Telecom Italia Group

FRANCO BERNABE'
Safe Harbour

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In addition, it should be noted that starting from the half-year condensed consolidated financial statements at June 30, 2010 of the Telecom Italia Group, following a detailed review of indirect taxes paid by the Group in the various tax jurisdictions, Telecom Italia reclassified some taxes paid in Brazil, previously included in “Other operating expenses”, in reduction of “Revenues” and “Other income”. In particular, such reclassifications were carried out also in connection with the forthcoming first-time adoption of IFRS by the Tim Brasil group companies and because they allow the alignment of the accounting representation of the Telecom Italia Group to that of the main TLC operators, ensuring a better comparability and intelligibility of the financial information.
Business Model Evolution: back to basics

Network is a “must” for our business: today and tomorrow

Customer Knowledge and Access Value are the rules of the game

Regulatory framework is key for TLC business model and to enable tomorrow’s services

TI Positioning

Italy: Convergent Operator

Brazil: Pure Mobile Attacker
TI Approach to the new layering of TLC Business Model

- **Service Provider**
  - Telecom Services
  - Other Managed Services
  - OTTs

- **Service Enabler**

- **Bit Carrier**

- **Access**
  - Wireless
  - Fixed (Fiber)

- **Consumer Electronics**
  - Devices and devices.
Network evolution: each step at the right time

**Fixed Network Evolution**
- ADSL
- VDSL2
- GPON
- XG-PON1
- WDM-PON

**Mobile Network Evolution**
- GSM
- EDGE
- UMTS
- HSPA 1
- HSPA 2
- HSPA +
- LTE

**Key Drivers**
- Willingness to pay
- Competitive dynamics
- Services availability
- Regulatory framework

**Key Driver**
- Manage traffic increase

**Data Traffic (PetaBytes)**
- 2009: 30
- 2010: 60
- 2012 vs. 2009: >+350%

**Dial-up**
- Copper (xDSL)
- Fiber
Customer Knowledge and Access Value are the rules of the game

**VOICE: FROM PAY PER USE PRICING TO BUNDLED OFFERS**

**Fixed**

- Bundling Voice and Access
  - Flat Offers
    - Dec09: ~230K
    - Aug10: ~750K
    - >40% of total CB already in flat/bundled packages

**Mobile**

- Bundled tariff plan
  - Community/Bundled Packages (*)
    - Dec09: ~3.1 mn
    - Aug10: ~5 mn
    - ~ 30% of total CB already in flat/bundled packages

**New ways of growth**

- Broadband development is a fundamental pillar to balance the physiological contraction of the voice market
- Connectivity is key to satisfy customers needs evolving towards “Digital Life”

(*) Community users (TIMx and TIM Tribù customers) + TuttoCompreso customers
Italian Broadband Market Overview

Mobile BB growth has been a boost for the overall BB market growth (F+M)
Fixed Broadband

ITALIAN MARKET SCENARIO

- No “cable operators”
- Low penetration (~54% vs 76% European average) mainly due to low PC penetration
- “Best effort” approach
- Competition mainly based on price

ACTION ITEMS

- Increase PC penetration
- From a Best Effort bandwidth to a Quality of Service
- From a pure sale of connectivity to the attack of part of the OTT value chain

KEY EVIDENCES

<table>
<thead>
<tr>
<th>Euro/month/line</th>
<th>Broadband ARPU</th>
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<tbody>
<tr>
<td>2Q09</td>
<td>18.0</td>
</tr>
<tr>
<td>2Q10</td>
<td>18.7</td>
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</tbody>
</table>

New Services
- Gaming
- Metering
- e-services
- Advertising
- ....
Mobile Broadband: Big & Small Screen

**Big Screen**
- Substitution vs Fixed BB?
- Internet Low Band Demanding => YES
- Internet High Band Demanding => NO

**Small Screen**
- Customer Needs: Internet Always-on / Everywhere
- Personal use
- User Experience enhanced by new technology devices

