

**Activities Newsletter
Supervisory Board
October - December 2011**

Summary

During the fourth quarter of 2011 the Supervisory Board (SB) conducted the usual monitoring of the actual compliance by Telecom Italia with the Undertakings specified in resolution no. 718/08/CONS.

Regarding Undertakings Group no. 1, the SB, in specific meetings, received updates and information on the progress made in implementing the New Delivery Process, with particular reference to the work order management system based on the time of receipt of the order (the so-called "Single Queue").

With reference to the indicators in the basket of Key Performance Indicators (KPIs), to which Undertakings Groups no.3 and no.4 relate, and the further information requested of Telecom Italia in Determination no. 16/2011 of 5 July 2011, on the presumed critical aspects highlighted by these indicators, SB Determination no. 21/2011 of 12 October 2011 ordered that the investigations should continue, to further examine some aspects that had emerged from the information and data made available by Telecom Italia.

And regarding Undertakings Group no. 8, AGCom published Resolution no. 678/11/CONS containing Guidelines for service contracts and fixed network Regulatory Accounting, thus defining the policies that Telecom Italia will have to apply in drawing up the corresponding accounting documents.

On 19 December 2011, based on a report from Operator Fastweb, the Supervisory Board started investigation no. S02/11, to verify that the principle of internal and external equality is respected under the contractual conditions established by the Company with the suppliers it uses for the activation of services for alternative Operators and Retail customers.

The analysis of causes of rejection (so-called KOs) for the Telecom Italia retail market segment also concluded in the quarter.

The auditing by the Supervisory Office (SO) of the elementary data used to calculate the KPIs continued, with further on-field investigations at company AOLs to check some apparent anomalies.

Finally, in October there was a meeting with the Equality of Access Board (EAB) of Telia Sonera, Skanova Access and representatives of some departments of this Scandinavian operator to exchange information on KPIs and start comparing the Delivery and Assurance processes of the Italian operator with those of the Swedish operator.

Progress regarding the implementation of the Undertakings

Undertakings Group no. 1

(launch of the New Delivery Process)

During October, Open Access provided the Supervisory Office with further information and details about the advantages and guarantees of equal treatment introduced with the NDP in a specific meeting and during a visit to the Lazio Sud AOL; particular attention was paid to the new work arrangements introduced with the work order management system based on the criterion of the time of arrival of the order (so-called "Single Queue").

With Determination no. 25/2011 the SB approved the final report on the progress and operation of the NDP and the functioning of the "Single Queue", making the SO responsible for carrying out further and separate periodic audits of the effective and correct use of this procedure by Open Access.

Specifically, from the analysis carried out, a total of 51 adhesions to the New Delivery Process had been registered by 2 November 2011, including:

- 36 Operators for the Bitstream ATM Service;
- 3 Operators for the Bitstream Ethernet Service;
- 6 Operators for the LLU Service;
- 3 Operators for the WLR Service;
- 3 Operators for the SHA Service;

Since the NDP started, there have been approximately 147,000 Work Orders (WOs) on the Bitstream service, with 544 WO's transited in the single queue and closed positively (data updated to November 2011).

During the reference quarter, new record formats were released for the introduction of the additional functionalities of the new contact policy (NDP2), in accordance with the commitments given by Telecom as part of the activities of AGCom's Undertakings Monitoring Group (GMI), and the telephone numbers that OLO customers can use to receive messages about Delivery Activity have been published on the Wholesale website.

Undertakings Group no. 2

(establishment of a new incentive system and a code of practice)

On 27 October 2011, Fastweb S.p.A. requested some information in the possession of the Telecom Italia Wholesale function for jurisdictional action and protection purposes, activating the corresponding procedure created by the Company in accordance with Determinations 21/2009 and 4/2010 of the Supervisory Board.

After listening to both Fastweb and Telecom Italia in two separate hearings, on 16 and 25 November 2011, respectively, and assessing the responses of the alternative Operator to the arguments on which Telecom Italia's refusal is based, the Supervisory Board adopted Determination no. 23/2011 on 2 December 2011. This determination preliminarily required Telecom Italia to provide some information on the matter under consideration, ordering the start of activities to verify, also by sampling, that the

principle of internal and external equality is respected in the contractual conditions imposed by the Company on the suppliers it uses for the activation of services for alternative Operators and Retail customers.

At the same time, the Supervisory Board assessed the facts raised by Fastweb that were relevant to the audit of Telecom Italia's compliance with the principal of equality of treatment, and in particular its application under Undertakings Group no. 2 and the Board's own Recommendations on this topic, and on 19 December 2011 adopted Determination no. 27/2011, with which it ordered the start of audit activities to examine the validity of the facts cited, pursuant to article 11, subsection 3 of its Regulations.

