TELECOM ITALIA ANALYST & INVESTOR BRIEFING

2007 Results & Strategic Guidelines

Technologies and Operations Evolution

STEFANO PILERI

Safe Harbour

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Agenda

- A new “Technology & Operations” organization: rationale, objectives and benefits
- Market driven Network & IT infrastructures evolution
- Allowing TI business transformation: Convergent Services & Applications Platforms
- Improving Quality of Services
- Getting traction from efficient operations
- Conclusions

TECHNOLOGIES AND OPERATIONS EVOLUTION

Improving Innovation, Quality and Efficiency with a new focused and integrated organization

TECHNOLOGY & OPERATIONS

Main Targets

Growth	Innovative services development and time to market
Openness	Transparency to OLO's - ISP's – MVO's
Loyalty	Quality as a priority to maintain customer loyalty (+ 1 pp in ICSI vs industry average, - 3 pp in access fault rate)
Efficiency	- 10% cash cost
Scale	Global Standards and Global Procurement

- OPERATIONAL PLANNING
- OPEN ACCESS
- NETWORK
- INFORMATION TECHNOLOGY
- TECHNICAL INFRASTRUCTURES

Main Figures

- 33500 employees
- 4 Divisions and one operational planning team
- 4 B€ cash cost

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TECHNOLOGIES AND OPERATIONS EVOLUTION

Open Access New Organization

Macro-process

Planning → Process Management → Central Execution → Local Execution

Open Access model

- Technical Planning
- Access Operation Process
- Service Delivery Operation
- Service Assurance Operation
- Open Access Area North West
- Open Access Area North East
- Open Access Area Center
- Open Access Area South

Main Figures

- 20300 employees + 11000 external staff
- Focus on Quality, Efficiency and Transparency
- 0,9 B€ cash cost
- 12 millions activities per year on field (activation and repair) +14 millions remote activities per year

Main Targets

- Improve transparency in Wholesale and Retail operations
- Quality improvement on access services (from 14.5% to 11.5% fault rate reduction by 2010)
- 10% efficiency/year in cash cost resulting in a complete re-engineering of operations

Network New Organization

Macro-process

Planning → Innovation & Design → Central Execution → Local Execution

Network model

Technical Planning	Client Integration	TILAB Innovation Engineering Testing	Network Operations	Network Area North West Network Area North East Network Area Center Network Area South

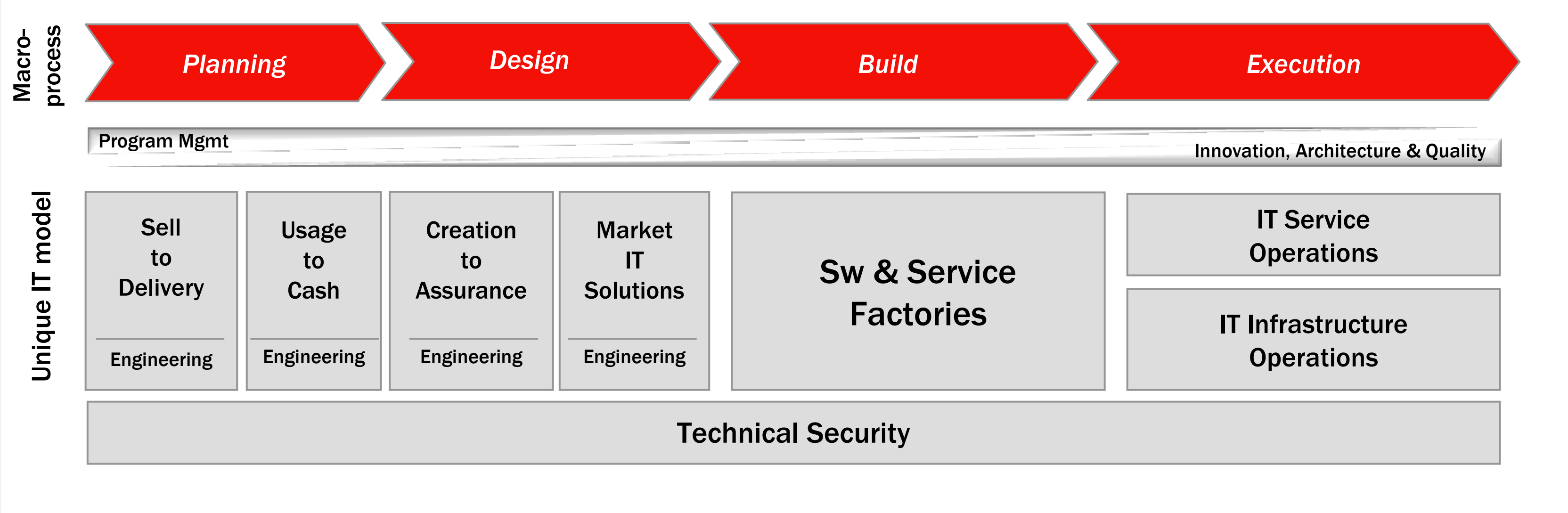
Main Figures

- 8350 employees
- Focus on Innovation, Quality and Efficiency
- 1,1 B€ cash cost
- 24 millions fixed lines and 30 millions mobile lines convergent network (domestic)

Main Targets

- Convergent NGN deployment (technologies, coverage and capacity)
- Service Platforms deployment
- 10% efficiency in capex allocation and in operations
- Service Creation Quality improvement
- Group Technology and Development Guidelines

Information Technology New Organization



Main Figures

- 3800 employees, 5600 external resources
- Focus on Innovation, Quality and Efficiency
- 0,7 B€ cash cost
- 460 IT applications for the internal processes and for ICT market offering
- 12000 internal servers, 28000 CPU, 7000 MIPS Mainframe

Main Targets

- Service Creation time-to-market improvement (+ number of releases)
- Application consolidation and renewal leveraging the convergent wave (-40%)
- Server consolidation & Data Center rationalization (from 12000 to 2000 servers)
- 20 % efficiency in cash cost allocation (avg.'08-'10)

Technical Infrastructures (Real Estate and Energy Systems) New Organization

Macro-process: *Planning* → *Innovation* → *Central Execution* → *Local Execution*

Infrastructure model:

- Technical Planning
- Property Management
- Engineering Infrastructures
- Energy Systems & Maintenance
- Technical Infrastructures Area North West
- Technical Infrastructures Area North East
- Technical Infrastructures Area Center
- Technical Infrastructures Area South

Main Figures

- 950 employees
- Focus on Quality and Efficiency
- 1,2 B€ cash cost
- 2200 Gigawatt*hour of Energy needs
- 13000 towers, 11300 buildings, 7800000 m^2

Main Targets

- Reduce Energy requirements
- Reduce Buildings and square meters rented
- Site sharing strategy (share the most of mobile sites)
- Energy Systems Quality improvement
- Sustainability and Environmental responsibility excellence

