SUSTAINABILITY REPORT 2010

TELECOM ITALIA

Chairman's Letter

While the economic scenario remains contradictory, experiencing a succession of rises and falls, one phenomenon continues unabated: the spread of communication technology. The International Telecommunication Union estimates that 90% of the world's population is now within the range of a mobile telephone network, with over 5 billion active lines joining the 1.2 billion fixed lines. There are now over two billion Internet users populating the Web (almost 58% of them in emerging countries), gradually evolving from simple users of communication tools into citizens of a digital society that uses the Web to work, come together, circulate ideas and projects, create companies, produce culture, discuss politics, values and religious beliefs. These technologies are shaping new lifestyles and relationships and reorganising economies wounded by the recession. In extreme but not rare cases, these technologies provide the momentum and support for people to demand freedom and reform, as the experiences of the past few months have demonstrated in North Africa and the Middle East.

With its networks, products and technological solutions, Telecom Italia is fully involved in this global process aimed at building a digital economy and society, which form the basis for the greater prosperity of current and future generations.

There are therefore two sides to our commitment to sustainable development. As an industrial company, we are committed to conducting our business in an ethical way, which means that our responsibility to remain competitive is part and parcel of our responsibility towards stakeholders. This is what we have clearly stated in our Code of Ethics and by signing up to the UN Global Compact, in which we play an active part, recording the progress we are making in applying its principles and promoting the activities of the Italian network.

Like the other main players in the world of telecommunication, we are also committed to achieving a wider dissemination of digital technologies, in order to serve the needs of people in their private and working lives, to support corporate development and innovation, to increase the efficiency and quality of public services and, last but not least, to ensure greater respect for the environment and a more effective fight against climate change. In both these respects, we believe that the company has made enormous progress in recent years, as in fact has been recognised by the inclusion of Telecom Italia in all the main international sustainability indexes, including its seventh successive inclusion in the DJSI World and the DJSI Europe indexes.

As is once again demonstrated by the pages of this Report, we showed our commitment to sustainability in many different fields in 2010. These included continued investment in the network infrastructure, aimed at ensuring the greatest possible expansion of broadband coverage (which currently covers 97% of our fixed lines in Italy and almost 84% of mobile lines), while ensuring economic feasibility and often collaborating closely with the Italian regions. Smart Services are an increasingly important part of this programme. They include the Smart Town platform, which can be considered as the management nucleus of a digital city (administering its energy requirements, providing local surveillance and allowing communication with citizens), and Smart Building, in which ICT applications integrate with new materials, considerably improving energy consumption, comfort and security. Many local authorities and companies have now adopted these technological tools. Alongside these there are home automation solutions designed, among other things, to optimise the use of household appliances (Green@Home). We have developed forms of cloud computing that allow small and medium sized companies to access applications and data remotely, cutting the cost of technological infrastructure as well as energy use and emissions (Ospit@Virtuale). A contribution to a "greener" economy will undoubtedly be made by Biblet Store, Italy's first digital bookshop, and by the gradual spread of e-readers and electronic publishing.

Another essential dimension of people's quality of life on which we are working is health, and more generally the fight against difficulty and alienation. We are working with the managers of the Italian national health system to digitise managerial and clinical processes, in order to improve their efficiency and guarantee their sustainability to deal with the burdens associated with an ageing population and the imperative of controlling public spending. We are developing original solutions in the field of home telemedicine and telecare for the chronically ill (MyDoctor@Home). We are expanding the project to allow children in long-term care, in the oncology and haematology departments of Italy's leading paediatric hospitals, to remain in contact with their families, schools and society in general. One of the main initiatives of the Telecom Italia Foundation is the Dyslexia Programme aimed at fighting this disorder in Italian schools, benefiting from the valuable contribution that new technologies can make in this field.
We are also continuing to provide training on the use of digital tools so that everyone, without exception, can benefit from them as much as possible. We therefore have ongoing computer literacy programmes for older generations, involving tens of thousands of people every year. A tour around schools and Italian town squares has also led to the further consolidation of our project to train children to make an informed and responsible use of the Internet and new media (Safe Browsing), which plans to involve at least one hundred thousand young students, teachers and adults.

Environmental sustainability and social sustainability are challenges that we have met at home as well, within the Group itself.
With regard to the fight against climate change, in spite of the significant progress already made, in 2010 Telecom Italia used less energy for heating and travel and less electricity (-3.4%) and less paper, and produced fewer CO_2 emissions (-5.7%). Our eco-efficiency indicator (measured in bits transmitted per joule) improved further by 29%, a considerable increase that is added to the ones achieved over the previous six years. Of course the background to

all this is the day-to-day work being done to modernise our technology, rationalise the use of resources, renew the vehicle fleet and build awareness.

However, our most intensive work last year was in the social sphere, where we had to reconcile the reasons for competitiveness with the reasons for sustainability. The imperative of restructuring and relaunching Telecom Italia required us to pursue a business plan that provided for a reduction in the number of people employed in Italy. We dealt with this change by trying to reduce the repercussions on our people as much as possible. Open and constructive dialogue with trade unions and the Government identified avenues - including recourse to mobility and the more extensive application of solidarity contracts in Italy - aimed at responding to the Company's efficiency needs and guaranteeing that workers are respected and protected. At the same time, we launched extensive professional retraining programmes to adapt today's skills to the professional profiles of tomorrow.

And as a demonstration of how much we believe in the broad cultural development of our people, we offered them the opportunity to combine their company training with education unrelated to their job, attending free university courses online, the first project of its kind in Italy. The success of this programme has been truly remarkable. The same is true of the employee's share ownership plan, to which 16% of potential subscribers signed up, compared to a European average in big companies of less than 5%. Financial participation is also an important factor of cohesion, mutual trust and sharing the commitment to relaunching competitiveness.

It is with these people, with its massive store of technological capabilities, plus a now well-established financial recovery process that is freeing up resources for investment in growth, that Telecom Italia is in a position to strengthen its contribution to the establishment of a digital society and economy with greater opportunities for development, more inclusive and respectful of the environment.

Gabriele Galateri di Genola
Chairman

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TELECOM *ITALIA*

Executive Summary

BACKGROUND

Telecom Italia began to deal with sustainability in 1997 by creating a dedicated department and 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: Customers, Suppliers, Competitors, Institutions, the Environment, the Community, Human Resources and Shareholders. 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 which was launched 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 assessing and communicating non-financial performance. The laboratory drew up an original communication template (www.investorvalue.org) presented in Brussels in May 2010 during the Senior Leaders Forum of the European Academy for Business in Society (EABIS).

At the end of 2008, sustainability was brought firmly to the attention of the Board of Directors through the Internal Control and Corporate Governance Committee, which performs a coordination and control 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 involve stakeholders in the reporting and the underlying processes and are the most advanced standard in this area.

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

THE BIG SUSTAINABILITY CHALLENGES FOR TELECOM ITALIA

Customer service

The achievement of high standards of customer satisfaction is a priority for Telecom Italia. The formal quality undertakings summarised in the Customer Promise are widely disseminated internally through the "Expressing Quality" project, which involved 619 managers and around 3,000 area/local unit managers and customer contact team personnel in a total of 155 days of classroom-based activities dedicated to the subject between 2009 and 2010.

The values that form the basis of the customer promise inspired a review of the staff performance evaluation system and the implementation of development activities for executive staff. Quality is also taken into consideration in the manager and staff incentives system.

The Telecom Italia Group, as a fundamental player in the broadband ecosystem, 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 computer literacy, contributing to overcoming the socio-cultural barriers that can restrict the opportunity to participate in the information society and enjoy its benefits. Specific attention is therefore paid to customers with particular needs or belonging to the weaker members 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 Safe Browsing 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 people

In order to inform people about major organisational and strategic developments and involve them in these developments, numerous internal communication activities were carried out, including the "Let's talk about sustainability" event, the first opportunity for senior staff, top management and employees to meet and discuss the subject.

The event was attended by over 200 employees in the room and 5,500 by video streaming. Dialogue among employees also takes place through communication channels that promote bilateralism, discussion and knowledge-sharing between members of the corporate community through such things as the intranet, blogs, open virtual communities, climate analysis and the intranet portal.

In the field of industrial relations, negotiations between the social partners: government, Telecom Italia and trade unions, were completed successfully with the signing of a framework agreement to deal with the expected surplus of personnel at Telecom Italia S.p.A. and Shared Services Center S.r.l.. The agreement provides for recourse to the mobility provisions of Law 223/91, according to agreed criteria and on a voluntary basis, and for the implementation of solidarity contracts of the "defensive" type, combined with training initiatives.

For 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 related economic system.

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 health caring, 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 Piedmont since December 2010, which allows patients suffering from a number of chronic diseases to be monitored at home thanks to Telecom Italia's technologies. The service allows a considerable improvement to be achieved in the quality of life of patients and savings of up to 80% to be achieved by the healthcare system on hospitalisation costs. By reducing the need to travel to the doctor, this service also allows the reduction of carbon dioxide emissions (CO_2) generated by means of transport (see § Customers/Digital Divide and 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 initiatives carried out directly by Telecom Italia and through the Foundation. These include, for example, the programme of activities launched with the Italian Dyslexia Association to fight this disorder in Italian schools. Part of the programme, which lasts for a total of three school years and provides for an investment of 1.5 million euros, 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 (see § The Community/Responses to stakeholders).

Fighting climate change

Fighting climate change, in terms of limiting the increase in the Earth's temperature resulting from industrial processes and human activities in general to levels that are considered acceptable, is one of the challenges with which humanity has to deal, mainly by reducing CO_2 emissions and other greenhouse gases.

The Information and Communication Technology (ICT) industry can play a fundamental role in this respect, not only by containing its emissions of CO_2 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 CO_2 emissions but will contribute to reducing the CO_2 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 CO_2 (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" they 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 CO_2 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 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 2010

Results[*]	Reference to the chapters in the Report
31% reduction in the energy consumption for heating	The Environment/Environmental performance/Energy
4.7% reduction in the energy used by vehicles, which was also supported by the reduction in the number of vehicles and the replacement of Euro3 cars with Euro4 cars.	The Environment/Environmental performance/Energy
3.4% decrease in electricity consumption	The Environment/Environmental performance/Energy
29% increase in the eco-efficiency indicator	The Environment/Climate Change
5.7% reduction in CO_2 emissions	The Environment/Environmental performance/Atmospheric emissions
16.9% reduction in office paper and 18.6% reduction in paper used for telephone bills	The Environment/Environmental performance/Paper
An improvement in the majority of the customer satisfaction indicators	Customers/Customer satisfaction
Offer of services and initiatives to reduce the CO_2 emissions of customers	Customers/Innovative services
Confirmation of Telecom Italia's and Tim Brasil's ranking in all the leading international sustainability indexes	Introduction/Placement in the indexes
Positive completion of the negotiation with trade unions on dealing with surplus personnel communicated by the Business Plan	Human Resources/Industrial Relations
Boosting of People Caring initiatives, including the launch of a counselling service for employees experiencing difficulties at work or in their private lives.	Human Resources/People Caring
Launch of the "I care about myself" project with the trade unions, which allows employees to sign up free of charge to courses offered by the Uninettuno International Telematic University	Human Resources/Training
Launch of initiatives for solidarity and to reduce the socio-cultural Digital Divide, including through the Telecom Italia Foundation	The Community/Responses to stakeholders

*
The percentage increases or decreases shown in the table are calculated in comparison to 2009 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 is convinced that business activities should be conducted considering the expectations of stakeholders, in accordance with the principles established by internationally recognised standards. In defining and implementing sustainability strategies and programmes, the Group makes reference to the guidelines issued by the main international guidance and standardisation organisations on matters of Corporate Responsibility.

In 2002, Telecom Italia signed up to the Global Compact, the main international point of reference, which was launched in 2000 by the UN to promote environment protection, respect for human rights and working standards, and anti-corruption practices.

OUR SYSTEM FOR MANAGING SUSTAINABILITY IS BASED ON THE BEST INTERNATIONAL STANDARDS. TELECOM ITALIA HAS ADHERED TO THE GLOBAL COMPACT SINCE 2002

The Sustainability Management System also takes into consideration the main international regulations and standards:

- European Commission Directives, Recommendations and Communications.
- OECD guidelines for multinational companies.
- ISO 9000 and ISO 14000 Quality and Environmental Management System certifications.
- Principles of the International Labor Organization (ILO) Conventions on respecting the fundamental rights of workers.
- The Social AccountAbility 8000 standard (SA8000), 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 establishes the principles that a company must respect in order to define itself as responsible (accountable), which are covered in § Reporting and Planning.

· ISO26000 guidelines presented at the end of the year 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 Directors, the transparency of management decisions, the effectiveness of the Internal Control System and the strict regulations regarding 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 carries out a check on 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 www.telecomitalia.com website. At the heart of the system is the Code of Ethics, based on the conviction that the conduct of business cannot ignore the need for ethics.

OUR CODE OF ETHICS SUMMARIZES THE FUNDAMENTAL PRINCIPLES THAT DRIVE EMPLOYEES' BEHAVIOURS. OUR CHARTERS AND CODES DISCIPLINE COMPANY'S COMMITMENTS TOWARDS STAKEHOLDERS

The Code sets out the goals and guiding principles of Company's activities in relation to 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 employees and third parties in business relationships with the Group, within the boundaries of their respective responsibilities and functions. 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, together with information regarding ongoing improvement of quality standards and contact channels available to customers. The Service Charters are available on the Group websites (www.telecomitalia.it, www.impresasemplice.it, www.tim.it).

In addition to the Telecom Italia Service Charters, there are the General Conditions of Subscription, which contain the terms and conditions of the fixed telephony service, published together with the Service Charter and on the www.telecomitalia.it and www.impresasemplice.it websites, as well as in the telephone directories.

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 in respect of the individual services (fixed and mobile voice services, Internet access services, IP-IPTV pay-per-view television services). 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 of the Telecom Italia Group** regarding respect for occupational standards within the Group, particularly as regards child labour, forced labour, health and safety, freedom of association, discrimination, disciplinary procedures, working hours and pay.

- **Relations with suppliers** in Telecom Italia's procurement process which governs the Group's business ethics (transparency, separation of roles, fairness, traceability), and the requirements that Telecom Italia demands of its suppliers in the area of occupational standards and the environment.
- **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.
- **Codes regarding child protection and consumer protection** (Self-regulation code for mobile services, Self-regulation code for TV and children, Code of conduct for premium rate services, Self-regulation code for commercial communication).
- **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 takes action to promote the development of the communities in which it operates.
- **Code guaranteeing propriety in relations with the OLOs (Other Licensed Operators)** which ensure the proper handling and confidentiality of data by the departments that supply services to other operators.
- **Telecom Italia Group guidelines on responsible marketing** which set out the principles that the Group undertakes to respect, in addition to those contained in the Charters and Codes listed above, in order to ensure proper, fair and transparent commercial practices.

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 development and rewards, and for the assessment and training of staff, are inspired by the Charter of Values, thereby orienting individual attitudes in a common direction throughout the whole 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.

Proactiveness
To make things happen by anticipating and influencing events. To seize and develop any opportunities, even if they are 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.

Speed
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 "Hot Topics" of sustainability, which have been identified by Telecom Italia Group on the basis of:

· requests made by the sustainability rating agencies for admission to sustainability indexes, 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 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 identified in this way, 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) referred to in § Reporting and Planning.

HOT TOPICS TABLE

Issues	Stakeholders	Telecom Italia commitment	Reference
RELATIONS WITH CUSTOMERS	Customers	Paying attention to the needs of customers and improving their satisfaction are among the main objectives of Telecom Italia and are the subject of numerous projects and initiatives.	Customers/Focus on Customers/Customer Satisfaction
DIGITAL DIVIDE	Customers, Institutions, The Community	The dissemination of communication 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/Digital Divide The Community/Responses to stakeholders
CLIMATE CHANGE	Customers, Suppliers, Institutions, The Environment, The Community	The Group is committed to reducing its CO_2 emissions and to providing services that contribute to reducing emissions in other sectors.	The Environment/Climate Change

RELATIONS WITH EMPLOYEES	Human Re-sources	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 markets and supply, supply chain monitoring becomes a vital element in the sustainability of businesses. The Group is mounting a series of actions designed to protect the environment, maintain occupational standards and promote the principles of the Life Cycle Assessment (LCA).	Suppliers/Main sustainability initiatives The Environment/Product responsibility
PRIVACY AND DATA SECURITY	Customers, Insti-tutions	Telecom Italia has implemented a series of measures to protect data security and the privacy of those who use the networks and services.	Customers/Research and innovation in e-security/ Protection of privacy and protection of personal data
CHILD PROTEC-TION	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 the telecommunication networks.	Customers/Child protection
RELATIONS WITH SHAREHOLDERS/ INVESTORS	Shareholders	Dialogue with investors on financial and non-financial issues is of strategic importance for a major listed company. In order to improve communication among the stakeholders on environmental, social and govern-ance issues, Telecom Italia promoted a European workshop on the communication of non-financial performance.	Introduction/ Non-financial communication Shareholders/Financial com-munication

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, both for the positive repercussions on their reputation and for the fact that, 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.

Telecom Italia has been confirmed in both categories of the Dow Jones Sustainability in-dexes:
· the Dow Jones Sustainability World Indexes (DJSI World), which include 318 companies;
· the Dow Jones Sustainability Europe index (DJSI Europe), consisting of 157 companies at European level, and the respective Eurozone index, consisting of 94 companies in the Euro area.

On the basis of the assessments carried out for admission to the DJSI, Telecom Italia has been included in the Gold Class for the fixed telecommunications sector of the "Sustain-

ability Yearbook 2010", published by the SAM (Sustainable Asset Management) Group, the rating agency that manages the DJSI, and PricewaterhouseCoopers.

The Sustainability Yearbook only accepts companies with the highest sustainability scores and divides them into three categories: Gold Class, Silver Class and Bronze Class. The fixed telecommunications sector in particular consists of a group of 54 companies, while the Gold Class consists of the 4 companies in the sector with the highest score.

Telecom Italia has been included in all the important indexes of the Financial Times Stock Exchange for Good (FTSE4Good):
· FTSE4Good Global (657 companies);
· FTSE4Good Europe (273 companies);
· FTSE4Good Environmental Leaders Europe, which includes 40 stocks from the FTSE-4Good 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, made up of 120 companies;

· Ethibel Sustainability Indexes (ESI):
  › Excellence Europe, consisting of 199 stocks;
  › Excellence Euro, consisting of 114 stocks;
  › Excellence Global, consisting of 129 stocks.

· MSCI ESG Indexes:
  › MSCI WORLD ESG INDEX, consisting of 786 stocks;
  › MSCI WORLD formerly USA ESG INDEX, consisting of 482 stocks;
  › MSCI EAFE ESG INDEX, consisting of 439 stocks;
  › MSCI EUROPE ESG INDEX, consisting of 226 stocks.

· ECPI Indexes:
  › ECPI Ethical Index Global, consisting of 300 stocks;
  › ECPI Ethical Index Euro, consisting of 150 stocks;
  › ECPI Ethical Index EMU, consisting of 150 stocks;
  › ECPI EMU ESG Equity, consisting of 300 stocks.

· FTSE ECPI Italian SRI Benchmark Index, consisting of 46 stocks.

· Axia
  › Ethical Index, consisting of 40 stocks;
  › Euro Ethical Index, consisting of 80 stocks;
  › CSR Index, consisting of 80 stocks.

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

5. NON-FINANCIAL COMMUNICATION

In the context of the Alliance between the European Commission and companies launched on March 22, 2006 with the aim of turning Europe into a centre of excellence in CSR, various "laboratories" have been set up. These are working groups involving representatives of the companies and stakeholders with the support of the European Commission and aimed at exploring and developing shared operational solutions to achieve measurable progress in the priority areas of the Alliance, which include improving the quality of reporting processes.

In this respect, the "Sustainability and non-financial performance evaluation" laboratory has been set up, of which Telecom Italia is a co-leader, which has designed an advanced communication model for non-financial communication that meets the requirements of investors and other stakeholders. In order to stimulate dialogue on the subject, a widespread consultation process was launched

THE IMPROVEMENT OF COMMUNICATION AMONG COMPANIES, INVESTORS, AND OTHER STAKEHOLDERS ON SUSTAINABILITY ISSUES IS THE OBJECTIVE OF A EUROPEAN LABORATORY

involving focus group meetings in Italy (Rome and Milan) and abroad (Frankfurt, Paris, Stockholm, Utrecht), involving companies, investors, academics, representatives of the European Commission and stakeholders. Considering the opinions expressed, a model was drawn up based on 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.

The results of the laboratory were presented on May 7, 2010 during the Senior Leaders Summit organised in Brussels by EABIS (European Academy of Business in Society).

For further information see the sustainability section of the www.telecomitalia.com website and the laboratory's website at www.investorvalue.org.

PRIMARY OBJECTIVE

MARKET VALUE

FINANCIAL DRIVERS

| Increased sales | Reduced costs | Increased cashflow | Brand value | Risk management |

CORE NON-FINANCIAL DRIVERS

| Human capital | Customer relations | Society | Environment | Innovation | Corporate governance |

KEY METRICS

| _ Employee engagement | _Customer satisfaction | _ Public perception
_ Supply chain management | _ Carbon emission
_ Waste management
_ Lifecycle assissement | _ Product service developement | _ Ethical integrity
_ Board composition |

ESG FACTORS

| _ Absence rate
_ Staff turnover
_ Health & safety
_ Fair restructuring
_Training
_Performance management
_ Equality & diversity
_ Commitment to customer
_ Talent recruitment & retention | _ Customer loyality
_ Retention
_ Reputation
_ Trust
_ Price, product service quality | _ Opinion former perception
_ Media coverage
_ Ommunity investment
_ Stakeholder dialogue
_ Social impact
_ Legal\regulatory breaches
_ Inclusion | _ Energy efficency
_ Deployment of renewables
_ Waste reduction
_ Recycling
_ Environmental impacts
_ Enviromental breaches | _ New products and services
_ Value of patents
_ Customer perception
_ Talent recruitment & retention
_ Training
_ R&D expenditure | _ Nos of non-exec \independent directors
_ Equality & diversity
_ Training & developement
_ Audit processes
_ Reporting & trasparency
_ Reputation
_ Shareholder interest
_ Anticorruption policy\practise
_ Competitiveness |

6. REPORTING AND PLANNING

6.1 REPORTING

Scope

The sustainability report covers the subsidiary companies included in the consolidation scope, unless otherwise stated (see § The Environment and § The Community), excluding discontinued operations and non-current assets held for sale. With regard to the Argentina Business Unit, which has been consolidated in the Financial Statements of Telecom Italia[1] since October 13, 2010, while waiting to align the indicators used to measure the sustainability performance and to check the underlying processes, the data has not been included in this Sustainability Report, with the exception of data regarding the number of employees and changes in this number for which we refer you to § Human Resources/ Headcount and changes.

[1] For information regarding the Argentina Business Unit and the business sectors in which it operates, please see the relevant chapter of the Consolidated Financial Statements of the Telecom Italia Group

Sustainability at Telecom Argentina

The company, which signed up to the Global Compact in 2004, began to deal with sustainability in a structured way in 2007 by creating a dedicated team within its Communication and Media Department. As of 2008, it started to publish an annual Sustainability Report according to the Global Reporting Initiative guidelines.

The company has set up a Sustainability Operating Committee consisting of representatives of all its departments, which is responsible for coordinating the management of sustainability within the Company, establishing the objectives for the future and selecting the key subjects to be dealt with in the Sustainability Report.

The company regularly involves external stakeholders in order to listen to their opinion and gather suggestions on how to improve its sustainability reporting according to the principles established by the AA1000 SES standard issued by AccountAbility. In 2010, 12 representatives of the academic and private sector were involved who made 23 improvement suggestions to which a response is given in the Company's Sustainability Report.

Telecom Argentina has adopted a Group Code of Ethics and has a website that allows employees and external people to report actual or potential violations of the Code itself or, more generally, of current laws, with a guarantee of confidentiality. For further information regarding the sustainability model of Telecom Argentina and the main projects carried out see the Company's Sustainability Report in the sustainability section of the www.telecomitalia.com website and at www.telecom.com.ar.

Criteria

In accordance with the triple bottom line[2], 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 integrated the sustainability data in the Consolidated Fi-

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

nancial Statements since the 2003 financial year, in fact preceding the application of European Directive 51/2003, which was transposed in Italy by Legislative Decree No. 32 of February 2, 2007.

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 gathered over the 14 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 the way in which financial reports are drawn up.

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 the development of strategies of involvement 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 the stakeholders.

THE SUSTAINABILITY REPORT GIVES RESPONSES TO STAKEHOLDERS ON RELEVANT ISSUES IDENTIFIED ACCORDING TO THE AA1000 APS 2008

In accordance with the principle of materiality, the important issues 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.

A risk management method has being established, based on the "Enterprise Risk Management Framework" criteria, under which social and environmental risks, and those arising from possible conflicts between stakeholders in general, are taken into greater consideration (for further details, see § Shareholders/Risk Management). The Telecom Italia report's compliance with the AA1000 standard is verified by the auditing company Price WaterhouseCoopers (see § Auditing Company's Report).

Matrix of materiality
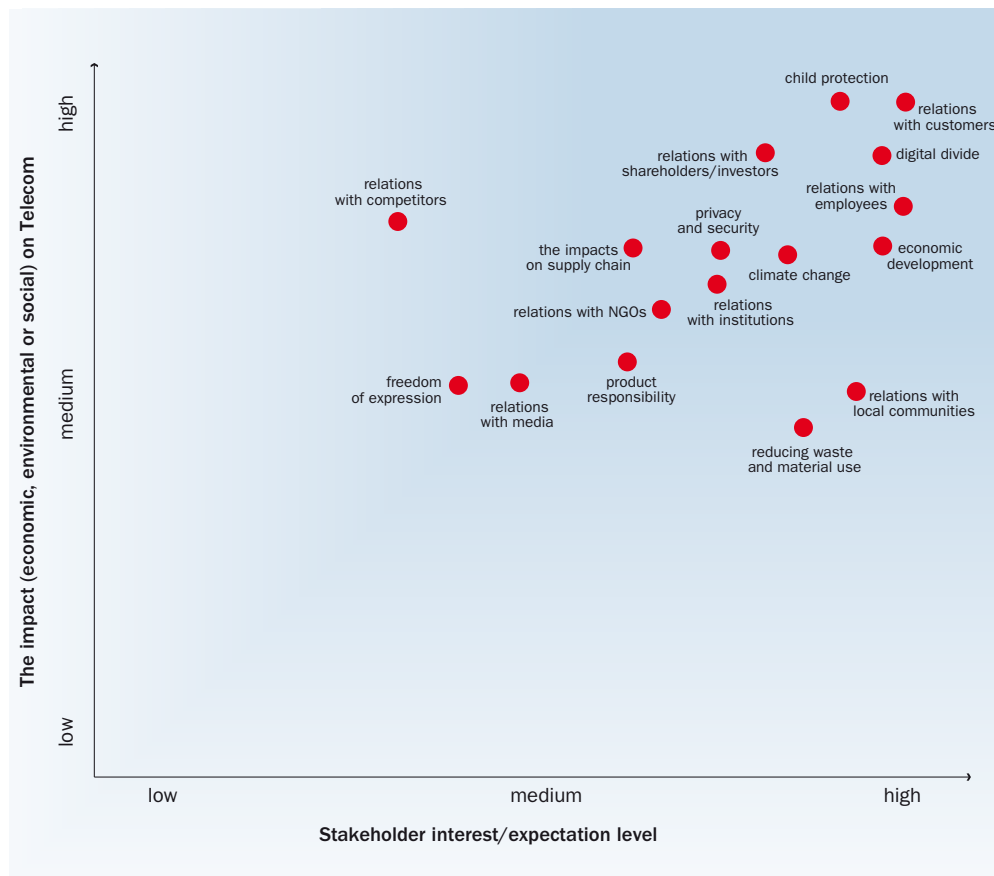
The method used to measure investments in the community is the one defined by the London Benchmarking Group – LBG – (see § The Community/Measuring the contribution to the community).

Table of Global Compact and GRI references

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

The Content Index relating to the GRI is available in the sustainability section of the www.telecomitalia.com website.

Global Compact (GC) Principles	GRI indicators with reference to the GC	Chapters referring to GC Principles	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 and Planning, Stakeholder Involvement, Suppliers, The Community, Human Resources	15, 16, 23, 29, 55, 95, 111
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	15, 16, 55, 111

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 and Planning, Stakeholder Involvement, Human Resources	16, 23, 29, 111
4. Businesses should uphold the elimination of all forms of forced and compulsory labour	HR1-3, HR7	Codes, Charters and Values, Suppliers, Human Resources	16, 55, 111
5. Businesses should uphold the effective abolition of child labour.	HR1-3, HR6	Codes, Charters and Values, Suppliers, Human Resources	16, 55, 111
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	16, 29, 55, 111
7. Businesses should support a precautionary approach to environmental challenges.	EC2, EN18, EN26, EN30	Hot Topics, Reporting and Planning, Stakeholder Involvement, Suppliers, The Environment, 2010 results and 2011 objectives in the Appendix	18, 23, 29, 55, 71, 158, 161
8. Business should undertake initiatives to promote greater environmental responsibility.	EN3-5, EN16-17, EN20, EN22-23, EN26, PR3	Stakeholder Involvement, Suppliers, The Environment, 2010 results and 2011 objectives in the Appendix	29, 55, 71, 158, 161
9. Businesses should encourage the development and diffusion of environmentally friendly technologies.	EN5-7, EN18, EN26-27, EN30	Hot Topics, Reporting and Planning, The Environment, The Community	18, 23, 71, 95
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	15, 16, 55, 137

Starting from 2008, Telecom Italia has obtained the A+ qualification for its sustainability reporting.

6.2 PLANNING

The Sustainability Plan is based on a procedure that is broken down into four phases:
1. identification of the areas for improvement in sustainability performance;
2. comparison between the areas for improvement and the projects the Group plans to carry out for the purposes of its business;
3. definition of targeted management actions to be taken in the areas for improvement
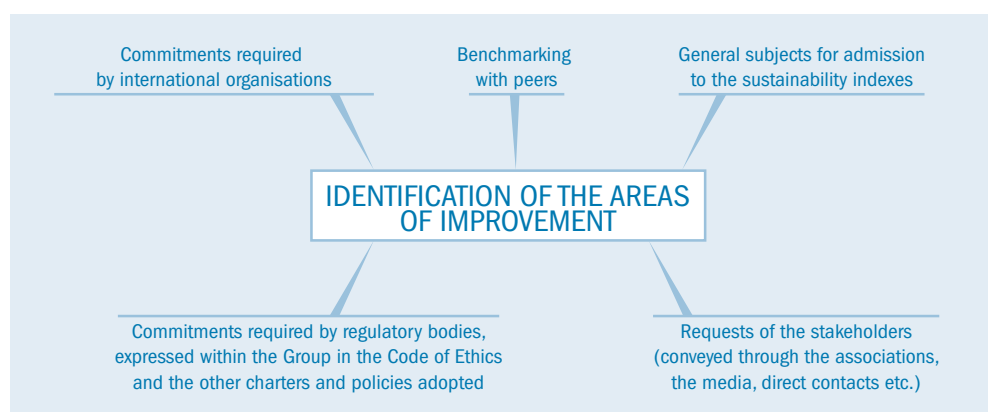
where no projects have been conducted previously, or those where the planned projects have not had sufficient, positive impact in terms of sustainability;
4. monitoring those areas in need of supervision in order to maintain the performance level attained.

An important element used by the Group on matters of sustainability is the Assessment Sheet. All projects which involve significant investment, and which are put forward for the approval of appropriate Committees, are covered by this sheet. Its function is to illustrate the impact, in terms of sustainability, of the investment. Each project manager must indicate the impact, positive, neutral or negative, of the project to be approved in the important areas identified for each stakeholder.
These reports are taken into account within the decision-making process that leads to the approval of investments, and they provide a useful summary for assessing the overall impact of the Group's investment choices in terms of sustainability.

7. 2010 RESULTS AND 2011 OBJECTIVES

The results achieved against the objectives for 2010, published in the 2009 Sustainability Report, and the objectives for 2011 are shown in the Appendix to this report.
The targets of a qualitative nature for suppliers are included in the respective chapter.

8. THE GROUP SUSTAINABILITY DEPARTMENT

8.1 MISSION AND STRUCTURE

Sustainability management in Telecom Italia is ensured by the Group Sustainability department, 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 external reporting of sustainability-related activities carried out;
· managing relations with specialised rating agencies;
· representing the Group in the national and international forums which are active on the issue.

As of 2009, the function has been transferred to the External Relations Department, in order to ensure the more structured communication of initiatives undertaken and results achieved. The organisational structure is shown below.

Chief executive officer

COMMITTEE FOR
INTERNAL CONTROL AND
CORPORATE GOVERNANCE

EXTERNAL RELATIONS
DEPARTMENT

Supervision through a check
on sustainability activities in general,
including projects conducted
by the Telecom Italia Foundation

GROUP
SUSTAINABILITY

REPORTING

PLANNING

RELATIONS WITH
RATING AGENCIES

In each department, sustainability data owners are responsible for
monitoring the activities and gathering data and information for sustainability reporting

8.2 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;
- evaluation of the impact in terms of sustainability of the business projects presented for approval by the Group's Investment Committee, through the completion by the proposing project manager of the investments card (see § Reporting and Planning);
- 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, also developed in the context of the sector organisations (see § Competitors/Relations with the stakeholders and § The Environment/Environmental performance);
- adherence to the main international standards on matters of sustainability (see § References and Governance and § Reporting and Planning);
- 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/Climate Change).

9. STAKEHOLDER INVOLVEMENT

During 2010, the 2009 Sustainability Report was submitted to a multi-stakeholder panel to measure their satisfaction and the extent to which it fulfilled their expectations, as well as to gather suggestions for improvement. The involvement process, which was managed directly by the Sustainability Team according to the AccountAbility principles, included the following stages:
· design and planning;
· preparation of involvement and implementation;
· responsiveness and measurement.

In detail, the following activities were carried out:
· identification of stakeholders to involve;
· preparation and sending of the questionnaire;
· receipt and analysis of the completed questionnaires;
· presentation to stakeholders of the results obtained;
· activities aimed at fulfilling the expectations of stakeholders.

The stakeholders involved were top, business and consumer customers, suppliers, the Open Access supervisory authority, local authority associations, members of parliament, Confindustria, environmental and service sector associations, universities, journalists, bloggers, insurance brokers, employees and trade unions.

The people involved were sent a questionnaire (available in the sustainability section of the www.telecomitalia.com website, where further information about the process is also available) divided into 4 sections relating to:
· content;
· graphics;
· distribution method;
· overall judgement.

THE 2009 SUSTAINABILITY REPORT HAS BEEN ANALYZED BY A GROUP OF STAKEHOLDERS WHO HAVE PROVIDED USEFUL INSIGHTS FOR IMPROVEMENT

The results, which were presented to panel members during the feedback event organised in Rome, at the Telecom Italia premises, showed that there had been substantial satisfaction with the Sustainability Report. The suggestions for improvement that emerged related primarily to the need for greater conciseness and to the formal aspects of the document, such as the use of a larger font and more attractive graphics, in order to make the report easier to read and to use. These suggestions have for the most part been implemented as of this Report.
The following table shows the main initiatives taken to involve stakeholders in company processes, classified according to the AccountAbility recommendations (see § Reporting and Planning).

