

TELECOM ITALIA

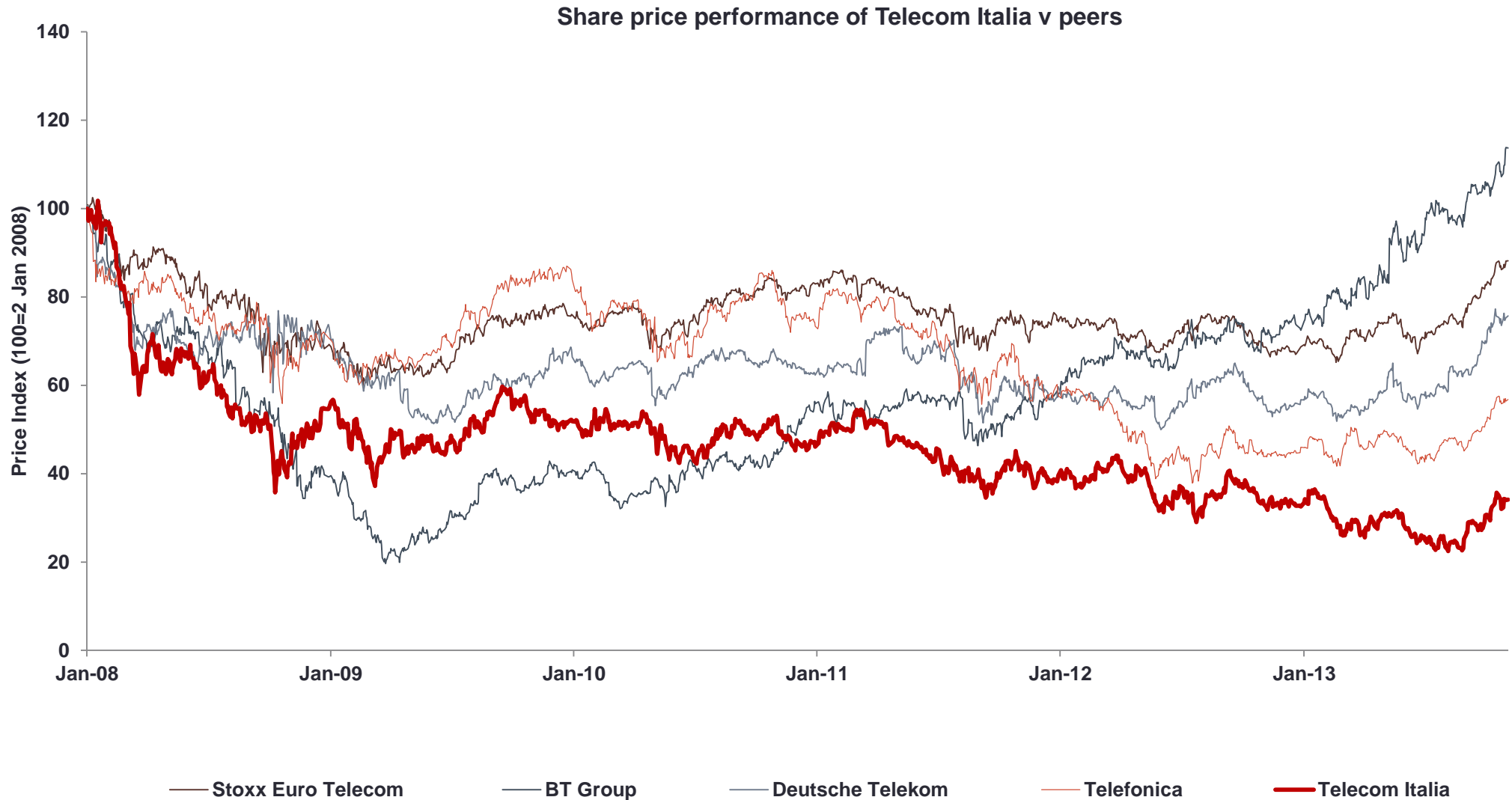
CREATING VALUE FOR ALL SHAREHOLDERS

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Prepared by FINDIM Group SA

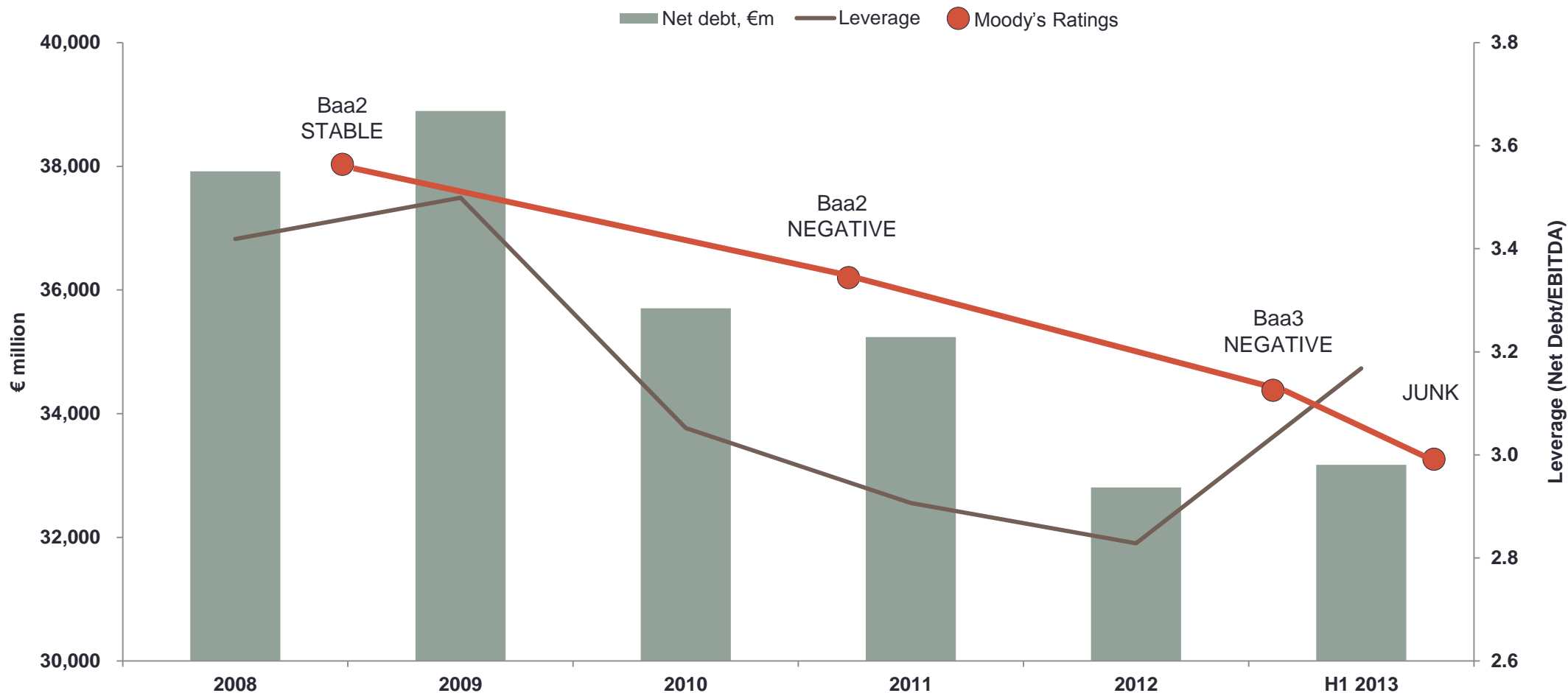
6 November 2013

# Why we are here today: consistent poor performance



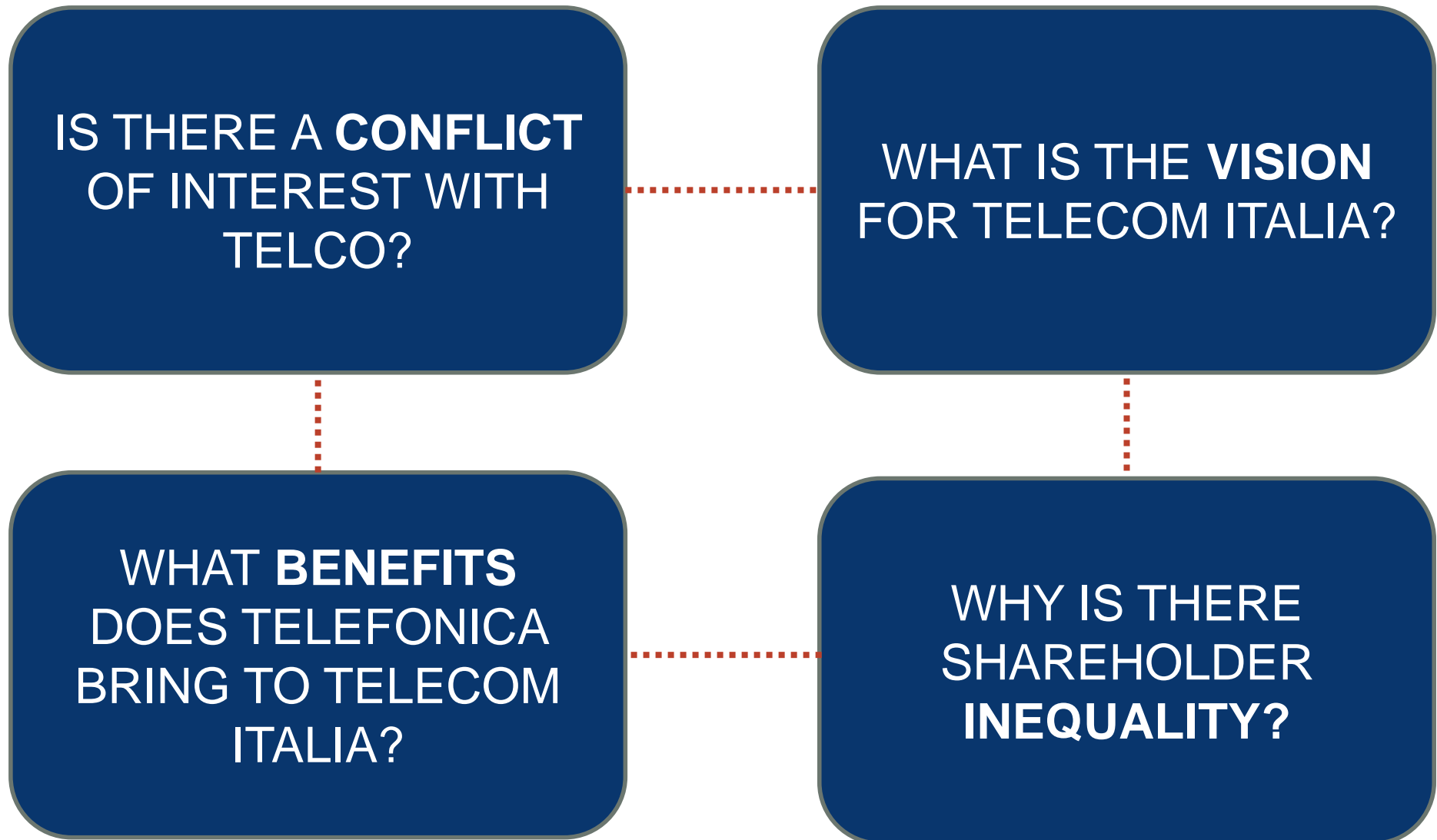
# Why we are here today: tactical focus on debt reduction not solving the underlying issues

Net Debt, Leverage and Credit Ratings for Telecom Italia, 2008-2013



Leverage for H1 2013 based on annualised EBITDA calculated using H1 '13 results and net debt as at 30 June 2013. Net debt calculated as gross financial debt less cash and cash equivalents.

# Why we are here today: conflicted Board and shareholder inequality



# An Alternative Vision to Consider

# Creating long term value for all shareholders

**1** New democratic, independent Board that will fairly represent all shareholders.

**2** Defer sale of TIM-B until business strategy is optimised and market environment can yield maximum price.

**3** Execute new group strategy focused on driving organic growth from the existing portfolio and through partnerships.

**4** Address leverage without selling core assets.

# Organising TI into three capability-based operating units can facilitate organic growth

1

Encourage each unit to adopt best practice.

2

Facilitate business heads to think outside the box to capture new growth opportunities.

