TELECOM ITALIA ANALYST & INVESTOR BRIEFING

2007 Results & Strategic Guidelines

Capturing the Broadband Convergence Opportunity

PIETRO LABRIOLA

PIETRO LABRIOLA

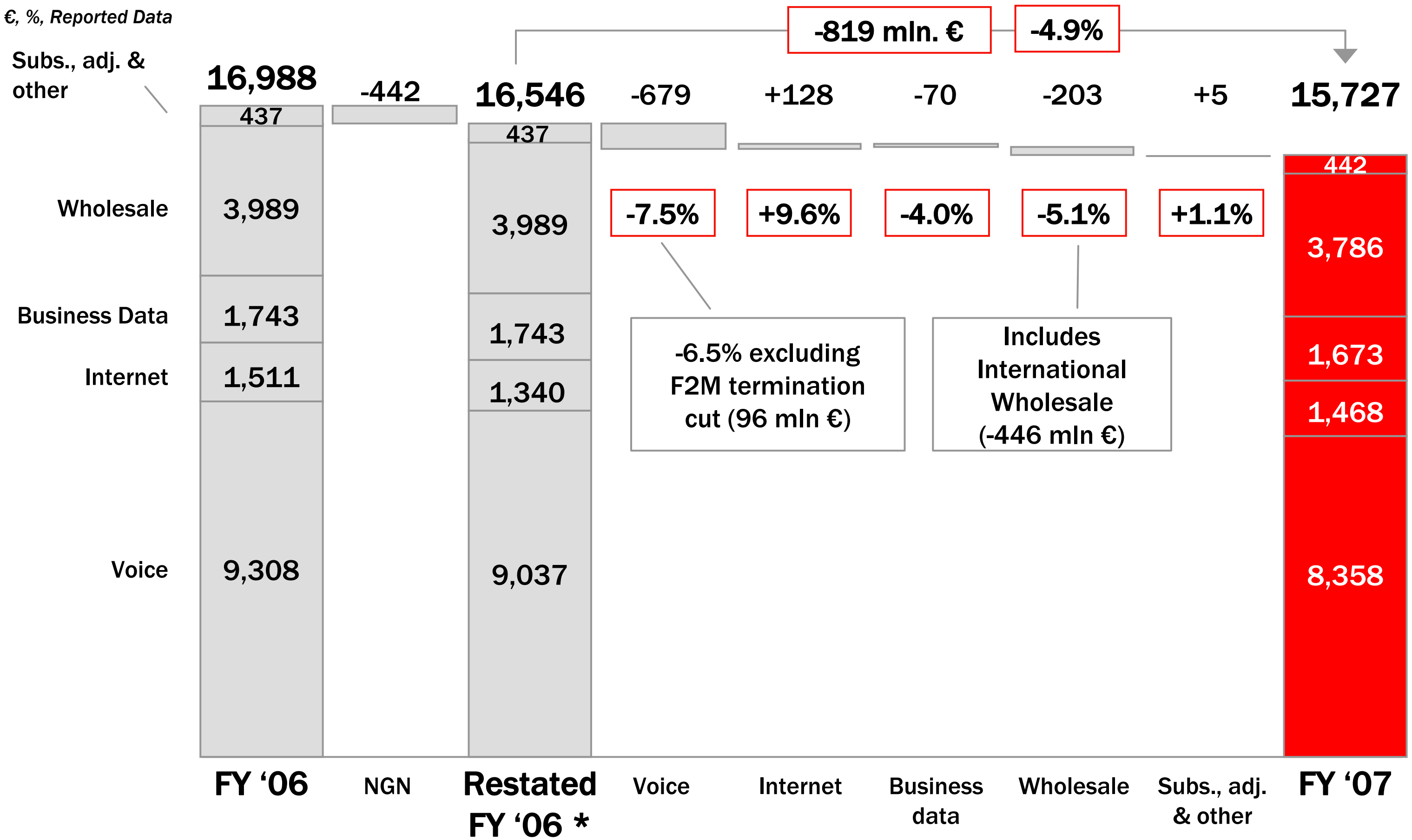
AGENDA

What we committed on...

	What we said	What we did	
Revenue	**Fixed revenue** Target '07: **-3.5% / -2.5%** vs. YE '06	**-4.9%** fixed revenues '07 vs. '06	✗
Market Share	**Maintain** customers and traffic on fixed network	**71.1%** traffic **market share** (71.9% in Dec06)	✓
	Develop **flat** offer	**33.6%** flat/semi-flat voice offers penetration (31.5% in '06)	✓
Broadband	Increase **broadband penetration** Target '07: Domestic BB portfolio **6.4 mln**	**6,427 mln** BB retail portfolio (5.6 mln in Dec '06)	✓
	Leadership on **VoIP** Target '07: VoIP Customer Portfolio **>1 mln**	**1.32 mln** VoIP lines (0.35 mln in Dec '06)	✓
	Develop **IPTV** Target '07: IPTV Portfolio **0.2 mln**	**0.08 mln** customers YE '07 (0.03 mln in Dec '06) due to slight delay on IPTV platform stabilization	✗

Domestic fixed: Revenue analysis

Mln €, %, Reported Data



* *Excluding different accounting for **Non Geographic Numbers** (-271 mln € on Voice and -171 mln € on Internet).*
In accordance with AGCOM deliberation 417/06/CONS, starting January 1st 2007 Telecom Italia Invoices services rendered by OLO on NGN 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

