

SUSTAINABILITY REPORT 2011



Chairman's Letter

In a macro-economic environment characterised by one of the worst international economic crisis since the end of the war, which in just two years (2008 and 2009) reduced gross domestic product by two percentage points, wiping out the slow growth achieved with great difficulty during the previous five years, we have handled the challenges imposed by the competitive and business environment with courage and determination.

The arrival of new players in the world of telecommunication has led to a profound rethink of the way we are required to operate, but we have faced the new competitive environment with awareness of the values that make us unique.

In the four years just ended, we have worked tirelessly to cut costs and improve the competitiveness of our commercial offerings, for the benefit of customers and the market. We have dealt responsibly with the staff redundancies foreseen by the business plan, implementing solutions agreed with the social partners that have minimised the impact on employees.

Thanks to the consolidation and relaunch of activities in Brazil and Argentina, we have been able to rebalance our presence in foreign markets, recovering the strong international vocation that Telecom Italia had in the past.

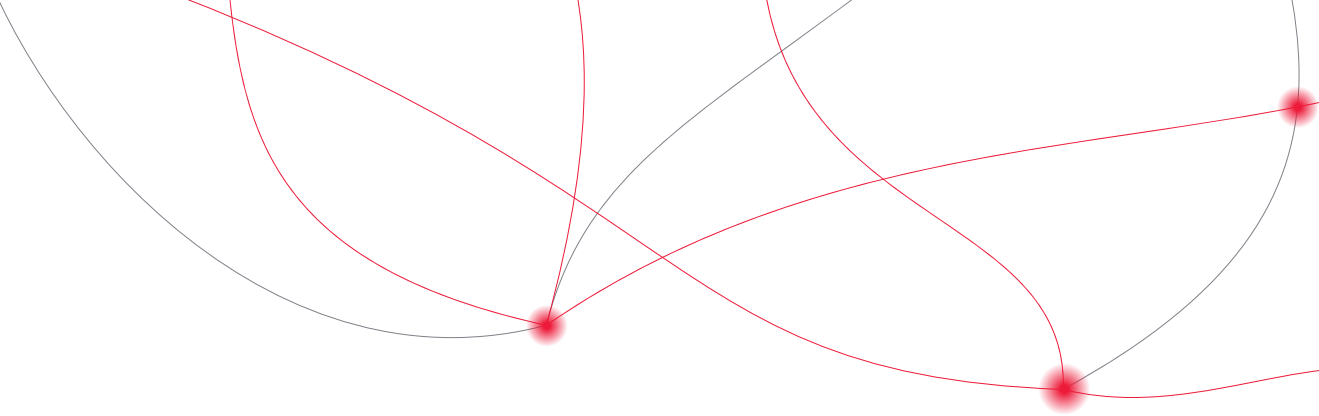
Through a careful management of company's operations we have rebalanced the ratio between debt and cash generation, bringing it back to normal levels.

We have developed a constructive dialogue with the Authorities, promoting innovative solutions that fulfil requirements in terms of ensuring protection and equality of treatment between our sales division and alternative operators.

We have continued to act incisively with regard to compliance and behavioural practices, transforming our organisational architecture in order to build more effective control systems.

Responding to customer needs remains the main priority in the Group's business strategies and the results achieved in terms of improving satisfaction indexes reward the efforts made, although we believe we can do even better.

All of this has been done because we believe that a sustainable company is a company that takes into high consideration its own impacts on the whole system with which it has to interact in every corporate decision it makes.



And it is precisely with the aim of increasing the level of awareness of the importance of these aspects in the decision-making process that we have launched a sustainability training plan dedicated to all employees, which will continue throughout 2012. This is a concrete knowledge development tool based on an e-learning platform and on themed virtual classrooms aimed at creating a common and shared knowledge base within the Group.

Constant attention to technological innovation and process management improvement has allowed us to increase our energy efficiency and produce significant results, including a 6.3% reduction in electricity consumption and a 6.2% reduction in carbon dioxide emissions into the atmosphere.

Our commitment to supporting the values of sustainability has allowed us to achieve important national and international acknowledgements, including our inclusion in all the major global sustainability indexes.

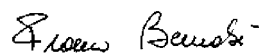
We continue to support the United National Global Compact through our involvement in the Italian network and our reporting of the progress achieved in applying the ten principles.

In the near future, our Group will be required to make important strategic choices, the effects of which will extend over the medium to long term. When evaluating choices of this magnitude we need to consider the interests of today as well as those of tomorrow, assessing their sustainability from all points of view.

In developing next generation networks, for example, we have opted for an architecture which, in addition to being economically efficient, is also a solution that allows the greatest energy savings to be achieved.

In the future, companies and Public Administrations will increasingly be opting for innovative Smart Service solutions that allow the most efficient use of resources, while at the same time ensuring a reduction in environmental impact and an improvement in citizens' quality of life. Telecom Italia intends to play a leading role in this context.

In less than five years, our Group has changed. Its expectations, prospects, behaviour and fundamental values have changed and its commitment to doing business responsibly has strengthened, in the belief that this is a prerequisite for the success of the Group in the long term.


Franco Bernabè
(Chairman & Ceo)

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Executive Summary

GROUP STRUCTURE

The Telecom Italia Group offers telecommunication services and state-of-the-art ICT and media solutions, contributing to the digitalization and development of the country in which it operates. In addition to its domestic leadership, the Group has a significant international presence in the South American market with the “Brazil” Business Unit and the “Argentina” Business Unit.

The Group operates in the following business sectors:

- the “Domestic” Business Unit has a leading position in the field of voice on fixed and mobile networks and data services for final customers (retail) and other operators (wholesale) in the domestic context. Internationally it operates in the field of optical fibre network development (international wholesale) in Europe, the Mediterranean and South America;
- the “Brazil” Business Unit includes mobile telecommunication activities with Tim Celular, and fixed telecommunication activities with Intelig Telecomunicações, Tim Fiber SP and Tim Fiber RJ;
- the “Argentina” Business Unit operates in fixed telecommunications through the company Telecom Argentina, in mobile telecommunications through the company Telecom Personal in Argentina and Nucleo in Paraguay, and in the Broadband through the “Arnet” brand;
- the “Media” Business Unit includes the activities of the Group's television broadcasters (La7, La7D, MTV, MTV+) and the activities of Telecom Italia Media Broadcasting that relate to managing the analogue and digital broadcasting networks of the Group's television broadcasters and to the supply of accessory services to these broadcasters;
- the “Olivetti” Business Unit includes the manufacturing operations for digital printing systems, office products and Information Technology services;
- “Other Activities” includes financial companies and other minor companies not strictly connected with the “core business” of the Telecom Italia Group, not included in the scope of the Sustainability Report.



MAIN ECONOMIC, FINANCIAL AND OPERATIONAL DATA

Telecom Italia Group – Main economic and financial consolidated data

	Revenues		EBITDA		EBIT		Industrial Investments		Headcount at the end of the period (units)	
(million euros)	2011	2010	2011	2010	2011	2010	2011	2010	12.31.2011	12.31.2010
Domestic	19,032	20,068	9,243	9,393	(1,945)	5,162	4,200	3,106	55,389	56,530
Brazil	7,343	6,199	1,990	1,801	986	685	1,290	1,216	10,539	10,114
Argentina(*)	3,220	798	1,035	245	509	110	556	188	16,350	15,650
Media	238	258	28	13	(87)	(92)	61	67	765	777
Olivetti	343	391	(35)	(19)	(41)	(24)	5	5	1,075	1,090
Other activities	2	64	(15)	(21)	(15)	(38)	-	4	36	39
Adjustments and eliminations	(221)	(207)	-	-	(10)	15	(17)	(3)	-	-
Consolidated total	29,957	27,571	12,246	11,412	(603)	5,818	6,095	4,583	84,154	84,200

*

The Argentina Business Unit has been included in the consolidation scope starting from October 13, 2010.

Telecom Italia Group – Other economic and financial consolidated data

	12.31.2011	12.31.2010
(million euros)		
Total equity	26,695	32,555
• attributable to owners of the Parent Company	22,791	28,819
• attributable to minority shareholdings	3,904	3,736
Profit(loss) for the financial year attributable to Parent Company Shareholders	(4,726)	3,121
Profit(loss) for the financial year attributable to Minority Shareholdings	446	454
Net financial accounting debt	30,819	32,087

Telecom Italia Group – Main operational data of the Business Units

	12.31.2011	12.31.2010
DOMESTIC FIXED		
Connections to the fixed network in Italy at year end (thousands)	16,745	17,609
Broadband connections in Italy at year end (thousands)	9,089	9,058
DOMESTIC MOBILE		
Number of lines at year end (thousands)	32,227	31,018
BRAZIL		
Number of lines at year end (thousands)	64,070	51,015
ARGENTINA		
Number of fixed lines at year end (thousands)	4,141	4,107
Number of broadband connections at year end (thousands)	1,550	1,380
MEDIA		
La7 audience share Free to Air (analogue mode) – (average for the year in %)	3.8	3.1
La7 audience share Free to Air (analogue mode) – (average for last month of the year in %)	3.9	3.3

BACKGROUND

Telecom Italia began to deal with sustainability in 1997 by creating a specific department and by publishing the first socio-environmental report. The document then evolved into the Sustainability Report and included an analysis of performance in respect of stakeholders with whom the Company interacts on a daily basis: the stakeholders. As of 2003, the data and information regarding sustainability became part of the Report on Operations for the consolidated Financial Statements, thus confirming the Group's intention to present its financial data together with non-financial data.

In 2002, Telecom Italia published the Group's first Code of Ethics and signed up to the Global Compact, the global pact by the UN to promote the protection of the environment, respect for human rights and working standards, and anti-corruption practices.

In 2003, a structured system for managing sustainability based on indicators (Key Performance Indicators) was implemented to measure the results achieved in respect of all stakeholders and allow appropriate improvement actions to be planned.

In 2007, Telecom Italia participated as co-leader in the laboratory set up in the context of the Alliance with the European Commission in March 2006 on the evaluation and communication of non-financial performance. The laboratory then drew up an original communication template (investorvalue.org) presented in Brussels in May 2010 during the Senior Leaders Forum of the European Academy for Business in Society (EABIS).

The further development of this model is currently under way, as part of a project moderated by EABIS and CSR Europe in which Telecom Italia continues to play a leadership role together with other multinational companies. At the end of 2008, sustainability was formally brought to the attention of the Board of Directors through the Internal Control and Corporate Governance Committee, which performs a senior supervision function in this respect.

In 2009, the Sustainability Report was drawn up for the first time according to the principles of the AA1000 AccountAbility Principles Standard (APS), which are based on the involvement of stakeholders in the reporting and the underlying processes. This is the most advanced standard in this area.

As a confirmation of the results achieved, Telecom Italia was included in the most prestigious international sustainability indexes, including the Dow Jones Sustainability Indexes (DJSI) and the Financial Times Stock Exchange for Good (FTSE4Good).

THE MAIN SUSTAINABILITY CHALLENGES FOR TELECOM ITALIA

Focus on customers

The achievement of high standards of customer satisfaction is a priority for Telecom Italia. The formal quality commitments summarised in the Customer Promise have been the subject of a structured internal dissemination plan through the “Esprimere Qualità” (Expressing Quality) project, which came to an end in 2011 after more than 2 years and involved several different departments of the company.

In 2011, the listening system was extended to measure quality of service and customer experience in all contacts made with the company. Quality is also taken into consideration in the manager and staff incentives system.

As a fundamental player in the broadband ecosystem, the Telecom Italia Group is responsible for ensuring that the technological development it brings by offering innovative services is always associated with the balanced development of the population in terms of com-

puter literacy, thus contributing to overcoming the socio-cultural barriers that can restrict the opportunity to participate in the information society and enjoy its benefits. Particular attention is therefore paid to customers with specific needs or belonging to the weakest layers of society, such as children, the elderly, the sick and the disabled. For example, the “Smart Inclusion” project, implemented in some Italian paediatric hospitals, provides a single technological platform allowing hospitalised children to participate actively in school lessons, communicate with their families and access various entertainment programmes, while allowing healthcare staff to view and update clinical patient documentation. As regards children, safe Internet browsing is definitely a priority for Telecom Italia, which now provides various online protection and control tools. It has also launched a “Navigare Insieme” (Browsing Together) project aimed at teaching children, teenagers and adults (parents and teachers) to make an informed and responsible use of the Internet and digital technologies. For further information [see § Customers](#) and [§ The Community](#).

Closeness to our people

Telecom Italia confirms its care for the people who work in the Company.

The People Caring initiatives, implemented by listening to the needs of employees, are intended to improve the work life balance and to provide a concrete response to the requirements of daily life. Telecom Italia supports the involvement of employees in volunteering initiatives and pays specific attention to diversity within the Company. Talents are attracted and retained with specific initiatives, particularly by establishing direct links with universities and further education institutions. With the “I care about myself” project, for employees who have passed the required examinations, Telecom Italia covers tuition fees for a number of degree courses provided by the Uninettuno International Telematic University. Dialogue with employees takes place through various channels, including tools that promote bilateralism, exchange and discussion between members of the corporate community through such things as blogs, open virtual communities, climate analysis and the intranet portal. A training plan has been launched to inform and involve employees in matters related to sustainability using an e-learning platform and themed virtual classes. For further details of the initiatives taken regarding Telecom Italia personnel [see § Human Resources](#).

Contribution to the Community

As a large company, Telecom Italia has a major impact on the communities of the countries in which it operates.

First of all it contributes to improving general well-being by distributing part of the value produced through salaries and wages, payments to suppliers and work providers, interest to capital investors and dividends to shareholders ([see § Economic value produced and distributed](#)). Furthermore, the investments made are of general benefit to the community in terms of infrastructure and services, while also promoting virtuous effects on the supply chain.

The Group's contribution to the community also includes products and services that improve people's quality of life by promoting new ways of learning, travelling, working and looking after oneself, reducing the need for travel and therefore increasing the amount of free time and improving quality of life in general.

One example is the MyDoctor@Home remote home monitoring service, operating in a number of establishments in Piedmont since December 2010, which allows patients suffering from a number of chronic diseases to be monitored remotely thanks to Telecom Italia's technologies. The service allows the quality of life of patients to be significantly im-

proved as well as allowing considerable savings to be made by the healthcare system on hospitalisation costs. By reducing the need to travel to the doctor, this service also allows carbon dioxide (CO₂) emissions generated by the means of transport to be reduced (see § [Customers/Innovative Services](#) and § [The Community/Responses to stakeholders](#)).

Finally, the Group's contribution to the community includes projects and initiatives for the general development of the community by means of cultural, solidarity and environmental protection activities carried out directly by Telecom Italia through the Foundation. These include, for example, the programme of activities launched with the Italian Dyslexia Association to combat this disorder in Italian schools (see § [The Community/Responses to stakeholders](#)).

Fighting climate change

This is one of the great challenges that humanity will have to deal with in the near future, mainly by reducing emissions of CO₂ and other greenhouse gases in order to limit the increase in the earth's temperature to levels that are deemed acceptable.

The Information and Communication Technology (ICT) industry can play a fundamental role in this respect, not only by limiting its emissions of CO₂ generated primarily by the high amount of energy required by transmission networks, but also by contributing to reducing emissions in other sectors by offering innovative services that promote different and more sustainable lifestyles in environmental terms. According to the Global e-Sustainability Initiative (GeSI Smart 2020), by 2020 ICT will be responsible for approximately 3% of world CO₂ emissions but will contribute to reducing the CO₂ emissions of other industrial sectors by around 15% by means of services such as video conferencing, teleworking, telemedicine and promoting the virtualisation of the economy in general, which means replacing systems with lower impact alternatives in terms of CO₂ (e-commerce, e-tourism, online billing and payments, etc.). ICT solutions allow intelligent buildings to be constructed in which technology combined with new materials considerably improves levels of energy consumption, comfort and safety. By using “smart grids” these solutions allow energy to be transferred from areas where there is a surplus to ones where there is a deficit, allowing considerable amounts of energy to be saved, with benefits for citizens and companies, contributing to the creation of more efficient and safer cities with lower CO₂ emissions. In this respect, Telecom Italia has launched the Smart Town offer, based on an integrated platform of services for “smart” cities which uses existing public lighting systems, integrated with telecommunication networks, to implement innovative environmental management, security and energy saving services for local authorities and the public. For further information see § [Customers/Innovative Services](#) and § [The Environment/Climate change](#).

MAIN RESULTS OF 2011

Results ^(*)	Reference to the chapters in the Report
8.5% reduction in the energy used for transport	The Environment/Environmental performance/ Energy
6.3% decrease in electricity consumption	The Environment/Environmental performance/ Energy
An increase of 29.7% in the eco-efficiency indicator	The Environment/Climate Change
6.2% reduction in CO ₂ emissions	The Environment/Environmental performance/ Atmospheric emissions
9.6% reduction in paper purchased	The Environment/Environmental performance/ Paper
500,000 low environmental impact Wi-Fi modems purchased as part of the new range of "Telecom Italia Green" branded products	The Environment/Product responsibility
Confirmation of Telecom Italia's and TIM Brasil's ranking in all the leading international sustainability indexes	Introduction/Placement in the indexes
Over 30 million euros invested in the Community at Group level, measured according to the LBG model	The Community/The measurement of our contribution to the Community
Confirmation of Telecom Italia's co-leadership in the project (collaborative venture) on the communication of non financial performance	Introduction/The communication of non financial performance
Numerous acknowledgements for sustainability projects and communication of sustainability activities	Introduction/Other acknowledgements
Confirmation of the success of the "I care about myself" project with 2,800 employees registered with the Uninettuno International Telematic University	Human Resources/Training

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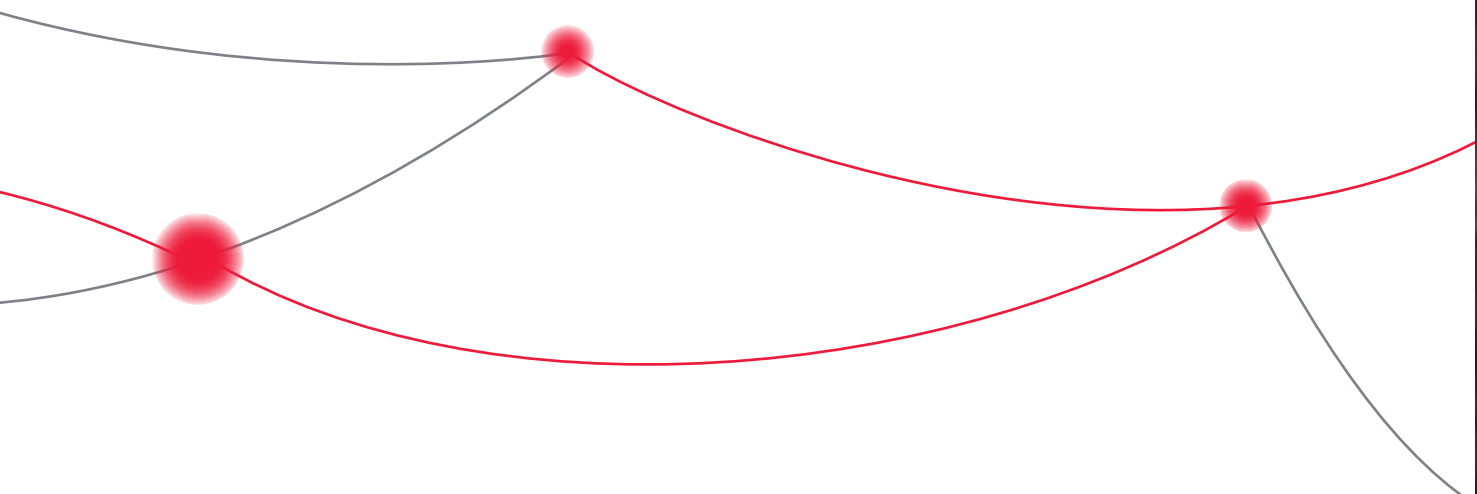
The percentage increases or decreases shown in the table are calculated in comparison to 2010 data. Unless otherwise stated all the information and data relate to Telecom Italia S.p.A.



Introduction







1. REFERENCES AND GOVERNANCE

The Telecom Italia Group operates with the conviction that business activities must be conducted in a way that considers the expectations of stakeholders, in keeping with the principles established by internationally recognised standards. In defining and implementing its sustainability strategy and programmes, the Group is inspired by the guidelines issued by the main global guidance and standardisation organisations in the field of Corporate Responsibility.

In 2002, Telecom Italia subscribed to the principles of the main point of reference at the global level, that is, the Global Compact, which was launched in 2000 by the UN to promote the protection of the environment, respect for human rights and working standards, and anti-corruption practices.

The System of Sustainability Management also takes into account the principal reference regulations and international standards:

- European Commission directives, recommendations and communications;
- the OCSE guidelines directed at multinational enterprises;
- ISO 9000 and ISO 14000 quality and environmental management system certifications;
- the principles of the Conventions of the International Labour Organisation (ILO) on respecting the fundamental rights of workers;
- the Social Accountability 8000 standard (SA 8000), aimed at promoting respect for human rights and working conditions by companies and their supply chains;
- AA1000 Accountability Principles Standard (APS 2008) drawn up by AccountAbility, an international organisation which promotes collaboration between stakeholders, and lays down standards and guidelines on matters of sustainability. The APS 2008 estab-

THE SUSTAINABILITY MANAGEMENT SYSTEM TAKES INTO ACCOUNT THE MAIN INTERNATIONAL STANDARDS. IN 2002, TELECOM ITALIA SIGNED UP TO THE GLOBAL COMPACT

lishes the principles that a company must respect in order to define itself as accountable, which are covered in the [§ Reporting](#);

- ISO 26000 guidelines for private and public organisations of all sizes.

The Group's Corporate Governance system is founded on the central role of the Board of Directors and the independent administrators, the transparency of management decisions, the effectiveness of the Internal Control System and on the strict regulations on potential conflicts of interest. The Internal Control System includes the Organisational Model pursuant to Legislative Decree No. 231 of June 8, 2001, aimed at preventing offences such as corruption, extortion and corporate offences.

Sustainability issues are subject to the supervision of the Committee for Internal Control and Corporate Governance, which performs guidance and control of sustainability activities in general, including projects conducted by the Telecom Italia Foundation, to ensure they are consistent with the Group's ethical values.

2. CODES, CHARTERS AND VALUES

The undertakings given by the Group to its stakeholders are expressed in a system of Charters and Codes available in the sustainability section of the telecomitalia.com website.

In the belief that the success of the company cannot be separated from business ethics, the Code of Ethics sets out the objectives and values of the Company's activities in respect of the main stakeholders with whom the group interacts. Respecting the Code is a requirement for statutory bodies, managers and employees of all the companies of the Group, as well as for collaborators and third parties in business relationships with the Group, within the boundaries of their respective competence, functions and responsibilities.

THE CODE OF ETHICS IS AT THE BASIS OF THE GROUP'S CORPORATE GOVERNANCE SYSTEM

The Service Charters, which are intended to simplify the relationship with customers and make it more direct, set out the principles of conduct and undertakings given by Telecom Italia regarding the quality of the services offered. They also provide information regarding the ongoing improvement of quality standards and contact channels available to customers. The Service Charters are also available on the Group's commercial websites (telecomitalia.it, impresasemplice.it, tim.it).

The General Conditions of Subscription govern relations with customers who subscribe to the fixed voice telephony service and are additional to the Service Charter. They are published in the telephone directories and on the telecomitalia.it and impresasemplice.it websites.

Furthermore, in order to comply with the various resolutions of the Italian communications authority regarding quality, the relevant websites state the objectives set for the year for the individual services (fixed and mobile voice services, Internet access services, IP-IPTV pay-per-view television services, call centre services for customer support). A selection of the objectives and their respective levels of achievement is set out in the [§ Appendix](#).

The other commitments undertaken by the Group are contained in the following documents, which are available in the sustainability section of the Internet site:

- "Social responsibility in the Telecom Italia Group" on compliance with labour standards within the Group, with particular reference to child labour, forced labour, health and safety, freedom of association, discrimination, disciplinary procedures, working hours and pay.

- "Relations with suppliers in Telecom Italia Group's procurement process", which governs the negotiating ethic of the Group (transparency, the separation of roles, fairness and traceability) and the requirements that Telecom Italia demands of its suppliers in the area of working and environmental standards.
- "Green Procurement Policy", which is intended to minimise the environmental impact directly attributable to the Company and its suppliers in the context of the procurement process.
- "Self-Regulation Code for Mobile Services", "Self-Regulation Code for TV and Children", "Code of Conduct for Premium Services", "Self-Regulation Code for Commercial Communication", a series of codes relating to the protection of children and consumers.
- "Self-Regulation Code on Sports Information" and Self-Regulation Code on the Reporting of Legal Disputes in Radio and Television Programmes".
- "Telecom Italia Group Guidelines on Voluntary Contributions to the Community", which govern the ways in which the Group makes investments in favour of the communities in which it operates.
- "Code of conduct for the confidentiality of OLO (Other Licensed Operator) Data", which ensures the proper handling and confidentiality of data by the departments that supply services to other operators.
- "Telecom Italia Group Guidelines for Responsible Marketing", which outline the principles followed by the Group to ensure honest, transparent and fair business practices in addition to those contained in the Charters and Codes mentioned above.

The System of Values adopted by Telecom Italia is the benchmark for the conduct of all those who work for the Group, creating a sense of belonging to a single organisation. The various corporate processes and systems for staff development, rewards, assessment and training are inspired by the Charter of Values, in order to steer individual behaviour in a consistent way throughout the Group.

Focus on the customer

To consider the customer as the main employer, and customer satisfaction as the core value. To be ready to listen to both internal and external customers, and to take steps to anticipate and respond rapidly to emerging requirements.

Taking responsibility

To participate in the achievement of tangible results and to accept delegation as an opportunity, without referring problems to management that are within the individual's sphere of competence

Innovation

To ensure the development of innovative solutions and promote new ways to improve the existing processes and systems in order to reinforce the positioning of the company in the market.

Proactivity

Being proactive by anticipating and influencing events. To seize and develop any opportunities, even if initially unpromising, that the individual may encounter within their sphere of activity, and to advance proposals and initiatives that may be useful in achieving the goals of the company and the Group.

Time management

To consider time as an important resource that impacts on the costs of the services provided and on the loyalty of both internal and external customers. To meet needs and problems and handle multiple, sketchy inputs, working out timely and practical solutions.

Integration

To work together with team spirit, minimising disputes and maximising the effectiveness

of the exchange of information and professional contributions, working towards a common goal on behalf the company and the Group.

Transparency

To ensure ethically-correct business conduct; to maintain internal and external relations that are correct and honest, favouring the circulation of information.

Professional excellence

To continuously improve one's own abilities, taking responsibility for one's own professional growth in order to contribute to the success of the company and the Group.

3. HOT TOPICS

Sustainability concerns all the company processes but certain matters are of particular importance and are consequently given special consideration in implementing the model of Corporate Responsibility defined by the company. These are the sustainability “Hot Topics” identified by Telecom Italia Group on the basis of:

- requests made by the sustainability rating agencies for admission to the relevant sustainability indexes for the industry, through questionnaires assessing the Group's performance;
- requests from investors during the dedicated road shows or one-to-one contacts;
- analysis of the media and reports published by the specialist agencies;
- benchmarking of the sustainability activities carried out by other companies, in Italy and abroad;
- opinions expressed by stakeholders consulted directly ([see § Stakeholder Involvement](#)).

The Hot Topics reported in the following table, together with other aspects of the company's activities, are taken into consideration in determining the relevance of the reporting, in accordance with the AA1000 AccountAbility Principles Standard (APS) – ([see § Reporting](#)).

4. PLACEMENT IN THE INDEXES

Sustainability indexes are stock indexes in which securities are selected not only on the basis of economic-financial parameters but also in the light of social and environmental criteria. The selection process is carried out by specialised agencies that assess companies on the basis of publicly available information or questionnaires, taking account of opinions expressed by the media and stakeholders. Inclusion in these indexes is of strategic importance to companies because of the positive effects on their reputation and because, in addition to the pension funds and ethical funds, an ever increasing number of investors favour sustainable companies, considering them to be less risky and more promising in the medium to long term.

Taking part in the process of evaluation is, moreover, a timely moment for reflection within the company on the results achieved. The suggestions of the rating agencies at the end of the process are taken into consideration when planning improvement actions in the future.

HOT TOPICS TABLE

Issues	Stakeholders	Telecom Italia commitment	Reference
RELATIONS WITH CUSTOMERS	Customers	Attending to customer requirements and improving customer satisfaction are among Telecom Italia's main objectives and are the subject of numerous projects and initiatives.	Customers/ Customer Satisfaction
DIGITAL DIVIDE	Customers, The Community	The dissemination of communications technologies can create social and geographical discrimination. The risk of exclusion is especially high for certain population bands, such as the elderly, the sick and the disabled. Telecom Italia has undertaken numerous initiatives to ensure the wide availability of the new technologies.	Customers/Innovative Services, The Community/Responses to stakeholders
CLIMATE CHANGE	Customers, Suppliers, Institutions, The Environment, The Community	The Group is committed to reducing its own CO ₂ emissions and to providing services that contribute to reducing emissions in other sectors.	The Environment/Climate Change
RELATIONS WITH EMPLOYEES	Human Resources	Even at a difficult time for the global economy, the Group pays the maximum possible attention to the needs of employees in terms of training, development and the improvement of company welfare.	Human Resources
SUPPLY CHAIN	Suppliers, The Environment, The Community	With the globalisation of the markets and supply, the monitoring of the supply chain becomes a vital element in the sustainability of businesses. The Group is implementing a series of actions designed to protect the environment and working standards and to promote the principles of sustainable procurement.	Suppliers/Sustainability Initiatives The Environment/Product responsibility
PRIVACY AND DATA SECURITY	Customers	Telecom Italia has implemented a series of measures to protect data security and the privacy of those who use the networks and services.	Customers/Safeguarding privacy and personal data protection
CHILD PROTECTION	Customers	The spread of the Internet is a great opportunity but it can also be a source of danger. Telecom Italia has implemented a series of measures to protect children from content that could harm their psychological and physical development, and to prevent and detect any abuse carried out through telecommunication networks.	Customers/Child protection
RELATIONS WITH SHAREHOLDERS/ INVESTORS	Shareholders	The dialogue with the investors on financial and non-financial issues is of strategic importance for a major, quoted company. In order to improve communication among the stakeholders on environmental, social and governance issues Telecom Italia promoted a European workshop on the communication of non-financial performance.	Introduction/Communication of non-financial performance

In 2011, Telecom Italia's place was confirmed, for the eighth year running, in both the Dow Jones Sustainability indexes:

- the Dow Jones Sustainability World Index (DJSI World), which includes 341 components;
- the Dow Jones Sustainability Europe index (DJSI Europe), consisting of 172 European components, and the respective Eurozone index, consisting of 97 components in the Euro area.

Since the inception of the Financial Times Stock Exchange for Good (FTSE4Good) series, Telecom Italia has been present in all the major indexes:

- FTSE4Good Global, consisting of 719 components;
- FTSE4Good Europe, consisting of 284 components;
- FTSE4Good Environmental Leaders Europe, which includes 40 components selected from the FTSE4Good Europe on the basis of the results achieved on matters of environmental protection.

Telecom Italia is also included in the following indexes:

- Advanced Sustainable Performance Index (ASPI) Eurozone, consisting of 120 components;
- Ethibel Sustainability Indexes (ESI):
 - › Excellence Europe, comprising 199 components;
 - › Excellence Euro, consisting of 114 components;
 - › Excellence Global, comprising 121 components.
- MSCI ESG Indexes:
 - › MSCI WORLD ESG INDEX, consisting of 795 components;
 - › MSCI WORLD formerly USA ESG INDEX, consisting of 482 components;
 - › MSCI EAFE ESG INDEX, consisting of 433 components;
 - › MSCI EUROPE ESG INDEX, consisting of 227 components.
- ECPI Indexes:
 - › ECPI Ethical Global Equity, consisting of 300 components;
 - › ECPI Ethical Euro Equity, consisting of 150 components;
 - › ECPI Ethical EMU Equity, consisting of 150 components.
- AXIA Sustainable Index (ASI), consisting of 40 components.

Tim Participações, the TIM Brasil Group's listed holding, had its position confirmed in the ISE (Índice de Sustentabilidade Empresarial) index managed by BM&F Bovespa (the São Paulo stock exchange), together with the Brazilian Environment Ministry and other financial and sustainability organisations. The index consists of 38 components that have achieved the highest sustainability scores, selected on the basis of a questionnaire submitted to the 182 most traded companies on the BM&F Bovespa.

5. OTHER ACKNOWLEDGEMENTS

The main awards won by Telecom Italia concerning sustainability and its communication, include the following:

- top Italian company in the "Newsweek Green Ranking" of the 500 most highly capitalised companies in the world. This is a list drawn up according to the results of surveys conducted by the Trucost rating agency on the environmental performance of companies;

- top Italian company among the 50 biggest listed companies and third European company among the 100 companies in the FTSE Eurotop 100 index in the “Lundquist CSR Online Awards 2011” online sustainability communication ranking drawn up by Lundquist;
- first place in the Italian and European “KWD Webranking 2011” for the best corporate communication on the web. The rankings drawn up by KWD, the digital division of Hallvarsson & Halvarsson, in co-operation with Lundquist, respectively considered the 101 most highly capitalised Italian companies and the 500 most highly capitalised European companies included in the FT Europe 500 index;
- “Grand Prix Brand Identity 2011” Literature Design award for the 2010 Sustainability Report presented by TVN Media Group, which rewards the best brand identity and strategic design projects in terms of the structural profile of visual communication;
- special award for corporate governance in the context of the “Oscar di Bilancio 2011” award promoted by FERPI (Federazione Relazioni Pubbliche Italiana) under the High Patronage of the President of the Republic. Telecom Italia was recognised for its increased attention to governance issues in the 2010 Financial Statements which, thanks to their interactive version, was easy to browse and allowed information to be found and used more easily even by non-experts. Also particularly appreciated was the inclusion of Corporate Social Responsibility among the activities subject to verification by the Internal Control and Corporate Governance Committee;
- “Macchianera Blog Award 2011” in the “best social site or blog” presented during the Blog Fest, the themed festival organised by the Macchianera blogs. The award was won by AVoiComunicare, the site created by Telecom Italia to discuss issues that are critical to our future, including the environment and sustainable development, balance between different worlds and cultures, integration and peace building (for more information [see § The Environment/Communicating sustainability](#));
- 2012 “Skills for Employability Award” award received by the Internet Saloon project (for more information [see § The Community/Responses to stakeholders](#)) in the “Active Ageing through IT learning” category reserved for organisations that have distinguished themselves with initiatives aimed at facilitating the digital inclusion of elderly people. The award is organised by the European Alliance on Skills for Employability (EASE) in partnership with Adecco.

6. COMMUNICATION OF NON-FINANCIAL PERFORMANCE

In the context of the Alliance between the European Commission and companies launched in March 2006 with the aim of turning Europe into a centre of excellence in CSR, a “Sustainability and non-financial performance assessment” laboratory has been set up, of which Telecom Italia has been a co-leader. Following a wide-ranging consultation process involving companies, investors, academics, representatives of the European Commission and stakeholders in Italy and abroad, the laboratory launched an advanced communication model for non-financial performance. On the basis of the opinions expressed, the model identified six priority areas (Human Capital, Customer Relations, Community, Innovation, Environment and Corporate Governance) in which companies and investors are both interested, and in respect of which, therefore, the high quality reporting of financial information by companies is valued by the financial markets and taken into consideration for the purpose of valuations. For further information, see the website launched by the laboratory investorvalue.org.

