

TELECOM ITALIA ANALYST & INVESTOR BRIEFING
2007 Results & Strategic Guidelines

“Surf the Internet wave”

LUCA LUCIANI

“SURF THE INTERNET WAVE”

Safe Harbour

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"SURF THE INTERNET WAVE"

Agenda

- ▶ **Achievements 2007**
- ▶ Sources of growth
- ▶ Outlook 2008 and conclusions

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Commitment vs delivery

	What we said	What we did	
Market share	<ul style="list-style-type: none"> ▶ Stable in volumes ▶ Focus on value 	<ul style="list-style-type: none"> ▶ 40.3% market share (vs. 40.4% YA) ▶ Leadership defended on key segments: <ul style="list-style-type: none"> ▶ Consumer: Revenue Share 45.5% (+0.5 pts YoY) ▶ SoHo: Market Share 51.5% (+1,8 pts YoY) ▶ SME: Market Share 52.0% (+0.3 pts YoY) 	✓
Revenue growth	▶ Revenues: - 2/ - 3 %	<ul style="list-style-type: none"> ▶ - 2.3% on Mobile Revenues (excluding H3G litigation) ▶ - 1.9% Service Revenues Retail (+4.8% normalized) 	✓
	<ul style="list-style-type: none"> ▶ Outgoing traffic growth: +8 / +10% ▶ Price reduction: -10% 	<ul style="list-style-type: none"> ▶ Outgoing traffic growth: +13.9% ▶ Price reduction: -6.3% (net of Bersani) 	✓
	▶ 20% VAS on Service Revenues	<ul style="list-style-type: none"> ▶ 21% VAS on Service Revenues ▶ Mobile Internet: +95% 	✓
Regulation pressure	<ul style="list-style-type: none"> ▶ F-M termination cut (10 €cent as of July): <ul style="list-style-type: none"> ▶ Price impact: -162 mln euro ▶ Volume impact: +90 mln euro 	▶ No elasticity in incoming: Fixed-Mobile calls dropped by -12% with additional -90 mln euro on top of price cut	✗
	▶ International roaming tariff cut (30 €cent as of Sept.): impact -60 Mln euro*	▶ Low elasticity from Reding cut: -88 mln euro impact	✗
	<ul style="list-style-type: none"> ▶ Bersani Decree: <ul style="list-style-type: none"> ▶ Net revenues impact: -350/ 400 mln euro (630 gross) 	<ul style="list-style-type: none"> ▶ Declining elasticity (0.4 in IVQ vs 0.6 in IIQ): <ul style="list-style-type: none"> ▶ Net revenues impact: -404 mln euro (630 gross) 	✓

*Retail and Wholesale

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Defended market share in a competitive environment

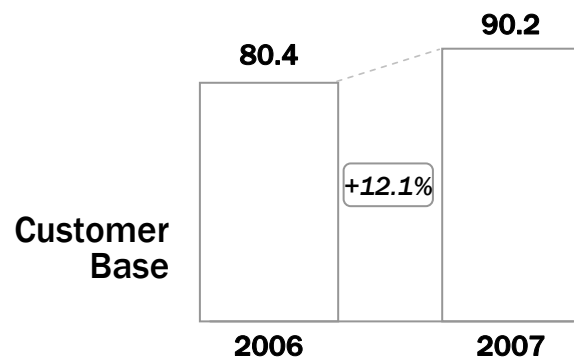
Italian market - Number of lines

mln lines, %

Penetration

137%

155%



Gross Adds

26.7

27.6

Net Adds

8.9

9.8

TIM - Number of lines

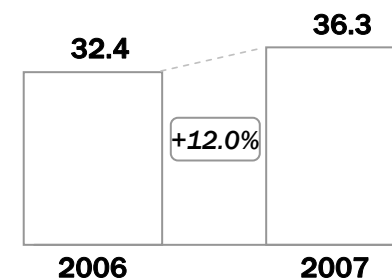
mln lines, %

Market Share

40.4%

40.3%

Customer Base



>22% postpaid

Gross Adds

10.6

10.8

Net Adds

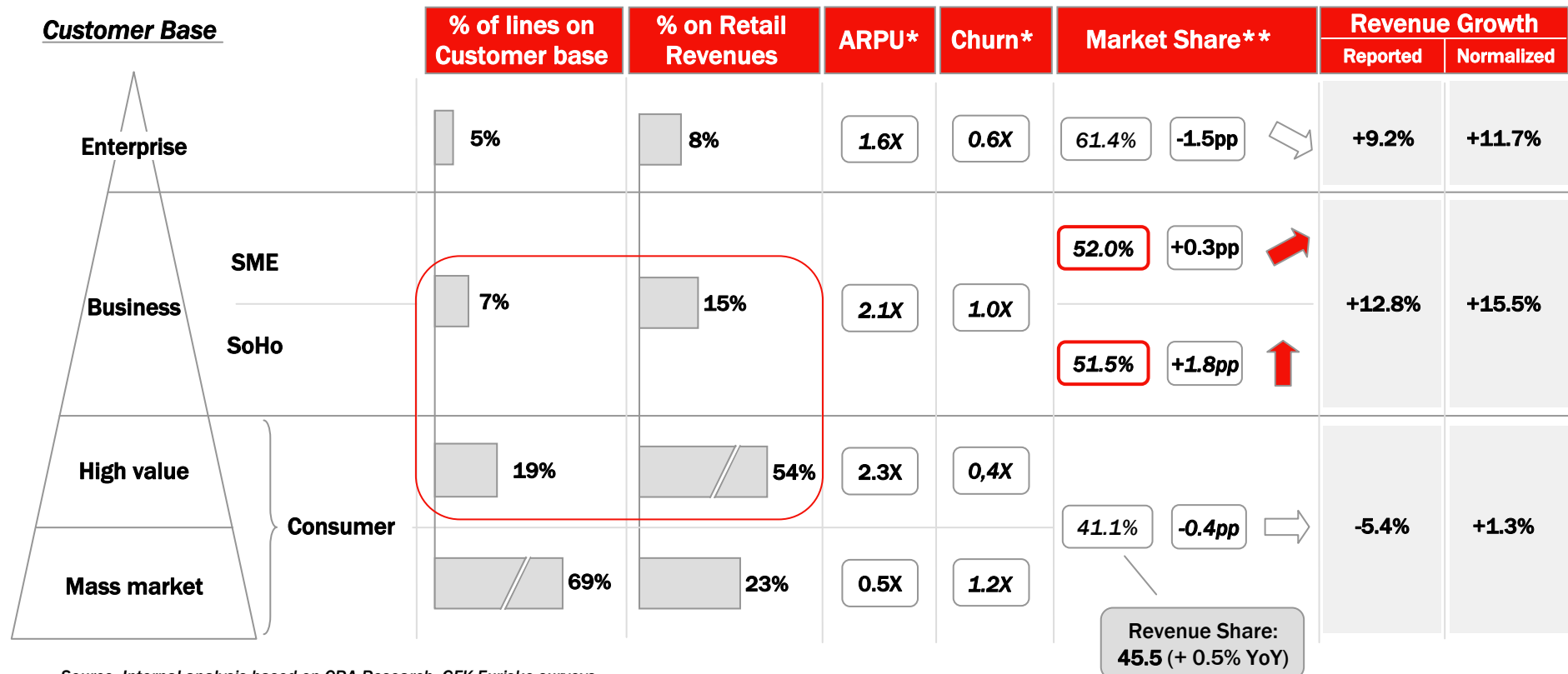
3.9

3.9

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Defended leadership on most valuable market segments

