

TELECOM ITALIA

1H 2008 Financial Results

Milan, August 8th, 2008

Telecom Italia

1H 2008 Business Performance

OSCAR CICHETTI

Agenda

- ▶ **1H 2008 business performance:**
 - ▶ **Domestic**
 - ▶ Fixed business performance
 - ▶ Mobile business performance
 - ▶ Cost Analysis
 - ▶ European BB: HanseNet + BBNED
 - ▶ TIM Brasil

- ▶ Appendix

Domestic: Main Results

€ Mln, %

	Reported Data				Organic Data			
	1H '08	1H '07	Δ Abs	Δ %	1H '08	1H '07	Δ Abs	Δ %
Revenues	11,420	12,182	-762	-6.3%	11,444	12,162	-718	-5.9%
of which fixed	7,485	7,983	-498	-6.2%	7,509	7,963	-454	-5.7%
of which mobile	4,669	4,916	-247	-5.0%	4,669	4,916	-247	-5.0%
EBITDA	4,931	5,619	-688	-12.2%	5,256	5,674	-418	-7.4%
% on revenues	43.2%	46.1%	-2.9 p.p.		45.9%	46.7%	-0.8 p.p.	
EBIT	2,679	3,456	-777	-22.5%	2,979	3,502	-523	-14.9%
% on revenues	23.5%	28.4%	-4.9 p.p.		26.0%	28.8%	-2.8 p.p.	
CAPEX	1,952	1,895	57	3.0%				
% on revenues	17.1%	15.6%	1.5 p.p.					

- ▶ Including 325 mln€ of 2008 non organic items:
 - ▶ 287mln€ restructuring costs*
 - ▶ 36 mln€ termination M-F and provision for pending legal disputes
 - ▶ 2 mln€ others

- ▶ -312mln€ (-5.5%) net of one-shot benefit on 2Q07 labor cost (-106 mln€) of which:
 - ▶ 1Q08: -174mln€ (-6.1%)
 - ▶ 2Q08: -140mln€ (-5.0%)

* Related to the Headcount reduction Plan announced on June 4, 2008.

Domestic: Main Results, Organic Data by Quarter

€ Mln, %

	Organic Data				Organic Data			
	1Q '08	1Q '07	Δ Abs	Δ %	2Q '08	2Q '07	Δ Abs	Δ %
Revenues	5,619	6,001	-382	-6.4%	5,825	6,161	-336	-5.5%
<i>of which fixed</i>	3,746	3,981	-235	-5.9%	3,763	3,982	-219	-5.5%
<i>of which mobile</i>	2,236	2,365	-129	-5.5%	2,433	2,551	-118	-4.6%
EBITDA	2,679	2,853	-174	-6.1%	2,577	2,821	-244	-8.6%
% on revenues	47.7%	47.5%	-0.2 p.p.		44.2%	45.8%	-1.6 p.p.	
EBIT	1,553	1,782	-229	-12.9%	1,426	1,720	-294	-17.1%
% on revenues	27.6%	29.7%	-2.1 p.p.		24.5%	27.9%	-3.4 p.p.	

► -140 mln€ (-5.0%) net of one-shot benefit on 2Q07 labor cost (-106 mln€)

Agenda

- ▶ **1H 2008 business performance:**
 - ▶ **Domestic**
 - ▶ **Fixed business performance**
 - ▶ **Mobile business performance**
 - ▶ **Cost Analysis**
 - ▶ **European BB: HanseNet + BBNED**
 - ▶ **TIM Brasil**

- ▶ **Appendix**

Domestic Fixed: Focus on Value and on Profitability

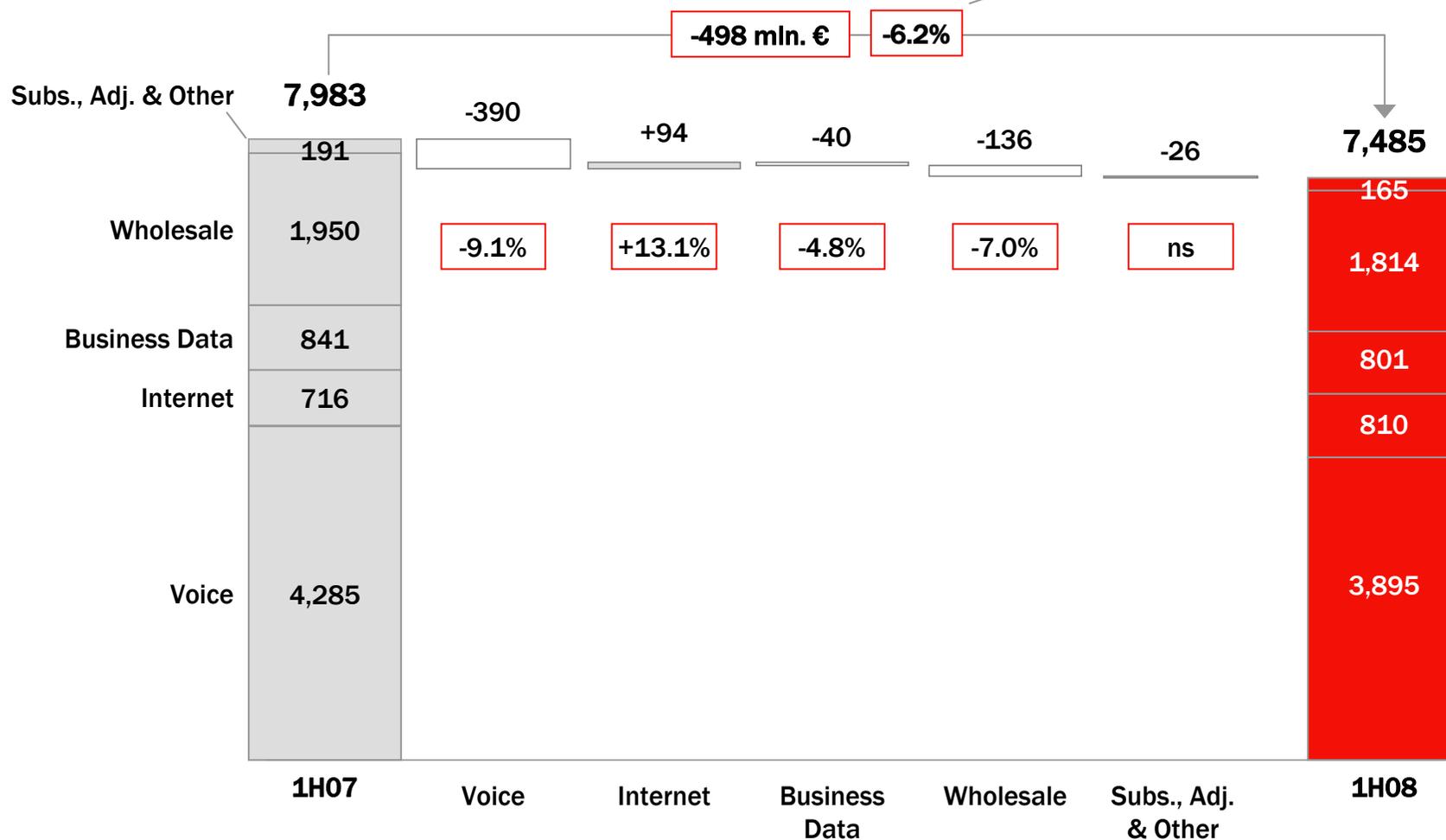
	2008 Targets	2Q08 Evidence
Revenues	<ul style="list-style-type: none"> ▶ Total domestic Fixed organic revenue trend: ~15 Bln €, -4.0/-4.5% YoY (-1.9%/-2.5% net of Regulatory Discontinuities and Carry Forward of Int'l Wholesale) ▶ +10% YoY Internet revenue growth 	<ul style="list-style-type: none"> ▶ Total Revenues: ~7.5 Bln €, -5.7% YoY organic (-2.4% net of discontinuities) in 1H08. -5.5% YoY Organic in 2Q08 ▶ Decrease in low profitability revenue streams (e.g. Voice VAS, ethnic traffic, equipment sales) <ul style="list-style-type: none"> ▶ Voice: <ul style="list-style-type: none"> ▶ 2Q08 Revenues trend in line with 1Q08 (-9.3% in 2Q08 vs -8.9% in 1Q08) ▶ One-shot increase in TI line loss due to WLR introduction ▶ Internet: +11.5% yoy in 2Q08 (+15% on BB revenues) thanks to the implementation of the Value Strategy ▶ Data: 2Q08 Data Service revenues stable QoQ vs 1Q08 (193mln€ in 1Q08 vs 190mln€ in 2Q08) ▶ ICT: +18.7% on ICT Services revenues in 2Q08 vs +17.5% in 1Q08 (Total ICT +4.4% yoy in 1H08 including equipment)
Broadband growth	<ul style="list-style-type: none"> ▶ ~7.0 Mln. € BB Retail access ▶ Broadly Stable ARPU (~18€/month)* ▶ > 75% Flat offer on total (Consumer + Business) Broadband portfolio ▶ ~0.3 Mln. € IPTV access ▶ >30% VoIP penetration on BB lines 	<ul style="list-style-type: none"> ▶ 6.56 Mln € of BB Retail access (137K net adds in 1H08) ▶ 17.8€/month (-1% YoY in 2Q08 vs -4% YoY in 1Q08; +8% YoY in 2Q08 on BB Consumer ARPU) ▶ 75% (+402k Flat customers vs. 2007 y.e.) thanks to up-selling from Free to Flat and focus on Flat acquisitions on BB Consumer ▶ 180k IPTV access, +100K vs. Dec. 07 ▶ 1.65 Mln of VoIP customers, over 25% of TI BB lines (+5p.p. in 1H08)

* Annual ARPU

Domestic Fixed: Revenue Analysis

€ Mln, %, Reported Data

- ▶ **-5.7% organic, -2.4% (-190 mln €) excluding discontinuities:**
 - ▶ F2M Termination cut (50 mln €)
 - ▶ Wholesale prices reduction (NRA obligation) (48 mln €)
 - ▶ Carry forward of Int. Wholesale
 - ▶ Termination M-F and agreement with OLO (24 mln €)

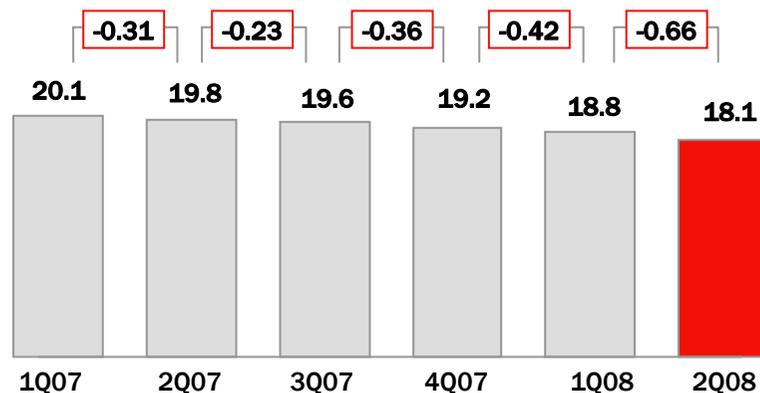


Domestic Fixed: TI Access and Traffic Performance

Telecom Italia access evolution

MIn access lines

QoQ Line loss

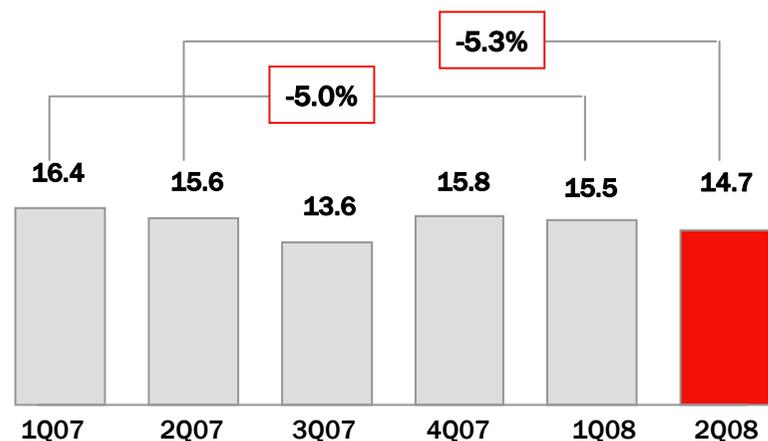


- ▶ One-shot 2Q08 increase in TI line loss due to the introduction of Wholesale Line Rental in March08
- ▶ Lower increase of ULL customers in 2Q08

Telecom Italia Voice traffic evolution

BIn min; TI Voice traffic

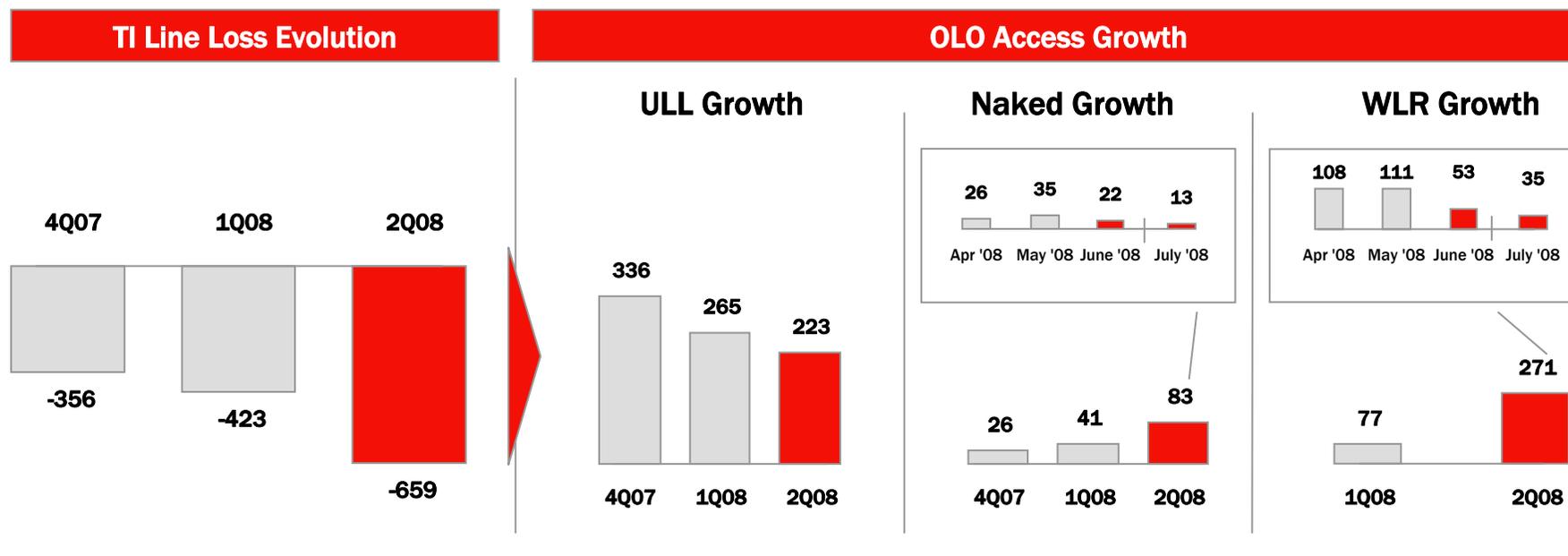
YoY Growth %



- ▶ TI Voice traffic volume 2Q08 decrease in line with 1Q08 because WLR is basically a migration from CS/CPS customers