During 2011, the laboratory's work continued in the context of a collaborative venture

project launched by CSR Europe and EABIS (European Academy for Business in Society), in which Telecom Italia plays a leading role together with other big companies and international organisations. The project has the dual purpose of:

- identifying a small number of concise sustainability performance indicators shared with the financial community (analysts, asset managers, banks and funds);
- sharing the best practice used by companies to measure and manage non-financial performance.

For further information, see the sustainability section of the telecomitalia.com website and the Enterprise 2020/Priority topics 2011 – 2013 section of the csreurope.org website.

7. REPORTING

Scope and criteria

In accordance with the principle of materiality, unless otherwise stated (see § Human Resources), only subsidiaries included in the consolidated accounts that have revenue greater than 300,000 euros and more than 40 employees, excluding discontinued companies and non-current assets held for sale, are taken into consideration in the sustainability reporting.

In accordance with the triple bottom line⁽¹⁾ approach, the company's economic and financial data has to be analysed and represented together with the environmental and social results. Only an overall analysis of company performance including all three dimensions can provide stakeholders with comprehensive information and allow interests to be balanced in a way that guarantees the success and survival of the company in the medium and long term. For this reason, the Group has included sustainability data in the Consolidated Financial Statements since 2003, pre-empting the implementation of European Directive 51/2003, which was transposed in Italy by Legislative Decree no. 32 of February 2, 2007.

¹
This approach was defined for the first time by John Elkington in 1994 in the article "Towards the sustainable corporation: Win-win-win business strategies for sustainable development". California Management Review 36, no. 2: 2: 90-100.

THE REPORTING IS CONSISTENT WITH THE TRIPLE BOTTOM LINE APPROACH

The Sustainability Report is based on a multi-stakeholder approach involving the joint analysis of actions taken in respect of the main stakeholders with whom the Company interacts. It is drawn up on the basis of a system of around 200 Key Performance Indicators (KPIs) relating to all the areas in which the Company has a major impact and measuring its capacity to respond as well as the degree to which it has achieved the established objectives.

The KPIs are defined on the basis of:

- the analysis of the Global Reporting Initiative (GRI), an international organisation which has developed universally applicable guidelines for drawing up the sustainability report, in order to facilitate comparisons between companies;
- the demands of stakeholders;
- the questionnaires sent out by the leading rating agencies for the purpose of admission to the stock market sustainability indexes;
- the experience gained over the 15 years during which the Company has performed this activity.

The KPIs are managed on the CPM system, a dedicated application, in a similar way to that in which financial reports are drawn up.

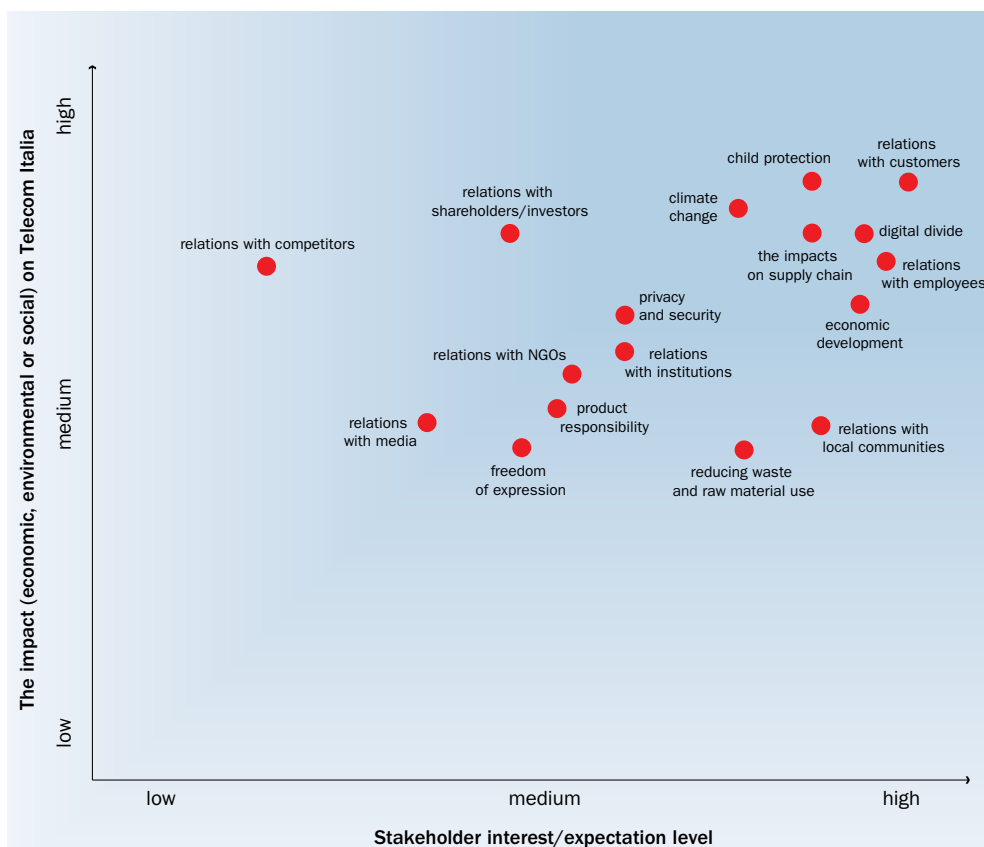
Accountability 1000 and Global Compact/GRI Cross Reference Table

The Sustainability Report is based on the AA1000 AccountAbility Principles Standard (APS 2008), adopted as of the 2009 Financial Statements, and set out below:

- **inclusivity:** identification of the stakeholders and their expectations, and development of involvement strategies aimed at improving the Company's sustainability performance;
- **materiality:** identification of the important issues for the organisation and its stakeholders;
- **responsiveness:** a description of the initiatives carried out by the Company to meet the expectations of stakeholders.

The Telecom Italia Report's compliance with the AA1000 standard is verified by the auditing firm PricewaterhouseCoopers ([see § Independent Auditors's Report](#)).

In accordance with the principle of materiality, the important themes have been identified according to the above criteria ([see § Hot Topics](#)), positioning them in the “materiality matrix” shown below based on their impact on the expectations of stakeholders and the Group's activities.



The following table gives indications of the chapters/paragraphs and pages which make direct or indirect reference to the principles of the Global Compact and the respective GRI indicators.

Global Compact (GC) Principles	GRI relevant indicators	Related chapters/paragraphs	Page number
1. Businesses should support and respect the protection of internationally proclaimed human rights in the areas of the respective spheres of influence.	HR1-7, LA4, LA7-9, LA13, PR1, PR8	Reference and Governance, Codes, Charters and Values, Reporting, Stakeholder Involvement, Suppliers, The Community, Human Resources	17, 18, 24, 28, 49, 77, 91
2. Businesses should make sure they are not complicit, even indirectly, in human rights abuses.	HR1-7	References and Governance, Codes, Charters and Values, Suppliers, Human Resources	17, 18, 49, 91
3. Businesses should uphold the freedom of association of workers and the effective recognition of the right to collective bargaining.	HR1-3, HR5, LA4-5	Codes, Charters and Values, Reporting, Stakeholder Involvement, Human Resources	18, 24, 28, 91
4. Businesses should uphold the elimination of all forms of forced and compulsory labour.	HR1-3, HR7	Codes, Charters and Values, Suppliers, Human Resources	18, 49, 91
5. Businesses should uphold the effective abolition of child labour.	HR1-3, HR6	Codes, Charters and Values, Suppliers, Human Resources	18, 49, 91
6. Businesses should uphold the elimination of discrimination in respect of employment and occupation.	HR1-4, LA2, LA13	Codes, Charters and Values, Stakeholder Involvement, Suppliers, Human Resources	18, 28, 49, 91
7. Businesses should support a precautionary approach to environmental challenges.	EC2, EN18, EN26	Hot Topics, Reporting, Stakeholder Involvement, Suppliers, The Environment, 2010 and 2011 Results, and 2012 Objectives in the Appendix	20, 24, 28, 49, 55, 131, 134
8. Business should undertake initiatives to promote greater environmental responsibility.	EN3, EN5-6, EN8, EN16-19, EN22-23, EN26-29, PR3	Stakeholder Involvement, Suppliers, The Environment, 2010 and 2011 Results, and 2012 Objectives in the Appendix	28, 49, 55, 131, 134
9. Businesses should encourage the development and diffusion of environmentally friendly technologies.	EN5-7, EN18, EN26	Hot Topics, Reporting, The Environment, The Community	20, 24, 55, 77
10. Businesses should work against corruption in all its forms, including extortion and bribery.	SO2-4	References and Governance, Codes, Charters and Values, Suppliers, Shareholders	17, 18, 49, 113

The Content Index, which is one of the documents according to which the Group is examined for the purpose of obtaining the rating, is available in the sustainability section of the telecomitalia.com website, as well as the Application Level Table which reports GRI requirements for the different Application Levels.

Since 2008, Telecom Italia has had an A+ GRI Application Level for its sustainability reporting.

8. 2011 RESULTS AND 2012 OBJECTIVES

These are shown in the Appendix to this Report.

The targets of a qualitative nature for suppliers are included in the respective chapter.

9. THE GROUP SUSTAINABILITY DEPARTMENT

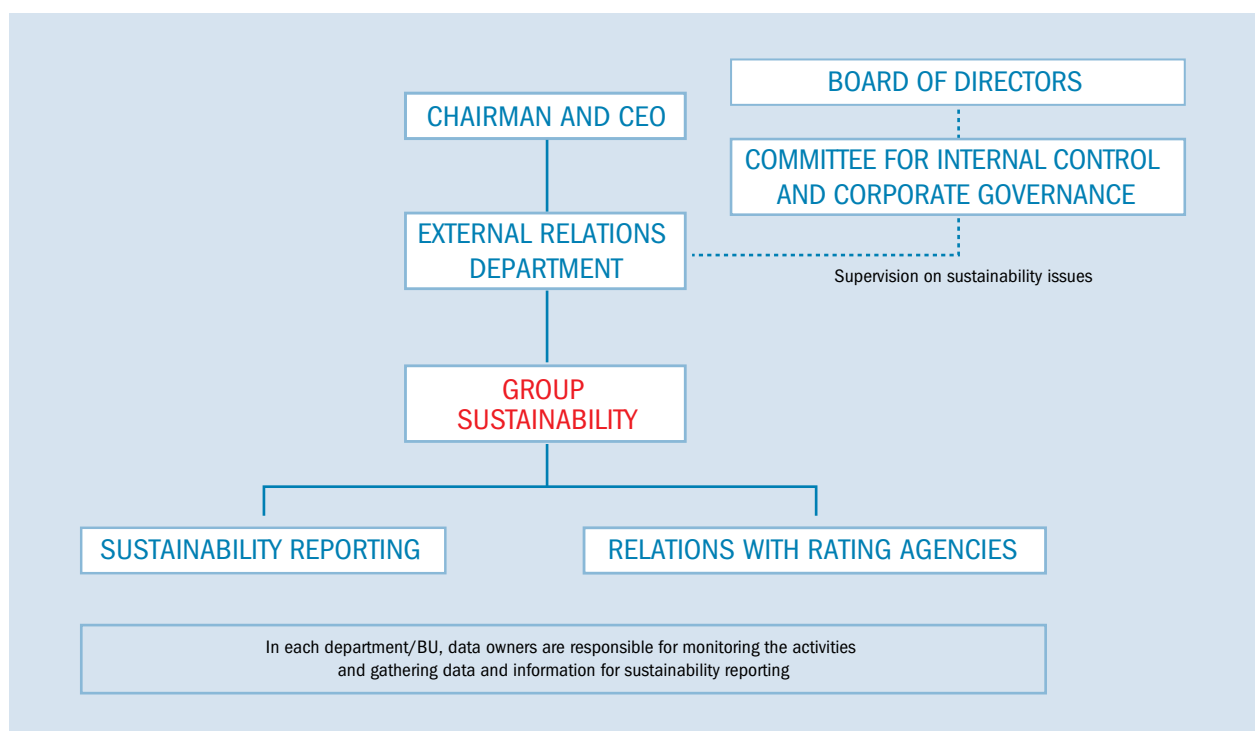
Mission and structure

Sustainability management in Telecom Italia is ensured by the Group Sustainability section which carries out the following activities:

- promoting projects and initiatives at Group level with environmental and social impact, collaborating with the company departments which have operational responsibility for them;
- contributing to the dissemination of a correct approach to sustainability within the company, under the perspective of continuous improvement;
- ensuring the reporting to the outside of the activities of sustainability carried out;
- managing relations with specialised rating agencies for the purpose of admission to stock market sustainability indexes;
- representing the Group in the relevant national and international forums.

Since 2009, this section has been operating as part of the External Relations management department in order to ensure more structured communication of the initiatives undertaken and the results achieved.

The organisational structure is shown below.



The guidelines

The management of sustainability within the Telecom Italia Group is based on the following guidelines:

- inclusion of a summary of the sustainability data within the Financial Statement, confirming the Group's determination to present its financial performance jointly with non-financial information;
- collaboration with the stakeholders through projects and initiatives at various levels (see § Stakeholder Involvement);
- definition of quantitative objectives in line with the major sustainability issues (see Appendix);
- integration between sustainability and innovation: a specific section is dedicated to issues of business responsibility within the technological plan, the document in which the Company defines its strategy in terms of the evolution of the transmission network;
- confirmation of the international commitments on matters of sustainability, including adherence to the Global Compact;
- contribution to projects and initiatives on a national and international basis, including those implemented by industry organisations (see § Introduction/Communication of non-financial performance and § The Environment/Environmental performance);
- adherence to the main international standards on matters of sustainability (see § References and Governance and § Reporting);
- continuous improvement of its own performance, including through benchmarking with peers;
- contribution to the spread of a correct approach to sustainability issues by means of communication initiatives organised within the Company and externally (see § The Environment/Communicating sustainability).

10. STAKEHOLDER INVOLVEMENT

Stakeholder involvement, which includes listening to their requests, is one of the pillars of Telecom Italia's sustainability model.

During 2010, the Sustainability Report was submitted to a multi-stakeholder panel to measure their satisfaction and the extent to which it fulfilled their expectations. The suggestions for improvement, which were also implemented in the previous Report, have resulted in an increased degree of conciseness and a different graphic design to improve its legibility and usability.

In order to make the Group Sustainability managers easier to contact and therefore facilitate dialogue with stakeholders on matters of greatest interest, all the necessary details have been added to the contacts area in the sustainability section of the telecomitalia.com website. During the course of 2011, the groupsustainability@telecomitalia.it mailbox received around 250 emails, all of which were considered for the purpose of any response required.

The following table shows the main initiatives in which stakeholders were involved in company processes, classified according to the guidelines recommended by AccountAbility (see Reporting), except for the initiatives relating to Competitors and Institutions, details of which can be found in the sustainability section of the telecomitalia.com website.

STAKEHOLDERS	INITIATIVES				
	INFORMATION	CONSULTATION	DIALOGUE	PARTNERSHIP	
	CUSTOMERS	Notification to the customers of offers and conditions through various methods (Customers/Communication with customers at telecomitalia.com)	Customer satisfaction is surveyed systematically (Customers/Customer Satisfaction)	Collaboration with the consumer associations (Customers/Conciliation Procedures)	Participation in national and international working groups, in partnership with UN agencies, non-governmental organisations, and organisations in the sector, on the issue of protecting children from potential abuses carried out via the Internet (Customers/Child protection at telecomitalia.com)
		Information on the rules for the safe use of the Internet and for combating abuses through the Internet (Customers/Child protection)		Use of web-based tools on social networks by call centre operators to talk to customers (Customers/Quality of service)	Partnership projects with institutions and other companies to test and create innovative assistance services (Customers/Innovative services)
				Employee awareness-building activities continued on aspects of the Customer Promise in order to ensure its implementation within the Company (Customers/Quality of service)	
	SUPPLIERS		Fifth survey of satisfaction with the Purchasing department, and more generally with Telecom Italia, conducted among the Group's main suppliers (Suppliers/Involvement initiatives)	E-community of the main suppliers through the "TelecHome" website accessible through the suppliers' portal (Suppliers/Involvement initiatives)	CSR audit activities conducted in the production plants of suppliers and sub-suppliers based on the Memorandum of Understanding signed with other operators (Suppliers/Sustainability checks)
			Self-assessment questionnaire sent to the most risky suppliers in terms of sustainability (Suppliers/Involvement initiatives)		



STAKEHOLDERS	INITIATIVES			
	INFORMATION	CONSULTATION	DIALOGUE	PARTNERSHIP
	THE ENVIRONMENT “Carbon Meter” available on AVoiComunicare (The Environment/Communicating sustainability)		Collaboration with other European Tlc operators on issues of environmental relevance within the framework of industry associations, including GeSI and ETNO (The Environment/Relevant stakeholders, and Climate change)	Co-siting agreements with the other Italian Tlc operators (The Environment/Energy)
	External and internal sustainability communication initiatives carried out (The Environment/Communicating sustainability)		Contributions to the Working Groups promoted by the EU and ETNO in defining the Code of Conduct on broadband equipment and data centres (The Environment/Energy)	
	THE COMMUNITY Correct information to stakeholders provided via the traditional media and the Group's website (Community/Media relations and communication projects)	Consultation with stakeholders as part of the analysis and definition of potential initiatives and projects for the protection of historic and artistic heritage by the Telecom Italia Foundation (The Community/Responses to stakeholders)	The “Safe Browsing” tour involved over 100,000 people in Italian cities on subjects related to safe Internet browsing (The Community/Responses to stakeholders)	Projects carried out in partnership with non-governmental and civil society organisations, particularly through the Telecom Italia Foundation (The Community/Responses to stakeholders)
			The AVoiComunicare integrated communication project fosters discussion about social matters (The Community/Media relations and communication projects, and telecomitalia.com)	

STAKEHOLDERS	INITIATIVES			
	INFORMATION	CONSULTATION	DIALOGUE	PARTNERSHIP
HUMAN RESOURCES	Internal communication activities (Human Resources / Internal communication)	"Archimede" project (Human Resources/ Listening projects and activities)	Mailboxes, Intranet, blogs, virtual communities, multimedia conventions to communicate with employees (Human Resources/ Listening projects and activities)	Selection and training programmes carried out with research centres, universities, associations and foundations (Human Resources/ Selection)
	Courses on health and safety matters (Human Resources/ Health and Safety)	Initiatives carried out by the People Caring Centre to fulfil the requirements of employees (Human Resources/ People Caring)	Numerous information and discussion sessions organised with trade unions on matters of interest (Human Resources/ Industrial Relations)	The activities of the Industrial Relations School, a network of professionals from the world of business, institutions and trade unions continued (Human Resources/ Training)
		Initiatives to improve the management of diversity in the company (Human Resources/ People Caring)	Counselling service for dealing with personal difficulties or problems at work experience by employees (Human Resources/ People Caring)	Volunteering initiatives with the involvement of employees and external partners (Human Resources/ People Caring)
		Involvement of employees in the stress at work assessment programme (Human Resources/ Health and Safety)		The "I care about myself" project continued with the main trade unions, which allows employees to sign up free of charge to some of the faculties of the Uninettuno International Telematic University (Human Resources/ Training)
SHARE-HOLDERS	The "TI Alw@ys ON" (telecomitaliaclub.it) shareholders' club provides important information to individual investors and the general public (Shareholders/ Financial communication)		Three monthly conference calls, meetings at institutional offices of the Group (reverse road shows), participation in sector conferences, making a total of around 300 investors meetings (Shareholders/ Financial communication)	Phase 2 of the sustainability performance assessment project moderated by CSR Europe and EABIS has been launched. Telecom Italia acts as co-leader with other multinational companies (Introduction/ Communication of non-financial performance)
	Online financial communication (Shareholders/ Financial communication)			

11. ECONOMIC VALUE GENERATED AND DISTRIBUTED

2

The value distributed to the Community stakeholder is not shown in the table. Please see the respective chapter.

The economic value generated and distributed to stakeholders is shown below⁽²⁾. Since 2008, the method of presentation recommended by the Global Reporting Initiative (GRI) has been adopted, with appropriate adaptation.

	2011	2010
(million euros)		
DIRECT ECONOMIC VALUE GENERATED		
A) TOTAL REVENUE AND OPERATING INCOME	30,256	27,826
B) INTEREST PAYABLE AND DIVIDENDS PAID	196	117
C) NET GAINS (LOSSES) ON DISPOSALS OF NON-CURRENT ASSETS	3	11
D) DIRECT ECONOMIC VALUE GENERATED (A+B+C)	30,455	27,954
ECONOMIC VALUE DISTRIBUTED		
E) OPERATING COSTS	13,744	12,193
F) EMPLOYEE COSTS	3,917	4,021
G) SHAREHOLDERS AND PROVIDERS OF CAPITAL	3,305	3,206
H) TAXES AND DUTIES	1,814	1,458
I) ECONOMIC VALUE DISTRIBUTED (E+F+G+H)	22,780	20,878
ECONOMIC VALUE RETAINED (D-I)	7,675	7,076

	2011	2010
(million euros)		
WAGES AND SALARIES	2,788	2,615
SOCIAL SECURITY COSTS	993	931
PROVISIONS FOR EMPLOYEES' SEVERANCE AND RETIREMENT	(77)	52
OTHER EXPENSES	213	423
EMPLOYEE COSTS	3,917	4,021

	2011	2010
(million euros)		
ACQUISITION OF EXTERNAL GOODS AND SERVICES	12,842	11,371
OTHER OPERATING COSTS ^(*)	1,527	1,234
CHANGE IN INVENTORIES	(56)	135
INTERNALLY GENERATED ASSETS	(569)	(547)
OPERATING COSTS	13,744	12,193

*

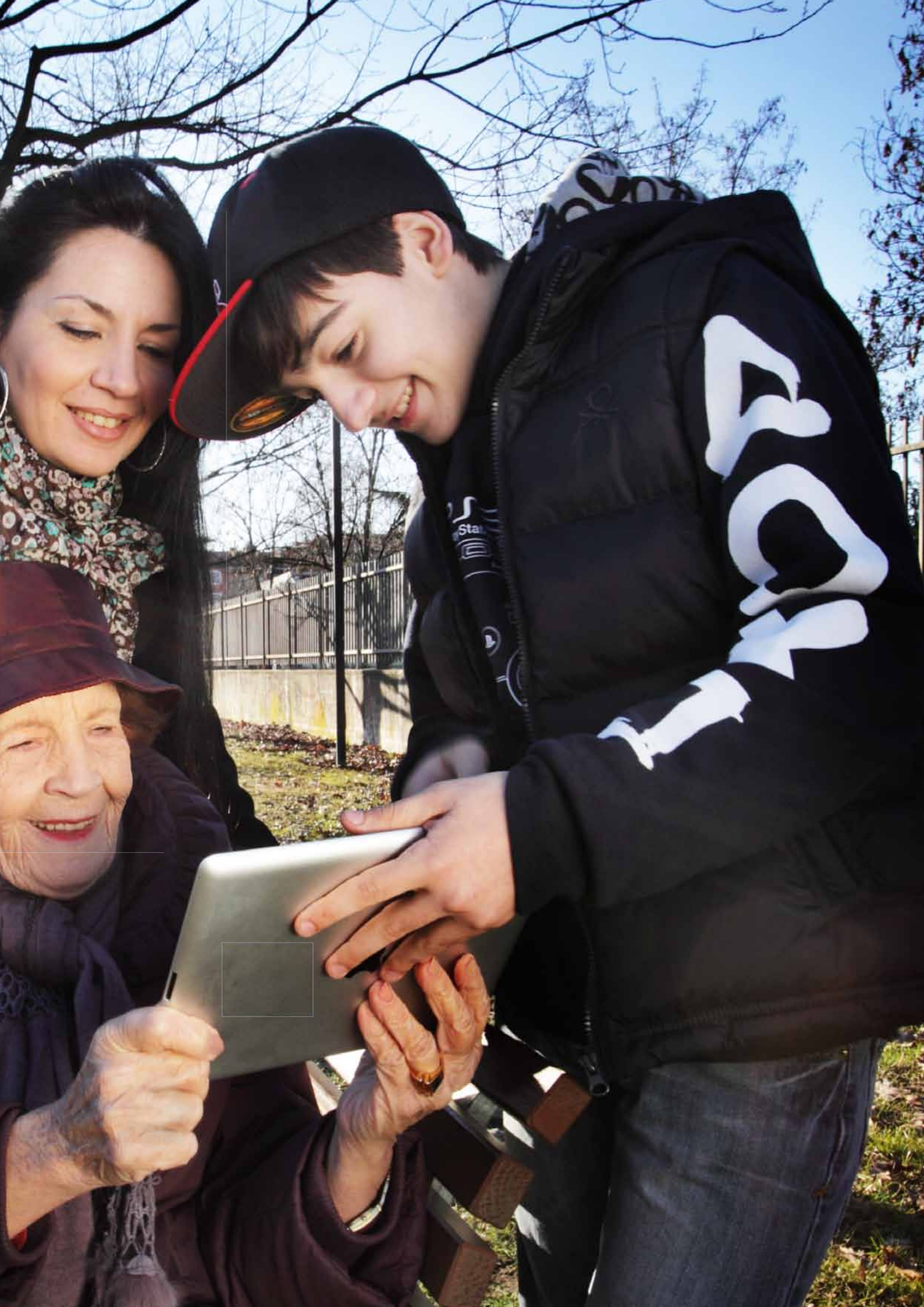
Mainly includes write-downs and charges connected to the management of non-financial credits of 533 million euros (478 million euros in 2010), accruals for risks of 128 million euros (80 million euros in 2010), and contributions and fees for the performance of Tlc activities of 675 million euros (484 million euros in 2010) net of "Other taxes and duties" of 349 million euros (200 million euros in 2010) included in the item "Taxes and duties".

	2011	2010
(million euros)		
DIVIDENDS DISTRIBUTED	1,257	1,064
INTEREST PAYABLE	2,048	2,142
SHAREHOLDERS AND PROVIDERS OF CAPITAL	3,305	3,206

	2011	2010
(million euros)		
INCOME TAXES	1,465	1,258
INDIRECT TAXES AND DUTIES	349	200
TAXES AND DUTIES	1,814	1,458
REGARDING ITALIAN ACTIVITIES	1,177	1,240
REGARDING ACTIVITIES ABROAD	637	218

External stakeholders

A photograph of two people walking on a path. The person in the foreground is wearing a dark jacket and a purple hat. The person behind them is wearing a dark jacket. The path is dirt and grass. There are bare trees in the background. A large red graphic overlay covers the upper half of the image, with the text 'External stakeholders' in white. A white line with a dot at the end is also visible on the red background.







Offering innovative services

improving people's quality of life

1. CUSTOMERS

1.1 STRATEGY

The companies of the Telecom Italia Group base the excellence of their products and services on their care of customers and their willingness to meet their requirements. The objective sought is to ensure an immediate, effective response to customers' needs, modeling conduct on business propriety, transparency in dealings and contractual commitments, courtesy and collaboration and the underlying viewpoint that the customer has a central role, in full compliance with the principles established by company procedures. In such a context, collaboration with Consumer Associations, through the stipulation of agreements in specific areas, is highly prized.

1.2 RELEVANT STAKEHOLDERS

The relevant stakeholders are:

- consumer customers (residential), with particular attention to customers with special needs (the disabled, the elderly, children, etc.);
- business and top customers (major clients);
- the consumer associations.

1.3 QUALITY OF THE SERVICE

Customer focus and the achievement of high standards of customer satisfaction continue to be a priority for Telecom Italia which, having listened to its major stakeholders (customers, employees, institutions), has drawn up a customer promise based on:

- an all-round provision of high quality and reliability;
- services which improve the quality of life of customers and contribute to the development of the country;
- offers and communications in clear, simple and direct language to win and maintain the trust of customers;
- a company which is close to its customers, values human relationships and is easy to talk to when problems connected to the service need to be resolved;
- people who listen to and understand the needs of the customer, with whom they build a partnership.

The undertakings contained in the “customer promise” are guiding many initiatives, including the “Expressing Quality” programme for awareness-building among employees. Launched in 2009, with the involvement of managers, including area/local unit and customer contact team managers, the programme was completed in 2011 with a series of further initiatives, details of which can be found on the telecomitalia.com website.

Top Management oversees the quality aspects of customer listening activities via the Quality Governance Steering Committee (SCQG), which meets monthly and is chaired by the CEO, with the aim of:

- directing and supervising the initiatives and activities aimed at improving the quality of the processes end-to-end;
- monitoring the quality results achieved and analysing them also in relation to the quality requirements demanded by the supervisory authorities, the most important/recurring complaints by customers and, more generally, the feedback coming from all stakeholders;
- supervising the quality certification process during the launch of new products/services offered to customers, in particular those of greatest impact in terms of image and competitive positioning on the market.

Use of social networking in customer care

At the end of 2010, Telecom Italia was the first company in Italy to launch a social caring service providing direct customer support via social networks (Facebook and Twitter) allowing direct interaction with customers and a high speed of response.

A specialised team answers customer queries and reports both via the

Group's official pages and accounts and through 9 Twitter accounts. This service is on Facebook: the customer accesses the Facebook page to request support and is subsequently contacted by various means depending on the problem to be solved, while the Twitter service is based on direct contact with an assistant.

One year since the initiative was launched, Telecom Italia is the leader in social caring services in Italy, with a growing monthly average of over 1,000 reports dealt with every month and a 96% rate of cases resolved.

Telecom Italia also uses web tools based on the social networking concept to develop and support the people working in customer care. These provide effective assistance, both for disseminating and sharing knowledge among staff and for making the most of informal knowledge resulting from discussions held in forums in order to build on know-how and integrate it into operational processes. For information about these tools (Campus and TUO) go to the sustainability section of the telecomitalia.com website.

1.4 CUSTOMER SATISFACTION

Customer listening at Telecom Italia

Telecom Italia has developed a plan for listening to customers that allows the quality of the service offered and the customer experience to be assessed in the various interactions between the customer and the company, from a recent contact (e.g. to activate a connection, ask for information or report a fault) to an overall perception over time. The results are used in an ongoing offer improvement process with the aim of providing services that are ever more responsive to customer needs.

The listening system was extended in 2011 and structured into 6 areas:

- operational processes and events assessed on a “reactive” basis, i.e. immediately after a specific event (e.g. delivery, assurance, sale, sales support);
- touch point which are the customer contact channels (e.g. points of sale, customer care, web, billing);
- key products and services, e.g. fixed and mobile broadband, smartphones;
- lifecycle, monitored during the stages that characterise the customer's relationship with his/her operator;
- intangible issues that have a cross-cutting impact on customer satisfaction (e.g. innovation);
- overall perception measured on a “reflective” basis, i.e. not connected with a specific event. The indicator used is the Customer Satisfaction Index (CSI) which, by adopting international statistical survey standards (ACSI model), measures the perception of quality according to the main satisfaction drivers in the different types of customer (fixed consumer, mobile consumer, fixed business, mobile business, top clients, public sector) and the similar services provided by the leading competitors. During 2011, a new CSI measurement model was introduced that takes further dimensions into account (e.g. socio-cultural variables, local context, etc.). In December 2011, Telecom Italia obtained from IMQ-CSQ a Certificate of Conformity of its Customer Satisfaction Index (CSI) measurement process with the requirements of the UNI 11098-2003 standard (Guidelines for determining customer satisfaction and for measuring the respective process indicators).

IN 2011 THE LISTENING SYSTEM WAS EXTENDED

The CSI values of Telecom Italia by type of customer are shown below. The data relating to 2010 have therefore been recalculated in order to make them comparable to 2011.

CUSTOMER TYPE^(*)

	2011	2010
CONSUMER	74.24	73.86
BUSINESS	62.98	62.10
TOP CLIENTS	68.40	67.19
PUBLIC SECTOR	71.91	71.34
TOTALS	70.86	70.38

*

Average satisfaction is measured on a scale of 0-100, where 0 means “not at all satisfied” and 100 means “completely satisfied”.

The information in the following table refers to the average annual progressive value of total customer satisfaction with Telecom Italia's customer care service.



TYPE OF CUSTOMER CARE CUSTOMER		
	Overall satisfaction ^(*)	
	2011	2010
187 CONSUMER FIXED TELEPHONY	8.32	7.39
119 CONSUMER MOBILE TELEPHONY	8.56	8.33
191 BUSINESS FIXED TELEPHONY	7.06	6.72
191 BUSINESS MOBILE TELEPHONY	7.13	6.47

*

Average satisfaction measured on a scale of 1-10, where 1 means "not at all satisfied" and 10 means "completely satisfied".

For information on the satisfaction measurement indexes used in Brazil and Argentina, go to the sustainability section of the telecomitalia.com website.

Customer satisfaction within the managerial incentives scheme

The targets set for all the employees included in Telecom Italia's short term management incentives scheme include targets linked to customer satisfaction, in line with the business plan for the period. The targets are measured using customer satisfaction indexes monitored by means of periodic "reflective" surveys: the overall CSI for the company and the specific customer satisfaction indicators per customer segment.

Additional targets are set for particularly critical processes and activities (commercial and technical front-end) based on quality parameters measured by "reactive" surveys.

Customer satisfaction within collective incentives schemes

Telecom Italia's collective incentives schemes also include a target linked to customer satisfaction. In particular, the performance-related pay award for employees not covered by an individual incentive scheme, incorporates both a total customer satisfaction target across the whole company and specific targets for the organisational structures responsible for different customer categories.

1.5 CERTIFICATIONS

For areas of the company that have a significant impact on the Community, through the products and services offered, the Group has obtained certifications that ensure the adoption of procedures and conduct in line with the expectations of the relevant stakeholders. Specifically:

- care for the customer and the quality of the products and services offered is considered in the UNI EN ISO 9001:2008 standard;
- concern for environmental protection in the UNI EN ISO 14001:2004 standard;
- health and safety at work in the BS OHSAS 18001:2007 standard;
- the protection of human capital by companies and their suppliers in the SA 8000 standard;

- data security in the ISO 27001:2005 standard ;
- Information Technology services with the ISO/IEC 20000-1:2005 standard;
- the quality of call centre services in the EN 15838:2010 standard;
- software and IT solution production processes in the CMMI-DEV (Capability Maturity Model Integration - Development) certifications;
- service management and delivery processes through the CMMI-SVC (Capability Maturity Model Integration for Services) certification.

Detailed information about the certifications achieved by the various departments/companies of the Group is available in the sustainability section of the telecomitalia.com website.

1.6 DIGITAL DIVIDE

The spread of information and communication technology creates considerable opportunities for progress for the public. Telecom Italia is aware of the need to manage this development in the best way, taking on the responsibility for coordinating the actions of all the players in the broadband ecosystem, in order to avoid exposing the Community to the risk of a technological divide due to geographic and socio-cultural reasons.

Geographical Digital Divide

In order to deal with the technological divide generated in the so-called marginal areas of Italy, which would otherwise be excluded from the ordinary plans of telecommunication operators, because of the low return on investments, over the years Telecom Italia has implemented an exceptional investment programme aimed at providing ADSL coverage of up to 640 k/bit in some of these areas. Telecom Italia has also established cooperation agreements with several Regions and Provinces in order to reconcile its corporate objectives (financial, business and institutional) with those of local authorities, both by activating public tender procedures approved by the EU to finance work using public incentives and by signing memorandums of understanding with local institutions for the purpose of simplifying the installation of networks and encouraging their use by citizens and local authorities.