INITIATIVES

STAKEHOLDERS		INFORMATION	CONSULTATION	DIALOGUE	PARTNERSHIP
	CUSTOMERS	Notification to the customers of offers and conditions through various methods (Communication with customers at www.telecomitalia.com)	Customer satisfaction is surveyed systematically (Customers/Customer Satisfaction)	Collaboration with the consumer associations (Customers/Relations with consumer associations)	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)
		Information on the rules for the safe use of the Internet and for combating abuses through the Internet (Customers/Child protection)		Use of social networking web tools to communicate with call centre operators (Customers/Customer satisfaction)	Partnership projects with other companies to the test and create innovative assistance services (Customers/Digital Divide – Customers/Innovative services)
				Employee awareness-building activities continued on aspects of the Customer Promise in order to ensure its implementation within the Company.	
	SUPPLIERS		Fourth survey of satisfaction with the Purchasing Management, and more generally with TI, conducted with 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)	Launch of the CSR auditing activities required by the Memorandum of Understanding signed together with France Telecom and Deutsche Telekom on the Asian factories of common suppliers and sub suppliers
			Updating of the suppliers' check list for the CSR assessment (Suppliers/Involvement initiatives)		

STAKEHOLDERS		INITIATIVES			
		INFORMATION	**CONSULTATION**	**DIALOGUE**	**PARTNERSHIP**
	COMPETITORS		Periodic qualitative-quantitative research activities to analyse the strength of the Telecom Italia and TIM brands, the image of the providers of TLC and mobile telephony services, the reputation of the providers (Competitors/Competitive positioning)	Dialogue with the OLOs on commercial issues and the implementation of the Commitments (Competitors/Services to the OLOs and Competitors/Commitments regarding the access network)	
				Constant dialogue with the Authorities (Competitors/AGCOM and Competitors/AGCM)	
				The Group is a member of numerous federations, associations and organisations, both nationally and internationally (Competitors/Relations with stakeholders)	
	INSTITUTIONS	The fifth "Digital Divide Day" was organised, during which the Governors of some Italian regions were presented with an updated edition of the Broadband Directory (Customers/Digital Divide)	Co-leadership of the "Sustainability and assessment of non-financial performance" Laboratory launched in the context of the Alliance with the European Commission of March 2006 (Introduction/Other acknowledgements)	Management of the abuse management process by an internal representative liaising with the relevant Authorities (Customers/Child protection)	Participation in the Global Compact working group on human rights and support for the Italian Network (Institutions/Relations with stakeholders)
			Public consultation regarding the removal of telephone boxes in agreement with AGCOM (Institutions/Local national institutions)	Dialogue with national and international Institutions on business issues of relevance to the Group (Institutions/Relations with stakeholders)	Initiatives in respect of the community carried out in partnership with institutions (The Community/Responses to stakeholders)
					Completion of memorandums of understanding with national and local authorities on the creation of broadband facilities and "Smart Services" (Institutions/Local national institutions)

		TOOLS		
	INFORMATION	**CONSULTATION**	**DIALOGUE**	**PARTNERSHIP**
ENVIRONMENT	"Carbon Meter" available on AVoiComunicare (The Environment/Communicating sustainability)	Agreement with the Association of Italian Municipalities (ANCI) to carry out excavations with a lesser environmental impact (mini-trenches). (The Environment/Waste)	Collaboration with other European TLC operators on issues of environmental relevance within the framework of industry associations, including GeSI and ETNO (The Environment/Climate change)	Co-siting agreements with the other Italian TLC operators (The Environment/Energy)
	External and internal communication activities carried out regarding sustainability (The Environment/Climate change and Human Resources/Internal communication)		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)	
			Collaboration with institutions, universities and other companies in the context of the e-cube project (The Environment/Climate change)	
THE COMMUNITY	Correct information to stakeholders provided via the traditional media and the Group's website (The Community/Traditional media)	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 children, teenagers, parents and teaches in 20 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)
		Consultation of stakeholders to measure their level of satisfaction and the extent to which the Sustainability Report fulfilled their expectations (Introduction/Stakeholder Involvement)	The AVoiComunicare integrated communication project stimulates discussion on social issues (The Community/Social media and digital communication at www.telecomitalia.com, sustainability section)	Working Capital supports entrepreneurial and research projects in the Web 2.0 sector (The Community/Social media and digital communication at www.telecomitalia.com, sustainability section
			Venice Sessions is a platform for dialogue which involves stakeholders of innovation on the national and global scale (The Community/Social media and digital communication at www.telecomitalia.com, sustainability section	

STAKEHOLDERS

	TOOLS			
	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/Internal Communication)	Negotiations with the social partners (Government and Trade Unions) on managing surplus personnel were completed positively (Human Resources/ Industrial Relations)
	Courses on health and safety matters (Human resources/Protection of health and safety)	Initiatives carried out by the People Caring centre to fulfil the requirements of employees (Human Resources/ People Caring)	Activation of a number of focus groups on the issues of disability and human diversity (Human Resources/ People Caring)	Selection and training programmes carried out with research centres, universities, associations and foundations (Human Resources/ Selection)
		Seventh corporate climate survey carried out (Human Resources/ Listening projects and activities)		Launch of the Industrial Relations School, a network of professionals from the world of business, institutions and trade unions (Human Resources/ Training)
				Volunteering initiatives with the involvement of employees and external partners (Human Resources/ People Caring)
				Launch of the "I care about myself" project 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)
SHAREHOLDERS	The shareholders' club, "TI Alw@ys ON" (www. telecomitaliaclub.it) supplies 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)	
	Financial communication on line (Shareholders/Financial communication)			

Row label (left, vertical): **STAKEHOLDERS**

10. ECONOMIC VALUE GENERATED AND DISTRIBUTED

The main economic, equity and financial data of the Telecom Italia Group as of 12.31.2010 are shown below, comparing them to the data for the previous year.

TELECOM ITALIA GROUP – MAIN CONSOLIDATED ECONOMIC, ASSETS AND FINANCIAL DATA

	2010	2009
(million euros)		
REVENUES	27,571	26,894
EBITDA	11,412	11,115
EBIT	5,813	5,493
NET PROFIT FOR THE YEAR	3,572	1,596
TOTAL NET EQUITY	32,610	27,120
- ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT	28,819	25,952
- ATTRIBUTABLE TO THE MINORITY INTEREST	3,791	1,168
NET FINANCIAL ACCOUNTING DEBT	32,087	34,747
INDUSTRIAL INVESTMENTS	4,583	4,543
HEADCOUNT AT YEAR-END	84,200	71,384

The economic value generated and distributed to stakeholders is shown below[3]. Since 2008, the method of presentation recommended by the Global Reporting Initiative (GRI) has been adopted, with appropriate adaptation.

3
The economic value distributed to the Community stakeholder is not shown in the table. See the respective chapter.

TELECOM ITALIA GROUP – ADDED VALUE GENERATED AND DISTRIBUTED

	2010	2009
(million euros)		
DIRECT ECONOMIC VALUE GENERATED		
A) TOTAL REVENUE AND OPERATING INCOME	27,826	27,174
B) INTEREST PAYABLE AND DIVIDENDS PAID	117	104
C) CAPITAL GRAINS (CAPITAL LOSSES) FROM DISPOSALS ON NON-CURRENT ACTIVITIES	11	(59)
D) DIRECT ECONOMIC VALUE GENERATED (A+B+C)	**27,954**	**27,219**
ECONOMIC VALUE DISTRIBUTED		
E) OPERATING COSTS	12,204	11,929
F) EMPLOYEE COSTS	4,021	3,734
G) SHAREHOLDERS AND PROVIDERS OF CAPITAL	3,207	3,183
C) TAXES AND DUTIES	1,446	1,277
I) ECONOMIC VALUE DISTRIBUTED (E+F+G+H)	**20,878**	**20,123**
ECONOMIC VALUE RETAINED (D-I)	**7,076**	**7,096**

(million euros)	2010	2009
WAGES AND SALARIES	2,615	2,570
SOCIAL SECURITY COSTS	931	942
PROVISIONS FOR EMPLOYEES' SEVERANCE AND RETIREMENT	52	54
OTHER EXPENSES	423	168
EMPLOYEE COSTS	**4,021**	**3,734**

(million euros)	2010	2009
ACQUISITION OF EXTERNAL GOODS AND SERVICES	11,383	11,480
OTHER OPERATING COSTS(*)	1,233	949
CHANGE IN INVENTORIES	135	15
INTERNALLY GENERATED ASSETS	(547)	(515)
OPERATING COSTS	**12,204**	**11,929**

* Mainly includes write-downs and charges connected to the management of non-financial credits for 478 million euros (565 million euros in 2009), accruals for risks equal to 75 million euros (164 million euros in 2009), and contributions and fees for the tlc activities for 484 million euros (318 million euros in 2009) net of "Indirect taxes and duties" of 188 million euros (125 million euros in 2009) included in the item "Taxes and duties".

(million euros)	2010	2009
DIVIDENDS DISTRIBUTED	1,064	1,053
INTEREST PAYABLE	2,143	2,130
SHAREHOLDERS AND PROVIDERS OF CAPITAL	**3,207**	**3,183**

(million euros)	2010	2009
INCOME TAXES	1,258	1,152
INDIRECT TAXES AND DUTIES	188	125
TAXES AND DUTIES	**1,446**	**1,277**
REGARDING ITALIAN ACTIVITIES	1,229	1,232
REGARDING ACTIVITIES ABROAD	217	45

External stakeholders

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, modelling 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 this context, collaboration with Consumer Associations, through the stipulation of agreements in specific areas, is highly prized.

RELEVANT STAKEHOLDERS

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

Offering
innovative
services
improving people's quality of life

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1. CUSTOMERS

1.1 FOCUS ON CUSTOMERS

The focus on customers and achieving high levels of customer satisfaction is a priority for Telecom Italia. The formal commitments to quality, summarized in the Customer Promise, are the subject of a multifaceted internal diffusion plan.

The Customer Promise, developed by listening to the views of important stakeholders (customers, employees, Institutions), is broken down into:
· an all-round provision of high quality and reliability;
· services which improve customers' quality of life 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 not remote but accessible, grounded in human relations, and easy to deal with in resolving any problems connected to the service;
· people who listen to and understand the needs of the customers with whom they build a partnership relationship.

To increase the level of awareness of the Customer Promise and implement its application within the company, the internal diffusion programme "Expressing Quality" was continued and, through raising staff awareness in the classroom, reached 619 managers and around 3,000 people including managers of territorial areas/units and groups who are in contact with customers, for a total of 155

IMPROVEMENT IN THE QUALITY OF SERVICES FOR CUSTOMERS HAS BEEN PURSUED THROUGH A MULTIFACETED PROJECT INVOLVING MANAGERS

days dedicated to the theme, between 2009 and 2010.

The values underlying the customer promise inspired a review of the staff performance assessment system (in 2010, 99.85% of personnel involved were assessed by managers using the new model) and the implementation of manger development initiatives.

Quality was also taken into consideration in the manager and personnel incentives scheme (see § Customer Satisfaction).

Top Management's supervision of themes concerning quality connected to listening to the views of customers is achieved through the Steering Committee Quality Governance (SCQG) which meets monthly and is chaired by the CEO, with the aim of:

- directing and supervising initiatives and activities designed to improve the quality of the processes "end-to-end";
- monitoring the results in terms of the quality achieved and also analysing them in relation to quality requirements demanded by the Guarantor Authority, the most important/recurring complaints by customers and, more generally, the feedback coming from all the stakeholders;
- supervising the process of quality certification and 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.

1.2 CUSTOMER SATISFACTION

Telecom Italia listens to its customers through a system that encompasses both an overall assessment of all contacts with Telecom Italia over time, and a specific evaluation of the most recent contacts (for example, the activation of an ADSL line, a request for information or the reporting of poor service). The contributions received are used to improve the organisational procedures with the aim of supplying a service that is ever more responsive to customers' needs.

The company carries out two kinds of Customer Satisfaction surveys:

- The "reflective" survey is based on the customers' overall perceptions and is not connected to a specific event. This method permits the analysis of the cause and effect relationships that determine the customer's level of satisfaction. The CSI (Customer Satisfaction Index) is calculated on the basis of telephone surveys conducted by specialised agencies through a structured questionnaire. This survey, similar to the one used for the ACSI (American Customer Satisfaction Index), furnishes important suggestions about the levers that can be employed to improve the levels of customer satisfaction. The "reflective" survey covers all customer segments namely consumer, business and top client;
- the "reactive" survey is conducted immediately after the specific event under inquiry (for example, contact with the Call Centre). Those interviewed are asked, with the experience of the call still fresh in their minds, to provide an overall assessment of the service received (overall satisfaction) and an assessment of the individual aspects of the experience (for example, the time waiting to speak to an operator, courtesy and the ability to understand and satisfy the requests).

The data below refer to the last three months of the year and show the overall CSI of Telecom Italia S.p.A. (the last six months for Top Clients).

Customer segment	2010	2009
CONSUMER	70.92	69.86
BUSINESS	64.43	63.42
TOP CLIENTS (TC AND PS)*	69.97	70.30
TOTALS	**69.39**	**68.60**

* The CSI survey for the TOP segment in 2010 has been organized with reference to new TOP Clients (TC) and Public Sector (PS) segments.

The information presented in this table refers to the average annual value revealed by the "reflective" survey on other indicators for Telecom Italia S.p.A.

FIXED TELEPHONY	Customer segment	Satisfaction with access service(*)		Satisfaction with billing(*)	
		2010	2009	2010	2009
	CONSUMER	8.19	8.18	7.30	7.27
	BUSINESS	7.86	7.80	6.83	6.73

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

MOBILE TELEPHONY	Customer segment	Satisfaction with network coverage(*)		Satisfaction with billing(*)	
		2010	2009	2010	2009
	CONSUMER	8.41	8.36	8.03	7.79
	BUSINESS	8.14	8.15	6.85	6.83

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

The information in the following table refers to the annual average value of customer satisfaction concerning customer care, revealed by the "reactive" survey for Telecom Italia S.p.A.

TYPE OF CUSTOMER		CUSTOMER CARE		Overall satisfaction(*)		Courtesy and kindness(*)		Ability to understand and satisfy needs and requests(*)	
				2010	2009	2010	2009	2010	2009
CONSUMER	187	Fixed telephony[1]		7.39	7.19	8.73	8.47	8.31	8.01
	119	Mobile telephony[2]		8.33	7.81	9.19	8.81	8.90	8.46
BUSINESS	191	Fixed[3]		6.72	6.39	8.39	8.14	7.83	7.47
		Mobile[3]		6.47	6.67	8.30	8.27	7.60	7.49

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

1 Assistance provided by the 187 Service for information, commercial and administrative requests, reminders and complaints (excluding calls regarding faults, under specific inquiry).

2 Assistance provided by the 119 Service for information, changes and complaints.

3 Since April 2010, caring for fixed and mobile Business customers has been integrated. With the new platform, Business customers receive assistance through the 191 service for needs relating to both fixed telephony (information, commercial and administrative requests, reminders and complaints - excluding calls regarding faults), and mobile telephony (information, changes and complaints).

Customer Care certification with 187 and 119 services

On January 31, 2011 Telecom Italia achieved the UNI EN15838:2010 certification (following the UNI 11200:2010 criteria) of the 187 and 119 call centres respectively dedicated to fixed and mobile telephony; Telecom Italia thereby became the first telephone operator in Italy and one of the first in Europe to have certified Customer Care services. The checks were made by ICIM, the Italian Certification Body.

The outcome was achieved through a series of improvement actions based on efficient processes, innovative technological solutions and the expertise of the resources involved. In fact, the ICIM analysis was based as much on statistical and documentary data as actual observation of the activities, including listening to many of the telephone calls handled by Telecom Italia's call centre operators. The parameters taken into consideration included response time, roles and responsibilities, work conditions and the actual satisfaction of the personnel in charge, monitoring the end clients' level of satisfaction and the operating tools used.

Customer satisfaction within the managerial bonus scheme

Telecom Italia's short-term management bonus scheme also provides targets, applicable to all resources within the scheme, linked to customer satisfaction, in line with the Industrial Plan for the period. The targets are measured by indicators calculated through periodic "reflective" surveys: the overall CSI for the Company and specific customer satisfaction indexes per customer segment.

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

Customer satisfaction within collective bonus schemes

Telecom Italia's collective bonus schemes also envisage a target linked to customer satisfaction. In particular, the performance-related pay award, for employees not affected by an individual bonus scheme, incorporates both a total customer satisfaction target across the whole company, and specific targets for those parts of the organisational structure responsible for different customer categories.

The involvement of the call centre operators

To increase the value of and support the personnel who work in customer care, the Group uses some web platforms based on social networking, which facilitate the dissemination and sharing of information among personnel, thereby bringing the customer's voice within the Company. For information on these tools (Campus and TUO) and other initiatives for dialogue with customers with special needs concerning ethnic diversity or disability, go to www.telecomitalia.com website, in the Sustainability section.

1.3 CERTIFICATIONS

Those aspects of the company that have a significant impact on the community, through products and services offered, are subject to certification, in order to ensure the adoption of procedures and conduct in line with the expectations of the relevant stakeholders.

Specifically:

- customer care and the quality of the products and services offered is certified in conformity with the UNI EN ISO 9001:2008 standard;
- concern for environmental protection with the UNI EN ISO 14001:2004 standard;
- health and safety at work with the BS OHSAS 18001:2007 standard;
- data security with the ISO 27001:2005 standard ;
- Information Technology services with the ISO/IEC 20000-1:2005 standard;
- software production and digital solution processes are certified under CMMI-DEV (Capability Maturity Model Integration - Development), a new generation standard.
- management and provision of services processes are certified under CMMI-SVC (Capability Maturity Model Integration for Services).

The certificates obtained by the various departments/companies of the Group for particularly important company procedures and activities are listed In the following table.
Detailed information is available at www.telecomitalia.com, in the Sustainability section.

Company	Regulation	Structure
Telecom Italia S.p.A.	ISO 9001	**Departments:** Domestic Market Operations · Business · Top Clients · Public Sector · Customer Operations (regarding the processes for top customers, business and enterprises) · Consumer/Sales (Territorial Areas) Technology & Operations Technology & Operations/Open Access Purchasing Operational units involved in the mobile invoicing process for business customers **Subsidiary companies:** TI Sparkle, Path.Net, Loquendo, Telsy, Shared Service Center, Telecontact Center, IT Telecom.
	ISO 14001	**Departments:** Technology & Operations Technology & Operations/Open Access Purchasing · Infrastructure procurement · Assistance services · Services for management offices **Subsidiary companies:** TI Sparkle
	ISO/IEC 27001	**Departments:** Technology & Operations – Information Technology/IT Governance Domestic Market Operations – Top Client/Service Engineering – IT Service Management **Subsidiary companies:** Path.Net
	OHSAS 18001	**Subsidiary companies:** TI Sparkle
	CMMI-SVC	**Department:** Domestic Market Operations – Quality & Program Management/Quality Improvement Projects
	CMMI-DEV	**Subsidiary companies:** Shared Service Center
	ISO/IEC 20000-1	**Subsidiary companies:** Shared Service Center

OLIVETTI S.p.A.	ISO 9001	**Processes**: Planning, industrialization, production, marketing and technical assistance of: terminals for games and lotteries, specialized peripherals for bank and post office applications, points of sale including fiscal cash registers and other vertical and industrial applications, ticketing and parking. ICT products, ink-jet technology products, heads for ink-jet printing technology, integrated components and semiconductors. Hire of office products. Implementation of compliance checks and periodic check of the fiscal registers produced.
	ISO 14001	Production of impact heads, design and production of heads for ink-jet printing technology c/o the plant in Arnad (Aosta).
TIM BRASIL GROUP	ISO 9001	**Company**: Tim Celular (management of the network in the states of Rio, Sao Paolo, Minas Gerais, Bahia, Sergipe, Espirito Santo). **Companies**: TIM Celular and TIM Nordeste (management of GSM contracts invoicing).
	ISO 14001	**Company**: Tim Celular (management of monitoring and information on the implementation and quality of the networks in the states of Rio and Sao Paolo).

Achievement of the SA 8000 certification is planned for 2011 which concerns the Open Access/Technology & Operations department of Telecom Italia S.p.A.

1.4 DIGITAL DIVIDE

The spread of information and communication technology creates considerable development opportunities for the public. Telecom Italia is aware of its role as a key player in the broadband ecosystem, and promotes the necessary actions 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 2006, Telecom Italia launched an important Anti Digital Divide Plan, aimed at covering the largest possible number of towns that generate low revenues and/or are not as yet equipped with optical infrastructure.

The plan provides for the best combination of innovative, technological solutions and methods of raising the necessary investments. By the end of 2010, 97% of the total of Telecom Italia's fixed lines was covered by ADSL and 61.8% were covered by IPTV.

As regards the accessibility of Broadband on mobiles, the percentage of residents covered by Telecom Italia through UMTS (Universal Mobile Telecommunication System) was 83.95% by the end of 2010. The same percentage was able to access another important radio mobile technology, HSDPA (High Speed Downlink Packet Access), which allows speeds of 14.4 Mbp/s (megabits per second) to be reached.

Regarding the methods of making local investments and cooperation with the regional authorities go to the Sustainability section of www.telecomitalia.com website.

2010 saw the continuing development and implementation of the company's data processing instrument for operational and decision-making support called the "Digital Divide Project" (DDP), which contains the complete mapping coverage for ADSL, ADSL2+, 20M/IPTV, and UMTS in Italy, taking into consideration the industrial districts, territorial initiatives and complaints. DDP is used not only for the daily handling of requests and complaints about

broadband but also to direct technical network interventions in districts exposed to the Digital Divide. In December the 5th "Digital Divide Day" was staged, an internal workshop attended by Telecom Italia's Chairman and CEO, as well as the governors of some Italian regional authorities. On this occasion a new edition of the Broadband Yearbook was presented; its aim is to inform stakeholders of the Group's position on the subject and provide information on the status of broadband in Italy.

Sociocultural Digital Divide

In a world in which technology enables contact between people, Telecom Italia is helping to break down the sociocultural barriers that restrict the possibility of participating in the information society, allowing people to enjoy its benefits through the dissemination of broadband and associated services.

Telecom Italia offers certain provisions and economic assistance, aimed at promoting the use of TLC services and the Internet, to specific social categories and certain assistance services aimed at customers with specific needs (the elderly, the sick etc.) or to health organisations. For further information on initiatives promoting Digital Inclusion, see § The Community.

Big Angel

Designed for elderly or disabled people, it consists of a telephone with a large keypad and highly visible display, compatible with acoustic equipment, and an additional cordless handset, specifically for requesting help. The latter (small-sized) can be carried on a belt or around the neck with a cord; it has just two keys, the larger of which is used for making emergency calls while the other can be customized to remember a number of the user's choice.

Moreover, the cordless is furnished with specific safety functions such as sending, automatic activation of hands-free operation in the event of calls and sending a signal to the central exchange when the batteries are about to run out.

MyDoctor@Home

The innovative home telemonitoring service, MyDoctor@Home, has been active in Piedmont since December 2010; it allows patients affected by certain chronic diseases to be monitored directly at home, thanks to Telecom Italia technologies. Its use enables the quality of a patient's life to improve significantly and the healthcare system can achieve savings of up to 80 per cent on costs connected to hospitalization. By reducing the journeys made to visit the doctor, this service contributes to a reduction of carbon dioxide emissions generated by the use of transport. For further information on the service go to the Sustainability section of the Group website www.telecomitalia.com.

1.5 INNOVATIVE SERVICES

Telecom Italia develops, in collaboration with research institutes and universities in Italy and abroad, numerous innovative services, some of which are undergoing trials. These services deliver an important contribution to the containment of CO_2 by reducing the need to travel across the country and by helping to promote different, more sustainable lifestyles.

Smart Services

They represent a category of services intended to provide a comprehensive response to the needs of communities, in particular to those related to urban areas, with a view to improving the quality of life in general. The goal is to promote the "smart cities" model through the development of innovative digital services that can improve key areas for municipalities, such as efficiency, environmental monitoring, security, public communication and tourism promotion.

The services included in the 2010 offer were:
- **Smart Town**: an integrated and scalable platform that allows local infrastructural networks to be managed for the creation of digital cities, with benefits to the environment and population. It uses already existing public lighting equipment thereby creating a relatively low impact. Today, the platform enables the provision of the following value added services:
  › energy efficiency (allows the planning of consumption and maintenance);
  › intelligent video surveillance (allows local monitoring for security reasons);
  › digital communication (improves interaction with citizens and users in general, such as tourists);
  › wi-fi hotspots (enable broadband access).
  A particularly interesting application concerns public lighting: road lighting, monitoring and reporting of faults, switching on and off operations and the reduction of luminous flux by means of devices installed on lampposts can all be controlled remotely.

- **Smart Building**: is an integrated platform for the intelligent management of buildings and building automation. With minimum impact, it permits provision of the following services:
  › monitoring and reduction of consumption (electricity, water...), with the possible allocation of costs to different centres;
  › video surveillance;
  › digital communication;
  › extension of the building's LAN by using the electricity network, as occurs for public lighting with the SMART TOWN solution. Each light socket can become a LAN socket with the addition of simple device connected to an electric outlet.

E-learning and advanced education

The demand for advanced educational services has undergone a profound transformation in the course of recent years. From the simple electronic use of content, the focus has moved to the dissemination and sharing of knowledge through more engaging methods.

In 2010 a series of educational initiatives were launched aimed at satisfying the demand for developed services based precisely on the collaboration, communication and active involvement of end users.

- a protocol of understanding with MIUR (Ministry of Education, Universities and Research) for the implementation of actions to support the digital school plan. The protocol provides for a collaboration between MIUR and Telecom Italian on two main fronts: the launch of new activities in the context of Safe Navigation, the awareness project for a careful and aware use of the web (see § The Community/Responses to Stakeholders), and the start, during the school year, of tests with primary and secondary schools geared towards the use of electronic texts which, thanks to an interactive platform provided by Telecom Italia, may be adapted to the specific teaching needs of students and teachers;
- advanced teaching tests at the Valgimigli middle school, in the province of Padua, based on the use of digital content and the use of personal devices for students.
- innovative digital teaching tests for the secondary school with the Suor Orsola Benincasa University in Naples, involving two high school classes of the school with the same name. The participation of students and teachers is planned in the creation of multimedia educational content, the introduction of Web 2.0 tools and the use of new generation IT devices.

The Campania Region continued to use Telecom Italia's e-learning platform, which includes a digital services portal for the Region's teachers in order to enable the exchange of knowledge and the use of training activities.

Infomobility

For years Telecom Italia has been actively engaged with all the other players of the ITS (Information Technology Services) market value chain and Infomobility with the target of gradually introducing the paradigm of the vehicle always connected to the outside world (e.g. service centres, roadside infrastructures, occupants, other vehicles, etc.).

Telecom Italia has formed a consortium with Magneti Marelli to accelerate the spread of innovative telematic services that help to:

- improve efficiency in the use of the "transport system" with a positive outcome in terms of environmental impact (eco-driving, intelligent parking, etc.);
- reduce travel times (traffic data collection and management, dynamic navigation):
- increase security (dangerous goods management, etc.);
- increase efficiency in transporting people and goods (city logistics, fleet management, etc.);
- reduce costs linked to the management of urban and suburban mobility (access control and management, etc.);

Thanks to its commitment in the sector, Telecom Italia actively contributes to the creation of efficient, more secure and eco-sustainable transport.

Mobile Ticketing/Fidelity/Payment

Telecom Italia has developed a series of Mobile Ticketing and Mobile Fidelity solutions which allow the user, through mobile phone SIM cards, to validate tickets and subscrip-

tions for public transport and collect loyalty points for the purchase of goods.

In this field, they are undergoing trials with public transport companies in Trento (Trentino Trasporti) and Milan (ATM), and with the Miroglio Group (through the Vestebene brand), in collaboration with Olivetti. In addition, in 2010 Telecom Italia launched remote mobile payment systems for procuring a wide range of goods and services, through a special application on the mobile phone SIM card, in partnership with the Movincom consortium and the financial institutions that have signed up to the initiative.

Green@Home

The system permits domestic appliances to be interconnected via radio, making use of "intelligent" domestic appliances or traditional domestic appliances connected to the electricity network by "intelligent" sockets capable of enabling the following services:
- the real time detection of electricity consumption: awareness of consumption encourages behaviour geared towards energy saving;
- standby management, automatically disconnecting appliances that are not in use from the electricity network and contributing to families' energy saving;
- the control and management of domestic appliances and various devices when they reach peak energy consumption, avoiding overloading the domestic network with the consequent risk of a power cut or the need to switch to higher power supplies;
- monitoring consumption from personal Wi-Fi terminals: the energy costs of using various products can be displayed and the system advises when is the best time to use them, optimizing both the costs and respect for the environment.

TI-Green

An energy management service (www.tigreen.it) based on ICT solutions that allows the optimisation of energy consumption through systems that monitor equipment remotely, using evolved sensors and applications made available by Telecom Italia Data Centres. The service permits:
- the analysis of energy costs and the relative requirements;
- the management and optimisation of electricity consumption;
- control and reduction of the relative costs;
- business intelligence information on the collected and available data.

These solutions allow consumption and energy costs to be reduced through the following activities: prompt, integral monitoring of energy consumption; the display of data regarding various peripheral offices; the implementation of automation to reduce consumption; verification of the consistency between the energy bills and the consumption registered; support in the choice of the Energy Provider.

1.6 RESEARCH AND INNOVATION IN E-SECURITY

Research and innovation activities in the information security sector are mainly focused on:
- the definition and development of new technological solutions for the protection of critical infrastructures with particular attention to the protection of DNS (Domain Name System) services which underlie the correct functioning of the Internet;
- the study and creation of application prototypes for the integrated management of governance, risk and compliance aspects, through the use of innovative environments ca-

pable of allowing the rapid development and diffusion of new tools;
- the definition of new information processing mechanisms, based on the paradigm of the continuous generation of new pseudonyms, capable of ensuring higher levels of privacy;
- the standardization of the security aspects of new generation transmission networks with the engagement, inter alia, of the WG7 Security guide as regards ETSI/TISPAN.

The identification of areas on which to focus operations also took into consideration the requirements expressed by various stakeholders and the need to supervise the development trends of technologies and services, also assessing the relative implications for safety and privacy.

Over the last eight years 45 patent applications have been filed in relation to ICT security, with a heavy increase over the course of 2010 in activities involving the transfer of laboratory results to the operative sectors.

1.7 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 (for example, content that is violent, racist, offensive to religious sentiment, pornography etc.).

In light of this, guidelines have been issued for the classification and checking of content distributed by the Group that cover not only content offered directly but also content owned by third parties offering their own services on space acquired within Telecom Italia's portals.

Filtering systems and procedures have been defined for the Group's provision of adult content on the Internet, aimed at preventing children from accessing any such content.

THE PROTECTION OF CHILDREN FROM THE DANGERS OF INTERNET BROWSING AND THE MAXIMIZATION OF THE POSITIVE ASPECTS OF THE WEB IN TERMS OF EDUCATION AND ENTERTAINMENT ARE ONE OF THE GROUP'S PRIORITIES

Regarding premium voice services, Telecom Italia requires a PIN to access any services with obscene content, which, in any case, are not part of the services offered by the Group.

The Group's television services do not transmit content that requires filtering systems. The transmission methods comply with current regulations and the law as well as the TV and Child Self-Regulation Code signed by Telecom Italia Media, which also belongs to the Committee responsible for supervising the code. The general rules of conduct, application criteria and methods of control that become mandatory for all broadcasters in the Group once they have signed the Code, regardless of the type of platform used (analogue, satellite, digital terrestrial, IPTV), can be found on www.la7.it.

The Italian legislative framework imposes precise obligations on matters of controlling abuse, the child protection, and the prevention and suppression of digital crime. With the passing of Law 48/2008, the latter have been brought within the range of the regulations laid down by Legislative Decree 231/2001 which attributes greater responsibility to the company in the prevention of these crimes.

From an organisational point of view, Telecom Italia has identified, within the company structure Security – Risk Prevention department – Protection of Information, the role of the "Key contact for the Postal Police." This professional figure manages relations, and the flow of information with the competent Authorities (CNCPO – National Centre for the Fight against Child Pornography online, CNAIPIC – National Centre against Digital Crime for the Protection of Critical Infrastructure, etc.) and has the task of coordinating the relative ac-

tivities within the Group, in accordance with the relevant legislative framework.

Moreover, Telecom Italia has adopted an organisation model, in accordance with Legislative Decree 231/2001, in which instruments have been defined to safeguard against, and anticipate, the commission of crimes and in particular the dissemination of child pornography, as well as the organisational/disciplinary management of illegal digital information. Telecom Italia's commitment alongside the institutions, international bodies and associations committed to the topic, is essentially evidenced in the following initiatives:

· management of the abuse desks: operational groups who handle abuse differentiated by type of service (residential and business), formed in accordance with the national and community regulations on child protection, the prevention of digital criminality and the fight against sexual exploitation (juvenile pornography). Their task is to receive alerts from outside users/customers on alleged digital crimes or the presence of child pornography material on the Group's networks, and then direct them to the key contact of the Postal Police so as to involve the competent authorities;

· the "abuse" topic area on the company Intranet, which informs and makes company staff aware of the activities conducted and the tools in existence for preventing digital crimes and protecting children who use the internet services provided;

· the "Child protection" topic area on the telecomitalia.com portals, aimed at informing and making end users, and all the other stakeholders, aware of the correct behaviour to adopt during navigation on the network, as well as the values and objectives that Telecom Italia pursues to combat digital abuse and protect children.

· the notification form for customers/Internet users. This form, available on the Group's institutional and commercial portals, can be used by Telecom Italia's end customers, or by outside users, to give notification of any crimes involving child pornography, as well as concerning presumed abuse and/or digital crimes, that are encountered during navigation on the Internet. There is a guide to compilation, and notification can also be made anonymously;

· the booklet "Born with the network" distributed through company shops, dedicated to the adult-parent public for the purposes of:
  › illustrating the fundamental rules for the safe use of the Internet;
  › alerting people to the dangers that can be hidden on the network;
  › providing the tools to inform children of the rules of conduct and guide them in the selection of content to consult;

· web filtering: in line with the Implementing Decree of Law 28/2006 (Gentiloni Decree) which defines the technical prerequisites of filtering tools that providers of Internet network connections must use to prevent access to sites identified by the Postal Police through the CNCPO, Telecom Italia has also introduced a filtering system on external websites with child pornography content;

· Alice Total Security – Magic Desktop to allow children to explore the web safely, protects Internet navigation from any digital attacks or threats, thanks to anti-virus programmes and a centralised firewall. Magic Desktop is an operating system software that works in parallel with the standard one. Children learn to use the computer in a simple and fun way and parents can select the sites children have access to and set up email management so that they can only exchange emails with people known to them;

· the drawing up of "Guidelines for combating child pornography online" which facilitate the objective and uniform identification of cases of child pornography to be notified to the Postal Police. The aim is to minimise any interpretation uncertainty in the minds of the subjects concerned (chat moderators and/or community services, developers, abuse desk operators etc.) and to ensure compliance with the current regulations. The guidelines are also modelled on those indicated by the CNCPO and the major external organisations active in the field (Save The Children, Telefono Azzurro etc.);

- participation in the work group "ITU Child Online Protection: Guidelines for industry," co-ordinated by ITU (International Telecommunication Union). Telecom Italia has contributed to the drafting of Guidelines on "Child Online Protection – COP" aimed at companies in the broadcasting, Internet and mobile telephony sector . At present, in the ambit of the ITU, Telecom Italia holds the role of Vice Chairman of the Council Working Group on Child Online Protection (WG-CP);
- participation in the Work Group "GSMA - Mobile Alliance against Child Sexual Abuse Content," within the GSM Association, for all technological and communication initiatives aimed at the protection of children in the mobile phones sector, including a website dedicated to children and young people to educate them on the safe use of the Internet;
- participation in the European project Safer Internet, Work Programme 2010-2013: promoted by Save the Children and Adiconsum to protect children online in the European social context, which sees the increasingly widespread use of social networks, and to provide the tools to safely use web services that enable socialising on the network, blogs and instant messaging;
- co-operation with Telefono Azzurro: Telecom Italia provided its own infrastructures and services for the Toll Free Number "114" Infancy Emergency (since 2003) and the European Toll Free Number "116000" for missing children (since May, 2009).
- the "Safe Browsing" project to raise children, young people and adults (parents and teachers) awareness on responsible use of the Internet (§ The Community/Responses to stakeholders).

THE CONCILIATION PROCEDURES

The conciliation procedures 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 Parity Conciliations in Italy.
The model, experimentally introduced in 1991 by the then SIP, came into operation across the entire country in 1993 and in 1995 it was essentially recognized by the European Union as a "Pilot Project for the access of consumers to justice". Over the years the model was updated in line with the new regulations/requirements, digitalized and made more available, and has achieved excellent results (www.telecomitalia.com, sustainability section).

Today, twenty Consumer Associations have signed the Joint Conciliation Agreement.