Domestic Fixed: TI and OLO Access Evolution

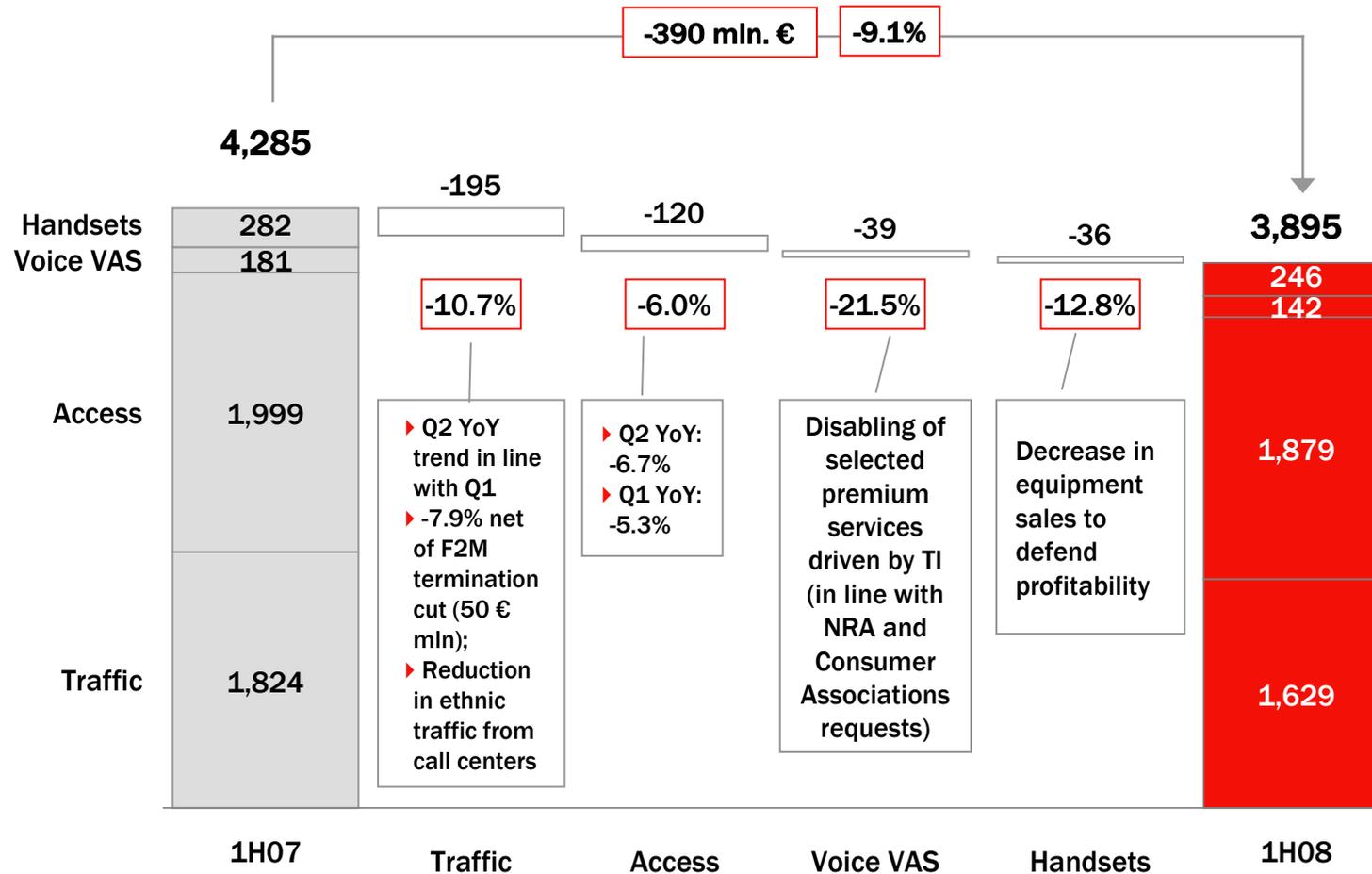
'000 Access lines



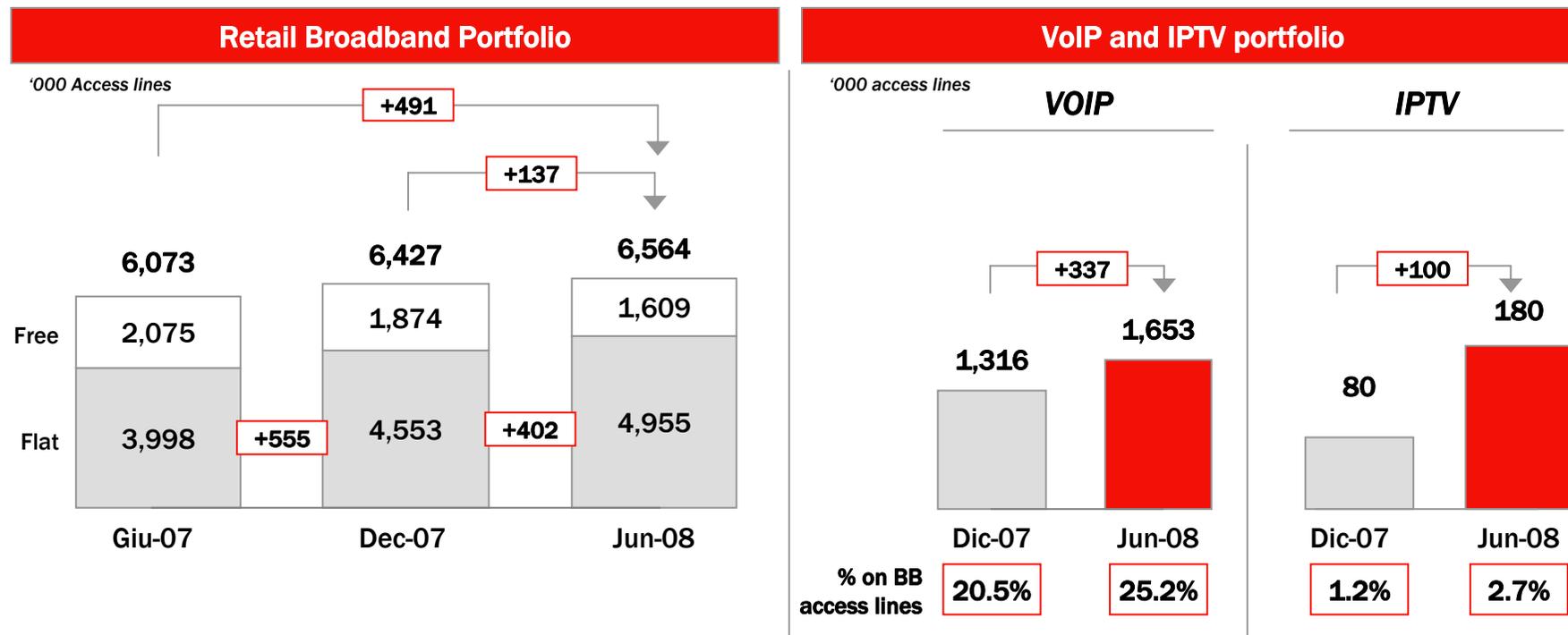
- ▶ TI Line Loss increase in 2Q08 mainly due to the accelerating effect of WLR introduction (strong OLO commercial pre-emption activity migrating CS/CPS customers in WLR); WLR growth strongly reduced in June/July due to repositioning of the OLO commercial offers
- ▶ Marked decrease in ULL customers growth in 2Q08; slight growth in Naked access
- ▶ WLR and Naked have lower impact on TI margins vs ULL
(WLR price = -12% Retail Fee, ULL price = -40% Retail Fee)

Domestic Fixed: Voice Revenues

€ Mln, %, Reported Data



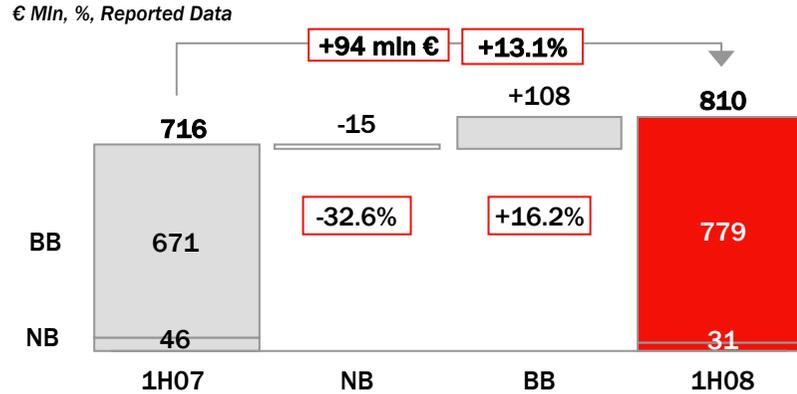
Domestic Fixed: TI Retail Broadband Portfolio Evolution



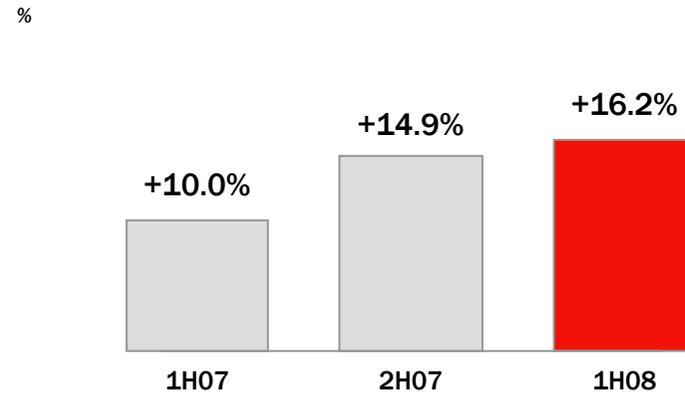
- ▶ TI Retail BroadBand portfolio 2008 growth slow down (+114K in 1Q08, +23K in 2Q08) due to:
 - ▶ Decrease in Italian Fixed BB market growth
 - ▶ Strong growth in 2Q08 ADSL churn related to WLR introduction
- ▶ Strong focus of TI on retention/acquisition of high value customers (Flat, VOIP, IPTV)
- ▶ Business Broadband portfolio growth in line with previous quarters; Portfolio slow-down mainly related to consumer customers

