

TELECOM ITALIA

Italian Investor Conference

Tokyo, October 7, 2008

Telecom Italia

MARCO PATUANO, CFO



Agenda

- ▶ **TLC Italian Market and Telecom Italia Group: an Overview**
- ▶ **Telecom Italia 1H 08 highlight**
- ▶ **Strategic Outlook**
- ▶ **Domestic Business**
- ▶ **International Activities**
- ▶ **Closing Remarks**

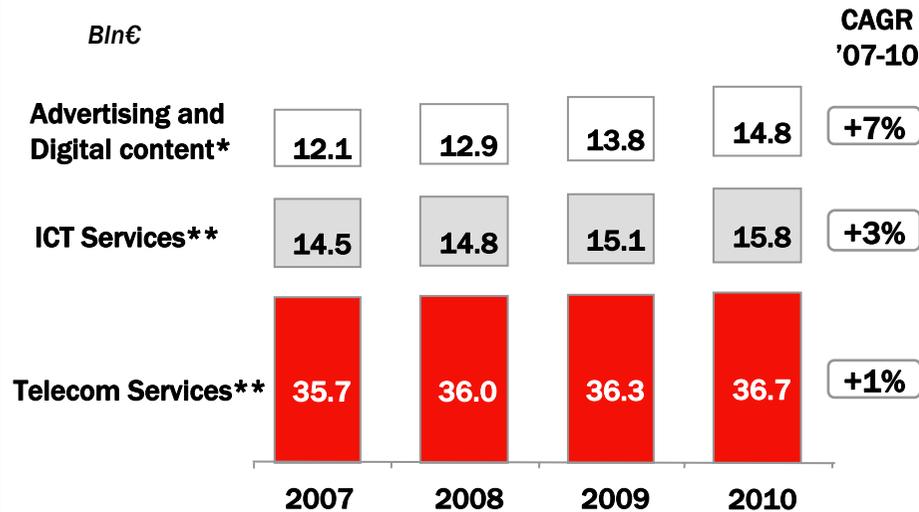
TLC Italian Market: an Overview

Total Telecom Revenues/GDP nominal terms



* Big 5 Europe: UK, Germany, France, Spain and Italy, 2006

The Size of the Italian Market (TLC & ICT)



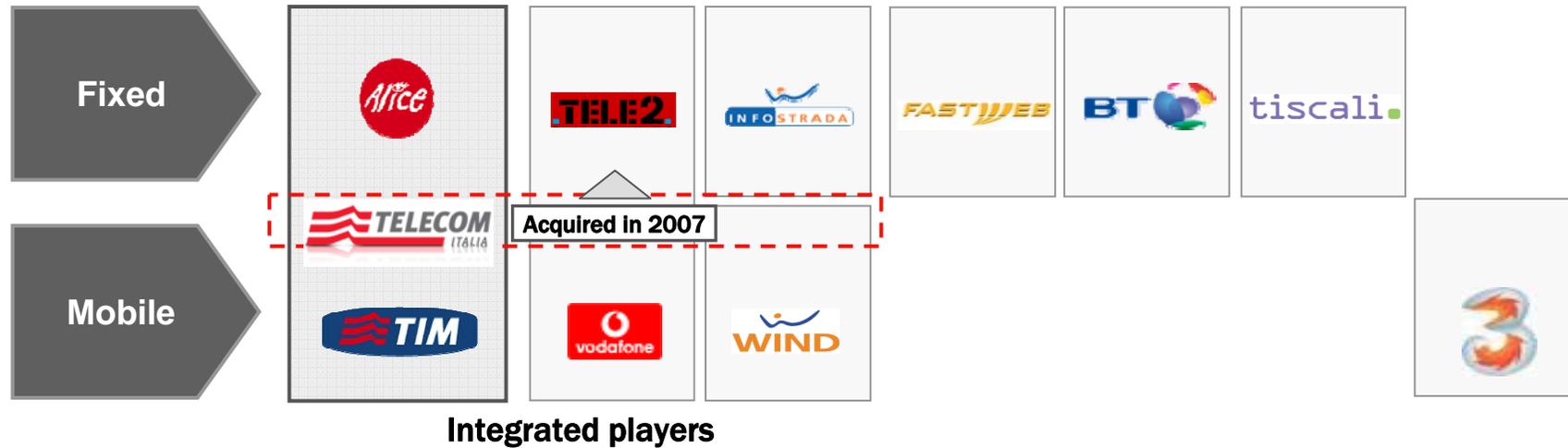
* Includes total advertising mkt, Pay TV and digital content on PC. Excludes RAI Service Fee

** Includes equipment

Italian TLC highlights

- ▶ Among the highest weight on GDP in Europe
- ▶ High a-cyclical characteristics (TLC spending has a lower correlation to GDP trend)
- ▶ A strategic sector for the Italian economy (0,4% of GDP in 2007)
- ▶ Growth in innovative services compensate decline in traditional services, suffering for price pressure and regulatory environment
- ▶ innovative services drivers:
 - ▶ ICT (application, infrastructure, network services)
 - ▶ Fixed and Mobile broadband
 - ▶ Value Added Services

Italian TLC Market: a snapshot



▶ An healthy market ...

