

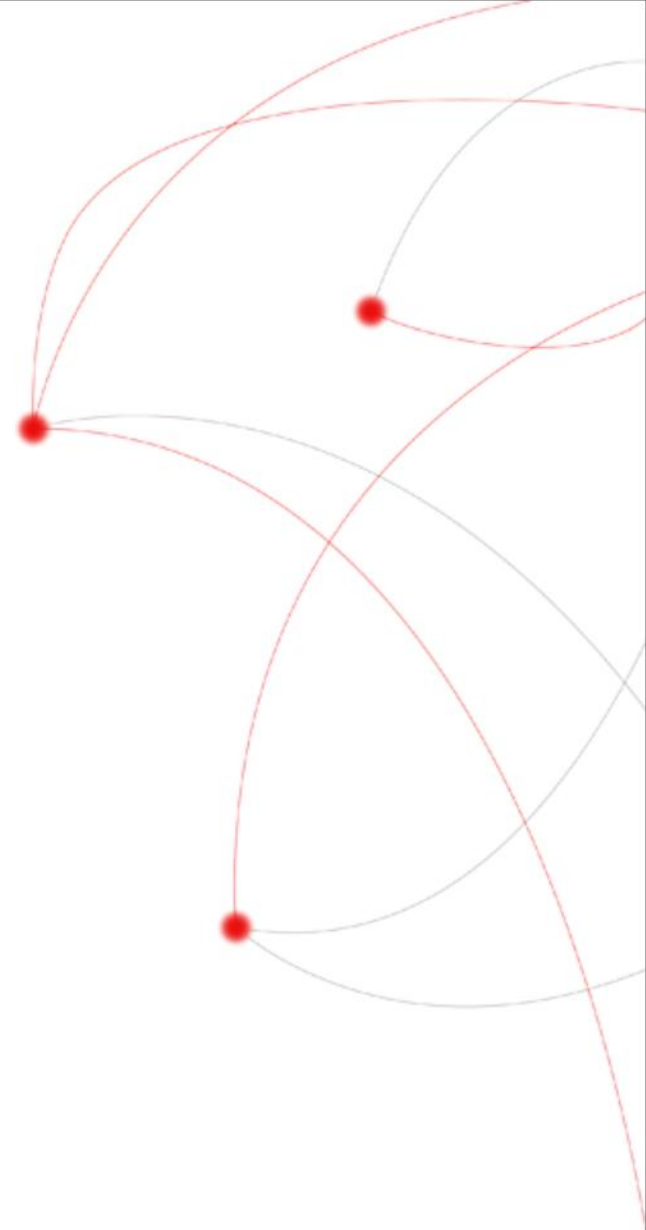
TELECOM ITALIA GROUP

## **9M 2009 Results**

Milan, November 5<sup>th</sup>, 2009

# **Telecom Italia 9M 2009 Results**

FRANCO BERNABE'



# Safe Harbour

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# Agenda

- ▶ **TI Group Main Achievements**
- ▶ **Focus on Domestic Business**
- ▶ **Focus on TIM Brasil**
- ▶ **Focus on HanseNet**
- ▶ **Wrap Up**
- ▶ **Appendix**

# TI Group 9M 09 Progress Report

Focus on  
Core  
Markets:  
Domestic  
&  
Brazil

Financial  
Discipline

**Improved Cash Flow Generation**  
**+515M€, +15% YoY**

**Improved Operating Profitability:**  
**Ebitda 8.6BN€ - Stable YoY (Ebitda Margin +1.8 p.p. YoY)**

**Strong Cash Cost Control:**  
**Cash Cost -1,146M€, -7.3% YoY**

**Improved Domestic Ebitda trend:**  
**-0.4% 3Q; -0.7% 2Q; -4.4% 1Q**

**Brazil Defending Profitability:**  
**Ebitda 880M€ - Ebitda Margin 24.3% (+2.3 p.p. YoY)**

**Disposal of non-core assets:**  
**HanseNet expected cash in ~900M€**

**Reduced Average Cost of Debt: 5.5% vs. 6% at YE08**

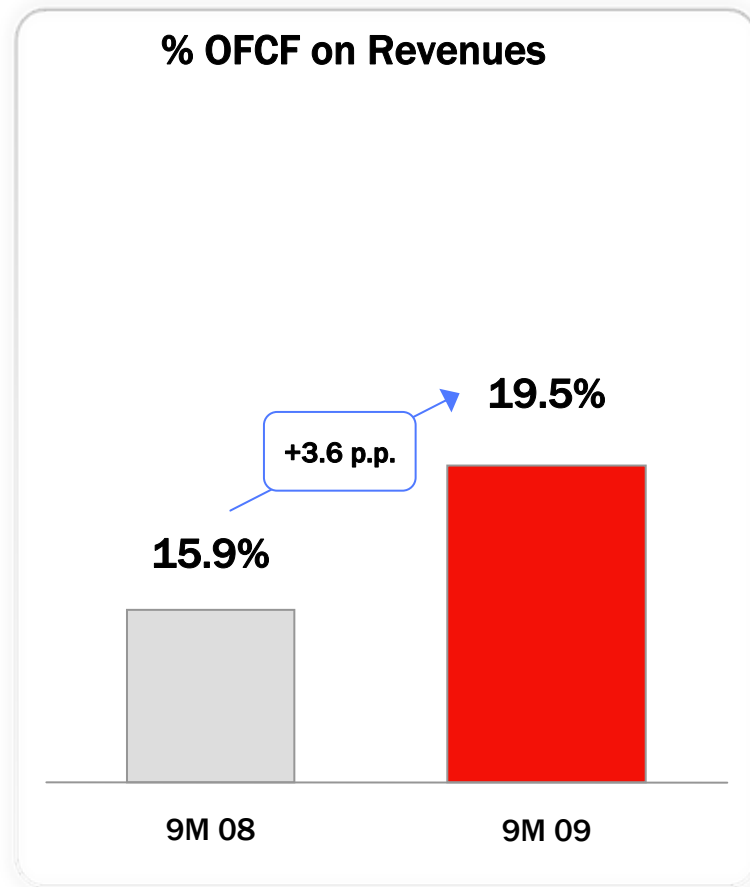
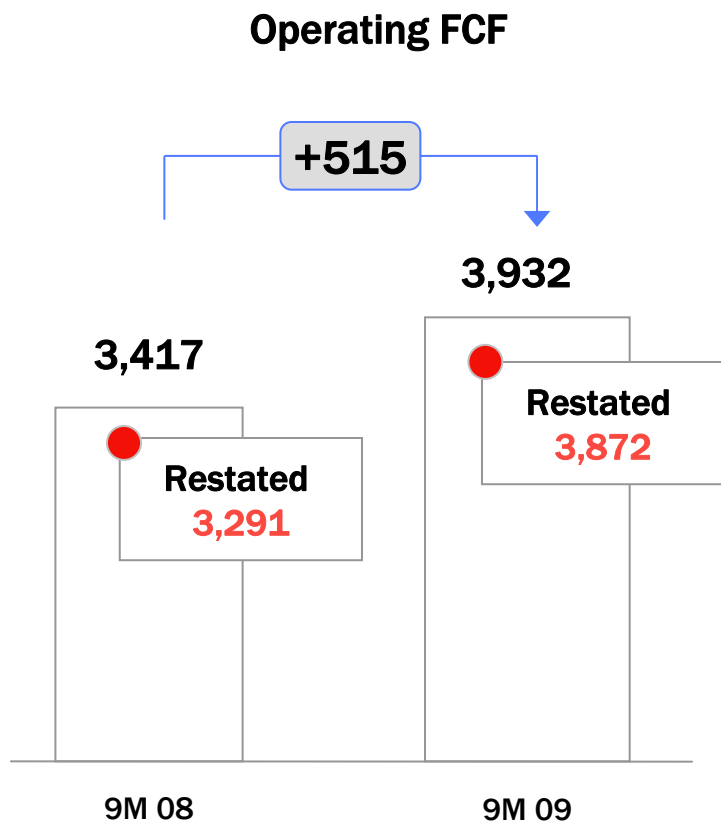
**Restated with HanseNet**  
**+581 M€, +18% YoY**

