Telecom Italia

ENRICO PARAZZINI, CFO
## TI Group – 1Q ’08 Key Financial Results

<table>
<thead>
<tr>
<th></th>
<th>€ Mln</th>
<th>1Q ’08 reported</th>
<th>1Q ’07 reported*</th>
<th>YoY reported</th>
<th>YoY organic**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>7,298</td>
<td>7,475</td>
<td>-2.4%</td>
<td>-4.0%</td>
<td></td>
</tr>
<tr>
<td>Ebitda</td>
<td>2,966</td>
<td>3,178</td>
<td>-6.7%</td>
<td>-6.7%</td>
<td></td>
</tr>
<tr>
<td>Ebitda margin</td>
<td>40.6%</td>
<td>42.5%</td>
<td>-1.9pp</td>
<td>-1.2pp</td>
<td></td>
</tr>
<tr>
<td>Ebit</td>
<td>1,528</td>
<td>1,817</td>
<td>-15.9%</td>
<td>-16.0%</td>
<td></td>
</tr>
<tr>
<td>Ebit margin</td>
<td>20.9%</td>
<td>24.3%</td>
<td>-3.4pp</td>
<td>-2.9pp</td>
<td></td>
</tr>
<tr>
<td>Net Income</td>
<td>501</td>
<td>775</td>
<td>-35.4%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>post minorities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capex</td>
<td>1,228</td>
<td>1,128</td>
<td>+100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Debt</td>
<td>35,436</td>
<td>37,182</td>
<td>-1,746</td>
<td>-265 vs 35,701 € mln YE’07</td>
<td></td>
</tr>
</tbody>
</table>

### Highlights
- Domestic revenues mainly affected by regulatory discontinuities (€ 260 mln). International activities generated 22% of Group turnover in 1Q08 (+4pp yoy).
- Stable domestic Ebitda Margin (47.5%), among the highest in the industry. Lower international profitability due to competitive dynamics and non recurring bad debt in Brazil.
- D&A increase following higher capital intensity for continued investments in innovation.
- Bottom-line discounts lower operating income and a negative yoy balance from Sofora call options valuation.
- Higher investments in Italy for broadband coverage and quality improvement.
- Net Debt decrease thanks to cash flow generation.

* Pro-forma figures (TI France considered as a discontinued operation).
** Excluding changes in consolidation area, exchange rate impact and other non organic items. In line with ’08-’10 Company Guidance, restructuring costs are accounted as recurring items and no longer included among the non organic items.
TI Group: debt structure as of March 31st, 2008

Total gross debt: € 42,877 mln (1)

- Current Liabilities: € 1,730 (3)
- Other Non Current Liabilities (*): € 11,688
  - of which € 3.0 bln bank facility and € 8.7 bln loans, long rent and oper. leases
- Bonds (*): € 29,459

Maturities and risk management

- € 5.3 bln liquidity position, plus further € 6.5 bln committed unfunded bank lines grant a stable and ample treasury margin and allow full flexibility for future funding
- Average bond maturity: 7.95 years
- Fixed rate portion on debt approximately 70%
- Around 36% of outstanding bonds is denominated in USD, GBP and YEN and is fully hedged

- Cost of debt: approximately 5.9%
- Gross Debt: € 42,877 (1)
- Financial Assets: € (7,441) (1)(2)
- Net Financial Position: € 35,436 (1)

(1) Including Liberty Surf Intercompany Debt accounted as for Discontinued Operations (€ 762 mln)
(2) Nominal Liquidity Position, represented by cash and marketable securities stands at € 5.3 bln
(*): including the current portion of non current liabilities (maturing within 12 months) for € 5,329 mln (of which bonds € 4,125 mln and other € 1,204 mln)
TI Group: medium-long term debt Maturity profile as of March 31st, 2008

Within 2008 2009 2010 2011 2012 2013 Beyond 2013 Total M/L term debt

(1) € 40.054 mln is the nominal amount of outstanding medium-long term debt, by adding IAS adjustments (€ 1.094 mln), current liabilities (€ 967 mln) and Liberty Surf intercompany debt accounted for as discontinued operations (€ 762 mln), the gross debt figure of € 42.877 mln is reached.

(*) of which euro 499.7 mln refer to bonds maturing September 14th 2008 with extendable option to bondholders; each extension period is for 21 months; ultimate maturity March 2012.