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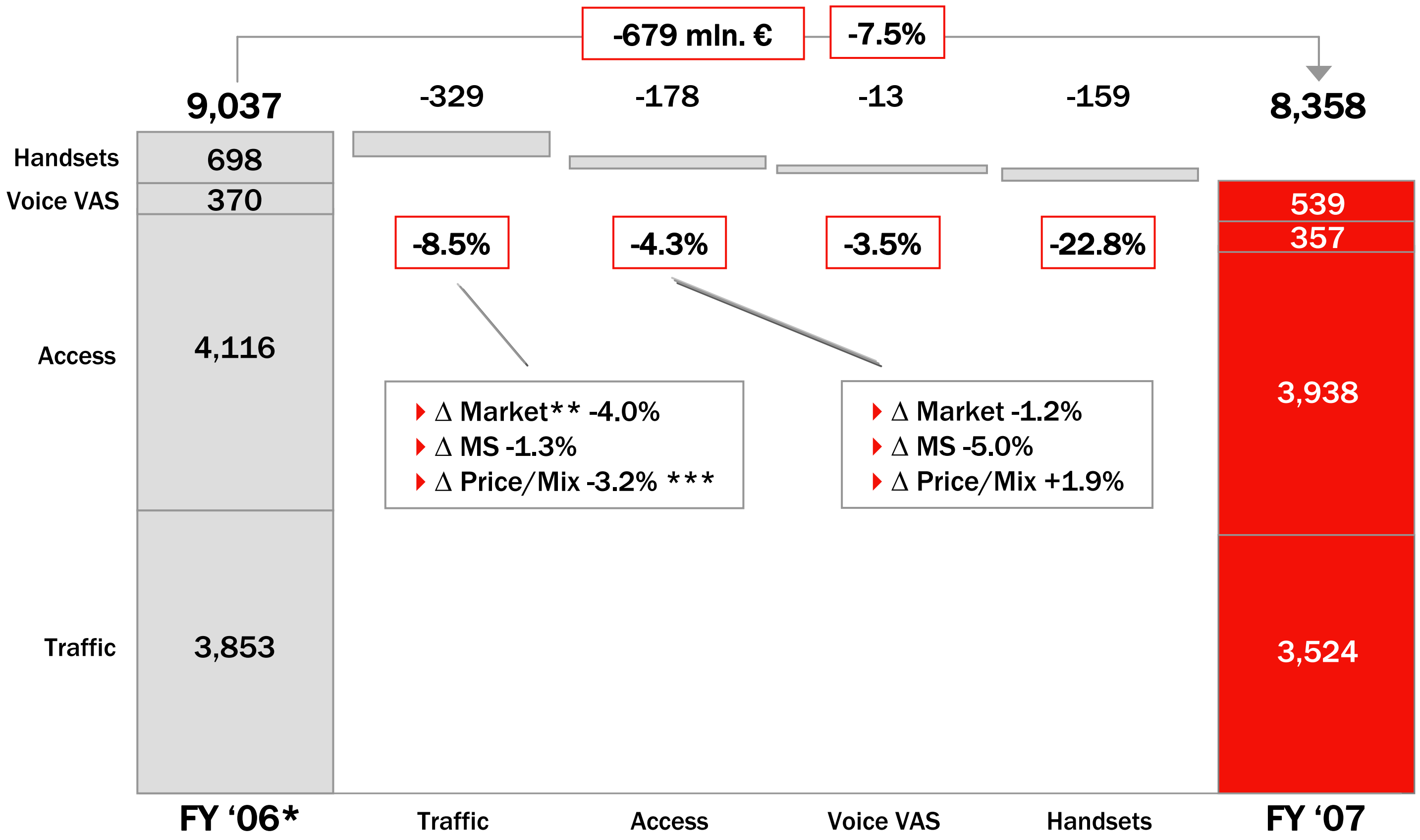
Domestic fixed: Voice revenue

Mln €, %, Reported Data

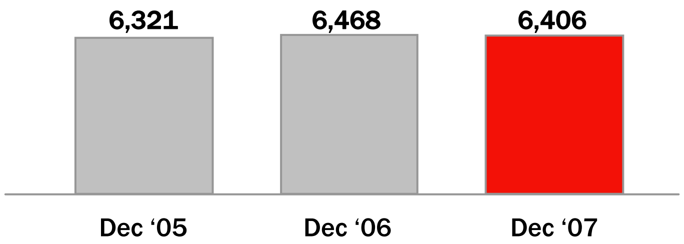


** Restated figures, excluding different accounting for Non Geographic Numbers (-271 mln €: -34 mln € on Traffic and -237 mln € on Voice VAS)*
*** Including Payphone Services*
**** Of which Δ F2M termination cut -2.5%*

Domestic fixed: Traffic and access performance

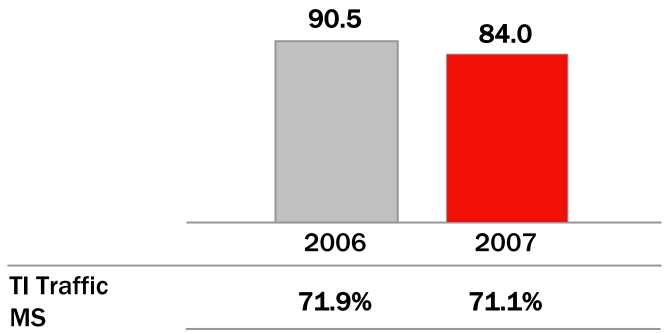
Telecom Italia voice flat offers

'000, Voice Flat/Semi-Flat offers



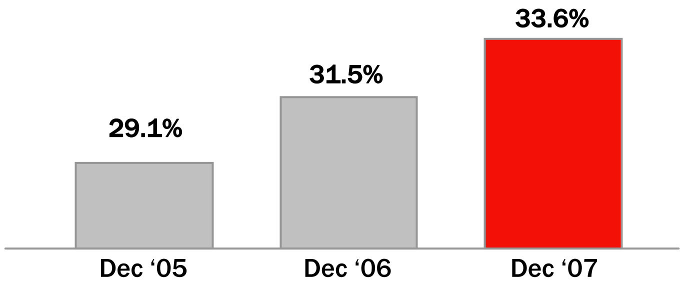
Telecom Italia traffic and MS

bln min



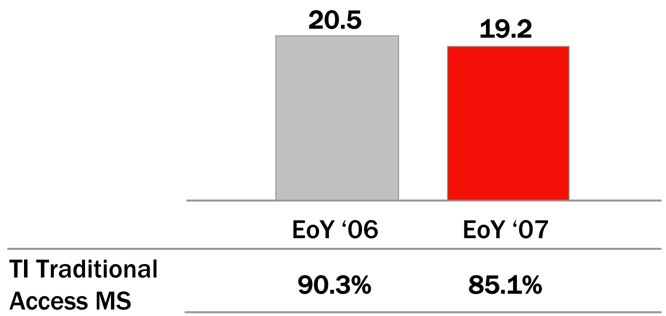
Telecom Italia voice flat offers penetration