**Restated with HanseNet**  
**Ebitda 8.8BN€ - Stable YoY**  
**(Ebitda %+1.8 p.p. YoY)**

*Figures considering HanseNet classified as Discontinued Operations*  
*Restated Figures include HanseNet consolidated line by line*

# Improved Operating Free Cash Flow

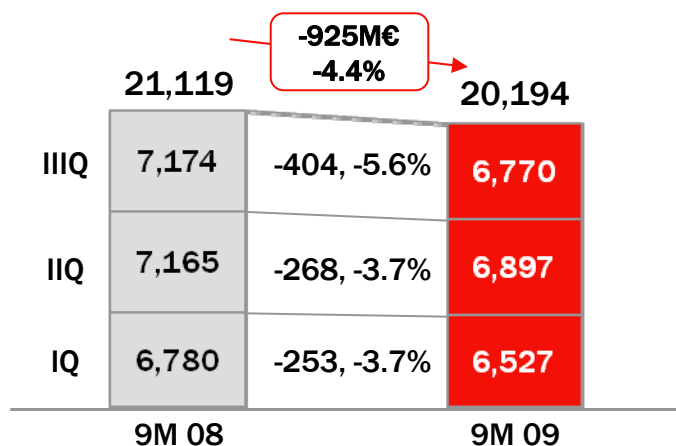
Euro mln, Reported data



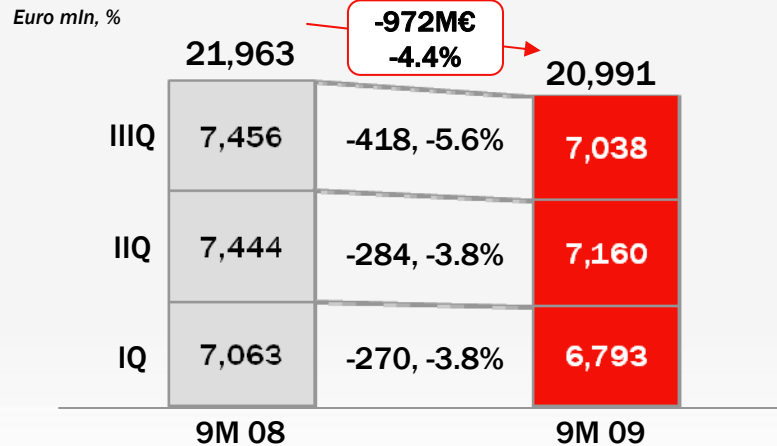
Figures considering HanseNet classified as Discontinued Operations; Restated Figures include HanseNet consolidated line by line