THE CREATION OF A ONE STOP SHOP AIMED TO SOLVE DISPUTES HAS PROVED TO BE AN EFFECTIVE TOOL FOR IMPROVING DIALOGUE AND CUSTOMER RELATIONS

In 2010 the implementation of training initiatives for the professional figures of "conciliators" continued, with the involvement of staff from the Italian Communications Authority (AGCOM) and Co.Re.Com and the Consumer Associations, as well as Telecom Italia. Debates, conferences and seminars were promoted for the dissemination of the conciliatory culture, in which members of the company management also participated.

In 2009 Telecom Italia, in compliance with the voluntary commitments undertaken and approved by AGCOM in December 2008, started managing conciliatory applications submitted by customers, also to the offices of Co.Re.Com and the Chambers of Commerce, from the perspective of a one stop shop, replicating the organizational model successfully

applied for Joint Conciliation with the Consumer Associations. This way customers who do not wish to address the Consumer Associations have an alternative method of resolving the dispute through a streamlined and out-of-court procedure.

Conciliation management at the offices of Co.Re.Com and the Chambers of Commerce is based on the approach of paying attention to customers' needs, just like the parity conciliation, and allows the dialogue and relationship to be improved independently from the procedure chosen.

The creation of a one stop shop has enabled the assigned qualitative targets and the numerical results to be achieved: compared to the previous year, in 2010 there was an increase of 23.7% on the number of conciliation applications received by CO.RE.COM and the Chambers of Commerce Industry Agriculture and Craftsmanship (from 17,522 to 21,681).

Of these applications, 88.1% were discussed in that same year and 11.9% were cancelled (no applications received are still awaiting discussion.)

The percentage of conciliation applications discussed at CO.RE.COM and the Chambers of Commerce Industry Agriculture and Craftsmanship settled in the period (compared to the total applications discussed in the same period) was equal to 85.9% (14% were not settled).

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.

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 and was totally revised and updated in 2009.

It establishes the provisions and operating instructions needed to fulfil the relevant formalities.

For the purpose of dissemination and the correct application of this regulation, in 2010 intense training activity was carried out which saw the participation of 1,300 managers and key contacts for central and regional departments.

Moreover, in 2010 the Group policies governing the technical requirements on traffic data processing and the management of authorizations to access IT personal data processing systems were reviewed and updated.

Regarding the treatment of customers' personal data, in 2010 the instructions of the Privacy Guarantor for personal data protection were adopted (Provision of 25/06/2009) in relation to client "profiling" activities, through the application of the prescribed requirements for data processing at joint level and management of the specific consensus of clients for detailed profiling.

Furthermore, Telecom Italia actively participated in forums with other operators aimed at managing the transition to a new system (known as the "opt-out" system) for telephone marketing activities, which allows all customers who are not included in a specific register of objectors set up by Presidential Decree 178/2010 to be contacted.

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

Compliance firm.

Finally, in accordance with rule 26 of attachment B (Technical Regulations on Minimum Security Measures) of the Privacy Code, Telecom Italia declares it has drawn up the Data Security Planning Document (DPS) for 2010 which lays out the technical and organisational criteria adopted for the protection of personal data, be it of a general, sensitive or judicial nature, that is processed by information technology, as well as the training schedule for those responsible for the treatment of data.

STRATEGY

The Telecom Italia Group procurement process aims to ensure that products and services are purchased at the best possible price, while guaranteeing the fulfilment of quality, safety and environmental protection requirements. The procurement process is based on a competitive comparison of the technical and financial offers presented by suppliers selected according to group-wide procedures characterised by an ethical business approach.

The Group is committed to guaranteeing the quality of the procurement process and its continuous improvement, applying green procurement principles and obtaining the respective quality certifications.

RELEVANT STAKEHOLDERS

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

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

quality, safety and enviromental protection

requirements

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2. SUPPLIERS

2.1 GENERAL COMMENTS

The selection, assessment and control process of Telecom Italia Group's suppliers, for high risk purchasing categories, 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. Each one of the Group's suppliers must make a commitment, for itself and its authorised sub-contractors, associates and employees, to observe the principles of ethics and conduct contained in the Group's Code of Ethics.

Registered companies that have received purchase orders normally undergo checks throughout the course of the supply, which range from Vendor Rating monitoring (systematic assessment of the supply) to Incoming Quality control (mandatory for acceptance and use of the goods acquired).

2.2 MAIN SUSTAINABILITY INITIATIVES

The Purchasing Department is split into specific divisions in order to respond as efficiently as possible to the requirements of internal customers and external stakeholders. These expectations are constantly monitored through surveys of both internal customers and suppliers in order to check the quality of the services delivered (see § Main involvement initiatives).

The main initiatives implemented in 2010 are as follows:

- continued application of the "Product Life Cycle Evaluation Guidelines" (issued in 2007) on a sample of 46 products. These guidelines allow the assessment, through an eco-compatibility index, of how far the acquired goods that are managed or marketed by the Group meet the prerequisites of the key environmental regulations, and that they are designed, produced, used and discarded in such a way as to facilitate the management of the entire life cycle, from the environmental and economic point of view.

The verification is carried out on a self-certification basis, using an appropriate questionnaire accompanied by supporting documentation. Subsequent sample checks are carried out on the most significant elements. The product families to which the Guidelines are applied, defined on the basis of the volume acquired, their impact on the company's reputation, and the economic and legal risks and dangers, are as follows:

› products that are intended for marketing (telephone terminals, switchboards, fax machines, modems, etc.);
› office products (computers and peripherals, photocopiers, etc.);
› network equipment and materials (pressurisation units, power units, accumulators, etc.);

- the annual social and environmental sustainability campaign was carried out on a sample of 50 suppliers with the aim of promoting better application of the sustainability criteria to the whole supply chain. This assessment aims to verify compliance with the principles set out in the Telecom Italia Code of Ethics regarding social and environmental sustainability, respect for the principles of ethical conduct in business, the adoption of procedures to ensure the health, safety and rights of workers and the protection of the environment. The checks were carried out based on suppliers' self-certification using an appropriate questionnaire accompanied by supporting documentation. Subsequent sample checks are carried out on the most significant elements emerging from the questionnaires.

The checks related mainly to suppliers in the following supply categories:

› Device & CPE
› Access Infrastructures
› IT
› Network

- following the signing of a Memorandum of Understanding (MOU) with France Telecom and Deutsche Telekom, at the end of 2009, Corporate Social Responsibility (CSR) verification activities began during the year in respect of the suppliers and sub-suppliers common to all three operators.

A MEMORANDUM OF UNDERSTANDING HAS BEEN SIGNED BETWEEN TELECOM ITALIA, FRANCE TELECOM AND DEUTSCHE TELEKOM AIMED TO CONDUCT JOINT AUDITS ON COMMON SUPPLIERS IN ASIA

This agreement set up a common auditing method aimed at verifying and improving the social, ethical and environmental performance of production plants in Asia.

The audits were carried out by accredited international companies selected by tender and produced a report for each verified supplier, which was used to determine appropriate improvement actions, the implementation of which was subsequently monitored on a continuous basis by the signatories to the agreement.

The guidelines for the activity were:

› to adopt an auditing philosophy aimed at establishing a cooperative relationship with suppliers;
› to carry out checks in order to identify the level of compliance with the CSR principles and identify areas for improvement, drawing up appropriate corrective action plans;
› to improve efficiency and productivity, for the MOU signatories and suppliers;
› to contribute to the overall sustainability of the territories covered by the checks;
› to promote the implementation of CSR principles in the supply chain by identifying and reducing risks.

The activities covered ten priority areas: child labour, forced labour, health and safety, freedom of association, discrimination, disciplinary procedures, working hours, pay, environment and ethics. The evaluation of suppliers was carried out using a weighted check list consisting of over one hundred questions, the use of which allowed verified suppliers to be classified into four progressive bands, from Poor to Excellent.
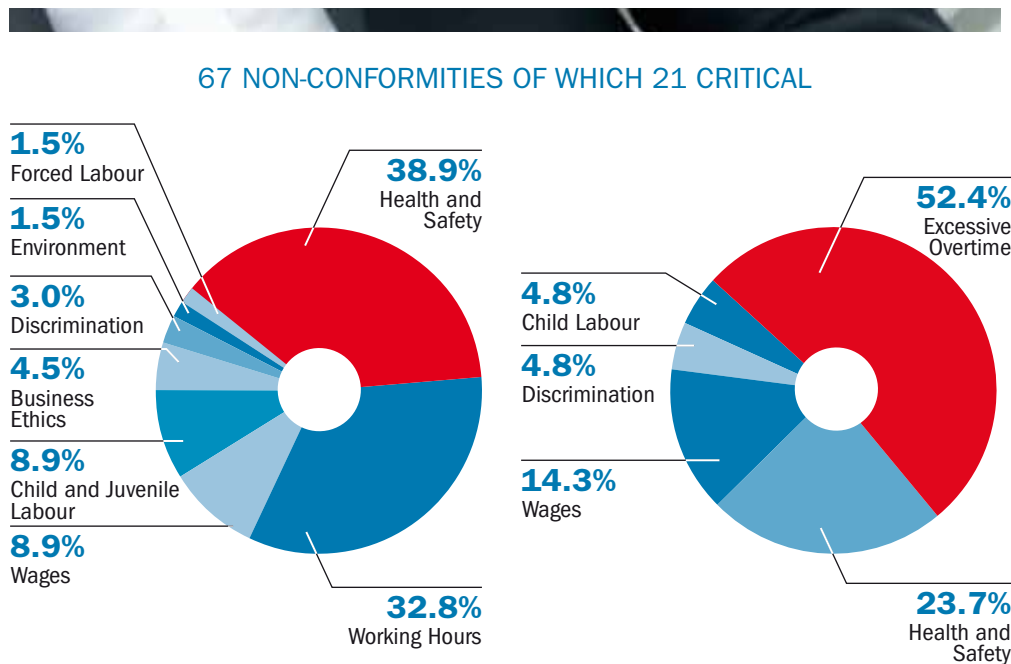
Nineteen audits of suppliers and sub-suppliers with production plants in five geographical areas (China, India, Japan, Taiwan and Korea) were carried out during the year, involving a total of over 100,000 employees. The audits took a total of around 30 days to complete, with 20% of this time being dedicated to interviews with workers.

A corrective action plan (CAP) was then drawn up for each supplier to determine the procedures and time scales for correcting the non-conformities identified during the audit. This was followed by follow-up activities that monitored the agreed corrective actions over time.

The chosen sample related mainly to suppliers in the following supply categories:
· Device & CPE
· Network

The results of the activities are summarised in the following diagrams:

67 NON-CONFORMITIES OF WHICH 21 CRITICAL

1.5% Forced Labour
1.5% Environment
3.0% Discrimination
4.5% Business Ethics
8.9% Child and Juvenile Labour
8.9% Wages
38.9% Health and Safety
32.8% Working Hours

4.8% Child Labour
4.8% Discrimination
14.3% Wages
52.4% Excessive Overtime
23.7% Health and Safety

17 NON-CONFORMITIES ELIMINATED OF WHICH 4 CRITICAL

· in October 2010, the ISO 9001:2008 certificate of conformity of the Group's Purchasing Department's "Quality Management System" was confirmed with specific recognition of the initiatives undertaken in the field of sustainability. The certification required 23 Department processes to be mapped, identifying 191 performance indicators that allow the administration of services provided to internal clients and suppliers to be monitored and improved. Furthermore, the ISO 14001 certification was confirmed for the Service Unit Facility and Real Estate and Infrastructure Acquisitions activities.
· continued application 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 (Green Procurement Policy) and in the Sustainability section of the corporate website www.telecomitalia.com, 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 customary satisfaction survey dedicated to them.

CHECKS

In 2010, around 32,000 technical checks were carried on work performance, mainly on the installation of new equipment and on the development and maintenance of the network. The checks were focused on the network companies sector, which is one of the most important sectors in terms of turnover and socio-environmental sustainability, and consists of fifteen companies covering the whole country and operating on the access network, the most extensive and far-reaching part of the company's infrastructure.

The aforementioned checks represent a statistically representative sample for assessing the quality of the work carried out throughout the sector and cover around 3.4% of the economic value of the business.

Also in 2010, the Purchasing Department carried out the following checks on suppliers:

- supplier qualification: 599 qualification procedures were performed on 317 suppliers, of which 65 produced negative outcomes and 89 resulted in judgement being reserved for a specified period of time;
- subcontractor qualification: 354 qualification checks were carried out, with 9 negative outcomes;
- Vendor Rating monitoring: 26 half-yearly reports were issued relating to 345 suppliers;
- technical-organisational audits at the offices of suppliers for Incoming Quality checks regarding products and services: 356 product batches were checked, of which 90 were blocked due to non-conformity;
- technical-organisational audits at the offices/premises of suppliers for qualification procedures: 174 checks carried out on 104 suppliers, of which 17 produced negative outcomes and 20 resulted in judgement being reserved for a specific period of time;
- technical-organisational audits at the offices/premises of high-risk subcontractors (plant engineering/operational activities) for qualification procedures and authorisations for use by supplier companies: 188 checks carried out on 146 suppliers, of which 6 produced negative outcomes and 12 resulted in judgement being reserved for a specific period of time.

Qualification checks with a negative outcome result in the supplier being denied registration in the Telecom Italia Group's register of suppliers or being denied authorisation to use the sub-contractor.

MAIN INVOLVEMENT INITIATIVES

For the fourth consecutive year, the Group's main suppliers have been involved in satisfaction surveys regarding the Purchasing Department and, more generally, Telecom Italia. The online questionnaire, consisting of 27 questions, was active for two weeks and the analysis involved 1,010 suppliers with access to the Portal. 48.7% of suppliers responded,

which was a significant increase on 2009 (32%).

The total average result of the 492 questionnaires completed was 73/100, an improvement on the result for the previous year (72/100).

A new e-community was set up with suppliers in the Civil Infrastructure sector, with the aim of improving communication with and between suppliers, particularly on social and environmental sustainability matters. This e-community is additional to the one set up for suppliers in the network operations sector, which has been running since 2008.

The e-community activities take place by using a collaboration platform known as "TelecHome" which can be accessed via the Suppliers Portal using appropriate access credentials. Developed according to the Web 2.0 standard, the website contributes to dialogue in the e-community in order to:

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

2.5 2010 RESULTS AND 2011 COMMITMENTS

Subject	2010 commitments	Status	2011 commitments
ISO 9001 and ISO 14001 certifications	Retention of the ISO 9001 certification for the TI Group's Purchasing Department and the ISO 14001 certification for the Service Centre Facility and Infrastructure Procurement activities of the same Department.	Achieved	Retention of the ISO 9001 certification for the TI Group's Purchasing Department and the ISO 14001 certification for the facility management activities of the Service Unit Facility and Real Estate activities and the Infrastructure Procurement operations of the same Department.
Project e-community	Development and extension of the e-community to additional divisions and suppliers.	Achieved	Development and maintenance of active e-communities.
Green Procurement	Introduction of environmental criteria in the procurement specifications of additional products/services.	Achieved	Continue monitoring the purchases made with green criteria and increase their volume.
	Implement the green procurement action plan and consequently increase the volume of "green" procurement by using the Life Cycle Cost Analysis tool in carrying out procurement tenders.	Achieved	
	Continue applying the "Product Lifecycle Assessment Guidelines" to the product families already identified.	Achieved	Continue applying the "Product Lifecycle Assessment Guidelines" (LCA) to the product families already identified.
Checks on suppliers	Definition of the Ethics and Sustainability check list to be used during the 2010 Audit Campaign to assess the Corporate Social Responsibility of suppliers.	Achieved	Continued application of the Corporate Social Responsibility check list to a representative sample of suppliers.
	Extension of the sustainability audits to production plants in the Far East.	Achieved	Extension of auditing activities to supplier production plants overseas.

STRATEGY

The Telecom Italia Group is determined to maintain its collaborative and transparent relations with national and international institutions in order to facilitate dialogue on matters of mutual interest and to ensure the Group's viewpoint is correctly represented.

RELEVANT STAKEHOLDERS

The key stakeholders of the Telecom Italia Group are:
- the central national institutions: Parliament, Government, Ministries, Public Administration;
- local institutions and their representative associations: Regions, Provinces, Municipalities, Municipalities located in the mountains, the National Association Municipalities of Italy (ANCI), the Union of Italian Provinces (UPI);
- the Italian Communications Authority (AGCOM), the Italian Competition and Market Authority (AGCM) (see § Competitors) and the Italian Data Protection Authority (see § Customers);
- European and international institutions: the European Commission and the Regulatory Committees under its supervision, the European Council and the European Parliament;
- the United Nations (UN): particularly the Global Compact, UNEP (United Nations Environment Programme), UNFCCC (United Nations Framework Convention on Climate Change), ITU (International Telecommunication Union) and the other UN agencies (e.g. UNHCR)

Telecom Italia has carried out numerous projects in partnership with Institutions. These are described in the chapters dedicated to the stakeholders who benefit from these projects (e.g. Customers and Community). For a list of these initiatives see § Introduction/Stakeholder Involvement.

The importance of
dialogue
with Institutions to build constructive relationships

3. INSTITUTIONS

3.1 RELATIONS WITH STAKEHOLDERS

Telecom Italia constantly keeps abreast of law-making activity by Institutions. It does this by monitoring the legislative process of measures that may have an impact on the company and the flow of policy-making (records of parliamentary proceedings and activities of the Council of Ministers and the European Commission) as well as analysing European proposals and information resulting from informal contacts. The purpose of these activities is:

- to understand the expectations of national, central and European institutions and the evolving trends in parliamentary, governmental and European regulatory initiatives;
- to identify the potential impacts on the strategy and on the business activities of the Group;
- to adopt any strategies needed to protect the company's position;
- to create an institutional context that is favourable to promoting the company's interests, respecting the rules on transparency and on formal and substantive fairness.

The results of analyses and involvement activities are transformed into operational ideas for continuous improvement activities.

3.2 RELATIONS WITH CENTRAL NATIONAL INSTITUTIONS

Relations are primarily conducted with the parliamentary members of the Camera (Chamber of Deputies) and the Senato (Senate) Committees concerned with issues that could impact on the company such as, for example, those of an economic-financial nature or concerning privacy, telecommunications, Internet and TV. Involvement in parliamentary hearings is also a way of examining specific issues in detail and creating opportunities for discussion about matters being debated in Parliament.

The TI monitoring of law-making activity of central national institutions often leads to proposals of amendments to measures under examination.

Moreover, Telecom Italia provides information to Ministries (mainly the Ministry for Economic Development) concerning the activities of the inspection body (parliamentary questions) directed at the Group. During the year, Telecom Italia specifically monitored the legislative process of the so-called "Incentives Decree", converted into Law No. 73 of May 22, 2010, in the context of which provisions were approved in order to simplify administrative procedures relating to the creation of fixed and mobile networks, with specific reference to regulations regarding micro-trench excavations and UMTS site installation activities. Again for the purpose of simplification, provisions were implemented, in the framework of Presidential Decree No. 139 of July 9, 2010 (regulation on simplifying landscaping authorisations for small scale projects), to streamline the authorisations required for the installation of specific types of mobile and fixed equipment on pylons. Telecom Italia also monitored the process relating to the privacy rules, which included the establishment and management of the public Register of subscribers who object to their telephone number being used for sales or commercial promotion purposes (Presidential Decree No. 178 of September 7, 2010). The establishment of this Register introduces the opt-out system in the field of telemarketing in Italy. This system means that individuals whose names appear in public lists of subscribers may only be contacted by telephone for commercial purposes if they have not explicitly exercised their right to object by registering their name in the appropriate public Register. In the context of the legislative process of the 2011 stability law (law no. 220 of December 13, 2010), Telecom Italia particularly monitored the provisions regarding procedures for allocation of the rights of use for television frequencies.

Finally, on the occasion of the parliamentary hearing held in the Chamber of Deputies on October 19, 2010, Telecom Italia's top management had an opportunity to submit details of its 2010-2012 Business Plan. Furthermore TI Media maintains a dialogue with institutions on issues of interest to the company. Interaction with the Ministry of Economic Development's Communications Department continued in respect of the digitisation process, which this year involved eastern Piedmont, Lombardy, Emilia Romagna, Veneto and Friuli Venezia Giulia, according to the ministerial calendar of September 10, 2008 and subsequent amendments. The Communications Department set up a specific task force for the digital switchover in these areas, which also includes TI Media.

RELATIONS WITH LOCAL INSTITUTIONS

At local level, Telecom Italia maintains a constant dialogue with institutions on subjects of a general nature regarding the electronic communications sector and issues of interest to the company's business, in order to deal with the problems encountered and promote the Group's image. The dialogue takes place both directly with local authorities and with their representative associations: ANCI and UPI.

Monitoring and constant interaction with the decision-making centres of local institutions take place by means of hearings and involvement in workshops as well as in the work of regional Commissions and ministerial and specialist work groups. Furthermore, Telecom Italia frequently organises communication initiatives on specific issues of local interest.

Coordination with the company departments operating at local level is fundamental for the purpose of acquiring information regarding the approaches and expectations of local institutions and providing suitable solutions.

The main subjects of dialogue with local authorities during 2010 included:
· local coverage and reduction of the digital divide;
· the creation of a broadband infrastructure involving the signing of memoranda of under-

standing with UPI and ANCI;

· the removal of public telephone equipment (telephone booths) which also involved public consultation as part of a procedure agreed with AGCOM;

· the signing of various memoranda of understanding with central institutions, local authorities and their representative associations (e.g. ANCI) on the subject of Smart Services (see box);

RELATIONS WITH EUROPEAN AND INTERNATIONAL INSTITUTIONS

Relations with European and international institutions are broadly carried out according to the logic previously described with, in many cases, the involvement of the other ICT operators. The actions carried out are both of an institutional nature (for example, participation in public consultations, workshops, meetings of parliamentary Commissions) and of a collaborative nature (meetings with the EU Commission) by means of individual actions and/or with the involvement of other operators. The issues tackled at European level, which are the subject of the main legislative/regulatory documents of interest to the Group, include Communication on the Digital Agenda, the Broadband Strategy, the Recommendation on regulated access to Next Generation Networks (NGN), the proposed Decision on the Radio Spectrum Policy Programme, the public consultation on net neutrality, the review of the Framework Directive on data protection, the review of the Roaming Regulation, the consultation on the review of the Universal Service.

As regards relations with the UN, the activities carried out as part of the Global Compact are of particular importance, taking the form of participation in the working group on human rights and in the activities of the Italian Network. Telecom Italia, Telecom Italia Media, and Tim Brasil, the three companies of the Group which adhered to the Global Compact, compile the "Communication on Progress" annually, the document in which the progress achieved in the promotion and actual application of the 10 principles, on which the Global Compact is founded, is reported.

Smart Services

This is a family of services which is intended to provide a comprehensive response to the needs of communities, in particular to those related to urban areas, with a view to improving quality of life in general, according to the recommendations of the European Commission on promoting and adopting innovative solutions through the use of ICT. The aim is to create the so-called "smart cities" through the development of innovative digital services that can improve key areas for municipalities, such as energy efficiency, environmental monitoring, security, public communication and tour-ism promotion.

In 2010, Telecom Italia signed various memoranda of understanding with institutions aimed to launch research projects and practical experiments in the field of Smart Services:

1. the memorandum of understanding with the Ministry of Public Administration and Innovation, the National Research Council for the creation of the Smart Services Cooperation Lab, which carries out research and development;

2. the Memorandum of Understanding with the Umbria Region, the Province of Terni, the Municipality of San Gemini for the creation of a Living Lab that will involve the local area and its citizens. The Munici-pality of San Gemini will thus be the first organisation in the region to try out the smart city model;

3. the Memorandum of Understanding for the launch of the Smart Cities Laboratory, signed with the National Association of Italian Municipalities (ANCI). Telecom Italia, as the technological partner, and ANCI as the supervisor and coordinator, will be working together with participating municipalities - initially the municipalities of Piacenza and Prato - to identify innovative design solutions that can improve energy and environmental efficiency, promote local development and allow innovative services to be delivered to the community

STRATEGY

The Group's companies are committed to promoting fair competition, which is considered to be in the interests of the Group and of all market operators, customers and stakeholders in general. They promote and participate in initiatives and projects with competitors, as well as in technical round tables and activities organised by trade associations.

RELEVANT STAKEHOLDERS

In this area, the Group interacts with the following stakeholders:
- OLOs (Other Licensed Operators), big and small alternative tlc operators of fixed and mobile networks;
- the Italian Communications Authority (AGCOM);
- the Italian Competition and Market Authority (AGCM);
- associations, federations and trade associations:
  › in Italy: Confindustria, CSIT (Confindustria Innovative and Technological Services), Asstel, Assoelettrica, Assinform, Ugo Bordoni Foundation, Audio and ICT District, FRT (Radio and Television Federation) HD Forum (High Definition Forum), DGTVì (the national association for terrestrial digital broadcasting), Auditel, CNID (Italian National Digital Committee)
  › in the world: ETNO (European Telecommunications Network Operators' Association), EIF (European Internet Foundation), EABC (European-American Business Council), ITU (International Telecommunication Union), EITO (European Information Technology Observatory), BIAC (Business and Industry Advisory Committee), BEREC (Body of European Regulators for Electronic Communications), GeSI (Global and Sustainability Initiative).

The importance of fair competition for all

stakeholders

4. COMPETITORS

4.1 RELATIONS WITH STAKEHOLDERS

Telecom Italia manages relations with associations and coordinates representation activities with Confindustria and its member associations.

The initiatives at national and local level consist of actions and meetings about business development and protecting the company's interests in the fields of economics, regulations, trade unions and labour. These initiatives are based on dialogue and on comparing the respective positions in order to identify, where possible, a common position for the sector to be represented in national and Community institutions.

The Group is a member of 100 local associations, including Confindustria Innovative and Technological Services, Asstel and Assoelettrica. In 2010, Telecom Italia joined Assinform, the national association of leading Information Technology companies operating in the Italian market, which acts as a link between the main economic, political and institutional forces of the country for the development of Italy as a National System through the use of innovation and new technologies.

Together with the other operators, Telecom Italia takes part in the Ugo Bordoni Foundation (FUB), which aims to carry out research and studies in the field of communication and IT in order to promote scientific progress and technological innovation. The Foundation, which is under Public Administration management and control, provides advice to Parliament, the Government and independent administrative Authorities.

Telecom Italia is also involved in the Audiovisual and ICT District, a Consortium of around 60 businesses operating in the IT, Tlc and media sectors. Sponsored by the Municipality of Rome, the Union of Industrialists and the Rome Chamber of Commerce, the objective of the District is to express and represent, within its field, the industrial activities and services which operate in the new economic area, alternatively known as major convergence or multimedia.

Telecom Italia and TI Media are founding members of the HD Forum, which pursues the objective of promoting and disseminating high definition technology in Italy. Membership of the Forum provides constant updates about the activities of competitors in the high

definition field (in particular, Sky, Mediaset and Fastweb) and favours initiatives regarding regulations and standardisation.

TI Media, as a member of the Presiding Committee, is a member of the Radio and Television Federation, which brings together 150 local TV and radio stations and is a member of DGTVì together with Rai, Mediaset, D-Free and the Aeranti-Corallo and FRT local television associations. Within DGTVì there is a task force set up for the regions which, based on the ministerial calendar, are dealing with the analogue to digital TV switchover (in 2010, western Piedmont, Lombardy, Emilia Romagna, Veneto and Friuli Venezia Giulia). A representative of TI Media is a member of the Board of Directors of DGTVì.

Telecom Italia Media is a partner in Auditel, in which it holds a 3.33% shareholding, and has a representative on the Board of Directors and another in the Technical Committee. Auditel is the only body recognised in Italy for the collection of audience figures. It is recognised also by advertisers who assess the value of advertising slots on individual television channels on the basis of the "data" recorded by Auditel.

TI Media participates in the work of the CNID (Italian National Digital Committee), which brings together all the representatives of the digital market value chain and is chaired by the deputy Minister for Economic Development with responsibility for Communications, backed up by two deputy chairmen (an AGCOM Commissioner and the Chairman of DGTVì). The Committee acts through four different operational groups covering the following individual areas: Networks Technology and Development; Monitoring and Data; Communications and Customer Assistance; Specific Problems in the Public Broadcasting Service.

In 2003, TI Media and MTV subscribed to the Self-regulation Code for TV and Minors, as part of which the TV and Minors Committee was established with responsibility for monitoring fulfilment of the undertakings given under the Code. TI Media has been elected as the broadcasters' representative and therefore has a privileged position as observer with regard to the institutions for the purpose of maintaining a constructive dialogue with the sector.

During 2010, 780,000 cards were issued by Tivù, a company in which TI Media has a 3.5% stake, thus exceeding the targets set for this year. Tivù began providing commercial services in August 2009 for the broadcasting of unscrambled programmes by satellite, with the aim of promoting a single service platform for digital terrestrial and satellite broadcasting (tivùsat).

Pursuant to the provisions of the Self-regulation Code on the reporting of legal disputes in radio and television programmes, in December 2009 a Committee was established to monitor any violations of the Code and adopt the ensuing corrective measures.

The objective of the Code is to reconcile the right to information about legal proceedings with respect for the inviolable rights of the individual, by observing principles of objectivity, completeness and impartiality.

4.2 COMPETITIVE POSITIONING

Every year, a qualitative and quantitative survey is carried out to analyse the strength of the Telecom Italia and TIM brands, both in absolute terms and in comparison with competitors. For Telecom Italia only, a survey is also carried out that specifically focuses on business targets (formerly SOHO and SMEs) in terms of the value of the brand and competitive positioning in comparison with the main competitors.

Moreover, every three months, a quantitative survey is carried out on a representative sample of the Italian population in order to gauge the image of the telecommunications and mobile telephony service providers.

Finally, quantitative surveys are periodically carried out on a representative sample of the

adult Italian population to measure the effectiveness of the advertising for fixed and mobile telephony and telecommunication services. These measure the reputation of the individual providers, unprompted and prompted awareness of advertising, respective recollections and enjoyment of the advertising.

Monitoring of the reputation of Telecom Italia on the web has been launched by means of an automatic search and semi-automatic cataloguing method which analyses the volume of conversations regarding Telecom Italia on leading Italian websites and allows to draw up a classification based on source, format and value. The aim is to track the perception of the Telecom Italian and TIM brands in terms of image. This same process also allows a reputation risk index to be calculated, based on an algorithm which weighs up the importance of the site/channel hosting the message (potential audience), the value of the message (positive or negative) and the relevance of the conversation category to the company.

4.3 SERVICES TO OLOs

The National Wholesale Service (NWS) division of Telecom Italia is the point of reference for other licensed operators (OLOs) in the provision of network infrastructure and/or services for subsequent marketing by the said OLOs of electronic communication services to their own end customers. NWS takes care of the planning, provision, contract negotiation, sales, assistance and invoicing of the products/services provided. The organisational and administrative separation between the Retail Departments of Telecom Italia and NWS, which is certified once a year by an external body, ensures respect for the principles of equal treatment and non-discrimination established by current regulations and particularly by resolution 152/02/CONS.

NWS is the organisational structure set up to respond to the commercial requirements of other license-holding operators and draws up and puts forward an offer for the various wholesale markets on an annual basis. The approval process for each offer involves joint examination and reviews designed to provide the clarifications requested by AGCOM, which approves its contents and monitors the work carried out by NWS to ensure that competition is protected. AGCOM is also the guarantor and the reference authority in any cases brought by the OLOs and the end users on regulatory matters.

Each OLO has a direct relationship with its own Account Manager in the Sales department of NWS, who receives requests from the OLO for which he/she is responsible, customising the respective contractual offer instruments in compliance with the current regulatory requirements. These contracts include clauses which establish constant monitoring of the various phases of the supply of the service, ensuring that some of the main indicators are subject to periodic reporting to AGCOM. The interests of the client are therefore safeguarded in a continuous manner, formalised through a process of conference calls, video calls and meetings in which all the relevant company departments concerned are involved.

With a view to improving its company processes, Telecom Italia has presented a series of "Commitments" designed to enhance performance in the delivery of services to the OLOs which, following Procedure 351/08/CONS, were approved by AGCOM and came into force on January 1, 2009 (for more information, see § Commitments regarding the access network). For further information regarding dialogue and involvement initiatives (Wholesale Forum, Wholesale Tour, Wholesale Portal), caring initiatives (National Assistance Centres) and the actions taken to measure OLO satisfaction go to www.telecomitalia.com, in the Sustainability section.

4.4 THE ITALIAN COMMUNICATIONS AUTHORITY (AGCOM)

Telecom Italia interacts with AGCOM with the aim of contributing to the administration of the regulatory process on issues of relevance to the growth in value of the Company, attempting to influence changes in the market over the medium to long term. In this light, Telecom Italia pursues a steadfast dialogue and continuous discussion with the authorities and institutions with the aim of arriving at a simple, effective and symmetrical regulatory framework. Furthermore, the Group makes its own knowledge available by participating in public consultations, institutional hearings, conventions, public meetings and by presenting appropriate testimony and petitions. The constant discussions with AGCOM and the institutions ensure that Telecom Italia gathers opinions, supplying transparent, reliable responses, and anticipates events, creating and exploiting the best opportunities for the Company. For further information about legal provisions that regulate public consultations, market analyses, fact-finding surveys and dispute resolution among operators go to the Sustainability section of www.telecomitalia.com.

Telecom Italia provides for due explanations (for example, public consultations, defensive testimony, the supply of data and information of various nature etc.) and always ensures the completeness and reliability of the contribution.

In the case of infringement proceedings, Telecom Italia presents testimony, expert reports and other defence documents, requesting a hearing by those responsible for the proceedings on the facts that are the subject of the dispute. Telecom Italia may decide to present a proposal, subject to the termination of the disputed conduct, aimed at improving competitive conditions in the sector, removing the anticompetitive consequences through suitable, stable measures.

4.5 THE COMPETITION AND MARKET GUARANTOR AUTHORITY (AGCM)

As part of the protection of competition and the consumer, Telecom Italia Group interacts with the Antitrust authority both in a preventive way and during proceedings launched by it. By way of preventive action, the company's departments, in addition to responding to the Authority's requests conveyed regularly in the performance of the tasks assigned to it by Law 287/90 and the Consumer Code, periodically organise meetings for the exchange of information. The objective is to facilitate understanding of the development of the market and the effects on the area of responsibility of the Authority itself, with a view to ensuring transparency.

The subjects of preventive information include the development of the Group's offering, the company's position on strategic issues, such as the development of the access network and Net Neutrality, the development of pricing criteria in the markets in which the Company is in a dominant position, and the technical and economic characteristics of certain offers disputed by competitors.

In the event of dispute proceedings, the Group presents its case in the appropriate forums, in some cases presenting to the Authority undertakings which reduce the alleged anti-competitive aspects at the centre of the proceedings. Having assessed these undertakings, the Authority may make them compulsory and end the proceedings, without imposing any financial penalty (as occurred, for example, in the case of the last two proceedings launched in 2008, which were ended after acceptance of the undertakings given).

Moreover, within the Company, there are a series of preventive controls on processes with a potentially significant impact in Antitrust terms such as, for example, the provision of marketing plans, the development of contractual matters, the terms and conditions of supply of TLC services, the development of the company's information systems. The controls are aimed at ensuring that the operational management of the processes takes into

consideration these potential impacts. In order to spread awareness and disseminate a correct approach to the issue, a management training programme was launched in 2010 on the application of competition rules.

4.6 UNDERTAKINGS REGARDING THE ACCESS NETWORK

In December 2008, AGCOM approved the voluntary undertakings presented by Telecom Italia with resolution 718/08/CONS, subdivided into 14 main groups, plus three additional groups of a methodological nature (variation, expiry, modulation).

The impact of the undertakings on the stakeholders, both internal (shareholders) and external (Customers, Institutions, Competitors and the Community) can be broken down into different aspects. Specifically:

· greater satisfaction of wholesale and retail customers, promoting innovation in internal processes, qualitative development and improvement of the fixed access network and respective services, reduction of disputes;

· development of fair competition among competitors, which is considered to be in the interests of the Group, the market, customers and stakeholders in general, promoting equality of technical and economic treatment among the marketing departments of Telecom Italia and other operators;

· maintenance of competitive conditions in the transition to new generation networks, in order to ensure the creation of an open network that is able to offer the Community high quality services;

· more transparency in the evolution of Telecom's fixed access network for competitors and institutions through communication of the technical Plans for quality and development of the infrastructure;

· the acceptance of petitions from AGCOM, consumer associations and alternative operators, contributing to the development of a model for relations and solutions to problems through constructive relationships founded on a climate of trust and continuous discussion.