Always with reference to Undertakings Group no. 2, training on equality of treatment has been started in e-learning mode for staff of district Open Access offices. By the end of 2011, 700 members of staff had been trained, and the remaining 200 will be trained conventionally in the first two months of 2012.

Undertakings Group no. 3

(establishment of a performance monitoring system for SMP services)

During the last quarter of the year, the Supervisory Board continued its audits of the elementary data used for calculating the specified indicators, on the basis of the specifications for the certification of data communicated by Telecom Italia to the SB, as required by Determination no. 4/2011¹ *(for more details see the paragraph below on data certification)*.

A newsletter with updates of the activities of the SB regarding the certification process for the performance indicators for Undertakings Group no. 3 was also published on the SB website.

Undertakings Group no. 4

(guarantees of transparency of the monitoring system)

Telecom Italia transmitted to the SB the reports on these indicators for September, October and November, and the quarterly report on the third quarter of the year (July-September 2011) as specified in the Undertakings proposal.

The SB had started activities to examine the critical elements found in some of these indicators with Determination no. 16/2011 of 5 July 2011.

In particular, regarding a Broadband Delivery indicator and a Broadband Assurance indicator, Telecom Italia was asked to provide a detailed description of the processes for these KPIs, justifying any differences between the processes applied to OLO customers and Retail customers.

On receipt of Telecom Italia's response to this, in September, the SB ordered the audits of the KPI system to continue until 28 February 2012 to examine some aspects of the information and data made available by Telecom Italia in greater depth, in Determination no. 21/2011.

¹ http://organodivigilanza.telecomitalia.it/pdf/Determinazione_n4_2011_Certificazione_dati.pdf

Undertakings Group no. 5

(guarantees of transparency of Technical Plans for the Quality of the fixed access network)

In the fourth quarter, the SB received and analysed the documents produced by Telecom Italia on the final data for the third quarter of 2011. Telecom also transmitted the Annual Technical Plan 2012 and the Programme for IQ 2012, in accordance with the provisions of Undertakings Group no. 5.

Telecom Italia then sent the report on progress to October 2011 on the evolution of exchange time against the quality targets: the indicator is provided for RTG and ADSL services on a national basis and by province; the sample analysed includes data from exchanges with more than 1000 RTG customers and 300 ADLS customers.

As required by Determination no. 6/2010, Telecom Italia also communicated to the SB the document containing the third quarter data on Trouble Tickets, broken down by territory and cause of failure, with details of repeated failures and the list of saturated MiniDSLAMs and DSLAMs for which work orders for asymmetrical digital services could not be issued.

Certification of the data on on-going projects for poles, cabinets and DSLAMs by Ernst & Young, as specified in Resolution 578/10/CONS, was completed by the end of October: the certifying firm confirmed that the targets set by AGCom had been reached.

Finally, it should be noted that, with Resolution 482/11/CONS, AGCom started a public consultation on a draft provision for additional measures to be imposed on Telecom Italia to ensure that certain quality objectives related to the supply of Universal Service are respected. The measures being consulted on include some that refer indirectly to issues dealt with in Undertakings Group no. 5.

Undertakings Group no. 6

(guarantees of transparency of Technical Plans for the Development of the fixed access network)

The SB analysed the reports sent in by Telecom Italia on the final figures for the third quarter of 2011 for the development of the fixed access network – NGA network, Broadband Coverage and Lotting Plan.

Telecom Italia also sent the quarterly Programme for the period January-March 2012 to the SB.

The 2012-2014 Long Term Technical Plan will be sent after approval of the Telecom Italia Industrial Plan, expected by the end of February 2012.

Undertakings Group no. 8

(integration of regulatory accounting and calculation of transfer charges)

After the public consultation started with Resolution no. 2/11/CONS, Resolution no. 678/11/CONS of 12/12/11 has been published, containing Guidelines on service contracts and fixed network Regulatory Accounting. With this Resolution AGCom sets out guidance that Telecom Italia will have to follow in drawing up documentation relating to these issues: in particular, Telecom must send the following to the AGCom, within 45 days of publication of the Resolution:

- accounts for the 2010 financial year that incorporate, on an experimental basis, the provisions of article 1, subsection 1 of this resolution;
- the service contracts for 2011;
- a proposed methodology for determining the transfer charge to price.

