Building the Foundation for Growth

FRANCO BERNABE'



BUILDING THE FOUNDATION FOR GROWTH

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BUILDING THE FOUNDATION FOR GROWTH

Building the Foundation for Growth: Our roadmap

From Defence To Transformation... ...and Growth

Up to 2007 2008 2010

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BUILDING THE FOUNDATION FOR GROWTH

Agenda

- **▶** From Defence to Transformation
- ► An Evolving Industry
- **▶** Pillars of Transformation and Growth
- Our Targets



BUILDING THE FOUNDATION FOR GROWTH

From a Defence Strategy....

ASSETS

StrongDomesticMarketPosition

KEY DECISIONS

 Defence of domestic market shares – focus on sales strategy

RESULTS

- Volumes achieved at the expense of value
- Quality of Service decline
- High level of litigation with competitors and Regulatory Authorities

- Portfolio of international assets
- Divest and concentrate on few markets

- Concentration on domestic market
- Limited Growth Opportunities abroad



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...to a Transformation Strategy ...

ASSETS

- **Strong Domestic Market Position**
- **World Class** competencies in the core business
- **Selected Presence** in international markets

KEY DECISIONS

- Concentrate on quality as a value driver
- Increase total share of wallet (including adjacent sectors)
- Leverage innovation and entrepreneurship in the organisation
- **Defend and expand where** presence is strong
- **Divest weaker positions**

RESULTS

- Stabilise and possibly increase **ARPU** in key businesses
- Create growth opportunities in an otherwise mature market
- **Exploit potential of current** assets
- Rebuild a solid growth platform



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...maintaining a strong financial discipline

- Raise cash from non strategic assets and pursue non cash intensive growth where there is a strong market opportunity
- Select investments on payback period and return ratios thresholds
- Mine efficiencies across the organization and synergies with Telefonica and other partners whenever possible
- Focus on the deleveraging



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An Evolving Industry – Constraints and Opportunities

Constraints

Market Saturation on Traditional Services

New Competitors coming from Adjacent Sectors

Strict Regulatory Environment

Opportunities

New Growth
Opportunities
in Innovative
Services

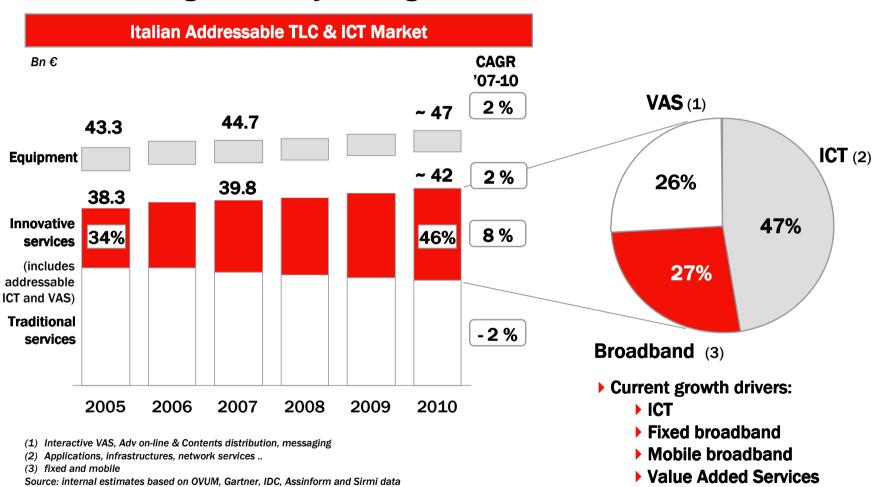
Expansion in
New Addressable
Adjacent
Markets

TLC Market Consolidation



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An Evolving Industry – Engines of Domestic Growth





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An Evolving Industry – Expansion of Adjacent Markets

Technology Enabler Addressable Markets Consumer Electronics Market Wireless sensor networks **▶** Ambient Intelligence **Media & Advertising Market** High definition IPTV User generated content User profiling & context **ICT Market** Virtualization Service oriented architecture Sw as a service **TLC Market** Broadband Mobile ▶ Time **Addressable Market**