At the centre of these undertakings there is the development of a new culture based on the concept of Equivalence[4] and the role of Open Access, the structure set up in February 2008 within the Technology & Operations Department, which provides access services to the Retail division of Telecom Italia and alternative operators through NWS (for further information see § Services to OLOs). The Open Access and NWS activities for the production of access services are separate, and independently managed by the other commercial departments of Telecom Italia Group. 2008 also saw the establishment of the Supervisory Body, a committee that verifies and guarantees proper execution of the undertakings, ensuring equality of access for the other operators to the fixed network infrastructure through the Open Access department and achievement of the service quality objectives.

The access network managed by Open Access is an infrastructure of primary importance for the whole country, through which the alternative market players have connected their own infrastructure and offered new services to the Community.

For information on the state of implementation of the undertakings go to www.telecomitalia.com in the Sustainability section.

[4]
The concept of Equivalence, introduced by Resolution 718 of 2008, exceeds the concept of equality of treatment referred to in Resolution 152 of 2002. Essentially, "being equivalent" means: behaving in a way that does not discriminate against competitors; or serving the customers of other operators as if they were Retail customers of Telecom Italia, which means providing the same services, under the same conditions and above all an identical standard of quality; communicating transparently with the market, publishing technical, financial and commercial information, which includes the terms and conditions for the supply and use of services, and the access network features and development plans; guaranteeing access to and use of network resources, accepting all reasonable requests from OLOs; setting cost-driven prices and having specific accounting records of them.

STRATEGY

The environmental strategy implemented by the Group's companies is founded on the following principles:

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

In order to manage production and support processes in a way that is effective and environmentally sustainable, the Group has established an Environmental Management System (EMS) certified according to the ISO 14001 standard in the areas characterised by particular impacts on the environment.

In two Call Centres, the 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.

Building

a better future

through solutions based on Information and Communication Technologies

5. THE ENVIRONMENT

Telecom Italia regards respect for the environment and energy efficiency as the fundamental cornerstones of its contribution to the sustainable development that the company is able to offer, through both specific actions implemented to manage and reduce its impacts, and technological solutions aimed at customers, entities operating in the various sectors of the economy and the public in general (see § Climate Change).

RELEVANT STAKEHOLDERS

The representatives of the environment stakeholder can be identified as the future generations who are entitled to an environment which has not been compromised by the impacts of development enacted by current generations. This collective person is identifiable in the demands expressed by:
- national and international environmental organisations;
- national and international 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), European Telecommunications Standards Institute (ETSI), Global e-Sustainability Initiative (GeSI), Carbon Disclosure Project (CDP), European Round Table of Industrialists (ERT).

Telecom Italia is attentive to the requirements expressed by stakeholders interested in protecting the environment and maintains multiple 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 stakeholders.

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

5.1 ENVIRONMENTAL PERFORMANCE

The information regarding environmental performance has been drawn from management data. In accordance with the principle of materiality, only subsidiaries included in the consolidated accounts that have revenue greater than 300,000 Euro and more than 40 employees, excluding discontinued companies and non-current assets held for sale, have been considered.

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

Energy

The energy consumption of Telecom Italia S.p.A. and the Group is presented according to the template proposed by the Global Reporting Initiative (GRI) in its Guidelines, version 3 (G3 Guidelines). The following table shows the direct consumption for heating and transport (ref. Scope1 according to the Greenhouse Gas Protocol) followed by the indirect ones for the purchase and use of electricity (Scope2).

The tables in the Environment chapter referring to the Telecom Italia Group show data broken down according to the following activities:

· Domestic: telecommunication services and infrastructure and other associated activities carried out in Italy;
· Brazil: services and activities provided by Tim Brasil
· Media: activities of the Media Group
· Olivetti: activities of the Olivetti Group

HEATING SYSTEMS

| | | Telecom Italia S.p.A. 2010 | % Changes | |
			2010 vs 2009	2010 vs 2008
ENERGY GENERATED BY HEATING OIL	MJ	116,538,657	+3.15%	(18.30%)
ENERGY GENERATED BY NATURAL GAS	MJ	436,186,064	(36.70%)	(36.28%)
TOTAL ENERGY FOR HEATING	MJ	**552,724,721**	**(31.08%)**	**(33.18%)**

HEATING SYSTEMS

| | | TI Group 2010 | TI Group breakdown by Business Unit (%) | | | |
			Domestic	Brazil	Media	Olivetti
TOTAL ENERGY FOR HEATING	MJ	**651,831,799**	**90.84%**	**0.00%**	**0.49%**	**8.67%**

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

78.9%
Total energy consumption of methane fuel for heating

21.1%
Total energy consumption of diesel oil fuel for heating
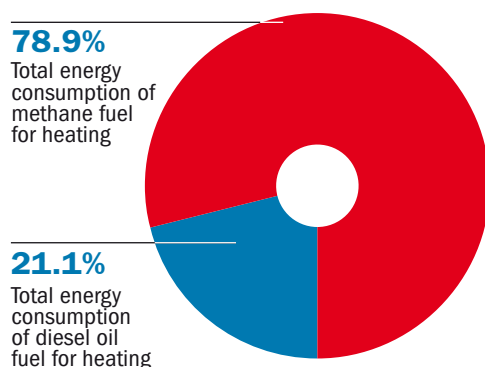
ENERGY CONSUMPTION FOR HEATING (%) – TI GROUP

0.00%
Brazil

8.67%
Olivetti

0.49%
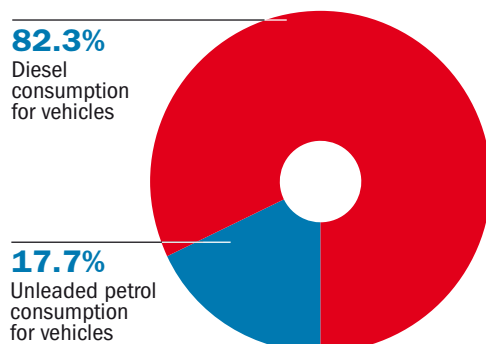Media

90.84%
Domestic
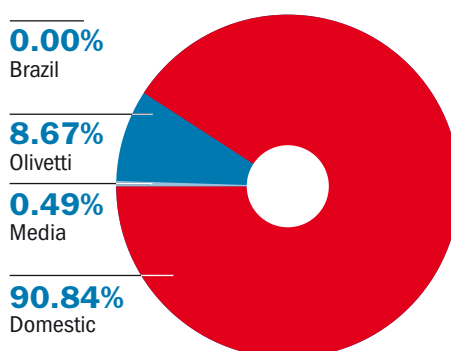
The data in the table relating to Telecom Italia S.p.A. show a significant reduction of consumption for heating purposes. The reason for this trend is essentially the activation in a number of Data Processing Centres (DPCs) of large co-generation plants that produce simultaneously electricity and heat, allowing the purchase of fossil fuels used to heat working environments to be significantly reduced. In Brazil, the climate makes it unnecessary to heat indoor premises.

VEHICLES

		Telecom Italia S.p.A. 2010	% Changes	
			2010 vs 2009	2010 vs 2008
UNLEADED PETROL CONSUMPTION	l	3,855,832	(27.73%)	(62.07%)
DIESEL CONSUMPTION	l	17,953,949	1.56%	23.74%
TOTAL ENERGY CONSUMPTION FOR VEHICLES(*)	MJ	764,340,305	(4.71%)	(9.50%)

*
Represents the conversion into MegaJoules of the consumption of unleaded petrol and diesel expressed in litres.

FOSSIL FUELS FOR VEHICLES - TELECOM ITALIA S.p.A.
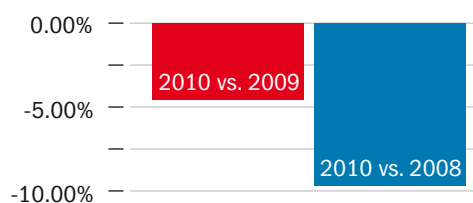
82.3%
Diesel
consumption
for vehicles

17.7%
Unleaded petrol
consumption
for vehicles

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

2010 vs. 2009

2010 vs. 2008

NUMBER OF VEHICLES AND DISTANCE TRAVELLED

		Telecom Italia S.p.A. 2010	% Changes	
			2010 vs 2009	2010 vs 2008
TOTAL NUMBER OF COMPANY VEHICLES	no.	19,905	(5.52%)	(7.19%)
NUMBER OF LOW EMISSION VEHICLES[*]	no.	19,624	(5.59%)	(6.98%)
TOTAL DISTANCE TRAVELLED	km	**320,016,025**	**3.67%**	**1.93%**

*
Vehicles fuelled by unleaded petrol,
eco-diesel, bludiesel, LPG (meeting
the Euro4 standard or higher), elec-
tricity or other fuels with comparable
or lower emissions.

At Telecom Italia S.p.A., the containment of energy consumption by vehicles and the increase in mileage recorded during the year demonstrate the increased efficiency of the vehicle fleet. The policy aimed at reducing the size of the fleet and modernising it in favour of vehicles that comply with stricter environmental standards is proceeding as planned: during 2010, 4,200 Euro3 standard vehicles were replaced with 3,000 Euro4 standard vehicles, including 350 petrol/LPG fuelled vehicles. The reduction in the number of vehicles also included 250 personally assigned vehicles.

TOTAL DISTANCE TRAVELLED - TELECOM ITALIA S.p.A.
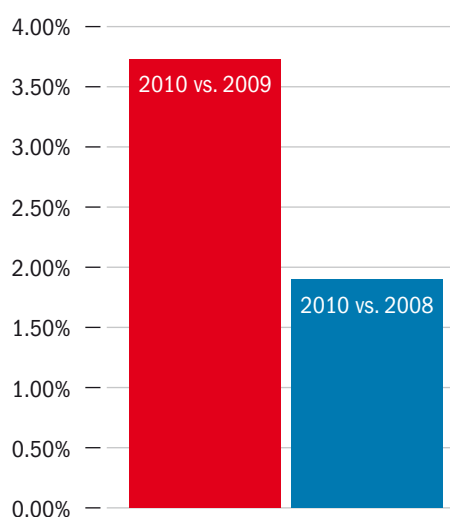
NUMBER OF VEHICLES AND DISTANCE TRAVELLED[(*)]

		TI Group 2010	TI Group breakdown by Business Unit (%)			
			Domestic	Brazil	Media	Olivetti
TOTAL NUMBER OF VEHICLES	no.	21,405	94.27%	4.30%	0.43%	1.00%
TOTAL ENERGY CONSUMED	MJ	839,687,957	92.51%	5.42%	0.85%	1.22%
TOTAL DISTANCE TRAVELLED	km	**344,128,481**	**94.33%**	**3.94%**	**0.73%**	**1.00%**

*
The data shown in the tables and graphs relating to vehicles refer to all the Group's vehicles (industrial, commercial, used by executives/managers/sales engineers), both owned and hired. The vehicles, consumption and mileage of vehicles owned or in use by the sales force of Tim Participações have been included only where usage is significant and continuous. The significant reduction in energy used by vehicles, compared to the data published in the 2009 sustainability report, is attributable to Elettra Tlc S.p.A., which was responsible for the consumption of fuel for the ships used to lay submarine Tlc cables, being taken out of the consolidation scope.

Consumption of electricity for the operation of telecommunication and civil/industrial plants is reported below.

ELECTRICITY PROCURED AND PRODUCED

| | | Telecom Italia S.p.A. 2010 | % Changes | |
			2010 vs. 2009	2010 vs. 2008
ELECTRICITY FROM MIXED SOURCES(*)	kWh	2,023,676,446	(3.33%)	(3.33%)
ELECTRICITY FROM RENEWABLE SOURCES	kWh	40,211,687	(6.39%)	8.04%
TOTAL ELECTRICITY	kWh	**2,063,888,133**	**(3.39%)**	**(3.13%)**

ELECTRICITY PROCURED AND PRODUCED

| | | TI Group 2010 | TI Group breakdown by Business Unit (%) | | | |
			Domestic	Brazil	Media	Olivetti
TOTAL ELECTRICITY	kWh	**2,441,056,864**	**86.39%**	**11.76%**	**1.12%**	**0.73%**

PURCHASED OR PRODUCED ENERGY – TELECOM ITALIA S.p.A.
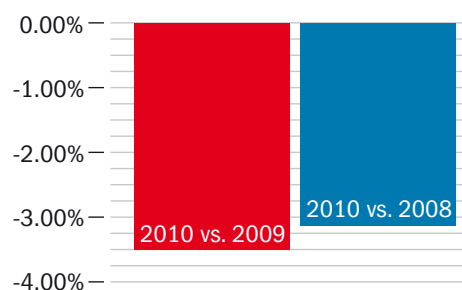
ENERGY PURCHASED OR PRODUCED (%) – TI GROUP

86.39% Domestic

11.76% Brazil

1.12% Media

0.73% Olivetti
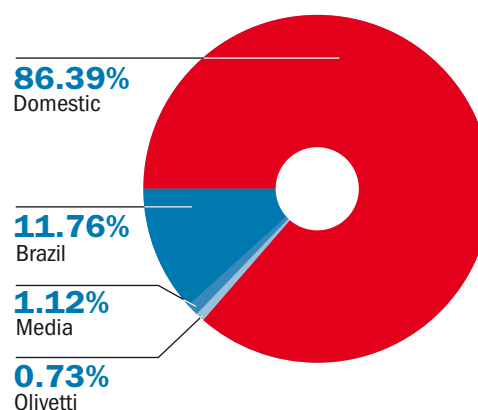
Despite increasing levels of voice and data traffic, energy saving and network efficiency improvement initiatives led to a reduction in overall electricity consumption of approximately 3%. Previously launched initiatives aimed at optimising energy consumption continued in 2010. Rationalisation activities related primarily to:

- upgrading air conditioning systems, physically segregating environments depending on their different air conditioning requirements, and increasing the average operating temperatures of telephone exchanges, servers and Radio Base Stations (RBS);
- the targeted use of full free cooling[5] technologies and other low environmental impact systems characterised by reduced energy consumption in cooling systems;
- the adoption of more efficient technological solutions for servers installed in Data Centres, including the concentration and virtualisation of machines[6];
- measurement of energy consumption and remote control of central offices;
- modernisation and maintenance of the efficiency of the fixed traditional switching network and the data networks;
- modernisation of AC/DC conversion equipment through the introduction of technological solutions that guarantee better performance;
- installation of time switches to turn off the lighting equipment;
- sharing of technological sites thanks to co-siting agreements[7], resulting in a saving of around 30% in energy consumption.

The following initiatives were completed or were under way in 2010 concerning the use of non-traditional or alternative energy sources and the testing of new technologies:

- cogeneration/trigeneration: 4 large systems are in operation in four Data Centre sites (Pomezia, Rozzano, Padua and Bologna) 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%;
- small scale cogeneration plants: fuelled by methane and producing 120 kWe of power. 5 systems are currently being completed to join the 12 systems already in operation to self-generate electricity and heat;
- wind/photovoltaic power: in 5 RBS situated in areas characterised by unfavourable 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) and similar systems are being installed in a further 8 RBS sites;
- geo-cooling plants: the construction of two geo-cooling plants[8] has been launched at two medium-sized industrial telecommunication exchanges, in order to provide air conditioning for the equipment rooms and replace the traditional refrigeration systems;
- energy backup systems based on hydrogen fuel cells: a further 85 of these have been installed to replace the traditional lead battery systems, joining the 100 already installed in 2009. The introduction of this equipment has allowed the purchase and subsequent disposal of traditional batteries containing around 250 tonnes of lead to be avoided. Life cycle assessments show a benefit to the environment in terms of CO_2 not emitted of around 100 tonnes.

The commitment to contain energy consumption is also fulfilled by collaborating with the working groups establishing the various Codes of Conduct (CoC). Promoted by the European Union, through the European Commission's Joint Research Centre (JRC) and the ETNO, the CoC develop guidelines, suggest technical solutions and define energy consumption objectives that can be achieved without interfering with technological development and service quality.

5
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.

6
Virtualisation makes the functions of a data processing machine available without the machine actually being present.

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 (masts and towers, electricity and air conditioning plants 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 pumped through a heat exchanger.

THE CODE OF CONDUCT SIGNED UP BY TELECOM ITALIA FAVOUR THE REDUCTION OF ENERGY CONSUMPTION FROM BROADBAND EQUIPMENT AND DATA CENTRES

Telecom Italia, which signed the two Codes of Conduct proposed by the European Commission to reduce the power consumption of broadband equipment (from June 2009) and Data Centres (from September 2010), organised an international event through the GeSI, of which it is a member, held in Brussels in September 2010 and attended by 21 of the leading international operators and suppliers, who used this occasion to sign up to one or both of the CoC in the presence of the European Commissioner for the Digital Agenda.

Telecom Italia is also involved in various ways in updating the other three CoCs regarding: Digital TV, Uninterruptible Power Systems and External Power Supplies. The general aim is to speed up the availability of lower energy consumption equipment and systems, while allowing suppliers to achieve greater economies of scale thanks to their common energy efficiency requirements at global level.

More information on further 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) is available at the www.telecomitalia.com website, in the Sustainability section

Atmospheric emissions

Greenhouse gas emissions by Telecom Italia and the Group consist almost exclusively of carbon dioxide and are due to the fossil fuels used for heating and the use of motor vehicles, the production or purchase of electricity and staff travel (home to work and back and business travel by air). In addition to these, dispersals of hydrochlorofluorocarbons and hydrofluorocarbons (HCFC and HFC) from air conditioning are also considered and converted into kg of CO_2 equivalent.

As with the classification of power consumption, use is made of the Global Reporting Initiative - GRI Version 3 - guidelines, which refer to the definitions of the GHG Protocol[9] distinguishing between direct emissions (Scope1: use of fossil fuels for vehicles[10], heating, power generation), indirect emissions (Scope2: purchase of electricity for industrial and civil use[11]) and other indirect emissions (Scope3).

Atmospheric emissions by Telecom Italia S.p.A. are falling in overall terms. The following are a number of considerations on how individual items contributed to the achievement of the net result:
- reduction of emissions due to lower consumption by vehicles;
- reduction of emissions due to lower consumption for heating;
- reduction of equivalent CO_2 emissions, relating to the dispersal of HCFC and HFC used in air conditioning plants, due to the adoption of more meticulous methods for preventing leaks and the replacement of these gases with low environmental impact solutions;
- an increase in emissions attributable to cogeneration, resulting from the company's decision to invest more in this technology, with financial and environmental benefits. The increase is in any case offset by the lower amount of power purchased from 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 due to purchased electricity;

[9]
The GHG Protocol (Greenhouse Gas Protocol Initiative), established in 1998 within the World Resources Institute and the World Business Council for Sustainable Development, supports business on the issue of greenhouse gas emissions, providing calculation and study methods aimed at promoting innovation and assuming responsibility for climate change.

[10]
Emissions of CO_2 connected to the use of fossil fuels for motor vehicles and heating have been calculated following the directions of the UNEP (United Nations Environment Programme Guidelines for Calculating Greenhouse Gas Emissions for Businesses and Non-Commercial Organisations – www.uneptie.org) and in the case of Telecom Italia S.p.A. vehicles, by referring to the specific types of motor vehicles.

[11]
To calculate emissions from the electricity purchased on the domestic market, the coefficient worked out by the GHG Protocol – that takes into consideration the national energy mix - has been used, which is equal to 403 grams of CO_2/kWh. For Brazil, the coefficient worked out by the local Ministry of Science and Technology has been used, equal to 25 grams of CO2/kWh, which is held to be more accurate.

ATMOSPHERIC EMISSIONS

		Telecom Italia S.p.A. 2010	% Changes	
			2010 vs 2009	2010 vs 2008
CO_2 EMISSIONS FROM VEHICLES	kg	43,723,046	(8.29%)	(12.28%)
CO_2 EMISSIONS FROM HEATING	kg	36,961,112	(30.32%)	(32.77%)
EQUIVALENT CO_2 EMISSIONS FROM THE DISPERSAL OF HCFC/HFC [*]	kg	26,820,860	(8.73%)	(34.09%)
CO_2 EMISSIONS FROM ELECTRICITY GENERATION BY COGENERATION	kg	24,010,060	130.44%	370.79%
CO_2 EMISSIONS FROM ELECTRICITY GENERATION USING DIESEL	kg	2,670,955	(26.61%)	(26.60%)
TOTAL DIRECT EMISSIONS OF CO_2 - UNDER SCOPE1 GRI	**kg**	**134,186,033**	**(6.92%)**	**(13.01%)**
CO_2 EMISSIONS FROM PURCHASES OF ELECTRICITY GENERATED BY MIXED SOURCES	kg	789,849,200	(5.18%)	(5.75%)
TOTAL INDIRECT EMISSIONS OF CO_2 - UNDER SCOPE2 GRI	**kg**	**789,849,200**	**(5.18%)**	**(5.75%)**
CO_2 EMISSIONS FROM WORK-HOME COMMUTING [**]	kg	59,925,224	(8.48%)	(12.38%)
CO_2 EMISSIONS FROM AIR TRAVEL [***]	kg	10,003,995	(15.62%)	(39.40%)
TOTAL OF OTHER INDIRECT EMISSIONS OF CO_2 - UNDER SCOPE3 GRI	**kg**	**69,929,219**	**(9.58%)**	**(17.64%)**
TOTAL CO_2 EMISSIONS	**kg**	**993,964,452**	**(5.74%)**	**(7.73%)**

*
Hydrochlorofluorocarbons (HCFC) and hydrofluorocarbons (HFC), in terms of equivalent CO_2 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. In 2010, the GWP of HCFC used was 1,780 and that of HFC was 1,300. A single parameter was used in 2009 and 2008.

**
In determining the impact of home-work commuting, reference is made to personnel statistics.

***
This year, air travel emissions were calculated more accurately based on the individual journeys actually made and the coefficients suggested by the GHG Protocol depending on the short or long term duration of each individual journey.

ATMOSPHERIC EMISSIONS

		TI Group 2010	TI Group breakdown by Business Unit (%)			
			Domestic	Brazil	Media	Olivetti
TOTAL CO_2 EMISSIONS UNDER SCOPE1 GRI	kg	146,045,363	94.30%	2.16%	0.51%	3.03%
TOTAL CO_2 EMISSIONS UNDER SCOPE2 GRI	kg	828,259,602	97.55%	0.86%	1.33%	0.26%
TOTAL OTHER CO_2 EMISSIONS UNDER SCOPE3 GRI	kg	85,829,623	81.47%	18.53%	0.00%	0.00%
TOTAL CO_2 EMISSIONS	**kg**	**1,060,134,588**	**95.79%**	**2.47%**	**1.11%**	**0.63%**

· reduction of the impact from home-work commuting, associated with the total number of employees;

· reduction of emissions from business travel by employees due to a reduction in the number of trips, resulting in particular from the greater use of video-conferencing (see § Climate Change).

Water

WATER CONSUMPTION

		Telecom Italia S.p.A. 2010	% Changes	
			2010 vs. 2009	2010 vs. 2008
CONSUMPTION OF WATER DRAWN FROM ARTESIAN WELLS	m^3	67,750	(20.50%)	(*)
CONSUMPTION OF WATER PROVIDED BY WATER SUPPLY COMPANIES	m^3	4,341,947	(0.65%)	(4.42%)
TOTAL WATER CONSUMPTION	m^3	**4,409,697**	**(1.03%)**	(**)

*
Data not gathered in 2008.

**
Value not calculated since 2008 data on water drawn from artesian wells was not available.

WATER CONSUMPTION

		TI Group 2010	TI Group breakdown by Business Unit (%)			
			Domestic	Brazil	Media	Olivetti
CONSUMPTION OF WATER DRAWN FROM ARTESIAN WELLS	m^3	1,193,306	6.07%	0.00%	0.01%	93.92%
CONSUMPTION OF WATER PROVIDED BY WATER SUPPLY COMPANIES	m^3	4,671,366	95.49%	3.64%	0.49%	0.38%
TOTAL WATER CONSUMPTION	m^3	**5,864,672**	**77.30%**	**2.90%**	**0.39%**	**19.41%**

WATER CONSUMPTION (%) – TI GROUP

77.30%
Domestic

0.39%
Media

2.90%
Brazil

19.41%
Olivetti
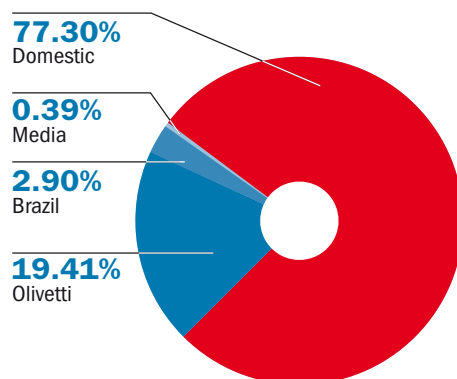
The total consumption of water by the Group reveals a significant impact by Olivetti due to water being drawn from artesian wells for industrial processes.
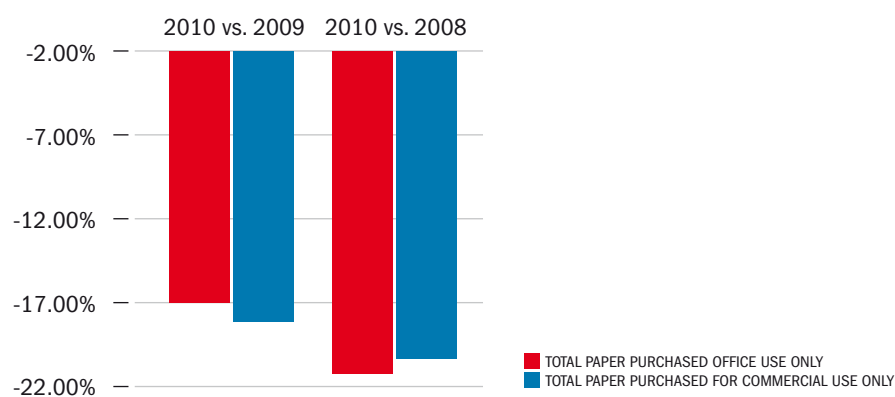
Paper

PAPER PURCHASED

		Telecom Italia S.p.A. 2010	% Changes	
			2010 vs. 2009	2010 vs. 2008
PAPER PURCHASED FOR OFFICE USE	kg	529,717	(16.96%)	(20.63%)
PAPER PURCHASED FOR COMMERCIAL USE	kg	1,643,345	(18.61%)	(20.49%)
TOTAL PAPER PURCHASED	kg	**2,173,062**	**(18.21%)**	**(20.53%)**

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

■ TOTAL PAPER PURCHASED OFFICE USE ONLY
■ TOTAL PAPER PURCHASED FOR COMMERCIAL USE ONLY

In 2010, Telecom Italia continued to purchase paper for office and commercial (telephone billing) use exclusively from forests managed according to Forest Stewardship Council (FSC)[12] standards and purchased and used a significantly smaller quantity.

12
www.fsc.org.

13
Energy Star is a voluntary international labelling system for energy efficiency. This was introduced in 1992 by the US Environmental Protection Agency (EPA). Through an agreement with the US Government, the European Community takes part into the Energy Star system as far as office equipment (www.eu-energystar.org)

The reduction in paper for office use was achieved by taking action on purchases, rationalisation and recycling.

Continued implementation of the "Printing on Demand" project to optimise the printing process in company offices contributed to reducing purchases. The project was implemented in 675 offices. Around 35,000 individual printers were replaced with just over 4,000 shared high performance units using a quick standby system to reduce energy consumption (12% of the stock of printers are Energy Star[13] certified and 40% are already set up for front and back printing), which allows printer conditions and toner consumption to be monitored and maintenance to be managed, improving the overall quality of the service as well. The paper consumption rationalisation and containment process for press reviews also continued to be applied. By providing online access and limiting recipients and the number of pages, an 8% saving was achieved in 2010, with resulting benefits for information filing and searching as well.

Sorted waste collection activities, organised throughout all the company's offices, allowed 21,198 tonnes of paper to be sent for recycling in 2010 (the target was 20,000 tonnes) and a new similar objective has been set for 2011, which is even more challenging considering the reduction in overall volumes.

As regards the use of commercial paper, 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 almost 500 tonnes of paper to be saved, as well as reducing the production of CO_2 associated with delivery of the packages.

PAPER FOR OFFICE USE

		TI Group 2010	TI Group breakdown by Business Unit (%)			
			Domestic	Brazil	Media	Olivetti
NON-RECYCLED PAPER PURCHASED	kg	2,178	65.43%	34.57%	0.00%	0.00%
RECYCLED PAPER PURCHASED	kg	59,869	0.00%	100.00%	0.00%	0.00%
FSC CERTIFIED PAPER PURCHASED	kg	584,323	95.43%	0.00%	2.45%	2.12%
TOTAL PAPER PURCHASED FOR OFFICE USE	kg	**646,370**	**86.49%**	**9.38%**	**2.21%**	**1.92%**

TOTAL PAPER PURCHASED (%) TI GROUP

1.92%
Olivetti

2.21%
Media

9.38%
Brazil

86.49%
Domestic
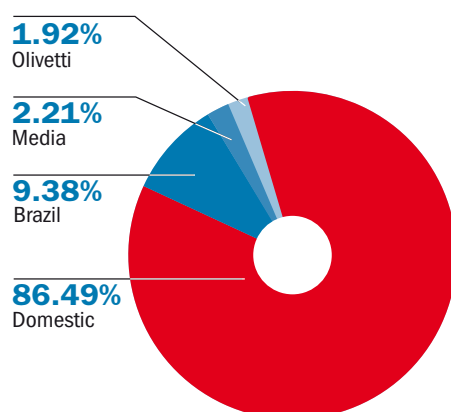
Waste

The data shown in the table refer to the quantity of waste consigned[14] and recorded by law[15].

WASTE CONSIGNED(*)

		Telecom Italia S.p.A. 2010	% Changes	
			2010 vs. 2009	2010 vs. 2008
HAZARDOUS WASTE	kg	5,409,504	-13.70%	5.65%
NON-HAZARDOUS WASTE	kg	11,049,385	-4.22%	2.46%
TOTAL QUANTITY OF WASTE	**kg**	**16,458,889**	**-7.56%**	**3.48%**
WASTE FOR RECY-CLING/RECOVERY	kg	15,062,162	-6.97%	6.78%
RATIO BETWEEN THE AMOUNT OF WASTE RECYCLED/RECO-VERED AND THE TOTAL WASTE	%	91.51%	0.64%	3.18%

14
The term "consigned waste" describes waste delivered to the haulier for transport to the recycling and recovery or disposal facility.

15
Slight variations compared to the situation on 31st December may occur until the following 30th March because the sources of the data are the loading/unloading registers, 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.

*
The data do not include telephone poles.

WASTE CONSIGNED AND RECYCLING RECUPERATION PURPOSES (KG) – TELECOM ITALIA S.p.A.

millions
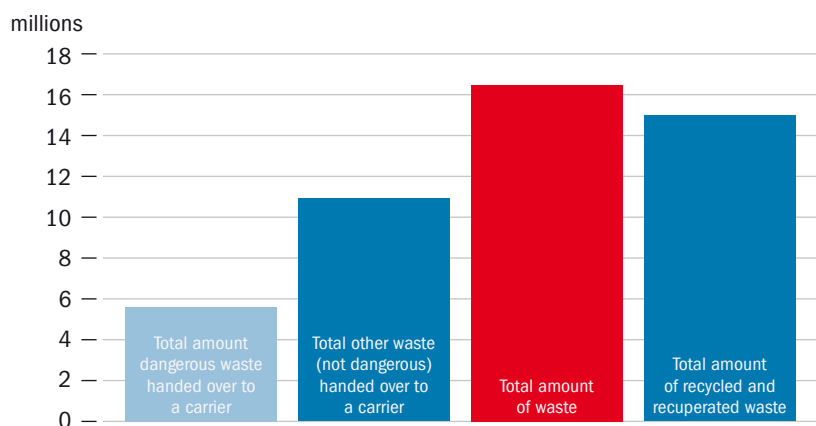
WASTE CONSIGNED

		TI Group 2010	TI Group breakdown by Business Unit (%)			
			Domestic	Brazil	Media	Olivetti
TOTAL WASTE CONSIGNED	kg	18,751,552	89.39%	5.88%	0.70%	4.03%

As communicated in the previous report, a major campaign regarding hazardous waste was launched to replace lead batteries. During 2010, the data fell back to normal levels. Compared to the two previous periods, the ratio between waste produced and waste consigned for recycling/recovery has improved further.

The sorted collection of waste produced in offices takes place in all the company's offices and during 2010 it was checked and monitored in order to optimise the process and maximise the amounts collected.

Following the transposition into national regulations of the biennial review of the ADR (Agreement concerning the international carriage of Dangerous goods by Road), the new internal procedure was issued and the training programme to update the supporting technical staff was completed.
In accordance with current regulations, the collection of waste covered by these regulations continued to be specifically monitored.

In compliance with Ministerial Decree No. 65 of March 8, 2010 (published in the Gazzetta Ufficiale on May 10, 2010) the collection of Waste Electrical and Electronic Equipment (WEEE) has been implemented by all Telecom Italia sales channels as of June 18, 2010. As required by the legislation, Telecom Italia and all its sales channels are registered as "Distributors" in the National Register of Environmental Managers. Consequently, a spe-

cific internal procedure has been issued in accordance with the legislative provisions and the respective training has been provided to direct point of sale staff, customer information procedures have been activated and the WEEE collection procedures for distance selling have been implemented. Guidelines have also been supplied for franchised sales channels.

Telecom Italia S.p.A. and Olivetti have launched a process across the entire country for the collection, recycling and disposal of non-industrial batteries and accumulators. Telecom Italia makes use of the "ReMedia" consortium and Olivetti of the "ecoR'it" consortium, of which our company is a founder member.

At Tim Brasil, the initiatives aiming to increase awareness in the community on the issue of waste that is hazardous to health and the environment are continuing. In shops and company offices, suitable containers have been provided for the collection of used batteries and to dispose of mobile phones and accessories.

In order to contribute to reducing the waste produced, in 2010 Telecom Italia S.p.A. refurbished a large amount of the equipment it owns (including 167,222 modems, 42,914 set top boxes for IPTV, 43,477 fixed terminals, 33,056 telephony products, 6,233 data equipment items, 1,147 MT4 concentrators, 66,185 ISDN devices). In addition to the environmental benefits in terms of "avoided waste", these activities have a financial benefit because of the positive difference between the avoided purchase and the cost of reclamation.

Development of the NGAN (Next Generation Access Network) in a number of Italian cities in order to provide customers with 100 Megabit per second connections provides for the installation of optical fibre cables. Innovative low environmental impact equipment will be used for the necessary excavations according to the agreement recently signed by ANCI (the association of Italian municipalities) and Telecom Italia. The system allows for the creation of so-called mini-trenches, which reduce work time, the area occupied by the work site, the amount of soil disturbed, the material removed, the paving deteriorated and, consequently, the amount of road restoration required. Since trenches of just a few centimetres in width and only 30 centimetres in depth are to be dug, the mini-trench system allows the socio-environmental costs in terms of disruption for citizens and administrations to be reduced by 80%, accidents at work to be reduced by 67% and the time needed to install the telecommunications infrastructure to be cut by 80%.

Following the 2003 Framework Agreement for the management of decommissioned wooden telephone poles, with the favourable opinion of the Conference of State-Regions-Autonomous Provinces, signed with the Ministry of the Environment and the Ministry of Production Activities and the production and recovery companies, decommissioning activities continued in 2010 with the replacement of 143,570 poles.

Electromagnetic emissions

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

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

Systematic monitoring continues 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.

Based on the controls carried out on Italian territory, electromagnetic emissions generated by La7 and MTV individually are within the legal limits, with levels significantly lower in the case of digital broadcasting, which allows a reduction of the electromagnetic emissions of around 75% compared to traditional analogue broadcasting.

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 2010, in line with the established targets, all the models of technologically innovative mobile phones widely distributed in Italy and carrying the TIM brand, and 25% of the models[16] distributed in Brazil and branded TIM Brasil were submitted for SAR qualification in Telecom Italia's laboratories where specific equipment and expertise to carry out such tests exist. As far as SAR assessment, Telecom Italia applies the ICNIRP (International Commission on Non-Ionizing Radiation Protection) guidelines[17] and the relevant declarations of conformity. SAR qualification is carried out in a pre-commercialization (or product evaluation) phase, when the SAR value is not yet available from the manufacturer, and is therefore much more than a simple quality control.