N.B. Debt maturities are net of € 95 mln (face value) of repurchased own bonds (TI Spa € 850 mln 5.25% Notes due 2055) and include € 14 mln of discontinued operations/assets held for sale relating to Liberty Surf. Furthermore, Liberty Surf current intercompany debt (€ 30 mln) due to TI Capital (maturing Sept 2008) has not been included.
Telecom Italia

FRANCO BERNABE', CEO
Agenda

- TI Strategic Outlook
- Domestic Business: TI Value Approach
- International Activities
Building the Foundation for Growth

Throught a trasformation process... ...Growth

**2008**

**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

**2010**
Maintaining a strong financial discipline

- Raise cash from non strategic assets

- Select investments on payback period and return ratio thresholds

- Focus on the deleveraging

Targets 2008-2010

- Alice France disposal by 2008

- BB coverage by 2010:
  - Fixed: 90% Adsl2, 8% NGN
  - Mobile: 85% High Speed 3G
  - Deployment of convergent BB network (FTTx, LTE and Femtocells)

- Service platforms development
  - (IPTV, dynamic HDTV, full IP Managed Unified Communication Platform, etc.)

- ~ 2.5x by 2010 (NFP/Ebitda)
And improving efficiencies through

- Implementation of a new lean organization
- Strict cost control
- Cash cost reduction plan already identified

<table>
<thead>
<tr>
<th>Cash Cost reduction 2008–2010: 1.2 Bn €</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access</td>
</tr>
<tr>
<td>IT</td>
</tr>
<tr>
<td>Network</td>
</tr>
<tr>
<td>Technical Infrastructures</td>
</tr>
</tbody>
</table>
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
  - Internet always-on everywhere
  - Premium & user generated contents
    - Quality & speed drive these business developments
- Expansion in New Addressable Adjacent Markets
  - ICT market is attractive in terms of size and growth
  - Virtualization, “SW as a service” and Service Oriented Architecture increase telco opportunities
- TLC Market Consolidation
  - Integration/Convergence is becoming “the industry business model”
  - “Value vs Volume” is picking up as the common approach in the market, reducing price pressure
Consolidate and Transform Domestic Business: Focus on Share of Wallet

**Market Value**

<table>
<thead>
<tr>
<th>Year</th>
<th>Advertising and Digital content*</th>
<th>ICT Services</th>
<th>Telecom Services**</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>11.3</td>
<td>14.2</td>
<td>36.1</td>
</tr>
<tr>
<td>2007</td>
<td>12.1</td>
<td>14.5</td>
<td>35.7</td>
</tr>
<tr>
<td>2008</td>
<td>12.9</td>
<td>14.8</td>
<td>36.0</td>
</tr>
<tr>
<td>2009</td>
<td>13.8</td>
<td>15.1</td>
<td>36.3</td>
</tr>
<tr>
<td>2010</td>
<td>14.8</td>
<td>15.8</td>
<td>36.7</td>
</tr>
</tbody>
</table>

**CAGR ’07-’10**

- **Advertising and Digital content**: 7%
- **ICT Services**: 3%
- **Telecom Services**: 1%

**TI Strategic Objectives**

- Grow in digital content distribution and web 2.0 new media
- Increase market share through integrated TLC/IT Services

**First Results 1Q ’08**

- **Uptake of IPTV**: 136K customers (+56K vs Dec. ’07)
- **Strong DTT pay per view revenue**: +143.6% YoY
- **+7.1% YoY revenue growth**: (+17.6% services revenue) almost double 1Q ’07 growth

**Fixed:**
- 69.1% on traffic
- >62% on BB

**Mobile:**
- **Enterprise**: 62.9% (+1.5pp vs YE ’07)
- **Business**: 51.8% (+0.1 pp vs YE ’07)
- **Consumer Revenue share**: 45.3% (stable YoY)

---

* Includes total advertising mkt, Pay TV and digital content on PC. Excludes RAI Service Fee
** Includes equipment
Agenda

- TI Strategic Outlook
- Domestic Business: TI Value Approach
- International Activities
Stabilizing the trend in fixed traditional business...

