

PARITÀ DI ACCESSO

Organo di Vigilanza

2010

WORK PROGRAMME FOR 2010

Annual
Report

2009 ACTIVITIES AND RESULTS

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This Report has been prepared according to what has been established by Undertakings Group No. 7, proposed by Telecom Italia S.p.A. and approved with the Italian National Regulatory Authority AGCom Resolution n. 718/08/CONS. The assessments made in this Report take into account information and data received by the Supervisory Board by January 31st 2010, according to the AGCom Resolution n. 718/08/CONS.

1 | Introduction

In April of 2009 the Supervisory Board began its activity in the framework of an extremely meaningful experience for the electronic communications industry in Italy. Indeed, with the approval in December 2008 of the Undertakings of Telecom Italia by the National Regulatory Authority (NRA) AGCom, a strong impulse has been given to the experimentation of an innovative solution which envisages, in addition to measures and remedies ordered by AGCom, the assumption of voluntary obligation elements by the operator, for the purpose of guaranteeing a more effective equality of treatment in the market of the access to electronic communications networks.

The model adopted is the result of a lengthy and carefully considered regulatory procedure started by AGCom with the active contribution of Telecom Italia, which has seen all interested market operators involved in a process of public consultation. This model, more than any other, seemed to be the most suitable to reconcile the requirements of opportune safeguard of investment incentives in infrastructures with adequate guarantees of respect for the principles of equality of internal/external treatment, of transparency of development of the access network, of satisfaction of the operators and of the end users and of improvement of competitive conditions, even in the transition phase towards next generation networks.

This solution falls within the context and evolution of the legislative measures adopted in the past few years by the European Union, recently completed with the adoption of Directive 2009/140/EC. From this viewpoint the procedure that led to Telecom Italia's voluntary undertakings represents an anticipation, at least from the objectives perspective, of the new European framework on the issue of voluntary separation of the access network.

In fact, starting from the definition of the supply obligations of an open network (Open Network Provision - ONP), all European legislative and regulatory initiatives were meant to encourage, with ad hoc dispositions, access to the network of historical operators by competing operators considering it as the starting point of a balanced and effective process for developing competition in electronic communications infrastructure and services.

In this context it is important to highlight that models similar to the Italian one as well as legislative and regulatory measures inspired by principles similar to the above-mentioned European approach, have been adopted by many countries, which introduced with voluntary contractual instruments different separation mechanisms for the management of the fixed access network.

For the monitoring and verification of a correct and effective operation of these access network management Systems, supervisory bodies have been set up, including for example, the British Equality of Access Board (EAB), active since 2005, the Swedish EAB, operating since February 2008, and the Independent Oversight Group (IOG) of New Zealand, active since April 1st, 2008.

These bodies, set up in agreement with national regulatory authorities, operate within the corporate structure of the network operators, in an autonomous and independent position, with the aim of stimulating the relevant company structures to fully respect the principle of equality of access.

The English experience in this framework is undoubtedly the most meaningful and the oldest.

The observation of the British experience over a reasonable length of time has allowed to assessing the positive elements, but also the peculiarities of that specific national market and the possible critical elements and to take due account of them in defining the organisation and procedures to adopt in Italy.

In its first nine months of activity, the Supervisory Board has provided for monitoring the effective implementation of the Undertakings by Telecom Italia, in the foreseen terms and time schedule, by adopting a series of Determinations and formulating Recommendations aimed at improving the effect of the Undertakings themselves in terms of transparency, flexibility and non-discrimination.

In carrying out the supervisory activity during 2009, the Supervisory Board did not notice any formal breach of the Undertakings. In many cases, however, in order to reach the expected result in the best way, the Supervisory Board considered opportune to suggest to the company the introduction of improvements to the current procedures, to the benefit of the market and of the consumers.

The cooperation offered by Telecom Italia's corporate structures and in particular by Open Access, providing the Supervisory Board the necessary information and instruments for carrying out its work, must be mentioned.

Discussions with the competing operators of Telecom Italia were also appreciable, due to the frequent exchange of data and opinions, and to the complaints received concerning possible non-compliance with the content of the Undertakings.

The Supervisory Board, in keeping with the assignment received, has therefore provided the AGCOM - which, naturally, is still the only institutional subject competent for carrying out regulatory, control and sanctioning functions - with a constant update of the work done and on the determinations taken, concerning the implementation process of Telecom Italia Undertakings.

The year 2010, besides seeing the completion of foreseen time limits, shall be an important test bench of the effectiveness of the Undertakings and their actual impacts in the Italian electronic communications industry even in relation to the development of next generation networks.

It is from this viewpoint that the Supervisory Board has formulated its strategic intervention lines for 2010 (See Section VII), which by evaluating the experience gained in its first year of activity, testify the role the Board intends to continue playing in terms of auditing, advice and stimulus of adequate improvement processes by Telecom Italia, with the aim of actually reaching the underlying objectives of the Undertakings.

2 | Composition of the Supervisory Board



Giulio Napolitano

Full professor of Public Law at Roma Tre University, Giulio Napolitano dealt for long time with public utility services regulation. From 2006 to 2008 he has been legal councillor of Cabinet Presidency with reference to matters regarding quality of regulation.

He is member of the Scientific Committee of the Communications Observatory created in Arel. He coordinates the legal section of the ultra broad band research project launched by the NRA and is in charge of the sub-project on administrative simplification.



Francesco Chirichigno

A graduate in Economics, Francesco Chirichigno held the office of Deputy Director General of STET in 1993 and CEO of Telecom Italia from 1994 to 1997, planning and implementing the merger of the five companies that were incorporated into the new Telecom Italia. He was member of the Board of Directors of TIM, Assicurazioni MEIE, FINSIEL, RESEAU, Scuola REISS ROMOLI e CSELT, chairman of FINSIEL and Consultant for the Communications Ministry. Member of the Communications High Council, from 2004 to 2006 he was Chairman of INFRATEL ITALIA S.p.A.; he is presently chairman of the FONDAZIONE ITALIANA NUOVE COMUNICAZIONI.



Sergio Giovanni Fogli

Sergio Giovanni Fogli graduated in Electrical Engineering at Milan Polytechnic. He started his professional experience in SIP and in Telecom Italia he held, among others, the role of Market Director in the Regional Direction Campania and Basilicata, Regional Director of Lombardia and Marketing and New Services Director of the Retail Direction. Appointed as Regulatory Affairs Department Director of Telecom Italia in 2001, he held this office until 2007.



Claudio Leporelli

Full Professor of Economics and Services Organization at La Sapienza University of Rome, Claudio Leporelli performed research and consulting activities for the NRA, for the Authority in charge of the Informatics in Public Administration, for the Communications Ministry and the Technical Centre for the administration of the Public Administration Unique Network. He has been expert at NARS (at the Treasury) and participated to the workgroup of the Advisor of the Ministerial Committee for the GSM and UMTS Licenses allocation. He is scientific responsible of the coordination activities of the ISBUL Project, on ultra broad band research supported by the NRA.



Gérard Pogorel

Professor of Economics and Management at Telecom ParisTech (ENST) of Paris, Gérard Pogorel has taught at French and European schools and Universities, holding the office of visiting professor at Naples Federico II University. He published books, articles and reports on wireline and wireless network innovation dynamics and sector governance. He participates in the Governments telecom committees and task forces and Regulatory Authorities on Media and Telecommunication sector in Europe, Asia and for the European Commission. He is a member of the international panel of experts for the World Competitiveness Yearbook (IMD, Lausanne) and Officier des Palmes Académiques.

General Secretary of the Supervisory Board

The Supervisory Board is assisted in its work by a Secretary General (Fabrizio Dalle Nogare), tasked with supporting and organising the Supervisory Board activities; in particular, the Secretary plans the activities of the Supervisory Board and assists the Chairman; he also contributes to inform the Supervisory Board of any relevant news, with the support of the Supervisory Office.

The Supervisory Office

The Supervisory Office, whose Director is Fabrizio Savi, supports the Supervisory Board in accomplishing its own tasks, gives the relevant operating support and, according to the Board requests and indications, carries out preparatory and collateral tasks with respect to the complaints and claims received.

The Supervisory Office staff: Alessandro Mauro, Luca Regoli, Mario Volpari and Diana Stefani.

3 | Reference Framework

1. NATIONAL AND EUROPEAN REGULATORY FRAMEWORK

The proposal of Undertakings by Telecom Italia, the related public consultation and their definitive approval by AGCom with Resolution n. 718/08/CONS, are part of the development process of the national regulatory framework, with specific reference to article 14-bis of law n. 248 of August 4th, 2006 which introduced the Undertakings as a regulation tool of contractual nature.

The dispositions of article 14-bis of law n. 248 of August 4th, 2006 have been implemented by AGCom with Resolution n. 645/06/CONS and with Resolution n. 130/08/CONS, which integrated the regulation as regards sanctioning procedures as set forth in Resolution n. 136/06/CONS with the new regulation of the undertakings.

Within the framework described above, the proposal of undertakings by companies is admitted to the proceedings under the jurisdiction of AGCM (the Italian Competition Authority), but also to those under the jurisdiction of the NRA, in the cases where it is necessary to promote competition in the supply of electronic communications services networks and related resources and services.

The NRA, once the undertakings have been evaluated as adequate to reach the set objectives, can approve them with the effect of making them obligatory for the proposing company.

If, on the one hand, this rule is derived from the regulation established for the proceedings under the jurisdiction of the Antitrust Authority, on the other hand, it is also typical of the undertakings proposed during proceedings concerning the electronic communications industry. In that context the presentation of undertakings is allowed:

- in proceedings of regulatory nature, in which the undertakings proposal must be aimed at improving pro-competitive conditions in the industry and
- in proceedings of a sanctioning nature, where the undertakings proposal must be aimed at improving the competition conditions in the industry, removing the anticompetitive consequences of a specific unlawful act committed by the company, through the adoption of suitable and stable measures.

As far as the European law is concerned, Directive n. 2009/140/EC (which should be implemented by the national legal systems by the month of June 2011) modifies the current regulatory framework *in primis* the legislative decree n. 259 of 2003, “Electronic Communications Code”. In particular, the Directive introduces among the regulatory obligations for the operators notified as having significant market power, the so called “functional” separation and the so-called “voluntary” separation.

“Functional” separation is defined as an instrument of exceptional nature that a regulatory authority can impose on electronic communications operators vertically integrated and having significant market power in one or more relevant markets; the measure consists in the obligation of transferring all the activities related to the supply of wholesale access goods/services to a completely independent commercial entity.

The measure can be imposed following verification:

- that the “typical” regulatory obligations (obligation of transparency, obligation of non-discrimination, obligation of accounting separation, obligations as regards access and use of certain network resources, obligations as regards price control and cost accounting) have proven to be ineffective for achieving real competition;
- that there are important and persistent competition challenges and/or shortcomings in the market, identified in relation to wholesale supply of some access products markets.

The case of “voluntary” separation occurs when a vertically integrated operator designated as having significant market power in one or more relevant markets informs the national regulatory authority that it intends to transfer its business in the local access networks or a significant part of it to a separate legal entity under the control of others or that it intends to set up a separate commercial entity for supplying all operators, including its own Retail departments, equivalent access products.

The national regulatory authority shall therefore evaluate the effects of the separation voluntarily carried out by the operator and conduct an analysis of the markets connected to the access network to evaluate if keeping, modifying or revoking regulatory obligations imposed earlier.

2 FOREIGN EXPERIENCES

The issue of the separation of the access network into different forms is a “hot” issue in a growing number of countries. Many regulatory Authorities have asked the incumbent operator to implement measures aimed at eliminating discriminatory situations related to the management of the access network which damage the other licensed operators. In some countries different models of network separation have already been introduced, while in other countries (such as France for example) a lively debate is still underway involving national regulatory authorities, the dominant operator and other licensed operators.

With reference to the issue of the access network separation, the state of the art of the most significant national realities, apart from the United Kingdom case, which shall be dealt with separately, is described below.

Europe

Greece

In 2007, the National Regulatory Authority (EETT) imposed a “Chinese wall” between the retail and the wholesale divisions of OTE. In 2008, EETT published a document on the strategies to adopt for the 2008-2011 period with an analysis of the incumbent’s behaviour, as well as a public consultation that could have led to the mandatory separation of the network department from commercial units; at the moment no decision has been taken.

The Netherlands

In 2007, the NRA (OPTA) published a study on the possible applicability of British Telecom’s approach to functional separation in the UK in the Dutch context, reaching the conclusion that functional separation appeared to be a disproportionate measure which could have had undesirable effects on the market; nevertheless OPTA was ready to reconsider its position in case of further developments in the European regulatory framework.

Poland

During 2008, the Authority (UKE) began working on a project aimed at breaking up the dominant operator Telekomunikacja Polska S.A. (TP SA) into a retail and a wholesale department. In order to prevent this from happening, the incumbent operator proposed a so-called “Charter of Equivalence”, meaning a list of voluntarily adopted measures, aimed at eliminating discriminatory situations against alternative operators in accessing its network. In October of 2009, the UKE suspended the separation process underway and reached an agreement with TP SA; the Authority’s commitment is not to modify access tariffs established by the operator to the OLOs. In exchange, the incumbent operator must carry out investments in order to improve the quality of the network.

Portugal

In 2009, the NRA (ANACOM) commissioned a study on opportunities and risks of going ahead with functional separation of the access network of the incumbent operator Portugal Telecom. On this point the Authority has confirmed that such a functional separation is not obligatorily foreseen in the current regulatory context and that further evaluations are necessary.

Spain

In 2008, the Authority (CMT) published the outcome of a public consultation started on the issue of NGA; the conclusion reached was that prior to implement the functional separation of the access network, it would be necessary to analyse thoroughly the impacts on the competitive framework and on investments and that it would be an “extreme and exceptional” measure. In 2007, the NRA required Telefonica to notify CMT and competitors key performance indicators (KPI) for both external and internal quality of service level so as to verify that there were not discriminatory situations for the other licensed operators.

Sweden

On January 1st, 2008 the Swedish incumbent Telia Sonera launched its new access network department Skanova Access, tasked with providing access to the network to its own retail department and to other licensed operators. The following month the Equality of Access Board was established; it is composed of a Chairman, who is in charge of the internal audit of Telia Sonera, and two independent members appointed by the operator; no members appointed by the NRA (PTS) are foreseen. The Board, which must report every four months to the CEO of Telia Sonera, carries out activities of monitoring compliance with the undertakings adopted by the incumbent operator. The personnel of Skanova Access must abide by a specific Code of Conduct containing measures intended to ensure that the principles of equal treatment and non-discriminatory practices are respected.

Non-European Experiences

Australia

In 2006, a functional separation system was introduced in order to create a separate wholesale department which is in charge to supply wholesale services to OLO. Nevertheless, with no appreciable results in terms of improvements in the competitive conditions of the market, the government is getting ready to intervene to impose a much more incisive functional separation of the network.

New Zealand

A general review of the situation of the telecommunications market was carried out in 2006; it revealed a substantial lack of real competition among operators, with consistent barriers to entry to the access network. Consequently, the government has imposed on the incumbent operator Telecom New Zealand (TNZ) a reorganisation of the company, and has indicated that functional separation of the network is the most suitable tool to contribute to an improvement of the competitive conditions in the market. TNZ has therefore adopted a series of undertakings inspired by the British model, which were accepted and ratified by the government of New Zealand in March of 2008, requiring separation of the company into three departments: Network, Retail and Wholesale. The process of progressive separation is still underway and should be concluded by 2012. The primary scope of the Undertakings is to ensure the respect for the principle of non-discrimination in the access of the other licensed operators to wholesale services offered by the incumbent. The Undertakings also provide for the establishment of a supervisory board, the Independent Oversight Group (IOG), which occurred on April 1st, 2008, tasked with duties similar to those of the Equality of Access Board in Britain and the Supervisory Board in Italy.

Singapore

In Singapore the government has introduced a model which provides for a clear separation between the company which owns passive infrastructures (NetCo or Network Company), the wholesale operator which manages active infrastructures (OpCo or Operating Company), identified in March of 2009 by the Authority as the StarHub Company, and a certain number of retail services suppliers competing with each other.

USA

The competent Authorities in the United States have proceeded in the past imposing mandatory structural separations to the incumbent operators, with the aim of obtaining more competitive conditions in the telecommunications markets. The best known case dates back to 1984 and led to the separation of AT&T into a long distance carrier and seven Regional Bell Operating Companies. Different models have been adopted, with different degrees of incisiveness, and as a whole have substantially provided more competitive conditions in the markets in which they have been applied.

3. THE ENGLISH CASE: THE UNDERTAKINGS OF BRITISH TELECOM

The most significant experience of adopting undertakings is undoubtedly the British one.

In September of 2005, the United Kingdom NRA (Ofcom), at the outcome of the Strategic Review of Telecommunications, reached the conclusion to intervene in the so-called bottleneck represented by the access network of British Telecom (BT). This in fact represented a barrier capable of virtually restricting freedom of access to the market by alternative operators. The electronic communications market of the United Kingdom was then characterised by a legislative and regulatory framework not yet completely defined as regards to the regulation of the incumbent's fixed access network and a still incomplete development of the local loop unbundling service.

After some months of talks, an agreement was reached between British Telecom and Ofcom intended to change deeply the telecommunications industry of the United Kingdom. In particular, BT bound itself to comply with a number of Undertakings assumed with the NRA, which established new rules for the supply of goods and services to OLOs and their commercial departments, in order to guarantee equality of access at conditions that did not discriminate against the competitors of the incumbent.

Furthermore, BT took the commitment to guarantee the so called Equivalence of Inputs (EOI) and a functional separation, that is to say a systems separation to allow a wholesale offer “on an EOI basis”, i.e. based upon which: a) an offer made to its commercial network and to OLOs is the same in terms of price, commercial conditions, SLAs, time schedules, etc. and b) systems, processes and commercial information communicated are the same.

The creation of Openreach in 2006 is part of the new course started with the Undertakings. Openreach, which is in charge of the fixed access network (“the first mile”), even if it is part of the British Telecom Group, it is configured as a functionally separated entity, with its own head office and independent systems. As one can read in the Ofcom document “Impact of the Strategic Review of Telecoms” published in May 2009: “Where BT delivers a specified wholesale offering of EOI network products, it must do so to the same timescales, terms and conditions and using the same systems and processes in providing such services to both BTs downstream businesses and to other communications providers. This is to ensure that downstream competitors use a common and equivalent set of inputs when offering competing services to residential and business customers.”

Openreach has its own commercial brand and its CEO reports directly to the CEO of British Telecom Group PLC.

Finally, managers and personnel of Openreach benefit from independent incentive programs unconnected to the rest of the company.

A peculiar characteristic of the English model is the fact that both BT Retail and OLOs have a direct relationship with Openreach.

The Equality of Access Board

The Undertakings provided for the establishment of a special body (the Equality of Access Board), at that time the first one in the international regulatory framework, tasked with monitoring the compliance with the undertakings adopted.

The Equality of Access Board (EAB), established in November 2005, is part of the British Telecom Group PLC Board Committee and is chaired by a non-executive director of BT; the four other members are a senior manager of the incumbent operator and three independent members, chosen after a consultation with Ofcom. The EAB is supported by the EAB Secretariat, which looks after primarily organisation of board meetings, and is assisted by the Equality of Access Office (EAO), whose director reports hierarchically to the head of BT Public Affairs department, which monitors the correct implementation of the Undertakings by BT, and gives its opinion with regards to the complaints received.

In particular, the EAO conducts periodic verifications on a number of criteria established vs the correct implementation by BT of the Undertakings, as well as the respect of the Code of Practice, and reports monthly the results to the EAB.

The beginning of the activities of the EAB has naturally been gradual. During the first year and a half of activity, the EAB received only one complaint from the OLOs, which was closed with a filing procedure.

Today, the EAB is a recognised player in the verification process of implementation of the Undertakings and, more in general, in the debate on the development of the reference regulatory framework.

4. THE ITALIAN CASE: THE UNDERTAKINGS OF TELECOM ITALIA

On July 24th, 2008, Telecom Italia submitted its final Undertakings proposal to AGCom. At the end of the consultation procedures, on December 11th, 2008, the AGCom definitively approved these Undertakings with the Resolution n. 718/08/CONS, making them binding and simultaneously establishing the continuation of the regulatory proceedings against Telecom Italia and the suspension of those of sanctioning nature until the verification of the proper implementation of the Undertakings.

With the approval of the Undertakings an original model of operative separation of the access network was configured, which significantly innovates the administrative separation model introduced with AGCom Resolution n. 152/02/CONS.

In particular, the English experience over a reasonable length of time allowed to evaluate the positive elements, but also the critical elements highlighted over the years and to take due account of them in defining the organisation, procedures and solutions introduced in Italy on the issue of internal and external equality of treatment.

The regulatory framework

The Undertakings proposal submitted by Telecom Italia falls within the context of regulatory proceedings started with Resolutions n. 626/07/CONS, n. 133/08/CONS, n. 145/08/CONS, n. 183/08/CONS and n. 184/08/CONS, and sanctioning proceedings n. 4/07/DIR, n. 1/08/DIR, n. 2/08/DIR, n. 63/07/DIT, n. 2/08/DIT, n. 3/08/DIT and n. 7/08/DIT.

The meaning of the Undertakings appears further strengthened by the development of the regulatory reference framework. Indeed, on December 16th, 2009, the AGCom adopted the Resolution n. 731/09/CONS which sets out the regulatory obligations to which companies with significant market power (so-called SMP) are subject in the fixed network access markets. That Resolution provides for the transformation of some of the voluntary

measures included in the Undertakings into regulatory obligations (in particular, with reference to Undertakings Groups n. 1, 5, 6, 7, 8 and 9). The Undertakings, which inter alia regulate the issue related to disputes with consumers and include explicit obligations to adhere to bodies such as OTA Italy and the Italian NGN Committee, are summarised in the table below.

The 14 Groups of Undertakings

The Undertakings of Telecom Italia are organised into fourteen groups, :

1. *"Establishment of a new delivery process and a new system for managing wholesale customers"*
2. *"Establishment of a new incentive system and a Code of Conduct for the personnel of Open Access and of the Wholesale department"*
3. *"Establishment of a performances monitoring system for SMP services"*
4. *"Guarantees of transparency of the monitoring system"*
5. *"Guarantees of transparency of technical plans for the quality of the fixed access network"*
6. *"Guarantees of transparency of technical plans for development of the fixed access network"*
7. *"Setting up of a Supervisory Board"*
8. *"Integration of regulatory accounting and calculation of transfer charges"*
9. *"Measures related to next generation access networks"*
10. *"Setting up of a body in charge of dispute resolution for technical and operational issues related to access network services"*
11. *"Prohibition of commercial activities by network field personnel and training programs for sales personnel "*
12. *"Obligation to report activation of unrequested services"*
13. *"Obligation of notice of deactivation of CPS services"*
14. *"Measures to reduce the number of disputes with the customers "*

5. THE REORGANISATION OF TELECOM ITALIA: OPEN ACCESS AND OTHER STRUCTURES

In February 2008, Telecom Italia reviewed its organization with the creation, within the Technology & Operations Department, of Open Access, a new department tasked with managing, in a logic of efficiency, quality and equality of treatment :

- all the development and maintenance activities of the access network technological infrastructures;
- the supply processes of access services for the customers of both Telecom Italia and the other operators and the relevant technical assistance.