Domestic Fixed: Retail Broadband Strategy Focused on Value

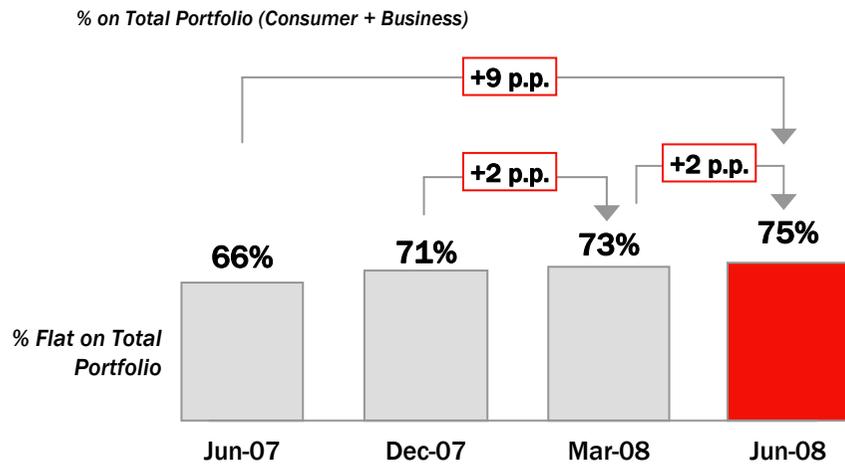
Internet Revenues



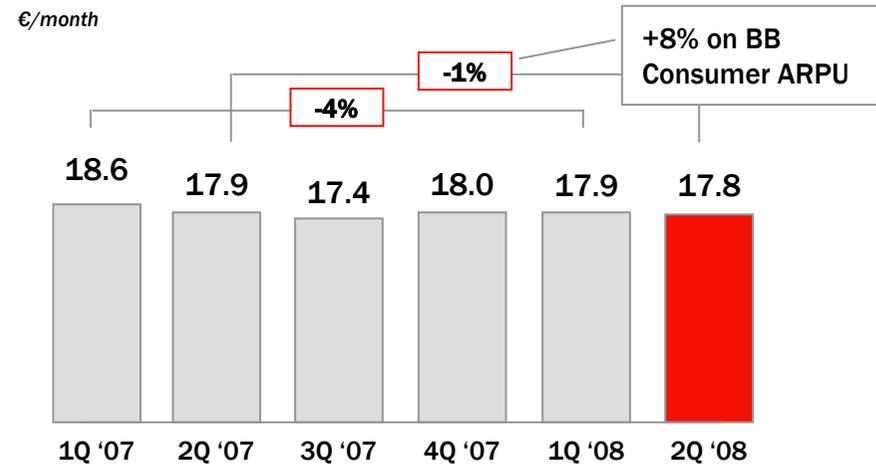
BroadBand Revenues YoY trend



Focus on Flat Offer

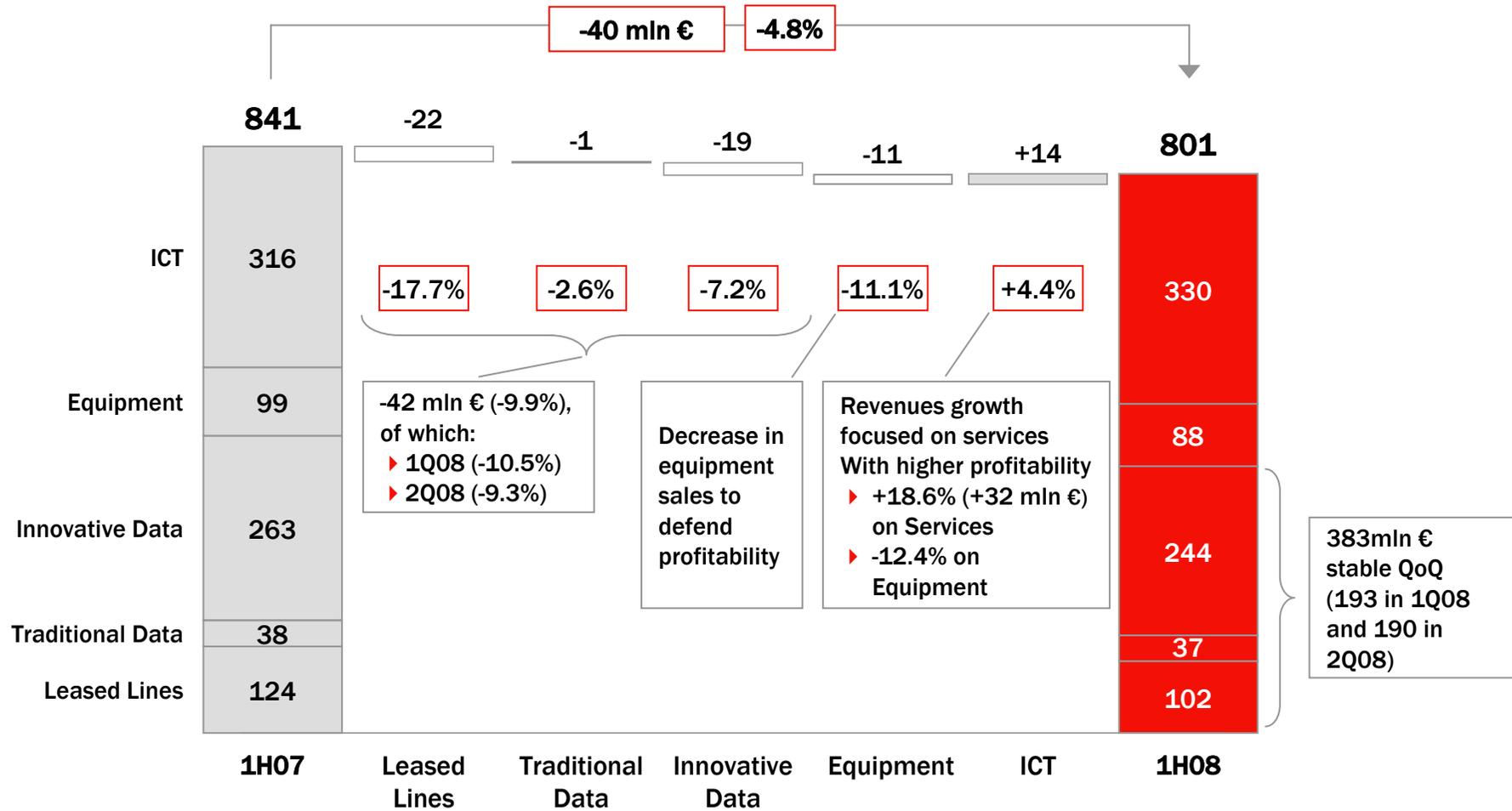


BB ARPU stabilization



Domestic Fixed: Business Data Revenues

€ Mln, %, Reported Data



Domestic Fixed: Three Actions for 2H08

ACCESS/BB PORTFOLIO	ARPU INCREASE	ICT																																								
<p style="text-align: center;">Offer Development</p> <ul style="list-style-type: none"> ▶ Launch of TI Naked offers <ul style="list-style-type: none"> ▶ All inclusive dual play (voice + Broadband) and triple play (+ content) offers based on the “Monthly Fee Zero” concept ▶ Business and Consumer offers ▶ Promo on BB offers (temporary) ▶ “Punto LAN”: launch of “all inclusive – turn key” solutions for business customers 	<p style="text-align: center;">From Free to Flat</p> <p>Continue to migrate Telecom Italia Broadband Customer Base from Free to Flat offers</p>	<p style="text-align: center;">Offer</p> <ul style="list-style-type: none"> ▶ Launch of new ICT offers dedicated to energy and environmental safety vertical markets ▶ Launch of “ICT 4 SME” offer 																																								
<p style="text-align: center;">Proactive and reactive retention</p> <ul style="list-style-type: none"> ▶ Massive launch of pre-retention campaign (preliminary trial results Apr-Jun: -30% churn) ▶ Full implementation of the migration process among fixed operators base on a more symmetric approach (NRA 274) 	<p style="text-align: center;">Upselling</p> <ul style="list-style-type: none"> ▶ Increase penetration of Dual and Triple play offers ▶ Launch of Broadband VAS offers 	<p style="text-align: center;">Commercial focus</p> <ul style="list-style-type: none"> ▶ Focus on Standard offers for Enterprise customers ▶ Improvement of equipment sales performance 																																								
<p style="text-align: center;">Value for Money</p> <p>Commercial effort to increase adoption of TI modem (based on a rental fee) assuring higher quality/effectiveness of the assurance service</p>	<p style="text-align: center;">BID implementation</p> <p>Relevant contracts with Banking and Public Administration (CNIPA for ICT) units have already been acquired and will support revenues growth in 2H08</p>																																									
<p>Portfolio (mln)</p> <table border="1"> <caption>Portfolio (mln)</caption> <thead> <tr> <th>Quarter</th> <th>Access</th> <th>BB</th> </tr> </thead> <tbody> <tr> <td>IQ</td> <td>18,8</td> <td>6,5</td> </tr> <tr> <td>IIQ</td> <td>18,1</td> <td>6,6</td> </tr> <tr> <td>IIIQ</td> <td></td> <td></td> </tr> <tr> <td>IVQ</td> <td></td> <td></td> </tr> </tbody> </table>	Quarter	Access	BB	IQ	18,8	6,5	IIQ	18,1	6,6	IIIQ			IVQ			<p>ARPU (€/month)</p> <table border="1"> <caption>ARPU (€/month)</caption> <thead> <tr> <th>Quarter</th> <th>BB</th> <th>Voice</th> </tr> </thead> <tbody> <tr> <td>IQ</td> <td>17,9</td> <td>17,3</td> </tr> <tr> <td>IIQ</td> <td>17,8</td> <td>17,1</td> </tr> <tr> <td>IIIQ</td> <td></td> <td></td> </tr> <tr> <td>IVQ</td> <td></td> <td></td> </tr> </tbody> </table>	Quarter	BB	Voice	IQ	17,9	17,3	IIQ	17,8	17,1	IIIQ			IVQ			<p>ICT Revenues (mln€)</p> <table border="1"> <caption>ICT Revenues (mln€)</caption> <thead> <tr> <th>Quarter</th> <th>Revenues</th> </tr> </thead> <tbody> <tr> <td>IQ</td> <td>151</td> </tr> <tr> <td>IIQ</td> <td>179</td> </tr> <tr> <td>IIIQ</td> <td></td> </tr> <tr> <td>IVQ</td> <td></td> </tr> </tbody> </table>	Quarter	Revenues	IQ	151	IIQ	179	IIIQ		IVQ	
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Guidance 2008 Domestic Fixed

	Target 2008	2008 Outlook
Total Revenues	▶ ~15bnl €	✓
Internet Revenues	▶ +10% vs 2007	✓
ICT Revenues	▶ 0,78 Bln€	0,74
BB Portfolio	▶ 7,0 mln access EoY '08	6,7
BB ARPU	▶ Broadly Stable	✓
Flat Offer on BB CB	▶ >75%	✓
IPTV Portfolio	▶ 0,3 mln access EoY '08	✓
VOIP Penetration on BB CB	▶ > 30%	✓

▶ Confirming high profitability services

▶ Less equipment

▶ Acquired order portfolio in line with achievement of revised 2008 Revenues Target

▶ Focus on high value customers (Flat, VOIP, IPTV)

▶ BB Italian market slowdown

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Domestic Mobile: Safely Along the Path

	2008 Targets	2Q08 Evidence
Market share/ ARPU	<ul style="list-style-type: none"> ▶ Focus on Revenue share rather than market share (~ 40% Mkt share) ▶ Stable positioning on key segments <hr/> <ul style="list-style-type: none"> ▶ Slowdown ARPU dilution (20€) 	<p>Market share: 39.4% in Q2 (vs. 39.7% in Q1) (lower push on gross adds; more disconnections of inactive lines) Stable market shares on key segments (Survey):</p> <ul style="list-style-type: none"> ▶ Business: 51,8% ▶ Consumer: 41% on lines, 45% on revenue <hr/> <p>ARPU rebounded in Q2</p> <ul style="list-style-type: none"> ▶ 20.1€ (vs. 19.2€ in Q1) ▶ Outgoing usage growth confirmed (+4% QoQ; +12% YoY) ▶ Price stabilized QoQ at 12€cent ▶ Interactive VAS positive trend confirmed
VAS Mobile internet	<ul style="list-style-type: none"> ▶ ~ 25% VAS on Service Revenues ▶ 2.6 mln Mobile Broadband lines 	<p>VAS at 23.5% on Service Revenues in Q2</p> <ul style="list-style-type: none"> ▶ Interactive VAS exceed traditional messaging ▶ 1,6 mln WEB Mobile Broadband active users ▶ Istant messaging and e-mail substitutes traditional sms
Revenue growth	<ul style="list-style-type: none"> ▶ Flat Retail Service Revenues ▶ -2% total Mobile Revenues <ul style="list-style-type: none"> ▶ Less handsets ▶ Less wholesale 	<p>Retail Service Revenues -3.0% in Q2 vs. -5.5% in Q1</p> <ul style="list-style-type: none"> ▶ Outgoing Voice & VAS: QoQ +3,1% , flat Q2 YoY ▶ Volume growth: ending of Bersani elasticity impact ▶ Prices stable at Q1 level; pricing-up in Q3 ▶ Incoming revenues -15% in H1'08 (vs -7% in H1'07): slow down of volumes from other mobile operators <p>Wholesale Revenues -36% in Q2 vs. -19% in Q1</p> <ul style="list-style-type: none"> ▶ H3G National roaming; Reding impact on Int'l roaming

Domestic Mobile: Retail/Wholesale Revenues

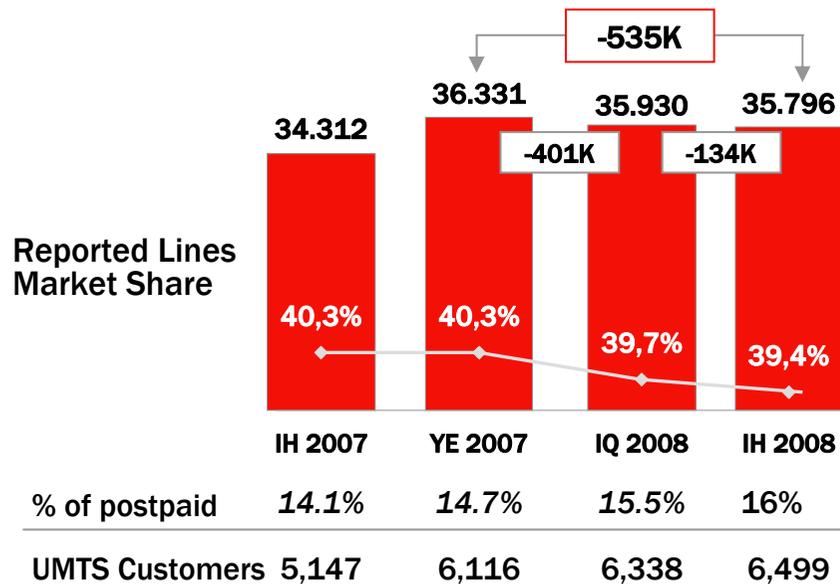
Mobile Totale*	2007				2008		Δ abs 08/07		Δ % 08/07	
	IQ	IIQ	IIIQ	IVQ *	IQ	IIQ	IQ	IIQ	IQ	IIQ
Revenues (Mln €)	2.365	2.551	2.513	2.549	2.236	2.434	(129)	(118)	(5,4)	(4,6)
Services	2.274	2.321	2.366	2.244	2.136	2.209	(137)	(113)	(6,0)	(4,9)
Business generated	1.779	1.770	1.855	1.801	1.716	1.767	(63)	(3)	(3,5)	(0,2)
Outgoing Voice	1.331	1.296	1.367	1.247	1.197	1.235	(134)	(61)	(10,1)	(4,7)
VAS	451	466	487	525	518	519	68	53	15,0	11,4
Other Retail	(3)	9	2	29	1	13	4	4	ns	ns
Business received	495	551	511	442	420	442	(74)	(110)	(15,0)	(19,9)
Incoming Voice	410	425	365	370	352	363	(58)	(62)	(14,1)	(14,5)
Visitors and Other wholesale	85	126	146	72	68	78	(17)	(48)	(19,5)	(38,1)
Handsets	91	230	147	306	100	225	9	(5)	9,6	(2,3)
<i>Retail</i>										
Revenues (Mln €)	2.274	2.420	2.359	2.470	2.163	2.350	(111)	(70)	(4,9)	(2,9)
Services	2.183	2.190	2.212	2.165	2.063	2.125	(120)	(65)	(5,5)	(3,0)
Business generated	1.776	1.768	1.851	1.800	1.714	1.767	(62)	(1)	(3,5)	(0,0)
Outgoing Voice	1.331	1.295	1.365	1.247	1.196	1.235	(134)	(60)	(10,1)	(4,6)
VAS	449	464	485	524	517	519	68	55	15,2	11,9
Other	(3)	9	2	29	1	13	4	4	ns	ns
Business received (incoming)	407	422	361	365	349	358	(58)	(64)	(14,2)	(15,2)
Handsets	91	230	147	306	100	225	9	(5)	9,6	(2,3)
<i>Wholesale/Other*</i>										
Revenues (Mln €)	90	132	154	79	73	84	(17)	(48)	(19,3)	(36,3)

* Organic: excluding H3G arbitration on Incoming Voice (-56 mln € IVQ07)

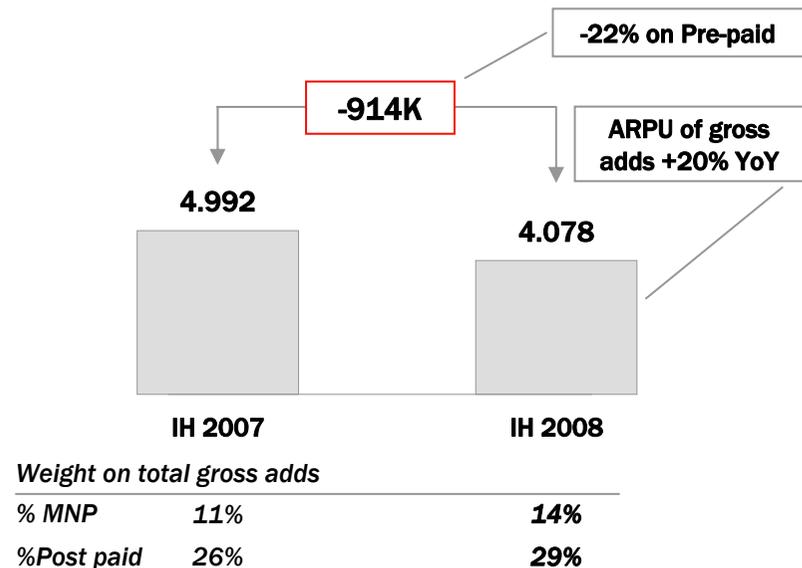
- ▶ H3G Roaming
- ▶ Intl Roaming (Reding)

Domestic Mobile: Less Quantity More Quality

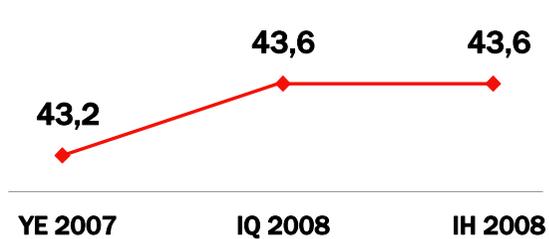
Customer Base ('000)



Gross Adds ('000)

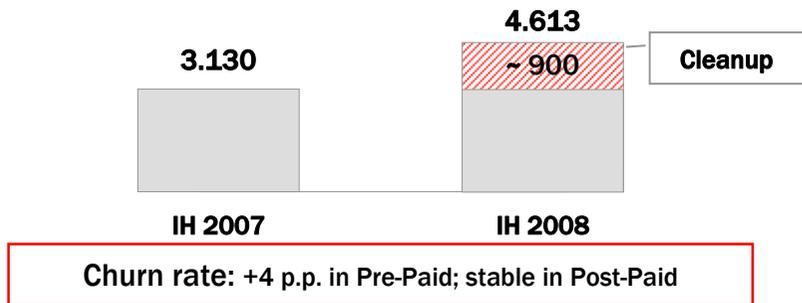


Traffic Market Share Fixed - Mobile* (%)

