

TELECOM ITALIA

FY 2006 Financial Results

Milan, 8th March 2007

TI FY06 Business Performance

Agenda

- ▶ **2006 financial performance and business overview:**

- ▶ **Wireline**
 - ▶ **TIM Italy**
 - ▶ **TIM Brasil**

- ▶ **Appendix**

Domestic market: 2006 challenges and responses

Main challenges

- ▶ Continued erosion of voice traffic
- ▶ Discontinuities in the VAS market (info services 12xx: price competition in a shrinking market)
- ▶ Slowing broadband market growth and increased competition
- ▶ Penalizing regulatory framework on consumer/business (e.g. offers/retention campaigns) and Corporate and Public Administration customers
- ▶ Slowing growth in the mobile market
- ▶ 22% mobile termination cut
- ▶ Aggressive competition via F/M substitution

Responses

- ▶ Focus on flat rate and F2F/F2M packages
- ▶ Followed price competition, while starting to rebuild brand awareness
- ▶ Focused on migration from pay-per-use to flat rate in order to stabilize ARPU. Launch of new 2Play and 3Play offers
- ▶ Setting the ground to review with Italy's NRA the existing ex-ante obligations and obtain greater commercial flexibility
- ▶ Created a new division dedicated to large corporate customers and ICT services
- ▶ Commercial push to regain and stabilize market share
- ▶ Deeper segmentation, "friends and family" fixed and mobile offers, to stimulate usage

Agenda

- ▶ **2006 financial performance and business overview:**

- ▶ **Wireline**
 - ▶ **TIM Italy**
 - ▶ **TIM Brasil**

- ▶ **Appendix**

Wireline: Main Results 2006 vs 2005

€ Mln, %

-80 Mln € (-0,4%) net of 43 Mln €
in 2005 of Premium Services
reimbursed to customers

Positively impacted from change in
depreciation criteria (asset lives)
(219 Mln €)

	Organic Data				Reported Data			
	2006 Organic	2005 Organic	Δ Abs	Δ %	2006 Reported	2005 Reported	Δ Abs	Δ %
Revenues	17,795	17,918	-123	-0.7%	17,795	17,834	-39	-0.2%
Ebitda	7,620	7,859	-239	-3.0%	7,474	7,650	-176	-2.3%
Ebitda %	42.8%	43.9%	-1.1pp		42.0%	42.9%	-0.9 pp	
Ebit	4,567	4,721	-154	-3.3%	4,396	4,488	-92	-2.0%
Ebit %	25.7%	26.3%	-0.6 pp		24.7%	25.2%	-0.5 pp	
Capex	3,002	2,823	+179	+6.3%	3,002	2,823	+179	
Capex/Rev.	16.9%	15.8%	+1.1 pp		16.9%	15.8%	+1.1 pp	

Wireline: 2006 Domestic and European Project

€ Mln., %, Organic Growth

-342 Mln € (-2.0%) net of 43 Mln € in 2005 of Premium Services reimbursed to customers

-80 Mln € (-0,4%) net of 43 Mln € in 2005 of Premium Services reimbursed to customers

	Domestic				European Project				Total BU Wireline			
	2006	2005	Δ	Δ%	2006	2005*	Δ	Δ%	2006	2005	Δ	Δ%
Revenues	16,880	17,265	-385	-2.2%	915	653	+262	+40.1%	17,795	17,918	-123	-0.7%
Ebitda	7,539	7,859	-320	-4.1%	81	0	+81	n.m.	7,620	7,859	-239	-3.0%
Ebitda %	44.7%	45.5%	-0.8pp		8.9%	0.0%	+8.9pp		42.8%	43.9%	-1.1pp	
Ebit	4,692	4,844	-152	-3.1%	-125	-123	-2	-1.6%	4,567	4,721	-154	-3.3%
Ebit %	27.8%	28.1%	-0.3pp		-13.7%	-18.8%	+5.1pp		25.7%	26.3%	-0.6pp	
CAPEX	2,535	2,519	+16		467	304	+163		3,002	2,823	+179	
% on Rev.**	15.0%	14.6%	+0.4pp		51.0%	46.5%	-4.5pp		16.9%	15.8%	+1.1pp	

- ▶ Limited erosion of domestic margin
- ▶ Increasing weight of European Project on Wireline revenues and profitability (EBITDA margin at 16.2% in 4Q06, up from 11.1% in 3Q 06, 5.4% in 2Q 06 and 1.0% in 1Q 06)

* Including Liberty Surf from 1/1/05

** Calculated on Reported Data

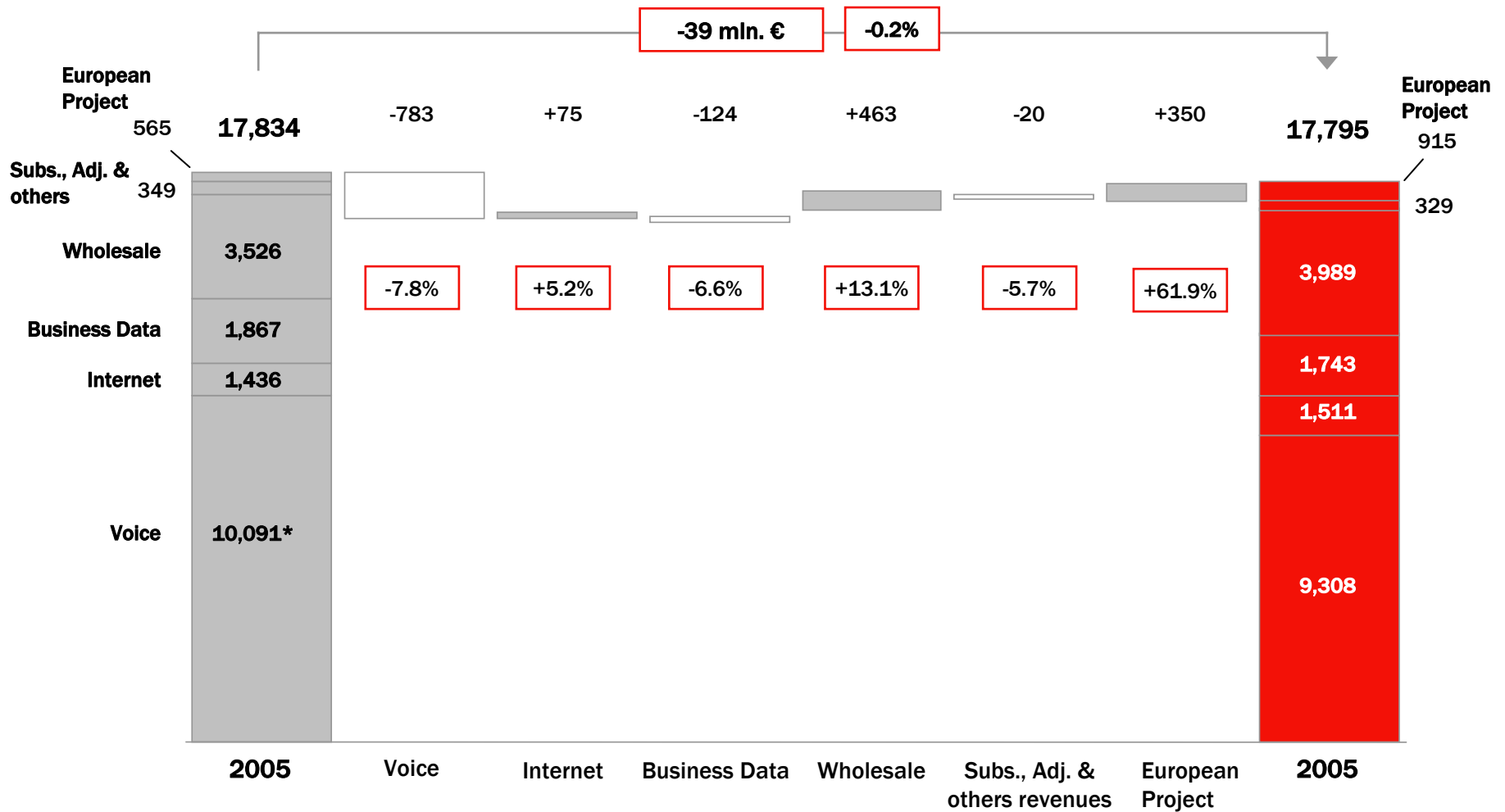
Wireline: Main Results by Quarter – Organic data

€ Mln, %

Quarterly	1Q06		2Q06		3Q06		4Q06		<p>-85 Mln € (-1,8%) net of 43 Mln € in 2005 of Premium Services reimbursed to customers</p> <p>Impact of price revision on expired Public Admin contracts and of price pressure on large corporate customers</p>
	2006 vs 2005		2006 vs 2005		2006 vs 2005		2006 vs 2005		
	Δ Abs	Δ %	Δ Abs	Δ %	Δ Abs	Δ %	Δ Abs	Δ %	
Revenues	+58	+1.3%	-34	-0.7%	-18	-0.4%	-128	-2.8%	<p>Full Year impact of change in depreciation criteria (asset lives) (219 Mln €)</p> <p>-80 Mln € (-0,4%) net of 43 Mln € in 2005 of Premium Services reimbursed to customers</p>
Ebitda	+7	+0.3%	-43	-2.1%	-56	-2.9%	-147	-7.5%	
Ebit	-50	-4.0%	-85	-6.9%	-83	-7.3%	+63	+5.6%	
YTD	Mar-06 YTD		Jun-06 YTD		Sep-06 YTD		Dec-06 YTD		
	2006 vs 2005		2006 vs 2005		2006 vs 2005		2006 vs 2005		
	Δ Abs	Δ %	Δ Abs	Δ %	Δ Abs	Δ %	Δ Abs	Δ %	
Revenues	+58	+1.3%	+23	+0.3%	+5	0.0%	-123	-0.7%	
Ebitda	+7	+0.3%	-36	-0.9%	-92	-1.6%	-239	-3.0%	
Ebit	-50	-4.0%	-134	-5.4%	-217	-6.0%	-154	-3.3%	

