Telecom Italia – TIM Brasil
Full-Year 2011 and 2012-14 Plan Outline

LUCA LUCIANI
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Agenda

- TIM Brasil 2011 Results
- TIM Brasil Plan
- Take-Aways
Telecom Italia Conference Call
Full-Year 2011 Preliminary Results and 2012-14 Plan Outline

Three Years In Few: Accelerating Growth and Profitability

**Customer Base Expansion**
- **Net Adds**
  - 2009: 4.7
  - 2010: 9.9
  - 2011: 13.1
- **Customer Base**
  - 2009: 41.1
  - 2010: 51.0
  - 2011: 64.1
  - **+56%**

**Revenues growth**
- **Total Revenues**
  - 2009: 13.7
  - 2010: 14.5
  - 2011: 17.1
  - **+25%**
  - **+18%**

**Market share**
- **% lines**
  - 2009: 23.6%
  - 2010: 25.1%
  - 2011: 26.5%
- **Incremental market share**
  - 2009: 20%
  - 2010: 34%
  - 2011: 33%
- **Leading growth for the 2nd year**

**EBITDA , EBIT , EBITDA-CAPEX**
- **EBIT**
  - 2009: 0.5
  - 2010: 1.2
  - 2011: 1.64
- **EBITDA-CAPEX**
  - 2009: 0.82
  - 2010: 1.36
  - 2011: 2.1

**Fastest growing Company**

**Leading growth for the 2nd year**

**Back to #2**
Two Markets, One approach: Simplicity

**“Voice is Good”**

- **Total Voice Traffic Volume**
  - Billion Minutes
  - 2009: 38.1
  - 2010: 62.5
  - 2011: 86.7

- **Voice Outgoing Revenues**
  - R$ Billion
  - 2009: 10.0
  - 2010: 11.3
  - 2011: 13.4

**“Internet for All”**

- **Example: Infinity Web**
  - Daily Internet unique users - Pre paid (Mln)
  - Aug 10: 0.3
  - Dec 11: 2.7

- **Data Revenues**
  - R$ Billion
  - 2009: 1.9
  - 2010: 2.2
  - 2011: 3.2

**“Ride the Simplicity”**

- **Push on FMS**
  - 2x

- **>15min unique users per month (Pre+Post)**
  - 9x

Leading the Voice Market with just 2 concepts: Infinity and Liberty (voice and internet)
Efficiency in Go 2 Market (i.e.: Post-paid)

Customer Base Post-Paid

<table>
<thead>
<tr>
<th>Mln lines</th>
<th>1Q10</th>
<th>2Q10</th>
<th>3Q10</th>
<th>4Q10</th>
<th>1Q11</th>
<th>2Q11</th>
<th>3Q11</th>
<th>4Q11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Adds</td>
<td>6,602</td>
<td>6,944</td>
<td>7,222</td>
<td>7,465</td>
<td>8,005</td>
<td>8,636</td>
<td>9,291</td>
<td></td>
</tr>
<tr>
<td>CB</td>
<td></td>
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<td></td>
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</tr>
</tbody>
</table>

Bad Debt and SAC/ARPU

<table>
<thead>
<tr>
<th>% Revenues, months</th>
<th>1Q10</th>
<th>2Q10</th>
<th>3Q10</th>
<th>4Q10</th>
<th>1Q11</th>
<th>2Q11</th>
<th>3Q11</th>
<th>4Q11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bad debt</td>
<td>2.00%</td>
<td>1.83%</td>
<td>1.34%</td>
<td>1.04%</td>
<td>0.77%</td>
<td>1.08%</td>
<td>0.95%</td>
<td>0.92%</td>
</tr>
<tr>
<td>SAC/ARPU</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

Anatel’s SMP 11 Indicator*

<table>
<thead>
<tr>
<th>Care/1,000 Bills</th>
<th>Jan’11</th>
<th>May’11</th>
<th>Sep’11</th>
<th>Dic’11</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.61</td>
<td>1.55</td>
<td>1.85</td>
<td>1.91</td>
</tr>
<tr>
<td></td>
<td>1.63</td>
<td>1.69</td>
<td>1.17</td>
<td>1.11</td>
</tr>
<tr>
<td></td>
<td>0.76</td>
<td>1.10</td>
<td>1.47</td>
<td>1.53</td>
</tr>
</tbody>
</table>

Product Revenues and Capitalized Subsidy

<table>
<thead>
<tr>
<th>R$ Mln</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Product Revenues</td>
</tr>
<tr>
<td>286</td>
</tr>
<tr>
<td>380</td>
</tr>
<tr>
<td>424</td>
</tr>
<tr>
<td>468</td>
</tr>
<tr>
<td>433</td>
</tr>
<tr>
<td>732</td>
</tr>
<tr>
<td>712</td>
</tr>
<tr>
<td>664</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Capitalized Subsidy</th>
</tr>
</thead>
<tbody>
<tr>
<td>115</td>
</tr>
<tr>
<td>85</td>
</tr>
<tr>
<td>64</td>
</tr>
<tr>
<td>26</td>
</tr>
<tr>
<td>8</td>
</tr>
<tr>
<td>0</td>
</tr>
<tr>
<td>0</td>
</tr>
</tbody>
</table>

