



















# Our understanding of the 2016-2019 Special Award remuneration package

## Summary overview

- Aim of the 2016-2019 Special Award remuneration package is to further incentivise Telecom Italia (“TI” or “the Company”) top management (and give CEO the levers) to accelerate the turnaround of the Company, aligning executive remuneration to value creation for shareholders
- Pay-out is linked to outperformance by the Company of selected financial targets set in the business plan (“BP”) approved by the Board of TI on February 15, 2016

## Key features

- 2016-2019 reference period. Outperformance will be measured on a yearly basis and potential remuneration will be accrued accordingly. Pay-out for relevant employees will occur only at the end of the reference period (i.e. at the time of the approval of the TI 2019 accounts by the Board of TI)
- Relevant targets against which outperformance is measured have been identified in EBITDA, Opex reduction and Net Financial Position. Remuneration will be calculated attributing different weights to the outperformance achieved vs. relevant targets (50% for EBITDA outperformance; 25% each for Opex reduction and Net Financial Position outperformance)
- Pay-out equal to up to 5.5% of the outperformance achieved on the parameters described above (weighted as per above)
  - 4% to the benefit of TI CEO, the remaining amount (up to 1.5%) to the benefit of selected top executives to be identified by TI CEO
  - Total cumulated maximum gross pay-out for all the eligible employees over the period 2016-2019 capped at €55m. As an illustrative example, TI would need to outperform targets (with outperformance contributions being weighted by relevant weights as described above) in aggregate by at least €1bn over the period 2016-2019 in order for management team to be eligible to receive the maximum pay-out
  - Pay-out will be 20% in cash / 80% in TI stock<sup>(1)</sup>

## Approvals

- Board of TI is seeking shareholder approval at the AGM on May 25, to include TI stock in the remuneration package linked to the 2016-2019 Special Award. If approval is not obtained, the remuneration package will be in cash only (amount will remain unchanged)

Source: Company filings.

(1) The number of shares to be determined by dividing 80% of the bonus accrued in the financial year by a value of the shares calculated in a specified manner on the date the performance is ascertained. Confidential

# Scope of our analysis and underlying assumptions

- Credit Suisse ("CS" or "we") have performed an analysis utilising selected trading multiples to illustrate the possible incremental equity value accretion versus the Business Plan approved by the Board of TI on February 15, 2016 (the "BP") that could be generated by TI outperforming selected financial targets set out in the BP
  - With TI's consent, we looked only at a range of selected current and historical trading multiples (EV/EBITDA and EV/(EBITDA-Capex)) of the Company and other selected telecom companies; there is no certainty that such multiples will in the future remain consistent with current and historical trading levels or that such trading multiples are or will be methodologies utilised by investors when assessing the performance of TI
  - Such illustrative analysis has been conducted solely based upon 3 financial parameters - reduction in Opex, increase in EBITDA and reduction in Net Financial Position (which are the parameters used in the Special Award 2016-2019)
  - The analysis is illustrative only and there is no guarantee that the potential incremental equity value accretion will be achieved even if TI outperforms the financial targets in the BP
- In the context of the analysis described above, CS has illustrated the possible impact of an outperformance of each of the 3 financial parameters on a standalone basis (i.e. all other parameters being unchanged)
- CS is not expressing any views and / or judgments as to the achievability of the financial targets set in the BP, TI's ability to outperform such targets, the actual future performance of the share price of TI or whether TI is fairly valued today or has been fairly valued in the past

# Illustrative outperformance scenarios

- The tables below show the incremental potential equity value accretion which could be generated by TI, both as an absolute amount in €m and, for reference purposes, as % of TI current equity value (market capitalization), based on the following illustrative ranges of outperformance results vs. BP:
  - EBITDA or Opex outperformance of €250m - €1bn
  - Net Financial Position outperformance of €500m - €2bn
- As a reference point, the maximum pay-out associated to the 2016-2019 Special Award would be triggered in the following scenarios (considering for simplicity only outperformance in connection with each single metric) all other things being equal:
  - €2bn outperformance at EBITDA level
  - €4bn outperformance at Opex level
  - €4bn outperformance at Net Financial Position level
  - Outperformance in relation to some of the metrics could also have an impact on other metrics (e.g. a decrease in Opex could result in an increase in EBITDA and a decrease in Net Financial Position)
- An illustrative range of valuation multiples has been considered for TI, taking into account both current and historic trading multiples of TI and selected telecom companies
  - We have focused on EV/EBITDA and EV/(EBITDA-Capex) multiples, which the market generally considers to be two of the most relevant valuation metrics for the telecoms sector
  - In practice investors take into account these and other parameters in different measures for the purpose of their valuation analysis
- The analysis assumes that an outperformance at EBITDA, Opex, and Net Financial Position level translates into a permanent benefit for TI
- To calculate the potential value accretion, the assumed outperformance in EBITDA (or Opex) terms is multiplied by the selected EBITDA multiple range