As of December 2011, the gross coverage of Telecom Italia's ADSL services, meaning the percentage of lines connected to exchanges where the ADSL service has been activated with a speed of up to 7 Mbit/s, reached 97.1% of the telephone population.

For the purpose of local investments, there are two main forms of cooperation with the Regions: the first is "contributive" (the so-called "claw-back" method), based on direct financial incentives (in accordance with the regulatory framework in matters of State Aid), the second is "collaborative," based on supporting potential demand.

Specifically:

- the claw-back model is used by the EU to speed up the dissemination of broadband in market failure areas. The model provides for the allocation of contributions to compensate for the lack of a return on investments, disbursed on the basis of a public tender. This model has been used in the past by the regions of Sardinia and Tuscany and is currently being implemented in Lombardy.
- The collaborative model includes some of the main agreements signed by Telecom Italia during 2011, including the Memorandum of Understanding with the Autonomous Province of Trento.

- The collaboration agreements launched in 2011 also include those signed with the Province of Lucca, which has allowed broadband coverage to be provided in a number of industrial districts, and with the Province of Bolzano, according to which all the municipalities of Aldo Adige will have access to broadband services using fibre optic technology by 2013.

Socio-cultural Digital Divide

In a world in which technology facilitates contact among people, Telecom Italia is making a contribution to breaking down the socio-cultural barriers that restrict the opportunity to take part in the information society, allowing people to enjoy its benefits. The innovative services aimed at promoting the digitisation of important areas of activity (e.g. healthcare) include those listed in the following paragraph.

For information regarding the initiatives implemented by Telecom Italia for the social inclusion of customers with specific needs (the elderly, children, etc.) [see § The Community](#).

1.7 INNOVATIVE SERVICES

Smart SERVICES

Smart Services

In the context of services aimed at the public sector, in 2011 Telecom Italia continued to implement its Smart Services, a family of services intended to provide a global response to local and urban requirements for the purpose of improving quality of life. They are intended to promote the “smart cities” model through the development of innovative digital services that can improve key areas for municipalities, such as energy efficiency, environmental monitoring, security, public communication and tourism promotion.

Smart Town	Smart Building	Smart School	Smart Hospital
Integrated management of local infrastructure networks. Enabled services: • planning of electricity consumption and maintenance; • video surveillance; • digital communication with citizens and users in general (e.g. tourists); • Wi-Fi hot spots (broadband access); • remote management and monitoring of gas meters; • planning, management and monitoring of waste collection; • outsourcing of public lighting services provided by local authorities.	Smart management and automation of offices. Enabled services: • monitoring and reduction of consumption (electricity, water, etc.), mainly for central government bodies; • video surveillance; • digital communication; • extension of the IT network (LAN) of buildings by using the electricity network via a device that connects to the power socket.	Management of school buildings. Enabled services: • classroom computerisation with PCs for students connected to interactive smart boards; • extension of the building's LAN using low infrastructure impact technologies; • administrative and school management; • distance learning using web cams and microphones. Allows lessons to be attended remotely as well as recorded, filed and viewed later; • management of power consumption and monitoring of utilities in the school building.	Management of services and consumption in hospital buildings and care given to hospitalised patients. The services delivered are: • monitoring of consumption, lighting systems, security and heating systems; • remote video calling services and Internet access for hospitalised patients; • healthcare services for nurses (video calling, video surveillance of patients and computerised management of clinical records).

e-health Services

Telecom Italia is actively involved, either alone or in partnership with other companies and organisations, in devising and developing healthcare services at national, regional and local level. The services, which are directed at improving the quality and effectiveness of healthcare, with positive effects on the lives of individuals and environmental sustainability as a result of the reduction in local travel, allow doctors, nurses and patients to perform many different activities remotely.

The main applications already available or being developed include solutions for:

- the legal online storage of digital diagnostic images;
- the management of healthcare, administrative and logistical processes;
- the management and coordination of operational telephone exchanges dedicated to emergencies (118) and continuity of assistance;
- remote healthcare monitoring ("MyDoctor@Home" and "MuoviTI").

For other examples of e-health services, go to the sustainability section of the telecomitalia.com website.

MyDoctor@Home

This allows patients suffering from chronic illnesses, or in post-hospital care, to monitor their physiological parameters (body weight, blood pressure, heart rate, blood oxygen levels, glycaemia, lung capacity, electrocardiogram, etc.) directly from their own homes or in properly equipped facilities (health centres, pharmacies, doctors' surgeries etc.). The system consists of a technological platform and software configured on the patient's mobile phone (or alternatively a PC or tablet) and on the healthcare personnel's PC. Based on the plans established by the doctor, patients receive reminders on their mobile phones regarding the measurements to be taken, they take these measurements using portable electro-medical devices equipped with a Bluetooth interface and, using their phone, they send the measurement automatically to the online platform.

On February 1, 2012, the service was launched for patients in the geriatrics department of the Molinette hospital (Turin) and patients being cared for at home. This service will gradually be extended to the cardiology, neurology and haematology departments and to a number of internal medical departments. The solution is also expected to be adopted by other hospitals in the Piedmont Region, which will be able to monitor up to 5,000 patients in their homes.

MuoviTI

This is an experimental continuous remote monitoring application for people with motor problems. It allows healthcare staff to monitor the amount of movement made by patients even outside rehabilitation times and at home after they have been discharged. The assumption is that this will allow daily doses of medicine to be adapted and the frequency of hospital visits to be reduced.

The system uses sensors worn by the patient which process the data locally and send the results to a mobile phone. The mobile phone runs algorithms that estimate movement and recognise posture and the information regarding the patient's motor status are sent to the Telecom Italia remote monitoring platform to be read remotely by authorised personnel (doctors, relations, carers, etc.).

The application is based on the SPINE framework, an open source project managed by Telecom Italia and developed in association with the academic world, particularly the University of Calabria, the University of California in Berkeley and the University of Texas in Dallas.

Energy@home

The “Energy@home” system is a prototype solution that integrates and allows communication between smart household appliances and will eventually do this for all domestic electrical systems. It uses special sockets that monitor consumption and remotely control the power supply to the connected devices.

For consumers, the system consists of a kind of dashboard, a user interface available on any device, including a tablet, PC, smartphone or television or - in a few cases – the actual user interface on the household appliance. The dashboard provides consumers with a full picture of their electricity consumption and costs and the effect of their CO₂ emissions. The dashboard also makes suggestions that help consumers identify virtuous behaviour and respond semi-automatically to market events (multi-hour electricity rates) and system events (i.e. the need to reduce consumption peaks).

This is a joint project between Telecom Italia and other partners which aims to establish the rules for an ecosystem of connected electrical appliances, a system in which “smart” household appliances will be able to manage themselves, regulating the electricity consumption of the whole house, avoiding peaks and network overloads, without compromising user comfort. At the end of 2011, an experimental phase was launched to test whether the solutions could be marketed on a large scale.

1.8 CHILD PROTECTION

The Group’s companies have undertaken numerous initiatives in order to protect children from content that may harm their psychological and physical development (e.g. content that is violent, racist, offensive to religious sentiment, pornography etc.).

The Telecom Italia Group adopts precise guidelines for classifying and checking distributed content. These cover both the content offered directly by Group companies and content owned by third parties offering their own services on space acquired within Telecom Italia’s portals. These guidelines are regularly updated to take account of new codes, standards and platforms.

In Italy, in accordance with current regulations and codes of conduct signed by the Group, filtering systems and procedures are implemented aimed at preventing children from accessing adult content on all the Group’s service platforms (IPTV, web TV, generalist portals, WAP services, television broadcasters).

MAXIMIZING THE POSITIVE ASPECTS OF THE WEB AND MINIMIZING RISKS ARE ONE OF THE GROUP’S PRIORITIES

For services delivered by IP connection, the “Alice Total Security” software is available, which includes antivirus and anti-spyware services; parental control, firewall, advanced download protection, anti-phishing, SPAM protection, wireless PC protection.

For the purpose of combating crime and abuse, from an organisational point of view, Telecom Italia has identified, within its Security (Risk Prevention/Protection of Information) department, the role of “Key contact for the Postal Police”. This professional manages relations, and the flow of information, with the Postal Police (CNCPO - National Centre for the Fight against Child Pornography on line, CNAIPIC – National Centre against Digital Crime for the Protection of Critical Infrastructure etc.) and the competent authorities, and has the task of coordinating, within the Telecom Italia Group, the process of abuse management in accordance with the relevant legislative framework. Furthermore, the Telecom Italia Group has adopted an organisational model in accordance with Legislative Decree 231/2001, which defines the tools required to oversee and anticipate offences, particularly the dissemination of child pornography, as well as to ensure the organisational/disciplinary management of computer crimes. For this purpose, Telecom Italia has fielded resources, technologies, processes and instru-

ments to prevent and combat “abuse”, meaning any activity committed in violation of the rules of conduct and legislation that governs the use of network services, digital systems or means of communication in general. In this respect, information initiatives have been implemented, aimed at children, parents and teachers, on the risks connected with the new technologies and navigation on the Internet (chat lines, instant messaging, forums, communities etc.). These initiatives have involved a number of important public and private stakeholders selected above all on the basis of their activities and commitment to safeguarding the rights of children (including, for example, the Postal and Communication Police, Save the Children, Adiconsum, GSMA, ITU etc.).

The Group has also implemented appropriate filtering and abuse prevention systems for services delivered in Brazil and Argentina. In particular, WAP services with adult content require user authentication while the delivery of adult videos on IP platforms, which is only available in on demand mode, requires a PIN to be entered and a parental control code to be activated.

Telecom Italia's commitment to promote the right cultural approach to the subject and prevent offences being committed translates into many initiatives, details of which can be found in the sustainability section of the telecomitalia.com website.

1.9 CONCILIATION PROCEDURES

The conciliation procedure between Telecom Italia and the consumer associations who signed the framework agreement for the out-of-court settlement of telephone disputes, was the first example of joint conciliation in Italy. Introduced on a trial basis in 1991 by SIP, it was implemented throughout the country in 1993. In 1995 it was substantially recognised by the European Union as a “pilot project for consumer access to justice”. The model is still used today but has been adapted over the years to fulfil new requirements, computerised and made easier to use, while maintaining the basic values that made it such an excellent tool, contributing to improving the transparency of the system, customer relations and a number of the Company's operational processes as well. Twenty consumer associations have signed up to the conciliation agreement to date.

In 2009, Telecom Italia, in compliance with the voluntary undertakings given and approved by the Italian Communications Authority (AGCOM) in December 2008, also started managing conciliation requests submitted by customers at the offices of Co.Re.Com and the Chambers of Commerce, thus providing a “one stop shop” for contacts and replicating the organisational model successfully applied for joint conciliations. This system allows customers who do not wish to approach a consumer association to use an alternative method for resolving their dispute through a streamlined and out-of-court procedure.

As for joint conciliations, the management of conciliations at the offices of Co.Re.Com and the Chambers of Commerce is based on an approach that considers the needs of the customer and, regardless of the procedure selected, allows the customer's relationship with the company to be improved.

The “one stop shop” model has thus far allowed the undertakings given to AGCOM to be fulfilled and the qualitative and numeric targets to be achieved. In 2011, the number of conciliation requests submitted to Co.Re.Com and Chamber of Commerce offices fell by 14.3%. (from 21,681 to 18,585)⁽³⁾. Of these applications, 87.8% were discussed in that same year and 12.2% were cancelled (there are no received applications awaiting discussion). The percentage of conciliation requests discussed at Co.Re.Com and Chamber of Commerce offices and settled during the period (compared to the total number of applications discussed during the same period) was 87.5% (12.5% were not settled).

THE ONE STOP SHOP AIMED TO SOLVE DISPUTES HAS PROVED TO BE AN EFFECTIVE TOOL, WELL APPRECIATED BY CUSTOMERS

³

Consistent with the fall in the number of joint conciliation requests received in the same period (-13.6%, from 7,095 to 6,246).

Telecom Italia supported the conciliation activity by means of:

- seminars and joint training initiatives involving dedicated personnel from Telecom Italia, AGCOM, Co.Re.Com and consumer associations;
- debates, conferences, interviews and other promotional activities involving senior management in order to disseminate the correct cultural approach to the subject.

The internal structure of the Customer Operations area was also consequently modified in order to improve its operational and support capabilities.

1.10 SAFEGUARDING PRIVACY AND PERSONAL DATA PROTECTION

In order to ensure personal data protection (Legislative Decree 193/03, known as the “Privacy Code”) in the performance of its business activities, Telecom Italia has equipped itself with an organisation model that assigns central departments the responsibility for supervising correct application of the regulations in this sector at Group level. In this context, when it establishes or acquires new companies, the Parent Company provides the support required to identify and carry out the formalities required to comply with the relevant legal and regulatory provisions.

Legal provisions and the instructions of the Italian Data Protection Authority are transposed by constantly updating the Group's regulations and policies. The “System of rules for the application of privacy regulations in the Telecom Italia Group” is particularly significant in this respect. It establishes the provisions and operating instructions needed to carry out the relevant formalities.

PRIVACY ISSUES HAVE BEEN THE SUBJECT OF A WIDE TRAINING PROGRAMME

In order to ensure the dissemination and correct application of these rules, intensive training activities were also carried out in 2011, in a series of 42 meetings involving around 1,400 managers and representatives of central and peripheral departments.

The purpose of this programme was to disseminate a privacy culture and provide the organisations involved with the operational tools needed to reconcile the pursuit of business objectives with respect for laws and regulations. This programme mainly involved a number of Customer Operations, Consumer, Business and Top departments of the Company, including some outsourcers and commercial partners in the “push” consumer and business sales channels, focusing also on their Sales departments. Additional specialised activities related to the processing of telephone and electronic data transmission traffic and the procedures for verifying personal data security measures.

During the course of 2011, Group policies regulating the technical requirements regarding the security of IT systems that handle personal data were also reviewed amongst others.

With regard to the handling of customers' personal data, Telecom Italia performed the technical and procedural adjustments required to implement telephone marketing campaigns in accordance with the new legal requirements (Law 166/2009 and Presidential Decree 178/2010), which allow all users listed in the directory of subscribers to be contacted by telephone without the need for prior consent, for the purpose of sending advertising material, direct sales, market research or business communications, subject to the right of users to object to telemarketing by registering on the Public Register of Objections, which has been in operation since February 1, 2011.

The effective application of the regulations is monitored through a control system based on regular self-assessment procedures by those responsible for handling the data, and on sample checks carried out by the relevant central departments, based on procedures and methodologies prepared with the contribution of the Group's auditing firm.

Finally, pursuant to rule 26 of appendix B (technical rules regarding minimum security

measures) of the Privacy Code, Telecom Italia declares that it has drawn up a Security Programme Document [Documento Programmatico sulla Sicurezza (DPS)] for 2011. This document describes the technical and organisational criteria adopted for the protection of shared, sensitive and judicial personal data handled with computerised tools, as well as the training plan for data handling staff.



Ensuring that products
and services
are purchased for the **best
possible price**

while fulfilling quality, safety
and environmental protection
requirements

2. SUPPLIERS

2.1 STRATEGY

Within the Telecom Italia Group, the procurement process is aimed at the acquisition of products and services under the best possible market conditions, at the same time guaranteeing the prerequisites of quality, safety and respect for the environment. The procurement process is based on a competitive comparison of the technical/economic offerings of suppliers who are selected on the basis of well-founded company procedures at Group level and bearing the hallmark of ethical dealings.

The Group is committed to guaranteeing the quality of the procurement process and its continual improvement, in the light, too, of sustainable procurement, by obtaining the respective certification of quality.

2.2 RELEVANT STAKEHOLDERS

The relevant stakeholders are the suppliers and sub-suppliers from which the Group acquires goods and/or services.

2.3 GENERAL MATTERS

The selection, assessment and control of Telecom Italia Group's suppliers, for high risk procurement sectors, involves a pre-contractual qualification stage in which the economic/

financial and technical/organisational characteristics are assessed. Verification of these characteristics leads to inclusion in the register of suppliers. The Group requires every supplier to make a commitment, on behalf of the company in question and any authorised sub-contractors, collaborators and employees, to observe the principles of ethics and conduct contained in the Group's Code of Ethics.

Registered companies which have received purchase orders normally undergo checks during the supply period, including incoming quality control (a requirement for the acceptance and use of the purchased goods) and monitoring of the vendor rating (systematic assessment of the supply).

The Supply Chain & Real Estate (SC&RE) department is split into purchasing divisions that focus on specific sectors, so as to provide accurate responses to the requirements of internal customers and stakeholders. These expectations are constantly monitored through surveys of both internal customers and suppliers in order to verify the quality of the services delivered ([see § Involvement initiatives](#)).

2.4 SUSTAINABILITY INITIATIVES

The main initiatives implemented in 2011 are listed below.

- The process that establishes the activities aimed at improving the Corporate Social Responsibility (CSR) of the supply chain has been redesigned by introducing a more comprehensive system of elements used to assess the sustainability of suppliers during the qualification stages, incoming quality and vendor rating.

The most significant aspects of the process include:

- › the creation of a self-assessment questionnaire for new suppliers during the qualification phase. The questionnaire was developed according to the main requirements contained in the relevant standards for responsible corporate management relating to respect for ethical values and to safeguarding the environment (including SA 8000, Global Compact and ISO 14000) and to the best industry practices. The questionnaire will be updated periodically to reflect the results and evolution of the qualification process;
- › the classification of suppliers based on the potential risks associated with their sustainability performance, using a specific method which considers the socio-environmental and business continuity aspects associated with the purchase markets to which the suppliers belong, classified according to parameters such as relevant geographical area, potential impact on the environment and the company of suppliers activities and of the products/services supplied throughout their life cycle, impact on the reputation of Telecom Italia as a customer. A matrix has been constructed that relates the spending in the specific purchase market with the risk index calculated on the basis of the parameters described, which has allowed purchase markets to be subdivided into four categories, identifying the most critical ones in terms of sustainability.

Suppliers belonging to the most at risk categories will undergo CSR audits carried out by staff from the company or specialised third party companies. These audits will be repeated periodically, not only to monitor and ensure the implementation of corrective action, but also if results are positive, in order to verify that the standard of performance found by auditors is being maintained.

The activities described are intended to promote the improvement of sustainability performance throughout the supply chain and to identify a category of sustainable purchases (sustainable procurement).

The whole process is expected to come into full operation in 2012. For 2011, an experimental questionnaire was sent out to around 70 significant suppliers identified by the method described above, which allowed around 44% of orders made in 2011 by the Domestic Business Unit to be covered.

- In December 2011, the ISO 9001:2008 certificate of conformity of the “Quality Management System” was confirmed for the Group's entire SC&RE department, with specific recognition for the initiatives taken in the field of sustainability. The certification required 27 department processes to be mapped, identifying 155 performance indicators that allow the management of services supplied to internal clients and suppliers to be monitored and improved. Furthermore, the ISO 14001 certification was confirmed for the facility and real estate service unit and infrastructure purchases.
- Application continued of the green procurement policy established in 2009, which contains guidelines for establishing the environmental requirements of products/services purchased.

The policy covers all stages of the product life: design, production, use and end of life. Published on the supplier portal of Telecom Italia and in the sustainability section of the telecomitalia.com website, the document contributes to orienting purchasing policies towards low environmental impact products and services.

With a view to ensuring the ongoing improvement and greater involvement of suppliers, questions regarding the green procurement policy, and supplier adherence to the principles set out within it, have been included in the annual satisfaction survey ([see § Involvement initiatives](#)).

2.5 SUSTAINABILITY CHECKS

CSR verification activities continued in respect of common suppliers and sub-suppliers, as required by the Memorandum of Understanding (MOU) signed by Telecom Italia, France Telecom and Deutsche Telekom at the end of 2009. Belgacom, KPN, Swisscom and Vodafone have since also subsequently signed up to the Memorandum.

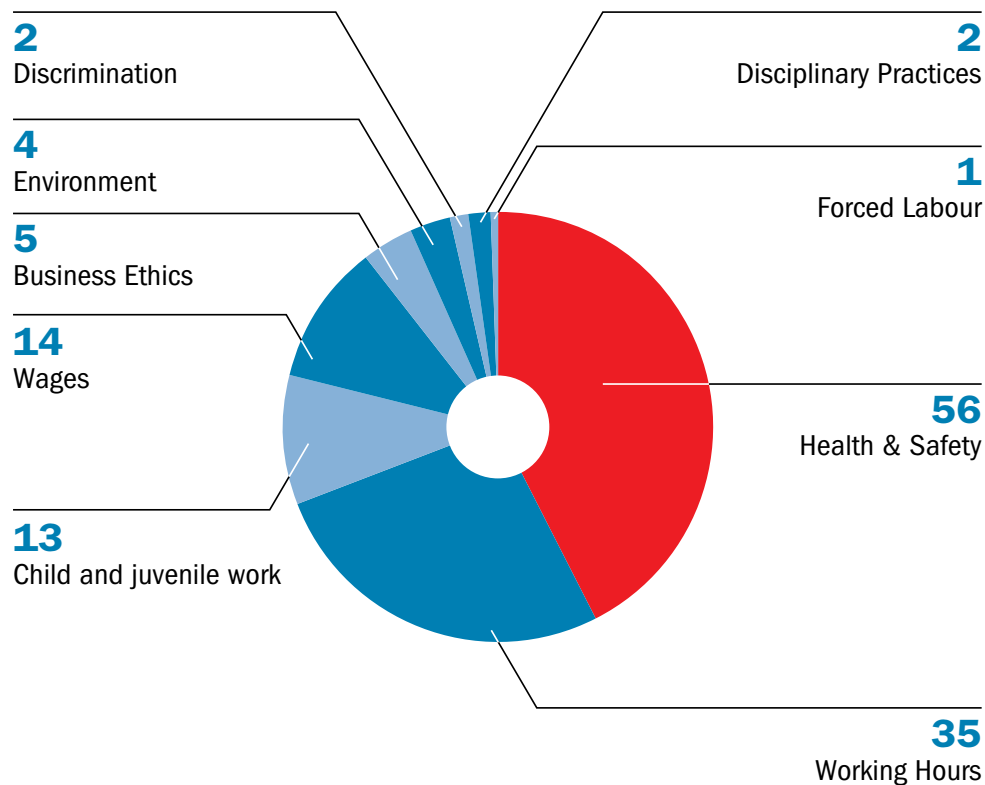
The objectives of the initiative, known as Joint Audit Cooperation (JAC), are:

- to verify the sustainability of the most important suppliers/sub-suppliers that are common to the members of the JAC, with production plants located in geographical areas with the greatest socio-environmental risk. The verification is carried out by means of specific audits conducted by third parties using a method developed for this purpose by the JAC members themselves, who share the results of the verifications;
- to contribute to the increased sustainability of suppliers/sub-suppliers involved by identifying and implementing corrective actions and ongoing improvement programmes, establishing a long-lasting cooperation with reciprocal benefits in terms of efficiency, productivity and risk reduction in the context of the supply chain.

Thanks to the new members, JAC's area of influence now extends to 55 production sites located in Asia, Central and South America, North Africa and Eastern Europe. During 2010-2011, 33 audits were carried out by specialised international companies, selected by competitive tender, covering approximately 155,000 workers in total.

The suppliers included in the audit campaign conducted in 2011 belonged to the user devices and appliances, network appliances and IT equipment production sectors.

TOTAL NON-CONFORMITIES DETECTED: 132



The most recurrent non-conformities relate to health and safety at work, working hours and remuneration. A corrective action plan was drawn up for all the non-conformities encountered, establishing the resolution procedures and timetables. The implementation of these procedures is monitored on a constant basis by the JAC members. In total, the work allowed 57% of orders to be verified in the main areas of supply considered.

2.6 INVOLVEMENT INITIATIVES

- The new suppliers' portal (Vendors Hub) was launched during the year to improve communication and optimise operational processes, applying social networking systems to a business context. Suppliers are able to access a private area to view important data and events connected to their relationship with Telecom Italia and manage all their own details, thus improving the smooth operation and transparency of the relationship. The Vendors Hub also includes a public area containing information for potential suppliers. Documentation is exchanged electronically (e.g. offers, purchase orders, contracts, qualification documentation, surveys), thus reducing the environmental impact resulting from the use of paper and transporting of documents. The Vendors Hub has also been used to manage the self-assessment questionnaire ([see § Sustainability initiatives](#)).
- For the fifth year in a row, the Group's main suppliers have been involved in satisfaction surveys regarding the Supply Chain & Real Estate department and, more generally, Telecom Italia. The online questionnaire, consisting of 27 questions, remained active for 3 weeks. The survey involved 1,132 suppliers with access to the Vendors Hub with a 48%

response rate. The overall assessment of the supply relationship with the Telecom Italia Group achieved a score of 73/100, which is consistent with 2010 and shows a consolidation of the improvement recorded by the previous survey and the generally positive trend in the level of satisfaction recorded since 2008. The analysis of the distribution of satisfaction among the various classes shows an upward trend in the percentage of suppliers who state they are “satisfied” or “very satisfied”.

- The two e-communities set up in previous years for suppliers in the civil infrastructure and network operations sectors, aimed at improving dialogue mainly regarding social and environmental sustainability, remain active.

The activities of the e-communities mainly take place through a platform known as “TelelecHome”. Developed in Web 2.0 logic, it contributes to the exchange of information and experiences within the e-community, in order to:

- › integrate the best operational practices adopted in specific subject areas;
- › publish the results obtained, in terms of the environmental/social certifications attained;
- › support voting campaigns on various initiatives.

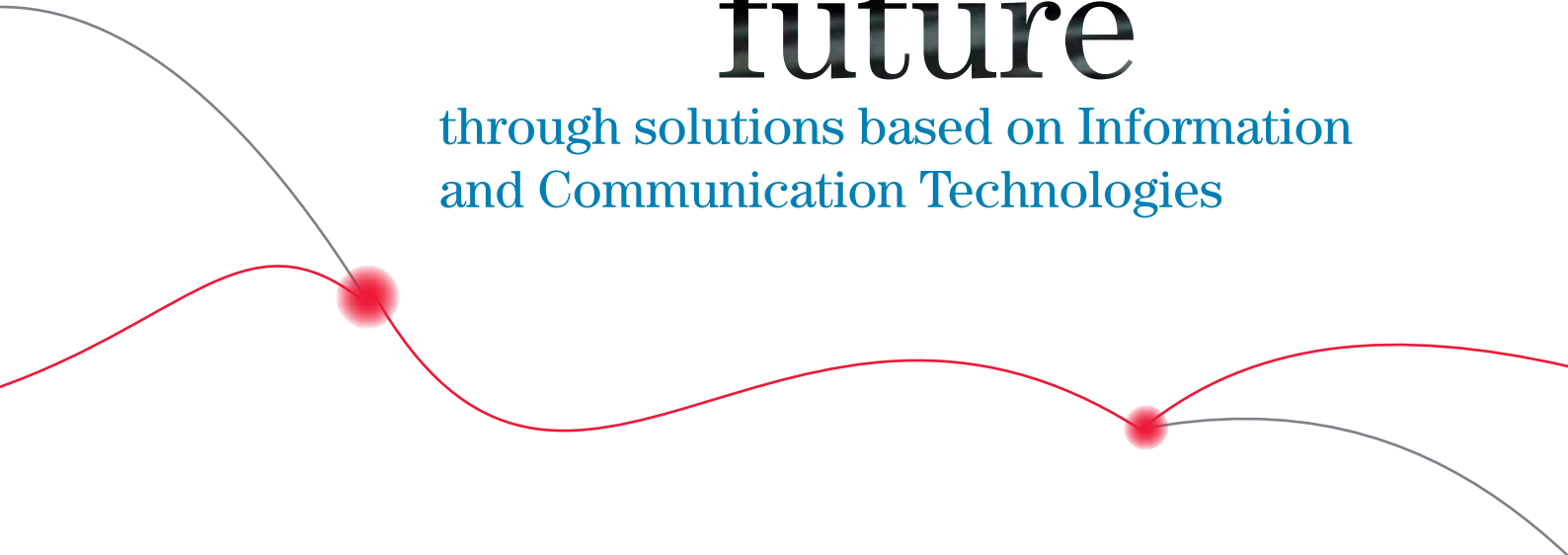
2.7 2011 RESULTS AND 2012 COMMITMENTS

Subject	2011 commitments	Status	2012 commitments
ISO 9001, ISO 14001 and ISO 50001 certifications	Maintaining TI Group's SC&RE ISO 9001 certifications and the ISO 14001 certification for infrastructure purchasing and service unit facility activities, extended to the same department's real estate activities.	Achieved	• Maintaining the SC&RE department's ISO 9001 certifications and the ISO 14001 certification for infrastructure purchasing and the service unit facility, extended to the same department's real estate activities. • Obtaining the ISO 50001 certification for the Energy Purchasing & Management department.
E-community project	Development and maintenance of active e-communities.	Achieved	Maintenance of active e-communities
Green Procurement	Continue monitoring purchases made with green criteria and increase their volume. Continue applying the “Product Lifecycle Evaluation Guidelines” - (LCA) to the product families already identified.	The introduction of the new supply chain sustainability process has brought these activities out of the action plan (see § Sustainability initiatives).	Continue developing of the supply chain sustainability verification and improvement process, in order to progress from green procurement to the wider concept of sustainable procurement.
Controls on suppliers	Continued application of the Corporate Social Responsibility check list to a representative sample of suppliers.	Achieved	Application of the self-assessment questionnaire for new suppliers (see § Sustainability initiatives).
	Extension of auditing activities to supplier production establishments overseas.	Achieved	Continuation of audit activities in the production plants of suppliers located abroad in the context of the JAC (see § Sustainability checks).

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Contributing to a better future

through solutions based on Information
and Communication Technologies

3. THE ENVIRONMENT

In Telecom Italia, environmental protection and energy efficiency are the two key areas for the promotion of the sustainable development of the country. These include specific actions to manage and reduce the Company's impact and proposals for technological solutions for people, businesses and public administration that contribute to creating a more inclusive and viable digital society ([see § Climate change](#)).

3.1 STRATEGY

The environmental strategy of the companies of the Group is founded on the following principles:

- optimising the use of energy sources and other natural resources;
- pursuing the continuous improvement of environmental performance by reducing negative impacts and increasing positive ones;
- adopting procurement policies that take environmental issues into account;
- disseminating a culture that promotes a correct approach to environmental issues.

In order to ensure the effective and sustainable management of operational processes characterised by particular environmental impacts, Telecom Italia has equipped itself with an Environmental Management System (Sistema di Gestione Ambientale - SGA) which is ISO 14001 certified.

In two call centres, this Environmental Management system has been integrated with the Safety Management System based on the OHSAS 18001 standard, both having achieved the respective certification.

Application of the procedures is verified by means of internal audits of company departments and external companies.

For further details on this subject [see § Customers/Certifications](#).

3.2 RELEVANT STAKEHOLDERS

The environment stakeholder representative is identified as the future generations who are entitled to live in a world that is not compromised by the negative effects resulting from the development of previous ones. The interests of this collective person are identified in the demands made by:

- national and international environmental organisations;
- national and supranational institutions;
- the community in general, particularly in the areas in which Telecom Italia operates;
- industry associations and non-profit organisations dealing with issues relating to the environment. These include the following in particular: CSR Europe, European Academy of Business in Society (EABIS), European Telecommunications Network Operators' Association (ETNO) - in ETNO Telecom Italia chairs both the Association and the "Sustainability" working group -, European Telecommunications Standards Institute (ETSI), Global e-Sustainability Initiative (GeSI), Carbon Disclosure Project (CDP), European Round Table of Industrialists (ERT), International Telecommunication Union (ITU).

Telecom Italia is attentive to the demands expressed by stakeholders interested in protecting the environment and has developed various channels of communication with them, including AVoiComunicare, the Festival of Science, the Venice Future Centre and the dedicated pages of the Group Intranet/Internet site, in addition to formal and informal meetings with these stakeholders.

Telecom Italia also promotes and in some cases coordinates national and international projects on this issue.

3.3 ENVIRONMENTAL PERFORMANCE

The information regarding environmental performance has been drawn from management data, some of which is estimated.

The data given below covers energy, atmospheric emissions, water, paper, waste and electromagnetic emissions.

Energy

Energy consumption by Telecom Italia S.p.A. and the Group is presented according to the Global Reporting Initiative's guidelines (GRI – G3 guidelines) regarding direct consumption for heating and transport (Scope1 according to the GreenHouse Gas Protocol⁽⁴⁾) and indirect consumption for the purchase and use of electricity (Scope2).

4

The GHG Protocol (Greenhouse Gas Protocol Initiative), established in 1998 by the World Resources Institute and the World Business Council for Sustainable Development, supports business in respect of greenhouse gas emissions through calculation methods and studies aimed at promoting innovation and accountability for climate change.



HEATING SYSTEMS

		Changes %		
		Telecom Italia S.p.A. 2011	2011 vs 2010	2011 vs 2009
ENERGY GENERATED BY HEATING OIL	MJ	120,177,570	3.12%	6.37%
ENERGY GENERATED BY NATURAL GAS	MJ	437,290,915	0.25%	(36.54%)
TOTAL ENERGY FOR HEATING	MJ	557,468,485	0.86%	(30.49%)

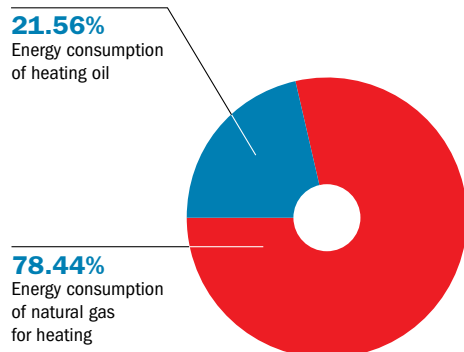
HEATING SYSTEMS

		TI Group 2011	TI Group breakdown by Business Unit (%)				
			Domestic	Brazil	Argentina	Media	Olivetti
TOTAL ENERGY FOR HEATING	MJ	689,155,125	87.85%	0.00%	3.71%	0.44%	8.00%

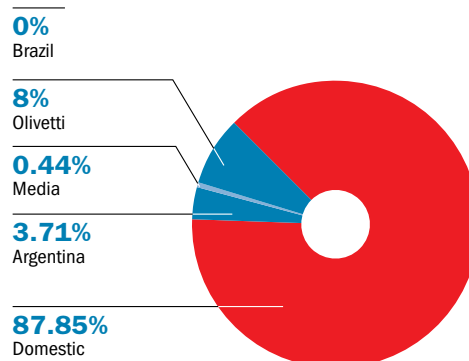
The data in the table relating to Telecom Italia S.p.A. show that, compared to 2010, consumption for heating purposes has remained substantially unchanged and that consumption has been falling significantly compared to 2009, when the large cogeneration plants came into service. Installed in a number of Data Processing Centres, these plants produce electricity and heat at the same time, resulting in a reduction in the purchase of fossil fuels used exclusively to heat working environments.

In Brazil, the climate makes it unnecessary to heat indoor premises and in Argentina heating is only required for short periods of time and primarily in the coldest areas of the country.

ENERGY CONSUMPTION FOR HEATING (%) TELECOM ITALIA S.p.A.



