

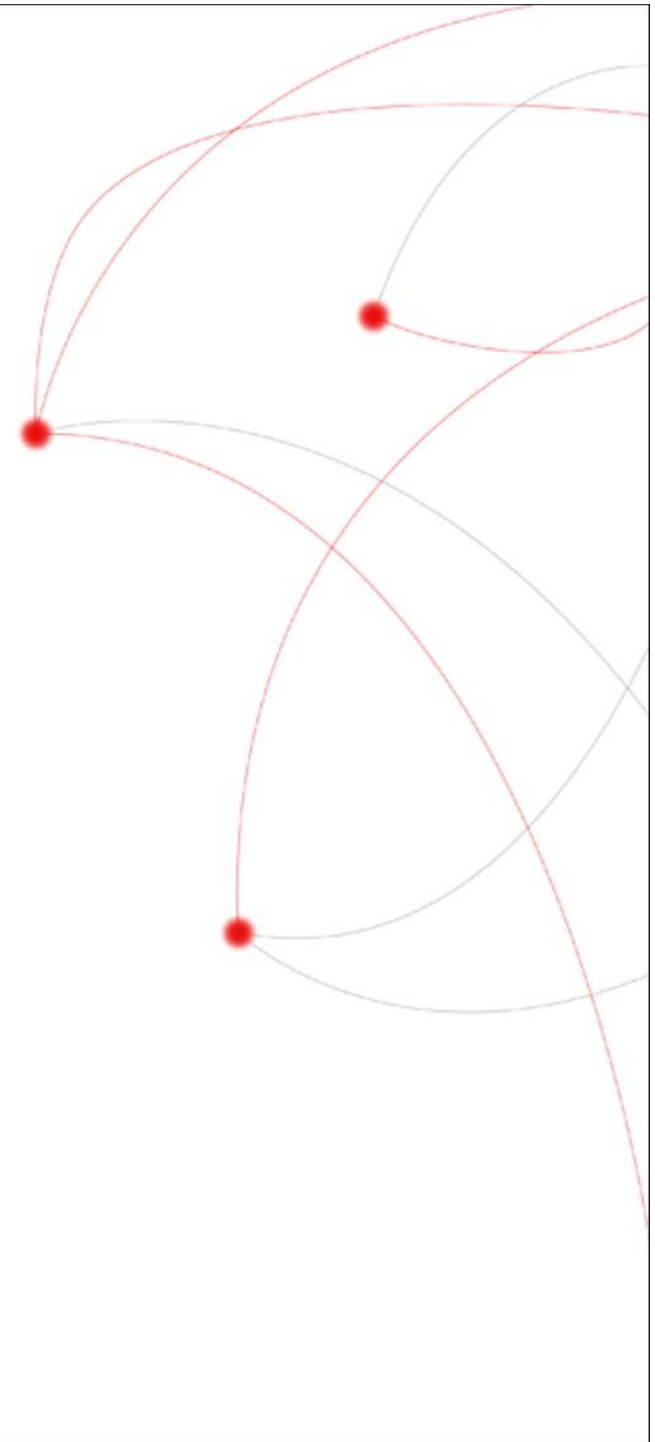
TELECOM ITALIA GROUP

## 9M 2012 Results

Milan, November 9<sup>th</sup>, 2012

# Telecom Italia 9M 2012 Results

FRANCO BERNABE' - PIERGIORGIO PELUSO



## Safe Harbour

These presentations contain statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear in a number of places in this presentation and include statements regarding the intent, belief or current expectations of the customer base, estimates regarding future growth in the different business lines and the global business, market share, financial results and other aspects of the activities and situation relating to the Company and the Group.

Such forward looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ materially from those projected or implied in the forward looking statements as a result of various factors. Consequently, Telecom Italia S.p.A. makes no representation, whether expressed or implied, as to the conformity of the actual results with those projected in the forward looking statement.

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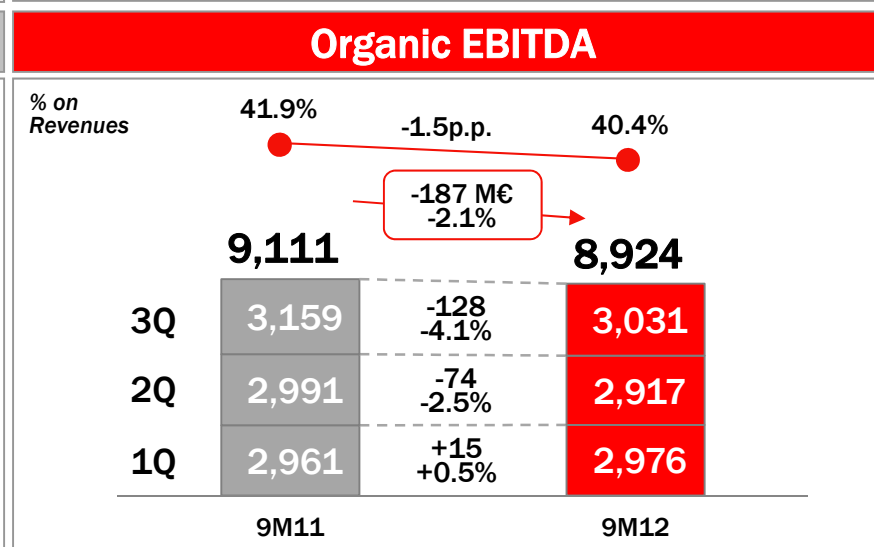
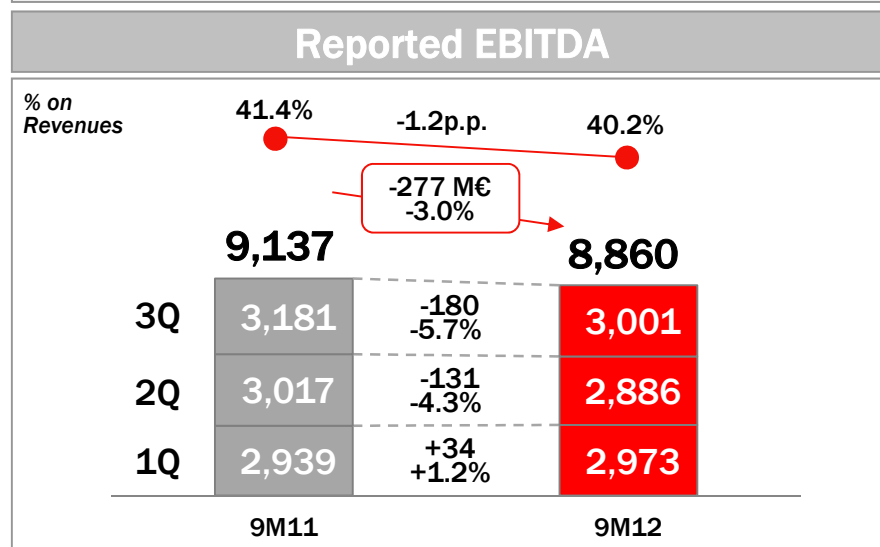
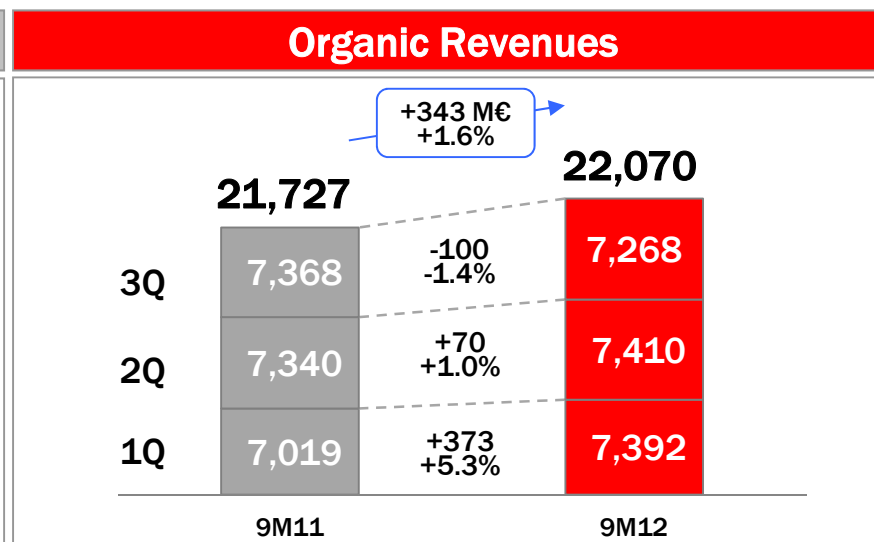
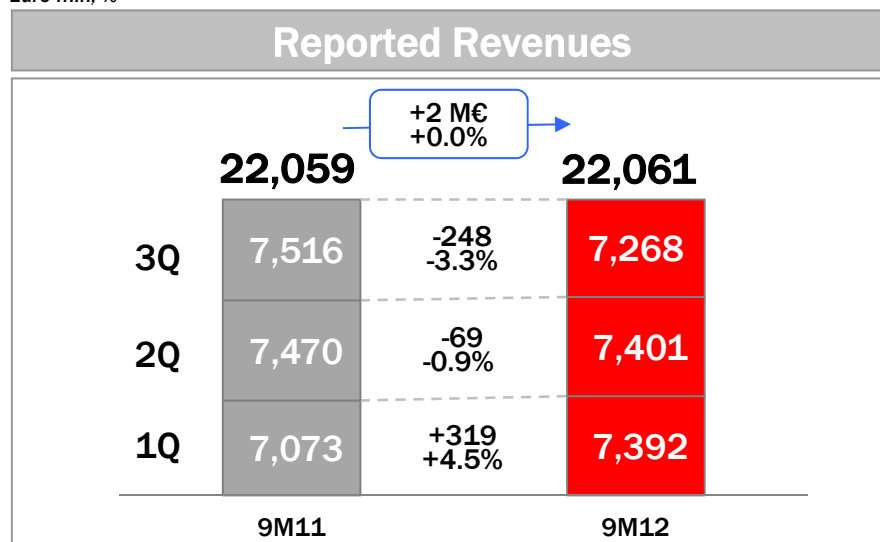
Some data for the 2011 financial year used in comparisons included into this presentation are restated as a result of the early adoption of the revised IAS 19 (Employee Benefits) version and the reclassification of Matrix from the Business Unit Domestic-Core Domestic to the Business Unit Other Activities