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An Evolving Industry - Telecommunications Market Consolidation

Liberalization

The Market contains more players than the fundamental economics can justify

Demand Evolution

- Bandwidth-hungry applications
 require investments in broadband
 infrastructures
- **▶** Fixed-Mobile Convergence
- ▶ High quality services

TIc Consolidation

Market will evolve, in a convergence framework, towards a greater stability in competition dynamics

- Reduced number of players in wireline (and possibly mobile)
- Market shifting focus to value rather than volume, reducing pressure on prices



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BUILDING THE FOUNDATION FOR GROWTH

Pillars of Transformation and Growth

Serve our customers to higher satisfaction and create shareholder value

Transform Domestic Business

Consolidate
International Presence

Mine efficiency across regions and business lines

Consolidate and Transform Network and Service Platforms

Disciplined financial policy and focus on deleveraging



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Transform Domestic Business - Quality as a Value Driver

Defend the value of the service

Mobility Premium

Fixed Line

Bandwidth

Quality as a Value Driver

TARGET

Bridge the Gap vs Industry

Average and become quality

leader in three years

CSI from 58.4 in 2007 to over 64.0 by 2010



Transform Domestic Business – Convergence as a Value driver

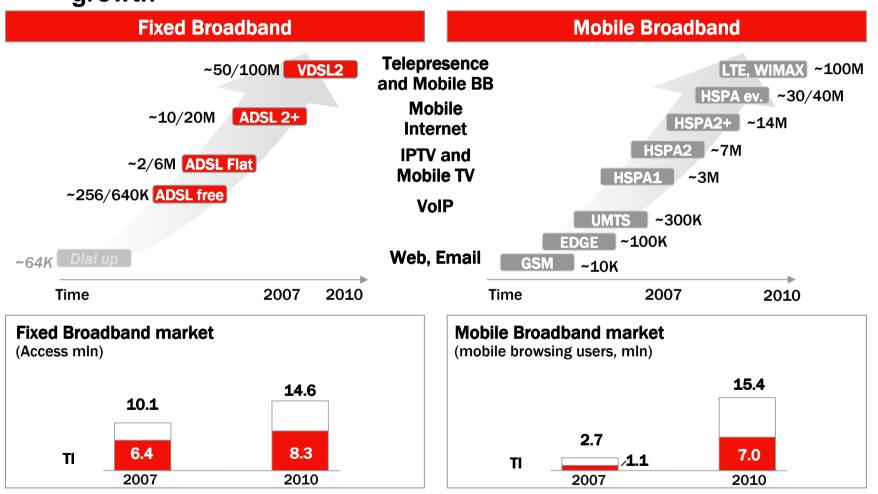
Manage Fixed Mobile Convergence

- Control Wireline churners
- ▶ Retain High End customers
- ▶ Control churn of Low-end customer vs mobile only solutions
- Leverage voice "price up"
- ▶ Increase voice value thanks to mobile price premium

- Broadband development
- ▶ Accelerate mobile broadband development through convergent offers
- ▶ Avoid price competition between fixed/mobile Broadband



Transform Domestic Business – Convergence will drive Broadband growth



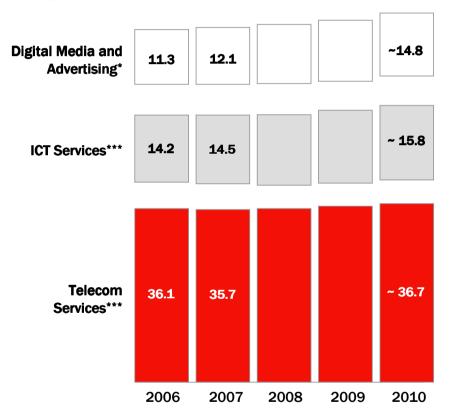


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Transform Domestic Business - Focus on Share of Wallet

BIn €



Grow in digital content distribution and web 2.0 new media

Increase market share through integrated TLC/IT Services

Estimate TI 2007
Market Share ~ 2%

Estimate TI 2007
Market Share
~ 7%**

Focus on Value Market Share Estimate TI 2007
Market Share
~ 55%

^{***}Includes equipment



Source: internal estimates based on OVUM, Gartner, IDC, Assinform, Sirmi & ATKearney data *