% Voice Flat/Semi-Flat offers on Total access



Telecom Italia traditional access and MS

Mln lines

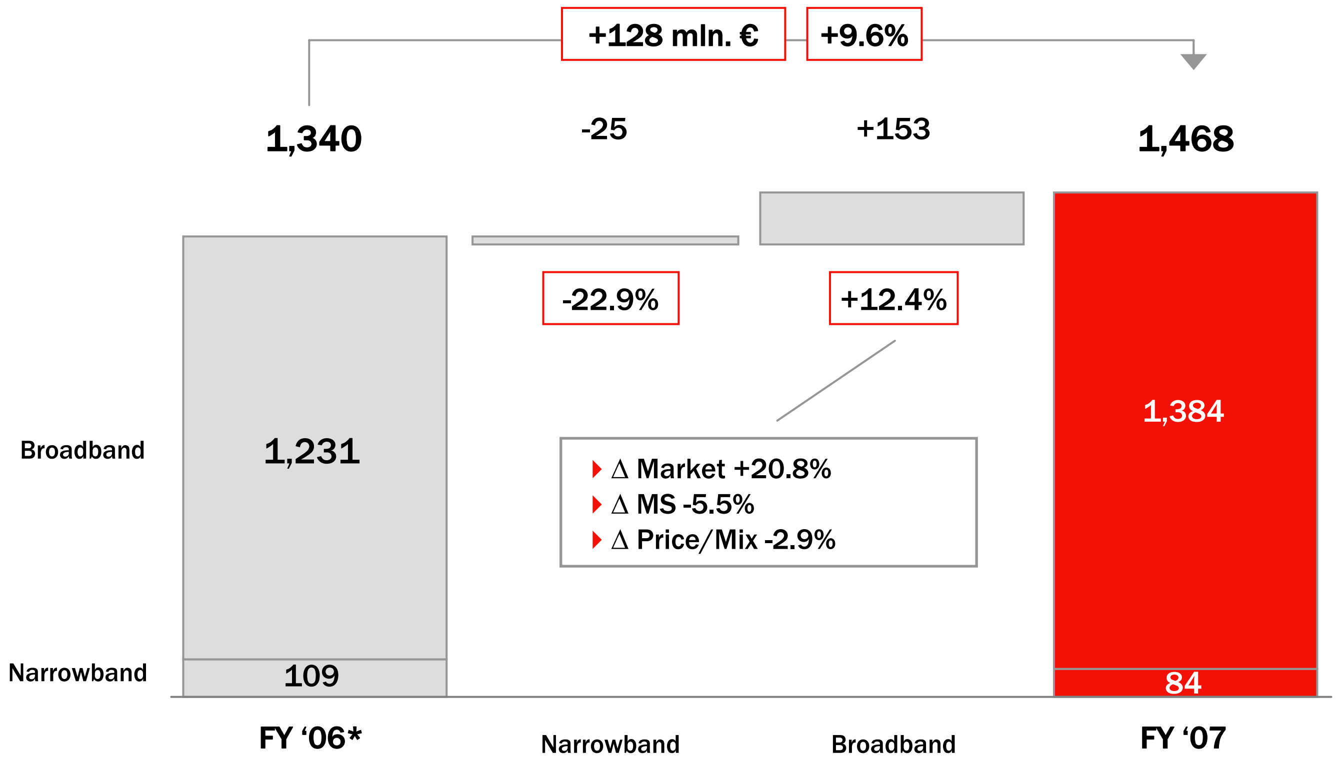


Source: Company Data, Analyst Estimates, NRA

CAPTURING THE BROADBAND CONVERGENCE OPPORTUNITY

Domestic Fixed: Internet revenue

Mln €, %, Reported Data



** Restated figures, excluding change in accounting for Non Geographic Numbers (-171 mln € on narrowband)*

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CAPTURING THE BROADBAND CONVERGENCE OPPORTUNITY

Domestic fixed: Broadband portfolio evolution

Broadband Portfolio

'000 Access lines

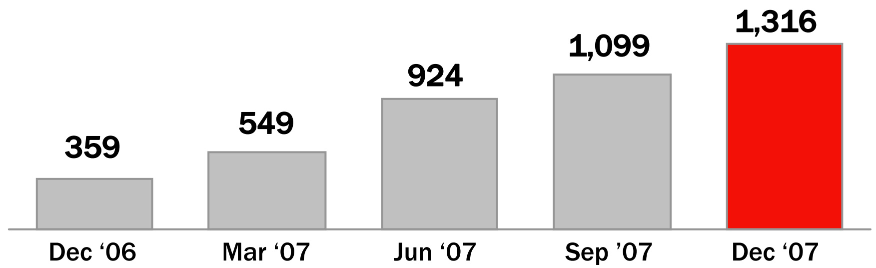
BB Retail MS: 63.4%

	Dec '05	Dec '06	Dec '07
Retail	4,817	5,639	6,427
Consumer	3,857	4,544	5,157
Business	960	1,095	1,270
Wholesale	890	1,131	1,163
Total TI Domestic	5,707	6,770	7,590

Total TI BB Portfolio (Domestic + European):
11.1 mln customers

VoIP portfolio

*'000 access lines**



% on BB access lines	6.4%	9.3%	15.2%	17.7%	20.5%

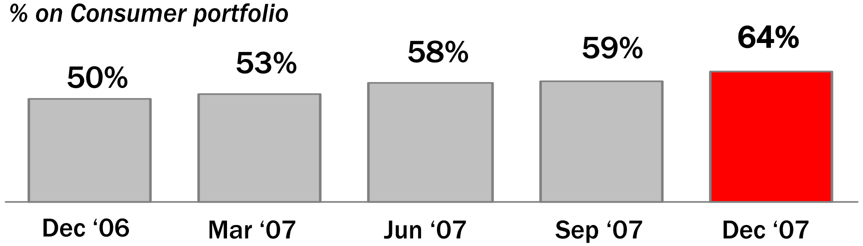
** Including Consumer and Business customers*

Consumer Flat Offer development

% Flat over Consumer BB activations

51.5% (Dec '06) — 78.6% (Dec '07)