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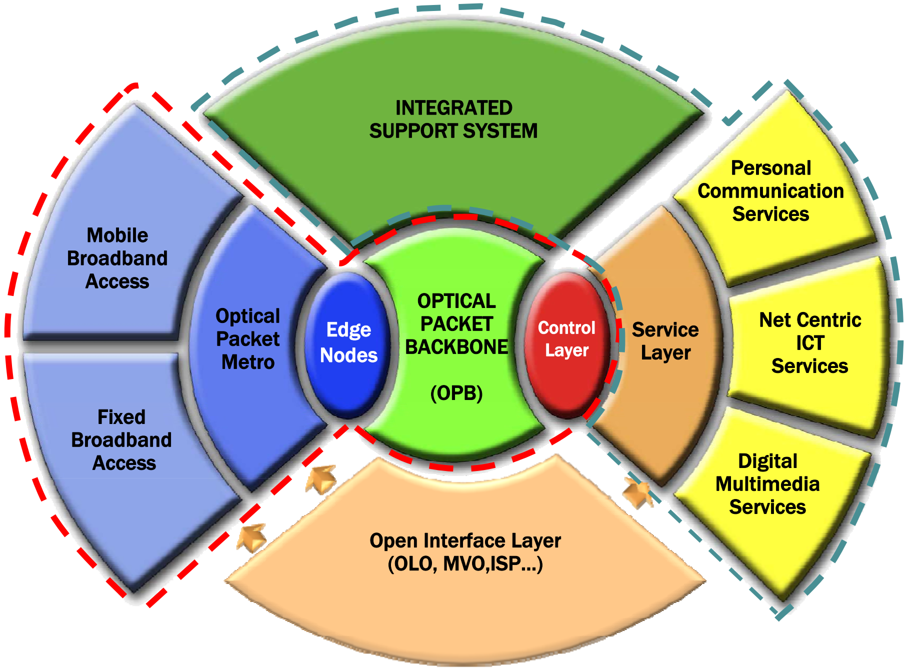
TECHNOLOGIES AND OPERATIONS EVOLUTION

Our Next Generation Convergent Network & IT Model is evolving...

PHASE 2 CONVERGENCE :
Services, applications and IT support



PHASE 1 CONVERGENCE :
access, metro and backbone

- **Convergent :** from a convergent approach in access, metro and backbone network (phase 1) to a full services, applications and integrated support systems convergence (phase 2)
- **Ultra-broadband "All IP" :** Investing in coverage and capacity of the Broadband Internet Services (500 gigabit/s in 2007, 4000 gigabit/s in 2010 expected in the IP backbone) supporting mobile and fixed data booming
- **"Quality and user friendly" :** Improving Quality of Services (access, backbone and services layers)
- **Open :** Allowing third parties to access to our Open Platform to offer their services to the final customers (OLO, MVO, ISP, ...)

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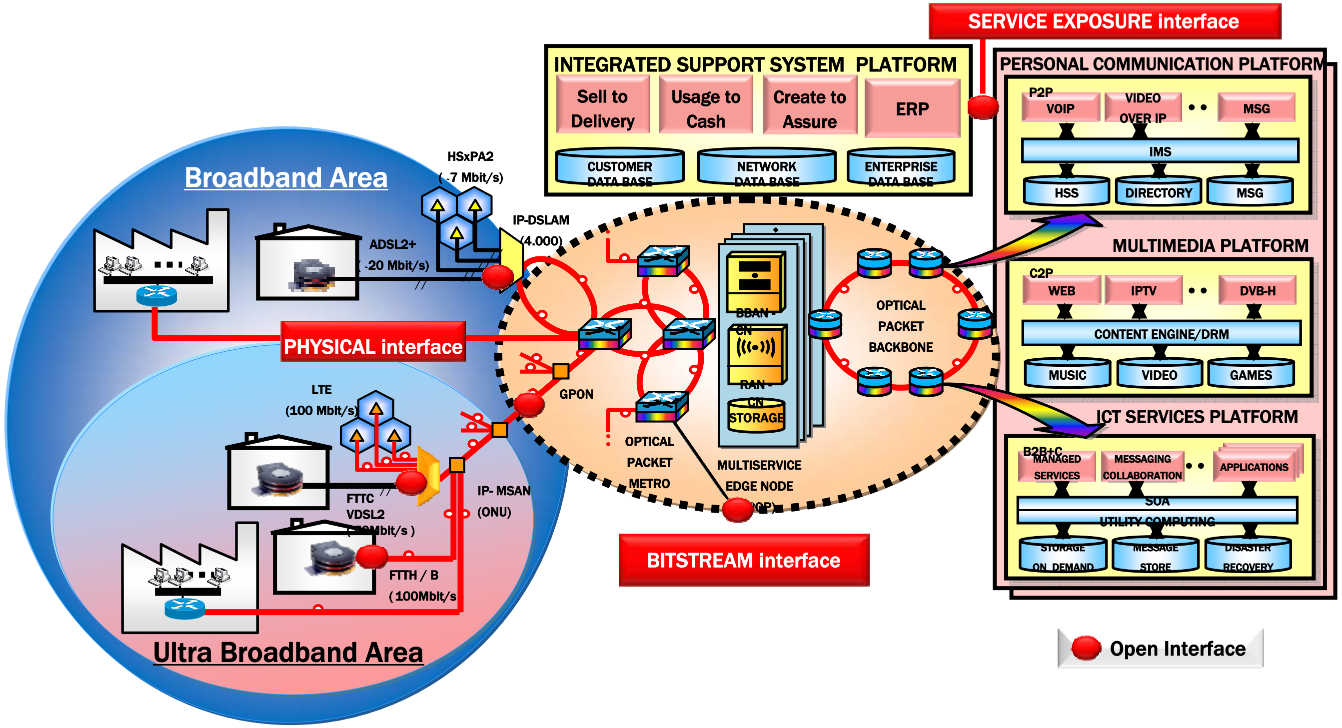
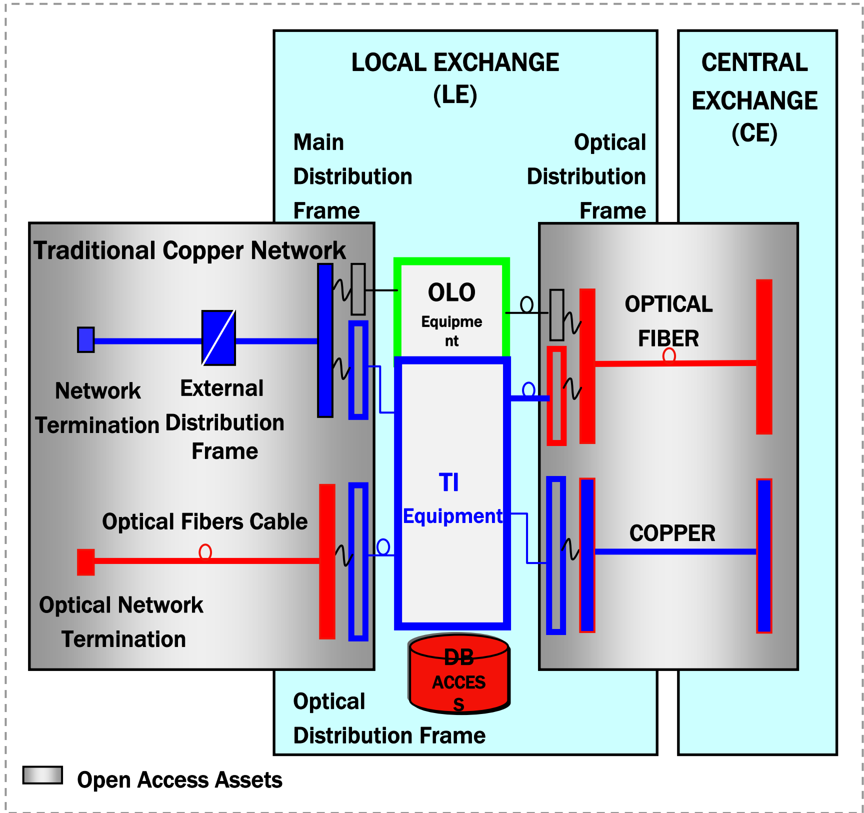
TECHNOLOGIES AND OPERATIONS EVOLUTION