- ▶ 6 fixed operators with TI holding a 80% of mkt share on accesses
- ▶ 4 mobile players, of which the top 2 controlling 72% of the market (TIM 39%)
- ▶ no cables operators
- ▶ higher consolidation opportunities

▶ ...where TI solidly maintains a better positioning vs the other European incumbent:

- ▶ 62% of mkt share on BB
- ▶ >40% on revenues share on mobile
- ▶ 43% of Ebitda margin (as off 1H08)

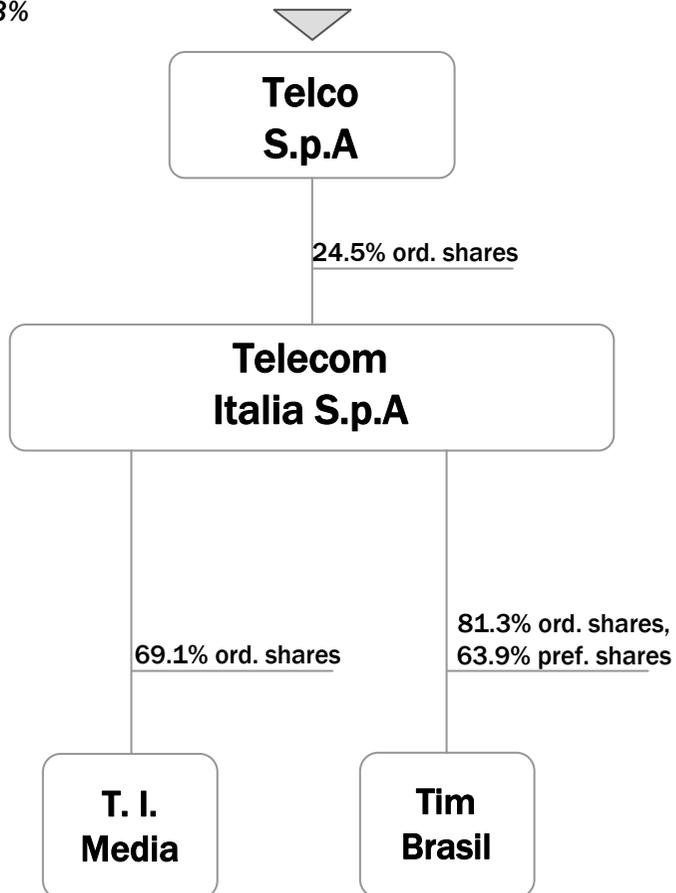
Regulatory Framework

Within EU directive, **fixed services** mostly regulated due to dominant position of Telecom Italia

Mobile regulation basically is focus on termination price control

Telecom Italia Group: shareholder structure and brief company history

Generali Group 28.1%, Intesa San Paolo Bank S.p.A 10.6%, Mediobanca S.p.A. 10.6%, Sintonia S.A. 8.4% Telefónica S.A. 42.3%



Brief company history

- ▶ July 1995 TIM spin off and IPO
- ▶ November 1997, privatization of Telecom Italia
- ▶ June 2006 Telecom Italia-TIM merger
- ▶ October 2007, Telco S.p.A. became the main Telecom Italia's shareholder
- ▶ December 2007, new management appointed

