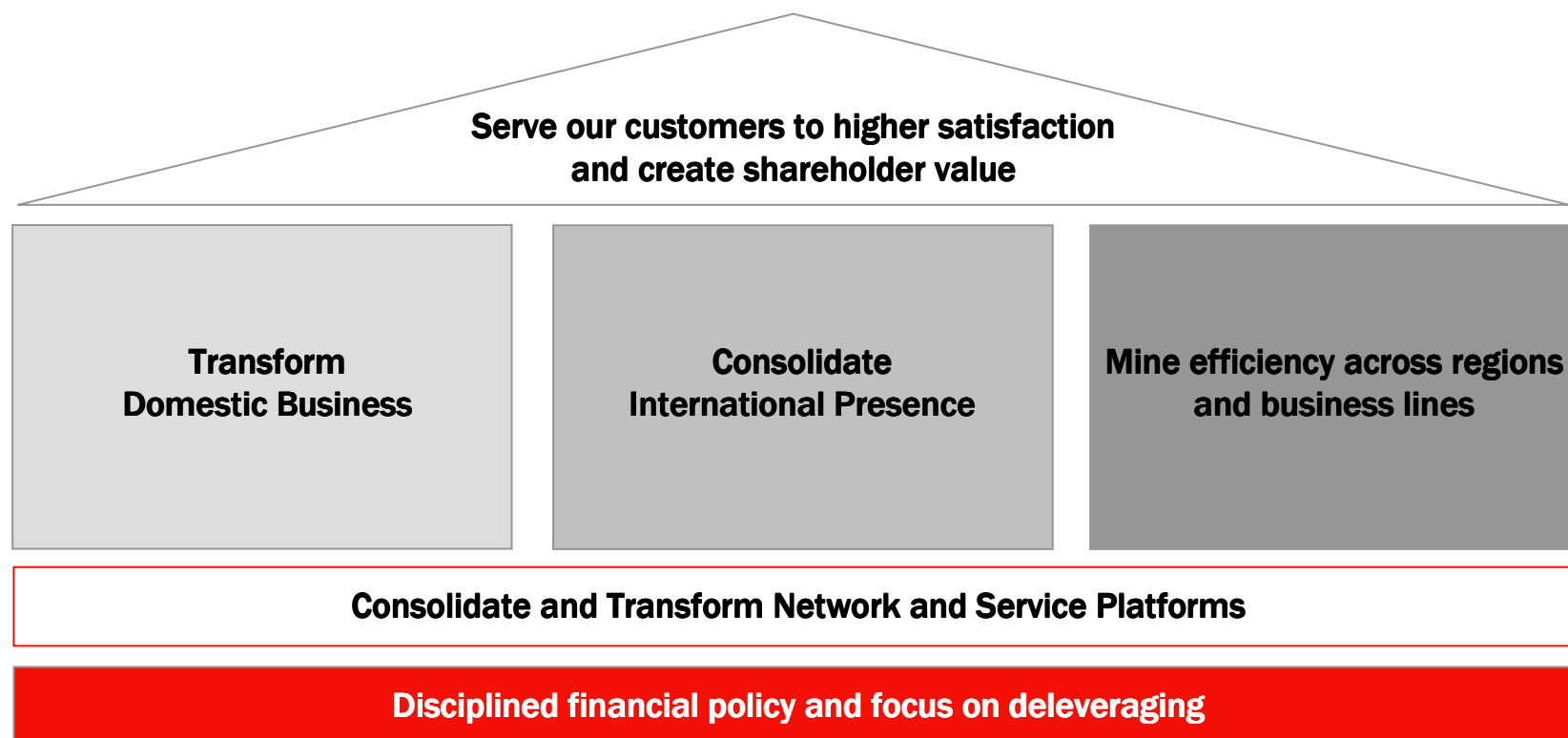
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- ▶ An Evolving Industry
- ▶ **Pillars of Transformation and Growth**
- ▶ Our Targets