% on Consumer portfolio



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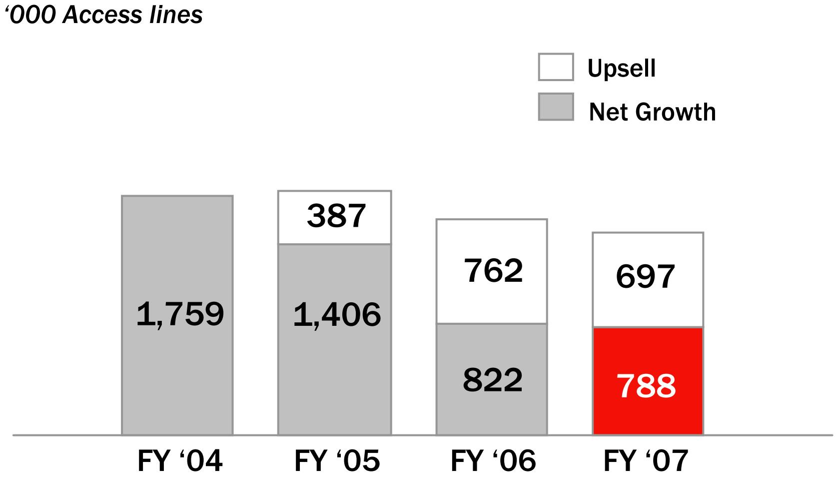
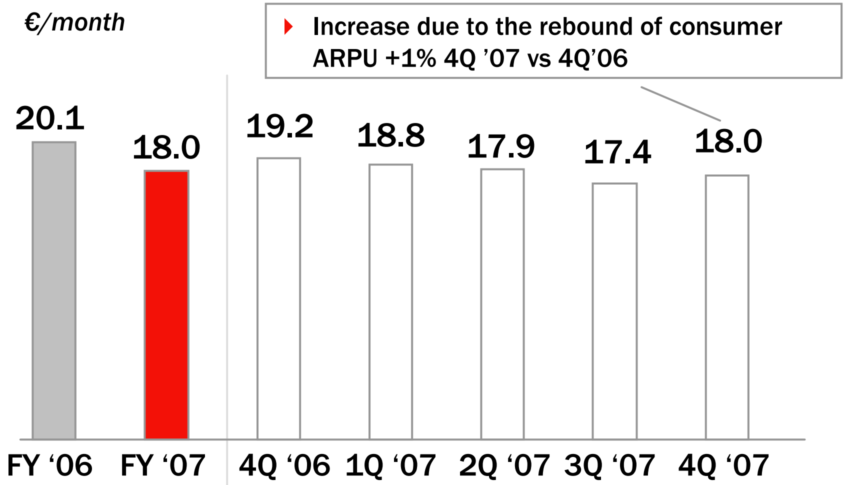
CAPTURING THE BROADBAND CONVERGENCE OPPORTUNITY