*Care relative to billing problems
Agenda

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Continuous Reshaping of the Brazilian TLC Market

Market Transformation

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed</td>
<td>59</td>
<td>60</td>
<td>55</td>
<td>53</td>
</tr>
<tr>
<td></td>
<td>(56%)</td>
<td>(52%)</td>
<td>(43%)</td>
<td>(40%)</td>
</tr>
<tr>
<td>Mobile</td>
<td>47</td>
<td>55</td>
<td>71</td>
<td>81</td>
</tr>
<tr>
<td></td>
<td>(44%)</td>
<td>(48%)</td>
<td>(57%)</td>
<td>(60%)</td>
</tr>
</tbody>
</table>

Pure Mobile Advantage

- Mobile over Fixed*: towards 60/40 split
- Force Fixed-Mobile substitution (voice)
- Mobile Internet competitive vs <2 Mbps wireline BB accesses

Voice is Good (Push the FMS)

Internet for All

Capital Allocation

- 2G Capacity
- Intelig Acquisition
- 3G Coverage
- TIM Fiber Acquisition (AES Atimus)
Limited BB capabilities from incumbents create 3 opportunities for TIM

1. FMS Voice

- Price per minute
  - Fixed
  - Mobile

- % of fixed accesses

2. FMS Data

- Mn clients
  - 6.7
  - 13.2

- TIM monthly unique users (Pre-paid)
  - 6.7

- Smartphone penetration
  - Dic/10 10%
  - Dic/11 27%

3. TIM Fiber

- Selective attack of the Adsl incumbents via Naked VDSL ultra BB powered by the 5.500km Optical Fiber in RJ/SP

- Limited BB capabilities from incumbents create 3 opportunities for TIM

- Total wireline market accesses
- Voice only
- BB
- <2Mbps nominal speed
- >2Mbps nominal speed
- 20%
- 80%
- 30%
- 100%
- ~70%
- ~6%
- ~70%
- 24%~
- 10%
Internet Booming (“Internet for All”)

A large potential market

<table>
<thead>
<tr>
<th>Mln of Brazilian Internet Users</th>
<th>Total Users</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existing Market</td>
<td>195</td>
</tr>
<tr>
<td>Fresh Market</td>
<td>117</td>
</tr>
<tr>
<td>Posses own access</td>
<td>24</td>
</tr>
<tr>
<td>Not use (up to now)</td>
<td>54</td>
</tr>
</tbody>
</table>

With high willingness to use/to buy

<table>
<thead>
<tr>
<th>Brazilian Households</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of Households that Don't Have</td>
</tr>
<tr>
<td>Mobile C+D</td>
</tr>
<tr>
<td>Broadband C+D</td>
</tr>
<tr>
<td>Fix C+D</td>
</tr>
</tbody>
</table>

Huge frustration from fixed lines

<table>
<thead>
<tr>
<th>Mln Subscribers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exposed to FMS even on Data</td>
</tr>
<tr>
<td>BroadBand (&gt;2 Mbps)</td>
</tr>
<tr>
<td>Narrowband (&lt; 2Mbps)</td>
</tr>
<tr>
<td>Total Wireline Accesses</td>
</tr>
<tr>
<td>15.5</td>
</tr>
<tr>
<td>20%</td>
</tr>
</tbody>
</table>

AES Atimus acquisition allows TIM to offer a “Internet for All” experience:

...the Ultimate Mobile Data Experience (powered by FTTS)

Liberty Web

...Internet Café Substitution to target Class C Potential

Infinity Web

...Ultra BB experience for Residential and Corporate (Fixed)

TIM Fiber
The New Integrate Network Approach
(“Leveraging AES Atimus Fiber Optic based”)

Fiber To The Site/Antenna (3G+ Evolution)
- Fiber to the Site in top 42 Cities (high capacity)
- 3 Carriers per antenna (spectrum optimization)
- Upgrade to 21 Mbps (HSPA+) of existing Node-B

Wi-Fi offload (e.g. Rocinha)
- 10 thousand hot spots semi public
- Rocinha example and 5 main airports
- Roadmap to extend over 10,000 hot spots by YE 2012 and 25,000 by ‘14

SIM Based Identification/Billing
- Single SIM to identify and bill

MBB Overlay
- 3 Carriers per antenna
- 3 sub-carriers of 21 MB each*
- Total Available = 360MB

- High Capillarity of the aerial fiber based network (~250 meters to the Home)
- Flexibility: fast drop at the building
- Use of existing internal network

