

Telecom Italia Group

Merrill Lynch TMT Conference 2007

London, June 6

Telecom Italia

ENRICO PARAZZINI, CFO

June 6, 2007

TI Group: key financial results

€ mln

	1Q '07 reported	YoY reported	YoY Organic*	2007 Organic Target*
Revenues	7,540	+0.8%	+1.1%	+1.0% / +2.0%
Ebitda	3,154	-4.3%	-3.9%	
Ebitda margin	41.8%	-2.2pp	-2.2pp	-2.5pp / -2.0pp
Ebit	1,763	-11.1%	-6.3%	
Ebit margin	23.4%	-3.1pp	-1.9pp	-3.0pp / -2.5pp
Net Income (post minorities)	775	+4.2%		
Capex	1,160	+135		
Net Debt	37,182	- 0.1 bln vs. YE '06		Net Debt/Ebitda <3x

After the cash out of €669 mln for the AOL Germany acquisition

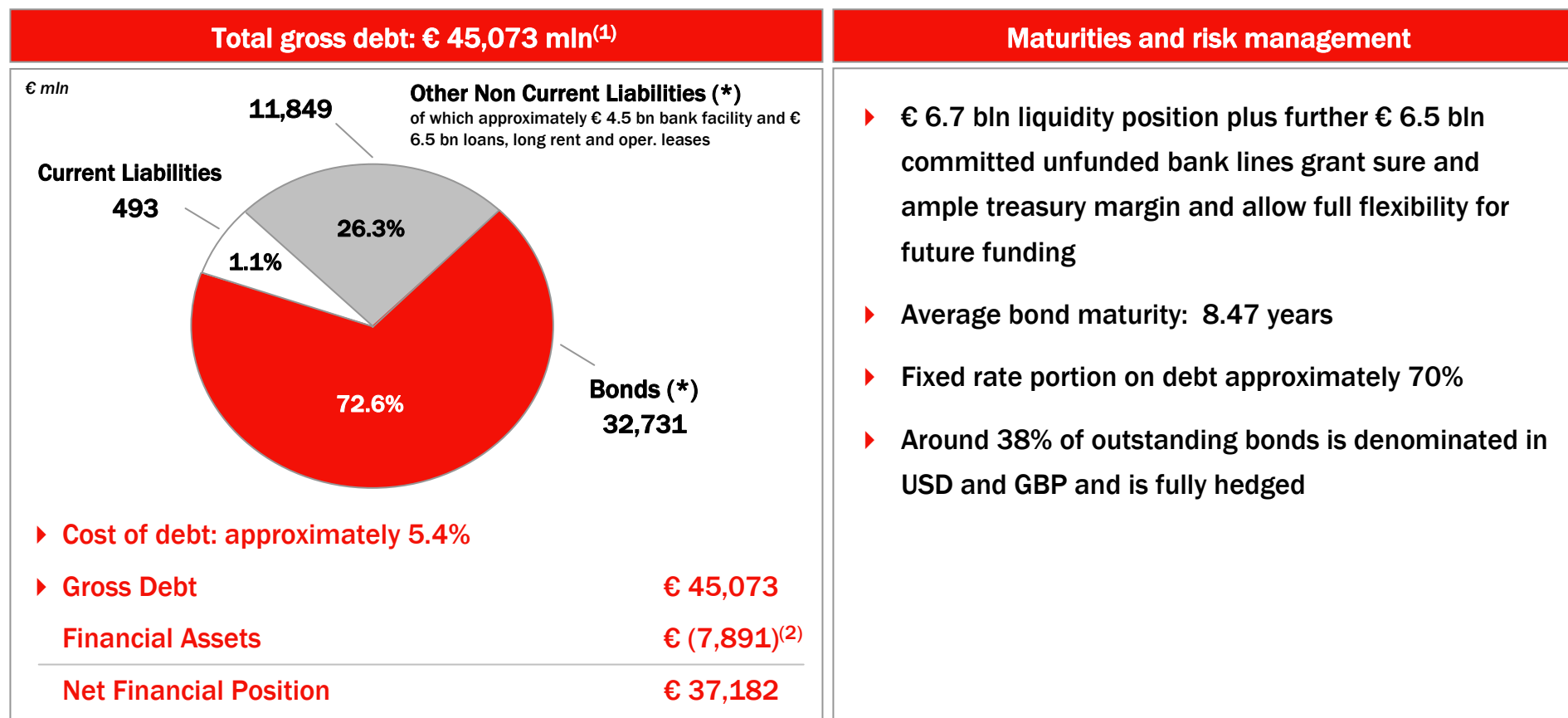
Highlights

- ▶ Group results fully on track with '07 targets
- ▶ Strengthened competitive position across all business
- ▶ Strong performance of International Business (+36% organic top line growth yoy)**
- ▶ Industry prime profitability confirmed
- ▶ Investments to maintain the technological leadership in Italy and develop coverage abroad
- ▶ Deleveraging process as a priority

* Excluding changes in consolidation area, exchange rate impact and other non organic items

