

**Telecom Italia Analyst & Investor Briefing**  
**2009 Results & Strategic Plan Update**  
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**Telecom Italia Group**  
**2009 Results & Strategic Plan Update**

Gabriele GALATERI .....	1
Franco BERNABÉ.....	3
Marco PATUANO .....	10
Oscar CICCHETTI.....	17
Luca LUCIANI .....	22
Franco BERNABÉ.....	27
Questions and Answers .....	30
Q: BARDELLI.....	30
A: BERNABÉ .....	30
A: PATUANO.....	31
A: LUCIANI .....	31
Q: Matthew Mallison .....	31
A: LUCIANI .....	32
BERNABÉ .....	33
Q: JUSTIN FUNNEL.....	33
A: BERNABÉ .....	33
A: PATUANO.....	34
BERNABÉ .....	35
Q: STEFANO RUSTI.....	35
A: PATUANO.....	35
BERNABÉ .....	36
Q: Guy Perry .....	36
BERNABÉ .....	36
Q: Guy Perry .....	36
A: BERNABÉ .....	36
Q: JUSTIN FUNNEL.....	37
A: BERNABÉ .....	38
A: PATUANO.....	38
Q: TIM BODY.....	39
BERNABÉ .....	39
A: PATUANO.....	39
A: BERNABÉ .....	40
Q: J.P. MORGAN (CAZENOVE).....	41
A: PATUANO.....	42
BERNABÉ .....	42
Q&A: WEB.....	43
Q&A: WEB.....	43
A: LUCIANI .....	43
Q&A: WEB.....	44
A: BERNABÉ .....	44

**Gabriele GALATERI**

Allora visto che appena arrivo qua il microfono si stacca,

Good morning and welcome to all of you today including those watching us via the web, connecting with a phone to a Telecom Italia collects on the groups Internet and to the journalist. We have a very busy agenda today, you know, so I will be short, stick to the essentials and leave time for the discussion of the group's strategic and operational guidelines for the next year, which we are certainly waiting with a lot of attention. The Telecom Italia's position, on which Franco will update you soon gives me a chance to illustrate a way of doing business which I think is very important. Telecom Italia is a company with a strong commitment to the best standards of ethical behavior, dedicated to its customers, providing continuous improvement in services and products, open to a constructive dialogue with regulators and with the objective of developing an effective and efficient market. Our decision to postpone the approval of the 2009 results meets our desire to operate with a maximum of assurance and transparency in the interest of all our shareholders. Telecom Italia has the will and the energy and determination to exit from the Sparkle's issue strengthened by the knowledge that anything negative which might have possibly occurred in the past will never recur in the future. 2009 has been a difficult year for everyone. The group however has responded to the complex macroeconomic situation by implementing a thorough internal and external transformation. Our focus has been and will continue to be on our customers, on innovation, on efficiency and therefore on the recovery of the financial stringencies. Important progress has also been made during this year in the direction of an open and fair dialogue with the institutions and the relevant authorities and the countries in which we operate. In this framework we have achieved an important improvement in terms of reputation as demonstrated by all our research and measurements, in particular our corporate team is recovering posting a +15% if compared with December 2007. But, let me be more specific for a few seconds. We want to deliver a top quality service through a better interaction with our customers. For this reason, we have completed during 2009 our customer-centric organization to be closer to our clients and to better address different segment needs. Innovation; we are investing significantly in resources into innovation. Telecom Italia expenditure in R&D for 2009 was over 800 million euro, equal to 3.1% of sales and improving from the 2008 figure, 2.3 on sales. According to the most recent R&D scoreboard of the European commission in 2008, we reached the second position among the European TLC operators and we are the top of the ranking among the Italian enterprises. In running our business, we are also making the most out of the industrial relationship with Telefónica, and this is the key relationship with Telefónica, increasing the value of both our companies, developing all possible

synergies, always in compliance with the rules and limitations set forth by the authorities, we confirm in this respect the overall synergies target of 1.3 billion Euros for the 2008 -2010 period, an extension of the synergy plans until 2012 has been already agreed between Telefónica and us and during this period, 2010-2012, we expect to deliver even more value than in the previous 2008-2010 period. Finally, the recovering efficiency combined with selectivity in Capex allow us to look to the future with confidence thanks to a solid re-cashflow generation we confirm our attention both to our b...holders with a plan to reduce the Telecom Italia debt and to our shareholders for the proposed dividend to .05 for all ordinary shares and .061 as you have seen for saving shares, in line with last year. Thank your for your attention for now and I leave now Franco that will tell you more about a vision of the business in greater detail. Thank you.

## **Franco BERNABÉ**

Thank you very much, Gabriele. There is a small change in program because our CFO, Andrea Mangoni, did not feel well last night and he will not be able to be with us today, but fortunately now he is feeling much better and I will take his role during the presentation and then Mr. De Angelis, the group controller, will join me during the Q&A session so everything will be covered, but excuse myself for this small change in program. But anyway, good morning everybody and thank you for attending Telecom Italia's 2009 results and strategic plan update meeting. I'm sorry for having you here, but I think it's a good way to see how we work effectively to reduce costs, it's a good location, it's a little bit distant from the city centre, but it allows us to do the same thing without spending too much money, therefore I thank all of you for taking the trouble to join us here and to come down to Rozzano. First of all, as you know we postponed the approval of the Fiscal Year Results and the plan update, as Mr. Galateri has already mentioned due to the Sparkle issue. We made this decision and I assure you it was not a very easy decision, because, as you have heard from our chairman, we felt we needed the additional time to assure ourselves, our Board members, our auditors and the market that our accounts fully represent our financial position, and I'd like to elaborate a little better on what has happened and update you on the most recent event related on the Sparkle issue. On February 23rd, Telecom Italia Sparkle was served a Court order concerning an edged BIT by suppliers operating in the premium telecommunication services business in the years 2005-2007. In the order the Public Prosecutors asked the judge to appoint an administrator pursuant to law 231 for our subsidiary. For those of you who are not familiar with the Italian law, law 231 triggers liabilities for companies who fail to adopt an effective compliance infrastructure methodology capable of preventing a number of key violations by the managers or by the staff. The public prosecutor's decision on this ground was expected after the March 2 hearing that was postponed to April 7th. The Board of Directors of Sparkle decided to postpone the approval of the fiscal year 2009 results and as a consequence Telecom Italia resolved to delay it's decision on the group's financial statement. On April 2nd the public prosecutor waived a request filed by the preliminary hearing judge for the appointment of an administrator. The judge cancelled the court hearing, deeming that the measures implemented by the Sparkle board of directors were fully appropriate. More specifically the following decisions and the following actions were taken by Sparkle. First, employees involved in the investigations were immediately suspended. However, it has to be reminded that both the CEO and the Chairman of Sparkle at the time of the alleged VAT fraud had already left the company. Independent consultants, that is the Lloyd and the law firm, Cleary-Gottlieb were appointed to perform a thorough accounting investigation on Sparkle's accounts. An independent expert, Professor Ferruzzi, was instructed to carry out, among others, a

thorough review of Sparkle's compliance processes and procedures for the purpose of law 231. Professor Ferruzzi's preliminary conclusion is very comforting as he has found that Sparkle's compliance infrastructure is adequate to prevent violations relevant under law 231. Approximately 298 million euro were seized by the public prosecutor to cover alleged VAT liability, and a first-demand guarantee worth approximately 198 million euro has been issued to the Prosecutor's Office and the Tax Administration. Such amount is to be paid only in the event of Sparkle's liability is finally ascertained. A round of discussion began with the Italian tax authority immediately to reach a settlement agreement on the matter. Later on, I will show you in greater detail the impact that this has had on our accounts. Yet I can already anticipate to you that the impact on the 2009 Profit and Loss account is negligible as those facts occurred in the years 2005, 2006 and 2007. Having said that, the Board of Directors yesterday approved Telecom Italia's 2009 Fiscal Year Results and the 2010-2012 Strategic Plan Update which I will be sharing with you today. Now let's look a little bit closer at our full year results. I'll be very brief, because first of all we had already a conference call and 2009 is already well behind us, and I want to quickly move to the strategic plan update and the progress made in the first months of the year. You will find a full set of 2009 data, including the preliminary results in the back-up of this presentation.

In confirming the preliminary organic data presented on the 25<sup>th</sup> of February let me focus a little bit better on free cashflow generation and financial debt with actions which were not covered during that presentation. And which remain the two pillars of our strategy. In 2009 we improved our free cashflow generation by 12% year on year, reaching 6.3 billion Euro and we reduced our debt by 577 million Euro getting to an adjusted net debt of 33.9 billion Euro at the end of 2009. Based on this results and the positive outlook the Board of Directors decided to propose to the annual general meeting the distribution of a dividend per share of 5 euro cents for ordinary share holders and 6.1 euro cents to our saving shareholders for a total amount of approximately 1 billion Euros. More in detail, we increased our operating free cashflow by approximately 700 million Euros in 2009. The combined effect (excuse me) of increased cash generation and remix of the top line lead us to improve the percentage of the revenues turned into cash, bring it to 23.2% while committing to a total Capex of over 4.5 billion Euro at the group level. During 2009 we succeeded in our goal of EBITDA stabilization, both in organic and in reported terms. A reduction in interest expenses and a wise financial management allows us to generate 3.3 billion of income before taxes, up by over 15% compared to last year. Net income was 1.6 billion and was impacted mainly by significantly higher taxes, compared to 2008, when we benefited from the tax realignment of fiscal and statutory values of depreciable assets and goodwill impairment related to the sale of HanseNet. On December 31<sup>st</sup>, 2009, adjusted net financial position reached 33,949 million euro down by 577 million euro from the year end 2008.

The overall fund [?], when compared to last year's, is effected exclusively by non-operating dynamics such as higher cash taxes while operating dynamics are indeed improving as shown by the non, eh uh, by the profit before taxes. More in detail, tax payments accounted for 2.3 billion euro due to the extraordinary cash outflow resulting from the payment of the 2008 taxes and the taxes adverts for 2009. As anticipated in my introduction, all taxes refer to the Sparkle issue refer to the years 2005, 2006 and 2007. In order to provide you with a correct picture of the accounts in those years, in compliance with the International Accounting Standards, namely the IAS 8, the 2005, 2006 and 2007 financial statements were restated, revenues and related direct costs booked from the business considered anomalous were subtracted in each year while the commercial margins made the VAT amount deducted and the associated legal sanctions and financial charges were both to a specific provision based on a risk evaluation, indeed we booked a provision for every fiscal year for a total maximum amount of 507 million euro as of December 31st 2009, impacting pro-quota every fiscal year. Equity of year has been reduced accordingly, as shown in the slide for the year 2008 and 2009 the only P&L impact is related to the financial charges worth 10 million Euro each year. Now, let me turn to the business outlook in the future: the macroeconomic outlook for the years 2010 - 2012 shows a modest recovery of GDP in developed countries while the growth in emerging markets continues to be driven by China and India. In terms of the TLC market outlook, the main trends of the past few years are confirmed. In the telecoms sector mobile involvement continues to...new growth area followed by fixed broadband. Looking at the domestic market, after the fall of 2009, a recover of the Italian economy is expected in the next years, not enough however to bring GDP in line with the 2009 figures. Inflation will stay under control while unemployment will remain high. Brazilian economy confirms its strong role with its telecom industry also going in all segments, except the fixed line business as a consequence of fixed to mobile substitution with a forecasted boom in the mobile broadband business as we shall see in more details in a little while.

