# TELECOM ITALIA 9th Deutsche Bank Italian Conference

Milan, May 29th, 2008

# **Telecom Italia**

**ENRICO PARAZZINI, CFO** 



### TI Group - 1Q '08 Key Financial Results

€ MIn	1Q '08 reported	1Q '07 reported*	YoY reported	YoY organic**	I
Revenues	7,298	7,475	-2.4%	-4.0%	Domestic revenues r discontinuities (€ 26
Ebitda	2,966	3,178	-6.7%	-6.7%	generated 22% of Gr
Ebitda margin	40.6%	42.5%	- <b>1</b> .9pp	-1.2рр	<ul> <li>Stable domestic Ebit highest in the industri due to competitive d</li> </ul>
Ebit	1,528	1,817	-15.9%	-16.0%	in Brazil.
Ebit margin	20.9%	24.3%	-3.4рр	-2.9рр	<ul> <li>D&amp;A increase following continued investment</li> </ul>
Net Income post minorities	501	775	-35.4%		Bottom-line discount negative yoy balance
Capex	1,228	1,128	+100		Higher investments i quality improvement
Net Debt	35,436	37,182	-1,746		Net Debt decrease th

### **Highlights**

- 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.

<sup>\*\*</sup> 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.

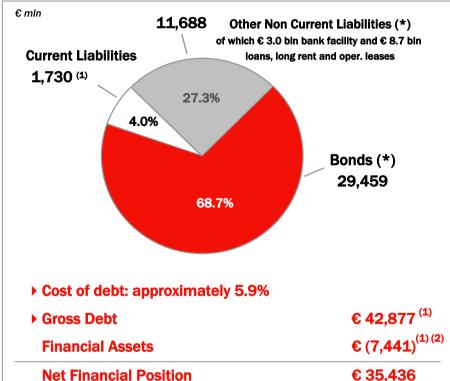


<sup>-265</sup> vs 35,701 € mln YE'07

<sup>\*</sup> Pro-forma figures (TI France considered as a discontinued operation).

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





### **Maturities and risk management**

- ► 5.3 bln liquidity position, plus further € 6.5 bln committed unfunded bank lines grant a stable and ample treasury margin and allow full flexibility for future funding
- Average bond maturity: 7.95 years
- ▶ Fixed rate portion on debt approximately 70%
- Around 36% of outstanding bonds is denominated in USD, GBP and YEN and is fully hedged

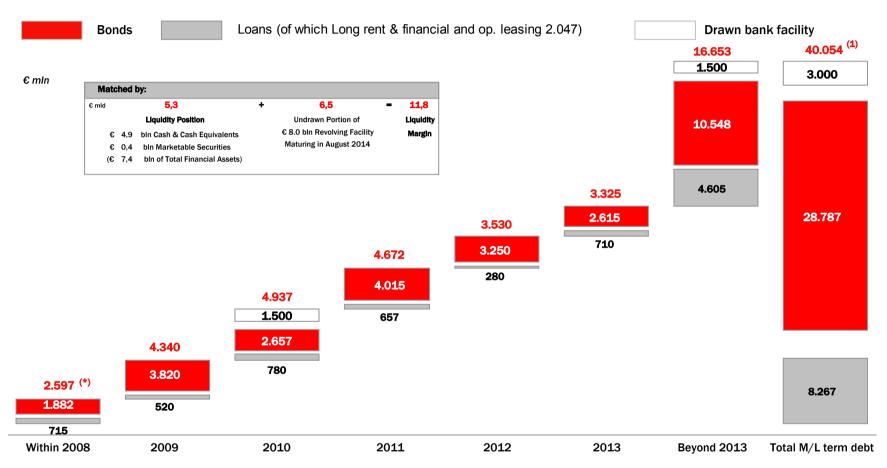
<sup>(\*)</sup> including the current portion of non current liabilities (maturing within 12 months) for € 5,329 mln (of which bonds € 4,125 mln and other € 1,204 mln)



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

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

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



<sup>(1) € 40.054</sup> 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.

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.



<sup>(\*)</sup> 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.