** Aggregate figures of European Projects, Brazil mobile and Bolivia

Debt structure as of March 31, 2007

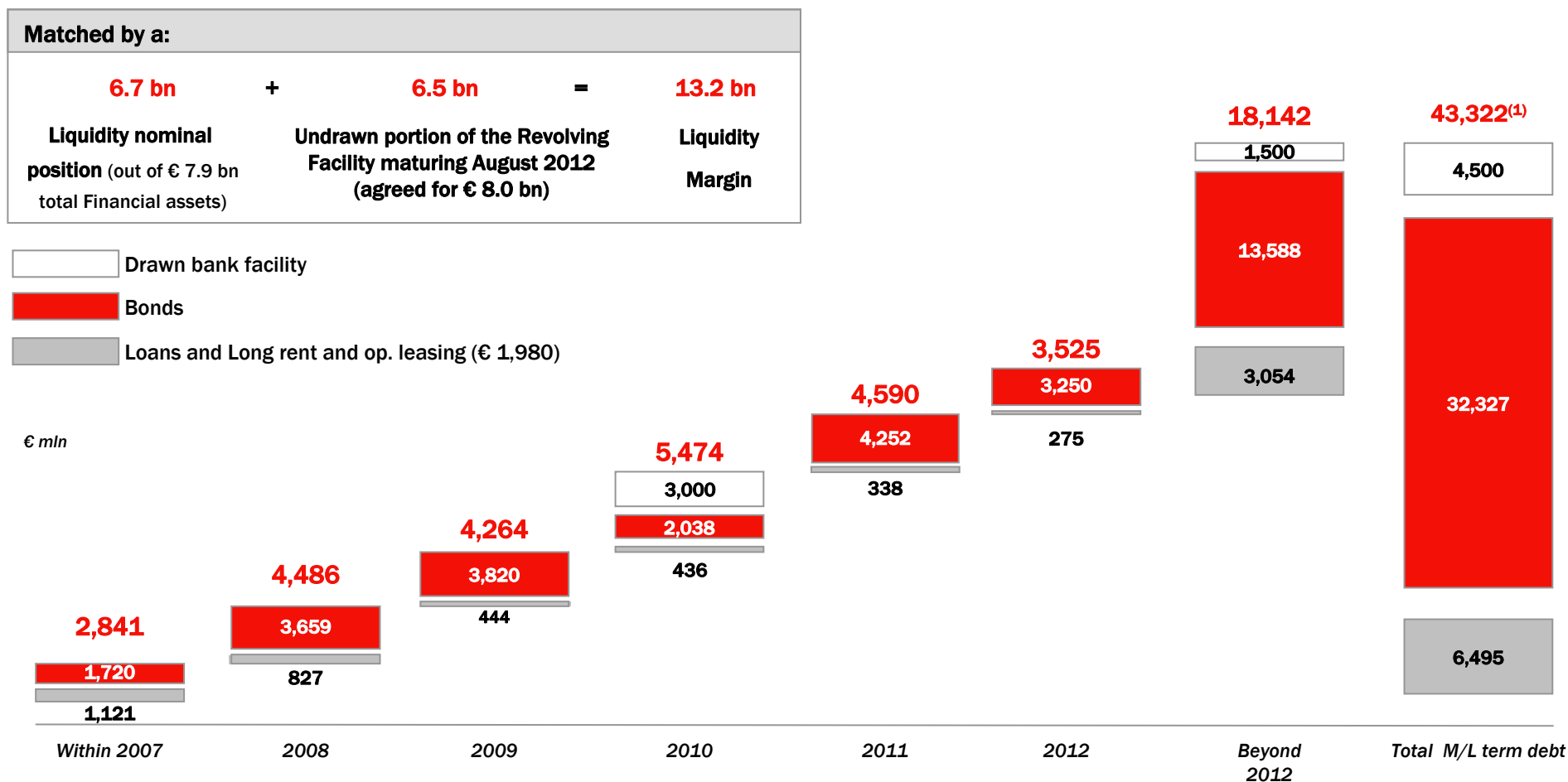


(1) Including € 1,289 mln of IAS adj of which € 404 mln on bonds

(2) Liquidity Nominal Position, represented by cash and marketable securities stands at € 6.7 bn

(*) including the current portion of non current liabilities (maturing within 12 months) for € 5,455 mln (of which bonds € 4,154 mln and other € 1,301 mln)

Medium-long term debt Maturity Profile as of March 31, 2007



(1) € 43,322 mln is the nominal amount of outstanding medium-long term debt; by adding IAS adjustments (€ 1,145 mln), deferred incomes "AVEA" (€ 113 mln) and current liabilities (€ 493 mln), the gross debt figure of € 45,073 mln is reached.