This is a completely different scenario when compared to the one of our last meeting in 2008 when we presented our strategic plan. Nevertheless we stucked to the path outlined at the time namely improving cashflow generation and strengthening our balance sheet. We focused on core markets namely Italy and Brasil as you remember from the longer presentation, on capital discipline, on cost reductions always under direct control. Despite the difficult situation in 2009 we met the goals we gave ourselves last year. To recap, the best performance was achieved in wireline where the number of our lines and market share losses have been progressively decreasing. Conversely, improvements in the mobile business have been slower in light of the very radical, yet necessary transformation the business is undergoing. A complete change of the business model was needed and we introduced that both in Italy and in Brazil. Telecom Italia moved from a push to a pull marketing approach mainly

through the following measures: a more transparent and competitive service portfolio, focus on services rather than handsets and effectiveness of the distribution network through the addition of new sales channels and a deep change of the existing incentives mechanisms. The goal was to move from an attitude of benign neglect of the competition, to a vigorous attempt to broadband the community of loyal and satisfied customers. We are already enjoying substantial results of the turnaround in Brasil and we are more than confident that the same will happen in the domestic mobile business as shown by the first progress of this year. Mr. Patuano will give you more details on this a little bit later on. Given our presence in two core markets that are at very different stages in terms of both economic and telecommunications development, it is clear that a differentiated approach is needed in order to successfully compete in the two arenas. Let me expand a little bit on this. As far as the mature markets are concerned, to address significant challenges facing the industry in the next few years Telecom must engage in a deep transformation leveraging efficiency and customer satisfaction to protect the value of connectivity as well as to reinforce free cash flow generation. Protecting the value of connectivity requires being able to offer our customers a superior quality of experience in a timely manner and at competitive price. This implies the development of a new operating model, based on an all IP ultra probe integrated flexible and open network, leading to a dramatic reduction of cost per megabit per second. A completely redesigned IT architecture capable of competitively delivering a completely un-layered service to our customers, an end-to-end approach to customer operations. At the same time, Telco will have to developed more advanced applications and platform services, leveraging on their core competences to position themselves as a value-added intelligent gateway between end-users and operators of convergent markets thus producing new revenue streams. Mister Cicchetti again will further elaborate a little bit later on this morning. Brasil is a country characterized by solid GDP growth, public finance stability, improving level of social inclusion and fast digital development.

The TLC market is large, around one hundred billion reais, considering mobile, fixed and broadband, and growing, especially in the mobile voice component through the fixed to mobile voice components, through the fixed mobile substitution and in the mobile and fixed data business to interpenetration, in this market TIM is the only operator capable of pursuing an aggressive fixed to mobile substitution strategy acting as a pure mobile challenger. This year TIM Brasil is entering a growth phase by seizing the huge opportunities offered by the Brazilian market related to the fixed to mobile substitution and the development of the broadband to distinctive market positioning. In particular the plan for TIM Brasil is based on 3 development pillars, the first is increasing penetration, second is increasing usage and third is state of development. The integration of interleague sets the ground for expansion in the world of data and convergent services to its fiber optic infrastructure. With its innovative proposition,

its improved quality of service and its great capabilities, TIM Brasil will deliver a high single digit growth in service revenues in the next year, assuring EBITDA stability at the group level for 2010. Mr. Luca Luciani will guide you to the KPIs super-strategy in Brasil in a little while. A strategy will deliver some free cash flow generation at group level. This remains our key priority and will be achieved through a combination of our bounding revenues and continuing cost efficiencies. A selective approach to capital expenditure strictly focused on business driven processes, as we will see later on, will allow us to generate a cumulative operating cash flow of 21 billion euro for the 2010-2012 period and reach the target of 26 percent for the operating free cash flow to revenues ration in 2012. An effective management of working capital as well as financial charges will allow us to generate a cumulative free cash flow before dividends of around 10.5 billion euro for the period also taking in consideration the full Sparkle burden. Cash flow will be used to continue our debt reduction and to remunerate our shareholders. More specifically, we confirm our 2011 goal of reducing debt by 5 billion euro and target a net debt of less than 28 billion euro in 2012. This will give us the flexibility to propose a growing dividend policy starting from next year. Let me give you now a closer look on the domestic business, to perform the transformation journey a strategic priority for the domestic markets are reaffirmed, we must reverse the revenue trends, rationalize cash cost, reach excellence in customer's satisfaction enhance regulatory dialogue, the traditional paradigm one network one service is over, Internet protocol has already transformed network architectures and business models we see three different challenges the most important one is to protect the core revenues and margins and voice and broadband. Here we will compete with traditional operators and innovative players by providing communication and enrich connectivity to consumers and businesses. The second is related to the new network-based services. I'm referring to the services about content distribution and cloud computing, in this area we will try to attract service providers to use network intelligence in order to reach and serve their customers. Finally, we need to improve our capabilities in managing low cost no-touch networks and become a very efficient bit carrier. Our future depends on an effective combination of those business areas. We will invest in terms of know how and financial resources to win these challenges as Mr. Cicchetti will explain you a little bit later on. In other words, we have to protect the access and voice market to consolidate our leadership in the growing broadband market and to cooperate with other relevant players in the application and platforms arena. Let's now focus on the transformation of the business towards a leaner organization. A process that we have been shown to be quite successful in achieving. You already know my vision: implement a linear organization is a must for an incumbent operator that has to lock-in its customers while delivering services at lower costs. I will never stop repeating that there will be always ground for cutting costs in an incumbent telco operator, and I'm saying this even though we feel we are one of the most efficient telco operators

among the traditional big telcos in Europe. In order to achieve this target, being, as I said, one of the most efficient telcos, I think that this is not enough. We have to become first in class in each and every layer of the business process. Efficiency in IT solutions, customer care, service provisioning, in most people issues, pursued competing in terms of cost structures with the leaders in each business layer. On this specific topic we are progressing towards a lean organization reaching the expected results in our head-count reduction plan; in less than 2 year, as you know, we have reduced our domestic workforce by 10 percent and further reduction will come. But I must stress that what we are doing is preparing ourselves for competing, and we are already achieving this. We are completely different arena from what the telcos are experienced. We want to be leaner and leaner because we want to transfer the benefits of this increased productivity, increased efficiency to our customers, to our shareholders, and to all our stakeholders that benefit the growth and prosperity of Telecom Italia. We're making significant strides ahead on cash-cost efficiencies with a farther 0.7 billion euro in 2012 added to the 2 billion euro for the 2009-2011 program. This plan, maybe on Opex will allows us to reach a our target of about 65% of cash costs on revenues in 2012, with much of this already appearing in 2010. Our goal in 2010 is to generate approx. 1 billion euro worth of cash costs efficiencies, accounting for 53% of the total plan which is as you may call you a definite prompt loaded plan. We do not want to say that we will achieve the targets later on we have already reached the targets, we will be achieving the target in 2010 and we will continue our work in becoming the most efficient company in this world of traditional telecommunication companies. Moving to the so-called driven items, volume driven items, our objective of reversing the revenues trend will be fuelled by approximately 1.2 billion Euros worth of spending. These investments are partially financed to the reduction of interconnection costs, also stemming from the gradual reduction of the symmetry in interconnection rates that will definitely disappear by July 2010 for the fixed business and by July 2012 for the mobile business. Domestic Capex are 3.5 billion Euros in 2009, will gradually decrease to approximately 3 billion euro in the 3 years. Such decrease will come mainly from lower cost of equipment and IT and service platforms. In IT, saving will come from architectural streamlining and suppliers consolidation. In service platforms, developments will increasingly be concentrated on over-the-top overlay platforms, which are much less capital intensive than platforms developed within the traditional network intelligence. In wireline access Capex in video-cell and FTDX platforms will grow, while in wireless investments will mainly support the mobile broadband business growth. Mr. Cicchetti will elaborate again on this, while providing details on the evolution of our access and core networks, and on IT platforms. Looking at commercial Capex one of the key levels were spreading our commercial proposition and recovering market share, is by all means represented by the full implementation of our sales network orientation program, both in terms of size and point of sales mix.

We will reinvest handsets subsidy savings in the expansion and restyling of our points of sale making them more and more appealing with an innovative layout in order to increase and improve our acquisition ability. We are not cutting costs where it comes to the marketing efforts, we'll be increasing substantially our marketing efforts through the realization of the savings that we will achieve through our plan. In our strategic vision customer satisfaction is a key factor for growing competitiveness and customer loyalty, therefore our task is to provide a highly competitive, value-driven and well recognizable customer experience. We plan a further push to improve our brand values and simplify our portfolio offerings with no frill tariffs and clear convenience advantages. On technical quality, we will leverage on past strong investment in capacity and coverage, delivering a distinctive customer experience in the mobile and in the fixed business. Regulation will provide an important support to our plan. In the next three years, in retail markets, we aim at further reducing ex ante regulation and achieving great asymmetry between TI and IOLs. In the whole TI market we are looking for a continuous reducing of the gap between Italian LLU rates and the European average, through the implementation of the BEO [?] long-ranging costs model as well as the symmetric fixed termination charges between Telecom Italia and the alternative operators. With reference to the next generation access network, we expect a regulatory approach deeply different from the one applied to legacy networks with areas symmetrical or no obligations where no bottlenecks exist. In any case NGAN, wholesale access prices, should include a proper risk premium and take into account the various levels of competition in different geographical areas. Now, I give the floor to Mr. Patuano who will guide you through the key pillars of our domestic operations in the next three years and will show you the progress made in the first months of the year. After that, Mr. Cicchetti will focus on network and IT evolution and related Capex. Mr. Luciani will then set our strategy in Brazil. I will come back to (this day) to talk about the financial highlights and as I said we will be joined by Mr. De Angelis, our group controller for the Q&A and I'll be back at the end to wrap up and to share with you our targets. Thank you for your attention, thank you very much.

## **Marco PATUANO**

Thank you Franco, good morning Ladies and Gentlemen, thank you for attending this meeting.

The analysis of Italian TLC markets offers interesting clues depending on whether we use a technology based approach or instead we focus on the market segments making up total sales. Looking at the market by technology the TLC market should remain basically stable in absolute terms despite the consolidated dynamics of our industry that continues to put pressure on traditional services and in the meantime, shows a positive contribution of both fixed and especially mobile broadband services. Broadening of our analysis to include adjacent markets such as ICT and media, the Italian TNT market is expected to manifest a change [?] of approximately + 1.5 percent, mainly pulled by media. The view of the market by segment is definitely more interesting: we expect the consumer market as a whole, both fixed and mobile, to show as light growth as the needs of end-customers are evolving in line with the digital life and the growing desire to always be on. This is the reason why if, on the one hand, the increase of the mobile voice traffic will happen with a poor impact on revenues, on the other hand, the increase in internet traffic will have a positive impact on the top line. In the business segment, instead, the rule of the game of the Italian market will be the growing supply of convergent services. This market progressively tends to work more with a voice-data paradigm rather than with a fixed-mobile paradigm. At the same time Telecom's opportunity to play the role in the IT network services are increasing in line with customer requirements. This means the possibility of growing in terms of footprint, sales and margin, despite the substantially stabilized city segment. New cloud computing and unified communication technology allow to scale down complex solutions once only dedicated to large corporate customers, also to small and medium enterprises. Revenue trend reversal is a key requirement for our equity story. Clearly, such turnaround must be guided by a recovery of the revenues in the mobile segment. Several negative effects recorded in 2009 led to a significant drop in our revenues versus 2008. You are well aware of the fact. 2010 must reverse the trend both in terms of commercial KPIs and in terms of financial results, even with the typical delay of our industry, something I'm about to expand in a minute. Our repositioning in the domestic market has already started. In the mobile segment we abandoned both the business model based on customer base retention through aggressive policies on terminals and the one based on the supposed inelasticity of the demand prices. The outcome is quite straightforward, we need to completely reorganize the sales network develop a new policy for handset, redesign TIM's image. The recovery must go through a growth of the customer base calling, both high value and cost conscious customers. And through consolidation of our leadership in the broadband mobile market. In the fixed segment we made excellent progresses in our dialogue with the regulatory authorities, as the CEO already explained us.