# Agenda

- ▶ **TI Group 9M 2012 Results**
- ▶ **Telecom Italia Core Markets Results**
  - ▶ Italy
  - ▶ Brazil
  - ▶ Argentina
- ▶ **Wrap-up**

# TI Group: Revenues & EBITDA trends

Euro mln, %



# TI Group Key Results by Core Markets

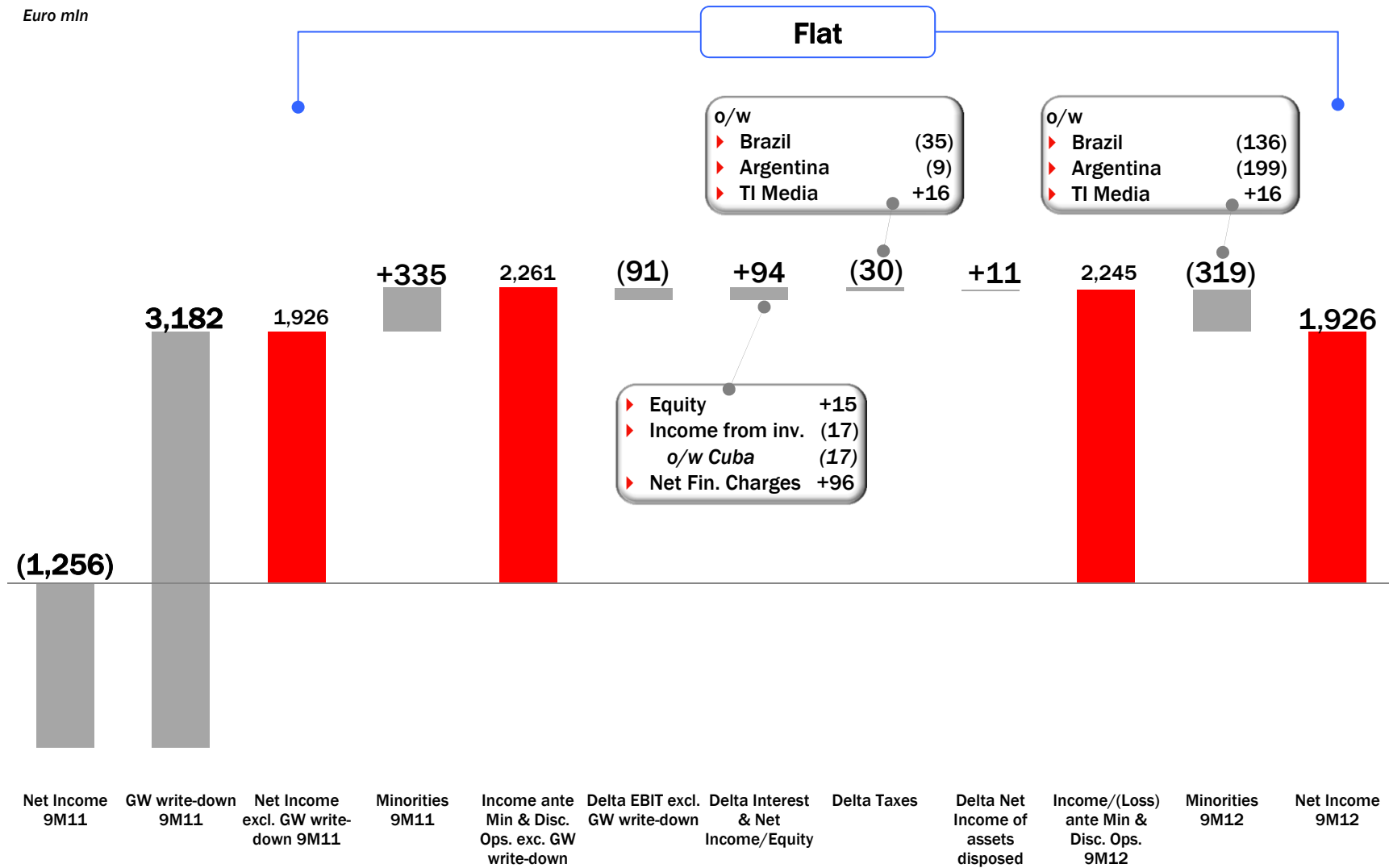
Euro mln, Organic Data

	TI Group	Domestic	Brazil	Argentina	
					Weight on TI Group*
	<b>9M12 Δ% yoy</b>	<b>9M12 Δ% yoy</b>	<b>9M12 Δ% yoy</b>	<b>9M12 Δ% yoy</b>	
<b>Revenues</b>	<b>22,070 +1.6%</b>	<b>13,422 -4.7%</b>	<b>5,595 +11.0%</b>	<b>2,804 +20.0%</b>	
		60.5%	25.3%	12.7%	38.0%
<b>EBITDA</b>	<b>8,924 -2.1%</b>	<b>6,713 -4.6%</b>	<b>1,477 +9.2%</b>	<b>825 +8.0%</b>	
		75.2%	16.6%	9.2%	25.8%

\* Revenues based on net contributions.