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RICCARDO RUGGIERO, CEO

June 6, 2007

Agenda

- ▶ **Domestic Strategic Guidelines**
- ▶ **International Strategic Guidelines**
 - ▶ **European BroadBand**
 - ▶ **TIM Brasil**
- ▶ **2007 Targets**

Market trend and TI Strategic “musts”

Market trend

- ▶ **Pure TLC market is slightly increasing** due to the rise in Mobile and broadband market
- ▶ **Margins erosion** due to price competition and technological discontinuities
- ▶ **Opportunities for “Pure TLC” Operators in adjacent markets** (eg. pay-TV, ICT)
- ▶ **Local Regulatory Authorities future decision** to influence TLC’s industry evolution (i.e.: NGN, Net Neutrality)

TI Group strategic guidelines

- ▶ **Focus to maintain domestic core business**
- ▶ **Growth in international emerging markets**
- ▶ **Growth in innovative/adjacent markets** (eg. pay-TV, ICT)
- ▶ **Industrial alliances to achieve scale**
- ▶ **Negotiation with Local Regulatory Authorities** on network access transparency and evolution (NGN)

Maintain Domestic Leadership through Innovation and Convergence

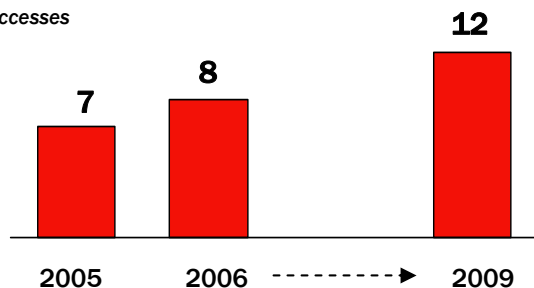
Fixed	Mobile
<ul style="list-style-type: none">▶ Focus on volume and value▶ Increase Broadband penetration▶ Maintain customers on fixed network developing:<ul style="list-style-type: none">▶ flat and all inclusive 2/3play offers for consumers▶ integrated solutions for business customers▶ Winback and retention on traffic and access▶ Develop Innovative ICT and IPTV services	<ul style="list-style-type: none">▶ Volume and Value Strategy▶ Market and offers segmentation▶ 3G/High Speed innovation and development in order to drive VAS growth▶ Push on Flat and Post-Paid offers
Convergence	
<ul style="list-style-type: none">▶ Convergence as a distinctive factor in market positioning▶ Convergent offers:<ul style="list-style-type: none">▶ integrated voice (product and services)▶ convergent fixed-mobile BB▶ integrated messaging and mail▶ integrated content	

Domestic fixed: BB market trends and TI positioning

Market trends 2007-2009

BB domestic Market Trend

MIn BB Accesses

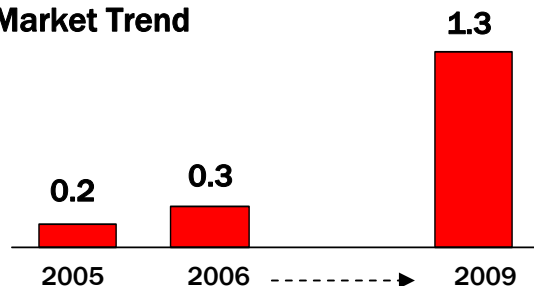


% on total accesses

2005	29%
2006	37%
2009	55%

IPTV Market Trend



MIn subs



% on consumer BB access

2005	3%
2006	4%
2009	14%

TI positioning: Increase Broadband penetration and improve BB customers value

- ▶ Flat “All Inclusive” offers
 - ▶ Dual Play  TUTTO INCLUSO
 - ▶ Triple Play  TUTTO INCLUSO TV
- ▶ Bundle with devices
- ▶ Pay-per-use as entry-level offering to maximize new acquisitions
- ▶ Upselling to flat offering
- ▶ “Alice”: best known BB brand in Italy

“Top of mind “ brand (%)”

Alice	Fastweb	Libero
33%	5%	6%

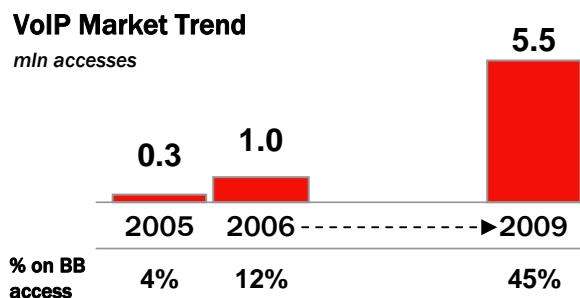
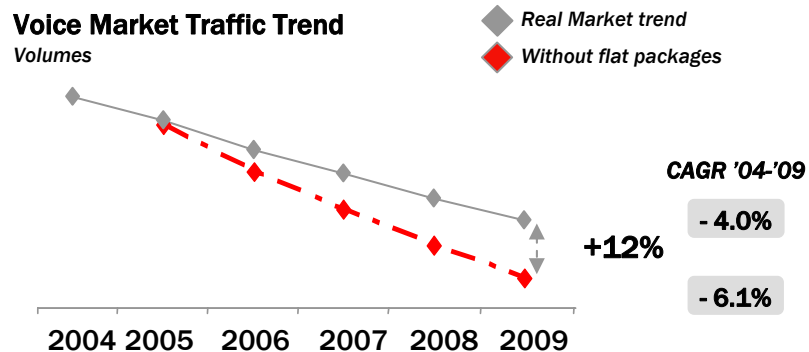
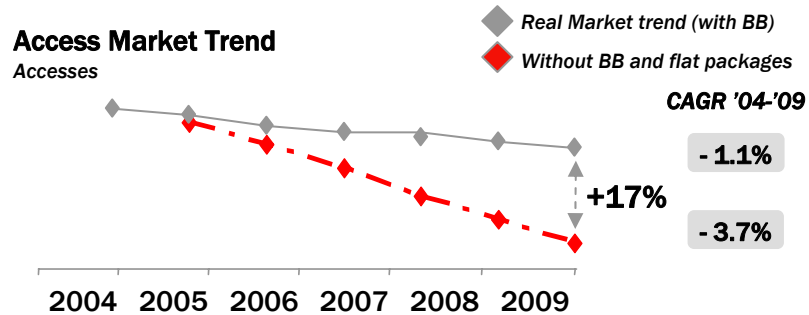
1Q 2007 evidence