The creation of Open Access is tied to the strategic role of Telecom Italia fixed access network, its growth potentials and the related investments. The access infrastructure of Telecom Italia can be considered fundamental not only for Telecom Italia Group, but also for all the other licensed operators which have developed their infrastructures looking at the structure of this network. It represents the most important component, from the technological and economic viewpoint, of the fixed network electronic communications system in Italy.

The establishment of Open Access and the following internal reorganisation represented the first step of the negotiation with AGCom, which was concluded with the approval of the Undertakings.

PARITÀ DI ACCESSO

Organo di Vigilanza

Open Access interacts with the following corporate functions of technology & operations department:

- Network: it provides technological innovation in Telecom Italia, technological and architectural planning of electronic communications networks, as well as activities of development, installation and maintenance of the network platform and related services;
- Information Technology: it looks after innovation, infrastructures development and information systems;
- Technical Infrastructures: it looks after integrated monitoring of technical infrastructures real estate and technical installations) of Telecom Italia Group and provides the relevant technical services of “facility management”.

Open Access provides its access services to the Retail Commercial department of Telecom Italia and to the other licensed operators through the National Wholesale Services department, which is the main reference point for the operators to what is related to commercial and technical requests (from the starting offer, to planning, sale, assistance and billing) related both to access services provided by Open Access and to other wholesale services.

The Open Access model is characterised by the supply of services in terms of “Equivalence of Output” (EOO), based on which the services offered to the commercial departments of Telecom Italia and to other alternative operators respect the principle of equality of treatment, but are not necessarily identical. Telecom Italia’s Retail department directly interacts with Open Access, while the OLOs relations are with TI Wholesale.

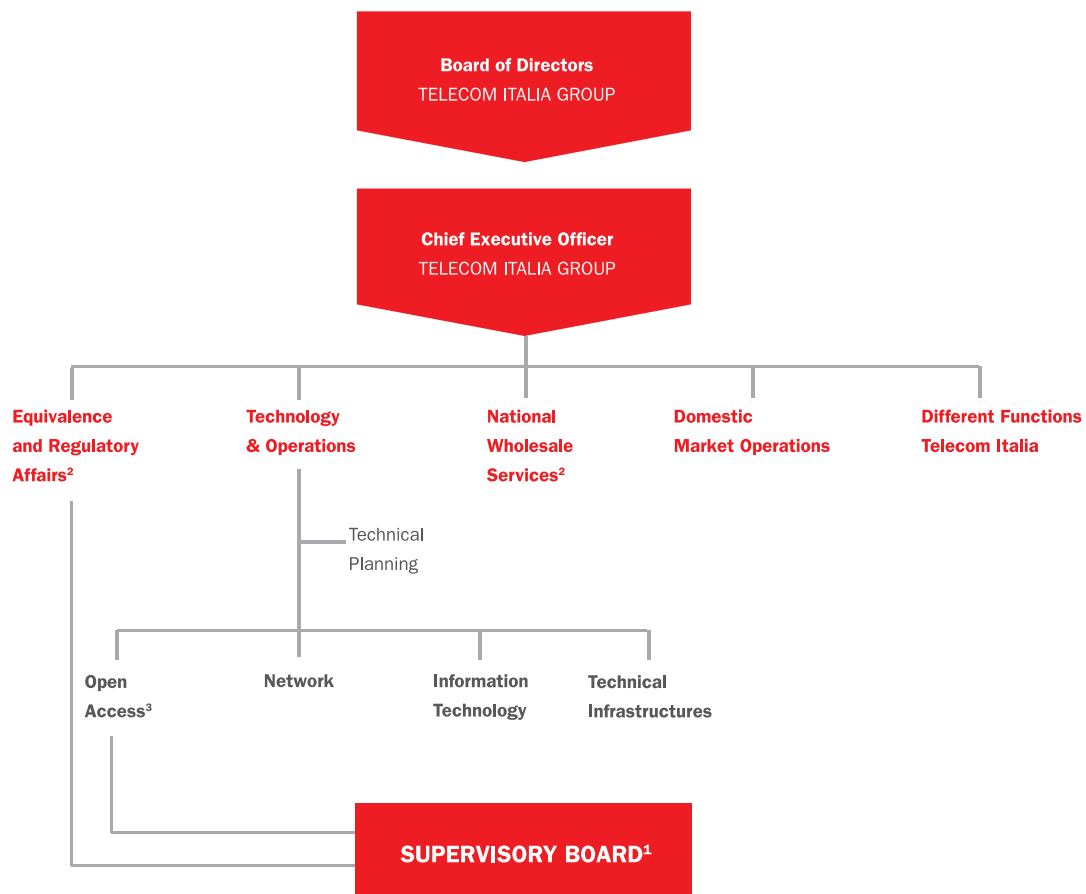
The activities of Open Access and National Wholesale Services, for what concerns the production of access services, are separated from the other commercial departments of Telecom Italia and managed independently .

Additionally, on January 9th, 2009, the Regulatory Affairs department changed its name to Equivalence and Regulatory Affairs, setting up the “Equivalence” internal structure, charged with the objective of ensuring the implementation of the Undertakings, jointly with Technology & Operations and Domestic Market Operations, as well as with National Wholesale Services, Human Resources and Organization and Domestic Legal Affairs.

Governance of Telecom Italia

Telecom Italia is organised according to the diagram shown below which shows a direct hierarchical structure whereby the managers in charge of Technology & Operations Management, National Wholesale Services and Equivalence and Regulatory Affairs report directly to the CEO.

Open Access reports directly to the director of Technology & Operations; this includes also Network and Information Technology departments.



1 In case of complaints, the Supervisory Board can gather information from Open Access and interact with the Equivalence department

2 The managers of the Equivalence and Regulatory Affairs department and the National Wholesale Services department report to the Chief Executive Officer of the Telecom Italia Group

3 The manager of Open Access reports to the manager of the Technology & Operation department

6. THE SUPERVISORY BOARD

Conforming to what has been established by Undertakings Group No. 7, on April 1st, 2009, Telecom Italia set up the Supervisory Board, which started its activity with its first meeting held on April 9th, 2009.

The Supervisory Board, which acts with complete autonomy and independence, is in charge of monitoring the correct execution of the Undertakings submitted by Telecom Italia and approved by AGCom with the Resolution n. 718/08/CONS.

By its own initiative or following complaints by third parties, the Board verifies possible breaches of the Undertakings, informs AGCom and the Board of Directors of Telecom Italia, according to the procedures and time schedules provided for by its Regulation, and gathers the necessary information and data to carry out its duties from all the Telecom Italia departments involved in the process.

The Supervisory Board is composed of five members who remain in charge for three years. The Chairman of the Board is Prof. Giulio Napolitano, designated by AGCom and appointed by the Board of Directors of Telecom Italia along with the other members of the Board: Prof. Claudio Leporelli and Prof. Gérard Pogorel (designated by AGCom) and Mr. Francesco Chirichigno and Mr. Sergio Giovanni Fogli (designated by Telecom Italia).

The Board meets at least once per month and sends AGCom and Telecom Italia's CEO on a quarterly basis a report on the work done, particularly with respect to possible anomalies in the implementation of the undertakings, the start of any complaints management procedure and the cases of activation of unrequested services. Further, the Board submits to AGCom and to Telecom Italia a yearly report on the work done and the results obtained.

The Supervisory Board is supported in its work by a Secretary General (Mr. Fabrizio Dalle Nogare) and by a Supervisory Office (directed by Mr. Fabrizio Savi), and has an independent annual budget based upon the minimum threshold determined by the Undertakings.

The Supervisory Board carries out an activity of monitoring the correct implementation of the Undertakings and, in carrying out its duties, adopts Resolutions and Recommendations intended to stimulate a more correct compliance with the Undertakings by Telecom Italia.

In addition, it receives complaints from operators concerning alleged breaches of the Undertakings by Telecom Italia and sends a report to AGCom and to the Board of Directors of Telecom Italia, in case the latter has not provided to remedy the ascertained breaches in due time and in the proper manner.

The complaints sent to the Supervisory Board are managed according to the process described in the Regulation of the Board, and described in detail in Resolution n. 2/2009. Complaints can be submitted by using the proper form, published on the website.

After a first evaluation, a preliminary investigation is started, which involves all of the concerned parties. Upon completion of the preliminary investigation, the Supervisory Board adopts a justified decision. Details of the proceedings phases are illustrated, in the diagrams presented on the following pages, together with the governance of the Supervisory Board.

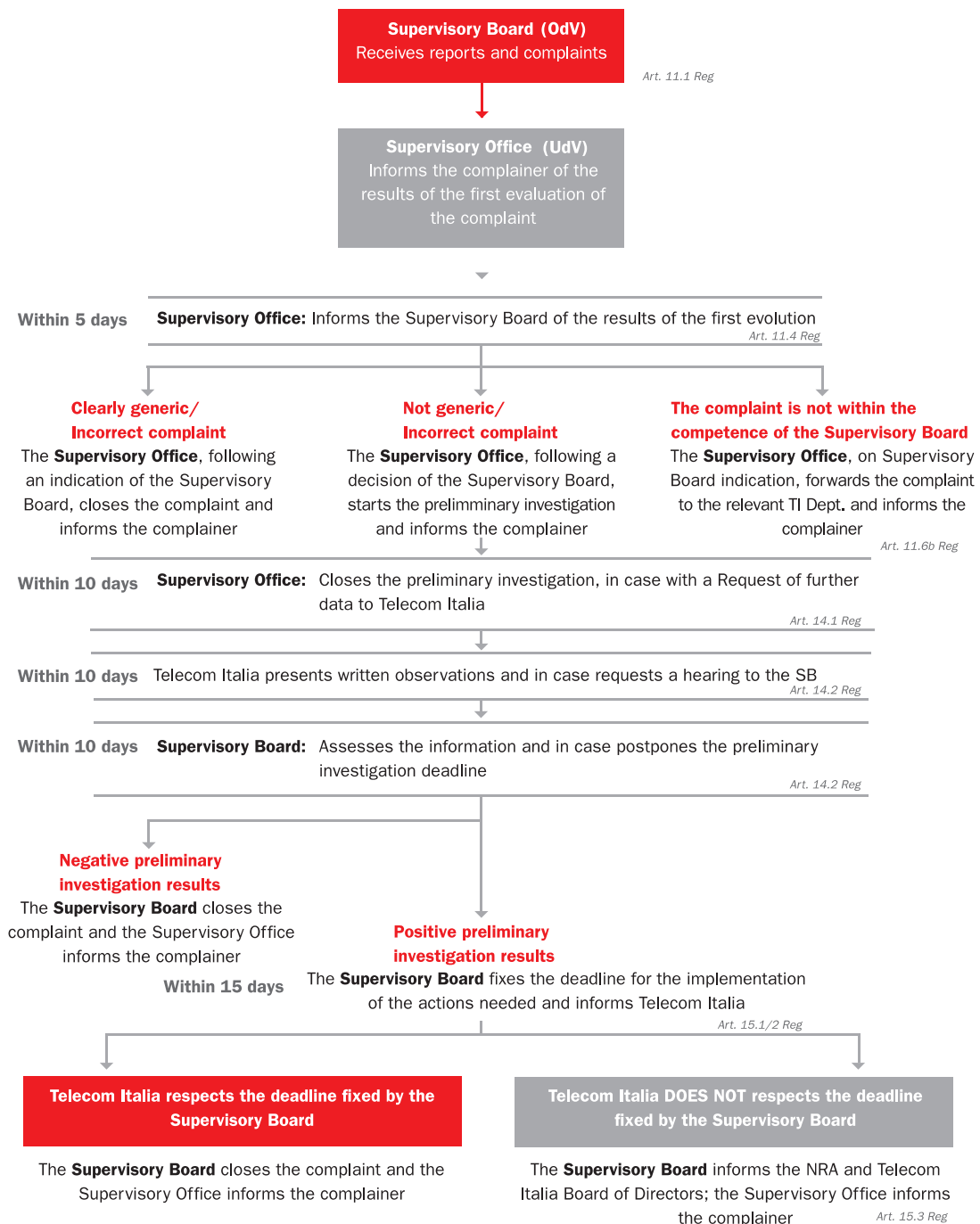
In compliance with the obligations of transparency stated by Article 21 of the Regulation, a specific Internet site has been created for the Supervisory Board (<http://organodivigilanza.telecomitalia.it/>), through which all interested persons may access to information related to: i) its role and mandate; ii) the composition of the Board; iii) the procedures and methods for reporting and handling complaints concerning possible breaches of the Undertakings; iv) the content of Resolutions and Recommendations.

Besides the above-mentioned documents the site also contains the press releases summarising the content of the decisions taken, making the activity of the Board transparent to the entire market and to all interested parties.

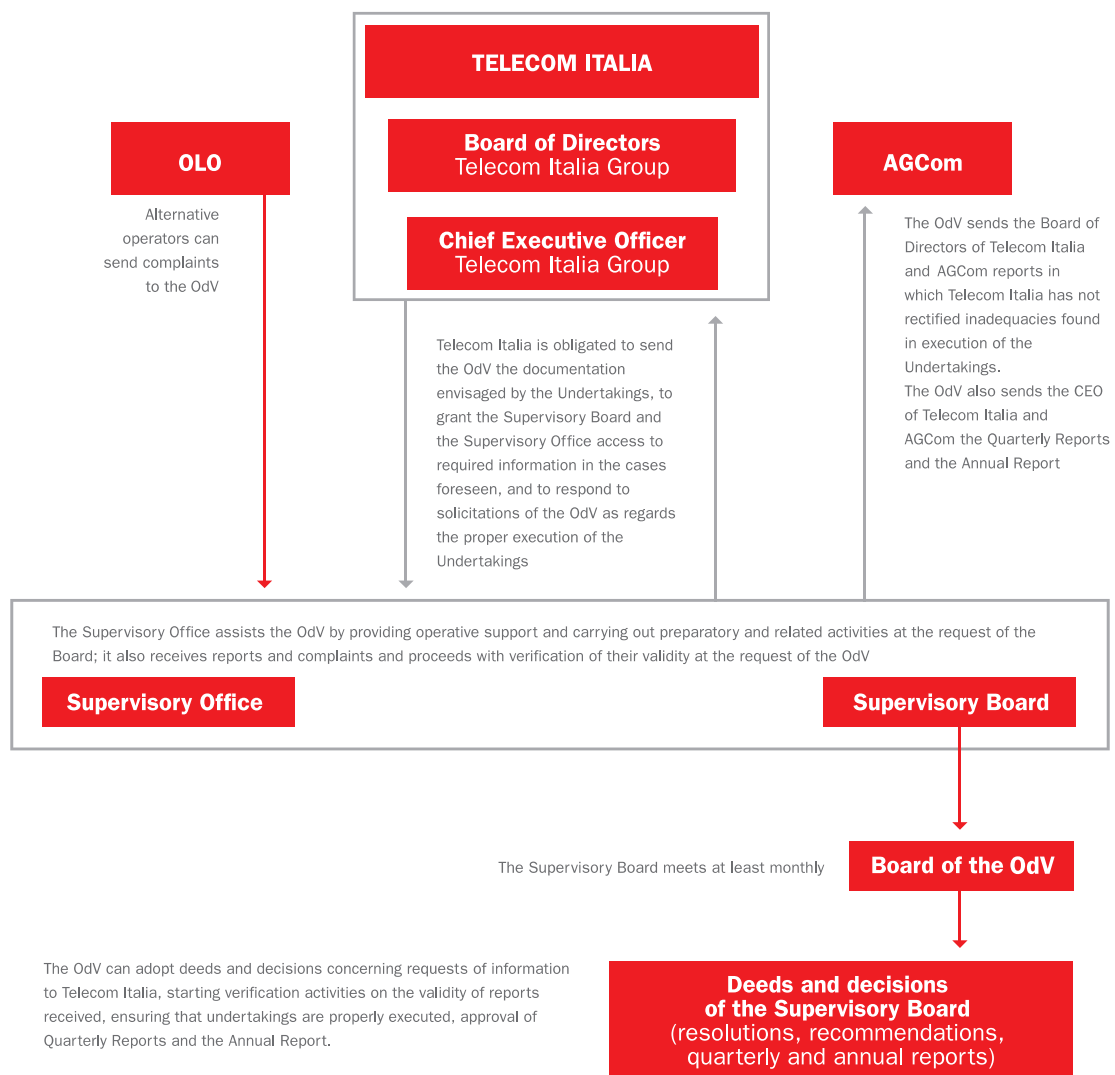
A detailed analysis of the activities carried out in 2009 is reported in the next pages of this Report; more in general it is important to highlight the role the Supervisory Board has played so far, as a body not only focused on Telecom Italia compliance with the contents of the Undertakings, but also as the source of further solutions, apt to facilitate the full achievement of the objectives of the Undertakings.

This approach adopted by the Supervisory Board led to the adoption of Recommendations and to the related results, which shall be analytically presented in this Report.

MANAGEMENT FLOW OF REPORTS AND COMPLAINTS



THE GOVERNANCE OF THE SUPERVISORY BOARD








4 | Actions Carried Out and Main Results Obtained





















ACTIONS CARRIED OUT AND MAIN RESULTS OBTAINED















This section details the progress of each Undertakings Group and provides a description of the work done by the Supervisory Board and results obtained to date.

The table below shows – in a reader friendly way - the progress in the implementation of the Undertakings, and provides an overall view of the deadlines and of the procedures adopted by Telecom Italia for achieving the expected results. It also shows the activity of the Supervisory Board, as well as the involvement of the other licensed operators for the full implementation of the Undertakings.

Telecom Italia's fulfilment of the individual Undertakings may not necessarily produce immediate benefits on the market in terms of additional guarantees of equality of treatment, transparency in the development of the fixed access network, quality improvements in services and satisfaction of end users. Generally the effects of the measures adopted by Telecom Italia can be appreciated only in a reasonable amount of time.

Legend	
	<i>Undertaking Telecom Italia has complied with within 2009</i>
	<i>Undertaking whose implementation measures were not due to be completed within 2009</i>
	<i>Undertaking for which the Supervisory Board has conducted specific verification activities</i>
	<i>Undertaking for which the Supervisory Board has adopted specific Recommendations for its better implementation</i>
	<i>Undertaking in which the other licensed operators have been involved for its implementation</i>

Undertakings Group	Fulfilments of Telecom Italia	Interventions of the Supervisory Board	Involvement of the OLOs
1 Establishment of: (i) a new delivery process for SMP Services; (ii) additional operative methods for managing co-location services; (iii) new systems for managing wholesale customers.	 	 	
2 Establishment of a new incentive system and Code of Conduct for the personnel of Open Access and the Wholesale function	 	 	
3 Establishment of a performances monitoring system for SMP services	 	 	
4 Guarantees of transparency of the monitoring system	 		
5 Guarantees of transparency of technical plans for the quality of the fixed access network	 	 	
6 Guarantees of transparency of technical plans for the development of the fixed access network	 		
7 Setting up of a Supervisory Board			
8 Integration of regulatory accounting of Telecom Italia and calculation of transfer charges	 		
9 Measures related to next generation access networks			

Commitment Groups	Fulfilments of Telecom Italia	Interventions of the Supervisory Board	Involvement of the OLOs
10 Setting up of a body in charge of dispute resolution for technical and operational issues related to access network services			
11 Prohibition of commercial activities by network field personnel and training programs for sales personnel			
12 Obligation to report activation of unrequested services	 		
13 Obligation of notice of deactivation of CPS services			
14 Measures to reduce the number of disputes with the customers	 	 	

More details on the issues subject of the Undertakings, the implementation measures and the assessments made by the Supervisory Board can be found in the following paragraphs.

UNDERTAKINGS GROUP NO. 1: “ESTABLISHMENT OF: (I) NEW DELIVERY PROCESS FOR SMP SERVICES; (II) ADDITIONAL OPERATIVE METHODS FOR MANAGING CO-LOCATION SERVICES; (III) NEW SYSTEMS FOR MANAGING WHOLESALE CUSTOMERS”

The new delivery system process for managing asymmetric bitstream connections started to be operational on December 1st, 2009. The process for symmetric bitstream lines, LLU and WLR and for direct, partial and terminating circuits will start on March 31st, 2010.

Description of the Undertakings

Telecom Italia must put in place a new unified delivery process that shall manage supply, ending and variations of SMP services, without differentiating the requests coming from the OLOs from those coming from Telecom Italia's commercial department. In the cases of lack of network resources, the operator shall have the option to ask for its job orders to be put on a waiting list (so-called single queue system) for the resolution of the problem. Telecom Italia must also implement a new system for wholesale customer relationship management (wholesale CRM), for handling the technical and commercial relationships between the OLOs and the Wholesale function for the supply of SMP and co-location services. The OLOs shall also be provided with pre-sales analysis (the possibility of knowing online the availability of necessary resources for stipulating the contract with the end user) and an order tracking system.

Progress

Telecom Italia

I) by March 31st, 2009 drafted the project documents related to:

- the new delivery process for SMP services
- Customer relationship management among operators
- the wholesale portal
- the operational procedures for managing co-location services;

II) convened the necessary technical meetings and finalized the projects within the established time frame;

III) started, by December 1st, 2009, the new delivery process for managing asymmetric bitstream connections.

CONTENT OF THE UNDERTAKINGS

Undertakings Group No. 1 entails a number of changes to the delivery processes of SMP services, to the operational procedures for co-location services and for the new systems for managing wholesale customers with the aim of providing additional guarantees of efficacy and transparency of equality of treatment between the OLOs customers and the retail customers of Telecom Italia and of improving the overall quality of the services provided to the end users and to the OLOs.

Changes in the delivery process

There are many changes in the delivery process which essentially aim to achieve greater integration of OLO and Wholesale procedures. The following services are involved:

- a)** Wholesale Line Rental (WLR), i.e. wholesale supply of access services to the basic telephone service (POTS) and ISDN, both in case of active lines (already used by a end user with an active contract) and in case of inactive lines (available but not used yet or to be installed in the customer's premises);
- b)** Local Loop Unbundling (LLU) services, both in case of request for active lines and inactive lines;
- c)** bitstream services, both with technical intervention at the customer's premises (naked ADSL or ISDN or with splitter) and without intervention (ADSL activation on an already active line);
- d)** so-called point-to-point services, meaning end-to-end leased lines and partial and terminating circuits. Many innovations have been introduced: the main ones are described in the box below.

Characteristics of the new delivery process

The main effects originated by the changes in the new delivery process are the following:

- a wider exchange of information between the OLOs and Telecom Italia with positive effects on order processing;
- a different and more coordinated management of customer KO;
- a different and more transparent management of network KO.

The previous procedure (closing of job orders with customer KO due to the customer's behaviour) has been radically changed, with the OLOs having the possibility of intervening for the customer retention (within a maximum time frame of 5 days).

A new procedure was introduced also in the cases of customer KO due to the customer's unavailability, with the possibility for the OLO to intervene in the process to try to contact the customer and set a new appointment date.

The procedure for the network KOs has been modified with the introduction of a mechanism, the so-called single queue on the unavailable network resource. The OLO has the option of knowing the position of its job order on the waiting list and the length of the queue itself.

Furthermore, additional information has been made available to the OLOs, such as the notification of technical tests parameters (data recorded by the DSLAM in the testing phase) or other informations, such as on field assignment to the so called "System Unico". A new approach has also been introduced in the procedures for contacting the OLOs' customers by Open Access personnel. The new Contact Policy of the end users by Telecom Italia and the operators is in the consolidation phase and envisages different time slots for calling, sending reference numbers and confirmation SMS, tracking of contact attempts and, in general, optimisation of the activities connected to the management of the appointment with the customer and to the finalisation of the provisioning activities.