We confirm the deployment of “All IP” Open NGN2 platform

- Market driven ultra-broadband access in main metropolitan areas deploying FTTx in the fixed and LTE in the mobile
- Services and Application Layer (IT based) to allow our evolution in Digital Multimedia and Networked IT services for consumer and business market segments
- 3 different kinds of interfaces to our Open NGN² (physical, virtual, service exposure)



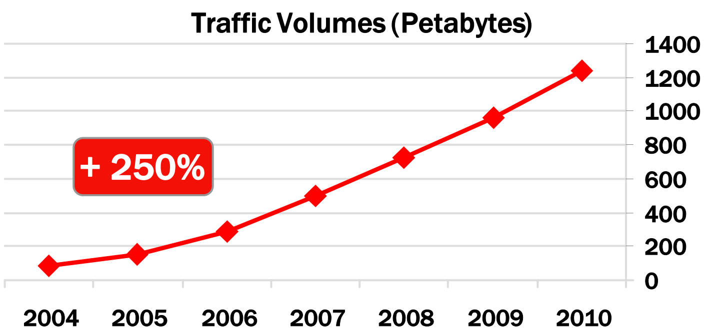
Improving our transparency and performances in the physical access with the new "Open Access" Operating Model

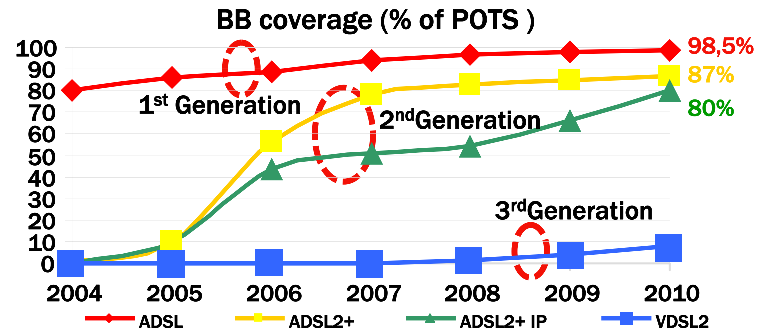


- "Open Access provides access to physical infrastructures to OLO's and TI allowing direct technical contact points
- OLO's will maintain the current interface to TI Wholesale for all the services following a "One Stop Shop" approach
- Open Access is ready to provide technical support to OLO's

Extending Coverage and Capacity in the Broadband Access

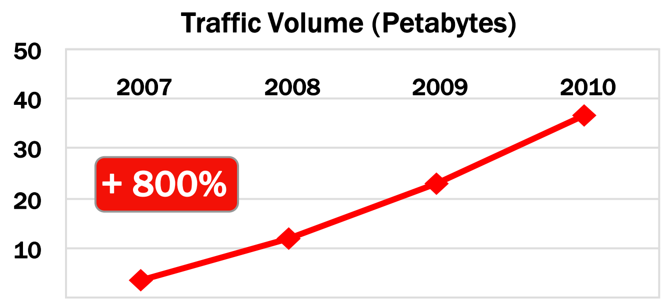
Fixed Access

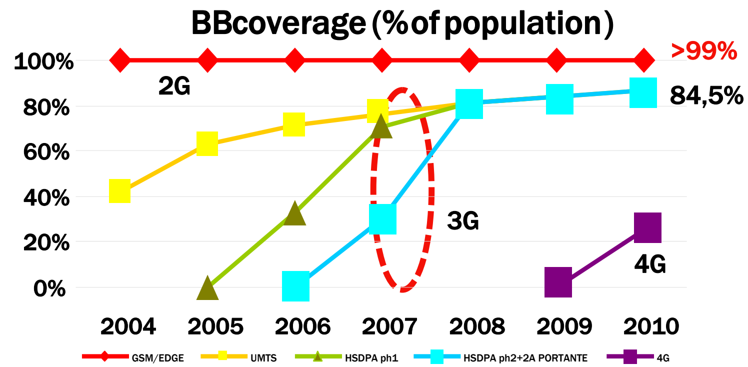




COs with ADSL	3.750	4.501	5.626	7.586	8.457	9.471	9.715

Mobile Access





node B	3.481	6.400	8.000	9.800	11.550	12.550	13.550

Deploying NGN2 optical fibers in the access: towards FTTH

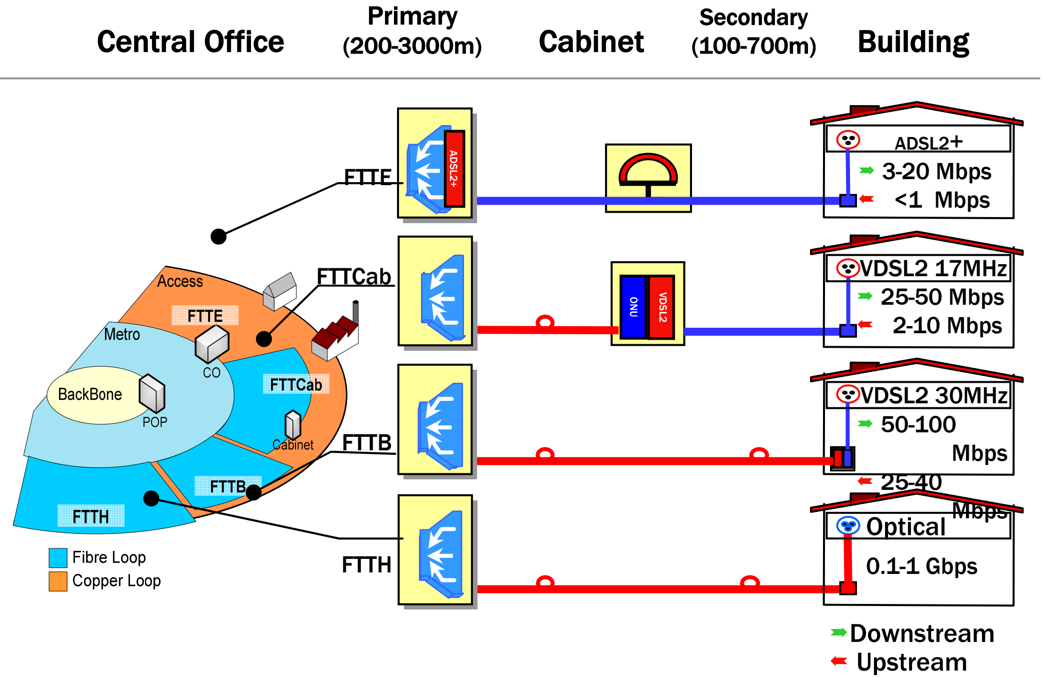
Tecnological Issues

- Growth of
  - \# broadband fixed services over copper
  - broadband mobile backhauling
  - bit rate

  will result, in the long run, as a reduction of S/N ratio and available bandwidth
- Copper network aging and the intense use of this network for broadband will require increasing operational costs

Service Enhancement

- Next generation High Definition video and multimedia services (telepresence, home working, remote learning, telemedicine) focused on emerging "green" business requirement and new entertainment for consumers can't be supported over copper network



Cash cost reduction

- Reduction of delivery and assurance / maintenance cost due to the "plug and play" approach of NGN2 services and the reduction of fault rate of a factor at least of 50 %
- Reduction of number of central office according to the new distance to the buildings that can be over 10 Km (reduction of a factor 5) and reduction of power budget per line (10W to 3 W).