Revenue analysis

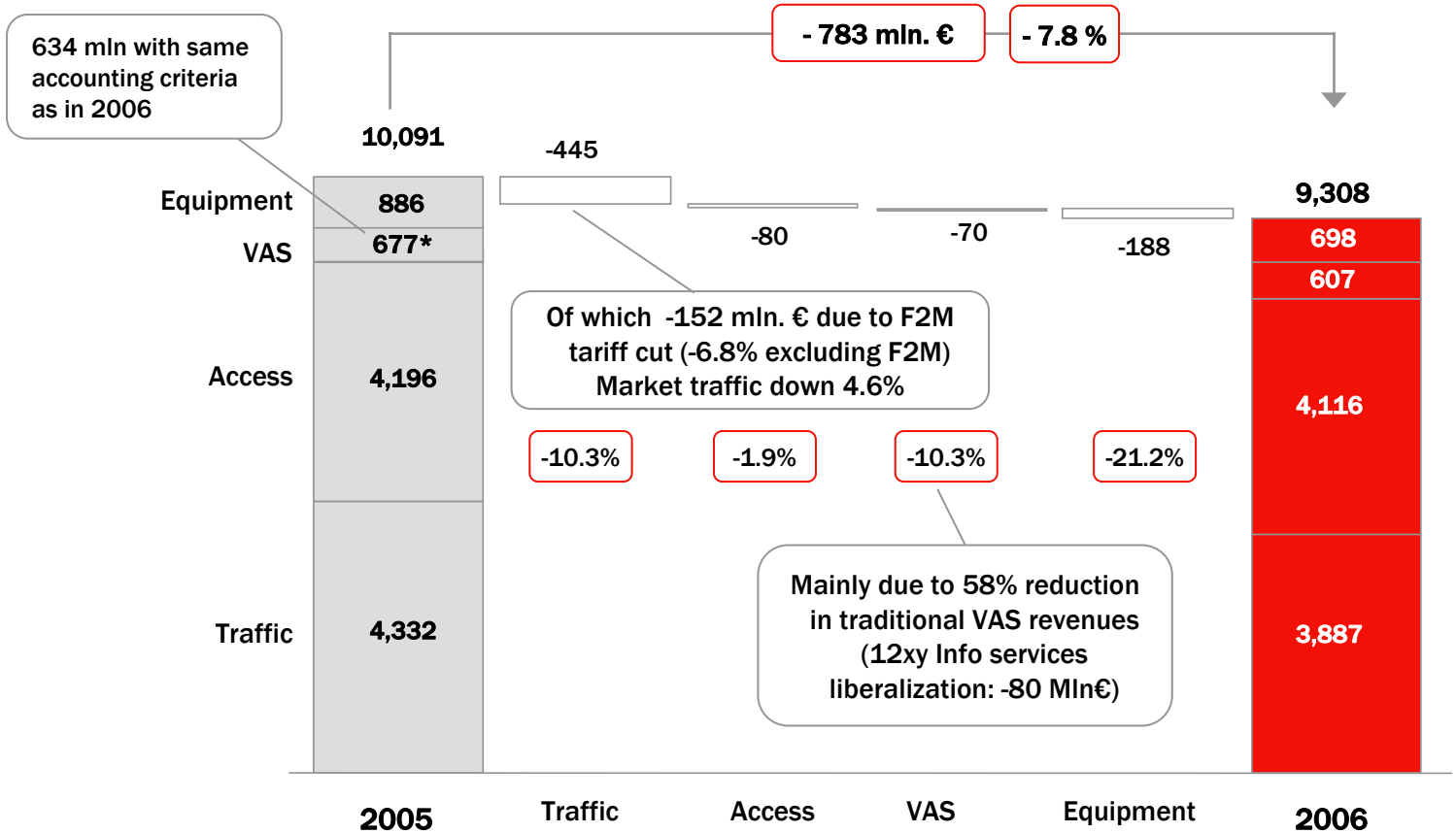
€ Mln, Reported Data



* Includes 43 Mln€ of Premium Services reimbursed to customers

Voice retail service revenues in line with 2005 trends

€ Mln, %, Reported Data



* Includes 43 Mln€ of Premium Services reimbursed to customers

Wireline: Voice Traffic performance

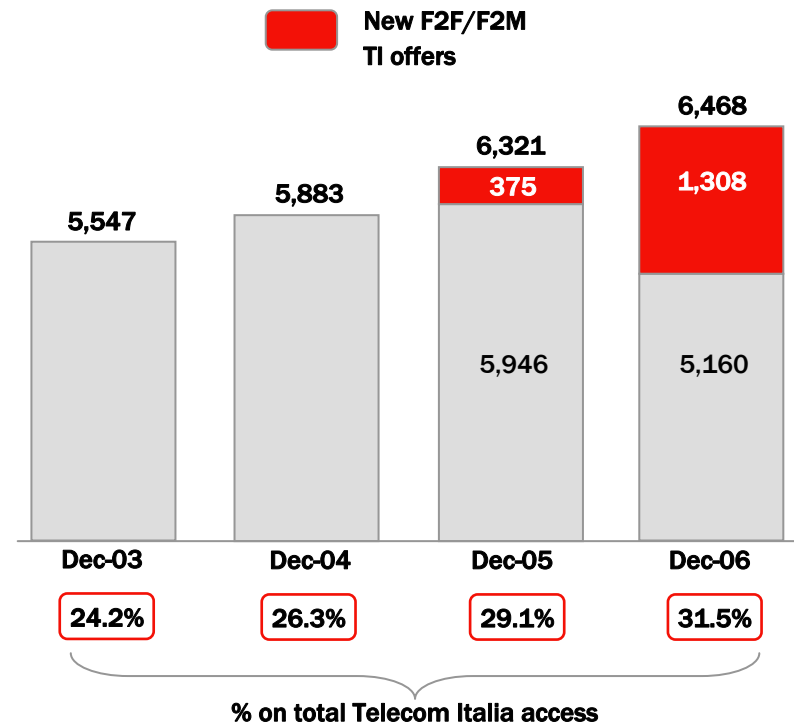
Italian market: domestic voice traffic trend

YoY % chg. in traffic volume



Source: Company Data, Analyst Estimates, NRA

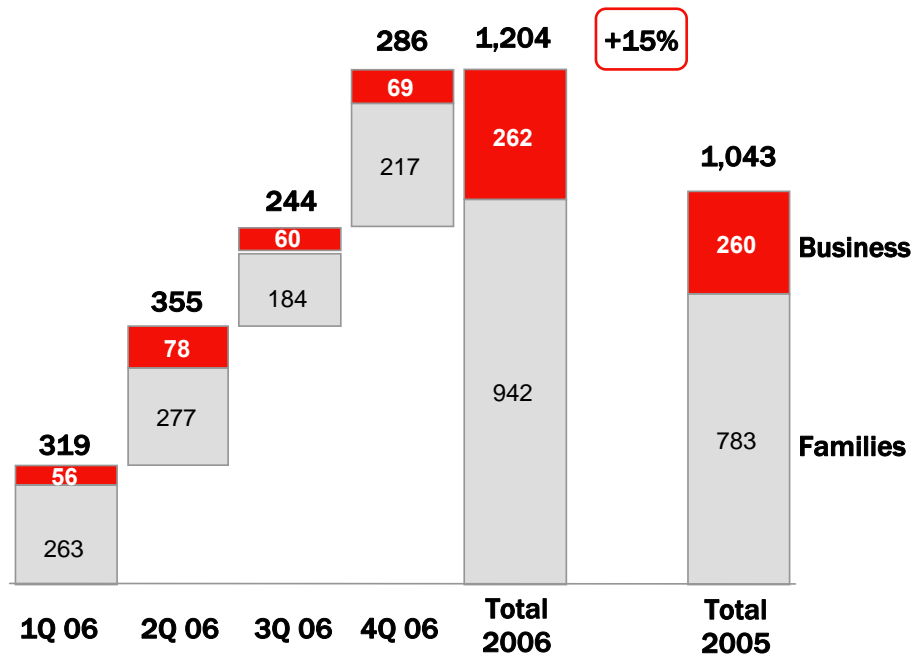
Penetration of voice flat/semi-flat offers