# TI Group Improved Profitability: Organic Results vs. 2008

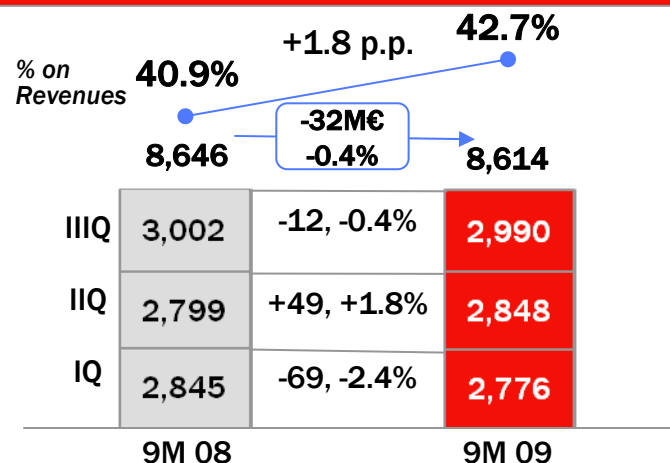
## Revenues



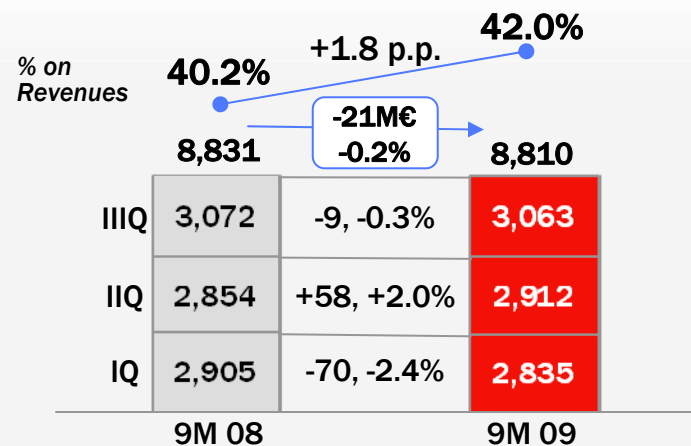
## Revenues – Restated with HanseNet



## EBITDA



## EBITDA – Restated with HanseNet



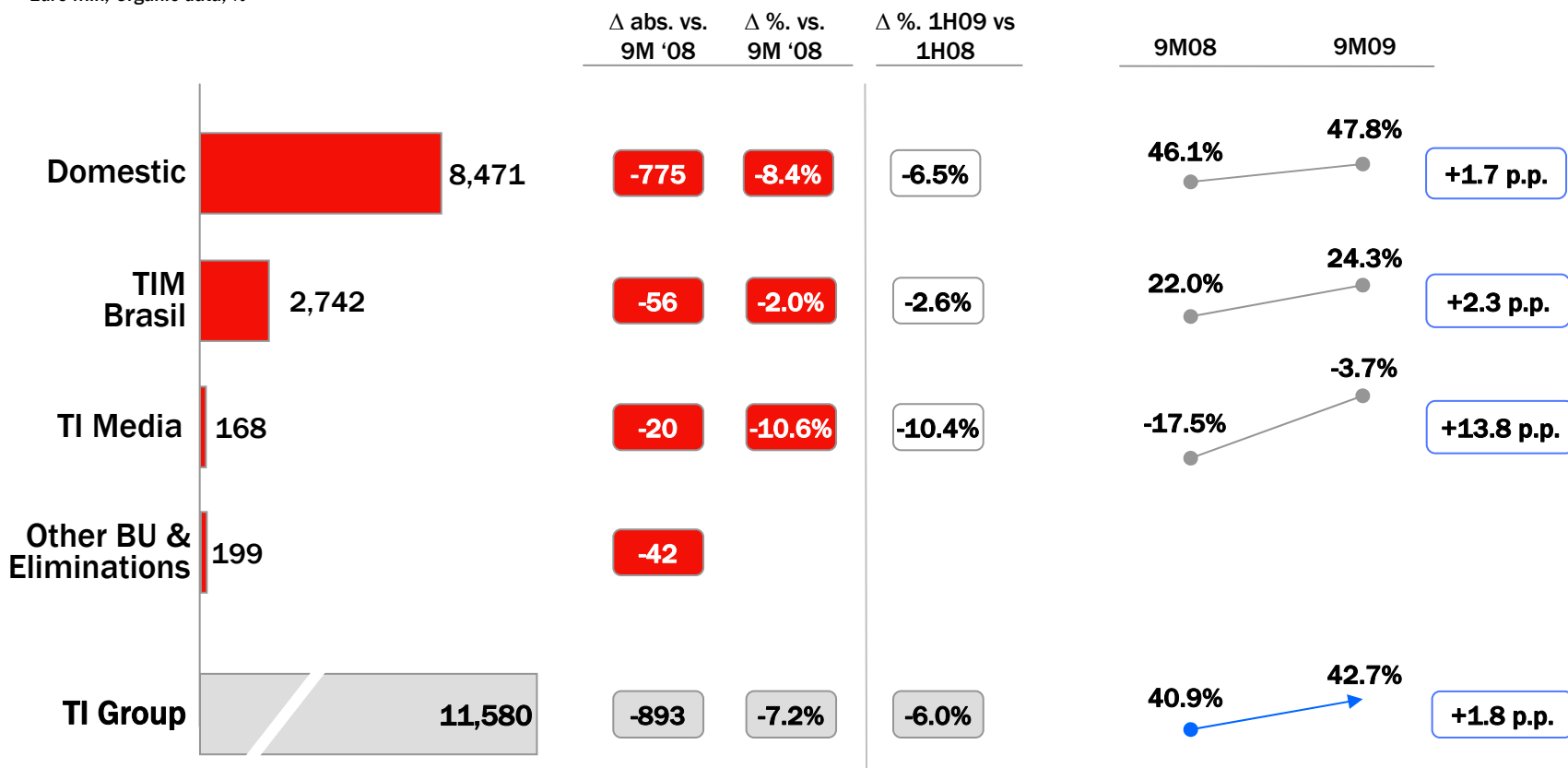
Figures considering HanseNet classified as Discontinued Operations; Restated Figures include HanseNet consolidated line by line

# Cash Cost Control: a Group-Wide Commitment

## Organic OPEX 9 Months 09

## EBITDA Margin

Euro mln, Organic data, %



Figures considering HanseNet classified as Discontinued Operations

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# Domestic – Steady Cost Control Offsetting Revenue Decline

Euro mln, Organic data, %

## Revenues

	9M 08	Change	9M 09
<b>Total</b>	<b>17,159</b>	<b>-920M€ -5.4%</b>	<b>16,239</b>
Mobile	7,085	-589, -8.3%	6,496
Wireline	11,168	-198, -1.8%	10,970
Elim & adj	-1,094		-1,227

## EBITDA

	9M 08	Change	9M 09
<b>Total</b>	<b>7,913</b>	<b>-145M€ -1.8%</b>	<b>7,768</b>
IIIQ	2,687	-11, -0.4%	2,676
IIQ	2,568	-18, -0.7%	2,550
IQ	2,658	-116, -4.4%	2,542

**% on Revenues** 46.1% **+1.7 p.p.** 47.8%

## Key Highlights

### ▶ Fixed business:

- ▶ stable retail service revs\* (down 5% in 3Q09, in line with 2Q09) with strong growth from BB and ICT services.
- ▶ small decline of total revenues performance vs. 2Q09 due to lower equipment sales in the business segment and lower contribution of wholesale

### ▶ Mobile business:

- ▶ Decline of service revenues trend reflecting impact of repricing in 3Q08
- ▶ Strong push on mobile BB reflected into strong pick-up of browsing revs

- ▶ 9M 09 EBITDA trend confirms outperforming EBITDA guidance for 2009 (9.9-10 bln euro, down YoY -3/4%)

- ▶ EBITDA margin reached 50% in 3Q09 confirms TI as the industry benchmark for profitability.

