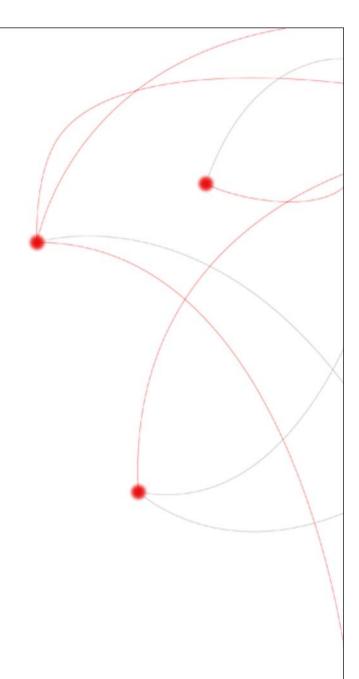
Telecom Italia Analyst & Investor Briefing 2009 Results & Strategic Plan Update Milan, April 13th, 2010

# **Telecom Italia Strategic Plan Update**

**MARCO PATUANO** 





### **Safe Harbour**

These presentations contain statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear in a number of places in this presentation and include statements regarding the intent, belief or current expectations of the customer base, estimates regarding future growth in the different business lines and the global business, market share, financial results and other aspects of the activities and situation relating to the Company and the Group.

Such forward looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ materially from those projected or implied in the forward looking statements as a result of various factors.

Forward-looking information is based on certain key assumptions which we believe to be reasonable as of the date hereof, but forward looking information by its nature involves risks and uncertainties, which are outside our control, and could significantly affect expected results.

Analysts are cautioned not to place undue reliance on those forward looking statements, which speak only as of the date of this presentation. Telecom Italia S.p.A. undertakes no obligation to release publicly the results of any revisions to these forward looking statements which may be made to reflect events and circumstances after the date of this presentation, including, without limitation, changes in Telecom Italia S.p.A. business or acquisition strategy or planned capital expenditures or to reflect the occurrence of unanticipated events. Analysts and investors are encouraged to consult the Company's Annual Report on Form 20-F as well as periodic filings made on Form 6-K, which are on file with the United States Securities and Exchange Commission.

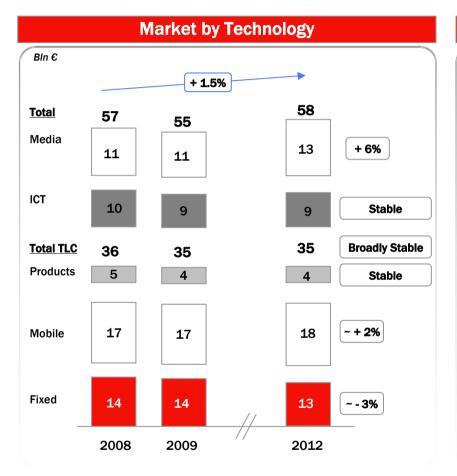
TELECOM

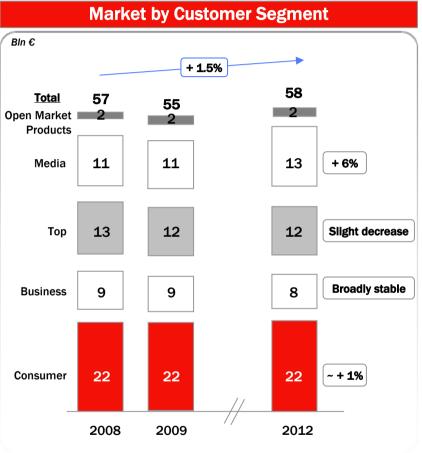
MARCO PATUANO 2

- ► TI Group 2010-2012 Strategic Plan Update
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    - ▶ Task #1 Speed-up Mobile Turnaround
    - ▶ Task #2 Consolidate Positive Fixed Momentum
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    - ▶ Task #5 Further Cash Cost Efficiencies to Sustain Growth



