

Telecom Italia Sparkle



GLOBAL FORUM 2003

Rome, November 6th, 2003

Telecom Italia Sparkle

- ▶ Introducing Telecom Italia Sparkle
- ▶ Understanding the Market
- ▶ Telecom Italia Sparkle stance

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Why TI Sparkle: to strengthen TI's international position by leveraging on foreign assets and capabilities

- ▶ Telecom Italia Sparkle is Telecom Italia's recently established subsidiary operating in the **global Wholesale and International Corporate market**.
- ▶ Through TI Sparkle, Telecom Italia intends to strengthen its competitive positioning in the **international market** focusing on high growth/high value data and IP services
- ▶ TI Sparkle is **wholly owned by Telecom Italia**
- ▶ TI Sparkle is fully operational since **January 1<sup>st</sup> 2003** and is headquartered in Rome, Italy.

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### TI Sparkle: Key numbers 2003

<b>Business</b>	Revenues as of June 30	> € 840 M
	Voice Traffic Volumes	> 10.5 B Min
<b>Personnel</b>	Headcount (Italy and abroad)	~ 1.000
<b>Commercial coverage</b>	Business Partners	237 Carrier
	Connected Countries	223
	Main Offices Abroad	12
<b>Network</b>	Km of European fiber	21.000
	Km of submarine cable	360.000
	International PoPs	22
	• <i>TI Sparkle</i>	10
	• <i>Med Nautilus</i>	4
	• <i>LANautilus</i>	7

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## Telecom Italia Sparkle

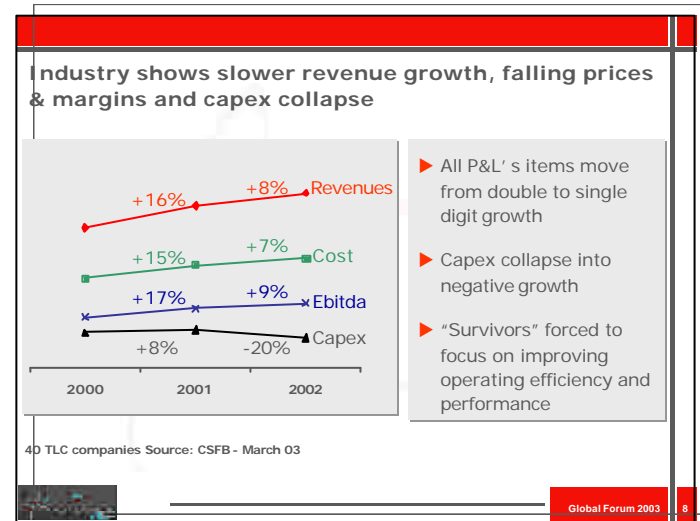
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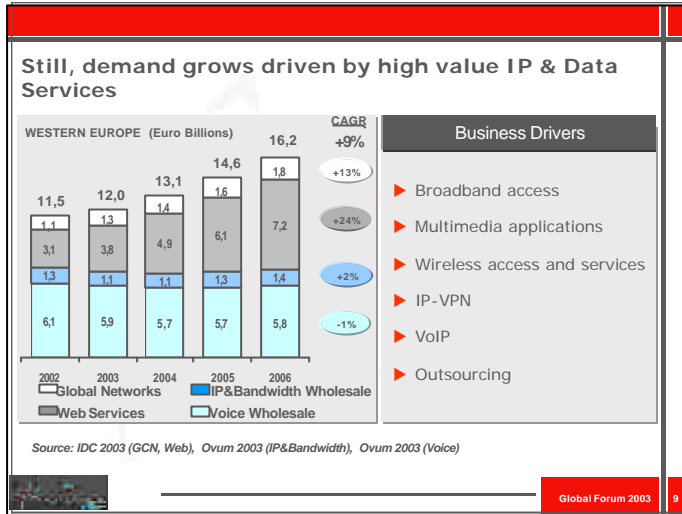
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### Widespread Industry financial problems

<ul style="list-style-type: none"> <li>▶ Financial instability of European incumbents and US Long Distance Carriers</li> <li>▶ Global alternative operators exiting market</li> <li>▶ Carriers in bankruptcy process</li> </ul>	<h4>Consequences</h4> <ul style="list-style-type: none"> <li>• Focus on Bottom Line and Free Cash Flow</li> <li>• Costs and Capex cutting</li> <li>• Assets Write-off</li> <li>• Defensive strategies and focus on "core", exiting lines of business and geographic markets</li> <li>• Market destabilization</li> <li>• Pricing and margins irrationality</li> </ul>
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### Key factors for success

**CAPABILITIES**

- ▶ Advanced IP & Data services portfolio to ensure longer term revenues and margins growth
- ▶ Marketing and Customer Care excellence
- ▶ Global coverage
- ▶ Direct Access to content

**BUSINESS MODEL**

- ▶ Focus on core business or diversification?
- ▶ What is "core"?
- ▶ Horizontal or vertical growth?
- ▶ Organic or non-organic growth?
- ▶ Partnership, which partnership model?

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### Key factors for success: Voice over IP

- 1. Customer base**  
A number of Carriers are interconnected over VoIP and the trend is growing. With minimal infrastructure Carriers can provide means to exchange voice traffic with ISPs and other non-traditional service providers.
- 2. Alternative for low-cost termination**  
A large number of low-cost alternatives for high margin destinations are available only with a VoIP interconnection. Most often these alternate providers have deployed a VoIP infrastructure outside their home country to collect and transport the traffic over IP, using dedicated facilities or the Public Internet.
- 3. Implementation Speed**  
In some cases delays and facility costs can be avoided while testing a new provider with a VoIP interconnection over the Public Internet. Quality tests can be completed in a matter of days instead of the typical 4-6 weeks.
- 4. Cost-efficiency**  
It is projected that the cost per port will continue to decline for next-generation VoIP equipment, while a lesser number of ports are required to accommodate the same call volumes.