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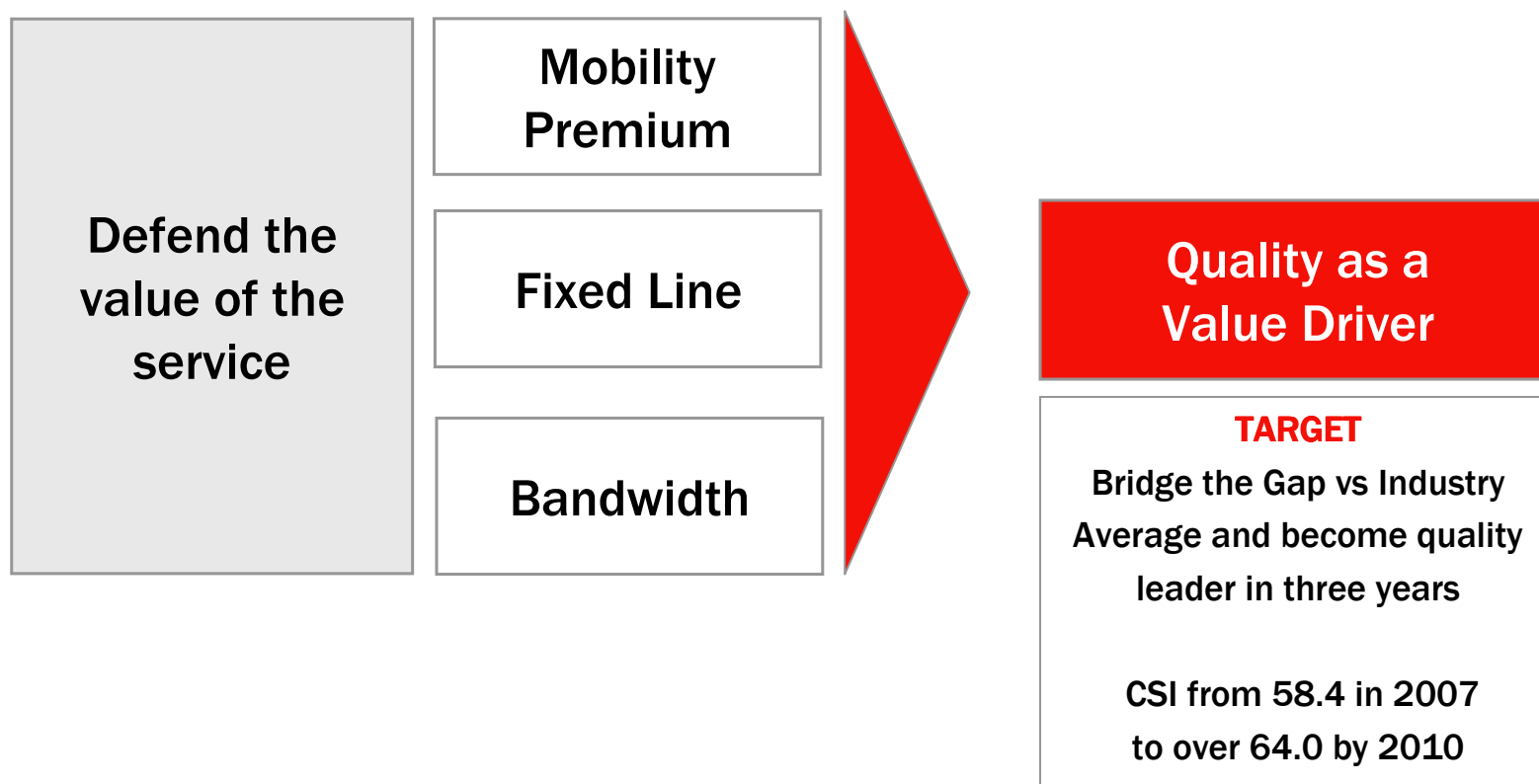
Pillars of Transformation and Growth