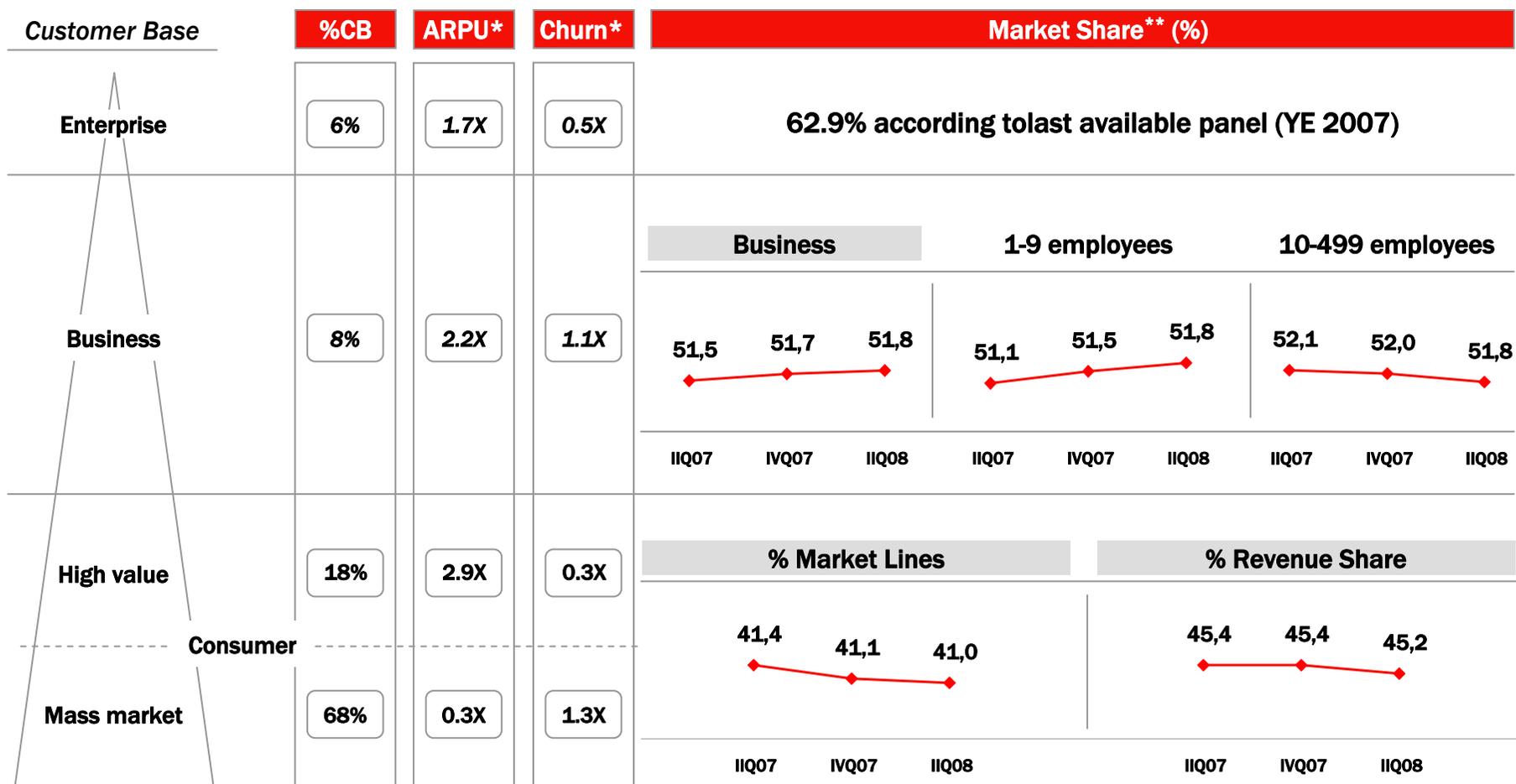


* % F-M traffic terminated to TIM on total outgoing TI Wireline volumes

Churn (including clean-up)



Domestic Mobile: Defended Leadership on Valuable Segments



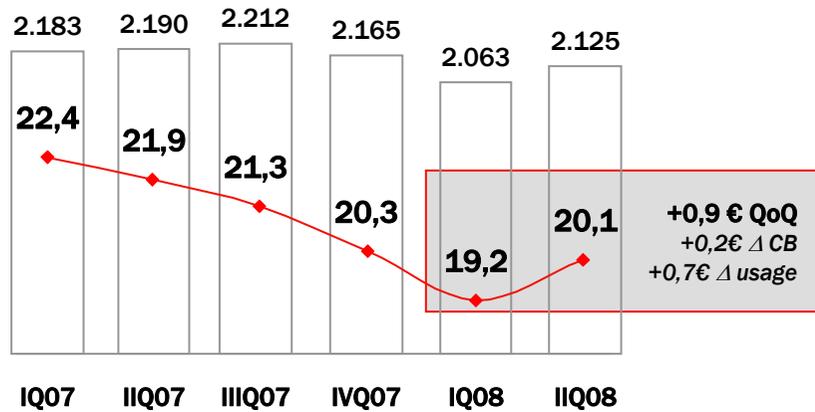
* TIM average = 1X

** Source: CRA Research (panel TLC ex Nielsen), Eurisko

Domestic Mobile: ARPU Rebound

ARPU (€/month/line)

Retail Service Revenues (mln€)



Usage of Voice (minutes per line per month - MoU)

110	116	119	119	119	123
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Retail Service Revenues

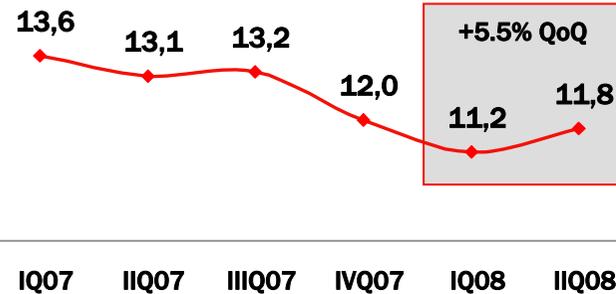
YoY	+1%	-2%	-4%	-3%	-5,5%	-3%
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2Q 2007 benefited from:

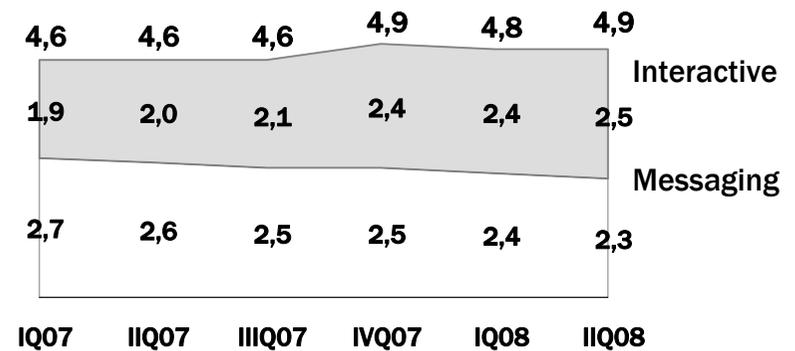
- ▶ Bersani elasticity
- ▶ Still high prices

- ▶ Consolidation of usage growth
- ▶ Stabilized prices; repricing shift to Q3
- ▶ Less incoming

ARPU Outgoing Calls (€/month/line)



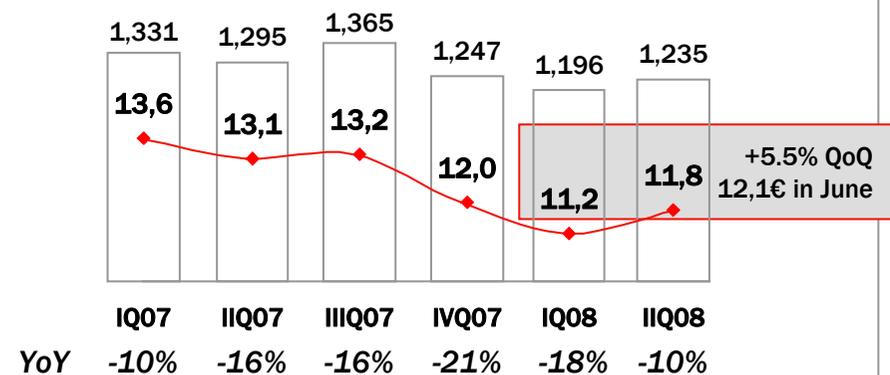
ARPU VAS (€/month/line)



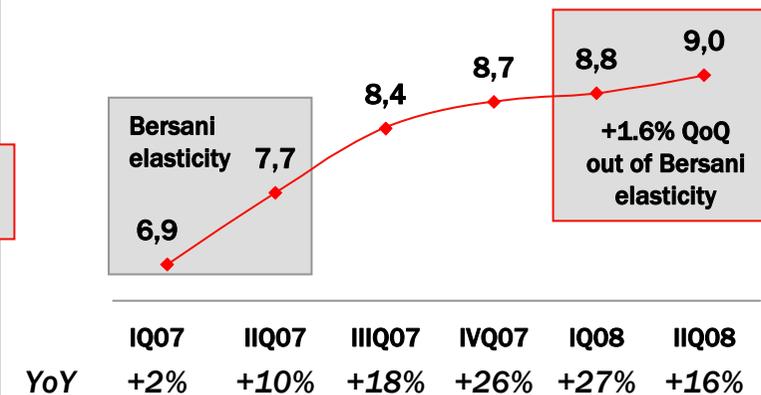
Domestic Mobile: Outgoing Voice

ARPU Outgoing (€)

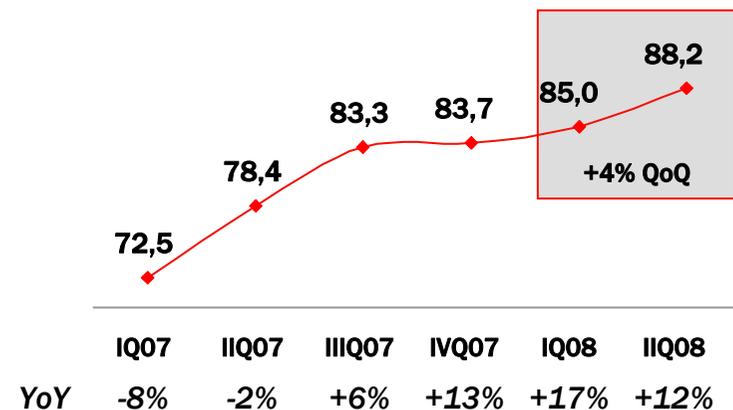
Retail Outgoing Revenues (mln€)



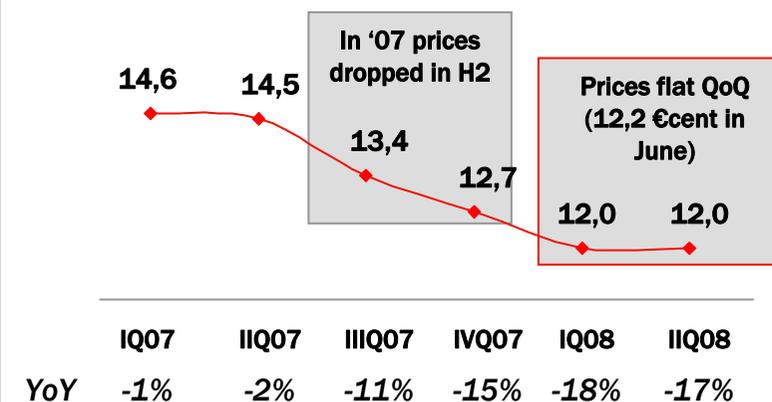
Volume (bn minutes)



Outgoing Usage Retail (min/line)

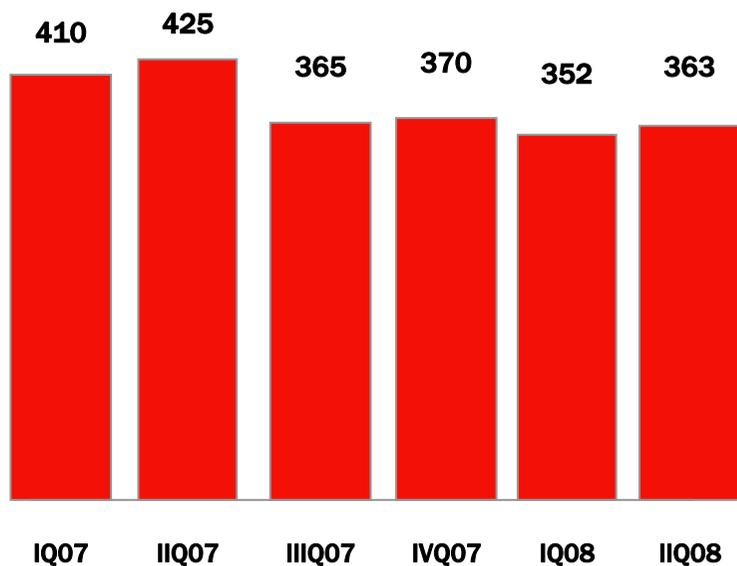


Price (€cent)



Domestic Mobile: Incoming Voice

Retail Incoming Revenues (mln €)

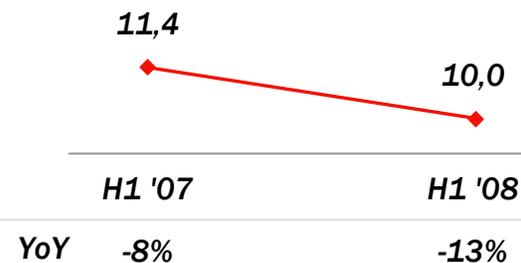


YoY -7% -7% -13% -12% -14% -15%

Volume (mln min)

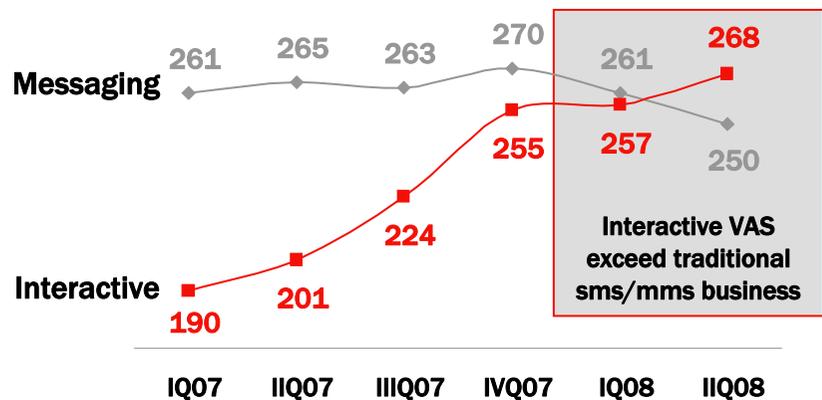
	3,569	3,699	3,573	3,606	3,512	3,587
	1,810	1,783	1,665	1,677	1,592	1,688
	1,760	1,916	1,908	1,929	1,921	1,900
	IQ07	IIQ07	IIIQ07	IVQ07	IQ08	IIQ08
F-M	1,810	1,783	1,665	1,677	1,592	1,688
M-M	1,760	1,916	1,908	1,929	1,921	1,900
YoY	+1.2%	+1.1%	-1.7%	-1.5%	-1.6%	-3.0%
F-M	-8%	-10%	-12%	-12%	-12%	-5%
M-M	+12%	+14%	+9%	+9%	+9%	-1%