Retention campaign and traffic Market Share

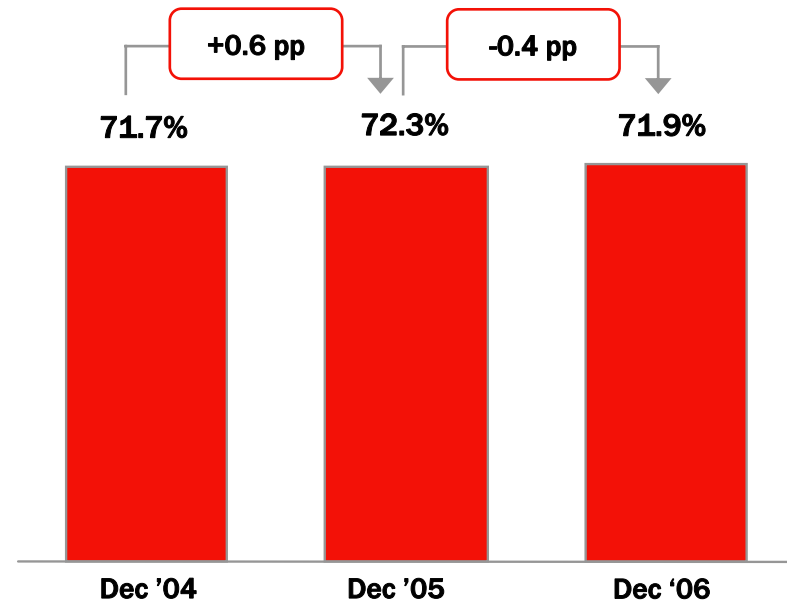
Retention campaign

'000, Number of lines



Traffic Market Share

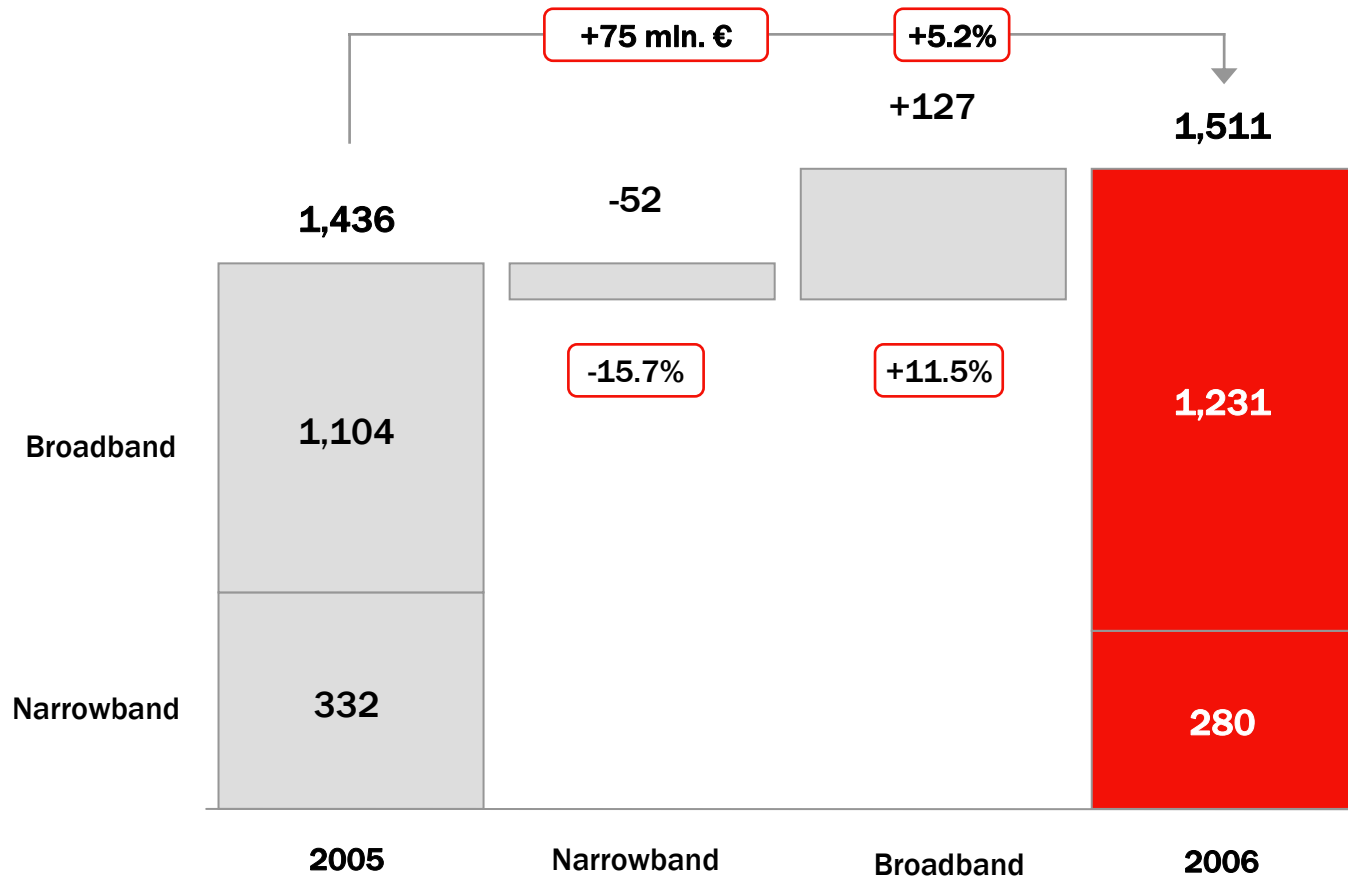
% on total monthly traffic volumes



Retention campaign supports Traffic Market Share stabilization

Consumer Internet: stabilizing ARPU in a slowing market

€ Mln, %, Reported Data



TI Wireline Broadband portfolio evolution

Broadband total portfolio

Number of access lines ('000)

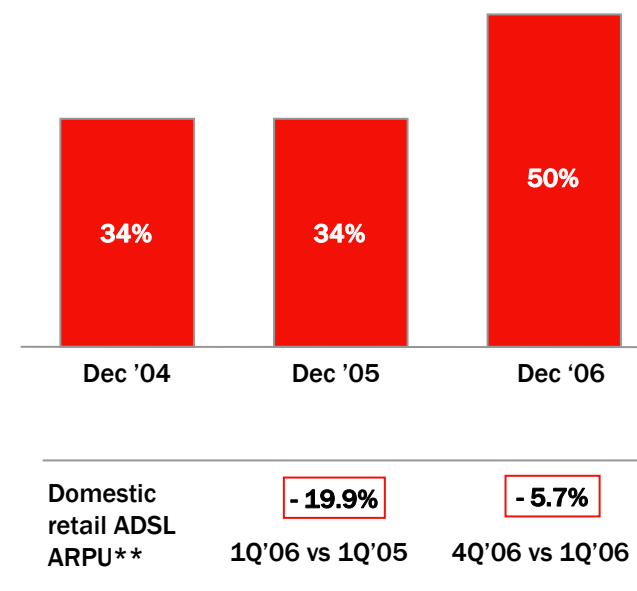
	Dec '04	Dec '05	Dec '06	D '05 vs'04	D '06 vs'05
Wholesale	599	890	1,131	+291	+241
Retail	3,411	4,817	5,639	+1,406	+822
Total Domestic	4,010	5,707	6,770	+1,697	+1,063
International BB	420	1,313*	1,890	+893	+577
Wireline Total	4,430	7,020	8,660	+2,590	+1,640