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# **Telecom Italia**

FRANCO BERNABE', CEO



# **Agenda**

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



### **Building the Foundation for Growth**

Throught a trasformation process... ...Growth 2008 2010 **KEY DECISIONS ASSETS** RESULTS Concentrate on quality as a Strong Domestic Stabilise and possibly increase value driver **Market Position ARPU** in key businesses Increase total share of wallet (including adjacent sectors) **World Class Create growth opportunities in** competencies in the Leverage innovation and an otherwise mature market entrepreneurship in the core business organisation **Selected Presence Defend and expand where Exploit potential of current** in International presence is strong assets markets **Divest weaker positions** Rebuild a solid growth platform



### 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**

**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** 

- Internet always-on everywhere
- Premium & user generated contents

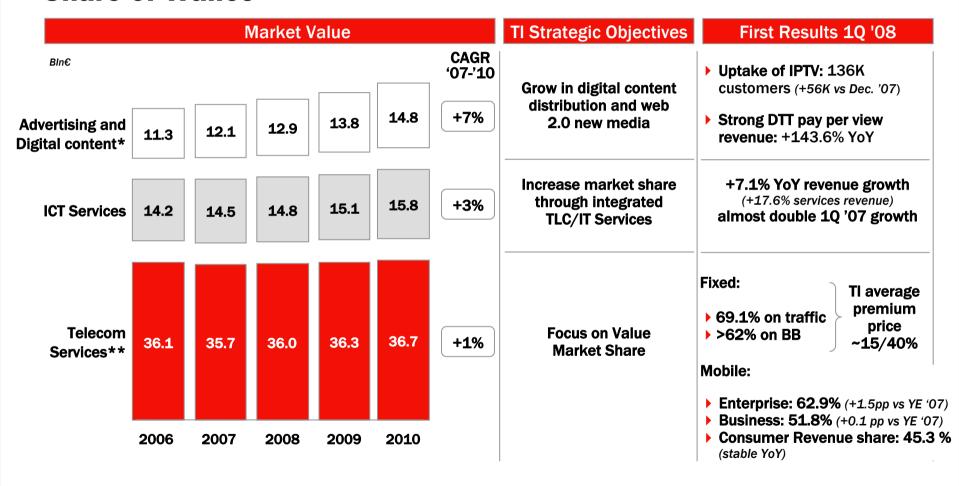


Quality & speed drive these business developments

- ICT market is attractive in terms of size and growth
- Virtualization, "SW as a service" and Service Oriented Architecture increase telco opportunities
- Integration/
  Convergence is becoming 
  " the industry business model"
- "Value vs Volume" is picking up as the common approach in the market, reducing price pressure



# **Consolidate and Transform Domestic Business: Focus on Share of Wallet**



<sup>\*</sup> Includes total advertising mkt, Pay TV and digital content on PC. Excludes RAI Service Fee



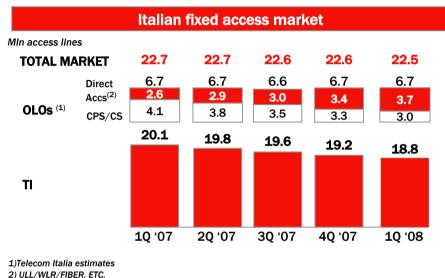
<sup>\*\*</sup> Includes equipment

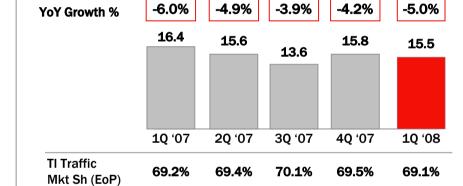
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### Stabilizing the trend in fixed traditional business...





Telecom Italia traffic and Mkt Sh\*

- ▶ 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

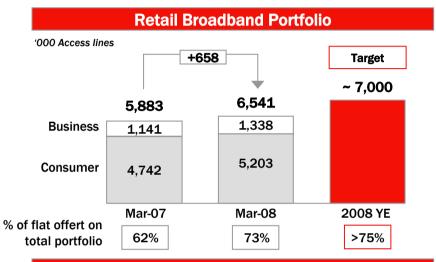
...with a strong improvement in customer satisfaction index: +2pp YoY\*

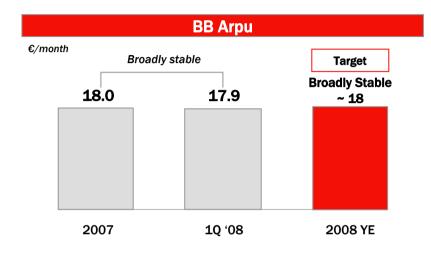
bln min: TI Voice traffic\*

<sup>\*</sup> Source: Costumer Satisfaction & Loyalty wireline (Doxa for 2007, GFK EURISKO for 2008)