Domestic fixed: Broadband ARPU and revenues trend

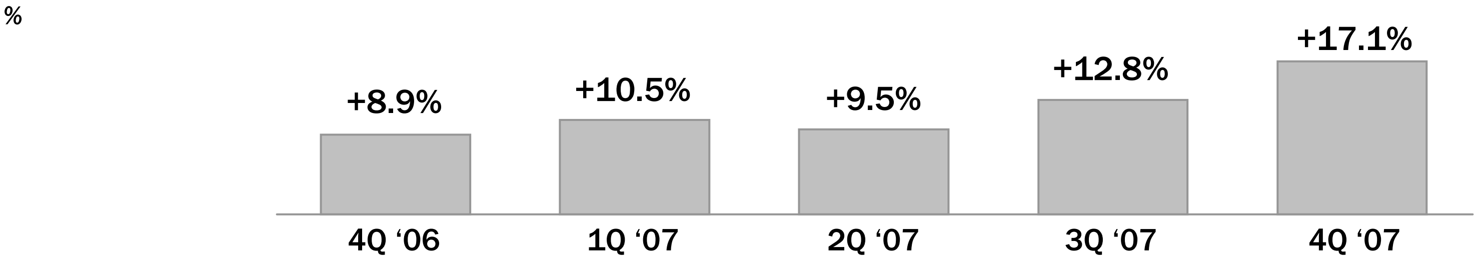
Retail Portfolio: net growth & upsell



ARPU Evolution

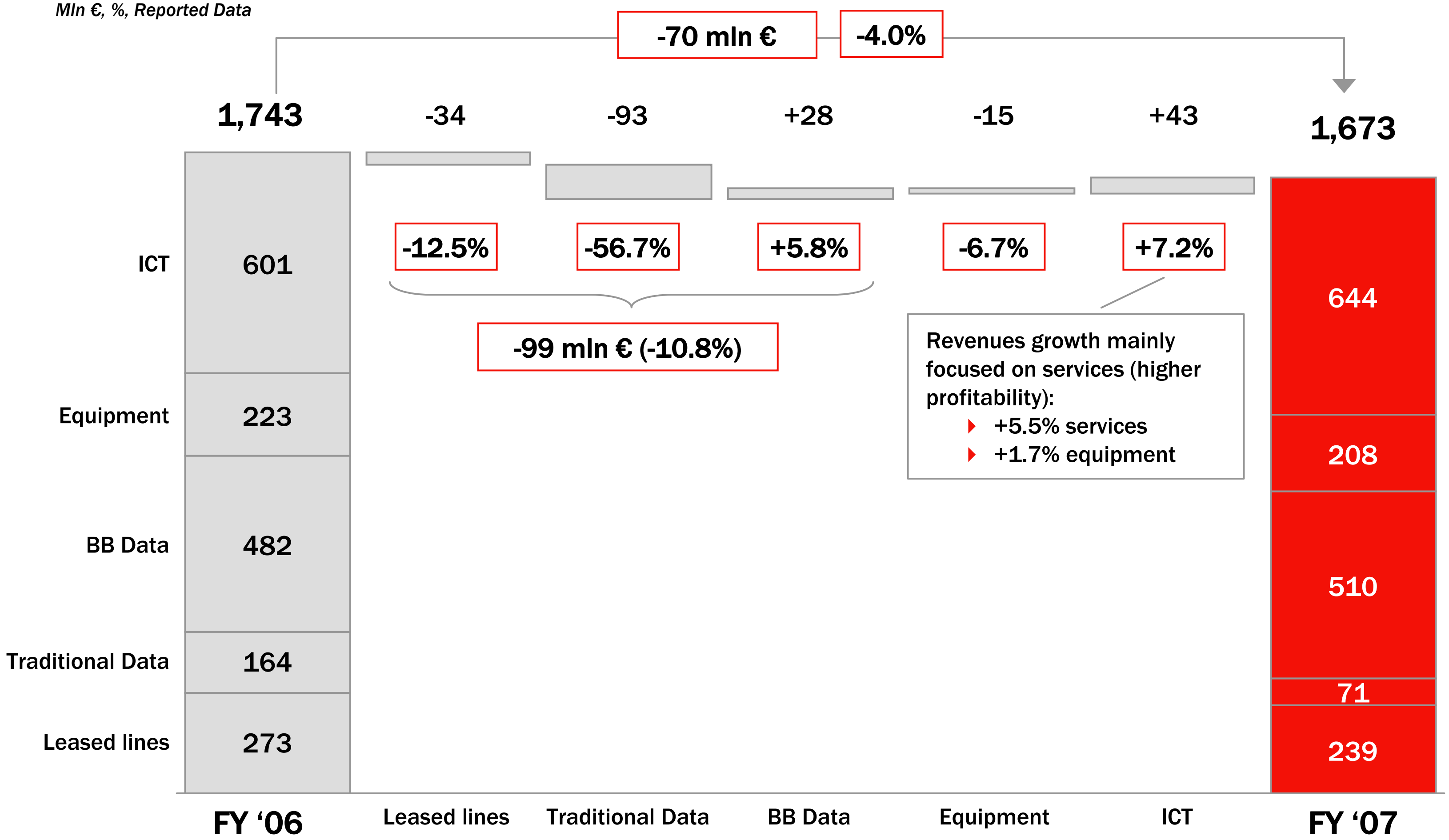


Revenues YoY trend



Domestic fixed: Business data revenues

Mln €, %, Reported Data



AGENDA

- DOMESTIC FIXED
  - 2007 Key Results
  - Sources of Growth
  - Conclusions

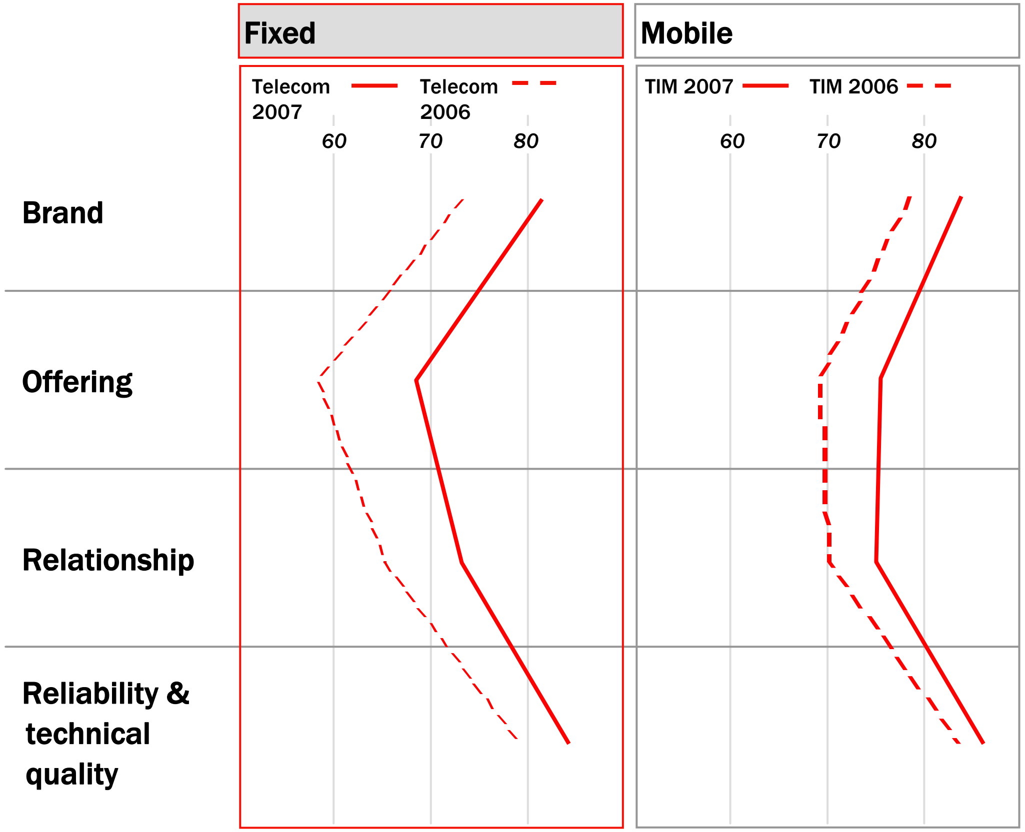
Redefine roles of TI assets for business transformation and revenue growth

	Consumer	Business
Business transformation (2008)	**Improve basics** ▸ Develop need-based segmentation ▸ Start program to improve quality of service ▸ Set up channels towards integrated approach **Drive convergence** ▸ Develop all-IP and convergent offers	
Business expansion (2009)	▸ Launch segment-specific convergent offers ▸ Reach excellence in quality of service and customer satisfaction ▸ Adopt an integrated multi-channel approach, leveraging high-touch channels for high-value/ potential customers	
	"Towards the digital family"	*"A partner to improve your business and fulfill all your communication needs"*

Consumer: Improve customer satisfaction

CONSUMER

Customer Satisfaction*



- **Alice: consolidate** and **enrich** brand
- **Virgilio**: invest in **brand positioning**

- Leverage **segmented approach**
- Improve **customer experience** through easy-to-use offers

- Move from focus on acquisition to customer **development and loyalty**
- Improve **customer service**

- Reinforce **premium** market positioning through better product **reliability**

** Q4 2007 vs. Q4 2006, Top 2 items*
Source: Company Customer Satisfaction Survey

Consumer: Reinforce brand positioning

CONSUMER

Brand	Alice **Top of Mind**	VIRGILIO powered by Alice **Co-leader (#1 Italian portal)**
Reach	***11 mln individuals****	***10 mln unique contacts (monthly)***
Guidelines	▸ Consolidate **awareness leadership** (Top of Mind almost 4 times higher than the second competitor) and **Brand Equity** (constantly growing in the last 2 years): Alice is "the broadband brand" ▸ **Enrich brand** from "pure connectivity" to "broadband & beyond" (contents, services, etc.): "Alice is much more than a broadband connection"	▸ Use Virgilio as **reference brand** for **web contents,** services and social **networking/community** ▸ Mix **traditional adv** media to gain trust and **street marketing** to capture new generations/ native digital

** 5 Million households*
Source: Market Research

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Consumer: TI offer roadmap

	Pure mobile	Advanced fixed operator	Customer attitude	
			Service-sensitive	Price-sensitive
3 play (BB/Voice-VoIP/IPTV)	Mobile TV (Set Box DVBH/ PC Card)	Alice homeTV	Premium contents Digital interactive TV Alice TUTTO INCLUSO	Self-generated contents
2 play (BB/Voice-VoIP)	Alice MOBILE	Alice	Alice SEMPRE	maxxi TIM casa TIM ADSL naked (femtocells)
1 play (Voice)	maxxi TIM casa	TELECONOMY Zero-Zero	Loyalty program extended to other big communities	

