Telecom Italia
Strategic Plan Update

OSCAR CICCHETTI
Safe Harbour

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Network Evolution

- Applications
- Aggregation of automatic components
- Services
- Ecosystems of services
- Platform APIs
- Overlays of autonomic virtualized components
- General Control & Management (Zero Touch)
- IP Platform
- Optical Platform
- Subscriber
- Access
- Aggregation
- Edge
- Core
- Other Resources/Networks/Terminals
Agenda

- Wired Access
- Wireless Access
- Core Network
- Platforms
- Capex Breakdown
Wired Access – Copper and Fiber will coexist

Copper Access Evolution

- VDSL3
- Dynamic Spectrum Management
- More xDSL efficiency & stability

2009 2010 2012 year

- Copper: continue innovation, increase performance

Fiber Access Evolution (NGAN)

- WDM PON
  - 100 Gbps down, 100 Gbps up
  - Target of 100 km
- XG-PON
  - 10 Gbps down, 2.5 Gbps up
  - Target of 100 km
- GPON
  - 2.5 Gbps down, 1.25 Gbps up
  - Up to 60 Km

2009 2010 2012 year

- Fiber: to match a symmetric Gigabit per client
Wired Access – Copper Value

Last mile length

- Relevant portion of TI asset
- Lower Average Length
- xDSL still evolving (DSM, VDSL3)

Source: Internal Estimates

High Profitability

Extention and Renewal

- +100k Households per year
- Extraordinary maintenance on most vulnerable elements

Performance Improvement

- More robust xDSL technologies in the switching centers
- Fiber + MSAN in case of Copper pairs longer than 3 km:
Wired Access – Fiber Selective Development

**Timetable Roll-out**

- Home Semi-Passed
- Home Passed

- Poor Market Demand
- Unclear Savings
- Large Investments

**Uncertain Profitability**

<table>
<thead>
<tr>
<th>Regulatory Expectations</th>
<th>Market Focus</th>
<th>Technical Solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure Based Competition</td>
<td>Business Customers</td>
<td>FTTH G-PON architecture</td>
</tr>
<tr>
<td>No Retail Obligations</td>
<td>Main metropolitan areas (Rome and Milan)</td>
<td>Innovative less expensive digging solutions</td>
</tr>
<tr>
<td>Wholesale Prices Increase</td>
<td>Wireless Backhauling</td>
<td></td>
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</tbody>
</table>
Wired Access - Evolution

Copper Network Architecture

BB Fixed – Coverage* Evolution

BroadBand Platform Investment

* Copper capex not included
Agenda

- Wired Access
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Wireless Access – Voice & Broadband

**2G evolution (GSM, GPRS, EDGE)**
- Extra capacity of GSM voice service
- Voice quality improvement

**3/4G (UMTS, HSPA, LTE)**
- HSPA+: 42 Mbps DL
- LTE: large availability of terminals
- HSPA+: 21 e 28 Mbps DL
- LTE: first data card (2G/3G/LTE) and commercial releases
- HSPA+ evolution: 84 Mbps DL
- LTE: voice support
- First handsets available

- Extended BB coverage (whole country)
- Selected areas for HSPA+ and LTE deployments based on macro, micro/pico and femto cells
- Femtocells backhauling via fixed BB connectivity
Wireless Access - Evolution

Mobile Network Architecture

Development of Radio Access Coverage

Backhauling

(unit)

Radio | Fiber | Bonding | NxE1

2009 | 2010 | 2011 | 2012

12,150 | 10,350 | 7,550 | 5,050

605 | 1,000 | 1,600 | 2,700

600 | 1,100 | 1,700

GSM/Edge | UMTS | HSDPA 14.4 | HSDPA 21/28

0% | 100% | 86% | >60%
Wireless Access - Cash Cost Reduction

3G Nodes

Capex per Node

<table>
<thead>
<tr>
<th>Year</th>
<th>Capex per Node</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>11,200</td>
</tr>
<tr>
<td>2009</td>
<td>12,200</td>
</tr>
<tr>
<td>2010</td>
<td>12,700</td>
</tr>
<tr>
<td>2011</td>
<td>13,100</td>
</tr>
<tr>
<td>2012</td>
<td>13,500</td>
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</table>

Multistandard solution

<table>
<thead>
<tr>
<th>Year</th>
<th>HSPA+ (5,000)</th>
<th>LTE (250)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>4.2</td>
<td>11</td>
</tr>
<tr>
<td>2009</td>
<td>6.1</td>
<td>30</td>
</tr>
<tr>
<td>2010</td>
<td>8.1</td>
<td>60</td>
</tr>
<tr>
<td>2011</td>
<td>10</td>
<td>97</td>
</tr>
<tr>
<td>2012</td>
<td>11.7</td>
<td>137</td>
</tr>
</tbody>
</table>

Site Sharing (k number of sites)

Rent per Site

<table>
<thead>
<tr>
<th>Year</th>
<th>Rent per Site</th>
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</thead>
<tbody>
<tr>
<td>2008</td>
<td>4.2</td>
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Mobile Petabytes