- ▶ Effective & selective action on OPEX base

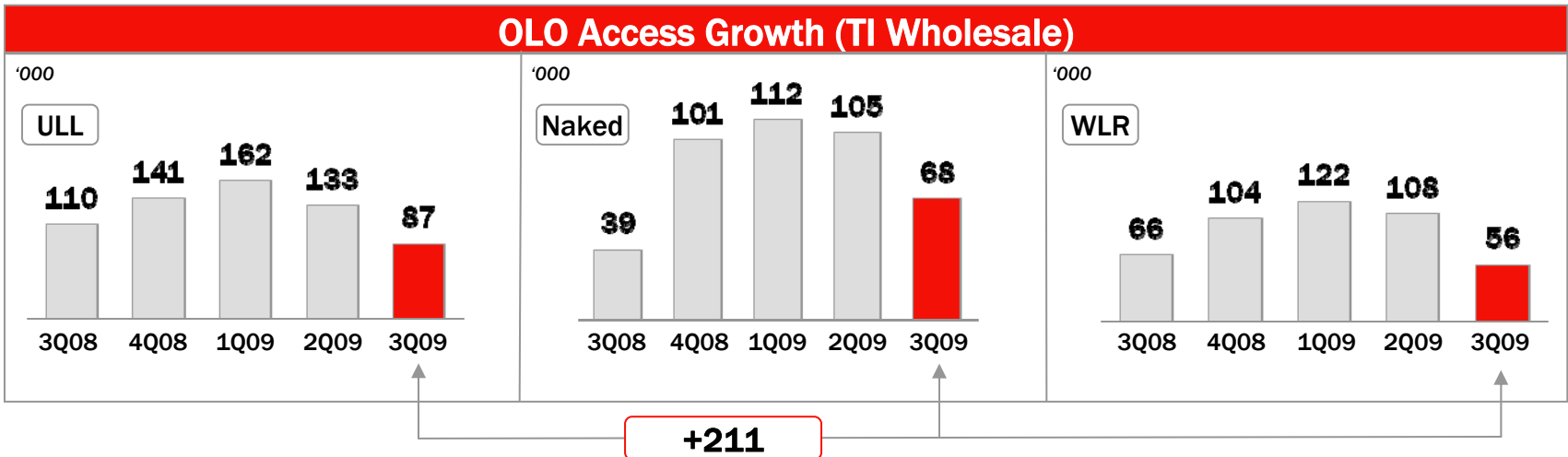
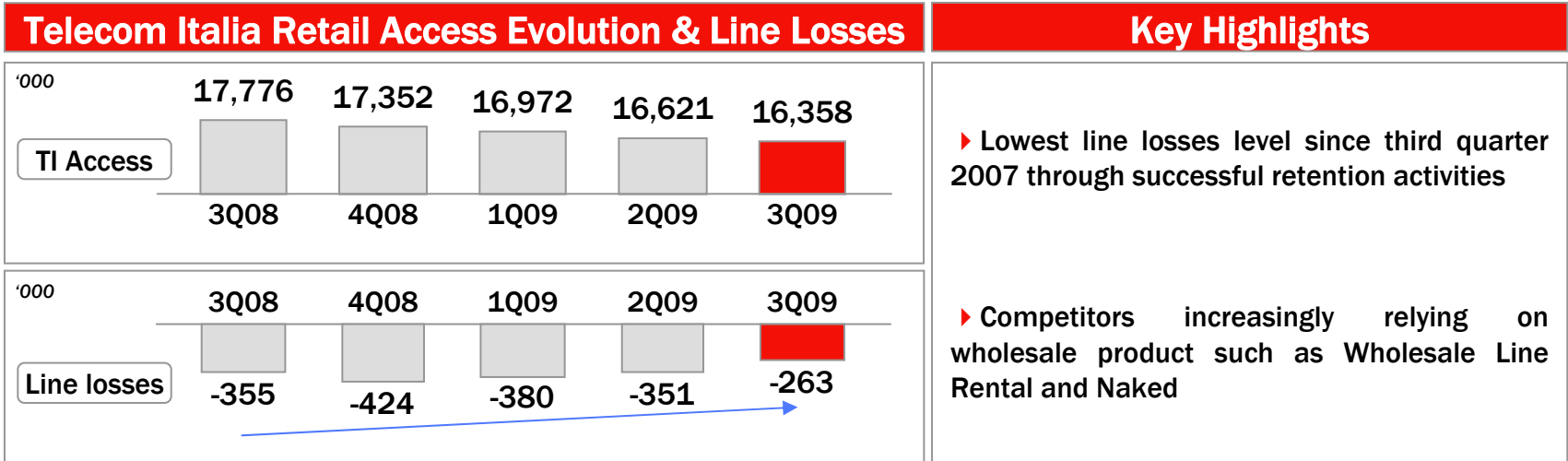
**Ebitda 2009 Target confirmed**

**9.9 – 10.0 BNE**

\* Wireline service revenues net of wholesale revs (both national & intl)

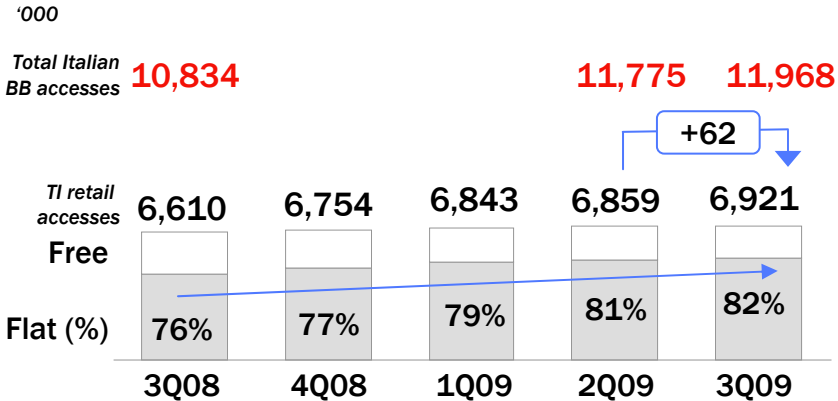
# Domestic Fixed – TI Access Performance