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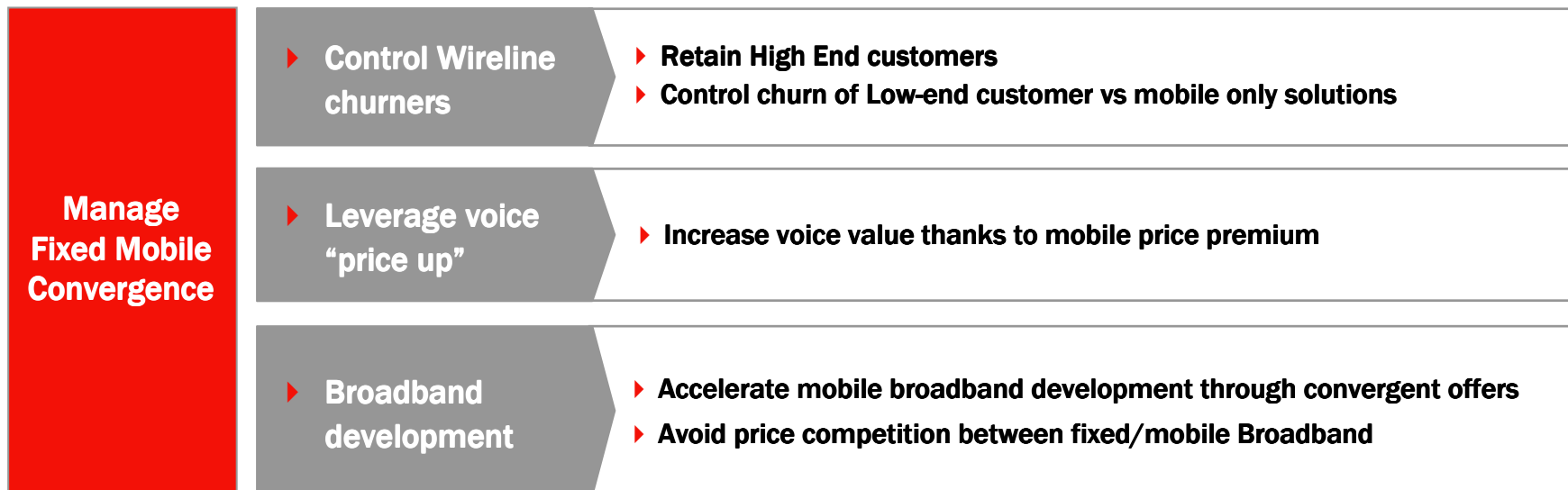
Transform Domestic Business - Quality as a Value Driver

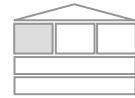




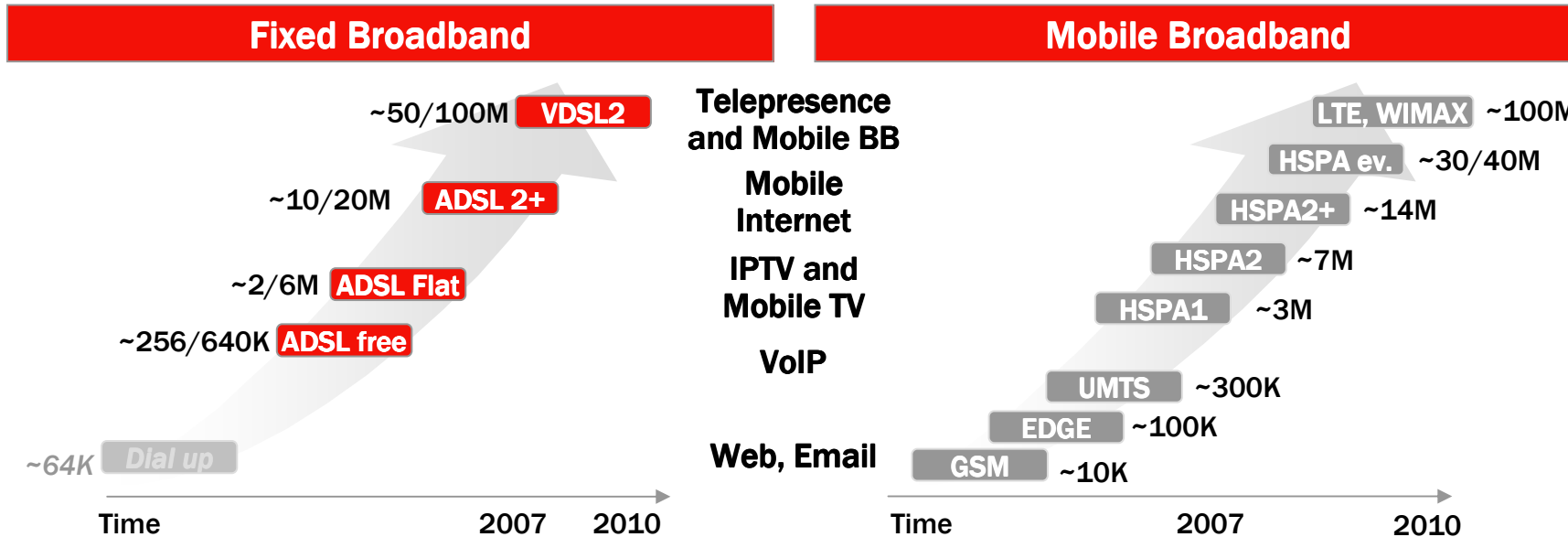
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Transform Domestic Business – Convergence as a Value driver