ENERGY CONSUMPTION FOR HEATING (%) TELECOM ITALIA GROUP



VEHICLES

		Telecom Italia S.p.A. 2011	Changes %	
			2011 vs 2010	2011 vs 2009
UNLEADED PETROL CONSUMPTION	l	2,081,298	(46.02%)	(60.99%)
DIESEL CONSUMPTION	l	17,526,407	(2.38%)	(0.86%)
LPG CONSUMPTION	l	238,606	(*)	(*)
TOTAL ENERGY FOR TRANSPORT(**)	MJ	699,138,479	(8.53%)	(12.84%)

*

The amount of LPG used in 2009 and 2010 was negligible and was not recorded.

**

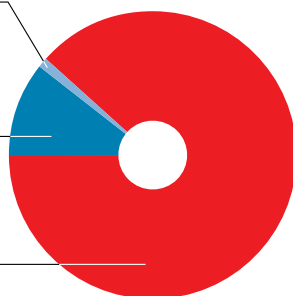
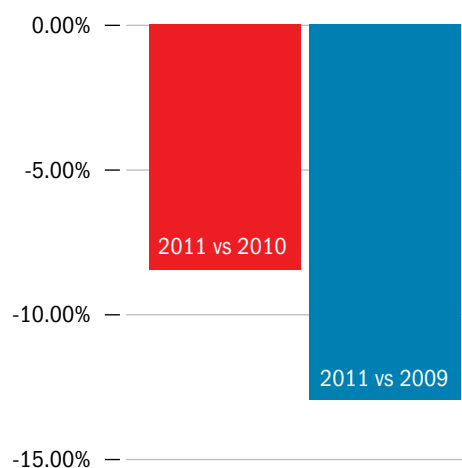
Represents conversion into Megajoules of the consumption of unleaded petrol, diesel and LPG expressed in litres.

FOSSIL FUELS FOR VEHICLES
TELECOM ITALIA S.p.A.

1.2%
LPG consumption
for vehicles

10.5%
Unleaded petrol
consumption
for vehicles

88.3%
Diesel consumption
for vehicles

ENERGY CONSUMPTION FOR
VEHICLES - TELECOM ITALIA S.p.A.

NUMBER OF VEHICLES AND DISTANCE TRAVELLED(*)

		Telecom Italia S.p.A. 2011	Changes %	
			2011 vs 2010	2011 vs 2009
TOTAL NUMBER OF COMPANY VEHICLES	no.	19,243	(3.33%)	(8.66%)
NUMBER OF LOW- EMISSION VEHICLES(**)	no.	18,968	(3.34%)	(8.75%)
TOTAL DISTANCE TRAVELLED	Km	306,714,162	(4.16%)	(0.64%)

*

The data shown in the tables and graphs relating to transport refer to all the Group's vehicles (industrial, commercial, used by executives/managers/sales engineers), both owned and hired. The vehicles, consumption and distance travelled of vehicles owned or in use by the sales force of TIM Brasil and Telecom Argentina have been included only where usage is significant and continuous.

**

Euro4 or higher standard vehicles fuelled by unleaded petrol, diesel and LPG, electric vehicles or vehicles running on other fuels with comparable or lower emissions.

At Telecom Italia S.p.A., the significant containment of energy consumption for transport is due partly to the reduction in the distance travelled and partly to the greater efficiency achieved in managing the fleet of vehicles. Implementation of the policy to reduce and modernise the fleet with vehicles that comply with more rigorous environmental standards was slower than expected in 2011, primarily because of budgetary restrictions, and involved just 600 vehicles instead of the expected 2,500. This resulted in a failure to achieve the target for reducing CO₂ emissions by replacing vehicles (see § 2010 and 2011 Results in the Appendix).

NUMBER OF VEHICLES AND DISTANCE TRAVELLED^(*)

		TI Group breakdown by Business Unit (%)					
		TI Group 2011	Domestic	Brazil	Argentina	Media	Olivetti
TOTAL NUMBER OF VEHICLES	no.	23,901	81.59%	3.30%	13.85%	0.38%	0.88%
TOTAL ENERGY CONSUMED	MJ	956,252,389	74.36%	4.43%	19.01%	0.74%	1.46%
TOTAL DISTANCE TRAVELLED	Km	386,246,821	80.60%	3.54%	14.00%	0.64%	1.22%

*

The data shown in the tables and graphs relating to transport refer to all the Group's vehicles (industrial, commercial, used by executives/managers/sales engineers), both owned and hired. The vehicles, consumption and distance travelled of vehicles owned or in use by the sales force of TIM Brasil and Telecom Argentina have been included only where usage is significant and continuous

TOTAL DISTANCE TRAVELLED TELECOM ITALIA S.p.A.



Consumption figures for electricity used to operate the telecommunication and civil/industrial plants are shown below.

ELECTRICITY PROCURED AND PRODUCED

		Telecom Italia S.p.A. 2011	Changes %	
			2011 vs 2010	2011 vs 2009
ELECTRICITY FROM MIXED SOURCES ^(*)	kWh	1,896,664,295	(6.28%)	(9.40%)
ELECTRICITY FROM RENEWABLE SOURCES	kWh	37,032,133	(7.91%)	(13.79%)
TOTAL ELECTRICITY	kWh	1,933,696,428	(6.31%)	(9.49%)

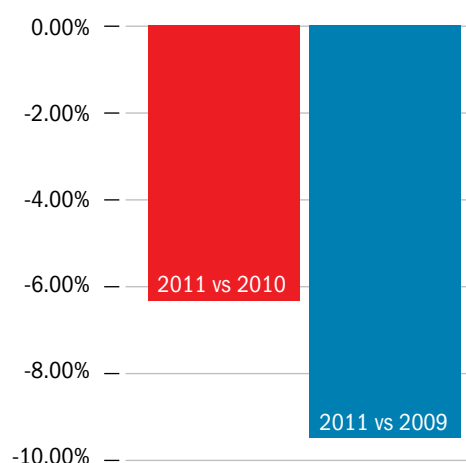
*

Electricity purchased from mixed sources is equal to 1,813 GWh approximately. Self-produced electricity from mixed sources is equal to 84 GWh approximately and refers to the co-generation plants, with an associated consumption equal to 22 million m3 of methane. The production of electricity from continuous generators (not shown in the table) is estimated to be around 3 GWh.

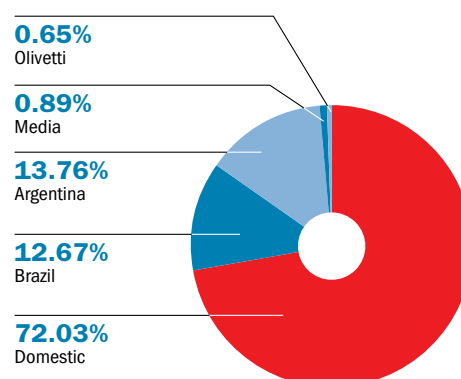
ELECTRICITY PROCURED AND PRODUCED

		TI Group breakdown by Business Unit (%)				
		TI Group 2011	Domestic	Brazil	Argentina	Media
TOTAL ELECTRICITY	kWh	2,743,240,667	72.03%	12.67%	13.76%	0.89%
						Olivetti
						0.65%

ELECTRICITY PROCURED AND PRODUCED - TELECOM ITALIA S.p.A.



ELECTRICITY PROCURED AND PRODUCED - TELECOM ITALIA GROUP



Energy saving and network efficiency improvement initiatives led to a significant reduction in overall electricity consumption of over 6%.

The initiatives put in place in 2011, and aiming at energy efficiency and optimisation of consumption primarily related to:

- adoption of the most modern and efficient technological solutions for Tlc platforms and servers installed in Data Centres, including the concentration and virtualisation of machines⁽⁵⁾;
- introducing innovative mobile network system technologies in order to improve performance in terms of transmission capacity and allow new services to be introduced that significantly reduce energy consumption;
- rationalising and optimising air conditioning systems, particularly by segregating environments depending on their different temperature requirements, and increasing the average operating temperatures of telephone exchanges, servers and Radio Base Stations (RBSs);
- modernising of AC/DC conversion systems through the introduction of technological solutions that guarantee better performance;
- maintaining the efficiency of the fixed traditional switching network and the data networks;
- installing time switches to turn off the lighting systems;
- the targeted use of Full Free Cooling⁽⁶⁾ technologies and other low environmental impact systems characterised by reduced energy consumption in cooling systems;
- additional use of remote metering systems based on sensor to cover around 25% of the company's energy use in 2011 (with a plan to extend remote metering to cover around 50% of consumption in 2012);
- energy efficiency audits at Telecom Italia's most important sites in terms of energy consumption and consequent adoption of improvement actions;
- sharing of technological sites thanks to co-siting agreements⁽⁷⁾ leading to energy savings of around 30%.

The following initiatives were carried out in 2011 regarding the use of non-traditional or alternative and experimental new technologies:

- cogeneration/trigeneration: 5 large systems are in operation in four Data Centre sites (Rozzano, Padua, Bologna and 2 in Pomezia) and energy requirements are fulfilled by a trigeneration system (power generation, heating and cooling system) which, together with the traditional supply systems, allows energy savings estimated to be in the order 30%;
- building of small scale cogeneration plants fuelled by natural gas with an electrical output of 120 kWe. 5 additional systems have been completed at industrial sites to join the 12 systems already producing electricity and heat;
- solar/wind power systems: at 8 RBSs situated in areas characterised by favourable environmental and meteorological conditions, which were previously powered by diesel generators, a supplementary mixed wind and photovoltaic supply has been installed (3 to 6 kW wind power generator and 5 kWp photovoltaic panels). Similar work is taking place at a further 5 RBS sites and data analysis is continuing in order to identify additional suitable sites;
- building of geo-cooling⁽⁸⁾ systems at 3 medium-sized telecommunication exchanges to provide air conditioning for the equipment rooms, replacing the traditional cooling units and with a view to making wider use of the technology across the territory;
- commissioning of a further 52 energy backup systems based on hydrogen fuel cells replacing the traditional lead-acid battery systems, joining the 137 already in operation. The introduction of these systems has allowed the purchase and subsequent disposal

ENERGY EFFICIENCY INITIATIVES ALLOWED IMPORTANT SAVINGS IN ELECTRICITY CONSUMPTION

5

Virtualisation makes the functions of a data processing machine available without the machine actually being present.

6

The FFC cooling system consists of a forced ventilation system and interaction between areas of different temperature without recourse to traditional air conditioning systems and, in particular, without the use of climate altering gases. The system, which is currently applied in over 400 plants, allows a saving of over 85% to be achieved compared to traditional air conditioning solutions.

7

These reciprocal agreements between operators are required by the Electronic Communications Code in order to promote more efficient use of network infrastructure and optimise mobile network coverage in urban and rural areas. Each operator retains ownership of their passive infrastructure (poles and masts, power and air conditioning systems and civil infrastructure) and hosts the other.

8

This system uses the temperature difference between the surface and a point situated a few metres below ground in order to directly achieve natural cooling of the air in the ventilation system or of a fluid that is subsequently used via a heat exchanger.

of traditional batteries containing approximately 160 tonnes of lead to be avoided. Lifecycle assessments show a benefit to the environment in terms of around 60 tonnes of CO₂.

A number of projects were launched in 2011 to obtain energy efficiency certificates (white certificates) with a value of 270,000 TOEs (Tonnes of Oil Equivalent) saved over five years. These certificates, which can be traded on the electricity market, have a unit value of 100 Euro per TOE not used.

At Telecom Argentina, an interdisciplinary energy committee was set up that meets on a quarterly basis in order to analyse energy consumption and determine rationalisation strategies.

To this end, the methodical monitoring of consumption at each individual plant, using measurement and monitoring instruments with wireless technologies and remote sensors (Kaleidos project), and the preventive maintenance carried out to ensure that any corrective actions required can be quickly identified, are extremely important.

In the city of Rosario, the first “green contact centre” has been put into operation and is currently in progress the process of obtaining its LEED (Leadership in Energy and Environmental Design) certification. The building has been designed and built according to green building standards and includes state-of-the-art technologies in its customer contact infrastructure and equipment.

See the sustainability section of the telecomitalia.com website for further information about initiatives taken to reduce energy consumption, develop new mobile and fixed access technologies, save energy on mobile communication systems, ensure the efficiency of cabled network infrastructure and equipment and manage power consumption in domestic networks (Home networking).

Atmospheric emissions

Greenhouse gas emissions by Telecom Italia and the Group consist almost exclusively of carbon dioxide and are due to the use of fossil fuels for heating, transport, electricity generation, purchase of electricity produced by third parties and staff travel (for business trips and commuting between home and work). In addition to these, dispersals of hydrochlorofluorocarbons and hydrofluorocarbons (HCFCs and HFCs) from air conditioning plants are also considered and converted into kg of CO₂ equivalent.

As with the classification of energy consumption for atmospheric emissions use is made of the Global Reporting Initiative - GRI Version 3 - guidelines, which refer to the definitions of the GHG Protocol, distinguishing between direct emissions (Scope1: use of fossil fuels for vehicles, heating, power generation), indirect emissions (Scope2: purchase of electricity for industrial and civil use) and other indirect emissions (Scope3).

Unless otherwise stated, the atmospheric emissions recorded in this Report have been calculated based on the latest coefficients made available by the GHG Protocol⁽⁹⁾; emissions in previous years have been recalculated based on these coefficients in order to allow comparison.

9

Emissions relating to the consumption of electricity purchased in the Italian market have been calculated by using the latest coefficient (2008) calculated by the GHG Protocol - which considers the national energy mix - equal to 398 grams of CO₂/kWh. For Argentina a similar coefficient has been calculated and published by the Secretaría de Energía de la Nación Argentina. The coefficient is equal to 541 grams of CO₂/kWh. For Brazil, the average coefficient for 2011 has been used, which has been calculated and published by the local Ministério da Ciência, Tecnologia e Inovação. The coefficient is equal to 29 grams of CO₂/kWh.

ATMOSPHERIC EMISSIONS

		Telecom Italia S.p.A. 2011	Changes %	
			2011 vs 2010	2011 vs 2009
CO ₂ EMISSIONS FROM TRANSPORT	kg	52,018,660	(8.43%)	(12.47%)
CO ₂ EMISSIONS FROM HEATING	kg	32,738,582	1.03%	(28.60%)
EMISSIONS OF CO ₂ EQUIVALENTS FOR HCFC/HFC(*) DISPERSALS	kg	21,508,900	(19.81%)	(26.81%)
CO ₂ EMISSIONS FROM ELECTRICITY GENERATION BY COGENERATION	kg	40,975,696	36.21%	213.87%
CO ₂ EMISSIONS FROM ELECTRICITY GENERATION USING DIESEL	kg	2,261,181	(15.23%)	(37.79%)
TOTAL DIRECT EMISSIONS OF CO₂ – UNDER SCOPE1 GRI	kg	149,503,019	0.48%	(1.23%)
CO ₂ EMISSIONS FROM PURCHASES OF ELECTRICITY GENERATED BY MIXED SOURCES	kg	722,386,641	(7.50%)	(12.29%)
TOTAL INDIRECT EMISSIONS OF CO₂ – UNDER SCOPE2 GRI	kg	722,386,641	(7.50%)	(12.29%)
CO ₂ EMISSIONS FROM WORK-HOME COMMUTING(**)	kg	55,843,288	(6.81%)	(14.72%)
CO ₂ EMISSIONS FROM AIR TRAVEL(***)	kg	9,942,526	(0.61%)	(16.14%)
TOTAL OTHER INDIRECT EMISSIONS OF CO₂ – UNDER SCOPE3 GRI	kg	65,785,814	(5.93%)	(14.93%)
TOTAL CO₂ EMISSIONS	kg	937,675,474	(6.20%)	(10.89%)

*

Hydrochlorofluorocarbons (HCFC) and hydrofluorocarbons (HFC), in terms of equivalent CO₂ emissions are determined by reference to specific Global Warming Potential (GWP) parameters for the two gases: the index is based on a relative scale that compares the gas considered with an equal mass of carbon dioxide with a GWP of 1. The GWP of HCFC used was 1,780 and that of HFC was 1,300. In 2009, however, a single parameter was used without differentiating between the types of gas dispersed.

**

In determining the impact of home-work commuting, reference is made to statistical data produced on the company's personnel.

Air travel emissions were calculated based on the individual journeys actually made and the coefficients suggested by the GHG Protocol differentiating between short- and long-haul flights.

For Telecom Italia S.p.A. a process has been launched to assess emissions under Scope3 associated with the supply chain according to the specifications of the Corporate Value Chain (Scope3) Accounting and Reporting Standard published in the Greenhouse Gas Protocol Initiative in 2011.

For information on the calculation method and estimated values for 2011 see the sustainability section of the telecomitalia.com website.

The following table shows the total CO₂ emissions of the Telecom Italia Group. The ex Scope3 emissions include those generated by commuting and air travel by the staff of the Business Units considered.



ATMOSPHERIC EMISSIONS

		TI Group breakdown by Business Unit (%)					
		TI Group 2011	Domestic	Brazil	Argentina	Media	Olivetti
TOTAL CO ₂ EMISSIONS – UNDER SCOPE 1 GRI	kg	177,807,364	86.08%	2.14%	9.06%	0.44%	2.28%
TOTAL CO ₂ EMISSIONS – UNDER SCOPE 2 GRI	kg	963,547,634	76.72%	1.05%	20.97%	1.01%	0.25%
TOTAL OTHER CO ₂ EMISSIONS – UNDER SCOPE 3 GRI	kg	96,316,630	75.98%	8.04%	15.44%	0.22%	0.32%
TOTAL CO ₂ EMISSIONS	kg	1,237,671,628	78.00%	1.75%	18.83%	0.87%	0.55%

Atmospheric emissions by Telecom Italia S.p.A. are falling significantly in overall terms. The following are a number of considerations on how individual items contributed to the achievement of the overall result:

- reduction of emissions due to lower consumption by vehicles;
- reduction of equivalent CO₂ emissions, relating to the dispersal of HCFCs and HFCs used in air conditioning systems, due to the adoption of more efficient methods for preventing leaks and the replacement of these gases with lower environmental impact solutions;
- increase in emissions attributable to cogeneration, resulting from the company's decision to invest more in this technology, with positive financial and environmental benefits. The increase is in any case offset by the lower amount of power purchased from the grid, which overall has led to a positive balance being achieved in terms of emissions;
- reduction of emissions from diesel electricity generators in situations where the electricity distribution network is unavailable;
- reduction of emissions resulting from electricity consumption;
- reduction of emissions from business air travel by employees due to a reduction in the number of trips, resulting in particular from increased use of video-conferencing.

Water

WATER CONSUMPTION

		Telecom Italia S.p.A. 2011	Changes %	
			2011 vs 2010	2011 vs 2009
CONSUMPTION OF WATER DRAWN FROM ARTESIAN WELLS	m³	53,858	(20.50%)	(36.80%)
CONSUMPTION OF WATER PROVIDED BY WATER SUPPLY COM- PANIES	m³	4,300,000	(0.97%)	(1.61%)
TOTAL WATER CONSUMPTION	m³	4,353,858	(1.27%)	(2.28%)

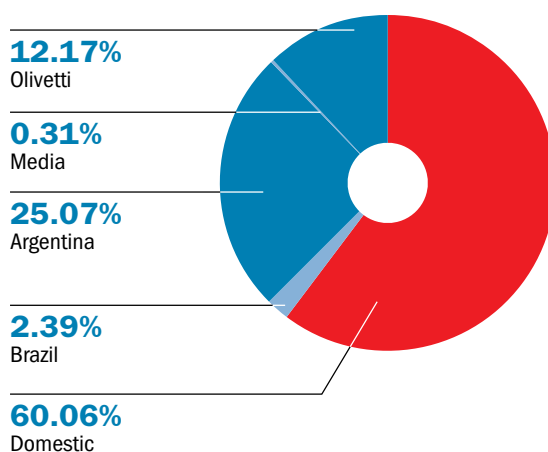
WATER CONSUMPTION

		TI Group breakdown by Business Unit (%)					
		TI Group 2011	Domestic	Brazil	Argentina	Media	Olivetti
CONSUMPTION OF WATER DRAWN FROM ARTESIAN WELLS	m³	944,003	5.70%	0.00%	0.00%	0.01%	94.29%
CONSUMPTION OF WATER DRAWN FROM SUPPLY COMPANIES	m³	6,528,173	67.92%	2.73%	28.70%	0.35%	0.30%
TOTAL WATER CONSUMPTION(*)	m³	7,472,176	60.06%	2.39%	25.07%	0.31%	12.17%

*

The data of the Argentina BU was estimated on the basis of invoices received. The significant impact by Olivetti is due to water being drawn from artesian wells for industrial processes.

WATER CONSUMPTION (%) – TELECOM ITALIA GROUP



Paper



PAPER PURCHASED

		Telecom Italia S.p.A. 2011	Changes %	
			2011 vs 2010	2011 vs 2009
PAPER PURCHASED FOR OFFICE USE	kg	413,578	(21.92%)	(35.16%)
PAPER PURCHASED FOR COMMERCIAL USE	kg	1,551,076	(5.61%)	(23.18%)
TOTAL PAPER CONSUMPTION	kg	1,964,654	(9.59%)	(26.05%)

Purchases of paper for office and commercial use (telephone bills) continue to be directed at product types that meet the highest environmental standards based on the responsible management of forests according to the Forest Stewardship Council (FSC, see fsc.org) requirements.

With regard to the working environment, consumption has been rationalised by the awareness-building work on rationalising use and by the “printing on demand” project which provides for the use of shared high performance printers.

As regards paper purchased for commercial use, activities continued for the purpose of achieving an overall reduction in consumption, particularly by promoting the use of electronic invoices and statements among customers. This allowed over 92 tonnes of paper to be saved, as well as reducing the production of CO₂ associated with delivery of the packages.

The collection of sorted waste in offices, organised in all the company's office premises, allowed 21,670 tons of paper to be sent for recycling during 2011.

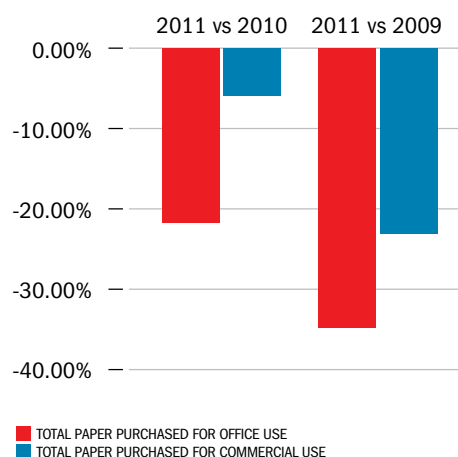
Telecom Argentina is also focusing on e-billing, which currently covers around 5% of customers and allows the company to avoid printing and sending out around 150,000 documents for each billing cycle.



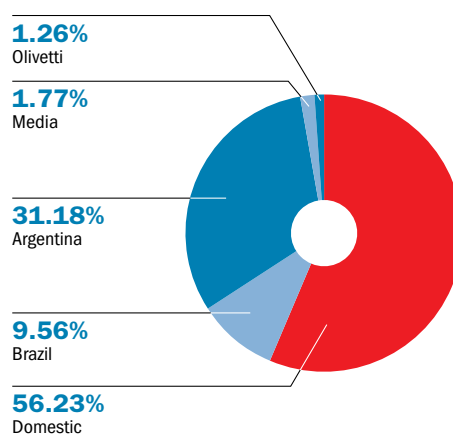
PAPER FOR OFFICE USE

		TI Group breakdown by Business Unit (%)					
		TI Group 2011	Domestic	Brazil	Argentina	Media	Olivetti
NON-RECYCLED PAPER PURCHASED	kg	255,828	1.03%	2.47%	96.50%	0.00%	0.00%
RECYCLED PAPER PURCHASED	kg	63,072	0.00%	100.00%	0.00%	0.00%	0.00%
FSC CERTIFIED PAPER PURCHASED	kg	473,003	93.59%	1.34%	0.00%	2.96%	2.11%
TOTAL PAPER PURCHASED FOR OFFICE USE	kg	791,903	56.23%	9.56%	31.18%	1.77%	1.26%

TOTAL PAPER PURCHASED (%) TELECOM ITALIA S.p.A.



TOTAL PAPER PURCHASED FOR OFFICE USE (%) TELECOM ITALIA GROUP



Waste

The data shown in the table refer to the quantity of waste consigned⁽¹⁰⁾ and recorded by law⁽¹¹⁾.

10

By "waste consigned" is meant waste delivered to carriers for recycling or reclamation or disposal.

11

Slight variations compared to the situation on December 31 may occur until the following March 30, because the source of the data is the amounts which are recorded on the loading/unloading register, which are consolidated once the actual weight at destination has been verified. The information is supplied to the producer of the waste within 3 months of consignment, which is the reason for the potential variations in the data.

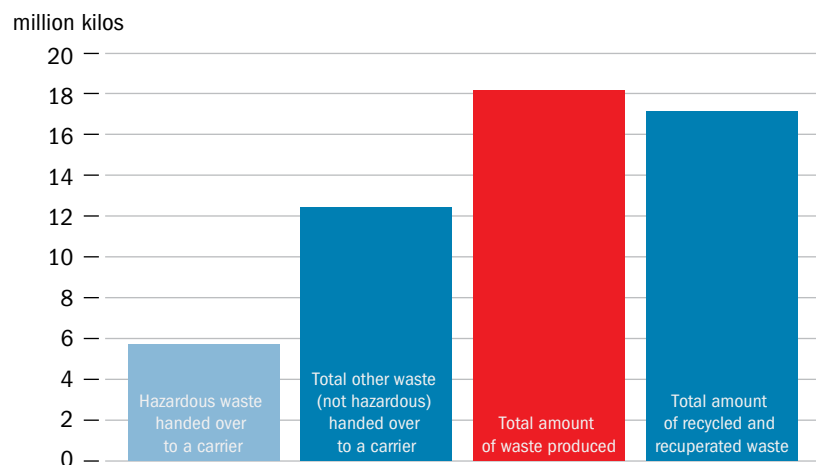
WASTE CONSIGNED(*)

		Telecom Italia S.p.A. 2011	Variazione %	
			2011 su 2010	2011 su 2009
HAZARDOUS WASTE	kg	5,747,941	6.26%	(8.30%)
NON-HAZARDOUS WASTE	kg	12,406,059	12.28%	7.54%
TOTAL WASTE CONSIGNED	kg	18,154,000	10.30%	1.96%
WASTE SENT FOR RECYCLING OR RECOVERY	kg	17,345,326	15.16%	7.13%
RATIO BETWEEN THE AMOUNT OF WASTE RECYCLED/RECOVERED AND THE TOTAL WASTE	%	95.55%	4.41%	5.07%

*

The data does not include telephone poles because these are not disposed of as ordinary waste but under the framework agreement signed in 2003 with the Ministry of the Environment, the Ministry of Production Activities and the manufacturing and recovery companies, subject to the favourable opinion of the conference of State-Regions-Autonomous Provinces. In 2011, Telecom Italia decommissioned 160,861 poles weighing a total of 12,868,880 kg.

WASTE CONSIGNED FOR RECYCLE/RECOVERY – TELECOM ITALIA S.p.A.



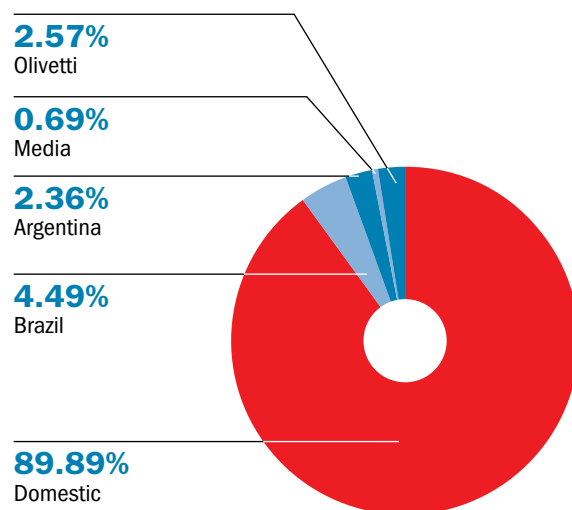
WASTE CONSIGNED

		TI Group breakdown by Business Unit (%)					
		TI Group 2011	Domestic	Brazil	Argentina	Media	Olivetti
TOTAL WASTE CONSIGNED(*)	kg	20,583,186	89.89%	4.49%	2.36%	0.69%	2.57%

*

For comparison purposes among the Business Units, the data of the Telecom Argentina BU doesn't include decommissioned telephone poles (kg 16,146,750 in 2011) although these have been consigned and are not managed separately from other waste. Furthermore, the figure has not been calculated on the basis of estimated data, and only includes recorded waste.

TOTAL WASTE CONSIGNED (%) – TELECOM ITALIA GROUP



Waste data varies over time according to the quantities and types delivered to the companies contracted to treat it. The most important item of data for Telecom Italia's purposes is the ratio between waste produced and consigned for recycling/recovery, which has improved significantly compared to the two previous years.

Ministerial Decree No. 65 of March 8, 2010 (published in the Gazzetta Ufficiale on May 10, 2010) implemented the collection of Waste Electrical and Electronic Equipment (WEEE) by all Telecom Italia sales channels as of June 18, 2010. As required by the legislation, Telecom Italia and all its sales channels have been registered as "Distributors" in the National Register of Environmental Managers and management procedures have been adapted to comply with the legislation.

In 2011, Telecom Italia reconditioned a significant number of its own equipment items (including 121,644 modems, 640 IPTV set top boxes, 35,900 fixed-line telephony products and 150,679 other material related to technical logistics). The purpose of this activity is twofold: to help reduce WEEE while at the same time generating savings an economic benefit from the non-purchase of new equipment, which more than covers the reconditioning cost of these products.

For ADSL modems (home gateway), a review has been carried out of the reconditioning and disposal processes in the event of a failure or at the end of their useful life, in order to reduce the environmental impacts of these stages but also to identify solutions that improve the choice of materials and the methods for disassembling future products. Part of this analysis has already been used to build the new Telecom Italia Wi-Fi N modem, which inaugurated the new range of "green" products in 2011 ([see Product responsibility](#)).

An awareness-building campaign is taking place at Telecom Argentina urging customers to deliver their used mobile phone batteries to retail outlets. An agreement with a specialised company allows the lithium, cobalt and nickel contained in the batteries to be recovered and re-introduced as materials in the production cycle under conditions that are completely safe for the environment.

Electromagnetic emissions

The actions of the Telecom Italia Group on the subject of electromagnetic emissions are essentially:

- careful and proper management of its equipment during its entire life cycle, in compliance with current regulations and internal standards of efficiency and safety;
- deployment of, and constant research into, the latest technological instruments for checks and controls.

Systematic monitoring has continued of the levels of electromagnetic emissions in the installations of La7, MTV and Telecom Italia Media in order to guarantee that legal limits are respected and high safety standards are maintained. For the Telecom Italia Media Group in particular, such monitoring is related to electromagnetic field levels for protection of the population and the levels of exposure of workers. According to the checks carried out in Italy, the electromagnetic emissions generated by La7 and MTV are well within legal limits. Similar attention is paid to the emissions from mobile handsets using the frequency bands operated by Telecom Italia: GSM 900MHz, DCS 1800MHz and UMTS. In 2011, in accordance with the established targets, all the models of technologically innovative mobile phones marketed by Telecom Italia under the TIM brand were submitted to SAR qualification⁽¹²⁾. In determining the SAR compliance of mobile terminals Telecom Italia complies with the limits defined in the ICNIRP (International Commission on Non-Ionizing Radiation Protection) guidelines and subsequent declarations of conformity⁽¹³⁾. This qualification, which is carried out during the pre-marketing stage, when Telecom Italia does not often

¹²

SAR - Specific Absorption Rate: SAR is measured in Watts/kg and assesses the electromagnetic power absorbed by a mass of tissue.

¹³

Guidelines for Limiting Exposure to Time-Varying Electric, Magnetic, and Electromagnetic Fields (up to 300 GHz). Health Physics 74 (4): 494-522; 1998; Statement on the "Guidelines for limiting exposure to time-varying electric, magnetic and electromagnetic fields (up to 300 GHz). Health Physics 97(3):257-259; 2009.

have the SAR value declared by the manufacturer, makes the test more valuable than a simple quality control check.

During the year, the percentage of GSM network traffic in half rate mode increased. This technology allows a single radio resource to be used for two simultaneous conversations, thus reducing the overall power emitted as compared to the traditional voice coding system.

In order to respond to the growing demand for information about non-ionising radiation⁽¹⁴⁾ related issues, Telecom Argentina signed an agreement with the Argentinian federation of municipalities and a continuous monitoring and data dissemination system has been installed in over 500 municipalities.

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The electromagnetic fields used in the context of Tlc are non-ionising radiations, in fact they lack sufficient energy to transform into ions the atoms of the matter with which they interact, which are electrically neutral.

3.4 CLIMATE CHANGE

The subject of climate change has moved from the agenda of the scientific community, which has identified the impact on human life, to the international political agenda, which is trying to find methods which the various countries can agree upon to control its most negative effects. The subject was also discussed at the latest summit in Durban (United Nation Climate Change Conference - UNFCCC COP17) with the aim of limiting the global temperature increase to +2°C, restoring carbon dioxide emissions expected in 2100 to pre-industrial levels⁽¹⁵⁾.

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For more detailed information go to: unfccc.int/2860.php.

There are many market drivers that increase the importance of carbon management for companies: operating costs, energy costs, the growing economic impact of carbon management (the telecommunication sector is not currently part of the emission trading schemes⁽¹⁶⁾), brand reputation issues and the risks associated with the energy supply. In addition to these, there is the financial risk connected with the physical impact resulting from climate change, competitive positioning, the demands of investors and the expectations of customers. The requirement for effective carbon management is governed by additional drivers that depend greatly on the specific market, including the expectations of employees, talent turnover and retention systems for particularly prestigious positions.

All of this makes “carbon” management strategic for companies, will tend to increase its importance in the coming years and will require increasingly strong integration with the business as of now, becoming a long-term priority.

The emissions produced by the sector are expected to grow. Nevertheless, the ICT sector is required to play a major role by contributing to the reduction in emissions in other sectors.

Once again this year the Group took part in the Carbon Disclosure Project (CDP), an international initiative that aims to encourage companies to improve their performance on carbon management and communicating with the stakeholders on this issue. Also assessed is the ability of companies to better manage the risks and opportunities resulting from climate change. Telecom Italia scored 73 out of 100 points in its CDP9 involvement, having

improved its degree of disclosure by 4% compared to the previous year and positioned itself in band B in terms of performance.

The Group's approach to the fight against climate change is based on three synergic levels of action:

- reducing its own direct and indirect emissions of greenhouse gases;
- limiting the emissions of other sectors and customers in general by supporting virtualisation and the provisions of services that promote new ways of working, learning, travelling and living;
- contributing to disseminating a culture based on a correct approach to environmental issues inside and outside the company.

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The emissions market is an administrative tool used to control emissions of pollutants and greenhouse gases internationally by listing the emissions themselves and trading emissions quotas between states:

- European Directive 2003/87/EC establishes a system for trading greenhouse gas emissions quotas in order to allow the undertakings given in the Kyoto Protocol to be fulfilled more effectively using an economically efficient tool (Emission Trading Scheme - EU-ETS).
- As of January 1, 2005, the carbon dioxide emissions market (EU-ETS) formally came into force, involving production sectors with high levels of CO₂ emissions.
- European companies operating in the sectors specified in the directive will be required to limit their emissions according to the requirements of their national allocation plans for two reference periods: 2005-2007 and 2008-2012.

THE FIGHT TO CLIMATE CHANGE IS BASED ON THREE LEVELS OF INTERVENTION

Reducing emissions

The environmental impact of Telecom Italia in terms of CO₂ emissions is determined, as shown in the preceding paragraphs, by direct emissions from the use of fossil fuels, indirect emissions through the procurement of electricity and other indirect emissions due for example to home-work commuting and air travel by staff.