The issue of electromagnetism and the possible effects on biological systems have been the subject in recent years of numerous studies and discussions involving the scientific community and public opinion. More details are available at www.telecomitalia.com, in the Sustainability section.

5.2 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 discussed at the latest summit in Cancun (United Nation Climate Change Conference - UNFCCC COP16) with the aim of limiting the global temperature increase to +2°C, restoring carbon dioxide emissions expected in 2100 to pre-industrial levels[18].

There are many market drivers that increase the importance of carbon management for companies: operating costs, above all the cost of energy but also the growing impact of carbon management (the telecommunications sector is not currently part of the Emission Trading Scheme[19]), 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, becoming a long-term priority.

16

SAR – Specific Absorption Rate: assess the electromagnetic power absorbed by a mass of tissue. SAR is measured in Watt/kg.

17

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.

18

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

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19

The emissions market is an administrative tool used to control emissions of pollutants and greenhouse gases internationally by listing the emissions themselves and trading emission quotas between different countries:
- European Directive 2003/87/EC establishes a system for trading greenhouse gas emissions in order to comply more effectively with the Kyoto Protocol undertakings using an economically efficient instrument (Emission Trading Scheme EU ETS).
- As of January 1, 2005, the CO_2 (EU-ETS) emissions market formally came into force, involving production sectors with high levels of 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 emissions produced by the Information Communication Technology sector are expected to grow. However, the ICT sector is required to play a decisive role, contributing to reducing emissions in other sectors by offering services that promote new ways of working, learning, travelling and, more generally, living. According to the Global e-Sustainability Initiative (see Smart 2020: Enabling the low carbon economy in the information age, www.gesi.org), in 2020 ICT will be responsible for 3% of world CO_2 emissions, but the increase in its emissions could be offset by making a contribution of approximately 15% to a substantial reduction of CO_2 emissions generated by other industrial sectors. This will only be possible if the potential of solutions based on the use of ICT that have identified by the report is fully grasped and if these same solutions are applied globally.

This year, the Group again took part in the Carbon Disclosure Project (CDP). The guiding principle on which this international initiative is based is that, in order to deal with the challenge of climate change, companies have to inform stakeholders of their position in terms of risks/opportunities and launch a dialogue supported by information of adequate quality on the subject of carbon management. Telecom Italia achieved a score of 70 out of 100 for its involvement in CDP8, achieving a 6% improvement in the degree of disclosure compared to performance in the previous year.

Telecom Italia also signed the Cancun Communiqué drawn up by the Corporate Leaders Group on Climate Change (EU CLG). This communiqué allowed a significant number of EU and other companies around the world (950 companies in 60 countries) to comment on the expectations of the COP16 UN summit of December 2010.

The Group's approach to the fight against climate change is conducted on three levels:
· reduction of its own direct and indirect emissions of greenhouse gases;
· encouragement and support for the dematerialisation of goods and services by contributing to reducing the emissions of the other sectors.
· contribution to disseminating a culture based on a correct approach to environmental issues inside and outside the company.

Reducing emissions
The environmental impact of Telecom Italia in terms of CO_2 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.
Many initiatives are in progress or planned at Telecom Italia, including the following in particular:
· replacement of Euro3 vehicles used for long distance travel with Euro4 diesel vehicles with anti-particulate filters and reduction of the total number of vehicles. The new vehicles added to the company's fleet have reduced emissions by approximately 30% compared to the decommissioned vehicles (cutting CO_2 emissions by 1,684 tonnes).
· improvement of the energy efficiency of buildings by implementing a five-pronged programme: establishment of an energy consumption database prior to implementing efficiency initiatives; publication of a policy on the energy performance of buildings; establishment and administration of audit programmes for verifying the implementation of the programmes defined; annual publication of energy data, CO_2 emissions and programme progress; promotion of the energy efficiency of buildings among suppliers, employees and other stakeholders. The initiative involved 50 office buildings in 2010. The accuracy and consistency of the data recorded by meters installed in 1685 exchanges,

63 offices and 8 data centres were verified. This database will be a point of reference for verifying implementation of the energy saving programmes planned for 2011. The project aimed at modernising and improving the efficiency of electrical installations by using LED lamps in office areas provides for the replacement of 75,000 lamps in 2011 (used mainly in offices but also in some mixed use premises).

· The NGDC (Next Generation Data Centre) project, which aims to modify IT architecture by physically concentrating and virtualising services to reduce numbers from the current 11,350 to less than 2,000 by 2011. This new configuration, based on the Service Oriented Data Centre model, allows maintenance/management costs and energy consumption to be reduced. Once it is fully operational, the NGDC will allow energy savings in the order of 40% to be achieved compared to the initial configuration.

As regards the initiatives implemented to reduce energy consumption, and therefore indirect emissions, see § Energy.

Eco-efficiency indicator

For years, Telecom Italia S.p.A. has measured its own energy efficiency by using an indicator that establishes a relationship between the service offered to the customer (simplified as the measurement of bits transmitted) and the company's impact on the environment (energy consumption). 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 climate control in exchanges), domestic purposes (electricity for office use, air conditioning and heating in the offices) and vehicles. The following table shows the level of the eco-efficiency indicator in recent years.

Year	Kbit/kWh	bit/Joule	% increase year 200x vs 200x-1
2004	777,248	216	+58%
2005	1,311,676	364	+70%
2006	2,175,006	596	+63%
2007	3,144,283	873	+45%
2008	4,237,038	1,177	+35%
2009	4,739,570	1,317	+12%
2010	6,116,728	1,699	+29%

In 2010, the indicator value improved considerably and exceeded expectations. The annual rate of increase started to grow again compared to the previous period The commitment continues with the establishment for 2011 of an objective of 1950 bit/Joule, an increase of +15% on the figure for 2010 (see § Objectives in the annexe).

For the second year running, TIM Brasil has measured its own eco-efficiency indicator to monitor its performance. The 2010 value is 179bit/Joule and is up by around 50% on the value for 2009. However, the figure cannot be compared to the one for Telecom Italia SpA because of the many differences: the technologies used (mobile network only in Brazil, fixed and mobile networks in Italy), geographical features, climate situation, type of customer. The indicator will however be useful in implementing future improvement actions.

ECO EFFICIENCY INDICATOR

bit/joule

2,000	
1,600	
1,200	
800	
400	
0	

2004 2005 2006 2007 2008 2009 2010

Years
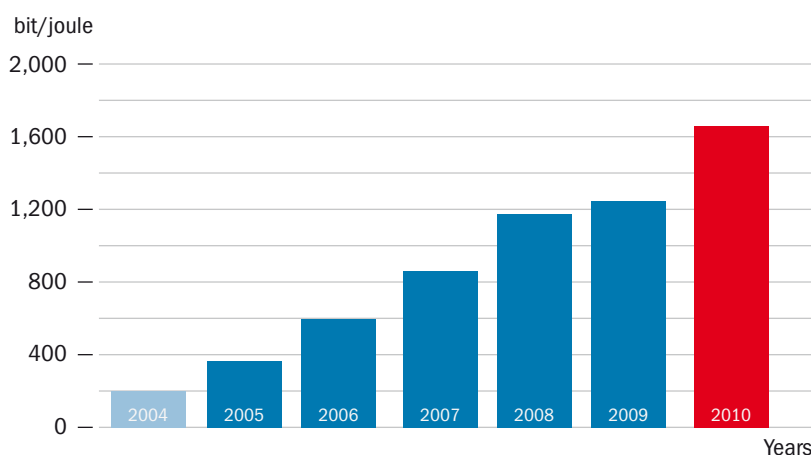
Telecom Italia as part of the solution

ICT can play a significant role in the fight against climate change through the promotion and dissemination of products and services which encourage behaviour that can reduce or eliminate the emission of greenhouse gases generated by the transport of people and goods. In general, progress in ICT favours the replacement of traditional physical products and services with digital products and processes (for more information, see § Customers/ Innovative services).

For example[20]:
· video and audio conferencing services avoid the need for people to travel;
· Tlc services facilitate and allow teleworking, consequently reducing home-office commuting;
· 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 dwellings.

[20]
It has been estimated that 100 million audio-conferences in place of physical travel would save over 2 million tonnes of CO_2 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 CO_2 and that if 10 million users received their telephone bills online instead of the traditional paper bills there would be a saving of around 11,000 tonnes of CO_2. The examples are indicative and are intended to give a concrete indication of the potential of TLC services. They are based on projects verified by third parties and 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 (www.etno.be/sustainability).

ICT technologies can therefore modify the features of products and services (price, efficiency and, therefore, convenience) leading to increased demand. On a large scale, the environmental impacts achieved can become negative (increase in the demand for energy, major problems in the management of waste generated by technologically obsolete products). It is the responsibility of the ICT sector, and therefore also of Telecom Italia, not to underestimate this effect, minimising their own negative impact on the environment and focusing on the research and development of products with low environmental impacts throughout their entire life cycle (see § Product Responsibility).

In 2010, Telecom Italian launched the new Cloud Computing platform, based on a full technological convergence between telecommunications and Information Technology, which allows big companies and public administration to make use of on-demand and pay-per-use infrastructure while further optimising costs and performance, thanks to the possibility of using constantly updated solutions without investing in dedicated IT resources and specialised know-how.

The launch of Cloud Computing platform is part of Telecom Italia's ICT strategy, within which the company combines connectivity services with innovative technological solutions. Cloud Computing services allow IT infrastructure and energy costs to be cut, reducing pollution and contributing to greater environmental sustainability.

Other innovative services launched by Telecom Italia to respond to customer requirements, reducing environmental impacts at the same time, are described in the Customers chapter (see § Customers/Innovative services).

In 2010, around 5,200 video conferences were staged between the Telecom Italia offices in Rome and Milan, and around 7,000 multi-video conferences and 20,000 audio conferences between several company offices. In addition to these, numerous video and audio conferences continuously take place within the company among personnel authorised to make use of independent workstations. The use of these systems allows a significant amount of carbon dioxide (and other pollutants) emissions associated with the use of means of transport[21] to be avoided.

Communicating sustainability

The debate about sustainability, and communicating the relevant action taken, 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. Telecom Italia carried out various communication initiatives in this respect in 2010:
- 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;
- 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 big company in every respect.

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On average, around 10 people take part in each video conference and half of these would have travelled to attend 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 tonnes of carbon dioxide. 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 1,000 km per round trip with an impact factor on medium range travel of 0.12 kg per km - source GHG Protocol).

VIDEO CONFERENCES AMONG COMPANY PREMISES HAS ALLOWED AVOIDING THE EMISSIONS FROM EMPLOYEES' TRAVELS

For details about the many internal communication initiatives carried out (including the first convention on the subject aimed at all employees of the Group in Italy) see § Human Resources/Internal Communication.

The main external communication initiatives include:
- **The green train**, an initiative of Legambiente aimed at monitoring atmospheric and noise pollution in a number of Italian cities and making the public and local authorities

aware of environmental and quality of life 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 CO_2 emissions and improve quality of life. The train made stops in the cities of Messina, Crotone, Potenza, Latina, Ancona, Ravenna, Vicenza, Milan and Genoa, recording a total of around 24,000 individual visitors, in addition to many local authorities and schools.

· **Zooppa**: an online creative competition on "How ICT can contribute to reducing CO_2 emissions". For this purpose, 57 videos, 489 graphics and 12,000 comments were sent. The competition winner received a prize during the event described in the next paragraph.

· **Future is sustainability**: an event carried out in the context of the Capitale Digitale project, which began with the presentation of the Map of the Future developed by the Institute for the Future of Palo Alto, and continued with a round table on the subject, involving the Chairman of Telecom Italia and leading figures from the world of culture and politics.

Furthermore, within Avoicomunicare, the integrated communication project which continued to deal with the environment in 2010 (see § Social Media and Digital Communication), access is available to the Carbon Meter.

This is 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 to discover how and by how much they can contribute to mitigating climate change by making small changes to their behaviour.

By using the Carbon Meter and answering a few questions on their lifestyle, people can calculate the CO_2 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.

5.3 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.

Telecom Italia has adopted a Green Procurement Policy (see § Suppliers/Main sustainability initiatives) aimed at minimising the environmental impacts directly attributable to the company and its suppliers, with a view to ensuring continuous improvement and complying with best practice in the sector.

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.

As previously stated, Telecom Italia was among the first telecommunications operators to have adhered to the Code of Conduct for v3 Broadband Equipment, a document that defines energy consumption targets for modems, home gateways and other home and access network equipment. (see § Energy).

Quality tests are conducted on products to confirm respect for the prerequisites of energy efficiency, environmental impact and safety. For the tests carried out on mobile handsets, see § Electromagnetic emissions.

In addition, a review has been carried out of the end of life processes of home access gateways[22] used to supply residential and small business broadband services, resulting in Design For Environment (DFE) requirements for future product generations. Among the improvements identified, the following should be noted:
· the review of the structure of the product's plastic body, with the reduction of the number of parts and the optimisation of disassembly;
· the use of recycled plastics, when possible, with regard to the physical and mechanical characteristics and their suitability for use by the customer;
· packaging in recycled material with the reduction of unnecessary plastic wrapping;
· reduced bulk and weight of the packaging to minimise impact during the transport phase;
· use of a unified power supply to maximise the possibility for reuse;
· review of the logistics of collecting products at the end of their life cycles and of the process of assessing the possibility of regeneration;
· the identification of technical modifications to increase the energy efficiency of access gateways: the tests carried out on average usage at home by the customer and depending on their number, allow an estimated annual energy saving in the order of 100 GWh.

An Environmental Declaration compliant with the ISO 14021 standards has been drawn up which will provide the end customers with detailed information on the energy and environmental efficiency of new Access Gateways.

22
The Home Access Gateway is a device that allows the connection of several private customers to the same network through the concentration of voice, data and video traffic.

The Environmental Declaration is the first step towards defining an environmental labelling programme to be applied, where possible, to all home networking products (terminals and other home connectivity devices). An appropriate "Telecom Italia Green" logo has been created and will be used on products and packaging as of 2011.

During 2010, the Life Cycle Analysis (LCA) method was applied to around 46 products intended for marketing (mobile phones, fixed telephones, fax machines and printers) within the Green Procurement project (see § Suppliers/Main sustainability initiatives).

In defining the network architecture and the technical specifications of the equipment and passive components, criteria have been adopted designed to minimise the environmental impact (for example, consumption, bulk, noise and battery use). 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.

STRATEGY

The intention of the Group companies is to contribute to the economic well-being and growth of the communities in which they operate by delivering efficient and technologically advanced services.

Consistent with these objectives, and the responsibilities assumed towards the various stakeholders, the companies of the Group see research and innovation as priority factors in growth and success.

Compatible with its role as a private company, and the associated demands of a financially efficient management, in making its decisions, the Group takes into consideration the social impact of telecommunication services, responding to the needs of even 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.

RELEVANT STAKEHOLDERS

The community stakeholders are the following:
- 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 international institutions (see § Institutions);
- university and research institutions;
- the traditional media and the social media.

6. THE COMMUNITY

6.1 MACRO AREAS OF INTERVENTION

The two main areas of intervention as regards investment in the community are the following:

1. voluntary activities consistent with the Group's core business (associated with the provision of ICT services) ;
2. activities aimed at the general development of the community (principally, the activities of the Telecom Italia Foundation).

For further information on the objectives of the areas of intervention and the methods by which they have been identified go to the Sustainability section on the corporate website www.telecomitalia.com where the "Group guidelines for voluntary contributions to the community" are available.

6.2 HOW THE PROJECTS ARE IDENTIFIED AND IMPLEMENTED

Telecom Italia identifies the projects to be implemented on the basis of:
- consultation with stakeholders and direct contact with civil society associations;
- partnership projects with stakeholders and associations;
- benchmarking against the other European telecommunications operators;
- participation in industrial associations (for example, the London Benchmarking Group);
- sharing knowledge of the industry's problems with the other departments of the Group;
- external requests made in response to social emergencies (e.g. earthquakes in Abruzzo, Haiti and Pakistan).

Each project is implemented in four stages: planning, selection, management and control.
1. In the planning phase, the objectives to be reached, the beneficiaries of the project, the time-scales of the individual activities, the overall duration of the initiative, the methods of monitoring the project and the budget are identified.

2. The selection of the projects may take place:
   › through public tenders (as is the case with many projects pursued by the Telecom Italia Foundation);
   › by decision of the company following the consultation mentioned above, consistent with the guidelines for voluntary contributions to the Community.
3. The selected projects are normally administered through partnerships or framework agreements. Sometimes cash disbursements are made, leaving the management of the activity to the beneficiary organisation/association.
4. The current monitoring system provides for ex-post monitoring tailored to the specific requirements of the individual projects (e.g. for the Telecom Italia Foundation see § Community development initiatives).
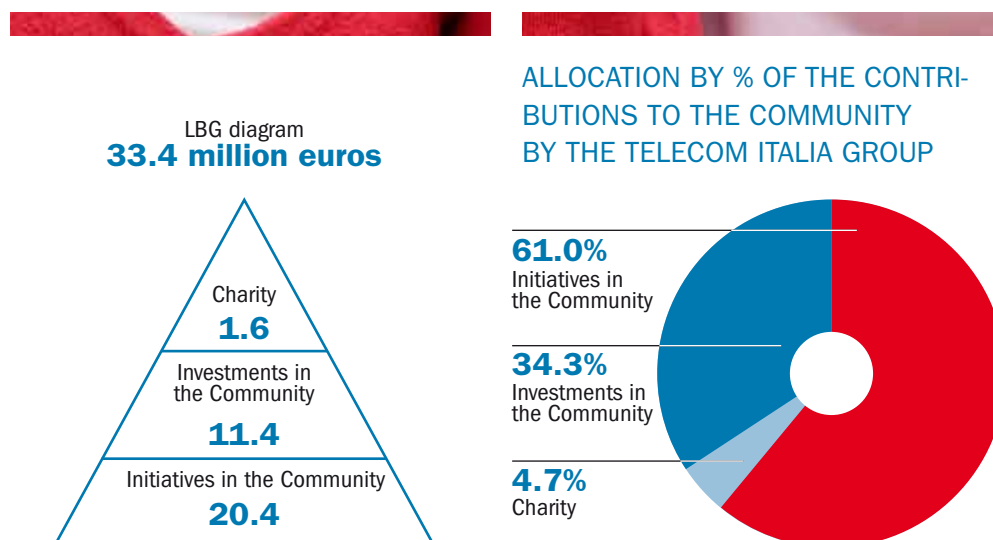
6.3 HOW THE CONTRIBUTION TO THE COMMUNITY IS MEASURED

The contribution made to the community by the Telecom Italia Group, calculated according to the London Benchmarking Group (LBG) guidelines, amounts to 33.4 million euro in 2010 (36.5 million euro in 2009), equal to 0.81% of the profit before tax.

The contribution has been calculated using management data partly based on estimates. In accordance with the principle of materiality, only subsidiary companies in the consolidated accounts with revenue greater than 300,000 euro and more than 40 employees have been included, excluding discontinued operations/non-current assets held for sale.

More than 100 major international companies subscribe to the LBG, which was founded in 1994 and represents the global gold standard for the classification of voluntary contributions 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 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:

LBG diagram
33.4 million euros

Charity
1.6

Investments in the Community
11.4

Initiatives in the Community
20.4

ALLOCATION BY % OF THE CONTRIBUTIONS TO THE COMMUNITY BY THE TELECOM ITALIA GROUP

61.0%
Initiatives in the Community

34.3%
Investments in the Community

4.7%
Charity

The criteria used to assign the contributions to the various levels of the pyramid are set out below.

Charity Intermittent support to a wide range of good causes in response to the needs and appeals of community organisations, increasingly through partnerships between the company, its employees, customers and suppliers.	Donations to national/international organisations not based on a specific medium/long term programme. Sponsorship of causes or events, not part of a marketing strategy. Company matching of employee giving and fund-raising, Costs of supporting and promoting employee involvement. Costs of facilitating giving by customers and suppliers.
Investments in the Community Long-term strategic involvement of the company to address a limited range of social causes.	Memberships and subscriptions. Grants and donations based on a specific medium/long term programme.
Initiatives in the Community Activities usually carried out by commercial departments to support directly the success of the company, also in partnership with humanitarian organisations.	Sponsorship of events, publications and activities promoting brand or corporate identity. Cause Related Marketing, promotional sales. Support to scientific and University research and to humanitarian organisations. Care for consumers with special needs. Civil Protection activities.

6.4 RESPONSES TO STAKEHOLDERS

Initiatives consistent with the core business

By way of example, some activities carried out in 2010 are given below, concerning initiatives to respond to the needs of the community using the technologies that underlie the provision of services by Telecom Italia. More information about the projects can be found at the Sustainability section on the corporate website www.telecomitalia.com.

Internet Saloon

Launched in 2000 as a partnership between the Associazione Interessi Metropolitani of Milan, Telecom Italia and other companies, this initiative is intended to support dissemination of the Internet and new technologies among people over the age of 50. The day-long basic Internet courses are run by university students and are structured in such a way that anyone, even without any previous knowledge of computers, is able to browse the Internet and use email after just a few hours of lessons. Internet Saloons are currently active in Milan, Sondrio, Pavia, Catania, Ancona, Bari and Naples. In ten years of operation, more than 45,000 people have successfully attended courses.

Telemouse

Set up in 2009 as a partnership with the Fondazione Mondo Digitale, this initiative is intended to provide digital literacy courses in Rome for the over 60s. The basic courses are conducted in the IT classrooms of 60 schools throughout Rome and are run by selected students, who are awarded educational credits for their work.

Telecom Internet Corners have also been set up in 50 social centres for the elderly in the Rome municipality. These are welcoming and familiar places where the elderly can practice the skills they have learned and, thanks to the experience of the first "tutor grannies and granddads", introduce their peers to the new technologies. In 2009-2010, a total of 1500 people over the age of sixty were trained and a further 4500 used the Internet Corners.

To mark the "2011 European Year of Volunteering", the first "Telemouse 3.0 - Knowledge Volunteers" competition has been launched with the sponsorship of the Ministry for Young People. The prize is two scholarships for two students who have distinguished themselves for digital volunteering work done in the framework of the project.

Fund raising

Fund raising is of particular importance, particularly in dealing with emergencies. For over ten years, Telecom Italia has been a key player in the solidarity chain that is created around humanitarian or scientific projects, which it supports by allowing people to make micro-donations of 1 or 2 euro, by sending a text message or calling a dedicated free number.

The money raised is passed on in its entirety, without any deductions, neither by the tax authorities, who, thanks to an awareness campaign mounted by telecommunications companies and non-profit organisations, have exempted such operations from VAT, nor by the company to cover the costs incurred.

In 2010, 109 fund raising events were organised and approximately 24 million euro were collected[24].

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

Safe Browsing

The project 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 website (www.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 benefits from the involvement, skills, authority and reliability of Fondazione Movimento Bambino, Save the Children and Atlantyca, copyright holder of the Geronimo Stilton cartoon character.

A Safe Browsing tour around Italian schools and town squares began in November and will continue through the 2010-11 school year (see dedicated box).

Safe Browsing Tour

The tour began in Turin and visited schools and 20 town squares in 10 regions of Italy, involving around 100,000 people across the country. Using the five multimedia workstations installed on the Safe Browsing bus, and an interactive white board made available by Olivetti, a team of experts worked with children, teachers and parents throughout the journey, introducing them to the web with exciting activities aimed at highlighting the extraordinary potential of the Internet and avoiding its potential dangers. This year, the Safe Browsing project was also extended to social networks like Facebook, YouTube and Twitter, with specific pages informing people about all the tour's activities. Educational activities were organised for each stop on the tour and for each age band, in both primary and secondary schools, and interactive activities were carried out in town squares, where materials specifically targeted at young people and adults were distributed.

Finally an information and updating section was dedicated to parents and teachers on the relationship between children and the Internet.

TIM Mobile Care and TIM Mobile Speak

Tim Mobile Care is a multimedia video assistance service developed with the Italian National Organisation for the Protection of the deaf. It allows deaf people to receive information in Italian Sign Language on the use of mobile telephone services (e.g. configuring email, text and picture messaging, remaining credit, tariff profile etc.).

TIM Mobile Speak is a more evolved version of "TIM Talks" produced in association with Loquendo (a Group company) and the Italian association for the blind and visually impaired. It is a software application that allows the blind, visually impaired and the elderly to use all the functions of mobile phones thanks to an electronic voice that reads out the contents of the display, depending on the requirements and instructions of the user.

Internet browsing services are also available on mobile handsets which use voice recognition technologies, voice synthesising and audio streaming in order to customise various information services (tourism, entertainment etc.) for use by those with visual and auditory disabilities.

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 the 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 school. 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.

THE SOCIAL INCLUSION OF HOSPITALIZED CHILDREN IS FACILITATED BY OUR TECHNOLOGIES

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 several hospitals in the cities of Bologna, Rome, Padua, Florence, Genoa and Turin.

Initiatives for general community development

These are conducted primarily by the Telecom Italia Foundation and, to a lesser extent, by other Group companies.

Telecom Italia Foundation

The Telecom Italia Foundation, established at the end of 2008, is one of the main Corporate Social Responsibility instruments of Telecom Italia regarding the Community. Through its initiatives, the Group's commitment to support the communities in which it operates is strengthened, promoting ideas and projects designed to improve people's quality of life.

In particular, the Foundation is active:

- in the social field, developing educational and support projects dedicated to the vulnerable and disadvantaged categories and sections 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.

The Telecom Italia Foundation is a business foundation primarily dedicated 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 2010, the Group contribution to the Foundation was 5 million 664 thousand euro.

The Foundation's activity plan is established every year and approved by the Board of Directors, which relies on the support of a Scientific Guidance Committee consisting of experts from the various areas of intervention.

BY LISTENING TO THE OPINION OF EXTERNAL EXPERTS TELECOM ITALIA FOUNDATION HAS DEFINED THE GUIDELINES FOR PROJECTS DEDICATED TO THE PROTECTION OF OUR HISTORICAL-ARTISTIC HERITAGE

In order to guarantee maximum transparency in the decision-making processes within the Foundation, a programme of stakeholder engagement was launched in 2009, with the support of authoritative experts from outside the Foundation in the process of analysing and defining possible initiatives and projects in the field of historic and artistic heritage. This involvement has become an important tool with which to gain a better understanding of the dynamics and opportunities for supporting this heritage, in accordance with the Foundation's mission, and resulted in an area of interest being identified for the tender entitled "Invisible cultural heritage: an Italian resource to be promoted", published in October 2010.

The Foundation's projects are monitored on the basis of the specific characteristics and objectives envisaged. The monitoring system is a requirement built into the Foundation's tenders and represents one of the prerequisites for admission of the projects, in addition to being an assessment parameter.

How the projects are selected
For the purpose of identifying projects to be supported, the Telecom Italia Foundation primarily uses tenders published on the www.fondazionetelecomitalia.it website. Each tender is open for a specific period of time and states the amount of the contribution made available by the Foundation, the requirements of the recipients and the projects that are eligible for the disbursement. Projects are presented exclusively in electronic form by means of an appropriate procedure made available online when the tender is activated.
The selection stage takes place according to an assessment procedure that complies with the parameters set by the tender and already been made public. The procedure is validated by the Scientific Committee consisting of experts who are external to the Foundation. The short-list of projects resulting from the application of this procedure is subsequently submitted for assessment by the Scientific Committee and to the opinion of a panel of external stakeholders identified for the specific areas of activity.
For information about the projects implemented by the foundation in 2010 in the various areas of activity go to the Sustainability section of the corporate website www.telecomitalia.com and www.fondazionetelecomitalia.com

Telecom Italia Foundation's 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 programme (which lasts for three school years and provides for an investment of 1.5 million euro) is split into four operating projects aimed at:
· recognising dyslexia early;
· training teachers;
· disseminating technologies in schools;
· disseminating technologies among families;

In 2010, part of the programme (recognising dyslexia early and combating it in Italian schools) 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.

Other social initiatives of the Group

- Telecom Italia is a founding member of Dynamo Camp, the first camp specifically set up to provide free accommodation for children affected by serious and chronic diseases, both during and after hospital treatment, in order to enable their psycho-physical recovery with a view to undergoing further treatment and returning home.
  A further 3 initiatives sprang from this partnership during 2010:
  › Radio Dynamo (www.radiodynamo.it): a web radio that broadcasts recreational therapy programmes in children's hospitals, day hospitals and children's homes, involving sick children and young people in the creation of radio programmes, with the help of volunteers, musicians and professional radio presenters. The project aims to achieve the same objectives as Dynamo Camp, involving children who cannot physically attend the premises and those who have been there in the past, during the time when they are at home or in hospital.
  › Company volunteering: at Christmas 2009, Telecom Italia launched its first company volunteering project, supporting the involvement of twelve employees in the winter camp, following a rigorous selection based on aptitude. Given the satisfaction expressed by the Association and the volunteers, the experience was repeated in the summer of 2010 with the involvement of a further 30 employees, using paid leave specifically authorised by the company. The tasks performed by the volunteers included welcoming guests (children, teenagers or families), accompanying them and supporting them with their requirements.
  › Christmas gifts: instead of presenting gifts in 2010, Telecom Italia decided to promote a specific initiative with the Dynamo Camp Association, allocating the Christmas resources to purchasing 100 stays at the camp for an equal number of sick children.

- Music in schools: launched in 2003 as a collaboration between the Group's mobile communication companies in Latin America and the Brazilian government, this project is aimed to promote the social inclusion of children and teenagers living in at risk situations in 13 Brazilian cities by means of musical education. During the music courses, notions of civic responsibility and peaceful co-existence are taught. In many cases, the musical knowledge acquired has smoothed the way for participants into the world of work. To date, 20,540 students from 62 public schools have benefited from the project.
- Zambia Project: Telecom Italia is involved in this project, promoted by the not-for-profit organisation Nexus Mundi Foundation (NMF), as a technological partner. The aim is to encourage agricultural, entrepreneurial and healthcare development in a number of Zambian towns by providing connectivity. The initiative involves the installation of Community Media Centres (CMCs), which combine Internet access, computer and media and office equipment and allow content sharing, in the most important locations for the communities of Lusaka, Chikuni and Kasisi: hospitals, schools, churches, radio stations, care homes, cultural centres. Each CMC is connected to the others by wi-fi and to the Internet by satellite, although a broadband cable connection is expected to be installed soon.

6.5 TRADITIONAL MEDIA

Involvement through the press office

The media - press agencies, newspapers, radio, television and the web - are the most direct form of communication with the outside world and are an important stakeholder for Telecom Italia. They become involved through the Press Office, which writes and distributes press letters and releases, organises interviews, press conferences and meetings, and maintains direct relations with individual journalists.

THE PRESS OFFICE MANAGES MEDIA RELATIONS AND REPRESENTS THE GROUP'S VIEWPOINT ON ISSUES OF INTEREST

Where provided by current regulations, the financial markets and their supervisory bodies are also involved in the communication activities.

All the activities are based on a map of key contacts with whom ongoing relationships are established and the resulting creation of ad hoc mailing lists when public meetings are held and presentations of products and services or specific announcements are made. These lists are compiled by carefully analysis of the entire Italian and international media reporting scenario.

In carrying out its activities, the press office follows the Group's specific procedure for the administration and communication of information and privileged data, which governs the internal management and external communication of documents and information regarding the Company and defines the operational methods for communicating price sensitive information to the market (the procedure is available on the www.telecomitalia.com website, in the Governance section).

Communication with the media takes place both on a spontaneous and proactive basis, and in response to specific requests. Dialogue with the media was further strengthened at the end of 2009 with the creation of a specific territorial press office, launched in response to the company's need for greater presence and greater dialogue at local level in all Italy. This office works alongside the other three press offices dedicated to corporate, market and regulatory matters.

The results of the activities of the press office are periodically monitored by a research company. In particular, the visibility of articles mentioning Telecom Italia and its products and services is analysed on a monthly basis, comparing them to a standard consisting of a medium length article published on an internal page of a publication with an average distribution, with no pictures or signature. By giving each article examined a positive or negative value, according to whether it expresses facts and opinions for or against the company, an Index of the Quality of Visibility (IQV) is arrived at. In 2010, despite the negative impact that the TI Sparkle affair had on the Group's image, even in the media, the activities of the Press Office allowed the generally positive quality figures recorded in the previous year to be substantially maintained: in fact in 2009 Telecom Italia was the only operator to present a significant improvement in the IQV (+20%).

Involvement through the Group's website

The corporate site of Telecom Italia (www.telecomitalia.com) is the online point of access to the Group's commercial, service and corporate content. The key stakeholders are:
· general visitors interested in finding out about the company and/or Telecom Italia's offers:
· customers or potential customers interested in finding out about the Group's offers and promotions, who can use the Private and Business channels, subdivided by the type of public and nature of the offer;
· customers interested in finding out about the opportunities for dialogue with the company and/or who need support and assistance, who can use the the dedicated Parla

con noi [Talk to us] and Info & Assistenza channels, with the various different types of contact channels for residential, business and institutional customers;
· researchers and students interested in finding out more about the Group;
· institutional/retail investors and bondholders, both Italian and international;
· analysts and financial and sustainability rating agencies;
· ethical funds;
· job seekers;
· journalists.

There is a dedicated section for each section of the public, with content and in-depth material to meet their specific needs. Various methods are provided to give and receive feedback.

Particular attention is paid to web ranking and classifications which allow comparison to be drawn with what our competitors are doing. On the basis of these indications, the site is continuously updated, enriched and modified with new content and functions of ever greater interest to users.

In 2010, Telecom Italia achieved the following placings:
· third in Europe in the Hallvarsson&Halvarsson (H&H) "Webranking Europe 500", which rewards the best corporate sites of the biggest listed companies based on the quality, transparency, richness and effectiveness of their online corporate and financial communication. Within the same ranking, Telecom Italia was the top European company in the telecommunications sector, with a score of 86 over 100;
· third in Italy in the same national H&H ranking for communication through the corporate website;
· fourth in Italy for sustainability communication through the corporate website in the "CSR Online Awards," the online Corporate Social Responsibility communication ranking administered by Lundquist, a company specialised on corporate on-line communication, in collaboration with the economic and financial daily Il Sole 24 Ore.

Involvement through the Group's broadcast stations

Through TI Media, the Group controls the televisions broadcast stations La7 and MTV. In order to select the programmes to be made, a dedicated office conducts regular market research on the needs of the existing and potential audience. La7, whose programmes are aimed at a mainly adult, culturally aware public, measures the satisfaction and enjoyment of the scheduled programmes mainly through Auditel and, additionally, through the blogs dedicated to specific programmes.

MTV, which is aimed at a young public, does not use Auditel but instead creates specific focus groups to assess and formulate the programmes.

Among the most appreciated programmes are the information services (particularly TG La7).

The editor is responsible for the broadcast content and is therefore the guarantor of respect for the regulations, including independence, press freedom and journalistic expression. Furthermore, the journalists' membership of a specific professional body determines their rights and responsibilities.

LA7

In 2010, LA7 continued its environmental campaign, which culminated with World Environment Day on 5th June. Public awareness was raised by a dedicated multi-platform service. LA7, LA7d and the LA7.it website celebrated the event jointly by broadcasting documenta-

ries, TV series and films that dealt with the subject of environmental protection.

Other important social initiatives were supported by the LA7 television channel and website by broadcasting advertisements and announcements by presenters and displaying posters in the course of individual programmes, as well as by using blogs and forums:

· Save The Children's "Every One" campaign to put a stop to child mortality;
· the FAI [Italian environmental association] "Protect the Italy you love" campaign;
· action for the people of Haiti in synergy with the Rava Foundation and Agire.

LA7 also participated in the Childhood Week and used Facebook to promote the initiative dedicated to the fifteenth anniversary of the ratification of the Charter of the Rights of Children and Adolescents, giving it visibility both on the "Lasettepuntoit" Facebook profile and using banners on the La7.it website home page.

LA7 also launched a campaign for the flooded areas of Veneto, with a fund raising operation led by the LA7 television news programme in association with the Corriere della Sera newspaper.

6.6 SOCIAL MEDIA AND DIGITAL COMMUNICATION

Digital communication is a sector in which Telecom Italia has a stable and recognised national presence. The Group is increasingly demonstrating its ability to attract attention in this field with innovative initiatives in the social media dimension, which is an increasingly common way for people to communicate between each other and with organisations.