- ▶ 7.1M domestic BB accesses
- ▶ Increasing weight of BB consumer flat offer: 53% (+3pp vs 4Q06)
- ▶ Stable ARPU vs 4Q06

(*) GFK Eurisko – STP Internet '07, May 2007

Domestic fixed: Voice market trend and TI Positioning

Market trends 2007-2009



TI positioning: Flat offers development to maintain customers on fixed network

Flat PSTN

- ▶ Flat voice packages, e.g.:
 - ▶ calls to TI fixed/mobile numbers
 - ▶ calls to fixed International numbers
 - ▶ Flat internet dial up



Flat VoIP

- ▶ Proactive migration of traditional voice customers to VoIP:
 - ▶ Up to 5 personal numbers
 - ▶ Up to 3 calls and 5 Internet simultaneous connections
 - ▶ "Alice Voce No problem": unlimited calls, videocalls sms/mms to TI fixed numbers
 - ▶ "Alice Voce Friends": free voice and video calls, sms/mms to Alice Voce clients



1Q 2007 evidence

- ▶ Stable traffic Market share from 2001: >71%*
- ▶ 300K win back in 1Q '07
- ▶ 6.5 mln voice flat offers (32.1% on total accesses) as of March '07
- ▶ 549K VoIP lines as of March '07 9.3% of BB access (6.4% in Dec. 06)

*% on Total monthly traffic volumes (March '07)

▶ **TIM Customer base as of March 2007: 33.6 mln lines**
 ▶ **Market share: 40.4%**

Domestic mobile: market trends and TI positioning

Market trends 2007-2009	TI domestic mobile positioning	1Q 2007 evidence
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▶ **Focus on high-end segments**

- ▶ 22% gross adds are postpaid
- ▶ >400k incremental UMTS customers
- ▶ 4.7 mln UMTS lines reached, 14% penetration

Increasing attention on Value & Volume

▶ **Boost voice usage**

- ▶ Big bundles for postpaid
- ▶ Prepaid offers with attractive on-net/transparent pricing



TIM CLUB



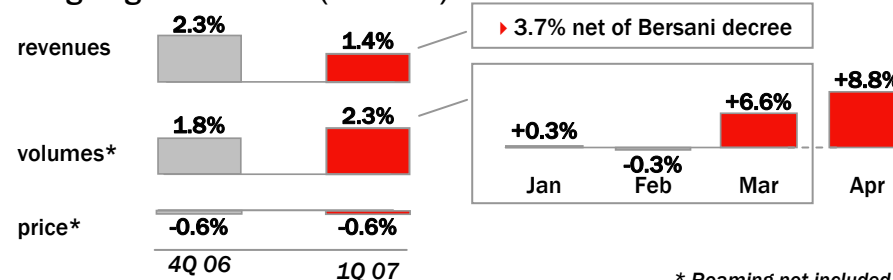
▶ **Speed-up mobile BB internet**

- ▶ 20% VAS/Service revenues FY07 target already reached
- ▶ increasing contribution of interactive services: 42% of VAS revenues (+3.4 pp yoy)
- ▶ Web Browsing revenues growth: +46.4% yoy

Prices decrease mainly driven by regulatory issues ("Bersani decree")