□ Δ YoY (%) % on lines



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

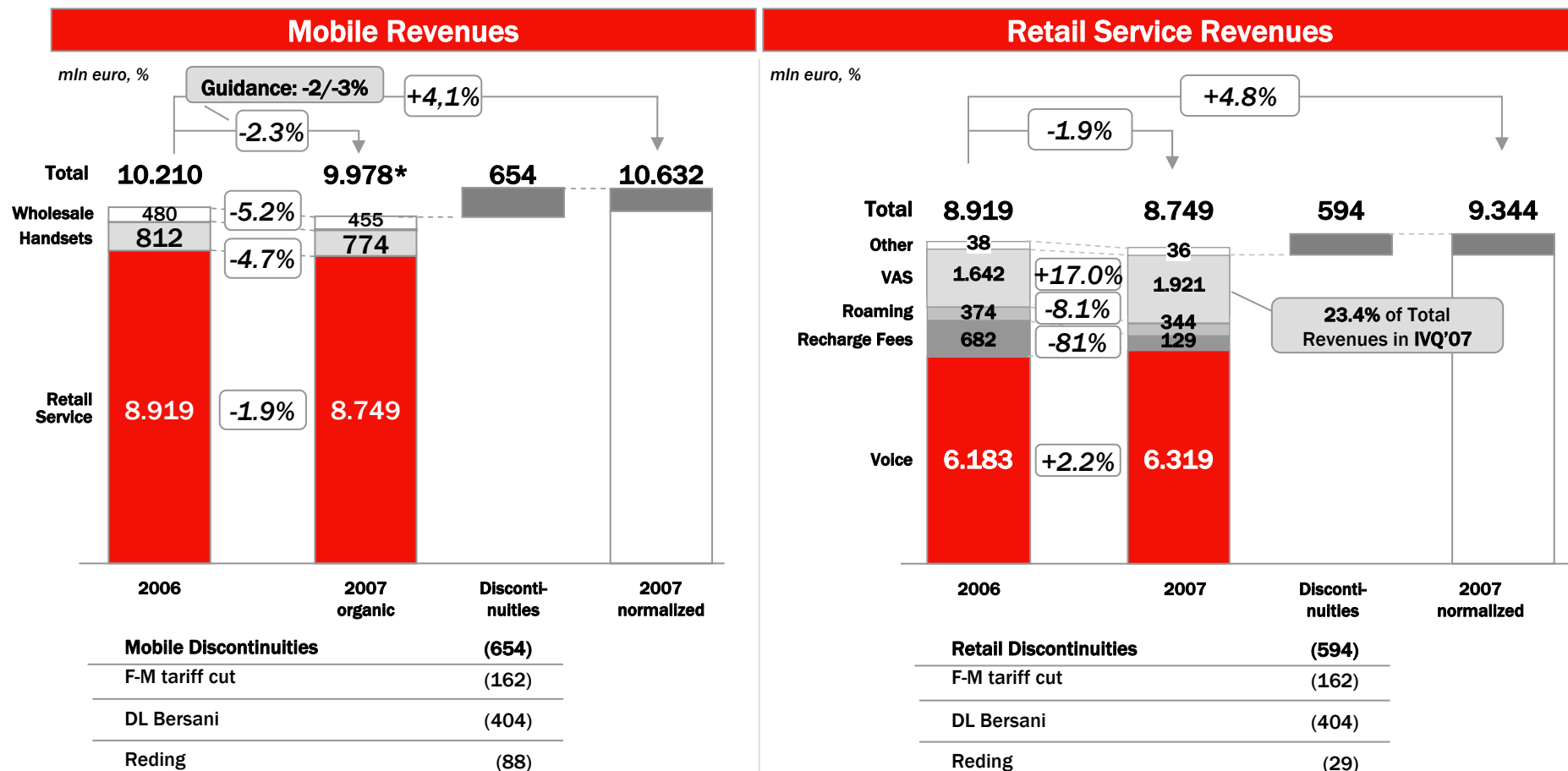
NB: Excluding inactive lines, immigrants and kids < 11 for Consumer

* TIM average = 1X

** Enterprise Market Share: July '07 vs. July '06

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Key Results 2007: Domestic Mobile Revenue evolution



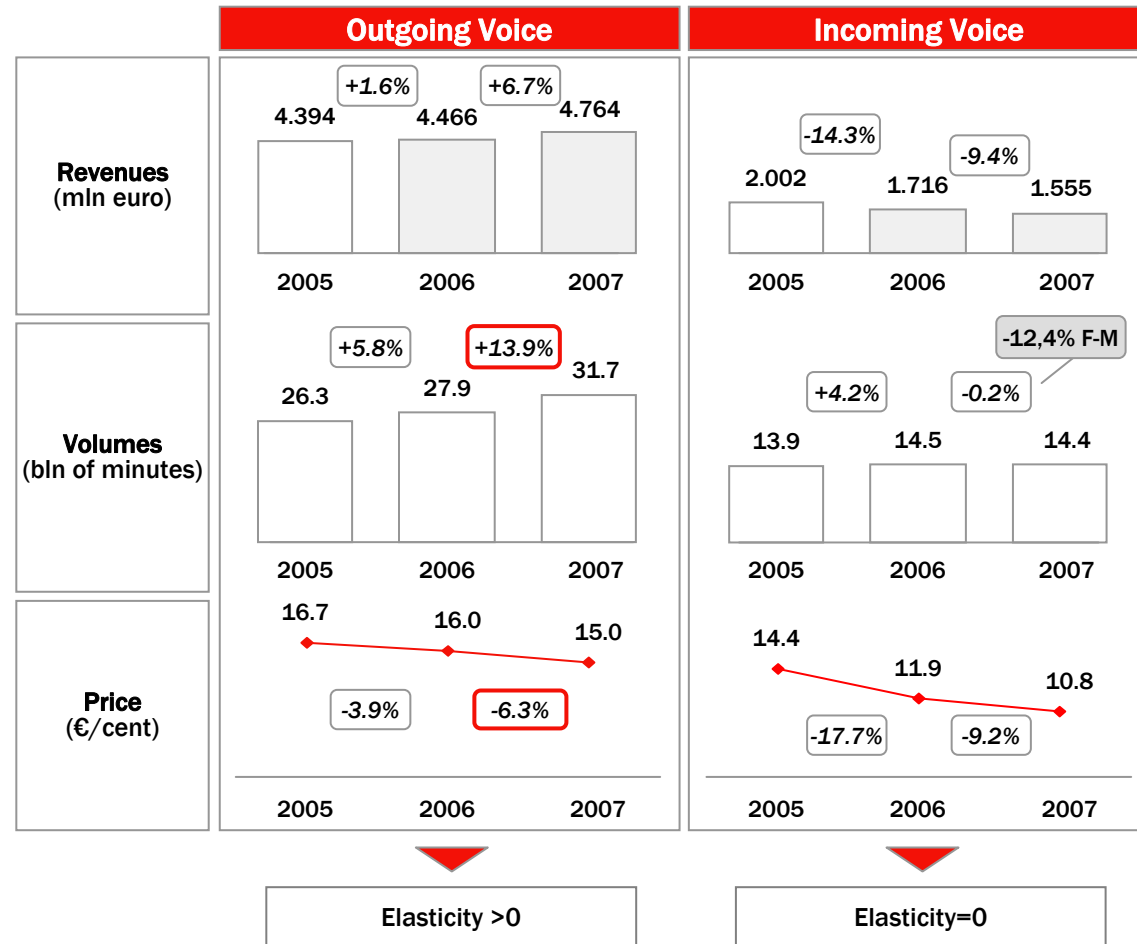
* Excluding H3G arbitration on Incoming Voice (-56 mln € IVQ07)

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Outgoing voice, driver of growth