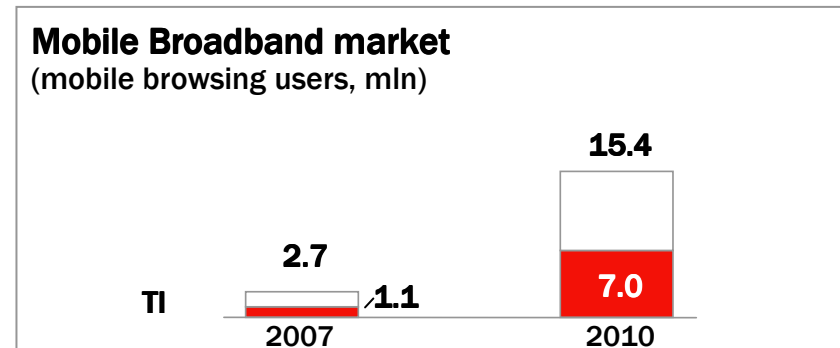
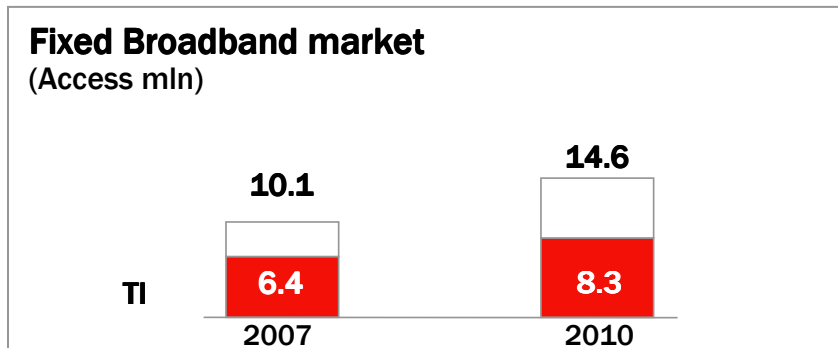


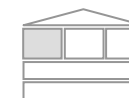


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Transform Domestic Business – Convergence will drive Broadband growth



Telepresence and Mobile BB
 Mobile Internet
 IPTV and Mobile TV
 VoIP
 Web, Email