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### TI Sparkle Objectives

- Mission**
  - To excel among the key players in the international voice and IP & Data market
- Business targets**
  - To focus on high value/high growth IP & Data services
  - To consolidate leadership in the Voice carriers market
- Geographic focus**
  - Primary focus on Europe, Mediterranean Basin and Latin America

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### A proprietary and global network to sustain world businesses

**PEB (Pan European Backbone)** is TI Sparkle's proprietary network for the end-to-end management of international voice, data and IP services

**LANautilus** is TI's subsidiary for the Latin American region, while **MED Nautilus** covers the Mediterranean basin

**TI Sparkle's bilateral network**, managed together with other international carriers, connects Italy to 223 countries all over the world

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### Pan European Backbone (PEB)

>>> IP BASED INTEGRATED MULTISERVICE NETWORK (VOICE/IP/DATA)  
 >>> STATE OF THE ART TECHNOLOGY (SD-WDM 10 GBITS; SD-HATMI IP AND MPLS)  
 >>> NETWORK EXTENSION: 21.000 KM  
 >>> 2 FIBER PAIRS, 400 GBITS EACH  
 >>> OPERATIONAL POPs: MILAN, ZURICH, PARIS, LONDON, BRUXELLES, AMSTERDAM, FRANKFURT, VIENNA  
 >>> PRESENCE IN MAIN TELEHOUSES/IXPs IN LONDON, AMSTERDAM, FRANKFURT, PARIS  
 >>> NEW YORK AND MIAMI BRANCHES  
 >>> MILAN-BARCELONA-MADRID-PARIS (SPANISH RING) Q2/03

American POPs and Global Internet access

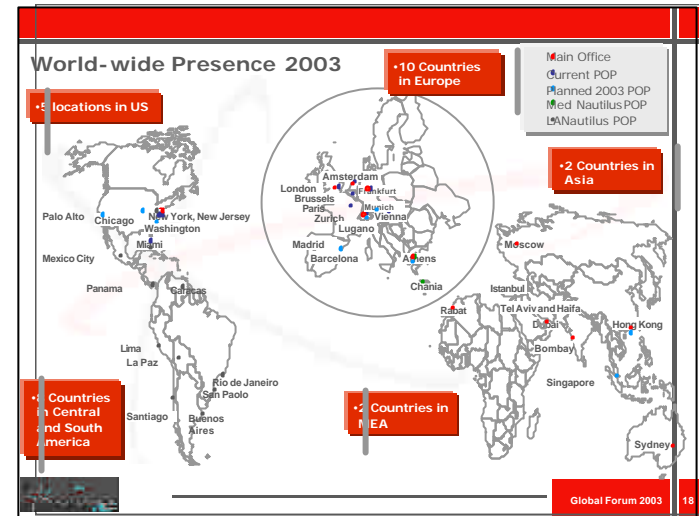
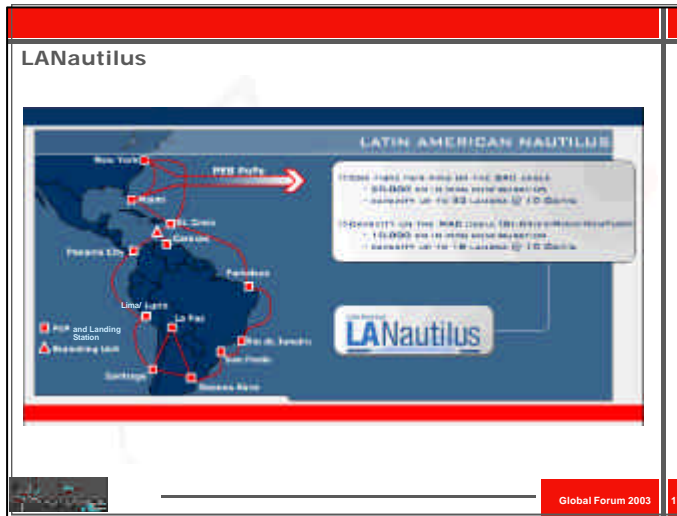
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### Med Nautilus

115.000 km Cable to 1000 Connections  
 8 FIBER PAIRS 400 GBITS EACH  
 10 POPs: CATANIA, PALERMO, MESSINA, SYRACUSA, TRAPANI, TAORMINA, CATANZARO, REGGIO CALABRO, CROTONE, POTENZA, TARANTO

■ Full and Landing Station  
 ▲ Breaching Site  
 ● Work in progress  
 --- IFA Submarine System

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### Conclusions

- ▶ Ensure organic profitable growth of the business by maximizing Telecom Italia strength
- ▶ Constantly exploit and evaluate all market opportunities (e.g. available assets, T-Systems partnership, new market niches)
- ▶ Invest more resources to ensure constant increase in competences and know-how
- ▶ Financial diligence: secure short- mid term return on investment, supplier management, risk and credit management

### Operational Efficiency

- Customer driven organization
- Implement a joint "go-to-market" approach for TI Sparkle, its subsidiaries and new partner (T-Systems)
- Acquire "best in class" operating efficiency through innovative processes, systems and technologies
- Pursue excellence in pricing, cost management, quality and customer care

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