

TELECOM ITALIA

## **1Q 2008 Financial Results**

Milan, May 9th, 2008

# **Telecom Italia**

## **1Q 2008 Business Performance**

FRANCO BERNABE'

## **Agenda**

- ▶ **1Q 2008 business performance:**
  - ▶ Domestic
  - ▶ European BB: HanseNet + BBNED
  - ▶ TIM Brasil
  
- ▶ Appendix

## 1Q 2008 Financial Results

## Main Results

€ Mln, %

	Reported Data				Organic Data			
	1Q '08	1Q '07*	Δ Abs	Δ %	1Q '08	1Q '07*	Δ Abs	Δ %
<b>TI Group</b>								
Revenues	7,298	7,475	-177	-2.4%	7,298	7,599	-301	-4.0%
EBITDA	2,966	3,178	-212	-6.7%	2,978	3,193	-215	-6.7%
% EBITDA Margin	40.6%	42.5%	-1.9 p.p.		40.8%	42.0%	-1.2 p.p.	
<b>Domestic</b>								
Revenues	5,619	6,009	-390	-6.5%	5,619	6,001	-382	-6.4%
<i>Fixed</i>	3,746	3,989	-243	-6.1%	3,746	3,981	-235	-5.9%
<i>Mobile</i>	2,236	2,365	-129	-5.5%	2,236	2,365	-129	-5.5%
EBITDA	2,667	2,853	-186	-6.5%	2,679	2,853	-174	-6.1%
% EBITDA Margin	47.5%	47.5%	stable		47.7%	47.5%	+0.2 p.p.	
<b>Hansenet</b>								
Revenues	303	198	+105	+53.0%	303	266	+37	+13.9%
EBITDA	59	49	+10	+20.4%	59	56	+3	+5.4%
% EBITDA Margin	19.5%	24.7%	-5.2 p.p.		19.5%	21.1%	-1.6 p.p.	
<b>TIM Brasil</b>								
Revenues	1,224	1,100	+124	+11.3%	1,224	1,172	+52	+4.7%
EBITDA	242	269	-27	-10.0%	242	283	-41	-15.3%
% EBITDA Margin	19.8%	24.5%	-4.7 p.p.		19.8%	24.5%	-4.7 p.p.	

\* Pro-forma Data excluding TI France (discontinued operations)

## **Agenda**

- ▶ **1Q 2008 business performance:**
  - ▶ **Domestic**
  - ▶ **European BB: HanseNet + BBNED**
  - ▶ **TIM Brasil**
  
- ▶ **Appendix**

## Domestic: main results

€ Mln, %

	Reported Data				Organic Data			
	1Q '08	1Q '07	Δ Abs	Δ %	1Q '08	1Q '07	Δ Abs	Δ %
<b>Revenues</b>	<b>5,619</b>	<b>6,009</b>	<b>-390</b>	<b>-6.5%</b>	<b>5,619</b>	<b>6,001</b>	<b>-382</b>	<b>-6.4%</b>
<i>of which fixed</i>	3,746	3,989	-243	-6.1%	3,746	3,981	-235	-5.9%
<i>of which mobile</i>	2,236	2,365	-129	-5.5%	2,236	2,365	-129	-5.5%
<b>EBITDA</b>	<b>2,667</b>	<b>2,853</b>	<b>-186</b>	<b>-6.5%</b>	<b>2,679</b>	<b>2,853</b>	<b>-174</b>	<b>-6.1%</b>
% on revenues	47.5%	47.5%	stable		47.7%	47.5%	0.2 p.p.	
<b>EBIT</b>	<b>1,566</b>	<b>1,790</b>	<b>-224</b>	<b>-12,5%</b>	<b>1,553</b>	<b>1,782</b>	<b>-229</b>	<b>-12.9%</b>
% on revenues	27.9%	29.8%	-1.9 p.p.		27.6%	29.7%	-2.1 p.p.	
<b>CAPEX</b>	<b>970</b>	<b>867</b>	<b>+103</b>	<b>+11.9%</b>	<b>970</b>	<b>867</b>	<b>+103</b>	<b>+11.9%</b>
% on revenues	17.3%	14.4%	+2.9 p.p.		17.3%	14.4%	+2.9 p.p.	

## Agenda

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

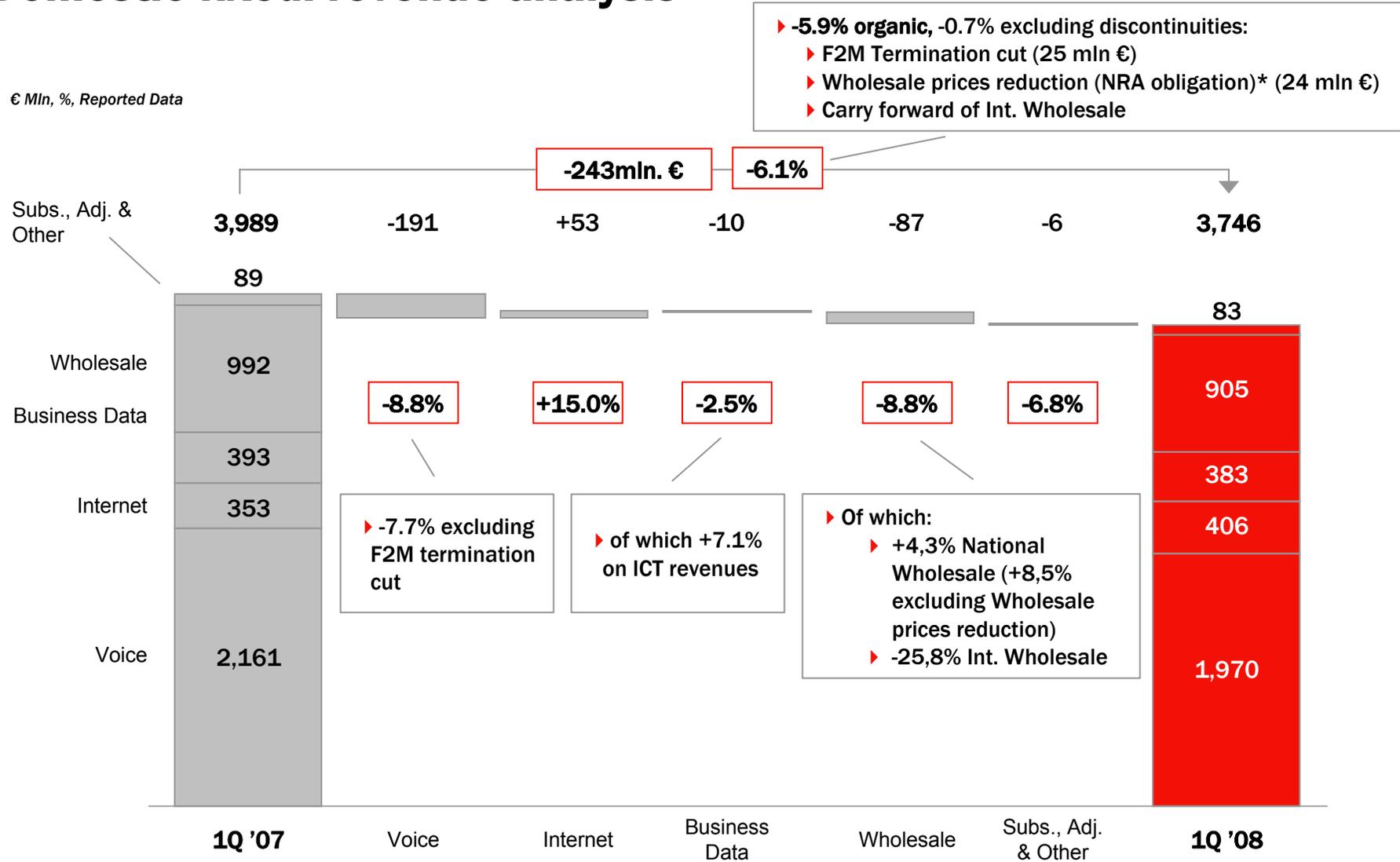
## Domestic Wireline: BB and ICT 1Q08 value drivers

	2008 Targets	1Q08 Trends
<b>Revenues</b>	<ul style="list-style-type: none"> <li>▶ Total domestic Fixed revenue organic trend: -4.0/-4.5% YoY (-1.9%/-2.5% net of Regulatory Discontinuities and Carry Forward of Int'l Wholesale)</li> <li>▶ +10% YoY Internet revenue growth</li> </ul>	<ul style="list-style-type: none"> <li>▶ Revenues -5.9 YoY organic (-0.7% net of discontinuities), in line with expected quarterly trend</li> <li>▶ Trends in line with the guidance               <ul style="list-style-type: none"> <li>▶ Voice: line losses stable yoy; WLR introduction in 1Q08; F-M traffic migration still relevant</li> <li>▶ ICT: +7.1% yoy (of which +17.6% Services) almost double 1Q07 growth</li> <li>▶ Wholesale: negative yoy comparison on International wholesale due to 2Q07 service portfolio rationalization</li> </ul> </li> <li>▶ +15% yoy (+17.3% BB revenues) thanks to focus on Value</li> </ul>
<b>Broadband growth</b>	<ul style="list-style-type: none"> <li>▶ ~7.0 Mln. BB Retail access</li> <li>▶ Broadly Stable ARPU (~18€/month)*</li> <li>▶ &gt; 75% Flat offer on total (Consumer + Business) Broadband portfolio</li> <li>▶ ~0.3 Mln. IPTV access</li> <li>▶ &gt;30% VoIP penetration on BB lines</li> </ul>	<ul style="list-style-type: none"> <li>▶ 6.5 Mln of BB Retail access (114K net adds)</li> <li>▶ 17.9€/month</li> <li>▶ 73% (+2 p.p. vs. 2007 y.e.; +11 p.p. yoy); 87% BB Consumer Flat gross acquisitions; 144k up-selling from Free to Flat on BB Consumer</li> <li>▶ 136k IPTV access, +56K vs. Dec. 07</li> <li>▶ 1.5 Mln of VoIP customers, 23% of TI BB lines (+2,6 pp vs Dec. 07)</li> </ul>

\* Annual ARPU

# Domestic fixed: revenue analysis

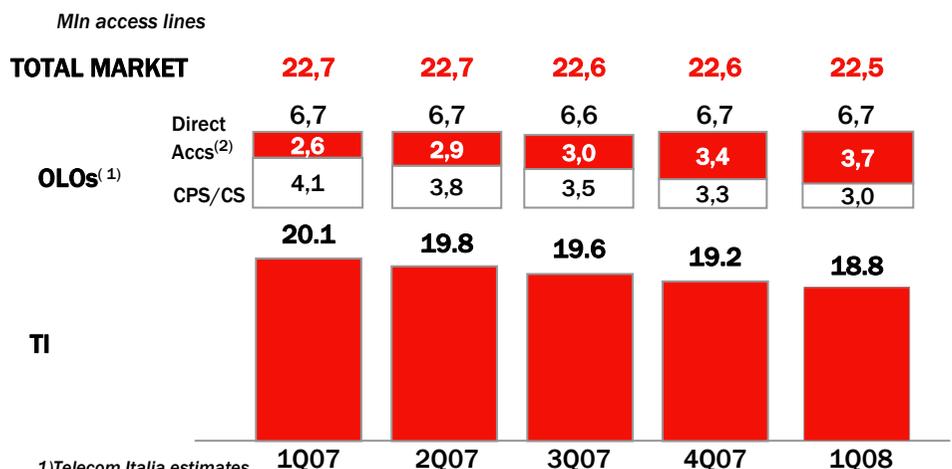
€ Mln, %, Reported Data



\* Unbundling, Shared Access and Bitstream

# Domestic fixed: traffic and access performance

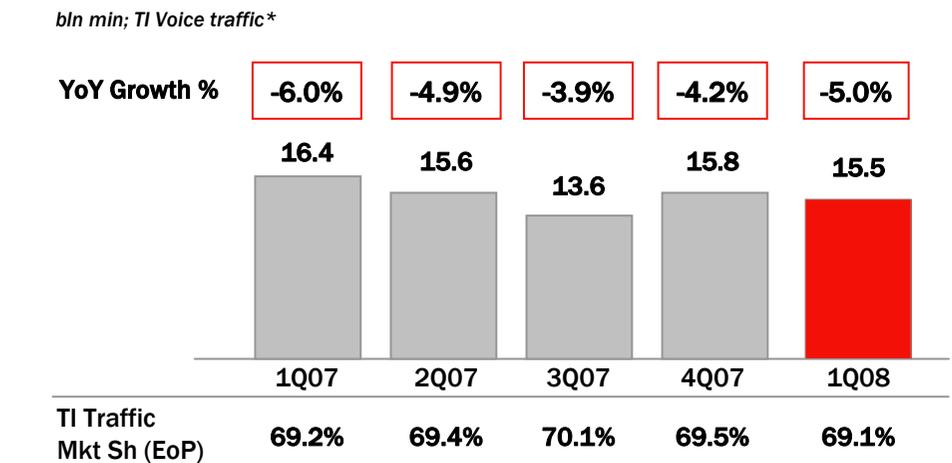
## Italian fixed access market



1) Telecom Italia estimates  
2) ULL/WLR/FIBER, ETC.