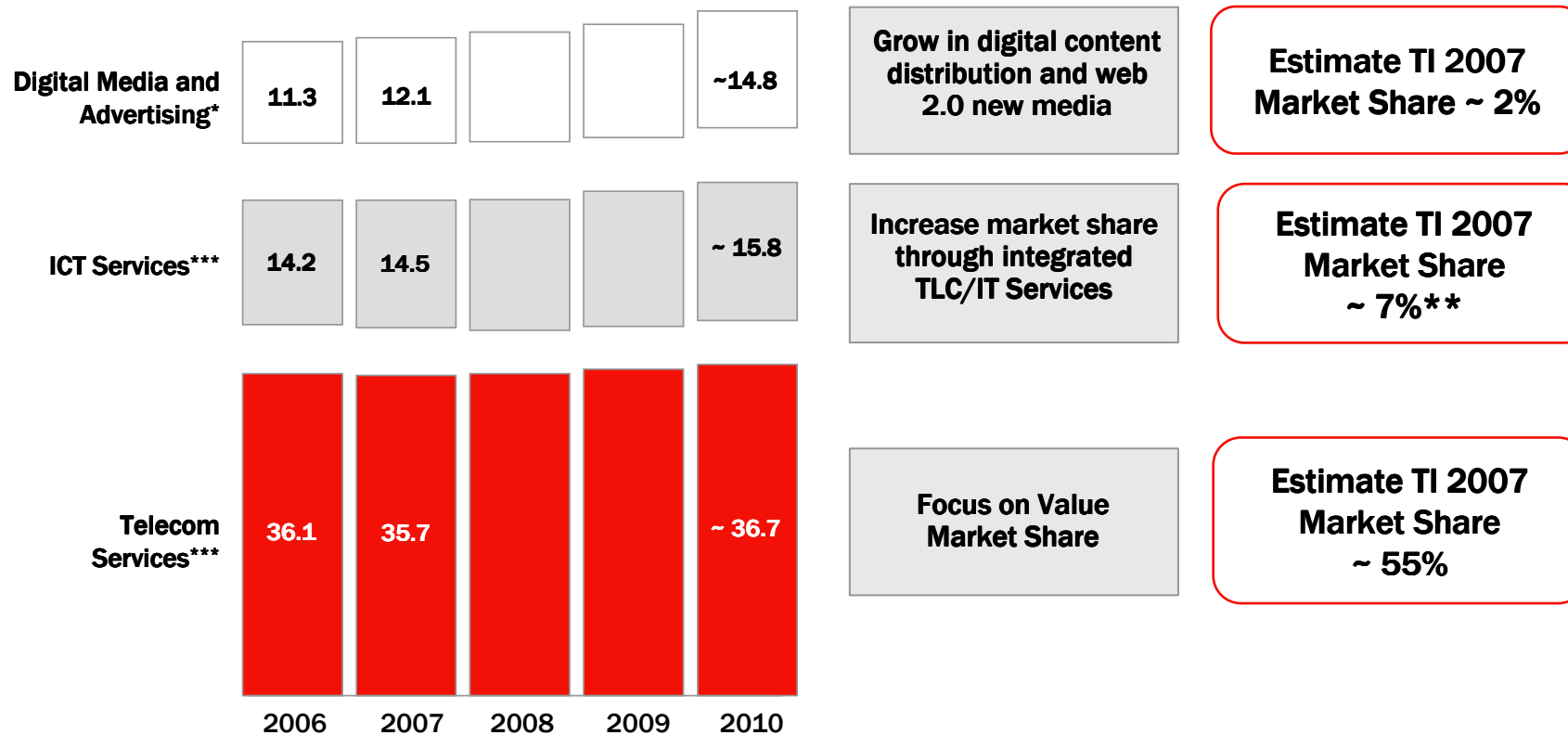




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Transform Domestic Business - Focus on Share of Wallet