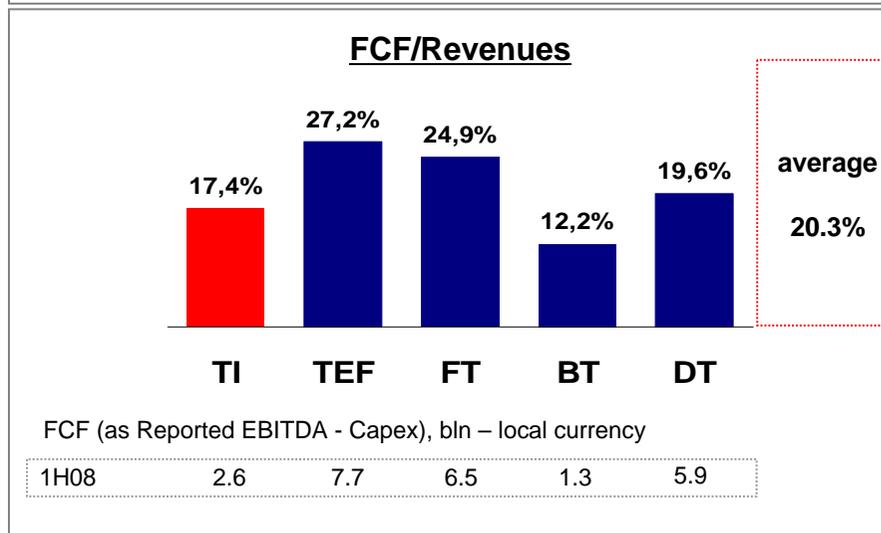
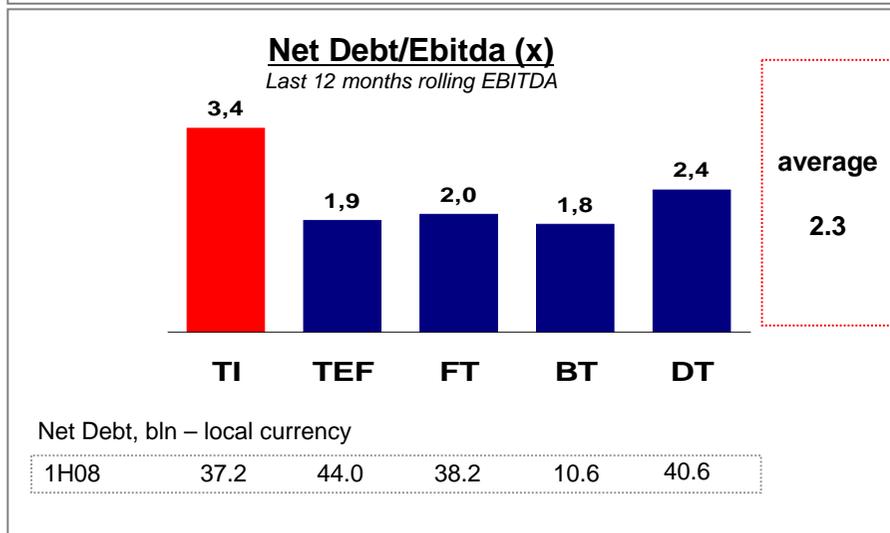
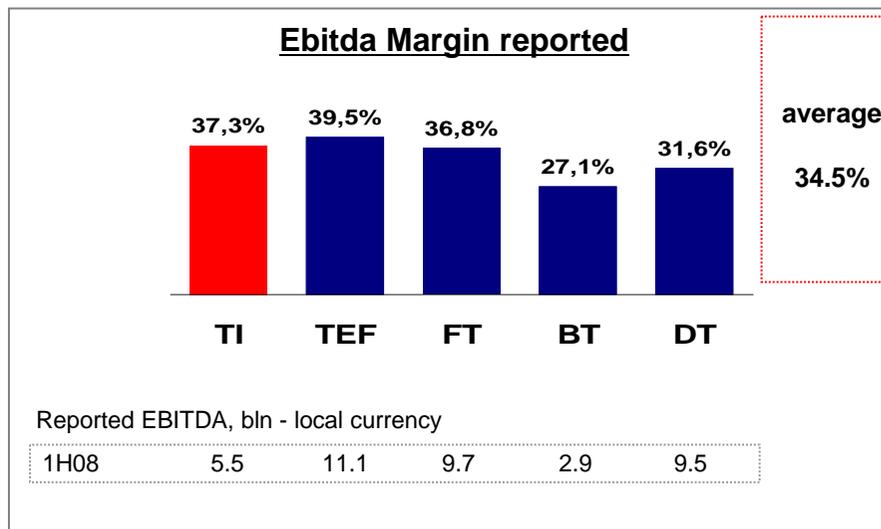
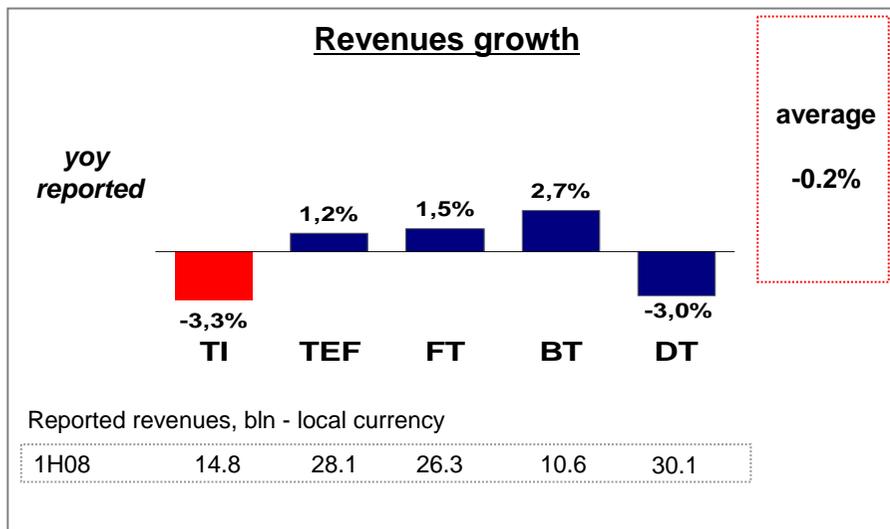
Telecom Italia stocks are listed on the Milan and New York Stock Exchanges (the latter via ADR)

Market cap was about 20 bln of euro, of which 14,6 bln for ordinary shares and 5 bln for savings shares (average September)

TI shares are included in main international indexes (FTSE Eurotop100, DJ STOXX 600, DJ Stoxx Telecom, S&P Mibtel, MSCI Pan-Euro, MSCI Euro, etc.)

and SRI indexes (DJSI World, DJSI STOXX, FTSE4Goods Europe, ESI Global, etc.)