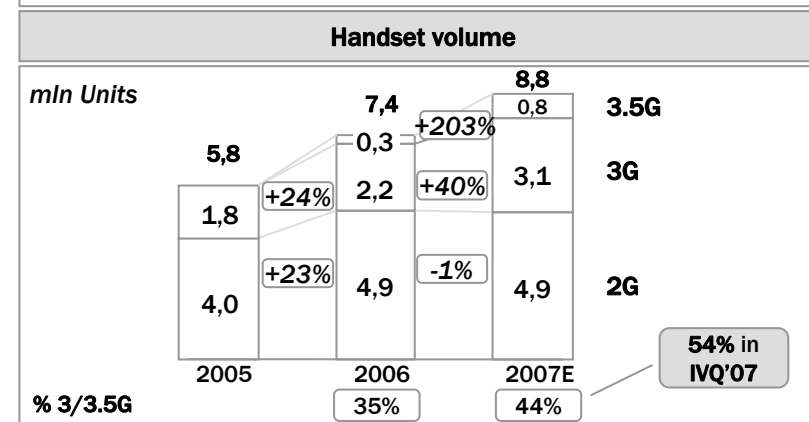
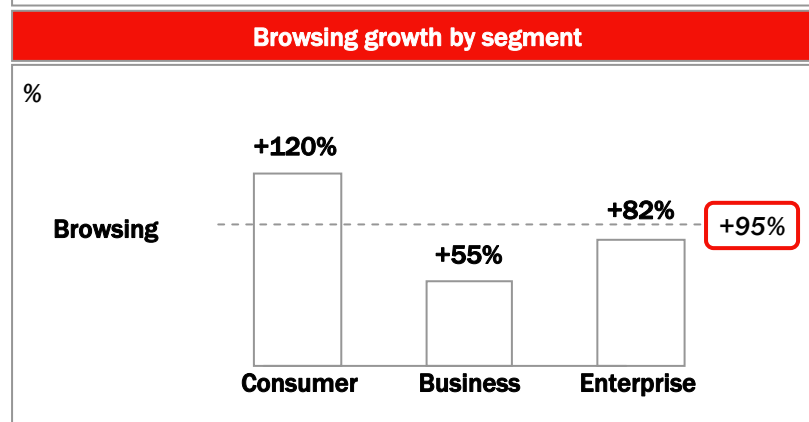
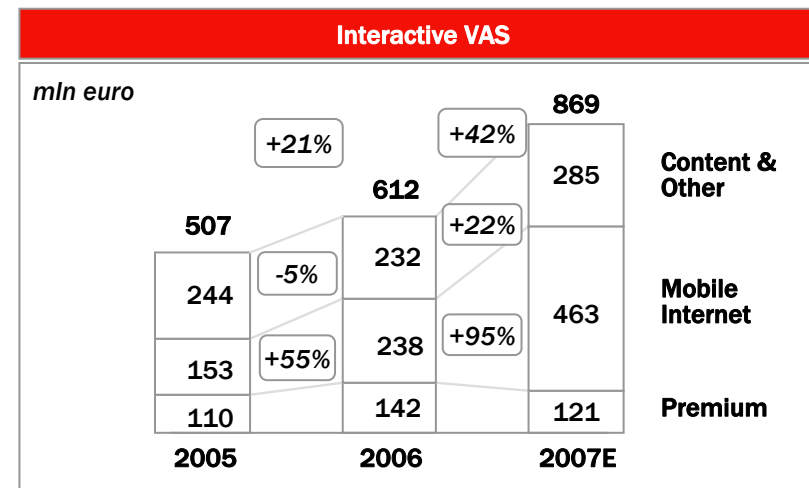
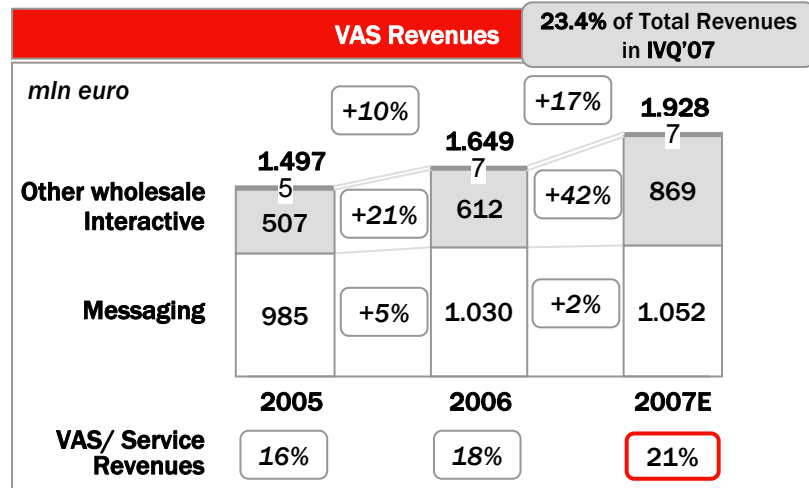
- ▶ Bersani Decree reduced mobility price premium
- ▶ No elasticity on incoming from Fixed-Mobile termination cut
- ▶ Focus on on-net tariff plan based on community (like TIM Tribù)
- ▶ Postpaid flat rate packages reduced mobility price premium and moved volumes on Mobile network

- ▶ **Outgoing Voice increasing**
 - ▶ **Incoming Voice dropping**



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VAS driver of growth: push advanced devices to foster Mobile Internet



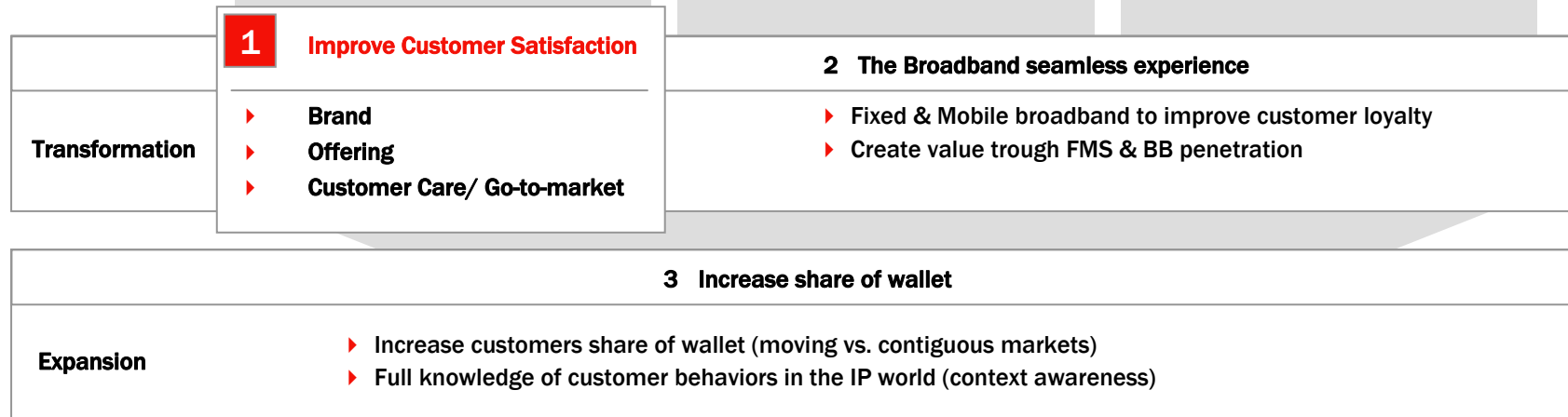
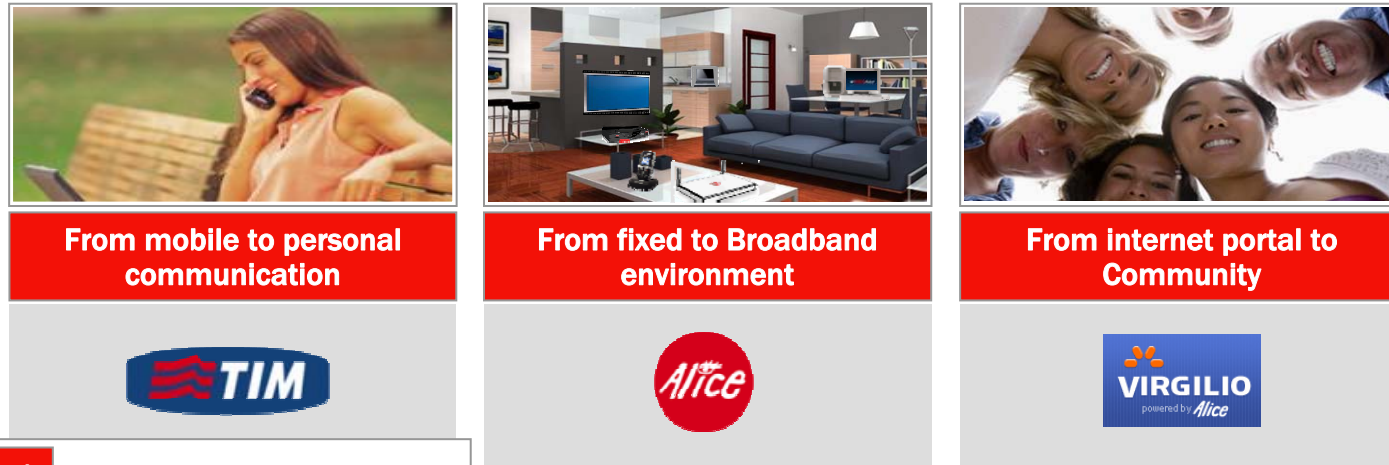
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Agenda