*Including Liberty Surf's BB customers

**Including Residential, SOHO and SME's customers

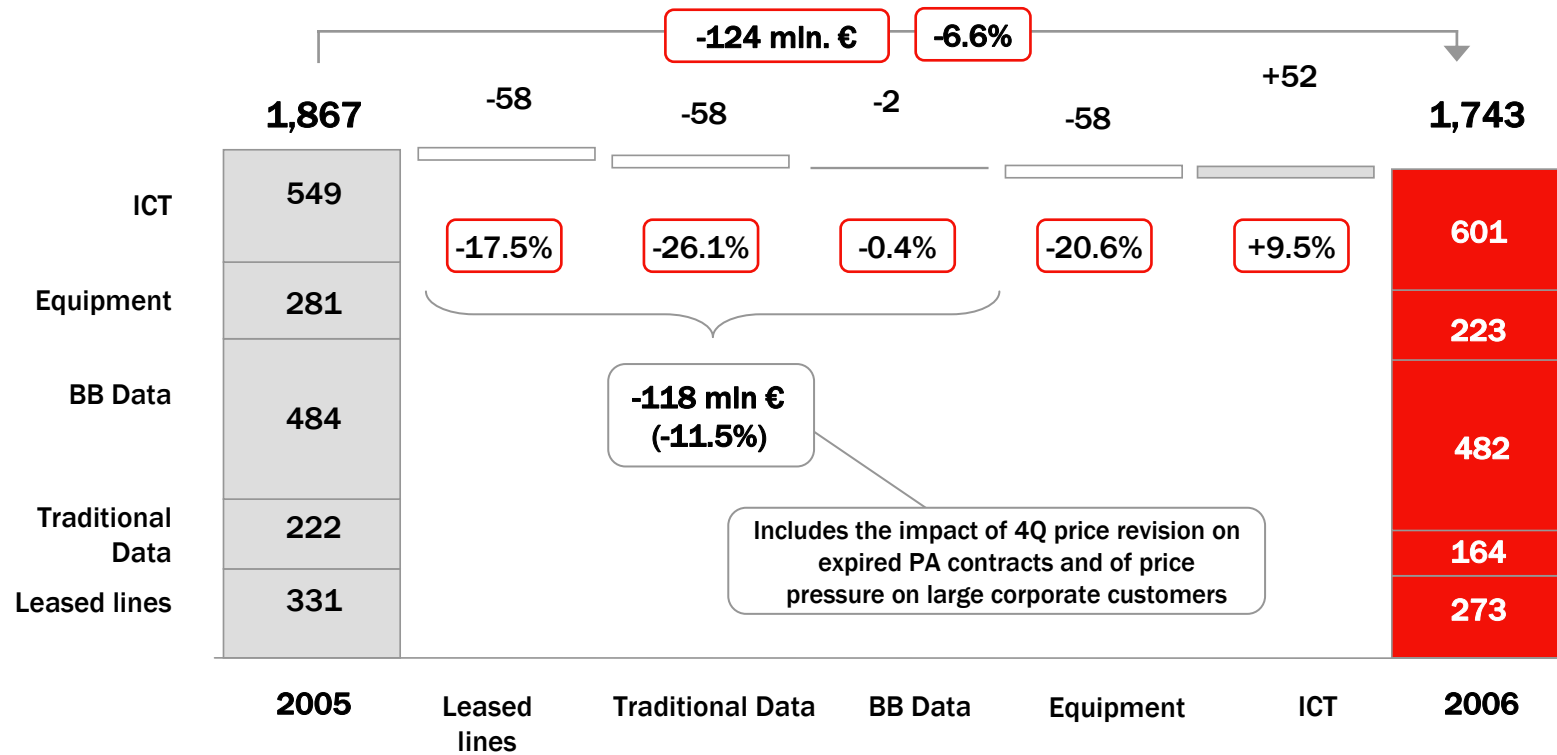
Flat Offers on Total Alice Consumer

%



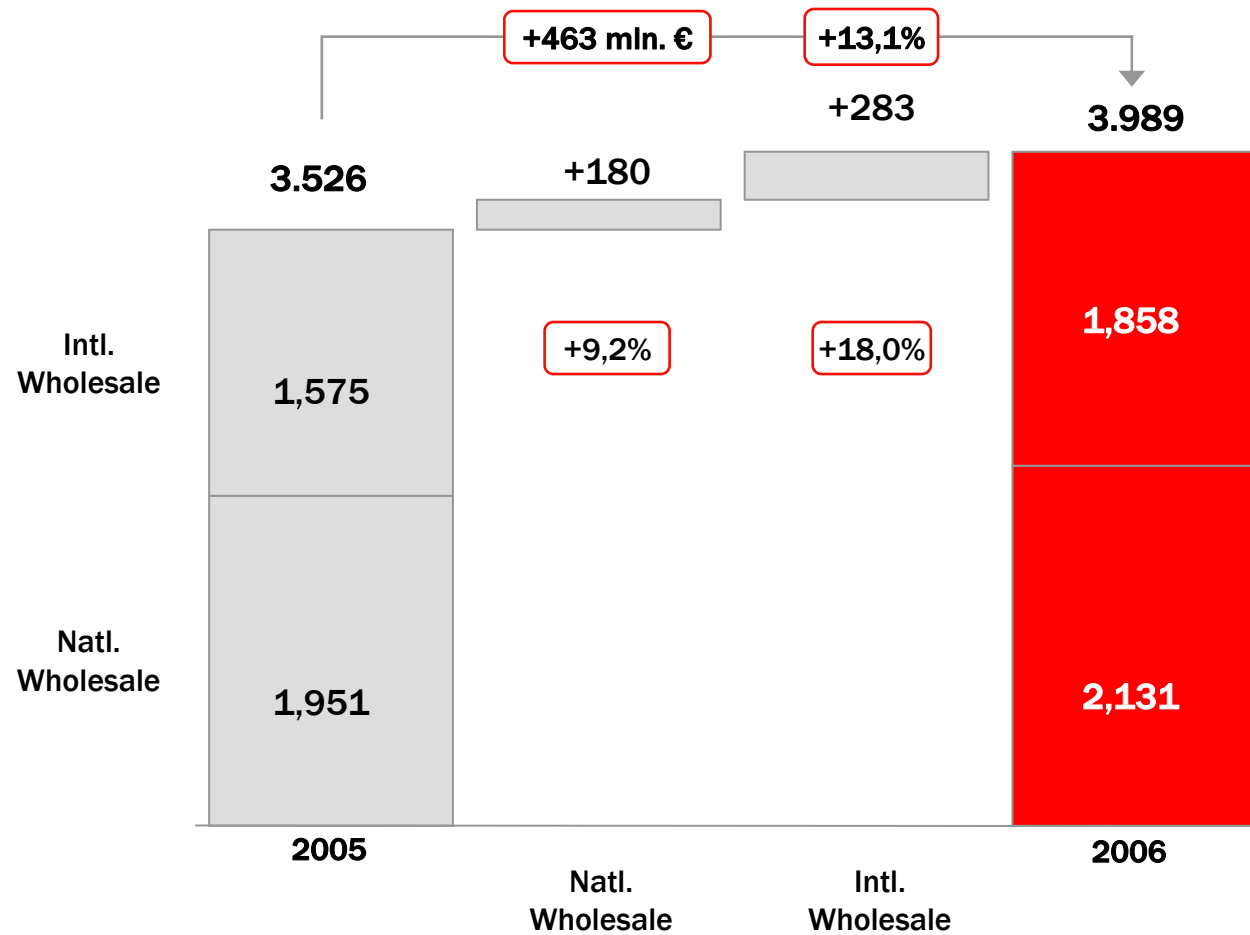
Business data revenues

€ Mln, %, Reported Data



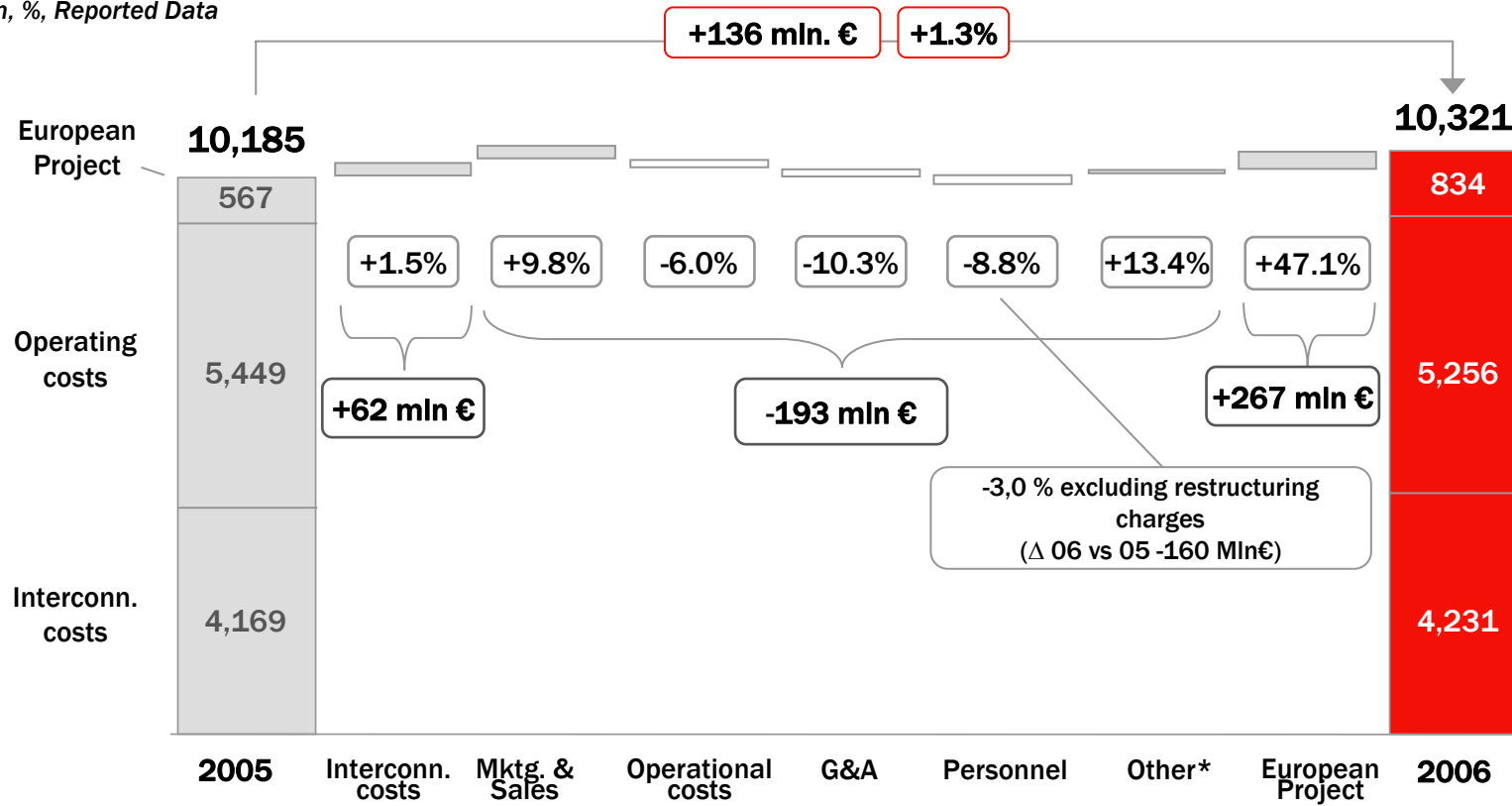
Wireline: Wholesale revenues

€ Mln, %, Reported Data



Confirming strong focus on cost control

€ Mln, %, Reported Data

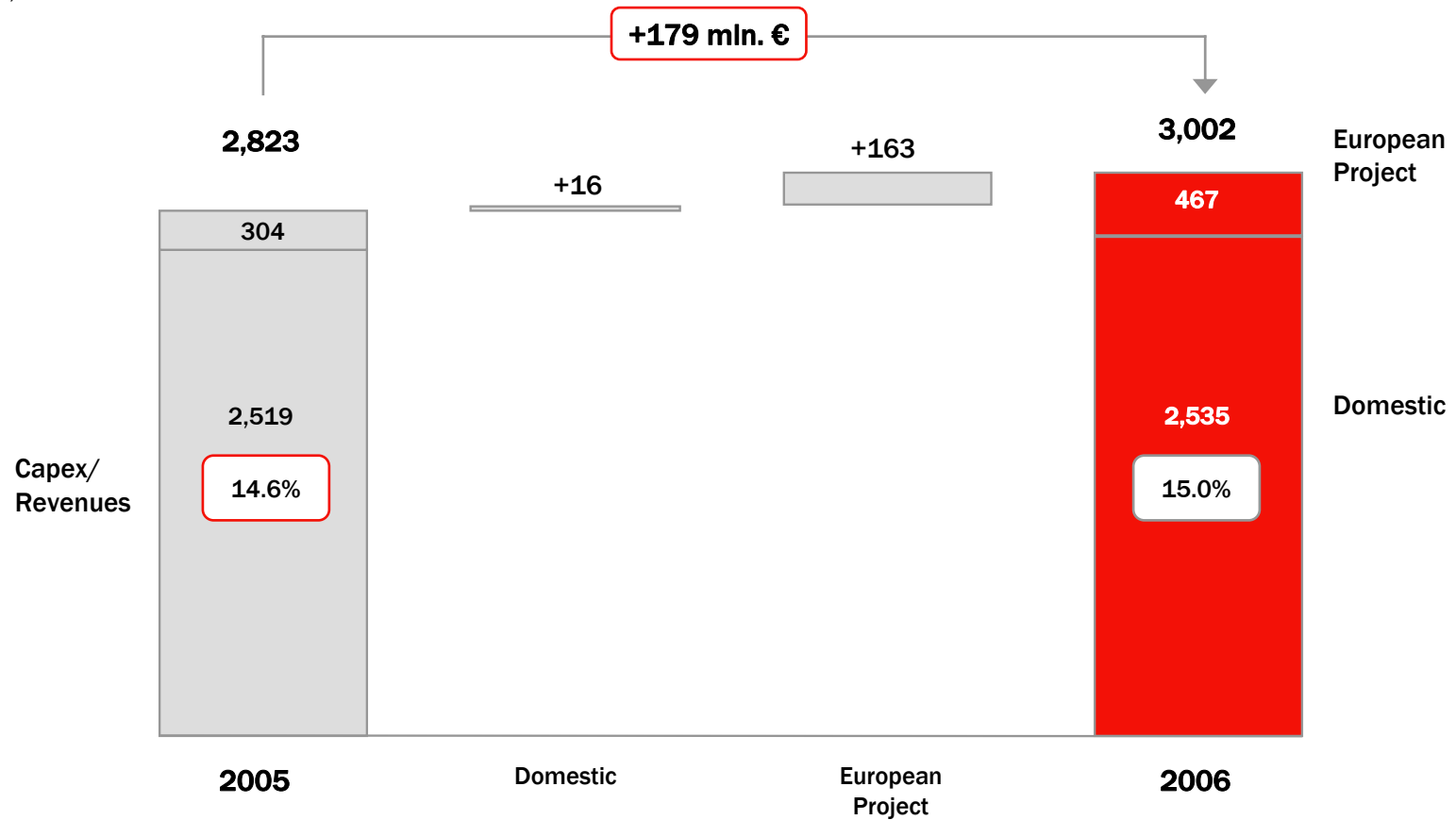


- ▶ The business continues to generate efficiencies
- ▶ Mktg&sales costs increase as a response to competitive pressure

* Includes subsidiaries, adjustments and cost capitalization (-)