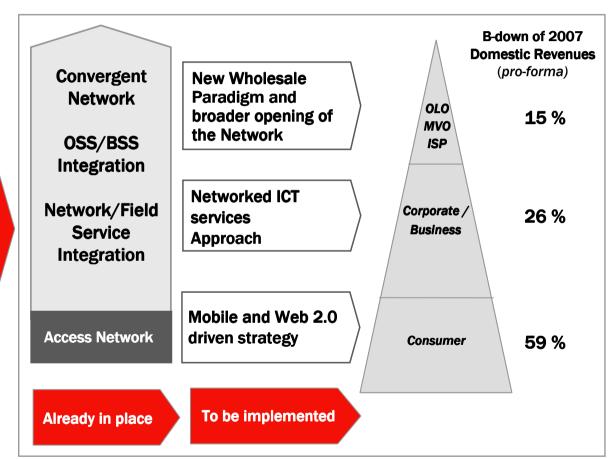
^{*}Excludes RAI public subscription fee

^{**} On addressable market

2007 Results & Strategic Guidelines

Transform Domestic Business – Customer Driven **Organisation**







2007 Results & Strategic Guidelines



Transform Domestic Business – Customer Driven **Organisation**

Organization

Gradual implementation from today until end of 2008

Reporting

- Continuity of fixed-mobile reporting in 2008
- Pro forma representation of revenues by customer segment from 2008

Management Accountability

- Current accountability maintained during 2008
- ▶ Responsibility of consumer convergent offer assigned to mobile
- ▶ 2009 Budget based on new accountability by segment

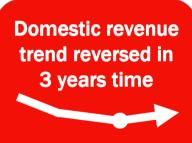


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Transform Domestic Business - Main Targets

- Mobile and BBConsumerStrategy
- ▶ Retain the best customers through convergent offers
- ▶ Increase share of wallet on customers

- Networked ICT for BusinessCustomers
- ▶ Maintain leadership on Top & Large Accounts
- **▶** Growth in the SME segment
- ▶ Increase ICT revenues and market share
- New WholesaleParadigm
- ► Leverage on the Wholesale Market as a value creation engine
- **▶** Improve Relation with Regulation Authorities





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Consolidate International Business





- ▶ Enhance TI positioning, eventually exploiting opportunities in the consolidation process
- Consider exiting less attractive markets



- Grow in Brazil strengthening mobile proposition and exploiting convergent options
- Focus to increase the participation in Sofora (Telecom Argentina)
- ► Focus on the Italian Hub for the Mediterranean,

 Middle- East, South-East Asia
- Innovative solutions for **Multinational Companies**

- Monitor business opportunities on high growing markets
- BuildFinancialPartnershipsand Alliances

Int.I Wholesale

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Consolidate International Business - Main Targets

Overall

Increase international contribution to Group results and growth prospects

Germany

▶ Continue to profitably expand the company, focusing on market success and operational excellence and efficiency

Brazil

- ▶ Generate more value from the customer base and increase profitability
- Build share in the fixed-line and broadband markets
- ▶ Profitably penetrate low-ARPU customer base