- ▶ Achievements 2007
- ▶ Sources of growth
- ▶ Outlook 2008 and conclusions

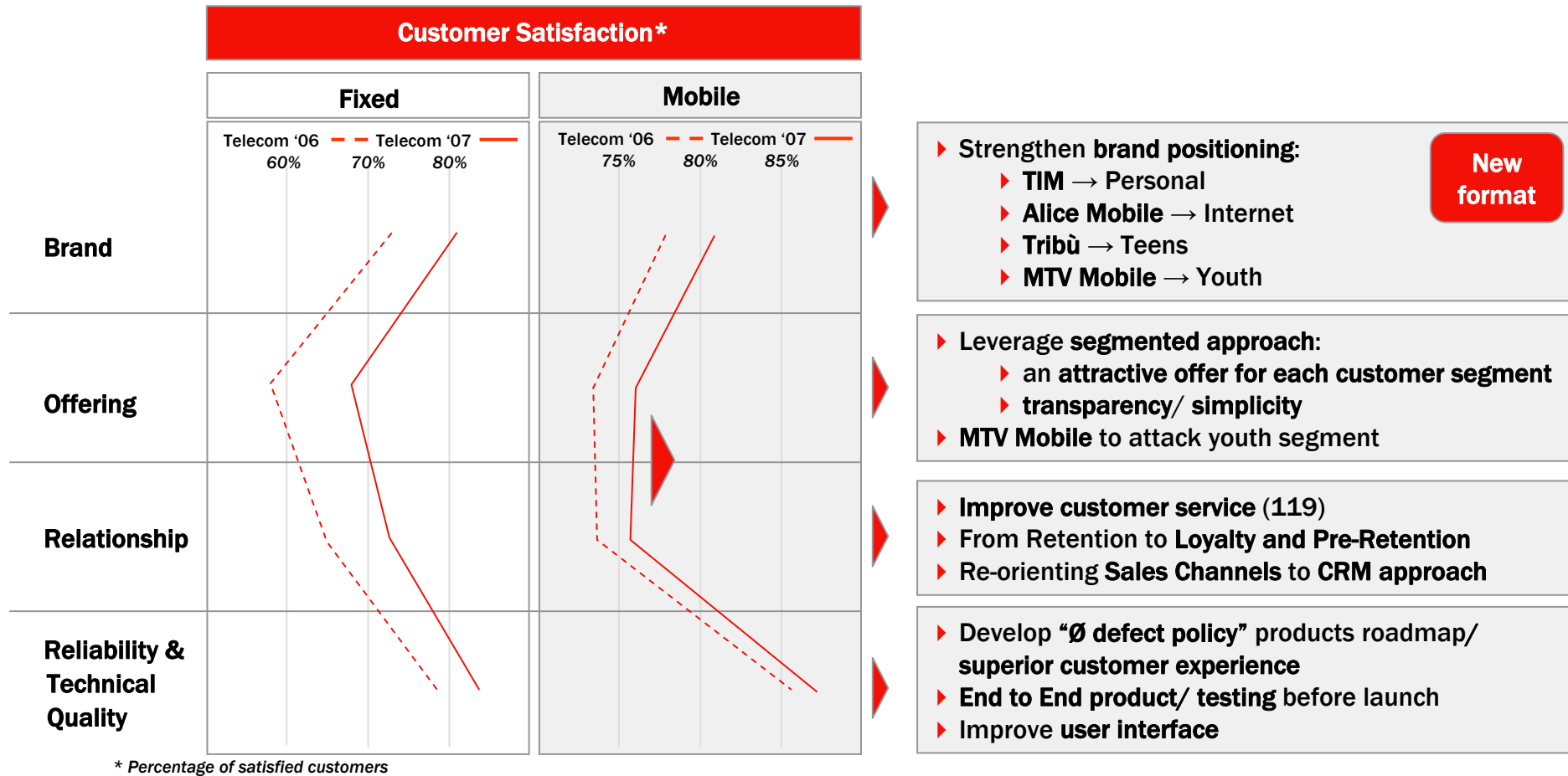
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Sources of growth: step 1 – improve the Customer Satisfaction



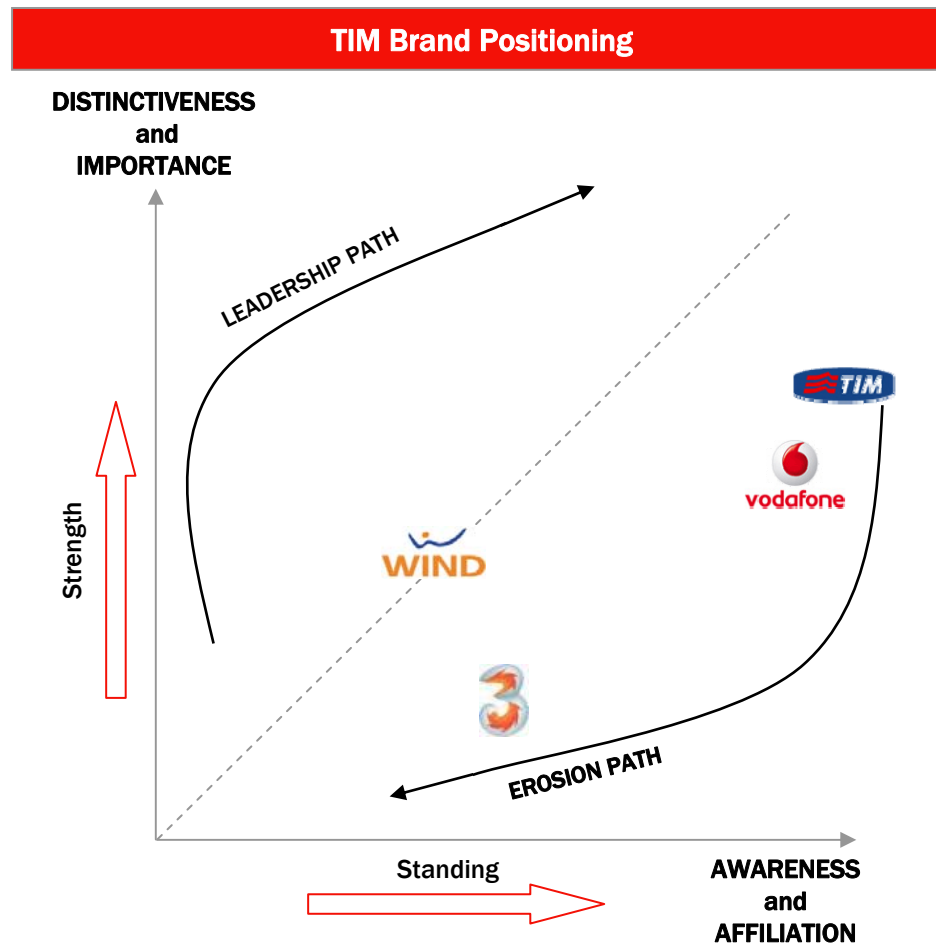
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Improve customer satisfaction



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Strengthen brand positioning



▶ **Ambition and Relationship** are key success factors of 2008 TIM Brand strategy

▶ Strategy leverages :

- ▶ **Discontinuity:** new format to capture client attention
- ▶ **Emotion:** emotions drive actions, reason drives conclusions
- ▶ **More value to the customer**