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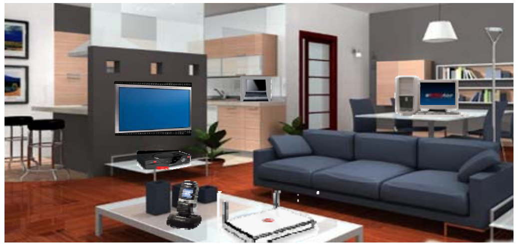
Consumer: Value strategy based on flat rate broadband and VoIP

CONSUMER



From Fixed to Broadband Environment

- Broadband as the gate to customers
- From "landlines" to "digital homes" where contents and entertainment live together

Alice

Increase ARPU and improve **Customer Loyalty** through a **Value- Based broadband strategy** ('08 Target vs. '07):

- Significant growth **+25%** of **Flat customer base**
- Upselling to **higher-value** broadband access **profiles**
- **Commercial bundling** with VOIP, IPTV and products
  - **Triple Play growth +250%**
  - **VoIP Consumer** customers **+80%**
- **From Best effort to high QoS** for demanding customers (i.e.: Web2.0 and Digital Media Services)
  - 4Mega to 7Mega 100% completed
- **Accelerate broadband** development through **convergent** offers (i.e.: Alice By TIM) to increase customer loyalty

Consumer: Developing the Digital Home

CONSUMER

Alice TUTTO INCLUSO

Increaes ARPU and improve **Customer Loyalty** by developing a Digital Home offering portfolio:

- Launching **All-IP lines** (Alice Naked)
- **IP Television**: more content and services
  - High definition VoD and SKY Multiscreen integration
  - Advanced Search and Personal Recommendation
  - New content provider portfolio and services (programming SMS alerts, ...)
- **Internet VAS portfolio evolution**
  - Alice Pay
  - Security (Total Security for PC, Magic Desktop for kids...)
- New branded **broadband**-enabled **"beyond voice" products**
  - Digital Photo Frame (linked with Virgilio Photo album)
  - Broadband Clock-Radio (internet radio + web infoservices)
  - Occhio by Alice (home monitoring)
- Focus on flat "device & service" package **(Alice Tutto Incluso)**

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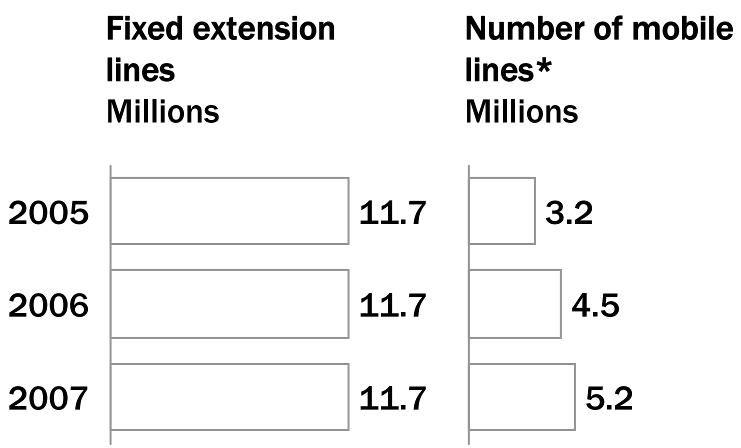
CAPTURING THE BROADBAND CONVERGENCE OPPORTUNITY

Business: Fixed line is the pillar for the convergent offer with a continuous shift to IP-based services

BUSINESS

Fixed line is key for Business customers…

Business line evolution

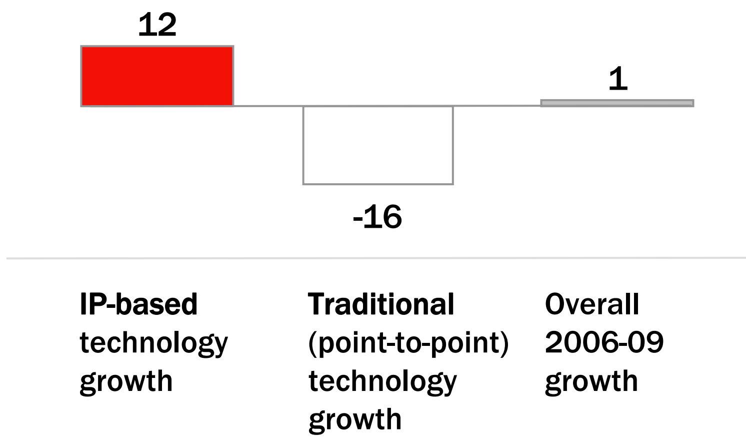


- Despite the increase of mobile lines, the number of **fixed extension lines** is **stable** over time
- **Broadband-based applications** are **becoming a key enabler for doing business**

** Multibusiness SIM numbers*
Source: Company Estimates, Analyst Estimates

… and will become even more critical

Growth in data transmission revenues from Business customers, 2006-09E CAGR



- **IP** technology is **expected to become** the **main** transmission technology
- The **larger bandwidth** allowed by IP will push forward the development of **innovative and effective** business solutions

Business: Improve customer satisfaction

BUSINESS

Implementation examples

Guidelines	Marketing and Sales	Provisioning	Assurance
Different levels of service, according to customer value	**"Plus" solutions** (fee-based)	**Priority of provisioning** according to customer value	**Specialized Customer Care** (by segment/ product) **SLA-based assurance** (diversified by customer/product)
"Customer as a partner", through the whole lifecycle	**Joint service design** **Dedicated sales reps**	**Joint project management**	**Assurance Cooperation Tools** (shared OSS for trouble ticketing, change management)

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Business: Market approach shift from "size-based" to "needs-based"

BUSINESS

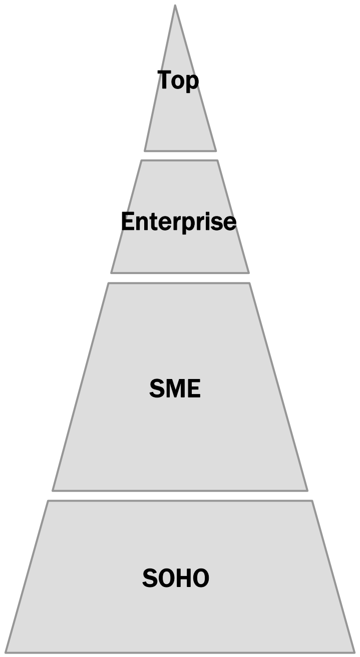
Business customers are becoming sophisticated ...