## **Italian Market Evolution '08-'12**





CAGR '09-'12



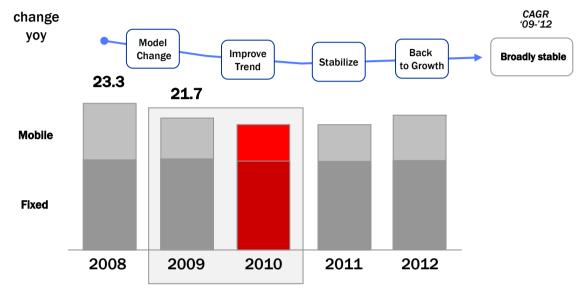
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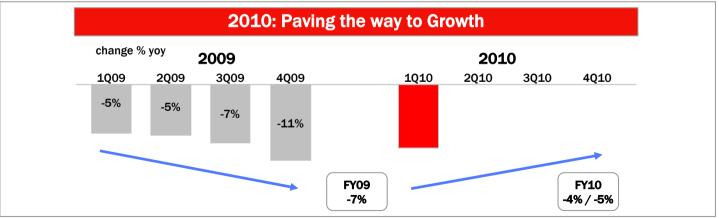
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# **Domestic Revenues: Trend Reversal**

Euro bln, Organic Data







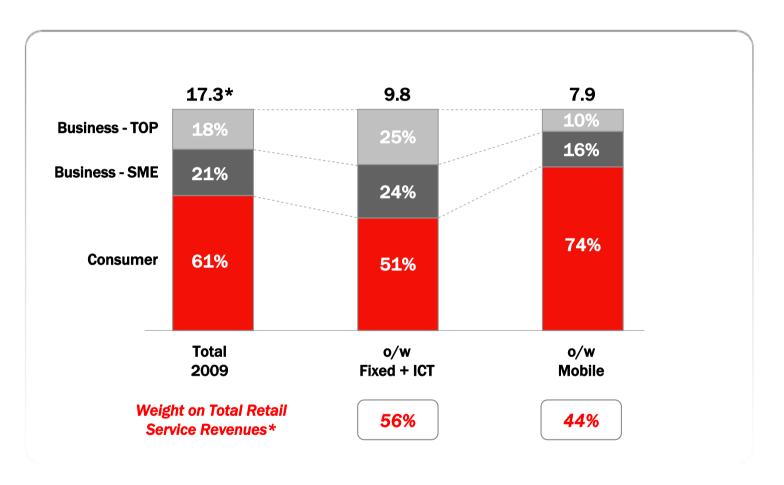
# **Domestic Market: the Repositioning Path**

	2008	2009	2010-2012
	"Value for Money" Proposition impaired by Repricing	Repositioning	Market Share Recovery
Mobile	<ul> <li>Focus on volumes</li> <li>Strong leverage on handsets</li> <li>Push Strategy based on Handsets subsidy</li> <li>Weaker brand perception ("Expensive") after consumer tariff repricing</li> </ul>	<ul> <li>Competitive pressure increase</li> <li>"Cost Conscious" Customer Base erosion</li> <li>New handsets strategy</li> <li>New advertising &amp; communication format</li> <li>Pricing Strategy: focus on Community</li> <li>Distribution Network Refocus</li> </ul>	<ul> <li>Market share recovery</li> <li>Best value for Money</li> <li>Focus on "cost conscious" customers and "high spenders"</li> <li>Pull strategy through Advertising</li> <li>Distribution Network - Strength and Develop</li> </ul>
	Restore Regulatory Dialogue	Market Positioning Consolidation	Leverage on Flexibility
Fixed	<ul> <li>Strong competitive asymmetry</li> <li>Large line losses (~1.9 mln)</li> <li>Good performance on BB acquisitions</li> <li>Push on free to flat migration in BB</li> </ul>	<ul> <li>Retail &amp; LLU monthly fee increase</li> <li>Progressive asymmetry reduction</li> <li>Slowdown in line losses trend</li> <li>Increase value of BB offers</li> <li>Gain market share on ICT</li> </ul> Customer Centric Approach	<ul> <li>Line losses reduction</li> <li>Full symmetry on winback</li> <li>New LRIC model introduction</li> <li>Increase market share and reduce churn on BB</li> <li>Launch of new over-the-top services</li> <li>Lead ICT evolution</li> </ul>