'000 access

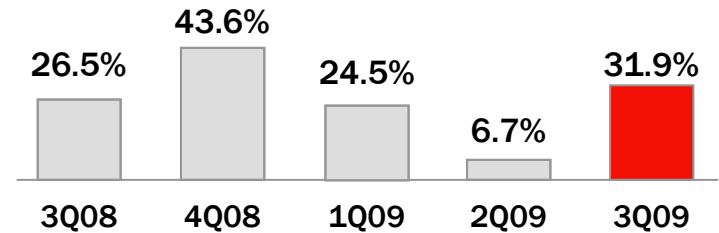


# Domestic Fixed: Focus on BB

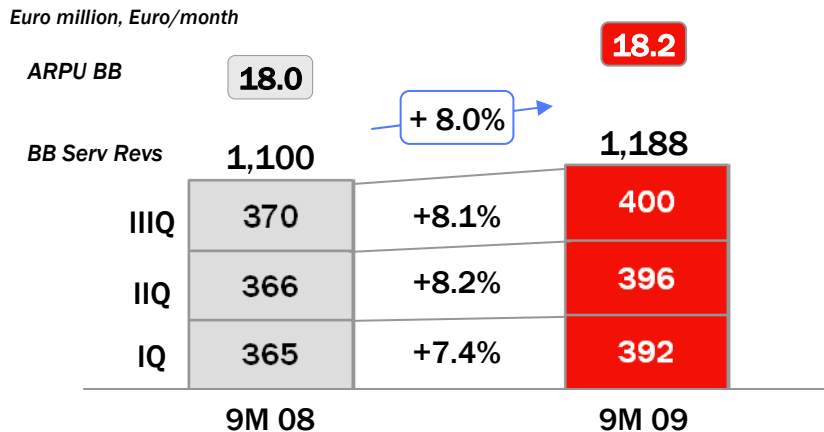
## Broadband Market



## Market Share on Net Adds



## Broadband Service Revenues



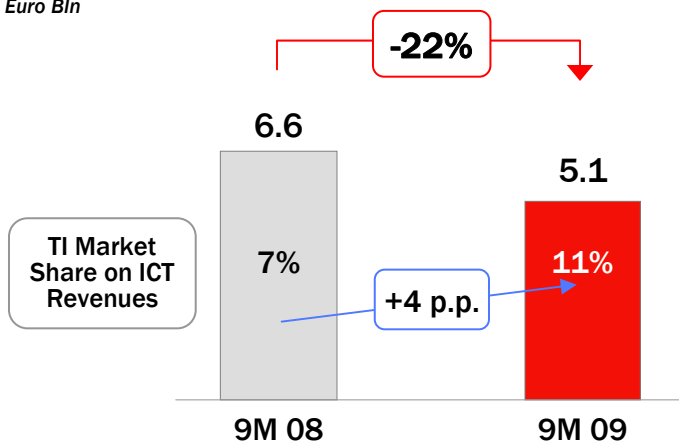
## Key Highlights

- ▶ Strong commercial push with the continued uptake of Alice Casa (around 490K customers) and the launch of Alice Day, the new pay-as-you go offer
- ▶ Successful advertising campaign with a high popularity rating
- ▶ Confirm high single digit BB service revenues growth

# Domestic Fixed: Focus on ICT

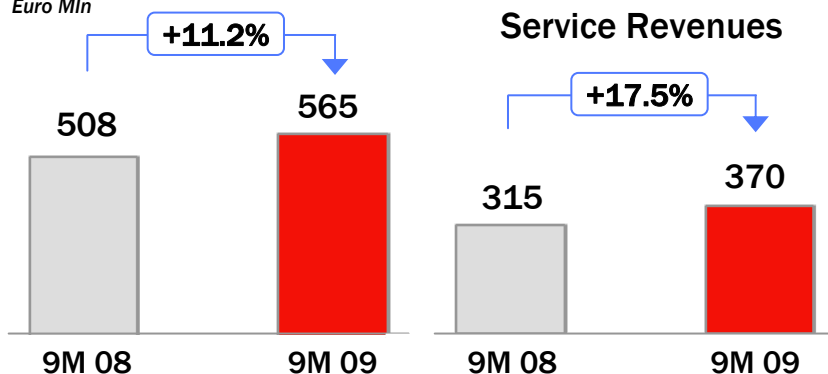
## Italian ICT Market Revenues Trend (\*)

Euro Bln



## Focus Telecom Italia ICT Revenues

Euro Mln



(\*) Source SIRMI

## Key Highlights

Continuously improving TI scale in a highly fragmented ICT Market with an unique end-to-end proposition

### Top / Large Account segment

#### Public Administration

- ▶ Fully maximize the value of CNIPA contract won in 2007, through
  - ▶ Successful Web hosting, data center and application/desktop management for big Customers such as INPS, INAIL and Ministry of Justice

#### Private sector

- ▶ Continuous up-take of an *Infrastructure as a service* business model based on monthly fee pricing structure

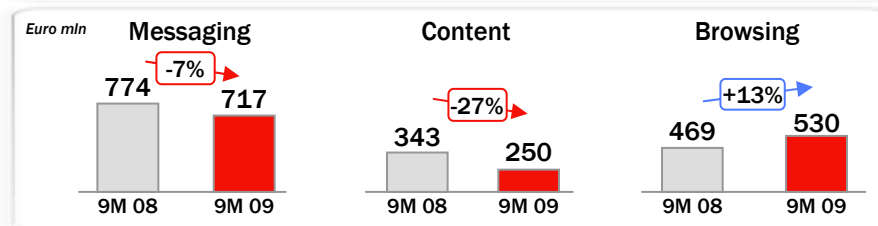
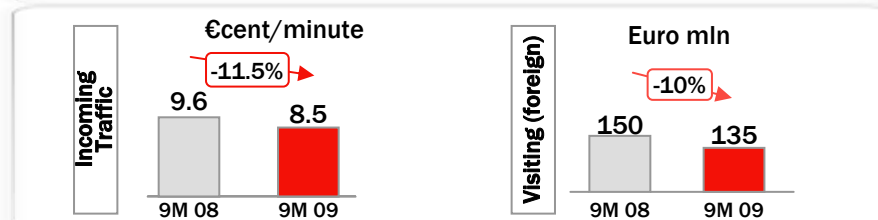
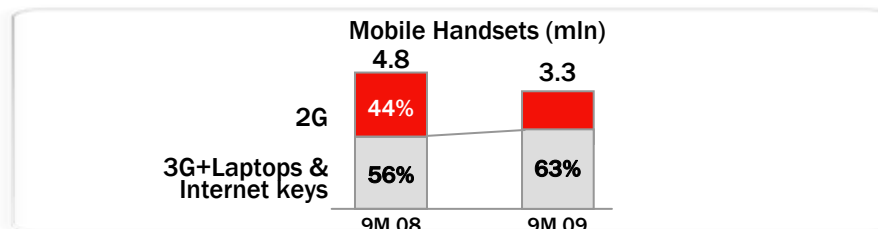
### Business segment

- ▶ Strong push on segment-specific offerings under the "Impresa Semplice" brand
- ▶ Standardizing off-the-shelf solutions for SME customers, by creating bundles of products, to simplify the marketing process /adoption of solutions

# Domestic Mobile Revenues

Euro mln

	9M'09	Δ% YoY	
<b>Total</b>	<b>6,496</b>	<b>(8.3)</b>	<b>-</b>
<b>Handsets</b>	<b>339</b>	<b>(33.3)</b>	<b>(2.4)</b>
<b>Outgoing Voice</b>	<b>3,508</b>	<b>(5.5)</b>	<b>(2.9)</b>
<b>o/w Roaming</b>	<b>177</b>	<b>(16.9)</b>	<b>(1.8)</b>
<b>Business Received *</b>	<b>1,152</b>	<b>(10.1)</b>	<b>(1.8)</b>
<b>VAS</b>	<b>1,497</b>	<b>(5.6)</b>	<b>(1.2)</b>



(\*) Incoming, Visiting and Other Revenues

# Focus on Consumer Main Achievements in 3Q09

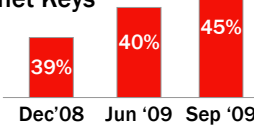
## Key Activities

### Offer

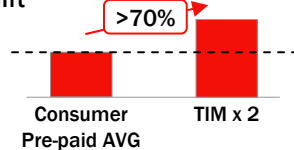
- ▶ Increased push on mobile BB
- ▶ Enriching TIM community products
- ▶ Further push to improve fixed BB penetration