Telecom Italia Group: company position vs. main European peers



Agenda

- ▶ **TLC Italian Market and Telecom Italia Group: an Overview**
- ▶ **Telecom Italia 1H 08 highlight**
- ▶ **Strategic Outlook**
- ▶ **Domestic Business**
- ▶ **International Activities**
- ▶ **Closing Remarks**

TI Group – 1H '08 Key Financial Results

€ Mln

	FY '07 reported	1H '08 reported	1H '07 reported*	YoY reported	YoY organic**
Revenues	31,290	14,838	15,337	-3.3%	-3.8%
	11,617	5,535	6,335	-12.6%	-8.3%
Ebitda margin	37.1%	37.3%	41.3%	-4.0pp	-2.0pp
	5,764	2,608	3,554	-26.6%	-18.8%
Ebit margin	18.4%	17.6%	23.2%	-5.6pp	-3.6pp
Net Income post minorities	2,448	1,140	1,500	-24.0%	
	5,520	2,956	2,412	+544	
Net Debt	35,701	37,172	39,175	-2 € bln	

+1.5 € bln vs YE'07 (35.7 € bln)
after 1.7 € bln dividend
payment and 0.5 € bln 3G
licences acquisition in Brazil

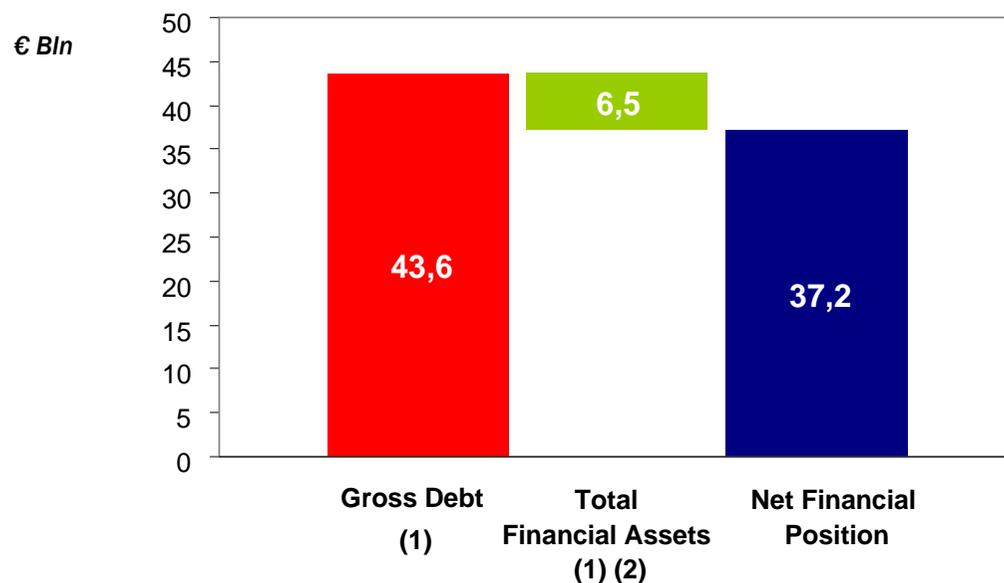
Highlights

- ▶ Domestic revenues mainly affected by discontinuities (€ 591 mln). International activities generated 22% of Group turnover in 1H08 (+3pp yoy).
- ▶ Broadly stable domestic Ebitda Margin (45.9% org.), among the highest in the industry. Lower international profitability due to competitive pressure in Germany and spill-over from Q1 of non-recurring issues in Brazil.
- ▶ D&A increase following higher capital intensity for continued investments in innovation.
- ▶ Positive income from tax adjustment allowed by 2008 Financial Law (515 € mln) offset by lower operating income and negative yoy balance from Sofora call option valuations.
- ▶ Higher investments in Brazil for 3G licences acquisition (477 € mln).
- ▶ Net Debt yoy decrease thanks to cash flow generation.

* Pro-forma figures (Liberty Surf Group considered as a discontinued operation).