# **Domestic "Retail" Service Revenues**

Euro bln, Organic Data, %

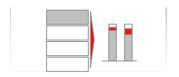


<sup>\*</sup> Net of Fixed-Mobile interdivisional sales elimination (0.4B€ in 2009)



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# **Task #1 Speed-up Mobile Turnaround**

**Objectives** 

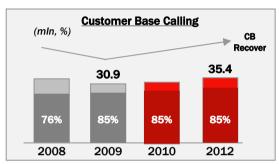
Market Share increase

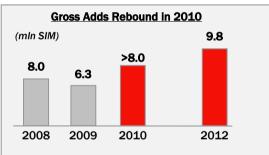
Customer Base value protection

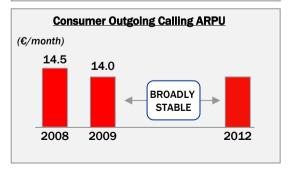
#### **Actions**

- Simplified Portfolio offering and strengthened Gross Adds and MNP tactics
- Advertising pressure with focus on product keybenefits
- ▶ Ethnic segment vertical offering
- ▶ Completing Consumer Sales Network restructuring: focus on Franchising & Dealer Multibrand, restyle PoS, New sales commissions model
- ▶ Best Value for Money Proposition both for "Community users" and for "Off-net users" with the aim to reduce Churn, increase lock-in Value Customers and boost usage
- Confirm leadership on customer care adopting multichannel approach to keep quality while reducing costs
- ▶ Pre-retention on high end customers

#### **KPIs**







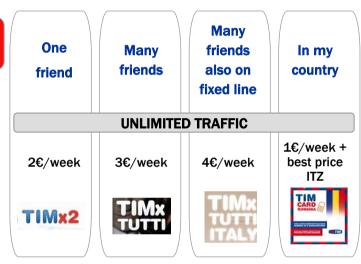


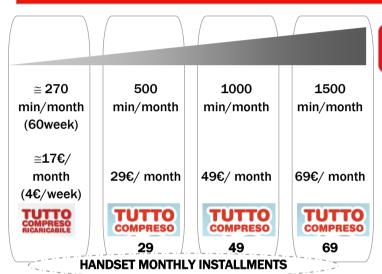
# **Mobile – Offer: Best Value for Money in the Consumer Segment**

#### **Community Offer (U speak with friends?)**

#### Off net Offer (U speak with everybody?)







SMS usage?

Unlimited SMS 1€/week



60 SMS for 2€/week

TUTTO

COMPRESO

RICARICABILE

Mobile Internet?

Light usage

INTERNET 40: 9€/month 40h/month Heavy usage

INTERNET 100: 19€/month 100h/month

Often

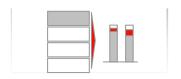
**Sometimes** 

INTERNET PACK 40: 99€ 40h/month x 12 months + Dongle INTERNET PACK 100: 159€ 100h/month x 12 months + Dongle

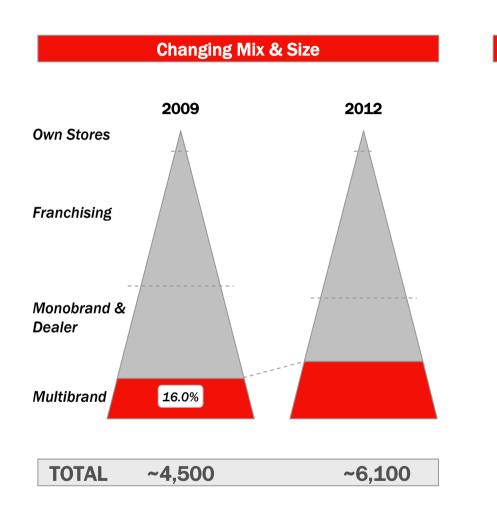


**How long** 

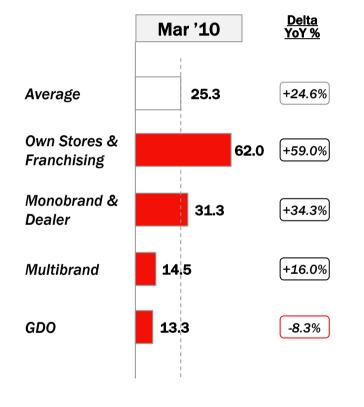
you speak?