## Key Evidence

TIM market share on Internet Keys\*



TIM x 2 ARPU uplift

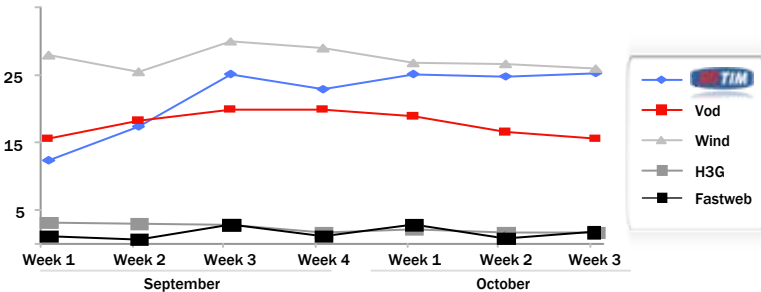


- ▶ Continuous reduction of BB churn rate

### Advertising

- ▶ A new format with very popular testimonials for both fixed and mobile
- ▶ Highly commercial communication style to maximize acquisitions
- ▶ Continued on air presence until year-end

- ▶ Strong improvement of spontaneous awareness



### Sales & Distribution

- ▶ Push of multi-brand channels to improve win-back capabilities
- ▶ New geomarketing approach in segmenting points of sale
- ▶ Strong push on BB acquisition through Telemarketing channel

- ▶ Continuous increase in multi-brand targeting 200 PoS by YE
- ▶ Launch of a specific sales channel fully focused on Ethnic segment
- ▶ Around 60% of BB September activation through 187 channel

(\* Source GFK)

# Main Actions for 4Q09 – Consumer Segment

Improve  
market  
positioning  
all across  
the board



## Increase ADSL acquisition

- ▶ Launch of a new Tutto Compreso offer for RTG customers
- ▶ Push ADSL penetration bundling PC & BB connectivity (*46% of households do not own a PC*)



## Raise the game on Internet Mobile

- ▶ Increase up-selling push of mobile BB on existing BB customers with billing on TI monthly fee
- ▶ First and only to launch 14.4 Mbps speed



## Continue the turnaround of the mobile business

- ▶ Further enrich friend & family offers adding TIMx4, with no activation fee for new TIM customers
- ▶ Launch tailor made tariffs for further ethnic segment leveraging with TI Sparkle – a key TI advantage
- ▶ Fewer handsets but more TIM exclusivity

# Focus on Business Main Achievements in 3Q09

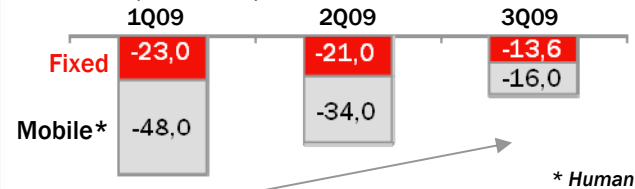
## Key Activities

## Key Evidence

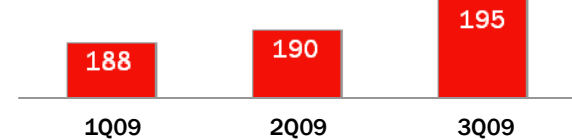
Offer

- ▶ Improved TI positioning based on Impresa Semplice brand and higher Quality of Service
- ▶ Increased commercial effort to improve percentage of BB services on Win-back and new customers
- ▶ BB Churn reduction due to higher Quality of Services
- ▶ Launch of new bundle offers: device + browsing / mailing services (to be continued in 4Q)

Net adds ('000 lines)



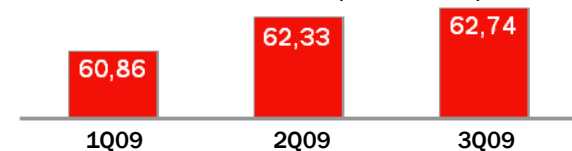
Mobile BB Access Net Adds ('000 lines)



Customer Satisfaction

- ▶ Improved competitiveness and simplicity of both Fixed and Mobile offering
- ▶ New go-to-market approach, with fixed-mobile sales force integration and customer portfolio management

Customer Satisfaction Index (out of 100)





# Main Actions for 4Q09 - Business Segment



## Fixed: sustain price premium positioning & improve QoS

- ▶ Line repair within next business day, free of charge: at least 3 times faster than average competitors SLAs
- ▶ Double upload rate on 20Mbit/s connection free of charge

## Impresa Semplice

## ICT: letting every Italian company experience TI's superior infrastructure

- ▶ Bundling PC and ICT services to broaden certified @mail and remote backup penetration
- ▶ New "Tutto Compreso" offer: a turn key solution including minimum guaranteed speed connectivity, scalable Cisco router and customer service assistance on the following working day



## Mobile: improve acquisition and VAS penetration

- ▶ Voice minutes basket shared among company employees for SMEs
- ▶ Tailor made bundle for SoHo including voice, handsets and bolt-on SMS & Data features.
- ▶ Enriching mail and browsing portfolio offering, adding Flat solutions for light users and heavy users

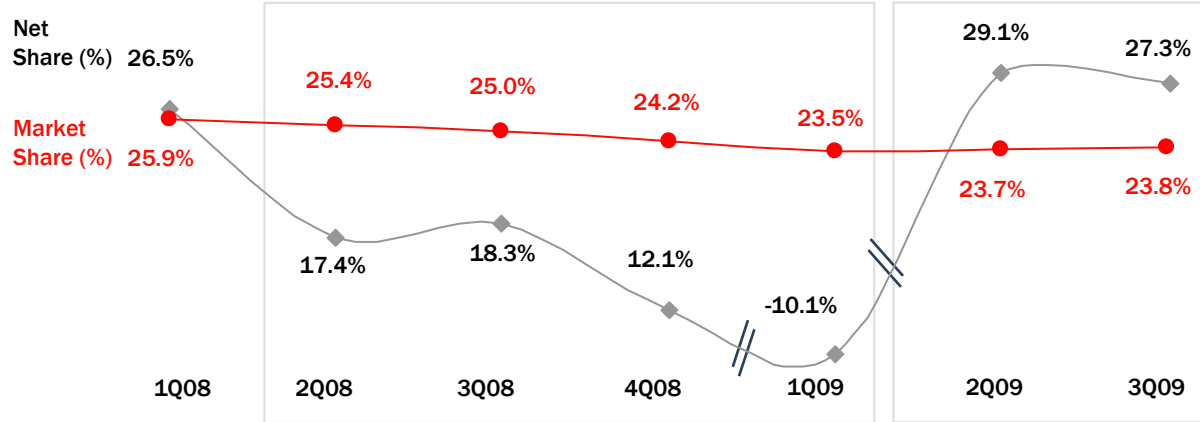
Defend our core strength, attack adjacent businesses