Bln €

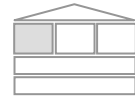


*Excludes RAI public subscription fee

** On addressable market

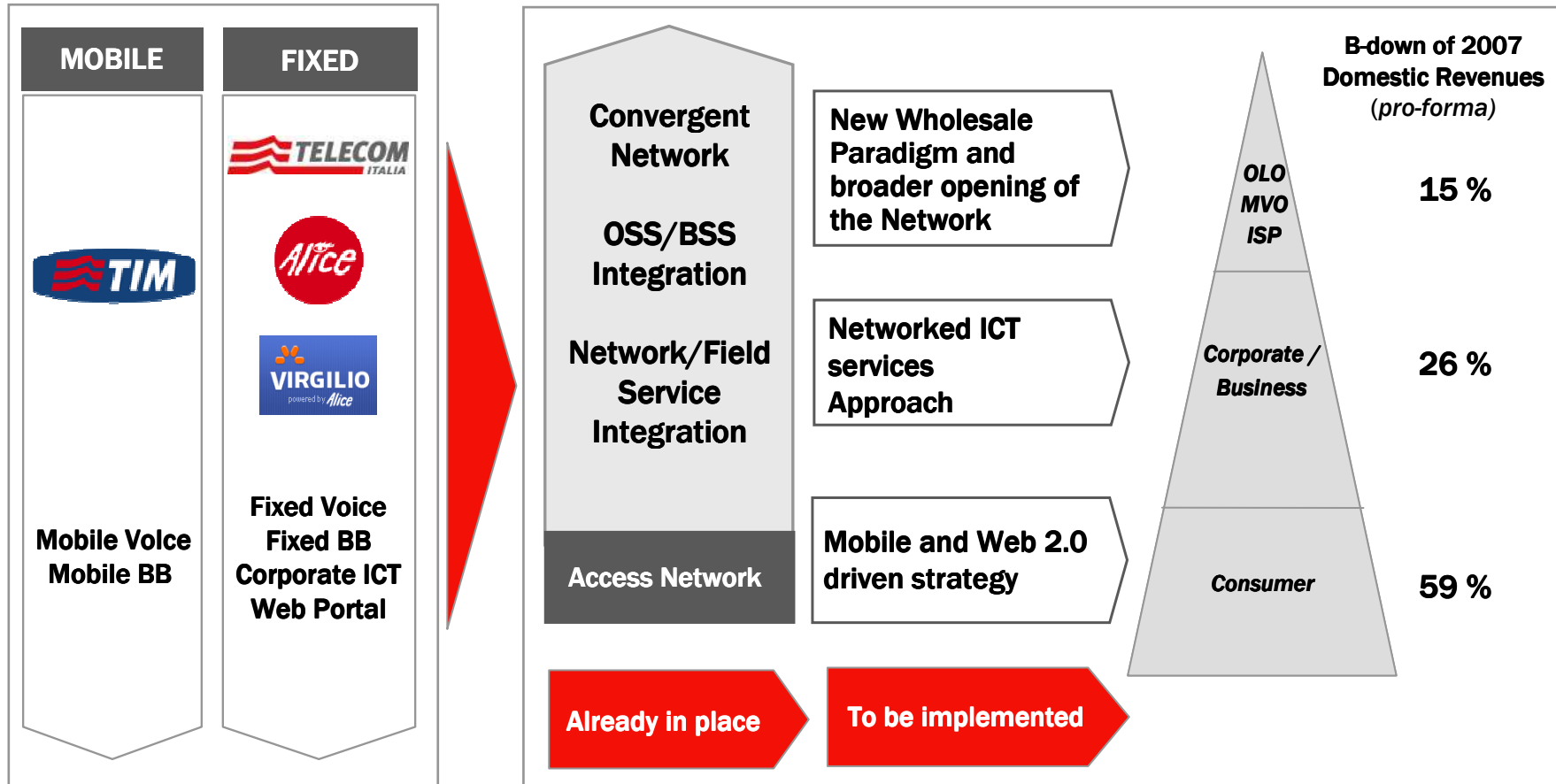
***Includes equipment

Source: internal estimates based on OVUM, Gartner, IDC, Assinform, Sirmi & ATKearney data



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Transform Domestic Business – Customer Driven Organisation





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Transform Domestic Business – Customer Driven Organisation

Organization

- ▶ Gradual implementation from today until end of 2008

Reporting

- ▶ Continuity of fixed-mobile reporting in 2008
- ▶ Pro forma representation of revenues by customer segment from 2Q08

Management Accountability

- ▶ Current accountability maintained during 2008
- ▶ Responsibility of consumer convergent offer assigned to mobile
- ▶ 2009 Budget based on new accountability by segment



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Transform Domestic Business - Main Targets