# **Task #1 Mobile - Re-design Sales Channels**

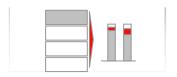


# PoS productivity \*

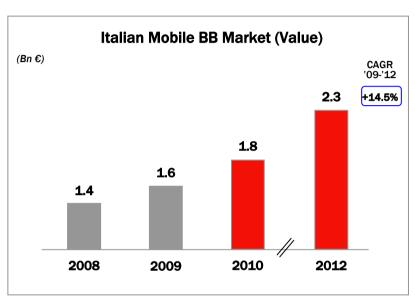


(\*) Weekly Gross Adds /PoS

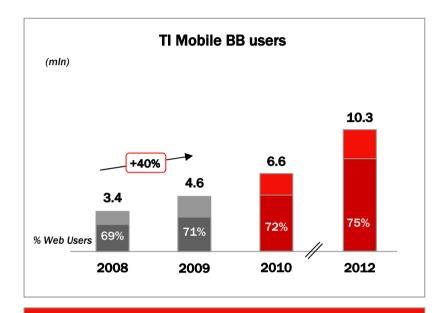




# **Task #1 Mobile BB - Consolidating Leadership**



Structural Advantages			
Internet Keys	Network coverage  Network capacity		
Smart phones	<ul> <li>Leadership in Smartphone market share (TIM market share FY09 ~37%)</li> <li>Device portfolio simplification</li> <li>Efficient pricing in order to avoid network overload</li> </ul>		



#### **Lever to Reinforce Leadership**

#### Marketing approach

- Focus on medium users to:
  - ▶ defend price per MB
  - stabilize yearly consumption

#### **Services**

- ▶ Complete and competitive prepaid offer portfolio
- ▶ Internet Pack (new annual bundle device+service)
- ► New postpaid "all-inclusive" offers (Internet Key +pc+service)

#### **Devices**

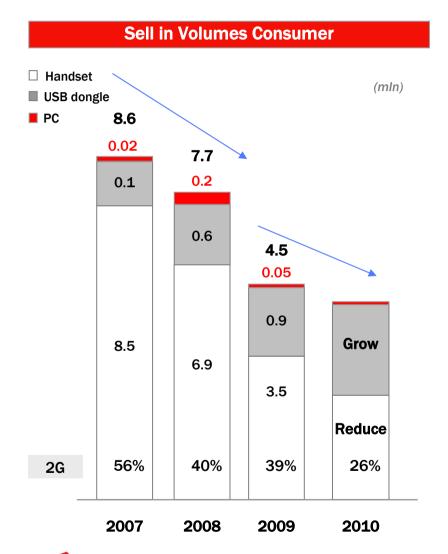
Widest product portfolio, best design, materials and colors



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# **Task #1 Mobile - Handsets Strategy**



#### **Strategy and Impact**

#### More volumes, mores costs, less profitability

- Approx 8 mln p.a. of handset volume sold (with SIM embedded)
- Strong push on handsets resulting into a "long wave" of silent lines lasting until in 1H10
- Almost 800 mln euro of handset sold per year with negative impact on profitability

#### Less volumes, higher profitability

**Since 2008** 

From 2009 onwards

- Focus on advanced data enabled devices to drive data growth
- Massive increase on USB dongle sale
- Smartphones at competitive price
- Significant improvement in revenues mix with positive impact on SAC and margins