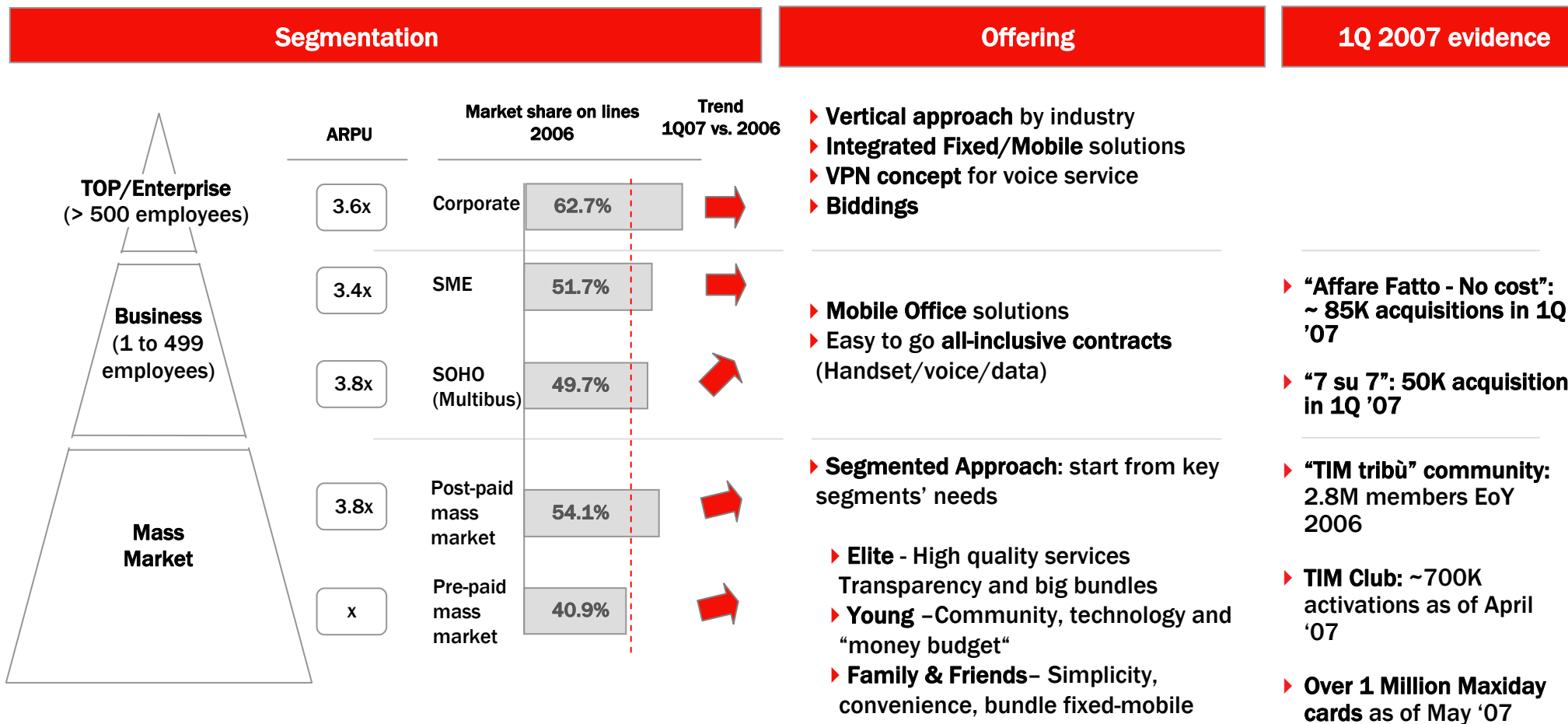
▶ **Leverage elasticity of different segments highlighting the value of transparency**

▶ **Outgoing Voice trend (Δ % YoY)**



* Roaming not included

Domestic mobile: value from transparency in all segments



Domestic mobile: 3G/High speed and VAS development

3G/High speed enablers

TI Mobile Network evolution

- ▶ **UMTS:**
 - ▶ Up to 384 Kbps
 - ▶ Coverage: 77% of population YE '07
- ▶ **HSDPA**
 - ▶ Up to 3.6 Mbps
 - ▶ Coverage: 50% of population YE '07
- ▶ **DVB-H**
 - ▶ Coverage: 75% of populations YE '07

TI Handsets portfolio

- The most advanced handsets portfolio in the Italian market:
- ▶ **3G models:** 34 (vs 32 2G models)
 - ▶ **HSDPA models:** 15
 - ▶ **PC card models:** 4
 - ▶ **Mobile office models:** 14

**3.1 M handsets
at Summer Dealer
Convention (May 2007)**

VAS Portfolio

TI priorities

- ▶ **Speed-up BB mobile internet:**
 - ▶ Tariff simplification/bundles
 - ▶ Convergence
 - ▶ Internet-like users experience
- ▶ **Develop premium & users generated contest:**
 - ▶ Leverage on TI group assets
 - ▶ Partnership with media market leaders

Everything in One Click



... and much more!

- ▶ **Maintain leadership on traditional VAS**

Content offers

Telecom Italia 3Play Offer



VoIP



Internet:
ADSL up to 20 M



IPTV:
Alice Home TV

Alice Home TV:
~800/1000
acquisitions/day

Towards digital entertainment with HOME TV

- ▶ DTT integrated Set top box (launched end of may '07)
- ▶ Contents
 - ▶ Rebroadcasting TV channels: ~ 60 (digital terrestrial channels and premium satellite channels)
 - ▶ Video On Demand
- ▶ Evolutions: High Definition TV, Multi-Device Content Portability, User Generated Content ...
- ▶ Microsoft platform on trial

DVB-h

From start-up phase to mass marketing



▶ New handset



▶ New contents
and handset packaging
(all Serie A soccer
championship games)