Capex per PByte

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<th>Capex per PByte</th>
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- Wired Access
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- Core Network
- Platforms
- Capex Breakdown
Core Network – Delayering toward IP over ROADM

- Large implementation of xDSL (DSLAM) IP within the access
- Progressive migration of ATM and SDH to IP
Core Network - Evolution

The Capacity Increase

- Bit rate per channel:
  - 10Mb/s
  - 100Mb/s
  - 10Gb/s
  - 40Gb/s
  - 100Gb/s
  - 2.5Gbps
  - 622Mbps
  - 155Mbps

- Innovation:
  - 1990
  - 2000
  - 2010

IP Traffic

- Capex per Petabyte:
  - 2007: 860
  - 2008: 1,350
  - 2009: 1,940
  - 2010: 2,680
  - 2011: 3,380
  - 2012

- Peta Bytes:
  - 2007: 510
  - 2008: 860
  - 2009: 1,350
  - 2010: 1,940
  - 2011: 2,680
  - 2012: 3,380
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- Wired Access
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- Platforms
- Capex Breakdown
IT Platforms

- **800 Systems**
- **380 systems**
- **260 systems**
- **180 systems**

> Interface Standardization
> Centralized Management

<table>
<thead>
<tr>
<th>2009</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>IT Systems</strong></td>
<td><strong>180 Systems</strong></td>
</tr>
<tr>
<td><strong>Managed Workstation</strong></td>
<td><strong>40,000 Thin Client</strong></td>
</tr>
<tr>
<td><strong>Server</strong></td>
<td><strong>25,000 portable PCs</strong></td>
</tr>
<tr>
<td><strong>Data Center</strong></td>
<td><strong>2,000 Servers + Virtualization</strong></td>
</tr>
<tr>
<td><strong>80 Systems</strong></td>
<td><strong>3 Campus Data Centers</strong></td>
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<tr>
<td><strong>800 Systems</strong></td>
<td><strong>2,000 Systems</strong></td>
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<td><strong>8 Data Centers</strong></td>
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Architecture Streamlining
Management Costs Reduction
Service Platforms

Reverse Revenues Trend

Applications & Platforms (1)
Broadband (2)
Access & Voice (3)

2009
7% 13%

2012
12% 16%

72%
12%
16%

Flexible Bandwidth
Enriched P2P
Self Provisioning & Self Caring

Higher Throughput
Quality Differentiation
Ultrabrowsing Experience on selected areas

Enhanced Phonebook
Enhanced Messaging
Personal Communities

Unified Messaging
IP Videoconferencing
Collaboration Tools

(1) ICT Services, BB Content (Adv., IPTV), Mobile VAS Content
(2) Mobile BB, Fixed BB (Access)
Enabling Platforms

Reverse Revenues Trend

Machine to Machine
- Smart Cities
- Digital Home
- Smart Car

Profiling & Recommendation
- Traditional Customer Profiling
- Location on Mobile Networks
- Web Profiling
- Network Profiling

Cloud Computing
- Infrastructure as a Service
- Platform as a Service
- Software as a Service

Content Delivery
- IPTV
- WEB and OTT TV
- CDN based Services

Applications & Platforms

<table>
<thead>
<tr>
<th>2009</th>
<th>2012</th>
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<tbody>
<tr>
<td>7%</td>
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<tr>
<td>13%</td>
<td>16%</td>
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Broadband

<table>
<thead>
<tr>
<th>2009</th>
<th>2012</th>
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<tbody>
<tr>
<td>72%</td>
<td>80%</td>
</tr>
<tr>
<td>13%</td>
<td>16%</td>
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</table>

Access & Voice

<table>
<thead>
<tr>
<th>2009</th>
<th>2012</th>
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</thead>
<tbody>
<tr>
<td>80%</td>
<td>72%</td>
</tr>
<tr>
<td>7%</td>
<td>12%</td>
</tr>
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Notes:
1. ICT Services, BB Content (Adv., IPTV), Mobile VAS Content
2. Mobile BB, Fixed BB (Access)
Agenda

- Wired Access
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- Core Network
- Platforms
- Capex Breakdown
Capex Breakdown

Focus on Network & IT

- Capex reduction around 20% among the 3 year Plan
- Full support of all our business commitments
Technology - Take Aways

Access Network

Increase coverage and throughput to support BB (Fixed/Mobile) development
Slightly increase in capex amount trough:
- introduction of multistandard mobile access nodes
- price decline in xDSL
- selective fiber roll out and innovative digging technologies
- cooperation with P. Administrations for Digital Divide and new networks roll out

Core Network and Service Platforms

Delaying and strengthening to support data traffic growth and effectiveness of service offering
Capex broadly slightly declining through:
- price decline in optical equipment
- smooth phase out of legacy platforms
- adoption of OTT approach in service development

IT Platforms

Integrate and empower to simplify business processes and support efficiency plan
Strong reduction in capex due to:
- integrated architecture
- virtualised infrastructures
- vendor consolidation