CAPEX driven by broadband expansion in Europe

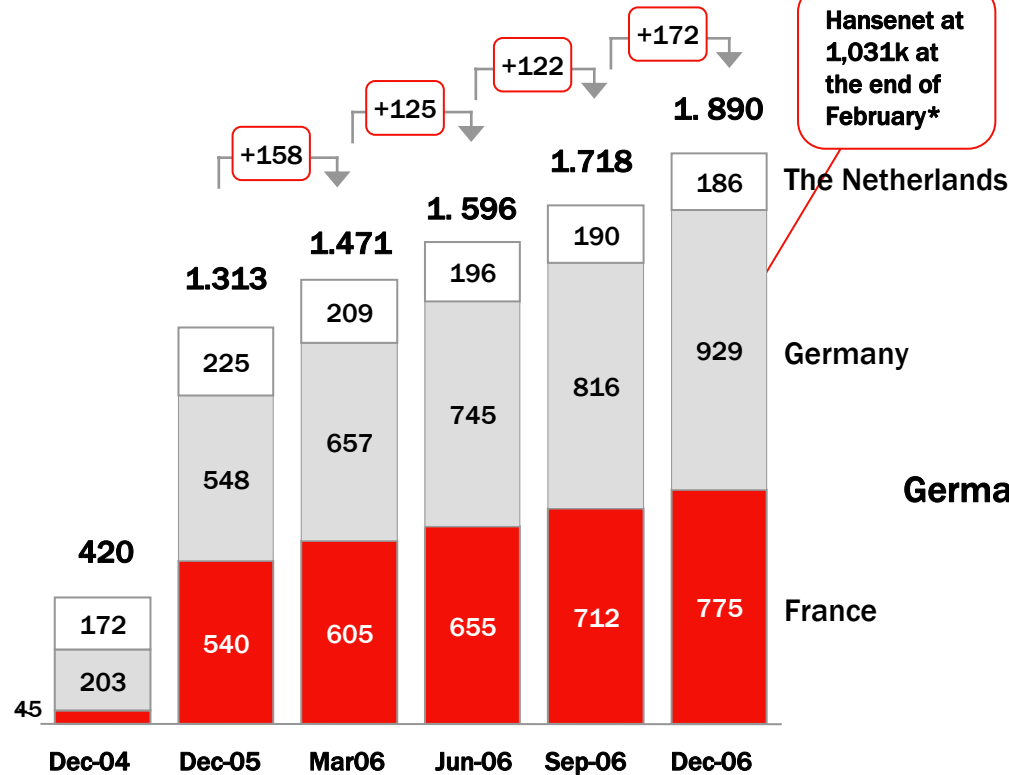
€ Mln, %



European Projects: Key facts

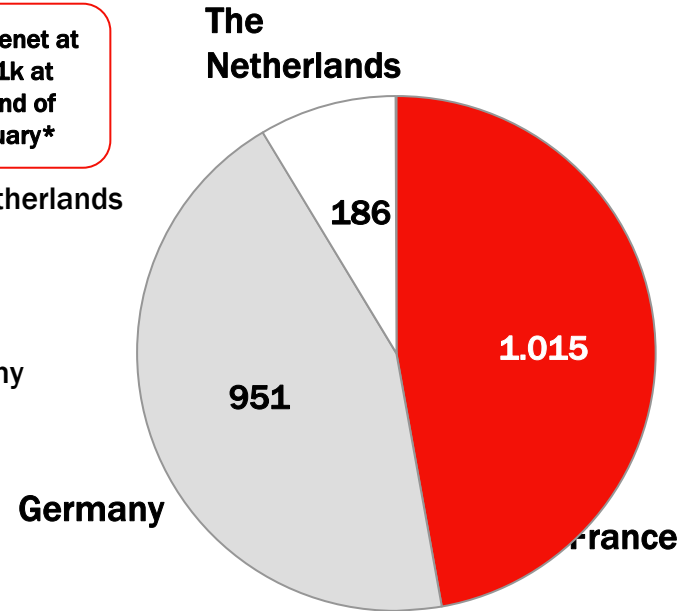
Broadband Portfolio

'000 BroadBand Access



Total customer portfolio: BB+NB

'000 Access



Total customer Portfolio: 2.152.000

* AOL will be consolidated from 1° March 2007

Agenda

- ▶ **2006 financial performance and business overview:**
 - ▶ **Wireline**
 - ▶ **Domestic mobile**
 - ▶ **TIM Brasil**

- ▶ **Appendix**

Domestic mobile: Main Results 2006 vs 2005

€ Mln, %

5.0% excluding
termination cutPositively impacted from change in
depreciation criteria (asset lives)
(100 Mln €)

Organic

Reported Data

	2006	2005	D	D %	2006	2005	D	D %
Revenues	10.210	10.076	+134	+1,3%	10.210	10.076	+134	+1,3%
Ebitda	5.064	5.101	-37	-0,7%	5.042	5.086	-44	-0,9%
Ebitda %	49,6%	50,6%	-1,0pp		49,4%	50,5%	-1,1pp	
Ebit	3.764	3.871	-107	-2,8%	3.742	3.856	-114	-3,0%
Ebit %	36,9%	38,4%	-1,5pp		36,7%	38,3%	-1,6pp	
Capex	1.146	1.276	-130	-10,2%	1.146	1.276	-130	
Capex/Rev %	11,2%	12,7%	-1,5pp		11,2%	12,7%	-1,5pp	

2.9% excluding
termination cut

Domestic mobile: Main Results – Organic growth by Quarter

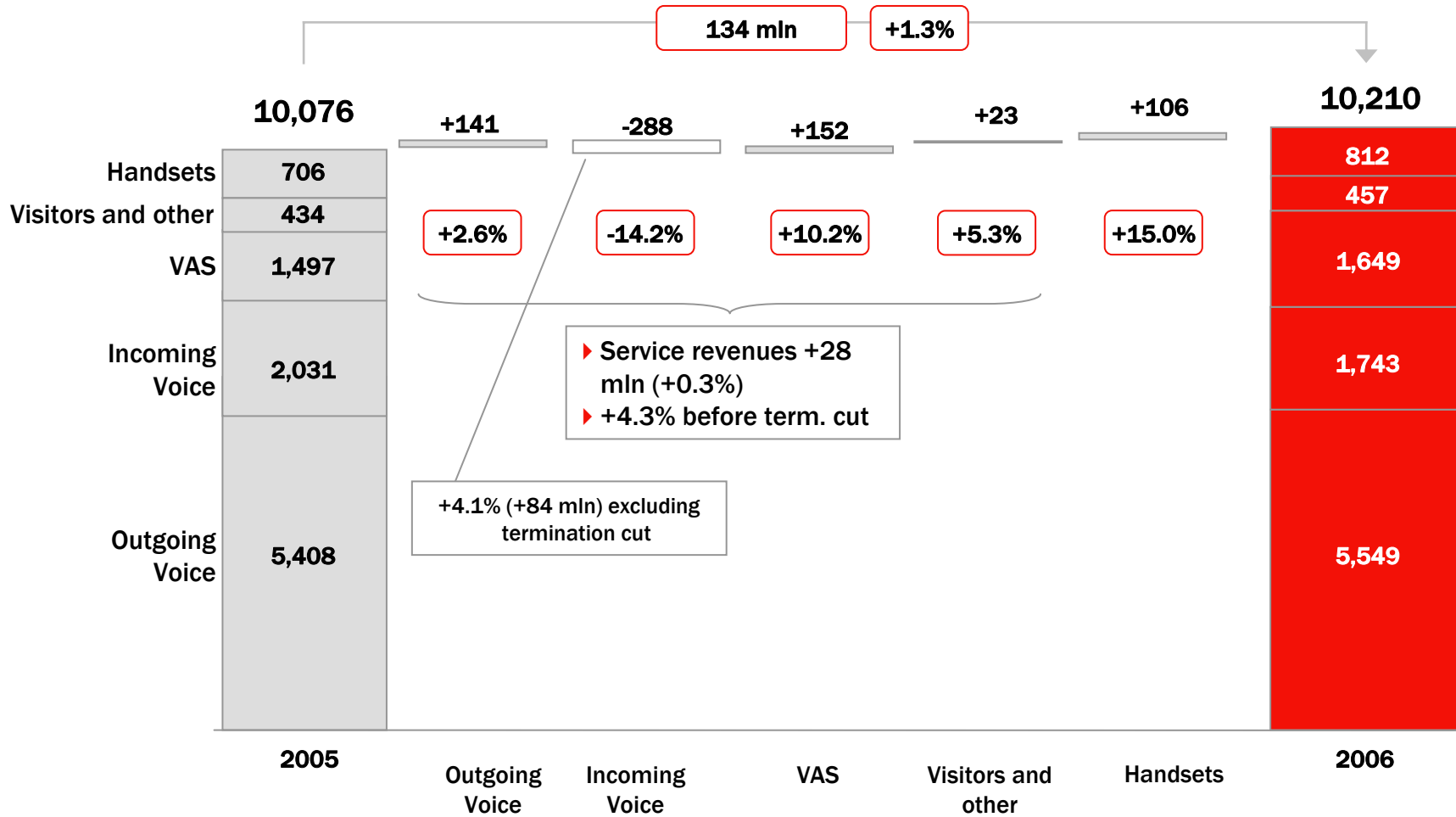
€ Mln, %

Quarterly	1Q06		2Q06		3Q06		4Q06		
	2006 vs 2005		2006 vs 2005		2006 vs 2005		2006 vs 2005		
	Δ Abs	Δ %	Δ Abs	D %	Δ Abs	Δ %	Δ Abs	Δ %	
Revenues	9	0.4%	43	1.7%	6	0.2%	76	3.0%	Full Year impact of change in depreciation criteria (asset lives) (100 Mln €)
Ebitda	-37	-2.8%	-27	-2.0%	14	1.1%	13	1.1%	
Ebit	-62	-6.2%	-69	-6.7%	-39	-3.9%	63	7.4%	

YTD	Mar-06 YTD		Jun-06 YTD		Sep-06 YTD		Dec-06 YTD		
	2006 vs 2005		2006 vs 2005		2006 vs 2005		2006 vs 2005		
	Δ Abs	D %	Δ Abs	D %	Δ Abs	D %	Δ Abs	Δ %	
Revenues	9	0.4%	52	1.1%	58	0.8%	134	1.3%	Δ % excluding termination cut +5.0% (372 mn€)
Ebitda	-37	-2.8%	-64	-2.4%	-50	-1.3%	-37	-0.7%	+2.9% (183 mn€)
Ebit	-62	-6.2%	-131	-6.5%	-170	-5.6%	-107	-2.8%	