“BB as one market”: address fixed BB clients to speed-up mobile BB

Integrated BroadBand offer



- ▶ **Integrated fixed-mobile broadband offer**
 - ▶ internet wireline indoor connectivity on Wi-Fi Modem and DSL connectivity (pay per use or flat)
 - ▶ internet mobile connectivity on HSDPA up to 3.6 Mbps (and soon 7.2Mbps)
 - ▶ Seamless fixed-mobile interface
 - ▶ Wireline connection time and mobile connection volume included
- ▶ Prepaid or postpaid pricing schemes

Convergent Fixed-Mobile Mail and Messenger

- ▶ Alice Mail available on the move (push mail) and on fixed broadband
- ▶ TIM phones 90% compliant
- ▶ **Packaging**
 - ▶ Monthly Service Card
 - ▶ Bundle with Internet access
 - ▶ Bundle with Blackberry



- ▶ **Alice Messenger: Instant Messaging available on the move and on fixed broadband**
- ▶ **Packaging:**
 - ▶ Monthly Service Card
 - ▶ Bundle with Internet access



Convergent Voice Offer

UNICA:
the integrated fixed and
mobile voice brand

The UNICA logo consists of the word "UNICA" in a bold, white, sans-serif font, centered within a red rectangular background.

▶ UNICA BASIC OFFER

- ▶ Fixed Voice traffic:
 - ▶ National F2F
 - ▶ International F2F
 - ▶ F2M (towards selected mobile numbers)
- ▶ Mobile Voice traffic:
 - ▶ In-door at-home to Fixed
 - ▶ M2F
 - ▶ M2M on net (towards TIM numbers)

**Available
from 3Q 2007**

▶ UNICA PREMIUM OFFER

- ▶ UNICA Basic Offer
- + ▶ BroadBand Connection (corded and cordless)
up to 20 Mega
- + ▶ Dual mode handset

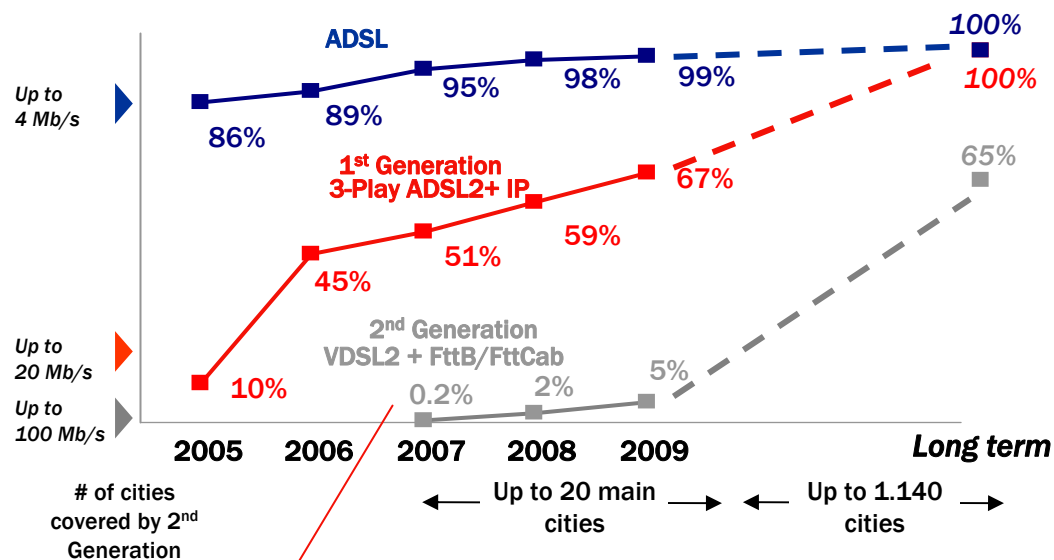
▶ Pricing schemes

- ▶ Both flat and pay per use
- ▶ One single price per minute

Increase BB Coverage and invest in NGN2 project

Fixed Network Broadband Coverage Evolution

- ▶ Careful market driven development of fiber solutions and coverage
 - ▶ Mainly FttCab, with FttB in main cities
 - ▶ FttP for TOP clients

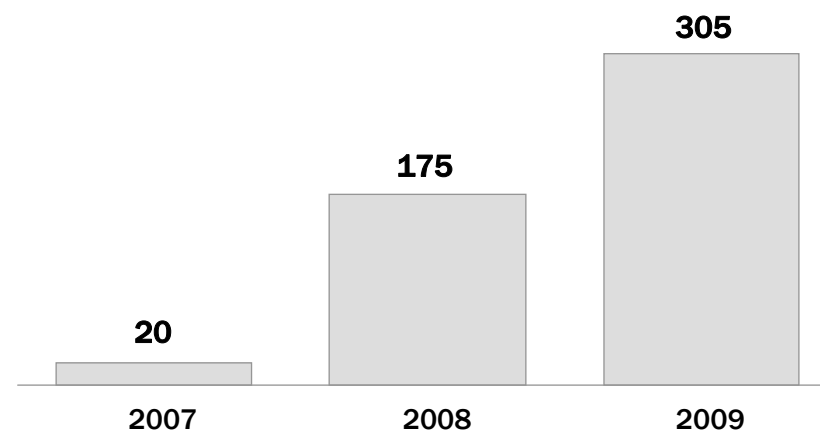


The NGN2 project already started in Milan:

- ▶ ~ 3.400 buildings (44.000 accesses) by '07 year end

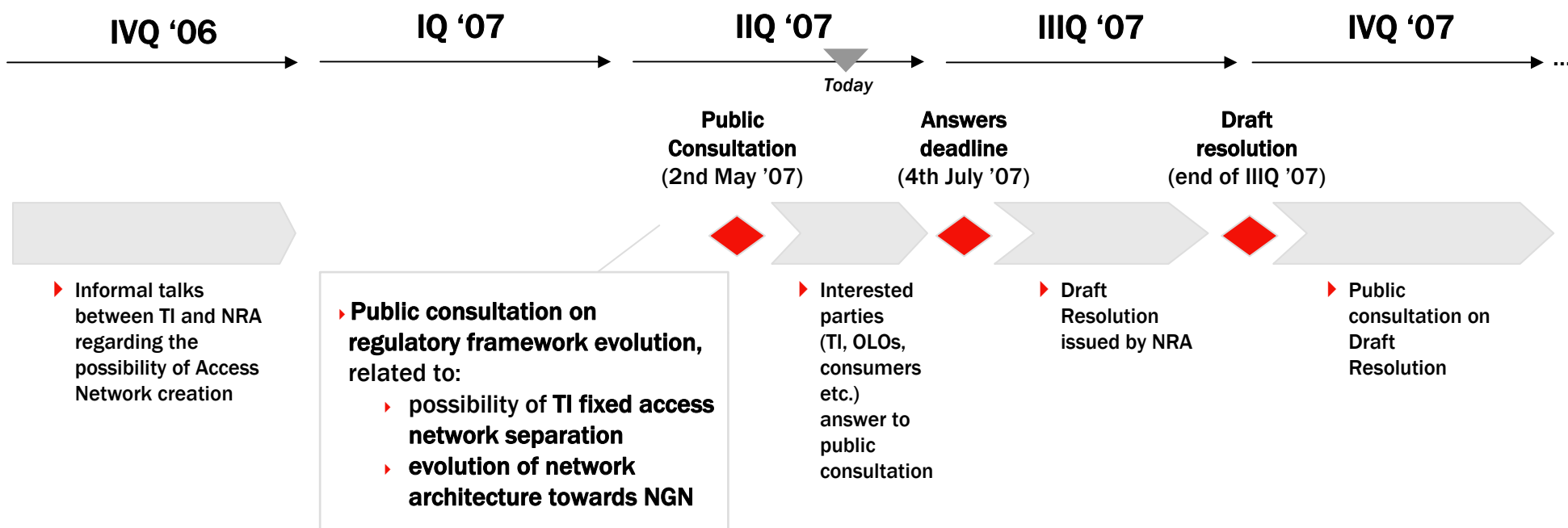
NGN2 Capex for Fixed and Mobile Access

€ millions



- ▶ Full Project CAPEX cumulated: ca. 6.5 B€
- ▶ Investments in NGN2 will NOT generate an increase in total capex/year vs. 2007 (self financing project)
- ▶ Strong reduction on Network capex-opex requirements at project end (over 1 Bln €)

Regulatory update



- ▶ Full process could require 12/18 months from first public consultation
- ▶ Telecom Italia is under no obligation to finalize talks on the creation of an Access Network Unit
- ▶ The chosen shape of the access network unit (accounting separation vs. independent unit) will not affect the regulatory framework evolution

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European BB portfolio as of March 2007: 3.1 Mln (lines)

- ▶ Germany: 2.1 Mln
- ▶ France: 0.8Mln
- ▶ The Netherlands: 0.2 Mln

European Broadband: market trends and TI guidelines

Market trends 2007-2009	TI strategic guidelines	1Q 2007 evidence
<p>Market consolidation in main European countries</p>	<ul style="list-style-type: none"> ▶ Focus on efficiency/effectiveness of existing projects 	<ul style="list-style-type: none"> ▶ Germany: Closing of AOL acquisition (1st March '07) – No. 2 BB operator in Germany (14% market share) ▶ France: industrial turn around to improve quality of services ▶ The Netherlands: preparing to launch residential retail offer
<p>Increase of alternative operator ULL coverage and early stage VDSL/Fiber Network project</p>	<ul style="list-style-type: none"> ▶ Increase of ULL Coverage via own network deployment and partnerships 	<ul style="list-style-type: none"> ▶ Germany: 41% ULL coverage in 1Q '07, on track to meet our 2007 FY target (~60%) ▶ France: 44% ULL coverage in 1Q 07, reaching our original 2007 FY target.
<p>Diffusion of dual and triple play offers and development of Fixed – Mobile Convergent offers</p>	<ul style="list-style-type: none"> ▶ Continuous Portfolio innovation with Dual/Triple Play offers ▶ Launch of convergent offers through MVNOs ▶ Development of MNCs services on Corporate segment, leveraging on TI international capabilities and infrastructure 	<ul style="list-style-type: none"> ▶ Germany: MVNO offer launched with ~ 30K customers as of May '07 ▶ France: triple-play offer launch (March 12th), leveraging on agreement with Canal+ ▶ Investigating MVNO option in France