The "System Unico"

The process of activation, variation or ending of some SMP wholesale services requested by the OLOs require the presence at the customer's premises of personnel of Telecom Italia and personnel of the OLO or of external companies operating on their behalf. When the parties choose the same external company to carry out the required activities ("System Unico") this leads to significant advantages in simplification and coordination.

Network KOs

If during the activities for the installation of the telephone line, there was a network saturation (i.e. activation was impossible due to lack of resources connected to some element of the network), the job order for OLO customers was closed with the reason "network KO". The same case for Telecom Italia customers saw the order put on stand by, awaiting possible network development activity; this led to the activation of the line after the development phase. The OLOs tried to solve this problem by periodically submitting again to Telecom Italia the job orders that received network KOs. The new delivery process overcomes these differences introducing the single queue mechanism, with the activation of a requests queue on an element of a saturated network, without treating differently the OLOs and Telecom Italia retail customers.

Customer KOs

During the activation process of SMP services and in case an intervention at the customer's home was necessary, Open Access contacted the customer to arrange an appointment. If there were difficulties in finding the right person during the contact phase (i.e. no attempt to contact the person at the numbers or addresses given by the OLO was successful), or if the customer had changed his or her mind, the job order was closed with the reason "customer KO". In the new delivery process the KO shall be preceded by a notice sent to the OLO to give the chance to intervene in the process, interacting with the end user and with Telecom Italia to overcome the difficulty found (retention, alternative contact numbers).

Inactive lines

The commercial departments, in particular those of the OLOs, but in some cases also those of Telecom Italia, are activating a growing number of new users, requesting inactive lines, meaning new connections created ad hoc. This occurs not only when the user's location has no line in place yet, but also to facilitate the transition from a pre-existing contract to a new one, trying to avoid the situations in which the pre-existing service is no longer provided and the new one has not yet been activated. The implementation of AGCom Resolution 274/07/CONS should increase the level of confidence of the operators in effective synchronisation of customer migration, so as to limit the use of this practice. It is necessary to note that using inactive lines is more costly, as it involves interventions at the customer's premises and the delivery of more than one copper line. So, appointment problems can rise more often, leading to customer KOs or temporary network saturations.

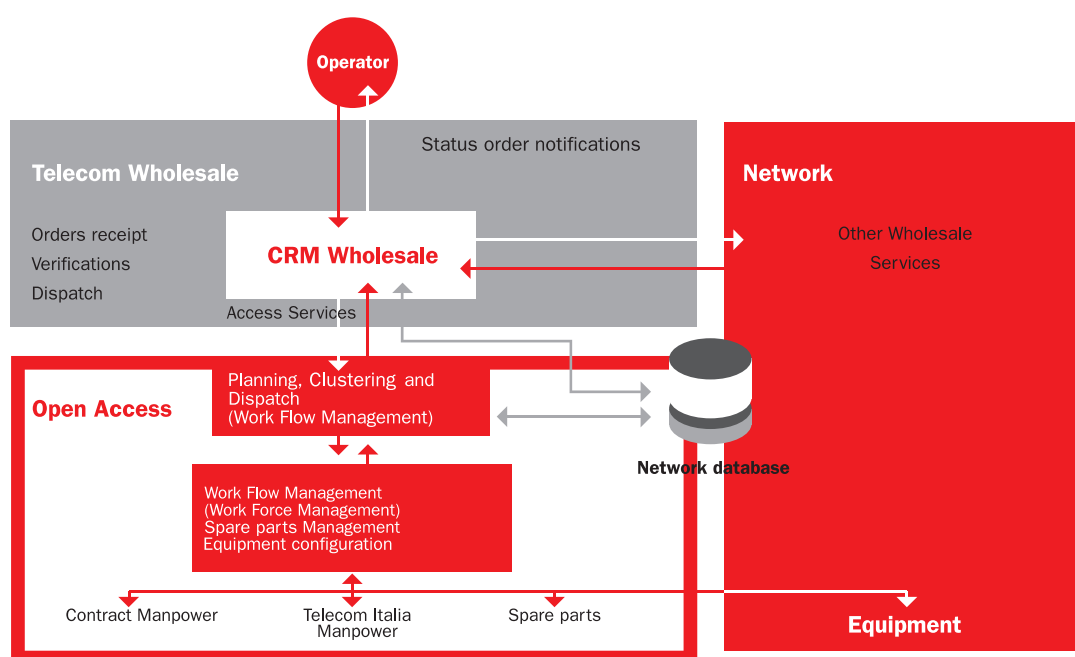


Figure 1 - Architecture of the new CRM and interfaces

The new systems for managing wholesale customers (Wholesale Customer Relationship Management and Wholesale Portal system) shall work in synergy with the new delivery process, defined by the Undertakings, to improve assurance and quality of service provided to the OLOs and to increase transparency on the state of the fixed access network.

Besides adopting information technologies that shall improve integration and flexibility, the new systems shall provide the OLOs with additional functionalities related to:

- **Pre-sales analysis**, which lets the operator know, before submitting an order, the availability of access network resources for the activation of a contract;
- **Delivery support**, for allowing prompt monitoring of the job order with exchange of messages of change of status;
- **Data warehouse results**, to allow for verification and to create monitoring reports of various activities between the OLO and NWS and in which, for example, the information related to the KOs and the analyses of the reasons that led to their generation will be stored;
- **Reporting assurance**, for monitoring active trouble tickets and to be able to conduct final analyses; it will be possible to consult the backlog of failures, broken down by the various statuses foreseen (failure on queue, under repair, in standby, etc.), and the final reports with summaries for SLA as well as for the availability of the various services;
- **Co-location services support**, for allowing access to the database containing information on the availability of spaces in the exchanges and to the feasibility studies procedure.

Additional operative procedures for co-location service

Even the co-location process, namely the rent of spaces inside central office exchange buildings to OLOs by Telecom Italia, is under review in order to improve the service as a whole.

In particular, the following issues are under commitment:

- the definition of planning procedures in case of necessity of spaces in case of lack of resources in the network;
- in addition to what has already been provided for by the regulation in force, the organisation of a database on spaces available in central office exchange buildings;
- the launch of new offers for the equipment and the expansion of co-location sites;
- the preparation of quarterly reports on the quality of the services supplied at co-location sites.

TELECOM ITALIA IMPLEMENTING MEASURES

The designing documents

Telecom Italia published, within the deadline settled by Resolution n. 718/08/CONS, the designing documents for the new systems and a first implementation timetable; it has also started with the OLOs the complex coordination activities with respect to the necessary actions on the information systems by all the subjects that shall adhere to the new supply processes.

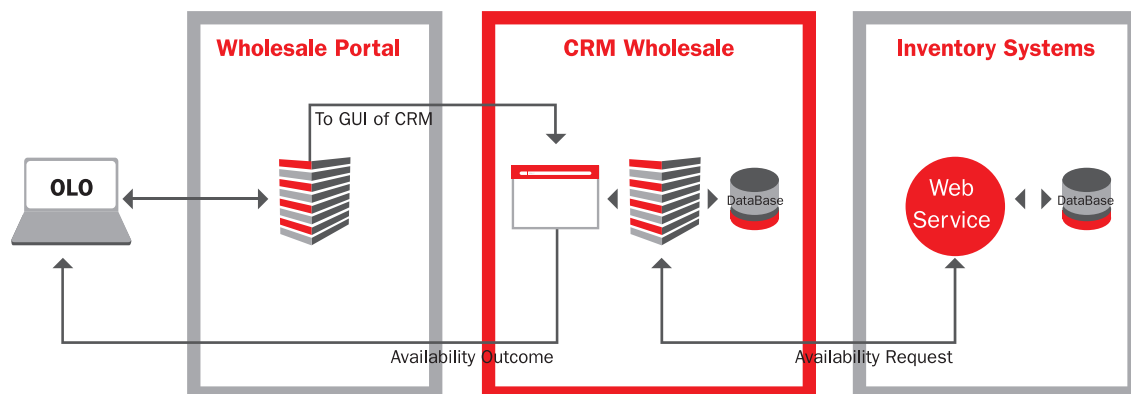


Figure 2 - Architecture of the CRM and Wholesale Portal

The technical workshops

As provided for by Undertakings Group No. 1, technical workshops concerning the new delivery process of SMP services and the new wholesale CRM service were held in the months of February and March 2009.

The issues discussed regarded the assurance and the delivery processes of SMP services, the billing system, the new Wholesale CRM, the co-location, the supply of information and database and special projects.

During the National Wholesale Services department convention held in March 2009, a permanent technical workshop on "Access Services" have been set up; this was done in order to take into consideration the OLOs request to study in depth delicate and complex issues overcoming, in the spirit of the Undertakings, the pre-established time limits; the workshop started an activity of comparison, analysis and joint resolution of so-called "inter-operator" issues, inspired by the same principles by which the Undertakings stemmed from and is intended to improve the processes, both in terms of efficiency and quality of the service provided to the final customers.

During the 31 "Access Services" meetings held, which saw the active presence of the main operators, additional requests by OLOs have been expressed (175, broken down as illustrated in Figure 3), aimed at easing and simplifying the processes management for the supply of SMP services.

According to Telecom Italia, nearly 86% of them have been approved (net of those requests already overtaken by meeting decisions, or to be considered already included in other requests). That does not mean of course that all critical issues have been overcome.

As regards requests not foreseen by the Undertakings but granted, Telecom Italia has provided for integrating them, when possible, in the releases planned for up to March 31st, 2010.

In particular, out of the 98 requests granted:

- 47 have been classified as acceptable and will be released by March 2010;
- 51 will be released after March 31st, 2010.

The meetings led to the publication by Telecom Italia of additional designing documents, such as new databases specifications and web services for assurance, intended to describe in detail the technical solutions found to meet the other operators requests.

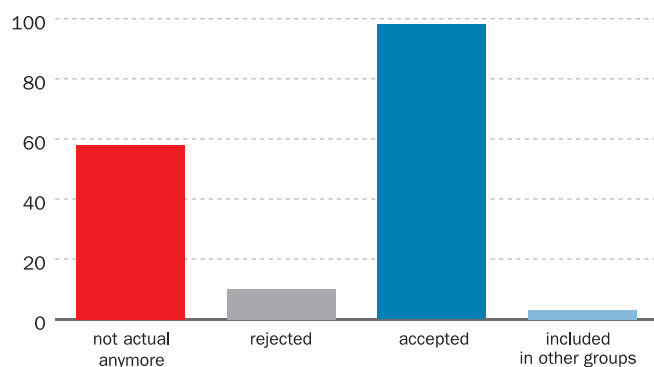


Figure 3 - Breakdown of the requests of the OLOs at technical meetings

The start up of the new delivery process

As provided for by the Undertakings operational plan, the New Delivery Process management segment related to the asymmetric bitstream connections was launched on December 1st, 2009.

In December the operators listed below started submitting, through the new channel, their requests for connection and related modifications and suspension:

- 1)** Internet One
- 2)** Interactive
- 3)** Raffeisen
- 4)** Consorzio Metrolink
- 5)** Convergenze

In order to allow each operator to gradually switch to the new process, Telecom Italia, on Vodafone request backed by other licensed operators, agreed on a period of co-existence of the two systems (so-called grace period).

The benefits stemming from the New Delivery Process will indeed be fully operating only when an operator will start using the new platform, once the systems improvement has completely ended.

Control criteria adopted by the Supervisory Board

The Supervisory Board intervened during the technical workshop with the Resolution n. 5/09, aimed at easing the results sharing process, and recommended to Telecom Italia the best effort to accept the OLOs requests. In particular, those requests concerned:

- the time schedules to implement the changes requested by OLOs, as well as the dates by which there would have been revisions of the requests in need of clarifications and the requests not granted;
- the tracking of all the existing projects between Telecom Italia and the OLOs in order to make the dynamics of confrontation clear;
- the identification of the benefits stemming from the application of the New Delivery Process with regard to the so-called network KOs;
- sending data and more details in order to better understand the dynamics related to the SMP services delivery process.

In addition, the Supervisory Board asked Telecom Italia to clarify the reasons why some requests had been rejected, asking for detailed explanations.

Telecom Italia replied giving at the same time an answer to the points raised by the Supervisory Board.

In this context, the Complaint S01/09 was received (See Section V “Reports and Complaints”), in which Fastweb S.p.A. asked the possibility, among other requests, to use in advance some of the features of the New Delivery Process.

Following various meetings with Fastweb and Telecom Italia, the Supervisory Board welcomed Telecom Italia's decision to anticipate some of the new features through the new system called SWAP launched in September 2009, as a result of the Determination which closed the complaint. The SWAP system has been made available to all the operators.

This application, previously tested with Fastweb in a limited geographic area, brought a reduction in customer KOs and allowed the other licensed operators to verify the customer's actual will, keeping distinct the cases where the problem occurred due to the unavailability of the customer.

During 2010, due to the additional important activities tied to Undertakings Group No. 1, the Supervisory Board shall verify the consolidation of the operative procedures, related to the launch of the management process for asymmetric bitstream connections, and shall oversee the respect of the timing and the methods provided for by the Undertakings as regards the introduction of the New Delivery Process on LLU lines and the completion of all the requests put forward by OLOs.

UNDERTAKINGS GROUP NO. 2: INTRODUCTION OF A NEW INCENTIVE SYSTEM AND A CODE OF PRACTICE FOR THE PERSONNEL OF OPEN ACCESS AND THE WHOLESALE DEPARTMENT

Integrations to the Code of Practice as requested by the Supervisory Board are underway. Monitoring of the managerial incentive system for 2010 and personnel training continues.

Description of the Undertakings Group

Telecom Italia must introduce an incentive and bonus system for Open Access and National Wholesale Services department management. Telecom must also adopt a Code of Practice for Open Access and National Wholesale Services personnel and management, which shall introduce rules and procedures apt to ensure the compliance with the Undertakings and start specific training programmes for the personnel in order to ensure an adequate knowledge of the content of the Undertakings and the Code of Practice.

Progress

Telecom Italia has provided for:

- I)** drafting, by March 31st, 2009, a document entitled "MBO 2009 – Objectives Tied to the Undertakings with AGCom";
- II)** preparing, by March 31st 2009, the "Code of Practice" which introduces rules and procedures to comply with the Undertakings;
- III)** starting training courses for the personnel of Open Access, National Wholesale Services and for managers of central and local organisational structures ;
- IV)** adding to the contracts stipulated with external companies (that supply on behalf of Telecom Italia network services similar or complementary to those offered by Open Access) clauses that tie the personnel of these companies to abide by the duties introduced with the Code of Practice.

Telecom Italia sent to the Supervisory Board the Code of Practice referred to in this Undertakings Group within the envisaged deadline.

The Code consists of a statement of the objectives and the underlying values, which should inspire the conduct of the personnel of Telecom Italia with reference to the Undertakings, and details the actions Telecom Italia implements to achieve the above-mentioned conduct; it also mentions the responsibilities of the personnel and the management of Telecom Italia when drafting operative procedures and setting up information systems and codes. A paragraph is finally dedicated to the sanctions to be applied in case of not compliance with the duties reported in the Code.

During the first few months of 2009, Telecom Italia also prepared on-line training modules aimed at achieving adequate diffusion of the principles of the Undertakings among the personnel involved. The training activity involved just under 20,000 people. In particular, 400 managers and 200 newly-hired personnel were trained in classroom, while nearly 19,000 resources were trained using the e-learning technique. In May 2009, the Supervisory Board, though acknowledging the efforts done by Telecom Italia to comply with the Undertakings, adopted the Resolution n. 4/09 which contained Recommendations aimed at a better and more effective implementation of the Undertakings.

The Main Contents of Resolution n. 4/09

The Supervisory Board recommended to Telecom Italia:

to provide for more details with reference to the objectives related to OLOs satisfaction when purchasing SMP and co-location services from Telecom Italia; to clarify, with regard to bonuses and incentives for National Wholesale Services department management, the methods to measure customers' satisfaction as well as the presence of objectives tied to co-location services and caring activities;

- to reassess, at the earliest opportunity, the percentages and the difference margins between maximum and minimum values assigned to the achievement of the objectives related to the Undertakings when setting the remuneration of the subjects in charge of the relevant structures, in order to strengthen the motivation to adopt virtuous conduct and proceed similarly on the incentive system of subordinate structures;
- to give a more detailed evidence of the rules and procedures implemented by Telecom Italia to ensure compliance with the Undertakings - for example, with reference to the "operative procedures" referred to in the last point on page 10 of the "Code of Practice (Resolution n. 718/08/CONS)"; to provide examples of conduct in the more frequent or delicate situations managed by Open Access employees for instance on how to introduce themselves to the customers and on how to communicate between technical network services and commercial services;
- to promptly communicate the contractual adjustments when renewing the contracts with external companies as they are stipulated, in order to inform AGCom about the inclusion of the clauses intended to ensure compliance with the "Code of Practice (Resolution n. 718/08/CONS)" by employees of the above-mentioned companies in carrying out jobs on behalf of Telecom Italia;
- to examine, based on the experience, the coherence and application methods of various rules applicable to the personnel of Open Access and National Wholesale Services, including the Regulatory Code, the employment contract and the Code of Ethics.

The management incentive system

Telecom Italia provided prompt answers to each recommendation, giving in particular a description of Telecom Italia Management By Objectives (MBO) incentive system, which outlines the logics of objectives assignment to the management and to part of the highly skilled personnel.

The Management by Objectives (MBO) System

The objectives definition process starts with the assignment of the so-called targets to the company's top management, in particular to the Chief Executive Officer (CEO). These targets are related to the economic and financial performance indicators and quality of service indicators. Some of the strategic objectives assigned to the CEO are shared with the rest of management.

Other objectives are focused on performance and quality indicators specific for each department. The objectives definition process must guarantee an overall consistency to the organisation as a whole. In setting these targets, Telecom Italia kept into consideration the Undertakings adopted (in particular for Undertakings Groups No. 2 and No. 14), identifying specific objectives pertaining, for example, to equal treatment or to OLOs satisfaction. As regards, in particular, the Open Access department, objectives have been set, tied to the Undertakings both directly (as the equality of treatment between Telecom Italia and OLOs customers) and indirectly (as in the case of quality and innovation indicators). As far as the National Wholesale Services department is concerned, besides the typical

objectives of the department, a concise indicator related to the Undertakings has been introduced, which is broken down into different elements pertaining to OLOs satisfaction, internal - external equality of treatment and end-to-end quality. The degree reached by this indicator is measured based on the judgements expressed by the Supervisory Board. Finally, in the Equivalence and Regulatory Affairs department, objectives have been assigned related to the correct implementation of the Undertakings and the quality of relationships with the Authority (it is an objective, specifically introduced by Telecom Italia, additional to what already envisaged by the Undertakings, and related to the "Realisation of AGCOM Undertakings"; for its evaluation the opinion of the AGCom must be taken into account) and the other company departments. Further, within the Privacy and Consumer Protection department, an objective has been assigned for "Handling settlement procedures established at Co.Re.Com. and managing a plan aimed at reducing the existing backlog at 31.12.2008".

With reference to the request of the Supervisory Board to reassess, at the earliest opportunity, the percentages and the difference margins between maximum and minimum values assigned to the objectives achievement (See point 2 of the first box), Telecom Italia clarified that the assigned values are related to the current reference scenario, and stressed that the possibility to modify the current incentive system from 2010 will be considered after the current year results. It has also underscored that the suggestions made by the Supervisory Board, the assessments of AGCom and the performances measured by the monitoring system being realised shall be duly taken into consideration.

Integrations to the Code of Practice and the Professional Training System

Following the request of the Supervisory Board to improve the Code of Practice by adding the specific operative procedures to be followed in different cases, Telecom Italia clarified that it would implement supplementary modules for the on-line training course, aimed at better highlighting the conduct employees shall follow.

Telecom Italia presented therefore to the Supervisory Board some training modules, intended for Open Access personnel, to be used through "E-learning".

These modules summarize the conducts to be observed, in line with the Code of Practice, the most frequent and critical work situations. These modules are part of a longer training program which is concluded with a final test to certify the proper learning of the course contents.

Telecom Italia emphasised that the Code of Practice is based on "values", suitable to provide a general reference model for the recipients' conduct to. The issue of the integration of the Code of Practice has been subject to evaluation during the year by the Supervisory Board, most recently with reference to the complaint n. S02/09 (See Section V).

Telecom Italia welcomed the suggestions of the Supervisory Board; the Board is carefully analysing the Code integration activities and the definition of the procedures introduced by the Company, at the outcome of which it shall express its final assessment.

With reference to the request of the Supervisory Board to promptly communicate the contractual adjustments for contracted out works, Telecom Italia already proposed a contractual adjustment adding clauses for aimed at the respect of the Code of Practice, even if the first contracts with external companies are due to expire in 2010. In July 2009, external companies under contract with Open Access accepted to abide by the Code; Telecom Italia sent to the Supervisory Board a report concerning the progress and adaptation of the contracts. It also indicated to the Board the parts of the Code of Ethics and the Code of Conduct of the Group on which the principles stated in the Code of Practice are based .

Analysis on OLOs satisfaction

With reference to the assignment of bonuses and incentives for the National Wholesale Services department, related to the satisfaction of operators that purchase SMP and co-location services, there wasn't already in place any analysis on OLOs satisfaction already broken down into methodology and composition. Therefore, Telecom Italia assigned objectives tied to the definition of the measurement methodology and the realization of two analyses (one by June 2009 and one by December 2009), setting as target that the OLOs satisfaction level reached with the second analysis had to be at least the same of the level reached with the first one.

Starting from 2010, when the results of the analyses conducted in the previous year become available, it will be possible to make a comparison. Telecom Italia has also highlighted that to date, clarifications have been made as to the categories of services and the macro areas subject to the analysis and the reference goals in terms of operators involved.

In December 2009 Telecom Italia showed the Supervisory Board the results of the first survey, held in June, on OLOs satisfaction in purchasing SMP and co-location services, giving details of the methodology applied and pointing out at the same time the novelty represented by this analysis: based on these evidences, Telecom identified possible improvements to the actual services supply processes to OLOs. The Company also informed the Board that the second survey, regarding the month of December 2009, would have been completed shortly.

Conclusions

The Supervisory Board has repeatedly examined the initiatives taken by Telecom Italia to implement the Undertakings Group No. 2, assessing with interest the measures adopted by the Company as regards the management incentives, the personnel training and the operators satisfaction survey; on the other hand, it believes there are improvement margins as far as the Code of Practice is concerned.

With regard to this last point, the Supervisory Board adopted Resolutions and Recommendations aimed at making the principles contained in the Code of Practice more concrete and at identifying the best ways to implement the internal-external equality of treatment.

The Supervisory Board shall continue its verifications to ensure that the Code of Practice, which it believes plays a key role in the implementation process of the Undertakings and the full achievement of their goals, is properly applied; it also reserves the right to make the opportune controls on the “coherence” of the new bonuses and incentives assigned to the management of Open Access and Wholesale departments with the recommendations and suggestions expressed to the Company.

UNDERTAKINGS GROUP NO. 3: SET UP OF A PERFORMANCES MONITORING SYSTEM FOR SMP SERVICES

Telecom Italia set up the indicators and the integrations agreed upon with OLOs to show the trend of the delivery and assurance processes handled by Open Access and to allow for a transparent comparison with respect to the treatment reserved to any customer purchasing access services. A certification system of the quality indicators has been scheduled to begin in 2010.