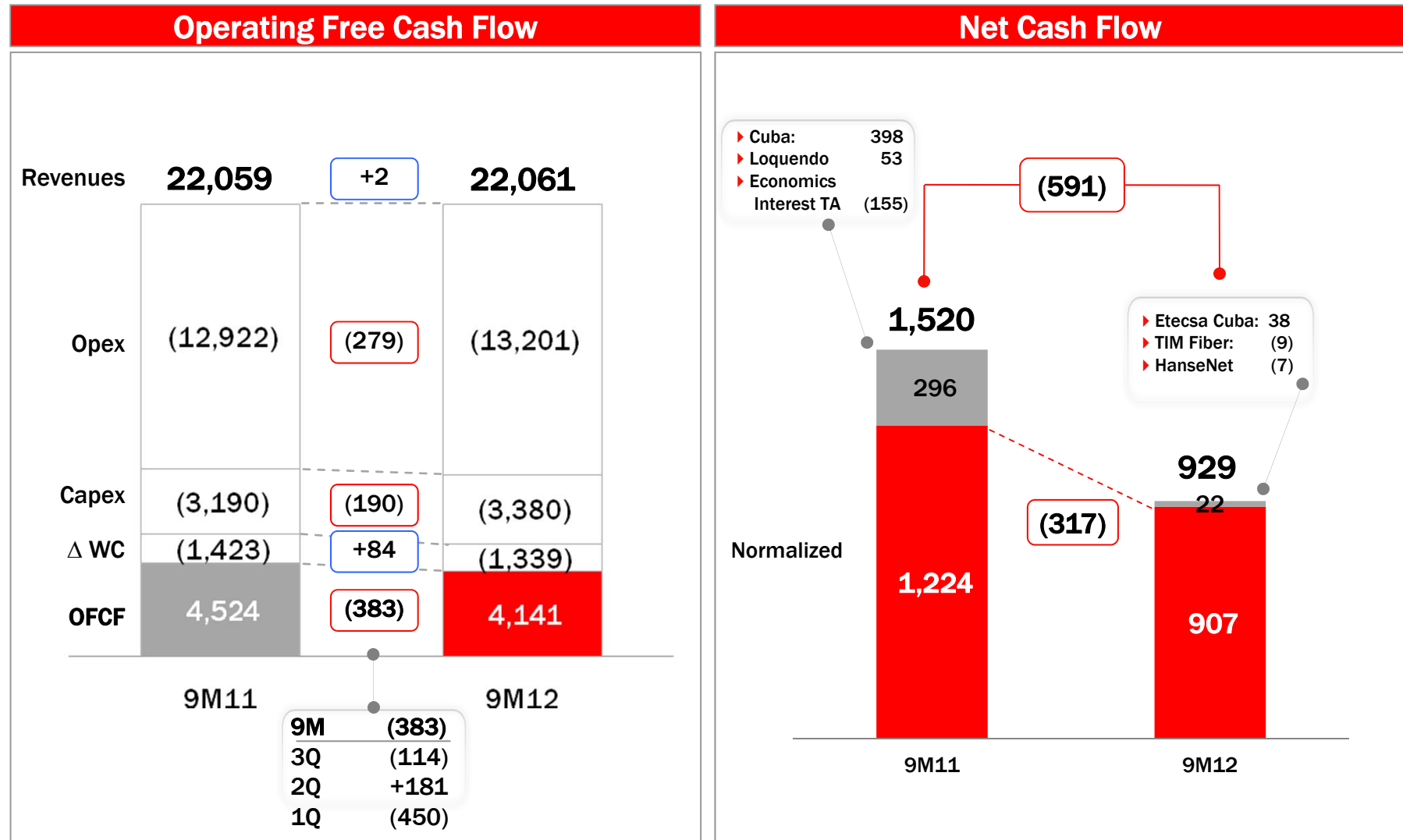
# Net Income Evolution

Euro mln

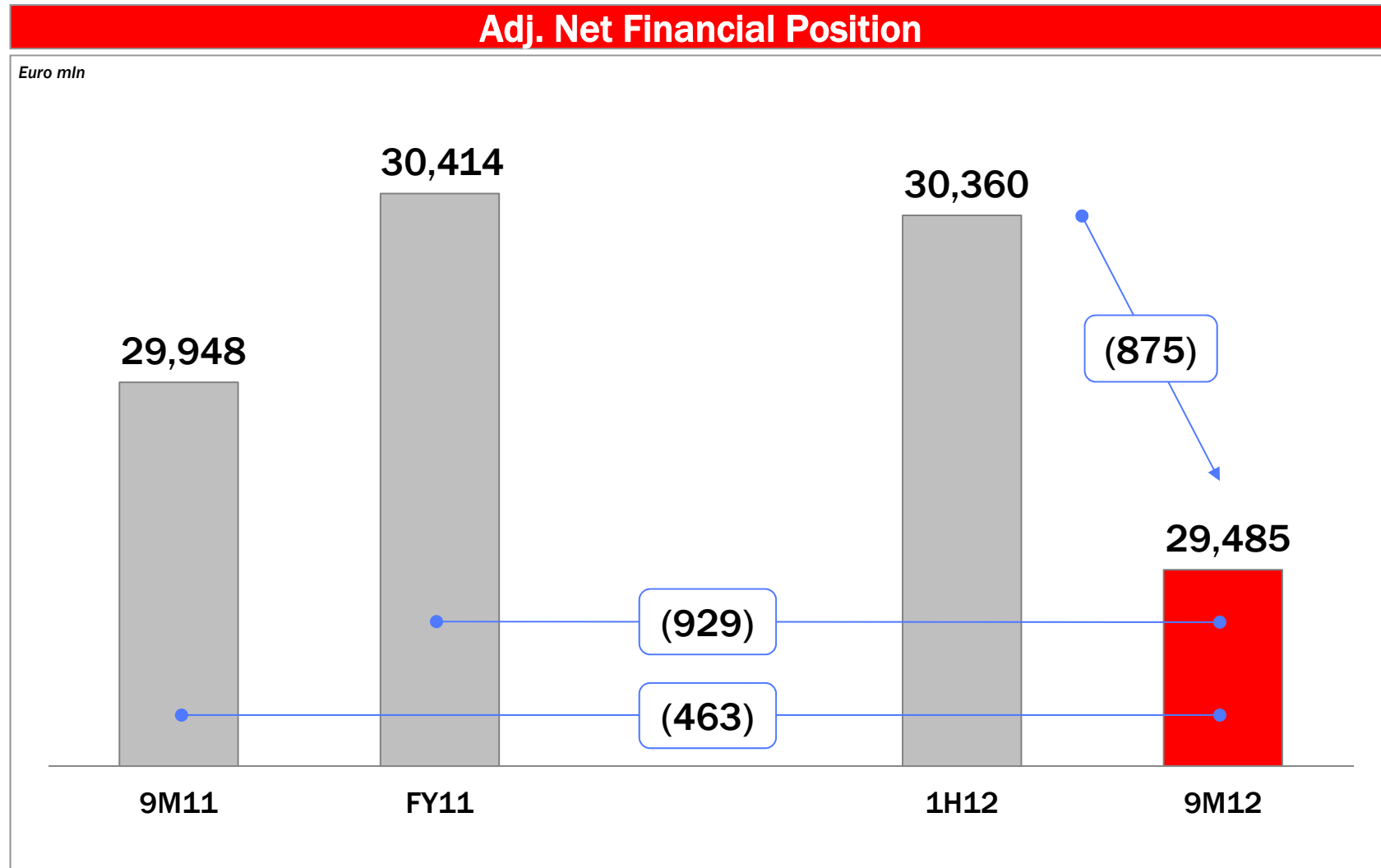


# Free Cash Flow Generation

Euro mln, Reported Data



## Focus on Net Debt Performance



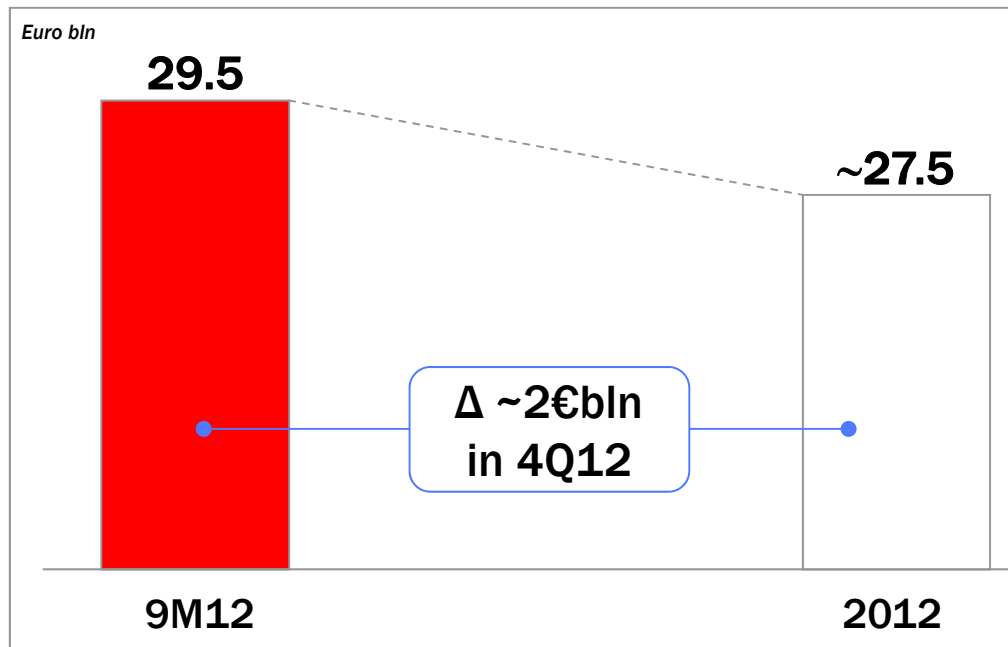


# Deleverage Plan on Track

## Net Cash Flow 4Q12E

- ▶ OpFCF: ~2.5€bln (in line with 4Q11 excl. LTE)
- ▶ Cash Tax & Fin. Expenses: ~1.1€bln
- ▶ Net CF before Disposals: ~1.4/1.5€bln

*Final Delta to FY 12 Debt target will come from Disposals, as per our Plan*



## Current Dividend Confirmed as Floor for '12 - '14

~25

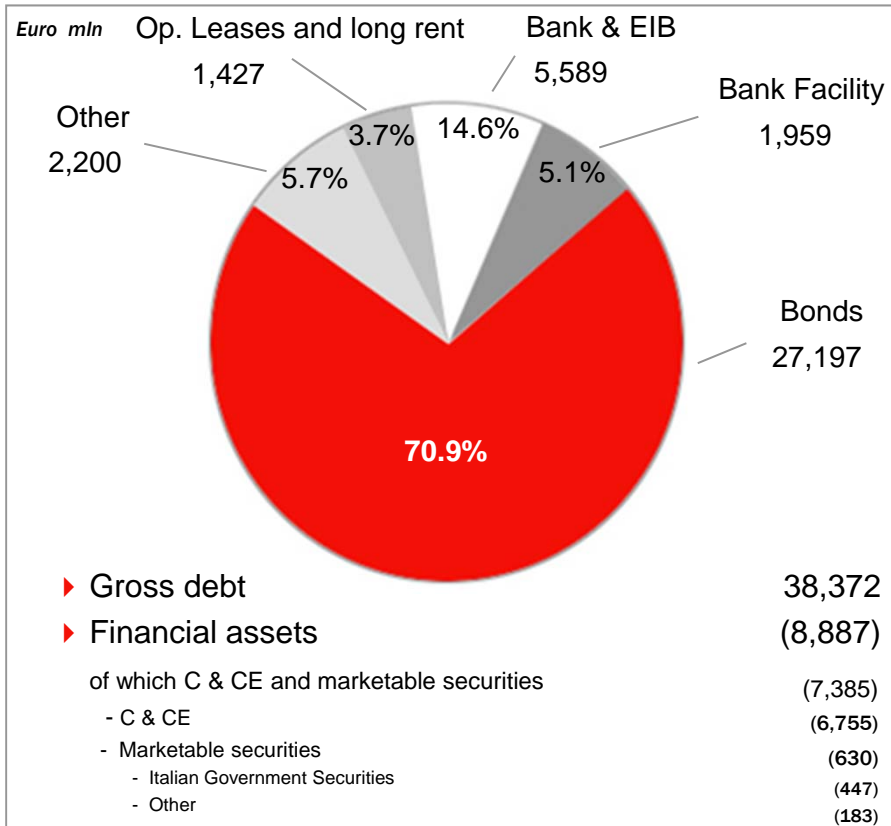
Inside 2x Net Debt/EBITDA

2013

2014 & Onwards

# Well Diversified and Hedged Debt

**Total Gross Debt Net of Adjustment: Euro 38,372 mln**



▶ Gross debt	38,372
▶ Financial assets	(8,887)
of which C & CE and marketable securities	(7,385)
- C & CE	(6,755)
- Marketable securities	(630)
- Italian Government Securities	(447)
- Other	(183)

**Net Financial Position 29,485**

## Recent Bond Issue / Maturities and Risk Management

On September 13, 2012 a 1 Billion euro fixed rate bond was offered to institutional investors  
 TI benefited from a reduction of 258 basis points YoY (143bp credit and 115bp interest rate) in all-in yield vs same tenor offer in Oct. 2011

**Bond Details:**

- 5Y Maturity
- Coupon 4.5%
- Issue Price 99.693%
- Spread vs swap rate 355
- Yield 4.57%

▶ Average debt maturity: 7.10 years (bond-only 8.05 years)

▶ Fixed rate portion on gross debt: approximately 73.9%

▶ About 46% of outstanding bonds (nominal amount) is denominated in USD, GBP and YEN and is fully hedged

Cost of debt: ~5.4%

The figures are net of the following adjustments due to the fair value measurement of derivatives and related financial liabilities/assets:

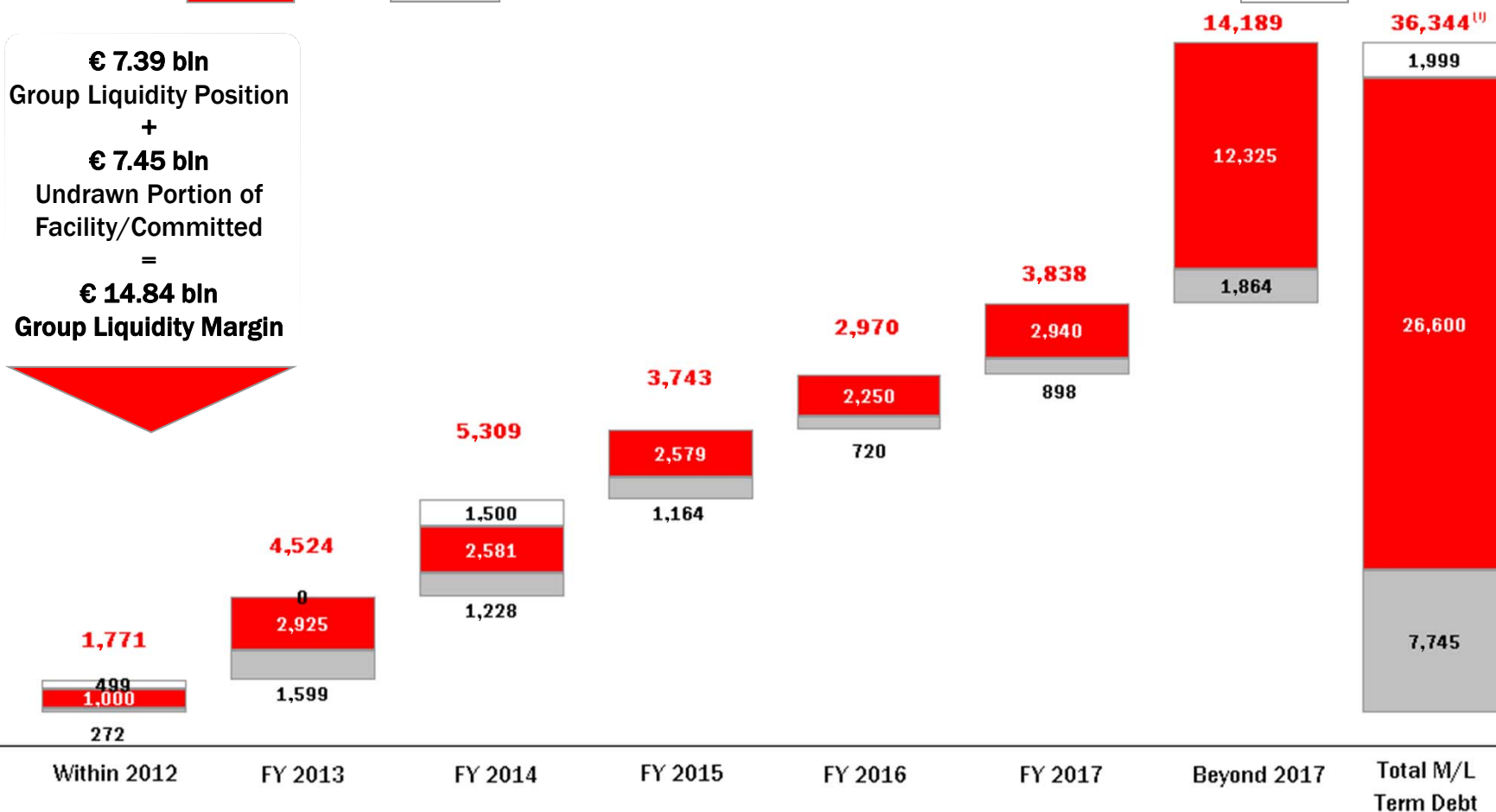
- the impact on Gross Financial Debt is equal to 2,546 Euro/mln (of which 695 €/mln bonds)

- the impact on Financial Assets is equal to 2,060 Euro/mln

Therefore, Net Financial Indebtedness is adjusted by 486 Euro/mln.

# Robust Liquidity Margin and Well-Distributed Debt Maturities

Euro mln ■ Bonds ■ Loans (of which long-term rent, financial and operating lease payable Euro 1,412 mln) ■ Drawn bank facility






(1) Euro 36,344 mln is the normal amount of outstanding medium-long term debt by adding IAS adjustments (Euro 1,301 mln) and current liabilities (Euro 726 mln), the gross debt figure of Euro 38,372 mln is reached.

N.B. Debt maturities are net of Euro 1,246 mln (face value) of repurchased own bonds (of which Euro 1,031 mln related to bonds due in the next 24 months)

## Progress on TI Media Disposal

Euro mln

	9M 12	9M 11	Action Plan
Revenues	161	170	<ul style="list-style-type: none"> <li>▶ Info memos sent to selected bidders at the end of August </li> </ul>
EBITDA	(26)	27*	<ul style="list-style-type: none"> <li>▶ Non-binding offers received at the end of September, for TI Media as a whole and for TV Business (La7 S.r.l.***) only </li> </ul>
EBIT	(72)	(16)*	<ul style="list-style-type: none"> <li>▶ Due diligence underway with admitted bidders:  <ul style="list-style-type: none"> <li>✓ Virtual Data Room started beginning of October</li> <li>✓ Management Presentation concluded end of October</li> <li>✓ Focused Management meetings in progress</li> </ul> </li> </ul>
Net Income	(54)	(15)	
CAPEX	41	33	
Net Debt	224	133	<ul style="list-style-type: none"> <li>▶ Binding offers expected by the 1<sup>st</sup> week of December</li> </ul>

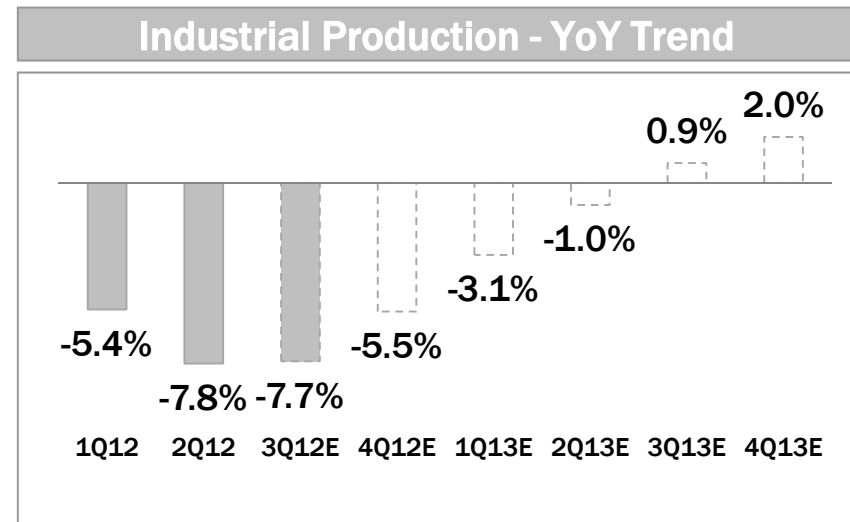
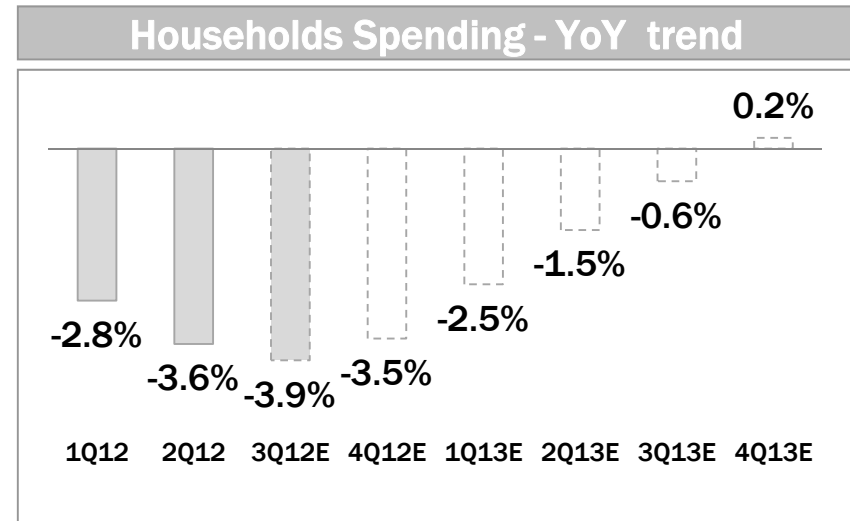
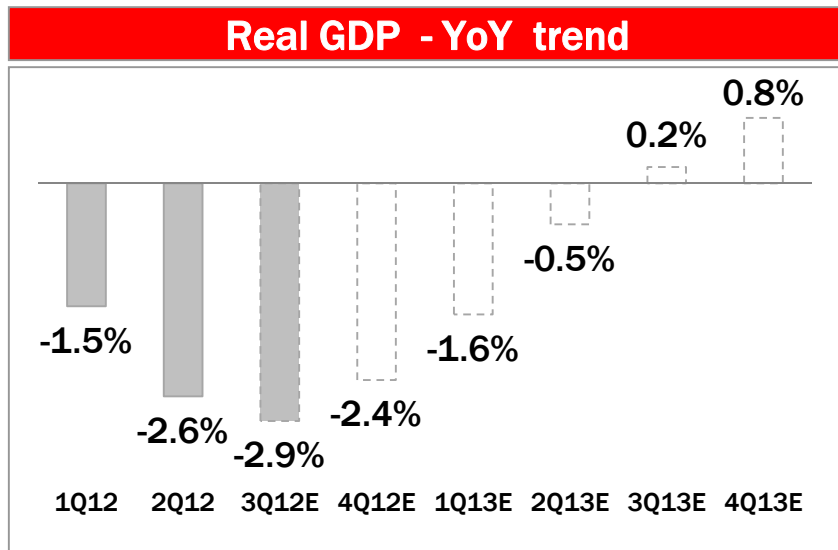
\*Includes 20.5 Euro mln paid by Telecom Italia to Telecom Italia Media in 2011 as compensation for the early resolution of the "Competence Center" agreement.

\*\*La7 S.r.l. owns the brands La7 and La7d and holds 51% of MTV Italia S.r.l.