# Agenda

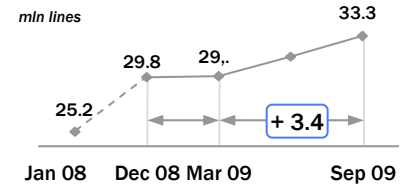
- ▶ TI Group Main Achievements
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# TIM Brasil: Improving Market Share & Quality Service

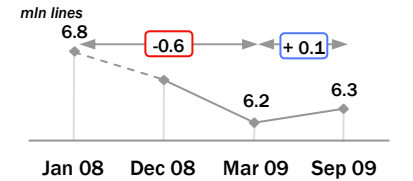
## Market Share Evolution



### Prepaid

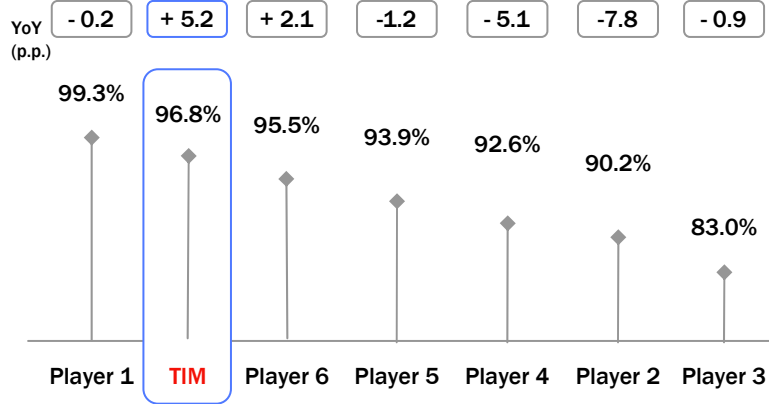


### Postpaid



## Overall Quality Service – YTD 2009

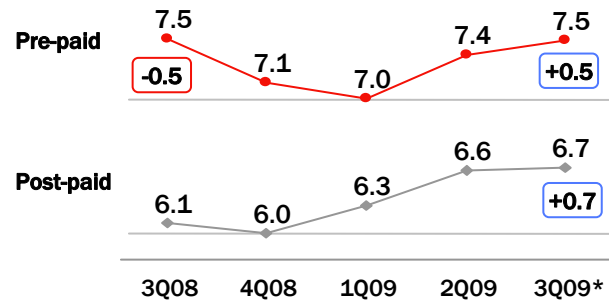
% of target reached on overall service quality, TIM vs. competitors



Source: Anatel

## Customer Satisfaction

CRC Average satisfaction, consumer segment



\* Jul/09 e Aug/09

Sources: TIM Brasil - 12nd Customer Satisfaction Monitoring - may-jun/09; CRC Monthly Satisfaction Research

# TIM Brasil: Organic Main Results

## Revenues

Euro mln, %

	3,588	+34M€ +1.0%	3,622
IIIQ	1,336	-13, -1.2%	1,323(*)
IIQ	1,198	+40, +3.4%	1,238
IQ	1,054	+7, +0.7%	1,061
	9M 08		9M 09

## EBITDA

	22.0%	+2.3 p.p.	24.3%
	790	+90M€ +11.5%	880
IIIQ	328	-4, -2.0%	324
IIQ	254	+50, +20.1%	304
IQ	208	+44, +20.7%	252
	9M 08		9M 09

## Key Highlights

- ▶ Top line limited growth affected by long tail effects from 2008 loss in post-paid customer base
- ▶ Good performance of Value Added Services fuelled by microbrowsing stimulated through exclusive and distinctive offers of smartphones
- ▶ Lower push on 2G handset sales in order to stimulate a "Chip-only" approach
- ▶ Ebitda margin increase driven by:
  - ▶ Lower bad debt
  - ▶ Continued cash cost efficiencies
  - ▶ Improved revenue mix

**Ebitda 2009 Target confirmed**

**~3.6 BNR\$**

(\*) 80 million reais (approx. 28 million euro) reclassified from "Other Operating Income" to "Other Service Revenues"

No EBITDA impact. No reclassification of previous year needed at TI Group level

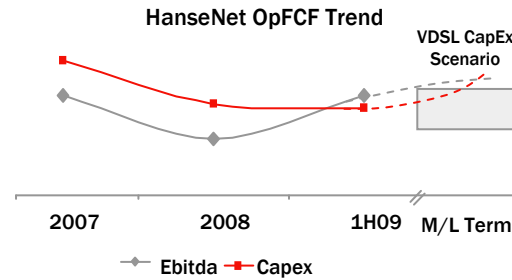
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# Focus on HanseNet: the Rationale behind the Disposal

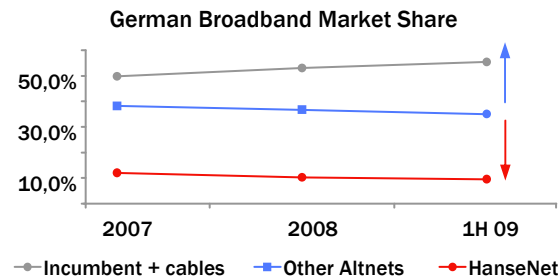
## REGULATORY AND TECH FRAMEWORK

- ▶ Regulatory framework very unfriendly towards alternative operators
- ▶ Capital intensive investments needed to match incumbent's "High Speed" offering (VDSL/Fiber) compromising OpFCF generation



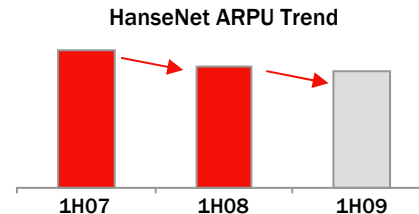
## MARKET SHARE EVOLUTION

- ▶ BB market is growing at a slower pace...
- ▶ ... with incumbent and cable operators reinforcing their position...
- ▶ ... and alternative operators lagging behind



## PRICING TREND

- ▶ Continued pricing pressure with very aggressive promotions by alternative operators trying to catch up with not replicable "High Speed" offers