This system of interaction, which has become established globally in recent years, increasingly requires equality to be ensured in communication between organisations and their stakeholders and constitutes a forum which a company like Telecom Italia cannot ignore, both in its relations with customers and stakeholders and as part of the country's cultural heritage.

Aware of the importance of the new communication channels, this year the Group has further refined and strengthened its presence within them, using them in an increasingly integrated way with traditional media and making the most of their potential for dialogue in relations with its stakeholders: customers, suppliers, institutions, emerging players on the Internet (young talents, entrepreneurs, web early adopters, research centres, incubators and financiers, universities, hi-tech companies), opinion leaders (bloggers and journalists), public and private entities, who are able to innovate and promote sustainable development. For further information on the objectives and strategies of stakeholders, the main projects carried out in 2010 (Working Capital, Venice Sessions, Social Media Camp, Avoicomunicare) and the results achieved in terms of involvement go to the Sustainability section of the corporate website www.telecomitalia.com

6.7 RESEARCH AND DEVELOPMENT

MONITORING INNOVATION TECHNOLOGY IS A GROUP'S PRIORITY, FOR WHICH IT HAS CREATED DEDICATED DEPARTMENTS

Within Telecom Italia, research and development activities are carried out by Information Technology and TILab, both of which belong to the Technology and Operations Department, which oversees innovation by analysing new technologies and carrying out the engineering operations for Telecom Italia's services and network platforms, 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 Telecom Italia 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. in this context, 18 new applications for patents were filed in 2010.

Relevant stakeholders and issues

The relevant stakeholders for Research and Development are:
- the areas of the company 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 collaboration and joint projects (e.g. the National Research Centre for the Smart Inclusion project) - § The Community/Responses to stakeholders. In 2010, 23 new collaborative projects were begun with 12 Italian universities and 1 foreign one (Keio), in addition to the 3 already under way at the beginning of 2010, covering research into new technologies, encryption algorithms, new services and new communication standards;
- Standardisation Bodies (NGMN , OpenIPTV Forum, OMA, 3GPP , TISPAN, ETSI,) in which Telecom Italia is actively involved;
- Public Administration by carrying activities in partnership (see § The Community/Responses to stakeholders and Institutions/Relations with local Institutions);
- Non-governmental associations for joint projects (e.g. the Zambia Project to install a Community Multimedia Centre in Africa to connect some educational and healthcare institutions with one another and the Internet);
- International bodies such as the UN and UNESCO (e.g. organising study days and presenting action carried out by Telecom Italia in emergency situations).

The themes on which projects are developed are identified on the basis of the Three-Year Technological Plan, the reference document for the Telecom Group, which provides guidelines for the evolution of the network, platform and services.
The Plan is published once a year following a wide-ranging process of involvement of the corporate departments concerned.
The Technological Plan also identifies the main external factors (regulations, standards, vendors, other market operators) that may influence the company's strategies and highlights the emerging and crossover technologies in other sectors that are of interest to the Group.
Further information on how research and development projects are carried out is available at the Group website www.telecomitalia.com, in the Sustainability section.

Project and initiatives in 2010

The themes identified can be arranged in 3 macro-strands:
- Information Technology to support business;
- Services to reduce environmental impact;
- Services for the community

Information Technology to support business

Research and development activities in 2010 were carried out internally or contracted to outside suppliers and were directed towards the creation of:
- software products dedicated to the management of new commercial offers and new services for customers (Business Support Systems), to the proper functioning of network

support systems (Operational Support Systems), and to Security;
- testing and specific checks for tenders and new network architecture;
- new hardware infrastructure in support of the applications.

The main activities have been:
- development of a new Customer Centric platform, "CRM Business," for the commercial management of the SOHO, SME, Enterprise and Top customers;
- development of new Customer Centric "Single Convergent Billing" to manage the billing of fixed/mobile services for Consumer customers;
- development of a Customer Centric Integrated Data Warehouse to support the Fixed/Mobile convergence;
- development of a new "SINGLE SAP" platform to integrate the previous versions relating to previous organisations;
- development of IT platforms in support of the business departments for the implementation of new services for Consumer, Business & Top customers. In particular, activities were aimed at supporting the following offers: offerta famiglia; "Friend & Family"; MTV (main functions); IPTV; "Alice CASA" (naked); "Alice Total Security"; "Alice DATA KIT" (fixed-mobile upselling); "Tim Affare Fatto al Lavoro"; "Impresa Semplice"; "Alice Affare Fatto" on VoIP; "Alice Business" (naked).

Services to reduce environmental impact

- Next Generation Data Center: this project is aimed at developing the hardware infrastructure according to virtualisation principles, based on replacing the physical servers in the Telecom Italia Data Center 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 (see § The Environment/Climate Change).
- Next Generation Workplace: this is a personal computing evolution that allows centrally managed content and applications to be accessed remotely and in multichannel mode, creating highly "simplified" workstations 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: intended to enable new services for vehicles, their occupants, Public Administration and private citizens, by gradually introducing the idea of a vehicle constantly connected with the outside world (e.g. service centre, roadside infrastructure, occupants, other vehicles, etc.). For further information see § Customers/ Innovative services.
- Smart metering: these are solutions that allow energy consumption to be monitored and optimised, including TI-Green and GreenHome, see § Customers/Innovative services;
- Smart Town: the solution provides a package of services for municipalities by using the public lighting network (see § Customers/Innovative services);
- EARTH: this project studies network architectures and individual components of existing and above all future mobile systems with the aim of improving their energy efficiency by at least 50% compared to current standards.
- 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 proto-

type is distinguished by the use of low cost technologies such as HD webcam, low cost plasma 50" TV, medium range PC and new low cost sound cards.

Services for the community

- Solutions for reducing the geographical divide: they are intended to facilitate access to broadband in areas with digital divide problems and new urban areas. Further details of solutions developed or to be developed are available on the corporate website www. telecomitalia.com, in the Sustainability section.

- Laboratorio Accreditato di Prova (LAP) [accredited test laboratory]: it operates within TILab and carries out testing activities on ICT services and systems. The LAP has been accredited since the 1990s 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. LAP works for internal Telecom Italia departments and for organisations and companies operating in the ICT sector, offering tests and services of various kinds, from hardware to operational aspects, fixed terminals to mobile ones, exchanges to optical systems. Interoperability with the Telecom Italia network is completely simulated in the laboratory.

- Smart Inclusion: this project allows young long term hospital patients to participate in social life by connecting with their school and home via a touch screen terminal fitted with a camera, while also allowing doctors to optimise the management of care procedures (see § The Community/Responses to stakeholders). 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 open source platforms.

- E-learning and evolved teaching methods: a series of initiatives were launched during 2010 in the field of schooling with the aim of fulfilling the demand for evolved systems based on collaboration, communication and the active involvement of end users (see § Customers/Innovative Services).

- MyDoctor@home: 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/Digital Divide).

- MuoviTI: this is an experimental remote monitoring application for people with movement difficulties, which allows healthcare personnel to monitor the amount of movement of patients remotely. The system uses sensors that can be worn by the patient, process the data on site and transmit the results to the Telecom Italia remote monitoring platform for them to be checked by authorised personnel (doctors, relatives). The application is based on the SPINE framework, an open source project developed with the academic world (Universities of Calabria and Berkeley and the University of Texas in Dallas). The testing of MuoviTi on a number of patients being treated in the rehabilitation department of the Novara University "Maggiore della Carità" Hospital began in 2010 with the assistance of the Mario Boella Institute.

Internal stakeholders

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.

RELEVANT STAKEHOLDERS

The relevant stakeholders are the employees and trade unions.

The Group recognises the centrality of Human Resources as the company's principal

success factor

1. HUMAN RESOURCES

1.1 HEADCOUNT AND CHANGES

Telecom Italia Group

The headcount of personnel as of December 31, 2010 was divided as follows:

(units)	12.31.2010	12.31.2009	Changes
ITALY	57,994	60,829	(2,835)
ABROAD	26,135	10,499	15,636
TOTAL PERSONNEL ON PAYROLL	84,129	71,328	12,801
AGENCY CONTRACT WORKERS	71	56	15
TOTAL PERSONNEL	84,200	71,384	12,816
NON-CURRENT ASSETS HELD FOR SALE	-	2,205	(2,205)
TOTAL	84,200	73,589	10,611

Excluding personnel concerned with "Non-current assets held for sale" (HanseNet) and agency contract workers, the Group's workforce has increased by 12,801 units, compared to December 31, 2009.

The changes can be itemised as follows:
· exit from the consolidation scope of the company Elettra Tlc S.p.A. (120 units) and of the BBNED Group companies (308 units);
· entry into the consolidation scope of the Argentina Business Unit companies (15,562 units as of October 13, 2010);
· net turnover down by 2,333 units, as detailed below by individual Business Unit:

(units)	Recruited	Departed	Net change
DOMESTIC	718	(3,438)	(2,720)
BRAZIL	3,221	(2,890)	331
ARGENTINA	295	(225)	70
OLIVETTI, MEDIA AND OTHERS	227	(241)	(14)
TURNOVER	4,461	(6,794)	(2,333)

Telecom Italia S.p.A.[*]

(units)	12.31.2010	12.31.2009	Changes
TOTAL PERSONNEL ON PAYROLL	49,636	54,236	(4,600)

As of December 31, 2010, Telecom Italia S.p.A. had 49,636 employees on its payroll.

Compared to December 31, 2009, an overall reduction of 4,600 units was recorded, due to:
· a balance of 2,129 units departing to join other Group companies, including 2,092 transferred to the company SSC (Shared Service Center S.r.l.) of the "IT Operations" line of business;
· net turnover down by 2,471 units, as detailed below:

(units)	Recruited	Departed	Net change
TURNOVER OF TELECOM ITALIA S.P.A.	258	2,729	(2,471)

Tim Brasil Group

(units)	12.31.2010	12.31.2009	Changes
TOTAL PERSONNEL ON PAYROLL	10,114	9,783	331

The Tim Brasil Group headcount as of December 31, 2010 was 10,114 units.

Compared to December 31, 2009, an increase of 331 units was recorded, due to:
· a balance of 3 units departing to join other Group companies;
· net turnover up by 334 units, as detailed below:

(units)	Recruited	Departed	Net change
TURNOVER AT TIM BRASIL GROUP	3,220	2,886	334

Argentina Business Unit

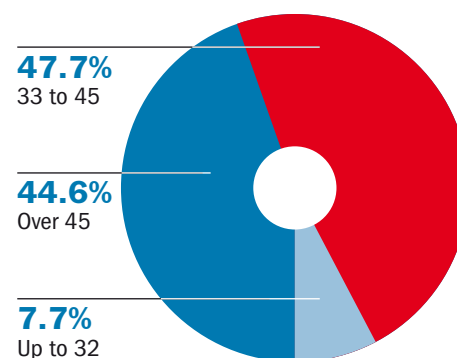| (units)	12.31.2010	12.31.2009	Changes
TOTAL PERSONNEL ON PAYROLL	15,632	-	15,632

The headcount of the Argentina Business Unit, which was included in the consolidation scope of the Telecom Italia Group as of October 13, 2010, following an increase in the shareholding in Sofora, was 15,632 as of December 31, 2010.

Excluding agency contract workers, the number of personnel operating in Italy is equal to 69% of the Group total and can be broken down as follows:

TELECOM ITALIA GROUP – ITALY: BREAKDOWN OF EMPLOYEES BY PROFESSIONAL CATEGORY
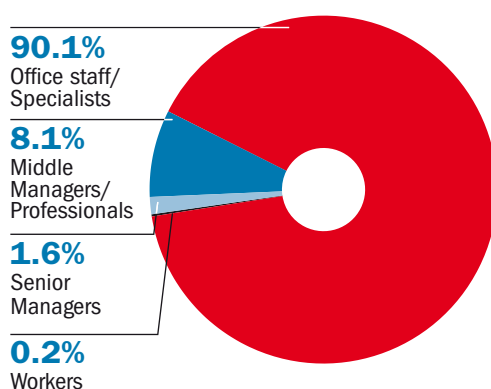
90.1%
Office staff/
Specialists

8.1%
Middle
Managers/
Professionals

1.6%
Senior
Managers

0.2%
Workers

TELECOM ITALIA GROUP – ITALY: BREADOWN OF EMPLOYEES BY AGE BAND

47.7%
33 to 45

44.6%
Over 45

7.7%
Up to 32

TELECOM ITALIA GROUP – ITALY:BREAKDOWN OF EMPLOYEES BY ACADEMIC QUALIFICATION

71.0%
Diploma
holders

10.4%
Other

18.6%
Graduates
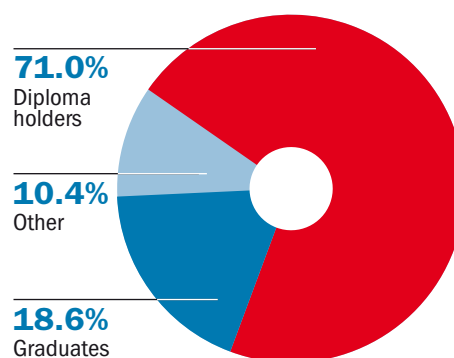
The distribution of personnel by geographic area, and the recruitment carried out by the Group, excluding agency contract workers, are shown below:

BREAKDOWN OF TELECOM ITALIA GROUP EMPLOYEES BY GEOGRAPHICAL AREA

68.9%
Italy

31.1%
Abroad
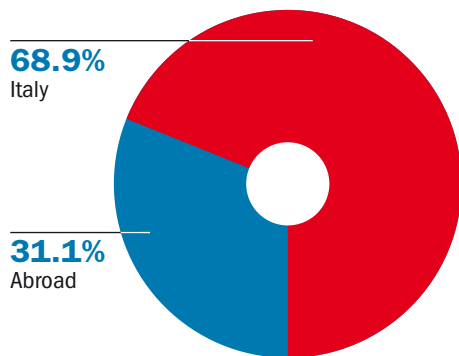
BREAKDOWN OF TELECOM ITALIA GROUP RECRUITMENTS BY GEOGRAPHICAL AREA

84.0%
Abroad

16.0%
Italy

The number of personnel operating in Tim Brasil Group is equal to 12% of the Group total and can be broken down as follows:

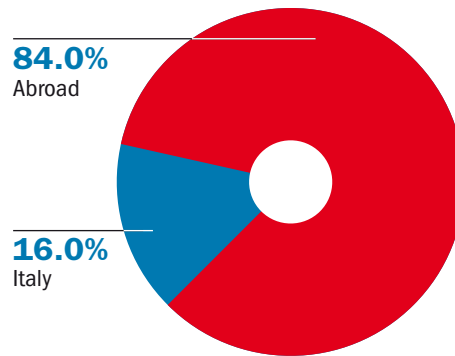## TIM BRASIL GROUP: BREAKDOWN OF EMPLOYEES BY PROFESSIONAL CATEGORY
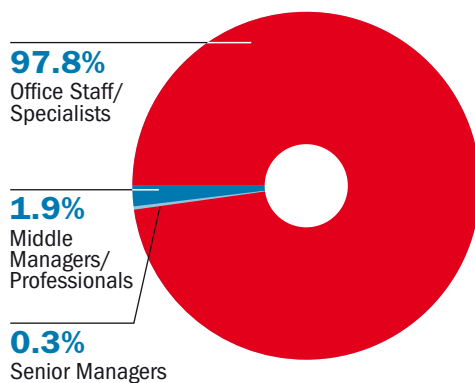
97.8%
Office Staff/
Specialists

1.9%
Middle
Managers/
Professionals

0.3%
Senior Managers

TIM BRASIL GROUP: BREAKDOWN OF EMPLOYEES BY AGE BAND

67.7%
Up to 32

26.2%
33 to 45

6.1%
Over 45

TIM BRASIL GROUP: BREAKDOWN OF EMPLOYEES BY ACADEMIC QUALIFICATION

64.6%
Diploma holders

33.4%
Graduates

2.0%
Other
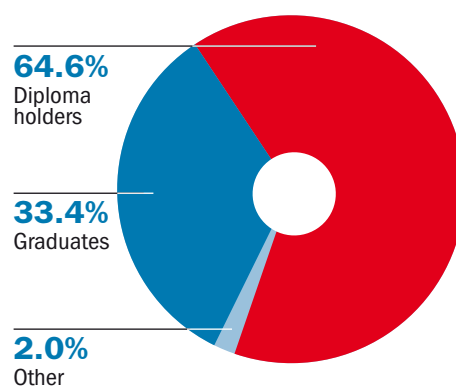
The number of personnel operating in the Argentina Business Unit is equal to 19% of the Group total and can be broken down as follows:
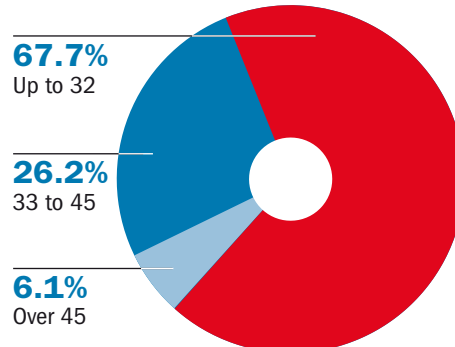
ARGENTINA BUSINESS UNIT: BREAKDOWN OF EMPLOYEES BY PROFESSIONAL CATEGORY
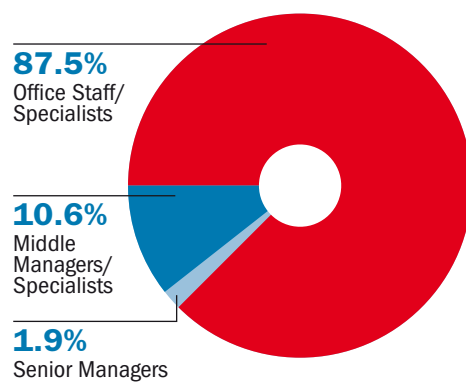
87.5%
Office Staff/
Specialists

10.6%
Middle
Managers/
Specialists

1.9%
Senior Managers

ARGENTINA BUSINESS UNIT: BREAKDOWN OF EMPLOYEES BY AGE BAND

45.2%
33 to 45

27.8%
Up to 32

27.0%
Over 45

ARGENTINA BUSINESS UNIT: BREAKDOWN OF EMPLOYEES BY ACADEMIC QUALIFICATION

48.8%
Diploma
holders

32.0%
Other

19.2%
Graduates
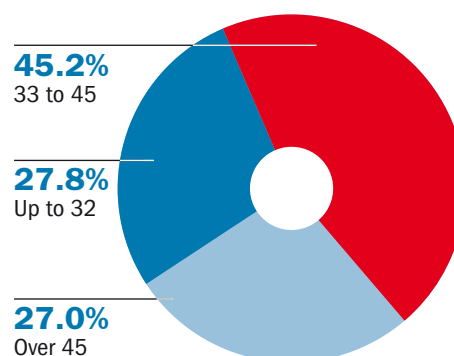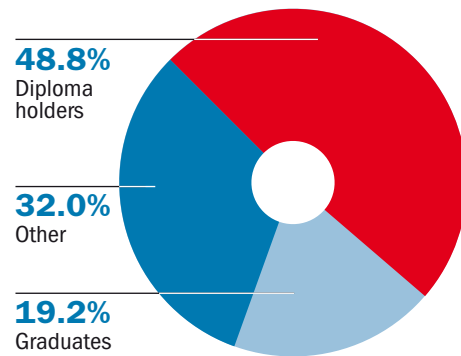
1.2 GENDER BALANCE

DISTRIBUTION OF MEN AND WOMEN IN THE TELECOM ITALIA S.p.A. (2009-2010)

100.0 %	27.8%	28.3%	Women
75.0			
50.0	72.2%	71.7%	
25.0			
0.0 %	2009	2010	Men
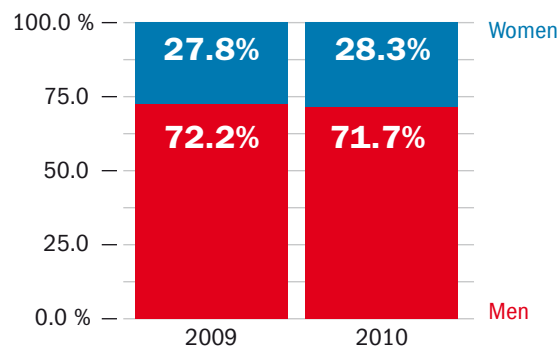
DISTRIBUTION OF MEN AND WOMEN IN THE TI GROUP (IN ITALY) (2009-2010)

100.0 %	30.3%	30.9%	Women
75.0			
50.0	69.7%	69.1%	
25.0			
0.0 %	2009	2010	Men
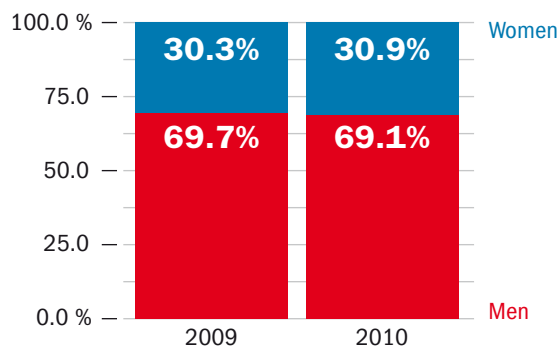
In 2010, the percentage of women holding senior management positions in the Group (in Italy) was approximately 15% and, in middle management, the proportion was 26%.

DISTRIBUTION OF MEN AND WOMEN IN THE TIM BRASIL GROUP (2009-2010)
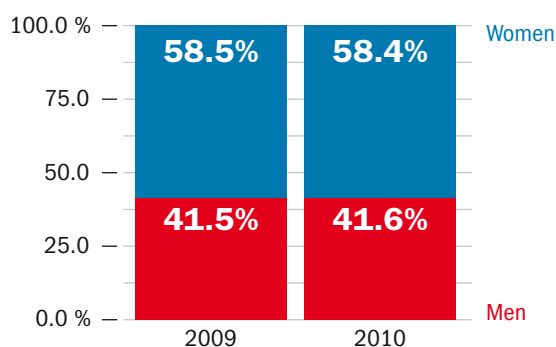
In 2010, the percentage of women holding senior management positions at Tim Brasil was approximately 12% and, in middle management, the proportion of the total was 25%.

At Tim Brasil, women employed by the Company rose from 3,263 in 2003 (54% of the total) to 5,726 in 2009 (58% of the total) and to 5,905 in 2010 (58% of the total).

1.3 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:

· work-life balance;
· support for the needs of children and families in general;
· support for volunteering initiatives by employees;
· promoting the forms of diversity that exist in the workplace through diversity management activities and projects

The work-life balance of employees

Initiatives within Telecom Italia
· Pink Parking: throughout their period of employment leading up to the start of their maternity leave, expectant mothers have a reserved parking space at all company offices that have their own car park.
· Nurseries: in addition to the nine nurseries currently available at the company's offices

in Rome (3), Turin, Milan, Ancona, Naples, Catanzaro and Palermo, three agreements have been signed with an equal number of external nurseries (Rome, Naples and Padua).

· Loans for mums and dads: 267 loans have been granted to new parents with children under the age of three.
· Time saving:
  › Agency services: 32 agency services for dealing with various practicalities (administration, post, etc.) are available in Turin, Milan, Venice, Padua, Bologna, Florence, Rome, Naples, Bari and Palermo.
  › Wellness areas: available in the Padua, Rome and Palermo offices.
  › Laundry/shoe repairs: operational in four offices (Milan and Rome).
  › Newstands: available in three offices in Rome.
· Price agreements: 45 online offers of products and services resulting from partnership agreements signed between Telecom Italia, primarily within Italy (various purchases, insurance for cars and motorbikes, home and family, culture and entertainment, fair trade, electronics, financial institutions, catering, health and well-being, sport, travel and holidays).
· Company loans: 69 loans granted for house purchase/building purposes, 106 for home renovation work, 405 for various other purposes.
· Time off for mothers and fathers: up to 150 hours of time off per year to be recovered through overtime, for employees up grade 5 of the collective labour agreement with children of up 8 years of age.
· Time off to attend prenatal classes: paid leave, for up to 12 hours a month, to be recovered, granted to expectant mothers and fathers.

Initiatives at Tim Brasil

· "Happy Day": on their birthdays, employees are entitled to take a day off and receive a birthday card signed by all their work colleagues;
· exercise and ergonomics: at the company's offices that include call centres (Rio de Janeiro, Santo André, Recife and Curitiba) workplace exercise sessions take place to promote good posture and make proper use of work tools;
A number of national and regional agreements have been signed for the purchase or use of goods and services under advantageous conditions, for car and motorbike insurance, cultural events and entertainment, restaurants, health and well-being and sport.

Initiatives for the children of employees

· Traditional summer camp: 15-day stays for children between the ages of 6 and 12, with 4,672 participants.
· Themed summer camps:
  › 14-day stays for children between the ages of 11 and 17, dedicated to the study of English and sports (football, tennis, sailing, horse-riding, volleyball, basket ball, canoeing etc.) as well as music and theatre, with 1,892 participants.
  › 14-day study holidays in the UK for young people between the ages of 15 and 17 at colleges in three towns, with 315 participants.
· Foreign study bursaries: 90 four-week stays abroad, dedicated to the study of English and Spanish, for young people between the ages of 15 and 17 (Ireland, Finland, Spain); 20 study trips of one academic year for young people between the ages of 15 and 17 (Europe, United States, Canada, Argentina and Japan).
· Refund of university fees: 213 applications for refunds of registration fees for the first year at university;

- Christmas Day at Telecom Italia: children up to the age of 10 visited their parents' offices on 17th December; in 69 offices they were offered snacks and a small gift.
- "TIM opens its doors": on a day dedicated to children, the sons and daughters of Brazilian employees, aged between 3 and 12, had an opportunity to discover the environments in which their parents work. Over 2,600 children took part in 23 different offices, where recreational activities and entertainment were organised.

Support for voluntary service initiatives

- 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. A further 30 colleagues got involved in the second of these events organised in summer 2010. For further information see § The Community/Responses to stakeholders.
- Support for the two Telecom Italia Foundation projects: "Aboard the Nave Italia with AID", which involved 15 children of employees affected by dyslexia, and "The environment belongs to all of us", focused on the environment and on the need to learn how to protect it, with the involvement of 19 children of employees.
- 137 charity events took place in Rome, Milan, Turin, Bologna, Florence and Padua.
- During the year, the Telecom Donors Group organised 40 blood donation days in Turin, Milan, Rome, Naples, Bari and Palermo.
- Aware of the social environment in which it operates, Tim Brasil launched the "Citizen without Frontiers" project, under which the Company grants employees one free day a year to carry out volunteering work at organisations chosen by the employees or to participate in social action promoted within the Company, including:
  › two days organised at the Romão Duarte orphanage;
  › blood donation at the Hermorio Institute;
  › help with installing an IT room for the children of low income families to promote their digital inclusion;
  › organisation of a day at ACAPE (Centre for People with Special Needs) in order to provide an opportunity for leisure and donate food;
  › support for the ACRIDAS social assistance association, which involved several employees offering to help with day-to-day activities;
  › support for the Junior Achievement activity to provide students with vocational training for the future;
  › contribution to the volunteering activities of the Brazilian post office, which sorts and delivers letters of request for Christmas presents from poor Brazilian children to private citizens and associations.

Diversity Management activities and projects

Numerous information and awareness-building activities were carried out in this respect. These included:

- a themed blog launched on the company intranet together with a "Diversity Contest", a game open to everyone that ended with a training and information event in Trieste for the top 110 finalist employees.
- People Net, the internal network of volunteers belonging to the Telecom Group, dealt with the theme of "diversity and listening" at its latest meeting.
- With the "I Communicate" project, a group of hearing impaired employees receive equipment to support them in their work.
- Telecom Italia has signed the "Equal opportunities and equality at work charter", a statement of intent signed voluntarily by 50 companies of all sizes with the aim of dis-

seminating an inclusive corporate culture and human resource policy, free of discrimination and prejudice and able to make the most of talents leveraging on diversity. The initiative was launched on October 5, 2009, building on the success of similar initiatives in France and Germany, with the support of the Ministry of Employment and the Ministry of Equal Opportunities. The supporting member is the "Valore D", Donne al Vertice per l'Azienda di Domani Association, the first association created in Italy to promote female leadership in companies.

DIVERSITY IS AN OPPORTUNITY FOR PEOPLE DEVELOPMENT

- Internships have been organised within the Company for graduates of different ethnic backgrounds.
- An Internal Committee for Diversity meets periodically to discuss the initiatives implemented, to make proposals and suggestions and to provide information on the subject to the many different people it represents.
- A trial has begun in Friuli, Liguria, Lazio and Sicily of a counselling service for employees of Telecom Italia offered by the People Caring Centre and run by professional psychologists with rigorous respect for privacy. The service is intended to support people experiencing difficulty in the working environment or discrimination. If the initiative is successful, it may be extended to all Italian regions at the end of the pilot stage.

For information on the other activities of a cultural or recreational nature carried out for employees and their families (Alatel and Spille d'Oro, CRALT) or intended to provide healthcare services or refund medical expenses (ASSILT, ASSIDA and the private healthcare programme in Brazil), see the sustainability section of the www.telecomitalia.com website.

1.4 DEVELOPMENT

The purpose of the Development area is to identify the technical and managerial skills of employees, drawing up plans for their development and loyalty, with particular regard to talent.

Performance assessment

The New Performance Assessment System launched in 2009 and completed in April 2010 involved around 54,800 non-managerial employees of the Telecom Italia Group.
The New System was introduced in order to:
- promote behaviour that the Company considers to be essential for achievement of its excellence and customer satisfaction objectives according to the Customer Promise (see § Customers/Focus on customers);
- further direct behaviour towards the achievement of the Company's objectives in accordance with the principles established by the Group's Code of Ethics;
- promote a selection process that differentiates between the various contributions;
- gather useful feedback about the development and self-development paths of individuals;
- streamline and simplify the process.

The system thus planned was checked by means of dedicated focus groups consisting of assessors and assessed employees from various company departments, as well as specific comparisons with the best practices used by a number of national and international companies.
Employees are assessed by means of a structured process that guarantees the uniformity of the criteria used.

The uniformity of the assessment criteria used is ensured by appropriate Calibration Committees consisting of managers from the assessed employee's department and Human Resources.
The feedback interview between the manager and the employee is the key moment of the performance improvement process, in which strengths and areas for improvement are discussed and the individual's training and development are planned.

The result of the survey carried out among assessors showed that the system is particularly appreciated (total overall score of 3.52 on a scale of 1 to 4)
The application of the system confirmed its effectiveness based on the process dynamics. There was in fact a significant change in the assessments made in 2009 compared to 2008 - one assessed employee out of three received a different assessment to the previous year - indicating that an accurate assessment of performance over the period had been made.

The Performance Assessment at Tim Brasil involved 100% of eligible employees. The assessments made by managers are approved by a specific committee. The feedback between assessor and employee assessed was also regarded as an obligatory stage in concluding the assessment process.

Assessment of managers

The process involved around 200 managers in 2009 in order to assess their readiness to take on positions involving a broader managerial role. The results were discussed with the department managers and individual development plans were launched, including 56 coaching plans lasting 6 months, in order to boost their effectiveness and professional performance on the job. The assessment was extended to an additional 29 executives during 2010.
In Tim Brasil, the assessment programme involved 120 managers in positions of responsibility. In order to fill the skills gap identified among managers, the opportunity was given to attend training courses at prestigious international business schools (LBS, INSEAD, Harvard, Stanford, Warthon, MIT).

Assessment of the potential of managers and employees

During 2010, 49 group assessment centre sessions were carried out involving a total of 295 employees, including 54 middle managers and 241 office workers.
In 2010, the new "Guidelines for assessing the potential of managers and employees" were drawn up to fulfil the dual objective of:
- harmonising the assessment process within a broader process of development and enhancement of the human capital;
- rationalising and simplifying the methods and tools used to assess potential.
The "Guidelines" include and guarantee the dissemination and fulfilment of the principles of:
- "fairness and diversity", based on providing every individual within the Group with equal opportunities for development;
- "segmentation", based on diversifying the tools used to measure potential according to the purposes of the assessment process and the relevant target, ensuring that they are applied to uniform groups of participants in terms of professional seniority and grade.
The following stages of the process that are subsequent to the assessment are particularly important:

- providing feedback to the individual on the results of the assessment;
- training the individual in areas of self-development;
- working together with the manager and Human Resources to draw up an action plan that is monitored throughout the year.

As of 2010, the task of carrying out assessments of potential has been entrusted to the company HR Services S.r.l. of the Telecom Italia Group.

At Tim Brasil, 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 for employees.

1.5 SELECTION

An updated version of the Recruiting and Selection Policy has been issued for the Group's companies in Italy which recognises the value of each individual's diversity without discrimination based on gender, religion, ethnicity, opinion or ability. The Policy supports equal opportunities for men and women in the selection process. From 2010, the recruiting and selection service for professional positions has been entrusted to the company HR Services S.r.l.

Telecom Italia initiatives

Various forms of cooperation with the world of education and academia have been set up in Italy, including 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, financial support being given for specific training plans.

In 2010, Telecom Italia supported 30 different initiatives, including:
- "School-Company Network": implemented with the cooperation of the Elis Training Centre and the support of the Ministry of Education, Universities and Scientific Research (MIUR). The last edition (the second) involved around 1,000 students from the fourth and fifth years of higher technical education establishments, 22 technical institutions from across the country, 50 teachers and 22 colleagues (known as "professional experts"). Set up to create a virtuous process of discussion between companies and schools and to support training that is consistent with the needs of companies, the project includes a teaching plan based on telecommunications themes, co-designed by teachers and "professional experts" directly involved in the project.
- "Campus": implemented in collaboration with Elis, it features a structured recruiting and training course over three years, aimed at the best students of the Masters' Degree course in Economics, Management Engineering and Business Communication. In July 2010, the five participants completed a three-week internship in the Company and will continue along this path by developing new project work in Autumn 2011.
- "Innovation Master": one of the established training paths run in association with the Polytechnic of Turin. The fourth of these was completed with the placement of 29 young engineering graduates until January 2011.

- "Leaders of the Future" - Development and Merit Scholarships: an initiative implemented together with The European House-Ambrosetti and the Federazione Nazionale Cavalieri del Lavoro for the purpose of providing deserving young people with concrete support in effectively planning and pursuing a path to success. Telecom Italia is participating in the project by sponsoring 5 development and merit scholarships on various different themes (innovation, ICT systems, world of telecommunications and the Media, antitrust, homeland security, general management and labour law).
- The "Future Skills" Project, an international initiative which led to a further five young students with Master's Degrees or MBAs being recruited for internships in 2010 from Taiwan, South Korea, India and China. The projects developed during the internship period at the Future Centre office in Venice, concerned the analysis of emerging business ecosystems in order to identify future opportunities.
- "Working Capital", for details of which please see § The Community/Social media and digital communication.
- "Diversity/Work" promoted by Telecom Italia, UNAR (the Italian office against racial discrimination), the Sodalitas Foundation, Synesis Career Service and the Adecco Foundation. The initiative is intended to facilitate the placement in work of foreign nationals with disabilities, involving companies and institutions that are sensitive to the themes of diversity and social inclusion. Over 300 people attended the first edition in Rome on November 18, 2010 and had an opportunity to gather information and meet representatives from the major Italian and international companies in person.

For the second year in a row Telecom Italia was one of the 25 "Top Employer" companies awarded a certificate by the CRF Institute, an international organisation that has been analysing and certifying over 2,500 companies around the world since 1991 (12 countries in 3 continents). The assessment is based on the standards set by the Top Employers HR Best Practices Survey, which surveys human resource policies in terms of training and development, career opportunities, working conditions, remuneration and benefits and corporate culture.

Tim Brasil initiatives
Tim Brasil continued to prioritise the recruitment of staff who had already worked in the Company, applying processes, criteria and instruments aimed at ensuring equal opportunities and transparency. The main selection programmes implemented in 2010 were:
- "Young Apprentice": 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 minors to prepare them to enter the world of work. The programme, begun in 2008, enrolled 194 participants in 2010.
- "Talents without Frontiers": launched in 2009 for the purpose of scouting the market for young graduates in order to create a talented team to be trained and developed to build the company management of the future. At the beginning of 2010, 84 young talented people were recruited in strategic areas of the business.
- "Internship Without Frontiers": at the end of 2009, a new programme was set up 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 "Talents with Frontiers" programme. In 2010, 128 interns were recruited by means of this programme.