# Agenda

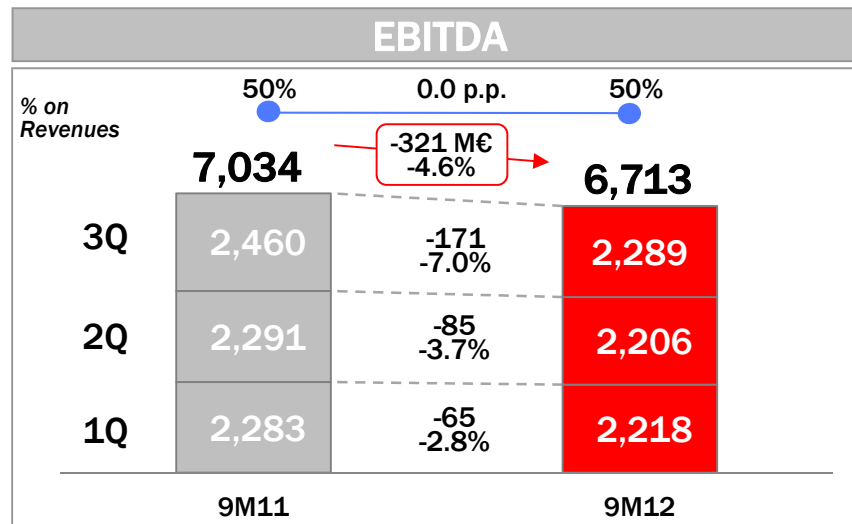
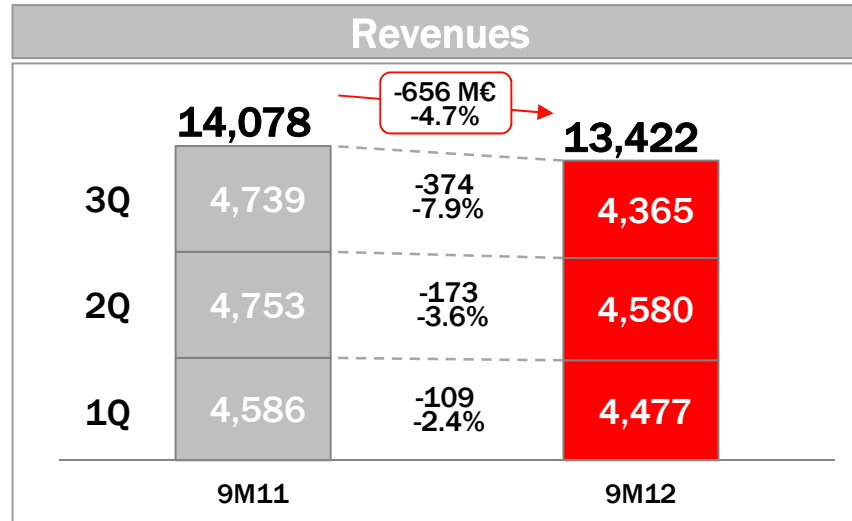
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# Italy: Macro Indicators have not improved



# Italy: Revenues & Ebitda Trend

Euro mln, Organic Data



## Resilient Performance in Core Markets

- ▶ Fixed 3Q results affected by tough comparison with last year
- ▶ Mobile Top Line negatively affected by MTR cut, price cap on EU Roaming and tougher competitive environment
- ▶ Sound and stable marginality in 9M at 50%

## BB Achievements

- ▶ Still double-digit performance in Mobile Small Screen Browsing
- ▶ TI Retail BB line loss evolution under control (-7k in 3Q12), with a stable Market Share at approximately 52%
- ▶ Value-oriented approach on Fixed BB with a constant increase in Retail ARPU

## Developing Innovation

- ▶ Success of SuperInternet offer continues
- ▶ LTE Services launched in Turin, Milan, Rome and Naples on Nov. 7<sup>th</sup>
- ▶ Innovative F-M data bundles launched on a trial basis

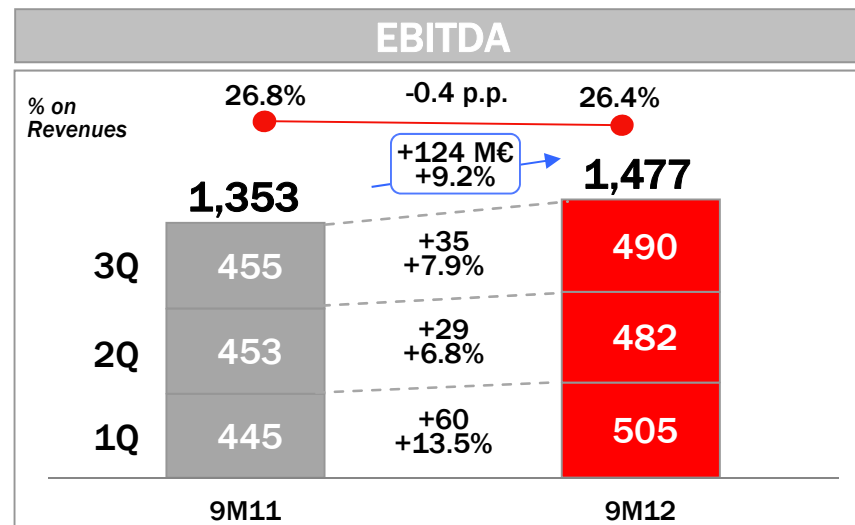
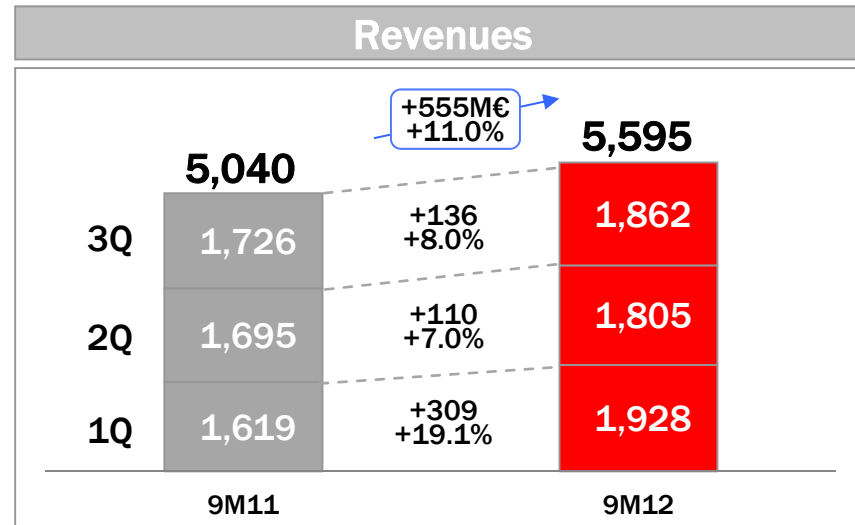
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# Brazil: Revenues & EBITDA Trends

Euro mln, Organic Data



## Size & Market

- ▶ TIM net adds: 9M still #1 in spite of sales ban. Customer Base: 69.4 mln lines, +17% YoY (#1 operator in growth)
- ▶ #1 in prepaid segment and closing overall gap with #1 operator
- ▶ Leader in Handset market despite unique No Subsidy approach

## Revenue Growth

- ▶ Voice Outgoing Revenues supported by new acceleration in MOU, Voice Incoming affected by MTR cut (14% last March)
- ▶ VAS gross revenues +34.6% YoY, driven by continued smart/web phone penetration increase (now at 39%, up from 19.5% in 3Q11)
- ▶ VAS gross revenues 19.4% of total gross mobile service revenues against 15.7% in 3Q11

## Value Creation

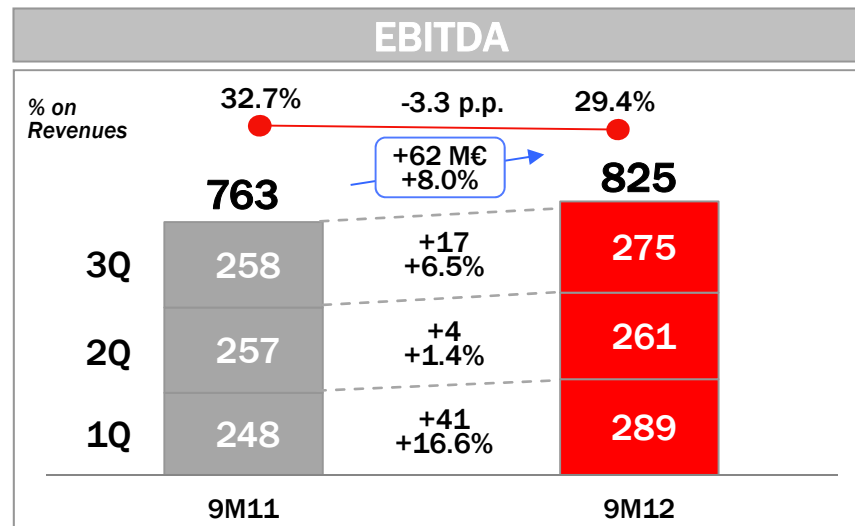
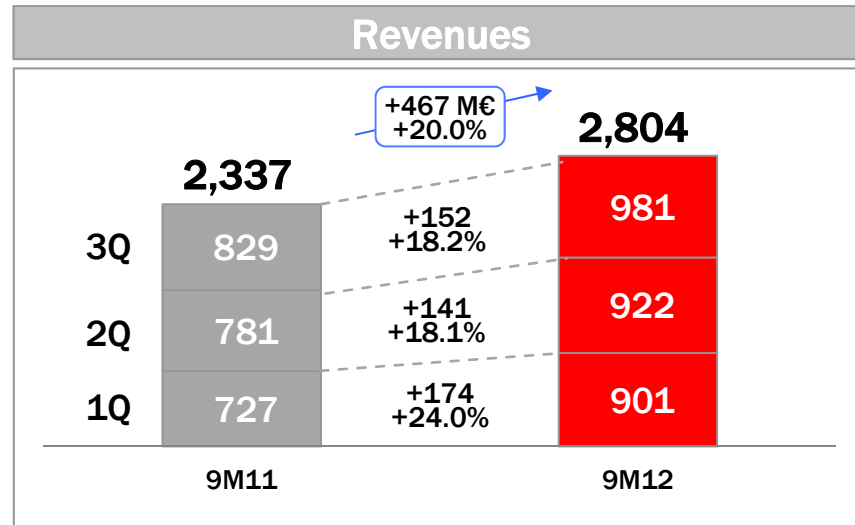
- ▶ EBITDA organic performance in progress in 3Q: +7.9%YoY
- ▶ Organic trends plus TIM Fiber related cost improvements and efficiencies in 4Q, confirm commitment to FY12 guidance

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# Argentina: Revenues & EBITDA Trends