**Italian fixed access market**

<table>
<thead>
<tr>
<th>Min access lines</th>
<th>TOTAL MARKET</th>
<th>OLOs (1)</th>
<th>TI</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>22.7</td>
<td>6.7</td>
<td>20.1</td>
</tr>
<tr>
<td></td>
<td>22.7</td>
<td>6.7</td>
<td>19.8</td>
</tr>
<tr>
<td></td>
<td>22.6</td>
<td>6.6</td>
<td>19.6</td>
</tr>
<tr>
<td></td>
<td>22.6</td>
<td>6.7</td>
<td>19.2</td>
</tr>
<tr>
<td></td>
<td>22.5</td>
<td>6.7</td>
<td>18.8</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Direct Accs(2)</th>
<th>CPS/CS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2.6</td>
<td>4.1</td>
</tr>
<tr>
<td></td>
<td>2.9</td>
<td>3.8</td>
</tr>
<tr>
<td></td>
<td>3.0</td>
<td>3.5</td>
</tr>
<tr>
<td></td>
<td>3.4</td>
<td>3.3</td>
</tr>
<tr>
<td></td>
<td>3.7</td>
<td>3.0</td>
</tr>
</tbody>
</table>

**Telecom Italia traffic and Mkt Sh**

<table>
<thead>
<tr>
<th></th>
<th>TI Traffic Mkt Sh (EoP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1Q '07</td>
<td>69.2%</td>
</tr>
<tr>
<td>2Q '07</td>
<td>69.1%</td>
</tr>
<tr>
<td>3Q '07</td>
<td>69.5%</td>
</tr>
<tr>
<td>4Q '07</td>
<td>69.4%</td>
</tr>
<tr>
<td>1Q '08</td>
<td>69.1%</td>
</tr>
</tbody>
</table>

1) Telecom Italia estimates
2) ULL/WLR/FIBER, ETC.

- 1Q '08 TI line loss stable YoY
- Introduction of Wholesale Line Rental in 1Q '08
- Lower increase of ULL customers in 1Q '08

- Stable TI Traffic M/S in last 15 months thanks to success of Telecom Italia Retention Campaign and stabilization of OLO market

...with a strong improvement in customer satisfaction index: +2pp YoY*

* Source: Customer Satisfaction & Loyalty wireline (Doxa for 2007, GFK EURISKO for 2008)
Value based BB strategy boosts growth

**Retail Broadband Portfolio**

- **‘000 Access lines**
  - Business: 5,883 → 6,541 (Target ~ 7,000)
  - Consumer: 4,742 → 5,203
  - % of flat offer on total portfolio:
    - Mar-07: 62%
    - Mar-08: 73%
    - 2008 YE: >75%

**BB Arpu**

- **€/month**
  - 2007: 18.0
  - 1Q ’08: 17.9
  - 2008 YE: Target ~ 18

**VoIP and IPTV portfolio**

- **‘000 access lines**
  - **VOIP**
    - Dec-07: 1,316
    - Mar-08: 1,510 (Target ~ 300)
    - % on BB access lines: 20.5%
  - **IPTV**
    - Dec-07: 80
    - Mar-08: 136 (Target ~ 300)
    - % on BB access lines: 1.2%

**Internet Revenues YoY trend**

- **€ mln, %, reported data**
  - 1Q ’07: 353
  - 1Q ’08: 406
  - 2008 YE: Target ~ 300

**Target**

- Broadly stable
- >10% vs YE ’07

**Value based BB strategy boosts growth**

- Value based BB strategy boosts growth
- % of flat offer on total portfolio


## TIM: defended leadership in most valuable market segments

### Customer Base

<table>
<thead>
<tr>
<th>Segment</th>
<th>ARPU</th>
<th>ARPU YOY (vs 1Q '07)</th>
<th>ARPU Δ vs YE '07</th>
<th>Gap vs 2° player</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enterprise</td>
<td>1.8X</td>
<td>62.9% +0.2pp</td>
<td>+1.5pp</td>
<td>+34.0 pp</td>
</tr>
<tr>
<td>SME</td>
<td>2.3X</td>
<td>51.9% +0.3pp</td>
<td>-0.1pp</td>
<td>+11.8 pp</td>
</tr>
<tr>
<td>SoHo</td>
<td>3.0X</td>
<td>41.0% -0.6pp</td>
<td>-0.1pp</td>
<td>+6.2 pp</td>
</tr>
<tr>
<td>Mass market</td>
<td>0.3X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High value</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumer</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Market Share**

- **Δ YOY (vs 1Q '07)**
- **Δ vs YE '07**
- **Gap vs 2° player**

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

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

* TIM average = 1X

** Enterprise Market Share: Dec '07 vs. July '07
TIM Brand re-positioning: closer to our customers

Tim brand re-positioning

- Identification & Aspiration
- Distinctiveness & Memorability

New format launch

- Discontinuity and innovation attract attention and curiosity
- More emotions, lower focus on the “product” to encourage instinctive behaviour as opposed to rationality
- Focus on the customer base to strengthen feeling of affiliation and move the Brand closer to customer needs