**Launch new format
March 2008**

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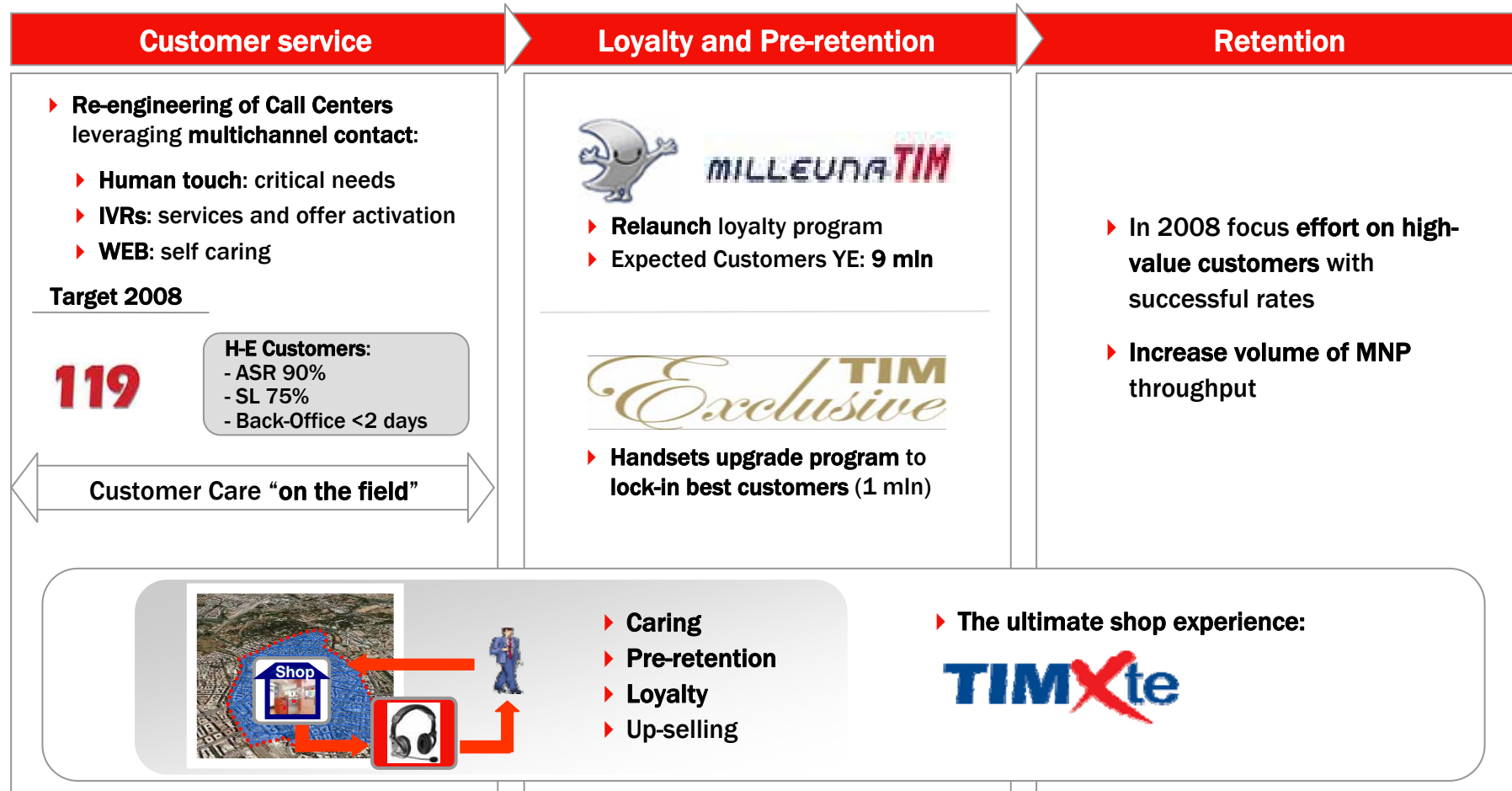
Maintain segmented offering

	Value + Volume			
	BUSINESS	ELITE	YOUNG	FAMILY
Needs	<ul style="list-style-type: none"> ▶ Bundle “All you can eat” ▶ Flat tariffs 	<ul style="list-style-type: none"> ▶ Bundled plans ▶ Flat tariffs 	<ul style="list-style-type: none"> ▶ Messaging ▶ Convenience on community 	<ul style="list-style-type: none"> ▶ Family/ Friends networking
Offers				
Market Share (IVQ'07)				

* MS on Consumer postpaid customers

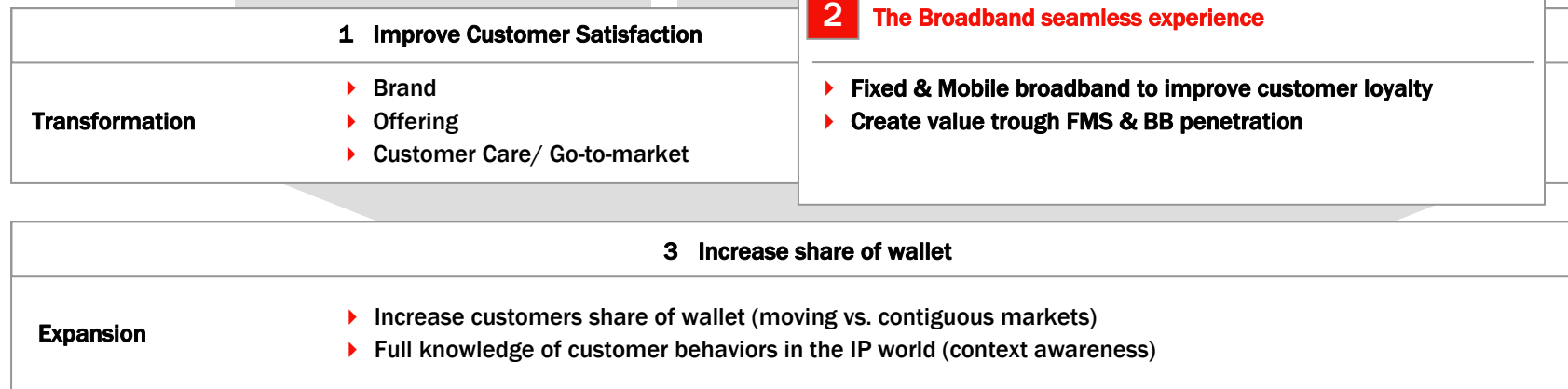
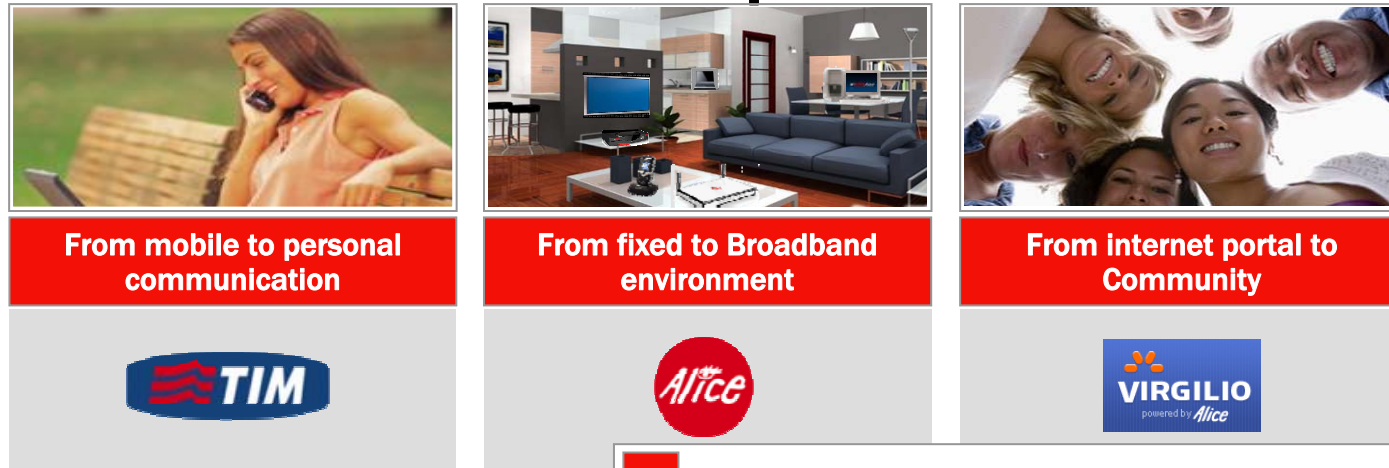
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Reinforce customer relationship