Description of the Undertakings Group

Telecom Italia must introduce a monitoring system that shall indicate:

- a)** the qualitative levels of SMP services through a comparison of key performance indicators (KPIs) and key performance objectives (KPOs), the latter identified by Telecom Italia together with AGCom;
- b)** respect of the internal - external equality of treatment principle, matching the KPIs concerning the production of services for OLOs and those related to the services for Telecom Italia's commercial departments.

Progress

By April 1st, 2009, Telecom Italia submitted the documents about the four groups of KPIs referred to in point 3.6 of the Undertakings (specifically the planning document and the relevant technical appendix), together with a detailed schedule of the releases foreseen. The technical workshops envisaged in point 3.9 of the Undertakings were convened within the agreed deadline (April 2009) and concluded in the month of July 2009. The monitoring system began working on October 1st, 2009; it shall monitor all the indicators defined during the workshops as soon as the information technology developments will make them available.

The Undertakings Group No. 3 responds to the need to make the work of Open Access transparent with respect to the processes of delivery and assurance for the so-called Significant Market Power (SMP) services.

The goal is to have an adequate instrument that allows for a prompt verification, shared with OLOs, of the results obtained by Open Access at the operational level.

The Undertakings require the implementation of a report with several different indicators giving a precise indication on the quality of Open Access work, providing information on detailed activities and at the same time comparing the performances obtained on different customers segments (OLO and retail).

This report has been developed in two different steps: in the first one, closed in March 2009, Telecom Italia proposed a preliminary set of indicators, according to the indications of the Undertakings; in the second one Telecom Italia completed the preliminary set with additional indicators shared with OLOs.

The Supervisory Board started its activity in the above mentioned scenario in April 2009 and it focused on checking formal as well as substantial aspects of the measures notified by Telecom Italia. In particular, the Supervisory Board asked Telecom Italia, with the Resolution n. 6/09 and a number of Recommendations, to assume an attitude of openness towards the remarks put forward by OLOs, in order to grant as many indicators suggested by OLOs as possible (which were identified in the second technical workshop concluded in the month of July 2009). It also proposed the possibility to set up a certification mechanism of the indicators, in order to dispose of certified information and data.

Telecom Italia granted the requests made, doubling the number of indicators foreseen with respect to the preliminary set of March 2009; It also set up a work group whose objective was to determine the most suitable procedures to ensure the accuracy of the values of the indicators shared with OLOs, upon completion of the second of technical workshop (July 2009).

In particular, according to the data certification procedure, a data warehouse containing basic data must be set up, as provided for in the Undertakings Group No 4.

A number of expert opinions prepared by qualified bodies or subjects can ensure the formal accuracy of calculation algorithms. Open Access shall extract statistically significant samples to verify the formal accuracy of the basic data with suitable controls.

The activity shall be developed during the year 2010 according to the information technology releases necessary for supporting the process.

In the month of December 2009 the Supervisory Office, together with the personnel of Open Access, began the audit activities.

The Supervisory Board, through the Supervisory Office (as foreseen by Undertakings Group No. 7, point 7.18), shall be entitled to make controls on the correctness of the data, following OLOs complaints or by its own initiative, in order to verify that Telecom Italia data certification process is properly applied.

UNDERTAKINGS GROUP NO. 4: GUARANTEES OF TRANSPARENCY OF THE MONITORING SYSTEM

Starting in October 2009, the progress made as regards indicators agreed with OLOs according to Undertakings Group No. 3 was published.

Description of the Undertakings Group

Telecom Italia must prepare:

- I) a monthly report showing the results of the KPI monthly surveys of Open Access to be sent to the Supervisory Board;*
- II) a quarterly and an annual report showing the results obtained in the previous periods, which shall be sent to the Supervisory Board, AGCom and OLOs, and published on a dedicated website.*

Progress

Since October 2009 onwards, Telecom Italia drew up and submitted the reports required by Undertakings Group No. 4, according to the scheduled procedures and timing.

According to the Undertakings Group No. 4, Telecom Italia shall insure the transparency of Open Access activity, by publishing a series of indicators suited to monitor the trend of delivery and assurance processes, as well as the availability of services and network systems available to OLOs.

These indicators, contained in the reports sent to the Supervisory Board, allow to measure and compare the way Open Access deals with Telecom Italia and OLOs customers in offering the same services.

As described above, the definition of the quality measurement indicators has been developed in two different steps: in the first one, closed in March 2009, Telecom Italia defined a preliminary set of indicators; in the second one this preliminary set has been integrated with the suggestions come out during the workshop held with the other licensed operators.

As already mentioned in the section on Undertakings Group No. 3, the data presented according to the Undertakings Group No. 4 shall be certified through a specific process that shall be introduced, at least partially, during the year 2010.

Since October 2009, the indicators have been made available to the Supervisory Board; it therefore started a preliminary formal evaluation which highlighted how Open Access reserved to OLOs customers a better treatment compared to the one reserved to Telecom Italia customers.

However, the differences between the results related to the different players is decreasing; it indicates that the attention paid to this issue seems to produce good results in terms of an increasing convergence of the quality level of the services offered by Open Access.

KPI 1 - POTS Lines Delivery

Data on POTS Lines delivery activities confirm that OLOs customers benefit from a higher quality level of the service compared to Telecom Italia retail customers.

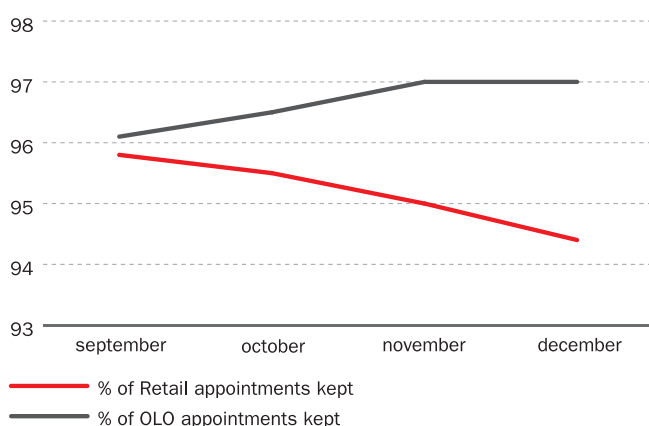


Figure 1 - Percentage of respect for appointment

The chart, based (as the others) upon the data provided by Telecom Italia, shows how nearly all OLOs customers POTS Lines have been delivered within the deadline. It should also be considered that the delivery process for the other licensed operators customers is different compared to the one for Telecom Italia customers; these differences will be overcome once the New Delivery Process will start working. Specifically, for OLOs customers Open Access receives a so-called “Expected Delivery Date”, meaning the deadline by which the service must be delivered; on the other hand, for Telecom Italia customers, Open Access receives an appointment date.

A similar situation is recorded with reference to the percentage of delivery activities completed by Open Access within 20 calendar days.



Figure 2 - Percentage of systems activated within 20 calendar days

In this case Telecom Italia tried to bridge the small gap between OLOs and Telecom Italia customers.



Figure 3 - Average working time in calendar days

The average working time expressed in calendar days is stable for OLOs customers over the last four months of the year, while it shows small fluctuations with reference to Telecom Italia retail customers.

KPI 1 - Broadband Lines Delivery

With reference to Broadband Lines Delivery (Alice offer for Telecom Italia customers and asymmetric bitstream offers for OLOs customers), the percentages of lines delivered without the intervention of a field technician at the customer's premises are substantially stable (the reference time is 10 calendar days).



Figure 4 - Percentage of systems realised within 10 days without intervention of a technician

Stable results were recorded also for values related to the percentage of lines delivered within 30 calendar days with onsite intervention of a field technician. In this case convergence over time towards a common point seems to emerge.

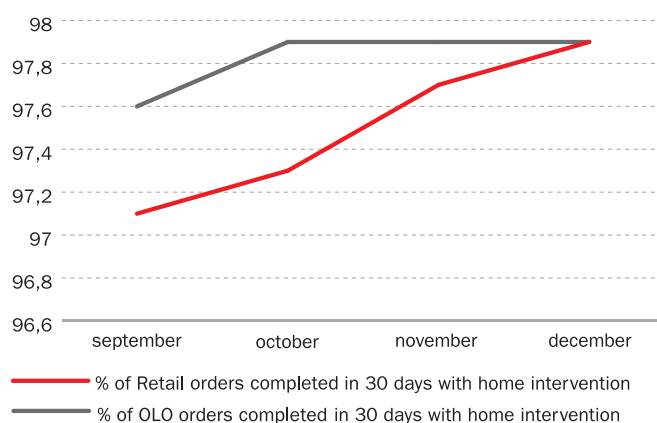


Figure 5 - Percentage of orders completed within 30 days with intervention of a technician

Constant values are recorded for Open Access average working time for SMP services.

It is possible to note how these indicators are highly influenced by the above-mentioned process and contract differences, as they maintain a constant difference of 2.5 calendar days over time. OLOs issues need longer time as they are dealt with mainly at the customer's premises.



Figure 6 - Average working time of Open Access

As regards S/HDSL and symmetric bitstream business connections, an improvement has been recorded in terms of average delivery times, with a decrease of 5 days on average for both Telecom Italia retail customers and OLOs customers.

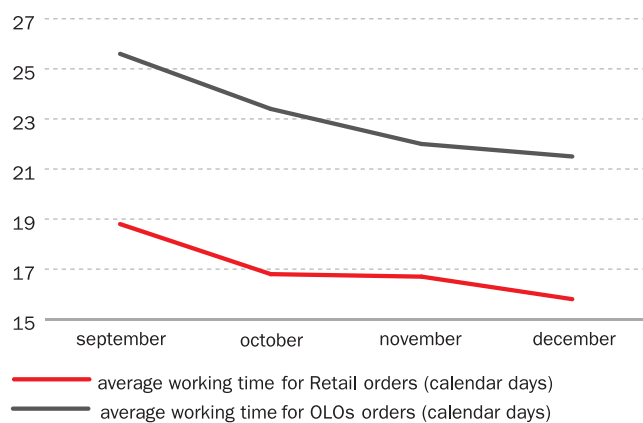


Figure 7 - Average working time of business orders

In this case too the downward tendency is confirmed, despite the longer survey period.

KPI 2 - POTS Lines Assurance

Assurance indicators show that Telecom Italia retail segment needs on average two working hours more than OLOs segment in order to make the data homogeneous and therefore comparable, all reports of failures resolved directly in the initial phase at the respective call centres (187 and 191 for Telecom Italia or the respective numbers for OLOs customers technical assistance were excluded from the calculation).

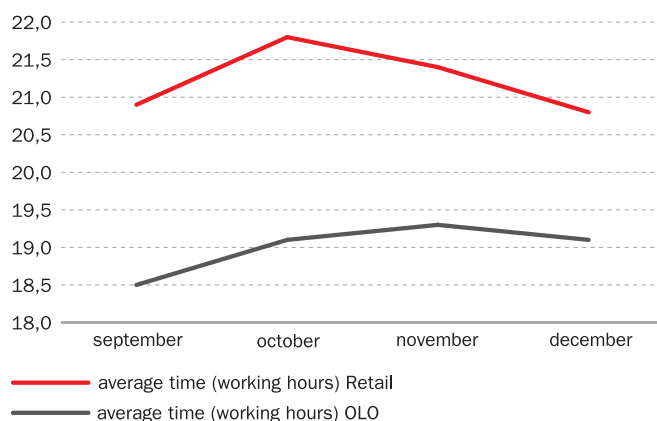


Figure 8 - Average repair time of voice lines in business hours

As regards the percentage of failures repaired within two working days, OLOs customers benefit from nearly 6 percentage points of constant deviation throughout the entire survey period. This is due to the different contractual agreements between National Wholesale Services department and OLOs on the one hand and those with the retail department on the other hand.

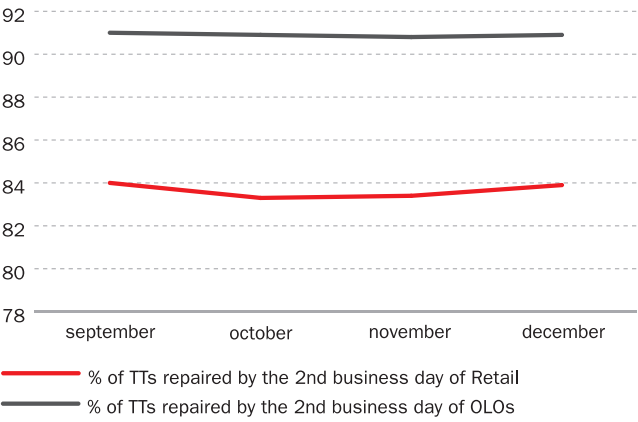


Figure 9 - Percentage of failures resolved by the second day after being reported

KPI 2 - Broadband Lines Assurance

This service too is characterized by a substantial difference in treatment between OLOs and Telecom Italia retail customers: the failures of the former are dealt with by Open Access faster than the failures of the latter.

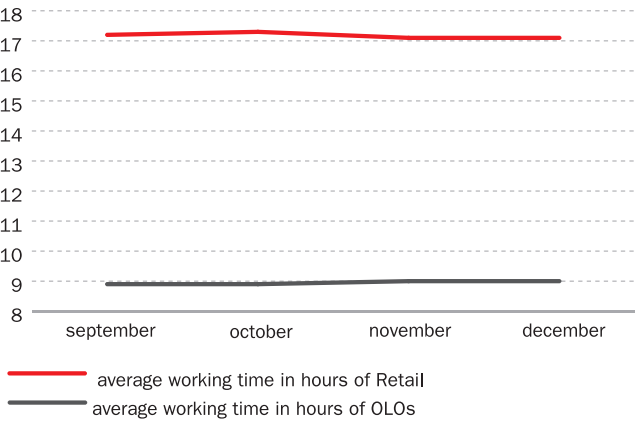


Figure 10
Average broadband repair time in hours

It mainly depends from the "Service Level Agreements" Telecom Italia signed with OLOs, which determine a different repairing procedures and time.

These differences are also highlighted by the indicator related to the percentage of failures repaired within two working days, which shows a difference of roughly 10 percentage points in favour of OLOs customers.

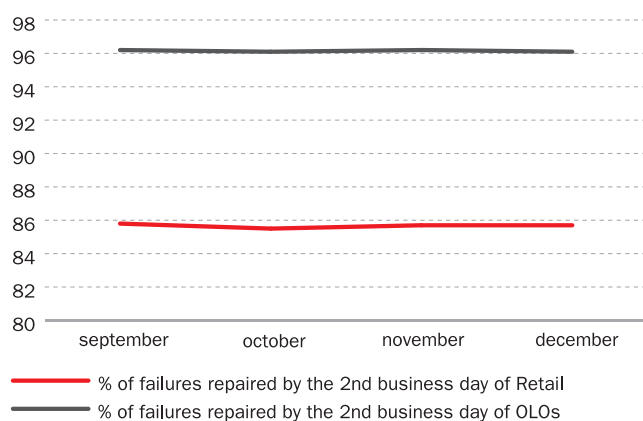


Figure 11 - Percentage of failures fixed by the 2nd business day

KPI 3 - Availability of services

This group of KPIs shows the services availability level over time and is calculated based upon the ratio between the actual and the theoretical operation time of a service.

The indicators are built up following this principle:

$$\text{Percentage of availability} = \frac{\text{Theoretical time}}{\text{Actual time}} * 100$$

where:

Theoretical Time is the survey time multiplied by the average active customer base of the same period;

Actual Time is the theoretical time less the average time of malfunction for the customer base.

The charts reveal a substantial balance between the values concerning Open Access in both categories of customers.

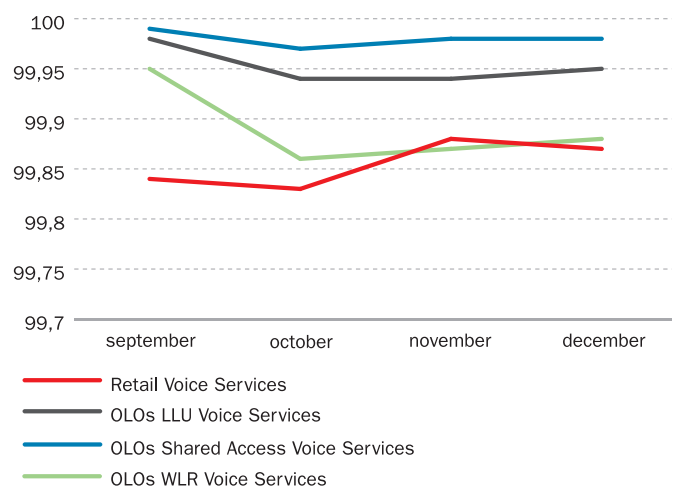


Figure 12 - Monthly availability values of voice services

Also for ADSL connections the trend is the same with no significant differences between Alice service and asymmetric bitstream services availability.

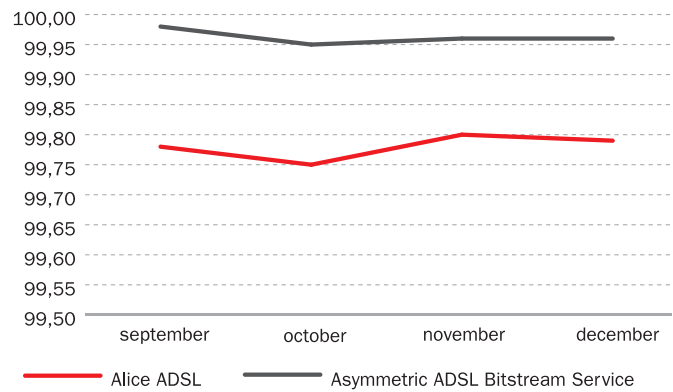


Figure 13 ADSL services availability

Data on S/HDSL connections for Telecom Italia customers are not available yet. The availability trend for symmetric bitstream connections is shown in the chart below.

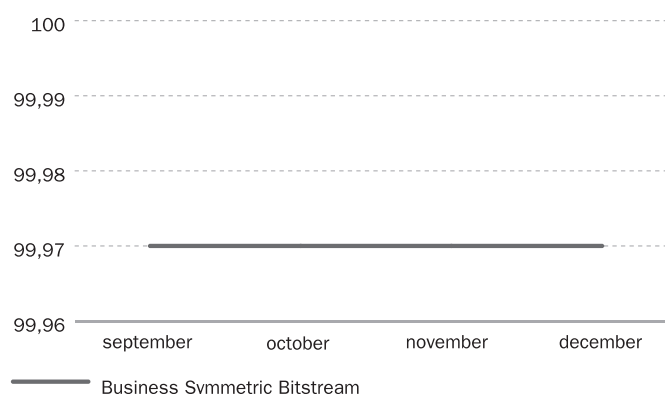


Figure 14
Availability of asymmetric bitstream services

KPI 4 - Unavailability of Wholesale Systems

This indicator points out the time expressed in percentage during which the information technology systems supporting the assurance and delivery processes are not available. Data are aggregated for each service so as to show any influences on the related process indicators. Indicators are created based on the following formula:

$$\text{Percentage of unavailability} = \frac{\text{Theoretical time}}{\text{Actual time}} * 100$$

where:

Actual Time is the time during which service support systems are actually available (theoretical time - malfunction intervals);

Theoretical Time is the interval of time during which the system should be available (agreed working timetable).

The results take into account optimised systems architecture, so that the failure of a system does not necessarily lead to interruptions of assurance or delivery activities.

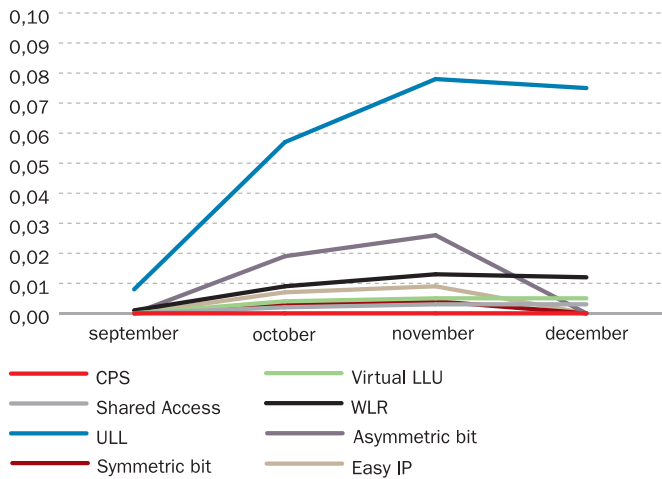
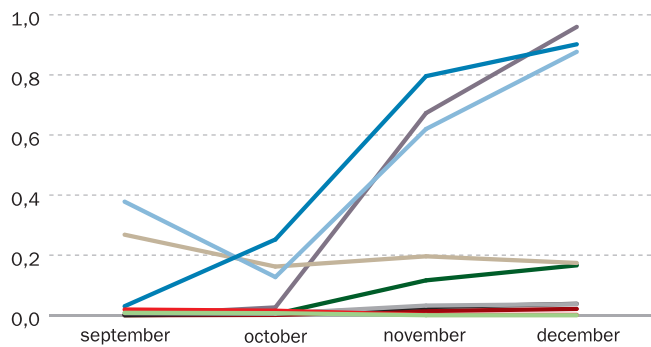
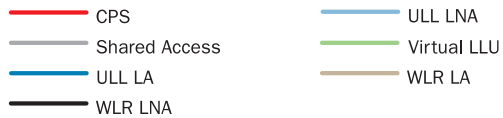


Figure 15 - Percentage of unavailability of IT assurance services systems



Fonia



Broadband



Figure 16 - Percentage of unavailability of IT delivery services systems

In both cases there is a substantial stability of the values with percentage deviations in the second to third decimal place.

UNDERTAKINGS GROUP NO. 5: GUARANTEES OF TRANSPARENCY OF TECHNICAL PLANS FOR THE QUALITY OF THE FIXED ACCESS NETWORK

Action plans aimed to improve the overall quality of the access network have been notified. The results of the action plans carried out to reduce the failure rate have been highlighted.

Description of the Undertakings Group

Telecom Italia must send to AGCom, the Supervisory Board and OLOs the "Technical Plans for the Quality of the Network" and its updates.