- The new format addresses youth/adults who value:
  - Innovation and discontinuity from the past and formats of other operators
  - Empathy: A brand closer to their wishes and aspirations
  - Identification: no celebrities but ordinary people in longed-for situations
  - “Humanization”: Customers’ needs are met through products & offers
  - Offers that are easy to understand
Voice: TIM Community & High Valuable customers drive usage rebound

### Volumes

<table>
<thead>
<tr>
<th>Bln. Minutes*</th>
<th>1Q '07</th>
<th>1Q '08</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>10.5</td>
<td>12.4</td>
</tr>
<tr>
<td><strong>Incoming</strong></td>
<td>3.6</td>
<td>3.5</td>
</tr>
<tr>
<td><strong>Outgoing</strong></td>
<td>6.9</td>
<td>8.8</td>
</tr>
<tr>
<td><strong>On net</strong></td>
<td>3.8 (55%)</td>
<td>5.0 (57%)</td>
</tr>
</tbody>
</table>

- Successful commercial focus on key strategic segments:
  - Business: ~0.6 mln lines TIM affare Fatto & Tutto Compreso Professional
  - Elite: ~0.4 mln lines Tutto Compreso
  - Young: ~3.5 mln lines TIM Tribu
  - Family: ~1.8 mln lines TIM Club

- a strong usage rebound
- a reduction in the regulatory exposure of the business

### Usage

<table>
<thead>
<tr>
<th>Minutes*/Line/Month</th>
<th>1Q</th>
<th>2Q</th>
<th>3Q</th>
<th>4Q</th>
<th>1Q</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>119</td>
</tr>
<tr>
<td><strong>Outgoing</strong></td>
<td></td>
<td></td>
<td></td>
<td>110</td>
<td>85</td>
</tr>
<tr>
<td><strong>Incoming</strong></td>
<td></td>
<td></td>
<td>37</td>
<td>34</td>
<td></td>
</tr>
</tbody>
</table>

- Excluding Visitors and roaming
A Successful Mobile Internet Strategy

**An Increasing customer base**

<table>
<thead>
<tr>
<th></th>
<th>Mar '07</th>
<th>Mar '08</th>
<th>FY '08</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.8</td>
<td>+63%</td>
<td>1.4</td>
<td>2.6</td>
</tr>
</tbody>
</table>

**A value-added business**

- Average Customer ARPU
- Mobile Internet Customer ARPU
  - >2x

**A strong revenue contribution - Interactive VAS**

<table>
<thead>
<tr>
<th></th>
<th>1Q '06</th>
<th>1Q '07</th>
<th>1Q '08</th>
</tr>
</thead>
<tbody>
<tr>
<td>157</td>
<td></td>
<td>190</td>
<td>256</td>
</tr>
<tr>
<td>62</td>
<td>+21%</td>
<td>64</td>
<td>90</td>
</tr>
<tr>
<td>55</td>
<td>+78%</td>
<td>97</td>
<td>+35%</td>
</tr>
<tr>
<td>41</td>
<td></td>
<td>28</td>
<td>34</td>
</tr>
<tr>
<td>3G/3.5G</td>
<td>2G</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**A quality handset portfolio**

<table>
<thead>
<tr>
<th></th>
<th>Valencia Dealer Convention May '07</th>
<th>Madrid Dealer Convention May '08</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1</td>
<td>40%</td>
<td>60%</td>
</tr>
<tr>
<td></td>
<td>3G/3.5G</td>
<td>2G</td>
</tr>
</tbody>
</table>

Increasing average price, reducing subsidy
Agenda

- TI Strategic Outlook
- Domestic Business: TI Value Approach
- International Activities
HanseNet: 1Q ‘08 progress on strategic priorities

### Market Results
- **Gross adds continue in line with previous quarter** (253k); overall BB net growth suffered from strong decline of AOL customers also due to data cleaning after end of migration
- **Mobile customer base** increased from 329k to 423k subscribers
- **Brand awareness** increased to 51%* vs. 46% in 4Q ‘07

### Operational Excellence
- Since March **service levels** show strong performance due to operational optimizations:
  - Excellent hotline answering times
  - Low activation backlogs (due to end of delays from incumbent)
  - Substantial cost savings will be reached starting 2Q