Termination Rate (€cent)



Domestic Mobile: VAS - Interactive VAS Overtakes Messaging

Total VAS Revenues (mln€)

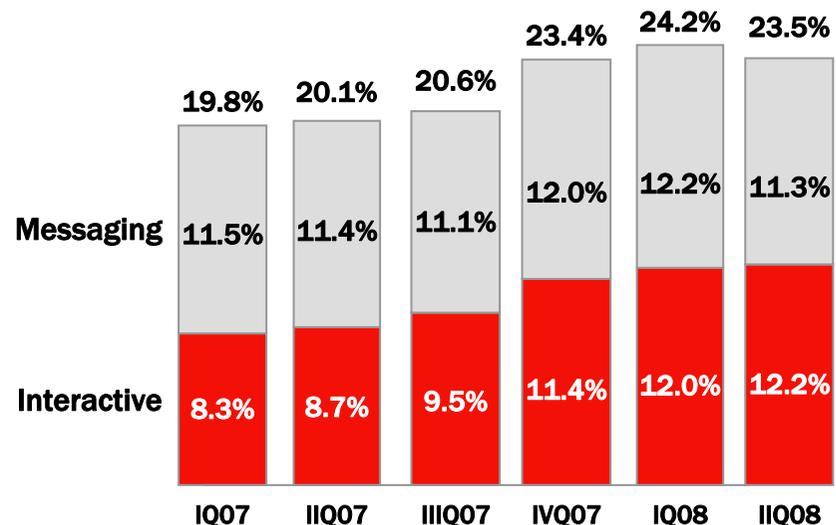


	IQ07	IIQ07	IIIQ07	IVQ07	IQ08	IIQ08
Total	451	466	487	525	518	519

YoY	+11%	+21%	+13%	+24%	+15%	+11%
Messaging	+5%	+9%	-0.1%	-5%	+0.3%	-5%
Interactive	+21%	+39%	+32%	+81%	+35%	+33%

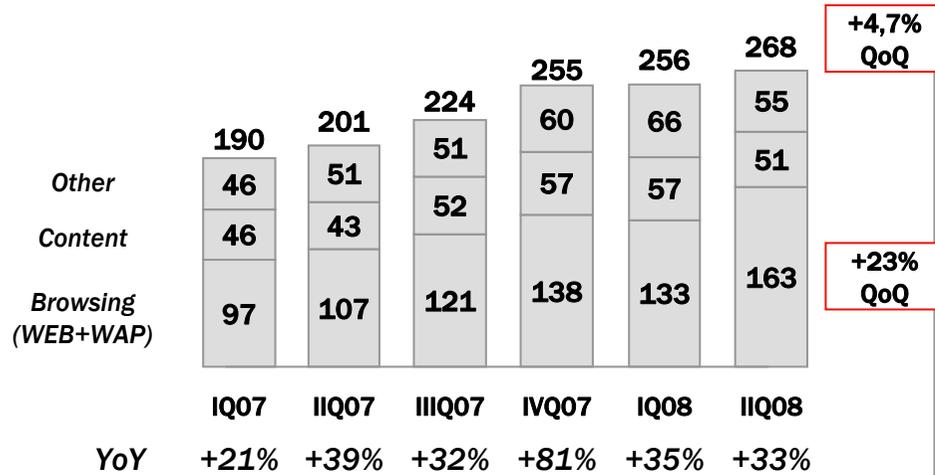
- ▶ Flat messaging
- ▶ Confirmed mobile internet growth

Mobile VAS/Service Revenues (%)

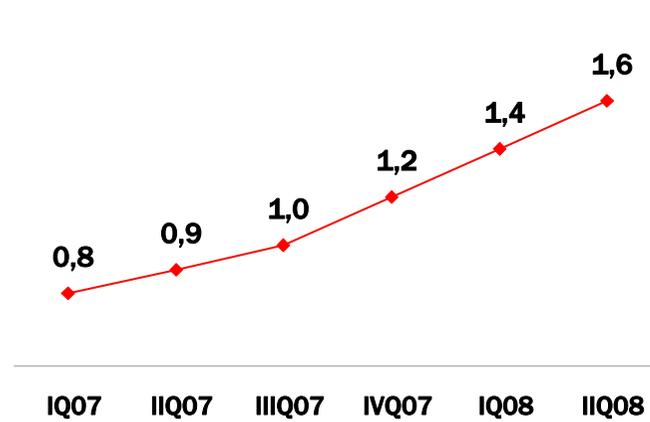


Domestic Mobile: Interactive VAS Driven by Mobile Internet

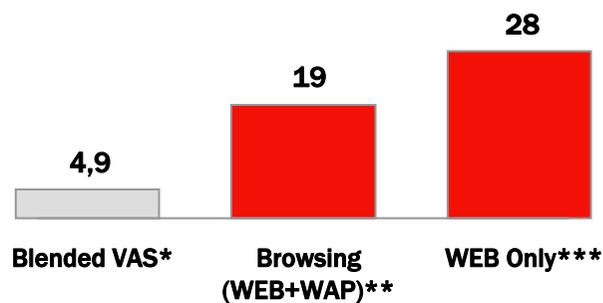
Interactive VAS Revenues Retail (mln€)



WEB Mobile Broadband Active Users (mln)

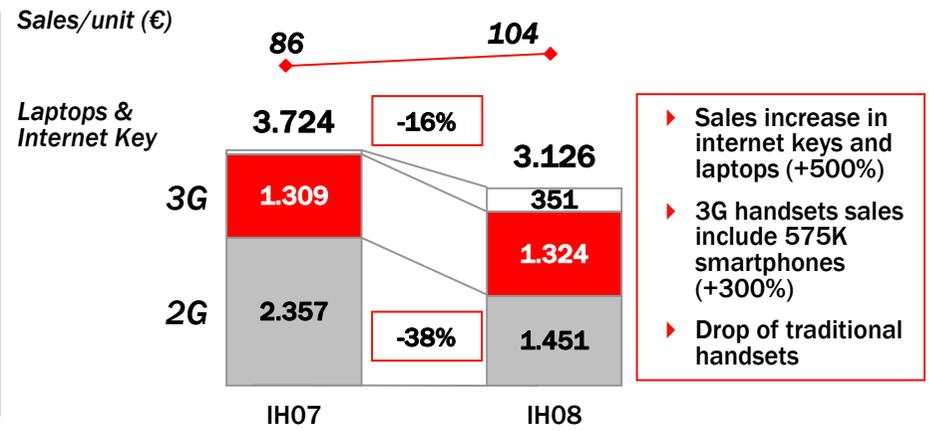


ARPU VAS IIQ08 (€)



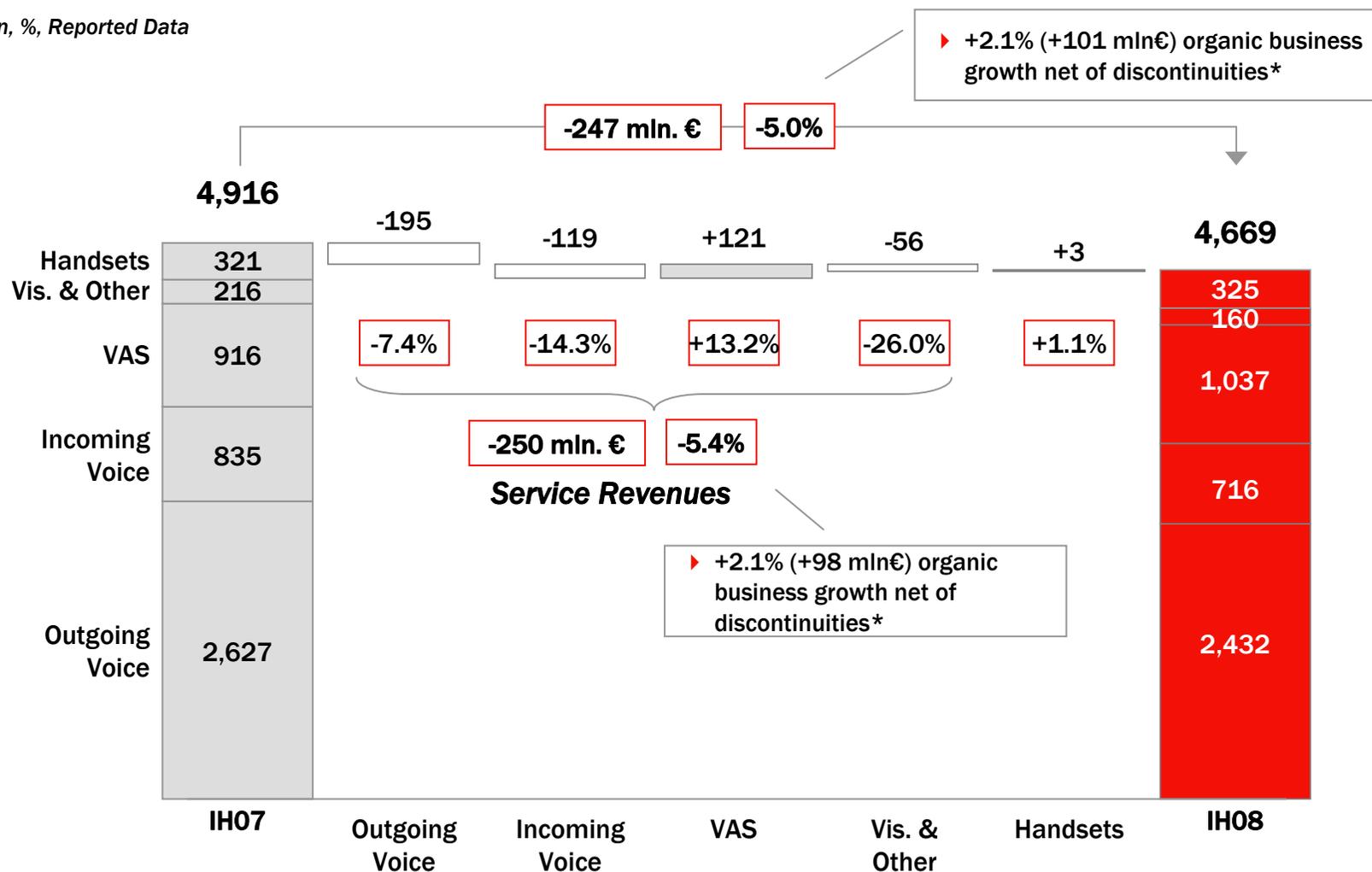
* Reported on Total lines
 **Browsing revenues/mobile active Internet users (>50KB WAP; more than 3 WEB connections)
 *** WEB Browsing revenues/web active users (more than 3 WEB connections)

From handsets to internet devices ('000)



Domestic Mobile: Revenue Analysis

€ Mln, %, Reported Data



* Excluding Bersani Decree (-125 mln€); Termination cut F-M (-102 mln€); Reding impact (-90 mln€) and H3G Roaming (31 mln€)

Domestic Mobile: Drivers of Growth for 2H08

USAGE	PRICE	VAS																																													
<p>Segmented Offering</p> <p>TIMin2 - Friends&Family Concept</p> <ul style="list-style-type: none"> ▶ 50K early adopters (mainly prepaid heavy users): ex post 700 minutes/user <p>Welcome Home – for Ethnic segment</p> <ul style="list-style-type: none"> ▶ +75% YoY International calls in June <p>MTV Mobile - second brand for young segment</p>	<p>Mass Market price up</p> <p>Price Increase of existing pre-paid plans:</p> <ul style="list-style-type: none"> ▶ Tariff plans revised ▶ Introduction of “TIM-50% long”: halved price for on-net calls, after 2° minute 	<p>Iphone 3G Launch</p> <p>Launch on July 11th (sell in 50k):</p> <ul style="list-style-type: none"> ▶ postpaid and prepaid offers tailored for iphone (data centric) ▶ 20€ ARPU uplift for postpaid ▶ Mix pre/postpaid: 80%-20% 																																													
<p>Mass Market Offering</p> <p>“Chiara”</p> <ul style="list-style-type: none"> ▶ flat tariff plan with multiple options 	<p>TIM Tribù Repricing</p> <p>“All you can eat” in community:</p> <ul style="list-style-type: none"> ▶ calls, sms, mms, videocall, IM at 1€ per day 	<p>Push Alice Mobile</p> <p>“Spread Personal Internet concept”</p> <ul style="list-style-type: none"> ▶ Bundle pack of miniPC, internet key and data 																																													
<p>Convergence – TIM Family</p> <ul style="list-style-type: none"> ▶ Home Zone for voice ▶ ADSL Naked for data ▶ Family net voice tariff plan 	<p>“Autoricarica”</p> <p>Reduced bonus on incoming calls</p>	<p>Convergence – Alice</p> <p>Broadband at home and on the move:</p> <ul style="list-style-type: none"> ▶ Bundling of internet key & data traffic for Fixed ADSL existing Customer Base 																																													
<p><i>Volume (bn min)</i></p> <table border="1"> <tr> <th>Year</th> <th>IQ</th> <th>IIQ</th> <th>IIIQ</th> <th>IVQ</th> </tr> <tr> <td>2007</td> <td>6,9</td> <td>7,7</td> <td>8,4</td> <td>8,7</td> </tr> <tr> <td>2008</td> <td>8,8</td> <td>9,0</td> <td>8,4</td> <td>8,7</td> </tr> </table>	Year	IQ	IIQ	IIIQ	IVQ	2007	6,9	7,7	8,4	8,7	2008	8,8	9,0	8,4	8,7	<p><i>Price (€cent)</i></p> <table border="1"> <tr> <th>Year</th> <th>IQ</th> <th>IIQ</th> <th>IIIQ</th> <th>IVQ</th> </tr> <tr> <td>2007</td> <td>14,6</td> <td>14,5</td> <td>13,4</td> <td>12,7</td> </tr> <tr> <td>2008</td> <td>12,0</td> <td>12,0</td> <td>13,4</td> <td>12,7</td> </tr> </table>	Year	IQ	IIQ	IIIQ	IVQ	2007	14,6	14,5	13,4	12,7	2008	12,0	12,0	13,4	12,7	<p><i>Interactive VAS Revenues (mln€)</i></p> <table border="1"> <tr> <th>Year</th> <th>IQ</th> <th>IIQ</th> <th>IIIQ</th> <th>IVQ</th> </tr> <tr> <td>2007</td> <td>190</td> <td>201</td> <td>224</td> <td>255</td> </tr> <tr> <td>2008</td> <td>256</td> <td>268</td> <td>224</td> <td>255</td> </tr> </table>	Year	IQ	IIQ	IIIQ	IVQ	2007	190	201	224	255	2008	256	268	224	255
Year	IQ	IIQ	IIIQ	IVQ																																											
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2007	190	201	224	255																																											
2008	256	268	224	255																																											