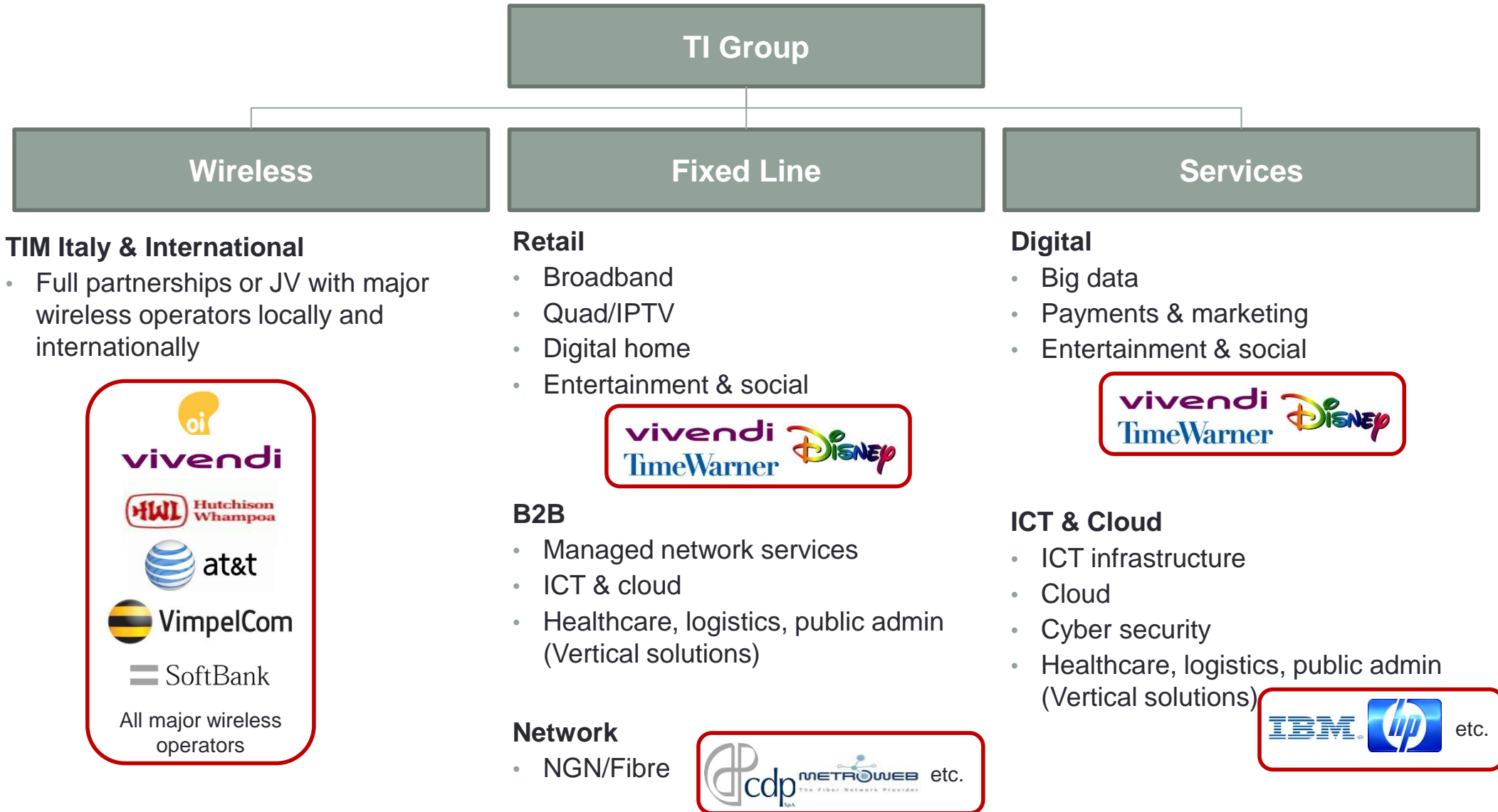
3

Allow business to form strategic partnerships (best-in-class).

4

Create environment for businesses to evolve from monopolistic-utility mind-set to entrepreneur-growth mind-set.

# Illustrative “partnering-for-growth” vision





# Example partnering potential: with GVT in Brazil

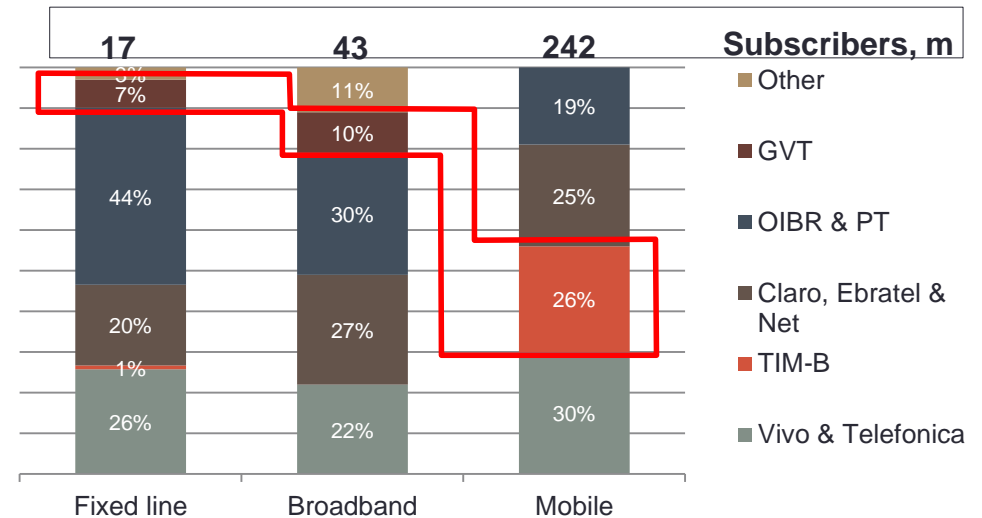
**Would an impartial TI Board seriously consider a potential partnership if the valuation was reasonable?**

- GVT is recording rapid growth and considerable scope for expansion.
- A GVT + TIM-B combination is of concern to other carriers and would make for stronger competition – especially to Vivo/TEF.