- ▶ 1Q08 TI line loss stable yoy
- ▶ Introduction of Wholesale Line Rental in 1Q08
- ▶ Lower increase of ULL customers in 1Q08

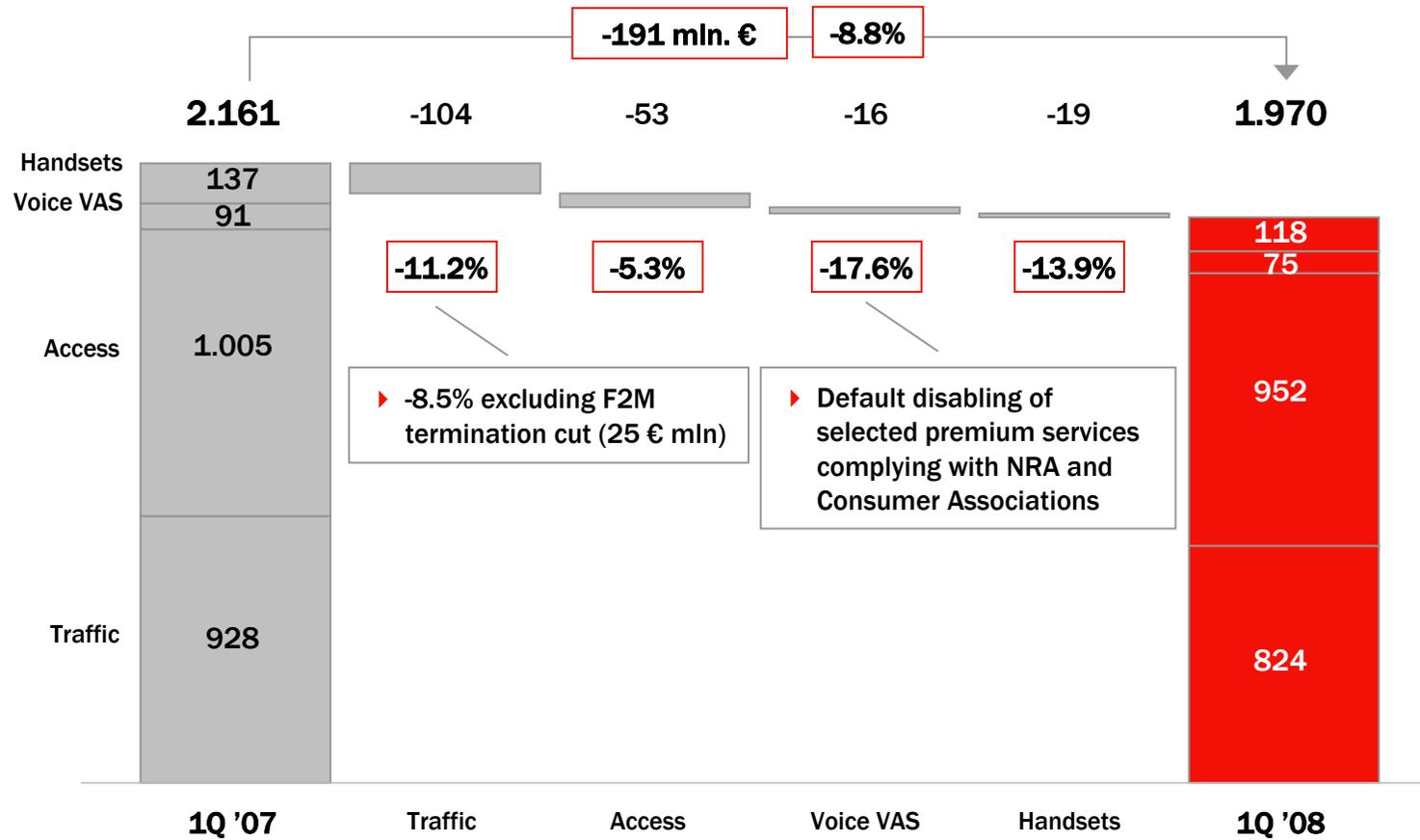
## Telecom Italia traffic and Mkt Sh\*



- ▶ Stable TI Traffic M/S in last 15 months thanks to success of Telecom Italia Retention Campaign and stabilization of OLO market