Emerging Business customer needs

- **Simplify** business complexity and **achieve productivity gains**
- Obtain **reliable and seamless** (fixed + mobile) **solutions** and caring
- **Exchange data** securely **with** business **partners** and **public administration**
- Develop a **modular** service offer to follow company evolution (from startup to maturity)

... and require a need-based segmentation/commercial approach

From...



Size-based

To...

- Government sector
- Large companies
- Multiple-location firms
- Single-location firms
- Professionals
- Nomadic customers
- Vertical shops
- Independent shops

Needs-based

Business: Develop segment-specific offers (examples)

BUSINESS

	Independent shops	Professionals	Large companies
Fixed and Mobile	▸ Naked ADSL/ Mobile packages	▸ Fixed/Mobile broadband ▸ Fixed/Mobile traffic packages	▸ Ultra broadband (up to fiber) with high quality of service ▸ Convergent VPN based on IP solutions with indoor/outdoor wireless coverage (WiFi, femtocells)
Equipment	▸ POS ▸ Mobile handset	▸ IP-enabled handset ▸ Advanced mobile handset (Blackberry, smartphone) ▸ PC with smartcard	▸ IP-enabled work stations ▸ IP remote and hosted PABX ▸ Outsourced mobile applications

Applications and VAS	▸ **Security:** anti-virus, firewall, video surveillance
	▸ **Vertical applications:**
	  ▸ Web cash register
	  ▸ Inventory and order management
	  ▸ Local advertising
		▸ **Collaboration suite:** mobile office solutions
		▸ **Security:** anti-virus, firewall, centralized back up
		▸ **ICT resource management** LAN and desktop management
		▸ **Vertical applications:** clustered IT solutions, document management
			▸ **Collaboration suite:** unified convergent communication (voice, data, video)
			▸ **Security:** disaster recovery, SOC outsourcing
			▸ **ICT resource management** IT remote and hosted resources
			▸ **Vertical applications:** vertical application outsourcing

	"Hi-speed shop"	*"Professional Platforms"*	*"Networked ICT"*

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NOT EXHAUSTIVE

Business: 2008-2009 Offer's roadmap

BUSINESS

2008 – Business transformation → **2009 – Business expansion**

All-IP

- **Managed IPPBX – Corporate** — *Wi-Fi, dual-mode handset*
- **Managed IPPBX – Business** — *Wi-Fi, dual-mode handset*
- **Alice Business Tutto IP** — *Wi-Fi, dual-mode handset*
- **Alice Business "Naked"** — *Wi-Fi, dual-mode handset*

Messaging & Collaboration

- **Convergent Office**
- **Unified Communication Suite** — *Integration with third-party systems* → *Integration with All IP services*
- **Alice Team Work** — *Single-company* → *Multi-company (community)*

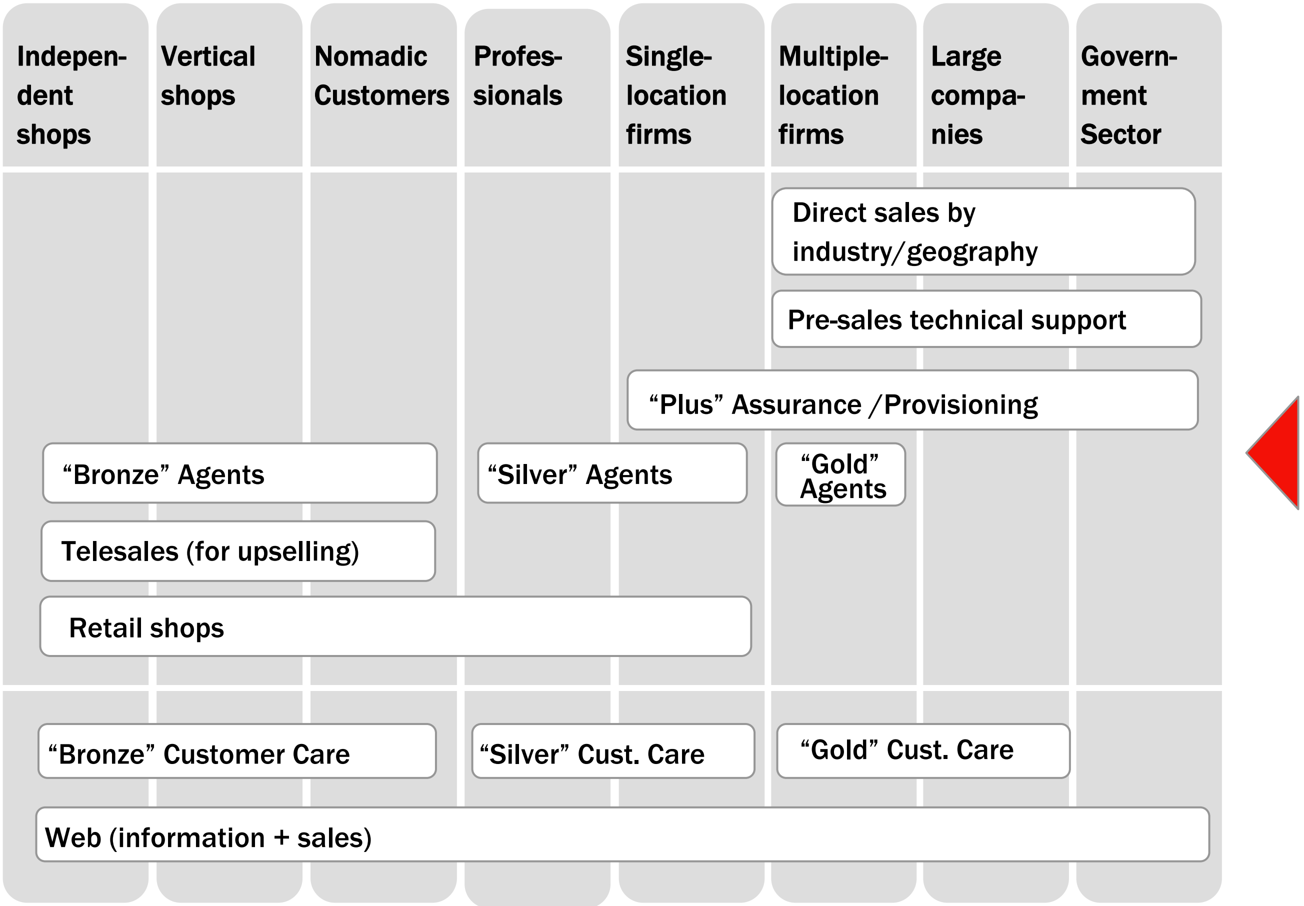
Applications

- **Shop Alarm & Videosurveillance (with remote mobile control)**
- **Convergent Unified Payments B2B2C***
- **SME Data Disaster recovery**
- **Virtual PC and SaaS****
- **Multichannel local advertising**
- **Web Cash Register/POS** → **IP POS**
- **On-demand audio-video content**