Undertakings Group no. 9

(measures related to next generation access networks)

Regarding Undertakings Group no. 9, there is nothing of note in the quarter to report, while awaiting publication by AGCom of the guidelines on NGN, pursuant to Resolutions no. 1/11/CONS and no. 301/11/CONS.

Undertakings Group no. 12

(obligation to report activation of unrequested services)

Telecom Italia sent the SB the document containing the data on the third quarter of 2011, which shows that no reports of the activation of unrequested services were collected by the Open Access technicians in the period considered.

Complaints by alternative operators

Complaint S02/11 – Fastweb / Assessment of the clauses of contracts signed between Telecom Italia and contractors – respect of the principle of equality of treatment pursuant to Undertakings Group no. 2

Operator Fastweb requested some data held by the Telecom Italia Wholesale division for jurisdictional action and protection purposes, according to the procedure for OLO access to the data and information held by this Division set out in Determinations nos. 21/2009 and 4/2010.

Given Telecom Italia's refusal to disclose the information requested, since it believes that the information falls outside the competence of the procedure mentioned above, and also since said requests concerned information that it believed was already in the OLO's possession, the SB, in brief, started an audit, opening complaint SO2/2011, since Fastweb had indicated that it suspected a violation of equality of access.

On 27 October 2011, Fastweb asked Telecom Italia for some data held by the Wholesale division for jurisdictional action and protection purposes, thus activating the specific procedure set up by the historical Operator. In particular, the information requested from the OLO regarded contracts signed between Telecom Italia and contractors for the supply of activation services for Fastweb and Retail customers, including the agreed fees, and the closing notes on approximately 31,000 work orders.

Telecom Italia responded on 10 November 2011, refusing to disclose the data on these contracts, stating that the nature of the relationship between Telecom Italia and the contractor is strictly confidential and private.

However, regarding the disclosure of the work order closing notes, Telecom Italia expressed its willingness to provide information, notwithstanding the fact that the alternative Operator is already in possession of it, in the form of documents already disclosed during arbitration proceedings.

But Fastweb subsequently reiterated its demand for information in a subsequent letter dated 16 November 2011.

After hearing both Companies, the SB, in its Determination no. 23/2011 of 2 December 2011, asked Telecom Italia to provide further information about the issues raised by the OLO, although it acknowledged the arguments presented by the incumbent regarding the non-pertinence of the request for information that had been made.

Telecom Italia replied on 29 November 2011 confirming its choices.

The SB then considered that the facts and issues raised by Fastweb could merit specific attention, since they were liable – where verified – to compromise, in particular, with reference to the dictates of Undertakings Group no. 2, the actual respect of the principal of internal and external equality. Primarily because of the Operator's

hypothesis that Telecom Italia could apply contractual conditions in the agreements with the contractors that are economically or technically different, according to whether the services were provided to Retail customers or Wholesale customers.

For this reason, having received the technical report by the Supervisory Office, the SB opened procedure no. S02/2011 with Determination no. 27/2011, so as to verify that the principle of equal treatment is actually respected in the contracts for the construction of installations.

Specific analyses

Certification of data

A project was started in 2010 at the request of the Supervisory Board and under its supervision, to certify the Key Performance Indicators (KPIs), in order to validate the mechanism for extracting data generated by the performance Monitoring System for Telecom Italia's SMP services on Trouble Tickets and Work Orders. This project led to the certification of a first group of indicators during 2011. The remaining KPIs are expected to be validated in 2012.

The SB deemed it appropriate to order the start of audit activities, for a period of 12 months from January 2011, into the correctness of the elementary data used to calculate the indicators, with Determination no. 4/2011². This Determination also requires that the audit should be conducted by SO staff, who would then report the outcomes to the SB at quarterly intervals. Following these audit activities, the SB will prepare a final assessment report, including any corrective action to be taken.

Hence in the fourth quarter the SO continued the analysis of the data used by Telecom Italia to draw up the Monthly Reports on the indicators, starting with the data for January 2011. The data for July 2011 were extracted on 3 October, and the samples for the months of August and September were extracted on 15 November.

In each extraction a sample of 386 work orders for the delivery process (KPI 1 indicators) and 947 trouble tickets for the assurance process (KPI 2 indicators) were examined, making a total of 1,333 elements. The identifying details of the sample records were sent, in the presence of Open Access and the Supervisory Office, to Telecom Italia, which arranged to supply all the data in its operational databases for each record.

In comparing the data extracted from the database used for calculating the indicators with the corresponding data in the operational databases, the SB was able to verify that no significant critical elements about the correctness of the data exposed had emerged, as had been the case for the previous extractions.