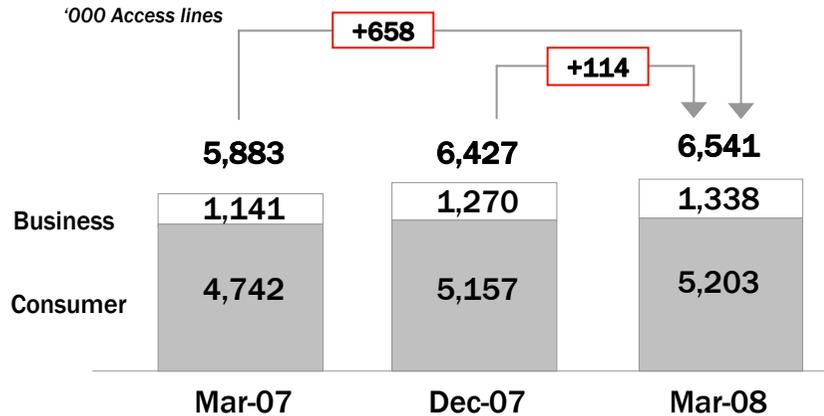
# Domestic fixed: voice revenues

€ Mln, %, Reported Data

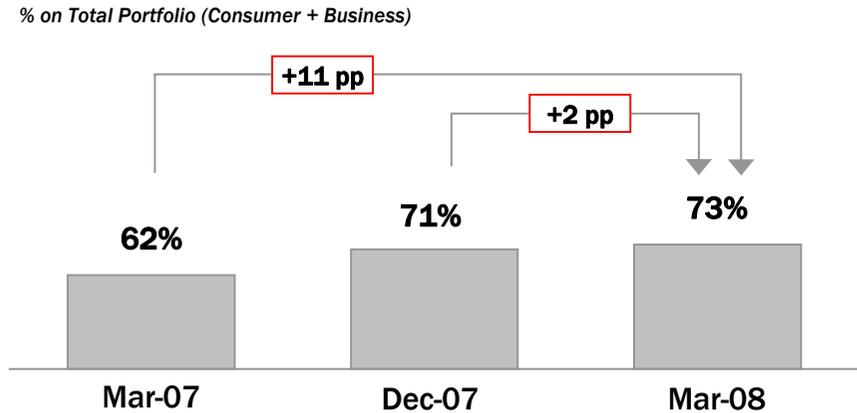


# TI Retail Broadband Portfolio

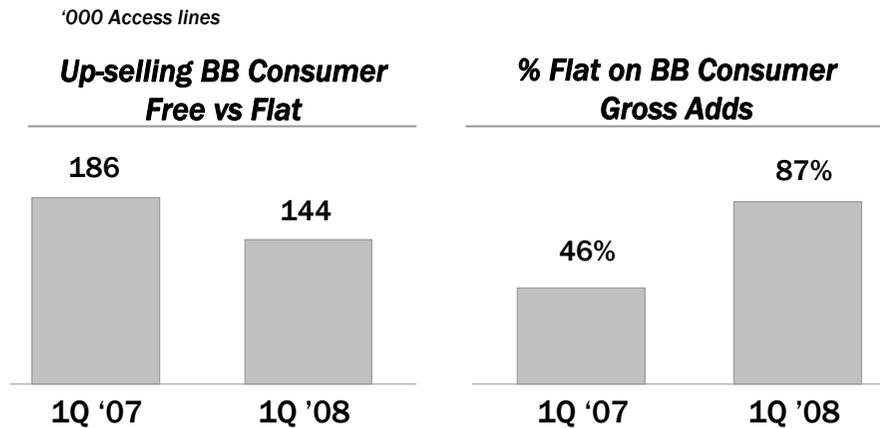
## Retail Broadband Portfolio



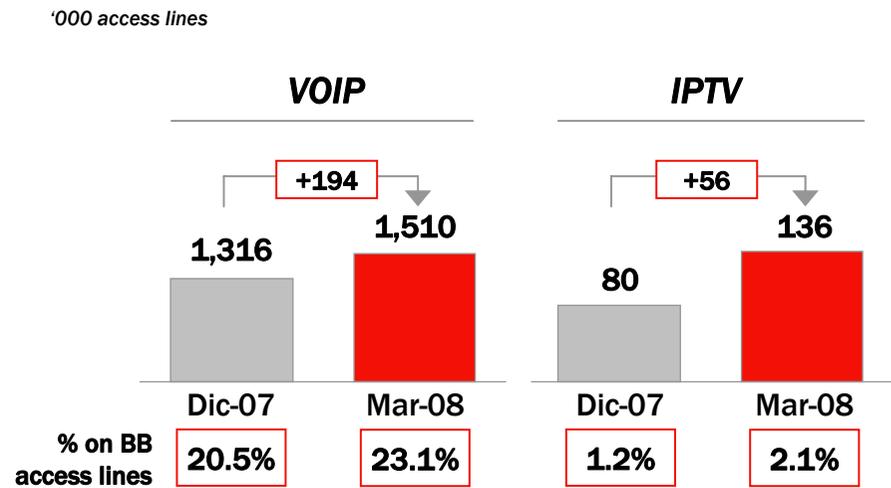
## Flat Offer development



## Focus on Flat Offers



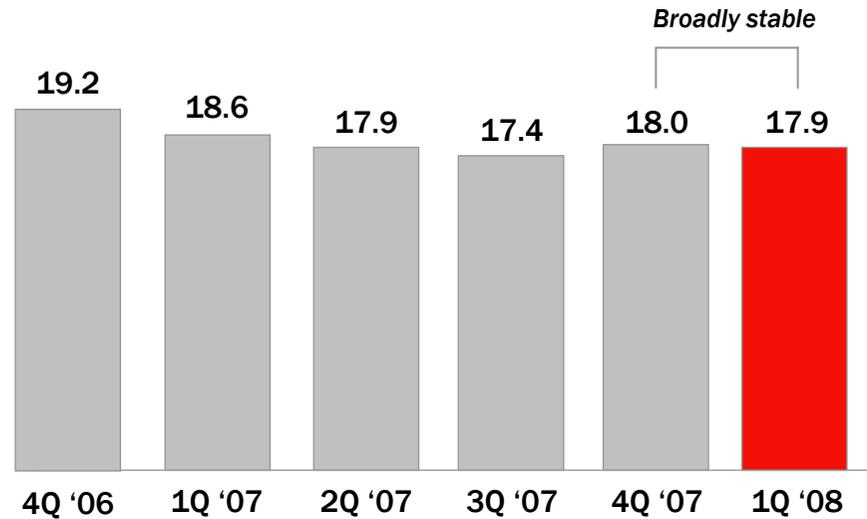
## VoIP and IPTV portfolio



# Domestic Broadband ARPU

## BB ARPU

€/month

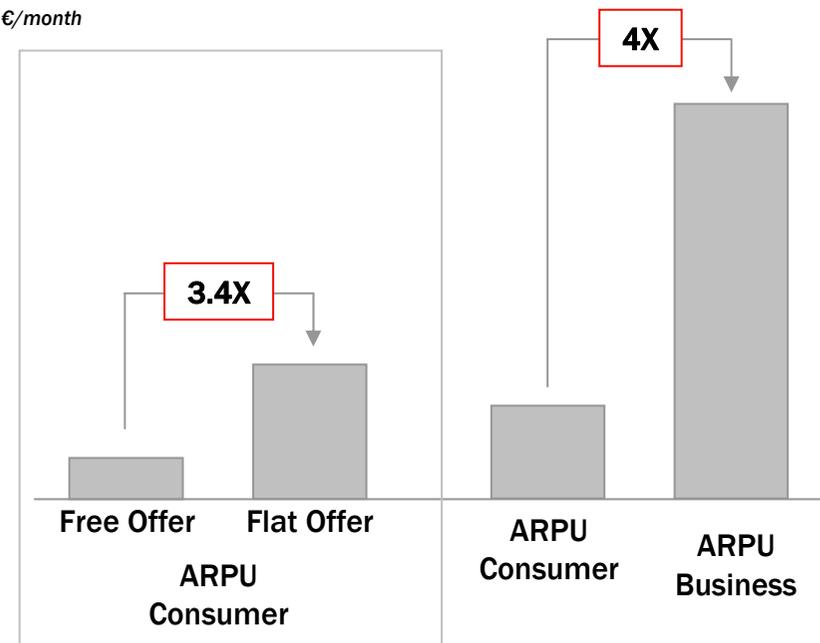


YoY Growth % **-14%**

**-4%**

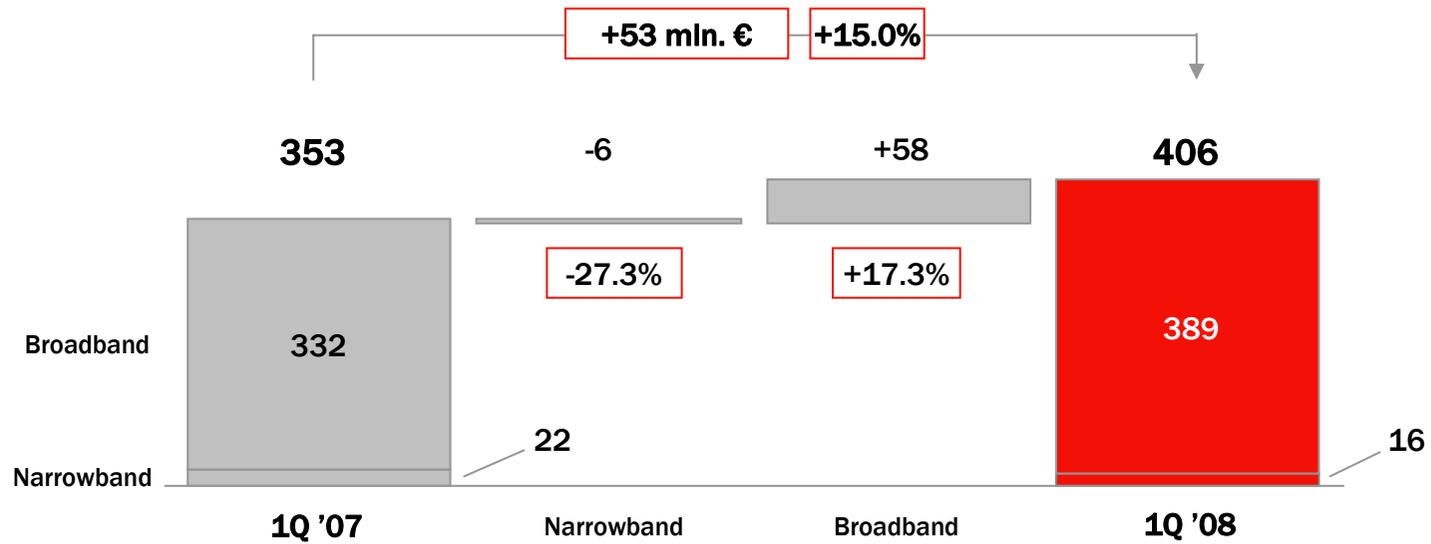
## BB ARPU by Market Offer

€/month

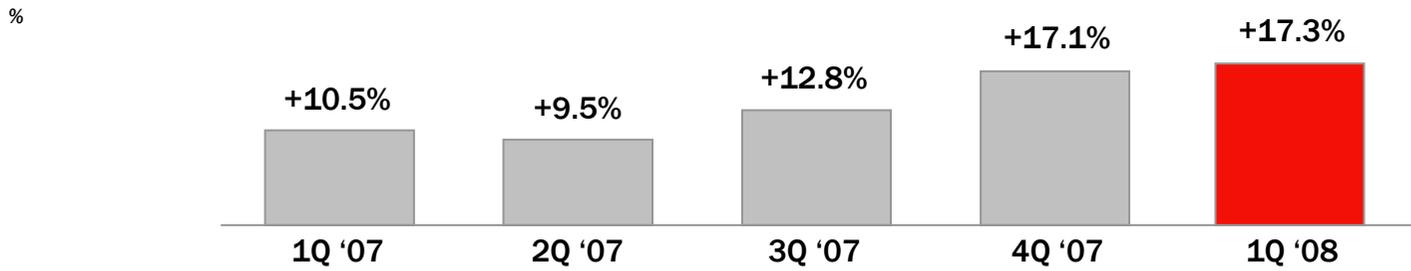


# Domestic fixed: Internet revenues

€ Mln, %, Reported Data

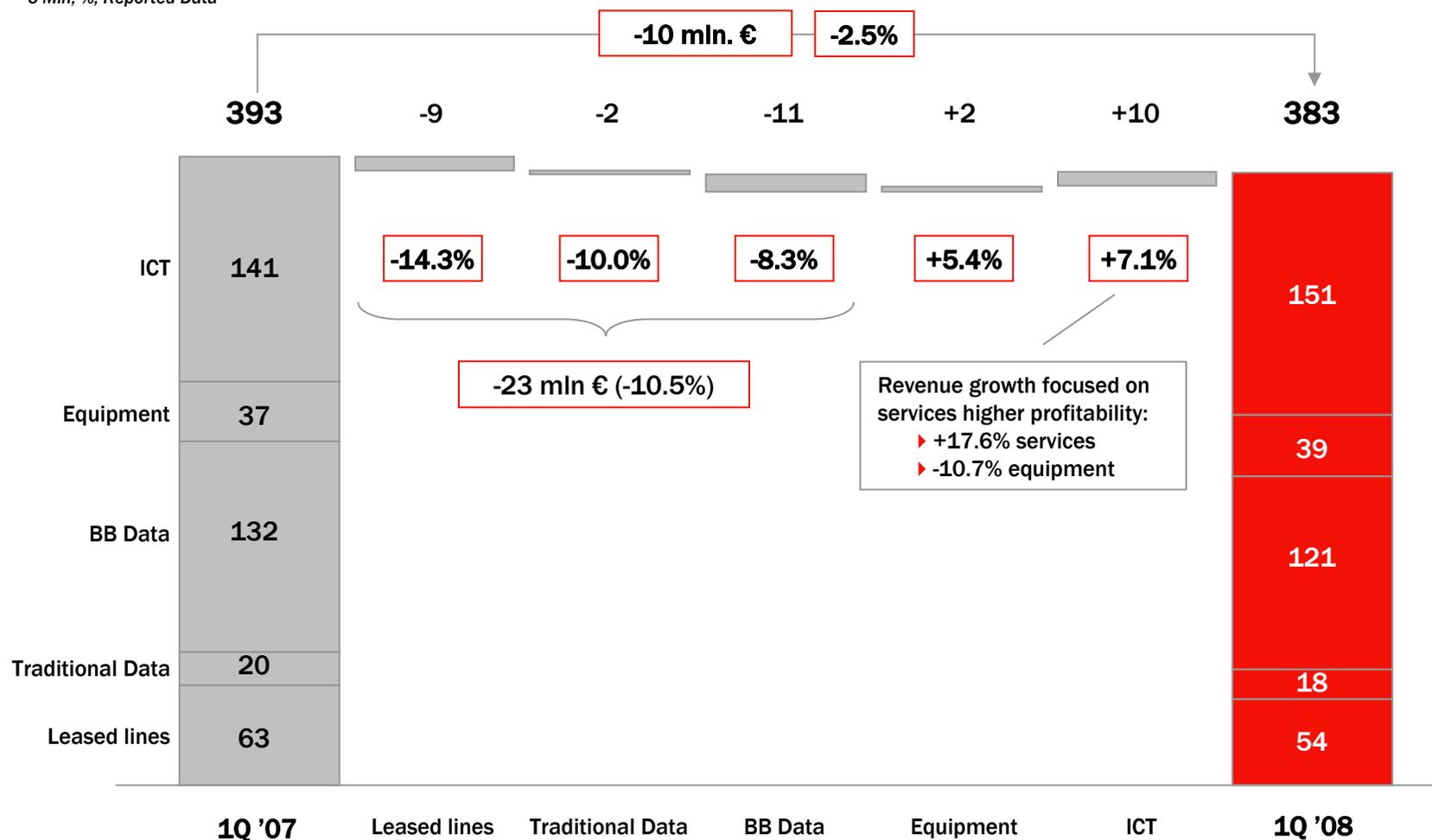


## BroadBand Revenues YoY trend



## Domestic fixed: Business Data revenues

€ Mln, %, Reported Data



## Agenda

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  - ▶ TIM Brasil
  
- ▶ Appendix

## A sound quartely delivery

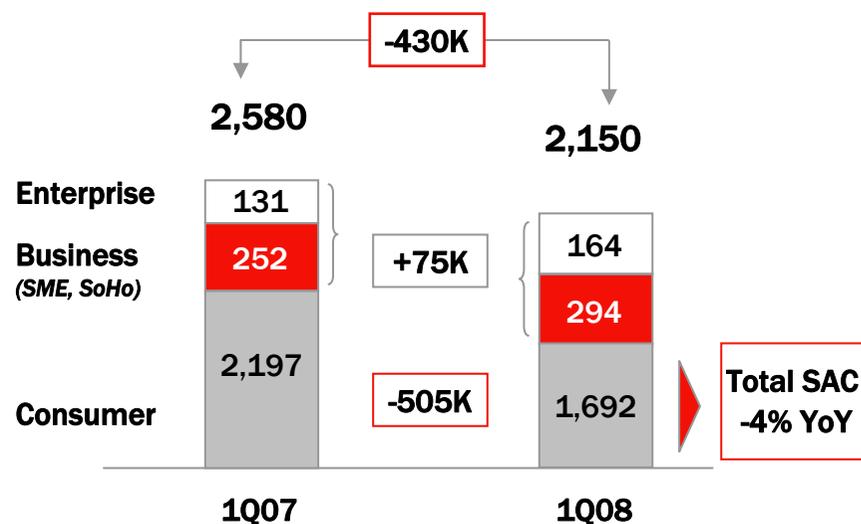
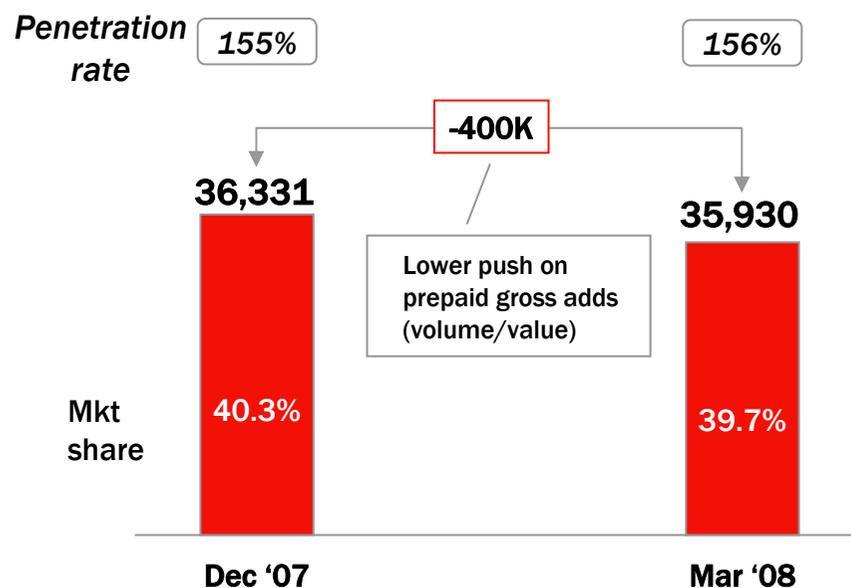
	2008 Targets	1Q08 Evidences
<b>Market share/ ARPU</b>	<ul style="list-style-type: none"> <li>▶ Focus on Revenue share rather than market share (~ 40% Mkt share)</li> <li>▶ Stable positioning on key segments</li> </ul> <hr/> <ul style="list-style-type: none"> <li>▶ Slowdown ARPU* dilution (20€)</li> </ul>	<ul style="list-style-type: none"> <li>▶ 39.7% market share</li> <li>▶ Enterprise: 62.9% (+1.5pp vs YE ' 07)</li> <li>▶ Business: 51.8% (+0.1pp vs YE '07)</li> <li>▶ Consumer Revenue share: 45.3 (stable YoY)</li> </ul> <hr/> <ul style="list-style-type: none"> <li>▶ 19.2 € (-5.5% yoy net of regulatory effects vs. -8% yoy in 4Q), mirroring quarterly seasonality and average cust. base growth (+10.2% yoy)</li> </ul>
<b>Revenue growth</b>	<ul style="list-style-type: none"> <li>▶ Flat Retail Service Revenues</li> <li>▶ -2% total Mobile Revenues               <ul style="list-style-type: none"> <li>▶ Less handsets</li> <li>▶ Less wholesale</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▶ -5.5% yoy, +4.1% net of all regulatory discontinuities (DL Bersani, Reding, Incoming F-M)</li> <li>▶ Solid trend on voice: steadfast usage rebound with outgoing MOU growth</li> <li>▶ Double digit VAS revenue growth lead by innovative services</li> <li>▶ 3G/3.5G handsets are customers 1st choice (+9.6% handset revenue growth notwithstanding lower total volumes yoy)</li> <li>▶ -19.3% yoy wholesale revenues</li> </ul>
<b>VAS Mobile internet</b>	<ul style="list-style-type: none"> <li>▶ ~ 25% VAS on Service Revenues</li> <li>▶ 2.6 mln Mobile Broadband lines</li> </ul>	<ul style="list-style-type: none"> <li>▶ 24,2% (+4.4 p.p. YoY, +0.8 pp QoQ); 25% at Retail level</li> <li>▶ 1.4 mln lines (+0.2 vs. 2007 YE)</li> </ul>