Incremental potential equity value accretion <i>(in €m unless otherwise stated)</i>						
EBITDA or Opex out- performance	Illustrative		EV/NTM EBITDA			
	outperformance	implied % of 2015		5.5x	6.0x	6.5x
	vs. target (€m)	Opex	EBITDA			
	250	2.0%	3.6%	1,375	1,500	1,625
	500	3.9%	7.1%	2,750	3,000	3,250
	750	5.9%	10.7%	4,125	4,500	4,875
	1,000	7.9%	14.3%	5,500	6,000	6,500

Incremental potential equity value accretion (as % of current equity value) <i>(in €m unless otherwise stated)</i>						
EBITDA or Opex out- performance	Illustrative		EV/NTM EBITDA			
	outperformance	implied % of 2015		5.5x	6.0x	6.5x
	vs. target (€m)	Opex	EBITDA			
	250	2.0%	3.6%	8.1%	8.8%	9.6%
	500	3.9%	7.1%	16.2%	17.7%	19.2%
	750	5.9%	10.7%	24.3%	26.5%	28.7%
	1,000	7.9%	14.3%	32.4%	35.4%	38.3%

Source: CS IBCM analysis.

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# Illustrative outperformance scenarios (cont'd)

- All other things being equal, any outperformance in EBITDA (whether resulting from Opex outperformance or otherwise) would also result in an equivalent amount of outperformance at the EBITDA – capex level. Therefore, the same amounts are also multiplied by the selected range of EBITDA – capex multiples, as an alternative methodology

## Incremental potential equity value accretion

(in €m unless otherwise stated)

EBITDA or Opex out- performance	Illustrative		EV/(NTM EBITDA-capex)			
	outperformance vs. target (€m)	implied % of 2015		13.0x	14.0x	15.0x
		Opex	EBITDA			
	250	2.0%	3.6%	3,250	3,500	3,750
	500	3.9%	7.1%	6,500	7,000	7,500
	750	5.9%	10.7%	9,750	10,500	11,250
	1,000	7.9%	14.3%	13,000	14,000	15,000

## Incremental potential equity value accretion (as % of current equity value)

(in €m unless otherwise stated)

Illustrative outperformance vs. target (€m)	implied % of 2015		EV/(NTM EBITDA-capex)		
	Opex	EBITDA	13.0x	14.0x	15.0x
250	2.0%	3.6%	19.2%	20.6%	22.1%
500	3.9%	7.1%	38.3%	41.2%	44.2%
750	5.9%	10.7%	57.5%	61.9%	66.3%
1,000	7.9%	14.3%	76.6%	82.5%	88.4%

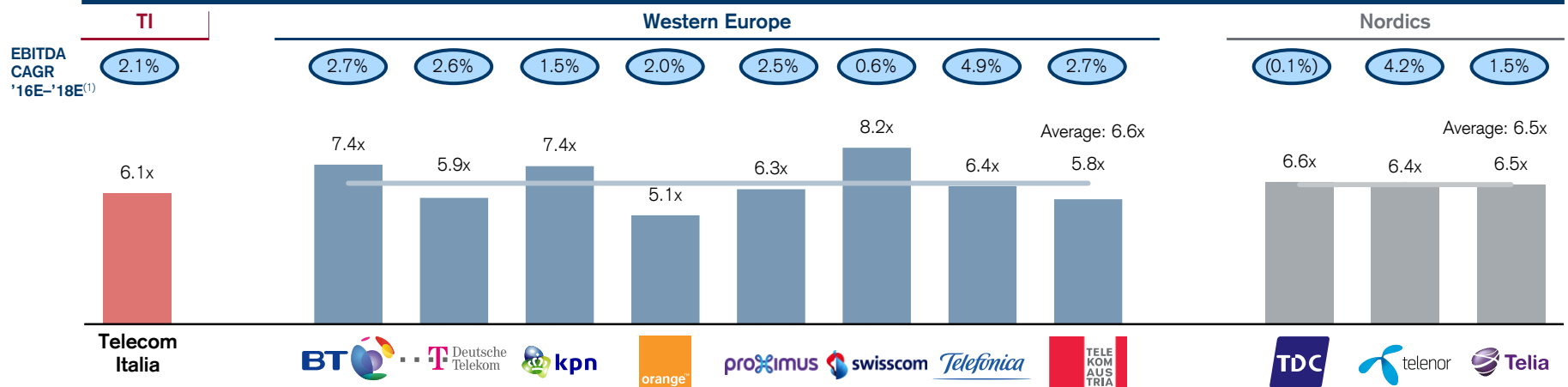
- Finally it is assumed that, all other things being equal, any outperformance of the Net Financial Position target could result in a potential equity value accretion equal to such Net Financial Position outperformance