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

Financial Structure at a glance as of June 30 2008



Average Bond Maturity (yrs)	8.34
Fixed Rate Debt	70%
Average cost of debt	5,9%

Liquidity Margin					
€ Bln	4.6	+	6.5	=	11.1
	Liquidity Position (2)		Undrawn Portion of		Liquidity
€	4.1	bln Cash & Cash Equivalents	€ 8.0 bln Revolving Facility		Margin
€	0.5	bln Marketable Securities	Maturing in August 2014		
€	1.9	Others (1)			
€	6.5	bln Total Financial Assets			

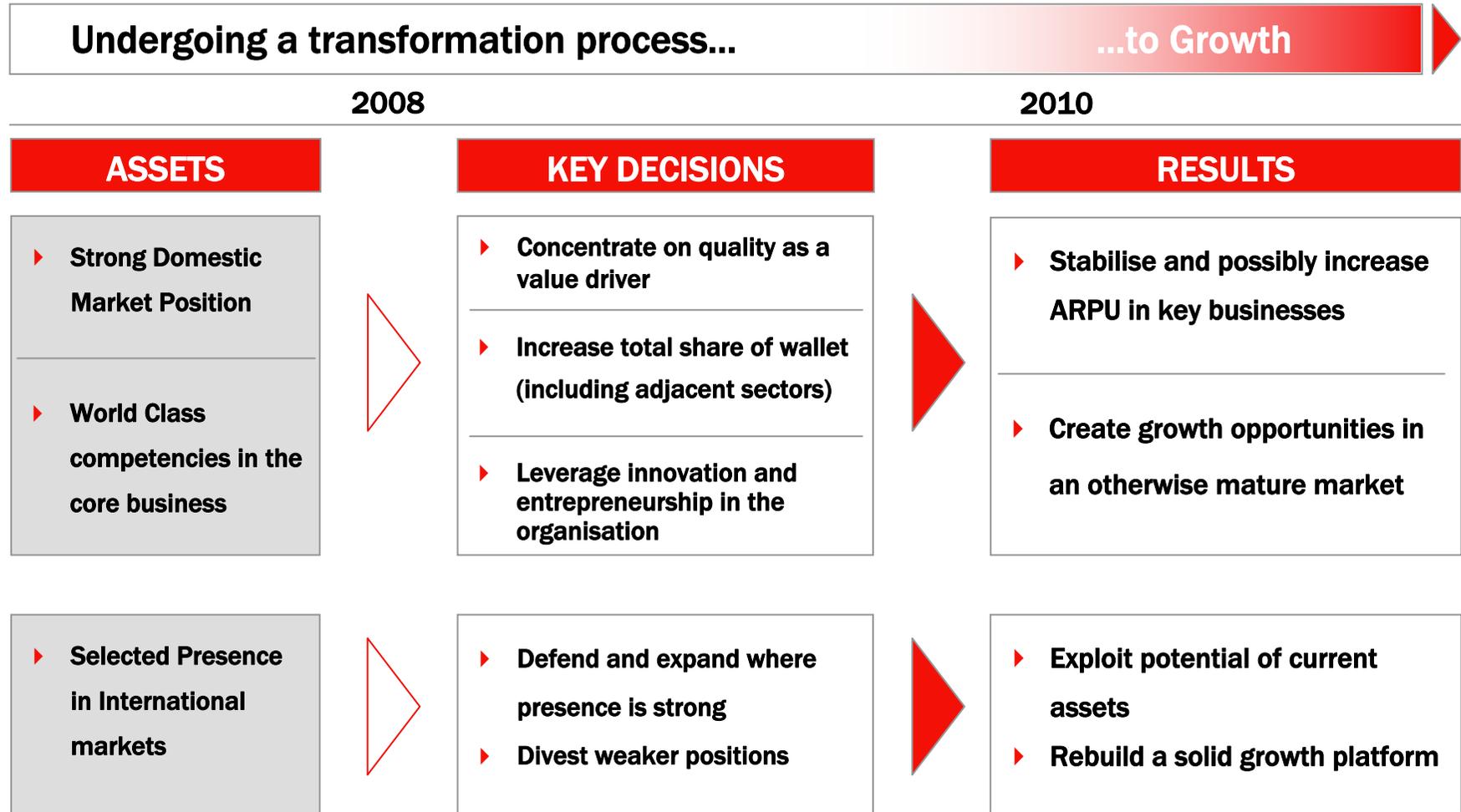
(1) Including Liberty Surf Gross Debt (€ 823 mln), of which € 811 mln refers to Intercompany Debt accounted as for Discontinued Operations

(2) Nominal Liquidity Position, represented by cash and marketable securities stands at € 4.6 bln

Agenda

- ▶ **TLC Italian Market and Telecom Italia Group: an Overview**
- ▶ **Telecom Italia 1H 08 highlight**
- ▶ **Strategic Outlook**
- ▶ **Domestic Business**
- ▶ **International Activities**
- ▶ **Closing Remarks**

Building the Foundations for Growth



Maintaining a strong financial discipline

- ▶ Raise cash from non strategic assets
-

- ▶ Select investments on payback period and return ratio thresholds
-

- ▶ Focus on the deleveraging

Targets 2008-2010

- ▶ Alice France disposal completed in 2H 08
- ▶ BB coverage by 2010:
Fixed: 90% Adsl2, 8% NGN
Mobile: 85% High Speed 3G
Deployment of convergent BB network
(FTTx, LTE and Femtocells)
- ▶ Service platforms development
(IPTV, dynamic HDTV, full IP Managed Unified Communication Platform, etc.)
- ▶ ~ 2.5x by 2010 (NFP/Ebitda)