\* Net of visitors

# TIM Customer Base: focus on value

## Customer Base

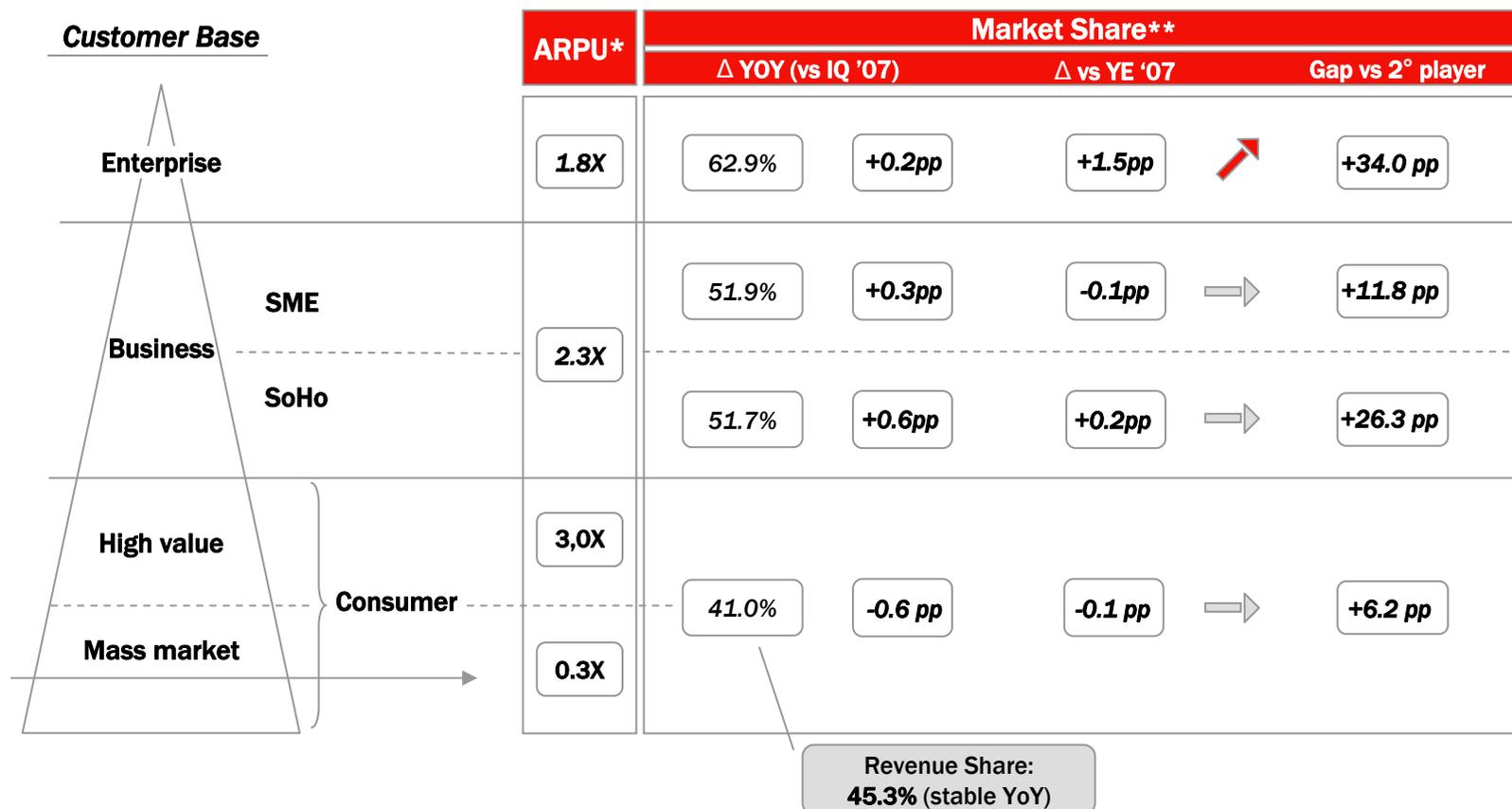
## Gross Additions



% of post -paid on Total Customer Base	14.7%	15.5%
UMTS* Customers	6,116	6,338
UMTS penetration (%)	16.8%	17.6%

% of post -paid	22%	28%
Gross Adds in MNP	301	325
% of Business & Enterprise	27.7%	37.8%

## Defended leadership in most valuable market segments



Source: Internal analysis based on CRA Research, GFK-Eurisko surveys

NB: Excluding inactive lines, migrants and kids < 11 for Consumer

\* TIM average = 1X

\*\* Enterprise Market Share: Dec '07 vs. July '07

# TIM Brand re-positioning

- ▶ **Goal:** strengthen brand perception leveraging on empathy and emotion rather than perceived economic benefits of products and offers

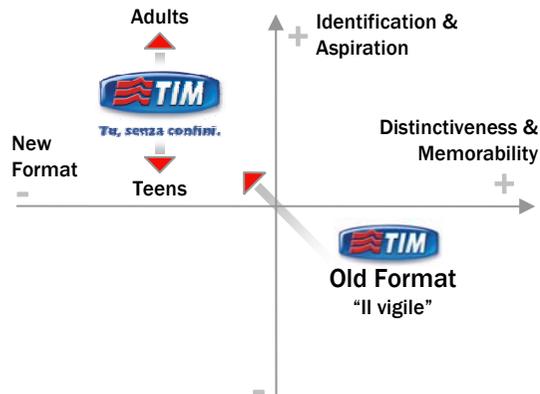


- ▶ **New Pay-Off:** from the general statement “Vivere senza confini” (living without boundaries) to a more direct form “Tu, senza confini”(YOU, without boundaries)

## ▶ New Format

- ▶ **Discontinuity** and innovation attract attention and curiosity
- ▶ **More emotions**, lower focus on the “product” to encourage instinctive behaviour as opposed to rationality
- ▶ **Focus on the customer base** to strengthen feeling of affiliation and move the Brand closer to customer needs

## Brand re-positioning



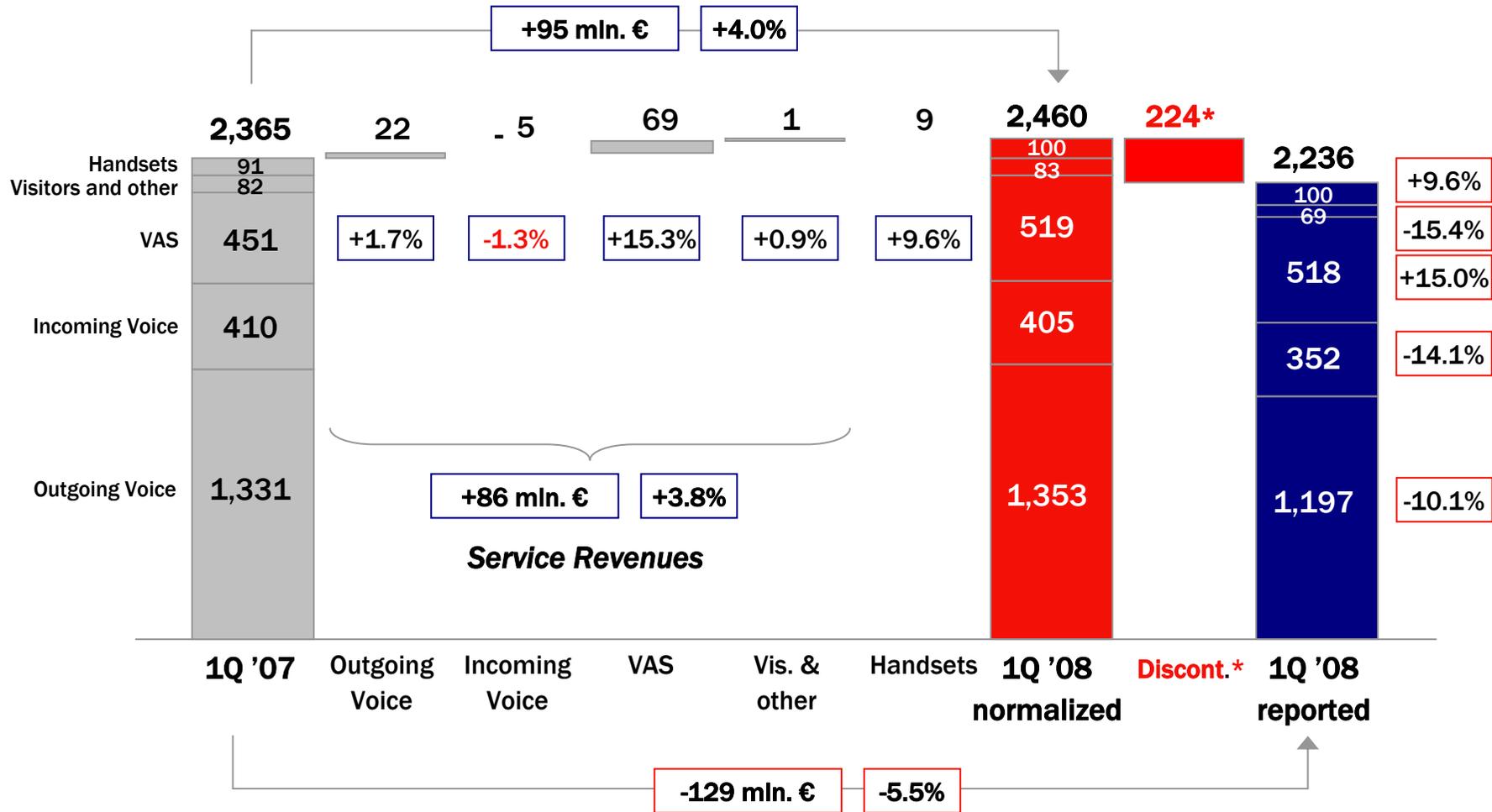
- ▶ **On-air since March '08** the new format addresses youth/adults who value:

- ▶ **Innovation and discontinuity** from the past and formats of other operators
- ▶ **Empathy:** A brand closer to their wishes and aspirations
- ▶ **Identification:** no celebrities but ordinary people in longed-for situations
- ▶ **“Humanization”:** Customers’ needs are met through products & offers
- ▶ **Offers that are easy to understand**

\* GFK Eurisko April 2008 “qualitative” market research

# Domestic mobile: revenue analysis

Millioni di Euro, %



\* 125 mln € from Bersani Decree net effect (net of 65 mln € from elasticity), 45 mln € from Int'l Roaming, 54 mln € from termination cut

## Domestic mobile: revenues breakup Retail/Wholesale

	Mobile Total					Retail					Wholesale*				
	2008	2007	Δ abs.	Δ %	Δ% Normalized ^	2008	2007	Δ abs.	Δ %	Δ% Normalized ^	2008	2007	Δ abs.	Δ %	Δ% Normalized ^
Revenues (Mln €)	2.236	2.365	(129)	(5,5)	4,0	2.163	2.274	(111)	(4,9)	4,3	73	90	(17)	(19,3)	(3,1)
<b>Services</b>	2.136	2.274	(137)	(6,0)	3,8	2.063	2.183	(120)	(5,5)	4,1	73	90	(17)	(19,3)	(3,1)
Outgoing Voice	1.197	1.331	(134)	(10,1)		1.196	1.331	(134)	(10,1)		1	1	0	14,9	
Fees	86	235	(149)	(63,3)		86	235	(149)	(63,3)		0	0	0	44,7	
o/w Recharge Fees	0	145	(145)	(100,0)		0	145	(145)	(100,0)						
Voice	1.110	1.096	14,8	1,3		1.110	1.095	14,7	1,3		1	1	0	14,7	
o/w Roaming	57	84	(27)	(32,6)		57	84	(28)	(32,8)		0	0	0	63,9	
Incoming Voice	352	410	(58)	(14,1)		349	407	(58)	(14,2)		3	3	(0)	(4,3)	
VAS	518	451	68	15,0		517	449	68	15,2		1	2	(1)	(43,6)	
Visitors/Other	69	82	(13)	(15,4)		1	(3)	4	n.s.		68	85	(17)	(19,5)	
<b>Handsets</b>	100	91	9	9,6		100	91	9	9,6		0	0		n.s.	