Euro mln, Organic Data



## Size & Market

- ▶ 18.9 mln mobile lines with 33.3% market share, leading MNP and service revenue performance
- ▶ Solid market performance in fixed BB, Accesses +7% vs Sept 11, stable at ~34%\* market share among top 3 operators

## Revenue Growth

- ▶ Postpaid and Mobile VAS drive consistent growth in value KPIs: 3 of 4 ports-in are high value, ARPU +12% YoY 9M
- ▶ Internet +70% YoY and VAS (SMS) +29% YoY in 9M, VAS/Service Revenues at 52% (vs. 47% 9M11)
- ▶ Broadband ARPU growth: +16% YoY in 9M, growing value through bundling and video streaming
- ▶ Fixed Voice ARBU +5% YoY 9M despite tariff freeze

## Value Creation Going Forward

- ▶ Mobile Price positive adjustments in 4Q
- ▶ Room to improve cost structure and sustain margins in inflationary environment:
  - ▶ Leverage on positive MNP momentum to rationalize commercial efforts (lower unitary sub/SAC&SRC)
  - ▶ Positive wage negotiation outcome gives YoY support
  - ▶ Infrastructure development improves interconnection cost trend
- ▶ Capex freed due to cancelled spectrum auction, reassigned to additional access network deployment

# Agenda

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## Telecom Italia Group FY 2012 Key Guidance Confirmed

Organic Data\*

TI Group – FY 2012 Key Guidance	
<b>Revenues</b>	<b>Stable</b>
<b>EBITDA</b>	<b>Broadly Stable</b>
<b>NFP Adj.**</b>	<b>~ 27.5 € bln</b>

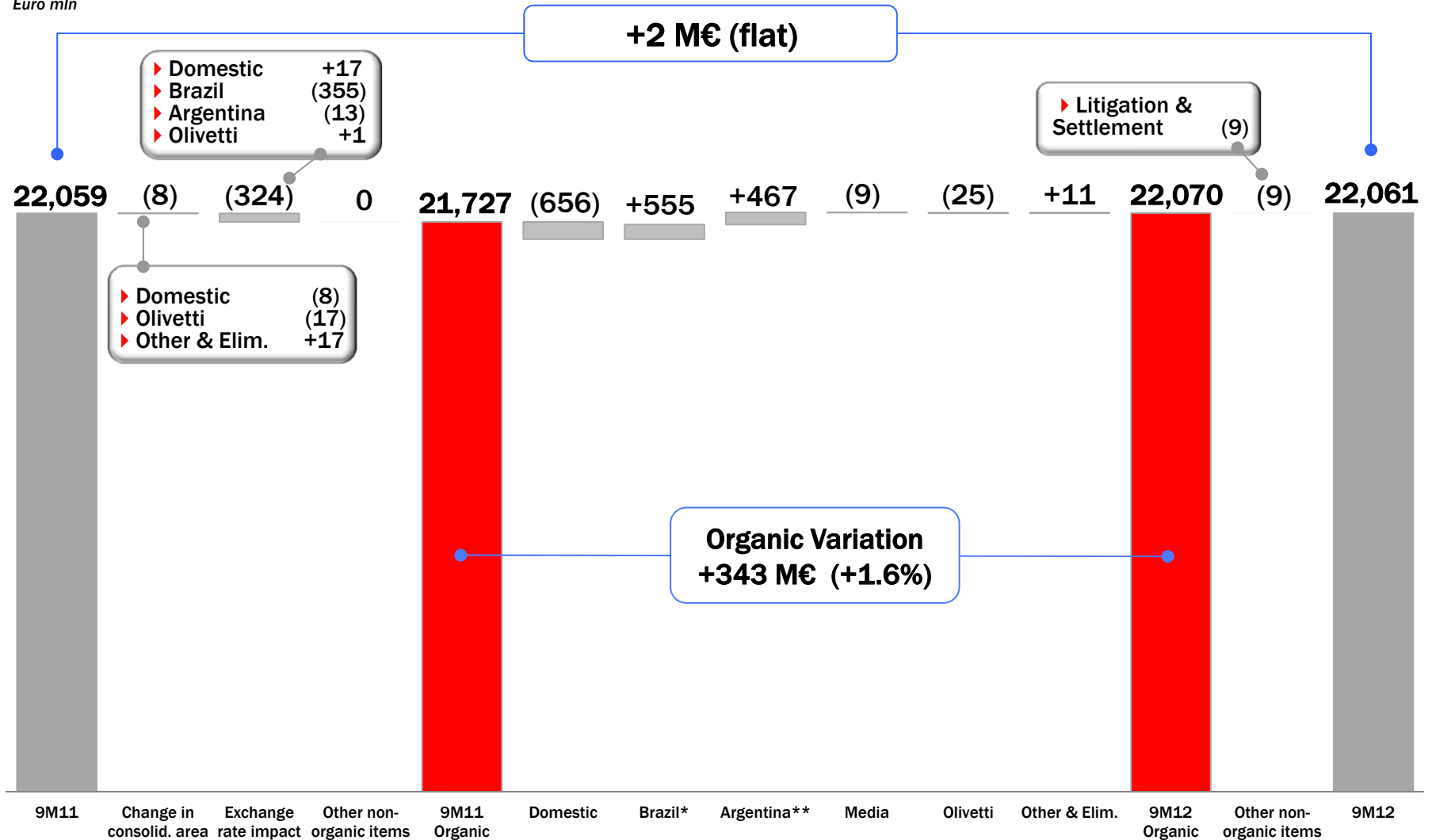
\*exchange rates 2011 (R\$/€ 2.33; ARS/€5.74), excluding impact from non-organic items

