TIM Brasil
FY10 Results & Plan Update

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Safe Harbour

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It should also be noted that starting from the year 2010, Telecom Italia reclassified some taxes paid in Brazil of non-material amount, previously included in “Other operating expenses”, in reduction of “Revenues” and “Other income” in order to ensure a better comparability and intelligibility of the financial information.
Agenda

- TIM Brasil 2010 Results
- TIM Brasil Plan Update
Telecom Italia Conference Call
2010 Results & Plan Update

Turnaround Accomplished

Euro Min, Organic Data *, %

<table>
<thead>
<tr>
<th></th>
<th>FY09</th>
<th>FY10</th>
</tr>
</thead>
<tbody>
<tr>
<td>4Q</td>
<td>1,549</td>
<td>1,701</td>
</tr>
<tr>
<td>3Q</td>
<td></td>
<td></td>
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<tr>
<td>2Q</td>
<td></td>
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<tr>
<td>1Q</td>
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</tbody>
</table>

Revenues

Service Revenues +5.8%

Positioning

- Top of Mind Brand
- Leading in **Preference/Rejection** (innovation, quality, convenience)
- Leading in **Network quality** (Anatel’s score)

Size & Growth

- **Customer Base:**
  - 51mln lines (+24%): +16% Pos; +25% Pre
  - Leader in CB growth: +10 mln lines in 1 year
- **Market share:**
  - 25.1% (#3 in volume)
  - Incremental Market Share 34%

Economics

- **P&L:**
  - 29% Ebitda margin (+320 bp vs YA)
  - Bn 0.7 EBIT (2X vs 2009)
  - Bn 1.2 Net Income (3X vs 2009)
- **Balance Sheet:**
  - Bn 0.6 Operating Free Cash Flow (2X vs 2009)
  - Bn 0.4 Net Debt; Debt to Ebitda 0.24X

* As consolidated in Telecom Italia
Lessons Learned – How to match Growth and Profitability

**Market Analysis (ex-ante)**
- Traditional offering excluded prepaid (most of population) from calling (incoming only)
- Competition focused on traditional product driven offering (subsidy), with limited usage packages

**TIM’s Approach (“Breaking the rules”)**
- Offer everything to everybody (adressable market expansion)
  - Pay per call vs per minute
  - Local equal to Long Distance
- Challenge traditional “Go-to-Market” (efficiency in SAC)
  - SIM unlocked/ no subsidy handsets
- “Leverage on willingness to use, changing the willingness to pay attitude” (attractiveness)

**Results: Inverting Trend**

**Customer Base (min)**
- More People
- **Traffic (bln min)**
- **Talking More**
- **Efficiency in Go-to-Market**
- SAC – R$/Gross adds, Mobile
- Lower Subsidy

*Telecom Italia Conference Call
2010 Results & Plan Update

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Telecom Italia Conference Call
2010 Results & Plan Update

Data - the New Wave

Leveraging on high willingness to use

<table>
<thead>
<tr>
<th>Min users</th>
<th>Population (&gt;10 year old)</th>
<th>Did not use internet (until now)</th>
<th>Did use internet in the last 3 months</th>
<th>Did use internet but do not possess</th>
<th>Live and possess</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>162</td>
<td>162</td>
<td>92</td>
<td>70</td>
<td>26</td>
</tr>
<tr>
<td>Japan</td>
<td></td>
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<tr>
<td>USA</td>
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<td>France</td>
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<td>UK</td>
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<td>Spain</td>
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<tr>
<td>Germany</td>
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<tr>
<td>Italy</td>
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</tbody>
</table>

Brazilian TLC profile

Time spent online

- Hours/user/month

- Mobile penetration: % of C Class population who used a mobile in the past 3 months
- Fixed penetration: % of C Class households who possess a land line

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>72%</td>
<td>82%</td>
</tr>
<tr>
<td>Japan</td>
<td>48%</td>
<td>42%</td>
</tr>
<tr>
<td>USA</td>
<td>66%</td>
<td>68%</td>
</tr>
<tr>
<td>France</td>
<td>62%</td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td>59%</td>
<td></td>
</tr>
<tr>
<td>Spain</td>
<td>55%</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>51%</td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td>46%</td>
<td></td>
</tr>
</tbody>
</table>

Penetration

- % population; % households

Market Analysis

Innovation (challenging the willingness to pay)

TIM's approach

Quick Responsiveness

- Infinity Web daily unique users
- Gross VAS Revenues, % YoY

- x4
- > 1 Min Infinity Web
- +18%
- +31%
- 22 Ago 10
- 29 Jan 11
- FY10
- 4Q10

Very good fit with mobile business innovation

Source: CETIC 2009

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* Mobile penetration: % of C Class population who used a mobile in the past 3 months
** Fixed penetration: % of C Class households who possess a land line
Agenda

- TIM Brasil 2010 Results
- TIM Brasil Plan Update
Brazil: Big Country, with Rapid Socio-demographic Reshaping

**Mobile Market and Gross Domestic Product**

<table>
<thead>
<tr>
<th>Mobile Market</th>
<th>GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annual Revenues, US$ Bln, 2010</strong></td>
<td><strong>Value 2010 US$ Trln</strong></td>
</tr>
<tr>
<td><strong>Min people</strong></td>
<td><strong>2010</strong></td>
</tr>
<tr>
<td>🇺🇸</td>
<td>166</td>
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<tr>
<td>🇨🇳</td>
<td>93</td>
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<tr>
<td>🇨🇳</td>
<td>78</td>
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<td>🇧🇷</td>
<td>32</td>
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<td>🇦🇺</td>
<td>30</td>
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<td>🇧🇪</td>
<td>29</td>
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<td>🇧🇪</td>
<td>28</td>
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<td>🇪🇸</td>
<td>27</td>
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<td>🇧🇪</td>
<td>27</td>
</tr>
<tr>
<td>🇺🇸</td>
<td>7</td>
</tr>
</tbody>
</table>