Progress

Telecom Italia has prepared and provided the following documentation:

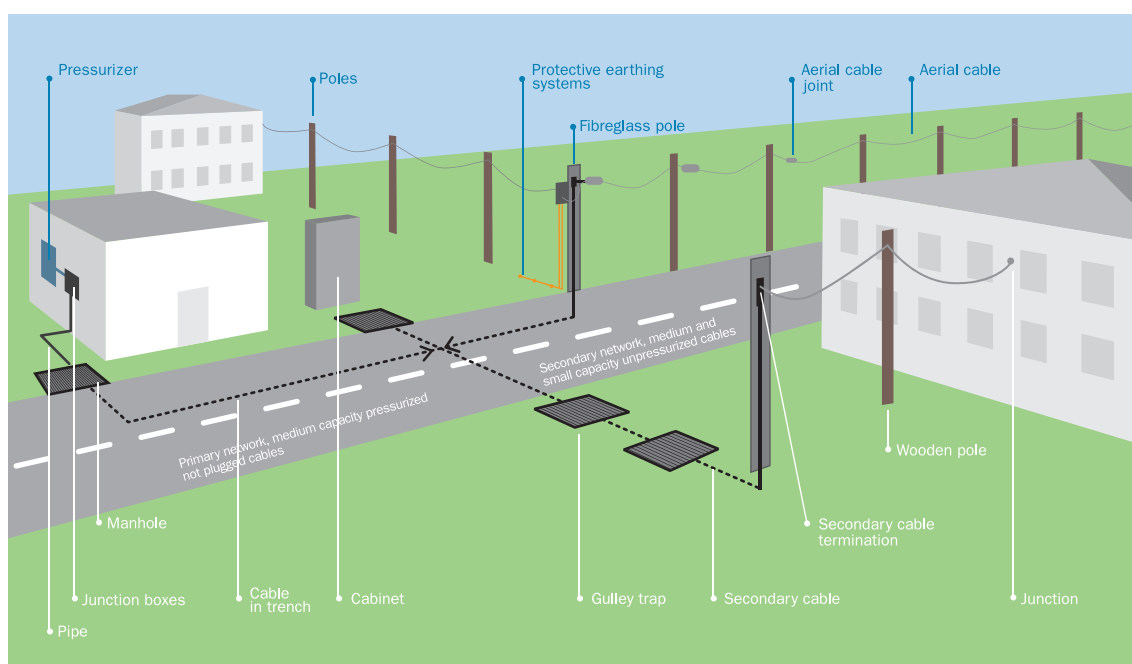
- I)** Technical Plan for the Quality of the Fixed Access Network - 2009 Annual Plan;
- II)** Quarterly Programmes for the Quality of the Fixed Access Network and actual results for the 1st, 2nd, 3rd and 4th quarter of 2009.

The Undertakings Group No. 5 responds to the necessity of disclosing and making transparent structural interventions on the access network, which go beyond the concept of ordinary maintenance. To that end, Open Access prepared a number of detailed operational plans which give specifications about each intervention and highlight the impact on the overall quality of the access network.

The Supervisory Board not only checked the documentation received but also requested, through its Resolutions and Recommendations, a number of deep analysis, aimed at verifying the consistency of the plans and the real impact on the failure rate, and has carefully assessed the constant flow of information coming from the Company, in order to show clearly the results of this very articulate activity characterised by significant impacts on a great number of systems.

Besides the ongoing monitoring of action plans, the Supervisory Board has emphasised the importance of anticipating most of the interventions foreseen, in order to make the most from the results of the actions undertaken during 2009.

Another important achievement was the set up of a special report by Open Access, prepared at the request of and based upon criteria suggested by the Supervisory Board, which allowed to highlight the activities underway from different points of view.

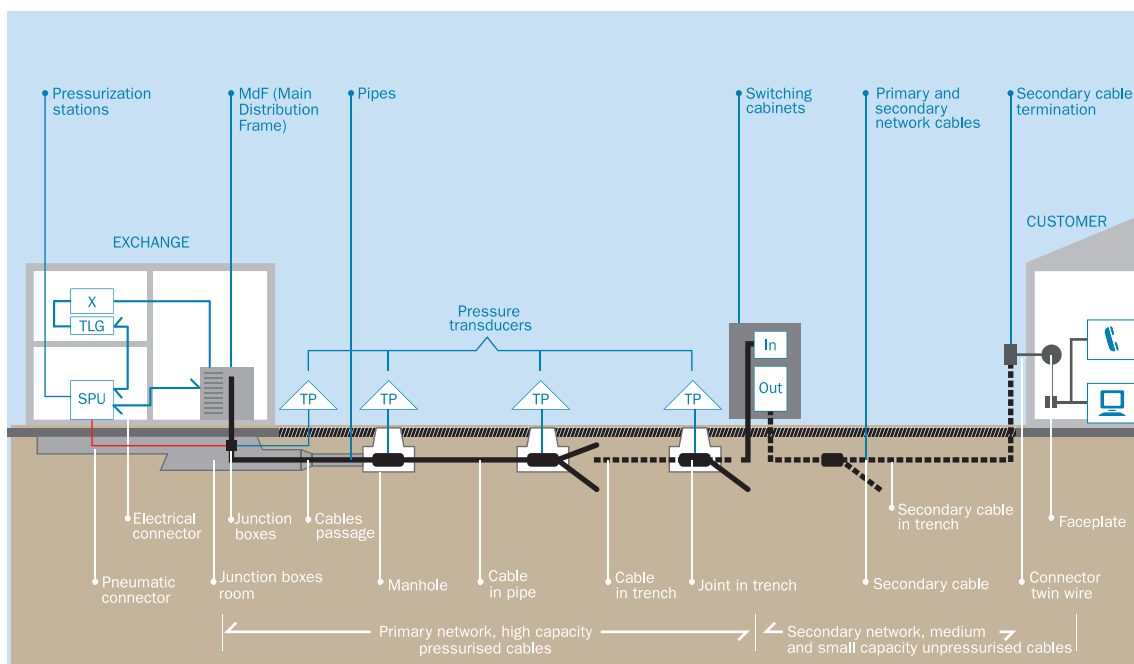


The Action Plans

The interventions concerned those parts of the network, with the highest failure rate, originating repeated complaints by the end users.

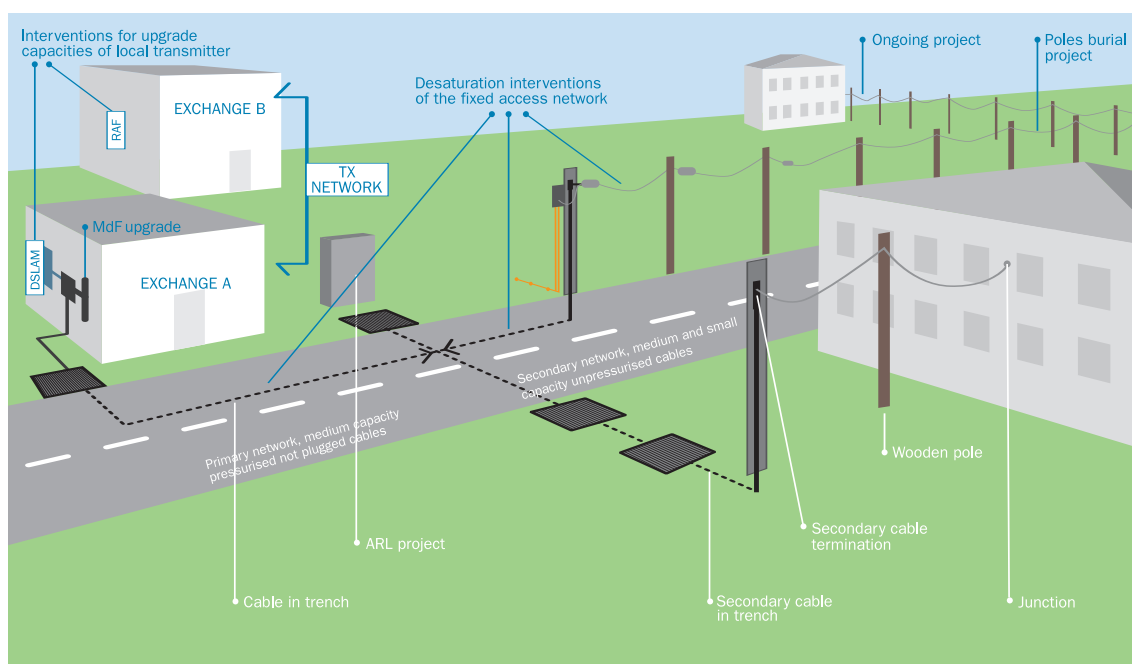
The target was fixed based on the “failure rate” indicator, which is calculated as a percentage of yearly failures every 100 connections. Starting from the 2008 reference value, which was 14.1%, the 2009 target was set at 13.4%. Open Access mainly intervened on those problems which caused the highest failure rates, especially acting on systems with higher rates of repeated failures.

The same attention was dedicated to those parts of the network needing extraordinary interventions due to the ageing of its components. This is the case of switching cabinets, which during 2009 have been the object of an important extraordinary maintenance operation to ensure the optimal insulation of permutations and an improved level of security due to the installation of a new metallic door and the introduction of the so-called “clack” security locks.



These extraordinary maintenance operations were focused on the busiest main distribution frames (MDF) with a quite high failure rate. Due to the extremely high number of MDFs malfunctions there have been numerous interventions concerning both the physical restoration and the related training of the operators authorised to work there. In addition to specific conduct rules, professional figures specifically tasked to MDF treatment have been introduced; video surveillance systems have been set up at peripheral distribution frames to ensure ongoing attention to Telecom Italia and contractors personnel professional behaviour.

Regarding Open Access delivery processes, the efforts aimed at minimizing customers waiting time should be highlighted, with reference to requests in areas not covered by the service or with a saturated telephone network. For the year 2008 a final value of 2.7 months of average waiting time had been recorded for customers who requested telephone service in the above mentioned areas. In 2009 a number of interventions to speed up the delivery process and reach the target of a waiting time of 2.5 months on average have been implemented.



Particular attention was given by the Supervisory Board to the cases of network and DSLAM saturation for Telecom Italia and OLOs customers.

The action plans broken down per type of process and split per area are presented below.

Assurance Process

The Ongoing project is focused on repeated failures, rebuilding from scratch critical network elements.

The project aims at improving the perceived customer assistance quality and at the same time reducing the repeated failures with extraordinary maintenance operations.

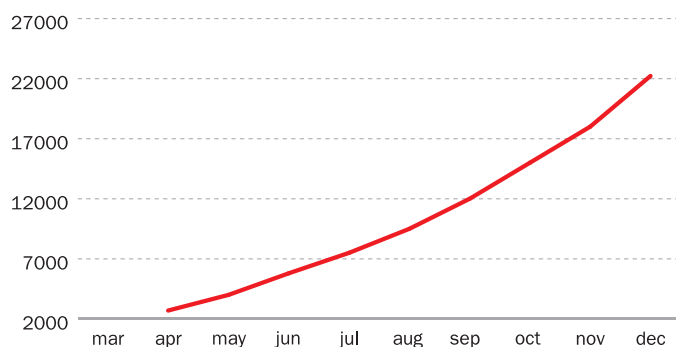


Figure 1- Expected trend of upgrades

A dedicated website ("Bonifica On-Going") has been developed to handle all the repeated failures files subject to specific analysis.

The analysis conducted by the Supervisory Board was aimed to understand how the project impacts the customer base. During 2009 almost 25,800 critical cases were handled compared to 22,000 initially expected: this led to solve the problems to the lines with the highest number of trouble tickets.

Upgraded Lines

Zone	% Breakdown	Lines to upgrade	Lines upgraded
Northwest	18%	3978	4332
Northeast	17%	3667	4395
Central Italy	30%	6578	8054
South	36%	8000	9024
TOTAL	100%	22223	25805

Table 2 - Upgraded lines

The number of interventions in regional areas is tied to the repetitiveness of the failure rate. The impacts of this project on the overall failure rate (voice + data) have proven to be important, even considering the relatively small number of interventions.

Expected Benefits

NETWORK ASSETS REGIONAL AREA	Failure rate recovery
Northwest	0,3%
Northeast	0,3%
Central Italy	0,5%
South	0,6%
TOTAL	0,4%

Table 2 - Expected benefits

The project allowed for definitively upgrading all the lines with more than 3 failures over a time span of 6 “mobile” months, avoiding nearly 60,000 failures around the country with 24,000 customers potentially affected (nearly 11,000 of which are OLOs customers).

The purpose of the intervention is clearly to repair the lines with the highest failure rates although only a limited number of customers is affected.

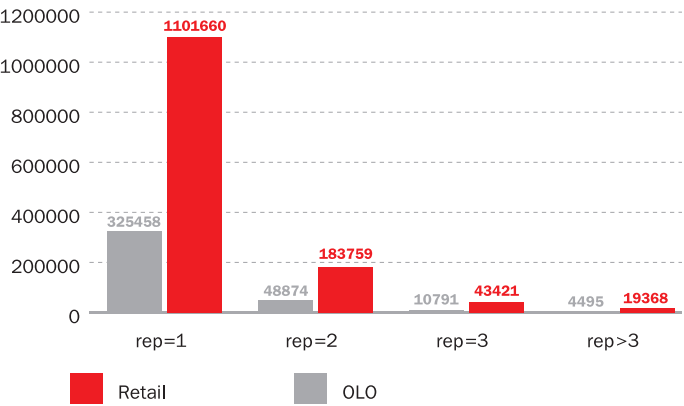


Figure 2 - Volume of repeated failures
Telecom Italia retail VS OLO

Monitoring repeated failures trend, which showed a constant decrease throughout the year, has been particularly important to verify the plan performance.

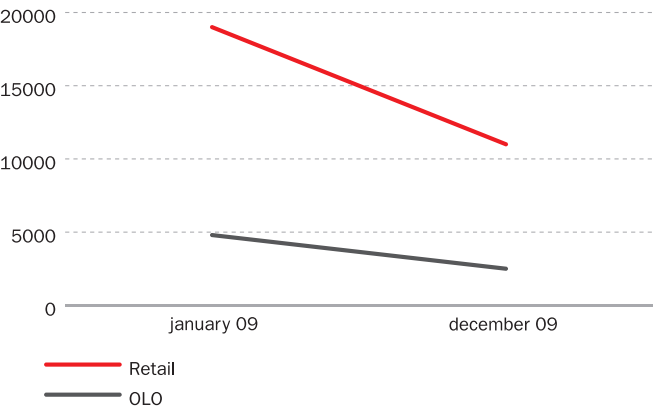


Figure 3 - Trend of the number
of repeated failures > 3

An important result is that the number of customers with high failure repetitiveness has drastically fallen. The issue of repeated failures have been deeply analyzed by the Supervisory Board, with particular attention to Telecom Italia and OLOs customers copper lines to verify the equality of treatment. The chart, based on data and information provided by Telecom Italia, shows that, in percentage terms and taking into account the relative weights, the data on repetitiveness are in favour of OLOs customers.

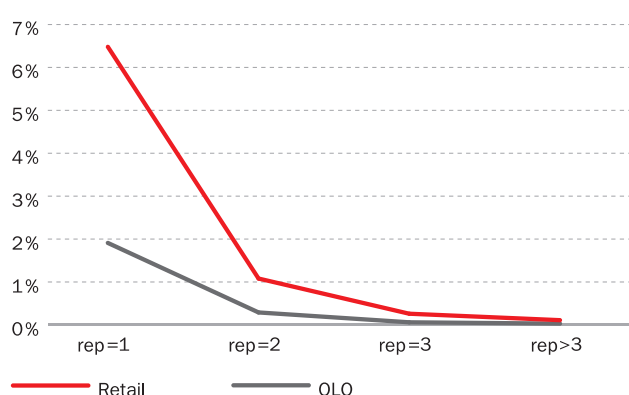


Figure 4 - Calculation based on 17 million customers of Telecom Italia Retail and 5.3 million customers of the OLOs

The Main Distribution Frames Upgrading Project

In compliance with the provisions of the reference technical standard, the project is focused on MDF with the highest failure rates: the 2009 intervention plan completed a preliminary phase of the project started in 2008, which involved 400 MDF, serving nearly 4.5 million Telecom Italia Retail customers and 1.8 million OLOs customers. The 2009 programme involved an equal number of MDF serving around 2.5 million Telecom Italia Retail customers and 0.9 million OLOs customers.

The extraordinary maintenance operations brought to a saving of 135,000 interventions on Telecom Italia Retail customers and 50,000 interventions on OLOs customers, taking into account also the benefit stemming from 2008 activities.

Based upon this estimate, the operations brought to a decrease of about 0.8 percentage points of the "Failure Rate".

Considering only OLOs customers segment, the expected reduction in the failure rate is 1.3 percentage points.

The table below shows a breakdown of the operations planned for 2009.

	quarters				Total
	I	II	III	IV	
Northwest	9	26	15	22	72
Northeast	2	10	11	7	30
Central Italy	4	30	38	45	117
South	-	44	66	71	181
ITALY	15	110	130	145	400

Table 3 - Upgrading plan
of MdF - year 2009

The final number of Open Access extraordinary maintenance operations in 2009 is 412 versus 400 planned, as shown in the following table.

	quarters				Total
	I	II	III	IV	
Northwest	11	30	13	13	67
Northeast	2	15	10	10	37
Central Italy	5	64	42	7	118
South	-	76	58	56	190
ITALY	18	185	123	86	412

Table 4 - Upgrading plan
of MdF completed in 2009

In conclusion, the data provided by Telecom Italia, which shall be examined and assessed further, reveals that the failure rate reduction target has in fact been reached earlier than expected.

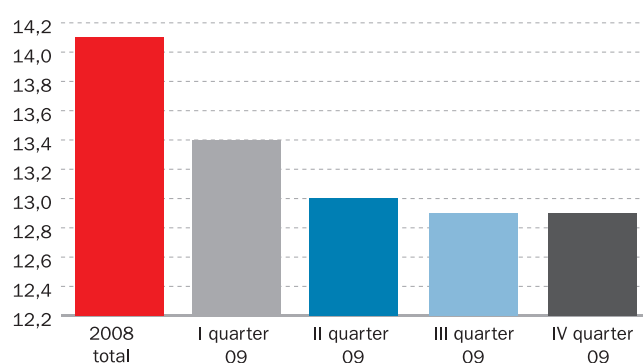


Figure 5 - Failure rate trend

Specifically, the chart shows the impacts of the plan on the failure rate.

Delivery Process

With reference to the delivery process, the main target was the network development where the access network was not available, either due to saturation or because of service requests on areas not yet covered by the network. In the latter case the average waiting time for the customer extends for the time necessary for carrying out infrastructural works and obtaining the relevant permits from local authorities. The average waiting time at the end of 2008 was roughly 2.7 months; the target for 2009 was to reach 2.5 months.

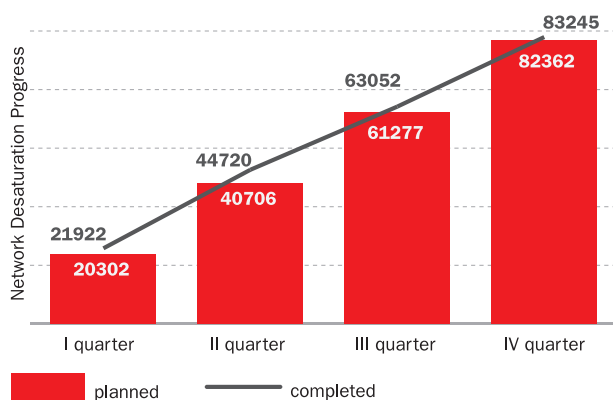


Figure 6 - Volumes of lines

Besides financing a reasonable number of operations, the action plan allowed for carrying out works ahead of the time scheduled.

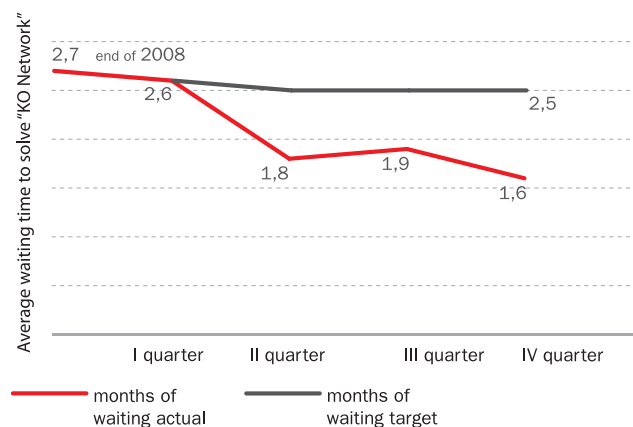


Figure 7 - Trend of average waiting time

In the fourth quarter the average waiting time dropped to 1.6 months.

Another issue dealt with in the action plan of Open Access was the PVC and DSLAM desaturation.

The 2 Mbit/s symmetric access circuits of the bitstream service (formerly PVC) are realised with transmission equipments based on SHDSL technology integrated into the DSLAM or with SHDSL systems on stand alone transmission equipments. As the network is getting more and more busy, some MDF (generally suburban ones) may not have available resources in the trunk network. In that condition the site is declared “saturated” and bitstream service can no longer be provided for new requests.

The operations necessary on “saturated” trunk network may consist of:

- expansion of 2Mb/s systems on copper trunk cables;
- installation of new line systems on existing fiber optic cables;
- set up of a new radio link (preferably where there are radio infrastructures already in place);
- laying of optical fibre cables with the relevant installation of line systems.

According to the data provided by Telecom Italia, the Supervisory Board notes an acceleration of the action plan, as many operations were implemented in the first part of the year, and the number of interventions increased to face the new saturations recorded during the year.

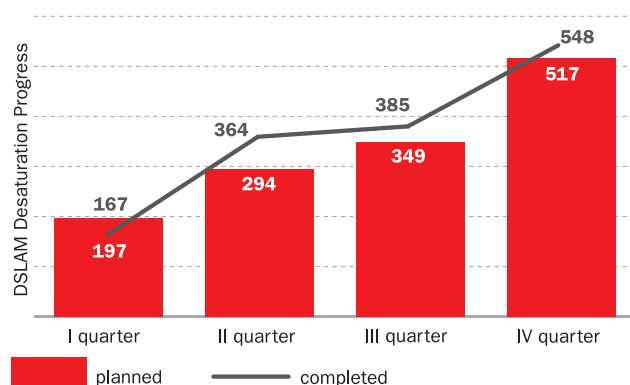


Figure 8 - Desaturation of DSLAM equipment

Control criteria adopted by the Supervisory Board

The Supervisory Board asked Open Access to set up a monitoring report on the state of the network with reference to the actions carried out at switching exchanges. In particular, an indicator has been determined which allows to appreciate the trend of the number of exchange areas which - on a bimonthly basis - fail to reach the failure rate target planned for 2009. This indicator will allow an ongoing monitoring providing, once redirected at provincial level, a detailed view of the state of the network. This analysis can be conducted both with reference to the voice service failure rate and the ADSL service failure rate.

Thanks to the data and information provided by Open Access, the Supervisory Board has been able to conduct many analyses, deepening till a provincial level and setting up an observatory on the quality of the network.

According to Telecom Italia, as far as the voice service is concerned, the number of exchanges which exceeded the planned failure rate fell from 1,581 (2008 outbound value) to 1,338 (December 2009 actual value), with an average reduction of 18%. The improvement has been even higher on those plants providing for ADSL service as well: from the 1,144 plants exceeding the 2008 planned rate the number dropped to 479 in December 2009, thereby reducing the number of systems with a higher failure rate. It should be noticed that the 2009 planned failure rates are lower than those of 2008, so that the benefits of the extraordinary maintenance operations are added to the planned benefits.

In order to guarantee a full transparency of the operational plans, the Supervisory Board shall verify the information and data regarding the actual state of the network to be able to better assess the priority criteria used by Open Access.