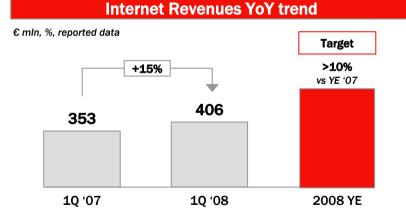
### Value based BB strategy boosts growth





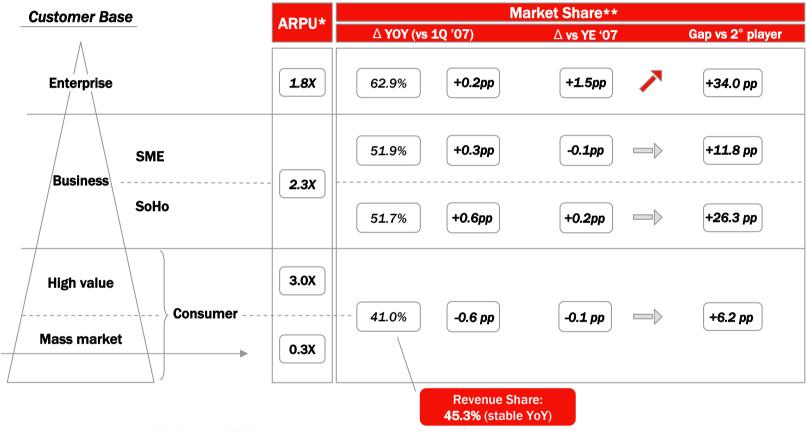
#### **VoIP and IPTV portfolio** '000 access lines **VOIP IPTV** Target Target +56 ~ 300 +194 1,510 1,316 136 80 Dec-07 Mar-08 2008 YE Dec-07 Mar-08 2008 YE % on BB >30% 20.5% 23.1% 1.2% 2.1% access

lines





### 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



<sup>\*</sup> TIM average = 1X

<sup>\*\*</sup> Enterprise Market Share: Dec '07 vs. July '07

### TIM Brand re-positioning: closer to our customers

# Tim brand re-positioning Identification & Aspiration 1 Tu, senza confini. **Tomorrow** Tu, senza confini. **Today** Distinctiveness & Memorability Yesterday

### **New format launch**

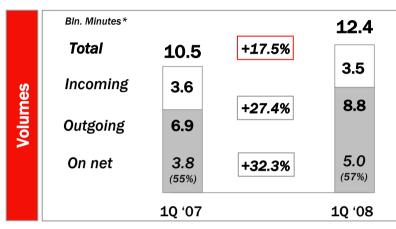
- Discontinuity and innovation attract attention and curiosity
- More emotions, lower focus on the "product" to encourage instictive behaviour as opposed to rationality
- ▶ Focus on the customer base to strengthen feeling of affiliation and move the Brand closer to customer needs



- ▶ 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



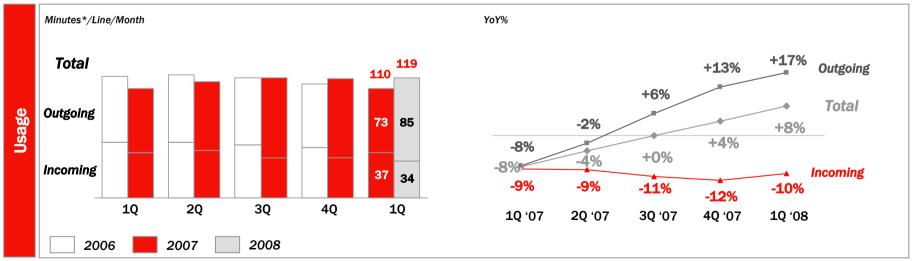
### Voice: TIM Community & High Valuable customers drive usage rebound



- ▶ Successful commercial focus on key strategic segments:
  - ▶ Business: ~0.6 mln lines TIM affare Fatto & Tutto Compreso Professional
  - ▶ Elite: ~0.4 mln lines Tutto Compreso
  - ▶ Young: ~3.5 mln lines TIM Tribu
  - ▶ Family: ~1.8 mln lines TIM Club

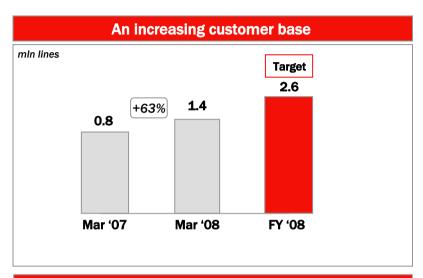
#### lead to:

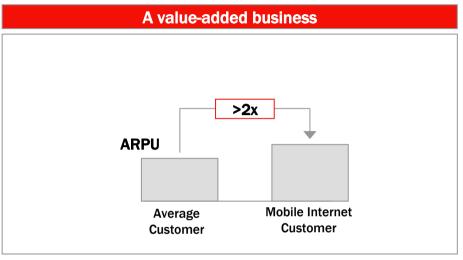
- a strong usage rebound
- a reduction in the regulatory exposure of the business

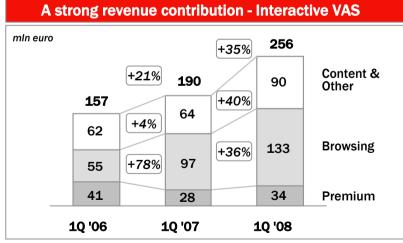


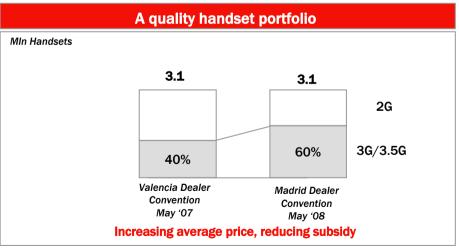
<sup>\*</sup> Excluding Visitors and roaming

## **A Successful Mobile Internet Strategy**











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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 40 '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 3<sup>rd</sup> 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%



<sup>\*</sup> GFK Eurisko, February 2008

### **TIM Brasil: investing for the future**

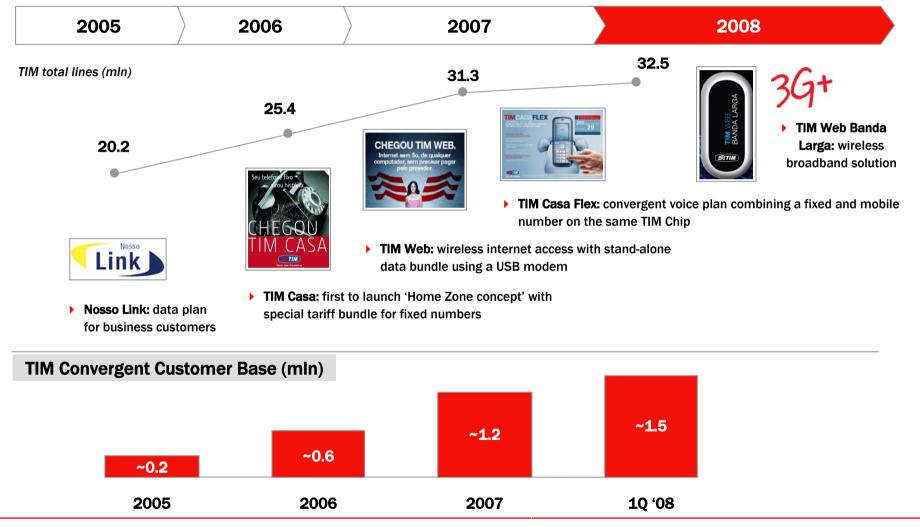
- Maintaining aspirational, innovative brand attributes
- Marking the market
  - ▶ Stable market share: 25.9% share in an increasingly competitive environment
  - ▶ Leader in gross adds: ~26% share thanks to promotions on traffic and 'TIM-Chip only' sales
  - ▶ Focus on high-end: post paid 20.8% of total 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

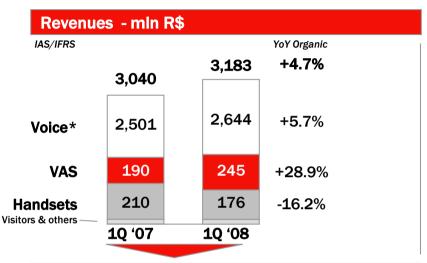
- ▶ Revenues: 2008 target revision to ~9% YoY organic growth
- All other 2008 targets confirmed



### **TIM Brasil: convergent offer roadmap**

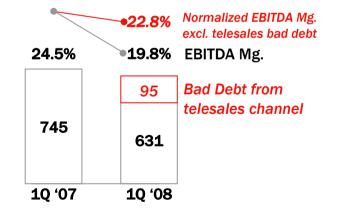


### **TIM Brasil: main performance drivers**



- ▶ 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
  - ightharpoonup 2008 bad debt back to historical levels ( $\sim$ 6% of service revs) thanks to new rules implemented in telesales process and stricter credit analysis



<sup>\*</sup>Excluding Visitors and others