Net Financial Position out- performance	Illustrative outperformance vs. target (in €m)	500	1,000	1,500	2,000
		As % of current equity value	2.9%	5.9%	8.8%

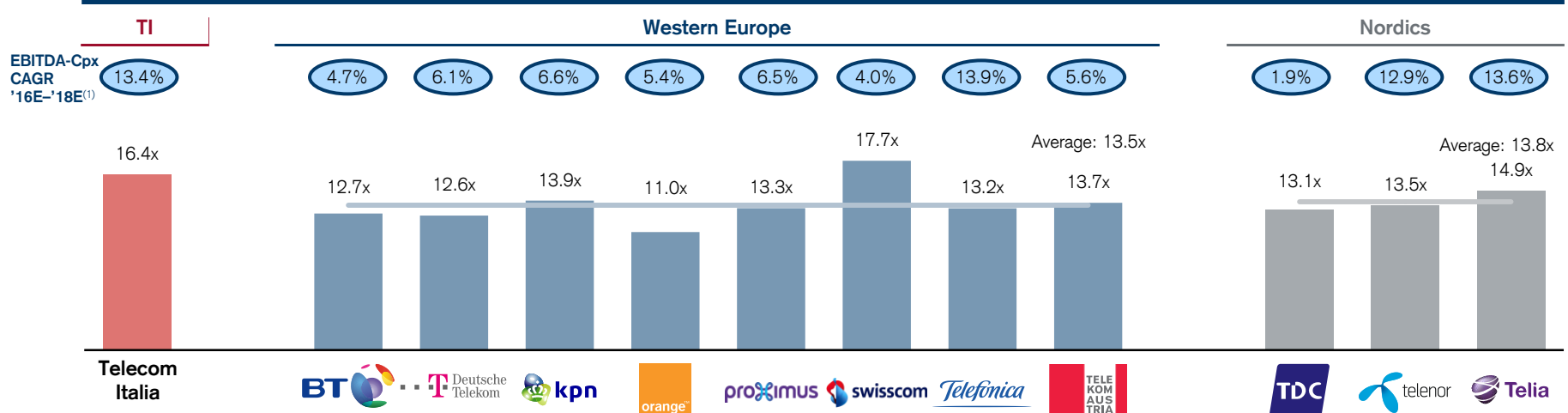
## Appendix

# Selected telecom companies trading multiples

## EV / NTM EBITDA



## EV / (NTM EBITDA – capex)



Source: Company information, FactSet as of 6 May 2016.