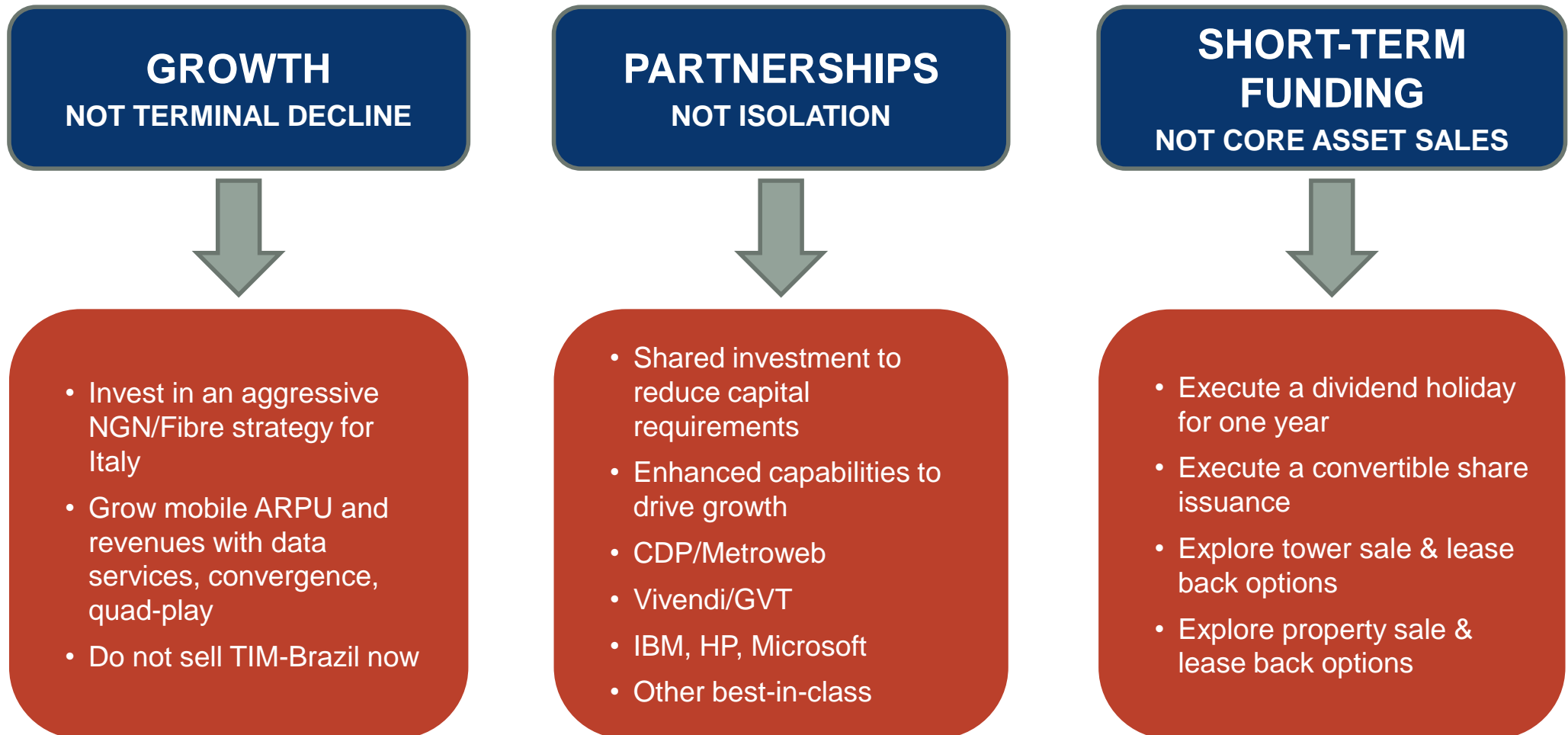
Regional Brazilian services and competitors

	REGIONS					
	1		2		3	
Competitive Presence	Fixed	Mob.	Fixed	Mob.	Fixed	Mob.
GVT	✓		✓			
TIM-B		✓		✓		✓
OIBR & PT	✓	✓	✓	✓	✓	✓
Claro, Ebratel & Net	✓	✓	✓	✓	✓	✓
Vivo & Telefónica		✓		✓	✓	✓