Mobile Broadband Access Evolution: leveraging on a 3GPP path

The growing diffusion of flat rate charging schemes, while encouraging Mobile Data Traffic, increases the need to reduce the End to End cost per bit per Herz in the path to "beyond 3G" solutions:

Key Issues

Radio: Higher spectral efficiency, Lower latency; More Bandwidth, Higher Speed

Network: Fiber Connectivity, Optimized Backhauling, Simplified architecture

HSDPA

80% Italian population coverage by 2008

HSxPA

HSUPA
1.5 - 5.8 Mbit/s
HSDPA
7.2 - 14.4 Mbit/s

eHSPA

64QAM,16QAM
MIMO 2X2

UMTS 900/1800

Micro coverage
Flat Architecture
RoF NGN2
Femto cells
Terminal Availability
Spectrum Refarming

3GGP LTE

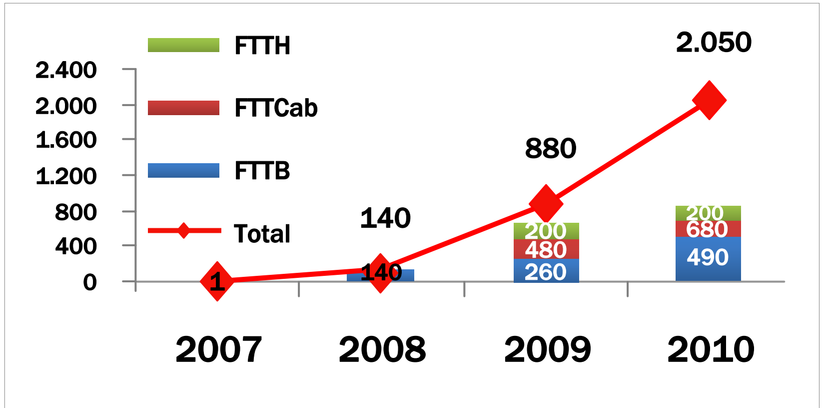
Trials since 2008/2009, Fully interoperability with 3G network (No Overlay)

READY/ PLANNED

UNDER INVESTIGATION by TI

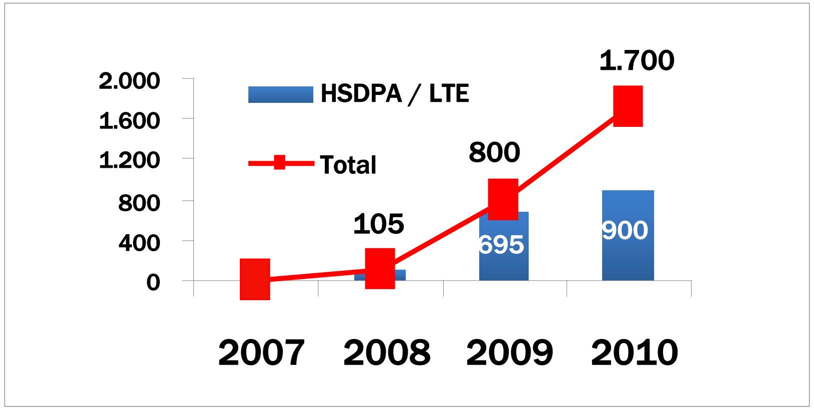
Open NGN2 Network Evolution - FTTx Deployment

of FTTx accesses



	2008	2009	2010
Cabinet @ building	7.200	21.200	48.000
Street cabinets	0	1.600	4.600
Total FTTx cabinets	**7.200**	**22.800**	**52.600**

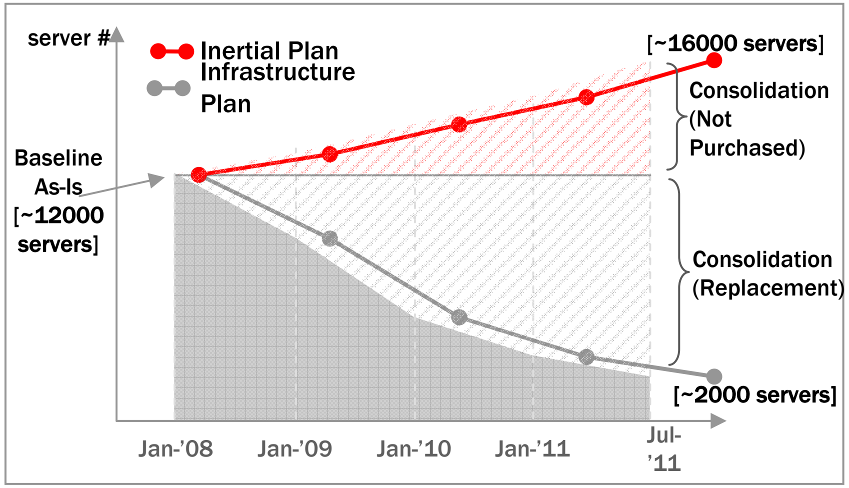
of 3G/4G fiber connected antennas



	2008	2009	2010
3G/4G Coverage (% of population)	0,8%	7%	17%

Next Generation Data Center

Server Consolidation Project



Virtual Data Center (Campus Project)

Roadmap

Phase 1 – NGDC (12000 servers)

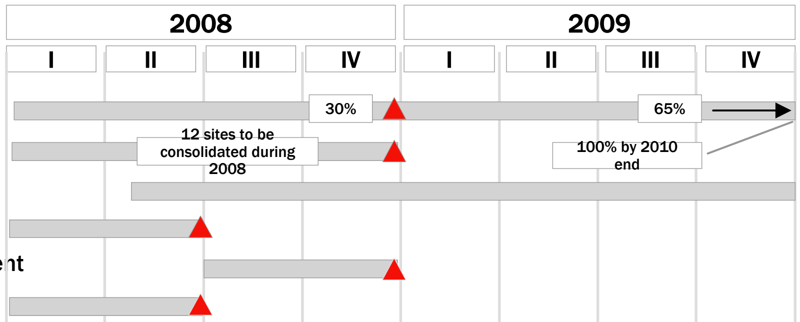
Phase 2 – Sites Consolidation

Phase 3 – Campus (Virtual DC)

Phase 4 – Phase 1 DC reinforcement

Phase 5 – Phase 2 DC reinforcement

Phase 6 – Tiburtina DC rationalization



Economics

- Saving OPEX per year (target)
  - 15 Mln€
- Cumulative Net Savings (5 years)
  - 93 Mln€ (breakeven in 3 years)
- Energy Saving (2008) - 14 GWh

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Designing our growth: Consumer Services Suite Evolution

Unified Convergent Messaging	IPTV – HDTV - multiroom Mobile Digital Content (iTIM)	Web & Mobile Advertising
Convergent Voice in Mobile Platform	WEB 2.0 (ugc, community)	M - Payment

Broadband Convergent Internet

- Web Browsing
- Mobile Browsing

Assistance plus

- Help Desk, on site assistance
- SLA
- Security Management

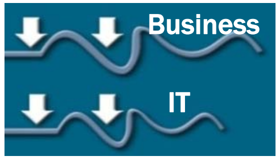
Broadband Connectivity (xDSL2 - HSxPA2 – GPON)

Designing our growth: Consumer Services Suite Evolution

High Definition Telepresence	SaaS : Document Management	Infomobility
Unified Convergent Messaging	SaaS : CRM & ERP	eHealth
Fixed-Mobile Virtual Network	Back up, Disaster Recovery	Machine to Machine (Z-SIM)
Voip (IPPBX, IP Call Center)	Net Computing	Wireless Sensor Networks