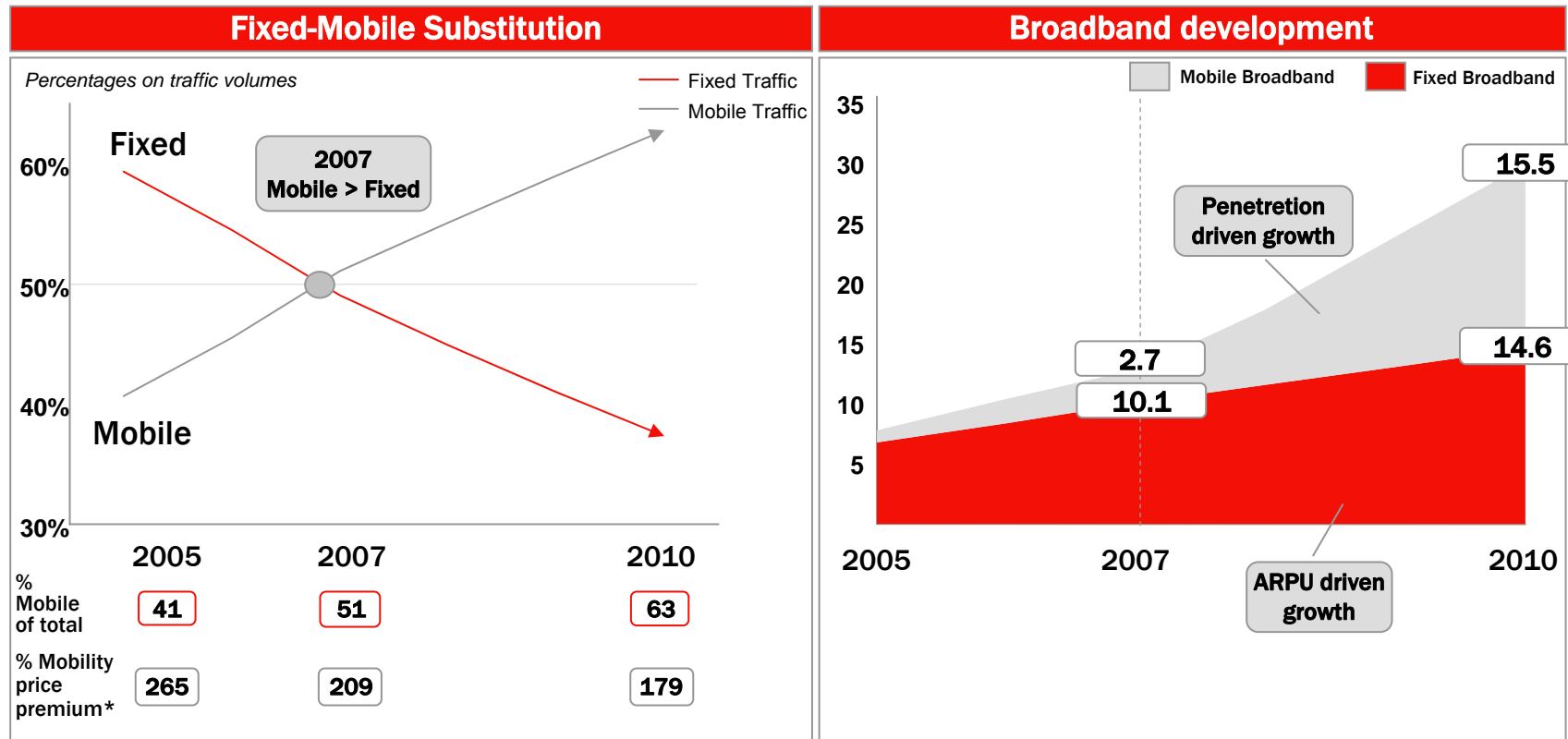
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Sources of growth: step 2 – the Broadband seamless experience



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Broadband development and Fixed-Mobile substitution



* Mobile price per minute/ Fixed price per minute










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How to create value from convergence

<p>Control Wireline churners</p>	<ul style="list-style-type: none"> ▶ Preserve High-End customers ▶ Control churn of Low-end customer vs mobile only solutions 	<p style="text-align: center;">Offering strategy</p>	
<p>Leverage Voice “price up”</p>	<ul style="list-style-type: none"> ▶ Increase voice value thanks to mobile price premium 		<p>“Service Sensitive” customers</p> <hr/> <ul style="list-style-type: none"> ▶ Focus on Fixed and Mobile Broadband penetration ▶ Focus on IPTV (3Play) and advanced digital contents
<p>Broadband development</p>	<ul style="list-style-type: none"> ▶ Accelerate mobile broadband development trough convergent offers ▶ Avoid price competition between fixed and mobile Broadband 		<p>“Price Sensitive” customers</p> <hr/> <ul style="list-style-type: none"> ▶ Naked ADSL ▶ Home Zone Mobile

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TI offering roadmap

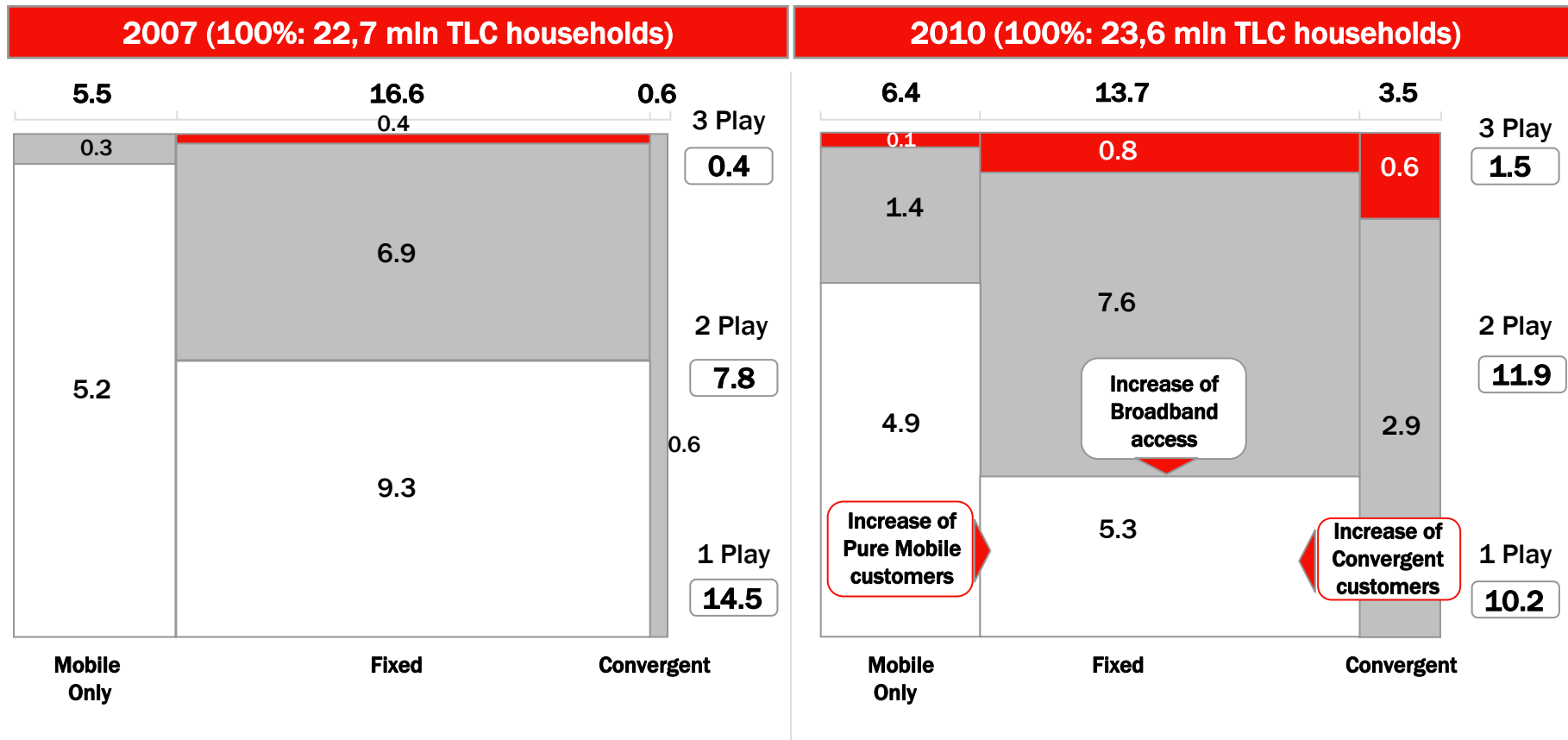
	“Pure Mobile”	Advanced fixed operator	Customer attitude	
			“Service Sensitive”	“Price Sensitive”
3 play (BB/Voice-Voip/IPTV)	▶ Mobile TV (Set Box DVBH / PC Card)		▶ Premium contents ▶ Digital interactive TV 	▶ Self generated contents
2 play (BB/Voice-Voip)				 TIM ADSL Naked (Femtocelle)
1 play (Voice)			 ▶ Loyalty program extended to other communities	

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Reshaping the Italian Consumer Market