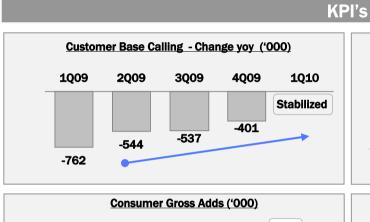
# **Task #1 Mobile – Early Evidence**

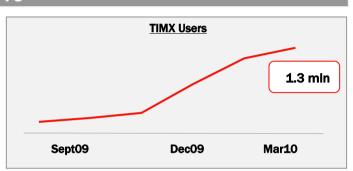
**Objectives** 

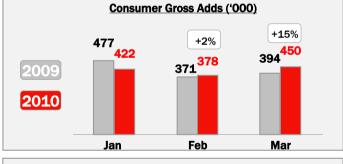
**CB Value** protection

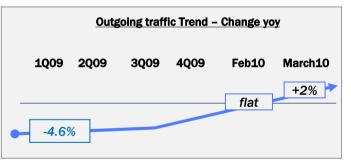
Market Share & Usage increase

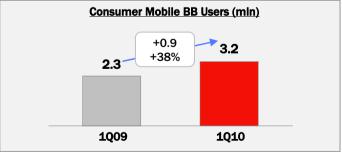
Mobile BB leadership consolidation

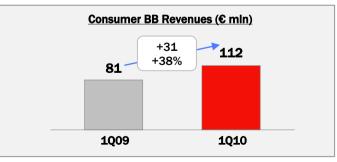










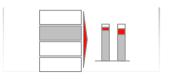




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## **Task #2 Consolidate Positive Fixed Momentum**

#### **Objectives**

deployment to increase value for money perception and reduce impact of traffic erosion
 Differentiated caring approach based on

segments and needs

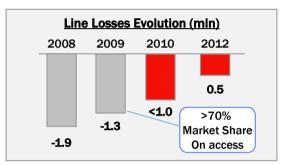
▶ Portfolio simplification and flat offers

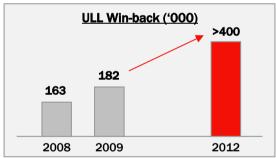
**Actions** 

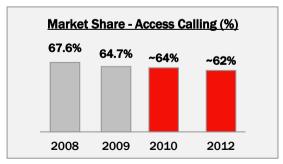
Defend
Customer
Base Value
and minimize
lines loss
reduction

- Continuous quality improvement (fault rate and repair time) to sustain loyalty
- Retention/pre-retention inbound and outbound (churn predictive models) with customized offers on specific targets
- ▶ Distinctive communication format with stable presence in the media

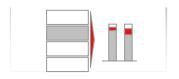
#### **KPIs**











### **Task #2 Consolidate Positive Fixed Momentum**

**Objectives** 

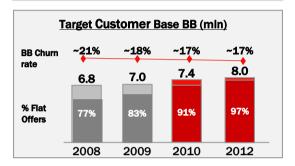
Increase BB
Customer
Penetration
and Value

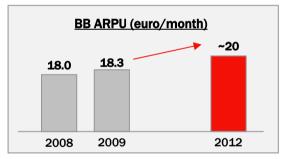
Improve
Go-to-Market

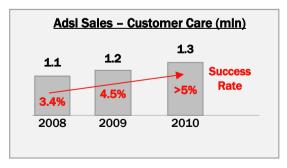
#### Actions

- Launch of BB entry fee tariff and bundle package with PC and push on flat offers
- ▶ Develop strong high value customers retention through multimedia innovative devices (Cubovision) enabling flexible provisioning of TV services according to available bandwidth (IPTV / OTTV)
- Push on ULL win-backs leveraging on symmetrical regulation (from April '10)
- ► Improve sales effectiveness through channel specialization (eg agent sales on win back), quality target on inbound and outbound acquisitions
- ▶ Re-launch of web sales channel

#### **KPIs**











# **Task #2 Fixed – Early Evidence**

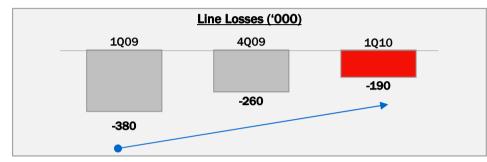
**Objectives** 

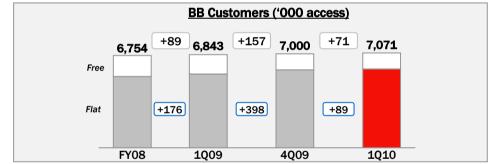
Defend Customer Base Value

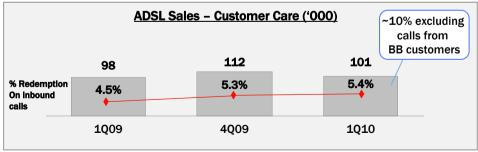
Increase BB Customer Value

Improve Go-to-Market

#### KPI's



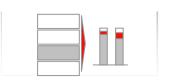






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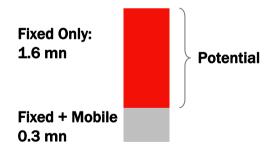