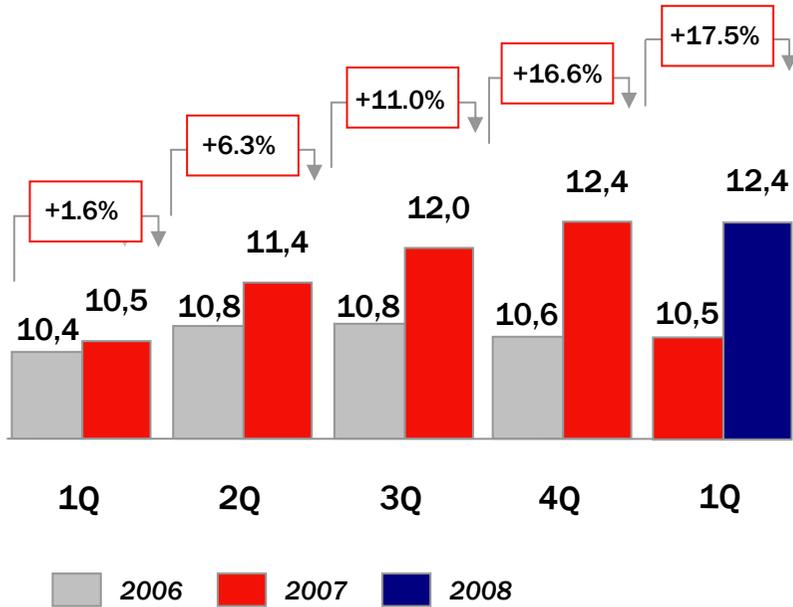
\* International Roaming, National Roaming H3G, Site Sharing, Access Fee OLO, transit charge, Other

^ Net discontinuities: Impact DL Bersani (125 mln), F-M/SMS Tariff cut (54 mln), Reding (45 Mln of which Retail 32 Mln e Wholesale 13 Mln)

# Domestic mobile: Retail Voice Traffic Performance

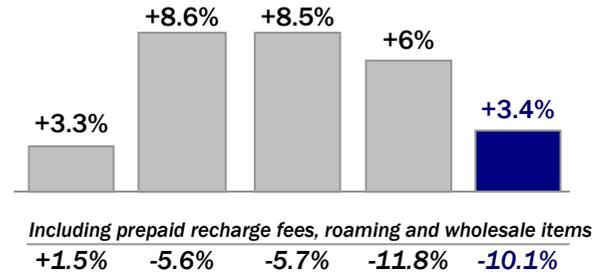
## Total Traffic Volumes\*

Bln. Minutes

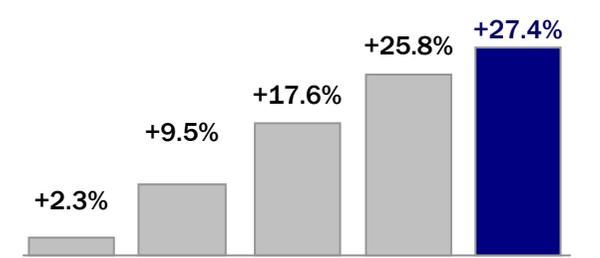


## Outgoing voice

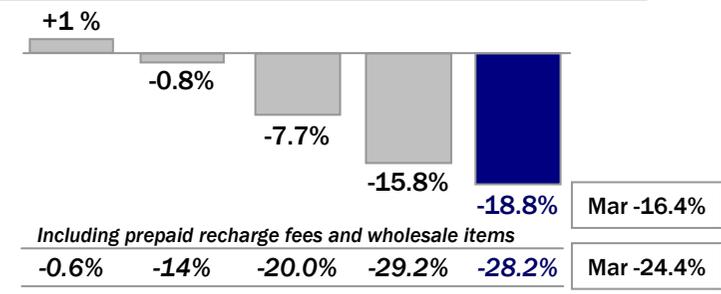
Outgoing voice revenues\*\* YoY trend



Outgoing traffic volumes YoY trend



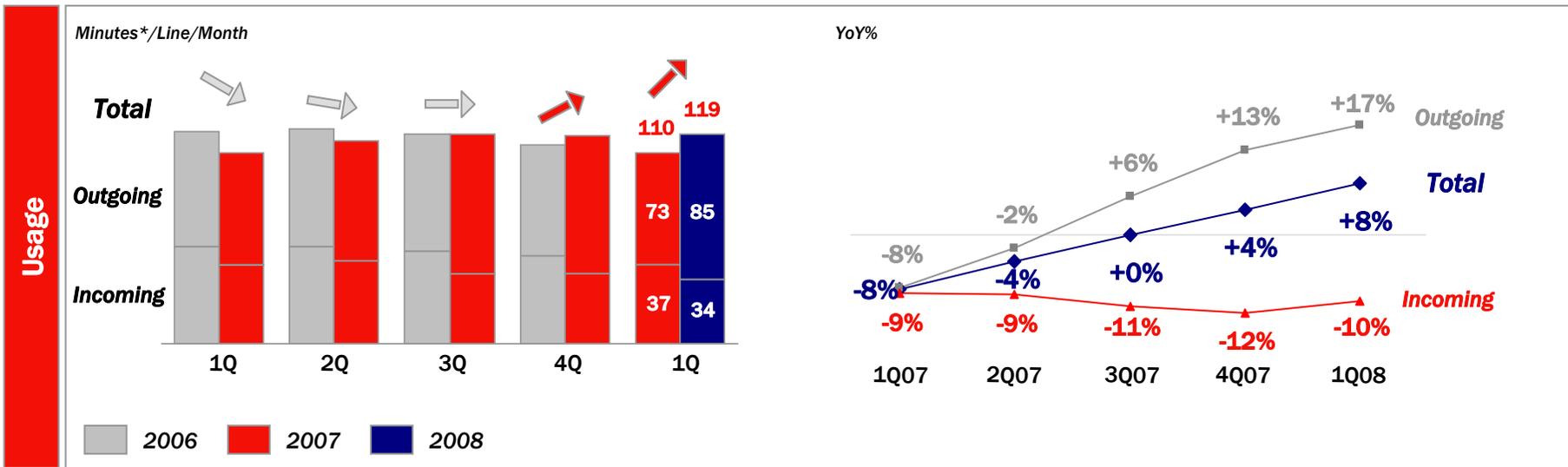
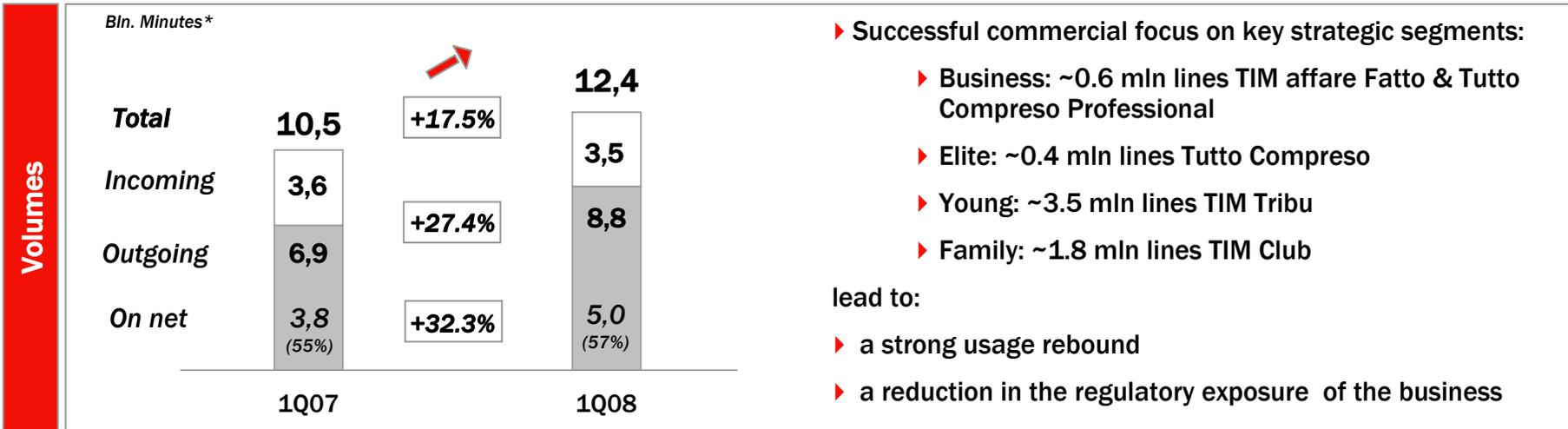
Outgoing traffic price\*\* YoY trend



\* Incoming + Outgoing, excluding Visitors and roaming  
 \*\* Excluding prepaid recharge fees, roaming and wholesale items

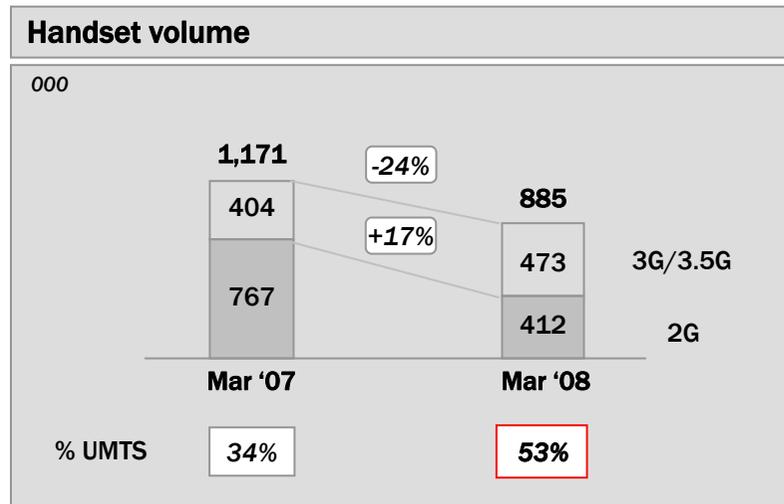
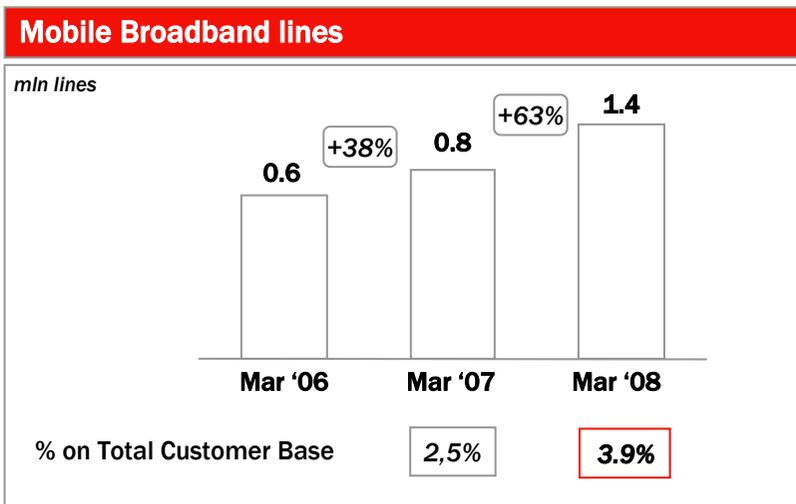
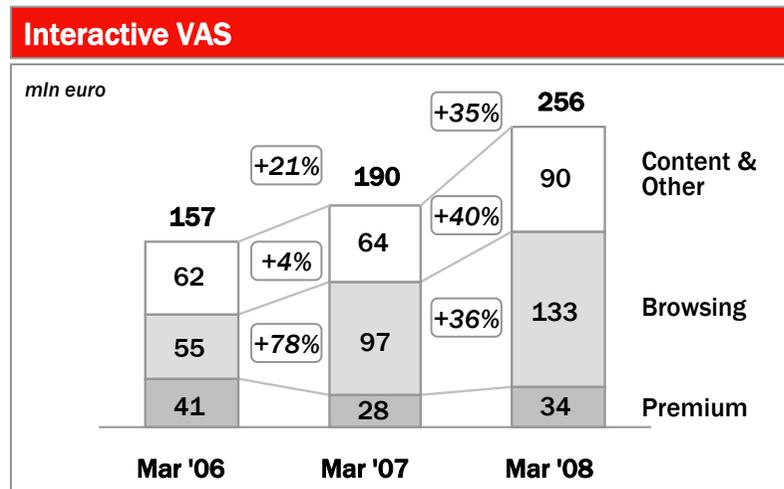
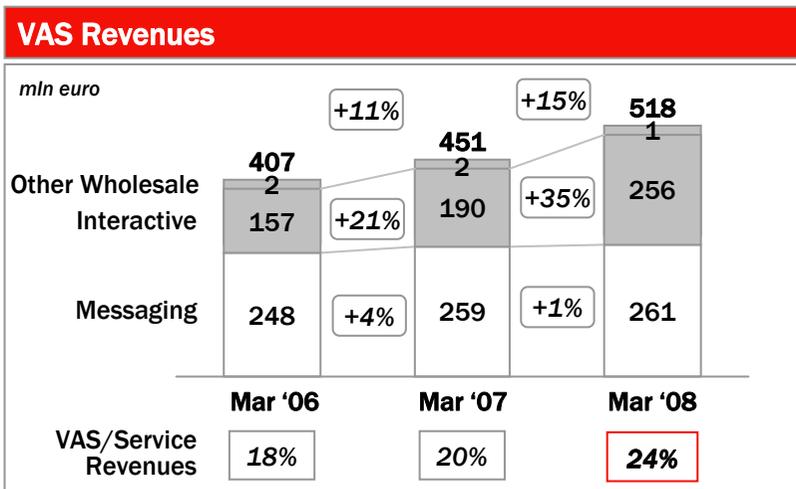
1Q 07 2Q 07 3Q 07 4Q 07 1Q 08