- Copper or Fiber Drop

- 10 thousand hot spots semi public
- Rocinha example and 5 main airports
- Roadmap to extend over 10,000 hot spots by YE 2012 and 25,000 by ‘14

- High Capillarity of the aerial fiber based network (~250 meters to the Home)
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**WiFi Off-load supporting the “Internet for All” - Rocinha results**

**Option 1: Add One Additional Base Station**
- One additional BTS
- Throughput: 201 Mbps

**Option 2: Cover With WiFi**
- 25 Access points
- Average distance: 200m
- Throughput: 5GHz
- Performances: 5,000 simultaneous connections
- 1-2 Mbps per user

**Capex**

- Alternative 1: BTS ~ 300 K
- Alternative 2: WiFi ~ 137 K
- ~ 1500 Mbps

**Results Achieved**

- Reduced capex
- Reduced time to market
- Reduced operating costs
- Increased customer experience/speed
- Executed Internet for All – LAN Houses already reduced by 25%
- Gained company brand image with local and federal government
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2012-14 Drivers of Growth

3 Ways of Growth

Mobile Customer Base

FMS – Voice (MOU)

Internet for All (Mobile Data)

Revenue Growth

CAGR ‘11 – ‘14

~200

~25%

Double Digit %

Double Digit %

Double Digit %

Double Digit %
**Network Continuous Evolution**

### Network roadmap

<table>
<thead>
<tr>
<th>Technology</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2G</td>
<td>Managing the growth</td>
</tr>
<tr>
<td>3G</td>
<td>Speed up the roll-out in HSPA mode</td>
</tr>
<tr>
<td>WiFi</td>
<td>&gt;10,000 hot spots by YE2012</td>
</tr>
<tr>
<td>FTTS</td>
<td>Deployment in Top 42 cities</td>
</tr>
<tr>
<td>FTTH</td>
<td>~1 Mln households by 2015</td>
</tr>
<tr>
<td>Efficiency</td>
<td>~50,000 km in fiber optic</td>
</tr>
</tbody>
</table>

### 2G (TRX Installed)

<table>
<thead>
<tr>
<th>Year</th>
<th>TRX</th>
<th>Pop %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>157</td>
<td>64%</td>
</tr>
<tr>
<td>2014</td>
<td>253</td>
<td>&gt;80%</td>
</tr>
</tbody>
</table>

### 3G roll out

<table>
<thead>
<tr>
<th>Year</th>
<th>Pop %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>64%</td>
</tr>
<tr>
<td>2014</td>
<td>&gt;80%</td>
</tr>
</tbody>
</table>

### FTTS

- **% of total traffic**
  - 2012: 50% 42 Cities
  - 2014: 50% 14 Cities

### Backbone

- **000 km**
  - 2011: 25.0
  - 2014: 49.0

### TIM Fiber – non capital intensive

- **Metropolitan network**
  - Aerial network: -500
  - Underground network: -1,700
- **Street equipment**
  - ~250
- **Installation**
  - ~125
- **Internal network**
  - ~300
- **Modem**
  - ~125

*Tim Fiber: a “no Capex intensive” approach to offer Residential Ultra BB in SP/RJ*
## Take-aways on main TIM Brasil trends

### Revenues (New vs Old Plan)

<table>
<thead>
<tr>
<th>Year</th>
<th>New</th>
<th>Old</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>14.5</td>
<td>14.5</td>
</tr>
<tr>
<td>2011</td>
<td>15.5</td>
<td>14.5</td>
</tr>
<tr>
<td>2012</td>
<td>17.1</td>
<td>14.5</td>
</tr>
</tbody>
</table>

*1yr in advance*

### Organic CAPEX (as % of Sales)

<table>
<thead>
<tr>
<th>Year</th>
<th>CAPEX</th>
<th>% of Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>2.8</td>
<td>19.6%</td>
</tr>
<tr>
<td>2011</td>
<td>3.0</td>
<td>17.5%</td>
</tr>
<tr>
<td>2012</td>
<td>3.0</td>
<td>14%</td>
</tr>
<tr>
<td>2013</td>
<td>3.0</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>3.0</td>
<td></td>
</tr>
</tbody>
</table>

### Revenues

- MTR glide path (-20% real term) as of feb'12 impacts approx. 250 bp in Revenues and EBITDA
- Growth resulting from further CB, voice MOU and internet browsing
- For 2012, revenues growth at >10% YoY (vs. R$17.1Bn in 2011)

### Ebitda

- Network sinergies from AES Integration
- Continuous efficiency in Go2Market (no subsidy, SAC/bad debt)
- Absorbing MTR cut and TIM Fiber start-up
- For 2012, Ebitda growth at >10% YoY (vs. R$4.6Bn in 2011)

### Capex

- Expanding 2G capacity and 3G coverage
- Accelerate FTTS in Top 42 Cities and Wi-fi offloading
- Tim Fiber start-up
- CAPEX flat at 3 bn/year; R$9bn in 3 Years