# Task #3 Integrated Approach: Focus on the Business Segment

#### Offering

- "Impresa Semplice" new Business concept
- ► Tra Noi", first convergent offer
- "Leverage on fixed customer base exploiting convergent offering and communication



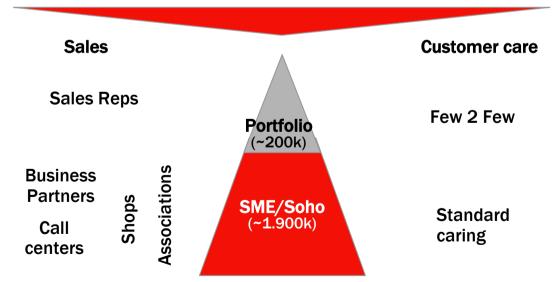
"Ready to use basic ICT offering

#### **Sales**

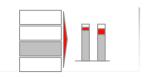
- Sales network is already F/M integrated, with differentiated channels
- ▶ High End customers "Portfolio" (200k), that generate 40% of tot revenues, have a dedicated Sales representatives and few2few Customer Operations team

#### **Customer Operations**

- Integrated Customer
   Operations with single
   segmentation for fixed and
   mobile customers
- Same segmentation as Sales







# Task #3 Integrated Approach: Up / Cross Selling for Business Segment

**Objectives** 

**Boost mobile** 

customer base

Leverage on integration to:

Increase mobile penetration on fixed customer base

**Actions** 

- Improve loyalty and reduce churn
- ▶ Leverage on cross selling opportunities
- ▶ Strengthen win back and customers' lock-in and loyalty thanks to convergence (fixedmobile integration, single billing, single caring)

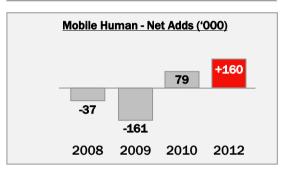
fixed customers

Stop losses of

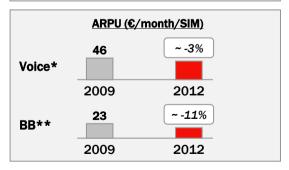
Stabilize revenues by:

- ▶ Shifting competition from price to innovation and quality of service
- Increasing share of wallet on integrated customers

**KPIs** 

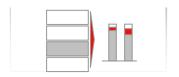






Stabilize revenues





# **Task #3 Business Segment – Early Evidence**

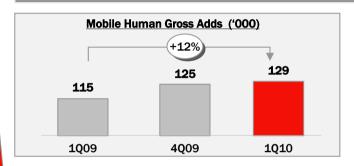
#### Objectives

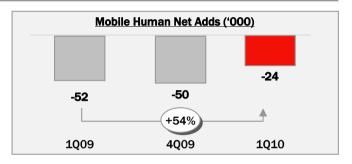
Boost mobile customer base

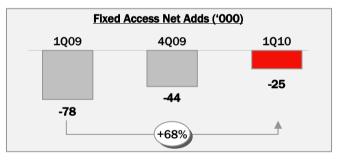
Stop losses of fixed customers

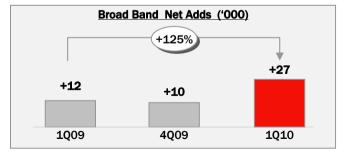
Develop BroadBand

#### KPI's











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# Task #4 Continue to Attack Adjacent Services -**Especially on TOP Clients**