## Voice: TIM Community & High Valuable customers drive usage rebound



\* Excluding Visitors and roaming

# TIM Accelerates UMTS and Interactive VAS Penetration

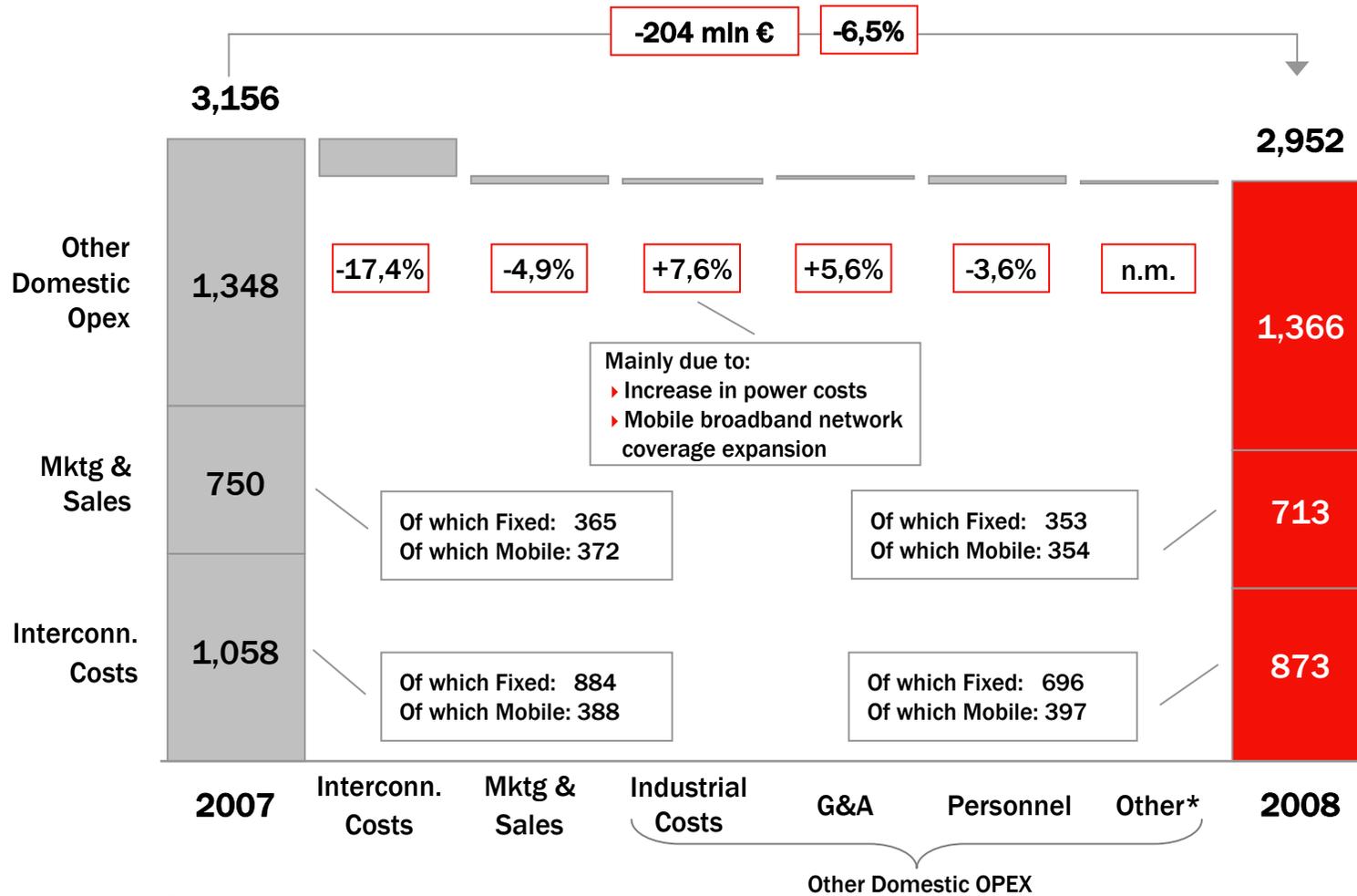


## Agenda

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    - ▶ **Costs Analysis**
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- ▶ Appendix

# Domestic: cost analysis

Reported Data; Mln €, %



\* Includes Other Income, Provisions Charges and Capitalized costs

## **Agenda**

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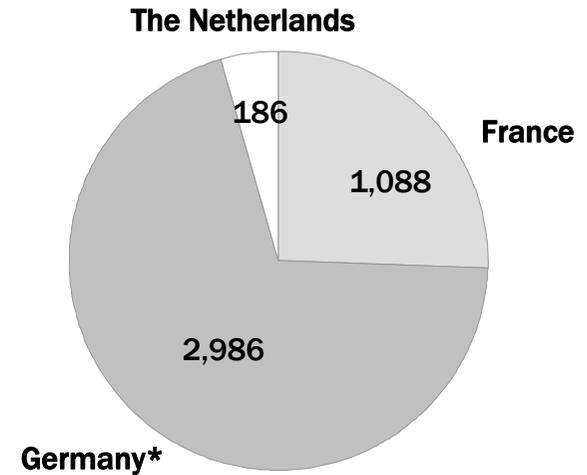
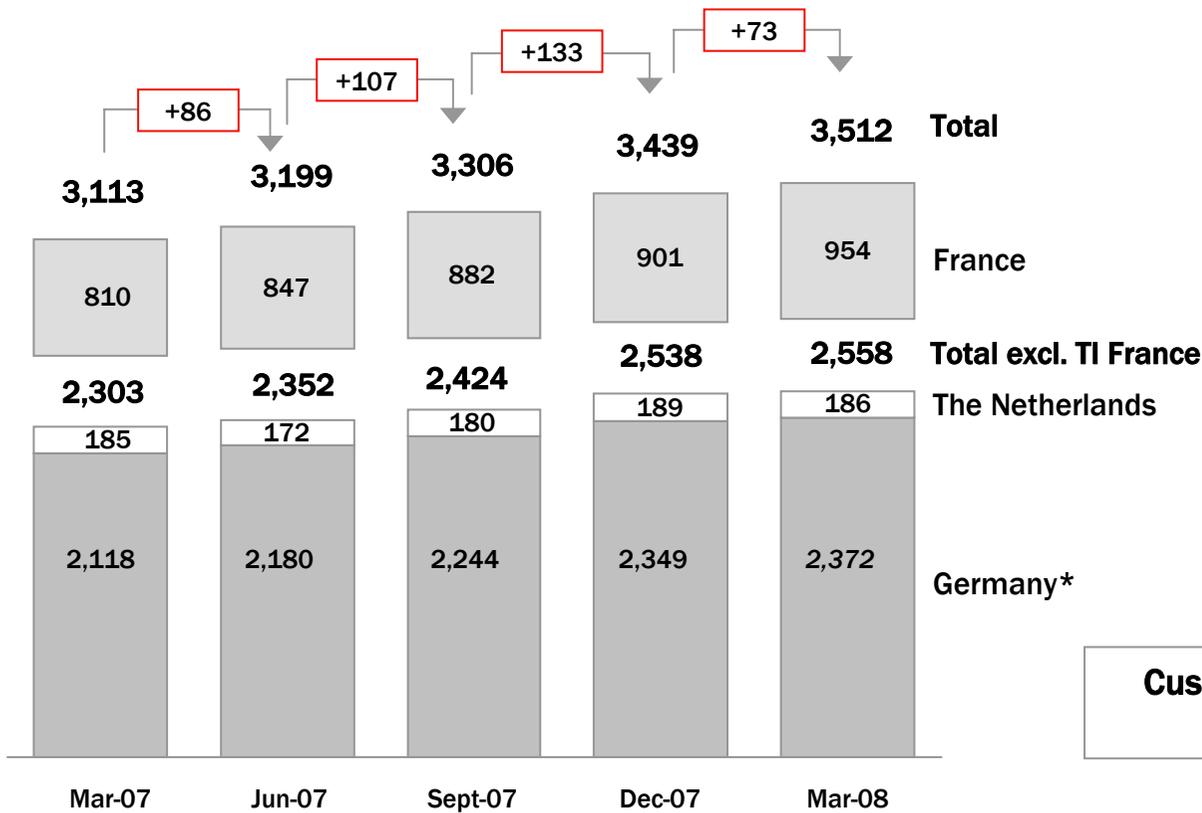
# European Broadband: customer base evolution

## Broadband Portfolio

'000 BroadBand Access

## Total customer portfolio: BB+NB

'000 Access, March 2008



**Customer portfolio excluding TI France: 3,172K**

\* Including AOL Customers, as of March '07 1,083 BB customers and 2,089k total customers

## European BroadBand: main results by Country

€ Mln., '000 lines, %, Reported Data

	Total European BB*				of which HanseNet + AOL				of which BBNET			
	1Q '08	1Q '07	Δ Abs	Δ%	1Q '08	1Q '07	Δ Abs	Δ%	1Q '08	1Q '07	Δ Abs	Δ%
Revenues	323	216	+107	+49.5%	303	198	+105	+53.0%	20	18	+2	+11.1%
Ebitda	61	54	+7	+13.0%	59	49	+10	+20.4%	2	5	-3	-60.0%
Ebitda margin	18.9%	25.0%	-6.1 pp		19.5%	24.7%	-5.2 pp		10.0%	27.8%	-17.8 pp	
Ebit	6	22	-16	-72.7%	10	21	-11	-52.4%	-4	1	-5	n.m.
Ebit margin	1.9%	10.2%	-8.3 pp		3.3%	10.6%	-7.3 pp		-20.0%	5.6%	-25.6 pp	
Capex	100	110	-10		97	108	-11		3	2	+1	
% on revenues	31.0%	50.9%	-19.9 pp		32.0%	54.5%	-22.5 pp		15.0%	11.1%	+3.9 pp	

\* Pro-forma Data excluding TI France (discontinued operations)

## HanseNet: main results

€ Min, %

	Reported Data				Organic Growth	
	1Q '08	1Q '07	Δ	Δ %	Δ	Δ %
<b>Revenues</b>	<b>303</b>	<b>198</b>	<b>+105</b>	<b>+53.0%</b>	<b>+37</b>	<b>+13.9%</b>
<b>Ebitda</b>	<b>59</b>	<b>49</b>	<b>+10</b>	<b>+20.4%</b>	<b>+3</b>	<b>+5.4%</b>
<i>% on revs</i>	<i>19.5%</i>	<i>24.7%</i>	<i>-5.2 p.p.</i>		<i>-1.6 p.p.</i>	
<b>Capex</b>	<b>97</b>	<b>108</b>	<b>-11</b>		<b>-11</b>	
<i>% on revs</i>	<i>32.0%</i>	<i>54.5%</i>	<i>-22.5p.p.</i>		<i>-22.5 p.p.</i>	

### Main economic performance drivers

- ▶ HanseNet maintained ~13% market sh. ytd
- ▶ German market in 1Q was characterized by stronger than expected price competition
- ▶ Higher than expected marketing and sales expenses
- ▶ Price and gross margin pressure in Q1. Reference price dropped to 29.90€/month for a dual play flat-rate offer and led Alice customers to adopt new price plans more rapidly than expected
- ▶ For the rest of 2008 we expect ARPU and Gross Margin per customer to remain stable
- ▶ Reduction of churn through up-selling of AOL customers
- ▶ Higher customer service cost due to process reengineering which have improved quality to best in class performance (Answering rate from 84% in Dec to 91% in March) and which will generate cost efficiency in the following quarters

## HanseNet: 1Q 08 progress on strategic priorities

### Market Results

- ▶ **Gross adds continue in line with previous quarter (253k); overall BB net growth suffered from strong decline of AOL customers also due to data cleaning after end of migration**
- ▶ **Mobile customer base increased from 329k to 423k subscribers**
- ▶ **Brand awareness increased to 51%\* vs. 46% in Q4 07**

### Network Extension

- ▶ **ULL coverage reached 68%, increase from ~ 60% in 2007 through 3<sup>rd</sup> party coverage (target 2008 ~70%)**
- ▶ **Roll-out of FTTB trial in selected area of Hamburg**

### Operational Excellence

- ▶ **Since March service levels show strong performance due to operational optimizations:**
  - ▶ **Excellent hotline answering times**
  - ▶ **Low activation backlogs (due to end of delays from incumbent)**
  - ▶ **Substantial cost savings will be reached starting Q2**

### Expected Profitability

- ▶ **Heavier price competition will negatively impact 2008 EBITDA margin, target revised to almost 24% from previously announced ~26%**