For information on the initiatives launched to reduce energy consumption, and therefore indirect emissions, [see § Energy](#).

Eco-efficiency indicator

Telecom Italia S.p.A. measures its own energy efficiency by using an indicator that establishes a relationship between the service offered to the customer in terms of bits transmitted and the company's impact on the environment represented by Joules of energy consumed. The factors taken into consideration are the amounts of data and voice traffic of the fixed/mobile networks and energy consumption for industrial purposes (transmission and cooling equipment in exchanges), offices (lighting, air conditioning and heating) and vehicles.

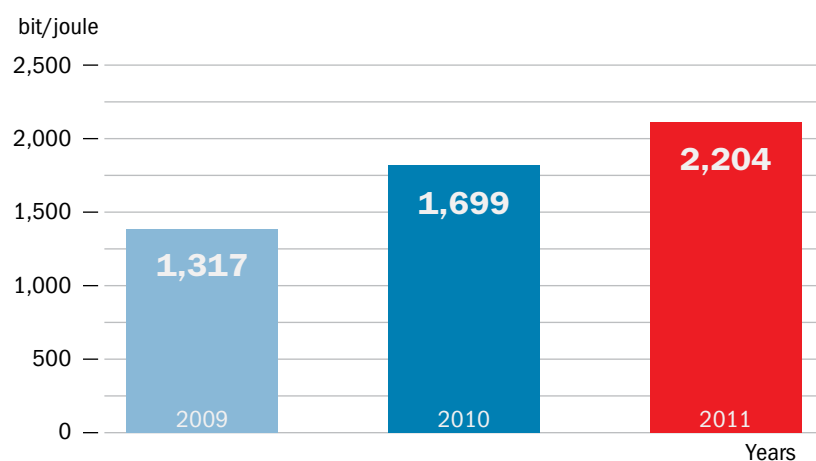
The following table and chart show the values and trend of the eco-efficiency indicator over the past three years.

In 2011, the indicator value exceeded expectations and work continues with an objective of 2,450 bit/Joule being set for 2012, an increase of +11% compared to the figure for 2011 ([see 2012 Objectives](#) in the [Appendix](#)).

ECO-EFFICIENCY

		Telecom Italia S.p.A. 2011	Changes %	
			2011 vs 2010	2011 vs 2009
ECO-EFFICIENCY INDICATOR	bit/Joule	2,204	29.72%	67.35%

ECO-EFFICIENCY INDICATOR – TELECOM ITALIA S.p.A.



Telecom Italia as part of the solution

The Information Communication Technology sector is expected to play an important part in the fight against climate change by promoting the replacement of physical products and traditional services with digital products and processes (for further information see § Customers/Innovative services) that, where possible, can promote the virtualisation of society by reducing the need to move people and goods.

In general⁽¹⁷⁾:

ICT SECTOR CAN CONTRIBUTE TO DRAMATIC REDUCTION OF CO₂ EMISSIONS

- video and audio conferencing services facilitate relations regardless of whether people travel or not;
- broadband connection services enable teleworking by reducing the need to commute to the workplace;
- on line invoicing and payments, in addition to saving paper and therefore the energy required to produce and transport it, eliminate the need for transport to make payments;
- telemedicine services reduce the need for doctor-patient meetings, limiting travel and, as a consequence, the emission of greenhouse gases;
- infomobility systems, using information obtained from mobile handsets, allows the optimisation of traffic flows, reducing travel times and the emission of greenhouse gases;
- systems for the monitoring and analysis of consumption allow the optimisation of the energy efficiency of offices and households.

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It has been estimated that 100 million audio-conferences in place of physical travel would save over 2 million tonnes of CO₂ emissions, that 10 million teleworkers working from home for just two days a week would lead to a saving of almost 11 million tonnes of CO₂ and that if 10 million users received their telephone bills online instead of the traditional paper bills there would be a saving of around 11 million tonnes of CO₂. The examples are indicative and are intended to give a concrete indication of the potential of TIC services. They are based on projects, verified by independent third parties, tested on a small scale by members of ETNO as part of the "Saving the climate @ the speed of light" initiative developed together with the WWF (see etno.be).

ICT based solutions can influence the price, efficiency and relative convenience of products and services, eventually affecting the demand for services and increasing the overall demand for energy. They can also accelerate the obsolescence of products and require the resulting technological waste to be managed. It is the responsibility of the ICT sector, and therefore also of Telecom Italia, to give due consideration to these effects, focusing on research and development to create products with a low environmental impact throughout their entire life cycle (see § Product Responsibility).

Technological convergence between TIC and IT, on which the Telecom Italia "Nuvola italiana" Cloud Computing offer is based, allows companies and public administration to use infrastructure and services on an "on demand" and "pay per use" basis, optimising costs and performance and having up-to-date technological solutions available to them without having to invest in dedicated IT resources and specialised know-how. Telecom Italia's strategy allows innovative technological solutions to be combined with connectivity services, cutting the cost of IT infrastructure and energy consumption and thereby contributing to greater environmental sustainability.

In 2011, around 1,100 video conferences were centrally handled by Telecom Italia between its Rome and Milan offices and, thanks to the introduction of a specific automatic audio and video conference booking portal, over 7,000 video conferences and 38,000 audio conferences were handled. The use of these communication systems has allowed a significant amount of carbon dioxide and other polluting emissions associated with the use of means of transport⁽¹⁸⁾ to be avoided.

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On average, around 10 people take part in each video conference and half of these would have travelled to take part in the meeting. It can be estimated, solely for video conferences carried out between the management offices in Rome and Milan, that there has been an overall reduction in emissions of 1,200 tons of CO₂. Each person travelling between Rome and Milan would have led to an impact of around 120 kg and each event replaced by a video conference is estimated to save at least 600 kg (the calculation only relates to air travel: around 1000 km per round trip with an impact factor on medium range travel of 0.12 kg per km - source GHG Protocol).

3.5 COMMUNICATING SUSTAINABILITY

The debate about sustainability, and communicating the relevant action taken in this respect, have a very important role to play because they can generate a virtuous cycle, encouraging reflection and consequently facilitating a change of individual and collective behaviour. In this respect Telecom Italia carries out various communication initiatives:

- externally, for the purpose of disseminating the right approach to sustainability, in the

certainty that contributing to dialogue and culture on the subject is one of the responsibilities of a large corporation in every respect;

- internally, with the aim of increasing awareness of the importance of the subject for the company, by sharing information about the sustainability model adopted and the many initiatives implemented.

In 2011, for the second year running, Telecom Italia participated as principal partner in the “Treno Verde” (Green Train) initiative run by Legambiente and Ferrovie dello Stato, the aim of which is to monitor the atmospheric and noise pollution in a number of Italian cities and make the public and local authorities more aware of environmental issues. Telecom Italia took part in the initiative by showing the public, inside a dedicated train carriage, how the ICT solutions offered by the Group can reduce CO₂ emissions and improve quality of life, and promoting the “smart city” model. The train stopped off in Siracusa, Reggio Calabria, Bari, Salerno, Pisa, Genoa, Brescia, Vicenza and Rimini, and was visited by thousands of people, as well as many local authorities and schools.

**SUSTAINABILITY COMMUNICATION IS
IMPORTANT FOR THE PROMOTION OF
VIRTUOUS BEHAVIOURS INSIDE AND
OUTSIDE THE COMPANY**

AVoiComunicare ([see \[avoicomunicare.it\]\(http://see.avoicomunicare.it\)](http://see.avoicomunicare.it)) is an integrated communication project run by Telecom Italia to maintain an open discussion on topical issues, amongst which sustainability and environmental matters have always played an important part. During 2011, among other initiatives, AVoiComunicare hosted the World Food Programme “Wefeedback” campaign, thus giving space to a discussion about nuclear energy, particularly following the Fukushima disaster. AVoiComunicare includes the Carbon Meter, a simple tool developed by Telecom Italia together with PricewaterhouseCoopers, which allows people to find out how much carbon dioxide is produced by their everyday activities and discover how and by how much they can contribute to mitigating climate changes by making small changes to their behaviour. By using the Carbon Meter and answering a few questions on their lifestyle, people can calculate the CO₂ emissions produced by their activities in the following four areas: home, work, shopping and administrative formalities. The Carbon Meter allows people to understand how to make their daily behaviour more sustainable. The simulation of a virtuous path shows how much one can save in terms of emissions by making a few simple changes and using ICT solutions, such as video conferencing or broadband connections, to make purchases and perform other online operations.

The 14th CinemAmbiente Environmental Film Festival in Turin included a preview, in the presence of Michael Cimino of “itali@mbiente” (italiambiente.avoicomunicare.it), the first crowd-film dedicated to environmental hazards in Italy and entirely produced by Internet users, which even chose the title from the 100 suggested by Internet users. Thanks to over 200 video contributions and over 1,600 minutes of “filming” received, the final version of the film was subsequently presented at the 2011 Blogfest in Riva del Garda, documenting many situations of potential environmental risk around the country, many of which turned into emergency situations in the following weeks.

On the internal communication front, in 2011 Telecom Italia launched a sustainability training plan. Based on an e-learning platform accessible via the Internet and on virtual classes providing a more in-depth analysis of specific topics, the training plan will initially be available to Italian employees and will subsequently be extended to Brazil and Argentina.

For details about the internal communication activities carried out [see § Human Resources/Internal communication](#).

At Telecom Argentina too, the employees sustainability awareness-building campaign is

considered essential to forming a common and responsible attitude towards issues of major interest and is implemented by making targeted information available on the intranet and in the company's magazines.

3.6 PRODUCT RESPONSIBILITY

To improve the product stewardship profile at the company level, products/services marketed by Telecom Italia S.p.A. are also examined under the following criteria:

- health and safety of consumers;
- labelling of products and services;
- marketing communications;
- respect for privacy;
- conformity with applicable regulations;
- environmental impact of the product.

Marketed products are subject to a technical test aimed at ensuring their conformity with European directives and national laws, in particular:

- the EU regulations on the protection and safety of customers in using the equipment;
- the RoHS regulation which prohibits the use of certain substances in electrical and electronic equipment;
- the WEEE regulation on the disposal of electrical and electronic products at the end of their life cycle;
- European regulations nos. 1275/2008 and 278/2009 which implement the EuP (Energy-using Products) directive for terminals and their respective external power supplies.



Development continued of the new range of “Telecom Italia Green” products launched in April 2011 with the new Wi-Fi modem for the provision of broadband services, half a million of which were sold bearing a specifically created logo.

Each product in the range is accompanied by an environmental declaration stating the improvements achieved in terms of energy efficiency and ecodesign, including, for example, the use of partly recycled materials and recourse to technical devices to improve energy efficiency. All the supporting documentation is available in the sustainability section of the telecomitalia.com website.

A further two broadband modem models were added to the range and the environmental declarations for the new Sirio Punto telephone and Cubovision multimedia box were finalised. These are expected to be marketed from the first few months of 2012 after various environmental aspects have been optimised in close cooperation with the supplier (energy consumption, choice of materials, disassembly methods, packaging).

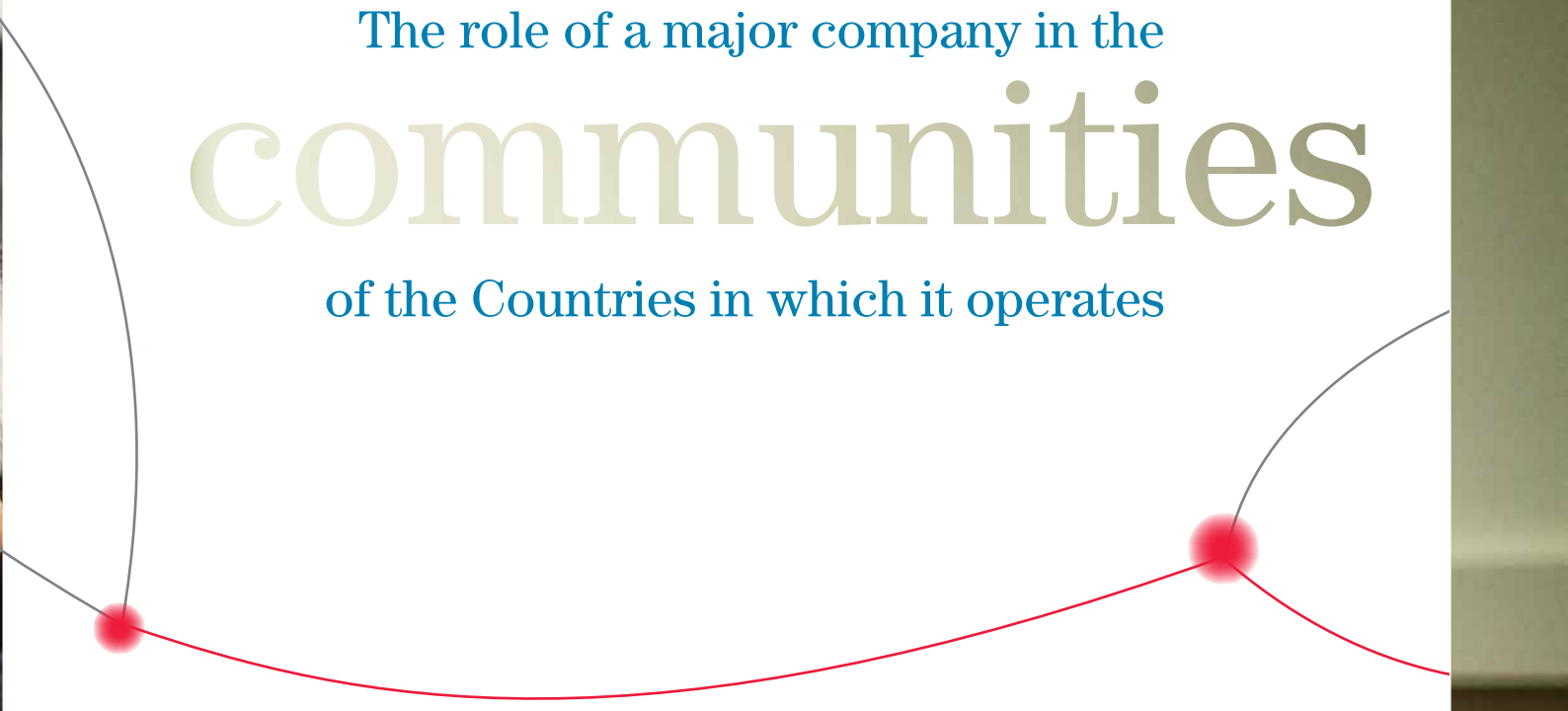
Dialogue is continuing with the Electricity and Gas Regulator (AEEG) to formalise the application for energy efficiency certificates (white certificates) for the new generation modems. In fact these products conform to the Code of Conduct for Broadband Equipment, which allow energy savings to be made (by all suppliers) of more than 40% compared to the market average calculated for products currently on sale. On an annual basis, the energy benefit can be estimated to be around 33 kWh, corresponding to almost 40 GWh if projected on the 2011 supply volumes. For further information, make reference to: autorita.energia.it/it/docs/dc/10/044-10dco.jsp.

In the context of the Green Procurement Policy adopted by Telecom Italia to optimise procurement procedures ([see § Suppliers/Sustainability initiatives](#)), actions continued in 2011 to implement solutions to improve the environmental performance of products and services.

With regard to the adoption of voluntary tools for sustainability, responding to market expectations, Telecom Italia confirmed its subscription to the European Code of Conduct for Broadband Equipment, a document that establishes energy consumption targets for modems, home gateways and other domestic and access network appliances ([see § Energy](#)). Telecom Italia is the co-publisher of the new version 4, released at the beginning of 2011 for a period of three years, and has also played an active role in revising the Code of Conduct for Digital TV Systems (Set Top Box), which will be published at the beginning of 2012.

In defining the network architecture and the technical specifications of the equipment and passive components, work that started in 2010 to adopt criteria designed to minimise the environmental impact (e.g. consumption, bulk, noise and battery use) continued in 2011. These prerequisites are included in the Requests for Quotation (documents drawn up of the technical lines to clarify the specifications of the products to be procured) compatible with the requirements of service and costs.





The role of a major company in the communities of the Countries in which it operates

4. THE COMMUNITY

4.1 STRATEGY

The intention of the companies of the Group is to contribute to the economic wellbeing and growth of the community by supplying efficient and technologically advanced services. Consistent with these objectives and the responsibilities assumed towards the various stakeholders, the Group companies see research and innovation as priorities for growth and success.

As private entities requiring cost-effective management, Group companies take the social impact of telecommunication services into account in their decision-making activities, responding to the needs of the community, including the weakest members of society.

The Group looks favourably on and, where appropriate, supports social, cultural and educational initiatives aimed at the advancement of the individual and the improvement of living conditions.

In the projects they implement with communities the Group companies interact with:

- civil society: all citizens and people with special needs (young people, the elderly, the disabled etc.), their representative associations and non-profit organisations in general;
- institutions: local authorities and central, national and supranational institutions;
- University and research institutions;
- traditional media and social media.

The following table summarises the ways in which the strategy for investment in the Community is implemented, a strategy which is determined in accordance with the Accountability 1000 standard.

Macro areas of intervention	Project identifications	Project implementation
The two main areas of intervention as regards investment in the community are the following: • voluntary activities consistent with the Group's core business and associated with the provision of ICT services^(*); • activities aimed at the general development of the Community (mainly the activities of the Telecom Italia Foundation).	Telecom Italia identifies the projects to be implemented on the basis of: • consultation with the stakeholders and direct contact with the associations of civil society; • partnership projects with stakeholders and associations; • benchmarking against the other European Tlc operators; • participation in industrial associations (e.g. the London Benchmarking Group); • sharing knowledge of the industry's problems with the other departments of the Group; • external lobbying in response to social emergencies (e.g. the flood in Liguria).	The implementation of each project passes through four phases: • Planning: this phase determines the objectives to be achieved, the beneficiaries of the project, the time scales of the individual activities, the overall duration of the initiative, the tools for monitoring the progress of the project and the budget. • Selection: - through public tenders, as in the case with many projects pursued by the Telecom Italia Foundation; - by direct decision of the Company, following the stakeholder, consultation process, consistent with the guidelines for voluntary contributions to the Community^(**). • Management: normally administered through partnerships or framework agreements. Sometimes cash disbursements are made, leaving the management of the activity to the beneficiary organisation/association. • Control: takes place in different ways according to the specific features of the individual projects.

*

In this chapter, only those products/services provided at no charge are reported, while those which, although they have a significant impact on the Community, are provided for payment, are included in § Customers.

**

The guidelines for voluntary contributions to the Community are available on the telecomitalia.com website, sustainability section, under codes and policies, environmental and social policies.

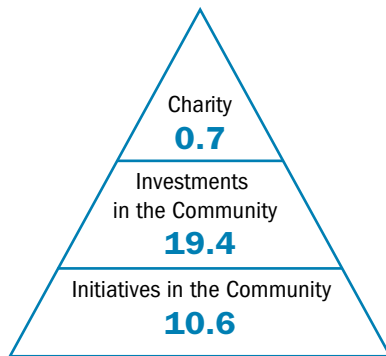
4.2 THE MEASUREMENT OF OUR CONTRIBUTION TO THE COMMUNITY

Contributions made by the Telecom Italia Group to the Community, calculated according to the guidelines of the London Benchmarking Group (LBG), amounted to 30.7 million euros in 2011 (33.4 million euros in 2010).

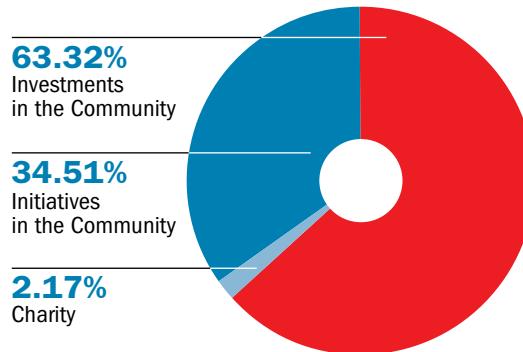
The contribution has been calculated using management data partly based on estimates. Over 100 major international companies subscribe to the LBG, which was founded in 1994 and is the global gold standard for the classification of voluntary contributions made by companies in favour of the Community.

In accordance with the LBG model, in order to measure and represent the Group's commitment to the community, the contributions disbursed have been subdivided into three categories (Charity, Investments in the community, Initiatives for the community), adopting the customary pyramid-shaped representation, which places initiatives of a charitable nature at the top and initiatives which in addition to being of benefit to the Community are in the commercial interest of the Company at the bottom. For further information regarding the LBG model and its investment classification criteria on the 3 levels, see the sustainability section of the telecomitalia.com website and the lbg-online.it website.

LBG diagram
30.7 million euros



BREAKDOWN OF TELECOM ITALIA GROUP CONTRIBUTION TO THE COMMUNITY (%)



4.3 RESPONSES TO STAKEHOLDERS

Initiatives consistent with the core business

By way of example, here are some of the projects carried out in 2011 in response to the needs of the Community using the technologies that underlie the provision of services by Telecom Italia.

Fund raising

Fund raising is a particularly important tool, especially when it comes to dealing with emergencies. For over ten years, Telecom Italia has been a key player in the solidarity chain associated with humanitarian, scientific or environmental projects, which it supports by allowing people to make a donation of 1 or 2 euros by sending a text message and of up to 10 euros by calling a dedicated free number from a land line.

The money raised was passed on in its entirety, without any deductions, either by the tax authorities, who, thanks to an awareness campaign mounted by Tlc companies and non-profit organisations, have exempted such operations from the application of VAT, nor by the company for the disbursement of its costs.

102 fund raising projects were carried out in 2011, raising a total of over 22 million euros⁽¹⁹⁾.

Digital literacy initiatives for the elderly

During 2011, two important projects dedicated to teaching people over the age of 50 the basics of IT and Internet browsing were completed: "Internet Saloon" and "Telemouse".

The first Internet Saloon was started in Milan in 2000 and a further six subsequently opened in Sondrio, Pavia, Catania, Ancona, Bari and Naples (the last three of these were set up in Telecom Italia offices). In eleven years of operation, more than 50,000 people have successfully attended courses.

Telemouse was first arranged in Rome in 2009 and over two years it provided IT courses for around 17,000 people over the age of 50, given by selected students who received educational training credits for their commitment.

At the end of 2001, all digital literacy campaigns for the elderly were combined into the Navigare Insieme project, based on a web platform (navigareinsieme.org) which pro-

¹⁹

The amount collected is not directly attributable to the initiatives mentioned due to the time lag between invoicing and payment.

vides a simple and immediate approach to computers and the Internet. The project is implemented with the help of Informatici Senza Frontiere, Scuola Holden, Auser and Confagricoltura Pensionati.

Safe Browsing

The project Navigare Sicuri (Safe Browsing) is based on a twice yearly course aimed at making children, young people and adults (parents and teachers) aware of how to use the Internet and digital technologies sensibly and responsibly. The initiative has its own dedicated site (navigaresicuri.org) and addresses the various target audiences using appropriate language and tools, including an illustrated handbook and publications featuring the Geronimo Stilton cartoon character for younger users, educational material and interactive activities for teenagers, information and a specialised support service for adults.

The project is assisted by the Fondazione Movimento Bambino, Save the Children and Atlantica, copyright holder of the Geronimo Stilton character.

In November 2010, the Navigare Sicuri tour started in schools and town squares around Italy. Over 100,000 people were involved in the 2010-2011 programme. The tour will continue throughout the 2011-2012 school year.

Future Lab

Since the Genoa Festival of Science in 2009 Telecom Italia has completed the installation of several Telecom Italia Future Lab centres. These are laboratories where new digital technology applications and their impact on daily life can be tested.

On November 24, 2011, the “Telecom Italia Future Lab – The Future is Now”, entirely dedicated to home automation, won the BEA – Best Event Awards 2011 in the Expo/Shows category as the best event of the year dedicated to innovation.

Smart Inclusion

Implemented with the support of the Ministry for Public Administration and Innovation, the technological and financial support of Telecom Italia, the scientific and design supervision of the institute for organic synthesis and photoreactivity of the CNR-ISOF (national research council) of Bologna, this project aims to reduce the discomfort of hospitalised children, allowing them to stay in contact with their school and family.

THE GROUP'S TECHNOLOGIES SUPPORT SOCIAL INCLUSION OF HOSPITALIZED CHILDREN

A single technological platform integrates remote teaching, entertainment and clinical data management services, allowing hospitalised children to participate actively in school lessons, play recordings of the lessons they have missed, do exercises and use individual self-tuition courses. Moreover, the children can communicate with their loved ones through video calls and access various entertainment programmes (cartoons, films, documentaries and sport). The medical staff can in turn use the system to display all the clinical files of patients with the option of updating them. Smart Inclusion is currently being used in some hospitals, in the cities of Bologna, Rome, Padua, Florence, Genoa and Turin.

Initiatives for general community development

The Telecom Italia Group companies are particularly attentive to the needs of the community in which they operate and implement wide-ranging initiatives and projects dedicated to their social and economic development.

Telecom Italia Foundation

Set up in 2008, it is the fruit of Telecom Italia's CSR strategy, promoting ideas and projects for improving people's quality of life. The Foundation operates in Italy and is active:

- in the social field, developing educational and support projects dedicated to the vulnerable and disadvantaged categories and bands of the population;
- in developing projects dedicated to education, training and scientific research;
- in protecting artistic and historical heritage, through innovative ways and means of enjoying and disseminating knowledge.

It is a corporate foundation dedi-

cated primarily to disbursing funds, with a management fund tied to the profitability of the Telecom Italia Group, consisting of 0.5 per thousand of the consolidated EBITDA for the previous year. In 2011, it disbursed funds of 5,706 million euros.

Among its main projects, in 2009, the Telecom Italia Foundation launched an intensive programme of activities, together with the Italian Dyslexia Association, to combat this disorder in Italian schools. The project lasts three academic years and provides for an investment of 1.5 million euros. The programme, part of which was the subject of a

Memorandum of Understanding between the Telecom Italia Foundation, the Ministry of Education, Universities and Research and the Italian Dyslexia Association, is split into four operation projects aimed at:

- recognising dyslexia early;
- training teachers;
- disseminating technologies in schools;
- disseminating technologies among families.

For further information about the Foundation's activities see the fondazionetelecomitalia.it website and the sustainability section of the telecomitalia.com website.

TIM Brasil

Consistent with the Telecom Italia Group's social investment strategy, the company promoted the removal of the socio-cultural barriers that prevent the full development of the country and of a telecommunication market with an enormous potential for growth.

Initiatives for the Community were therefore aimed at promoting the

social inclusion of the most disadvantaged categories through social and technological education projects.

For further details about the contributions made to the Community by TIM Brasil, see the sustainability section of the tim.com.br website.

Music in schools

Launched in 2003 as a collaboration between the "Brazil" BU's companies and the Brazilian government, the project is designed to promote, through musical education, the social inclusion of young children and adolescents who live in situations of hardship in 13 Brazilian cities. During the music courses, notions of civic responsibility and peaceful co-existence are disseminated. In many cases, the musical knowledge acquired has smoothed the way for participants into the world of work. To date, over 20,000 students from 62 public schools have benefited from the project. In 2011, students belonging to the Porto Alegre and Belém orchestras recorded their first CD and performed in a public concert.

Tim ArtEducação

Resulting from a partnership between TIM Brasil and the Humanizarte NGO, this is a project aimed at young people and intended to stimulate learning at school, the development of self-esteem and social inclusion through dance, theatre, capoeira, storytelling and other forms of artistic expression.

In 2011 around 4,000 young people from 12 cities in the state of Minas Gerais attended these lessons.

The University of Viçosa carried out a study which showed that 93% of the art teachers who took part in the project noticed a significant improvement in the behaviour of the students in terms of discipline, self-esteem, interest and study. This result was confirmed by 96% of families and by the municipal authorities involved. Building on these initiatives, the municipal authorities of other towns also organised similar courses, thus expanding the initiative and increasing the number of participants.

Telecom Argentina

Telecom Argentina bases its Community relations strategy on social investment, this being an economic, technical and human contribution made by the Company to help improve the well-being of the community, with a specific focus on education and digital inclusion. The strategy is based on listening to local requirements, formalised in a meeting with 12 representatives of companies, associations, the public sector and industry experts. The main areas of intervention identified by Telecom Argentina are:

Objectives	Areas of intervention	Examples of projects implemented
• Education for the digital era • Technology for everyone • Volunteering	• Education and technology • Technology and social inclusion • Solidarity and development	• Teachers for the future • Technology in schools • Digital spaces • IT for rural communities • Network of volunteers (Telecom Argentina employees) in nine provinces of Argentina

For further information on the contributions made by Telecom Argentina to the Community, see the “Responsabilidad Sociale” section of the telecom.com.ar website.

4.4 MEDIA RELATIONS AND COMMUNICATION PROJECTS

Within Telecom Italia, dialogue with the community takes place by a variety of means: the more traditional ones (press office, TV and corporate website), where communication is characteristically one-way, are supplemented by new (social media) channels, which allow the company to build a dialogue with stakeholders on an equal footing, thereby taking their opinions and expectations into greater consideration.

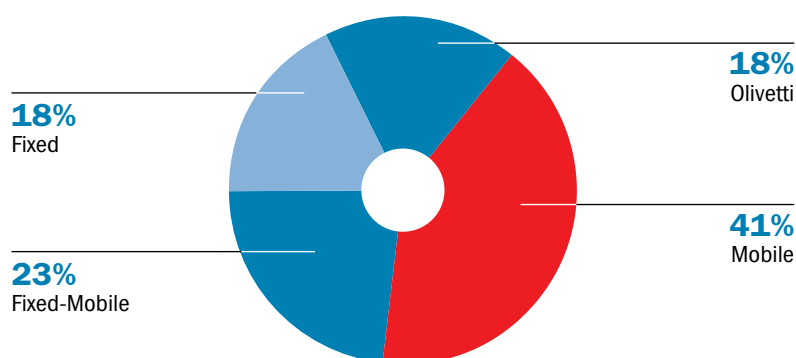
Digital communication is a sector in which Telecom Italia is committed to having a stable and recognised national presence. In this respect, the Group is becoming increasingly at-

tractive, particularly in the social media dimension. The target audience consists of customers, suppliers, institutions, individuals and entities emerging from the new Internet (young talents, entrepreneurs, web early adopters, research centres, incubators and funding organisations, universities, hi-tech companies), opinion leaders (bloggers and journalists), public and private entities, capable of innovating and promoting sustainable development.

For further information regarding all the communication activities, objectives and stakeholder involvement strategies and the main projects carried out in 2011 (Working Capital, Italian Sessions, Social Media Camp, Navigare Sicuri, Navigare Insieme, AVoiComunicare, Telecom Italia sui Social Media), go to telecomitalia.com.

4.5 RESEARCH AND DEVELOPMENT

Within Telecom Italia, research and development activities are carried out by the Information Technology, TILab and Innovation & Industry Relations departments, which oversee the development of new technologies and the engineering aspects of Telecom Italia's service offers through strategic partnerships with the main producers of telecommunications equipment and systems and with research centres of excellence at the most highly qualified national and international academic institutions. Activities to enhance and generate competitive advantage for the Group are of particular importance and are pursued through strategic management of the relationship between research, Intellectual Property Rights (IPR) and business, aimed at developing the company's assets in patents rights. 14 new applications for patents were filed during 2011, broken down as shown in the following diagram.



Relevant stakeholders and issues

The relevant stakeholders for research and development are:

- the company departments involved (e.g. Marketing and Purchasing);
- the suppliers, for the joint development of solutions in accordance with the technical requirements of Telecom Italia;
- research centres and universities, for cooperation and joint projects. In 2011, 13 new collaborative projects were begun with Italian universities (in addition to the 9 already under way at the beginning of 2010), covering research into new technologies, encryption algorithms, new services and new communication standards;
- the standardisation organisations and forums (including NGMN, OpenIPTV Forum, OMA,

- 3GPP, ETSI, TM Forum, W3C, ITU-T) in which Telecom Italia is actively involved;
- the Ministries (Ministry for Economic Development and Ministry of Education, Universities and Research), the European Union and public authorities (e.g. CNR and local authorities) for projects funded through participation in competitive tenders, and partnership initiatives;
- non-governmental associations, associations, alliances and industry forums (e.g. GSMA, m-health, etc.) which bring together all the entities involved in the value chain of the specific market;
- international research and development organisations (e.g. EURESCO and Joint Technology Initiative).

The themes on which projects are developed are identified on the basis of the three-year technological plan, the reference document for the Group, which provides guidelines for the evolution of the network, platform and services.

Published annually, following a wide-ranging process involving all the areas of the company involved, the Plan identifies the main external factors (regulations, standards, vendors, other market operators) that may influence the company's strategies and highlights the emerging and cross-cutting technologies in other sectors that may be of interest to the Group.

Projects and initiatives

The themes identified can be arranged in 3 macro-strands:

- network and service platform innovation
- services to reduce environmental impact
- services for the Community

Network and service platform innovation

- Careful electromagnetic compatibility analyses were carried out on the new generation wireless LTE (Long Term Evolution) networks currently being designed. The analyses focused in particular on the interference problems associated with the proximity of the spectrum in the 800 MHz band between LTE channels and digital TV channels (DVB-T) and the problems connected with the proximity between aerials for receiving the TV signal and the existing mobile telephony system transmitters (GSM, UMTS) for the purpose of complying with the legal emission limits for electromagnetic fields.
- In the context of activities aimed at developing new mobile access technologies, testing on "active aerials" is taking place for the purpose of improving the spectral efficiency and control and optimisation of the aerial radiation pattern. This activity is required in order to improve the energy efficiency of Radio Base Stations (RBS) by connecting these aerials using optical fibres, thus eliminating the losses due to coaxial cables.
- Research activities continued on mobile radio access as part of the European ARTIST4G project, working with a number of leading operators, manufacturing companies, universities, research centres and European SMEs, with the aim of improving the quality of the service for users connected to the same mobile network cell, without affecting performance for other users. The work is proceeding as planned and the project is expected to be completed by the first half of 2012.
- The new generation of high capacity hybrid radio links were added to the network. These allow both circuit and packet traffic to be carried and will be used, among other things, to connect the remote sites of the new LTE network.
- The first version of the M2M platform for Machine_to_Machine communications between networked devices came into operation, allowing Telecom Italia's top customers (big companies and organisations) to manage their stock of terminals and SIM cards, even using automatic ("not-human") applications between networked devices.

- Test campaigns were completed in the laboratory for solutions to be used on high speed trains. The Cubovision project was developed for Trenitalia (Cubo3n) for the purpose of delivering and updating multimedia content on the Frecciarossa fleet of trains (currently under development for the Frecciargento and Frecciabianca fleet as well). The services and offer (browsing of the catalogue, purchase and use of content) are delivered via a Wi-Fi multi-device (PC, MAC, iPhone, iPad) web portal hosted entirely on the servers installed on board, thus optimising interaction with the Telecom Italia service centre platforms created with mobile radio access.
- For the “Cubovision mobile” project, two applications have been developed to offer content: one for the Android platform and one for the IOS (iPhone, iPad) platform. These applications include video content management in adaptive formats that guarantee the best possible user experience in all band conditions (Wi-Fi, HSDPA mobile radio, UMTS mobile radio, etc.) and protection of pay-per-view content.
- As part of the “POF-PLUS” (Plastic Optical Fibre for Pervasive Low-cost Ultra-high capacity Systems) project, a plastic fibre optic system was developed for Ethernet data transmission at 1 Gbit/s over a distance of 50 metres using an LED light source. This technology represents the state-of-the-art internationally and was even presented at the OFC 2011 conference. At the same time as its experimental activity, Telecom Italia contributed to drawing up an ETSI (European Telecommunications Standards Institute) technical specification which is the first international standard in this field.