Domestic Mobile: Guidance 2008

	2008 Targets		2008 Outlook
Market share and ARPU	▶ Focus on Revenue share rather than market share (~ 40% Mkt share)	~39%	▶ Less lines, more ARPU: <ul style="list-style-type: none"> ▶ Focus on quality of gross adds ▶ Retention of valuable customers ▶ Disconnection of inactive lines ▶ Stable shares on valuable segments
	▶ Stable positioning on key segments	✓	
VAS Mobile internet	▶ ~ 25% VAS on Service Revenues	✓	
	▶ 2.6 mln Mobile Broadband lines	✓	
Revenue growth	▶ Flat Retail Service Revenues	-1.5%	▶ Retail Service Revenues: <ul style="list-style-type: none"> ▶ - 4.2% in H1 (-1.4% net of Bersani) ▶ Positive in Q4 and H2 for VAS, price-up, more usage of voice ▶ More handsets sales on Total Revenues (Iphone, internet devices)
	▶ -2% Total Mobile Revenues	✓	

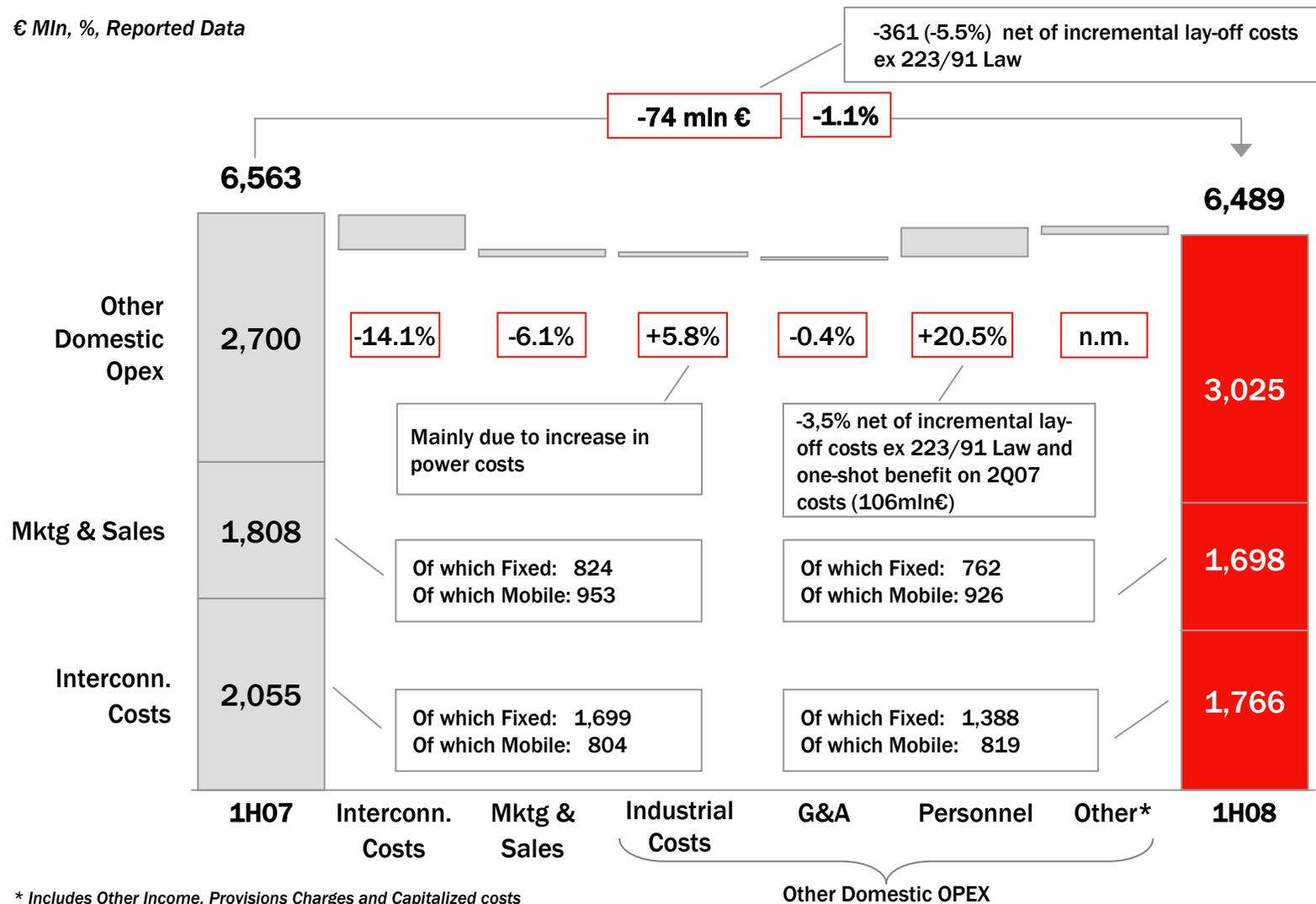
Agenda

- ▶ **1H 2008 business performance:**
 - ▶ **Domestic**
 - ▶ Fixed business performance
 - ▶ Mobile business performance
 - ▶ **Cost Analysis**
 - ▶ European BB: HanseNet + BBNED
 - ▶ TIM Brasil

- ▶ Appendix

Domestic: Cost Analysis

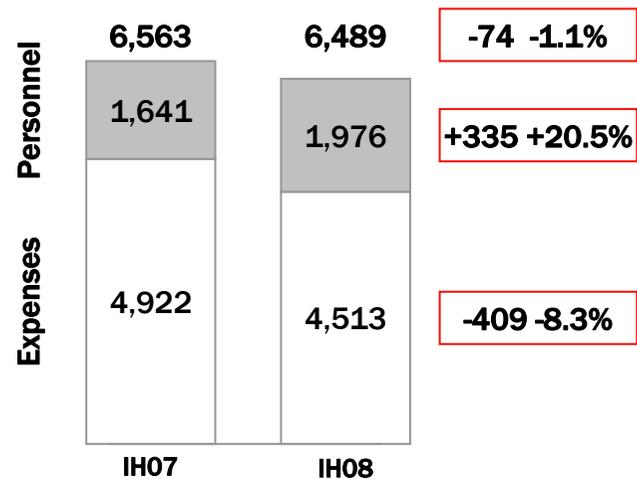
€ Mln, %, Reported Data



Domestic: Efficiency

Domestic Reported Opex Trend

€ mln



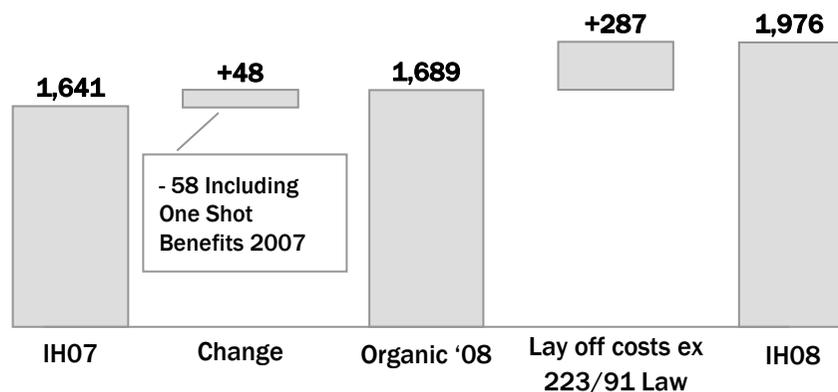
	IH07	IH08	Change	% Change
1Q	3,156	2,952	-204	-6.5%
2Q	3,407	3,537	+130	+3.8%

Domestic Organic Opex Trend

1H	6,488	6,188	-300	-4.6%
1Q	3,148	2,940	-208	-6.6%
2Q	3,340	3,248	-92	-2.8%

-198M€ including one shot benefit IIQ07 (-5.9%)

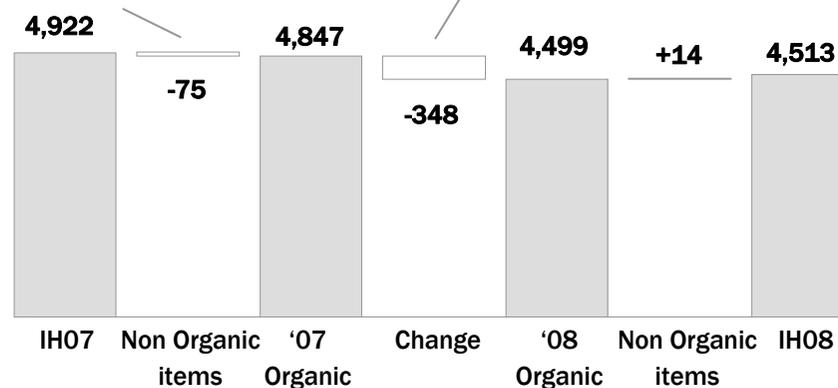
ORGANIC PERSONNEL COST



ORGANIC EXPENSES

- ▶ 22 Exchange rate and consolidation area impact
- ▶ 53 Provisions & litigation with OLO

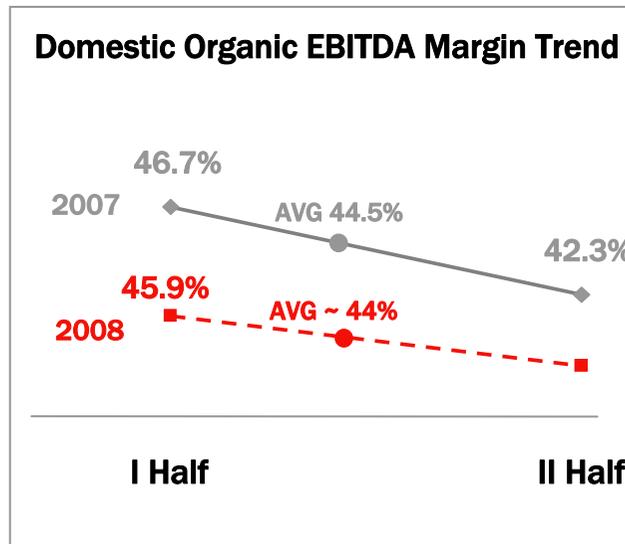
- ▶ -279 Interconnection costs
- ▶ -110 Sales Channel / MKTG
- ▶ +34 Industrial Power increase
- ▶ +7 Other



2008 Domestic Targets Confirmed

Organic Data

	Target 2008	IH08 Results	2008 Outlook
Domestic Revenues	> 23bnl €	~ 11,5 bnl €	✓
Fixed Revenues	~ 15 bln€	~ 7,5 bln€	✓
Mobile Revenues	~ 9,8 bln€	~ 4,7 bln€	✓
Domestic Organic EBITDA margin %	~ 44%	45.9%	✓



- ▶ Domestic Revenues Target confirmed (both on Fixed and Mobile)
- ▶ Expected 2H YoY Organic costs reduction in line with 1H thanks to structural costs saving programs launched in 2008 (Mktg&Sales, G&A)



Domestic Organic EBITDA Target confirmed

Agenda

- ▶ **1H 2008 business performance:**
 - ▶ Domestic
 - ▶ Fixed business performance
 - ▶ Mobile business performance
 - ▶ Cost Analysis
 - ▶ **European BB: HanseNet + BBNED**
 - ▶ TIM Brasil

- ▶ Appendix

European BroadBand: Main Results by Country

€ Mln, '000 lines, %, Reported Data

	Total European BB				of which HanseNet + AOL				of which BBNET			
	1H '08	1H '07*	Δ Abs	Δ%	1H '08	1H '07	Δ Abs	Δ%	1H '08	1H '07	Δ Abs	Δ%
Revenues	642	512	+130	+25.4%	601	476	+125	+26.3%	41	36	+5	+13.9%
Ebitda	119	128	-9	-7.0%	115	118	-3	-2.5%	4	10	-6	-60.0%
Ebitda margin	18.5%	25.0%	-6.5 p.p.		19.1%	24.8%	-5.7 p.p.		9.8%	27.8%	-18.0 p.p.	
Ebit	2	52	-50	-96.2%	9	52	-43	-82.7%	-7	0	-7	n.m.
Ebit margin	0.3%	10.2%	-9.9 p.p.		1.5%	10.9%	-9.4 p.p.		-17.1%	0.0%	-17.1 p.p.	
Capex	189	190	-1	-0.5%	181	186	-5	-2.7%	8	4	+4	+100%
% on revenues	29.4%	37.1%	-7.7 p.p.		30.1%	39.1%	-9.0 p.p.		19.5%	11.1%	+8.4 p.p.	

Organic growth:
 ▶ +10,5% Revenues
 ▶ -8,0% EBITDA

* Pro-forma Data excluding Liberty Surf Group (discontinued operations)

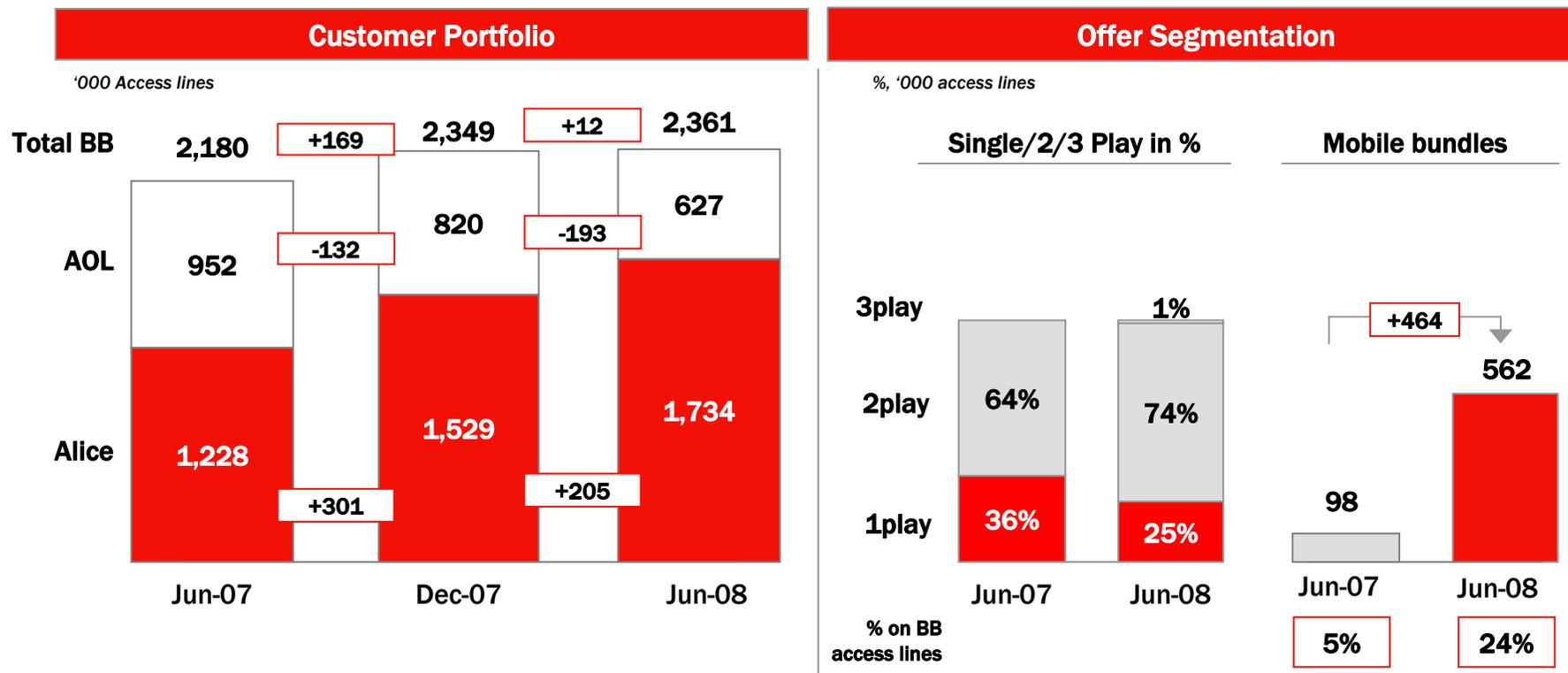
HanseNet: Main Results

€ Mln, %

	Reported Data				Organic Growth	
	1H '08	1H '07	Δ	Δ %	Δ	Δ %
Revenues	601	476	+125	+26.3%	+57	+10.5%
Ebitda	115	118	-3	-2.5%	-10	-8.0%
% on revs	19.1%	24.8%	-5.7 p.p.		-3.9 p.p.	
Capex	181	186	-5	-2.7%	-5	-2.7%
% on revs	30.1%	39.1%	-9.0 pp		-9.0 pp	