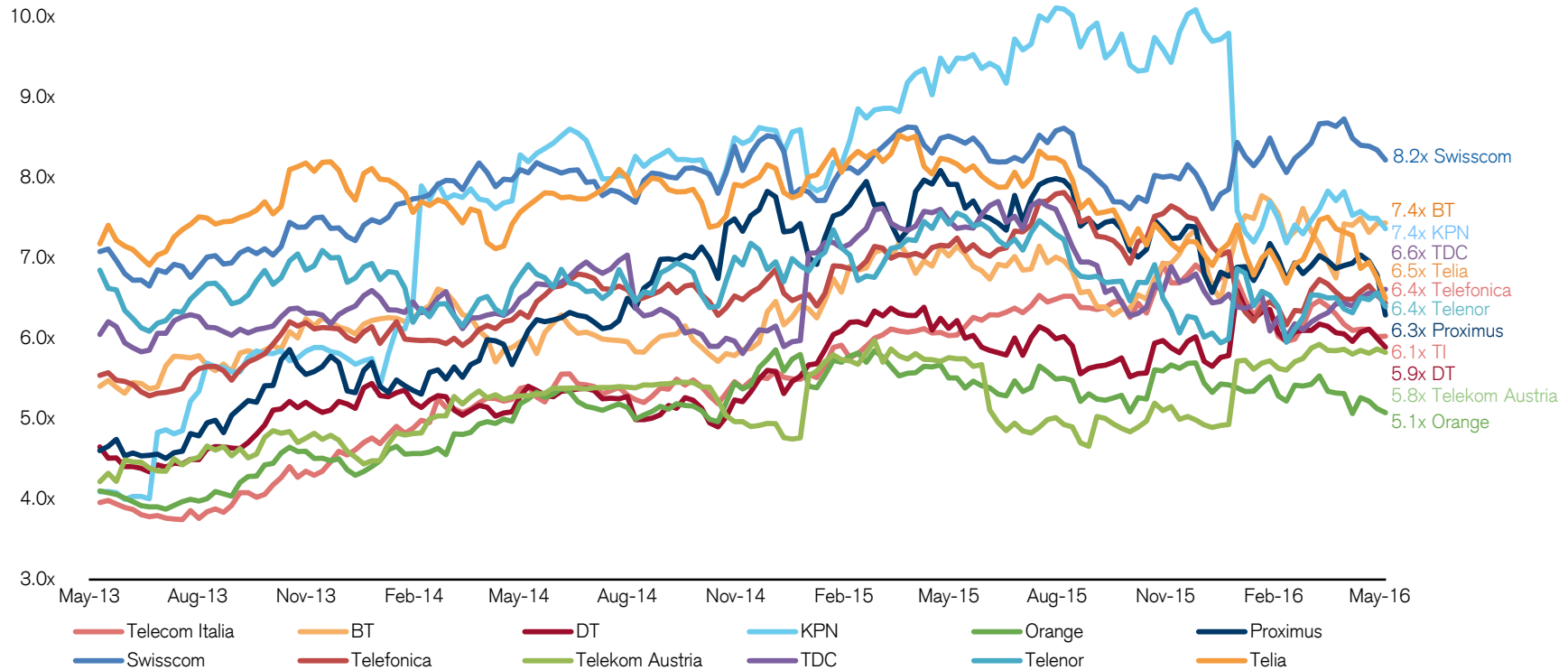
Note: NTM multiples reflect the respective operating metrics on a next-twelve-months basis, i.e. for the year ending May 6, 2017. Next-twelve-months operating metrics are calculated by calendarizing the respective 2016 and 2017 estimates.

(1) CAGR is calculated based on CYE operating metrics.

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# Selected telecom companies historic trading multiple evolution

EV/NTM EBITDA (last 3 years)