As you know, after many years of frozen fees, last year we obtained an increase but without impacting on our efforts in terms of line losses reductions. A further reduction of the asymmetry vis-à-vis the OLOs will help us to improve our performance in the area of access. In the broadband our targets continue to grow and enhance pure access with the provision of over-the-top services. I think it is worth giving you a general overview of the relative sizes of the segments before focusing on the turnaround actions I'm about to introduce. So let's focus on 2009 retail service revenues. Consumer versus business approximately 60-40. Mobile, approximately 75% of the revenues are coming from the consumer segment. Fixed services, approximately 50% comes from business plus ICT segments. Now, it's clear now, that the mobile turnaround story is mainly, even if not exclusively, a consumer story. This is why the list of action will mainly refer to this segment. We must go back to growing in the customer base calling. A huge clean-up effort was made in 2009 and now the customer base must be kept clean from now on. The customer base growth should be the result of a healthy and robust increase in the growth ups. This is why we have totally redesigned our offering order to catch the attention of those customers who also in an almost mature market decided to change their telco operator. To deliver an attractive offering to the ethnic market (in Italy the ethnic market is approximately 2 million individuals, and TIM's market share is approximately 20%, the dominant player is Wind, with 50%) we want to lead our customer base towards an increased level of loyalty by staying with us they must always find the best value for money proposition. We want to develop the on-net community. Starting from the second half 2009, to boost the project we changed the format of our advertising, it's now more popular, it's aimed to stimulating empathy for TIM. The associated spending currently aligns with the one of our competitors, filling the previous significant gap, and the mix of channels, more TV and more Internet. In 2010 we shall complete the sale channel turnaround project by reviewing quantity, type and location with the objective to significantly increase the number of points of sale as well as the productivity. The result we expect already in 2010 is a significant rebound in growth and the growth of the customer base calling. The diluting effect on ARPU resulting from the commercial aggressiveness will be a short term effect. We believed that over the planned ratio the ARPU will remain flat. Best value for money, mainly in price simplicity in the pricing scheme and transparent communication with the customers, our portfolio must be simple and easy to understand so that customers can immediately recognize the distinctive value of TIM proposals versus that of the competition. We are the first operator that is significantly changing the rules of the game in the Italian mobile market going from a price per minute to a bundle of minutes or an all-you-can-eat pricing scheme for off-net and on-net offerings respectively. The rationale of such mechanism consists in the fact that customers will not reduce their spending if at the same price they can increase usage. We have a high-network quality and we can manage traffic increase. We have already talked about the

redesign of the sales channels in the past so I will be short. We intend to increase the total number of point of sales and review the mix in order to improve our presence in the most affluent shopping areas as well as areas mainly populated by ethnic minorities, or in small urban centers where specialized commercial network can rarely succeed. In the deep rationalization of our point of sales some of the non-profitable business partners will be lost, but the implementation of the new commission is keen, based on value and services is yielding the first results: the productivity by point of sales has increased, the mobile broadband market is definitely the area where we expect interesting growth opportunities in the next few years. The mobile broadband customer base is expected to grow from 11.3 to 23.5 million customers, with the total sales amounting to 2.3 billion Euros at the end of 2012. TIM's current leadership justifies our price premium versus our main competitors which in Italy is 3, our strategy is not to enter into a price war against 3, nor launching offerings that can significantly increase usage opening up our network to peer to peer risks, or again fighting for speed at low cost. Instead our strategy is to maintain an adequate mix of price, number of hours for surfing and speed doubled. Our strength are the network where we have clearly a leadership in terms of coverage and in terms of capacity, with almost 50% of the mobile broadband accesses capacity still available. We have a leading market share in smart phones, we have dedicated customer cares, aimed at supporting the use of both small screens and large screens. In 2009 we started a major strategic shift on handsets that massively involved our distribution channel. In 2008 our distribution channel was too focused on handset sales, almost 8 million handsets sold. Today our policy is meant to push those handsets that are new revenue enablers, protect margin on handsets and avoid overstock costs. The total quantity will remain approximately at 4 million, stabilizing volumes for the coming future close to 2009 levels even if the mix will see a progressive increase of the USB downloads.

Let's move to the early evidences. On the mobile side there are early signals of improvement both in terms of commercial KPIs and financials, with revenue cannibalization gradually becoming, as expected, less of an issue. The calling customer base will stabilize at the end of Q1, even if the reported customer base still shows a difference between 2009 and 2010. The success of the concept underlying TIM per portfolio is witnessed by the rapid acceleration of the customer base adopting these profiles, which at the end of March was 1.3 million users. The higher commercial effectiveness is also highlighted by growth acts [?], +2% year on year and +15% year on year, respectively in February and March 2010. This improvement was clearly reflected into a return to growth of outgoing traffic volumes which posted a +2% in year on year growth in the month of March, with on-net volumes growing in the same period in a high single digit rate. Finally, in terms of mobile broadband, healthy growth of our customer base continues both in terms of users and in terms of revenues. For the fixed business, our key task is to continue along 2009 improvements. In 2009 we did an excellent job at

reducing line losses, with an improvement of about 600,000 units versus 2008. In the future, we expect to continue this positive trend since we now witness a better symmetry between Telecom Italia and the ULLs. This will be coupled with substantial increase in win-back strategy already this year. The continuous quality and technical improvements led to an improved customer satisfaction index from 66.1 to 68.6 at the end of 2009. As you can see in the graph, the result of all this is that we expect to effectively defend our market share in the fixed market, In the fixed broadband market, we expect the market growth to remain the high single digit until 2012 with a ..... 0912 at 8%. The total broadband market will be worth almost 4 billion Euros at the end of 2012, today broadband penetration in Italy is still significantly lower than the European average, 19% versus 24%, and we are confident that our segmented approach will boost broadband penetration and at the same time will protect customer value. In this context TI will safeguard its leadership with over one million new burden customers over the next 3 years. 0.4 in 2010, 0.4 in 2011, 0.3 in 2012. Uhm, we will increase the broadband penetration by approaching non-internet oriented or cost-conscious customers with dedicated offerings. We will lock in high-end customers through appealing flat offering and effective up-selling plans. Our goal is to further boost broadband ARPU that is expected to grow around 7% by 2012.. The key action will be push on flat customers who at the end of 2012 will be well over 90 % of our total customer base and benefit from innovative multimedia over-the-top services. Commercial achievements on the fix end business as of March 2010 are there. In terms of line losses the first quarter of 2010 the impact was limited to 190 thousand customers, slowing down both year on year and quarter on quarter. The performance is quite remarkable especially in the business segment only minus 6000 customers, in the month of March, we are confident we can continue along this path also considering the increasing symmetry with the owners. Broadband customer based evolution is quite encouraging in the first three months of the year we posted more than 70 thousands net ATS.

In the business segment, the modern offers, sales network and customer care services is integrated and convergent, the awareness of our umbrella concept "Impresa semplice" is growing, in terms of offerings we launched the first covering offering named "tra noi" virtually unlimited intercom tariff that works both mobile to mobile, fixed to mobile calls within the same company for a monthly fee of only 5 Euros per line". In terms of cross-selling, our target is to increase the integrated customer portion of our customer base. In terms of sales forces we have integrated fixed and mobile sales forces and we have eliminated low quality partners in order to create a convergent organization. Specific attention is paid to high-end customers with dedicated and highly skilled sales representatives. In terms of customer care, we created a unified customer care access point, in order to increase the level of satisfaction and loyalty. In 2009 we also introduced the single access number 191 both for fixed and mobile customer care services. In terms of CRN systems, the CRN platform for voice and broadband

services has been unified to enable the development of new convergent offerings. The integrated approach should yield the following results. As a part of the total customer base growth we saw before, the mobile calling customer base increases also in the business segment, and at the same time we are witnessing a significant reduction of fixed and line losses through cross selling and integration opportunities. Already in 2010 we expect to reverse the trend and grow in the mobile calling lines and to almost half fixed line losses in line with the plan. Innovation and quality are key drivers to increase share of wallet on integrated customers and strengthen customer loyalty. Quality and innovation are weapons to shift competition from price to value. Early evidence: we have early evidence of the benefit of our integrated go-to-market approach. On the mobile side, we see a double digit growth of human cross ATS and a further improvement of the overall mobile net ATS. The acquisition performance of March 2010 shows our bestselling month since first half 2008. On the fixed side the performance was even more remarkable and gave us an excellent quarter. Fixed line losses in the business segment are the lowest since several quarters, performing better than what expected internally. Let's move to the top customers. On ICT despite the tough economic scenario that in 2009 led to an almost 8% reduction in the ICT market, TI proved to be able to significantly improve its market share through technical capability and its role as network and IT provider. Telecom Italia wants to increase its presence along ICT value chain, from pure network access provider, we want to become an infrastructure service provider and then a provider of service of software as a service. Within this strategy, a key role is played by our next generation data centre, that already now allows TI to manage its internal IT requirement in a network base think line mode, throughout this transformation process TI will select a short list of partners whose rationalization is a primary aspect in the immediate future. Our objective is to grow market share in the high city world going from the current eleven to seventeen per cent by 2012, with sales reaching 1.3 billion Euros. The fast going digital advertising arena is another opportunity. We target a significant improvement in our revenue performance thanks to the deep knowledge of our customer base through profiling schemes. What are the takeaways? Shortly, in the consumer mobile segment we must increase the customer base calling, limit the erosion effect on voice ARPU, consolidate our leadership in mobile broadband, contributing with mobile broadband to the total ARPU. In the consumer fixed segment we need to reduce line losses, grow in the XDSL broadband and increase broadband output also through new over-the-top services. In the small and medium enterprise business segment we must develop convergent and cross-selling offerings in order to increase the customer base and make our revenues grow and create basic ready-to-use ICT offerings. In the large business segment, our task is to protect traditional core services as long as possible and act on network IT adiation markets. Woah. On cash cost rationalization Mister Bernabè already provided you with a brief review of our further enhanced efficiency program for 2010 -2012. To

further elaborate on our action to support domestic profitability, let's now turn to the next slide where we show a breakdown you probably are more familiar with that will help you track our progresses on cash cost reductions on a quarterly basis. Let me be a little bit didactic. In the next 3 years we aim at a cash cost reduction of approx. 1.1 billion Euros, 500 million Capex and 600 million Opex. The total cash cost reduction, beneath Opex or Capex, always depends on interconnection, volume driven costs or investments and efficiency. In case of the Opex the total reduction comes from approx. 600 million Euros savings from interconnection, from the reinvestment of approx. 1 billion in volume driven costs and efficiency programs yielding over 1 billion euro. In the case of Capex the total cost reduction comes from 200 million Euros volume driven investments and from 700 million Euros in efficiencies in Capex at the end. In order to achieve the 1.1 billion Euros cash cost reduction we developed efficiency programs for 1.8 billion Euros between Opex and Capex. Now let me first say that our efficiency plan is quite aggressive and most importantly it is front-end loaded. Our target for 2010 is 1 billion euro worth of efficiencies, well above 50% of the cumulative amount expected for the 2010-2012 program, 1.8 billion, on top the 0.9 billion euros generated in 2009. This will be key to guarantee a cash cost reduction of 0.7 billion Euros in 2010 that once again is well above 60% of the cash cost reduction forecasted for the next 3 years. The plan includes, as you can see, the so-called volume-driven items. On these we have to consider that the turnaround of the domestic mobile will definitely require some upfront expenses, especially in the marketing and sales areas, as Mr Bernabé said before. In particular, in 2010 costs will be allocated especially to customer acquisition, approx. 120 million Euros, and advertising another 30 million Euros on top to the spending of 2009. However, let me clearly stress that we are fully confident that the investment needed to support the repositioning of the mobile business will not jeopardize the domestic profitability, whose protection remains a key objective of our strategy. Finally, a very significant contribution from cash cost efficiencies will also come from Capex, which is expected to fall by approximately 0.5 billion Euros in absolute terms, in the next three years, with a quite significant reduction already expected in 2010, 0.4 billion to 3.1 billion Euros. In a few minutes Mr. Cicchetti will provide you with all the details about it. Last, let's focus on the impact on 2010 domestic EBITDA as a key element to achieve stabilization at group level. The EBITDA will be negatively impacted by the revenues reduction, approximately minus four minus five per cent of which minus 3, minus 4 from service revenues, and such bad deficit will be partially be offset by a series of elements with both positive and negative effects. More specifically, a positive contribution would come from the interconnection costs, through higher tariff symmetry and stronger focus on on-net traffic. A further rationalization on terminal sales will allow us to recover our margin in a business which for TI, intrinsically, shows negative margins.