Services to reduce environmental impact

- **Next Generation Data Center:** is a project aimed at developing hardware infrastructure according to virtualisation and cloudcomputing, principles, based on replacing the physical servers in Telecom Italia data centres by making shared use of infrastructure between the various applications. The project, which aims to develop commercial offers for the ICT market (e.g. ospit@virtuale), allows logistical and energy optimisations to be achieved.
- **Next Generation Workplace:** is a personal computing evolution project that allows centrally managed content and applications to be accessed remotely and in multichannel mode, replacing traditional workstations, based on a desktop with highly “simplified” PCs that only contain the basic network information needed to communicate with the centralised infrastructure. In addition to contributing in a decisive way to reducing energy consumption, the project is aimed at improving the operational flexibility of employees, establishing the foundation for future development of work models (e.g. teleworking).
- **ITS & Infomobility Platform:** aims to enable new mobility services for Public Administration and private users by gradually introducing the idea of a vehicle constantly connected with the outside world (e.g. service centre, roadside infrastructure, occupants, other vehicles, etc.). The objective is to improve the efficiency and eco-sustainability of transport for the benefit of the community. The strategy and solutions are developed in close synergy with the industry standardisation activities in which Telecom Italia is closely involved.
- **Smart metering:** solutions that allow energy consumption to be monitored and optimised, such as Energy@Home (see § Customers/Innovative services).
- **Smart Town:** the solution provides a package of services for municipalities by using the public lighting network and is offered as part of the Digital Town (Smart Cities) initiatives involving Italy's main cities (see § Customers/Innovative services).
- **EARTH (Energy Aware Radio and NeTwork TecHnologies):** studies network architectures and the individual radio components of existing and future generation mobile systems in order to improve their energy efficiency by at least 50% compared to current standards with resulting benefits in terms of savings and a reduction in harmful emissions.

- **ECONET (low Energy COnsumption NETworks)**: is intended to develop new technologies and integrated control mechanisms in order to enable energy saving in fixed network equipment by dynamically adapting network capacity and resources according to the actual traffic loads and requirements of users, guaranteeing quality of service at the same time. The aim is to allow the energy requirement of equipment to be reduced by 50% in the short to medium term and 80% in the long term.
- **Telepresence**: development of a prototype for the telepresence service for business, customers, the features of which guarantee a high standard of video quality (resolution up to full HD), visibility of the whole person, smoothness in the reproduction of movements and polyphonic audio with echo and background noise suppression. The prototype is distinguished by the use of low cost technologies such as HD consumer webcam, low cost 50" plasma TV, medium range PC and new sound cards.
- On the Access Gateways (AG) front, work continued on creating the new range of **Telecom Italia Green** products, which was inaugurated in April 2011 with the new Wi-Fi modem for the supply of broadband services. A further two broadband modems were added and the environmental declaration was finalised for the new version of the "Sirio Punto" telephone, which is expected to be launched in the first few months of 2012.

A NEW MODEL OF WI-FI MODEM HAS BEEN MARKETED, BELONGING TO THE NEW LINE OF PRODUCTS WITH LOW ENVIRONMENTAL IMPACT IN TERMS OF MATERIALS USED, MANUFACTURING TECHNIQUES, AND ENERGY EFFICIENCY

Also completed was the environmental declaration for the Cubovision 2 multimedia box (which is expected to be launched by the beginning of 2012), optimising various environmental aspects in close cooperation with the supplier (energy consumption, choice of materials, disassembly procedures, packaging) (see [Environment/Product Responsibility](#)).

- As of December 2008, Huawei and Telecom Italia have set up a Network Innovation Center (NIC) for synergistic collaborations on various issues. In particular, a specific "Energy Saving" project has been launched with the following aims:
 - › to test innovative and high energy efficiency air conditioning solutions for telecommunication equipment (e.g. the new Free Cooling Cabinet fitted with a self-cleaning filter, aimed at dramatically reducing maintenance work);
 - › to analyse the quality of the power supply and the performance of equipment in relation to voltage losses and interruptions, with the aim of improving the sizing of backup systems;
 - › to assess the most promising technologies/solutions for increasing energy efficiency in the Telecom Italia network (both fixed and mobile);
 - › to analyse the various consumption testing methods contained in international standard and assess whether convergence can be achieved on a common method;
 - › to participate and make joint contributions in the context of the ETSI, such as a document establishing rules for the application of the Life Cycle Assessment method for the telecommunication equipment sector.

Services for the Community

- **Solutions for reducing the geographical divide**: these are intended to facilitate access to broadband in areas with Digital Divide problems and new urban areas.
- **Laboratorio Accreditato di Prova (LAP) [accredited test laboratory]**: operates within TILab and carries out testing activities on ICT services and systems for the Company's internal departments and for external companies and organisations. The LAP is accredited as a provider of various services to the Ministry of Economic Development, SIT (Italian calibration service) and Accredia (the new national accreditation body) based on European Regulation EC 765/2008. During 2011, a new technical operating sector was set up, consisting of the laboratory for mobile telephony added value services (VAS) and

three new accredited services for performing tests.

- **Smart Inclusion:** this project allows young long term hospital patients to stay in contact with their school and family via a touch screen terminal fitted with a camera, while also allowing doctors to optimise the management of care procedures. The technical solution has been created by Telecom Italia by using innovative technologies such as plastic fibre optics and power lines, as well as specific software developments mainly based on opensource platforms (see § The Community/Initiatives consistent with the core business).
- **e-learning and evolved teaching:** a series of initiatives have been launched in the field of schooling with the aim of fulfilling the demand for evolved systems based on collaboration, communication and the use of innovative devices such as IMBs - Interactive Multimedia Boards.
- **Nuvola Italiana Home Doctor:** remote healthcare based on monitoring the physiological parameters of the patient directly from home or in appropriately equipped premises. The measurements are carried out by combining technologies developed by Telecom Italia with standard commercially available medical electronic apparatus (see § Customers/Innovative services).





Internal stakeholders



The Group recognizes the
centrality of Human Resources
as the company's

principal success factor



1. HUMAN RESOURCES

1.1 STRATEGY

The Group companies recognise the centrality of Human Resources, knowing that the principal factor in the success of any business is the professional contribution of the people who work in it, within a framework of openness and mutual trust.

The Group companies ensure health and safety in the workplace and believe that respect for workers' rights in the conduct of economic activity is a fundamental principle.

The management of the workforce aims to guarantee equal opportunities and to promote the professional growth of each individual.

1.2 RELEVANT STAKEHOLDERS

The relevant stakeholders are the employees and trade unions.

1.3 HEADCOUNT AND CHANGES

Unless otherwise stated, the data shown in the tables contained in the Human Resources chapter relate to all the Telecom Italia Group companies ([see § Reporting](#)).

Headcount as of December 31, 2011 is as follows:

Telecom Italia Group

(units)	12.31.2011	12.31.2010	Changes
ITALY	56,838	57,994	(1,156)
ABROAD	27,274	26,135	1,139
TOTAL PERSONNEL ON PAYROLL	84,112	84,129	(17)
AGENCY CONTRACT WORKERS	42	71	(29)
TOTAL PERSONNEL	84,154	84,200	(46)
NON-CURRENT ASSETS HELD FOR SALE	-	-	-
TOTAL	84,154	84,200	(46)

Excluding agency contract workers, the Group's headcount has decreased by 17 compared to December 31, 2010.

The changes can be itemised as follows:

- exit of the company Loquendo S.p.A. from the consolidation scope (103 units);
- entry into the consolidation scope of the company 4GH Retail (699 units) and the companies Tim Fiber SP and Tim Fiber RJ (302 units);
- net turnover down by 915 units, as detailed below by individual Business Unit:

(units)	Recruited	Departed	Net change
DOMESTIC	614	2,347	(1,733)
BRAZIL	4,523	4,400	123
ARGENTINA	1,824	1,107	717
OLIVETTI, MEDIA AND OTHERS	191	213	(22)
TURNOVER	7,152	8,067	(915)

Telecom Italia S.p.A.^(*)

(units)	12.31.2011	12.31.2010	Changes
TOTAL PERSONNEL ON PAYROLL	47,801	49,636	(1,835)

*

In 2011, as in 2010, there were no agency contract workers.

As of December 31, 2011, Telecom Italia S.p.A. had 47,801 employees on its payroll. Compared to December 31, 2010, an overall reduction of 1,835 units was recorded, due to:

- balance of 7 outgoing units due to inter-company transfers, (84 incoming units from the transfer, by the company Matrix S.p.A., of the business unit consisting of the Market & Technology Captive department);
- net turnover down by 1,828 units, as specified:

(units)	Recruited	Departed	Net change
TURNOVER OF TELECOM ITALIA S.P.A.	106	1,934	(1,828)

Brazil Business Unit

(units)	12.31.2011	12.31.2010	Changes
TOTAL PERSONNEL ON PAYROLL	10,539	10,114	425

The headcount of the Brazil Business Unit as of December 31, 2011 was 10,539. Compared to December 31, 2010, an increase of 425 units was recorded, due to:

- 1 incoming unit from other Group companies;
- the entry into the consolidation scope of the companies Tim Fiber SP and Tim Fiber RJ (302 units);
- net turnover up by 122 units, as detailed below:

(units)	Recruited	Departed	Net change
BRAZIL BUSINESS UNIT TURNOVER	4,522	4,400	122

Argentina Business Unit

(units)	12.31.2011	12.31.2010	Changes
TOTAL PERSONNEL ON PAYROLL	16,349	15,632	717

Excluding agency contract workers, the headcount of the Argentina Business Unit as of December 31, 2011 was 16,349.

Compared to December 31, 2010, an increase of 717 units was recorded, due to:

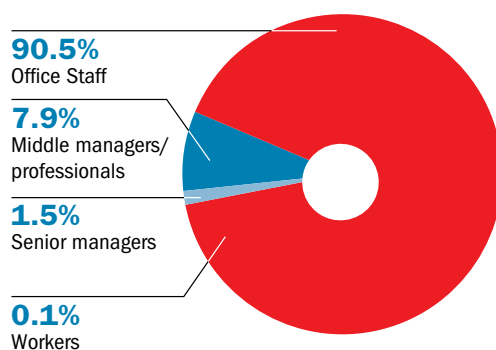
- net turnover as detailed below:

(units)	Recruited	Departed	Net change
ARGENTINA BUSINESS UNIT TURNOVER	1,824	1,107	717

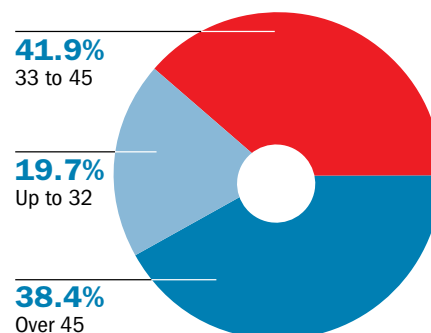
Characteristics of Telecom Italia Group personnel

Staff operating in the Telecom Italia Group, net of agency workers, have the following characteristics:

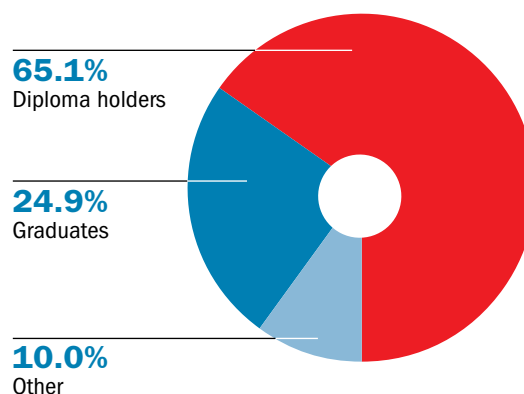
**TELECOM ITALIA GROUP:
EMPLOYEE BREAKDOWN
BY JOB CATEGORY**



**TELECOM ITALIA GROUP:
EMPLOYEE BREAKDOWN
BY AGE BAND**

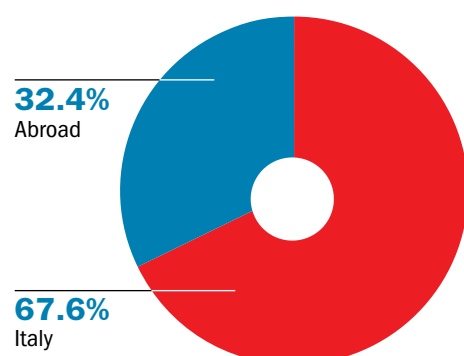


**TELECOM ITALIA GROUP:
EMPLOYEE BREAKDOWN BY ACADEMIC QUALIFICATION**

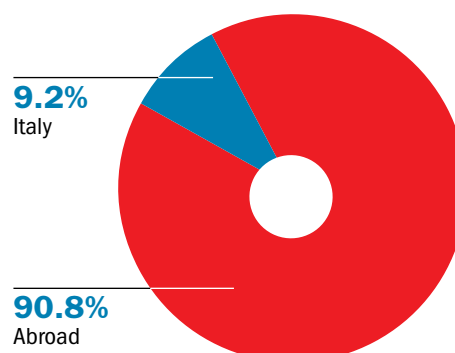


The geographical distribution and intake of personnel by the Group are the following:

TELECOM ITALIA GROUP:
EMPLOYEE BREAKDOWN
BY GEOGRAPHICAL AREA



TELECOM ITALIA GROUP:
RECRUITMENT BREAKDOWN
BY GEOGRAPHICAL AREA



For further details about the characteristics of Group personnel in the Business Units, see the sustainability section of the telecomitalia.com website.

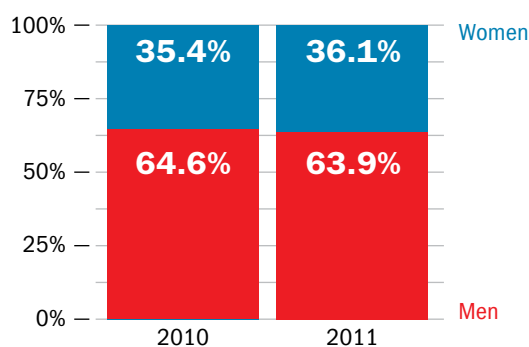
1.4 GENDER BALANCE

In 2011, the distribution of men and women in the Group was the following:

(units)	12.31.2011	12.31.2010	Changes
MEN	53,741	54,363	(622)
WOMEN	30,371	29,766	605
TOTAL	84,112	84,129	(17)



DISTRIBUTION OF MEN AND WOMEN IN TELECOM ITALIA GROUP (2010 – 2011)



In 2011, the percentage of women holding senior management positions in the Telecom Group was approximately 12%. In middle management, the proportion of the total was 27%. For further information regarding the distribution of men and women in the Business Units, see the sustainability section of the telecomitalia.com website.

1.5 PEOPLE CARING

Over the years, the Telecom Italia Group has developed several programmes and initiatives to support its employees, to improve the quality of their working lives and also to support those outside the Company.

People Caring is the structure created by Telecom Italia to respond to the expectations of employees regarding certain important issues, identified through active listening carried out both on line (Intranet, community, email) and through meetings and focus groups.

The main themes identified are:

- balance between working life and free time and support for the requirements of employees' families;
- support for volunteering initiatives by employees;
- promoting the forms of diversity that exist in the workplace through specific activities and projects.

Balance between employees' working life and free time and support for the needs of employees' families

Initiatives in Telecom Italia

- Parking for expectant mothers: female employees are provided with a reserved parking space until the beginning of their maternity leave at all company offices with car parks.
- Nurseries: in addition to the nine nurseries currently available at the company's offices in Rome (3), Turin, Milan, Ancona, Naples, Catanzaro and Palermo, four agreements have been signed with an equal number of external nurseries in Rome (2), Naples and Padua (368 children were registered in 2011-2012).
- Loans for mums and dads: 263 loans were granted to new parents with children under the age of three.

- Time saving:
 - › handling of official formalities: 32 offices are available for this purpose at company offices in Turin, Milan, Venice, Padua, Bologna, Florence, Rome, Naples, Bari and Palermo;
 - › wellness Area: available in a number of company offices in Padua and Rome;
 - › laundry/shoe repairs: operational in five offices in Milan and Rome;
 - › newsagents: available in three offices in Rome;
 - › discount agreements: 38 online offers of products and services have been launched as a result of Telecom Italia's partnership agreements, mostly within Italy (cars and motorbikes, culture and shows, electronic goods, sports, financial institutions, health and wellbeing, trips and holidays, miscellaneous).
- Company loans: 64 loans granted for house purchase/building purposes, 98 for home renovation work, 436 for various other purposes.
- Mobility manager: in order to assist colleagues commuting between home and work, an "Intranet Mobility" area has been created in some of the major cities (Rome, Milan, Turin) to answer questions from colleagues and provide an opportunity to share cars (car pooling). 15 company offices have been provided with a shuttle service, making 315 journeys a day, and 32 offices have been equipped with bicycle racks.
- Breaks:
 - › traditional 15-day summer camps for children between the ages of 6 and 12 with 4,555 participants in 12 centres;
 - › 14-day themed stays for older children between the ages of 11 and 17, dedicated to learning English and sports (football, tennis, sailing, horse-riding, volleyball, basketball, canoeing etc.) as well as archaeology and music and theatre, with 1,971 participants in 14 centres;
 - › 14-day study holidays in the UK for teenagers between the ages of 15 and 17 at four colleges with 441 participants.
- Scholarships abroad: scholarships were provided for teenagers between the ages of 15 and 17 for 100 4-week stays abroad to learn English and Spanish (Ireland, Finland, Spain) and 20 stays lasting one academic year (Europe, United States, Canada, Argentina, Japan, Brazil, China and India).
- Refund of university fees: 205 refunds were paid of first year university fees.
- Christmas Day: children up to the age of 10 visited their parents' offices on December 15; in 73 offices, small gifts were distributed in addition to a snack.
- 180 children of employees were given the opportunity to accompany TIM Serie A football players onto the field, wearing team strips.

NUMEROUS INITIATIVES FOR EMPLOYEES AND THEIR FAMILIES HAVE BEEN CARRIED OUT

Initiatives in Brazil

- Benefits for all employees (favourable terms for opening bank accounts, discount agreements, health insurance).
- "Happy day": employees are entitled to take a day off on their birthday and, if on maternity leave, to full pay for the relevant day of maternity leave.
- "TIM open day": this is an annual initiative aimed at introducing the children of employees to the environments where their parents work.
- "A future without boundaries": this programme helps the children of employees to choose their career through seminars and meetings with a number of employees in order to understand how the work is done.

Initiatives In Argentina

Development continued of the "Equilibrio en Acción" programme, which promotes a better work/life balance. The initiatives to be included in the programme were agreed with a team

of 95 “ambassadors” from various business and geographical areas of the country. The initiatives included in the programme were grouped into 7 categories:



Categories	Initiatives
Working hours and working patterns	• Teleworking, with reserved quotas in case of maternity and paternity • 15-day paternity leave for births/adoptions • Equalisation of holiday and leave arrangements between workers covered by the collective labour agreement for the industry and those excluded from it • One day's leave for mother's day with flexibility about when it can be taken • Half a day's leave for employees on their birthday
Internal communication and information policies	• Blog for “ambassadors” • Inclusion of articles about work/life balance in the internal bi-monthly magazine
Personal development	• Boosting of the volunteering programme • Launch of a free telephone service to support employees
Economic benefits	• Support for employees with disabled children • Discount agreements with travel agencies and universities for undergraduate and postgraduate courses
Family services	• Refund of nursery fees • Holiday stays
Measurement and control systems	• Monitoring of the effectiveness of action taken in the context of corporate climate surveys
Other initiatives	• Promotion of the artistic activities and hobbies of employees • No meetings on Fridays after 2.00 pm

Support for volunteering initiatives by employees

Initiatives in Telecom Italia

- Volunteering at Dynamo Camp: this is the first facility created to allow children and young people suffering from serious or chronic diseases to spend time playing and having fun in contact with nature and in complete safety. During 2011, 20 colleagues spent two sessions volunteering at the facility.
- Telecom donors group: during the year, the Group organised 66 days at the offices in Bari, Milan, Naples, Palermo, Rome, Turin and the regional donation day in Apulia.
- Charity initiatives: 144 banquets were organised at various company offices for charity initiatives.
- The “Estate liberi” initiative, a corporate volunteering and civil responsibility camp, was organised with the Libera Association on July 2 -10, 2011 with the involvement of 11 Telecom Italia employees, each one accompanied by a child over 12 or a parent. The company provided the 11 volunteers with five days paid leave in order to take part in the initiative.

Initiatives in Brazil

With the “Cidadão Sem Fronteiras” project, which attracted 38% more volunteers in 2011 compared to 2010 (a total of 132 volunteers, including 71 in São Paulo), TIM Brasil offers one free day a year for employees to carry out volunteering work for organisations of their choice or to take part in social actions promoted within the company.

For information about the other volunteering initiatives carried out by TIM Brasil, see the sustainability section of the telecomitalia.com website.

Initiatives in Argentina

- Training for volunteers: several training sessions were organised in various provinces of the country in order to encourage employees to get involved. The response was very positive in terms of both participation and appreciation.
- Focus Group: internal meetings between employees and managers and external ones with NGOs took place to present the volunteering programmes. The company's intranet includes a website dedicated to the network of volunteers, which provides information on the various NGOs and their activities and projects.
- “Convocatoria de Iniciativas Solidarias”: a solidarity initiative that involved the presentation of 15 projects by employees, 12 of which were selected and rewarded with a cash prize that will allow them to be implemented. An Evaluation Committee was appointed with internal representatives supported by an external consultant and a well-known expert from the social sector.
- Donations: 4 campaigns were organised in 2011 to promote solidarity among employees for socially relevant causes.

Boosting diversity at work through specific activities and projects

In Telecom Italia

Numerous information and awareness-building activities were carried out in this respect, including:

- activities continued in the Diversity Committee, which consists of 35 colleagues representing diversities of gender, religious, age, sexual orientation, disability and ethnicity. The committee meets periodically to discuss the impacts of diversity on the Company and to draw up proposals and projects to explore the issue in greater depth.
- several projects were carried out during 2011 relating to gender and age diversity:
 - › “Nuovamente in pista” (Back on track): a model was devised to manage the return of employees after long absences for whatever reason (maternity, study, illness) in order to strengthen the positive organisational climate and improve the motivation of human resources. The experimental stage began in July with structured interviews taking place with employees and their managers 3 and 12 months after the return to work. The pilot phase will end in July 2012 with a final report prepared by the Elis Consortium per la formazione professionale superiore.
 - › “Direzione Donna”: this initiative aims to increase the representation of female talent in Telecom Italia and to support their involvement in the company's activities by taking concrete action, as well as to enhance the presence of women in technical environments reserved exclusively for men. Direzione Donna intends to enhance female leadership, individual skills and specific attributes, implement policies to reconcile work and private life (work life balance) and change the image of women in communication.
 - › “Working Age”: is the Sodalitas workshop in which Telecom Italia took part with other companies in order to deal with the management and motivation of employees of different ages. The workshop also examined intergenerational dialogue, enhancing the best practice that already exists in the Companies. The results and proposals of the workshop were presented in November, during an event promoted by Sodalitas.

DIVERSITY AT WORK IS A VALUE TO THE COMPANY AND AN OPPORTUNITY FOR EMPLOYEE DEVELOPMENT

Counselling service

In order to help colleagues deal with psychological difficulties and problems at work and in their per-

sonal lives, a counselling service run by professional psychologists has been operating since 2010 in the People Caring Centre.

Four regions have been involved in this first experimental stage: Friuli Venezia Giulia, Liguria, Lazio

and Sicily. 144 people contacted the Centre and 54 counselling sessions were held to the full satisfaction of colleagues. From 2012, the service will also be extended to employees in other Italian regions.

In Argentina

- Diversity Committee: this consists of over 30 representatives of the various operational areas of the company, with different levels of responsibility. Its aim is to promote inclusion in the workplace and to establish the concept of diversity as a corporate value. During 2011, the Committee published annual guidelines and assessed the progress achieved by the three-year development programme adopted the previous year and based on 3 pillars: gender, generations and disability. A brochure was created that illustrates the programme's objectives, the reasons that make diversity so important for the Company, the action plan and the partnerships with external organisations.
- "Equilibrio en Accion" (Balance in Action): a survey was conducted as part of this programme with the help of an external consultant who reported to the Diversity Committee on understanding historical changes and their impact on generations in terms of the relationship between work, fun, learning and family.
- E-learning sessions: four training sessions were launched for 140 managers regarding diversity issues and a module entitled "Difficult conversations about Diversity issues" was run for 120 middle managers.
- 2011 Calendar and NeoTV: the design of the 2011 calendar was based on ideas surrounding the concept of diversity and was distributed to all employees. NeoTV (internal TV stations) was used to broadcast campaigns to promote the key messages about diversity and inclusion.

For information regarding the other activities for employees and their families of a cultural or recreational nature or relating to healthcare services and the refunds of medical expenses (CRALT, ASSILT, ASSIDA) see the sustainability section of the telecomitalia.com website.

1.6 DEVELOPMENT

Initiatives in Telecom Italia

- Performance assessment: the 2010 Group performance assessment process for Italy was completed in March 2011. For the first time, the process included the Shared Service Center (SSC) and HR Services (HRS) companies.

The assessment system allows:

- › behaviour to be promoted that the Company considers to be essential for the achievement of its excellence and customer satisfaction objectives according to the Customer Promise (see § Customers/Quality of the service);

- › behaviour to be further directed towards the achievement of the Company's objectives in accordance with the principles established by the Group's Code of Ethics;
- › a selection process to be promoted that differentiates among the various contributions;
- › useful feedback to be gathered about the development and self-development paths of individuals.

The uniformity of the assessment criteria used is ensured by appropriate Calibration Committees consisting of managers from the assessed employee's department and members of Human Resources. As of April, following the assessment process, specific training plans were implemented.

- Assessment of the potential of middle managers and employees: assessment activities continued during 2011 and in particular the management assessment process was extended to Group companies. As part of the assessment process aimed at middle managers and employees, 58 assessments centre assessments were carried out (+18% compared to 2010) involving 348 people. The creation of the assessment centres - which is governed by specific guidelines - is entrusted to the company HR Services S.r.l. of the Telecom Italia Group, which is ISO 9001 certified.

Initiatives in Brazil

The performance assessment process, which is conducted annually according to the activities carried out and the objectives established, allows useful information to be gathered for the purpose of managing incentive, training and career processes, in order to ensure the professional growth of the people assessed.

An online assessment system has been developed in order to map the potential of all the Company's employees, identifying strengths and areas of improvement, and to provide proper guidance on development activities.

In order to attract and retain the best talents, a "Talent without borders" programme was launched for trainees and students enrolled in the last 2 years of university, which allows them to access accelerated and diverse professional career paths.

Initiatives in Argentina

As part of the "Pool de Talentos" (Talent Pool) project, the assessment of fixed and mobile telephony, Wholesale and Corporate middle managers and specialists was completed. This process, which involved 197 people and also involved the use of an on line platform, allowed skills development and coaching programmes to be planned.

During the second half of 2011, an assessment process was completed for senior managers in the mobile telephony unit, which was also extended to middle managers recruited the previous year

1.7 SELECTION

Initiatives in Telecom Italia

Various forms of cooperation with the world of education and academia have been set up in Italy through the presence of company representatives in scientific committees, company representatives providing tuition on training courses, scholarships being granted to young people, paid internships being provided in company offices (around 180 were provided in 2011), participation in the main career days, financial support for specific training plans.

Telecom Italia signed 2 important agreements with trade unions for the training and recruit-

ment by the company of young undergraduates and graduates, with the aim of renewing existing skills and developing new management skills, covering the generation gap.

IMPORTANT INITIATIVES HAVE STARTED FOR THE ENTRY OF QUALIFIED YOUNG PEOPLE IN THE COMPANY

The following initiatives are taking place:

- launch of research doctorates for 95 young engineering and economics graduates through conventions signed with several Italian universities, with the aim of acquiring people with excellent skills to be dedicated to specific research projects of interest to the company;
- planning of 3 new master's degree courses in technological innovation for the ICT market aimed at creating a pool of resources highly trained in topics of interest to the company from which to draw future recruits. The universities involved are the Polytechnic of Turin, MIP - Polytechnic of Milan and Federico II University of Naples, involving a total of 65 young engineering and economics graduates;
- extension of apprenticeship contracts for advanced training previously launched as part of the "The Day Before" project. The experimental project launched by Telecom Italia in agreement with trade unions was started up by the TeleContact Center (TCC) with the aim of recruiting 200 engineering and economics undergraduates: to date 85 engineering undergraduates have been hired at the Naples, Catanzaro and Caltanissetta offices. In July the initiative was also launched in Telecom Italia, within the Open Access department, for the recruitment of a further 200 engineering undergraduates.
- Cooperation also continued with the academic world which had already been successfully established in previous years, including the "Network Scuola-Impresa" project in cooperation with the Elis Centre and the "Leader del Futuro" - development and merit scholarships - implemented in cooperation with The European House-Ambrosetti and the Federazione Nazionale Cavalieri del Lavoro.

Initiatives in Brazil

The main selection programmes implemented in 2011 were:

- "Jovem Aprendiz" (Training for young people): launched in 2008, this programme promotes the training of young people between the ages of 16 and 24 for potential employment throughout all areas of the Company. An administrative training course is provided for young people to prepare them to enter the world of work. The programme enrolled 270 participants in 2011.
- "Talentos sem Fronteiras" (Talent without borders): launched in 2009, is intended to scout the market for young graduates in order to create a talented team to be trained and developed in order to build the company management of the future. At the end of 2011, 16 young talented people were recruited in strategic areas of the business.
- "Estágio sem Fronteiras" (Stage without borders): a new programme was set up at the end of 2009 to select talented interns with the aim of offering young university students an opportunity to develop in diverse ways and prepare for the labour market, as well as to increase their potential for finding permanent employment in the Company and possibly access the Talent without borders programme. 166 interns were recruited in 2011.

Initiatives in Argentina

At Telecom Argentina and Telecom Personal tools were diversified and optimised in 2011, with the help of external consultants and head hunters, to seek talent outside the company. Social networks and collaborations with universities were used during the year to contact the required profiles. A pilot programme was launched during the second half of 2011 to implement integrated software with which to seek and select candidates quickly and effectively.

1.8 TRAINING

In 2011, around 2.2 million hours of training were carried out in the company costing over 30 million euros in total. 96.8% of personnel, equal to 81,452 employees, participated in at least one training session.

TOTAL BY TRAINING TYPE (TELECOM ITALIA GROUP)

TYPE OF TRAINING	TOTAL BY TRAINING TYPE				
	HOURS		Participations ^(*) (no.)	Participants (no.)	Coverage (%)
	Total hours (no.)	Hours per head (no.)			
SPECIALIST TRAINING	1,848,683	22.0	323,878	44,255	52.6%
SENIOR MANAGERS	3,220	2.5	289	191	15.1%
MIDDLE MANAGERS	46,932	7.1	4,389	1,977	29.9%
OFFICE STAFF/WORKERS	1,798,531	23.7	319,200	42,087	55.2%
MANAGEMENT TRAINING	116,596	1.4	11,645	5,878	7.0%
SENIOR MANAGERS	25,426	20.1	3,475	762	60.3%
MIDDLE MANAGERS	35,324	5.4	3,350	1,749	26.5%
OFFICE STAFF/WORKERS	55,846	0.7	4,820	3,367	4.4%
INSTITUTIONAL TRAINING	125,102	1.5	52,906	26,673	31.7%
SENIOR MANAGERS	1,497	1.2	277	163	12.9%
MIDDLE MANAGERS	6,426	1.0	9,676	1,851	28.0%
OFFICE STAFF/WORKERS	117,179	1.5	42,953	24,659	32.3%
TRAINING FOR NEWLY-HIRED EMPLOYEES	38,518	0.5	2,823	1,162	1.4%
SENIOR MANAGERS	-	-	-	-	-
MIDDLE MANAGERS	313	0.0	20	14	0.2%
OFFICE STAFF/WORKERS	38,205	0.5	2,803	1,148	1.5%
LANGUAGE TRAINING	77,222	0.9	4,982	3,484	4.1%
SENIOR MANAGERS	15,846	12.5	649	326	25.8%
MIDDLE MANAGERS	22,199	3.4	1,463	1,159	17.6%
OFFICE STAFF/WORKERS	39,177	0.5	2,870	1,999	2.6%
TOTAL	2,206,121	26.2	396,234	81,452	96.8%
SENIOR MANAGERS	45,989	36.4	4,690	1,442	114.1%
MIDDLE MANAGERS	111,194	16.8	18,898	6,750	102.2%
OFFICE STAFF/WORKERS	2,048,938	26.9	372,646	73,260	96.1%

*

Shows the overall number of participations in the various forms of training (classroom, training on the job, online).

I care about myself

Launched at the end of 2010, the project gives employees the opportunity to register free of charge for one of the degree courses offered by the faculties of law, economics, engineering,

communication science, psychology and arts of the Uninettuto International Telematic University, with the aim of promoting non-work related knowledge and skills. Anyone obtaining at least 50% of the credits required by their curriculum is entitled to a refund of tuition fees for subsequent years as well. Agreed

with the industry's main trade unions (SLC-CGIL, FISTel-CISL and UILCOM-UIL), the initiative has been considerably successful. 2,800 employees signed up in 2011 and were able to interact on the company's intranet via a dedicated project blog.

In Telecom Italia

In 2011, training at Telecom Italia S.p.A. again supported:

- business culture transformation by means of support plans for the management of organisational changes;
- the development of individual skills by means of personalised plans;
- online publishing initiatives on the Intranet and on the company's web TV;
- professional retraining for the purpose of acquiring and reinforcing the skills required by organisational developments;
- respect for the ethical and compliance principles declared by the Company (such as environmental protection, sustainability, ethics, compliance with Legislative Decree 231, and respect for privacy).

At the end of 2010, the Telecom Italia Industrial Relations School was launched as a permanent forum for discussion between industrial relations operators from companies, institutions and industry associations, thus promoting social dialogue.

A scientific committee consisting of representatives from the world of academia and the media, as well as executives from Telecom Italia, guide the decisions taken by the school, which promotes training sessions and workshops in which industry professionals are able to examine and discuss the main labour-related issues, industry trends and the evolution of national and international scenarios.

In order to widen the discussion and stimulate the development of widespread understanding of these issues, the school organised a meeting on the subject of "social investment and sustainable enterprise", involving company managers and representatives of the academic and institutional world.

In Brazil

The main training activities included:

- the launch of two new courses regarding sustainability and sales techniques for consumer area staff;
- an advanced certification programme aimed at business area sales staff and involving 212 employees for a total of 60 hours. The training activities also covered the new commercial offers.