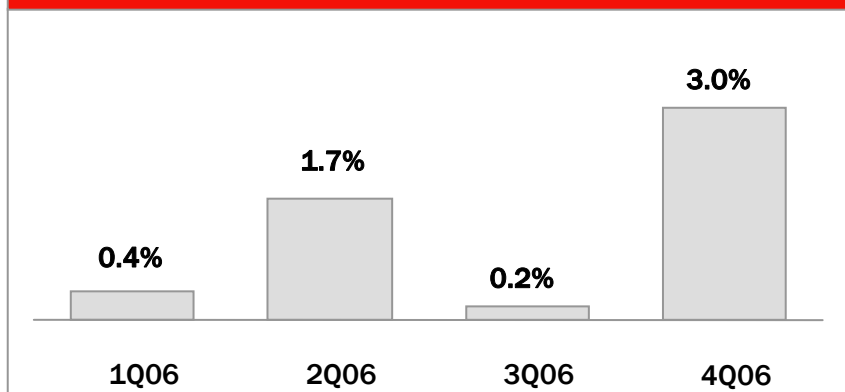
Domestic mobile: Revenue analysis

€ Mln, %

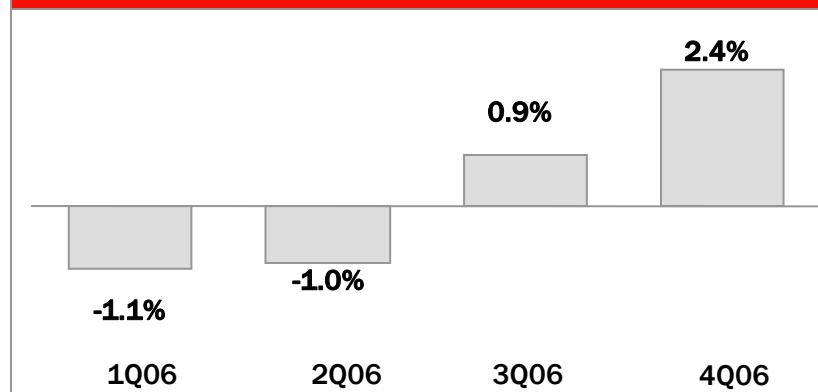


Domestic Mobile: revenue and margin trends

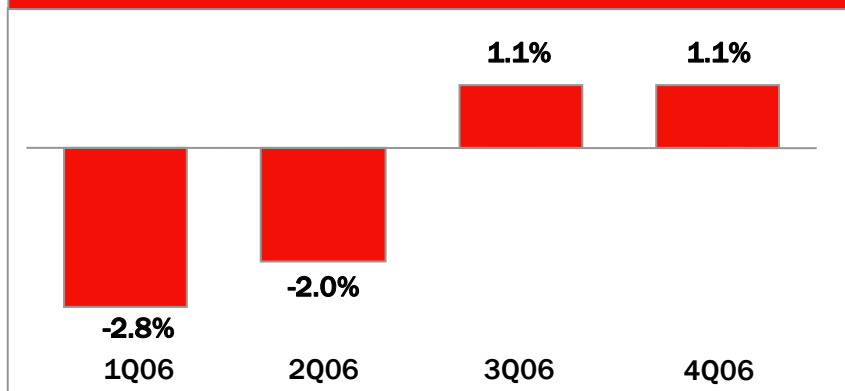
Total revenues (YoY % chg)



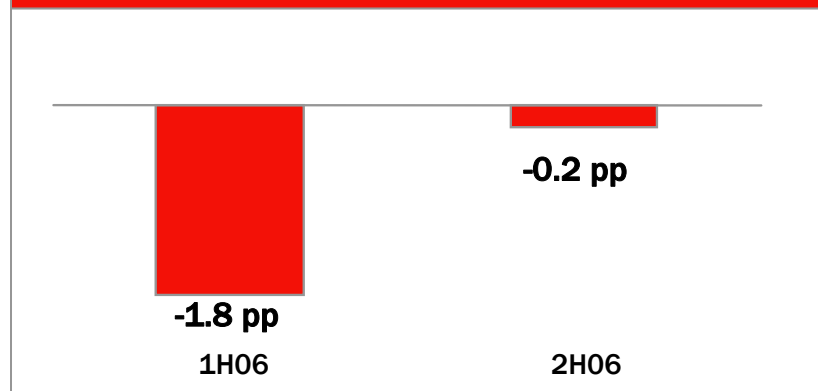
Service revenues (YoY % chg)



EBITDA (organic YoY % chg)

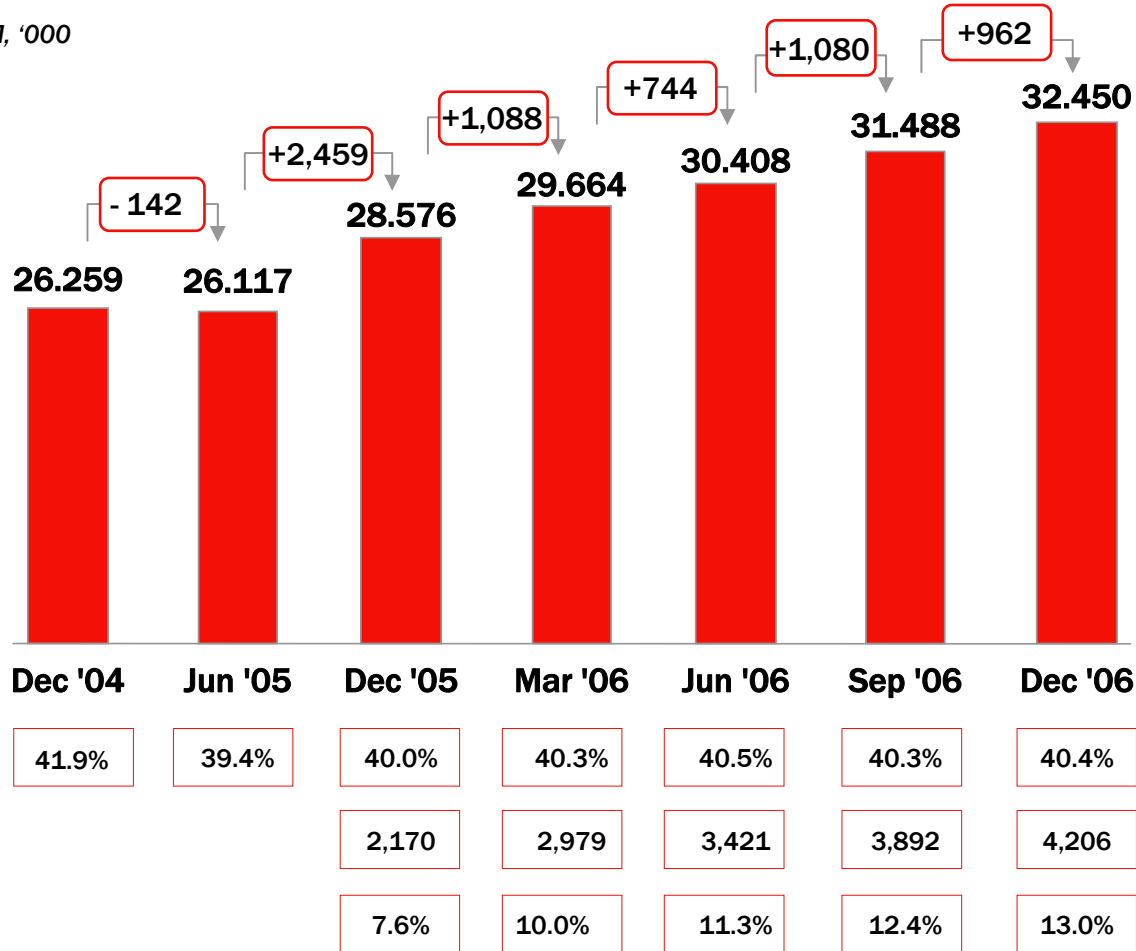


EBITDA margin (Organic YoY pp chg)



TIM Italy: Customer base trend

SIM, '000



KPIs:

- ▶ **Contribution of Business customers to net adds in 4Q (335k) remains strong, representing 35% of total new customers**
- ▶ **Postpaid at ca. 19% of gross adds in 4Q, taking the whole 2006 contribution to 18% vs. 12% in 2005.**
- ▶ **Stable churn ratio vs 2005**
- ▶ **Doubled the number of UMTS customers in 1 year**

**Market Share
TIM EoY (%)**

**UMTS*
Customers**

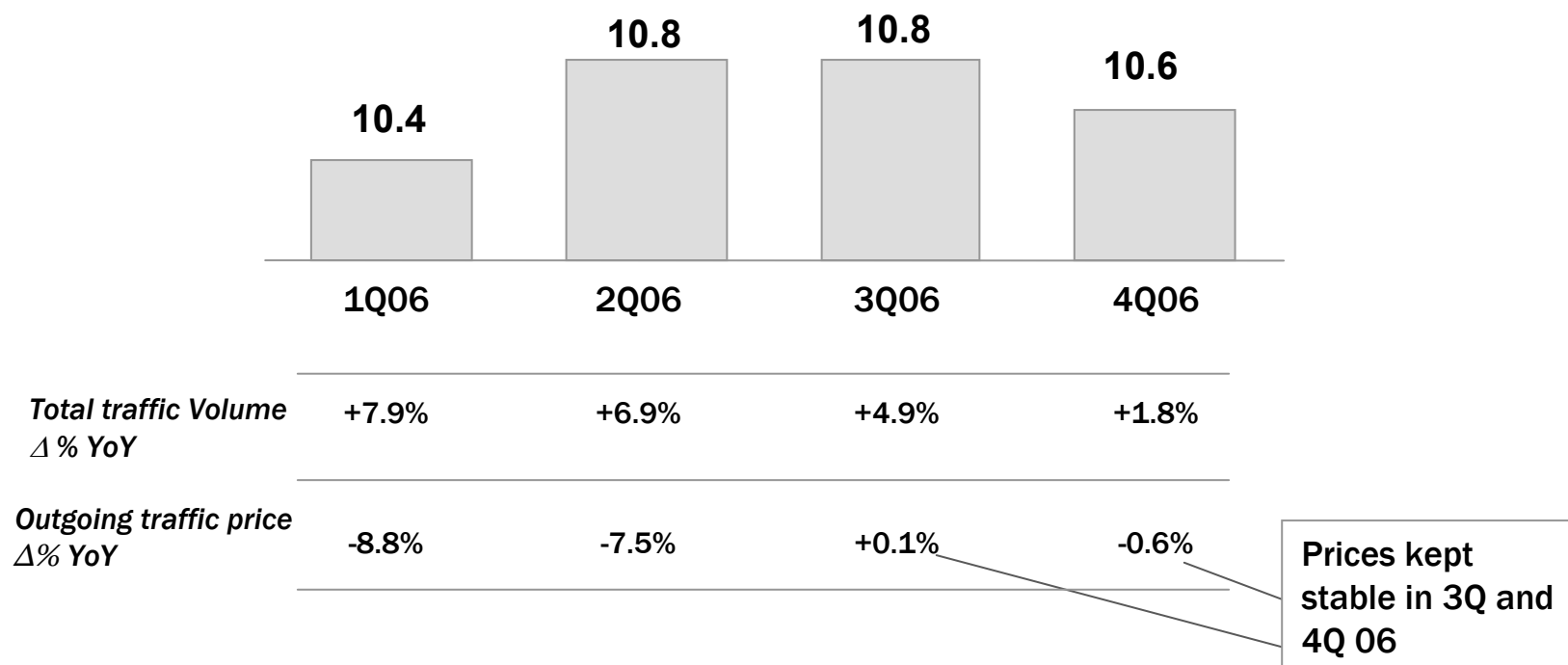
UMTS penetration (%)

* UMTS customers that generated traffic on TIM's 3G network in the last 90 days

Voice: traffic volumes increase

TIM Italy: Total Traffic Volumes*

Bln. Min.