1.6 TRAINING

In 2010, Telecom Italia provided 1.2 million hours of training, as shown in the following table. 81.3% of Telecom Italia S.p.A. personnel, equal to 40,381 employees, participated in at least one training session.

ORGANISATIONAL FIELDS	TOTAL BY TRAINING TYPE (TELECOM ITALIA SPA)				
	HOURS				
Type of training	Total hours (no.)	Hours per head (no.)	Participations (*) (no.)	Participants (no.)	Coverage (%)
TYPE OF TRAINING	1,099,680	22.2	148,819	34,561	69.6%
SENIOR MANAGERS	2,205	2.8	242	158	20.1%
MIDDLE MANAGERS	26,873	7.7	2,515	1,549	44.6%
OFFICE STAFF/WORKERS	1,070,602	23.6	146,062	32,854	72.4%
MANAGEMENT TRAINING	46,555	0.9	4,169	2,654	5.3%
SENIOR MANAGERS	14,582	18.6	1,663	589	74.9%
MIDDLE MANAGERS	5,896	1.7	577	448	12.9%
OFFICE STAFF/WORKERS	26,077	0.6	1,929	1,617	3.6%
INSTITUTIONAL TRAINING	22,230	0.4	12,356	12,108	24.4%
SENIOR MANAGERS	951	1.2	608	587	74.7%
MIDDLE MANAGERS	3,887	1.1	2,151	2,090	60.2%
OFFICE STAFF/WORKERS	17,392	0.4	9,597	9,431	20.8%
TRAINING FOR NEWLY-HIRED EMPLOYEES	37,947	0.8	1,817	612	1.2%
SENIOR MANAGERS	0	0.0	0	0	0.0%
MIDDLE MANAGERS	0	0.0	0	0	0.0%
OFFICE STAFF/WORKERS	37,947	0.8	1,817	612	1.3%
LANGUAGE TRAINING	35,280	0.7	1,628	1,532	3.1%
SENIOR MANAGERS	6,617	8.4	203	171	21.8%
MIDDLE MANAGERS	9,404	2.7	485	454	13.1%
OFFICE STAFF/WORKERS	19,259	0.4	940	907	2.0%
TOTAL	1,241,692	25.0	168,789	40,381	81.3%
SENIOR MANAGERS	24,355	31.0	2,716	740	94.1%
MIDDLE MANAGERS	46,060	13.3	5,728	2,834	81.6%
OFFICE STAFF/WORKERS	1,171,277	25.8	160,345	36,807	81.1%

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

In 2010, training at Telecom Italia S.p.A. 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;
- 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 (e.g. environmental protection, sustainability, ethics, Legislative Decree 231, respect for privacy).

In December, 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 top management people from Telecom Italia, will guide the decisions taken by the School, which will promote training sessions and workshops in which the Company's employees and managers, together with trade union representatives and industrial relations professionals, will be able to examine and discuss the main labour-related issues, industry trends and the evolution of national and international scenarios.
In order to broaden the discussion further and encourage the development of a widespread understanding of these issues, the School will also promote a series of conferences. The first of these meetings, entitled "Social scenario and industrial relations models" was attended by the Minister of Employment and Social Policy, the general secretaries of the main trade union confederations and Telecom Italia's top management.

For information on corporate/cross-group management training and the monitoring of technological and business skills see the sustainability section of the www.telecomitalia.com website.

I Care about Myself

In December, Telecom Italia promoted an innovative project for all its employees, providing an opportunity to sign up free of charge, for the 2010-2011 academic year, to any of the degree courses provided by the Law, Economics, Engineering, Communication Sciences and Psychology faculties of the Uninettuno International Telematic University, with the aim of promoting the development of their knowledge and skills. Set up with the agreement of the industry's main trade unions - SLC-CGIL, FISTel-CISL and UILCOM-UIL, the initiative was so successful that the total number of applications for which provision had initially been made was reached within an hour of applications being opened (over 3,000 people signed up). In view of this result, in order to fulfil the wishes of people working for Telecom Italia to continue improving their knowledge and skills, the Company decided, again in agreement with the trade unions, to review the terms of the initiative and to accept all the applications received.

At Tim Brasil, training involved 82% of employees and the average training per head was 40 hours.

Once again this year the focus was on monitoring technological skills and strengthening the skills required by Customer Care and Sales personnel.

Specific attention was paid to management training regarding innovation and decision-making, which involved dedicated meetings being held with international experts and management training school teachers.

One important training project was "Vagão da formação", which allowed employees whose salaries are below a certain threshold to attend online degree courses in business administration. The subsidy paid by the company amounts to as much as 80% of the cost of attending the university, depending on the employee's wage band.

A specific training programme was developed for people taking part in the "Talents without Frontiers" project (see § Selection), involving a specialised part associated with the business and a general part providing management training (Finance, Project Management, etc.).

1.7 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 and Tim Brasil, 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.

Nevertheless, in a complex organisation such as Telecom Italia, unilateral communication is no longer sufficient to encourage involvement and give value to ideas. For this reason, there is a gradual "conversion" from the traditional communication channels to more innovative ways of favouring two-way communication, the exchange of ideas and dialogue between members of the corporate community.

In this respect, the intranet and the portal are increasingly important components. 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.

These activities also include projects that view staff participation as a decisive factor and which, for this reason, provide structured channels with which to gather contributions and proposals. Among these is the "Archimede" project launched by the Open Access structure, now in its third year, which is intended to develop ideas for improving the transparency, efficiency and quality of the structure and services. In 2010, over 13,000 contributions were sent in, thus confirming the validity of this tool provided by the Company for people to express their ideas, which can be used to read, develop, suggest, vote and comment on all the ideas, even setting up SuperIdeas or theme-based groups. In 2009, the project was extended to the Wholesale Department and in 2010 the second competition was held to gather innovative ideas from employees on how to develop quality and make the wholesale business more effective.

Climate survey

The seventh corporate climate survey was carried after a two year interval. The survey involved the use of a questionnaire updated with the assistance of SDA Bocconi and made available online for a period of two weeks. New questions were added in order to find out and make the most of interactions within the company. The listening activities included interviews and focus groups aimed at identifying the reason behind the problems identified and taking prompt and concrete improvement action. The general satisfaction rate in Italy, on a scale of 1 to 10, was 7.23 (6.35 in the previous survey) and at Tim Brasil in was 7.65 (7.36 in the previous survey).

Reports to the manager responsible for internal control in Telecom Italia

Pursuant to article 7 of the Code of Ethics, the "Whistleblowing Procedure", published on the intranet and updated during 2010, is applicable to all Telecom Italia Group companies. This procedure, which is administered by the manager responsible for internal control in Telecom Italia, 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).

1.8 INTERNAL COMMUNICATION

The internal communication events of 2010 were conducted for the purpose of involving the greatest possible number of employees and making them the driving force behind decisions connected with the business and with improving customer satisfaction. A small number of people took part in these events live, while the majority used the well-established multimedia convention mode, with just a few people gathered in physical locations (auditoriums, large meeting rooms) interacting with a vast virtual audience consisting of colleagues connected from their workstations by video streaming. People taking part in these multimedia conventions submit their questions to speakers during the event, interact on the subjects, and provide constructive feedback through blogs, forums and virtual networks. The online mode also allows the content to be used at a later date and contributes to minimising greenhouse gas emissions by avoiding the need for people to travel. People employed by the Group were also the subject of photographs, videos and stories that enriched and empowered the company's media.

INNOVATIVE TOOLS FOR INTERNAL COMMUNICATION SUCH AS BLOGS, VIRTUAL COMMUNITIES, AND MULTIMEDIA CONVENTIONS FACILITATE DIALOGUE IN THE COMPANY

Internal communication in 2010 also focused on informing people about the great organisational and strategic innovations implemented by the company and involving them in these changes. In February 2010, the "Let's talk about sustainability" event was held as the first opportunity for top managers and employees to meet and find out about Telecom Italia's approach and activities regarding sustainability, to encourage discussion on social, environmental and strategic issued for the company's business. The event was attended

by over 5,500 employees by video streaming.

For information about the other internal communication initiatives taken by Telecom Italia and Tim Brasil go to the www.telecomitalia.com website.

1.9 HEALTH AND SAFETY

A number of specific projects and initiatives regarding health and safety at work were launched or pursued at Telecom Italia and Tim Brasil, a description of which is provided in the sustainability section of the www.telecomitalia.com website.

In accordance with current legislation, specific training courses were conducted on these matters for new recruits, people transferring to other jobs and/or following the introduction of new work equipment, technologies, apparatus or hazardous substances.

The process aimed at developing awareness of the role of manager in charge of the health and safety of workers was completed, while training courses were provided for all call centre operators on the noise-related risks linked to the use of headphones.

An e-learning course was implemented to inform and train employees on current legislation in this field, the main innovations introduced by Legislative Decree 81/2008 and how it is applied within Telecom Italia.

During 2010, in order to fulfil the duties specified in the above mentioned Decree, four new Risk Assessment Documents were drawn up regarding the health and safety of workers. These are connected to the documents, procedures and provisions concerning the health and safety of workers and available on the company intranet.

Accidents

The figures for accidents relating to Telecom Italia S.p.A. are shown below, presenting a comparison with the data for previous years.

	2010	2009	2008
NUMBER OF ACCIDENTS (EXCLUDING TRAVEL)	873	1,079	932
SEVERITY INDEX[*]	0.20	0.42	0.45
FREQUENCY RATE[*]	10.91	11.28	9.77
AVERAGE DURATION IN HOURS	136.44	127.73	127.31
UNPRODUCTIVITY INDEX[*]	1.80	1.44	1.24
ACCIDENTS PER 100 WORKERS	1.70	1.97	1.63

*
The severity, frequency and unproductivity indexes are respectively:
- the number of conventional working days lost in the year 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 number of accidents is slightly lower than the previous year. Of particular note is the fall in the severity index due to the absence of fatal accidents, compared to previous years, which is line with the objective set for this year (see § 2010 Objectives and results in the Appendix).
Constant attention paid to verifying application of the risk control measures, the results of training programmes for telecommunication system operation and maintenance activities that require overhead work (on poles, ladders and pylons), "Safe Driving" course (which will continue in 2011), contributed to the achievement of this result.
The increase in the frequency and unproductivity indexes is due to the fall in the number of employees, while the increase in the average number of hours is due to the higher number and severity of accidents while travelling for work purposes, which rose from 182 in 2009 to 265 in 2010. Nevertheless these accidents don't come within the category of professional accidents,which are those connected with the work done for the Company, and are therefore difficult to control.

1.10 INDUSTRIAL RELATIONS

On May 1, 2010, Telecom Italia S.p.A. transferred its line of business consisting of the "IT Operations" department, operating within the Technology & Operations/Information Technology Department, to Shared Service Center (SSC), a limited company fully controlled by Telecom Italia. The transfer of this department involved approximately 2,100 employees. As required by legislation, these employees were placed under the collective labour agreement currently applied within Shared Service Center Srl and the employment contracts were transferred directly from Telecom Italia S.p.A. to SSC Srl.
The purpose of this operation is to allow SSC S.r.l. to provide IT services within the Telecom Italia Group, focusing exclusively on the delivery of services offered through an organization which, within the framework of requirements previously identified by Telecom Italia S.p.A., will provide end-to-end services that meet the highest market standards, in terms of quality and cost.
As part of the overall IT sector reorganisation process, the Company has therefore confirmed the strategic importance of IT activities and the respective professional assets with a view to maintaining them within the Group.

With regard to the Solidarity Contract applied to Directory Assistance workers between September 1, 2009 and August 31, 2010, in accordance with the Agreement of July 21, 2009, a verification meeting was held with the trade unions at Ministry offices in May. At this meeting, Telecom Italia illustrated the initial actions taken in an attempt to boosting directory assistance services and protect jobs.

Following the updating of Telecom Italia's 2012 Strategic Plan, which was also communicated to the financial community, in April 2010, in a series of dedicated meetings, the Company provided trade unions with details of the current telecommunication market and its development prospects, both   technological and commercial.
At the end of this process, Telecom Italia also illustrated the organisational effects of the 2010-2012 Strategic Plan and the consequences on employment levels. As part of the discussions held with trade unions, the Company confirmed its willingness to find socially sustainable solutions to deal with the surplus personnel forecast by the Plan, as always done in the past.

In June 2010, SSC S.r.l. illustrated its 2010-2012 Business Plan to the trade unions. This

plan identifies the guidelines needed to deal with the discontinuity in the relevant market, while at the same time recovering efficiency, competitiveness and the ability to innovate, ensuring an integrated view of Information Technology. During the same meeting, the Company illustrated two projects to trade unions for the reallocation of around 100 employees from SSC S.r.l. to Telecom Italia in order to minimise the occupational effects of the Plan.

On August 4, 2010, the complex and detailed negotiations between the social partners government, Telecom Italia and trade unions, were completed positively with the signing of a framework agreement to deal with the expected surplus of personnel at Telecom Italia S.p.A. and SSC S.r.l..

ON AUGUST 4, 2010 AN AGREEMENT WAS REACHED BETWEEN THE SOCIAL PARTIES, TO DEAL WITH THE SURPLUS PERSONNEL FORECASTED BY THE 2010-2012 BUSINESS PLAN

The willingness to search for dialogue between the parties guided the discussion and is tangibly demonstrated by the agreement reached.

The Agreement provides for recourse to mobility under Law 223/91, allowing workers to change jobs according to agreed criteria, and for Solidarity Contracts to be implemented together with strategic training as an essential tool for promoting professional retraining and re-skilling in order to avoid surplus of personnel.
Solidarity Contracts are agreements that provide for working hours to be reduced in order to avoid, partially or totally, downsizing or declaration of redundancy. For the workers to whom the contract will be applied, provision is made for INPS [social security] to make up part of the remuneration not received due to the reduction in working hours.

In summary, the agreement of August 4, 2010 provides for the following:
- recourse to mobility pursuant to Law 223/91 for 3,900 employees of Telecom Italia S.p.A. (including 200 from the previous mobility procedure pursuant to the agreement of September 19, 2008);
- Solidarity Contracts of the "defensive" type to be implemented to deal with the surplus of further 1,100 workers of Telecom Italia S.p.A.;
- organisation of specific courses to allow the professional retraining and consequent re-employment of workers covered by the Solidarity Contract, with priority being given to the Directory Assistance employees;
- provision to extend the Solidarity Contract of July 21, 2009 for Directory Assistance (12.54) workers for a further two years;
- application of the Solidarity Contract to a maximum of 450 surplus workers of SSC S.r.l. and the launch of a professional retraining plan;
- recourse to mobility pursuant to Law 223/91 for the workers of SSC S.r.l. not covered by the Solidarity Contract.

The Company also committed itself to offering 40 former TILS workers, currently unemployed, the opportunity to be re-employed within the Group.

In October and November 2010, agreements were drawn up to apply the guidelines identified in the framework agreement of August 4, 2010.

On October 25, 2010, Telecom Italia S.p.A. and the most representative trade unions signed a solidarity contract of the "defensive" type at the Ministry of Employment and Social Policy, in accordance with current legal provisions, covering approximately 29,200 workers of Telecom Italia S.p.A. for a period of two years (until November 7, 2012), in order to prevent 1,100 redundancies resulting from the Company's 2010-2012 Strategic Plan.

On the same day, an agreement was also signed on the initial training projects aimed at re-skilling the staff covered by the Solidarity Contract to take on other jobs. Worker participation is voluntary. The Agreement also contains a commitment to provide training aimed at improving the knowledge of workers, in order to prevent the danger of professional obsolescence.

On November 4, 2010, at the Ministry of Employment and Social Policy, SSC S.r.l. and

THE AGREEMENT OF AUGUST, 4 PROVIDES FOR THE USE OF MOBILITY PURSUANT TO LAW 223/91, AND TO SOLIDARITY CONTRACTS OF THE "DEFENSIVE" TYPE, COMBINED WITH TRAINING INITIATIVES

the trade unions signed a Solidarity Contract of the "defensive" type, as required by current legislation, in respect of approximately 2,300 workers of SSC S.r.l., for a period of four years (until November 14, 2012) in order to prevent 388 redundancies resulting from the Company's 2010-2012 Business Plan, which was illustrated to the trade union during specific meetings.
Again on November 4, 2010, an agreement was signed on training projects for the professional retraining of the workers involved. Worker participation is voluntary.

In the context of the mobility procedure pursuant to Law 223/91, launched on October 26, 2010 by Telecom Italia S.p.A., an agreement was signed with trade unions and the workers' representatives on November 2, 2010 which allows 3,900 surplus workers of Telecom Italia to be put on mobility programmes by December 31, 2012. The primary criterion applied to identifying the workers, as agreed between the parties, will be fulfilment of pension requirements during the period of the allowance. Only workers who do not object to the mobility programme will be admitted. In addition to the mobility allowance provided under Law 223/91, the Company will pay a voluntary redundancy incentive calculated according to pre-established criteria.

On November 16, 2010, in the context of the mobility procedure under Law 223/91 launched on November 9, 2010 by SSC S.r.l., an agreement was signed with trade unions and unitary union representatives which allows 50 surplus workers of the company to be put on mobility programmes according to the same criteria and conditions set out above.

As regards Industrial Relations activities within Tim Brasil, following the acquisition of the company Intelig at the end of 2009, the collective labour agreements were unified by allowing Intelig to sign up to the agreements and standards of the TIM Group.
At Tim Brasil, the 2010 collective union agreements are consistent with the current economic, political and legal situation of the country. The company is negotiating three agreements with the two federations representing all the employees: FITTEL and FENATTEL (the latter alone represents 82% of employees). These agreements relate to:
· economic and social conditions;
· the company's profit-sharing programme;
· the hourly rate of pay. On the basis of this agreement, overtime hours may be met by a reduction in the normal working hours or through days off in the three months following the completion of the overtime. After that, the hours will be paid.

[25] in 2008 the contracts had been renewed for two years, leaving only the salary increase element open for annual discussion

The profit-sharing programme has now been approved. The other two negotiations are expected to be completed by January 2011.

Telecom Italia Media

During the year, discussions held with the union representatives of journalists focused essentially on the implementation aspects of the Solidarity Contract signed on February 2, 2009 for the period between March 1, 2009 and February 28, 2011.

On October 11, 2010, an agreement was signed with the Editorial Office Committee of La7, FNSI and ASR, establishing a different distribution of working hours under a solidarity system, following the increase in working hours resulting from the action taken by Telecom Italia Media S.p.A. in accordance with the aforementioned agreement of February 2, 2009.

On December 14, 2010, Telecom Italia Media S.p.A. informed the Editorial Office Committee, FNSI and ASR that, as a result of the actions taken under the Solidarity Contract, pursuant to letters a) and b) of this contract, the reduction in the number of journalists and the more efficient use of these journalists would lead to an overall recovery of the redundancies during the month of December 2010 and that, consequently, the Solidarity Contract would end earlier than planned on December 31, 2010, instead of February 28, 2011.

As regards discussions with the union representatives of non-journalists, we report that on May 5, 2010 an agreement was signed with the unitary union representatives of Telecom Italia Media to extend from 12 to 24 months the maximum period for recourse to fixed term and temporary contracts for the launch and implementation of new projects and activities, pursuant to article 24, paragraph 1) point c) and article 25, paragraph 1, reason 3 of the national collective labour agreement for employees of private radio and television companies.
We also report that on November 8, 2010, the companies TI Media S.p.A. and TI Media Broadcasting srl signed an agreement with the national and local trade union representatives and the workers' representatives regarding the performance-related pay applicable for the period 2010-2012.
In particular, the performance-related pay is split into two parts: one related to the income indicator (EBITDA), which counts for 70%, and one related to the quality indicator (for TI Media S.p.A. the AUDIENCE SHARE and for TI Media Broadcasting the NETWORK DIGITALISATION PLAN), which counts for 30%.
For the period 2011-2012, the performance-related pay will be extended to staff on fixed term and agency contract workers as well.

Finally we report that the national collective labour agreement for the employees of private radio and television companies expired on December 31, 2009. Various meetings were held in 2010 between the Radios and Televisions Federation delegation and both national and local union delegations. No agreement has yet been reached on renewing the national collective labour agreement.

1.11 REMUNERATION POLICY

Remuneration policies and systems were focused in 2010 on guaranteeing competitiveness in the labour market in a way that was consistent with the objectives of attracting, developing and retaining resources and differentiating pay according to objective and agreed criteria.

The management of the fixed components is inspired by criteria of ever greater selectivity in the pool of resources concerned, consistent with the instructions contained in the 2010-2011 Business Plan. Its aim is primarily to reward resources who present subjective char-

acteristics of excellence, have essential skills and hold key positions, considering both their pay compared to the external market and their individual performance trend.

The variable component of the remuneration has been established as an element of distinction, with an ever closer correlation being established between the remuneration package and the performance and revenue of the company.

The MBO 2010 system, a short term formalised incentive tool aimed at managers and particularly valuable employees, confirmed the importance that the company continued to place on corporate and departmental macro-economic objectives in 2010.

Furthermore, within the MBO 2010 system, the following objectives were set in order to ensure that aspects relating to sustainability are taken into appropriate consideration in the decisions taken by Telecom Italia's management.

Stakeholder of reference	Targets subject to incentives
Customers	Customer Satisfaction Quality of the service delivered Quality of the service perceived by consumer and business customers (187, 191, 119 and Business Toll free number) 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 and water
Shareholders and Institutions	Quality and speed of company information delivery
The Community	Organisation of cultural exhibitions Quality of initiatives/projects for the Community

The non-monetary component of the remuneration package continued to be monitored and calculated in 2010 with reference also to the potential impact in terms of environmental sustainability (presence of a range of cars producing less CO_2 emissions).

Stock options
The instrument of stock options has been used within the Telecom Group in order to retain and offer long term incentives to members of management.

Telecom Italia
In the course of 2010, the deadline passed for exercising options relative to:
· the third lot of the 2002 stock option Plan;
· the third lot of the 2002 Top stock option Plan;
· the third lot of the 2003-2005 stock option Plan (formerly TIM).

A ban on exercising options included in existing Plans was imposed for the Shareholders' Meeting, from April 13, to May 24, 2010, in accordance with the relevant Regulations.

The essential elements of the Telecom Italia stock option plans are summarised in the "Equity compensation Plan" Note included in the Telecom Italia Group's Annual Report.

1.12 EMPLOYEES SHARE OWNERSHIP PLAN 2010-2014

On April 29, 2010, the Shareholders' Meeting launched the 2010-2014 Employees Share Ownership Plan for all employees of Telecom Italian or its subsidiaries with registered office in Italy on permanent employment contracts.

The purpose of the initiative is to increase motivation to achieve corporate objectives and strengthen the sense of belonging to the company.

The Plan provides for employees to purchased ordinary shares with a 10% discount on the market price up to a maximum counter-value of 3,000 euros. Subscribers who keep their shares for a year and remain in employment will receive Bonus Shares equivalent to one free share for every 3 shares bought at a discount.

The Plan complies with the conditions for access to the fiscal benefits of article 51 of the Consolidated Law on Income Tax. Therefore, employees who decide to retain 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 and exemption from tax and contributions on the benefit paid by the company in terms of discount and bonus shares.

During the subscription period, between June 28, and July 9, 2010, the ordinary shares were offered for purchase at a price of 0.84 euros each, corresponding to an arithmetical average of the official prices of shares recorded between May 25, and June 25, 2010 on the Electronic Stock Exchange, minus a discount of 10%. The offer was taken up by 9,474 employees (equal to 16% of the entitled employees), who purchased a total of 27,056,139 ordinary shares, equal to 87% of the total amount of 31,000,000 shares established by the Board of Directors' meeting of May 6, 2010, exercising the powers granted by the Shareholders' Meeting of April 29, 2010. The shares, which amounted to 0.20% of the total ordinary shares in Telecom Italia were assigned to subscribers on July 13, and were issued on July 29, 2010.

9,474 EMPLOYEES SUBSCRIBED FOR THE TELECOM ITALIA SHARE OWNERSHIP PLAN, WITH A 10% DISCOUNT ON THE MARKET PRICE

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 confidentiality required in the conduct of business, communication with the market and investors respects the requirements for transparency, fairness, clarity and equal access to information, with a commitment to ensuring equality of treatment among all categories of shareholders. The benefits deriving from being part of a Group of businesses are pursued in compliance with the applicable regulations and in the independent interest of each individual company in the profitability of its own business and the creation of value for its shareholders. Special attention is also paid to managing relations with bondholders. These are managed by a dedicated observatory in the Investor Relations (IR) department.

STAKEHOLDERS AND THEIR EXPECTATIONS

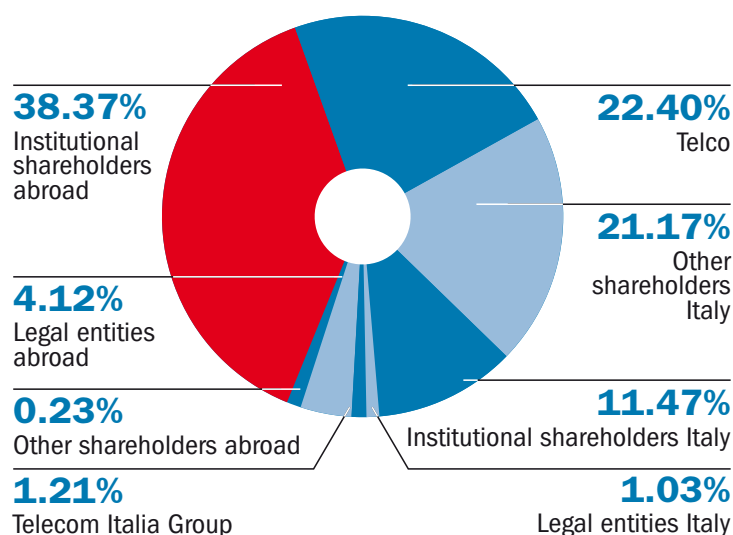| Stakeholder	Need
Important shareholders and institutional and retail investors	Good financial and operational performance by the company. Positive total shareholder return (performance on the stock market of the share and dividends distributed). Good reputation of the Telecom Italia brand. Involvement in the life of the Group.
Socially responsible investors	Positive total shareholder return. Attention to the social and environmental impact of the company business.
Bondholders	Stability of the yield from the investment. Certainty of repayment. Maintenance/improvement in the debt ratings.
Financial analysts	Direct contact with the management on important issues to perceive present and future dynamics better.

The importance of
correct
information
to all stakeholders

2. SHAREHOLDERS

The IR department manages day-to-day relations with its stakeholders: shareholders, institutional and retail investors, bondholders, socially responsible investors and financial analysts.

Their shared expectations are:
· to see the Group strengthen its position in the markets in which it operates;
· to see the objectives reported to the market through the Strategic Plan confirmed;
· to have the certainty of receiving a quick, effective response from the company to requests for information.

38.37%
Institutional
shareholders
abroad

4.12%
Legal entities
abroad

0.23%
Other shareholders abroad

1.21%
Telecom Italia Group

22.40%
Telco

21.17%
Other
shareholders
Italy

11.47%
Institutional shareholders Italy

1.03%
Legal entities Italy

2.1 FINANCIAL COMMUNICATION

During 2010, the Company organised quarterly conference calls, road shows abroad, and meetings at the Group's corporate centres (reverse road shows) and participated in sector conferences. During these events, meetings were held with over 300 investors. In addition to these there are the direct meetings and telephone conversations which the IR team handles every day.

The responses given to the financial market by the Group fulfil the requirements of relevance, sensitivity of information, consistency and topicality in respect of the issues dealt with, the Group 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 category of investors, which is managed in accordance with the Group Sustainability department, is developed through individual contacts and participation at dedicated events.

As regards relations with individual shareholders (retail) - today there are nearly 550,000 holders of ordinary shares – Telecom Italia's strategy is aimed at increasing channels of communication to respond in a rapid and effective way to queries about the performance of the shares and, more generally, of the Group. Indications and ideas that emerge from dialogue with retail investors are collected and communicated to top management.

The "TI Alw@ys ON" (www.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 those who do not have shares in the Group, and just by joining the Club, members can obtain the same free services that are reserved to shareholders, that is:

· SMS alert, which every day reports the closing price and the 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 Market report: sent every Monday morning, it summarises performance during the week that ended the previous Friday.
· Quarterly newsletter: contains a commentary on the most recent economic and financial results and details of events and trends that have influenced the performance of results, as well as clarifications on the financial and business strategy adopted by the top management.

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).

As regards online financial communication, Telecom Italia's website (www.telecomitalia.it) is constantly updated and renewed. This year, Telecom Italia achieved the following positions in the rankings drawn up by Hallvarsson & Halvarsson, the Swedish company, which rewards the best companies in terms of financial and corporate communication:

· 3rd place in the Web Ranking European Awards 2010 and first company in the telecommunications sector;
· 3rd place in the Web Ranking Awards Italy 2010;

2.2 RISK MANAGEMENT

In order to ensure a global approach to risk management, Telecom Italia Group has adopted an integrated process inspired by the Enterprise Risk Management Framework (ERM)[26]. 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 "Administration, Finance and Control" Department Manager, and is made up of:

· the Managers of the "Domestic Market Operations", "Technology & Operations" and "International Business" departments;
· the Managers of the "General Counsel & Corporate and Legal Affairs", "Human Resources and Organization", "Purchasing" and "Security" departments;
· the Manager of the "Risk Management" department of "Administration, Finance and Control."

The Manager of the Risk Management department supports the coordination activity of the Committee.
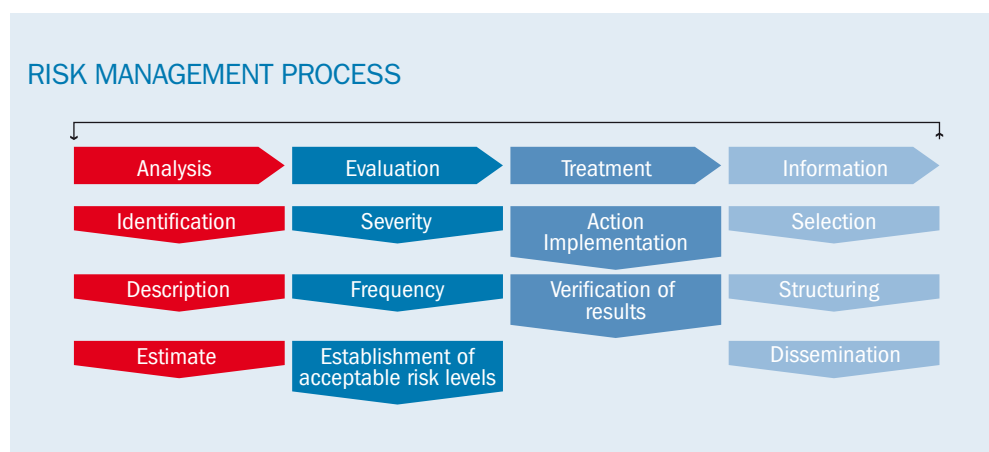
The Committee meets every three months (or when specifically required). Its purpose is to administer the Group's risk management process, by coordinating the preventive action plan designed to ensure the operational continuity of the business, and monitoring the effectiveness of the countermeasures adopted.

The ERM approach, approved by the Group Risk Management Committee, is based on an assessment of the risk profile by management, in relation to both company processes and strategic objectives. This approach involves mapping the risks and focusing on the ones considered to be the most important, drawing up a Master Plan of mitigating actions and carrying out risk treatment activity involving the establishment of interdepartmental working groups defined by the Group Risk Management Committee.

In detail, the ERM involves four main phases:
1. analysis: 2. evaluation; 3. treatment and verification; 4. information.

The following chart summarises the phases of the ERM process and the activities involved in each individual phase. Analytic description of each phase can be found on the Sustainability section of the TI Group website www.telecomitalia.com.

RISK MANAGEMENT PROCESS

Analysis	Evaluation	Treatment	Information
Identification	Severity	Action Implementation	Selection
Description	Frequency	Verification of results	Structuring
Estimate	Establishment of acceptable risk levels		Dissemination

The process is updated on an annual basis (or more frequently) at the discretion of the Risk Management Committee. Updating and support is the responsibility of the Risk Management department.

During 2010:
· the phases specified by the ERM 2009 cycle were completed, which involved determining the degree of maturity of the risk management process and establishing action plans for the main risks;
· the ERM 2010 cycle was launched;
· the corporate risk profile for 2010 was defined for the Group (excluding Tim Brasil), which involved the completion of the analysis phase and part of the evaluation phase (risk assessment and allocation). The subsequent phases are expected to be completed during 2011.

2.3 CORPORATE GOVERNANCE

The following is an extract of the Report on Corporate Governance and Share Ownership of Telecom Italia S.p.A. (hereinafter the "Report"). The full text of this report is available from the registered office, published on the Company's website (www.telecomitalia.com) in the Corporate section - Governance channel and sent to Borsa Italiana, in the manner and within the terms provided for by current regulations.

Issuer profile
Telecom Italia's corporate governance system, set up in line with the traditional model, focuses on the role of strategic leadership given to the Board of Directors; on the transparency of management decisions both within the company and in relation to the market; on the efficiency and effectiveness of the internal control system; on the rigorous governance of potential conflicts of interest and on solid rules of conduct in executing transactions with related parties.

Information on share ownership
Please refer to the full text of the Report for information regarding:
· share capital structure;
· restrictions on transfer of securities;
· significant shareholdings;
· any securities that confer special rights and special powers of the Minister of Economy and Finance;
· employee shareholdings;
· any restrictions on voting rights;
· shareholders' Agreements;
· change of control clauses;
· authorisation to increase share capital and share buy-back;
· any management and coordination activities.

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 regulations;

- 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. law. In this regard, as specified in the Self-regulatory Code (available on the website www.telecomitalia.com, Corporate Section, Governance Channel), the Board of Auditors performs the duties of the audit committee.

Telecom Italia adheres to the Self-regulatory Code of the Borsa Italiana (available at the link http://www.borsaitaliana.it) and aligns its corporate governance system with the best national and international practices.

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 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 influenced by the legal provisions governing Tim Partecipações S.A. and Telecom Argentina S.A.. Please refer to the full text of the Report for further information in this respect.

Board of Directors

Appointment and replacement

The bylaws regulation governing the process of appointing the Board of Directors was aligned with the provisions of Legislative Decree No. 27/2010 (implementing the so-called Shareholders' Rights Directive) by resolution of the Board on 30 September 2010.

Pursuant to Article 9 of the Bylaws as amended, 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 to the Company's registered office at least twenty five days before the date set for the Shareholders' Meeting at the first call, presented 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. In Resolution no. 17633 of 26 January 2011, Consob set said share 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 directors 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 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.

THE APPOINTMENT OF THE BOARD OF DIRECTORS IS BASED ON THE "SLATE SYSTEM"

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.

Composition

The Shareholders' meeting of April 14, 2008 appointed the current Board of Directors, setting the number of its members at 15 and a term of office of three financial years (therefore until the shareholders' meeting called to approve the financial statements for the year ended December 31, 2010). Pursuant to the regulations applicable at that time, three slates were presented.

Please refer to the full text of the Report for information regarding the composition of slates, the presenting shareholders, the elected candidates, the composition of the Board of Directors as of December 31, 2010 and the changes that took place in the 2010 financial year.

The curricula vitae of the members of the control body are available on the website www.telecomitalia.com, Corporate Section - Governance channel.

Please refer to the full text of the Report for information regarding the maximum number of directorships/auditorships that is compatible with the office of director of the Company according to the Self-regulatory Code of Telecom Italia.

Role of the Board of Directors

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. Please refer to the full text of the Report for information regarding the matters and activities that come within the remit of the Board and on the strategic operations that are subject to prior approval by the Board.

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 reports.

The Board of Directors assesses 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 governance. In exercising its duties as the corporate body in charge of the internal control system, the Board also avails

- of the internal control manager, who performs the internal control function, identified as the consortium company Telecom Audit & Compliance Services;
- of the manager responsible for preparing corporate accounting documents, with particular regard to internal control over financial reporting.

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

The specific objectives of the 2010 edition of the review were as follows:

- to prepare an outline of the results obtained in the closing three-year period, identifying what worked well and what could be improved further, also for the benefit of the Board to be appointed;
- to provide ideas aimed at identifying areas of possible improvement;
- to explore the board decision-making process, the contribution made by the Committees and the informational support provided by management in relation to the most important decisions made during the year.