- ▶ HanseNet is slightly reducing its market share, as most of the DSL alternative players, mainly due to the increasing competition from the incumbent, cable operators and Vodafone
- ▶ While Alice BB customers keep on growing, decline of AOL customers is offsetting the core growth
- ▶ Although nominal price is stable to 29.90€/month for a dual play flat-rate offer, price competition is based on commercial promotions and generates high pressure on margins and profitability. ARPU is expected to slightly decrease in 2Half
- ▶ High customer service cost due to process reengineering, which allowed reaching best in class performance, started to decrease and will generate further efficiency in 2H

HanseNet: Broadband Portfolio Evolution



- ▶ Overall BB net growth (+ 12K vs 2H-07 and -11k vs Q1-08) continues to suffer from decline of AOL customers while Alice customers keep on increasing (+205K vs 2H-07 and +70K vs Q1-08)
- ▶ Q2 Gross adds decreased but are in line with expectations (+190k vs Q1), affected by the general market slow down
- ▶ F2M convergent offer penetration increased from 5% in 2H-07 to 14% in 1Q-08 to 24% in 1H-08
- ▶ Brand awareness increased to 67% in 1H-08 vs previous 51% surveyed in February '08

HanseNet: Progress on Operational Priorities

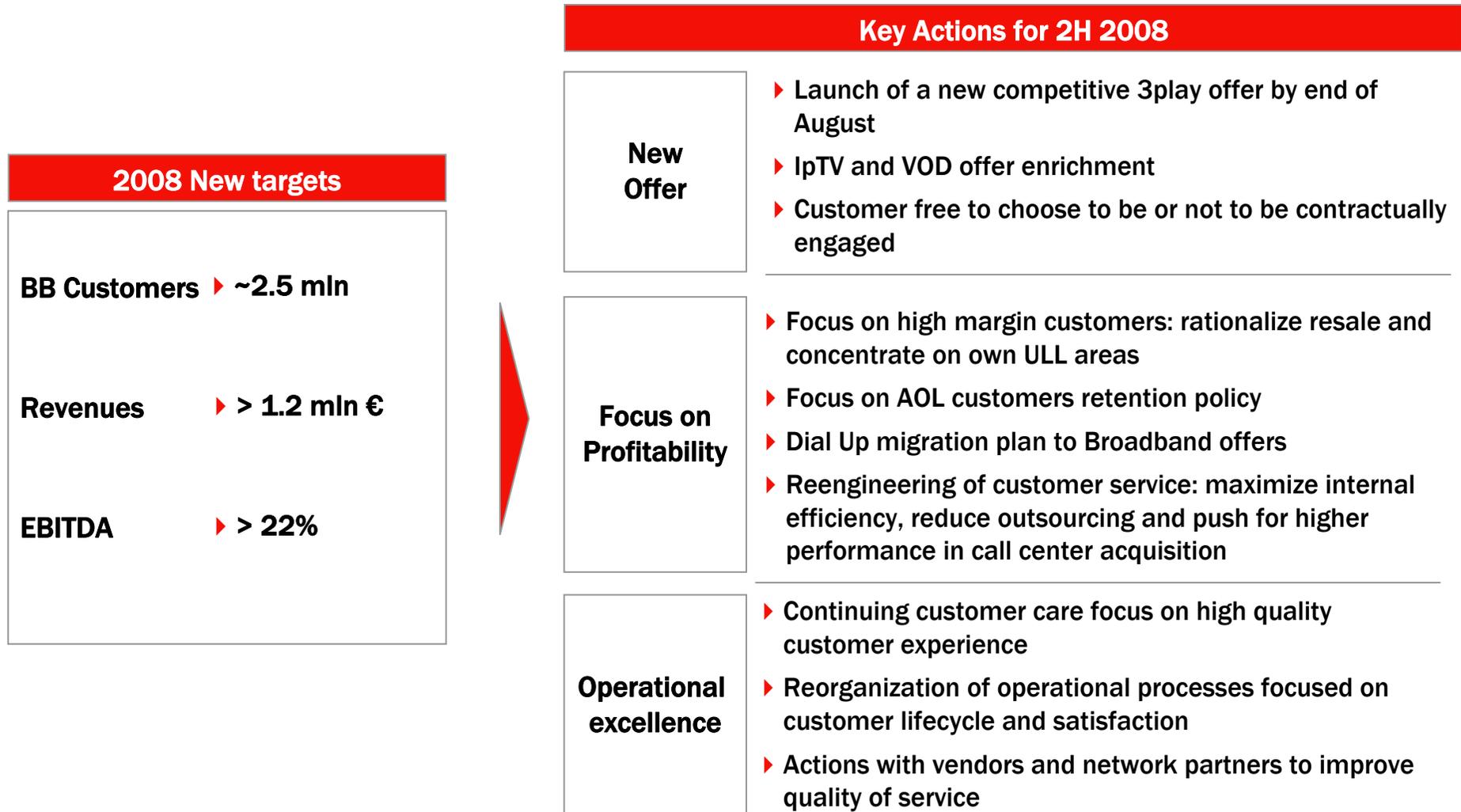
Operational Excellence

- ▶ **Service levels** continue to grow thanks to operational optimizations:
 - ▶ Increasing hotline answering ratio to 93% and reducing call duration
 - ▶ Improving first contact technical problem resolution
 - ▶ Reduced activation backlogs by more than 50% due to optimization of activation processes
 - ▶ Substantial cost savings reached by end of first half

Network Extension

- ▶ **ULL coverage** stable around 68%, from ~60% in 2007 through 3rd party coverage
- ▶ **Roll-out of FTTB** trial in selected area of Hamburg. Initial customer activation is planned for 4H08

HanseNet: Operational Turnaround and New Targets 2008



Agenda

- ▶ **1H 2008 business performance:**
 - ▶ Domestic
 - ▶ Fixed business performance
 - ▶ Mobile business performance
 - ▶ Cost Analysis
 - ▶ European BB: HanseNet + BBNED
 - ▶ **TIM Brasil**

- ▶ Appendix

TIM Brasil: Investing for the Future

▶ Marking the market

- ▶ **Confirming 2nd position in market share: 25.4%** despite lower push on low-end segment and temporary halt of telesales postpaid channel acquisitions
- ▶ **Retention policy paying off:** monthly churn rate down to 2.8% in 2Q08 (-0.4pp YoY)
- ▶ **Post paid mix ahead of competitors: 20.2% vs. 18.6%**

▶ Boosting wireless broadband with TIM **3G+** launch

- ▶ **Unique approach to 3G:** frequency exclusively for data, local infrastructure adequate to support high speed connection, strong distribution channel, relevant content partnership
- ▶ **Further expansion in network coverage:** 20 cities already covered
- ▶ **Strong increase of TIM Web BB sales:** 2x volume and incremental ARPU

▶ Steadying operations in 2Q08

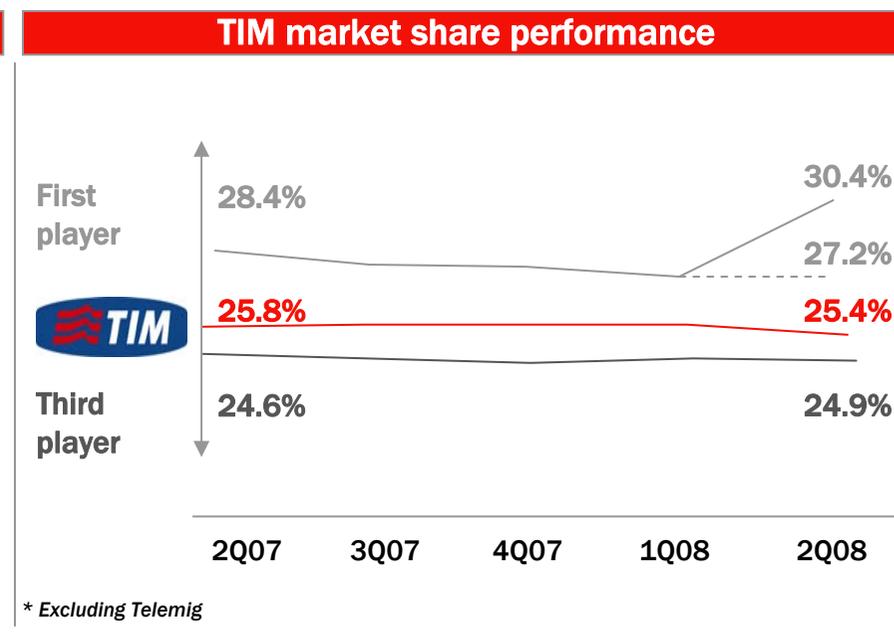
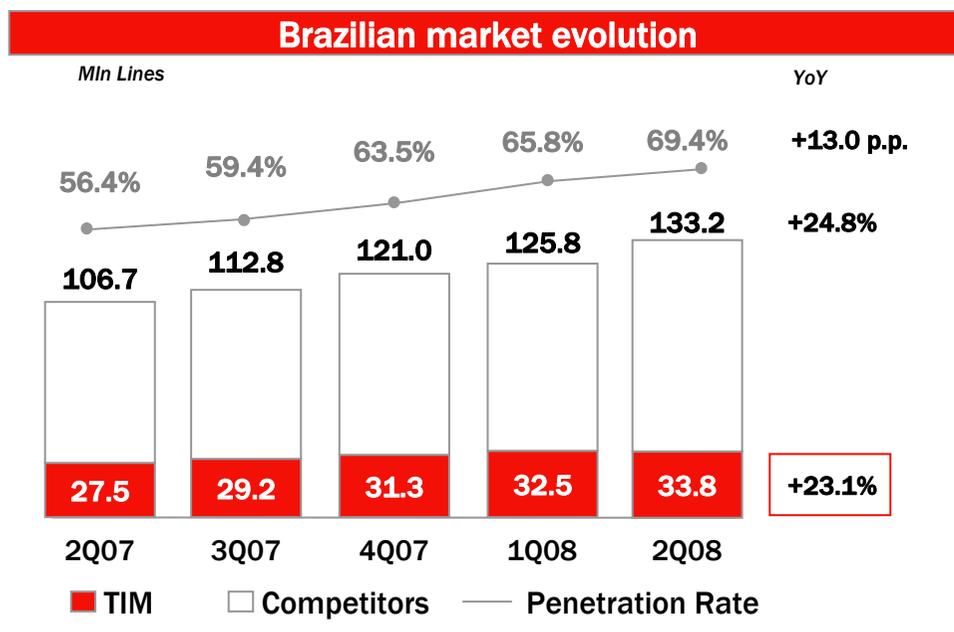
- ▶ **Quarterly ARPU progression with premium positioning**
- ▶ **Top class MOU still growing (100 min/month)**
- ▶ **VAS at 9.4% of service revs (+2.7 pp YoY)**
- ▶ **EBITDA margin rebound QoQ (+1.4pp to 21.2%)** thanks to lower bad debt and implementation of first recovery actions

▶ New 2008 targets

A more conservative outlook on industry trends and the timetable for the company's turnaround has prompted the revision of 2008 targets:

- ▶ **Revenues >7%**
- ▶ **EBITDA margin 23-23.5%**
- ▶ **Other 2008 targets confirmed**

TIM Brasil: Competitively Marking the Market



- ▶ Market growth further accelerates: 7.4 mln of net adds in 2Q08, +63% YoY
- ▶ Key driver of market growth:
 - ▶ Seasonal promotional activity (Mother's Day, St.V.'s)
 - ▶ Naked SIM-Card strategy further enhances net adds
 - ▶ Launch of new technology /services

- ▶ Confirmed n.2 position in terms of market share
- ▶ Remodulation of promotional offering to strengthen TIM community concept and ensure better profitability
- ▶ Increased retention activities with positive impact on monthly churn rate: -0.4pp YoY to 2.8% in 2Q08
- ▶ Launch of TIM 3G+service

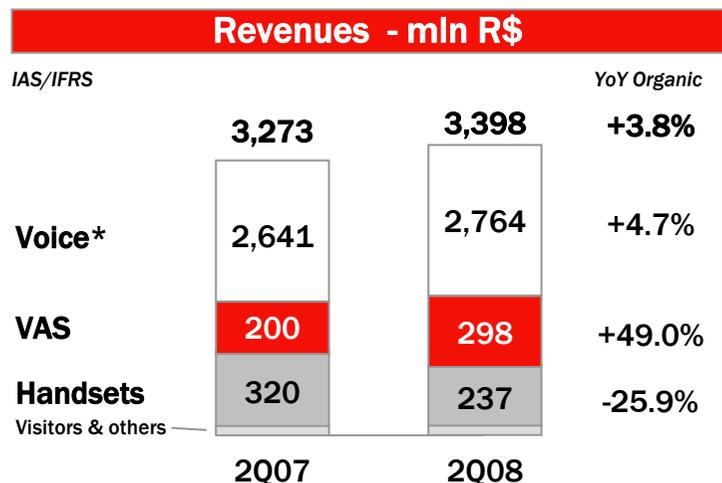
Source: ANATEL and company data

TIM Brasil: Main Results

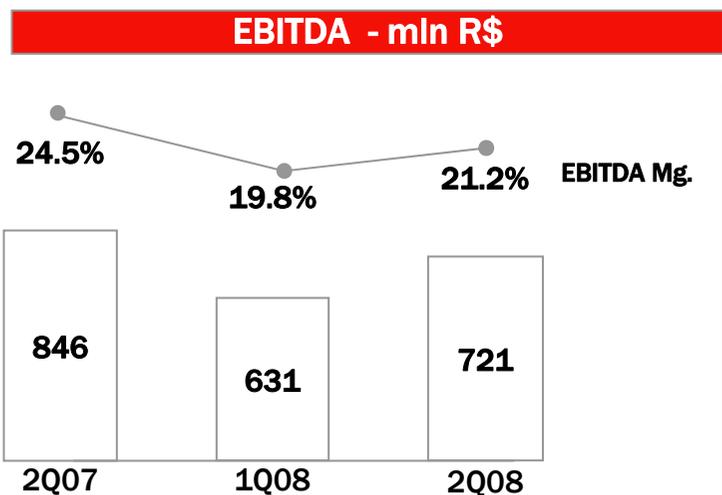
IAS/IFRS

	Reported Data - Euro Million Euro, %				Reported Data - Reais Million R\$, %			
	1H '08	1H '07	Δ Abs	Δ %	1H '08	1H '07	Δ Abs	Δ %
REVENUES	2,537	2,322	+215	+9.3%	6,582	6,313	+269	+4.3%
EBITDA	521	585	-64	-10.9%	1,351	1,591	-240	-15.1%
% on Revs	20.5%	25.2%	-4.7 p.p.		20.5%	25.2%	-4.7 p.p.	
	<div style="border: 1px solid black; padding: 5px; display: inline-block;"> impacted by exceptional level of bad debt in 1Q 08 with limited spill over in 2Q08 </div>							
EBIT	-2	69	-71		-6	189	-195	
% on Revs	-0.1%	3.0%	-3.1 p.p.		-0.1%	3.0%	-3.1 p.p.	
CAPEX	824	271	+553		2,138	737	+1,401	
% on Revs	32.5%	11.7%	+20.8 p.p.		32.5%	11.7%	+20.8 p.p.	
	<div style="border: 1px solid black; padding: 5px; display: inline-block;"> Includes 477 mln € of 3G license cost </div>							