✓ Attractiveness for a TLC player

**Middle Class Expansion**

<table>
<thead>
<tr>
<th>Min people</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Family Income (K R$/ month)</strong></td>
</tr>
<tr>
<td><strong>2006</strong></td>
</tr>
<tr>
<td>A/B</td>
</tr>
<tr>
<td>C</td>
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<tr>
<td>D</td>
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<tr>
<td>E</td>
</tr>
</tbody>
</table>

- 200 million people, age 29 years old average
- Demographic bonus for next 10 years
- Middle-class explosion

Class C behavior:
- Very high willingness to use (everything)
- Willingness to pay (depends on new purchasing scheme)

An attractive country that requires innovation on Go-To-Market to attack emerging Class C people.
TIM Competitive Positioning

**CAGR 2010-2013**

- **Mobile**
  - Voice: +6/8%
  - Data: +40/45%
  - CAGR 10-13: +3-4%

- **Broadband**
  - Fixed: +20%
  - Mobile: +40/45%
  - CAGR 2010-2013: +40/45%

- **Fixed**
  - Voice: -2%
  - Data: +20%
  - CAGR 2010-2013: -2%

**Brazilian Telecom Market**

- R$ Bln
  - Mobile: 110, 115, 120
  - CAGR 10-13: +3-4%
  - Fixed: 50, 55, 62
  - Broadband: 51, 55, 62

- Incremental Revenues
  - Δ R$ Bln 13 vs. 10
  - Mobile: +10
  - Data: +40/45%

**Key Points**

- TIM: no trade-off in FMS (voice)
- Significant room for growth in **Mobile Internet** access for all (Class C opportunity)
- High Competition (#3 in HHI) with a 5th player entering
- Pressure for MTR cut
- Selective Intellig attack to Corporate/ SME segments (access, cloud computing)
- Selected opportunities (Big cities only)
**Strategy**

**Rational**
- Natural expansion of TIM Community pushed by word of mouth
- Geographic expansion: consolidation in strong area and fast growth in untapped Regions
- Push FMS (TIM’s advantage)
- Keep innovation pace on core business (push Infinity and Liberty concept; extend it to off-net calls)
- Small Screen navigation
- Foster smartphone penetration
- Extend Infinity/Liberty concept towards data (browsing/micro browsing/SMS)

**Customer Base**
- Subscribers EoP, Mln
- 2009: 41
- 2010: 51
- 2011: 58
- 2013: >70

**Price per minute**
- R$/min

**MOU**
- Min/line/month, Average
- 2009: 54
- 2010: 118
- 2013: 2x

**Unique users**
- Infininty Web daily unique users
- 22 Ago 10: x4
- 29 Jan 11: >1 Mln

**Data Revenues**
- % on Service Revenues
- 2009: 12%
- 2010: 13%
- 2013: 26%

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**Telecom Italia Conference Call**
**2010 Results & Plan Update**

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Strengthen the Network Infrastructure

TIM Brasil CAPEX

Drivers

- Increase network capacity to support voice (2G)
- Full coverage prospective (3G)
- Fiber to the antenna’s in main cities
- Develop Wi-fi hot spots complementary to 3G

2G Network Capacity (voice)

3G Network Coverage Evolution...

Urban Population Coverage
## Conclusions: Enhance Business Value Proposition

### Drivers

**Size (Customer Base)**
- Consolidate #2 market share (value)
- CB building (Pre+Post) leveraging on on-net concept
- Expansion in weak geographic areas

**Growth (Revenues)**
- "Voice is Good": Doubling MOU (voice)
- Data speed-up: doubling incidence on total service revenues
- MTR cut (-10/20% YoY glide path scenario)

**Profitability**
- Efficiency in go-to-market (SAC control)
- High single-digit EBITDA growth
- Progressive reduction CAPEX/ Sales as 2011

### Targets 2011-2013

#### Expected Market Trend

<table>
<thead>
<tr>
<th>TIM M/S</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Share</td>
<td>&lt;24%</td>
<td>25%</td>
<td>26%</td>
<td>~270</td>
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</table>

<table>
<thead>
<tr>
<th>Customer Base (mln)</th>
</tr>
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<tbody>
<tr>
<td>2009</td>
</tr>
<tr>
<td>2010</td>
</tr>
<tr>
<td>2011</td>
</tr>
<tr>
<td>2013</td>
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</table>

### Total Revenues Growth

<table>
<thead>
<tr>
<th>Top line, growth; %</th>
<th>Gross Service Revenues, % Q4 2010 YoY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voice In</td>
<td>31%</td>
</tr>
<tr>
<td>Voice Out</td>
<td>-8%</td>
</tr>
<tr>
<td>Data</td>
<td>11%</td>
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<table>
<thead>
<tr>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voice In</td>
<td>+5%</td>
<td>+7%</td>
<td>+8%</td>
<td></td>
</tr>
<tr>
<td>Voice Out</td>
<td>-8%</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Data</td>
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### Profitability & Capex Trend

<table>
<thead>
<tr>
<th>Bln R$</th>
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<tbody>
<tr>
<td>2010</td>
</tr>
<tr>
<td>Ebitda</td>
</tr>
<tr>
<td>4.2</td>
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<tr>
<td>2.8</td>
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</table>

<table>
<thead>
<tr>
<th>Cum'11-13</th>
<th>GCF:</th>
<th>&gt;6 Bln R$</th>
</tr>
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