The board review was conducted by means of (i) individual interviews with Directors, involving the three components of self-assess-

THE SELF-ASSESSMENT OF THE BOARD WAS CARRIED OUT ALSO IN 2010 THROUGH INTERVIEWS TO ITS MEMBERS, WITH THE SUPPORT OF A SPECIALIZED AGENCY

ment 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. For each subject the respondents' information and comments were collected, and feedback was requested on the effectiveness of the self-assessment method chosen as well as any suggestions for future editions.

An overall positive picture emerged from the self-evaluation. This is a quality Board with balanced and diversified skills, which has succeeded in improving some important operating procedures over the three years. In general, management of the decision-making process was appreciated as regards the information received, the preparatory work undertaken by the Committees and the level of debate. The conducting of meetings was deemed effective, assuring each Director the opportunity to express his opinion, while respecting the time-frame of the agenda, in an atmosphere considered constructive and positive. The level of participation and 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 business and the market and competitive conditions of the Company and the Group is an area of improvement that the Board considers it should work on, including through the organization of ad hoc meetings. In this respect, satisfaction was expressed on the organization of a workshop with the company management to review the technological aspects and business perspectives; it has been recommended that this experience be repeated. On the other hand, the majority of Directors consider it appropriate to organize a structured induction program, to be offered to any newly appointed Directors, and in any case greater involvement of the management in meetings.

In general, the Board expresses the view that the assessment has effectively contributed to the improvement of its operations. In particular, emphasis was placed on the implementation of actions defined in the action plan in response to the previous self-assessment.

Please refer to the full text of the Report for information regarding the meetings held in 2010 and the percentages of attendance by the directors.

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 15, 2008, the Board of Directors appointed Chairman Gabriele Galateri di Genola and CEO Franco Bernabè.

In addition to legal representation of the Company, the following tasks were attributed to the Chairman:

· supervision of the development of strategic, industrial and financial plans, as well as their implementation and development;
· supervision of the definition of organizational structures;
· supervision of economic and financial performance;
· responsibility for overseeing the review and definition of the guidelines of the internal control system.

In addition to the legal representation of the Company and all the powers to be exercised with a single signature, necessary to perform actions relevant to corporate activity in its various manifestations, none excluded, the Chief Executive Officer was attributed responsibility for the overall management of the Company and the Group and in particular:

- the responsibility to define, propose to the Board of Directors and then develop and implement strategic, industrial and financial plans;
- the responsibility to define the organizational structures;
- all the organizational responsibilities for management and business development, through the coordination of the organizational functions not attributed to the Chairman.

On April 15, 2008, the Board of Directors also approved the establishment of an Executive Committee.

The Executive Committee is composed of the executive Directors (who shall 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. Please refer to the full text of the Report for information regarding its current composition.

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.

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.

Please refer to the full text of the Report for information regarding the meetings held in 2010 and the percentages of attendance by members of the Committee.

THE EXECUTIVE COMMITTEE, MADE UP OF EXECUTIVE AND NON-EXECUTIVE DIRECTORS, HAS THE TASK TO DELIBERATE ON ISSUES PROVIDED BY THE SELF-REGULATORY CODE WHILE REPORTING ITS ACTIVITIES TO THE BOARD

Other executive Directors

There are no executive Directors on the Board of Directors other than the Chairman and the Chief Executive Officer.

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. Based on the information provided by the Directors, Paolo Baratta, Roland Berger, Elio Cosimo Catania, Jean Paul Fitoussi and Luigi Zingales are independent Board members

The Board of Directors, at its meeting of February 24, 2011, verified the independence requirements of its members, pursuant to art. 147-ter, subsection 4, of the CFL, noting that the requirements of the composition of the administrative body in its entirety (the presence of at least two independent Directors according to the criteria established by law for Auditors) had been respected.

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, Paolo Baratta, is currently the Chairman of the Committee for Internal control and corporate governance, as well as a member of the Supervisory Board under Legislative Decree no. 231/2001.

The Lead Independent Director 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. During 2010 the Independent Directors formally met once.

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).

Handling of Corporate Information
Please refer to the full text of the Report for information in this respect.

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
The Nomination and Remuneration Committee comprises non-executive Directors, the majority of whom are independent directors, with at least one Director from a minority slate. Its current composition can be found in the full text of the Report.
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.

In 2010, the Committee examined market trends and the evolution of rules regarding remuneration policies, in order to identify a remuneration structure that would be consistent with best practice, competitive and able to retain and motivate management resources identified as critical. With regard to the Top Management team, a policy was pursued of aligning remuneration levels in Telecom Italia with the median for the European Top Executive management market. For the remaining managers, similar methods of comparing and aligning remuneration with the relevant national market were used.

With regard to the short-term variable incentive system, in 2010, the Committee submitted to the plenary session of the Board of Directors the final proposals for assessing the 2009 performance targets and determining the 2010 performance targets for the CEO (targets that were then assessed in 2011). The performance conditions system of the CEO's variable remuneration component was then used as the basis for setting the short-term incentive (MBO) for all executives.

THE COMMITTEE OVERSEES COMPANY MANAGERS' NOMINATION AND REMUNERATION IN ORDER TO ENSURE ALIGNMENT TO MARKET CONDITIONS AND FACILITATE THE RETENTION OF KEY RESOURCES

The Committee promoted a policy of alignment between the interests of shareholders and the interests of the management, broadening the scope of the incentives to resources involved in pursuing the company's long term objectives. As a result, a long-term remuneration plan was launched in 2010 which involved a selected number of executives ("Long Term Incentive Plan 2010-2015"), who had not previously received remuneration based on financial instruments. With a view to ensuring the continuity of the new model, a preparatory work was then carried out that led to the formulation of a "Long Term Incentive Plan 2011" proposal on which the Shareholders' Meeting will be asked to pass a resolution in April 2011.
In order to promote share ownership among all employees and strengthen the sense of be-

longing to the Group, in 2010 the Committee also promoted the 2010-2014 Broad-based Employee Share Ownership Plan, submitted to the Shareholders' Meeting for approval on April 29, 2010 and launched by the summer, and positively received by its beneficiaries (87% of the share capital increase reserved for them was subscribed).

Finally, the monitoring that began in 2009 of the activities associated with the management development system, and the succession planning process for strategic positions, as performed by the Human Resources and Organization department, continued in 2010. The implemented system – which assesses compliance with the Company's leadership model and the extent to which individual potential can be used in other positions – was considered by the Committee to be consistent with the strategies and policies of the Telecom Italia Group.

Building on this experience, the Committee was instructed by the Board of Directors to explore international best practices with a view to establishing a method for the succession planning of the Chief Executive Officer, essentially in the event of him having to be replaced prior to the normal expiry of his term of office. This will remedy the current lack of a pre-established succession plan for such an event: the objective being in this case not to have a succession table but to formalise a process which, based on a pre-established profile, allows emergency situations to be handled quickly and in an orderly fashion, with the nomination of candidates remaining in the hands of shareholders in normal situations. The Board of Directors was kept informed of the various activities of the Nomination and Remuneration Committee at its first available meeting.

To fulfil its duties, the Committee has made use of both the internal structures of the Company and external consultants of its choice (which have no relations with the Company that may compromise the independence of opinion). During 2010, there were eight meetings, all duly minuted and held in plenary sessions. At the meetings (average length: 1.9 hours), from time to time, the managers responsible for the issues under discussion were invited to offer support.
In 2011 three meetings have already taken place.

Remuneration of Directors, General Managers and key Managers with strategic responsibilities

The remunerations received by Directors, General Managers and Key Managers in 2010 are provided in Note 44 (Other information) to the financial statements of Telecom Italia S.p.A..

The Board of Directors, at its meeting of April 15, 2008, proceeded to the distribution of the annual aggregate remuneration of 2.2 million euros approved by the Shareholders' Meeting of April, 14 2008, for the three-year period 2008-2010, as follows:
· a remuneration of 110,000 euros for each Director in office;
· an additional remuneration of 35,000 euros for each member of the Executive Board;
· an additional remuneration of 45,000 euros for each member of the Committee for internal control and corporate governance;
· an additional remuneration of 20,000 euros for each member of the Nomination and Remuneration Committee;
· an additional remuneration of 20,000 euros for the Director appointed to the Supervisory Board under Legislative Decree no. 231/2001.
Non-executive Directors receive a remuneration resulting from the distribution of the aggregate sum established by the Shareholders' Meeting on April 14, 2008, as specified above. Their remuneration is not related to the Company's financial performance nor are they granted access to share plans.

The Board of Directors, upon the proposal of the Nomination and Remuneration Committee and after hearing the opinion of the Board of Auditors, established for the executive directors, in addition to the aforementioned remuneration, a fixed remuneration for the position, respectively, equal to 1,300,000 euros for the Chairman and 1,400,000 euros for the CEO, in addition to:

- the availability of a service apartment for the Chairman;
- the payment, for social security purposes, of an amount equal to 10% of the fixed remuneration for the CEO;
- for both, (i) health insurance coverage and insurance against accidents at and outside of work, life insurance and insurance covering permanent disability due to illness; (ii) an amount equal to the sum necessary in order to pay the applicable taxes on these taxable benefits.

THE BOARD OF DIRECTORS ESTABLISHES EXECUTIVE DIRECTORS' REMUNERATION, FOLLOWING THE PROPOSAL OF THE NOMINATION AND REMUNERATION COMMITTEE

A short-term incentive system is also provided for the CEO with an annual value of between 50% and 200% of his fixed remuneration, depending on the level of achievement of suitable certifiable indicators, which in the 2010 financial year related to some of the priorities of the 2009-2011 business plan:

- Consolidated Net Income post minorities (weight: 20%),
- Net Financial Position (weight: 15%),
- consolidated organic ebitda (weight: 15%),
- total organic domestic revenues (weight: 15%),
- Quality, in terms of Customer Satisfaction Index (weight: 15%).

The objectives of these parameters were set by the 2010 budget target, with the possibility of a negative deviation up to a minimum threshold and maximum pay out when a predetermined positive deviation is reached. The variance was differentiated depending on the indicator and intermediate performance results were measured according to a linear function. In addition to the quantitative parameters (which accounted for 80% in total) there was a qualitative overall performance evaluation criterion applied to the CEO (accounting for 20%), based on the discretional opinion of the Board of Directors, on a proposal from the Nomination and Remuneration Committee. Based on the degree of achievement of the aforesaid quantitative objectives by the company and the discretional and qualitative evaluation of the activities of the CEO, the bonus awarded to him for 2010 amounted to one full year's fixed remuneration (100%).

For completeness, we note that in 2010 the CEO declined part of the 2009 accrued bonus, which was used to finance scholarships for children of the employees of Group companies. The amount declined equalled 194,000 euros, with regard to an accrued bonus of 980,000 euros.

The Chairman and CEO, moreover (see table in Note 44 - Other information to the financial statements of Telecom Italia S.p.A.), are assigned stock options pursuant to the plan approved by the Shareholders' Meeting of April 14, 2008, in the amount of 3,000,000 for the Chairman and 8,400,000 for the CEO. The applicable terms are best described in the public disclosure published in accordance with art. 84-bis of the Issuer Regulations, available at www.telecomitalia.com, Corporate Section, Governance channel. It should be noted however that 25% of those options is to be considered closed, due to the failure to achieve the performance targets to which they were subject, correlated to the Total Shareholders Return of Telecom Italia over the period December 2007-December 2010 with respect to the ten largest companies of the DJ Stoxx Tlc index. Therefore, 2,250,000 options remain in the hands of the Chairman and 6,300,000 options in those of the Chief Executive Officer, which are not subject to performance conditions and can be exercised for three years from the expiry of

the vesting period (April 15, 2011), with a purchase strike price set at 1.95 euro per share.

The right to exercise the options is conditioned by the fact that directorship in the Company must be retained until the date of the Shareholders' Meeting called to approve the 2010 financial statements. A provision exists however for early vesting and immediate exercisability of options that are not subject to performance conditions in the event of a takeover bid and/or tender offer involving Telecom Italia shares, termination of employment at the Company's initiative not for just cause, resignation for just cause. The stock option plan also provides for a portion of the options not subject to performance conditions, that is proportional to the fraction of the three-year period that has elapsed before any early cessation of the whole Board of Directors or death of the holder of the options, to be considered vested and immediately exercisable.

Finally, payment of the sums due up until expiry of their term of office, supplemented by an indemnity equal to one year's annual remuneration, is contemplated for the Chairman and the Chief Executive Officer, should they leave office before the expiry of the mandate granted by the Shareholders' Meeting of April 14, 2008 (approval of financial statements as at December, 31 2010).

For the CEO, the variable component is included in the calculation, which is valued as the average of actual payments which have already been made. Severance payment is due in the event of the early termination of the relationship as directors

· for objective reasons (such as the merger of the Company or the dismissal of the whole Board pursuant to Art. 9.10 of the Bylaws),
· at the initiative of the Company (except in case of just cause) or
· at the initiative of those interested for just cause (e.g.: change in the position, having regard, in particular, to the powers conferred, and significant change of the relevant sharholders).

At the meeting held on February 3, 2011, the Board of Directors took note of the new team of Executives with strategic responsibilities (also called executive officers or key managers), resulting after the entry of the Telecom Argentina Group into the consolidation area of Telecom Italia S.p.A.. These Executives are identified in the persons who hold, pro tempore, the following positions:

· Managers of Domestic Market Operations, Technology and Operations, Diretor Presidente of Tim Brasil, Director General Ejecutivo of Telecom Argentina,
· General Counsel, Managers of Administration, Finance and Control, Human Resources and Organization, Purchasing,

to whom the Chairman of the Board of Directors and the Chief Executive Officer (to whom the information given below does not apply) are added.

The total remuneration paid during the year 2010 to pro tempore executives recognized as having strategic responsibilities is given, in aggregate form, in Note 44 (Other information) to the financial statements of Telecom Italia S.p.A.

The remuneration of key managers with strategic responsibilities has a variable short-term component linked to the finanical results achieved by the Company and/or the achievement of specific annual objectives in the form of the so-called MBO. A free allocation of a predetermined number of ordinary shares (under the plan called "Performance Share Granting") which is variable depending on the actual period of participation in the 2008-2011 Incentive Plan and the degree of achievement of predetermined share performance targets, expressed in terms of absolute and relative Total Shareholder Return, are then granted to key managers and senior management. The information document on the plan is available at the website www.telecomitalia.com, Corporate Section - Governance channel.

Internal Control and Corporate Governance Committee

The Internal Control and Corporate Governance Committee, which has been part of the Company's governance structures since 2000, has the consultative and advisory functions stated in the full text of the Report. Please also refer to the full text of the Report for information on the main activities performed by the Committee in 2010.

The Board has entrusted the Committee, among other responsibilities, with the task of high-level supervision related to corporate social responsibility, monitoring, ex post, the consistency of the actions performed in the sector with the principles laid down by the Code of Conduct and Ethics of the Group and the values of Telecom Italia.

AMONG THE RESPONSIBILITIES OF THE COMMITTEE THERE IS THE SUPERVISION OF THE GROUP'S SUSTAINABILITY ACTIVITIES

Please refer to the full text of the Report for information regarding the composition of the Committee (all non-executive directors, most of whom are independent, with at least one taken from a minority slate) and the meetings held in 2010.

Internal Control System

The internal control system is a set of rules, procedures and organizational structures that, through a process of identifying, measuring, managing and monitoring the main risks, allows the sound and fair operation of the company in line with the pre-established objectives. As such this process is aimed at pursuing the values of both procedural and substantial fairness, and transparency and accountability, which are considered key factors for Telecom Italia business, in compliance with the Code of Conduct and Ethics of the Group and the Company's Self-regulatory Code (both of which can be found on the company website www.telecomitalia.com, Corporate section Governance channel). This process, constantly monitored in light of steady improvement, is intended to ensure, in particular, the efficiency of company operations and entrepreneurial conduct, its transparency and verifiability, the reliability of information and management and accounting data, compliance with applicable laws and regulations as well as the safeguarding of company integrity and its assets, also 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.

To ensure a comprehensive approach to risk management, the Telecom Italia Group has implemented an integrated process on the basis of the Enterprise Risk Management (ERM), which is based on self-assessment of the risk profile by management. Please see § Shareholders / Risk Management for further information.

The risks that were mapped were classified into ten clusters (corresponding to the following macro-causes: Processes, Strategy, Human Resources, Ethics & Compliance, Technology, Regulations, Markets, Budget, Damages and Finance) which can be organised into five classes: Management Risks, Compliance-related Risks, Risks of Fraud, Continuity Risks and Financial Risks. Please refer to the full text of the Report for information regarding the financial risks identified.

Chief executive in charge of the internal control system

The Board of Directors has identified, in the Chairman, the Director responsible for overseeing the functioning of the internal control system; he/she is then assigned the task of designing tools and methods to adapt the system, and seeing to their adjustment to changes in operating conditions and the legislative and regulatory framework.

The Executive Directors, each with reference to the extent of its own powers and in collaboration with the manager responsible for preparing corporate accounting documents and the head of internal control for aspects of specific expertise, using tools and in compliance with conditions set as above, ensure the overall adequacy of the system and its practical features, from a risk-based perspective, which is also considered in the definition of the agenda of the Board meetings.

Manager responsible for internal control

In exercising its responsibility for the internal control system, the Board uses, as well as the Committee for Internal control and Corporate Governance, a person in charge (as already referred to in previous Reports of governance: the consortium Telecom Italia Audit & Compliance Services) provided with an appropriate level of independence and resources to perform the function, including the ability to access directly, with full autonomy, all the information necessary to perform the assignment.

The person in charge is responsible for supporting the management and control boards in assessing the adequacy and effectiveness of the control system and consequently to propose corrective measures in case of anomalies and malfunctions.

THE CONSORTIUM TELECOM ITALIA AUDIT COMPLIANCE SERVICES IS RESPONSIBLE OF THE INTERNAL CONTROL, SUPPORTING THE OTHER ADMINISTRATION AND CONTROL BODIES IN VERIFYING THE ADEQUACY AND EFFECTIVENESS OF THE PROCESSES

Please refer to the full text of the Report for information regarding Telecom Italia Audit & Compliance Services and the internal control supervision activities performed in 2010.

In 2010, 99 reports were received, 46 of which concerned company business (mainly, alleged collusion between employees and suppliers, employees who carry out the alleged activities in competition with Telecom Italia, probable fraud towards ASSILT and CRALT, unethical behaviour of employees, potential commercial fraud, disputes between customers/suppliers and Telecom Italia, criticism of organizational decisions or business rules). Of the reports received, in-depth examinations have been conducted (or are in progress/planned), and if necessary, corrective measures have been implemented (or are in progress) by the pertinent structures. Corrective actions have been taken, judged to be reasonable for the elimination of weaknesses, and specific follow-ups made, according to predetermined criteria and objectives, and continuous monitoring of the individual actions carried out progressively according to a new operating model that consists of systematic feedback on compliance with the time limits set for implementing the measures, as well as the effectiveness and efficiency of the initiatives taken in terms of overcoming the weaknesses identified in the course of operations.

Therefore, with reference to the specific operational contexts analyzed in 2010 and the resulting corrective actions planned and implemented, the internal auditing system as a whole has been deemed appropriate to reduce the risk profiles at a physiological level acceptable to enable the correct operation of its processes.

Organizational model pursuant to Legislative Decree 231/2001

The internal control system is completed with 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 plans have been compiled in accordance with the following basic principles of control systems: (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 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 2010, 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 in the category of relevant offences of criminal association and of mafia-type association. The adoption of the internal control checklist was considered necessary because the criminal cases relating to criminal association are instrumental with respect to "target-crimes" under the Criminal Code and special laws: hence a considerable expansion of crime-risk relevant to the Legislative Decree No. 231/2001, since most business processes are potentially capable of generating criminal cases (target-crimes) committed as an association. A special working group (also supported by external legal counsel) has therefore identified the main types of "target-crimes" relevant to the Company and the crimes associated with organized crime.

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

The modifications have been developed by a management committee called the Steering Committee 231 (composed of the General Counsel, the Head of Human Resources & Organization, the Chairman of Telecom Italia Audit & Compliance Services and the Group Compliance Officer), prepared by the Supervisory body and approved by the Board of Directors when of a significant nature.
The Supervisory body monitors the operation and compliance with the Organizational Model 231. It is composed of one member of the Board of Auditors (Board Chairman Ferdinando Superti Furga), an independent Director of the Committee for Internal Control and corporate governance (Paolo Baratta), the person responsible for internal control, Chairman of Telecom Italia Audit & Compliance Services (Federico Maurizio d'Andrea) and an external member (Vincenzo Salafia) identified in 2009 by the Remuneration and Appointment Committee. The Supervisory body, appointed on April 15, 2008, after the renewal of the Board of Directors and for its duration in office, refers to the Board, the Committee for internal control and corporate governance and the Board of Auditors in order to check the activities performed and their results.
In order to support the Supervisory bodies of the Companies belonging to the Group, Telecom Italia Audit & Compliance Services has a specific structure (Compliance 231) in charge of managing the violations of the Organizational Model and carrying out compliance interventions according to the evidence received for the information flows instituted inside the Group.

Statutory Auditor

The shareholders' meeting held on April 29, 2010 inter alia, appointed Pricewaterhouse-Coopers S.p.A. as the statutory auditor, for the nine-year period 2010–2018 (separated financial statements of Telecom Italia S.p.A., annual consolidated financial statements, abbreviated half-yearly consolidated financial statements, annual report pursuant to the US Securities Laws). This decision was taken on the basis of the reasoned proposal put forward by the Board of Auditors.

Please refer to the full text of the Report for information regarding the procedure adopted by Telecom Italia to assign tasks to the auditing company according to specific Guidelines.

Information about other subjects

Please refer to the full text of the Report for information regarding the office of Executive responsible for preparing the company's accounting documents, the risk management and internal control system in relation to the financial reporting process and the specific focus on "Material Weakness" regarding the internal control system.

Please refer to the full text of the Report for information on the rules regarding the interests of directors and transactions with related parties. The new Procedure for Transactions with Related Parties is available at www.telecomitalia.com – Corporate section – Governance channel.

Appointment of Auditors

Pursuant to Art. 17 of the Bylaws (modified on September 30, 2010, in light of Legislative Decree No. 27/2010), the Board of Auditors is composed 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 to the registered office of the Company (at least twenty five days prior to the date set for the Annual Shareholders' Meeting first call) made by persons entitled to vote who jointly or separately hold shares representing at least 0.5% of 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. 17633 of January 26, 2011 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.

Please refer to the full text of the Report for information regarding the composition of the Board of Auditors, the composition of the slates from which the members are drawn, the remunerations fixed by the Shareholders' Meeting and the number of meetings held in 2010.

The curricula vitae of the members of the control body are available at www.telecomitalia.com, Corporate Section - Governance channel. Please refer to the Board of Auditor's Report to the Shareholders' Meeting, drawn up in accordance with article 153 of the Consolidated Finance Law, for detailed information on the activities performed by the Board of Auditors.

Shareholders Meetings

The Bylaws were amended pursuant to the provisions of Legislative Decree No. 27/2010 as regards legitimacy to attend the Meeting and procedures for notifying proxies by electronic means with Board resolution of September 30, 2010.

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 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 appointed by the Company (which has not exercised the opt-out allowed by Legislative Decree No. 27/2010).

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 shall be made available for the communication and performance of the activity.

To ensure the regular conduct of shareholders' meetings, since 2000 the Company has adopted the Regulations for the Shareholders' Meetings, available at www.telecomitalia.com, Corporate section, Governance channel.

The Greenfield Project

Please refer to the summary attached to the Report for information regarding the reasoning, scope of work, results and considerations of the Board of Directors of Telecom Italia regarding the internal review known as the "Greenfield Project".

Appendix

*

Target status:
- 🟢 achieved
- 🔴 not achieved

1. 2009 RESULTS

The results achieved in respect of the objectives for 2009, published in the 2008 Sustainability Report are shown below.

1.1 TELECOM ITALIA S.P.A. – CUSTOMERS[1]

Area of reference	Indicator	Unit of measurement	Targets 2009	Results 2009	Status target[*] 2009
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	99.9	●
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	99.1	●
Customers - Mobile	Customer assistance services – Average response time of the operator to incoming calls	Seconds	40	26	●
Customers - Mobile	Disputed charges – Ratio between the number of disputed charges in invoices received during the survey period and the number of invoices issued in the same period (post-paid service)	%	1.8	0.4	●
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)	%	5	0.3	●
Customers - Internet	Activation time for services of broadband access – Percentage of valid orders completed within the date agreed with the customer (active telephone lines)	%	90	99.9	●
Customers - Internet	Activation time for services of broadband access – Average time of supply (active telephone lines)	Days	11	6	●
Customers - Internet	Broadband internet access service faults – Average repair time	Hours	34	23	●
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	%	1.5	0.52	●
Customers Fixed (Internet/IPTV)	Customer assistance response time – Average time of operator response to incoming calls	Seconds	105	80	●
Customers - IPTV	Activation time of the IPTV service – Percentage of valid orders completed within the date agreed with the customer	%	78	79.4	●
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)	%	1.6	0.23	●
Customers - IPTV	Availability of IPTV service – Average unavailability of the service	Hours/Year	50	13	●

2. 2010 RESULTS

The results achieved in respect of the objectives published in the 2009 Sustainability Report are shown below.

2.1 TELECOM ITALIA S.p.A. – OTHER STAKEHOLDERS

Area of reference	Indicator	Unit of measurement	Targets 2010	Results 2010	Target status 2010
The Community	Telecom Italia Foundation – Financial commitment provided with respect to the Group's EBITDA	%	0.05	0.05[1]	🟢
Human Resources - Training	Training in Health, Safety and Environment issues[2]	Hours of training	95,000	64,421	🔴
Human Resources - Training	Training – Training hours per head[3]	Training hours per head	33	25	🔴
Human Resources - Training	Training - Coverage (percentage of employees out of the entire workforce who have taken part in at least one training session)	%	80	81.3	🟢
Human Resources - Accidents	Accidents per 100 workers	Number	<1.97	1.70	🟢
Human Resources - Accidents	Reduction in the severity index[4]	Number	<0.42	0.20	🟢
The Environment - Energy	Eco-efficiency indicator[5]	bit/Joule	1,410	1,699	🟢
The Environment - Energy	Self-production of electricity from renewable sources	kWh	500,000	216,000	🔴
The Environment - Energy	Total electrical energy procured or produced	GWh	2,136	2,064	🟢
The Environment - Energy	Number of fuel cell plants in replacement of lead batteries[6]	Number	80	85	🟢
The Environment - Atmospheric emissions	Reduction of the quantity of ozone-harmful gas used in air-conditioning systems and cooling systems	kg	5,970	7,357	🟢
The Environment - Atmospheric emissions	Reduction of CO_2 emissions resulting from the replacement of Euro3 cars with Euro5 cars[7]	Tonnes	1,660	1684	🟢
The Environment - Paper	FSC certified paper purchased for office use[8]	%	100	100	🟢
The Environment - Paper	Used paper sent for recycling	Tonnes	20,000	21,198	🟢

1

In 2009, the TI Group's EBITDA was 11,115 million euro. Thereby the amount disbursed to the Telecom Italia Foundation in 2010 was 5,557,000 euro.

2

Training delivered directly by the SPPA (Prevention, Protection and Environment Services) function of the Human Resources and Organization Department.

3

The figure includes classroom, online and on-the-hob training.

4

The severity index shows the working days lost during the year for every thousand hours worked.

5

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

6

The introduction of an additional 80 plants, planned as an objective for 2010, avoids the use (and subsequent disposal) of 240 tonnes of lead. An assessment of the total life cycle shows a benefit in CO_2 not emitted equal to around 100 tonnes compared to traditional batteries.

7

A reduction of over 30% in CO_2 emissions is achieved using Euro5 cars instead of Euro3. The objective was calculated considering the emissions of cars to be replaced in 2011.

8

Measured against the total paper purchased for office use FSC = Forest Stewardship Council.

The Environment – Electromagnetic emissions	SAR qualification[9]	%	100	100	🟢
Digital Inclusion	ADSL coverage[10]	%	97.2	97.02	🔴
Digital Inclusion	IPTV coverage[10]	%	59.3	61.8 [12]	🟢
Digital Inclusion	UMTS and HSDPA coverage[11]	%	84.3	83.95 [13]	🔴

9

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.

10

The percentage refers to fixed telephone lines.

11

The percentage refers to the resident population.

12

The increased speed of growth in IPTV coverage is a result of the ADSL desaturation plan (which involves the widespread use of DSLAM Ethernet, with a resulting benefit for the growth of IPTV).

13

The result was below target because 2.1 GHz frequencies were used (instead of 900 MHz frequencies) which have a lower signal capacity.

2.2 TELECOM ITALIA S.p.A. – CUSTOMERS

Area of reference	Indicator[1]	Unit of measurement	Targets 2010	Results 2010[2]
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	40	
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	
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	
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	
Customers - Internet	Activation time for broadband Internet access services – Average time of supply (active telephone lines)	Days	10	
Customers - Internet	Broadband internet access service faults – Average repair time	Hours	32	
Customers - Internet	Customer assistance services – Average response time of the operator to incoming calls	Seconds	78	
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	
Customers - IPTV	Activation time of the IPTV service – percentage of valid orders completed within the date agreed with the customer	%	78	

1

The full list of mobile service quality indicators, and the respective objectives and actual figures for 2010, are available at www.tim.it.

The full list of quality indicators for fixed network and IPTV Internet access services, and the respective objectives for 2010, are available at www.telecomitalia.it.

2

The actual figures for 2010 will be published in July 2011 on the websites stated in note (1).

Customers - IPTV	Customer assistance response time – Average time of operator response to incoming calls	Seconds	80
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
Customers - IPTV	Availability of IPTV service – Average unavailability of the service	Hours/ Year	40

2.3 TIM BRASIL

1

A further reduction in electricity consumption in offices until the objective is achieved has been planned once again for 2011.

2

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.

Area of reference	Indicator	Unit of measurement	Targets 2010	Results 2010	Target status 2010
Human Resources	Voluntary service work (percentage of employees who benefit from at least 1 day's leave in lieu for taking part in voluntary activities)	%	1	1,6	🟢
Human Resources	Training (total number of hours: in class + on line + on the job) provided to its own employees, outsourced employees and interns.	Training hours	715,000	897,954	🟢
Human Resources	Training – coverage (percentage of employees out of the entire workforce who have taken part in at least one training session)	%	97	82	🔴
Human Resources	Training - sustainability (n° of employees out of the entire workforce who have taken part in at least one training session on sustainability issues)	%	20	35	🟢
The Environment	Ratio between recycled waste and the total waste generated in the offices	%	51	60	🟢
The Environment	Reduction of electricity consumption in the offices[1]	GWh	1	0.7	🔴
The Environment	Reduction of water consumption in the offices	m³	2,400	22,094	🟢
The Environment	Mobile phones, batteries and accessories collected and sent for recycling	Tonnes	12	15	🟢
The Environment	SAR qualification Brazil[2]	%	25	25	🟢

Suppliers	Percentage of suppliers assessed under sustainability criteria[6]	Number	70	70	🟢

3. 2011 OBJECTIVES

The objectives for 2011 are shown below.

3.1 TELECOM ITALIA S.p.A. – CUSTOMERS

Area of reference	Indicator[1]	Unit of measurement	Targets 2011
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)	%	1.4
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)	%	1.2
Customers - Internet	Activation time for broadband access services – Percentage of valid orders completed within the date agreed with the customer (active telephone lines)	%	94
Customers - Internet	Activation time for broadband access services – Average time of supply (active telephone lines)	Days	9
Customers - Internet	Broadband internet access service faults – Average repair time	Hours	30
Customers - Internet	Customer assistance services – Average response time of the operator to incoming calls	Seconds	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	%	1.2
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

1
The full list of mobile service quality indicators, and the respective objectives and actual figures for 2011, are available at www.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 www.telecomitalia.it.

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

3.2 TELECOM ITALIA S.p.A. – OTHER STAKEHOLDER

1
Training delivered directly by SPPA (Prevention, Protection and Environment).

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
The introduction of an additional 45 plants, planned as an objective for 2011, avoids the use (and subsequent disposal) of 135 tonnes of lead. An assessment of the total life cycle shows a benefit in CO_2 not emitted of over 50 tonnes compared to traditional batteries.

5
Modern LED lighting systems provide significant benefits in terms of lower electricity consumption and reductions in the disposal of materials/use of resources.

6
A reduction of around 30% in CO_2 emissions is achieved with Euro4 cars compared to Euro3 cars. The target has been calculated considering the emissions of the models that have been effectively replaced.

7
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.

8
The percentage refers to fixed telephone lines.

9
The percentage refers to the resident population.

Area of reference	Indicator	Unit of measure-ment	Results 2010	Results 2011
The Community	Telecom Italia Foundation – Financial commitment provided with respect to the Group's EBITDA	%	0.05	0.05
Human Resources - Training	Training in Health, Safety and Environment issues[1]	Training hours	64,421	75,000
Human Resources - Training	Training – Training hours per head[2]	Training hours per head	25	28
Human Resources - Training	Training – companies coverage (no. of employees out of the entire workforce who have taken part in at least one training session)	%	81.3	81.5
Human Resources - Accidents	Accidents per 100 workers	Number	1.70	<1.97
The Environment - Energy	Eco-efficiency indicator[3]	bit/Joule	1,699	1,900
The Environment - Energy	Total electricity procured or produced	GWh	2,064	2,064
The Environment - Energy	Self-production of electricity from renewable sources	kWh	216,000	300,000
The Environment - Energy	Self-production of electricity from mixed sources (cogeneration)	MWh	63,753	75,000
The Environment - Energy	Number of fuel cell plants in replacement of lead batteries[4]	Number	85	45
The Environment - Energy	Number of fluorescent lighting installations replaces[5]	Number	-	70,000
The Environment - Energy	Purchase of new high energy efficiency Access Gateways with the Telecom Italia Green logo	Number	-	500,000
The Environment - Atmospheric emissions	Reduction of the quantity of ozone-harmful gas used in air-conditioning systems and cooling systems	Kg	7,357	8,000
The Environment - Atmospheric emissions	Reduction of CO_2 emissions resulting from the replacement of Euro3 cars with Euro4 cars[6]	Tonnes	1,684	510

The Environment - Paper	Used paper sent for recycling	Tonnes	21,198	20,000
The Environment – Electromagnetic emissions	SAR qualification[7]	%	100	100
Digital Inclusion	ADSL coverage[8]	%	97.02	98
Digital Inclusion	IPTV coverage[8]	%	61.8	67.3
Digital Inclusion	UMTS and HSDPA coverage[9]	%	83.95	84.5

3.3 TIM BRASIL

Area of reference	Indicator	Unit of measurement	Results 2010	Targets 2011
Human Resources	Voluntary service work (percentage of employees who benefit from at least 1 day's leave in lieu for taking part in voluntary activities)	%	1.6	1
Human Resources	Training (total number of hours: in class + on line + on the job) provided to its own employees, outsourced employees and interns.	Training hours	897,954	715,000
Human Resources	Training: percentage of own employees, outsourced employees and interns out of the total workforce who took part in at least one training session on sustainability issues	%	35	20
The Environment	Ratio between recycled waste and the total waste generated in the offices	%	60	55
The Environment	Reduction of electricity consumption in the offices	GWh	0.7	0.3
The Environment	Mobile phones, batteries and accessories collected and sent for recycling	Tonnes	15	12
Suppliers	Percentage of the main suppliers assessed under sustainability criteria	Number	74	140

Report of the Independent Auditors
(PricewaterhouseCoopers)

INDEPENDENT REPORT ON THE LIMITED ASSURANCE ENGAGEMENT OF THE SUSTAINABILITY REPORT 2010

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 2010 (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 and Planning". 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.

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 2010;

- 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 Sparkle SpA, TIM Participaçoes 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 Sparkle SpA, TIM Participaçoes 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:

  - ✓ participation, as observers, to some of the focus groups organized,
  - ✓ 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 report issued on 20 April 2010 by another audit firm.

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 2010 is not in compliance, in all material respects, with *AA1000 AccountAbility Principles Standard (2008)*, as stated in the paragraph "Reporting and Planning" of the Report, and that the sustainability performance included in Appendix 1 is not reliable.

Turin, 28 March 2011

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 2010 translation.

Appendix 1 Data and information on sustainability performance

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TELECOM ITALIA