Fixed line, broadband and mobile subscribers in Brazil



# Long-term vision benefiting all shareholders equally



**Deleverage Through a Growth Agenda**

# Questions minority shareholders should ask

**1** Why would Telco sell shares to TEF if the upcoming plan was solid and attractive?

**2** Why should Telco receive €1.09/share vs ~70cents for the rest?

**3** Would Telco vote for a GVT-style deal if it creates a stronger competitor to Vivo (TEF)?

**4** Can non-TEF members of Telco act impartially given the call option?

# Appendix 1: Why Should Performance to Date be Challenged?

# Deterioration over six years

SHARE PRICE

**-70%**

€2.35 TO €0.71

LOSS OF  
MARKET CAP

**€28B**

RATING STATUS

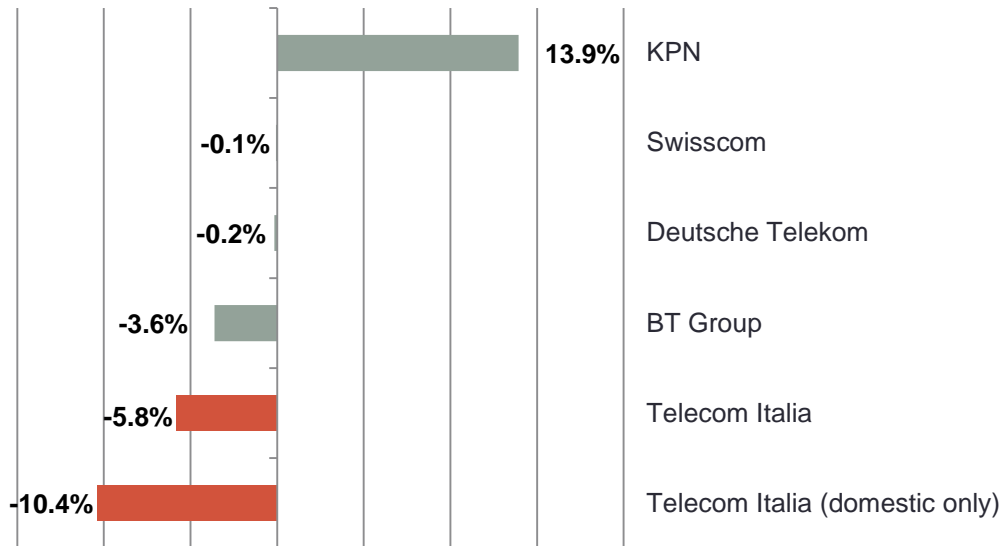
STABLE TO  
**JUNK**

DECLINE IN EPS\*

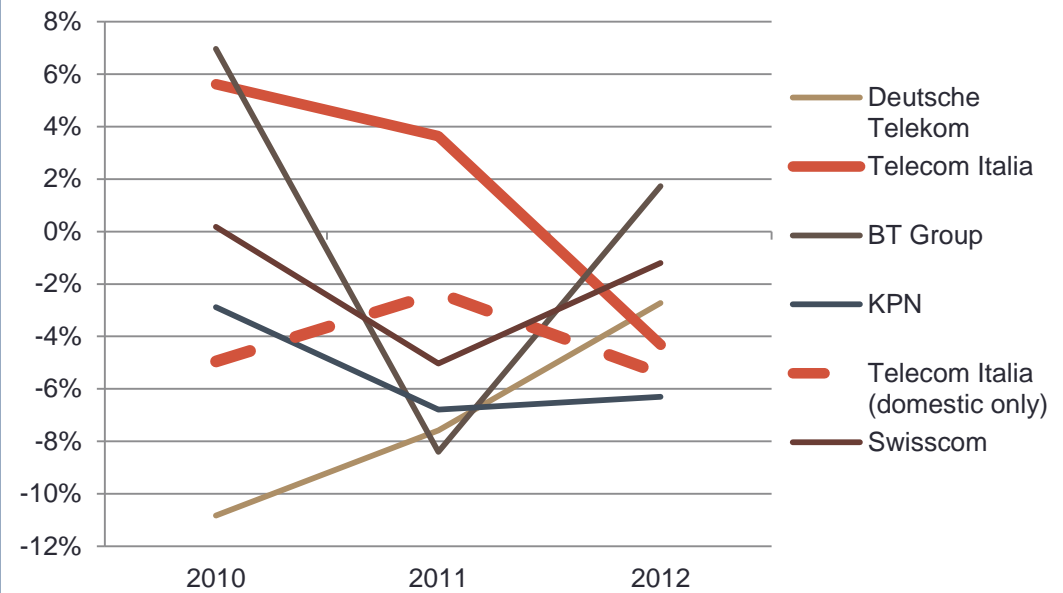
**25%**

# Deteriorating performance v peers

Revenue Growth Over Prior Year, H1 2013 YoY

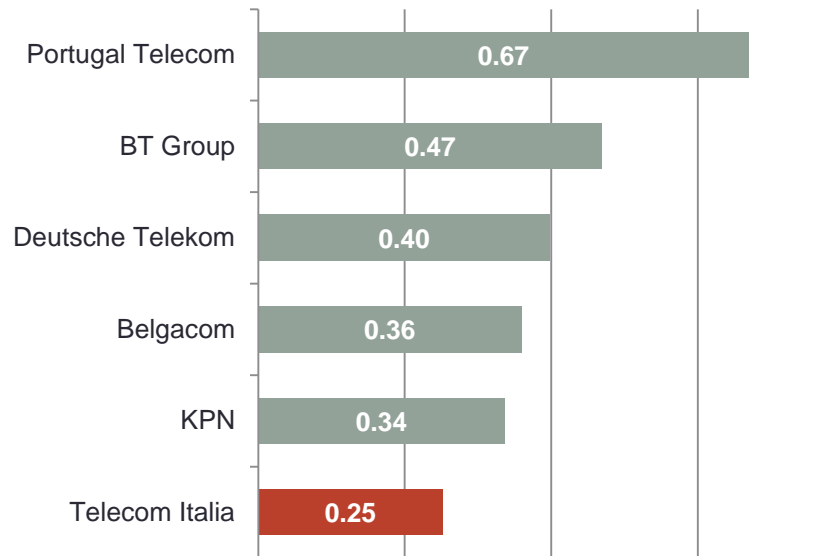


EBITDA Growth, 2010-12 YoY

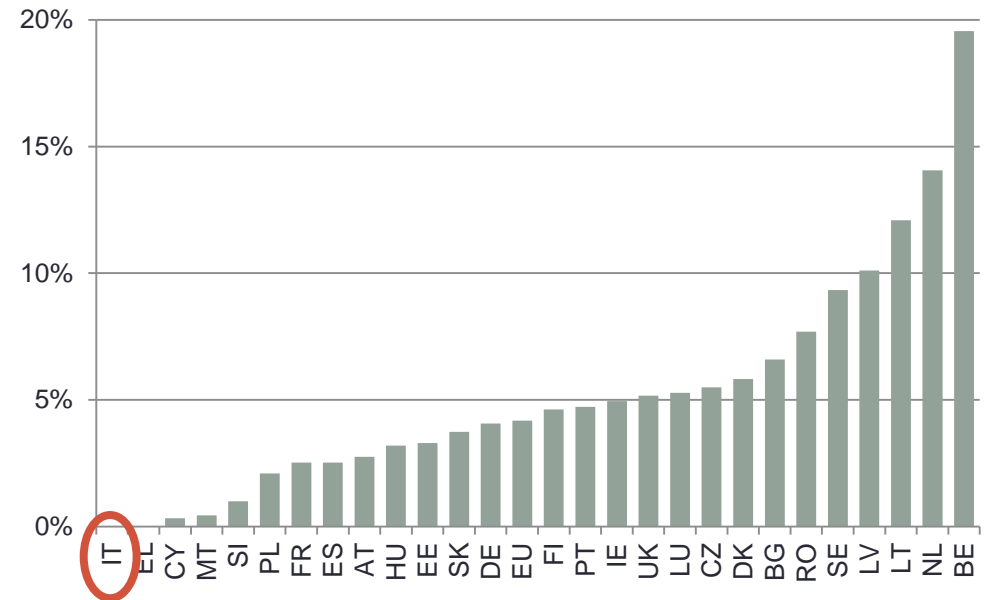


# Limited investment

Capex/EBITDA Ratio, 2010-12

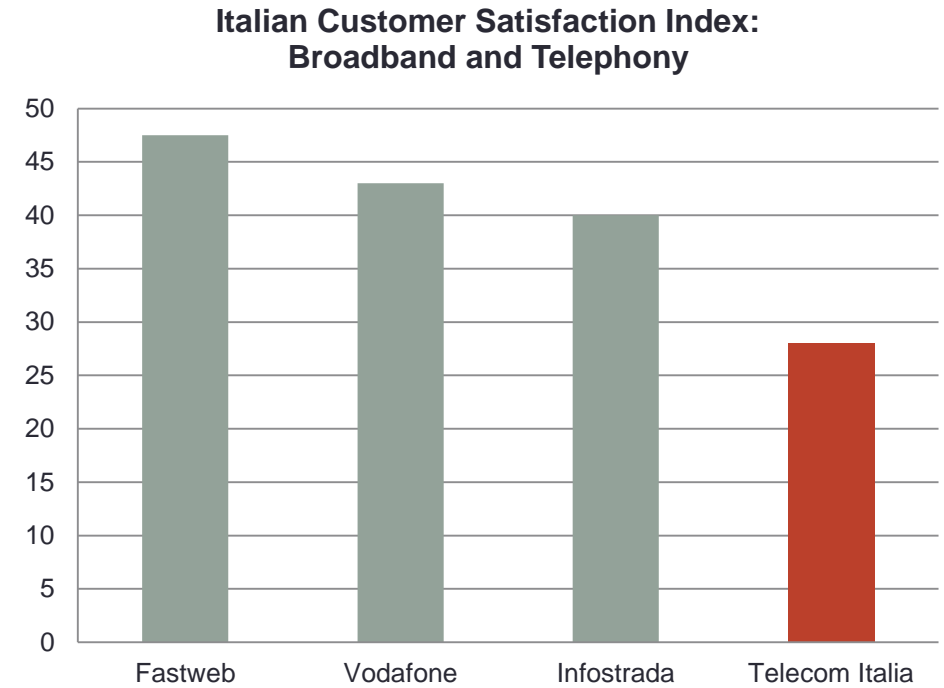
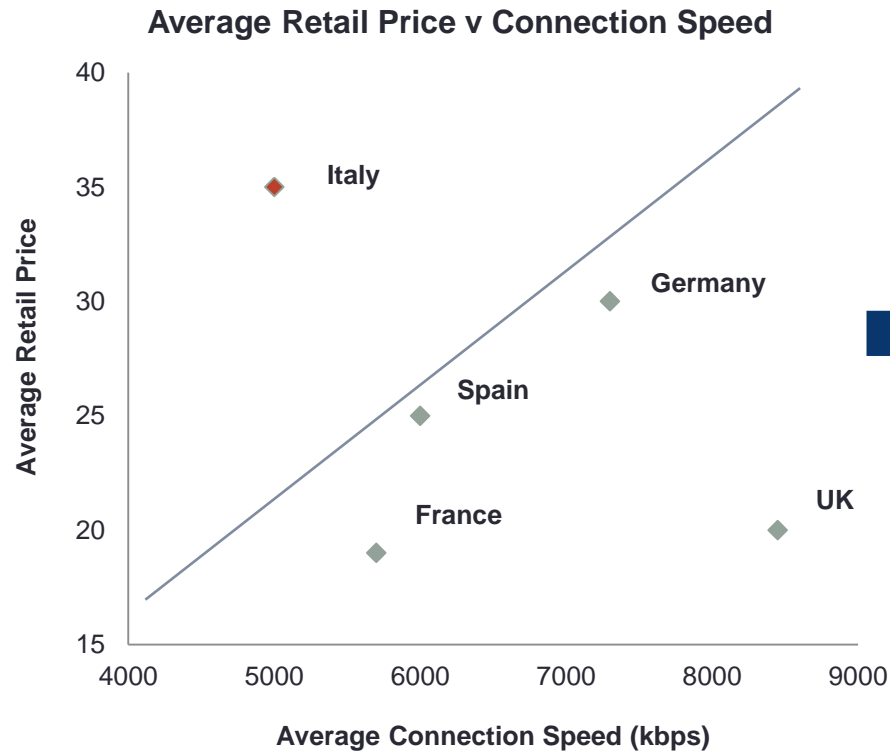


High Speed Broadband Penetration<sup>1</sup>, Jan 2013



1. High speed considered at least 30 Mbps. Total subscriptions by households and enterprises divided by population.

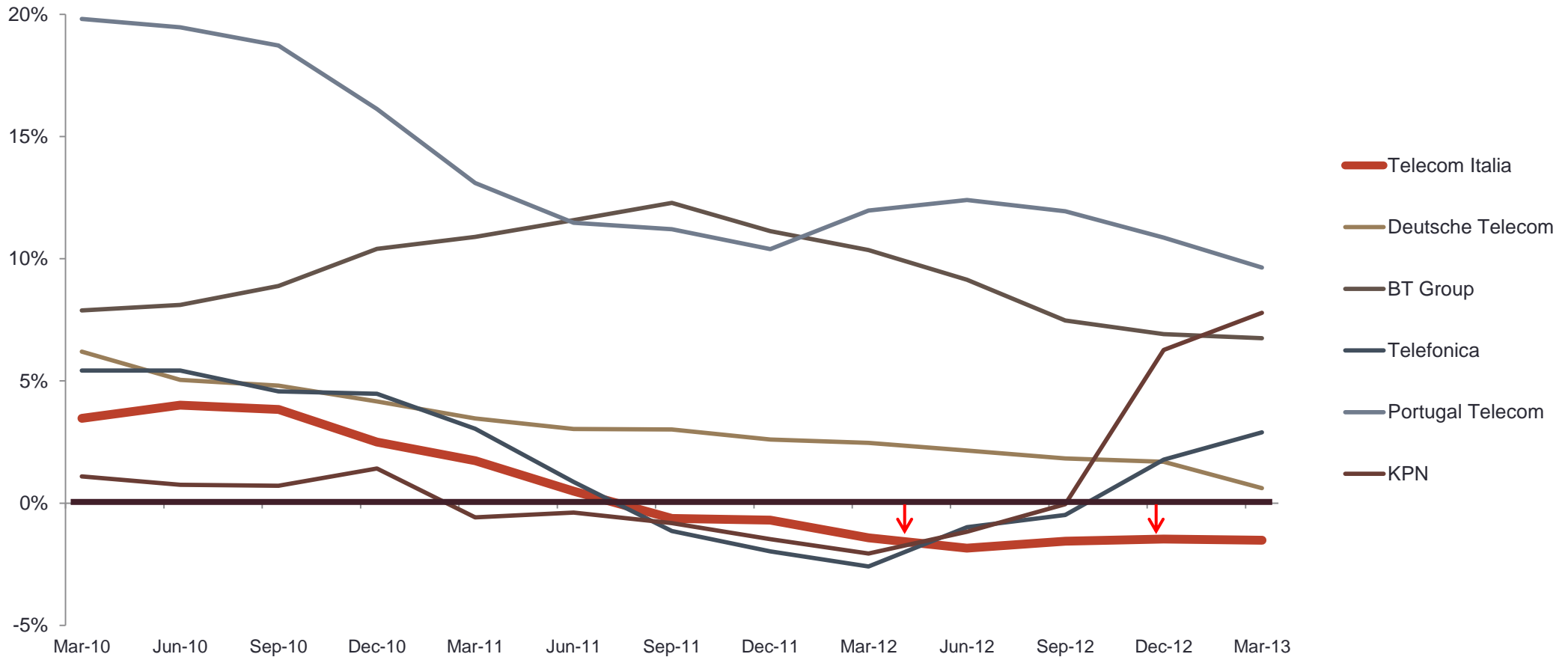
# ...resulting in poor service and dissatisfied customers