▶ Mobile and BB Consumer Strategy

- ▶ Retain the best customers through convergent offers
- ▶ Increase share of wallet on customers

▶ Networked ICT for Business Customers

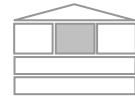
- ▶ Maintain leadership on Top & Large Accounts
- ▶ Growth in the SME segment
- ▶ Increase ICT revenues and market share

▶ New Wholesale Paradigm

- ▶ Leverage on the Wholesale Market as a value creation engine
- ▶ Improve Relation with Regulation Authorities

Domestic revenue trend reversed in 3 years time





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Consolidate International Business





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Consolidate International Business - Main Targets

▶ Overall

- ▶ Increase international contribution to Group results and growth prospects

▶ Germany

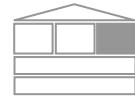
- ▶ Continue to profitably expand the company, focusing on market success and operational excellence and efficiency

▶ Brazil

- ▶ Generate more value from the customer base and increase profitability
- ▶ Build share in the fixed-line and broadband markets
- ▶ Profitably penetrate low-ARPU customer base

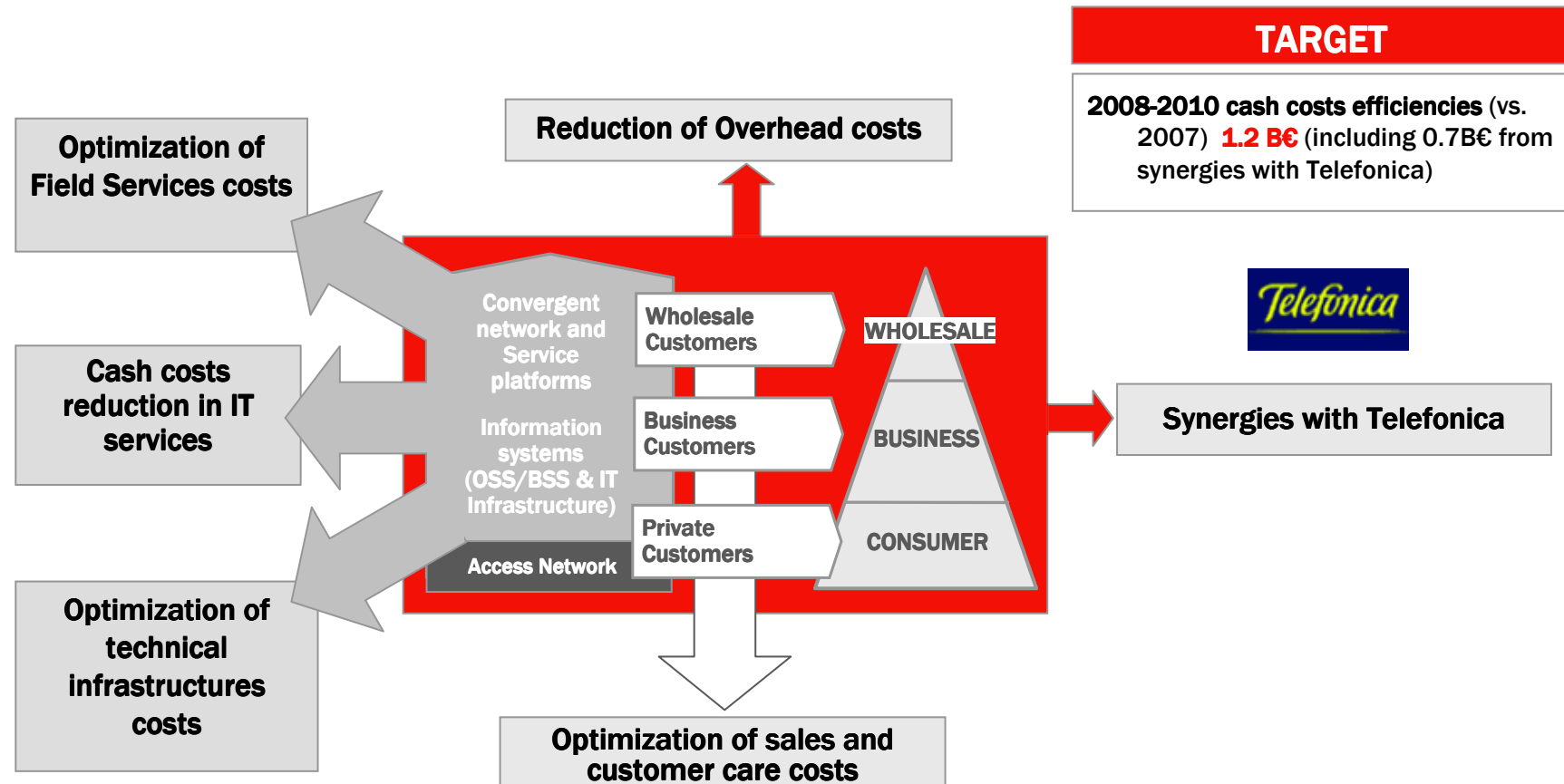
**Focus on
International
Growth**

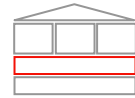




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Mining Efficiencies and Synergies





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Consolidate and Transform Network and Service Platforms

Focus on Investment Return and Pay Back Period

Service Platforms

- ▶ IPTV broadcasting and VOD
- ▶ Dynamic HDTV Platform
- ▶ Middleware Platforms for Net Computing, Storage, Asset Management
- ▶ Software as Service Suites
- ▶ Full IP Managed Unified Communication Platform
- ▶ Context Aware Services platform
- ▶ Sensor Networks Expert Systems

Network Platforms

- ▶ Broadband Fixed 90% ADSL2 and 8% NGN by 2010