**Objectives Actions KPIs Extension of Data center proposition** to fully support the Virtualization model (Server, Networking, Storage, IP **Become the** (€ mIn) PABX. Desktop) leader in extended Selective innovation regarding SaaS infrastructure ~+17% services ▶ Bundling of TLC. infrastructure services and new offers 831 ICT Rationalization of the partners program to improve TI 2009 **Rationalize the** positioning on Net Centric solutions (Virtualization, partnership SaaS) model and develop the ~11% Vertical emerging markets (eg.: e-gov, e-health, finance, vertical markets security, automotive ..) (€ mIn) Reinforce Virgilio leadership in the digital advertising through vertical communities and customizable ~+13% **Focalize Matrix** editorial offering **Digital** mission towards **154** 137 ▶ Develop profiling assets and capabilities in IP/Network, an Information **ADV** Web and Positioning profiling **Provider role** 





# Domestic Take-away: Where does the "Reverse Revenues Trend" come from?

#### **Customer Centric Approach: different strategies for different Market Segments**

# CONSUMER

#### **MOBILE**

- ► Increase the number of calling lines being the "BEST VALUE FOR MONEY" option
- Keep ARPU erosion from voice prices under control
- Balance voice ARPU with BB ARPU
- ▶ Keep leadership in Mobile BB

#### FIX

- **▶** Reduce LINE LOSSES
- ▶ Minimize impact of TRAFFIC decrease
- ▶ Keep growing in XDSL BB
- Leverage on CONTENT DELIVERY
   PLATFORMS in order to enrich the offering and increase BB ARPU

# BUSINESS

#### **FIX & MOBILE**

- Protect market share and leverage on cross selling between F&M customer base
- Develop convergent offer in order to boost TOTAL REVENUES per customer
- Segment of the customer base in order to serve each cluster with the most appropriate go-to-market model

#### ICT

Create a "READY TO USE" offer for basic ICT services

# T0P

#### **VOICE & TRADITIONAL DATA**

- Protect market share
- Control price erosion on Mobile Voice
- Boost Mobile BB and Mobile VAS
- Minimize impact of fix VOIP
- Delay price pressure on traditional data

#### ICT

- ► Enhance value chain: from pure NETWORK services to laaS and SaaS
- ▶ Develop vertical services on horizontal platforms



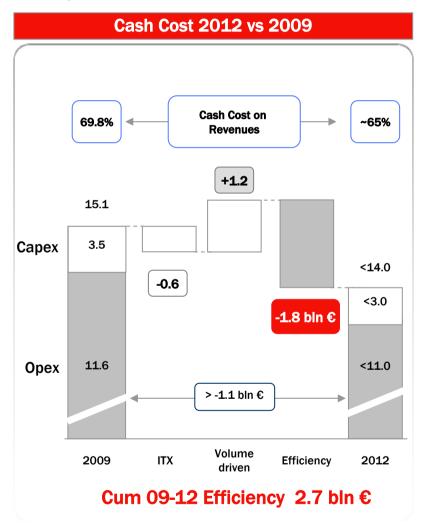
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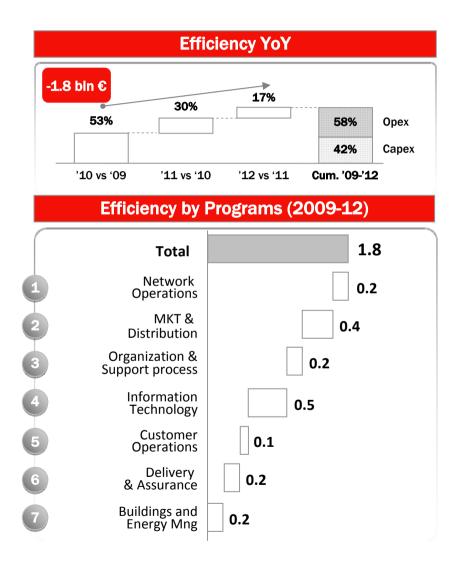


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# Task #5 Cash Cost Rationalization and Efficiency Plan