# ... and customer desertion

Broadband Subscriptions, Growth YoY



## Appendix 2: Strategy, What Strategy?

# Questionable decisions:

## Telecom Argentina's monopoly issues

**Telefónica's involvement has led to sub-optimal outcomes for TI shareholders**

**2008-2010:**

**TI likely forced into a suboptimal deal with Grupo Wertheim (W)**

- TEF's ownership of TI violated local monopoly situation.
- W litigated for 2 years; including actions with Argentine Government.
- Anti-monopoly commission and local court suspended TI options.

**2013:**

**Increased anti-monopoly pressure from Government**

- Having a TEF controlled board increases nationalisation risks.
- For the second time Argentine Planning Minister requested that the CDNC review TEF actions within Telco Holding.
- Risking exposure to competitors.

**Was Telecom Italia forced into a bad deal due to the Telefónica conflict?**

# Questionable decisions:

## Fire Sale of Hansenet

### Rushed disposal of growing broadband business did not maximise value

- 2003** Acquired Hansenet for €250m.
- 2006** Acquired Time Warner's AOL Germany Internet access business for €675m (\$870m equity value) in cash.
- 2007** EBITDA increased by 94% to €281m, 26% EBITDA on a growing basis, and with a positive cash flow on a full year basis, revenues increased by 103%.
- 2008** Telecom Italia is Germany's second-largest broadband provider.
- 2009** TI sells Hansenet to TEF at an undisclosed multiple for €900m.
- No public auction: the Company was not put up for sale.
  - Board said sale would allow TI to concentrate on its core markets of Italy and Brazil.
  - Average multiple paid for telecom services in 2009 was 7.3x EBITDA<sup>1</sup>, valuing Hansenet at ~€1.9b.
  - Findim opposed this process.

**Did Telco act in the best interest of all shareholders?**

# History of ignoring suggested alternatives

Management have not been open to alternative suggestions to improve shareholder value

In early 2009, Findim met with TI senior management and presented alternative options to consider

## Oi/TIM-B merger

- Findim met with Oi's controlling shareholders who were receptive to explore potential merger talks. No follow-up was executed by TI

## Look into partnering in network (CDP)

- Findim suggested a strategic partnership opportunity existed with CDP for investment and fibre deployment acceleration.

## Higher NGN investment

- Findim recommended higher investment in NGN to address weakening competitiveness in Italy.

## Sell Telecom Media

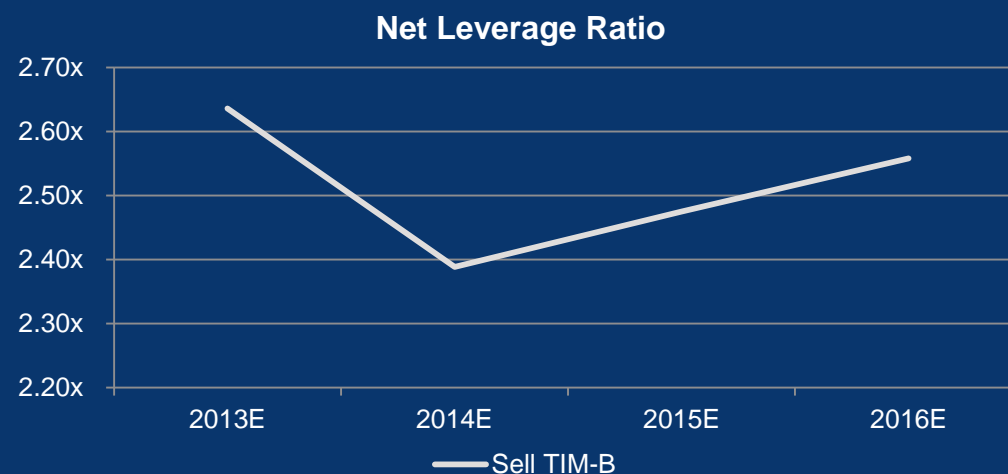
- Findim suggested to senior management the divestiture of Telecom Italia Media.

Management made no attempt to execute against any of the suggestions or follow-up with Findim

# Is now the time for Telecom Italia to sell TIM-B?

Illustrative TI Financials with Sale of TIM-B

	2013E	2014E	2015E	2016E
Revenue	28,715	20,509	19,829	19,188
EBITDA	10,920	8,465	8,056	7,670
Net Debt	28,782	20,219	19,939	19,622
Capex	4,852	5,215	4,343	3,895
Operating Cash Flow	6,068	3,250	3,713	3,775
OCF % of Revenue	21.1%	15.8%	18.7%	19.7%



- **Selling the growth engine of TI leaves diminished options for future growth.**
- **Potential of forced sale of TIM-B due to anti-trust issues, resulting in sub-optimal value**
- **Potential need to split TIM-B in order to sell, also diminishing value**
- **CAPEX will not decline due to network improvement commitments.**
- **Proceeds from a sale are not sufficient to materially deleverage the company.**
  - Lose ~€1.9b of on-going EBITDA margin; lose growth optionality.