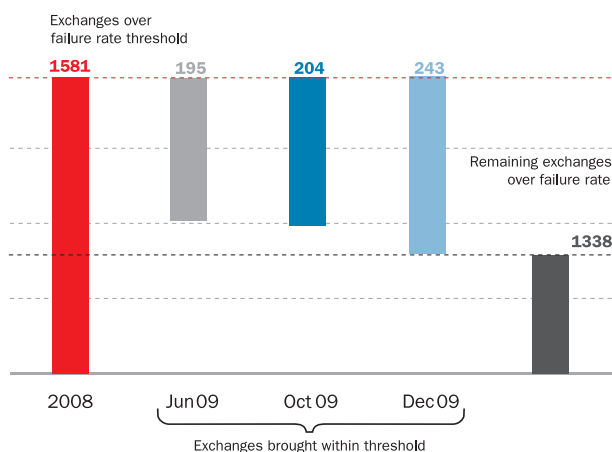


Figure 9 - Overall indicator for PSTN service

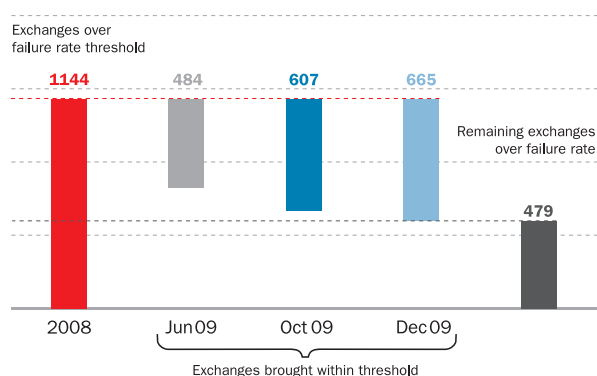


Figure 10 - Overall indicator for ADSL service

UNDERTAKINGS GROUP NO. 6: GUARANTEES OF TRANSPARENCY OF TECHNICAL PLANS FOR THE DEVELOPMENT OF THE FIXED ACCESS NETWORK

The development plans of the fixed access network have been published together with preliminary indications on how Telecom Italia will implement optical fibre next generation networks and the penetration of the traditional copper broadband.

Description of the Undertakings Group

Telecom Italia must communicate to AGCom, the Supervisory Board and OLOs the "Technical Plans for the development of the fixed access network".

Progress

Telecom Italia has prepared and provided the following documentation:

- I) the 2009-2011 plan for the development of NGAN network, the broadband coverage and the annual lotting plan;
- II) the 1st, 2nd, 3rd and 4th quarters of 2009 programmes for the development of NGAN network, the broadband coverage and the annual lotting plan;
- III) the reports on the achievements made in the 1st, 2nd, 3rd and 4th quarters of 2009 related to the development of the NGAN network, the broadband coverage and the annual lotting plan

According to Undertakings Group No. 6, Telecom Italia should disclose its "Development Plans" for the fixed access by publishing long-term documents called "Multi-annual Plans" and medium-term documents referred to the quarters of the year underway.

Each quarter the results of what has been actually implemented are published together with the development plans for the following quarter.

The Supervisory Board checks that the actual results are in line with the plan; it also verifies the operations planned for the following quarter.

In case medium to long-term operations are rescheduled, Telecom Italia informs the Supervisory Board about the changes made with the publication of the updated “Multi-annual Plans”.

The Supervisory Board notes how the multi-annual plans are influenced by several factors exogenous to the telecommunications market, and are inevitably conditioned by continuously changing social, economic and political elements. Let us see in particular how the development plans, divided per technology, are set out.

Development of the Copper Network

The development of the traditional copper networks is influenced by the saturation of the already operating network, which shall take on a growing level of importance in forthcoming months.

The New Delivery Process (NDP) introduced by the Undertakings Group No. 1 will heavily increase Open Access workload to face the cases of saturated network.

In particular, thanks to the NDP, every line installation that have lack of network resources will be queued on the saturated network with the related work priority. This feature will allow to eliminate cases of technical impossibility of OLOs customers activation (most of so-called network KOs).

During 2009, the Supervisory Board has noted and appreciated the introduction by Open Access of new and more effective methodologies to plan and implement the necessary operations, aimed at reaching in 2010 an average activation time for requests in saturated network lower than the one recorded in 2008.

The waiting time value dropped from 2.7 months in 2008 to 1.6 months in 2009, with a considerable benefit for the customers.

The new urban developments and the lotting plans are strictly tied to the future development of the copper network. Planning modes are similar to those used with reference to the cases of saturated network, but at the same time it is important to pay attention to ensure the network availability once the new housing units are actually occupied. The volumes planning mechanisms are therefore quite frequently revised, as the scenario changes due to factors such as the speed of realization of the housing units, the time necessary for the houses to be occupied etc..

The development plans are usually multi-annual, although there are uncertainties, due to external factors such as fluctuations of the real estate market and macroeconomic aspects.

The multi-annual plan for the period from 2009 to 2011 provide for 400,000 housing units (HUs) to be wired according to the following schedule:

	2008	2009	2010	2011	Total
H.U. foreseen	118000	164000	115000	115000	394000

Table 1 - Multi-annual plan

The year 2009 provided for the following breakdown of activities:

	I Q.	II Q.	III Q.	IV Q.	Total
H.U. foreseen	7040	54334	42626	60000	164000

Table 2 - 2009 plan

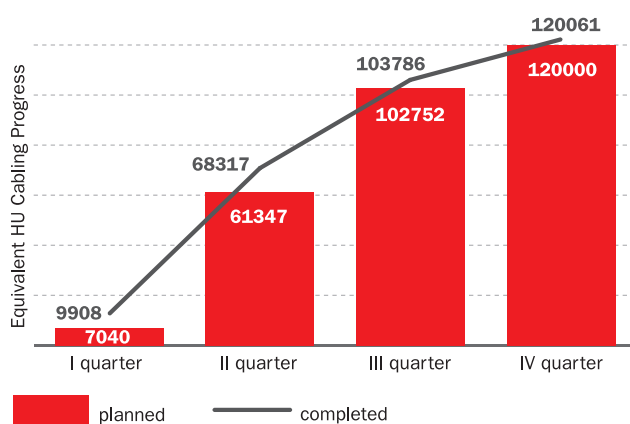


Figure 1- Estimated and final figures of realisation of equivalent HU cabling

In the 4th quarter the plan was changed to take into account the decreased requests of connections for new buildings. The final number of wired housing units in the new plan is 120,061.

Development of the Broadband Network

The year 2009 has been marked by a revision of the initial technical plan, done in the month of June 2009, which, considering equivalent the number of exchanges involved, entailed a significant reduction in the number of Municipalities affected by these operations.

The initial strategy envisaged operations at exchanges not yet equipped with DSLAM IP; Telecom Italia preferred (for a part of the plan - roughly 50%) to complete equipping the exchanges already provided, even just partially, with ADSL service; it brought to a reduction in the territorial extension of the operational plan, involving completion of municipalities already served.

It is important to note that the reduced number of municipalities involved does not mean that less customers were reached.

The following tables show the changes and the consequent impacts on the municipalities (DSLAM IP up to 20Mb/s enabled to IPTV services).

20 Mb/s

Exchanges	Original 2009 Plan	Revised 2009 Plan	q1	q2	q3	q4	Total
Northwest	58	40	-	21	4	16	41
Northeast	97	153	-	88	16	58	162
Central Italy	102	38	-	15	4	14	33
South	61	87	-	46	7	35	88
TOTAL	318	318	-	170	31	123	324

Table 3 - Broadband expansion plan per exchange

20 Mb/s

Exchanges	Original 2009 Plan	Revised 2009 Plan	q1	q2	q3	q4	Total
Northwest	101	61	-	38	6	15	59
Northeast	137	114	-	63	8	54	125
Central Italy	72	21	-	13	-	7	20
South	67	90	-	49	6	38	93
TOTAL	377	286	-	163	20	114	297

Table 4 - Broadband expansion plan per exchange

Similarly the following table shows the number of installations in 2009 of DSLAM up to 7Mb/s, which include DSLAM ATM, IP and anti digital divide.

7 Mb/s						
	Planned	total	1°Q	2°Q	3°Q	4°Q
NO. OF ACTIVE EXCHANGES	300	308	33	121	44	110
of which Northwest	39	41	4	11	7	19
of which Northeast	51	52	2	19	9	22
of which Central Italy	129	135	24	66	18	27
of which South	81	80	3	25	10	42
NO. OF MUNICIPALITIES COVERED	271	249	31	104	37	77
of which Northwest	60	56	9	15	9	23
of which Northeast	33	30	1	8	6	15
of which Central Italy	105	99	17	54	14	14
of which South	73	64	4	27	8	25

Table 5 - Plan for broadband expansion up to 7Mb/s by exchanges and municipalities

Development of the Next Generation Network

To develop the Next Generation Access Network (NGAN), deployment of optical fibre to the customer premises is needed; this is to ensure high bandwidth available for data transmission, and to provide an infrastructure able to support the development of next generation IP services.

At present, Telecom Italia is moving towards GPON architecture, with fibre shared with point-to-multipoint architecture, so as to reduce costs (with FTTH – fiber to the home – solutions and, where not possible, FTTB – fiber to the building solutions). In particular cases point-to-point solutions are adopted in fiber to the premises (“FTTP”) mode.

	Consistency	Increase			Consistency
	2008	2009	2010	2011	2011
Municipalities	1	1	2	16	20
Exchanges	7	10	46	83	146
P.U. Passed	137000	253000	960000	1650000	3000000

Table 6 - Original NGAN plan

The initial plan submitted by Telecom Italia provided for the coverage of 20 metropolitan areas in the period 2009–2011 with 146 exchange areas.

During 2009 that plan was updated: the new target of passed building units was fixed at 62,600. The final value at the end of the year was 62,922.

	Consistency	Increase			Consistency
	2008	2009	2010	2011	2011
Municipalities	1	1	3	7	12
Exchanges	7	10	19	50	86
P.U. Passed	137000	62600	358000	980000	1537600

Table 7 - Revised NGAN plan

In the medium term, the new revised plan has been affected by Telecom Italia decision to postpone the completion of part of the activities started in 2009 in the first quarter of 2010.

This temporal reshaping allowed Telecom Italia to use new equipments introduced only by the end of 2009.

With reference to the Undertakings Group No. 6, the Supervisory Board shall continue with its examinations and verifications.

Besides, time schedules and publication procedures of the development plans of the fixed access network by Telecom Italia will be examined, in order to give instructions and suggestions for an easier access by OLOs to the information needed.

UNDERTAKINGS GROUP NO. 7: SETTING UP OF A SUPERVISORY BOARD

The Supervisory Board has been operating since April 1st, 2009

Description of the Undertakings Group

Telecom Italia must set up a Supervisory Board to oversee the proper implementation of the Undertakings. The Supervisory Board must inform AGCom of any ascertained breaches of the Undertakings that Telecom Italia has not rectified within the deadline fixed by the board.

Progress

The Supervisory Board was established on April 1st, 2009. In agreement with AGCom, Telecom Italia set up a Board Regulation which allowed the Board to carry out its institutional duties right from the start.

For a more in-depth analysis of the role, the jurisdiction and the activities of the Supervisory Board, please see Section III, paragraph 6, of this report.

UNDERTAKINGS GROUP NO. 8: INTEGRATION OF TELECOM ITALIA REGULATORY ACCOUNTING AND CALCULATION OF TRANSFER CHARGES

The regulatory accounting and transfer charges models to be applied to Telecom Italia Retail departments have been sent to AGCom.

Description of the Undertakings Group

In addition to the regulation in force and, in particular, to Resolution n. 152/02/CONS on Regulatory Accounting, Telecom Italia must insert in proper service contracts (which must be made available to AGCom) the economic conditions for the delivery of of Significant Market Power (SMP) services by Open Access to retail departments. In addition, Telecom Italia must give evidence to separate Open Access accounting with the necessary detailed elements to verify the equivalence of those transfer charges with the corresponding economic conditions charged to OLOs.

AGCom approves:

- I) the models proposed by Telecom Italia for fixing the transfer charges and the separate accounting related to Open Access;*
- II) the transfer charges;*
- III) the separate accounting system for Open Access.*

Progress

Telecom Italia worked out a proposal of regulatory accounting and transfer charges models, which were then submitted to AGCom for approval.

The Undertakings Group No. 8 provides for Telecom Italia:

- to prepare and submit for approval to AGCom in proper service contracts the economic conditions for the internal delivery (transfer charge) of SMP services provided by Open Access to the commercial departments of the Company, and
- to submit separate accounting evidence for SMP services provided by Open Access in order to verify the equivalence of the economic conditions offered to the other licensed operators compared to those offered to Telecom Italia commercial departments.

That Undertakings Group fits within the general framework of Italian and European provisions on regulatory accounting, introduced with the Law n. 249/97, which later led to the Electronic Communications Act, to AGCom Resolution n. 152/02/CONS and to other Resolutions concerning the analysis of the relevant markets.

This Group should therefore be considered as a further step of this process, by which the incumbent operator, besides preparing each year a specific regulatory accounting of SMP fixed network services (including cost accounting and accounting separation), has undertaken to send additional documents and data; the aim is to provide the NRA with the quantitative and economic information necessary to allow the Authority to carry out its institutional duties of market regulation and control.

The Supervisory Board verified that Telecom Italia sent within the deadline, fixed for March 1st, 2009, to the NRA the above mentioned models.

As provided for at paragraph 8.4 of the Undertakings, the service contracts specifying the transfer charges and the separate accounting come into force within four months of the approval by AGCom; by December 31st, AGCom had not yet given its approval.

Relation with Resolution n. 152/02/CON

The paragraph 8.1 of the Undertakings emphasises that the documents Telecom Italia is required to prepare complete what already provided for by Art. 2 of the Resolution n. 152/02/CONS, "AGCom verifies that the measures taken ensure that the supply of network services to its own commercial organisation takes place through agreements that clearly state the general conditions of technical and economic supply." The principles of the Undertakings Group No. 8 therefore supplement and deepen the provisions of the above-mentioned resolution.

Transfer Charges

The first model that Telecom Italia sent to AGCom on March 31, 2009 lists the SMP services offered by Open Access (corresponding to markets 1, 2, 11, 12 and 13 of Recommendation n. 2003/311/EC, subsequently renamed markets 1, 4, and 5 by Recommendation 2007/879/EC). The model highlights, then, the relations between these services and the services offered by the commercial departments of Telecom Italia (markets 1 and 2, market 7 and residual markets).

For each service offered, the transfer charge per unit (meaning the price per unit established in service contracts) must be reported, as well as the service volumes provided by Open Access to the commercial departments and the internal revenues originated.

Telecom Italia pointed out the difficulties for the definition of a precise economic equivalence and a comparison between wholesale services offered to OLOs and retail services rendered to the commercial departments of Telecom Italia: the problems range from the possible timing misalignment between the approval date of the Reference Offer and the start of the validity period of the same, to the impossible application of pricing structures for services not yet completely in place (for example the service of market 13 – terminating), to the difficulty to apply the prices reported in Telecom Italia Wholesale Reference Offers to its own commercial departments, given the different economic and technical perimeters. Moreover, with Resolution n. 731/09/CONS, AGCom stressed that the prices reported in internal transfer contracts must match with those reported in the Reference Offer.

Separate Accounting

The second model report the annual regulatory accounting results for the SMP services provided by Open Access, with the transfer charge stemming from the model referred to in the previous point (it is clarified that the regulatory accounting of the SMP services of Open Access is in addition to and must be coherent with the regulatory accounting of fixed network services of Telecom Italia).

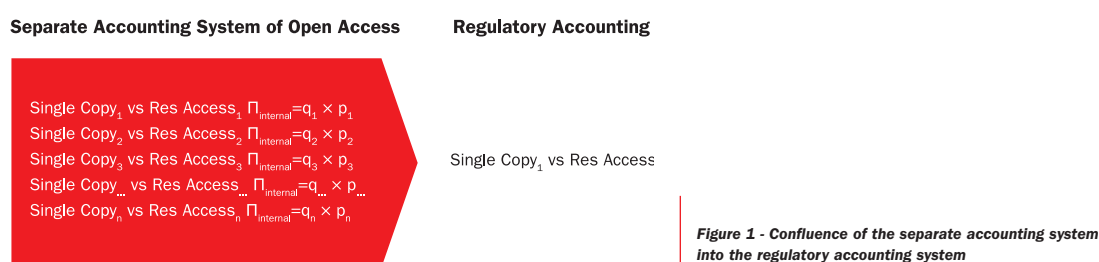
Profit and Loss Account for LOCAL LOOP UNBUNDLING

Revenues	Year X	Costs	Year X
Revenues from other operators	A	Operating costs	D=E+F+G+H
Internal revenues (transfer charges)	B	Amortisation and Depreciation	E
TOTAL REVENUES	C=A+B	Payroll costs	F
		External costs and other costs	G
		Amount to be transferred	H
		CCA adjustment	I
		TOTAL COSTS	L=D+I
		Result gross of cost	M=C-L
		of employed capital	

Table 1 - Example of scheme of annual income statement for one of the market 11 services

In particular, for each of the markets involved (1, 2, 11, 12 and 13) the proposed model envisages preparation of schemes for the income statement, statements of capital employed, transfer charges and volumes.

The document shows the logical flow of the transfer charges from their regulatory accounting system to Open Access regulatory accounting :



In the month of December 2009, following the publication of AGCom Resolution n. 731/09/CONS, which renewed - among other things - the obligations of cost accounting, accounting separation, control of prices and non-discriminatory practices, Telecom Italia activity with AGCom - in order to consolidate the applicative procedures for fulfilment of these obligations in coherence with the Resolution n. 718/08/CONS - restarted.

During 2010, the Supervisory Board shall conduct a verification activity with regard to the new accounting models once they are approved by AGCom.

UNDERTAKINGS GROUP NO. 9: MEASURES RELATED TO NEXT GENERATION ACCESS NETWORKS

The offer for access and sharing of network infrastructures has been sent to AGCom. Telecom Italia joined the NGN Committee

Description of the Undertakings Group

With reference to next generation networks and under the supervision of the AGCOM, Telecom Italia must:

- I)** publish an offer at fair and reasonable conditions for access to and sharing of pipes and ducts; in case it is not technically or economically feasible, Telecom Italia shall offer alternative methods for accessing dark fiber;
- II)** publish a technical and economic proposal aimed to share with the interested operators investments and costs to implement new pipes and ducts;
- III)** extend the Undertakings to those access services provided by the next generation networks, for which AGCom will designate Telecom Italia as a SMP operator;
- IV)** prepare guidelines containing the minimum notice period which shall be guaranteed to operators, co-located at exchanges which will be dismissed;
- V)** join the Italian NGN Committee, which will propose guidelines for the migration process of OLOs to next generation network generation networks

Progress

On June 30th, 2009, Telecom Italia sent to AGCom the following documents:

- I)** *"Telecom Italia offer for pipes and ducts for the development of FTTX networks"; the offer includes conditions for dark fibre temporary rent in case of network infrastructure saturation;*
- II)** *"Telecom Italia proposal to share with OLOs investments and costs to build pipes and ducts for the development of FTTX networks";*
- III)** *"Guidelines for migration to NGNs – minimum notice time and procedures for communicating with OLOs during transition to the next generation network".*

Telecom Italia joined the Italian NGN Committee at its inception.

The Undertakings Group No. 9 contains the Undertakings that Telecom Italia adopted with reference to the measures taken to implement the next generation access network. It consists of obligations of various nature clarified below.

Access to pipes and ducts and to dark fibre

Telecom Italia took the commitment to publish - within six months after the approval of the Undertakings (namely by July 1st, 2009) - an offer at fair and non-discriminatory conditions for opening its passive infrastructures (pipes and ducts), in order to allow the other licensed operators to realise their access network.

Telecom Italia submitted this offer to AGCom on June 30th, 2009.

The offer is valid for one year since July 1st, 2009; it allows to purchase rights of use (in IRU mode 15 years) of those parts of Telecom Italia's local infrastructures already in place and/or available to Telecom Italia at the date of July 1st, 2009, for which Telecom can grant or sub-grant the rights of access.

The maintenance service

The price paid for the rights of use includes the ordinary maintenance service, i.e. the set of activities for verifying the good state of the infrastructure as well as small maintenance operations.

In case of heavy damages to the network, which imply important recovery operations and eventually a new placement of the infrastructure itself, extraordinary maintenance operations are needed; these are implemented by Telecom Italia and charged in proportion to the quote of the mini pipe rights of use purchased.

Telecom Italia set up a commercial offer for dark fibre temporary rent in case of network infrastructure saturation. The underlying conditions of this offer must be reviewed following Resolution n. 731/09/CONS, which stated the obligation for Telecom Italia to offer dark fibre, even in case of pipes and ducts availability.

Sharing NGN investments with operators

According to the Undertakings Group No. 9 Telecom Italia shall also publish a technical and economic Offer, aimed to share with the interested operators investments and costs for the realisation of new pipes and ducts. Telecom Italia submitted this offer to AGCom on June 30th, 2009.

In particular, Telecom Italia gives the possibility of:

- 1.** jointly building new infrastructures and
- 2.** acquiring user rights (in IRU mode 15 years) for parts of its newly realised local infrastructures.

As regards the first point, whenever Telecom Italia intends to build pipes and ducts and sends the other operators a proposal for a joint realisation, it shall be designated as “the leader” of the project. Following receipt of the notice from the leader, the operator that indicates any part it is interested in and also specifies the type and extent of its interest shall be designated as a “contributor”. In particular, the leader shall inform any contributor about its intention to realise an infrastructure, specifying the type and place. Each operator has 20 business days to say whether or not it is interested and to participate in the investment. The offer also specifies how to share the costs between the leader and the contributors.

As regards the second aspect, as said before, the service consists of the transfer of rights of use (IRU) of a 10-12mm mini pipe (or 12-14mm if laid directly in the trench) for a term of 15 years in parts of Telecom Italia's newly realised local infrastructure, whose supply is regulated by a proper contract.

The offer contains details on sub-piping rules and the provisions to comply with as regards the laying of mini pipes.

During 2010, the Supervisory Board shall conduct monitoring activities in relation to the offers of Telecom Italia regarding the access to passive infrastructures and the sharing of infrastructures.

Possible extension of the Undertakings to intermediate access services provided on NGN networks

The Undertakings Group No. 9 foresees that in case AGCom designates Telecom Italia as an operator with SMP imposing the provision of one or more intermediate access services on the next generation networks at non-discriminatory conditions, the Undertakings related to SMP services shall also apply to these services within 6 months since the publication of the relevant measure by AGCom.

With Resolution n. 731/09/CONS AGCom designated Telecom Italia as an operator with SMP in this market.

Membership of the Italian NGN Committee

The Italian NGN Committee was established in February 2009, with Resolution n. 64/09/CONS, and is tasked with advisory duties as regards the transition process to NGNs (See box for more details).

The Supervisory Board has acknowledged Telecom Italia's membership of the Committee.

The Italian NGN Committee

It is a multilateral working group with advisory duties, open to the participation of interested operators, whose tasks are to work out, at the request of AGCom, proposals and solutions to matters pertaining to technical, organisational and economical aspects related to the transition to NGNs, by identifying and submitting specific issues to the attention of AGCom.

Among the main duties of the Committee, which meets at least monthly at the NRA office, there are:

- *promoting an agreed framework for definitions, structures, operative principles and models regarding transition to NGNs;*
- *establishing guidelines for the transition to NGNs, with reference to technical and economic aspects;*
- *promoting a common position on interoperability and interconnection of IP network systems.*

The NGN Committee is open to all active operators in the electronic communications markets. The operator that joins the Committee designates its representative acting as a reference point. Each operator takes part to the works of the Committee with its representative, who may be supported by personnel with specific technical expertise.

Within two years since its inception, the NRA shall assess whether or not to extend the activity of the Committee.

Migration to NGNs

On June 30th, 2009, Telecom Italia sent to AGCom a document containing the guidelines for the migration to NGNs, thereby fulfilling its obligation provided for in point 9.6 of this Undertakings Group.