Broadband VPN

- Web + Intranet + Collaboration
- Mobile Office

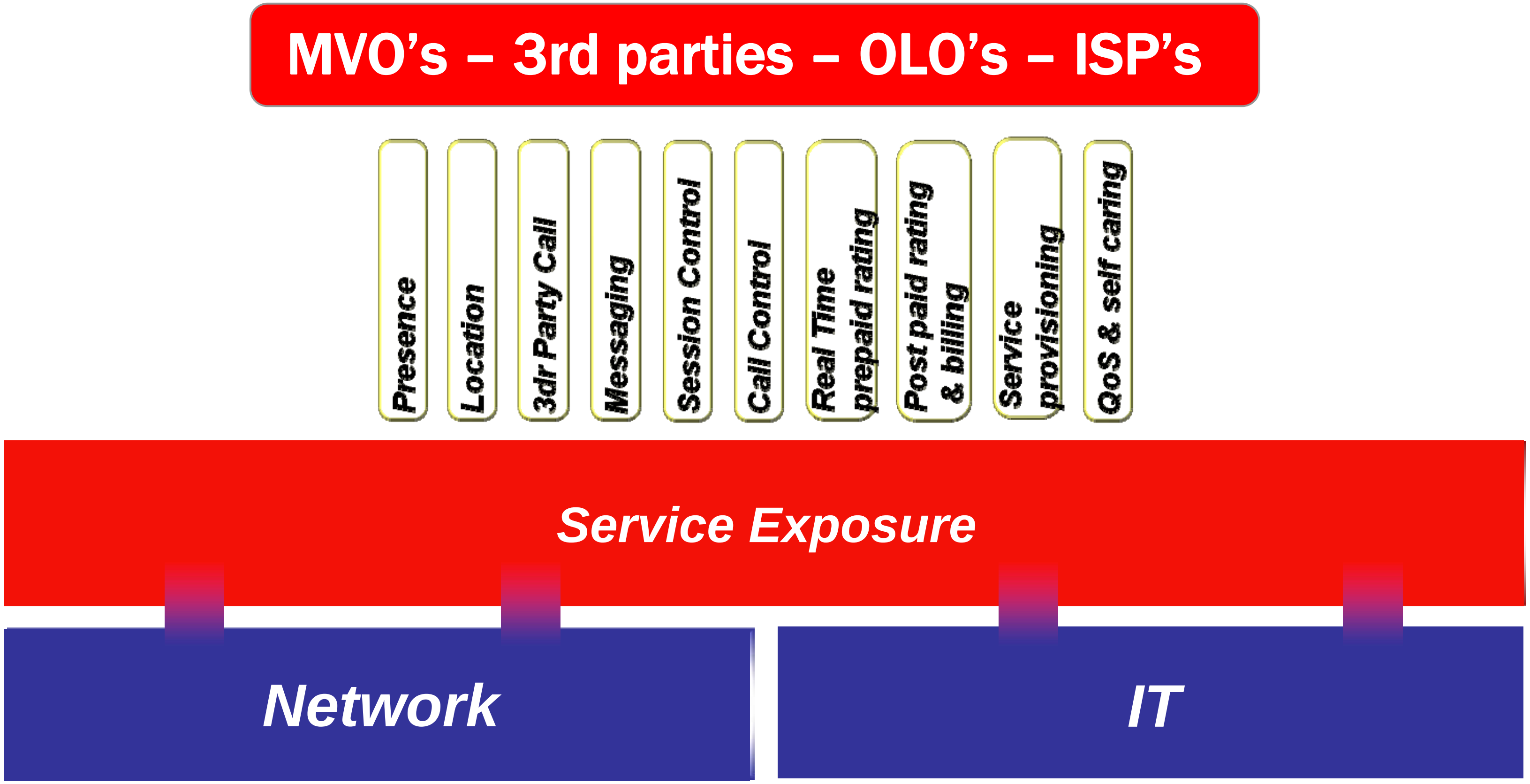


Assistance plus

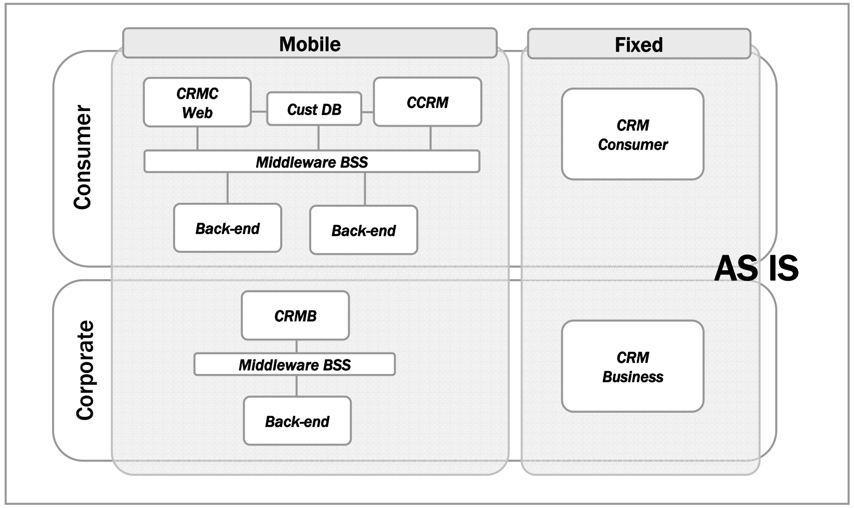
- Help Desk, on site assistance, SLA
- Device Management
- Security Management

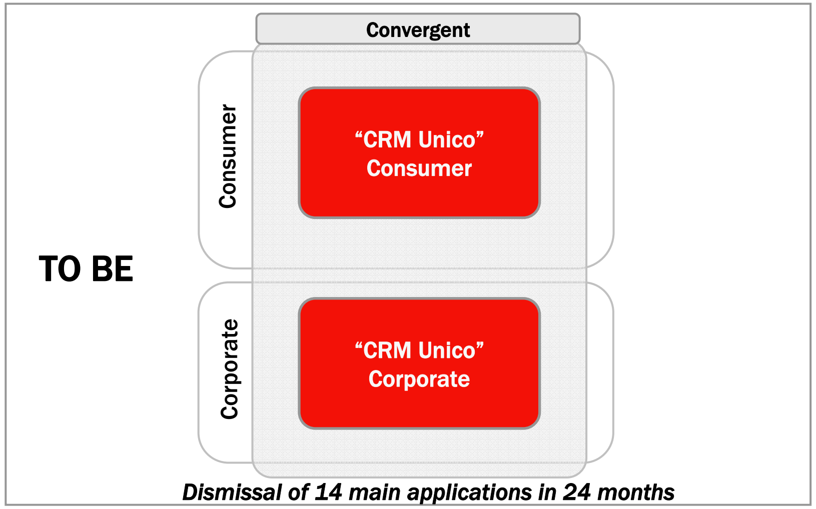
Broadband Connectivity (xDSL2 – HSxPA2 – GBE)