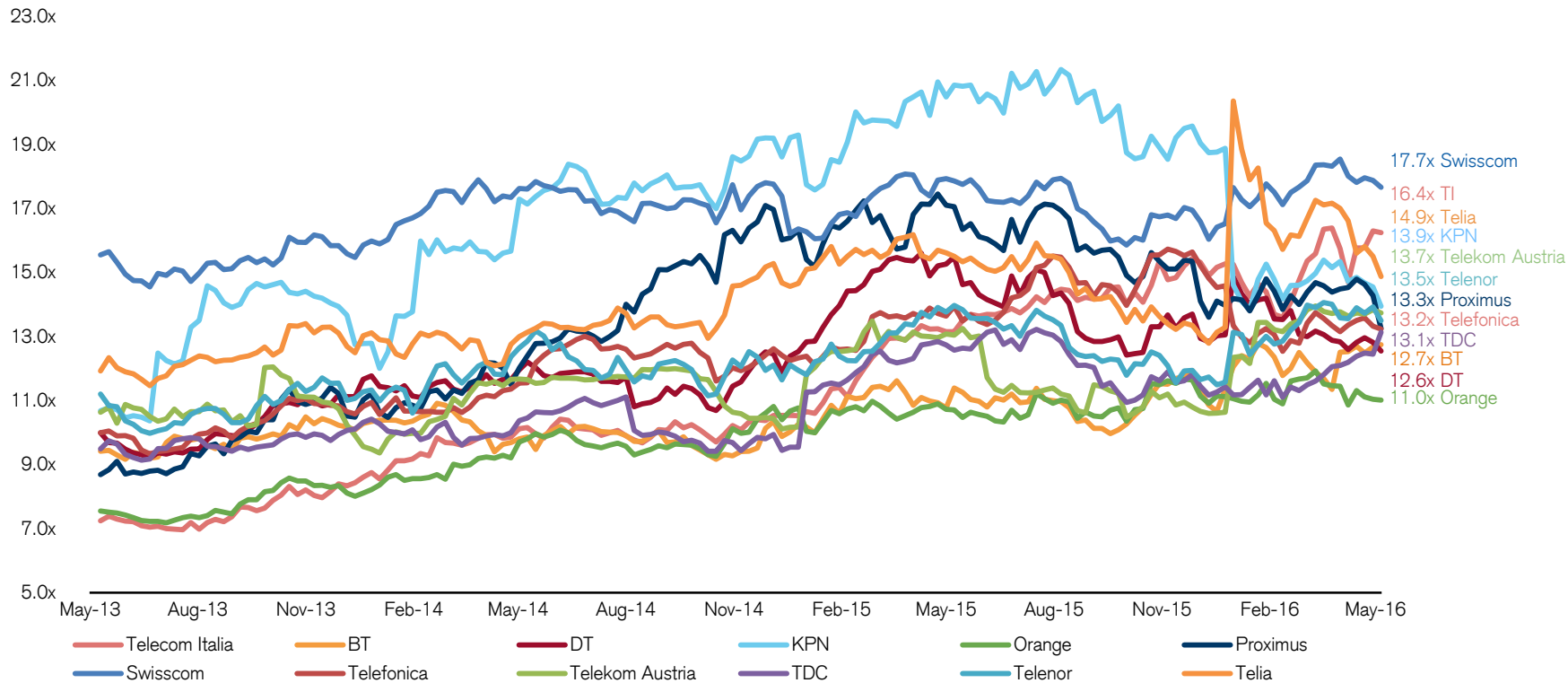
	Telecom Italia	BT	DT	KPN	Orange	Proximus	Swisscom	Telefonica	Telekom Austria	TDC	Telenor	Telia	Average
Current	6.1x	7.4x	5.9x	7.4x	5.1x	6.3x	8.2x	6.4x	5.8x	6.6x	6.4x	6.5x	6.5x
3-month	6.2x	7.3x	6.1x	7.5x	5.3x	6.9x	8.4x	6.5x	5.8x	6.3x	6.4x	7.1x	6.6x
6-month	6.4x	7.3x	6.0x	8.2x	5.4x	6.9x	8.2x	6.7x	5.5x	6.4x	6.4x	7.1x	6.7x
1 Year	6.4x	7.0x	5.9x	8.9x	5.4x	7.2x	8.2x	7.0x	5.3x	6.8x	6.7x	7.4x	6.9x
3 Years	5.5x	6.4x	5.5x	7.8x	5.1x	6.5x	7.9x	6.5x	5.1x	6.6x	6.7x	7.7x	6.4x

Source: Company information, FactSet as of 6 May 2016.

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# Selected telecom companies historic trading multiple evolution

EV/NTM EBITDA-capex (last 3 years)



	Telecom Italia	BT	DT	KPN	Orange	Proximus	Swisscom	Telefonica	Telekom Austria	TDC	Telenor	Telia	Average
Current	16.4x	12.7x	12.6x	13.9x	11.0x	13.3x	17.7x	13.2x	13.7x	13.1x	13.5x	14.9x	13.8x
3-month	15.5x	12.2x	13.0x	14.8x	11.3x	14.3x	17.9x	13.3x	13.6x	11.9x	13.6x	16.3x	14.0x
6-month	15.2x	12.0x	13.3x	16.0x	11.3x	14.4x	17.4x	13.8x	12.6x	11.7x	12.9x	15.8x	13.9x
1 Year	14.7x	11.4x	13.6x	18.1x	11.0x	15.2x	17.3x	14.1x	12.1x	12.0x	12.9x	15.3x	14.0x
3 Years	11.3x	10.5x	12.3x	16.8x	9.8x	13.6x	16.8x	12.4x	11.5x	10.9x	12.1x	14.1x	12.7x

Source: Company information, FactSet as of 6 May 2016.

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