And improving efficiencies and synergies

- ▶ **New lean organization according to customer segments**
 - ▶ **Personnel rightsizing plan:** 5000 lay-offs by 2010 with 300 mln€ savings
 - ▶ **“Customer Centric” model:** restructuring of Domestic Market Division in place as of 2008ye
 - ▶ **Restructuring of T&O Division:** creation of Open Access
 - ▶ **Staff rationalization:** rebalancing of the staff-to-line ratio

- ▶ **Strict cost control and infrastructure cash cost reduction plan enhanced by industrial synergies and best practice sharing with Telefónica**

Cash Cost reduction 2008–2010: 1.2 Bn €

▶ Access	0.3 B€
▶ IT	0.55 B €
▶ Network	0.15 B€
▶ Technical Infrastructure	0.2 B€

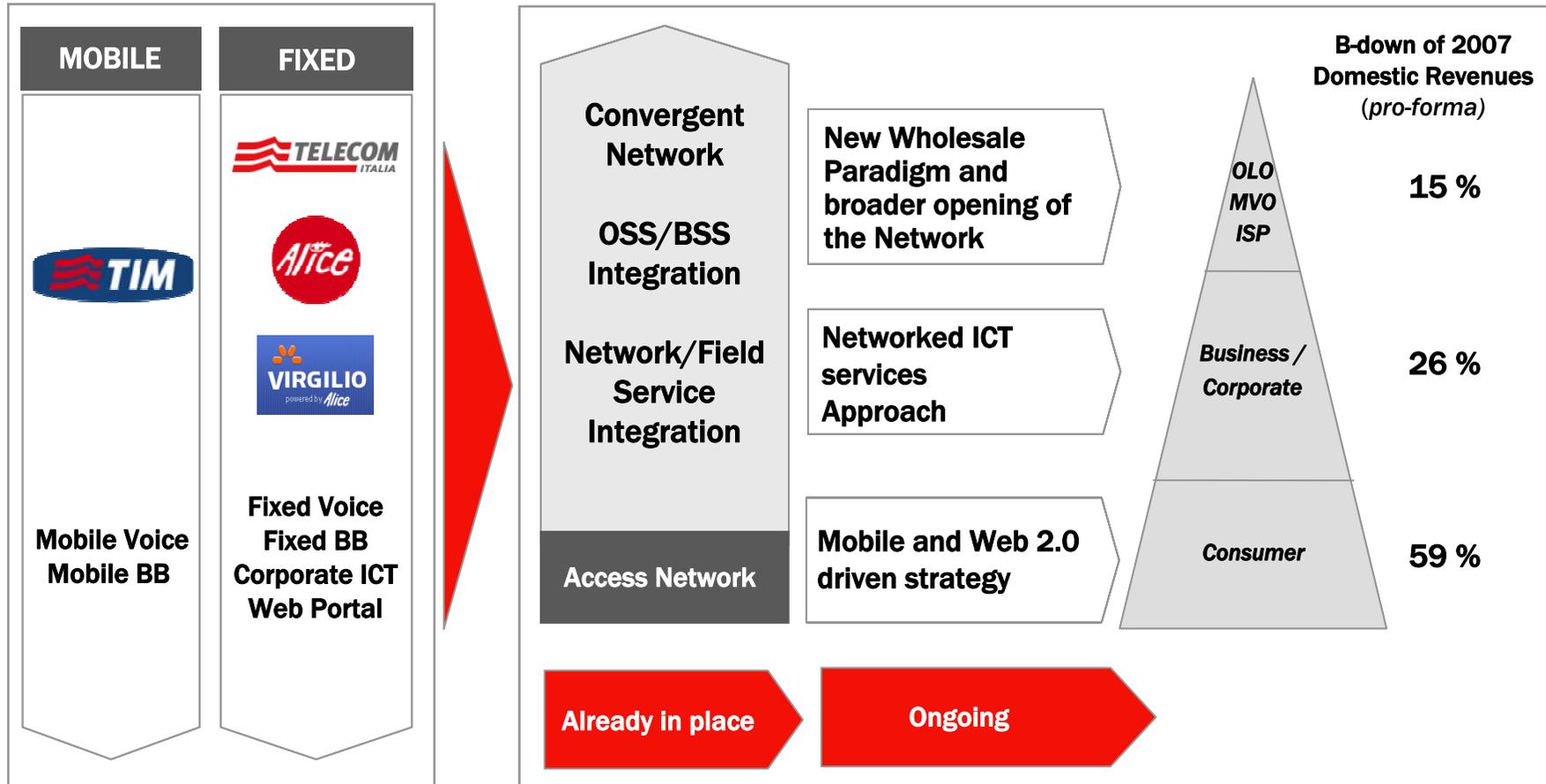
Agenda

- ▶ **TLC Italian Market and Telecom Italia Group: an Overview**
- ▶ **Telecom Italia 1H 08 highlight**
- ▶ **Strategic Outlook**
- ▶ **Domestic Business**
- ▶ **International Activities**
- ▶ **Closing Remarks**

In a Changing Industry...