# A forced sale of TIM-B will not realise full value

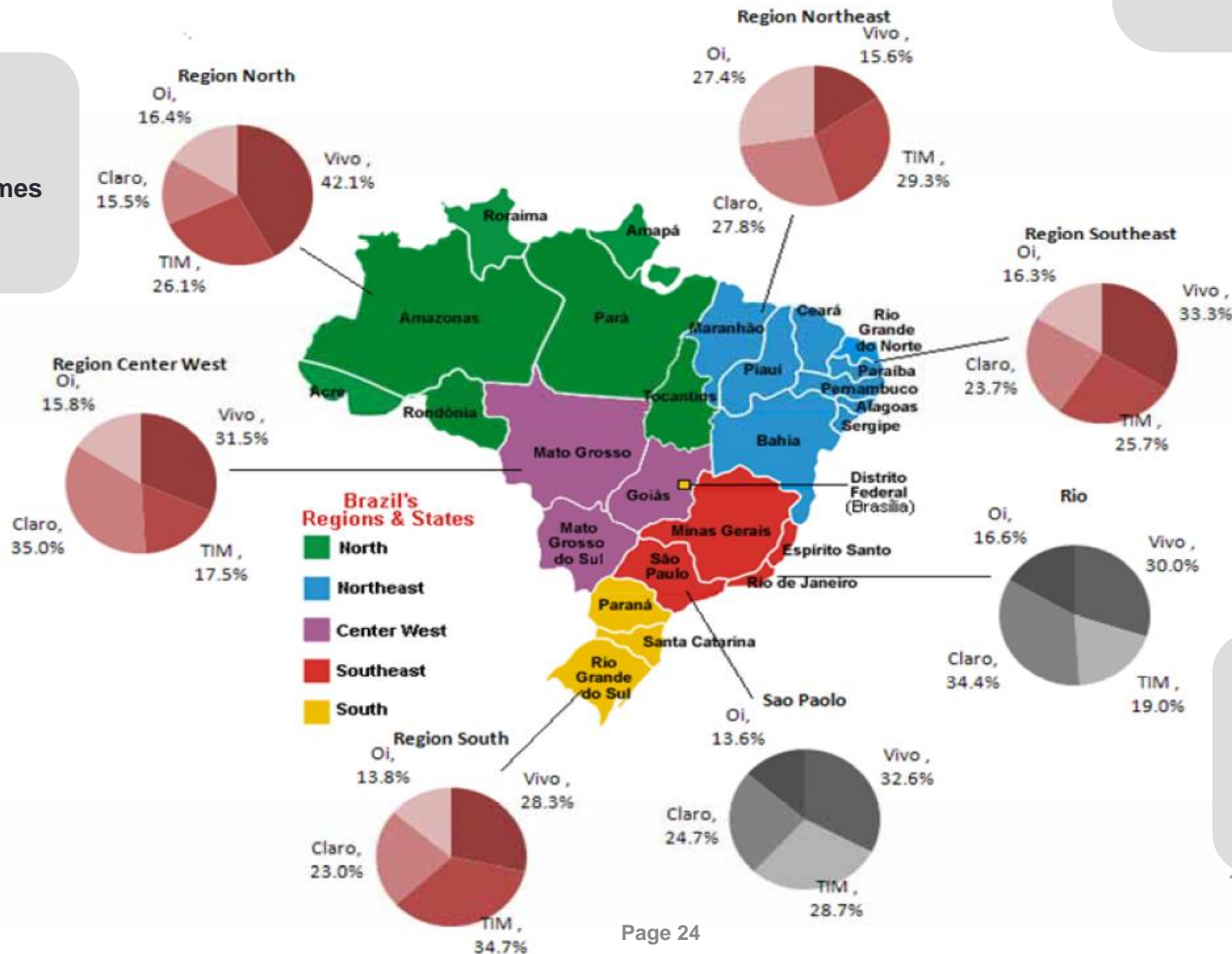
- A distressed process will yield last-minute bidding and poor multiples.
- Nobody wins if *only* Vivo, OIBR and AMX are allowed to show up.
- Sale to competitors will be scrutinised by antitrust authority (CADE) and Anatel.
- National market shares only part of the picture.
  - ... regional & state level info more complicated.
- The timing to sell now is not appropriate:
  - Potential MTR reductions are depressing valuations until elasticity benefits offset cuts.
  - Market has underperformed YTD – but mobile data revenues may boost growth.
  - 2014 World Cup considerations (e.g., visibility, migration risks).

# TIM-B's value is in its entirety

## A Break-up Destroys Entity Value

Brazil is a prepaid market where users have multiple SIM cards and use them per promotions and with friends/family on same network.

Break-up would impact on-net national call volumes and revenues.



A breakup will open complex migration and service interruption risks.



# Brazil is still an attractive market

## MISCONCEPTIONS

Substantial synergies to be derived from business combinations.

TIM-B lacks an incumbent copper network.

Brazil is mature market with mobile penetration >130%.

Slowing voice wireless revenues.



## REALITY

Synergies on their own are unlikely to be a strong argument to convince regulators unless timing is right and material customer benefits can be proven.

TIM-B can target fixed-to-mobile substitution with little cannibalization.

Brazil is a 85% prepaid market. High concentration of customers carrying multiple SIM cards – 40% of prepaid users carry more than 1 SIM card.

4G Data penetration should remain strong.

# The “white knight” scenario – where TEF buys TI post TIB-B sale – is *suspect*

## Illustrative Consolidated TEF + TI Financials (Post TIM-B Sale)



1. Net debt based as at 30 June 2013. TIM-B sale assumptions: 7x exit; 80% of cash proceed used for debt reduction; 3% transaction costs; no capital gain tax assumed. Assumes TEF net leverage ratio (net debt/EBITDA) of 2.7x for H1 2013, which remains at 2.7x in post-merger scenario.

2. Additional CAPEX assumes \$3.5B incremental capex for network upgrade commitments in Italy within the next 3-5 years.

3. Service revenue growth rates based on BofAML estimates for Q2 2012. Selected growth rates for other markets: Argentina 20.1%, Germany 3.3%, UK -2.3%, France -8.5% and Spain -11.8%.

Sources: BofAML Global Research, company financials