In Argentina

The main training activities included:

- a training programme for new recruits, which has been provided for 6 years with the aim of helping new recruits to integrate and find their way around the Company, conveying

the operational information required and relevant corporate values;

- a technical knowledge certification programme planned to contribute to improving the professionalism of technical staff by certifying their knowledge. The initiative is part of the professional certification programme of the National Ministry of Labour and Social Security and has the academic support of ITBA (Institute of Technology of Buenos Aires). During 2011, around 187 employees were awarded a diploma that certifies the experience and knowledge gained by them;
- a cycle of 16 workshops entitled “Dialogue in the dark”, involving over 400 employees. This is an experience in which participants are exposed to new and different situations while temporarily losing their sight. Based on an idea developed in Germany and implemented in over 110 cities around the world, the project allows participants to improve their emotional intelligence and social skills. The “invisible meetings” module, which involved 100 employees, was run by the La Usina NGO. This activity also applied the concept of blindness as a tool for guiding individuals through the eyes of another person and building dialogue between different people, which is useful for recognising others and ourselves in our network of social relations.

1.9 LISTENING ACTIVITIES AND PROJECTS

The instruments available to employees within the company to have their voice heard, both in a formal and informal way, are numerous.

In Telecom Italia, TIM Brasil and Telecom Argentina, employees can make a series of approaches of an informal nature to various dedicated email addresses, obtaining prompt responses on the services required and the issues raised.

In an organisation as complex as Telecom Italia, unilateral communication is no longer sufficient to encourage involvement and develop thought. For this reason, there is a gradual “conversion” of the traditional communication channels to more innovative ways of favouring two-way communication inspired by web 2.0 logic, promoting the exchange of ideas, dialogue and discussion between members of the corporate community.

The intranet and the portal are increasingly important components in this respect. These tools allow everyone to be reached, supplying information and organising more formal and informal “listening” opportunities, such as climate analysis, blogs and open virtual communities. In this way, discussion and debate are encouraged on internal issues linked to the business and more general current topics, including environmental and social issues, making structured channels available for the purpose of collecting contributions and proposals. These include the Archimede Open Access project, which rewards the most innovative and feasible ideas every year in order to optimise the processes and services supplied, gathering proposals from the people directly involved in operational processes. Now in its fourth year, the project has also been extended to staff in the company's shops, from which over 600 ideas have been received on three areas of action: innovation, improving commercial effectiveness and operational efficiency, improving the offer.

Reports to the manager responsible for internal control in Telecom Italia

Pursuant to article 7 of the Code of Ethics and Conduct, the “Whistleblowing Procedure”, published on the intranet and updated during 2010, is applicable to all Telecom Italia Group companies. Administered by the manager responsible for internal control in Telecom Italia, this procedure ensures the receipt, analysis and handling of reports on matters concerning the internal control system, company information, fraud and other matters (violations of the Code of Ethics, mobbing practices, theft, security etc.). Reports may be

submitted in any form (in hard copy, electronically, by fax, etc.) by employees (including top management), associates, consultants, freelance workers, as well as third parties who have business relations with the Group. Each report is analysed and the outcomes of the proceedings are conveyed to the top management of the company, to the statutory control bodies and to the company departments concerned, ensuring complete confidentiality for the individuals making the reports (for further information on activities carried out by the Manager responsible for internal control [see § Shareholders/Corporate Governance](#)).

1.10 INTERNAL COMMUNICATION

In Telecom Italia

The main activities carried out related to:

- offline publishing initiatives, with the production of the planned editions of the employee magazine and multimedia products on compliance and regulation matters;
- online publishing initiatives on the Intranet and on the company's web TV.

Telecom Italia people were involved in internal events in person or remotely.

USE OF MULTIMEDIA CONVENTIONS TO FAVOUR DIALOGUE IN THE COMPANY, REDUCING TRAVELS AND RESPECTIVE CO₂ EMISSIONS

For events attended by large numbers of people, multimedia conventions are now the established method, allowing a small number of people to gather in a physical space (auditorium, large meeting rooms) and interact with a vast virtual audience of colleagues connected from their workstations by video streaming.

The main events held by this method include the 2 editions of "Parli@more", in which the executives of Telecom Italia have talked to employees connected by video streaming on organisational and strategic matters. All the questions received were answered directly during the course of the event or subsequently.

In Brazil

In order to encourage internal integration and promote corporate identity and corporate values, Olympic games were launched for the second year running. These are an internal championship that includes 6 disciplines and involved over 2,000 employees split into 230 teams.

Internal communication activities also took place, dedicated to health, safety, the environment and volunteering activities.

In Argentina

NEO TV, a channel of multimedia content, broadcasts in streaming mode in all the company's offices on subjects including health, presentation of work teams and developments in the company's business. Tecotwitt, a tool similar to Twitter, has been developed to allow all employees to take part in discussions on issues of interest.

1.11 HEALTH AND SAFETY

During 2011, a number of specific initiatives were launched or continued regarding health and safety at work, one of the most important of which was an assessment of work-related stress. This initiative was implemented by means of a procedure that involved an assessment based on indicators associated with the context and content of work (e.g. sick leave,

holidays not taken, disciplinary procedures, accident rates, decision-making autonomy, interpersonal relationships, home/work interface, work environments, work loads and pace of work) surveyed by means of appropriate check lists. The assessment, which involved all workers, regardless of the department in which they work, was carried out by subdividing the workers into 12 uniform groups, identified by reference to various criteria, including the types of tasks performed, the ways in which they are performed and the area organisational context in which they work.

The context and content check lists were applied during specific work sessions attended by workers' representatives, the Human Resources department and the Prevention and Protection Service. The results of the assessment, which did not identify widespread situations of work-related stress but an estimate of average risk in three uniform groups, were shared with the workers' health and safety representatives and the other interested parties, with whom an agreement was also reached on the procedures to be used to identify improvement actions.

For a description of the other health and safety initiatives carried out in Italy, Brazil and Argentina, see the sustainability section of the telecomitalia.com website.

Accidents

The Group continues to pay constant attention to the issue of safety in the workplace, mainly by verifying implementation of risk control measures and providing training aimed at disseminating a logic of respect and protection for oneself and others. Similar attention is paid to providing training for the operation and maintenance of Tlc systems that involve overhead work (poles, ladders and pylons) in order to ensure that people acquire sufficient knowledge on how to behave correctly during work-related activities. Further education/training efforts have also been directed at providing safe driving courses (operating since 2007). In 2011, these involved over 600 people who use company vehicles on a continuous basis.

The accident at work data for Telecom Italia S.p.A. are shown below.



	2011	2010
NUMBER OF ACCIDENTS (EXCLUDING COMMUTING)	657	873
SEVERITY INDEX ^(*)	0.29	0.20
FREQUENCY RATE ^(*)	8.99	10.91
AVERAGE DURATION IN HOURS	114.14	136.44
UNPRODUCTIVITY INDEX ^(*)	1.25	1.80
ACCIDENTS PER 100 WORKERS	1.35	1.70

*

The severity, frequency and unproductivity indexes are respectively:

- the number of conventional working days lost due to accident per thousand hours worked
- the number of accidents per million hours worked
- the number of hours lost due to accidents per thousand hours worked

The accident rates for 2011 show a general decrease in the statistical data, except for the severity index, which increased as a result of a fatal accident at work caused by a car accident (no fatal accident in 2010).

1.12 INDUSTRIAL RELATIONS

In Telecom Italia

During 2011, many information and discussion meetings were held with the trade unions to illustrate the reorganisation activities involving the various company departments (Customer, Technology, Staff) and to examine any effects on personnel.

Trade union representatives were involved in the business ethics certification process for the Open Access department (SA 8000 Certification). Obtained in May 2011, the certification relates to the company's ethical performance and is a tool used to inform customers that the company's products are made under proper working conditions and with respect for human rights in the performance of production activities.

With regard to the solidarity contract applied to around 29,200 employees of Telecom Italia S.p.A. for the two-year period between November 8, 2010 and November 7, 2012, in accordance with the agreement of October 25, 2010, the Company and the trade unions held specific verification meetings aimed at discussing the many initiatives taken by Telecom Italia S.p.A. to promote the retraining of surplus personnel. Training is a crucial element for the success of staff redevelopment processes and for this purpose specific projects have been discussed with the trade unions.

COMPANY COMMITMENT WAS AGREED WITH THE UNIONS IN ORDER TO ALLOW 60 COLLEAGUES TO OBTAIN AN EXPERT DIPLOMA IN ELECTRONICS AND TELECOMMUNICATIONS

Also in the context of training carried out in 2011, Telecom Italia dedicated an initiative specifically to women in the company, allowing them to invest in their future thanks to personal growth. The project, which was agreed with the trade unions through an agreement signed on September 7, 2011, gave 60 female colleagues from Rome, Milan and Turin the opportunity to obtain an expert diploma in electronics and telecommunication, entirely paid by the company. Participation is voluntary and, in addition to covering the cost of the courses and study, the company took appropriate measures to ensure a sustainable work-life balance.

One of the most significant initiatives launched by Telecom Italia, as a sustainable company that contributes to the economic and social development of the country, is the Senior Apprenticeship Project. Agreed with the trade unions (SLC-CGIL, FISTel-CISL, UILCom-UIL) under an agreement signed on March 4, 2011, the initiative aims to promote closer relations between the academic world and the world of work in southern Italy ([see The Day Before project in § Selection](#)).

In order to strengthen its commitment and extend the geographical coverage of these initiatives, through an agreement signed on July 27, 2011, Telecom Italia S.p.A. agreed further projects with the trade unions for the implementation of innovative and concrete initiatives.

On May 19, 2011, Telecom Italia S.p.A. and the national secretariats of SLC-CGIL, FISTel-CISL and UILCom-UIL signed an agreement regarding facilitated tax exemption according to the legal rules introduced on this subject. The agreement allows personnel who earn no more than a specific threshold to benefit from tax exemptions established for the 2011 tax year.

In accordance with existing legislative provisions regarding company transfers, Telecom Italia S.p.A. involved the trade union representatives in both procedures carried out during the year, which ended with positive joint assessments:

- the first, which took place in May, related to the transfer, by means of the partial demerger of Matrix S.p.A., of its branch of activity called "Market & Technology Captive" to Telecom Italia S.p.A..

The company and trade unions signed a specific agreement to harmonize work contract conditions for all workers who joined Telecom Italia S.p.A. after October 1, 2011;

- the second, which was completed in September, relates to all employees of the company Telecom Italia Audit & Compliance Services S.C. a r.l. which, following the merger by incorporation, will be transferred without interruption to Telecom Italia S.p.A. no earlier than January 1, 2012.

In accordance with the agreements reached with the union representatives in the context of the framework agreement of August 4, 2010 for the management of surplus staff at Telecom Italia S.p.A., on July 27, 2011 an additional 2-year extension of the “defensive” solidarity contract was agreed between the Company and the trade unions. This will be applied until August 31, 2013 to employees working in the Directory Assistance sector of the Company (12.54, directory data assurance, call centres, international services centre, local support). The workers affected will be partially reimbursed by INPS for the money lost as a result of the reduction in working hours.

In April, the industry's main trade unions (SLC-CGIL, FISTel-CISL and UILCom-UIL) discussed an agreement regarding the initiatives launched respectively by Pathnet S.p.A. and Telecom Italia Sparkle S.p.A. to provide employees with an opportunity to register, for the 2010-2011 academic year, for one of the degree courses run by the faculties of law, economics, engineering, communication science, psychology and arts of the Uninet-tuno International Telematic University ([also see the “I care about myself” project in the § Training](#)).

In Telecom Italia Media

During the year, discussions with the union of journalists, which are still under way, focused primarily on a more detailed examination of the specific regulatory aspects of the national labour agreement for journalists and the second level agreements.

On December 21, 2011, an agreement was signed with the trade union representations of Telecom Italia Media, SLC-CGIL, UILCom-UIL and FISTel-CISL, both national and local, which provides for the renewal of the union agreement for raising the overall limit set by the law as the maximum length of temporary employment contracts according to article 5, paragraph 4-bis, of legislative decree no. 368 of September 6, 2001, as amended by law 133/2008. This limit was raised from 36 to 63 months in total. The agreement also governs certain aspects of fixed term and permanent employment contracts and various issues relating to employment discipline.

As regards relations with unions other than those representing journalists, on May 20, 2011 the companies Telecom Italia Media S.p.A. and Telecom Italia Media Broadcasting S.r.l. jointly signed an agreement with the national and local trade union representatives and the company's unitary union representations relating to the methods for electing and running unitary union representations and workers' safety representatives. On the same day, an agreement was also signed between the company Telecom Italia Media Broadcasting S.r.l. and the national and local trade union representatives which, considering the strongly improved results achieved by the company, values the contribution made by workers to supporting the overall growth of the company, which has been significant over the past year.

Finally, the renewed national collective labour agreement for the employees of private radio and television companies was signed on February 16, 2011.

In Brazil

At the beginning of 2011, the national collective labour agreement (valid until November 2011) was signed with 26 trade unions. The terms of the final proposal were accepted by 21 trade unions (representing around 97% of employees) and the final adjustment phase is nearing completion for the missing 3%.

In September, the company launched a new phase of negotiations with the trade unions which was completed successfully with 19 trade unions representing 90% of employees signing a new labour agreement (valid until November 2012). The final proposal include profit distribution agreements for the two-year period 2011-2012. Negotiations continued with the trade unions with which an agreement was not reached.

In Argentina

Since 2010, trade unions in the telecommunication industry have come together in a federation of telecommunication unions called the MUS (Mesa de Unidad Sindical de las Telecomunicaciones), which is the main forum for dialogue about the various issues being negotiated. Joint negotiations were conducted in 2011 and salary increases were agreed that will apply until 2012.

IN 2011, THE APPLICATION CONTINUED OF THE TELESWORKING AGREEMENT FOR 600 EMPLOYEES OF 11 PROVINCES OF ARGENTINA

During 2011, the application of teleworking continued as part of the pilot programme for the implementation and promotion of teleworking in the private companies PROPET (Programa Piloto de Seguimiento y Promoción del Teletrabajo en Empresas Privadas) of the National Ministry of Employment MTEYSS (Ministerio de Trabajo, Empleo y Seguridad Social), as an additional tool for achieving a better work-life balance. The programme was applied during 2011 to 66 employees in several areas of the company in 11 different provinces.

1.13 REMUNERATION POLICY

In 2011, remuneration policies pursued the aim of cooling the incremental effects of the increase in the fixed component of labour costs over time. Intervention was focused on the variable elements of remuneration, making exclusive use of one-off tools with a greater degree of selectivity than in the past. Interventions on fixed remuneration were frozen, with the exception of measures regarding individuals working in core business positions characterised by the actual existence of risks of a competitive nature. The MBO 2011 system, the only short-term formalised incentive tool aimed at managers and key employees, confirms the importance that the company has placed over the past two years and continues to place on corporate and departmental macro-economic objectives. In 2011, investment has continued to be made in enhancing the non-monetary components of the pay packet (company benefits). Telecom Italia has equipped itself with a long-term incentive system that brings together senior executive personnel, top management and a selected number of senior managers in achieving pre-established three-year performance objectives in order to strengthen the link between management remuneration and company performance ensuring the long-term sustainability of the company's results.

Stakeholder of reference	Targets linked to incentives
Customers	• Customer satisfaction • Quality of the service delivered • Quality of the service perceived by consumer and business customers • Quality of the service perceived by other national fixed and mobile telephony operators
Human Resources	• Health and safety of employees • Programmes of training and professional growth • Welfare activities (People Caring) and the wellbeing of employees
The Environment	• Consumption of materials, energy
Shareholders and Institutions	• Quality and speed of company information delivery
The Community	• Organisation of corporate events • Quality of corporate initiatives/projects

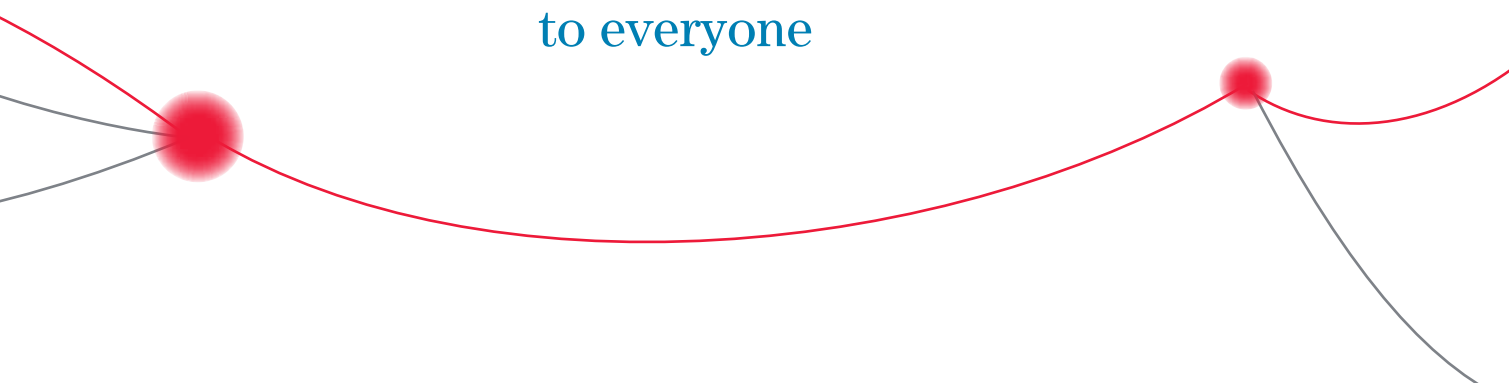
1.14 EMPLOYEES SHARE OWNERSHIP PLAN 2010-2014

In 2010, Telecom Italia launched the 2010-2014 employees share ownership plan for all permanent employees of Telecom Italia or its subsidiaries with registered offices in Italy. During the first subscription phase, which took place between June 28 and July 9, 2010, all employees were able to purchase ordinary shares, with a 10% discount on the market price, up to a maximum countervalue of three thousand euros.

On August 2, 2011 the second phase was completed, involving the allocation of one free share for every three shares purchased to those who complied with the conditions set by the plan, i.e. keeping the ownership of the shares purchased for one year and remaining employees of one of the Group companies.

The plan complies with the conditions for access to the fiscal benefits of article 51 of the consolidated law on income tax. Employees who decide to retain full ownership of the shares, bought at a discount and assigned free of charge for three years from the respective dates of purchase/assignment, will be entitled to an exemption from tax and contributions on the benefit paid by the company in terms of discount and bonus shares.





The importance of correct information to everyone

2. SHAREHOLDERS

2.1 STRATEGY

The Group companies are fully aware of the importance of supplying accurate information about their activities to the market, investors and the Community in general.

Subject to the need for confidentiality in the running of the business, communication with the market and investors is carried out in a way that ensures transparency, fairness, clarity and equality of access to information, with a commitment to guaranteeing equality of treatment of all categories of shareholders.

The Company has set up dedicated channels of communication with shareholders, bondholders and stakeholders interested in receiving information about the financial and non-financial aspects of the Company ([see § Financial communication](#)).

2.2 STAKEHOLDERS AND THEIR EXPECTATIONS

The Investor Relations department manages relations with the main stakeholders: institutional and retail investors, bondholders, socially responsible investors, financial analysts and credit analysts.

Their shared expectations relate to:

- strengthening the Group's position in the markets in which it operates;
- confirming the objectives reported to the market through the strategic plan;
- the certainty of receiving a quick and effective response from the Company to requests for information.

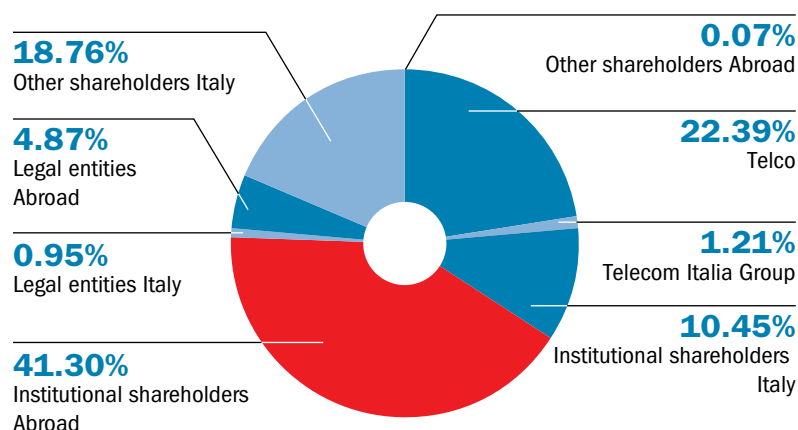
The expectations of individual stakeholders are also given special consideration:

Stakeholders	Need
Institutional and retail investors	• Good financial and operational performance by the company • Positive total shareholder return (stock market performance of the shares and dividends distributed) • Good reputation of the Group's brand • Involvement in the Group's activities and initiatives
Socially responsible investors	• Attention paid to the social and environmental impacts of the company's business and to the Group's governance • Positive total shareholder return • Good reputation of the Group's brand
Bondholders and credit analysts	• Stability of the yield from the investment • Certainty of repayment of the debt at maturity • Maintaining of creditworthiness
Financial analysts	• Direct contact, even with the Group's management, on matters relevant to the business

20

Source: Register of shareholders as of December 31, 2011, supplemented by communications received and by other available information.

The shareholding structure as of December 31, 2011 is shown below⁽²⁰⁾.



2.3 FINANCIAL COMMUNICATION

In 2011, the Company organised quarterly conference calls, road shows abroad and meetings in the Group's corporate centres (reverse road shows) as well as attending industry conferences. During these events, the Company met over 350 investors. In addition to these there are the direct contacts and telephone conversations that the Investor Relations team has on a daily basis.

The responses given by the Group to the financial market are based on criteria of relevance, information sensitivity, consistency and topicality in respect of the Group's structure and the actions undertaken to achieve the targets of the strategic plan.

Financial communication also takes into consideration the needs of investors linked to Socially Responsible Investing (SRI), which favours companies that pay attention to ethical, social and environmental factors as well as financial aspects. Communication with

this particular category of investors, which is jointly administered with the Group Sustainability department, is developed through individual contacts and participation in dedicated events.

As regards relations with individual (retail) shareholders - there are currently 500,000 holders of ordinary shares - Telecom Italia's strategy aims to increase communication channels in order to respond quickly and effectively to queries regarding the performance of shares and the Group as a whole. The messages and ideas that emerge from dialogue with retail investors are collected and reported to top management.

The "TI Alw@ys ON" (telecomitaliaclub.it) Shareholders' Club was launched in 2006 as a virtual meeting place between the Company and its individual investors. However, the Club is also open to people who do not own shares in the Group and registration provides access to the same free services that are reserved for shareholders, that is:

- SMS alert: which provides a daily report of the closing price and percentage variations of Telecom Italia's ordinary and savings shares compared to the previous day, as well as the daily percentage variations in the FTSE/Mib index.
- Weekly stock exchange report: sent on Monday morning and summarising performance during the week ending the previous Friday.
- Quarterly Newsletter: contains a comment on the most recent economic and financial results and a focus on events and trends that have influenced the performance of results.

In addition to these services, Telecom Italia offers shareholders the "Guide to the individual shareholder," an in-depth document about the Group, available on request and on the website, as well as constant updates through the press releases (institutional, concerning products, financial).

With regard to on line financial communication, the telecomitalia.com website is constantly updated and innovated. This year, Telecom Italia achieved first place overall in the Italian and European "KWD Webranking 2011" rankings produced by KWD, the digital division of Hallvarsson & Halvarsson, a Swedish company that assesses and rewards listed companies that are most attentive to on line corporate and financial communication.

2.4 RISK MANAGEMENT

In order to ensure a global approach to risk management, the Telecom Italia Group has adopted a process inspired by the Enterprise Risk Management (ERM) Framework⁽²¹⁾. This is a corporate risk governance tool used to identify, assess and manage risks.

At the heart of the system is the Group Risk Management Committee which is chaired and coordinated by the head of the "Administration, Finance and Control & International Development" department and is made up of:

- the Managing Director Domestic or Director President TIM Brasil or Chief Executive Telecom Argentina or Vice President and Managing Director Telecom Italia Media, depending on the matters being dealt with;
- the heads of the Legal Affairs, Human Resources and Organization, Supply Chain & Real Estate, Security departments;
- the Group Compliance Officer;
- the head of the Risk Management department within Administration, Finance and Control & International Development.

The head of the Risk Management department coordinates the Committee. Heads of other departments are involved depending on the specific matters being dealt with.

The Committee meets every three months (or when specifically required) and is intended

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Enterprise Risk Management, 2004 by the Committee of Sponsoring Organizations of the Treadway Commission.

to govern the Group risk management process based on the ERM approach, which is designed to ensure the operational continuity of the company's business. This approach involves:

- an assessment of the risk profile by management, covering both business processes and strategic objectives;
- risk mapping with a specific focus on the ones deemed to be most significant;
- the establishment of inter-departmental working group defined by the Risk Management Committee for the implementation of dedicated mitigation action plans and control Key Risk Indicators.

The process is updated on an annual basis (or more frequently) at the discretion of the Risk Management Committee. During 2011:

- the stages required by the ERM 2010 cycle were completed, creating a more mature risk management process, defining action plans for the main risks and monitoring these using a quarterly risk dashboard;
- the 2011 ERM cycle was launched;
- The Group's 2011 corporate risk profile was defined (excluding Telecom Argentina) which involved completing the analysis phase and part of the evaluation phase (risk assessment and allocation). The subsequent phases are expected to be completed during 2012;
- in September, the Group Risk Management Committee approved the updated version of the "Telecom Italia Group Risk Management Guidelines" and the "Enterprise Risk Management in the Telecom Italia Group" organisational procedure, which are intended to provide Group companies with a reference tool for day-to-day risk management activities and to regulate the ERM process.

2.5 CORPORATE GOVERNANCE

Introduction

Telecom Italia's system of corporate governance, structured according to the traditional model, is in line with the principles contained in the Self-regulatory Code drawn up by the Corporate Governance Committee of Borsa Italiana (available at the website www.borsaitaliana.it), to which the Company adheres. Studies and investigations are moreover in progress, conducted by a mixed workgroup, with contributions from the Chairman of the Board of Directors and members of the Internal Control and Corporate Governance Committee, and also from the management, in view of the adaptation of the internal governing structures to the amendments introduced in the aforesaid Code in December 2011.

The text that follows is an extract of the Report on corporate governance and share ownership of Telecom Italia S.p.A. (hereinafter the "Report"). The full text is available in the Governance section of the web site telecomitalia.com.

Information on share ownership

Information regarding the following topics is included in the full text of the Report:

- a) Share capital structure
- b) Restrictions on transfer of securities
- c) Significant shareholdings
- d) Securities that confer special rights of control
- e) Employee shareholdings: mechanism for exercising voting rights

- f) Restrictions on voting rights
- g) Shareholders' Agreements
- h) Change of control clauses
- i) Authorisation to increase share capital and share buy-back
- j) Management and coordination

Compliance

Telecom Italia is a limited company with registered office in Italy, subject to Italian and European Community law. Moreover,

- in relation to the listing of its shares on Borsa Italiana and of some of its bonds on the Luxembourg Stock Exchange, it is required to comply with corresponding;
- in its capacity as a foreign issuer, registered at the U.S. Securities and Exchange Commission and listed on the New York Stock Exchange, it is subject to U.S.

As indicated in the introduction, Telecom Italia adheres to the Self-Regulatory Codes of Borsa Italiana and adapts its own system of corporate governance to Italian and international best practices in the matter.

Telecom Italia's strategic subsidiaries include:

- the TIM Brasil Group companies, the holding company of which, Tim Participações S.A. (indirectly controlled by Telecom Italia) is a company registered and listed in Brazil, as well as registered with the US Securities and Exchange Commission and listed on the New York Stock Exchange;
- the Telecom Argentina Group companies, controlled through Sofora Telecomunicaciones S.A. and Nortel Inversora S.A., both companies registered in Argentina. Nortel Inversora S.A. and Telecom Argentina S.A. are listed locally, registered with the US Securities and Exchange Commission and listed on the New York Stock Exchange.

The corporate governance structure of Telecom Italia is not affected by the legal provisions governing Tim Participações S.A. and Telecom Argentina S.A. Further information can be found in the full text of the Report.

Board of Directors

Appointment and replacement

In accordance with Article 9 of the Bylaws (which it is proposed to amend at the shareholders' meeting on May 15, 2012, to bring them into line with the law on gender balance), the Board of Directors (composed of a minimum of 7 to a maximum of 19 Directors, as determined by the Shareholders' meeting) is appointed on the basis of slates submitted by persons entitled to vote holding a total of at least 0.5% of the ordinary share capital or different proportion as required by Consob. By Resolution no. 18083 of January 25, 2012, Consob fixed this percentage for Telecom Italia at 1%.

Four-fifths of the Directors to be elected are chosen from the slate that obtains more votes (so-called Majority Slate) in the order they are listed on the slate; in the event of a fractional number, it shall be rounded down to the nearest whole number. The remaining di-

rectors are chosen from the other slates. To that end, the votes obtained are divided by progressive whole numbers starting from one up to the number of Directors to be elected and the quotients assigned to the respective candidates, in the order listed. The quotients assigned in this way are arranged in a single decreasing ranking and the candidates who

BOARD MEMBERS' APPOINTMENT IS BASED ON THE "SLATE SYSTEM"

have obtained the highest quotients are elected, without prejudice to the legal provisions requiring the presence of at least one Director chosen from a slate not connected with the shareholders who have submitted or voted for the Majority Slate and at least two Directors meeting the requirements of independence legally established for the members of the Board of Auditors. For the appointment of Directors for any reason not appointed pursuant to the procedure described above, the Shareholders' meeting passes the resolutions with the legal majority.

At its meeting on December 1, 2011 the Board of Directors adopted a procedure for planning the succession of Executive Directors, for which reference should be made at the full text of the Report.

Composition

The Shareholders' meeting of April 12, 2011 set the number of members of the Board of Directors at 15 and their term of office at three financial years (until the shareholders' meeting called to approve the financial statements for the year ended December 31, 2013). The Directors were also authorised to continue their activities as indicated in their curricula vitae, releasing them from the non-competition clause contained in Article 2390 of the Civil Code.

Further information on slates, Directors, and Board of Directors composition can be found in the full text of the Report. The Report also includes conditions of incompatibility with other offices present in the Self-regulatory Code of Telecom Italia. The CVs of Board members are available in the Governance section of telecomitalia.com.

Role of the Board of Directors

During 2011, thirteen meetings of the Board of Directors were held; documentation was sent to the Directors, as promptly as compatible with the circumstances of the case (as a rule, the Friday preceding the day on which the meeting is to be held, which is normally a Thursday), to enable informed participation in the meetings. When required by the subjects discussed, representatives of the Company management or external consultants were invited to take part, who ensured the necessary technical and professional support.

The average duration of meetings was approximately 3 hours. The percentage of attendance was 92.20% (98.17% for independent Directors). There are ten meetings scheduled for 2012, three of which have already been held.

Telecom Italia's Self-regulatory Code reserves an active role for the Board in the strategic guidance of the Company and in the control of operations, giving this body a broad range of strategic powers and responsibilities to intervene directly in decisions having a major impact on the activities of the Company and the Group.

In particular, the Board reserves to itself the right, among others:

- review and approve the strategic, business and financial plans, as well as the budget;
- review and approve strategic operations;
- assess the adequacy of the organisational, administrative and accounting structure, with particular reference to the internal control system;
- prepare and adopt the Company's rules of corporate governance and define the Group's corporate governance guidelines;
- define the limits, operating methods and frequency with which the delegated bodies are required to report on the activities performed;
- appoint the offices of Chairman and Chief Executive Officer of subsidiaries of strategic importance;
- to supervise the general trend in operations, periodically comparing the results achieved

with the results planned.

The following fall within the sphere of strategic operations subject to prior approval by the board:

- agreements with competitors of the Group, which, considering the subject, commitments, conditions, or limits that they may produce, have long-term effects on the freedom of strategic business decisions;
- acts and transactions that involve entry into (or exit from) geographical and/or product markets;
- industrial investments and disinvestments to a value of over 250 million;
- the acquisition and sale of companies or branches of companies of strategic importance in the context of overall business activity or in any case for a value of over 250 million euros;
- the acquisition and sale of controlling and associate holdings to a value of over 250 million euros, and in any case (even if of less value) in companies engaged in activities within the Group's core business, as well as agreements on exercising rights attached to those holdings;
- obtaining loans for amounts in excess of 500 million euros, and the provision of loans and issue of guarantees on behalf of non-subsidiary companies for amounts over 250 million euros;
- the above transactions, to be performed by unlisted subsidiaries of the Group, excluding those controlled by listed subsidiaries;
- the listing and delisting of financial instruments issued by the Company or Group companies in regulated markets inside or outside Europe;
- instructions to be given to listed subsidiaries (and their subsidiaries), when Telecom Italia exercises its managing and coordinating activity for the performance of operations with the characteristics indicated above.

The evaluation of business is based on a continuous flow of information to non-executive Directors and Auditors, coordinated by the Chairman of the Board of Directors. This happens from time to time during the meetings and specifically, with a detailed comparison between the results obtained and the objectives of the budget, when examining financial.

The Board of Directors has assessed the adequacy of the organizational, administrative and accounting structure of the Company on the basis of information from management and, with specific reference to the internal control system, based on the preparatory work conducted by the Committee for internal control and corporate.

The Board of Directors has examined the proposals of the Nomination and Remuneration Committee and consulted the Board of Auditors, and has determined the remuneration of the Executive Chairman and the Chief Executive Officer, and the division of the total remuneration, approved by the Shareholders' Meeting, due to the members of the Board: see the Report on remuneration approved on March 29, 2012 and also available in the Governance section of telecomitalia.com

The self-assessment of the size, composition and operation of the Board and its Committees was carried out for 2011, as for every year since 2005. As in 2009 and 2010, support in the preparation and performance of this assessment was provided by SpencerStuart.

The board review was conducted by means of: (i) individual interviews with Directors, involving the three components of self-assessment provided for by the Self-regulatory Code of Borsa Italiana (size, composition, operation), based on a "Guide to Interviewing" transmitted in advance; (ii) reading the minutes, to analyze issues covered as well as the duration

and frequency of meetings; (iii) comparison with the best practices adopted by other companies.

ALSO IN 2011 THE SELF-EVALUATION OF SIZE, COMPOSITION AND OPERATION OF THE BOARD AND ITS COMMITTEES HAS BEEN CARRIED OUT

An overall positive picture emerged from the self-evaluation. This is a constructive and positive Board, characterised by effective and productive group work, whose members diligently participate in meetings. Its methods of conducting its proceedings are appreciated for ensuring effective management of the decision-making process, in terms of information made available, preparatory work carried out by the Committees and quality of debate. The degree of interaction between executive Members and others, including outside of institutional meetings, was considered extremely good. The minutes of the meetings are deemed complete and highly valued. The level of knowledge of the key factors of the business and technological developments, in the opinion of those concerned, is an area susceptible of improvement. The Board considers it appropriate to further broaden the debating and sharing of strategies, organisational and investment topics and analysis of risks to the Company. In this regard, satisfaction was expressed in relation to the organisation of informal meetings, including off-site, with the management, which represented occasions for networking and in-depth examination of matters of interest.

In general, the Board expresses the view that the assessment contributes to the improvement of its operations. In particular, there was appreciation for the implementation of initiatives indicated in the action plan set up as a result of the previous exercise in self-evaluation, and the use of the results of the 2011 board review for activating further improvement processes.

Delegated bodies

The assignment (and revocation) of powers to Directors is reserved to the Board, which defines the purpose, limits and methods of exercising the assigned powers, and receives a flow of information on their activities, the overall management performance and the most significant transactions.

On April 13, 2011, following the renewal approved by the Shareholders' Meeting on April 12, 2011, the Board of Directors appointed Franco Bernabè Executive Chairman, Aldo Minucci Vice Chairman and Marco Patuano Chief Executive Officer.