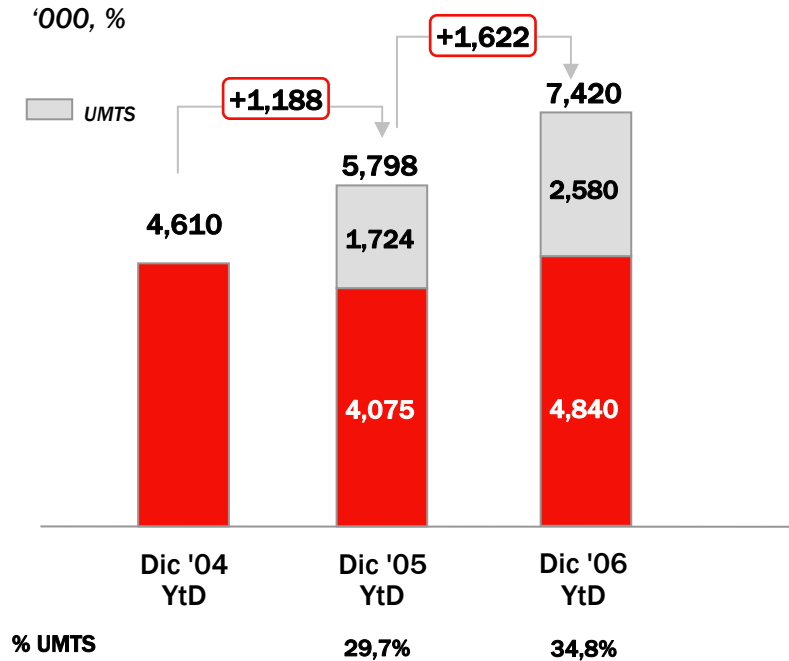


- ▶ Total traffic volumes continue to grow thanks to line acquisitions and market share growth
- ▶ Positive price elasticity effect from III° Quarter 2006

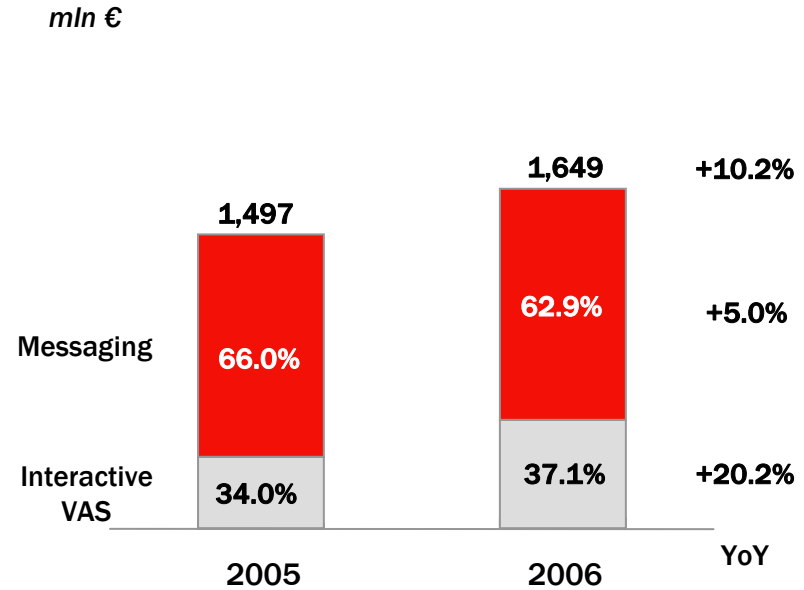
* Incoming + Outgoing excluding Visitors

TIM accelerates in UMTS and interactive VAS penetration

Handsets sold



VAS Revenues

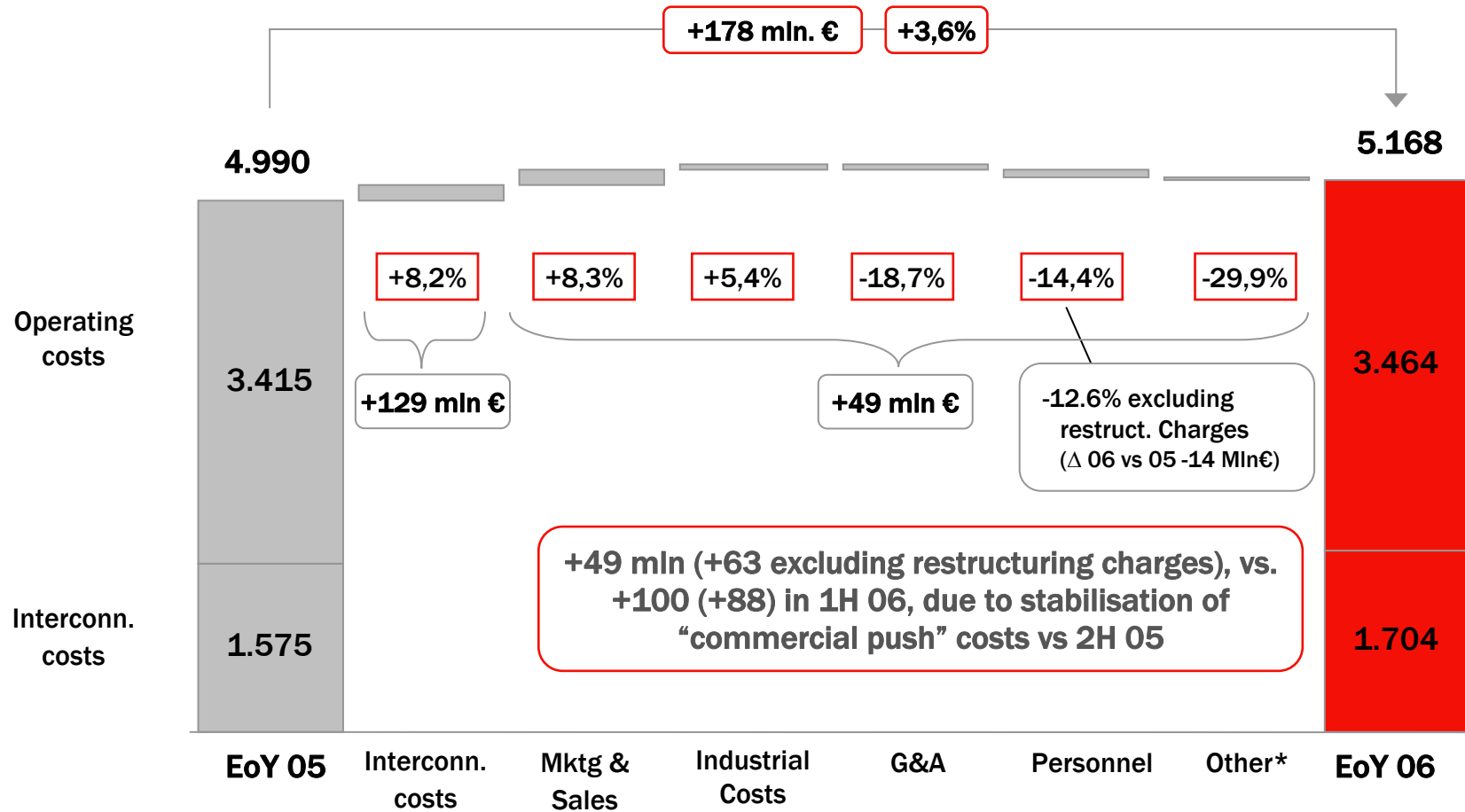


TIM 3G successful strategy:

- ▶ combined voice and VAS offer
- ▶ flat rate offers including handset rental
- ▶ ~ 300k HSDPA handsets sold in 6 months

- ▶ Messaging a mature business still growing
- ▶ Interactive VAS as the main drivers, with browsing at +61% YoY