\* GFK Eurisko, February 2008

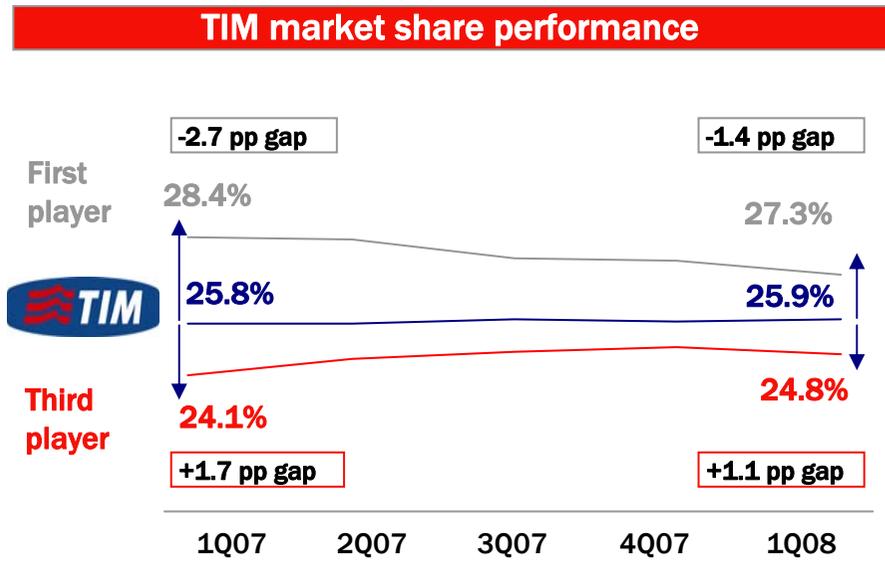
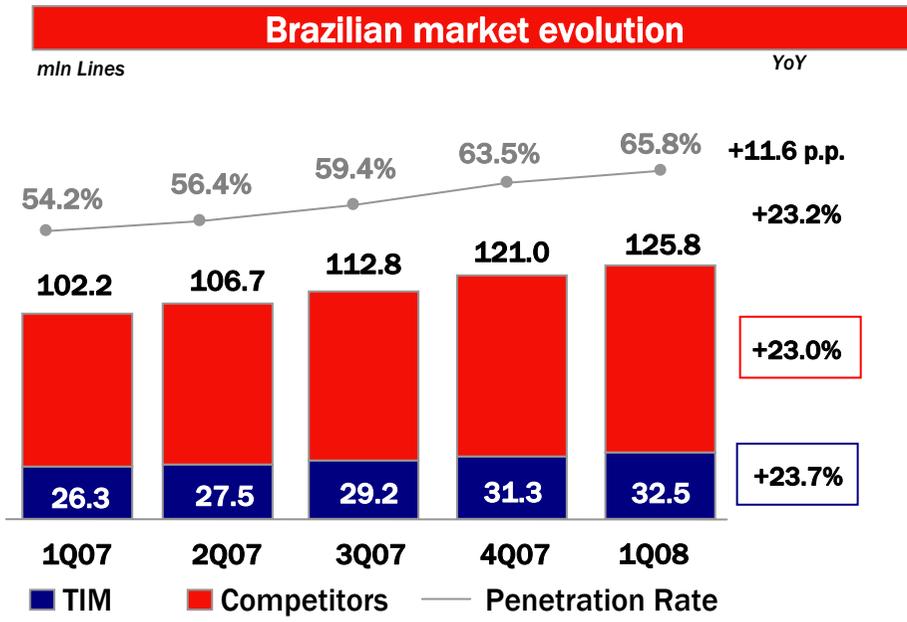
## **Agenda**

- ▶ **1Q 2008 business performance:**
  - ▶ Domestic
  - ▶ European BB: HanseNet + BBNED
  - ▶ **TIM Brasil**
  
- ▶ Appendix

## TIM Brasil: investing for the future

- ▶ **Maintaining aspirational, innovative brand attributes**
- ▶ **Marking the market**
  - ▶ **Stable market share:** 25.9% share in an increasingly competitive environment
  - ▶ **Leader in gross adds:** ~26% share thanks to promotions on traffic and 'TIM-Chip only' sales
  - ▶ **Focus on high-end:** post paid 20.8% of total lines vs competitors 18.6%
  - ▶ **Maintaining strong prepaid base** through loyalty programs and development of low-income class model
- ▶ **Developing wireless broadband**
  - ▶ **Launch of 3G service in 8 major cities:** 850 Mhz - April 16<sup>th</sup>, 2.1 Ghz - May 1<sup>st</sup>
  - ▶ **Step ahead in TIM convergent offer** through wireless broadband: **speed upgrade 1-7Mbps** is automatic, seamless and free of charge for all covered areas/enabled devices
  - ▶ **Innovation to encourage usage and revenue:** VAS already at 8.1% of service revenues (+1.4 pp YoY)
- ▶ **Delivering on results:** 2008 company targets already factored in an increasingly competitive scenario, 1Q 08 slowdown has prompted remodeling of voice tariff plans and kick-off of fixed cost control plan
  - ▶ **Revenues:** 2008 target revision to ~9% YoY organic growth
  - ▶ **All other 2008 targets confirmed**

# TIM Brasil: competitively marking the market

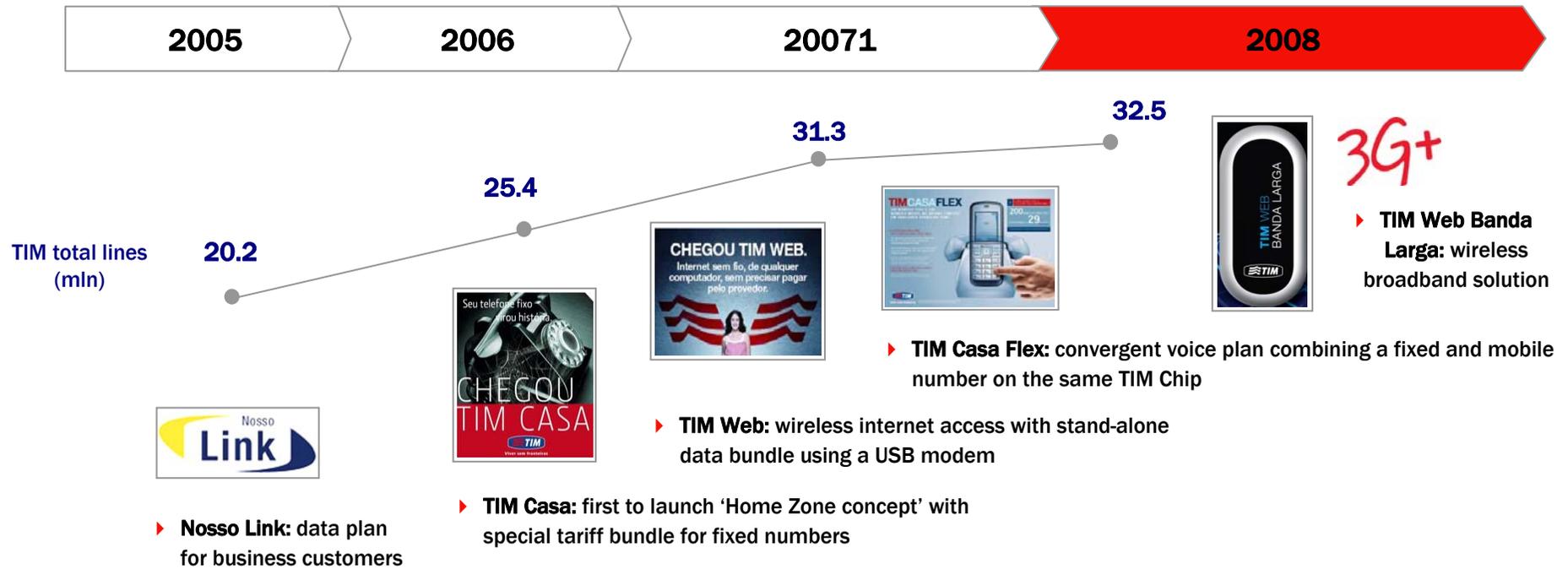


- ▶ Strong mobile market: +35% YoY gross adds reaching +23.2% YoY total line growth fueled by:
  - ▶ Credit expansion and purchase power improvement
  - ▶ Increasing penetration of lower social class segments
  - ▶ Naked SIM-Card further enhance net addition
  - ▶ New technology /services

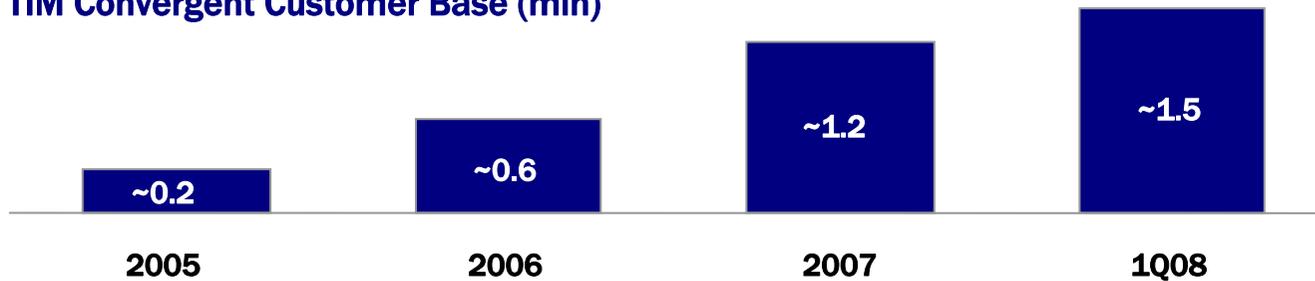
- ▶ Leading market performance: +22% YoY gross adds (~26% share) totaling +23.7% YoY lines (25.9% share)
- ▶ Push on segmented traffic promotions to:
  - ▶ Address post-paid target (20.8% total lines vs. 18.6% mkt average)
  - ▶ Drive pre-paid penetration of new segments

Source: ANATEL and company data

# TIM Brasil: convergent offer roadmap



## TIM Convergent Customer Base (mln)



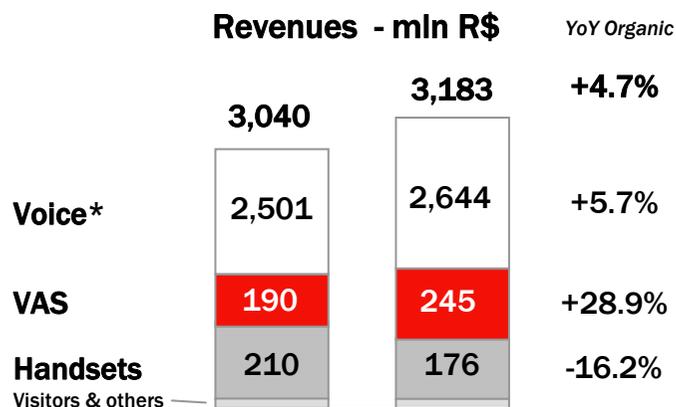
## TIM Brasil: main results

IAS/IFRS

	Reported Data - Euro Million Euro, %				Reported Data - Reais Million R\$, %				Updated Targets IAS
	1Q '08	1Q '07	Δ Abs	Δ %	1Q '08	1Q '07	Δ Abs	Δ %	2008
<b>REVENUES</b>	<b>1,224</b>	<b>1,100</b>	<b>+124</b>	<b>+11.3%</b>	<b>3,183</b>	<b>3,040</b>	<b>+143</b>	<b>+4.7%</b>	~9% YoY organic
<b>EBITDA</b>	<b>242</b>	<b>269</b>	<b>-27</b>	<b>-10.0%</b>	<b>631</b>	<b>745</b>	<b>-114</b>	<b>-15.3%</b>	
% on Revs	19.8%	24.5%	-4.7 p.p.		19.8%	24.5%	-4.7 p.p.		>24% margin confirmed
		impacted by exceptional level of bad debt							
<b>EBIT</b>	<b>-17</b>	<b>16</b>	<b>-33</b>		<b>-45</b>	<b>46</b>	<b>-91</b>		
% on Revs	-1.4%	1.5%	-2.9 p.p.		-1.4%	1.5%	-2.9 p.p.		
<b>CAPEX</b>	<b>139</b>	<b>116</b>	<b>+23</b>		<b>361</b>	<b>321</b>	<b>+40</b>		~1.5 bln€ Incl. 3G license confirmed
% on Revs	11.3%	10.6%	+0.7 p.p.		11.3%	10.6%	+0.7 p.p.		
		3G license cost to be booked in 2Q 08							

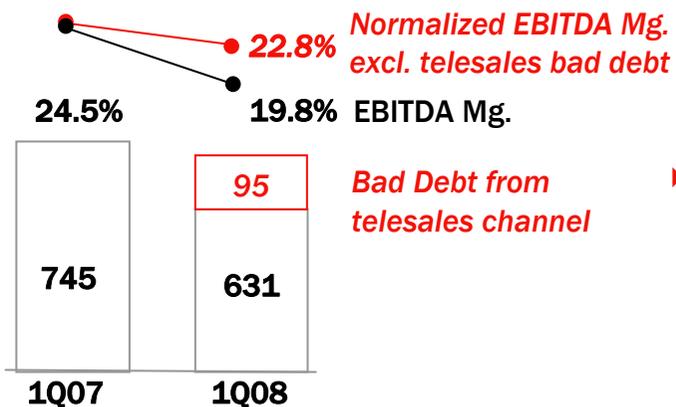
# TIM Brasil: main performance drivers

IAS/IFRS



- ▶ **Promotions on traffic** to drive on-net usage and M-F calls on a “hot spot” basis:
  - ▶ Outperforming market adds in target areas
  - ▶ Blended MOU up to 94 (+5% YoY), again above peer average
- ▶ **Push on VAS** and promote “education” on data in light of 3G+ launch (April 16, 2008): innovative services drive VAS up to 8.1% of service revs (+1.4 pp YoY)
- ▶ **Lower handset revenues** due to strong reduction in handset prices and lower volumes from ‘TIM-Chip only’ strategic focus on services