3 - The higher commercial pressure will lead to higher marketing and sales spending to support the turnaround. For the efficiency programs will finance the commercial investment and will allow us to reach the EBITDA target. Thank you very much for your attention. I'm proud to launch the coffee break.

## **Oscar CICHETTI**

Good morning everybody, let's talk about network and information technology. Franco Bernabé and Marco Patuano gave you a picture, this morning, of what we did and what we want to do, our goals in the domestic market. The purpose of my presentation is to show you how network and IT can contribute to those goals. Let me start by looking at our view about the network evolution, how the future network will be. Access network in the future will be for sure an end-to-end fiber network, but the transition from copper to fiber will still take a long time. Wireless network will expand on the edge of the fiber and at the end of the day we will have millions of radio drops both indoor and outdoor. In terms of performance, at least 1 Giga will be available on the wired access and 100 mega on the wireless one. All those traffic will be transported by a full IP infrastructure, directly linked to an optical backbone. This is for infrastructure, but as you can see in the slide, the future network will have three very important intelligent layers: network management, enabling platform and service platform. Based on its intelligence, the network will have three important features. First of all, it will be as much as possible no-touch, that means quite fully automated, in all the operations, delivery of services, assurance, configurations. Second, the network will be typically multiservice, that means not only to connect people but also to deliver content and applications, to store data, to manage transactions. Third and most important, network will be customer application and context aware. This means that the network will have a deep knowledge of the customers, of his context, what he's doing and what he usually does on the net. This is how the network will be. The transition, how and when this transformation will take place depends on many things: the dynamics of the demand, competition, regulatory framework and of course technological evolution. The transformation plan, Mr Bernabé was talking about drives, this transformation journey, the development of both network infrastructures and network intelligence. Let's start with infrastructure, and in particular with the wired access. For wired access, copper DSL and fiber will co-exist for many years. This line shows the most interesting technological evolution expected in the next 3 or 4 years. First of the DSL keeps evolving at least two important steps are expected in the coming years. The dynamic spectro-management and the so called VDSL trade, those evolutions will make the DSL modulations more robust and will increase the bi-trades and will give better performances. In fiber optics there will be many evolutions, the most interesting top us are the two that are related to the passive optical network, the XG-PON that is the new G-PON expected in the coming couple of years that will increase the downstream in the common tree? from the current 2.5 Giga to 10 Giga and the WDM-PON that is expected in 2013 where the speed, the downstream, the streams, on the common tree will reach 100 gigabit both down and upstream. Let's focus now on copper. I strongly believe that Telecom Italia is in a privileged position to

keep enhancing value of its corporate network, and this is for two main reasons: first, we operate in a market where there are not cable operators, that means that there is not relevant competition in infrastructure, and second, the higher copper network performance, due to the twist-pair lower average length. This is the reason why in the short and in the medium term we will keep leveraging on xDSL. IN the next 3 years we will connect new houses and offices, we will sustain the broadband customer growth and we will deeply renew DSL platform by introducing massively the IP DSLAM. For the fiber first we made a clear technological choice. Point multi-point passive optical network for an effective roll-out, and second FTTH Fiber-to-the-home solution in order to deliver real service improvement to our customer base. In this area given still uncertain regulatory framework and the current status of the demand, we will act within a very focused investment plan with the purpose of providing services to customers that are really willing to pay for them. Priority will therefore be given to connection for business customers and the backhauling of wireless network. We shall continue to work in the major Italian cities, Rome and Milan, while for the new cities we will start only upon acceptance by the authorities of reasonable wholesale undertakings. We are ready to consider new co-investment and network-sharing solution with operators and utilities. We are willing to cooperate with central and local public administration willing to finance projects aiming at reducing digital divide and at developing new networks. Therefore, our approach is very much oriented to assessing the real market, the market demand, and to safeguarding the value of the copper network and the related competitive advantage. In terms of coverage, our plan will deliver the following results, 98% for traditional ADSL, 63% IP DSLAM approx. 6 % for ATT solutions.

The overall investment amount in wireless access will remain stable due to wise capital allocations, the adoption of linear technical solutions and an aggressive purchasing policy. Just to give you an example about it, the unit cost for ADSL force, went down to 12 Euros from approx. 30 Euros we had been paying in 2009. Another example: the digging cost, where we are able to use innovative digging technologies, could be reduced by 70%. Let's now to wireless, to wire access. Here the technological evolution will provide us a huge growth in the access speed and in network performance. Over the next three years 3G speed will evolve along a path that will take us from current 14 megabit per second to 21-28, than to 42 megabit by 2011 and 84 megabit are expected for 2014. In the meantime long term evolution technology is getting ready for commercial applications. GSM continues to be widely used for voice, and for this reason, vendors keep updating this technology to improve quality of service. In the mobile broadband, mobile broadband is the name of the game. Marco Patuano showed you before that we expect an important growth, we forecast more than 10 million customers at the end of 2011. This growth requires a gradual but radical transformation of access infrastructure and network backhauling. At the top of this slide, you can see the new wireless network architecture that will be

based on multi-standard access nodes and the new backhauling technologies. In terms of coverage by 2012 we foresee to achieve the results reported in the slides, so quite 99% with 2G and edge technology, 86% with 40 megabit, more than 60% with 21 megabit high speed. Backhauling, today backhauling of the majority of nodes is performed with 2 megabit on copper. By the end of 2012 more than 60% of the nodes will be connected through high-speed links, fiber optic, Gigabit Ethernet radio links or bonding, that is symmetric xDSL on copper. In few words, we have to deal with the relevant incremental plan that has to be rollout and keeping Capex under control is really really most, really really important. In this slide, I'll try to show how we will try to get Capex under control. On the top on this slide you see the number of sites, it's a huge number, 1300 new 3G sites in 3 years, more than 5500 converted to 21 Mgb, introduction of long term evolution in 250 sites.. In this development, we will take advantage of an important technical discontinuity that is the introduction of the so called multi-standard software defined access nodes, and also we will take advantage from the aggressive competition among vendors and we expect a cost per node reeducation from 40 to 60%. Traffic on the net is expected to grow from 30 Peta-bytes in 2009 to 140 Peta-bytes in 2012. So the incremental cost per Peta-byte must and will be reduced by over 30% through different components. The first is smart use of UMTS refarming on the 900 Megas. The second are the innovative back-holding based technologies I have already mentioned, and third we will also start network off-loading through phantom cells. We will also continue our site sharing plan, that is reducing Capex foreign sites and delivering a relevant reduction in rental cost. In conclusion, we will radically improve the performance of our mobile network, with a limited increase in the related Capex.

The core network. The growth in bit rate and users on mobile and fixed assets requires a strong improvement in core network capabilities. Here the evolution of the optical technologies will provide a deep simplification of the network, and the network will progressively overcome, loose the layers so far implemented, such as PDH, ATM, SDH and at the end will be just the full IP protocol over the photonic layer. Our plan move exactly in this direction. For the transport layer we plan the gradual replacement within the next few years of the PDH and first generation SDH, and the development for the backbone of a full optical solution based on optical multiplexing, the so-called raw IDM. At the control levels, we will start by freezing investment and gradually replacing obsolete platforms, ATM in wireline SGSM on mobile, and with this feature on transport and control layers, and also through the introduction of enhanced routing platforms, the IP connector will be capable to manage at the end of 2012 more than 3 Esa-bytes, 3,000 Peta-bytes, now let us move from the bit carriers network to the intelligent platforms.

And here I would like to start with the network management platform, the IT system. Our strategy in the domestic market as Franco Bernabé said, is based on a transformation journey that includes an

impressive, efficiency and innovation time. This journey implies a continuous reshuffling of services, processes organizations. And this requires flexible, reactive and robust information technology. We want to support this journey and at the same time we want to achieve a strong reduction in IT related cash costs. To achieve that we will work in three areas: in the architectures where we are implementing a linear and more flexible architecture with standard interfaces and centralized orchestration process. In the application layer, we are deploying some mission critical new applications and in parallel we are decommissioning a relevant number of obsolete platforms. We will reduce 800 hundred applications in place at the end of 2009 to 180 applications at the end of 2012. In the infrastructure with the next generation data center, we plan to reduce the current 12,000 servers to 2,000 and the next generation workplace plan means transforming 40,000 desktops into TIM clients. As Franco Bernabé said this morning we want to be the most efficient bit carrier but also an innovative service provider and enabler. In order to do that we will continue to invest first in our core platforms. In the access and voice business our task is to protect revenues and margins. Intelligent platforms are key in this competition and we are working mainly in two directions. In the consumer market we are going towards the personal communication that bundles voice with internet features and in the business segment we go towards the unified communication that means an integrated system that includes voice, messaging, video communication and cooperation calls. In broadband, as Franco Bernabé plus Marco Patuano said, we want to grow, to continue to grow and to maintain our leadership, broadband, fixed and in the mobile. This is related to the access and core network performances but also to the dynamic band width quality policy management platforms and we will keep investing in those platforms. Let's move to the enabling platforms. I refer to those platforms that attract service providers to use network capabilities, not only pipes but also network intelligence. In the next three years revenue stemming from those enabling platforms will increase from 7% to 12%. This increase is related mainly on two business areas, content distribution and network IT services, on content we will greatly simplify the traditional and expensive IPTv platform through the adoption of open platform and by the positioning of our offer over the top television, in IT the cloud computing starting is gaining momentum, especially in the infrastructure as a service. Here we are ripening the fruit as Marco Patuano said of our investment in next generation data centre and in the virtualization platforms and processes. We are also focusing on two enabling platforms that perhaps are not important for the next couple of years, but will be key for the future competitiveness of Telecom Italia. The first one is machine-to-machine communication, we will have billions of objects connected to the net and then we'll need platforms to manage machine-to-gateway and gateway-to-service centre communications. And the second one concerns profiling platforms, that is the ability of the network to link each single customer with a structured database of information. Gathering, structuring, using

information of our customers, in full compliance of course with the privacy law, will represent a fundamental lever to compete both in traditional as well as in the innovative services. In the next slide, I summarize our Capex needs for the next three years. Our Capex on network and information technology will be reduced by approximately 20%, while preserving our ability to meet all our business commitments. Let me focus on that and let me conclude with the highlights of the network plan. In terms of access we will increase coverage and performance to support fix and mobile broadband development. In spite of the relevant incremental plan, Capex will just slightly increase, and this is due to, as I already said, the introduction of multi-standard mobile access nodes and innovative backhauling on mobile, price declining xDSL technologies, selective fiber roll-out and innovative digging technologies, cooperation with public administration for digital divide and new network roll-out. As to the core network and service platform, we will straighten platforms and infrastructures in order to support data graph traffic growth and in order to increase the value of our service proposition. Here Capex will decrease and this is due to price decline in optical equipment, a smooth phase-out of the legacy platform, the legacy technologies, the adoption of an over the top approach in service development. In the IT we will integrate and empower architecture, application, infrastructure. in order to simplify business process and to support the efficiency plans. We expect here a strong reduction in Capex and this is due to integrated architecture, virtualized platforms and vendor consolidation. Let me conclude by saying that the transformation journey, Franco Bernabé was talking about towards the link Telco translates for us in a very, very simple task, doing more with less. This is what we plan, this is what we'll deliver. Thank you for your attention.

## Luca LUCIANI

Good morning everybody, I have 3 key points in my agenda today. The first one is summarizing what we did in 2009. The second point is how do we see the growth in Brasil and the third one some snapshots of Q1.