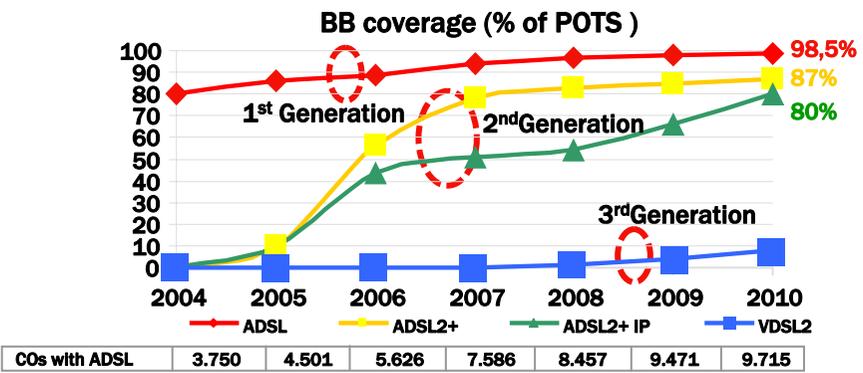
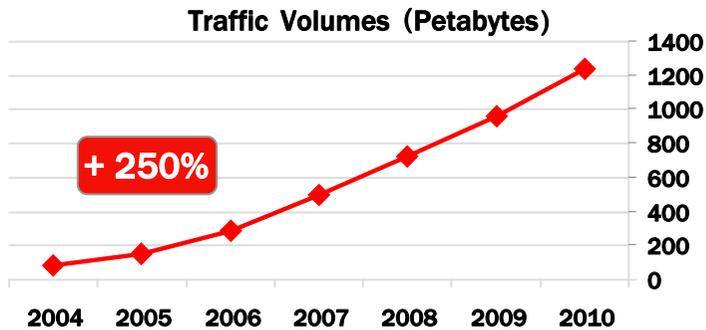
...TI is Evolving to a Customer Driven Model...



...Extending Coverage and Capacity in BB Access...

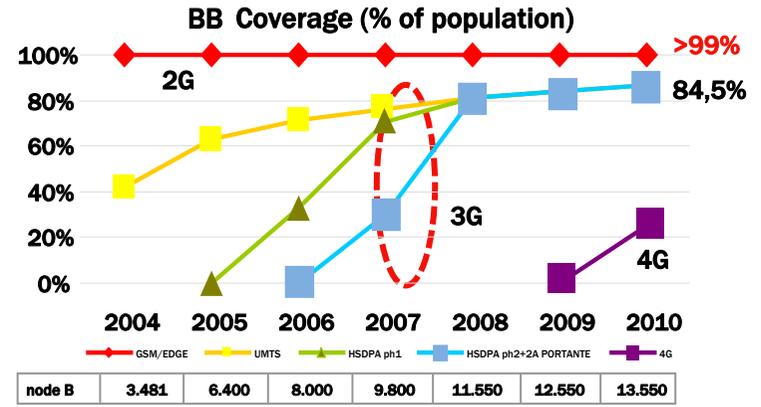
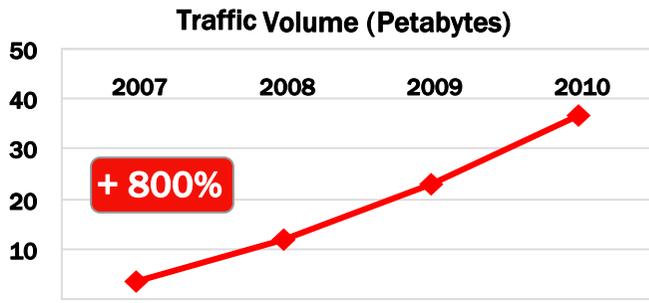
**Domestic Capex Cum.
 2008-10: ~11.0 bln€**

Fixed Access



COs with ADSL	2004	2005	2006	2007	2008	2009	2010
COs with ADSL	3.750	4.501	5.626	7.586	8.457	9.471	9.715