- ▶ Deployment of a convergent broadband network based on FTTx, LTE and Femtocells
- ▶ Broadband mobile 85% High Speed 3G and first deployment of LTE by 2010
- ▶ QoS Policy Management Features



Disciplined financial policy and focus on deleveraging

Focus on deleveraging

- ▶ Priority of debt reduction
- ▶ Monetisation / disposal of non core activities

Shareholder remuneration

- ▶ Dividend policy to be sustainable in the long term

Capex and portfolio management to maximise returns

- ▶ Cash flow will be prudently used for organic growth
- ▶ Strengthening position of key existing international assets

Deleveraging



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TI Group 2008 targets and 2009-2010 guidance

€ bln, %

	2007 Actual	2008 Targets	2009 - 2010 Trends
	Organic*	Organic*	Organic* vs. 2008
Revenues	30.9	~31.0	CAGR 2008-2010 = +1% / +2%
EBITDA	12.25	~38.5%	EBITDA margin % ~ 39.0 %
EBITDA Margin	39.7%	(excluding 1998 Licence Fee income for ~ 0.5 bln €)	
CAPEX	5.4	~5.4 (including 0.5 bln€ 3G Licence in Brasil)	Cum. 2008-2010 = ~15.0 Capex reducing YoY
Net Financial Position	35.7		NFP and ratio to EBITDA Reducing YoY 2010 NFP/EBITDA ~2.5x
NFP/ Ebitda	3.1x	< 3.0 x	

* Assuming perimeter as of 31/12/2007 excluding TI France, 2007 exchange rates and including restructuring costs

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Domestic 2008 targets

€ bln, %

	2007 Actual	2008 Targets	2009 - 2010 Trends
	Organic*	Organic*	Organic* vs. 2008
REVENUES	24.2	>23,0	Domestic revenue trend reversed in 2010
Fixed revenues	15.7	~15.0	
Mobile revenues	10.0	~ 9.8	
EBITDA	10.8	~44.0%	EBITDA Margin % Broadly Stable
EBITDA margin %	44.5%	<i>(excluding 1998 Licence Fee Income for ~ 0.5 bn €)</i>	
CAPEX	4.1	~3.5	Cum. 2008-2010 = ~11.0

* Assuming perimeter as of 31/12/2007 excluding TI France, 2007 exchange rates and including restructuring costs

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Building the Foundation for Growth: Our Roadmap