However, to better understand the causes of the non-population of a field in the files extracted from the system – an anomaly which, moreover, was encountered on an extremely small number of records – and to acquire further detail elements, a further on-field check was deemed appropriate, following up on the checks carried out in the preceding months at the Sicilia Centro AOL and the Marche AOL; in fact, in November representatives of the SO checked the integrity of some formally incomplete Work Orders at the competent Open Access territorial structure, the Lombardia Sud AOL; this check confirmed that the WO had been correctly expedited, and the anomaly referred to above had been due to the delayed alignment between the systems on accessory

² http://organodivigilanza.telecomitalia.it/pdf/Determinazione_n4_2011_Certificazione_dati.pdf

data which did not in any event compromise the execution of the formulas used to calculate the KPIs.

Finally, regarding the validation of the additional KPIs identified in the joint work groups with the alternative Operators and AGCom, the related validation activities started in October.

The SB also asked Telecom Italia to bring forward the deadline for conclusion of the works to March 2012, instead of the planned deadline of June 2012, to ensure that the activity is concluded before the expiry of the SB's mandate. Telecom Italia confirmed to the SB that it could bring the conclusion of the works forward to the date requested.

Analysis of Wholesale KOs

The "Wholesale KO Analysis Project" started in 2010, producing a detailed analysis of the causes of rejection of Wholesale Work Orders; the aim of the analysis was to obtain an in depth understanding of the causes of rejection of the delivery process that Telecom Italia used until the transition to the New Delivery Process (NDP).

In particular, customer and network KOs on bitstream, LLU and WLR services were extracted from the Telecom Italia systems for the period January 2009 - January 2010, divided by cause and distributed on a time basis according to the date of issue of the Work Order, so as to reconstruct the dynamics of the WO for each customer.

The project identified several areas of possible improvement to the process. The results of the Project may be used as a reference for comparisons to be made to assess the benefits deriving from the introduction of the NDP.

In October, Telecom transmitted the document on the trend in outcomes for Work Orders (WOs) received in the interval between July 2010 and June 2011, and closed by the end of September 2011 in compliance with the requirements of the SB set out in Determination no. 22/2010³.

The analysis was carried out by Telecom Italia Wholesale based on the indications provided by the SB in the aforementioned Determination no. 22/2010 and in Determination no. 14/2010⁴, on the data contained in the *Wholesale Outcomes Datawarehouse*.

Telecom then supplied progress reports on the data collected on Asymmetrical Bitstream Delivery Customer and Network KOs during the meetings of the Supervisory Board Councils.

³ http://organodivigilanza.telecomitalia.it/pdf/19_Determinazione_22_2010.PDF

⁴ http://organodivigilanza.telecomitalia.it/pdf/Determinazione_n1_14_2010.pdf

Analysis of Retail KOs

After the analysis of the rejected Wholesale Work Orders (referred to as KOs), the SB ordered the start of the analysis of the causes of rejection of KOs in relation to the offer of Telecom Italia Retail services.

The SB started the project to analyse the causes of Retail Work Order rejections, thus completing the study conducted in 2010 on the Wholesale market segment, to assess actual equality of internal-external treatment in the running of the Delivery process. The aim of the analysis was to check the actual causes of cancellation of WOs for Telecom Italia Retail customers, and identify any differences in treatment compared to OLO customers. It considered all the WOs for the years 2009, 2010 and 2011 (to June).

After receiving from the SB the specifications needed to start the study of the causes of WO rejection, Telecom Italia supplied the data needed to start the analysis work.

The SB then analysed and reprocessed the data, and concluded the planned activities during the last quarter, adopting Determination no. 26/2011, with which it approved the final report illustrating the work done and the results obtained.

It notes that no cases of inequalities of treatment of Retail WOs and Wholesale WOs, in terms of quantities of rejections and their causes emerged from the analysis that was carried out.

However, it found that the process was more efficient for the Telecom Italia WOs in terms of the numbers needed to satisfy a customer request, although the difference was slight: this difference should be progressively eliminated as all the OLOs sign up to the New Delivery Process.

The pre-warning system ("Amber Light") for exchanges at risk of saturation

After the end of marketing of the bitstream service at approximately 500 Telecom Italia exchanges due to network saturation, and the related analysis carried out after OLO Complaint 501/2010, the SB recommended that Telecom Italia set up a shared mechanism to indicate the pre-alert status of exchanges close to saturation.

In the last three months of the year the SB continued its activity of monitoring the pre-warning ("amber light") system and the state of saturation of the exchanges covered by the offer of bitstream services.