### Network Extension
- **ULL coverage** reached 68%, increase from ~60% in 2007 through 3rd party coverage (target 2008 ~70%)
- **Roll-out of FTTB** trial in selected area of Hamburg

### Expected Profitability
- Heavier price competition will negatively impact 2008 EBITDA margin, target revised to almost 24% from previously announced ~26%

* GFK Eurisko, February 2008
TIM Brasil: investing for the future

- Maintaining aspirational, innovative brand attributes
- Marking the market
  - Stable market share: 25.9% share in an increasingly competitive environment
  - Leader in gross adds: ~26% share thanks to promotions on traffic and ‘TIM-Chip only’ sales
  - Focus on high-end: post paid 20.8% of total lines vs competitors 18.6%
  - Maintaining strong prepaid base through loyalty programs and development of low-income class model
- Developing wireless broadband
  - Launch of 3G service in 8 major cities: 850 Mhz - April 16th, 2.1 Ghz - May 1st
  - Step ahead in TIM convergent offer through wireless broadband: speed upgrade 1-7Mbps is automatic, seamless and free of charge for all covered areas/enabled devices
  - Innovation to encourage usage and revenue: VAS already at 8.1% of service revenues (+1.4 pp YoY)
- Delivering on results:
  2008 company targets already factored in an increasingly competitive scenario, 1Q ‘08 slowdown has prompted remodeling of voice tariff plans and kick-off of fixed cost control plan
  - Revenues: 2008 target revision to ~9% YoY organic growth
  - All other 2008 targets confirmed
**TIM Brasil: convergent offer roadmap**

- **2005**
  - TIM total lines (mln): 20.2
  - Nosso Link: data plan for business customers

- **2006**
  - TIM total lines (mln): 25.4
  - TIM Casa: first to launch ‘Home Zone concept’ with special tariff bundle for fixed numbers

- **2007**
  - TIM total lines (mln): 31.3
  - TIM Casa Flex: convergent voice plan combining a fixed and mobile number on the same TIM Chip
  - TIM Web Banda Larga: wireless broadband solution

- **2008**
  - TIM total lines (mln): 32.5
  - TIM Convergent Customer Base (mln)
    - 2005: ~0.2
    - 2006: ~0.6
    - 2007: ~1.2
    - 1Q ‘08: ~1.5
**TIM Brasil: main performance drivers**

**Revenues - mln R$**

<table>
<thead>
<tr>
<th>Category</th>
<th>IAS/IFRS</th>
<th>YoY Organic</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td>3,040</td>
<td>3,183</td>
</tr>
<tr>
<td><strong>Voice</strong></td>
<td>2,501</td>
<td>2,644</td>
</tr>
<tr>
<td><strong>VAS</strong></td>
<td>190</td>
<td>245</td>
</tr>
<tr>
<td><strong>Handsets</strong></td>
<td>210</td>
<td>176</td>
</tr>
</tbody>
</table>

*Excluding Visitors and others

**EBITDA - mln R$ - and EBITDA margin**

<table>
<thead>
<tr>
<th>Year</th>
<th>EBITDA M$</th>
<th>EBITDA Mg.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1Q '07</td>
<td>745</td>
<td>24.5%</td>
</tr>
<tr>
<td>1Q '08</td>
<td>631</td>
<td>19.8%</td>
</tr>
</tbody>
</table>

*22.8% Normalized EBITDA Mg. excl. telesales bad debt

**Promotions on traffic** to drive on-net usage and M-F calls on a “hot spot” basis:
- Outperforming market adds in target areas
- Blended MOU up to 94 (+5% YoY), again above peer average

**Push on VAS** and promote “education” on data in light of 3G+ launch *(April 16, 2008)*: innovative services drive VAS up to 8.1% of service revs (+1.4 pp YoY)

**Lower handset revenues** due to strong reduction in handset prices and lower volumes from ‘TIM-Chip only’ strategic focus on services

**Commercial price aggressiveness** as investment for the future
- + interconnection expenses from strong outbound traffic increase
- + VAS content and web promotions driving to 3G
- - SAC through balance of improved commissions policy and subsidy focus on value customers

**Bad Debt exceptional increase** *(9.0% of service revs; +2.9 pp)* from aggressive 2H ‘07 acquisition campaign via telesales channel
- increased control against frauds had led to disconnection “bad credit” postpaid lines
- **2008 bad debt back to historical levels** *(~6% of service revs)* thanks to new rules implemented in telesales process and stricter credit analysis