**ITALIAN MARKET SCENARIO**

**ACTION ITEMS**
- Time based offers
- Traffic prioritization to manage traffic load
- Throttling to avoid bill shock
- Frequencies needs

**KEY EVIDENCES**

Internet packages Consumer 2Q10 - %
- ~50% Customer Base
- >45% Gross Adds

2Q10 Big Screen Revenues* +~43% YoY

TIMx Smartphone 2Q10
- 2Q09: 1.0
- 2Q10: 1.3 +27%

2Q10 Small Screen Revenues* +~15% YoY

* Organic figures
## Focus on Regulation: TI’s View

<table>
<thead>
<tr>
<th>Key issues</th>
<th>TI’s position</th>
<th>Status</th>
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<tr>
<td><strong>Access</strong></td>
<td>Protect the value of access:</td>
<td>✓</td>
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<td></td>
<td>- ULL increased by ~3% in 2010 (8.70 €/month), 5% in 2011 (9.14 €/month) and</td>
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<td>~4% in 2012 (9.48 €/month)</td>
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<td><strong>Next Generation Network</strong></td>
<td>Establish a light regulation approach:</td>
<td>WIP</td>
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<td>- no asymmetry between TI and OLOs,</td>
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<td>Geographical differentiation</td>
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<tr>
<td><strong>Frequencies</strong></td>
<td>A further lever for growth</td>
<td>WIP</td>
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<td></td>
<td>- Use of Digital Dividend spectrum for mobile services to boost mobile BB</td>
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<tr>
<td><strong>Bandwidth management/QoS</strong></td>
<td>Mobile business is peculiar:</td>
<td>WIP</td>
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<td>- no new forms of limitation for mobile operators in managing their networks</td>
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<td>- offering of differentiated quality services based on non discriminatory</td>
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<td>principles</td>
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Brazilian Market Overview: Focus on Broadband

Brazil BB penetration vs. selected countries

- Fixed BB penetration in Brazil is <20% of households vs. >30% in Mexico, Argentina and Chile
- Poor Fixed BB supply from incumbents resulting in important residential wireline disconnections

Source: UBS Report June 2010

Grab growth opportunities

Net Revenues, Bln R$

- Mobile Voice: 2% CAGR 09-12
- Mobile BB: 45% CAGR 09-12
- Fixed Voice: 50% CAGR 09-12
- Fixed BB: 48% CAGR 09-12

Source: Telecom Italia
TIM Brasil: acting as a pure mobile challenger

Brazilian Market Scenario

- 70 million internet users to be transformed into Mobile Surfers:
  - 44 mln addressable market through fixed broadband substitution (Mobile BB, Smartphones)
  - 26 mln of Internet Cafe users, via mid tier cell phones with Internet on board (Internet Cafe Substitution)

Action Items

- Mobile Broadband: time based pricing
- Segmented Small Screen approach:
  - High Value customers: Top Smartphone+“unlimited” internet
  - Low Value customers: Low cost devices + simple and accessible monthly fees&plans

Key Evidences

3G towers activated
- # of Node-B
  - 1H09: 1
  - 1H10: 4
  - Increase by 4

3G coverage
- # of cities
  - YE09: 59
  - Jun 10: 144
  - Increase by 2.4x

Liberty + 100
- R$, monthly fee
  - Apple iPhone: 199
  - Samsung Corby: 82
  - Smartphone “Internet phone” (Class A)
  - (Class B)
Key Takeaways

**Network**
- Evolve from today’s to tomorrow’s network, but with the right timing

**Services**
- Improve the knowledge of our customers to increase loyalty
- Evolve remuneration model from voice to enriched access
- Find out new drivers of growth via fixed & mobile broadband

**Regulation**
- Protect Access Value
- Light NGN rules
- Net Neutrality: acknowledge mobile peculiarity

**TI Positioning**
- **Italy:** Convergent Operator
- **Brazil:** Pure Mobile Attacker