TIM Brasil: Main Performance Drivers



- ▶ **Push on traffic elasticity to leverage long term outgoing usage patterns**
 - ▶ Strong outgoing traffic growth partially offset by spill-over effect of aggressive 1Q08 pricing
 - ▶ Blended MOU up to 100 (+7% YoY), again above peer average
- ▶ **Launch of 3G+ accelerates VAS growth:**
 - ▶ +49% YoY vs. +29% in 1Q08 through enhanced data package offers and strong partnership with content providers.
 - ▶ Up to 9.4% of service revs (+2.7 pp YoY) driven by innovative services
- ▶ **Lower handset revenues due to deflationary trend and lower volumes from 'TIM-Chip only' strategy**



- ▶ **QoQ margin improvement (+1.4pp) despite unfavorable seasonality :**
 - ▶ + Reduction of bad debt (6.5% of serv. revs vs. 9% in 1Q08) thanks to new rules and stricter credit analysis in telesales channel
 - ▶ - Effective management of selling expenses limits impact of costs tied to 3G launch
- ▶ **YoY comparison is still impacted by**
 - ▶ + interconnection expenses from strong outbound traffic increase & short term spill-over effect of 1Q08 off net promotions (vs. Fix).
 - ▶ + VAS content and web promotions driving to 3G
 - ▶ - spill over of bad debt still above targeted 2008 level (~6% of service revs)

*Excluding Visitors and others

TIM Brasil: Operational Turnaround and New Targets 2008

2008 New targets

IAS/IFRS

- Revenues organic growth** ▶ **>7%**
- EBITDA mg.** ▶ **23-23.5%**



Key Recovery Actions 2H 2008

Offer

- ▶ **Voice:** refocus on postpaid high value segments, remodelling of prepaid (started in 2Q 08) and innovation of promotional dynamics to enhance/defend ARPM
- ▶ **VAS:** further push on innovative services leveraging on 3G mobile broadband and enriching media content
- ▶ **Convergence:** grasp opportunities offered by development of mobile BB and by NP (as of Sept'08) to offer services as alternative player to fixed

2008 confirmed targets

IAS/IFRS

- Lines (mln SIM)** ▶ **~37**
- Mkt Share (on SIM)** ▶ **~26%**
- Capex (bln €)** ▶ **~1.5 (incl.3G licence)**

Profitability & operational excellence

- ▶ **Focus on high margin customers:** deeper segmentation of acquisition, retention and loyalty strategy
- ▶ **Commissioning:** increase customer value-linked compensation and develop profitability targets per channel
- ▶ **Bad debt:** reorganization of monitoring process with stricter rules for credit analysis (implemented in 2Q 08)
- ▶ **Efficiency:** invest in transmission capacity for cost-effective management of growing traffic volumes and reengineer processes and selective reduction / review of outsourcing model

Agenda

- ▶ **1H 2008 business performance:**
 - ▶ Domestic
 - ▶ Fixed business performance
 - ▶ Mobile business performance
 - ▶ Cost Analysis
 - ▶ European BB: HanseNet + BBNED
 - ▶ TIM Brasil

- ▶ **Appendix**

Domestic: Main Results – Organic Trend

€ Mln

	1H '07				1H '08			Organic trend		
	1H '07 Reported	Change In Perimeter	Exchange rate Impact	Except. Items	1H '07 Organic	1H '08 Reported	Except. Items	1H '08 Organic	1H '08 vs '07	
									Δ Abs	Δ %
Revenues	12,182	-1	-19		12,162	11,420	+24	11,444	-718	-5,9%
<i>Fixed</i>	7,983	-1	-19		7,963	7,485	+24	7,509	-454	-5.7%
<i>Mobile</i>	4,916				4,916	4,669		4,669	-247	-5.0%
Ebitda	5,619	+5	-3	+53	5,674	4,931	+325	5,256	-418	-7.4%
Ebit	3,456	+5	-2	+43	3,502	2,679	+300	2,979	-523	-14,9%

- ▶ Litigation with OLO: 33
- ▶ Provision Antitrust fine: 20

- ▶ Incremental lay-off: 287
- ▶ Litigation with OLO: 14
- ▶ Legal Provision: 22
- ▶ Real estate project: -25
- ▶ Other: 2

- ▶ Incremental lay-off: 287
- ▶ Termination M-F and provision for pending legal disputes: 36
- ▶ Other: 2

OLO Fixed Access Lines

'000 access

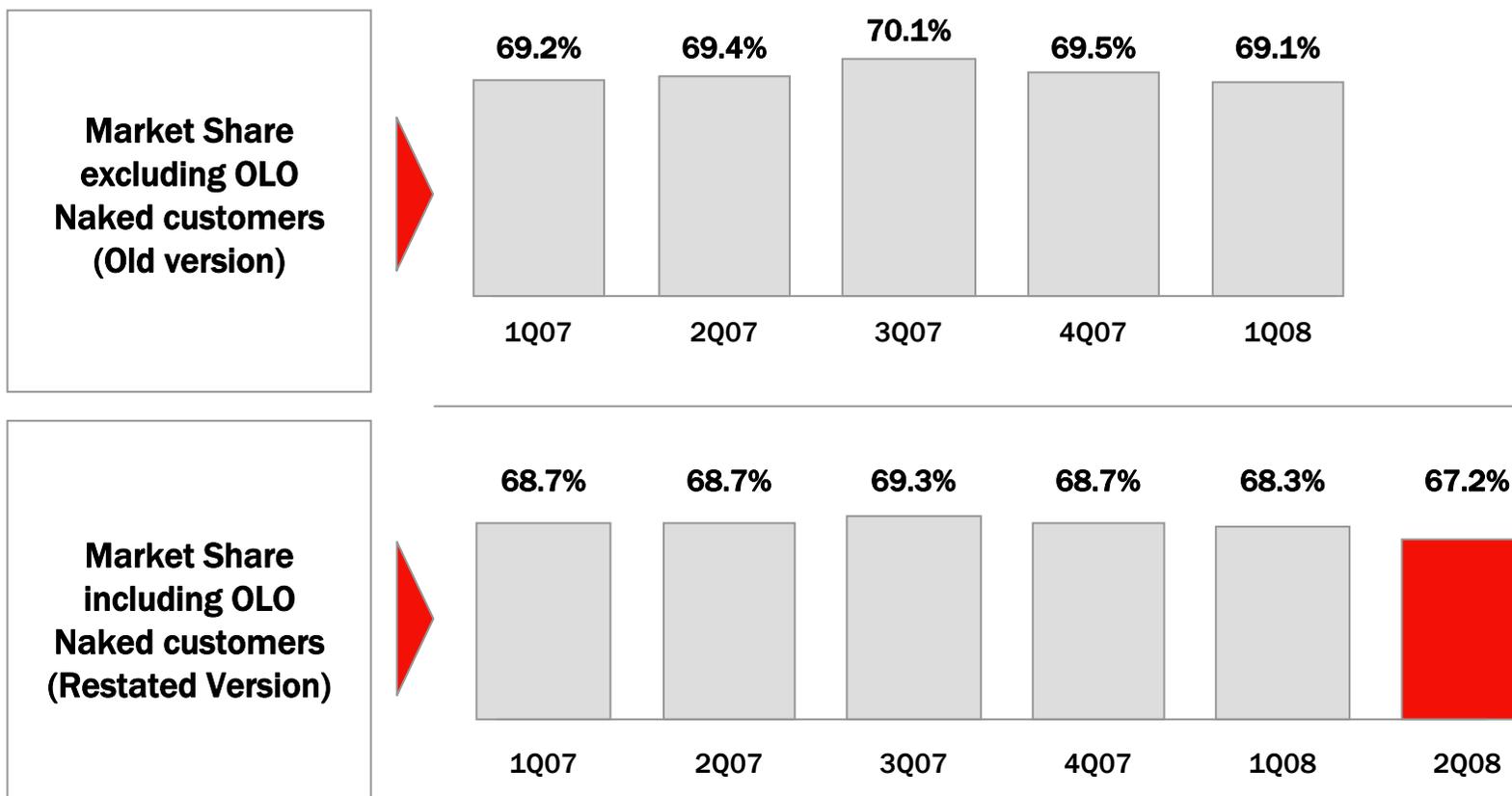
OLO Access (on TI infrastructure)*	IQ 07	IH 07	9M 07	2007	IQ 08	IH 08
ULL	1,967	2,322	2,521	2,930	3,218	3,411
Virtual ULL	357	327	250	178	154	185
Shared Access (ADSL)**	288	279	260	244	232	220
WLR	-	-	-	-	77	348
Naked	216	253	281	307	349	432

* Restated (change in data mining systems)

** Included in TI Retail Access

Restatement on Fixed Voice Traffic Market Share on Volumes

%



TI Broadband Portfolio Evolution

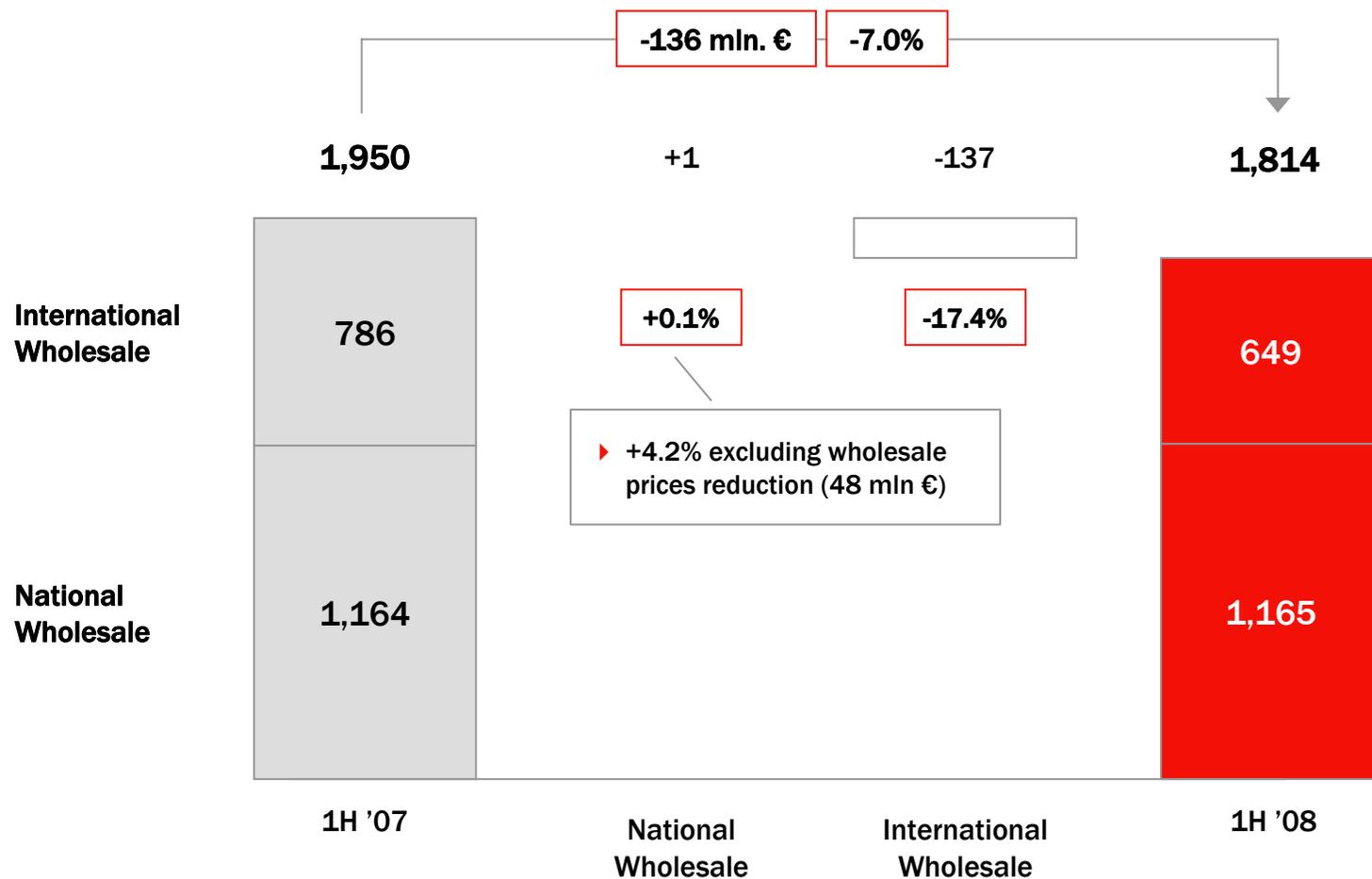
'000 Access lines

	Dec '05	Dec '06	Dec '07	June '08	Δ Dec '06 vs Dec '05	Δ Dec '07 vs Dec '06	Δ June '08 vs Dec '07
Retail	4,817	5,639	6,427	6,564	+822	+788	+137
Consumer	3,875	4,544	5,157	5,194	+687	+613	+37
Business	960	1,095	1,270	1,370	+135	+175	+100
Wholesale	890	1,131	1,163	1,228	+241	+32	+65
Total TI Domestic	5,707	6,770	7,590	7,792	+1,063	+820	+202
International*	1,313	1,890	3,439	3,495	+577	+1,549	+56
Total TI	7,020	8,660	11,029	11,287	+1,640	+2,369	+258

* Germany, The Netherlands and France

Domestic Fixed: Wholesale Services Revenues

€ Mln, %, Reported Data



TIM Brasil: 3G+ Launch

Launch / Roll-out	Advantages	Positioning & partnerships
<ul style="list-style-type: none"> ▶ Already in main metropolitan areas ▶ Eased by national coverage ▶ Automatic upgrade to 1Mbps of TIM web existing data plans (USB model) ▶ Launch of unlimited TIM Web ▶ Boost of TIM Web Broadband sales by 2x (w/ incremental ARPU) 	<ul style="list-style-type: none"> ▶ SPEED: Upgrade to 1Mbps and 7Mbps ▶ SIMPLICITY: Buy & Play concept, all 'TIM Chip' are 3G ready ▶ MOBILITY: Wireless internet anywhere ▶ ACCESSIBILITY via any 3G device and computers 	<ul style="list-style-type: none"> ▶ Enhancing convergent offers through wireless network ▶ Push on cross selling offers ▶ TIM +  : First notebook 100% connected with TIM Chip ▶ TIM +  : TIM mobile broadband to UOL customer ▶ TIM +  : Pay-TV + Broadband + Mobile