Launch of 3play and 4play Offers in Europe

France – Alice Home TV

Internet + Phone + TVoIP
ALICEBOX



Exceptional TV Content

CANAL+
TELEQUOT
and/or
CANALSAT



The graphic shows the Alice Home TV offer details. It includes the Alice logo, a list of services: ADSL Wi-Fi, TÉLÉPHONIE (with 'ÉCARTÉLÉPHONE' below it), and TÉLÉVISION (with 'DÉCODEUR TÉLÉVISION CANAL+ LE DÉCODEUR' below it). The main offer is **ALICEBOX CANAL+** with a price of **39,95€ /mois**. Below the price, it says 'en zone dégroupée pack remboursé 49€' and 'ÉDITION LIMITÉE'. At the bottom, it mentions 'ASSISTANCE TÉLÉPHONIQUE GRATUITE 24H/24'.

Commercial launch: March 12th 2007

Germany - MVNO Offer launch

▶ “Alice Complete”:

- ▶ BroadBand
- ▶ Fixed Voice services
- ▶ Mobile Voice services

starting from 59.90€ /month

Commercial launch: April 26th 2007

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▶ **TIM Brasil: Customer base as of March 2007: 26.3 Mln lines**
 ▶ **Market share: 25.8%**

TIM Brasil: market trends and TIM positioning

Market trends 2007-2009	TIM Brasil focused on community & convenience, integration & innovation	1Q 2007 evidence
<p>Mobile residual market is in lower income classes</p>	<p>▶ Consolidate high-end positioning in both consumer and business segments</p>	<p>Leading share in net adds: 40.1% Improved mix: 21.6% postpaid (+1pp yoy) n.1 in Business segment: +50.3% lines yoy</p>
	<p>▶ Increase profitability via efficiencies on mobile fixed costs</p>	<p>EBITDA organic growth: +48.7% yoy EBITDA mg: 24.5% (+2.9pp yoy)</p>
	<p>▶ Sustain profitable growth by developing new business model oriented to low- ARPU segments</p>	<p>Launch by year end</p>
<p>Tlc market starts to move towards convergence</p>	<p>▶ Offer convergent solutions to safeguard mobile leadership</p>	<p>TIM Casa: first homezone offer in Brazil ▶ Launched in Q4 06 ▶ Reached >400K clients in Q1 07</p>
	<p>▶ Exploit opportunity to capture additional revenue streams from fixed market</p>	<p>Homezone offer now extended to corporate segment</p>

TIM Brasil: achievements leverage on...

...community & convenience

...integration & innovation

Brand: constant building of leading quality/ aspirational image

Consumer: foster TIM Community and develop F-M convergence

- ▶ Push on-net offers
- ▶ Continue focus on TIM Chip-only model
- ▶ Develop convergent offer by enriching & expanding home-zone offer

Top customers/ Large accounts: footprint, quality & flexibility

- ▶ National tariff plans for multiregional companies
- ▶ Mobile office solutions, enhanced tariff plans and flexible corporate services

VAS: push on media content and interactivity

Multichannel sales: constant quest for efficiency and profitability

- ▶ Reduced subsidy strategy
- ▶ Incentives on postpaid acquisitions and commissioning based on value
- ▶ Expansion of alternative/ low-cost recharge channels

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Financial Performance Overview 1Q '07 vs 2007 Targets

	1Q '07 reported	Δ1Q '07 organic YoY	2007 organic targets
Domestic, (€ mln, %)			
Revenues	6,009	-4.5% -2.6% -4.1%	-3.5%/-2.5%
Fixed Revenues	3,989	-6.8%	-3.5% / -2.5%
Mobile Revenues	2,365	-0.2%	-3% / -2%
% EBITDA Margin	47.5%	-2.3 pp at 48.1%	-2.0 / -1.5 pp
European BroadBand, (€ mln, %)			
Revenues	304		Reported data ~1.6 Bn €
% EBITDA Margin	9.9%		>14% mg.
TIM Brasil, (Reais mln, %)**			
Revenues	3,040	+37.4%	>15%
% EBITDA Margin	24.5%		~23%

Excl. NNG*

Revenues Trend adjusted
for B&K***
 ▶ 1Q 2007: 19.1%
 ▶ 2007 Target: > 10%

* excluding change in accounting for Non Geographic Numbers (-119 mln € in 2006).

In accordance with AGCOM deliberation 417/06/CONS, starting January 1st 2007, Telecom Italia invoices services rendered by OLO on NNG while does not assume credit risks. These services, since January 1st are thus no longer recorded for as revenues and costs in Telecom Italia accounts

** IAS Gaap

*** Figures adjusted considering Bill & Keep elimination starting from 01/01/05