Key achievements of 2009: first of all, we stabilized the market share after two years of erosion, we basically have a stable market share in the range of 24 in terms of volume, 26 in terms of revenues, and we do see this market position consistently improve in the future. Number 2, we gained the leadership in terms of ARPU, so that TIM has the highest ARPU in the Brazilian market and is a sign of the ability to attract and retain best customers. Number three, we consolidate the second market position in terms of revenues, EBITDA and margin with the fastest quarter-on-quarter growth on all KPIs. How did we achieve these results? Basically, we focused on four key areas, first of quality, of the network and the customer service, the company suffered a lot because of a lack of quality on the 2G network, we invested most of our 2 billion CAPEX on the 2G network in order to increase the reliability of the architecture. Overall, we ended the year with 100% of the achievements of Anatel's goals in a context of significant increase of more. We will continue to have this consistent approach. We do expect an even Q1, we are able to achieve 100% Anatel targets in terms of service quality and a consistent drop in terms of drop call that is one of the important KPIs. We do believe to be below 0.8 in terms of the core. Same story on the customers service side with the important improvement in customer satisfaction index in all market segments, number 2 innovation, we will not be incumbent in this arena if we play let me say by the book approach, we do not have any possibility to win with a very solid competitor that we have in front of us that is Vivo we need to break through to be successful. That is exactly what we implemented this year, with let me say an important point, TIM is already a market leader in outgoing voice revenues, so that we need to consolidate this very strong position. Number three, in order to support the voice expansion, in order to enter in the DAD (?) arena, we need to build a proprietary solid network. We have a very important plan in terms of roll out of TG network, capacity of the TG network and integration of the Italic. Finally, we definitely increase the cost-efficiency of the company in order to self financing the repositioning of the company in the market. Overall we saved something like 800 million reais at the P&L level year on year and we reinvested most of them in advertising and commissioning for the sales force in order to gain customer base.

What we did from a marketing approach stand-point. I said the importance is to break the rules to be a success in the Brazilian market, this is very competitive on the mobile side. If you take for example the pre-paid segment, it's very interesting because it's very large, 90 million Brazilian, and an expectation of further 30 million citizens that will enter in Class C segment in next 5 years. Well, this

pre-paid market used to have hyper promoted just in local cores. The result of it is a typical Class C customer used to have many short calls just on local directions and used to have long-distance call via the fixed telephony. Well, Infinity broke this rule, basically introducing the concept of long calls not only for local but even for long distance. Now, Infinity in less than one year reached more than 23 million customers, representing more than 2 thirds of our pre-paid customer base. Same approach on the post-paid, where we decided to exit from the handset subsidy business approach that is basically anticipating Anatel movement that does not allow any more to offer SIM-lock products high-fidelizing the customer through the handset, we anticipated this movement offering an "all you can eat" on net concept, offering to our customers the possibility to talk more in community, reducing the dependencies of the handset, reducing the dependency from the MTR that is quite expensive in Brazil. Net-net it means that we are forcing fixed and mobile substitution, we do not have any embarrassing position in the fixed line business that we can write this opportunity. If you look at our KPIs, we consistently improve all the metrics. I would say that the most interesting one is the combination of outgoing MOU increase with outgoing Arpu increase, it means that the elasticity of the traffic is positive if you bring the local with long distance call fixed and mobile, that is exactly what we are shaping, as a resulting of it service revenues are consistently increasing quarter after quarter, and as a consequence of it EbitDa ramped very fast the plus 26% EbitDa jump during the last quarter is basically reflecting the exit from the handset arena. Now, how do we see the future? Mr. Bernabé already presented the very large opportunity that the Brazilian market has with more than 4%-5% GDP growth in the next three years and significant expansion in the telecommunications market. Our task is to grab these market opportunities. First of all in the voice arena. Voice is good. Mobile voice will be the largest market in Brasil and even the fastest growing market in terms of incremental revenues so that further push the penetration of the mobile service and force the fixed mobile substitution is the main source of our growth. Number 2, mobile data is expecting to grow very fast, we are up to now out of this market because we are rolling out the network, we will enter in this market as of the second half of this year when we have deployed very solid 3G network and integrated Intelig in order to save on lease-line costs. Number 3, we have the opportunity to attack the very big and top market of the fixed service where the monopolistic positions result in poor competition, low quality of service, Through Intelig we have the opportunity to offer convergent products, both in consumer and business market. On top of these three priorities, let me say, to catch growth opportunity, we need to roll out a very solid network, integrating Intelig, doubling the 3G coverage, doubling the 2G capacity and developing a radio backhauling infrastructure in order to reduce our dependency from the local fixed carriers.

Lastly but fundamental further important efficiency jump in all key areas mainly on the commercial side and on the network side, well we can combine ..... the digital top line growth with more than 500 basis points profitability increase and resulting sound more than 15% free cash flow generation in mid term. Let me zoom on these five key tasks. Number one, continue to keep the pressure on the voice market. The voice market is large, in excess of 50 billion reais and growing. What can we do? What can we do differently from the others? Number one, we have some weak areas where we can increase the penetration. Rio de Janeiro, for example, our market share is below the average so we are attacking aggressively this area in order to increase the average market share in the country. On top of it we have the possibility to force the fixed mobile substitution. We do expect that the fixed line will phase switch-off of the business and transforming this customer in mobile. This is through both on the pre-paid, for example Infinity is already acting in this direction. We don't think that in a few months we will reach more than one third of total long-distance market share and the same pattern will be in the post-paid. Our liberty plan is already more competitive than a typical single-play fixed line package. Net-net we do expect to combine an average 10% growth in terms of customer base still advancing our rigorous clean-up policy in terms of no-calling lines because in Brazil we pay taxes in case of line, declared line. Number 2, we do expect to double the traffic, the MOU in the next 3 years and this means that more and more minutes are coming from the fixed line to the mobile. Number 3, we do expect to maintain our leadership in voice ARPU. The second task we have in front of us is to enter in that arena. I think this is very interesting, because Brasil is a very large country, under 90 million citizens, very young, 29 year old average, already 62 million citizen are already in Internet and very soon most of the population will enter it. In our view, what is interesting is how Internet customers are now. More than 30 million customers that are in internet with a very high time spent, 23 hours per month average, one of the highest in the world, and they do not have a PC. It means that they use to go in the hot spot, they use to go in the line service to have a presence on Facebook or Twitter or in social networking. It means that on top of let me say 30 million class A B citizens than can be approached in Europe, offering the internet key or Smartphone, we do have a very large market, that we can switch from the internet point on the mobile telephony, so that our scope is to build these enables; it means to fast fall out the TG network. We do expect to cover more than 1,000 cities in the next three years and be to deliver a mobile handset abling a good internet experience i.e. offering Facebook, Twitter, Orkut at a very low cost platform. We do believe that this will be the team approach able to offer Internet experience even to classic customers. Next, we do expect that the data business will significantly increase in our P&L as per the second half of the year and will reach approx. 20% of our revenue in 2012.

The third task we do have is to increase our presence in the fixed market and the convergent part of it. We definitely bought Intelig because of its 15.000 km of fibers has a strategic asset present and future but on top of it we do have a good option value in order to attack the monopolistic position in long-distance fixed to fixed service or in the local voice and data offering. That's exactly what Intelig is able to do. We are already offering convenience and service and simplicity and this means that we have the opportunity to increase revenues both in the consumer and in the business market. Net-net we do expect to reach 2 billion reais revenues in the next three years. It means three times what interleague reported in 2009. Notably, interleague already reported more than 1 billion revenues in the past but then they suffered because of lack of cash. The task four is to build a solid network infrastructure. In order to support MOU expansion the voice offered data, we need to work hardy in the network site. Our program is number one to link in the backbone structure. Number two we need to link the rink, the metropolitan area network ring we do have that Intelig has in order to save money; number three we are rolling out radio backhauling in order to jump the lease-line from the incumbents; number four, we are doubling the 3G coverage and the 2G capacity. Eight means that on top of the possibility to offer these services, we will reduce the vulnerability and dependencies of our network from the fixed line providers, saving money and increasing the quality of the service. The fifth task we have in front of us is in efficiency. On top of what we already reported in Q4 and the important jump we reported in profitability, we have big room to increase the margin of the business. Mainly on the commercial side and on the network side. It means that TIM in Brazil has the possibility to increase top line at high single digit once the data business and the Interlig are put in place. At the same, we have the possibility to structurally increase profitability in excess of 500 basis points. If we combine these two aspects, behind 2010 rush on the capital expenditure point of vie4w, we do expect to invest something like 3 billion R\$ in this year, in order to support our expansion, it means that the cash flow generation will improve more and more, passing the 15% ratio over sales, in 2012.

Well if this is the strategy the consistency and the speed of our delivery will be crucial. If I look at the first quarter 2010, I am very positive. Very few we will increase the quality of the network, we will report an important customer base growth even the post-paid market that was one of the toughest points we had last year and we have definitely better economics. What we did in this work is to restructure our sales force in order to increase productivity and gross sales. I mean if I look at the work we did we can be proud because on one side on the business market we are able to increase the number of agents and productivity of single agents. On the consumer side, we reduced the number of our shops while improving the productivity versus year ago of a very solid 170 %. On the pre-paid market we save costs on traditional channels while expanding the capacity of sale on the alternative channels, so that if we look at Q1 metrics we will report positive net ATS both in pre-paid and post-

paid, very solid balance in the number portability and importantly post-paid growth in the two key segments business and consumers, so that we do think that the combination attractive offering with a more solid distribution sales, to give us the possibility to run market share.

If we look at the economics, what we do expect in the first quarter is a mid single digit growth in terms of revenues, service revenue, while we are reducing our presence in the handset arena, on top of it we will report a very solid double digit growth in terms of profitability so that important basis points in terms of profitability and solid double digit growth in terms of EbitDA. So that overall, we do think to be on track with the guidance that Mr. Bernabé is giving us and we do think that we do have the possibility to speed up the process of when we enter the [...] arena. So that let me take our conclusions. First of all, in 2009 we focused on the repositioning of the company, mainly working on quality innovations and efficiency. We do have a good future in front of us because there are good opportunities to grow and we need to grab these opportunities, first of all forcing the fixed and mobile substitution on voice, be entering that arena in the second half of this year, free ride Intelig action value to attack the monopoly business of the fixed line. In order to do this we need to be fast, rolling out our network enable to control cost, reducing I mean most of our commercial and efficient part of our cost structure and reduce leased line costs on the network side. Net-net, what we do expect is to have high single digit growth at top line level, more than 500 basis points of profitability and good cash flow generation in future. What is relevant for us is to offer you visible sign of this turnaround just as of Q1, where we do expect revenue rebound and solid EBITDA growth. Thank you very much.

## **Franco BERNABÉ**

Good. It's been a long morning. I see that the level of attention is still high and we are coming now almost to the conclusion in a few minutes I will end the presentation and then we will go and answer your questions. Now let me, let me go back to the free cash flow and the key elements of the financials of the plan and I think we have slide 3 on the screen. As you've seen in my previous presentation, in the 3-year horizon Telecom Italia is going to generate approx. 21 billion euro of operating free cash flow. From this amount, we have to deduct a total of approx. 11 billion euro of cash taxes, financial expenses and other non operating cash items, the cumulative free cash flow will therefore amount to approx. 9.5 billion euro, taking into consideration the maximum Sparkle negative effect. By adding the sale of Hansenet all proceeds were cashed in in February 16th, we get to approx. 10.5 billion euro and I would draw your attention on the fact that 2009 the free cashflow normalized by the effect of the extra 1 billion tax cash, cash taxes paid, reached 2.7 billion euro. Looking at cash access fortunately we can say that the bad times are behind us and the normal average for the three year plan horizon will be approx. 1.3 billion euro per year, this average group tax rate will equal approx. 36% in the three years, 3.9% more than in 2009 when it was 39.9%. Now in 2009 the company did an excellent job in terms of re-financing confirming Telecom Italia's traditional ability to successfully access the capital market and refinance its that favorable conditions even at a time of great turbulence. Our aim was to keep on diversifying our resources also taking the opportunity of accessing cost-efficient sources like the European investment bank while reducing the overall cost of that by approximately 0.6% points when compared to the previous year. We are fully compliant with our financial risk control policies, hedging our foreign exchange risk, maintaining our target mix in terms of fixed variable gross debt, and limiting volatility on our net financial expenses through hedging policies. In the first part of 2010, we continued our ongoing exercise of strengthening financial flexibility and our overall liquidity margin with a new 1.25 billion euro syndicated committed facility in a very successful 1.25 euro bond issue. Over the plan horizon, no major changes in our policies are foreseen. As per our target mix in terms of fixed/variable gross debt, the fixed debt proportion is expected to be no more than approximately 62%. Normally, the group liquidity shall cover 12 - 18 month of the forthcoming maturities, in order to minimize the refinancing costs. Financial expenses remain stable at 2.2 bln euro for each year of the plan, which is the same level as in 2009. In fact, the potential increase in interest rates, expected in the next future, and accounted for in our plan, shall only have a marginal impact on the cost of debt, Moving on to Slide 6, you can appreciate the distribution of our debt maturities over time, with over 60% of our gross debt maturing beyond 2012 with a number of long and very long term maturities. Over the next 3 years we have to repay a total of approx. 14 billion

euro, in 2010 maturities are concentrated in the first part of the year and are already more than covered by our liquidity position. our liquidity margin, made of cash plus the undrawn portion of committed facilities has been reinforced with a new committed revolving credit facility that we signed in mid-February. The credit line was very well received by our banking counterparts and we increased the initial amount to 1.25 billion euro. During the plan in order to maintain a safety cash-in ? and limit the negative cost of carry our liquidity position will have to be carefully managed to refinancing. Strengthening our balance sheet to a continuous leverage is indeed confirmed as one of the main targets that we want to achieve in the next years. Thanks to the significant amount of cash that Telecom Italia is able to produce, we confirm, as I said in the beginning, the 5 billion euro debt reduction for the years 2008 - 2011, in 2012 more cash will be devoted to reduce our indebtedness, and we expect to reach an adjusted net financial position of less than 28 billion euro. Which is of course, I think, a rewarding result, given the current economic and financial scenario that we are facing in Italy and abroad.