\*\* excluding Latam spectrum licences

# Appendix

# TI Group – Revenues Evolution

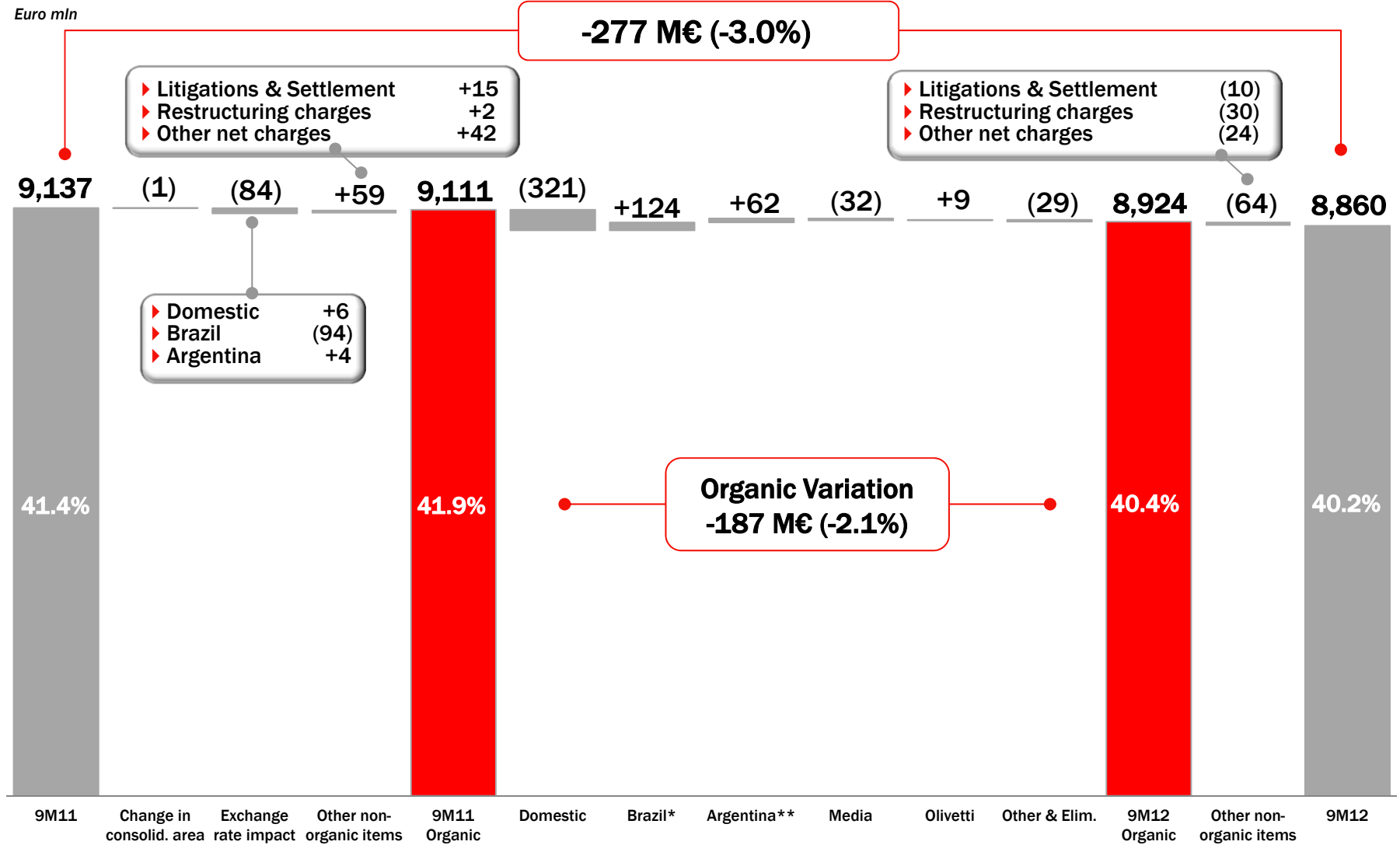
Euro mln



\* Average Exchange rate (Real/Euro): 2.46 in 2012, 2.29 in 2011

\*\* Average Exchange rate (Peso/Euro): 5.71 in 2012, 5.75 in 2011

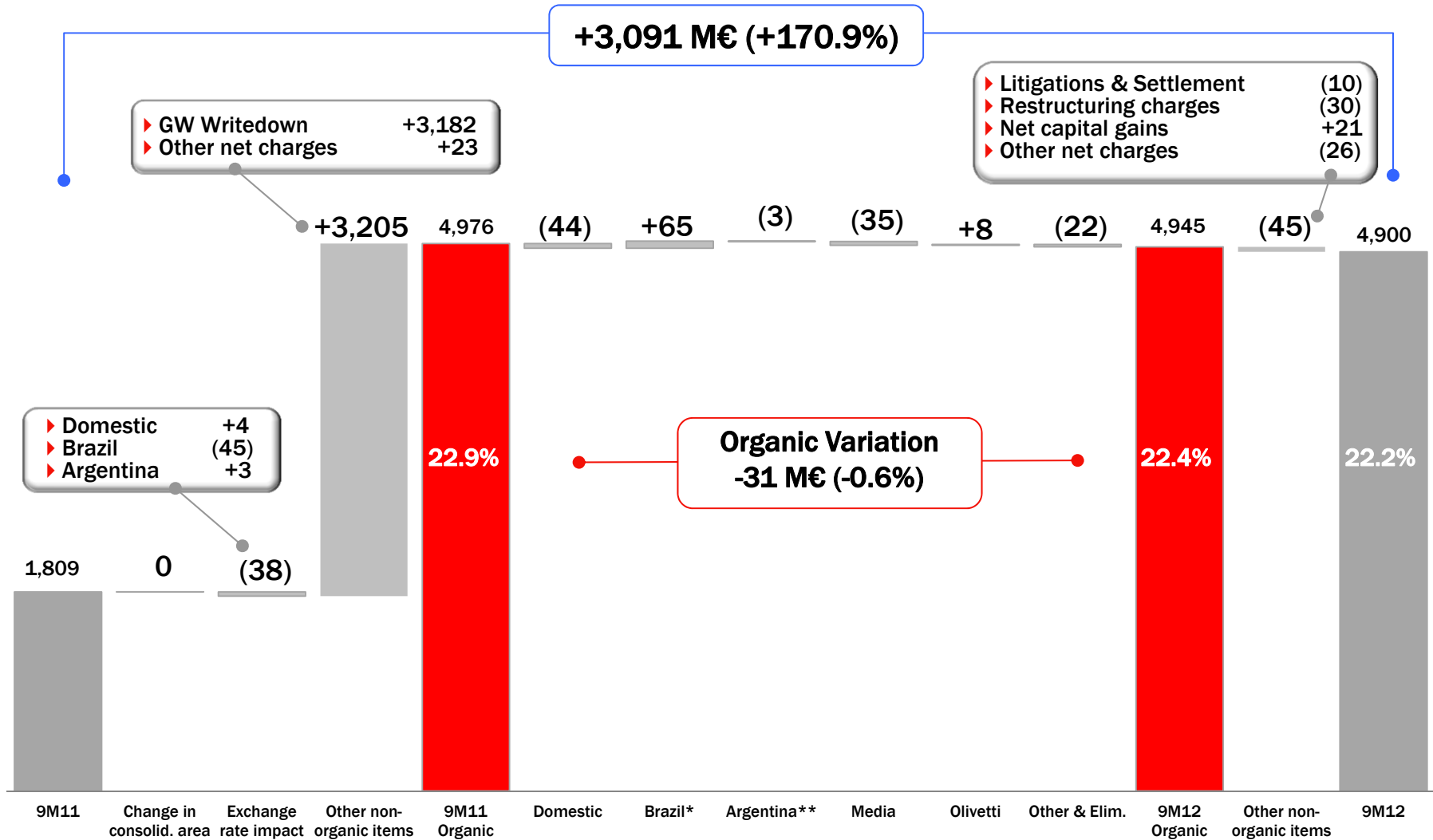
# TI Group – EBITDA Evolution





# TI Group – Ebit Evolution

Euro mln



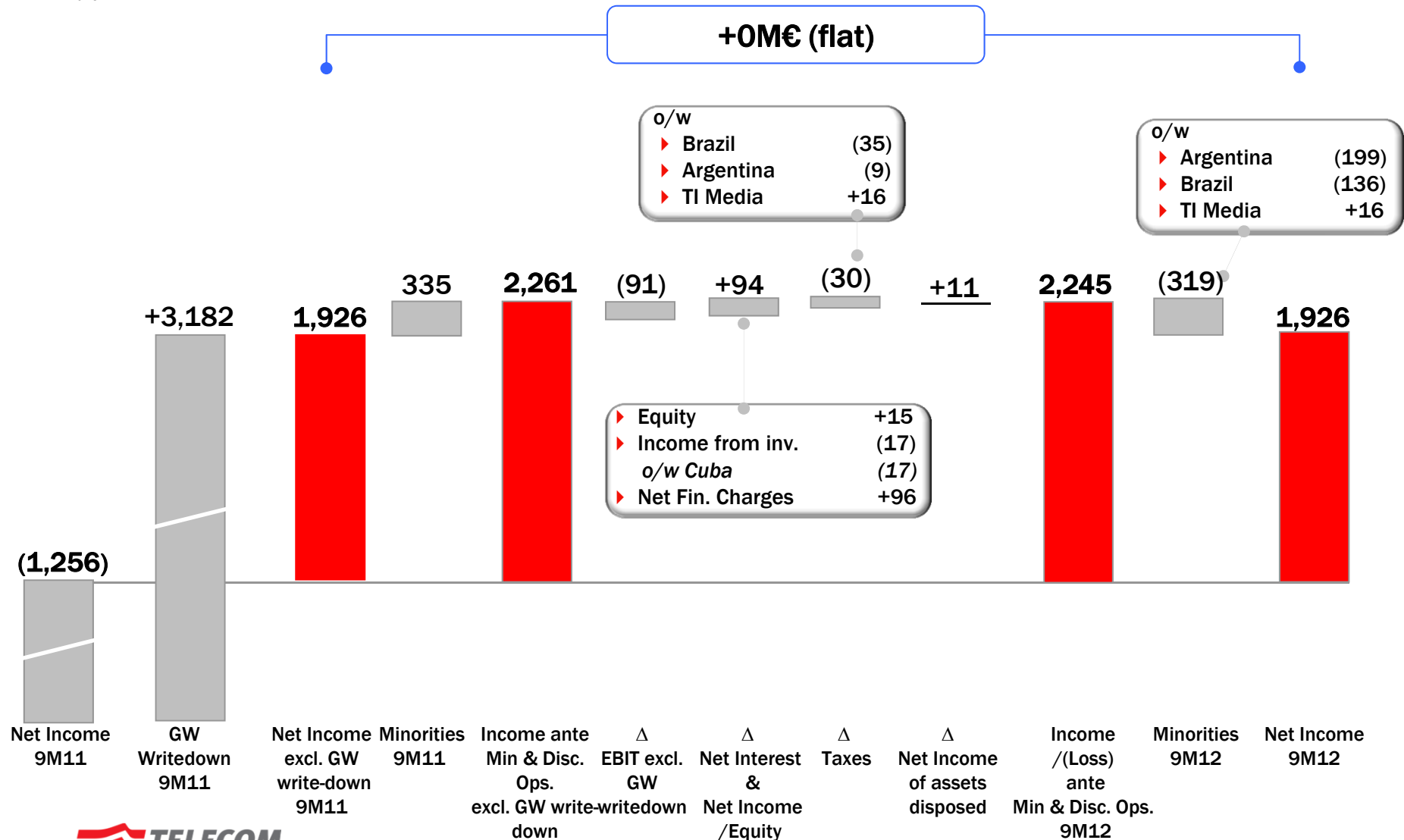
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# Net Income Evolution

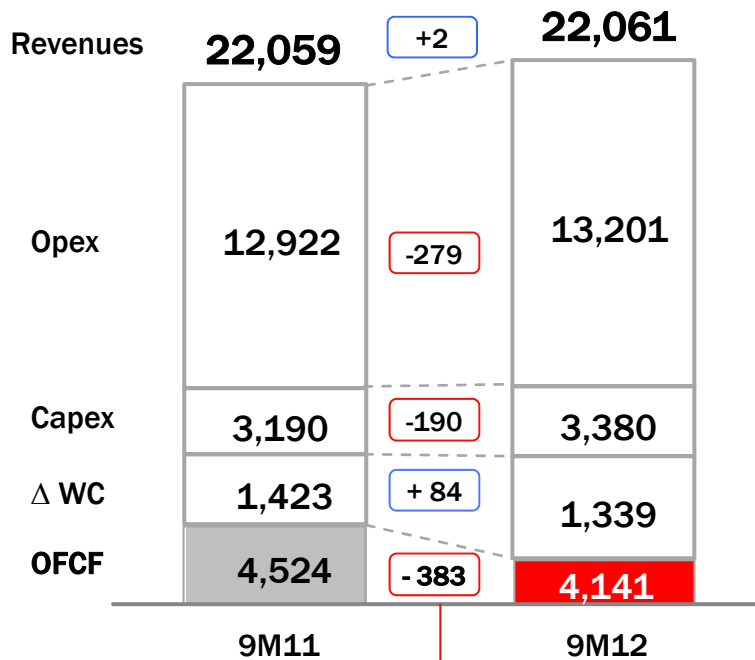
Euro mln



# Free Cash Flow Generation and $\Delta$ OWC Dynamics

## Operating Free Cash Flow

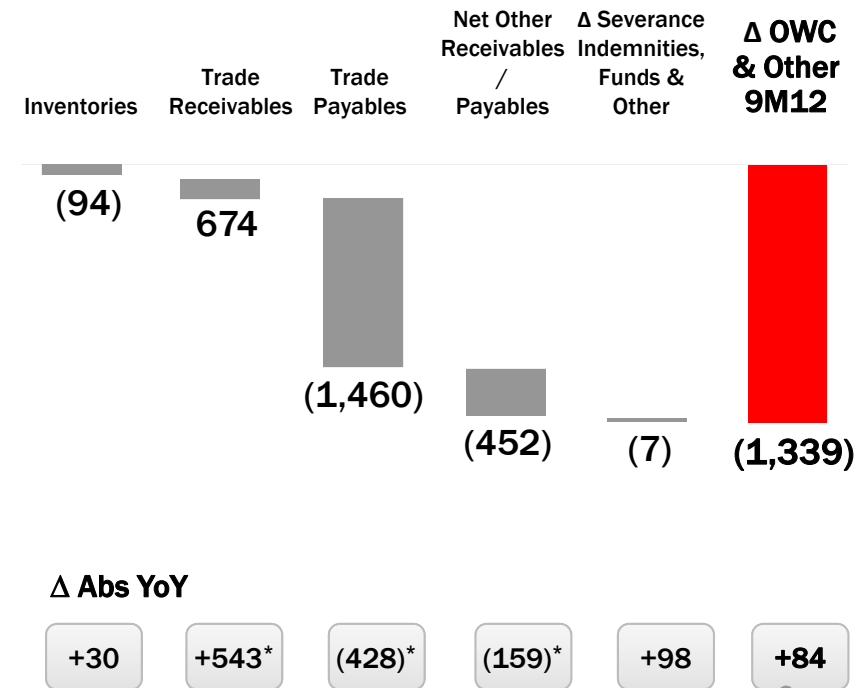
Euro mln, Reported Data



- ▶ **Brazil: -227** (capex acceleration for network upgrades and increased cashout from TLC fees)
- ▶ **Domestic: +61**
- ▶ **Argentina: -145**
- ▶ **TI Media & Other: -72**