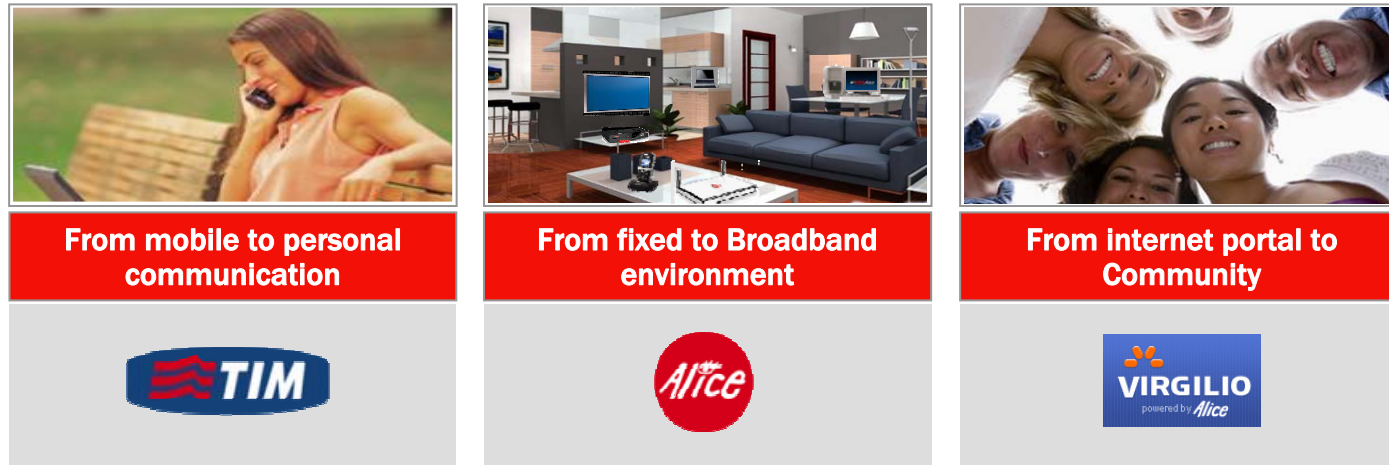
mln household

□ 1 play (Voice) ■ 2 play (BB/Voice-Voip) ■ 3 play (BB/Voice-Voip/IPTV/DVBH)



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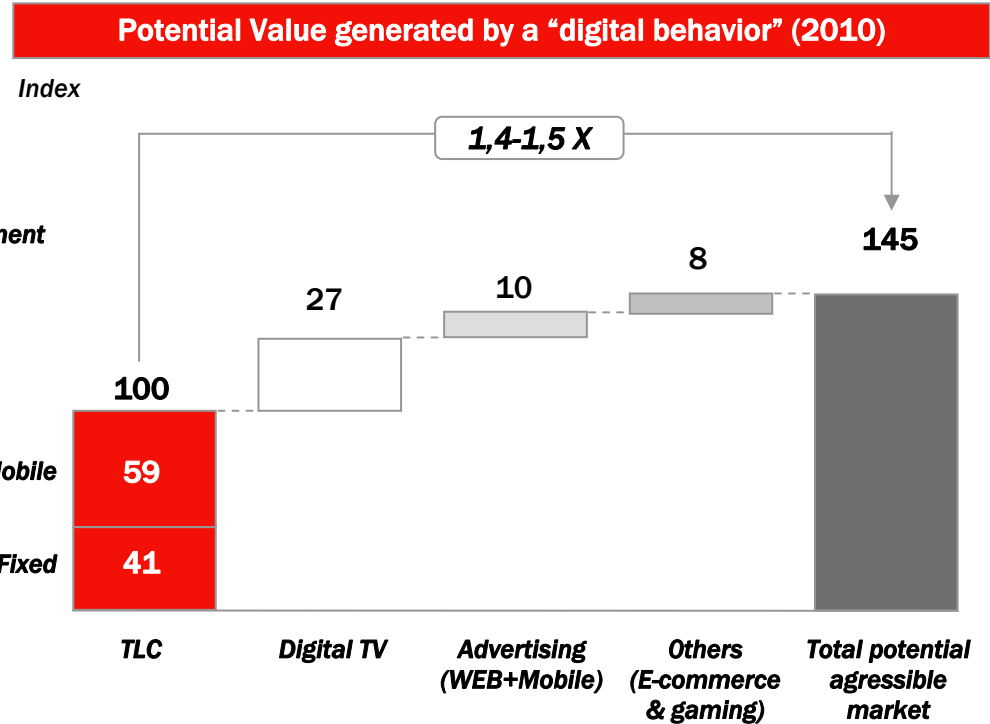
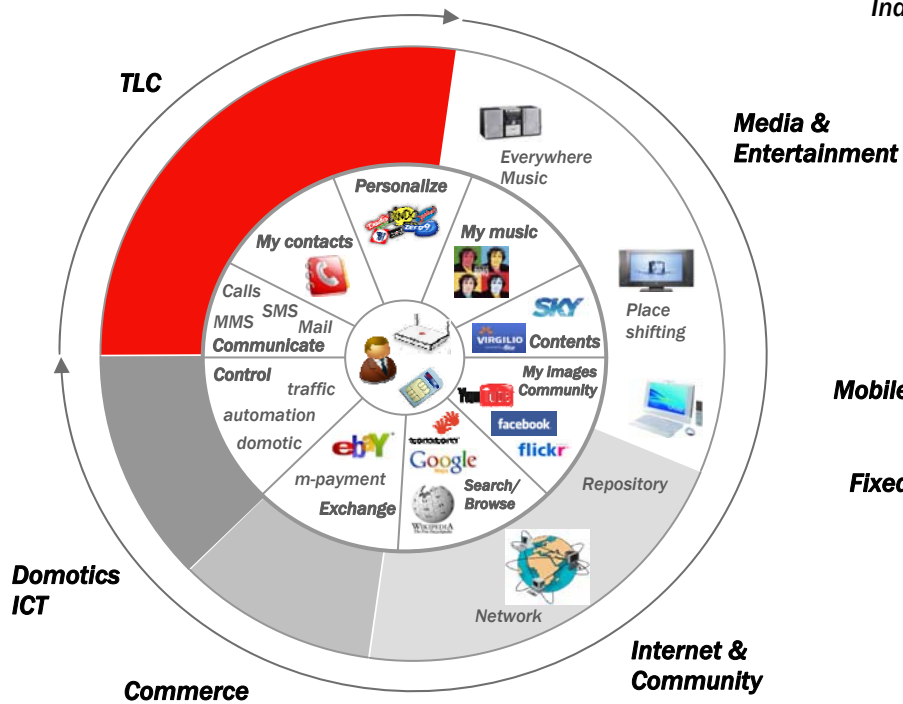
Sources of growth: step 3 – increase the share of wallet



	1 Improve Customer Satisfaction	2 The Broadband seamless experience
Transformation	<ul style="list-style-type: none"> ▶ Brand ▶ Offering ▶ Customer Care/ Go-to-market 	<ul style="list-style-type: none"> ▶ Fixed & Mobile broadband to improve customer loyalty ▶ Create value trough FMS & BB penetration
	3 Increase share of wallet	
Expansion	<ul style="list-style-type: none"> ▶ Increase customers share of wallet (moving vs. contiguous markets) ▶ Full knowledge of customers behaviors in the IP world (context awareness) 	

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Exploit contiguous markets: increase customer share of wallet



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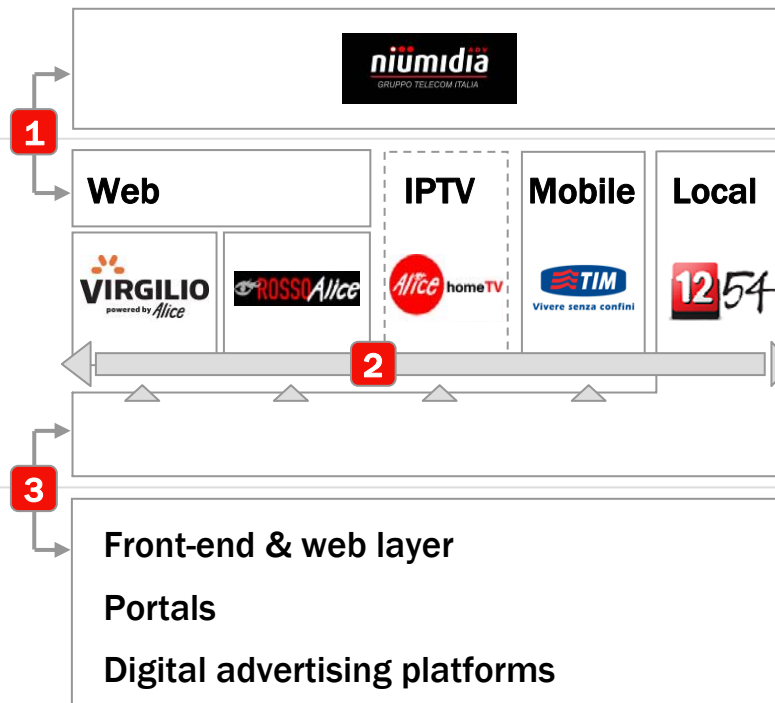
Web & Content strategy in a convergent world

Business Area

Digital Advertising

Internet & Contents

Web Technologies



- 1 ▶ Niumedia as the first **digital advertising house** across web, mobile and TV platform market (40% expected market growth)
 ▶ Develop **integrated multiplatform local digital advertising offering** (leveraging on mobile location based customer knowledge)