Finally let me make some comments on the net debt to EbitDa ratio - as we all know this is a ratio also used by rating agencies as part of their extensive rating assessments. If we look at the adjustment, which is important and sometimes are not very looked at carefully, the rating agencies applied to that, Telecom Italia appears to be one of the companies with the smaller adjustments among the Tercos peer group. Operating visas and pensions make up the vast majority of the total adjustments to gross stat in Europe. As we know, Deutsch Telecom and British Telecom stat has been in the recent past adjusted by the rating agencies in a relatively large proportion with respect to the reported debt. Respectly, because of operating visas and again for losses and pensions obligations. I mean Telecom Italia is much better off than anybody else with respect to this and therefore the adjustments are much lower by the Rating Agencies. Having said so, Telecom Italia's committed to reduce the reported net debt/Ebitda ratio within the 2.5/3 times range in the plan horizon with a comfort zone being closer to 2.5 times and I'm referring to the presentation by the Rating Agencies. Now let me wrap up briefly what we've said this morning. The plan my colleagues and I presented today is consisted with the path we have been following in the last two years. We think that there are no shortcuts, as I said at the beginning of my tenure here, in the process of deep and consistent transformation of our Company. We need to reduce operational costs, improve the quality of services, offer our customer a better service at a lower price and innovate the way we are doing business in cooperation with an ecosystem of new players. With consistency and stability in our work. And I think that given this consistency and stability the results will come as they are already coming. And based on these principles, we have been able to achieve the stabilization of EBITDA in one of the worst years in the post-war period, regaining competitiveness through cost reduction and all this makes us confident that our competitive position

in the market has been improved and will keep improving. Looking forward to reverse the revenues trend, we have to leverage prices and volumes with a view to expand our customer base. In a mobile business to enhance profitability and distinctiveness, we will selectively keep reducing the handsets business and increase loyalty through the community concept. Our brand will be promoted by highlighting Telecom Italia's traditional commitment to innovation and closeness to customers, and we will work hard on further efficiencies, Europe, out of Telecom Italia's strategy will be a stronghold for Tim Brazil in 2010, a complete recovery of the retail fixed business and the achievement of substantial results for the domestic mobile quarter after quarter. Now, in a nutshell what we intend to do, as I said at the beginning, we want to reduce costs and transfer the benefits from these reduction in costs to our customer base which will mean that we are aiming at a recovery of a market share and of a market penetration in Italy and abroad, in Brazil, as Luca Luciani has shown you during his presentation. Now, what about targets. At group level in 2010 we expect 2% or 3% decline in revenues, mostly made by the fact that our prices are lower now. Above the stable EBITDA mostly down to the fact that costs are lower, a lower level of Capex at around 4.3 billion Euros and an adjusted net financial position of approximately 32 billion Euros, that means 2 billion lower than this year, sorry, that at the end of 2009. The three-year plan will see the group grow by approximately 1% as the average growth rate for the top line with EBITDA reaching around 12 billion euro in 2012 and cumulated 2010 to 2012 capital expenditure of approximately 12 billion euro. The adjusted net financial position will be reduced to less than 28 billion euro by the year 2012. I think that you are seeing already the slides, where you will find the specific targets for both domestic and Brazil, and these slides you will find them in your presentation. Now I thank you very much for your attention, I think it has been a very dense presentation, now we are ready to take your questions and, if you allow me, I'll ask my colleagues to join me here and we will be ready to take your questions. First we will be taking the questions from the floor, and then we will be answering the questions from the Web. Thank you very much for your attention.

## Questions and Answers

### Q: BARDELLI

Yes, Good morning, it's...uh, I'm sorry. Ok, it's Chiara Bardelli from Deutsche Bank. I had a couple of questions, if I may. So, the first one is about dividends. So, as you mentioned increasing dividends maybe you could give us your assumptions included in the business plan for the last year's dividend, maybe year by year, if possible. Disposals, instead, were not mentioned, so I would just want to confirm that for example Cuba is no longer going to be disposed, Sparkle probably is unlikely to be disposed either and I wanted to know what's happening on Argentina. And also, going back to dividend, maybe the usual question: does it make sense to pay more than a 7% dividend to the savings, considering that the cost of debt is below for present post tax, so maybe you can give us your latest thoughts on the subject. And finally, on mobile, if we could have an idea of the underlining assumptions in terms of traffic, growth as I saw March growing already in mobile so traffic growth in 2010 and on the other side, the average revenue per minute declined that you are embodying in your estimates and very final question what handset sales decline you are considering in 2010 because I saw of the revenue decline a good part is still the handsets. Thank you.

### A: BERNABÉ

Ms. Bardelli as usually I mean questions are very, very to the point. On dividends, I said that we will be - we are thinking about a growing dividend policy, in the long term given the free cash flow generation that I presented I think that this dividend policy is fully justified, I must say of course that I think that given the confidence that we have in the plan we could have thought even at increasing the dividend policy this year, unfortunately we had the problem that we discussed at the beginning of my presentation and we decided safely not to increase dividends this year, but I think we will want to give a stable growing dividends over the year, I think that this policy is fully justified and we are very confident that we will be reaching exactly the targets that we defined. On disposals, I think that last year we mentioned a plan that indicated 2-3 billion Euros of disposal of the period, , 2009 was not the best year for selling assets, and I think that the only sale that we achieved last year, Hansenet, was at very good conditions given the market situation. I think that things will improve longer term, we may consider something else in order to achieve the plan that we declared. By the way the plan ends in 2011, so there are still 2 years before achieving the end of that plan, on Argentina the process for the disposal of Argentina is underway despite all the vagueries that we've seen in the country and despite all the drama that we have also seen concerning this disposal, but the process is in place and we think

that we will be reaching a conclusion for this process fairly soon. On savings, I do not have, I mean my recent thinking looks very much as my old thinking, I think there is not much that we can do about this. It is not our priority to think about the conversion of saving shares; I reckon that the problems you mention are fair, but I think that the benefit that this would have is minimal and therefore it is not our priority to concentrate on this on the time being, although long term I think that it is safe to think and I think that it is fair to think at a consolidation of the capital structure. On the last two questions I would ask Marco Patuano to ask, first on mobile and then on handset. Thank you Mrs. Bardelli.

**A: PATUANO**

The total outgoing traffic, let me focus on the outgoing, I suppose that was the scope of your question, the total outgoing traffic was about 93 min. per customer in 2009, average, it will move up to 114-115 so this is an increase of about 20% average.

The price will (yield) down, of course, it was I'm referring to the price of the outgoing traffic, from a blended average of 12 euro cents to a blended average of 10.4-10.5 euro cents. In terms of handsets which was the last part of your question, it is I think that the lady has something else, please the microphone, and handsets, the difference is approximately 180-200 million in 2010, for a volume of approximately 3/4 hundred thousand pieces. That's Italy. Yeah no, no, that's Italy. If you want Brazil figures I'll leave to Luca. That's it.

**A: LUCIANI**

He just integrating. We will report something like 50% reduction in terms of handset sales in the first half of the year, and then roughly 40% in the second part of the year, in terms of revenues from handset. Obviously on the other side we will report a better EBITDA because handset subsidy in Brazil is very heavy.

**Q: Matthew Mallison**

Good morning, Matthew Mallison of BNP Paribas.

Two questions: first on Brazil. On Brazil, you talk about an acceleration of revenue growth in Q1 and for 2010. Now, my understanding from the slides is that it is essentially linked to the inclusion of Interlig, so my question was, what will be the growth in service revenue growth, sorry, in pure mobile, excluding for that, and it seems that there is an acceleration actually on pure mobile in 2011-12 in your slides, so I wanted to understand what explains that. Second, in terms of 3G coverage again in Brazil, how would you benchmark yourself versus Claro and Vivo, it seems your coverage is probably a bit lower, so

I wanted to understand how could we concile that with what you guide for in terms of Capex, which is declining Capex. Third question on Brazil, do you feel you have any disadvantage by not being part of the large regional players in Latin America, in one way or the other. And finally, just coming back to the dividend, is there any metric that is going to be a back point crucial to determine the dividend policy is the EbitDa's net income or is it a combination of all these metrics? Thank you.

**A: LUCIANI**

Number one, while we refer to service revenue growth, will basically have the same figure on Tim stand alone and the consolidated one because of the size of Interleague up to now, let me say it is quite marginal on the total blending, so that when we say that we will report mid, single digit growth in Q4 it is exactly the same at consolidated level, at TIM level. When we do say that we do expect faster growth during this year, next years, it is the same at TIM level and consolidate graphic. Obviously, looking forward, the contribution of Italy will be more important, but we start from, let me say, 13 billions compared to less than 1 billion so that the blending effect is not so large. The second question is regarding the 3G network: if you look at the number of node B that we do have at the end of 2009, it was roughly 3000 compared to more than 5000 of the incumbent Vivo and Claro is quite similar. Just in the first quarter we will turn on, switch on, something like 2000 node B. It means that up to now our coverage in terms of city is in the range of 50 cities compared to more than 500 of Vivo and something like 400 of Claro. Obviously one thing is if you cover San Paolo, another thing is if you cover marginal cities so that is not the apple and apple. Our focus is to touch 50% of the urban population in the short run, 75% in mid term. It means that overall we will install something like 6000 antennas, reaching more than 1000 cities in 2012, so this is a very fast roll-out exercise. This is not important to note that the price per antenna, the price per node B is dramatically falling so that for some respect B, as (malfollower) presents some advantages from a capital expenditure standpoint than be the front runner. On top of it, quality what makes the difference. We will upgrade the network up to (14) megabit per second and downlink in 2.8, sorry and downlink in 2.8 in uplink in main cities starting from Sao Paolo in June/July so that we do think that the same solid approach we followed on the 2G network will be repeated on the 3G. The other question was to the few presence in the other Latin American countries. My perspective is quite different. If you compare GDP just of San Paolo state, it is larger than Argentina GDP, so that Brazil is by far the larger country in Brazil, the scale and the advantage of the scale you can reach in Brazil is much more relevant than the rest of Argentina or Latin America. So obviously a larger presence could be better from a footprint standpoint but if you look at the revenues, cost and return, Brasil is by far the most attractive market in the area.

**BERNABÉ**

Thank you, Luca. Please.