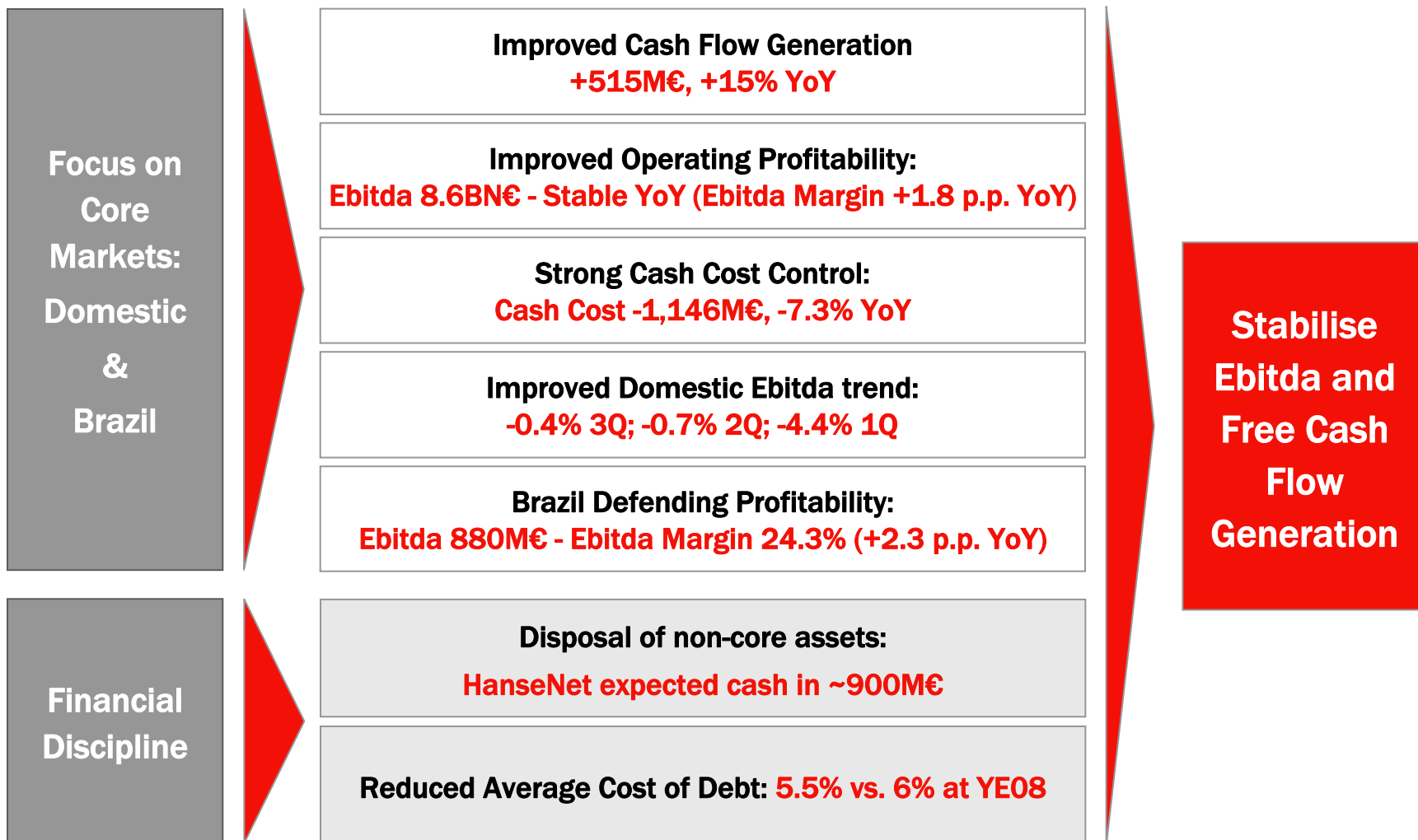


- ▶ ~900M€ expected cash consideration
- ▶ Implied value per sub at significant premium vs. comparable transactions in the last twelve months

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Figures considering HanseNet classified as Discontinued Operations



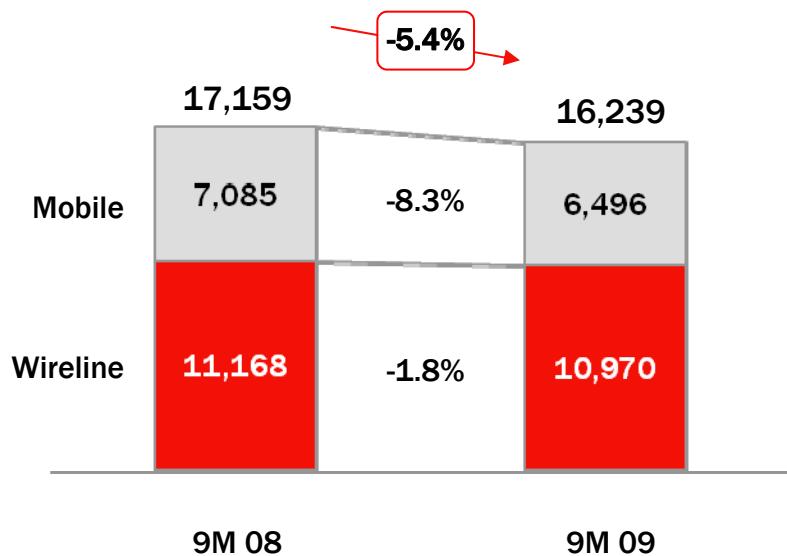
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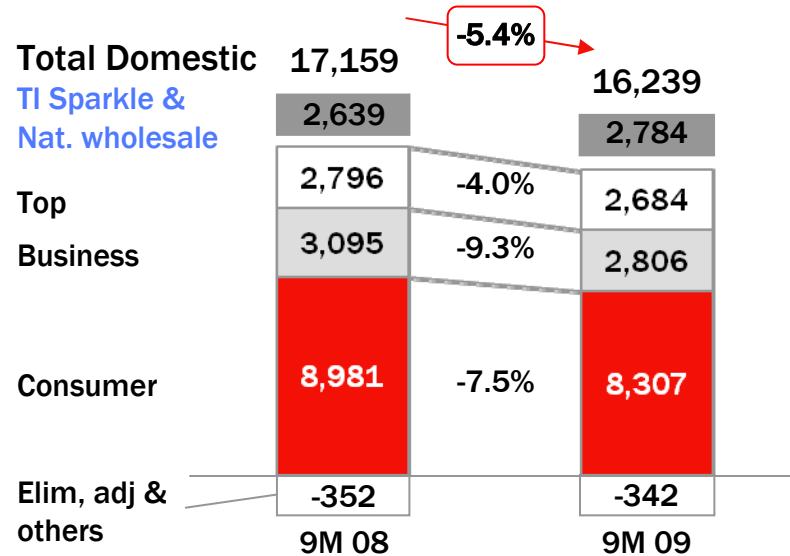
# Domestic – Revenues by Customer Segment and Technology

Euro million, %, Organic data

## Domestic Revenues by Technology



## Domestic Revenues by Customer Segment



	1Q09	2Q09	3Q09
<b>Domestic</b>	<b>5,357</b>	<b>5,534</b>	<b>5,348</b>
Mobile	2,059	2,253	2,184
<b>Wireline</b>	<b>3,677</b>	<b>3,724</b>	<b>3,569</b>