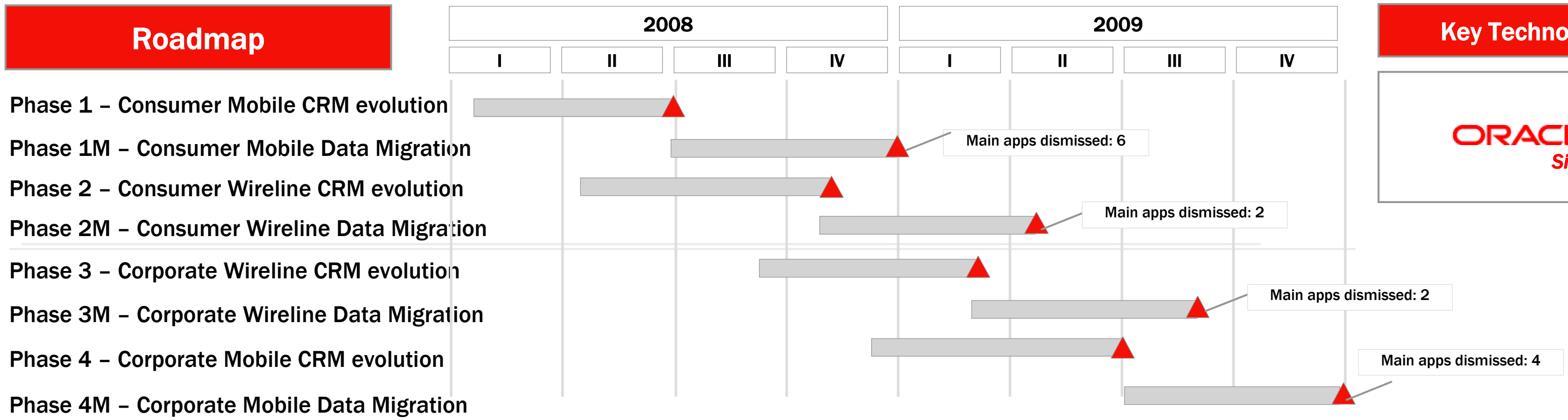
Designing our growth: a new Wholesale and B2C Services Suite



Enabling our Business transformation: Convergent "Sell-to-Delivery (CRM)" IT application



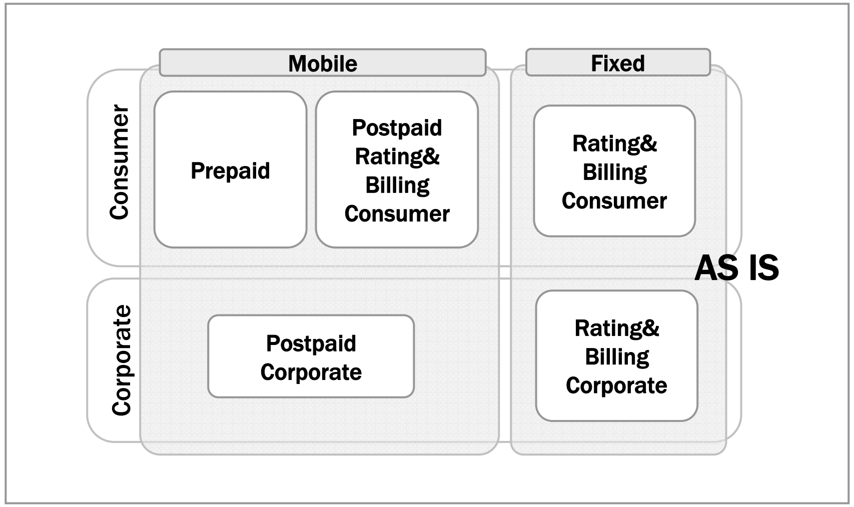


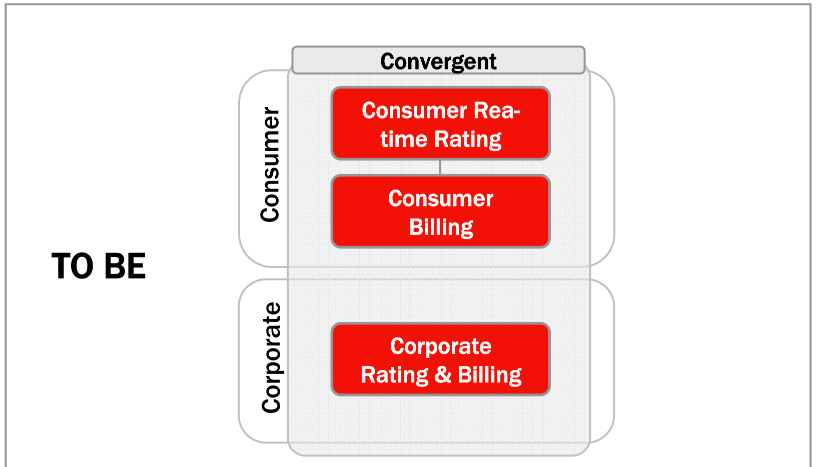


Key Technologies

ORACLE Siebel

Enabling our Business transformation: Convergent “Usage-to-Cash (Billing)” IT application





Dismissal of 9 main applications in 24 months

Roadmap

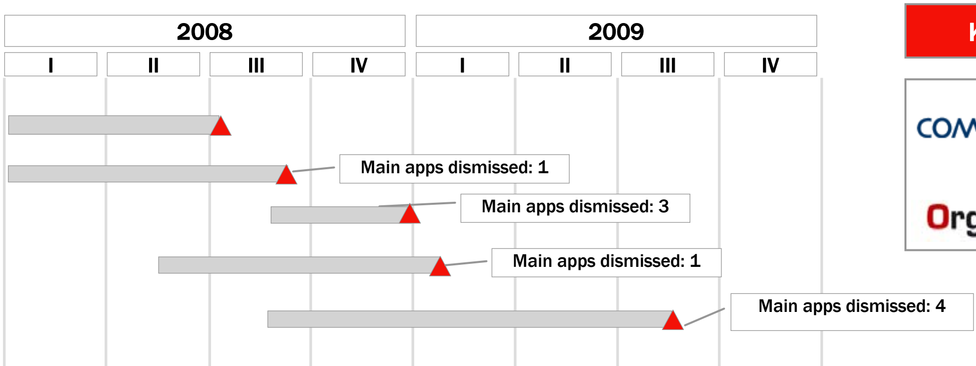
Phase 0 - Upgrade prepaid Mobile

Phase 1 – Upgrade Billing Consumer - Wireline

Phase 2 – Billing Consumer - Mobile

Phase 3 – Billing Corporate - Wireline

Phase 4 – Billing Corporate - Mobile



Key Technologies

COMVERSE
ORACLE
Orga Systems.

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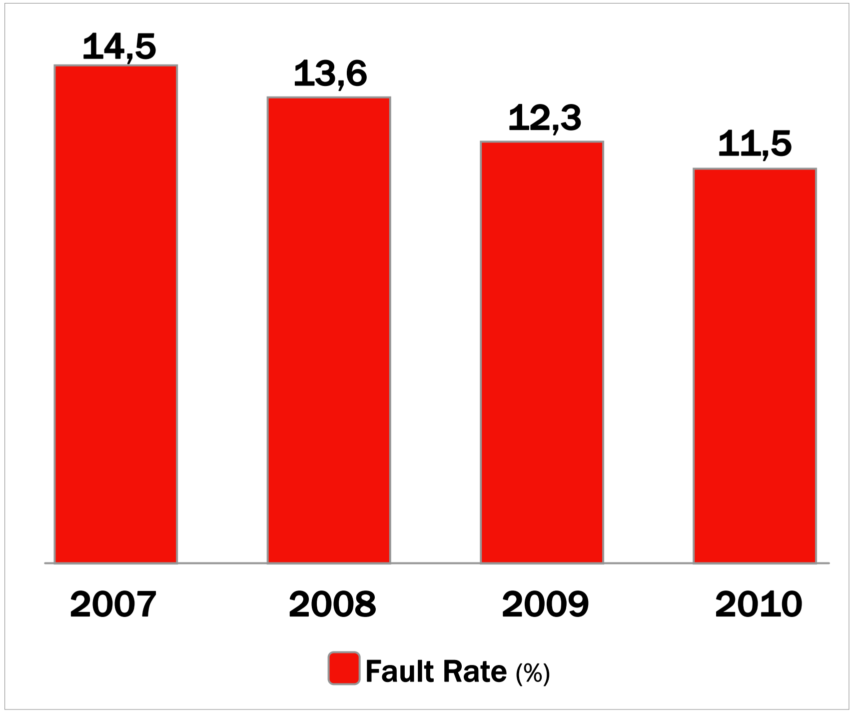
Quality of Service KPI improvement: Access