**Q: JUSTIN FUNNEL**

Hello, Justin Funnel, from Credit Suisse. Just to get on the dividends, I guess if you hit your plan there's going to be some excess cash flow to hit the debt targets and increase the dividend. If we look at a downside case where the EBITDA targets are missed a bit, are you going to be flexible on the debts reduction targets and therefore allow for dividend increase, or is it crucial that you hit those debt-reduction targets first and foremost? Secondly, competition in domestic mobile - you made some big moves in pricing, it obviously makes sense, but your competitors may react. Are you seeing any competitive reaction yet in the market? And thirdly, could you explain in a little bit more detail how you plan to get handset sales down further in 2010, there were obviously some big changes in '09 - where are the further sales coming from in 2010 please?

**A: BERNABÉ**

On the debt target, I mentioned the fact that, in terms of restatement of our debt indicators, compared to other companies in Europe, we are much better off, and if we compare, on the basis of what the rating agencies say in terms of debt, we are not in the position that appears when you look at the raw figures, where we appear in a much higher debt to EbitDA ratio. Therefore, I think that what we really think is that our debt has to go down, long-term. We are not, I don't think we are not any longer so rigid in terms of what we think is the absolute value that we have to reach, because we are confident that we'll be reaching that value. At the same time, we want to have a growing dividend policy, but, again, the growing dividend policy, but again the growing dividend policy must be with respect to our overall targets consistent and stable long term. Of course you know that to sustain a consistent and stable long-term increase in the dividend policy means that we have year after year to reach the targets in terms of debt. So it will be an overall consistent framework that we will be adopting, and we are very confident that we'll be reaching the targets that we have indicated. On the second question I'll ask Marco to answer.

**A: PATUANO**

Well, first of all let me start from a slightly different perspective. At the end of 2008, our price premium was approximately 30% over Voda, and in the region of 40%, 45% versus Wind. At the end of 2009, we are still price premium versus Voda, and we are still price premium versus Wind. What happened if you remember just afterwards our price increase Voda did a very similar move, they increase prices, but they re-invested the price increase quite soon, so at the end of 2008 the price, even after the price increase, was approximately the same level it was before the price increase. So what is happening now is that we are reducing, we are closing a little bit the gap, we are still price premium, but we are closing the gap, so what we did was not working on a price per minute because if we stay on a price per minute war, we stimulate our price competitors in reacting in order to keep the same gap between our prices and their prices. So what we did was to work on a totally different concept, which is working on a very large on-net community, Tim for 2, Tim for All, Tim for All including the field termination and large bundle of minutes. The first reaction we saw was price promotions basically from Vodafone intended to defend the customer base. It was a self-recharge, those mechanisms that increase the value of the top-ups which is a quite defensive move, so we didn't see any aggressive reaction exactly for the reason I explained to you. We didn't face on the same battlefield which was the price for minute, price per minute. Wind let me say they didn't change very much their strategy. They are still in the same path. They are still in the same parts, they were working on a study from a long time ago. They are very consistent. Handsets, first of all, once again, in the recent past our participation to the overall volume of sales in the Italian market was much more than proportional compared to our market share. So we were selling almost 50%-60% more than our market share on handset was 50-60% higher than our market share on sim cards. So the first cut was just to reshape and the demonstration was that the space that had been left by TIM was not occupied by other operators, it was the free market so the handset manufacturer, who starting selling directly their phones. So especially Nokia in Italy. Now, what's going on. What is going on is that what we want to push is Smartphone, not necessarily 3G Smartphone, there are also 2G Smartphone, but smartphones. It's quite interesting that the average price of those smartphones is going down, so now you can find good handsets in the area of 150 Euros, 200 dollars, even less than 200 dollars, also because there is a large interest to develop low price smartphones dedicated to emerging markets, and especially dedicated to Brazil. There is special focus on to Brazil, and the reason is the development of the broadband. So the handset cost is going down, we are not interested of selling huge quantities of low end handsets, we are interested in selling those handsets which are enablers for new services, of course our partners are free to buy further terminals if they want from the free markets no problems.

**BERNABÉ**

Okay, next question? I have a question there? Questions there?

**Q: STEFANO RUSTI**

Stefano Rusti, Equita SIM. I have a couple of questions for Mr Patuano.

The first one: you gave evidence of improvement at the mobile, with stabilization of customer base calling and some growth in the outgoing traffic trend. If I look at your slide number 6 it seems that for Q1, the domestic revenue trend that can be minus 10, minus 9, more or less, will fall of minus 4 minus 5 for the end of the year. The question is, if you are forecasting mobile to have positive top line trend sometimes between Q3 and Q4, and this is the first question. The second question is on handset and dealer network because of this new policy with the handset, I wonder if you have an estimate, an idea of the reduction in sales turnover by your average dealer, and what changes did you introduce for the dealer network in terms of remuneration package to I mean, to maintain their loyalty too.

**A: PATUANO**

Ok. Shall I? Top line: you're right, Q1 will be somewhere below 10%. It will be a high one-digit rate for the mobile. I'm anxiously waiting for the figures coming from their group controller, but let me say that consumer yield (?) is in line with our expectations. Business, small-medium enterprise, very interesting in dynamics, and top line is continuing to perform well, I would say, in the first quarter. So the core of your question is when we do expect to cross from negative to positive. You said properly it's somewhere in the third quarter, let me say yesterday we were talking internally and it sounds like back to school, back to positive, it sounds something like this. Dealer in handsets, it is a very interesting question because it is not obvious that a reduction in the volume of handsets, ends with lower profitability for the dealer chain, keep in mind that when you push very hard on the volumes, from time to time you discover that bet on a specific handset and then it ends with a stock that is very difficult to be sold and you have to cut prices. Now, very honestly, at the end of 2009 and beginning of 2010 we had several dealers that were worried about their P&L, so I started travelling together with Mr. Fabrizio Bona, meeting them, we travelled all across Italy, and we met all the majors, all the most relevant ones and we explained that the new portfolio is paying much more than our competitor, we are paying well above the market for new acquisitions, so what we told them is you are a point of sale, you are not a point of carrying, or a point of retention, you are a point of sale, you have to sell. So, it is very interesting that the average that I showed you is not very representative of what is happening, that are pioneers that are doubling their sales, and this is absolutely true. Now, the ones who are changing

their business model are already experiencing that this model pays. Just to give you an example, in January and February we paid more commissions in 2010 than in 2009. But those commissions are based on sales, which is good. They are not based on other activities - co-marketing or whatever you want they were doing. I don't want to say that they were not doing anything, we are asking them to sell. Now, of course every single month we give to the dealer chain a specific topic on which they have an extra premium. MNP can be one, or a pre-determined threshold of sales and so on. So we are paying very much attention on our dealer chain, even if we are 100% sure that some of the dealers in our sales chain have to die.

**BERNABÉ**

Next question, please.

**Q: Guy Perry**

Thank you, it's Guy Perry from Macquarie [?]. I'm just in a bit of a dilemma here, please.

**BERNABÉ**

You are what?

**Q: Guy Perry**

I'm in a bit of a dilemma here, 'cause I'm just struggling to understand one of your messages. We are talking about a scenario where handset costs are coming down, infrastructure and Capex efficiency's coming down, but all your peers benefit from that as well, so what is so special that Telecom Italia should be able to deliver better revenue growth, market share improvement, lower absolute capital intensity and why shouldn't all your other peers get those same benefits? If they get those benefits, why, through market activity, won't those benefits just be eroded away?

**A: BERNABÉ**

Well, I think that we start from a situation where we had,...if you talk about the domestic market, or, and then I make a comment on the international.....

We started from a position where we had a much higher price premium than others and this higher price premium was justified by the fact that we had a higher quality in the network, higher coverage of the network and higher quality of the network. And for a long period of time we thought that this was

enough to justify a very high premium on our services, then of course we realized that competitors went ahead in terms of network quality and we did not realize enough that the gap was widening in terms of the premium, so what we decided to do and given on my strong belief that the benchmark against which we are competing is not the benchmark of the best in class in our sister Telcos around the world, but it is a completely new paradigm of doing business into telecommunication business, this is what is driving a relentless effort to drive down costs, because we think that the overall paradigm has changed. I mean we are not, you know that in the telecommunications business there is a benchmarking exercise that each one of us does against the others, but what we are comparing when we benchmark ourselves against the other, we are comparing a different breed of animals compared to the new breed of animals that is showing up in the market. My aim is not to compete against our sister telcos, my aim is to compete against the over the top players that will be providing services at a completely different kind of economic standard than the one we were used to. So we have been driving down costs because of this. We are passing through these decreasing costs in terms of prices. This is bringing down prices which is reducing the premium but at the same time enhances the premium we have on quality. I think that in some time people will realize that we are not as expensive as we were before, but we have a much higher quality than the others and this is true in the broadband network, in the mobile broadband network where we have a complete coverage of the edge infrastructure, this has given us , which is not recognized yet, a much higher competitive advantage over everybody else, when people will realize that with this dramatic growth in data traffic that we have the capacity is not enough to satisfy consumers in other, in our competitors' networks and is enough to satisfy the need of our consumer in our network, because we have a complete edge network which covers the spots where we do not have the UMTS, , then people will realize that the quality is much higher. This is the path that we are following, and this is a path that we will be increasingly be working on.

**Q: JUSTIN FUNNEL**

Just Funnel again. Just a couple more questions, please. On your unbundling rates, you had some good success a year and a half ago, increasing the wholesome prices in Italy. I think we last discussed the trend in the cost model at AGCOM, just wondering what the latest stage of your discussions are and to what degree your working on network efficiencies and moving to all IP could undermine your efforts to increase your wholesale prices. And secondly, on the fixed line, the line losses is very impressive particularly in the business customer side. Do you think that's the economy picking up or do you think it's problems at Fastweb relating to, I would say, the recent press. Uhm, yeah those are the main questions, thank you.

**A: BERNABÉ**

On the wholesale fixed market, what is happening is that RGCom is going to develop a new network mechanism for the wholesale access service, to be applied for the period 2010 and 2012, which will be based on a bottom-up long-run incremental costs. I think that the decision will be taken in the next few days and we are very confident that this will improve our competitive position. As I said many times we are suffering still from the fact that our abandoning of the local loop fees are lower by a margin of 15% with respect to the average European price, so the average is around 10 euro, our ULL fee is 8.5 and we think it is fair in the long range, in the long run, to bring our fees to be comparable to the European market, this is a process that will take some time, but we are very confident that we are on the right track to achieve this. I think that on the regulatory I will quote what was achieved in the retail market, as I said it has been quite successful because the AGCOM has allowed us to launch bundle offers, that strongly improved our competitiveness, the elimination of the price cap, and the forthcoming adoption of a new procedure for the retail pricing test which will be in place by May 2010. All this will give Telecom Italia, along with the higher symmetry in the offerings, a much higher commercial flexibility. And just to answer on the fixed line and on the reasons why we have been so successful in reducing the fixed line decline, what I would say of course is first of all that after a long period of excitement of high above competition, people realize that after all good old Telecom Italia is doing a good service and there are lots of people that prefer to come back to Telecom Italia, and second there was how can I say, an asymmetry that was excessive with respect to what I would call normal competitive conditions even considering a market position. Therefore, the changes that have been introduced in the symmetry in the last 18 months, I would say, go in the direction of allowing us to compete more fairly with the others but I'd like Marco to add something on this if he thinks it's ...

**A: PATUANO**

Yes, thank you. You touched a very important point. The effectiveness of our win-back is much higher now that the time-frame for the activations is much shorter. I would say that looking backward there are several elements, I would say that what happened to Fastweb is, I would say, irrelevant, not very little relevant. Macroeconomic, yes, it has an impact, we are definitely dominant when there are - the first choice when a new enterprise starts operating. Since within the end of 2009 and the beginning of 2010, we saw several micro enterprise, shops or new commercial activities, starting again we have very, very high market share on the new services. Secondly there is the positive effect of the quality. It's 100% true that our quality is improving, 360 degrees. We are improving in the delivery, we are

improving in the systems, and we launched a specific marketing campaign in which we said we are the only one who can repair your phone in 24 hours. And that's true, we are the only ones who take the legal compromise to repair every single fault in 24 hours, which is quite important if you are a business customer. If I look to the future, there is something even more important in terms of reducing the portability or in order to increase our performance. From now on, every single migration have to be done with a specific code, a specific number which identifies the customer. Now, this code, this number is totally proprietary of each customer, it has to be written on the bill, I think that the process will be much more fair and when the process is fair we have just benefit from it.