- 2 ▶ **Synergize Media contents** among TI Group content platform
 ▶ Leverage **Virgilio self generated contents** to enrich mobile VAS and Digital TV portfolio

- 3 ▶ **Sell platform and solutions** to external clients (WEB factory)
 ▶ Leverage TI web technologies and know how to **maximize usability and experience**

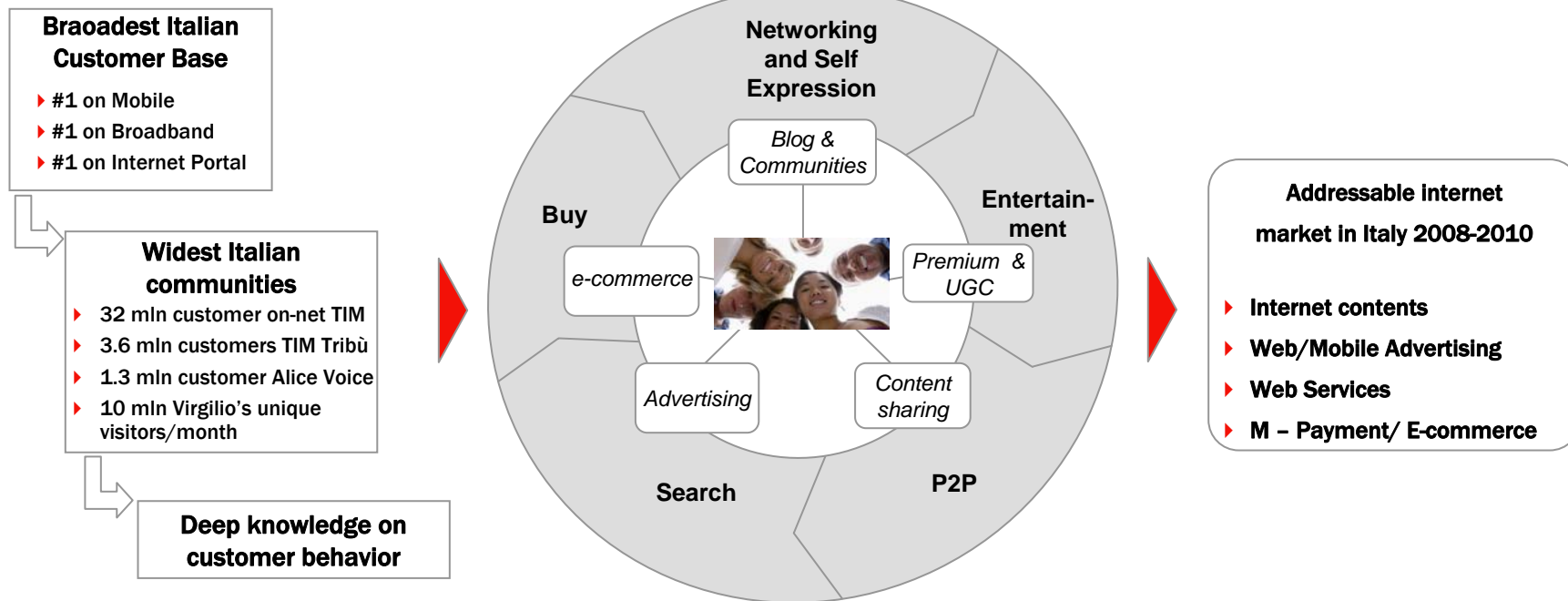
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... to evolve from service provider to community builder

Leverage on TI Group Assets ...

... to create the biggest Italian internet marketplace ...

... catching new business opportunities



The ambitious of creating the biggest Italian Virtual Community

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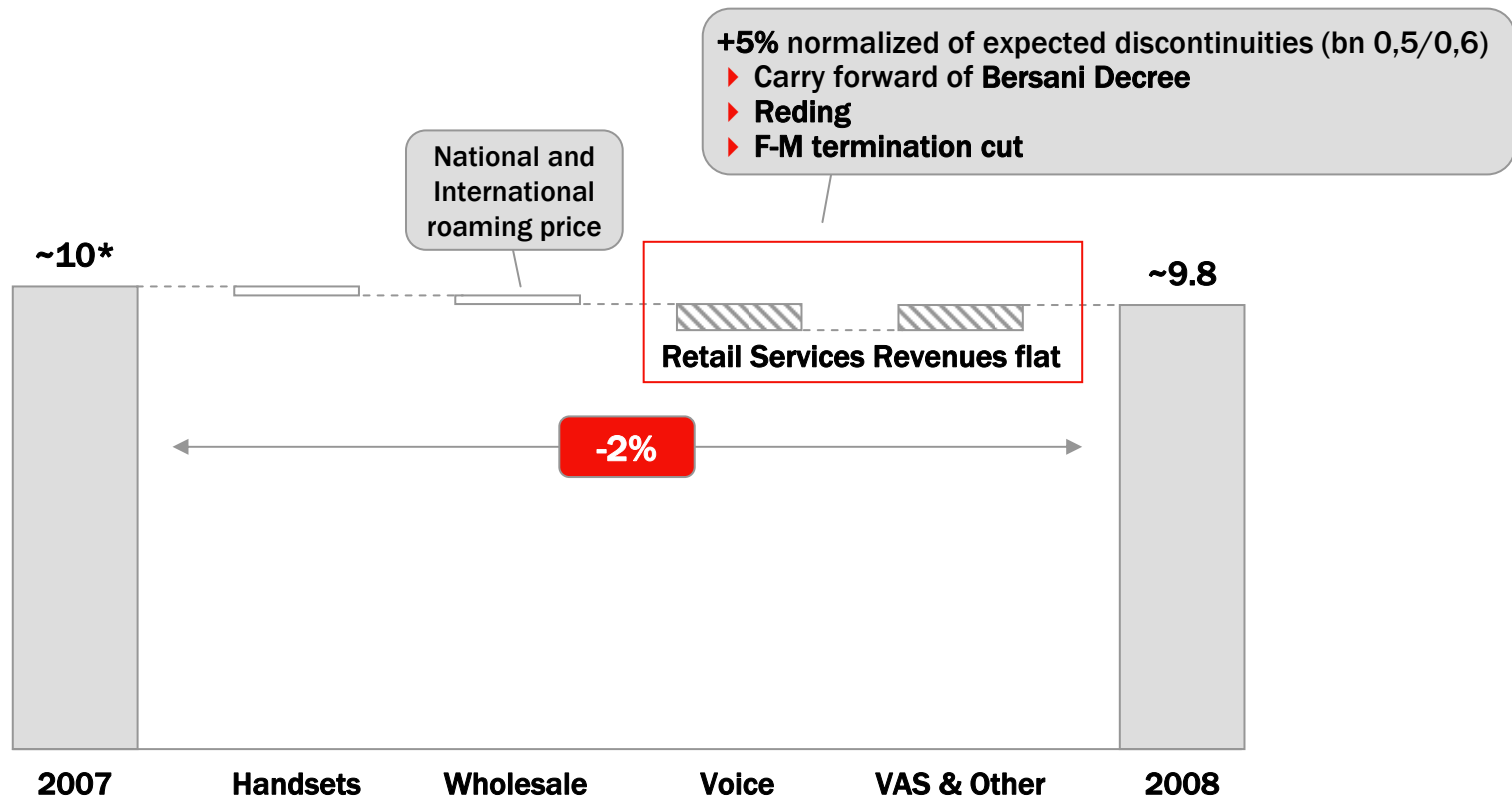
Agenda

- ▶ Achievements 2007
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- ▶ **Outlook 2008 and conclusions**

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Outlook 2008

bln euro



- ▶ Total Mobile Revenues: -2%
- ▶ Retail Service Revenues "flat"

* Gross of H3G litigation (56 mln euro in IVQ 2007)

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Targets 2008

		<i>Target 2008</i>
Market share/ ARPU	▶ Less focus on number of lines vs focus on Revenue Share	Lines: 40%
	▶ Defend key market segments (SME/ SoHo/ Postpaid Consumer)	Stable
	▶ Slowdown ARPU dilution (vs. 21 current)	ARPU: 20 €
Revenue growth	▶ Maintain Retail Service Revenues	“Flat”
	▶ -2% total Mobile Revenues ▶ Less handsets ▶ Less wholesale	Total Mobile Revenues: ~9.8 bn
VAS Mobile internet	▶ VAS/ Service Revenues	~25%
	▶ Mobile Broadband portfolio	2.6 mln lines