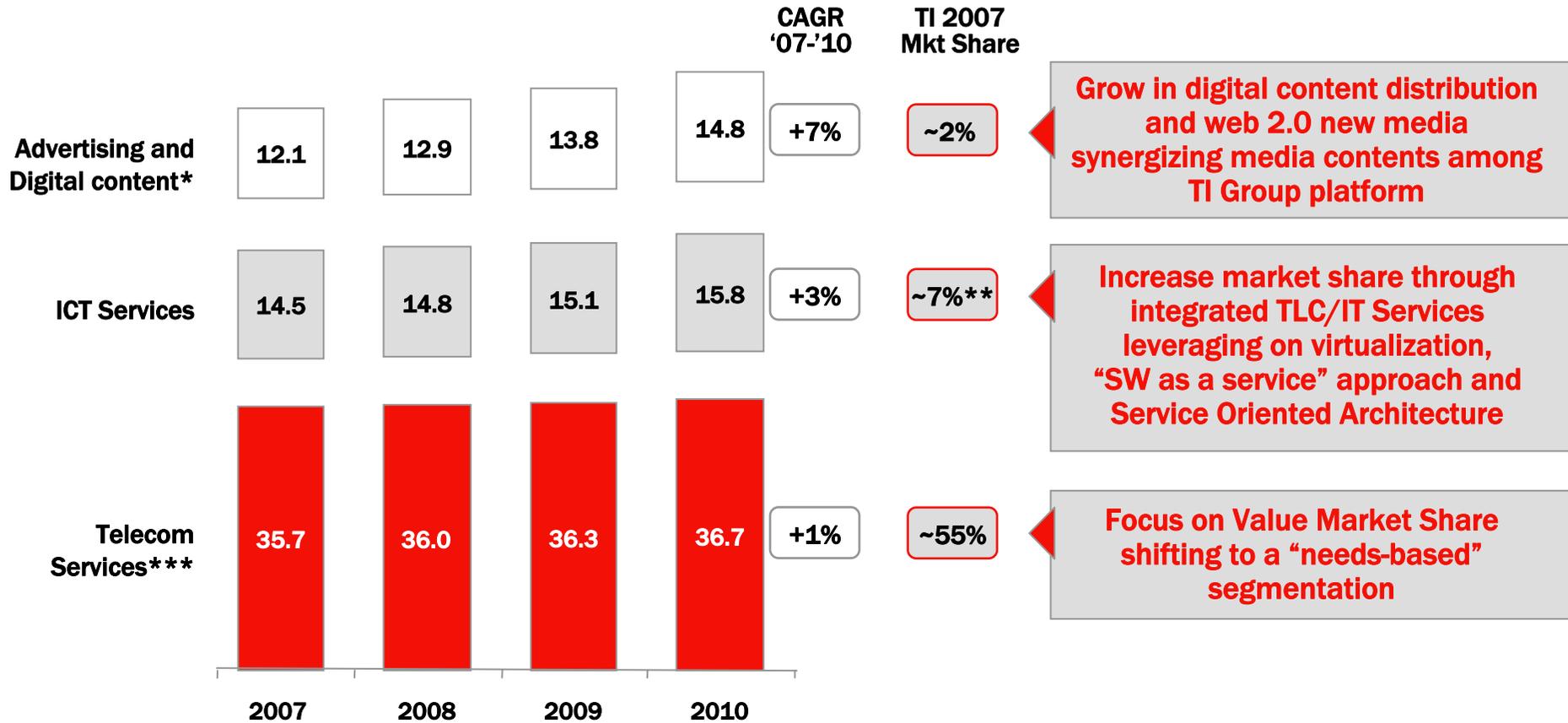
Mobile Access



node B	2004	2005	2006	2007	2008	2009	2010
node B	3.481	6.400	8.000	9.800	11.550	12.550	13.550

...to Transform and Gear Domestic Business to Value

Bln €



* Includes total advertising mkt, Pay TV and digital content on PC. Excludes RAI Service Fee
 ** On addressable market
 *** Includes equipment

Agenda

- ▶ **TLC Italian Market and Telecom Italia Group: an Overview**
- ▶ **Telecom Italia 1H 08 highlight**
- ▶ **Strategic Outlook**
- ▶ **Domestic Business**
- ▶ **International Activities**
- ▶ **Closing Remarks**

International Consolidation and Development

Europe



- ▶ **Enhance TI positioning**, eventually exploiting opportunities in the consolidation process
- ▶ **Continue to profitably expand activities in Germany**, focusing on market build-up, operational excellence and efficiency

Latin America



- ▶ **Grow in Brazil** recovering operating performance, strengthening mobile proposition and exploiting convergence
- ▶ **Focus to increase the participation in Sofora (Telecom Argentina)**

Int.l Wholesale

- ▶ **Focus on the Italian Hub** for the Mediterranean, Middle-East, South-East Asia
- ▶ **Innovative solutions for Multinational Companies**

- ▶ **Increase contribution to Group results and growth prospects**

- ▶ **Monitor business opportunities on high growing markets**

- ▶ **Build Financial Partnerships and Alliances**

Agenda

- ▶ **TLC Italian Market and Telecom Italia Group: an Overview**
- ▶ **Telecom Italia 1H 08 highlight**
- ▶ **Strategic Outlook**
- ▶ **Domestic Business**
- ▶ **International Activities**
- ▶ **Closing Remarks**

Telecom Italia Roadmap to Growth