- 100 M€ / year Investment Plan in preventive maintenance of physical access network
- Open Access commitment on reactive and proactive maintenance and partnership plan with other access network installers
- Improvement of Diagnosis and Dispatching processes by sophisticated Information Systems
- Best practice sharing with Telefonica and start up of a main reengineering process program



Fault Rate (%) = $\dfrac{\textit{\# Trouble Ticket with field reparation for POTS lines (Business+Consumer)}}{\textit{\# avg POTS (Business+Consumer) lines per year}}$

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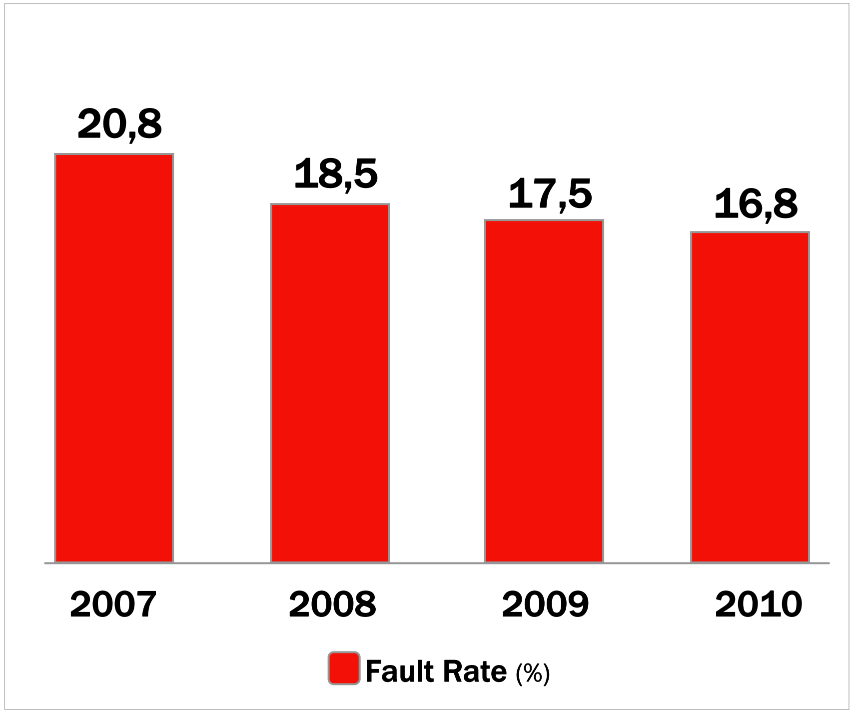
TECHNOLOGIES AND OPERATIONS EVOLUTION

Quality of Service KPI improvement: Fixed Broadband

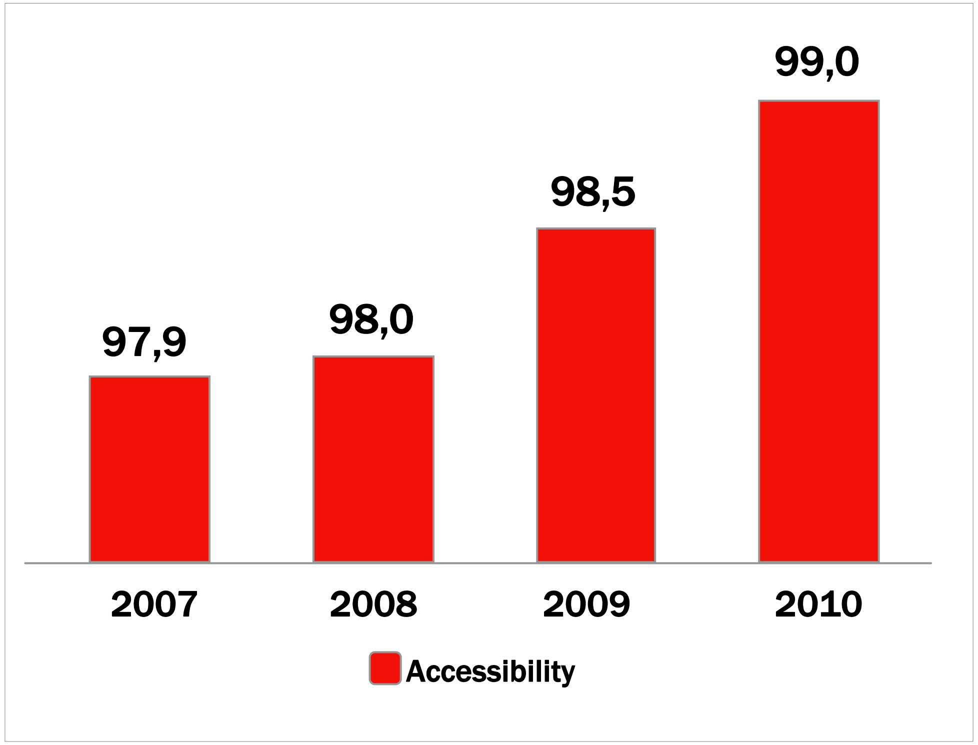
- Improve stability and performance of broadband network (tuning of broadband parameter)
- Improve MTTR using enhanced diagnosis and testing tools
- Reduce network saturation phenomena investing in capacity before customer complaints
- Improve stability and performance of the Access Gateway



Fault Rate (%) = $\frac{\text{\# Trouble Ticket with field reparation for BB lines (Business+Consumer)}}{\text{\# avg BB lines (Business+Consumer) per year}}$

Quality of Service KPI improvement: Mobile Broadband

- Capacity adjustment in access and core IP mobile gateway (GGSN)
- Backhauling redundancy increase and path diversification
- Reduce node B Mean Time To Repair (MTTR)
- Network Surveillance System Enhancement



(Broadband Data)