* *Includes teleticketing applications*
** *SaaS: Software as a Service*

Business: Adopt an integrated multi-channel approach

BUSINESS



Elements of the new integrated multichannel approach

- **More face-to-face** sales activity, including usage of shops
- Increased **differentiation of sales rep** skills by **segment**
- Commercial **proactivity** based on **customers' potential value**
- **B2B2C** approach to "verticalized" industries

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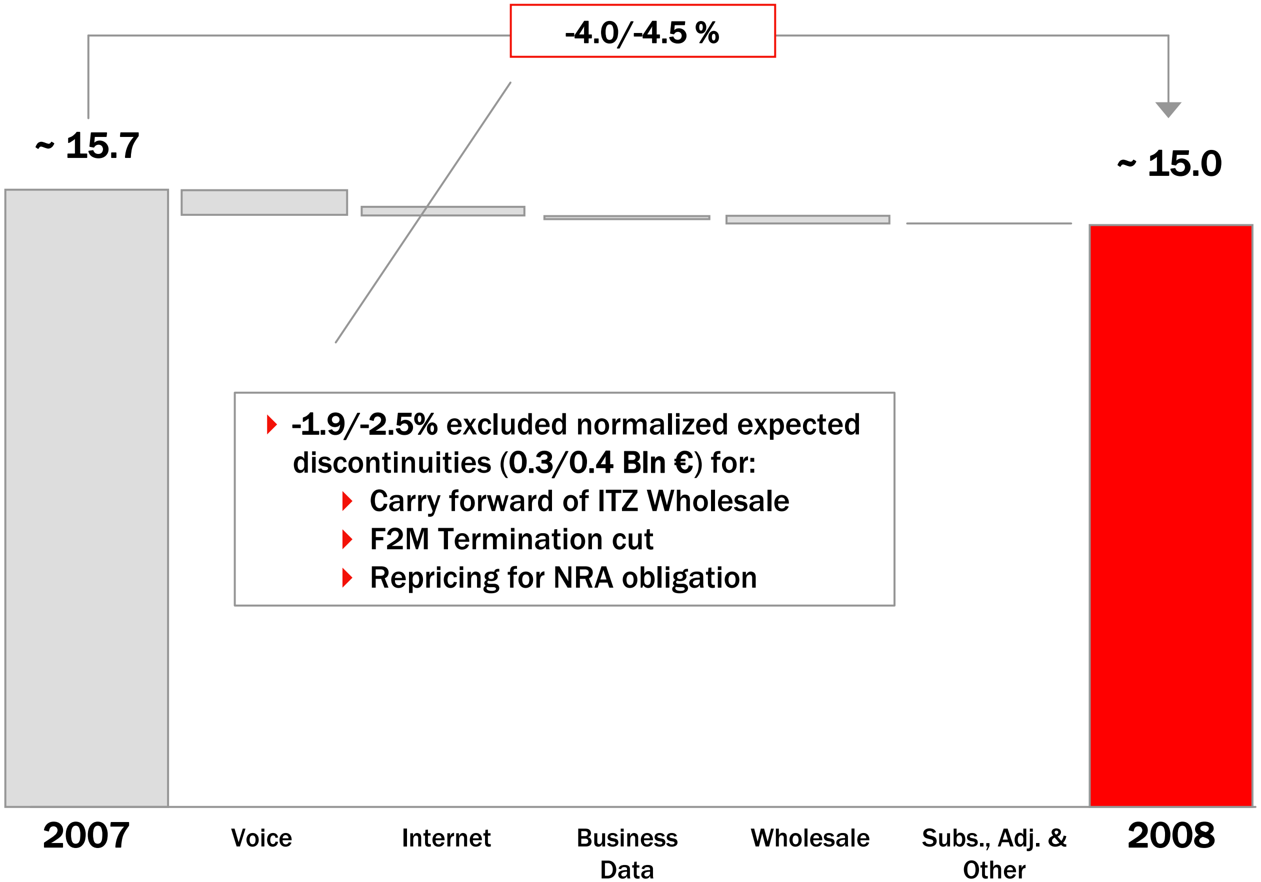
Outlook 2008 – key facts

Voice	‣ F-F traffic decline in line with previous years ‣ Increased loss in F-M traffic ‣ Slight acceleration of access loss, also due to WLR (wholesale line rental) startup
Internet	‣ Stabilization of market price levels ‣ Increasing focus on flat offers and double-play
Data	‣ Continuous slow-down of loss in connectivity ‣ Continuous expansion towards adjacent markets (e.g. ICT)
Wholesale	‣ Domestic: value proposition based on QoS and on selling projects related to TI network. Maintain revenue level revenue even after regulator's price reduction ‣ International: completion of rationalisation of international services portfolio

CAPTURING THE BROADBAND CONVERGENCE OPPORTUNITY

Outlook 2008

Bln €



- **-1.9/-2.5%** excluded normalized expected discontinuities (**0.3/0.4 Bln €**) for:
  - Carry forward of ITZ Wholesale
  - F2M Termination cut
  - Repricing for NRA obligation

Target 2008

		Target 2008
Revenue	**Total domestic Fixed revenue**	**~ 15 Bln. €**
	Internet revenue	**> +10%** vs. YE'07
Broadband growth	**Retail domestic** Broadband **portfolio**	**~ 7.0 Mln. Access**
	Broadband **ARPU**	**Broadly Stable** (~ 18 €/month)
	Flat offer on total (Consumer + Business) Broadband portfolio	**> 75%**
	IPTV portfolio	**~ 0,3 Mln. Access**
	VoIP penetration on Broadband lines	**> 30 %**