## $\Delta$ Operating Working Capital

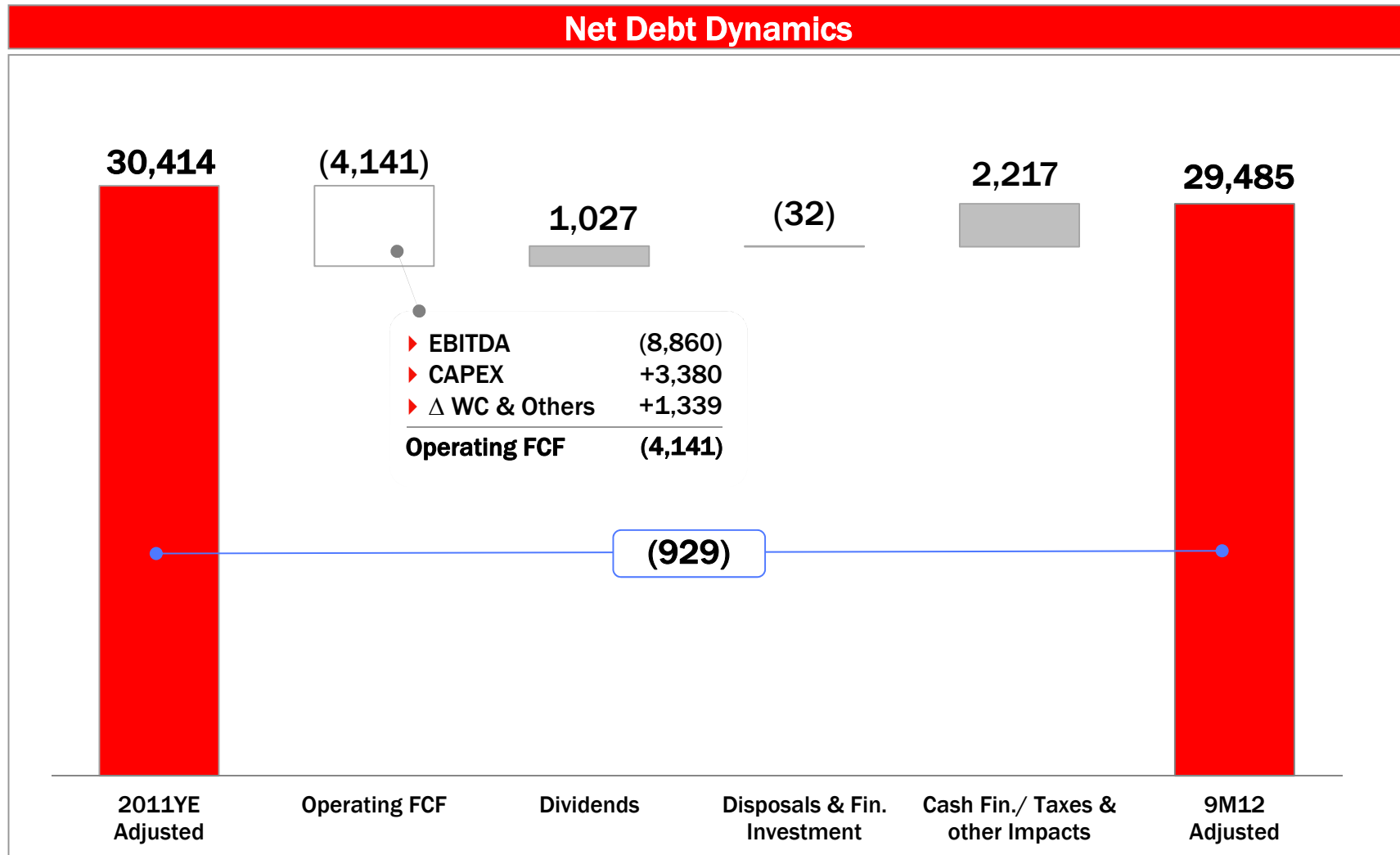
Euro mln, Reported Data



9M	+84
3Q	+24
2Q	+495
1Q	(435)

# Net Debt Evolution

Euro mln, Reported Data



# TI Group 9M12 – P&L

	9M			
	2012	2011	Δ Abs.	Δ %
<b>REVENUES</b>	<b>22,061</b>	<b>22,059</b>	<b>2</b>	<b>0.0</b>
Other Operating Income	169	167	2	1.2
<b>TOTAL REVENUES &amp; OTHER INCOME</b>	<b>22,230</b>	<b>22,226</b>	<b>4</b>	<b>0.0</b>
Total Purchases of materials and external services	-9,676	-9,442	-234	2.5
Personnel	-2,901	-2,922	21	-0.7
of which payroll	-2,846	-2,866	20	-0.7
Other operating costs	-1,339	-1,271	-68	5.4
Change in inventories	112	135	-23	17.0
Capitalized Cost and Others	434	411	23	-5.6
<b>EBITDA</b>	<b>8,860</b>	<b>9,137</b>	<b>-277</b>	<b>-3.0</b>
<i>% on Revenues</i>	40.2%	41.4%		
Depreciation & Amortization	-3,967	-4,169	202	-4.8
Writedowns and revaluations of non current assets	-3	-3,182	3,179	-99.9
Gains/ losses of non current assets realization	10	23	-13	-56.5
<b>EBIT</b>	<b>4,900</b>	<b>1,809</b>	<b>3,091</b>	<b>170.9</b>
<i>% on Revenues</i>	22.2%	8.2%		
Income (loss) equity invest. valued equity method	-4	-19	15	
Other income ( expenses ) from investments	-2	15	-17	
Net Financial Income / (Expenses)	-1,400	-1,496	96	
<b>Income before Taxes &amp; Disc. Ops.</b>	<b>3,494</b>	<b>309</b>	<b>3,185</b>	
<i>% on Revenues</i>	15.8%	1.4%		
Taxes	-1,249	-1,219	-30	
<b>Income before Disc. Ops.</b>	<b>2,245</b>	<b>-910</b>	<b>3,155</b>	
Net income (loss) of assets disposed	0	-11	11	
<b>Net Income (ante Minorities)</b>	<b>2,245</b>	<b>-921</b>	<b>3,166</b>	
<i>% on Revenues</i>	10.2%	-4.2%		
Minorities	-319	-335	16	
<b>Net Income (post Minorities)</b>	<b>1,926</b>	<b>-1,256</b>	<b>3,182</b>	
<i>% on Revenues</i>	8.7%	-5.7%		

# TI Group 9M12 – Main Results by BU

Euro mln

Reported	9M			
	2012	2011	Δ Abs.	Δ %
<b>REVENUES</b>				
Domestic	13,413	14,069	-656	(4.7)
Wireline Domestic	9,604	10,002	-398	(4.0)
Tim Domestic	4,960	5,286	-326	(6.2)
Brazil	5,595	5,395	200	3.7
Argentina	2,804	2,324	480	20.7
Media	161	170	-9	(5.3)
Olivetti	185	226	-41	(18.1)
Other Activities & Elim.	-97	-125	28	-
<b>TI Group</b>	<b>22,061</b>	<b>22,059</b>	<b>2</b>	<b>0.0</b>

	9M			
	2012	2011	Δ Abs.	Δ %
<b>EBITDA</b>				
Domestic	6,696	6,953	-257	(3.7)
Brazil	1,460	1,444	16	1.1
Argentina	825	759	66	8.7
Media	-26	27	-53	-
Olivetti	-58	-37	-21	(56.8)
Other Activities & Elim.	-37	-9	-28	-
<b>TI Group</b>	<b>8,860</b>	<b>9,137</b>	<b>-277</b>	<b>(3.0)</b>
<b>EBITDA MARGIN</b>	<b>40.2%</b>	<b>41.4%</b>	<b>-1.2 pp</b>	

Organic	9M			
	2012	2011	Δ Abs.	Δ %
<b>REVENUES</b>				
Domestic	13,422	14,078	-656	(4.7)
Wireline Domestic	9,613	10,011	-398	(4.0)
Tim Domestic	4,960	5,286	-326	(6.2)
Brazil	5,595	5,040	555	11.0
Argentina	2,804	2,337	467	20.0
Media	161	170	-9	(5.3)
Olivetti	185	210	-25	(11.9)
Other Activities & Elim.	-97	-108	11	-
<b>TI Group</b>	<b>22,070</b>	<b>21,727</b>	<b>343</b>	<b>1.6</b>

	9M			
	2012	2011	Δ Abs.	Δ %
<b>EBITDA</b>				
Domestic	6,713	7,034	-321	(4.6)
Brazil	1,477	1,353	124	9.2
Argentina	825	763	62	8.0
Media	-26	6	-32	-
Olivetti	-28	-37	9	24.3
Other Activities & Elim.	-37	-8	-29	-
<b>TI Group</b>	<b>8,924</b>	<b>9,111</b>	<b>-187</b>	<b>(2.1)</b>
<b>EBITDA MARGIN</b>	<b>40.4%</b>	<b>41.9%</b>	<b>-1.5 pp</b>	