Cost analysis



* Includes Other Income, provisions, chargea and cost capitalization

Agenda

- ▶ **Wireline financial performance and operational overview**

- ▶ **Mobile financial performance and operational overview**
 - ▶ **TIM Italy**

 - ▶ **TIM Brasil**

- ▶ **Appendix**

TIM Brasil: Main Results 2006 vs 2005

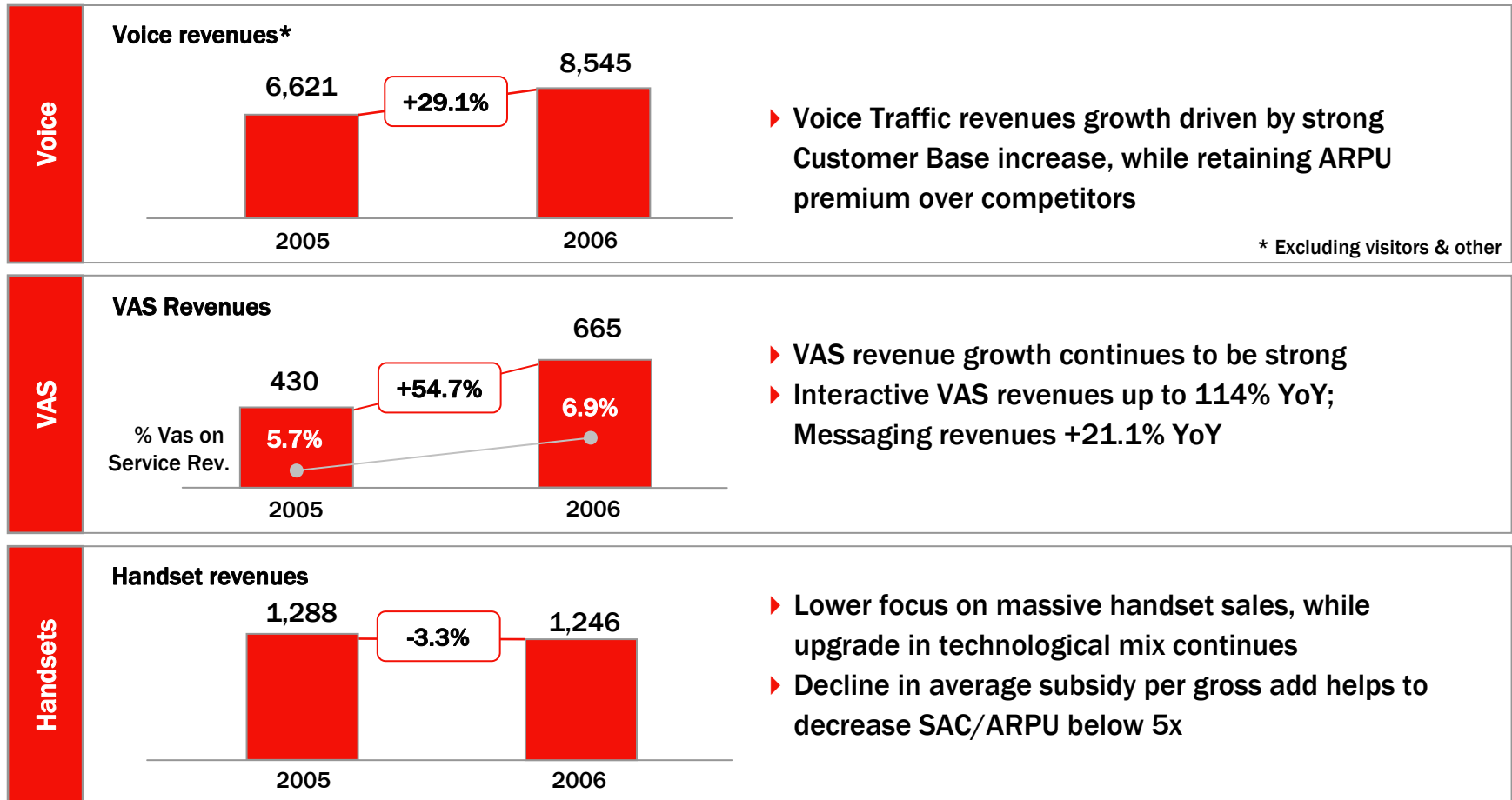
IAS/IFRS

	Data Reported - Euro Million Euro, %				Data Reported - Reais Million R\$, %				Organic Growth %
	2006	2005	Δ Abs	Δ %	2006	2005	Δ Abs	Δ %	Δ %
Revenues	3,964	2,900	1,064	36.7%	10,836	8,784	2,052	23.4%	23.4%
Ebitda	950	466	484	103.9%	2,596	1,412	1,184	83.9%	81.7%
Ebitda %	24.0%	16.1%	7.9 p.p.		24.0%	16.1%	7.9 p.p.		24.1% margin
Ebit	21	-190	211		58	-574	632		
Ebit %	0.5%	-6.5%	7.1 p.p.		0.5%	-6.5%	7.1 p.p.		
CAPEX	699	842	-143		1,910	2,551	-641		
CAPEX/Revs	17.6%	29.0%	-11.4 p.p.		17.6%	29.0%	-11.4 p.p.		

► Service Revenues: +27.9% (+19.5% assuming B&K elimination from 1/1/05 and comparing 2005 and 2006 on a like-for-like basis)

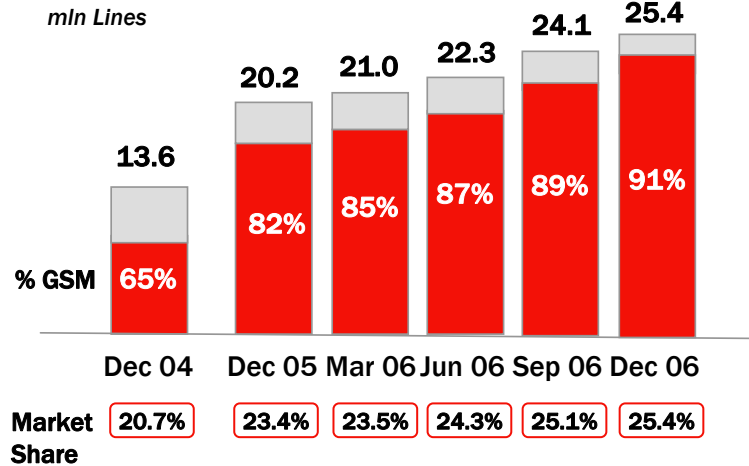
TIM Brasil revenue analysis

IAS/IFRS; R\$ Min



TIM Brasil: market performance

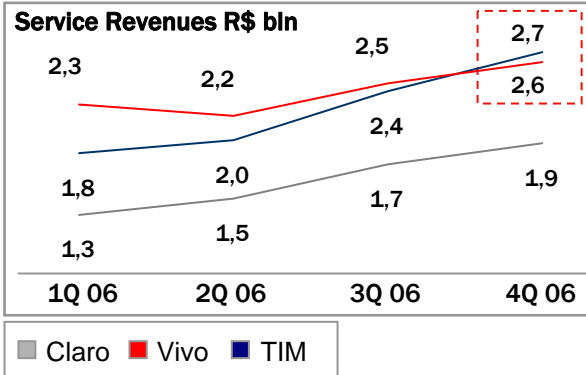
TIM Brasil Customer Portfolio



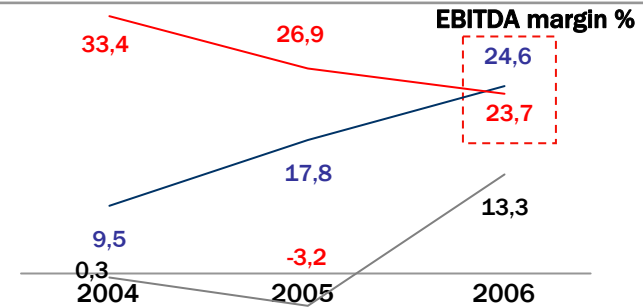
- ▶ Customer base almost doubled in two years
- ▶ TIM maintained strong net adds, while keeping post-paid at 21% of customer base
- ▶ Improving TIM Market Positioning on Customer Base YoY vs main Competitors:
 - ▶ from -19.8 pp to -3.7 pp vs Vivo in 2 yrs
 - ▶ from -0.1 to +1.5 pp gap vs Claro in 2 yrs
- ▶ Outperformance vs. n. 1 competitor continues:
 - ▶ TIM n. 1 operator on total and service revenue share in 4Q (from -11pp vs Vivo in 4Q 05*)
 - ▶ Highest EBITDA margin in Brasil in 2006 (24.5% vs 23.7% at Vivo)

* considering the 3 main players in the market

KPIs (R\$, BRL GAAP)



4Q06 ARPU gap
 vs Vivo +21%
 vs Claro +32%



Agenda

- ▶ **Wireline financial performance and operational overview**

- ▶ **Mobile financial performance and operational overview**

- ▶ **Appendix**

Agenda

- ▶ **Appendix**

- ▶ **Wireline**

- ▶ **TIM Italy**

- ▶ **TIM Brasil**

Wireline: Main Results – organic trend YTD December 2005

Mln. €

Organic trend

	2005 Reported (IAS)	Changes in consolid. Area	Exchange rate impact	Except. items	2005 Organic	2006 Reported	Except. items 2006	2006 Pro- Forma	2006 vs 2005	
									Δ Abs	Δ %
Revenues	17,834	+85	-1		17,918	17,795		17,795	-123	-0.7%
Ebitda	7,809	0	0	+209	7,859	7,474	+146	7,620	-239	-3.0%
Ebit	4,756	-8	0	+241	4,721	4,396	+171	4,567	-154	-3.3%

-80 Mln € (-0,4%) net of 43 Mln € in 2005 of Premium Services reimbursed to customers

Includes:

- ▶ restructuring charges 213 mln.€

Includes:

- ▶ restructuring charges 53 mln.€
- ▶ Litigations 91 mln
- ▶ Other 2 mln

Access lines

	2002	2003	2004	2005	2006
<i>million access</i>					
TI Wireline Retail Access	23.7	23.0	22.4	21.7	20.5
<i>'000 access</i>					
OLO Access (on TI infrastructure)					
ULL	119	510	759	1,117	1,706
Virtual ULL	n.a.	n.a.	n.a.	n.a.	254
Shared Access (ADSL)*	n.a.	n.a.	29	141	329

* Included in TI Retail Access

Agenda

- ▶ **Appendix**

- ▶ **Wireline**

- ▶ **TIM Italy**

- ▶ **TIM Brasil**

Domestic Mobile: Main Results - 2006 vs 2005 – Organic Growth

€ Mln, %

	2005			2006			Organic Growth	
	2005 Reported (IAS)	Exceptional items	2005 Organic	2006 Reported	Exceptional items	2006 Organic	Δ Abs	Δ %
Revenues	10,076		10,076	10,210		10,210	+134	+1.3%
Ebitda	5,086	+15	5,101	5,042	+22	5,064	-37	-0.7%
Ebit	3,856	+15	3,871	3,742	+22	3,764	-107	-2.8%

Including restructuring charges (33 mln)

Including restructuring charges (19 mln)

Agenda

▶ **Appendix**

▶ **Wireline**

▶ **TIM Italy**

▶ **TIM Brasil**

TIM Brasil: Main Results 2006 vs 2005

Organic Growth in LC

IAS/IFRS - Million Reals, %

	2005			2006			Organic Growth '06 vs '05	
	2005 Reported	Exceptional Items	2005 Organic	2006 Reported	Exceptional Items	2006 Organic	Delta ass	Delta %
Revenues	8,784		8,784	10,836		10,836	2,052	23.4%
Ebitda	1,412	23	1,435	2,596	11	2,607	1,172	81.7%
Ebitda %	16.1%		16.3%	24.0%		24.1%		
Ebit	-574	51	-523	58	11	69	592	n.m.
Ebit %	-6.5%		-6.0%	0.5%		0.6%		