In particular, the purpose of that document is to establish the minimum notice period and the communication procedures which shall be guaranteed to operators co-located at exchanges to be potentially dismissed, during the transition from the PSTN to the NGN.

Telecom Italia agrees that the minimum notice period should be established to minimise the economic impact on operators, and be compatible with the execution of technical operations connected to the migration of end users from the existing access network to the next generation access network; it must also consider the availability of wholesale offers on the NGN.

UNDERTAKINGS GROUP NO. 10: SETTING UP OF A DISPUTES RESOLUTION COMMITTEE TO SOLVE DISPUTES OF TECHNICAL AND OPERATIONAL NATURE RELATED TO NETWORK ACCESS SERVICES

Telecom Italia joined the OTA Italia Committee.

Description of the Undertakings Group

Telecom Italia undertakes to accept the contract scheme established by AGCom as regards setting up a body, called OTA Italia, charged with resolving disputes of technical and operational nature related to the supply of network access services, not withstanding the right for Telecom Italia to freely present its position during the relevant proceedings

Progress

Following the establishment of the Italian Office of Telecommunications Adjudicator (OTA), with Resolution n. 121/09/CONS of March 18th, 2009, and the approval of the relevant operational rules and of the proposal for the membership agreement with Resolution n. 478/09/CONS of September 14, 2009, Telecom Italia joined OTA Italia on October 15th, 2009.

With the Undertakings Group No. 10, Telecom Italia bound itself to adhere to the contract scheme established by AGCom related to the setting up of a committee charged with resolving disputes of technical and operational nature with reference to network access services. Further, Undertakings Group No. 10 clarifies that “Telecom Italia retains the right to freely present its position to AGCom during relevant proceedings and to safeguard its rights and interests”.

The Committee was established based on the United Kingdom experience of the Office of Telecommunications Adjudicator, whose purpose is to speed up the proceedings necessary for ensuring the equality of access to the network by all operators providing network services in the British telecommunications market.

In addition, it shall ease the resolution of disputes arising between operators over operational issues.

OTA Italia

OTA Italia has been entrusted with the task of preventing possible disputes of technical and operational nature that can arise between operators, primarily over the supply of network access services, as well as making attempts at settlement of the disputes that may arise.

OTA Italia is obliged to inform AGCom in a timely manner about the beginning and conclusion of any settlement attempt, submission of a dispute for its examination and subsequently about its outcome. Every two months OTA Italia reports on the work it has carried out, in reports submitted to the AGCom's Commission for Infrastructures and Networks. The committee has also the task to send to the AGCom's Board a half-yearly report with a concise summary of the work carried out in the reference period, stating also the targets and the strategies for the following six months.

The operators who joined the Body have to follow OTA Italia regulations; they shall not submit to AGCom petitions for dispute resolutions, according to Art. 23 of the Electronic Communications Act, before a conciliation attempt has been made in the Committee.

The Committee was established in March 2009 with Resolution n. 121/09/CONS and was named OTA Italia.

The Chairman of OTA Italia, who was appointed by the Board of the NRA and who is supported by AGCom personnel, cannot have advisory responsibilities and/or other cooperation relations with operators in the electronic communications industry or with broadcasting operators during the term of his assignment.

AGCom has subsequently approved the operating rules of the new committee, as well as a scheme of the three-year term membership agreement (Resolution n. 478/09/CONS).

These operating rules have been agreed at meetings with the participation of all the major operators as well as Telecom Italia.

During October 2009 voluntary memberships of the major players were registered and OTA has therefore become fully operative.

The Supervisory Board intends to organise periodic meetings with OTA Italia during 2010 in order to share the experiences and activities of the two bodies.

UNDERTAKINGS GROUP NO. 11: BAN AGAINST SALES BY FIELD ENGINEERS AND TRAINING PROGRAMMES FOR SALES WORKFORCE

The Supervisory Board has started monitoring the ban against sales by field engineers and the information campaigns for the personnel of Telecom Italia.

Description of the Undertakings Group

Telecom Italia must mention in the Code of Practice the ban - for the Open Access workforce providing SMP Services - of any commercial sales activity towards end users. Telecom Italia must also conduct information campaigns to provide Open Access field engineers and the commercial staff of the retail departments with the relevant information.

Progress

On March 31st, 2009, Telecom Italia sent a note to AGCom giving evidence of the internal memorandum that reaffirms the sales ban for the personnel of Open Access, as well as the information concerning the extension of that ban to the sales workforce of Telecom Italia. That note also anticipated the inclusion of an explicit reference to the sales ban in the Code of Practice.

According to the Undertakings Group No. 11 any commercial activity is banned for the Open Access workforce supplying even occasionally SMP services.

In order to enforce that ban, Telecom Italia during 2009 should have:

- included the sales ban in the Code of Practice;
- carried out specific information campaigns targeted at presenting the content of that ban to both Open Access field engineers and the commercial staff of the retail departments.

During the year, the Supervisory Board verified the correct fulfilment of these obligations by Telecom Italia, and recorded that the notification to AGCom of Telecom Italia internal memorandum.

To supplement and complete the Code of Practice, Telecom Italia carried out several training activities during the year 2009 attended by a conspicuous number of employees, in order to improve the knowledge of the Undertakings (for more details on this matter, please see the Undertakings Group No. 2).

During the year the Supervisory Board tried to improve, through the adoption of recommendations and comments, the training effectiveness. These recommendations and interventions were accepted by Telecom Italia which has progressively enriched its training plans.

The Impact of the Code of Practice

The principles contained in the Undertakings Group No. 11 have been had concretely expressed in the Code of Practice; indeed in the section on "Responsibilities", there is the following statement:

"The personnel of Open Access which supplies, even occasionally, SMP services shall not engage in any commercial sales activity towards the final customers; Senior managers of Open Access shall ensure that the personnel involved in the production of SMP services do not engage in any commercial sales activity towards the end users ."

The management has the responsibility to ensure that this ban is actually respected.

With reference to the ban against sales by Open Access field engineers, Telecom Italia - in its online training course with multiple choice questions - has prepared a specific section intended to make internal resources knowledgeable about this issue, with the presentation of a specific case of contact with a customer asking a technician for a commercial opinion: it illustrates that the latter must keep a position of impartiality between all operators and tell the customer to contact the respective commercial lines.

The Supervisory Board shall continue to monitor throughout 2010 that the sales ban is respected by the personnel of Open Access which supplies, even occasionally, the rendering of SMP services.

UNDERTAKINGS GROUP NO. 12: OBLIGATION TO REPORT ACTIVATION OF UNREQUESTED SERVICES

The Supervisory Board started monitoring the occurrence of unrequested services reported by Open Access field engineers

Description of the Undertakings Group

Telecom Italia must communicate to the Supervisory Board the cases of activation of unrequested services reported by Open Access field engineers during operations at the customer premises.

Progress

On March 31st, 2009, Telecom Italia informed AGCom that it has drafted the relevant operating procedure and distributed it within its organisation on January 28th, 2009. Simultaneously, Telecom Italia shall send to the Supervisory Board a report on a quarterly basis highlighting the number of cases of activation of unrequested services.

The Supervisory Board has verified Telecom Italia's fulfilment of the Undertakings, with reference to the mention in the Code of Practice of the obligation for field engineers to report the cases of activation of unrequested services, as well as the start of the relevant information and training courses for Open Access personnel.

The Supervisory Board has received for the year 2009 the quarterly reports prepared by Telecom Italia on the number and types of cases of activation of unrequested services recorded by the field engineers.

The reports detailed the number and types of complaints made by the customers directly to the field engineers during interventions at customer premises.

The number of recorded unrequested services is quite low; this result is coherent with Telecom Italia strategy aimed at ensuring that proper commercial procedures are followed in the sale of products and services. Other cases of activation of unrequested services not reported by Open Access field engineers are of course not part of this Undertaking.

Reports concerning activation of unrequested services

The first quarter 2009 report showed 23 activations of unrequested services reported by Open Access field engineers, 7 of which in central Italy and 16 in the south, as shown below.

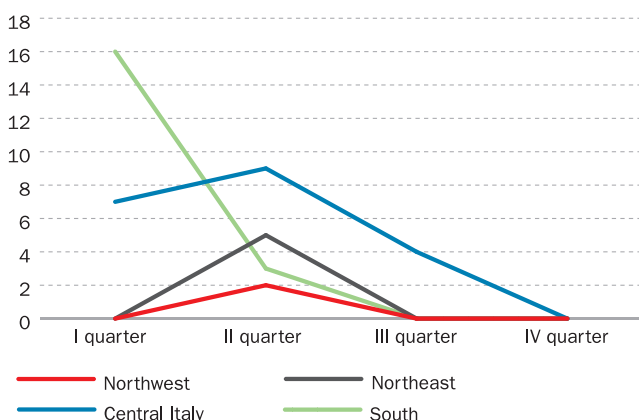


Figure 1- Reports trend per region

In the second quarter of 2009, the engineers of Open Access collected 19 reports of unrequested services, broken down as follows by access network regional areas: 2 in the northwest, 5 in the northeast, 9 in central Italy and 3 in the south.

In the third quarter of 2009, the reports dropped to 4, all from the central part of the country, while no report was collected during the fourth quarter. The chart shows the downward trend of the cases recorded to date.

The Supervisory Board shall keep on verifying the analysis of the development trends of these cases.

UNDERTAKINGS GROUP NO. 13: OBLIGATION OF NOTICE FOR DEACTIVATION OF CPS SERVICES

The operating instructions for the personnel of Telecom Italia on CPS services deactivation have been sent to AGCom.

Description of the Undertakings Group

Telecom Italia shall stop the deactivation procedure for carrier pre-selection (CPS) services once informed by the OLO of a customer's change of mind; this obligation also exists when the commercial departments of Telecom Italia subsequently verify and report a different customer intention.

Progress

On March 31st, 2009, Telecom Italia sent a notice to AGCom to give evidence of the operating instructions - already executed in 2008 - addressed to the customer care to stop the commercial departments activities aimed at verifying the will of the customer to deactivate CPS.

The Undertakings Group No. 13 is aimed to clarify the regulations on the deactivation process for carrier pre-selection services.

AGCom challenged Telecom Italia for carrying out the CPS deactivation process, even when the customer did not recognise the request for stopping the deactivation procedure (in the case he or she changed their mind) presented by the OLO.

Telecom Italia has always declared that its conduct is consistent with the provisions of the regulations in force: CPS terminations had been done by following the so-called urgency procedure, to be applied in case the customer confirmed to Telecom Italia his willingness to deactivate, disowning in this way the KO request, sent by the OLO to stop the procedure.

According to this Undertakings Group, Telecom Italia had a narrow deadline for complying with these provisions (namely January 1st, 2009); the Company abided by it, giving in the last months of 2008 proper instructions to the company departments involved and specifying the relevant implementation measures, later adopted by both the wholesale and the commercial departments (commercial divisions, central and regional structures of customer care, cosourcer COMDATA).

Telecom Italia informed AGCom during March 2009 about the operating instructions and provided a hard copy of the guidelines presented on the business and residential customer care services portal, confirming the modification of the process.

The Supervisory Board has therefore verified the correct fulfilment by Telecom Italia of the obligations specified in the Undertakings Group No. 13 and shall continue to monitor and verify the application of the measures provided for by this Undertakings Group.

UNDERTAKINGS GROUP NO. 14: MEASURES TO REDUCE THE NUMBER OF DISPUTES WITH THE CUSTOMERS

The single model for organising and handling dispute settlement - which now uses the contents and the operative procedures of joint settlement even for procedures started at the Co.Re.Com and the Chambers of Commerce - has been implemented. In 2010 the Board will continue monitoring paperwork handling procedures and timing reduction.

Description of the Undertakings Group

Telecom Italia shall set up a single and detailed system for handling settlement requests submitted by its customers; this will be done by adopting a model similar to the one developed in the Framework Agreement with the consumer associations, and using it also for settlement procedures filed at the Co.Re.Com. and the Chambers of Commerce. The target is the reduction of the number of requests pending at 31.12.08 and of the time needed to handle new dispute cases.

Progress

Telecom Italia has developed an organisational model which applies the operative procedures of joint settlement also to the procedures started at the Co.Re.Com and the Chambers of Commerce. This has allowed for achieving more effective handling of settlement requests in terms of less time spent on handling paperwork and clearing the backlog of disputes accumulated at 31.12.08.

The Undertakings Group No. 14 responds to the necessity of rapidly and effectively solve the great number of disputes between Telecom Italia and its customers, primarily but not only as regards unrequested and premium services.

Thanks to the Undertakings Group No. 14 (and correlated Undertakings Groups 11, 12 and 13), AGCom ordered the suspension - until verification of actual compliance with the Undertakings - of a number of sanctioning proceedings started against Telecom Italia and concerning disputes with end users as regards the deactivation of CPS services, activation of unrequested services and sale of services by field engineers.

The regulatory framework

AGCom regulation on procedures to solve disputes between electronic communications operators and their customers regulates out-of-court dispute resolution proceedings handled by the Co.Re.Com., the other competent bodies and the NRA itself.

According to the regulation, the ordinary jurisdictional petition for the above-mentioned disputes may be submitted only once an obligatory settlement attempt has been made at the Co.Re.Com. or at other competent out-of-court bodies; alternatively, consumers may submit the obligatory settlement attempt at:

- the relevant Chambers of Commerce or
- the committees set up through agreements between the national consumer associations and the electronic communications operators.

The so-called joint settlement procedure, introduced by the agreements reached between Telecom Italia and the national consumer associations, can be described in this framework.

This procedure, supported by the European Commission and AGCom, is characterised by a strong consumer friendly approach and is specifically aimed at satisfying the end user.

This experience has been taken as a reference by the Undertakings which have provided for the implementation of a single settlement model, so-called “di sportello unico” (single office) for dealing with the settlement requests filed at the Co.Re.Com. and the Chambers of Commerce; this has the scope of making the handling of settlement proceedings uniform, in the interest of the consumers, irrespective of the office where the customer decides to file the request.

To date more than 60,000 settlement cases have been dealt with, using the so-called joint proceeding.

Control criteria adopted by the Supervisory Board

The analysis of the documentation submitted by Telecom Italia has highlighted the set of activities implemented to reach the objectives of the Undertakings.

The organisational structure set up by Telecom Italia, which works in conjunction with residential and business Customer Operations departments, seems suited to ensure unified and detailed handling of the mandatory settlement attempt.

The Co.Re.Com. (Comitati Regionali per le Comunicazioni)

What is stated above seems to be confirmed particularly as regards settlements reached at the 17 regional Co.Re.Com.

Indeed, the Supervisory Board has verified that the responsibility for handling settlement procedures at the Co.Re.Com. has been assigned to new offices endowed with well established competence as regards safeguarding the rights of consumers.

That organisational model seems to adequately satisfy the specifications contained at point 14.2 of the Undertakings, which envisages the need to create a single office for handling the procedures managed by the Co.Re.Com, similarly to what occurs for Telecom Italia joint settlements.

The commercial background of the personnel and of the professional experts working at these new offices seems to be the most appropriate to effectively handle the complaints raised by the customers and to find a fast and effective solution to the problems reported and not yet resolved, as prescribed by point 14.1.

The organisational model, characterised by peripheral offices located around the country, similarly to the model used for joint settlement through unified and homogeneous operative procedures, also seems to be suited for ensuring customer satisfaction, also by shortening the time it takes to handle paperwork, according to what is specifically prescribed in point 14.2.

The introduction of a new and specific procedural step called “Pre-conciliazione” (pre-settlement) is also appreciable and conforms to the principles of point 14.1: it may be activated in advance with respect to the debate phase at the Co.Re.Com., and is aimed at a friendly and fast settlement of the dispute; in this case the representative of Telecom Italia is entitled to propose a negotiated solution that is really satisfactory to the customer and adequate to the Company.

The new procedural step described above, together with negotiation techniques inspired by and inclined towards customer satisfaction, appears to be positively directed at ensuring a more flexible way of handling the procedure and therefore at ensuring better guarantees to protect the customer.

The operational procedures to handle previous and current settlements allowed for planning specific actions and interventions as regards particularly relevant problems, such as reports of unrequested services; these are noteworthy and consistent with what is required in particular by point 14.1 on the issue of fast and effective resolution of the reported problems.

Telecom Italia confirmed that it completely handled the 2008 backlog of requests pending at the Co.Re.Com. It also reported that the 2009 requests were handled and concluded by December 31st, 2009, with the exception of a residual working queue (Veneto and Piemonte Co.Re.Com) which shall be worked out within the first quarter of 2010.

As shown by the periodic reports submitted, the adoption of the new model has effectively reduced the time range necessary to handle the requests, in line with the provisions of AGCom Resolution n. 173/07/CONS and subsequent amendments.

Based on the information and data provided, the Supervisory Board considers that the objective of ensuring that the customer obtains a fast and effective solution to the reported problems, according to the provisions in points 14.1 and 14.2 of the Undertakings, has been reached as regards dispute resolution handled through the Co.Re.Com.

During the year 2010 the Supervisory Board will continue its monitoring activity on the reports Telecom Italia will send twice a year according to points 14.4 and 14.7 of the Undertakings, and will conduct surveys and sample investigations at the Co.Re.Com. and at the consumer associations, through the Italian National Council of Consumers and Users (CNCU).

The Chambers of Commerce

The dispute resolution process, started at the Chambers of Commerce, on the basis of the new organisational model and applying the inspiring logics of the Undertakings of unitary and detailed handling of the obligatory settlement attempt, has been completed with a different timetable with respect to what has occurred at the Co.Re.Com.

The Supervisory Board has several times emphasised its understanding of the reasons behind the choices made by Telecom Italia to give priority to handling the settlement procedures at the Co.Re.Com, due to the institutional centrality of this mechanism and the breadth of the disputes dealt with by those committees.

The Body confirmed to Telecom Italia in its Recommendations the relevance and the usefulness for customers of a unified handling of the settlement procedures, even for those handled by the Chambers of Commerce.

In particular, on this issue Telecom Italia has been asked to submit a quarterly report to the Supervisory Board, containing the activities scheduled, their expected timing, the initiatives already undertaken and the results obtained in compliance with the Undertakings.

In response to the solicitations of the Supervisory Board, Telecom Italia has provided all the information related to the planned meetings held at the Chambers of Commerce and Unioncamere (the union of the Chambers of Commerce); it also sent information on any relevant progress necessary to complete the introduction of these new methodologies in handling settlement requests received at the 105 Chambers of Commerce spread nationwide, as from October 1st, 2009, and to operatively start monitoring and participation at the hearings of Customer Operations department.

The operational start has also been the subject of a specific information sent to all the 105 Chambers of Commerce, to AGCom and Unioncamere, as was done for the 17 Co.Re.Com.

That specific information detailed Telecom Italia employees, working on these issues, who shall participate at the hearings on behalf of Telecom Italia.

The Protocol of Understanding signed on November 11th, 2009 by Telecom Italia and Unioncamere represents a further step in this process: it aims at the convergence between the existing operational procedures at the Chambers of Commerce and the so-called “sportello unico” settlement model.

Thanks to the peculiarity of the procedure, the paperwork handling time at the Chambers of Commerce was already in line with the provisions of the above-mentioned Resolution n. 173/07/CONS and subsequent amendments.

Progress of activities carried out on settlement petitions at 31.12.09

at the Co.Re.Com. (from 1.04.09) and the Chambers of Commerce (from 1.10.09) – Source: Telecom Italia

Type of customers	Petitions received	Petitions cancelled	Petitions discussed	Petitions discussed with agreement reached	Petitions discussed with no agreement
Consumer Landline	9.028	651	8.377	7.784	593
Consumer Mobile	1.009	77	932	844	88
Business L + M	7.485	735	6.750	5.272	1.478
NATIONAL TOTAL	17.522	1.463	16.059	13.900	2.159
Percentage of petitions settled around the country					87%
Percentage of petitions not settled around the country					13%

5 | Complaints

During this first year many complaints were sent to the Supervisory Board by OLOs as well as by Telecom Italia and OLOs customers. Two of them, submitted by the operators Fastweb and Wind, were pertinent to the role of the Supervisory Board and led to two inquiries. The Body did not notice any breaches of the Undertakings, nevertheless asked Telecom Italia to introduce a new procedure for handling the so-called “customer KOs” and to supplement the Code of Practice provided for by the Undertakings Group No. 2 with some rules aimed at strengthening the internal and external equality of treatment.

1. OLOs COMPLAINTS

S01/09 - Fastweb/Provisioning processes of SMP wholesale services provided by Telecom Italia

On June 16th, 2009, the Supervisory Board received a complaint from Fastweb S.p.A, sent pursuant to Art. 11 of the Regulation, concerning some criticalities found regarding the Undertakings Groups related to the supply processes of SMP wholesale services provided by Telecom Italia.

In particular, Fastweb complained about an excessive number of systems activations requests rejected by Open Access with the following reasons:

- i) “Customer KO”, due to unavailability of the end user and
- ii) “Network KO”, due to unavailability of network resources.

At the same time Fastweb complained also with reference to the co-location service for alleged shortage of spaces in some exchanges.

The Supervisory Board decided then to start a number of verification activities to investigate the grounds; it also allowed Telecom Italia additional time to provide supplementary information and convened a hearing for the companies involved. On September 23, 2009, with the Resolution n. 17/2009, the Supervisory Board closed of the proceedings:

- not finding any breach of the Undertakings approved with AGCom Resolution n. 718/08/CONS, and
- welcoming the decision of Telecom Italia, following a solicitation by the Board itself, to extend nationwide starting from the end of September 2009, an information technology tool (so-called SWAP system) anticipating the main capabilities of the New Delivery Process customer contact policy for all the interested operators, subject to their willingness to adapt the relevant operative processes.

The SWAP System

This system was introduced to ease the exchange of information between Open Access and OLOs in order to prevent job orders cancellation due to customer issues.

Thanks to this exchange of information, OLOs can contact the customer again to verify the reasons that did not permit the conclusion of the job as expected. Following the verification, the OLO can reconfirm the system activation request or permanently cancel the job order.

S02/09 - Fastweb-Wind / Exchange of information between the internal departments of Telecom Italia on migration procedures.

On July 15th, 2009, Fastweb S.p.A. and Wind Telecomunicazioni S.p.A. submitted a complaint to the Supervisory Board about the alleged breach by Telecom Italia of the content of Undertakings Group No. 2 related to setting up a new incentive system and a Code of Practice for the personnel of Open Access and the Wholesale department.

The complaint reported the practices of Telecom Italia considered against the regulation in force concerning the principle of internal/external equality of treatment, originating from the interactions between two distinct departments of Telecom Italia, both for defensive (filing an appeal against Fastweb pursuant to Art. 700 of the Italian Code of Civil Procedure) and commercial purposes (retention and winback commercial practices targeted at Fastweb customers). In particular they contested the exchange of information as regards:

- migration procedures of customers from one operator to another and
- self-generation of the migration code.

The Supervisory Board started a verification activity and asked the companies involved and Telecom Italia for more in-depth information. The verification procedure took a long time due to the complexity of the matter, the numerous hearings required and the number of documents produced.

On October 28th, 2009, the Supervisory Board ordered the closing of the proceedings with Resolution n. 21/2009, pointing out that the conduct of Telecom Italia did not amount to a formal breach of the Undertakings. It has, however, asked Telecom Italia to supplement the Code of Practice and to improve control on some previously implicit bans against diffusion of information and, subject to the establishment of suitable procedures, to make consultation of some customer data available to Telecom Italia also possible for the OLOs for the aims of jurisdictional action and protection.