After remaining almost constant in the period from March to October, the number of exchanges in amber light status increased sharply in November and December, reaching 510 at the end of the year. So there was a total increase of 38% in the number of exchanges in "amber light" status over 2011. This increase, which was concentrated in the last two months of the year, may be ascribed to those exchanges that in the medium term could present a shortage of ATM DSLAM ports ("geometric saturation"). As is known, in fact, ATM technology has been declared "out of production" for some time, and further procurement from manufacturers has been impossible since July 2011. This critical point is confirmed by the fact that, of the 510 exchanges in "amber light", 321 (63%) have been declared in a state of pre-alarm because of the possible lack of available ports, while the remaining 189 were on amber light because of possible saturation of the backhauling band.

The number of saturated exchanges served by 7 Mbit/s DSLAMs continued to fall in the fourth quarter, with a steady trend that resulted in a total of 71 at the end of the year (-57% fewer than at the start of the year), below the number predicted in the technical plans (100 exchanges).

International benchmarks on the Key Performance Indicators

In December 2010 an international meeting of supervisory bodies was held in Brussels. During this meeting a common intention to examine reciprocal knowledge in greater depth, by exchanging information on specific issues, emerged.

The Key Performance Indicators (KPIs) were identified as a first topic for comparison, since the development and regular use of a basket of performance indicators is an experience common to all the supervisory bodies present.

In May 2011 the SB sent a document containing requests for information on the indicators monitored and the Delivery and Assurance processes to the British, Swedish and New Zealand supervisory bodies. The document was also sent to the Japanese operator NTT which having taken part in the meeting in Brussels, had declared its intention of jointly investigating specific subjects.

In particular, the document circulated contained requests for information on the following points:

- the Delivery and Assurance processes for Open Access;
- the principal indicators calculated by the operator, with the formulas used and the quantities analysed;
- the causes and corresponding percentages of Work Order rejections, on both active and non-active lines.

During 2011 the Supervisory Board received contributions from the British Telecom Equality of Access Board and from Telia Sonera: these contributions allowed the start of an initial comparison of the analysis procedures used by Telecom Italia with those used by the British and Scandinavian operators.

After the transmission of these documents, bilateral meetings with these Operators were organised, to examine the areas of comparison in more detail: in July, the Supervisory Office met with Openreach and the British Telecom (BT) Equality of Access Office (EAO), which was able to examine the similarities and differences between the “Open Access model” and the “Openreach model” in the Delivery and Assurance processes.

In October 2011 the Supervisory Office met with the Equality of Access Board (EAB) of Telia Sonera, Skanova Access and representatives of some Functions of this Scandinavian Operator, with the aim of examining the same issues in depth.

With this last meeting a comparison of the Delivery and Assurance processes of the Italian and Swedish Operators was started, to examine in greater depth the similarities and differences between the “Open Access model” and the “Skanova model”.

In particular, the ways in which the Delivery and Assurance services are supplied by the two Operators were presented, and it emerged that there were notable similarities between the two models, particularly in relation to issues dealt with on a daily basis.

Skanova then illustrated the IT supports used to manage the Delivery and Assurance processes, and the activities carried out on the systems to ensure that the principle of equality of treatment is respected (such as periodic data cleaning).

The comparison of performance indicators conducted in 2011 with the other supervisory bodies allowed us to collect information on the arrangements put in place by other electronic communications Operators to design and conduct analyses of the KPIs, as well as being able to examine in detail those aspects peculiar to the Delivery and Assurance processes adopted by the other Countries' incumbents.

In this respect it is interesting to note that the supervisory bodies have expressed an interest in continuing the progressive in depth examination of the issues dealt with here.

The analysis activities conducted to date have allowed the Supervisory Office to identify certain aspects of the Open Access work processes that, in the light of the information acquired in these international comparisons, could be improved.

Other activities of the SB

- ◆ In November, the SB met, separately, with the Italian internet providers' association - Associazione Italiana Internet Provider (AIIP) - and the Operator Fastweb, to discuss and examine in depth issues related to the migration from ATM technology to Ethernet technology.
- ◆ During the same month, the SB was able to examine technical aspects of Vectoring, a technology that allows very high data transfer speeds to be achieved on VDSL2, in a specific meeting with Alcatel-Lucent.
- ◆ With Determination no. 22/2011 of 16 November 2011, the SB approved the July-September 2011 quarterly report on the activities undertaken and the work programmes transmitted to AGCom as specified in its Regulations.
- ◆ Finally, the SB approved the Plan for Budget use for 2012 with Determination no. 24/2011 of 14 December 2011.