## EBITDA – mln R\$ - and EBITDA margin



- ▶ **Commercial price aggressiveness** as investment for the future
  - ▶ + interconnection expenses from strong outbound traffic increase
  - ▶ + VAS content and web promotions driving to 3G
  - ▶ - SAC through balance of improved commissions policy and subsidy focus on value customers
- ▶ **Bad Debt exceptional increase** (9.0% of service revs; +2.9 pp) from aggressive 2H 07 acquisition campaign via telesales channel
  - ▶ increased control against frauds had led to disconnection “bad credit” postpaid lines
  - ▶ **2008 bad debt back to historical levels** (~6% of service revs) thanks to new rules implemented in telesales process and stricter credit analysis

\*Excluding Visitors and others

## **Agenda**

- ▶ **1Q 2008 business performance:**
  - ▶ **Domestic**
  - ▶ **European BB: HanseNet + BBNED**
  - ▶ **TIM Brasil**
  
- ▶ **Appendix**

# TI Group: Main Results – Organic Trend

Min. €

	1Q '07*				1Q '08			Organic trend	
	1Q '07 Reported	Change in Perimeter	Exchange rate impact	Except. items	1Q '07 Organic	1Q '08 Reported	Except. items	1Q '08 Organic	1Q '08 vs '07 Δ Abs Δ %
Revenues	7,475	+67	+57		7,599	7,298		7,298	-301 -4.0%
Ebitda	3,178	+7	+8		3,193	2,966	+12	2,978	-215 -6.7%
Ebit	1,817	+1	-4	-10	1,804	1,528	-13	1,515	-289 -16.0%

▶ Real estate project

▶ AGCOM Fine: 3 € mln  
▶ Provision: 9 € mln

▶ Real estate project: -25 € mln

\* Pro-forma Data excluding TI France (discontinued operations)

# Domestic: Main Results – Organic Trend

Min. €

	1Q '07*				1Q '08			Organic trend	
	1Q '07 Reported	Change in Perimeter	Exchange rate impact	Except. items	1Q '07 Organic	1Q '08 Reported	Except. items	1Q '08 Organic	1Q '08 vs '07 Δ Abs Δ %
<b>Revenues</b>	6,009		-8		6,001	5,619		5,619	-382 -6.4%
<i>Fixed</i>	3,989		-8		3,981	3,746		3,746	-235 -5.9%
<i>Mobile</i>	2,365				2,365	2,236		2,236	-129 -5.5%
<b>Ebitda</b>	2,853	+2	-2		2,853	2,667	+12	2,679	-174 -6.1%
<b>Ebit</b>	1,790	+2		-10	1,782	1,566	-13	1,553	-229 -12.9%

▶ Real estate project

▶ AGCOM Fine: 3 € mln  
▶ Provision: 9 € mln

▶ Real estate project: -25 € mln

\* Pro-forma Data excluding TI France (discontinued operations)

## OLO Fixed Access lines

	IQ 07	IH 07	9M 07	2007	1Q 08
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'000 access

### OLO Access (on TI infrastructure)\*

ULL	1,967	2,322	2,521	2,930	3,218
Virtual ULL	357	327	250	178	147
Shared Access (ADSL)**	288	279	260	244	232
WLR	-	-	-	-	77

\* Restated (change in data mining systems)

\*\* Included in TI Retail Access

## TI Broadband Portfolio Evolution

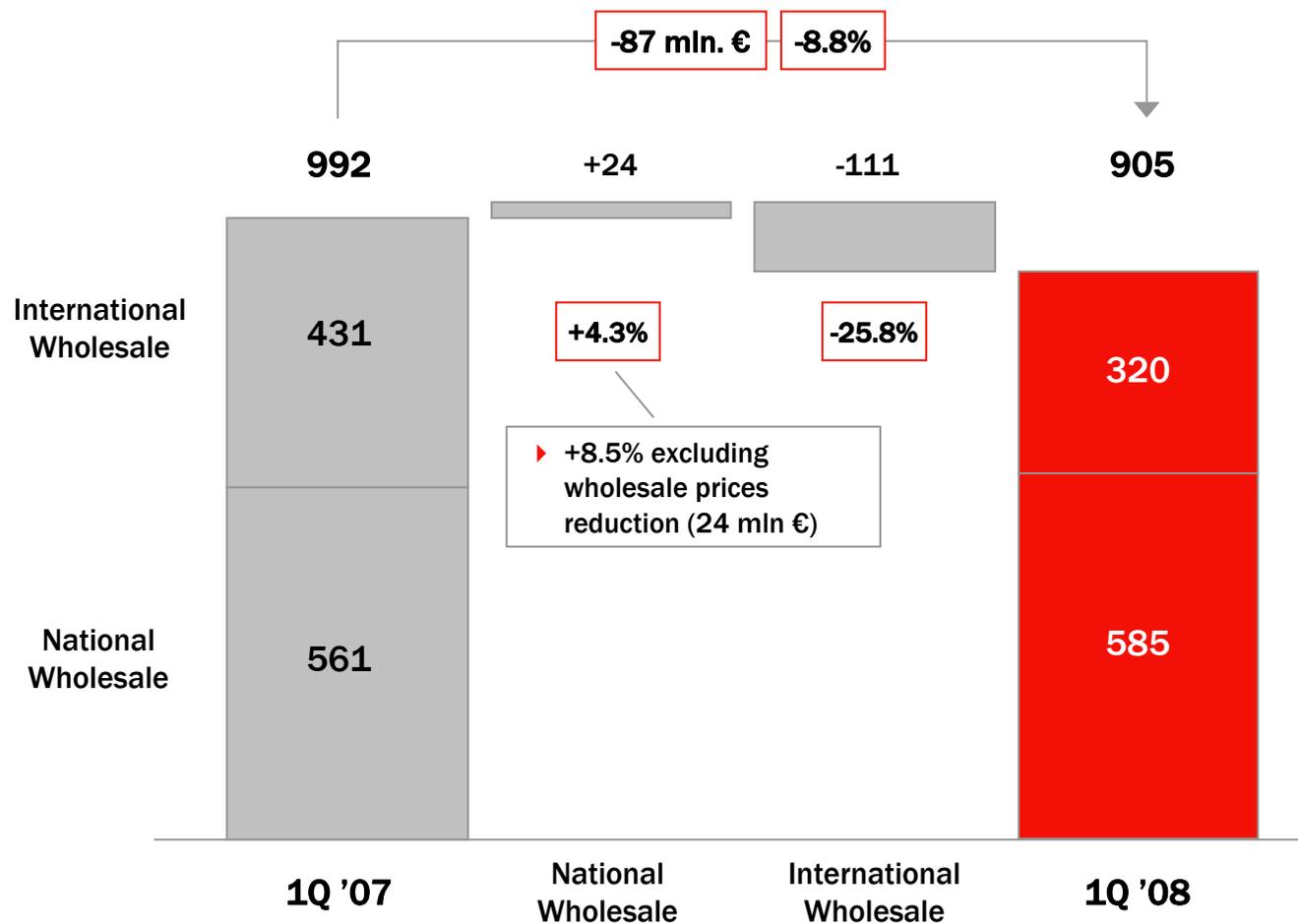
'000 Access lines

	Dec '05	Dec '06	Dec '07	Mar '08	Δ Dec '06 vs Dec '05	Δ Dec '07 vs Dec '06	Δ Mar '08 vs Dec '07
Retail	4,817	5,639	6,427	6,541	+822	+788	+114
Consumer	3,875	4,544	5,157	5,203	+687	+613	+46
Business	960	1,095	1,270	1,338	+135	+175	+68
Wholesale	890	1,131	1,163	1,187	+241	+32	+24
<b>Total TI Domestic</b>	<b>5,707</b>	<b>6,770</b>	<b>7,590</b>	<b>7,728</b>	<b>+1,063</b>	<b>+820</b>	<b>+138</b>
International*	890	1,890	3,439	3,512	+1,000	+1,549	+73
<b>Total TI</b>	<b>6,597</b>	<b>8,660</b>	<b>11,029</b>	<b>11,240</b>	<b>+2,063</b>	<b>+2,369</b>	<b>+211</b>

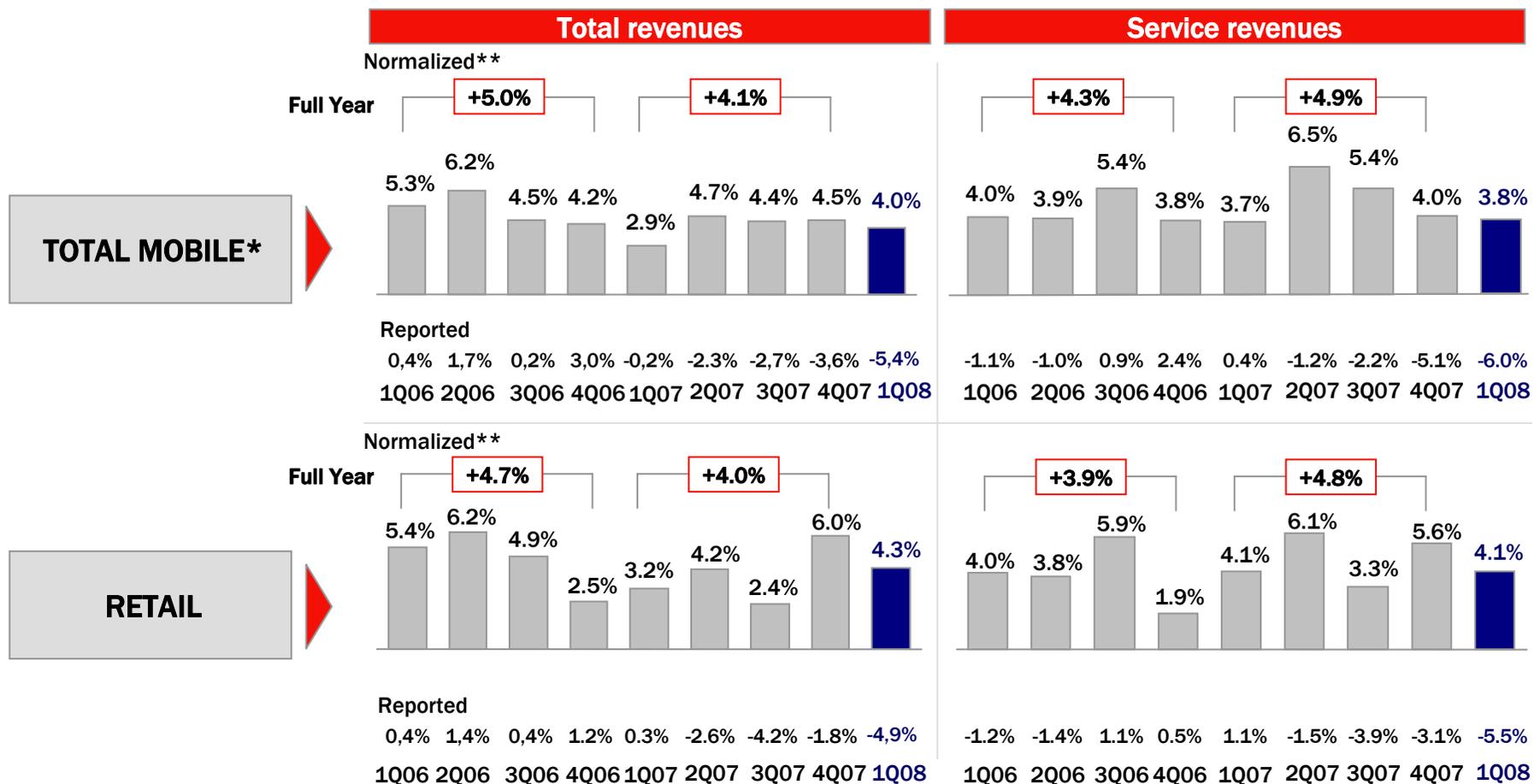
\* Germany, The Netherlands and France

# Domestic fixed: Wholesale Services Revenues

€ Mln, %, Reported Data



# Domestic Mobile: Revenue Trends by Quarter



\* Excluding H3G arbitration effect on revenues (56 mln € IVQ07)

\*\* Bersani Decree net effect (30 mln € IQ '07, 133 mln € 2Q '07, 110 mln 3Q '07, 131 mln 4Q '07, 125 mln IQ '08), Int'l Roaming (8mln € 1Q '07, 12 mln € 2Q '07, 27 mln 3Q '07, 41 mln 4Q '07, 45 mln IQ '08) and F2M termination cut (36 mln € in 1Q '07, 37 mln in 2Q '07, 46 mln 3Q '07, 43 mln 4Q '07, 54mln IQ '08)

# Domestic Mobile: Vas Revenues Trends by Quarter