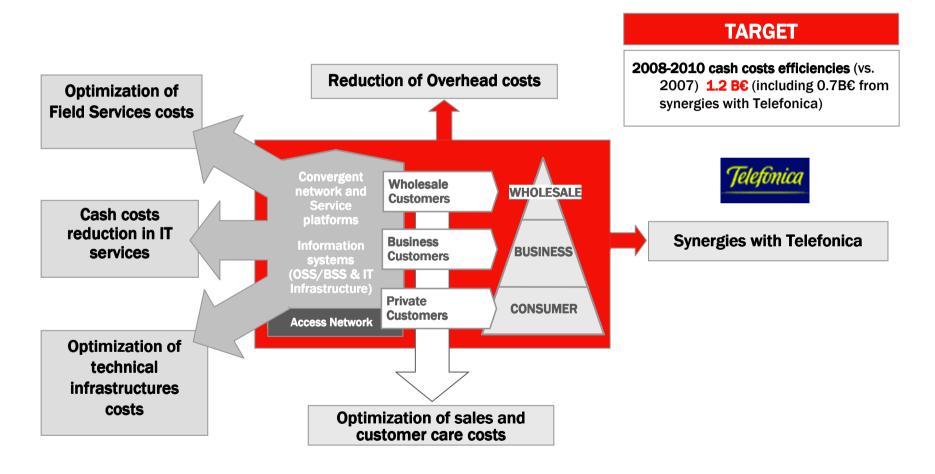




2007 Results & Strategic Guidelines

BUILDING THE FOUNDATION FOR GROWTH

Mining Efficiencies and Synergies





Consolidate and Transform Network and Service Platforms

Focus on Investment Return and Pay Back Period

Service Platforms

- ▶ IPTV broadcasting and VOD
- Middleware Platforms for Net Computing, Storage, Asset Management
- Full IP Managed Unified Communication Platform

- **▶** Dynamic HDTV Platform
- Software as Service Suites
- **▶** Context Aware Services platform
- **▶** Sensor Networks Expert Systems

Network Platforms

- Broadband Fixed 90% ADSL2 and 8% NGN by 2010
- Broadband mobile 85% High Speed 3G and first deployment of LTE by 2010
- Deployment of a convergent broadband network based on FTTx, LTE and Femtocells
- QoS Policy Management Features



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Disciplined financial policy and focus on deleveraging

Focus on deleveraging

- Priority of debt reduction
- ▶ Monetisation / disposal of non core activities

Shareholder remuneration

Dividend policy to be sustainable in the long term



- Cash flow will be prudently used for organic growth
- Strengthening position of key existing international assets





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TI Group 2008 targets and 2009-2010 guidance

2007 Actual

€ bln, %

	2007 Actual	2008 Targets	2009 - 2010 Trends
	Organic*	Organic*	Organic* vs. 2008
Revenues	30.9	~31.0	CAGR 2008-2010 = +1% / +2%
EBITDA	12.25	~38.5% (excluding 1998 Licence	EBITDA margin %
EBITDA Margin	39.7%	Fee income for ~ 0.5 bln €)	~ 39.0 %
CAPEX	5.4	~5.4 (including 0.5 bln€ 3G Licence in Brasil)	Cum. 2008-2010 = ~15.0 Capex reducing YoY
Net Financial Position	35.7		NFP and ratio to EBITDA Reducing YoY
NFP/ Ebitda	3.1x	< 3.0 x	2010 NFP/EBITDA ~2.5x

2000 Target

^{*} Assuming perimeter as of 31/12/2007 excluding TI France, 2007 exchange rates and including restructuring costs



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Domestic 2008 targets

€ bln, %

	2007 Actual	2008 Targets	2009 - 2010 Trends
	Organic*	Organic*	Organic* vs. 2008
REVENUES	24.2	>23,0	Domestic
Fixed revenues	15.7	~15.0	revenue trend reversed in 2010
Mobile revenues	10.0	~ 9.8	
EBITDA	10.8	~44.0% (excluding 1998 Licence	EBITDA Margin %
EBITDA margin %	44.5%	Fee income for ~ 0.5 bn €)	Broadly Stable
CAPEX	4.1	~3.5	Cum. 2008-2010 = ~11.0

^{*} Assuming perimeter as of 31/12/2007 excluding TI France, 2007 exchange rates and including restructuring costs



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Building the Foundation for Growth: Our Roadmap

Transform Domestic Business

Consolidate International Business

Exploiting Efficiencies and Synergies

Financial Discipline

- Improve quality
- Customer knowledge
- Convergent offers
- **▶** Develop ICT market

- Continue Growth in Latin America
- ► Strengthen Position in Germany
- **▶** Portfolio Monitor

- Customer segment organization
- Convergent Network and IT model
- Efficiencies and Synergies with Telefónica

- Investment and PortfolioManagement
- ► Shareholder Remuneration

Domestic revenue trend reversed in 3 years time



Group EBITDA Improvement