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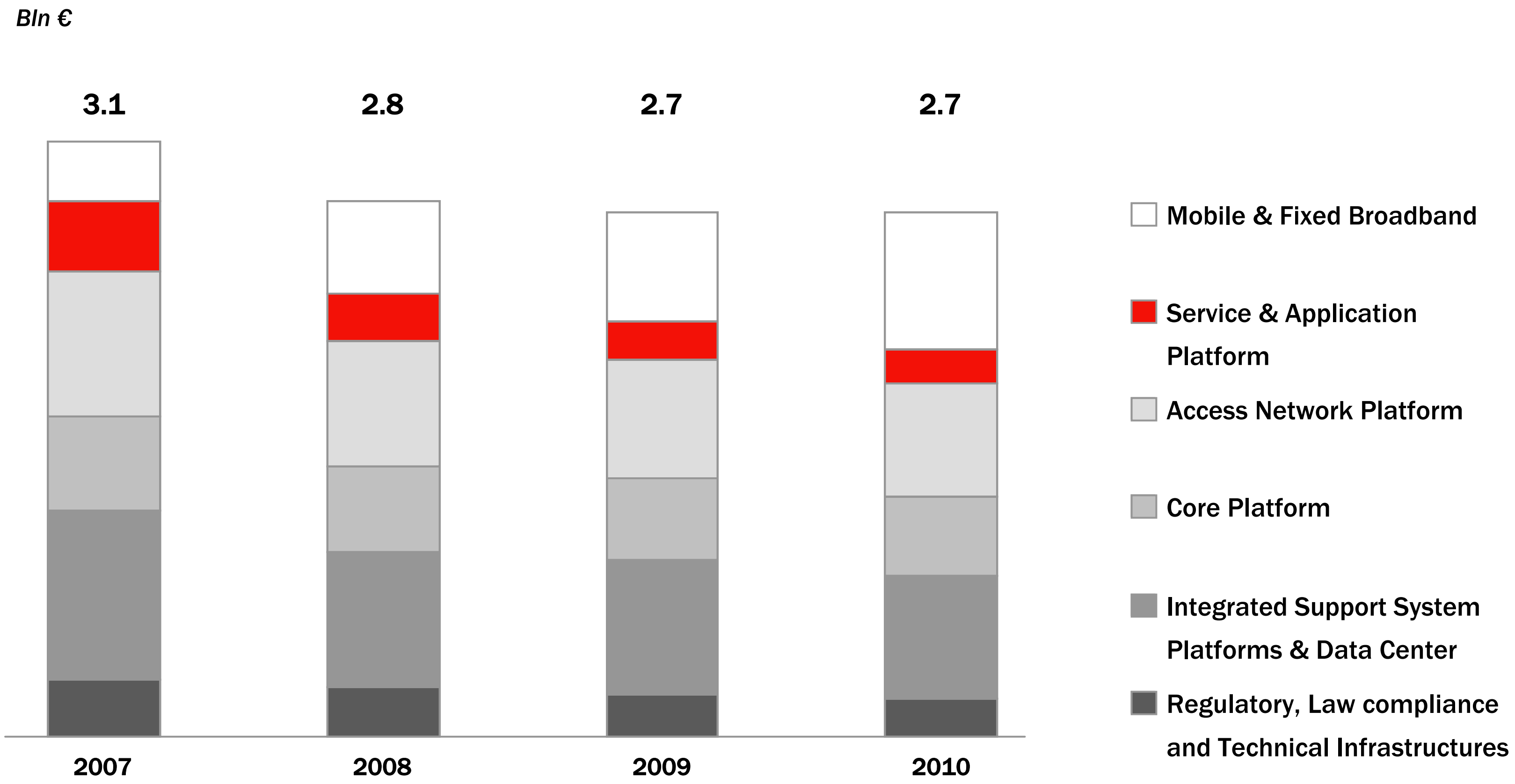
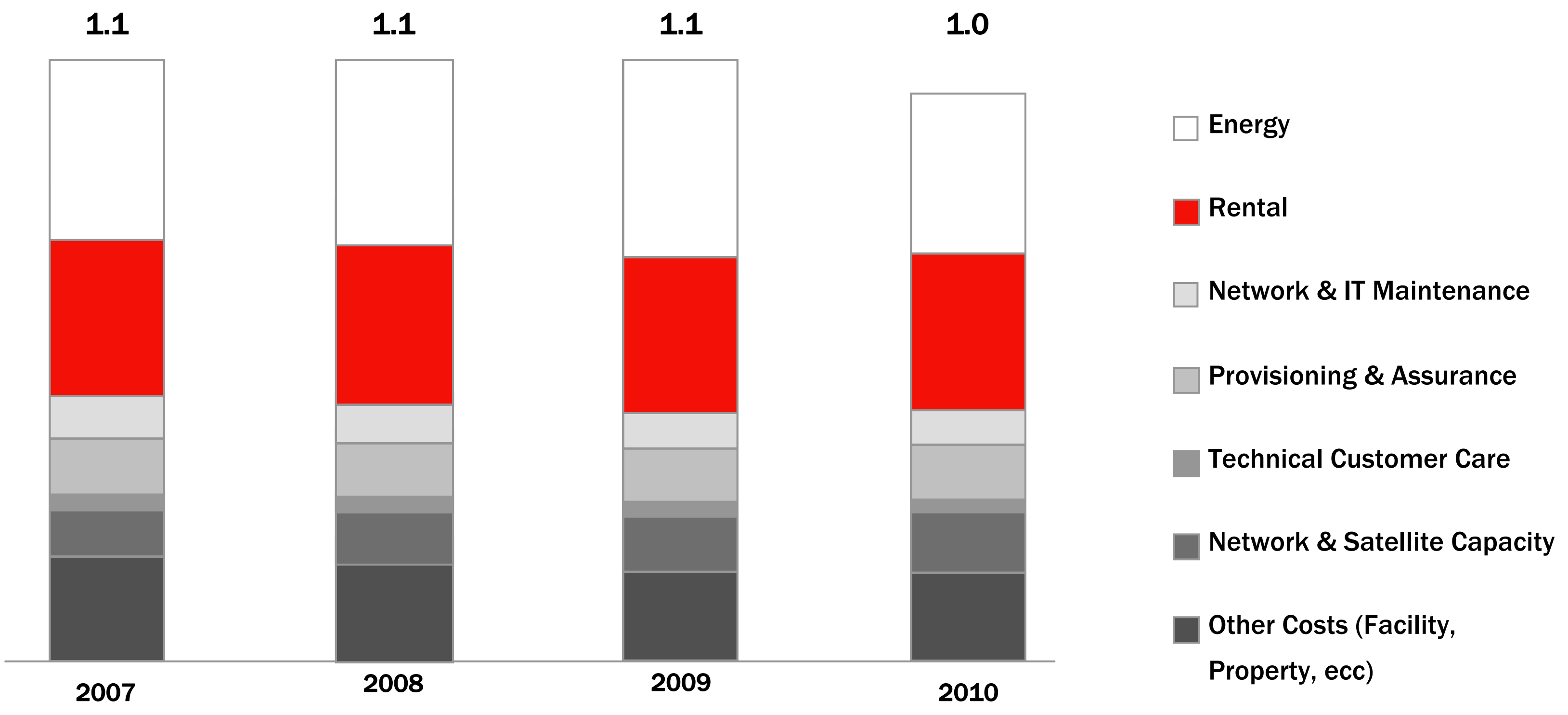
Improving efficiency: CAPEX evolution



Improving efficiencies: OPEX evolution

Bln €



TECHNOLOGIES AND OPERATIONS EVOLUTION

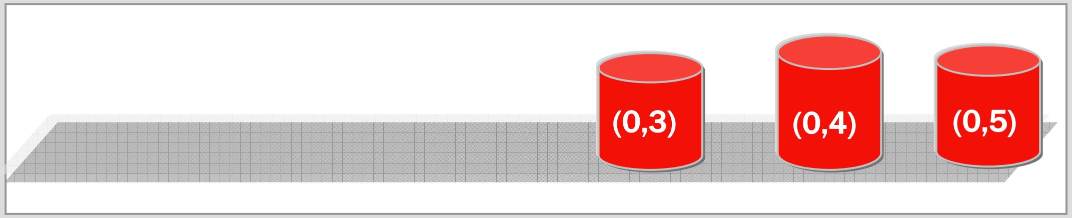
Efficiency plan summary

2008 – 2010 Efficiency results

Technology & Operations 2008-2010 Plan

B€	2007	2008	2009	2010
CAPEX	3,1	2,8	2,7	2,7
OPEX	1,1	1,1	1,1	1,0
Total CASH COST	4,2	3,9	3,8	3,7

Technology & Operations 2008-2010 Efficiency Plan vs 2007



1,2 B€

Efficiency plan per areas (2008-2010)

Cash Cost reduction 2008–2010: 1.2 Bn €

Access	0.3 B€
IT	0.55 B €
Network	0.15 B€
Technical Infrastructures	0.2 B€

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