In addition to the power to legally represent the Company, as laid down in the Bylaws and all the powers necessary for performing actions pertinent to the activity of the company in its various manifestations, to be exercised with a single signature, the following powers were conferred on the Chairman,

- overall governance of the Group, including coordinating the activities of the Chief Executive Officer, and defining the Company's strategic guidelines;
- responsibility for extraordinary transactions and extraordinary finance operations to be proposed to the Board of Directors.

The powers conferred on the Vice Chairman were as follows: representing the Company, as laid down in the Bylaws, in the event that the Chairman is absent or unable to act, and a proxy power in the matter of the operation of the internal control system, this to be taken to mean representing the Board of Directors as a whole, by means of this proxy, in relation to the internal control functions.

In addition to the power to legally represent the Company and to exercise, with a single signature, all powers required to perform actions pertinent to the activity of the company in its various manifestations, the Chief Executive Officer was made responsible for the overall governance of operations in Italy.

Since 2008 there has been an Executive Committee, composed of the executive Directors (who ensure coordination with the Group's management) and some non-executive Directors; the Chairman of the Committee is the Chairman of the Board of Directors. Its current composition can be found in the full text of the Report.

As provided for by the Self-regulatory Code of the Company, the Committee has the task of monitoring the Company and Group performance, approving, upon the proposal of the executive Directors, the organizational macro-structures, formulating opinions to the Board of Directors on the budget and the strategic, industrial and financial plans of the Company and the Group and carrying out any other duties assigned by the Board of Directors relating to matters that can be delegated. At its meeting on April 13, 2011, the Board assigned the Executive Committee the task of expressing an advance opinion on the transactions which, by their nature, their strategic importance, their size or the commitments which they might entail, may have a significant impact on the activities of the Company and the Group. The Committee reports to the Board on the activities carried out in the most appropriate ways, and, in any case, each time at the following Board meeting.

During 2011, the Committee held five meetings, with an average duration of approximately 1.3 hours. The percentage of attendance was 97.14% (100% for independent Directors). In 2012, three meetings are planned, of which one has already been held.

Other executive Directors

The Chairman and the Chief Executive Officer are deemed to be executive Directors.

On taking up his office, the Vice Chairman, who has a proxy in the matter of the operation of the internal control system, stated that said proxy should be understood in terms of mere representation, by means thereof, of the Board of Directors as a whole, consequently excluding the assumption of an executive role.

INDEPENDENT DIRECTORS

Telecom Italia has adopted the criteria established by the Self-regulatory Code of Borsa Italiana for the qualification of the independence of Directors. On the basis of the information provided by the Directors, the following are independent Directors: Lucia Calvosa, Elio Cosimo Catania, Massimo Egidi, Jean Paul Fitoussi, Mauro Sentinelli and Luigi Zingales.

The Board of Directors, at its meeting of March 29, 2012, verified the independence requirements of its members, noting that the requirements of the composition of the administrative body (the presence of at least two independent Directors according to the criteria established by law for Auditors) had been complied with. The Board of Auditors monitored the verification of the requirements and the correct application of the criteria of independence.

Lead Independent Director

The Lead Independent Director is the Director Luigi Zingales.

He is the point of reference and coordination for the issues and contributions of the independent Directors. He is granted the right to use corporate structures to perform the tasks entrusted to him and to convene special meetings of the Independent Directors (Independent Directors' Executive Sessions) to discuss issues affecting the functioning of the Board of Directors or the management of the business. In the course of 2011 there were seven such meetings.

Pursuant to the Self-regulatory Code, the Chairman of the Board of Directors is assisted by the Lead Independent Director in improving the functioning of the administrative body (including the identification of topics to be examined by the entire Board).

THE LEAD INDEPENDENT DIRECTOR IS THE POINT OF REFERENCE AND COORDINATION FOR THE ISSUES AND CONTRIBUTIONS OF THE INDEPENDENT DIRECTORS

Handling of corporate information

Telecom Italia has suitable procedures for classifying and managing information in terms of confidentiality.

Moreover, a procedure has been adopted for the internal handling and external communication of documents and information concerning the Company, with specific reference to sensitive information (available at telecomitalia.com, Governance Section, Governance System Channel). The procedure regulates the management of sensitive information relating to Telecom Italia, its unlisted subsidiaries and listed financial instruments of the Group; this procedure is addressed to all members of corporate bodies as well as employees and outside collaborators who have access to information that is likely to evolve into sensitive information (known as market sensitive information). It also applies as an instruction to all subsidiaries in order to obtain from them, without delay, the information necessary for the timely and proper fulfilment of the public disclosure obligations.

The procedure in question, finally, regulates the establishment of the register of persons having access to sensitive information (Article 152-bis et seq. of the Issuers Regulations).

Board committees

In addition to the aforementioned Executive Committee, the Board also has a Nomination and Remuneration Committee and a Committee for Internal Control and Corporate Governance, whose functions are described in the Company's Self-regulatory Code.

Nomination and remuneration committee⁽²²⁾

The Committee is composed of four non-executive Directors, the majority of them independent (of whom at least one is drawn from a minority slate, as per the Company's Self-Regulatory Code) all in various capacities in possession of sufficient knowledge and experience in the area of accounting and finance. Its current composition can be found in Table 2. Since the reconstitution of the Committee, following the renewal of the Board of Directors approved by the Shareholders' Meeting on April 12, 2011, the Chairman of the Board of Auditors (or, in the event that he is unable to act, another Auditor designated by the Chairman) takes part in the meetings.

The Committee is responsible for providing advice and recommendations

- on the remuneration of the Directors who hold particular positions, in order to ensure alignment with the objective of creating shareholder value over time;
- on the periodic evaluation of the criteria for the remuneration of the Company's top management and the adoption, following the indication of the managing directors, of any stock option plans or share assignment plans;
- on the monitoring of the implementation of decisions taken, and of corporate policy regarding the compensation of top management, and
- on the proposal of candidates to the Board in case of the replacement, during the term of office, of an independent Director.

The Board at its meeting on April 13, 2011 assigned the Nomination and Remuneration committee the responsibility for the process of succession and replacement of the management and of selection/designation of the external member of the Supervisory Board, in addition to the task of formulating proposals regarding the criteria for dividing the total remuneration approved by the Shareholders' Meeting for the entire Board of Directors. Further information on activities carried out by the Committee in 2011 can be found in the full text of the Report.

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As specified in the Introduction, the process of bringing the internal Company rules into line with the amendments to the Self-Regulatory Code of Borsa Italiana, introduced on December 5, 2011, is in progress.

Remuneration of directors, general managers and key managers with strategic responsibilities

The information in this section and that required by Article 123-bis, subsection 1, letter i), regarding the agreements between the Company and the Directors which provide for compensation in the case of resignation or dismissal without just cause or in the event that their employment ceases following a public offer to purchase, are made available in the Report on remuneration published in compliance with Article 123-ter of the CFL.

Internal control and corporate governance committee⁽²³⁾

The Committee for internal control and corporate governance, present in the governance structure of the Company since 2000, has the following consultative and advisory functions. The Committee:

- assists the Board and, upon request, the Managing Directors in performing their duties related to the Company's internal control system;
- evaluates the work plan prepared by the internal control manager, who sends its periodic reports (on a quarterly basis, with updates each time with respect to the most significant results of the activities performed) to the Committee;
- assesses, together with the Company heads of administration and the executive in charge of preparing the company's accounting reports, having consulted the Statutory Auditor, the correct application of accounting principles and their consistent application within the Group for the purpose of preparing consolidated financial statements;
- evaluates the work plan submitted for review and the results described in the report and any letter of suggestion from the Statutory Auditor;
- reports to the Board on its activities at each following Board meeting, and on the adequacy of the internal control system upon approval of the annual financial statements and half-yearly report.

The Committee also,

- keeps a watch on the effectiveness of the statutory auditing process, on compliance with the procedure for carrying out transactions with related parties, and on the observance and periodic updating of the corporate governance rules;
- expresses its opinion on the appointment, revocation and conferment of powers to the internal control manager and the executive in charge of preparing company's accounting documents;
- defines the procedure and timing of the "board performance evaluation";
- performs other duties assigned to it from time to time by the Board of Directors.

In particular the Board at its meeting following the Shareholders' Meeting of April 13, 2011 assigned to the Internal Control and Corporate Governance Committee the function of high-level supervision in the matter of corporate social responsibility.

The composition of the Committee, as well as information on its activities in 2011, can be found in the full text of the Report.

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As specified in the Introduction, the process of bringing the internal Company rules into line with the amendments to the Self-Regulatory Code of Borsa Italiana, introduced on December 5, 2011, is in progress.

THE INTERNAL CONTROL AND CORPORATE GOVERNANCE COMMITTEE OVERSEES CORPORATE SOCIAL RESPONSIBILITY ACTIVITIES

Internal control system

The internal control system is a set of rules, procedures and organizational structures which are intended to ensure the efficiency of company operations and entrepreneurial conduct, its transparency and verifiability, the reliability of information and management and accounting data, and compliance with applicable laws and regulations as well as the

safeguarding of company integrity and its assets, in order to prevent fraud against the Company and the financial markets.

The Board of Directors, insofar as it is responsible for the internal control system, sets the guidelines, verifying its adequacy, effectiveness and proper functioning, so that the main company risks (operational, compliance-related, economic and financial) are properly identified and managed over time.

In order to ensure a global approach to the management of risks, the Telecom Italia Group has implemented and is perfecting an integrated process inspired by Enterprise Risk Management (ERM), through which the identification, evaluation and management of risks are carried out.

A description of the system and respective responsibilities can be found in the full text of the Report.

Director in charge of the internal control system

The Board of Directors at its meeting on April 13, 2011 conferred the proxy in respect of functionality of the internal control system on the Vice Chairman, who - according to the same logic as inspired the amendments made to the Self-Regulatory Code of Borsa Italiana in December 2011 - exercises it in terms of representing the Board of Directors in its entirety by means of this proxy.

The institution and maintenance of the internal control system are assigned to the Executive directors, each with respect to the area delegated to him, and to the Executive in charge of drawing up the Company's accounting documents for this field of competence, so as to ensure the overall adequacy of the system and its practical functionality, in a risk-based perspective, which is also taken into account in determining the agenda for the Board's proceedings.

Manager responsible for internal control

In accordance with the Company's Self-regulatory Code (which is currently being updated in the light of the amendments to the Borsa Italiana code introduced in December 2011), in the exercise of its responsibility for the internal control system the Board makes use not only of the Committee for internal control and corporate governance, but also of a Manager who is given an adequate level of independence and suitable means for performing his function. The Manager is responsible for supporting the management and control boards in assessing the adequacy and effectiveness of the control system, and consequently for proposing corrective measures in case of irregularities, deficiencies and malfunctions.

In particular the Internal Control Manager:

- reports on his work to the Director delegated for this purpose, to the Committee for Internal Control and Corporate Governance and to the Board of Auditors. In particular, he reports on how risk is managed, as well as on compliance with established plans for risk containment, and expresses his assessment on the suitability of the internal control system for achieving an acceptable overall risk profile;
- he carries out checks, including at the request of the executive responsible for preparing the Company accounting documents;
- he has a role in ensuring respect for the principles and values expressed in the Code of Conduct and Ethics, by handling reports from employees, collaborators, consultants, employers and third parties in business relationships with the Group on violations of laws or regulations, of the Code itself, and of internal procedures, as well as irregularities or negligence (including accounting), and promoting the most appropriate resulting initiatives, including the proposal to impose sanctions.

Further information on contents, procedures and activities concerning the manager responsible for internal control can be found in the full text of the Report, as well as the description of the merger of Telecom Italia Audit & Compliance Services S.c. a r.l. into Telecom Italia S.p.A..

Organizational model pursuant to Legislative Decree 231/2001

Internal control system is complemented by the so-called “Organizational Model 231”, i.e. a model of organization and management adopted pursuant to Legislative Decree No. 231/2001, aimed at preventing offences that can result in liability for the Company. This Organizational Model is comprised of:

- the Code of Conduct and Ethics of the Telecom Italia Group, where the general principles (transparency, fairness, loyalty) that guide the Company in the organization and conduct of business are indicated;
- the “general principles of internal control” tools to provide a guarantee with regard to the objectives of efficiency and operational effectiveness, reliability of financial and management information, compliance with laws and regulations, safeguarding of assets against possible fraud;
- the “principles of conduct”, which consist of specific rules for relations with representatives of public administration and for all fulfilments and activities of a corporate nature, and
- the “internal control checklists” that describe business processes at risk of crime, any crimes committed in relation to them, the preventive control activities aimed at avoiding the related risks.

The internal control schemes have been compiled in accordance with the following basic principles: (i) the separation of roles in undertaking the principal activities involved in business processes; (ii) the traceability of decisions, to allow for identification of specific points of responsibility and the motivations for the decisions themselves; and (iii) the objectification of the decision-making processes, so that decisions are not to be purely subjective considerations, but based on pre-established criteria.

THE ORGANIZATIONAL MODEL 231 IS AIMED AT PREVENTING OFFENCES THAT CAN RESULT IN LIABILITY FOR THE COMPANY

The Organizational Model is a dynamic instrument, which affects the corporate operation, which in turn must be constantly checked and updated in the light of feedback, as well as the evolution of the regulatory framework. During 2011, it was therefore subject to updating and refinement; in particular, an internal control checklist was introduced aimed at preventing the “risk 231” resulting from the inclusion of environmental crimes in the category of offences relevant for the purposes of Organizational Model 231.

The amendments were drafted by a managerial committee called Steering Committee 231, and prepared by the Supervisory Board. The latter (supported in its activities by appropriate offices) oversees the operation and observance of the Organizational Model and reports on it to the Board, to the internal control and corporate governance Committee and the Board of Auditors.

About the composition of the Supervisory Board please refer to the full text of the Report that includes information about the following topics:

- Appointment of statutory auditors
- Executive responsible for preparing the corporate accounting documents
- Risk management and internal control system relating to the financial reporting process
- Interests of Directors and transactions with related parties.

Appointment of auditors

In accordance with Article 17 of the Bylaws (which it is proposed to amend at the Shareholders' meeting on May 15, 2012 to bring them into line with the law on gender balance), the Board of Auditors is made up of five standing auditors. The Meeting also appoints four alternate auditors.

The Board of Auditors is appointed in accordance with the law and applicable regulations, on the basis of slates presented by persons entitled to vote who jointly or separately hold shares representing at least 0.5% of the share capital with voting rights, or the different measure required by Consob for presentation of the slates of candidates for the appointment of the Board of Directors (Resolution No. 18083 of January 25, 2012 set the said percentage for Telecom Italia at 1%).

The slates are divided into two sections: one for candidates for the office of Standing Auditor and the other for candidates for the office of Alternate Auditor. Three standing and two alternate auditors are chosen from the slate that obtains the majority of the votes (so-called Majority Slate), while the remaining standing and alternate auditors are chosen from other slates (so-called Minority Slates), in compliance with the applicable regulations concerning the limits of connection with the Majority Slate. For this purpose, the votes obtained from the Minority Slate are divided first by one and then by two and the quotients are assigned to the candidates of one section and of the other, according to the order listed. On the basis of the quotients assigned, the candidates on the various slates are arranged in a single decreasing ranking for the appointment of the standing auditor position and in a single decreasing ranking for the appointment of the alternate auditor position and those who have obtained the two highest quotients are elected. If more than one candidate obtains the same quotient, the candidate from the slate that has not yet elected an auditor is elected or, subordinately, there is a tiebreaker vote by the entire Shareholders' Meeting and the candidate who obtains the majority of the votes is elected.

In the event that an auditor chosen from the Majority Slate or one of the Minority Slates should cease to serve, the alternate from the Majority Slate or the Minority Slate shall take his/her place. In the event that a standing auditor chosen from the Minority Slate should cease to serve, the principle of necessary representation of the minority shall be deemed to have occurred if one of the alternate auditors chosen from the Minority Slate takes his/her place.

Information about the composition of the Board of Auditors, activities carried out in 2011 and auditors' remunerations can be found in the full text of the Report.

Meetings

Pursuant to law, the shareholders entitled to attend the Meeting and to vote are those for whom the reference intermediary sent the Company specific communication certifying such right at the record date (seventh working day prior to the meeting first call). Those who are holders of shares only after such date will not be entitled to attend the Meeting and vote.

Ordinary shareholders may also exercise their right to vote by mail, as well as be represented, by giving a proxy to a physical or legal person, including the representative designated by the Company, if appointed (the decision is to be taken by the Board of Directors, at the time of calling the meeting). The Board of Directors also has the option of allowing electronic voting, specifying the procedure in the notice convening the meeting.

In order to facilitate the collection of proxies among employee ordinary shareholders of the Company and its subsidiaries who belong to shareholder associations satisfying the requirements established by law, special areas and instruments are made available for communication and performance of the activity.

The Board of Directors shall use its best endeavours to ensure that Shareholders have adequate information about the elements necessary for taking decisions within the competence of the Shareholders' meeting, with full knowledge of the facts.

During the course of the year no significant variations occurred in the market capitalisation of Telecom Italia shares and in the composition of the Shareholders' list.

To ensure the regular conduct of shareholders' meetings, since 2000 the Company has adopted the Regulations for the Shareholders' Meetings, available at the website [telecomitalia.com](https://www.telecomitalia.com), Governance section, Governance System channel. The Shareholders' meeting of April 12, 2011 resolved to update the regulations with coordinating and terminological amendments, but especially aimed at (i) regulating the right of Shareholders to ask questions before the meeting by relegating it to the notice convening the meeting, and (ii) leaving to the discretion of the Chairman the definition of the length of speeches in the course of the discussion ("normally not longer than ten minutes") and when replying ("normally not longer than five minutes").



Appendix





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The actual figures for 2011 will be published in July 2012 on the websites stated in note 25.

25

The full list of mobile service quality indicators, and the respective objectives for 2011, are available at tim.it; the full list of quality indicators for fixed network and IPTV Internet access services, and the respective objectives for 2011 are available at telecomitalia.it

*

Status target:

● achieved

● not achieved

1. 2010 AND 2011 RESULTS

The results achieved are shown below, compared to the objectives published in the previous Sustainability Report for 2011 and, for the Customers stakeholder only, for the year 2010⁽²⁴⁾.

1.1 TELECOM ITALIA – CUSTOMERS⁽²⁵⁾

Area of reference	Indicator	Unit of measurement	2010 Target	2010 Result	2010 Target Status (*)	2011 Target
Customers - Mobile	Activation time for voice service (pre-paid service) – Percentage of valid orders completed within the maximum period laid down in the contract	%	97	99.8	●	97
Customers - Mobile	Activation time for voice service (post-paid service) – Percentage of valid orders completed within the maximum period laid down in the contract	%	97	100	●	97
Customers - Mobile	Customer assistance services – Average response time of the operator to incoming calls	Seconds	40	20	●	35
Customers - Mobile	Disputed charges – Ratio between the number of disputed charges in invoices received within the survey period and the number of invoices issued in the same period (post-paid service)	%	1.6	0.3	●	1.4
Customers - Mobile	Disputed charges – Ratio between the number of disputed charges on pre-paid cards within the survey period and the average number of active SIM/USIM in the same period (pre-paid service)	%	1.3	0.2	●	1.2
Customers - Internet	Activation time for broadband Internet access services – Percentage of valid orders completed within the date agreed with the customer (active telephone lines)	%	92	99.9	●	94
Customers - Internet	Activation time for broadband Internet access services – Average time of supply (active telephone lines)	Days	10	5	●	9
Customers - Internet	Broadband Internet access service faults – Average repair time	Hours	32	17	●	30
Customers - Internet	Customer assistance services – Average response time of the operator to incoming calls	Seconds	78	64	●	70
Customers - Internet	Disputed charges – Ratio between the number of disputed charges in invoices regarding all Internet access services (received during the survey period) and the total number of invoices issued in the same period	%	1.4	0.4	●	1.2
Customers - IPTV	Activation time of the IPTV service – percentage of valid orders completed within the date agreed with the customer	%	78	77.6	●	78
Customers - IPTV	Customer assistance response time – Average time of operator response to incoming calls	Seconds	80	58	●	70
Customers - IPTV	Disputed charges – Ratio between the number of disputed charges in invoices regarding the IPTV service (received during the survey period) and the total number of invoices containing charges regarding this service (issued during the same survey period)	%	1.4	0.5	●	1.2
Customers - IPTV	Availability of IPTV service – Average unavailability of the service	Hours/Year	40	8	●	36

1.2 TELECOM ITALIA – OTHER STAKEHOLDERS

Area of reference	Indicator	Unit of measurement	2011 Target	2011 Result	2011 Target status
Human Resources - Training	Training in health, safety and environment issues ⁽¹⁾	Hours of training	75,000	76,460	●
Human Resources - Training	Training – Training hours per head ⁽²⁾	Training hours per head	28	23.6	●
Human Resources - Training	Training - Coverage (percentage of employees out of the entire workforce who have taken part in at least one training session)	%	81.5	82.20	●
Human Resources - Accidents	Verified accidents per 100 workers	Number	<1.97	1.35	●
The Environment - Energy	Eco-efficiency indicator ⁽³⁾	Bit/Joule	1,900	2,204	●
The Environment - Energy	Total electricity procured or produced	GWh	2,064	1,933	●
The Environment - Energy	Self-generation of electricity from renewable sources	KWh	300,000	231,000	●
The Environment - Energy	Self-generation of electricity from mixed sources	MWh	75,000	83,736	●
The Environment - Energy	Number of fuel cell plants in replacement of lead batteries	Number	45	52	●
The Environment - Energy	Number of fluorescent lighting units replaced with LED units	Number	70,000	70,500	●
The Environment - Energy	High energy efficiency Gateways with the Telecom Italia Green logo	Number	500,000	769,000	●
The Environment - Atmospheric emissions	Reduction of the quantity of ozone-harmful gas used in air-conditioning plants and cooling systems	Kg	8,000	7,048	●
The Environment - Atmospheric emissions	Reduction of CO ₂ emissions resulting from the replacement of Euro3 cars with Euro4 cars	Tons	510	42	●
The Environment - Paper	Used paper sent for recycling	Tons	20,000	21,070	●
The Environment - Atmospheric emissions	SAR qualification ⁽⁴⁾	%	100	100	●
Digital Inclusion	ADSL coverage ⁽⁵⁾	%	98.00	97.65	●
Digital Inclusion	IPTV coverage ⁽⁵⁾	%	67.30	64.99	●
Digital Inclusion	UMTS and HSDPA coverage ⁽⁶⁾	%	84.50	83.80	●

¹
Training delivered directly by the SPPA (Prevention, Protection and Environment Services) division of the Human Resources and Organization department.

²
The data includes classroom, online and on-the-job training.

³
For further information on the eco-efficiency indicator see § The Environment/Energy.

⁴
This is the percentage of mobile phones subject to the SAR (Specific Absorption Rate) qualification. The percentage is calculated on the most widespread and technologically innovative models of mobile phone handsets.

⁵
The percentage refers to fixed telephone lines.

⁶
The percentage refers to the resident population. Coverage values are subject to change based on ISTAT and urbanisations updates.

1.3 TIM BRASIL

Area of reference	Indicator	Unit of measurement	2011 Target	2011 Result	2011 Target status
Human Resources	Volunteering activities - Cidadão sem Fronteiras (Citizens without Frontiers) programme – Percentage of employees benefiting from at least one day of paid leave to take part in volunteering activities	%	1	1	●
Human Resources	Training (total number of hours: in class + online + on the job) provided to employees, outsourced employees and interns	Hours of training	715,000	636,202	●
Human Resources	Sustainability training (percentage of employees, outsourced employees and interns out of the total workforce who have taken part in at least one training session on sustainability issues)	%	20	34	●
The Environment	Ratio between recycled waste and the total waste generated in the offices	%	55	55	●
The Environment	Reduction of electricity consumption in the offices	KWh	300,000	(1)	●
The Environment	Collection of old mobile phones, batteries and other accessories to be sent for recycling	Tons	12	16	●
Suppliers	Number of suppliers assessed under sustainability criteria	Number	140	140	●

¹
Objective not pursued in 2011.

2012 OBJECTIVES

The objectives for 2012 are shown below.

2.1 TELECOM ITALIA – CUSTOMERS

Area of reference	Indicator ⁽¹⁾	Unit of measurement	2012 Target
Customers - Mobile	Activation time for voice service (pre-paid service) – Percentage of valid orders completed within the maximum period laid down in the contract	%	97
Customers - Mobile	Activation time for voice service (post-paid service) – Percentage of valid orders completed within the maximum period laid down in the contract	%	97
Customers - Mobile	Customer assistance services – Average response time of the operator to incoming calls	Seconds	35
Customers - Mobile	Disputed charges – Ratio between the number of disputed charges in invoices received within the survey period and the number of invoices issued in the same period (post-paid service)	%	1.3
Customers - Mobile	Disputed charges – Ratio between the number of disputed charges on pre-paid cards within the survey period and the average number of active SIM/USIM in the same period (pre-paid service)	%	1.2
Customers - Internet	Activation time for broadband Internet access services – Percentage of valid orders completed within the date agreed with the customer (active telephone lines)	%	94
Customers - Internet	Activation time for broadband Internet access services – Average time of supply (active telephone lines)	Days	9
Customers - Internet	Broadband internet access service faults – Average repair time	Hours	27
Customers - Internet	Disputed charges – Ratio between the number of disputed charges in invoices regarding all Internet access services (received during the survey period) and the total number of invoices issued in the same period	%	1.2
Customers - IPTV	Activation time of the IPTV service – percentage of valid orders completed within the date agreed with the customer	%	78
Customers - IPTV	Customer assistance response time – Average time of operator response to incoming calls	Seconds	70
Customers - IPTV	Disputed charges – Ratio between the number of disputed charges in invoices regarding the IPTV service (received during the survey period) and the total number of invoices containing charges regarding this service (issued during the same survey period)	%	1.2
Customers - IPTV	Availability of IPTV service – Average unavailability of the service	Hours/Year	36

¹
The full list of mobile service quality indicators, and the respective objectives for 2012, are available at tim.it; the full list of quality indicators for fixed network and IPTV Internet access services, and the respective objectives for 2012 are available at telecomitalia.it

2.2 TELECOM ITALIA – OTHER STAKEHOLDERS

Area of reference	Indicator	Unit of measurement	2011 Result	Target 2012	
Human Resources - Training	Training in Health, Safety and Environment issues ⁽¹⁾	Hours of training	76,460	80,000	¹ Training delivered directly by SPPIA (Prevention, Protection and Environment Services).
Human Resources - Training	Training – Training hours per head ⁽²⁾	Training hours per head	23.6	24	² The data includes classroom, online and on-the-job training.
Human Resources - Training	Training – companies coverage (percentage of employees out of the entire workforce who have taken part in at least one training session)	%	82.20	82.50	³ For further information on the eco-efficiency indicator see § The Environment/Energy.
Human Resources - Accidents	Accidents per 100 workers	Number	1.35	<1.41	⁴ Modern LED lighting systems provide significant benefits in terms of lower electricity consumption and reductions in the disposal of materials/use of resources.
The Environment - Energy	Eco-efficiency indicator ⁽³⁾	bit/Joule	2,204	2,450	⁵ This is the percentage of mobile phones subject to the SAR (Specific Absorption Rate) qualification. The percentage is calculated on the most widespread and technologically innovative models of mobile phone handsets.
The Environment - Energy	Self-generation of energy from mixed sources (cogeneration)	MWh	83,736	84,000	⁶ The percentage refers to fixed telephone lines.
The Environment - Energy	Fuel cell plants installed in replacement of lead batteries	Number	52	45	⁷ The percentage refers to the resident population.
The Environment - Energy	Fluorescent lighting units replaced with LED units ⁽⁴⁾	Number	70,500	150,000	
The Environment - Atmospheric emissions	Reduction of the quantity of ozone-harmful gas (R22) used in air-conditioning systems	Kg	7,048	5,000	
The Environment - Atmospheric emissions	SAR qualification ⁽⁵⁾	%	100	100	
The Environment - Atmospheric emissions	SAR qualification of technologically innovative devices (memory sticks, USBs and tablets) marketed under the TIM brand	Number	-	10	
The Environment - Paper	Used paper sent for recycling	Tons	21,070	21,050	
Digital Inclusion	ADSL coverage ⁽⁶⁾	%	97.65	98.00	
Digital Inclusion	UMTS and HSDPA coverage ⁽⁷⁾	%	83.80	86.00	
Digital Inclusion	LTE coverage ⁽⁷⁾	%	-	9.00	

2.3 TELECOM ITALIA – MULTIANNUAL OBJECTIVES – THE ENVIRONMENT



Area of reference	Indicator	Unit of measurement	2012 Target	2013 Target	2014 Target
The Environment - Energy	Total electricity procured or produced	GWh	1,875	1,814	1,750
The Environment - Atmospheric emissions	Reduction of CO ₂ emissions from the purchase and generation of electricity compared to 2011	Tons	20,000	42,000	66,000

2.4 TIM BRASIL



Area of reference	Indicator	Unit of measurement	2011 Result	Target 2012
Human Resources	Training (total number of hours: in class + online + on the job) provided to its own employees, outsourced employees and interns	Hours of training	636,202	600,000
Human Resources	Sustainability training (percentage of employees, outsourced employees and interns out of the total workforce who have taken part in at least one training session on sustainability issues)	%	34	30
The Environment	Collection of old mobile phones, batteries and other accessories to be sent for recycling	Tons	16	13
The Environment	Ratio between recycled waste and the total waste generated in the offices	%	55	58
The Environment	Energy - Increase in the consumption of energy to operate the transmission network resulting from the expected increase in the volume of traffic	%	-	3.5
Suppliers	Percentage of the main suppliers assessed under sustainability criteria	Number	140	180

2.5 TELECOM ARGENTINA



Area of reference	Indicator	Unit of measurement	2011 Result	Target 2012
Human Resources	Sustainability training: managers involved in at least one training event	Number	117	500
Human Resources	Employees taking part in the company's volunteering programme	Number	480	650
Human Resources	Employees with teleworking contracts	Number	600	810
Suppliers	Percentage assessed under sustainability criteria	Number	-	200
The Environment	Quantity of mobile phone batteries sent for recycling	Kg	590	2,000



Report of the independent auditors (PricewaterhouseCoopers)





INDEPENDENT REPORT ON THE LIMITED ASSURANCE ENGAGEMENT OF THE SUSTAINABILITY REPORT 2011

To the Shareholders of
Telecom Italia SpA

1. We have carried out the limited assurance engagement of the Sustainability Report of the Telecom Italia Group (hereafter the “Group”) as of 31 December 2011 (hereafter the “Report”), following the verification procedures summarized in paragraph 3 to this Report. The Board of Directors of Telecom Italia SpA are responsible for the preparation of the Report in accordance with the Inclusivity, Materiality and Responsiveness principles included in *AA1000 AccountAbility Principles Standard (2008)* (AA1000APS - 2008), issued by AccountAbility (Institute of Social and Ethical Accountability), as described in the paragraph “Reporting”. The Board of Directors of Telecom Italia SpA are responsible for the definition of the Group objectives with regard to the sustainability performance and reporting results achieved. The Board of Directors are also responsible for the identification of the stakeholders and of the significant aspects to report, as well as for the implementation and maintenance of appropriate management and internal control processes concerning data and information included in the Report. We are responsible for the preparation of this Report on the basis of the work performed.
2. Our work has been conducted in accordance with the principles and guidelines established, for a limited assurance engagement, by the *International Standard on Assurance Engagements 3000 - Assurance Engagements other than Audits or Reviews of Historical Financial Information (ISAE 3000)*, issued by the *International Auditing and Assurance Standards Board*. These principles require the compliance with applicable ethical principles (*Code of Ethics for Professional Accountants* of the *International Federation of Accountants*), including professional independence. It also requires that our work is planned and performed with the aim of obtaining a limited assurance, rather than a reasonable assurance, that the Report is free of material errors.

Furthermore, our work has been conducted taking into account, consistently with the *AA1000 AccountAbility Assurance Standard (2008)* (AA1000AS - 2008), those aspects relevant for the valuation of the reliability of data and information on sustainability performance detailed in Appendix 1.

A limited assurance engagement of the sustainability report consists in interviews, primarily with company's personnel responsible for the preparation of the information included in the sustainability report, in the analysis of the sustainability report and in other verification procedures.

PricewaterhouseCoopers Advisory SpA

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- 3 The verification procedures performed on the Report are summarized as follows:
- comparison between the economic and financial information and data included in the Report with those included in the Group consolidated financial statements as of 31 December 2011;
 - analysis of design and implementation of governance and management system of sustainability topics related to strategy and operation of Telecom Italia SpA, as well as of the processes and instruments used to identify the stakeholders and the most significant issues to them;
 - analysis of the processes underlying the generation, recording and management of quantitative data included in the Report. In particular, we held meetings and discussions with Telecom Italia SpA, Telecom Italia Media SpA, TIM Participações SA, Telecom Argentina SA and HR Services Srl management representatives selected on the basis of a quantitative and qualitative risk analysis, in order to achieve a general understanding of the information, accounting and reporting system in use to prepare the Report, as well as of the internal control processes and procedures supporting the collection, aggregation, processing and transmission of data and information to the department responsible for drawing it up;
 - meetings and discussions with Telecom Italia SpA, Telecom Italia Media SpA., TIM Participações SA, Telecom Argentina SA and HR Services Srl management, in order to understand and evaluate the processes utilized to comply with the Inclusivity, Materiality and Responsiveness principles included in the AA1000APS – 2008 standard;
 - analysis, on a sample basis, of the documentation supporting the Report in order to obtain the evidence of processes in place, confirm the reliability of data and information obtained in the above-mentioned meetings and discussions and regarding the sustainability performance, as included in Appendix 1;
 - verification of the engagement of stakeholders, through:
 - ✓ analysis of the most relevant aspects arisen and documented in internal minutes and comparison with data and information included in the Report,
 - ✓ meetings and interviews with some employees to understand their awareness on the sustainability reporting process;
 - obtaining a representation letter, signed by the legal representative of Telecom Italia SpA, relating to the completeness and reliability of the Report and of the information and data included in it, as well as to the compliance with the principles referred to in paragraph 1.

A limited assurance engagement is less in scope than a reasonable assurance engagement carried out in accordance with ISAE 3000 and, as a consequence, it provides a lower level of assurance that we became aware of all the significant events and circumstances that a reasonable assurance engagement could have identified.



As far as data and information concerning the sustainability report of the prior year, presented for comparative purposes, are concerned, refer to the assurance statement we issued on 28 March 2011.

- 4 Based on the procedures carried out, nothing came to our attention that causes us to believe that the sustainability report of Telecom Italia Group as of 31 December 2011 is not in compliance, in all material respects, with *AA1000 AccountAbility Principles Standard (2008)*, as stated in the paragraph "Reporting" of the Report, and that the sustainability performance included in Appendix 1 is not reliable.

Turin, 16 April 2012

PricewaterhouseCoopers Advisory SpA

Paolo Bersani
(Partner)

This report has been translated from the original, which was issued in Italian.

We have not performed any control on the Sustainability Report 2011 translation.



Appendix 1 Data and information on sustainability performance

Area	Information/KPI	Page
Economic value	Economic value generated and distributed	32
Human Resources	Training Telecom Italia S.p.A.	103
Human Resources	Training TIM Brasil	133
Human Resources	Accidents Telecom Italia S.p.A	107
Human Resources	People caring	96
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