Euro bln, Organic Data



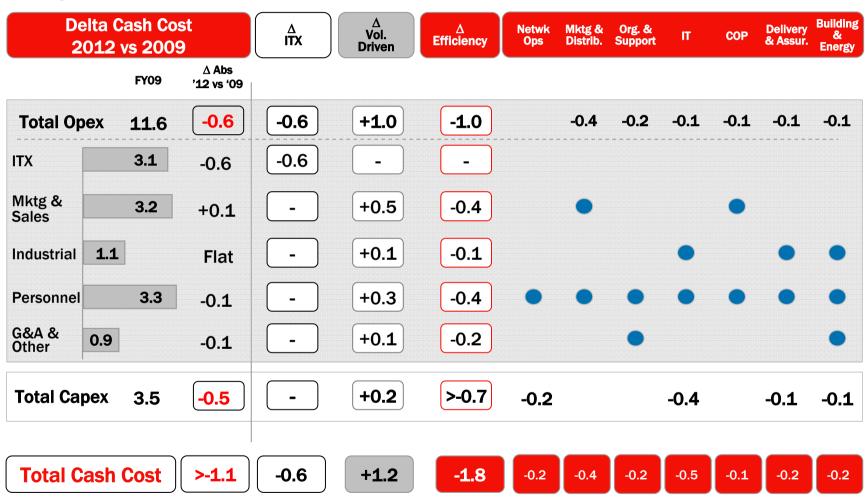




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# Task #5 Domestic: Focus on Efficiency Plan 2009-2012

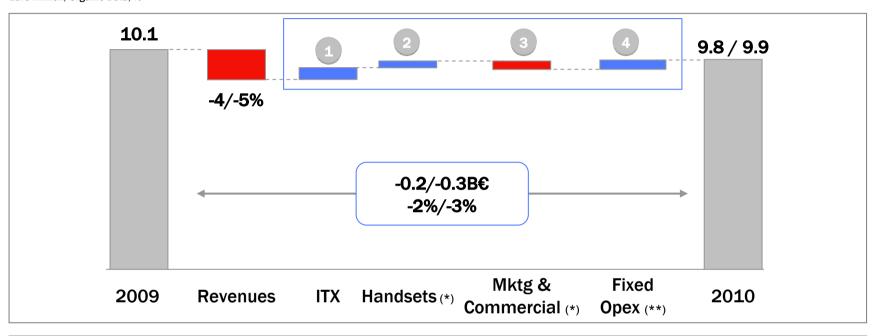
Euro bln, Organic Data, %





## Focus on 2010 Domestic EBITDA

Euro million, Organic Data, %





Completing Revenues mix re-engineering

Supporting Commercial
Turnaround

Progressing on efficiency programs

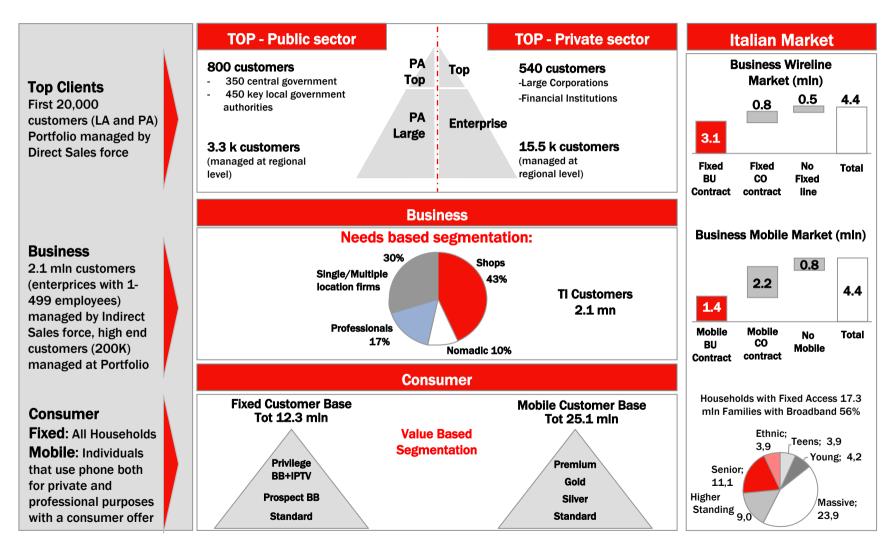


<sup>(\*)</sup> Handsets + Marketing & Commercial = Marketing & Sales

# **Back up**



# **DMO - Market by Segments**





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# **Task #5 Efficiency Programs Extension and New Operating Model**