**Q: TIM BODY**

A couple of questions, yet another question on mobile, you talked about

Yes, it's Tim Body from Goldman Sachs. A couple of questions, yet another question on mobile: you talked about ARPU stabilizing as we go through the year, can you just, but being delusive initially, can you just explain more about how that process works and what the stabilization depends upon? And secondly, in terms of savings, the Chairman mentioned that there's more savings to come from the initiative with Telefónica. Have they been included in the overall 2.7 billion or could they be incremental? And lastly, there seems to be a gap between your expectation of rising EBITDA over time, less 12 billion of CAPEX, obviously loose you something more than 21 billion of operating free cash flow. Can you talk about restructuring charges or working capital outflows that could account for that difference and then last, what are the main risks you see to your plan?

**BERNABÉ**

On the first, I'd like Marco to answer and then I'll come back on the second and the third.

**A: PATUANO**

Yes thank you. When you launch such an aggressive plan with such an aggressive communication campaign, it's normal that the first customer who optimize the spending is your own customer. So you have a phenomena of cannibalization on a portion of your customer base. When our marketing people did must for the break-even, the must said, you are in a break-even situation, if at least 30% of the customers are up-selling or new customers, otherwise you are cannibalizing.

At the very beginning, as I told you, it's normal that, if.... I use my wife as a good example: she's a Tim customer, she spends approximately 100 bucks per month, and she says "Ah, with 20 bucks I can talk with, well with less, with 15 bucks I can talk with you and with you mama, with all the TIM customers".

So she optimizes very much her spending. This is the reason why at the beginning there is an ARPU dilution. Now, what we started just afterwards, it starts a process in which the person talks with another person and says "why don't you join the community?". And it works, it works. Now there is another element which is important, if you look at the average outgoing on net ARPU, the average outgoing on net ARPU, it is 5.5 Euros per customer, now if you imagine that a customer adopts Tim for All proposition, is 3 euro per week, monthly 14 Euros. When we started the cannibalization was very high because just, I would say that end of November beginning fo December it was hard to stay calm, the percentage of up-selling customers was about, less than 10%, nowadays approx. 54% of the customers are in a situation that are new customers, or customers with an average spending below the one they will adopt from that moment on. Of course, those customers are absolutely excited because the usage, when we took before 93 minutes per customer means 3 minutes a day. If I talk with my mother I have to be silent for one week and those customers move from 3 minutes a day to normal usage in which they can talk with their friends with no fear, and it works. When the customer activates the service, they stay with the service. This is the most important signal we have. When they activate the service they stay with it. It's the same for Infinity, when they do activate Infinity they like it and they stay. You have to try, you understand there is no trick, and you will like it. I hope I answered.

**A: BERNABÉ**

On the other questions, on the savings with Telefónica, they are already included in the plan, but what is not included is the sharing of best practices concerning the top line, we have done a lot of sharing of best practices with respect to this, we have taken the best practices of Telefónica in the relation with the small and medium size business, the offering of Impresa Semplice is partly designed on the experiences of Telefónica. Viceversa Telefonica has taken from us some experiences in the mobile broadband, so the sharing of the best practices in the top line is not included and I think it is giving us great ideas and suggestions but it is difficult to insert these ideas and to quantify these ideas. Restructuring charges: we will fully absorb the restructuring charges that are related to the new plans for efficiency, so there will be no impact on this with respect to the figures that are already included in the plan. And concerning your last question, that is: risks of the plan. I would say that for... if I listed four categories of risks regulatory, I would say that we have been steadily improving the situation and I do not see any risk for an incursion of the trend on a better regulation, on the market I would say that given the general macro economic environment in Italy which is better than in many other countries but of course is still suffering as every other country, from the consequences of the recession. I don't see any possible worsening of the situation and given what the initiatives we have taken to regain

competitiveness in the market, I don't see any negative impact on this. On costs I think that we have shown consistently in the last 2 years that we are able to attack costs, I think that we have more to do and I don't see anything that will prevent us from doing this. We have been doing it in, always, in an orderly way, negotiating with the trade unions in order to do the restructuring in a socially acceptable way and we don't see any risk for a negative impact that will prevent us from going ahead on the cost restructuring. On the fourth category of risks, the financial risks, I would say that here there may be the opposing critique, that one could move, we are playing perhaps too much on the safe side, because we have, as you have seen on the figures, we may be criticized for having an excessively high carrying cost because of liquidity, because we have a very liquid position, but we think that, given from where we are coming, this is a cost, a premium that we have to pay in order to play it on the very safe side. Longer term, I think we could be a little less conservative with respect to this, but I think it is not yet the time for doing this. So, all in all I see, of course, that the risks are there and looking with the benefit of hindsight in December 2008 when we presented the ambitious plan that we are realizing now I would have not imagined that GDP in Italy and in many other countries would have fallen by 5 %, the worse decline in 50 years. So, I mean, I cannot forecast the future, but we have shown that at the same time, that despite the very difficult period that we have been facing in 2009, we have been able to deliver not the revenue side, because the revenue side was affected mostly by the marketing policies that we did, but also from macro-economic impact, but also we have been delivering on the targets that we have set. And to be very clear on this, I consider that what, the aim of a listed company is to look at the bottom line and not at the top line. The top line I think has been in fashion for a long period of time, starting from the new economy period when there was a big hype about the multiples of the top line, I am rather old manager, and I'm a fairly conservative manager, I'm looking at the bottom line and at the remuneration of shareholders. That's my key priority. Now I think we have one more question, but then we have to move to questions from your colleagues who have been following us on the web, and so I'm taking one more question from the floor and then I'll answer the questions from the web.

Please...

**Q: J.P. MORGAN (CAZENOVE)**

That's better, yeah. J. P. Morgan, Cazenove On your growth expectations for the domestic mobile business in 2011 and 2012. Can you give us some more details of the split of that growth? Say, voice versus data and market share gains or market improvement versus ARPU. And secondly, on your slides

it's shown that you expect fixed broadband ARPU growth, so if you could explain where you see that coming from? Thank you.

**A: PATUANO**

Okay. First of all, as I told you before, the growth is driven mainly by a growth in the calling customer base, because the voice RQ is expected to remain flat over the period, so the growth comes from one side is the growth of the calling customer base, on the other side mobile broadband. Mobile broadband is expected to grow significantly, both in terms of users and in terms of usage, as Mr. Cicchetti explained us, we are for costing and growth in terms of volumes of Peta-bite, reaching 140 Peta-bite, which is quite an impressive figure. So those two are the drivers of the growth, the handsets will be not part of the game, so they will be approximately irrelevant in terms of impact in the sense that probably 2010 will be, I would say the lowest, 2011, 2012 in the blended figures, it's not material the contribution to the overall growth so it's a growth of service revenues. Fixed broadband, fixed broadband there are 2 drivers. One is we are moving customers, more and more customers on flat offers. Today the percentage is high, but we want to land in a region above 90 percent, so this drives up the spending. The other is we can't continue selling just connectivity: the IPTV is one driver, it's quite demanding in terms of network requirement, but what we launched in the beta phase today we have launched the Beta phase for what we call cubal vision, cubal vision is an over-the-top tv which aggregates traditional media, media-on-demand and internet guided access on the tv set. We do believe this tool is much less, much less demanding in terms of network architecture because it's not in a multi-casting or uni-casting, it's not, it doesn't work in a streaming session, it's a download and play so it's much less demanding on the network for Mr. Cicchetti development in spending so what we do is we want to deliver to the customer. If the customer has a good network we add on to the traditional access, on the broadband access. We try to sell the PTV. If the network is not performing, enough performing, or if the customer already has a satellite TV we add on top to the traditional access this over-the-top TV or over-the-top media gateway, which is particularly interesting. The data is expected to end at the beginning of June, our innovation team is working hard in order to deliver it before the Soccer World Championship. So we are waiting for it.

**BERNABE**

Thank you Marco. I think I would take now a question from the web because we are running late and I think you are hungry, so please, from the web, a few questions?

**Q&A: WEB**

The first question from the Web from Ottavio Adorasio, Société Générale, the previous target indicated in 2008-2011 revenue growth of more than 2% show a comparison to the fiscal year 2009 revenue reduction of 5.6% and a guided negative growth of 2-3% for fiscal year 2010. What are the data points that would give investors confidence that new revenue targets are achievable and not too ambitious?

I mentioned already that 2009 was of course the worst year since the post-war period, but I think that there are other important things that you have to consider when comparing the two figures. First of all which is something to take into consideration, the previous plan was based upon also the dynamic of revenues of Hansanet, taking out Hansanet thus would have taken off 1% points in the growth of revenue in the previous plan so it would be 1% less, it is 1% less, due to the effect of the deconsolidation of Hansanet and of course there are other problems, but I think we have covered many of the explanations during the presentation of Marco Patuano, and also in Brazil more or less the same thing happened, I mean, we had a strategy that was coming from the years 2006 - 2007, that pursued in 2008. We changed completely the strategy, and of course the management, and what we have been achieving in 2009, although we suffered quite a lot at the beginning of 2009 for the first three quarters, is a complete turnaround of the situation in Brazil, after three years of pain now we are seeing the gains. I think the management, all the management, Luca Luciani is doing an excellent job, all the management in Brazil is doing an excellent job and we are seeing the results. The same is happening in Italy, again we suffered the pain, we suffered the pain and in a sense we inflicted also the pain ourselves because we were overconfident when we increased prices in the middle of 2008. Now we are seeing customers coming back, usage increasing and all the right things in the right place to achieve the results that we are expecting. Next question from the web.

**Q&A: WEB**

Question from Eduardo Floras on TIM Brasil. In your plan you mentioned MOU will increase up to 180 minutes per user. Can you elaborate on current network quality and investments required to achieve that level?

**A: LUCIANI**

Definitely. Number one, we are exiting from the promo market so that this is a substantial difference between, for example, the 130 minute jump that Vivo reported in the fourth quarter with the ARCO dilution compared to the 99 minutes that TIM reported with the ARCO accretion. It's because, as mentioned, we do only sell tariff plan, and not promo. It means that the traffic climb is much more

gradual. When we, in June, launched that promo, a similar promo to what Vivo is doing now, we reported double the traffic in a very sharp curve and the contrary, Infinity for example, because of the long distance inclusion has a much more flat profile, it means for example that the peak hour is no more at 6 o'clock pm but is 10 pm where consumers used to have fixed to fixed long-distance calls, the same during the weekend so that number 1, we do have much more efficiency from a traffic profile. Number 2 we definitely are investing behind the 2G capacity this is quite different from the rest of the operators in Brazil, in our plan we are putting something like 50.000 TRX on air in the next two years, it means roughly doubling the capacity of the network that we have nowadays it is exactly what we did in 2009 and it means that net-net we are able to combine a much more prudent traffic profile increase with a more safety network reliability. Our promise to the customers is that by mid of 2010 we will be in the condition to offer the best quality of service and the best reliability in the voice in the Brazilian market. Thank you.

**Q&A: WEB**

Next question from the Web.

This is the last question from the Web, from Tangi Merciere (???) BNP Paribas. Are there any discussions going on the potential acceleration of synergies with Telefónica? Could you update us on the potential capital tie-up? If a merger happens, what would happen to the savings shares?

**A: BERNABE'**

Well, the answer is very simple. We are happy as we are, we have very good personal relations with Telefónica, very good business relations, of course not in South America, where we are competitors, we are two distinct companies, and I think that for the present state there is no reason for thinking that it will evolve differently in the short to medium term. In the long term we are all there, so I don't know. And on the synergy, I think that I have already answered. Thank you very much. Another question from the web? No more questions? Wait a second. No more questions from the web, so thank you very much, thanks for attending this conference, and have a good lunch. Thank you.