Responding to the Resolution n. 21/2009, in the month of December 2009 Telecom Italia submitted a preliminary modification of its Code of Practice to the Supervisory Board, in which it made explicit the ban against personnel of the Legal and Regulatory departments to divulge information obtained by the Wholesale department for commercial purposes and at the same time asked for an extension of the terms for implementing a procedure that would allow OLOs to access the data available to the Wholesale department for jurisdictional action and protection.

Specifically, the Supervisory Board considered useful that the new rules improved the Code of Practice, in particular for what concerns more far-reaching reassurances to OLOs on actual internal/external equality of treatment as regards the activities of Telecom Italia Legal and Regulatory departments.

The Supervisory Board has therefore reserved the right to continue its verification activity on the content of the Code of Practice and on the mechanisms for OLOs to access the information available to National Wholesale Services for the above-mentioned aims.

The Migration Code

It is an alphanumeric code that should be given by the donating operator to its customers that asked to migrate to another operator. That code was supposed to be sent to the recipient operator in order to complete the migration process from one operator to another. In the case in question, as the code had not been promptly provided by the donating operator, Telecom Italia (the recipient operator) generated it by itself, which the complaining parties considered an unlawful practice.

The latter believed that in order to generate the code, Telecom Italia obtained confidential information in possession of the Wholesale department. The context which led to the complaint has been overcome by a provision which today requires that the code is reported on the user's bill.

2. REPORTS AND COMPLAINTS NOT WITHIN THE COMPETENCE OF THE SUPERVISORY BOARD

In the period from April to December 2009, the Supervisory Office received 182 complaints about faults and problems related to Telecom Italia and OLOs customers, not concerning the Supervisory Board activity.

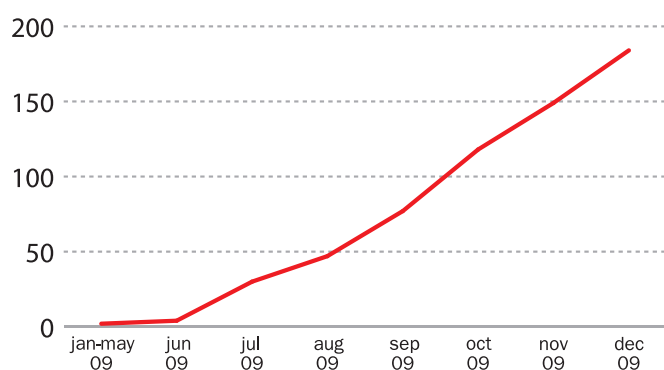


Figure 1 - Complaints received by the Supervisory Board

Because of the significant number of reports received, since May 2009 the Supervisory Office implemented appropriate procedural and information technology instruments that allowed for handling the paperwork, in compliance with the regulation in force as regards personal data protection.

According to the Rules of the Supervisory Board, all of the above-mentioned complaints have been sent by the Supervisory Office to the concerned internal departments of Telecom Italia and a timely response has been given to the complaining customers.

6 | Relations with Institutions and Operators

The Supervisory Board has started a dialogue and a benchmarking activity with its institutional counterparts in a climate of complete transparency, tuning and true cooperation.

1. NATIONAL RELATIONS

The National Regulatory Authority (AGCom)

The Supervisory Board, according to and in implementation of the principles stated by AGCom Resolution n. 718/08/CONS, and in compliance with its own Regulation, provides AGCom with a constant update about the work done and the determinations taken, concerning the verification process of the proper implementation of the Undertakings by Telecom Italia.

The Board forwards to the NRA all the documentation necessary to describe in detail the initiatives taken to monitor the conduct of Telecom Italia as regards the proper execution of the Undertakings.

Periodic meetings are also held with the competent departments of the Authority.

In this context, on September 23, 2009, the Supervisory Board was heard by AGCom's Board at an *ad hoc* hearing.

On that occasion, the Supervisory Board briefly presented its activities and the interventions made, reported on the main issues dealt with during its first months of activity, and provided some indications about the development of future activities.

A monitoring group, formed within AGCom and tasked with verifying the progress made in the Telecom Italia Undertakings implementation process, has contributed to strengthening the dialogue, already constant and regular, between the Supervisory Board and the NRA.

The Supervisory Board intends to intensify that dialogue, fully respecting and within the limits of its assignment, in order to bring the best contribution possible to the execution of the Undertakings and to act as a stimulus for a more effective implementation of them.

The power of the Authority to exercise its control and sanctioning functions does not change.

Telecom Italia

Relations between the Supervisory Board and Telecom Italia departments are based on a spirit of open confrontation and true cooperation.

The Board believes that, during this first phase, the means and resources made available by Telecom Italia have been adequate for the operations requirements.

The Body has also appreciated the cooperation expressed by the competent departments of Telecom Italia in responding to its requests for information and details and during the inquiry proceedings started upon the complaints of the other licensed operators.

Specifically, the numerous meetings with company representatives enabled the Supervisory Board to obtain important pieces of information, useful for carrying out several supervisory activities.

The continuity of relations with Telecom Italia and the transparency, which has characterised this first year of work, have permitted the Supervisory Board to thoroughly perform not only its role of control body, but also that of “facilitator”, in view of reaching the objectives established by the Undertakings in a better and more effective manner.

The Supervisory Board therefore relies on the continuation of a positive interaction with Telecom Italia, also on the basis of the indications contained in its Resolutions and Recommendations addressed to the Company.

The Other Licensed Operators

The Supervisory Board met several times the other licensed operators both during periodic in-depth meetings and during inquiry procedures.

This has permitted it to obtain important contributions and assessments on the implementation process of the Undertakings.

These meetings allowed to increase the information available to the Supervisory Board with useful cognitive elements for furthering its verification activities, as well as for intervening in some of the more urgent, current and controversial issues from the technical and regulatory standpoint.

The Supervisory Board hopes that it has thereby contributed to the start of a positive implementation course for the Undertakings and the development of a climate of confidence among all the market operators as to the effectiveness of the processes underway.

In this spirit the Supervisory Board intends to continue the consultation process with the alternative operators to promptly respond to the challenges pointed out by them.

2. INTERNATIONAL RELATIONS

The Supervisory Board intends to pursue a transparent and fully cooperative relationship with the European institutions and, in particular, with the competent bodies of the European Commission.

Specifically, during the preparation activities by the European Commission related to the 15th Annual Report on the European Electronic Communications Markets, the Supervisory Board sent a presentation aimed at illustrating its role and competences, as well as the activities carried out during the reference period.

Besides, the Board keeps up regular relations with the British Equality of Access Board for providing each other with information and updates.

On May 25th, 2009, the Chairman of the Supervisory Board, Prof. Giulio Napolitano, met with Himanshu Raja and Jon Furmston, respectively member of the Board, and Director of the Supervisory Office of the Equality of Access Board in London.

Prof. Napolitano informed the representatives of the Equality of Access Board about the establishment of the Italian Supervisory Board on April 1st, 2009.

The meeting allowed for starting regular communication and consultation activity between their respective offices, with frequent exchanges of opinions and information, which the Supervisory Board intends to develop and intensify during 2010.

7 | Strategic Lines of Intervention for 2010

1. SCOPE AND AIM

The Supervisory Board was established on April 1st, 2009. Its first interventions, focused on internal work organisation, made the Body immediately operating from an organisational and administrative standpoint.

At the same time, the Board has immediately started the supervisory and verification initiatives stated by the Undertakings Group No. 7, by adopting a series of determinations and formulating recommendations addressed to Telecom Italia, and ensuring in a short time actual operativeness of the Board itself even from the functional and institutional viewpoint.

During its second year of activity, the Supervisory Board aims to consolidate that operativeness, confirming on the one hand, its institutional tasks of verification and supervision of the practices of Telecom Italia, and on the other hand, deepening the analysis and examinations on the main issues.

This activities plan for the year 2010 sets out to identify the main intervention activities of the Supervisory Board with reference to the verification of the implementation measures of the Undertakings which shall be adopted by Telecom Italia during the year and the tasks and interventions of organisational and managerial nature foreseen by the Undertakings Group No. 7; the Board will take care of any further activity connected to handling complaints and reports that shall be received during 2010.

The plan takes into account the work method used by the Supervisory Board during 2009 and its role of verification, advice and stimulus of adequate improvement processes by Telecom Italia to actually pursue the objectives of the Undertakings.

Following the completion of some of the main Undertakings, which Telecom Italia must achieve by March 31st, 2010, the Supervisory Board shall conduct an overall assessment of their state of implementation aimed at obtaining the necessary feedback on whether or not the objectives established by the Undertakings have actually been reached and, if necessary, suggesting to Telecom Italia the most suitable interventions as well as the adoption of adaptation measures.

More in general, the supervisory activities on meeting deadlines and terms shall be supported by operations "on field", such as verifications conducted in cooperation with the operators and of the systems involved in quality and development plans of the access network.

One of the priorities will be the consolidation and the improvement of the Code of Practice, from the qualitative point of view, and in order to reach a greater transparency and to contribute to overcome the issues raised during 2009 by the examinations conducted in relation to Proceedings No. S02/09.

A particularly interesting task is the verification of the KPIs referred to in Undertakings Group No. 3, as the number of indicators related to the New Delivery Process will be increased by Telecom Italia. The new certification system which shall be adopted by Telecom Italia should also see the involvement of the Supervisory Office in the verification of the implementation methods of that process and in carrying out direct and indirect sample controls. As regards Undertakings Groups No. 5 and No. 6, data and information concerning exchanges and relevant retail and wholesale services offered respectively to end users and operators shall be examined and processed, in order for the Supervisory Board to make a more in-depth assessment of the transparency of quality and development plans of the fixed access network.

The timing and publication methods of the development plans of the fixed access network by Telecom Italia shall also be evaluated, so as to give instructions and suggestions to facilitate the use of these information by the other operators, wishing to bear the necessary investments for planning (even jointly with Telecom Italia) the expansion of the network infrastructures timely and in the most appropriate ways.

Particular attention shall be paid to checking the results obtained in implementing the plan for reducing pending settlement requests and handling new ones, in order to verify the actual benefits for customers in terms of shortening the time it takes to handle the settlement paperwork.

Considering the innovative experience represented by the Undertakings adopted by Telecom Italia, which introduce new elements even compared to the experience of other countries (such as UK, Australia and New Zealand) an in-depth study of the various co-regulation models adopted shall be done from a legal and regulatory viewpoint; it will highlight the opportunities and the critical issues in relation to the real results obtained in terms of market growth, development of a competitive environment and, ultimately, satisfaction of competing operators and end users.

From the organisational and functional point of view, the publication of the first Annual Report, which shall be presented at a seminar to be attended by the main stakeholders of the Supervisory Board, takes on particular importance; meanwhile the drafting of the quarterly reports shall continue according to the terms and methods referred to in Undertakings Group No. 7.

A revision of the Supervisory Board website has been planned in order to ensure an increased and more transparent use by the operators and anyone who may be interested.

Meetings and exchanges of opinions with the relevant bodies shall continue, primarily the NRA, AGCom, and its internal monitoring group of supervision of the Undertakings, as well as the committees related to the Undertakings, the OTA Italia and the NGN Committee, seeking at the same time to broaden the international institutional activities towards the European Commission and the relationships with similar bodies, such as the Equality of Access Board.

The fruitful relationship established with the operators - that to date has allowed for obtaining useful elements for continuing with the verification activities of the Supervisory Board - shall be strengthened.

From the administrative viewpoint, an effort shall be made to consolidate and, possibly, increase the budget made available to the Supervisory Board by Telecom Italia, according to the Undertakings Group No. 7.

In conclusion, the Supervisory Board shall continue its verification work, paying special attention not only to the formal compliance with the content of the Undertakings, but also to their implementation at best, in order to fully achieve the aims of equal treatment, satisfaction of the other licensed operators and end users, transparency and competition stated in the Undertakings.

In order to specify with a reasonable amount of precision the lines of intervention outlined above, details have been given below on the interventions and actions planned for 2010, including some tables which summarise the main requirements that Telecom Italia must satisfy during 2010 for each Undertaking.

2. LINES OF ACTION

Undertakings Group No. 1

Important events of 2010

- Start of the New Delivery Process

Activities of the Supervisory Board

- Verification of the compliance with the New Delivery Process starting date
- Verification of the compliance with the deadlines and availability of the interfaces for the operator that shall agree to the new rules
- Verification of the compliance with the release dates of the additional features requested and granted to OLOs in the technical workshops concluded in July 2009
- Monitoring of the percentages of network KOs and customer KOs after the start of operation of the New Delivery Process (incidentally it is considered advisable to ask Telecom Italia to submit, on a monthly basis, the reference data - starting from the month of September, and broken down in Telecom Italia Retail data and OLOs data - for all of the main types of services)

Undertakings Group No. 2

Important events of 2010

- Working out a new incentive plan for the personnel of Open Access and Wholesale and adaptation of the Code of Practice

Activities of the Supervisory Board

- Verification and consistency check of the new bonuses and incentives for the management of Open Access and Wholesale departments; monitoring any breaches of the Code of Practice
- Verification of the entry into operation of the new training model for the personnel of Open Access
- Improvement of the Code of Practice as indicated in Resolution n. 21/2009, closing Proceedings n. S02/09
- Monitoring and verification about the actual respect of the principles of the Code of Practice by the personnel of Telecom Italia
- Analysis of the surveys on the operators satisfaction measurement

Undertakings Group No. 3

Important events of 2010

- Operativeness of all KPIs agreed upon at the technical workshops between Telecom Italia and OLOs concluded in July 2009

Activities of the Supervisory Board

- Starting the certification phase of the KPIs. Involvement of the Supervisory Office in the verification process of the implementation procedures of that process and possibly carrying out direct and indirect sample controls
- Verifying any other requests expressed during the year by the OLOs and the Retail departments of Telecom Italia

Undertakings Group No. 4

- | | |
|--|---|
| Important events of 2010 | <ul style="list-style-type: none"> • Operativeness of all KPIs agreed upon at the technical workshops between Telecom Italia and OLOs concluded in July 2009 • Increase of the number of indicators related to the New Delivery Process |
| Activities of the Supervisory Board | <ul style="list-style-type: none"> • Draft of a trend report on all the indicators provided for in the Undertakings Group No. 3 • Possible analysis by the Supervisory Board of the indicators showing results not meeting the targets |

Undertakings Group No. 5

- | | |
|--|--|
| Important events of 2010 | <ul style="list-style-type: none"> • Implementation of a new action plan for the Quality of the Network in 2010 |
| Activities of the Supervisory Board | <ul style="list-style-type: none"> • Analysis of the action plans proposed by Telecom Italia on an ongoing basis with respect to what has been carried out in 2009 • Monitoring and checking the results and progress made in the plans • Monitoring and analysing data and information on individual exchanges, concerning retail and wholesale services provided to end users and operators |

Undertakings Group No. 6

- | | |
|--|--|
| Important events of 2010 | <ul style="list-style-type: none"> • Action plan for the Network Development in 2010 |
| Activities of the Supervisory Board | <ul style="list-style-type: none"> • Verifying the plan actual results compared to the planned values • Monitoring and analysing data and information on individual exchanges concerning retail and wholesale services provided to end users and operators • Monitoring and analysing publication schedules and procedures by Telecom Italia of the development plans of the fixed access network |

Undertakings Group No. 8

- | | |
|--|---|
| Important events of 2010 | <ul style="list-style-type: none"> • Approval by AGCom of the models presented by Telecom Italia in relation to the integration of regulatory accounting and the calculation of transfer charges |
| Activities of the Supervisory Board | <ul style="list-style-type: none"> • Verification on the actual implementation of the new accounting models and their operativeness once approved by AGCom |

Undertakings Group No. 9

- | | |
|--|---|
| Important events of 2010 | <ul style="list-style-type: none">• Approval of reference offers by the NRA; start of the activities and first decisions of the Italian NGN Committee |
| Activities of the Supervisory Board | <ul style="list-style-type: none">• Monitoring Telecom Italia's offer related to the access to passive infrastructures and the sharing of the infrastructures• Monitoring and internal assessment of the activities of the Italian NGN Committee |

Undertakings Group No. 10

- | | |
|--|---|
| Important events of 2010 | <ul style="list-style-type: none">• Start of the activities and preliminary decisions of OTA Italia |
| Activities of the Supervisory Board | <ul style="list-style-type: none">• Monitoring OTA Italia activities• Organising periodic meetings of the Supervisory Board and OTA Italia for comparing the respective experiences and activities |

Undertakings Group No. 11

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| Activities of the Supervisory Board | <ul style="list-style-type: none">• Monitoring and verifying that the personnel of Telecom Italia actually respects the contents of the Undertakings Group |
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Undertakings Group No. 12

- | | |
|--|--|
| Important events of 2010 | <ul style="list-style-type: none">• Sending the Supervisory Board the quarterly reports |
| Activities of the Supervisory Board | <ul style="list-style-type: none">• Monitoring the implementation of the measures established by that Undertakings Group• Monitoring activities started with the action plan worked out by Telecom Italia for reducing the occurrence of unrequested services |

Undertakings Group No. 13

- | | |
|--|--|
| Activities of the Supervisory Board | <ul style="list-style-type: none">• Monitoring and verifying that the personnel of Telecom Italia actually respects the contents of the Undertakings Group |
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Undertakings Group No. 14

Important events of 2010

- Consolidation of the new unified settlements handling procedure and preliminary verifications of the results obtained

Activities of the Supervisory Board

- Monitoring and assessing the results obtained from the implementation of the plan to reduce pending settlement requests and to handle new requests
- Verifying that the joint settlement model is actually implemented at the Chambers of Commerce
- Verification and consistency check of the new bonuses and incentives for ERA managers
- Beginning meetings with National Council of Consumers and Users (CNCU) so as to survey the actual benefit for customers in terms of reduction of the time it takes to handle settlement paperwork

3. CALENDAR OF ACCOMPLISHMENTS FORESEEN BY THE UNDERTAKINGS IN 2010

1) Set up of (i) a new delivery process for SMP Services; (ii) additional operative methods for managing co-location services; (iii) new systems for managing wholesale customers

January	February	March	April	May	June
		March 31st, 2010 Completion of the new delivery process; as regards co-location services: set up of the procedures to follow in case of saturation of resources and the database on available spaces; start of new wholesale customers management systems			

2) Establishment of a new incentive system and a Code of Practice for the personnel of Open Access and the Wholesale department

January	February	March	April	May	June
					June 30th, 2010 Survey on the satisfaction of operators: first session (*)

(*) survey that Telecom Italia voluntarily decided to conduct

3) Set up of a performances monitoring system for SMP services

January	February	March	April	May	June
January 31st, 2010 IT release of KPI 4		March 31st, 2010 IT release of KPI 1 Asymmetric Broadband Delivery System: % of job orders executed within 30 calendar days + KPI 2 POTS Line Service Assurance + KPI 2 Asymmetric and Symmetric Broadband Assurance			June 30th, 2010 IT release of KPI 1 - Network KO/"Coda Unica" + Completion of KPI 2 POTS Line Service Assurance

July	August	September	October	November	December
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Jul	August	September	October	November	December
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December 31st, 2010

Survey on the satisfaction of operators:
second session (*)

(*) survey that Telecom Italia voluntarily decided to conduct

Jul	August	September	October	November	December
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September 30th, 2010

IT release of KPI 1 -
Asymmetric
Broadband Delivery
System: % of job
orders executed on
appointment date
and DAD + KPI 2
Asymmetric and
Symmetric
Broadband Assurance

November 30th, 2010

IT release of KPI 1 -
Asymmetric
Broadband Delivery
System: % of job
orders executed
within 20 calendar
days + Symmetric
Broadband Delivery
System

PARITÀ DI ACCESSO

Organo di Vigilanza

4) Guarantees of transparency of the monitoring system

January	February	March	April	May	June
January 31st, 2010 Submission of December 2009 Monthly Report + Q4 2009 Quarterly Report	February 28th, 2010 Submission of January 2010 Monthly Report + 2009 Annual Report	March 31st, 2010 Submission of February 2010 Monthly Report	April 30th, 2010 Submission of March 2010 Monthly Report + Q1 2010 Quarterly Report	May 31st, 2010 Submission of April 2010 Monthly Report	June 30th, 2010 Submission of May 2010 Monthly Report

5) Guarantees of transparency of the Technical Plans for the Quality of the Fixed Access Network

January	February	March	April	May	June
January 31st, 2010 Q4th 09 Report on the Quality of the Network	February 28th, 2010 2009 Annual Report on the Quality of the Network	March 31st, 2010 Q2nd 10 Planning for the Quality of the Network	April 30th, 2010 Q1st 10 report on the Quality of the Network		June 30th, 2010 Q3rd 10 Planning for the Quality of the Network

6) Guarantees of transparency of the Technical Plans for the Development of the Fixed Access Network

January	February	March	April	May	June
January 31st, 2010 Q4th 09 report on Network Development (BB + NGAN + lotting)	February 28th, 2010 2009 Annual Report on Network Development	March 31st, 2010 Q2nd 10 Planning for Network Development (BB + NGAN + lotting)	April 30th, 2010 Q1st 10 report on Network Development (BB + NGAN + lotting)		June 30th, 2010 Q3rd 10 Planning for Network Development (BB + NGAN + lotting)

7) Setting up of a Supervisory Board

January	February	March	April	May	June
	February 28th, 2010 Quarterly Report of the Supervisory Board - Q4th 2009			May 31st, 2010 Quarterly Report of the Supervisory Board - Q1st 2010	

8) Integration of the regulatory accounting of Telecom Italia and calculation of transfer charges

January	February	March	April	May	June
Within 4 months since the approval of the models by AGCom Implementation and forward to AGCom of the service contracts with specification of the transfer charge and a separate accounting evidence related to Open Access					

July	August	September	October	November	December
July 31st, 2010 Submission of June 2010 Monthly Report + Q2nd 2010 Quarterly Report	August 31st, 2010 Submission of July 2010 Monthly Report	September 30th, 2010 Submission of August 2010 Monthly Report	October 31st, 2010 Submission of September 2010 Monthly Report + Q3rd 2010 Quarterly Report	November 30th, 2010 Submission of October 2010 Monthly Report	December 31st, 2010 Submission of November 2010 Monthly Report

July	August	September	October	November	December
July 31st, 2010 Q2nd 10 I report on the Quality of the Network		September 30th, 2010 Q4th 10 Planning for the Quality of the Network	October 31st, 2010 Q3rd 10 report on the Quality of the Network		December 31st, 2010 Q1st 11 Planning for the Quality of the Network

July	August	September	October	November	December
July 31st, 2010 Q2nd 10 report on Network Development (BB + NGAN + lotting)		September 30th, 2010 Q4th 11 Planning for Network Development (BB + NGAN + lotting)	October 31st, 2010 Q3rd 10 report on Network Development (BB + NGAN + lotting)		December 31st, 2010 Q1st 11 Planning for Network Development (BB + NGAN + lotting)

July	August	September	October	November	December
	August 31st, 2010 Quarterly Report of the Supervisory Board - Q2nd 2010			November 30th, 2010 Quarterly Report of the Supervisory Board - Q3rd 2010	

July	August	September	October	November	December
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9) Measures related to next generation access network

January	February	March	April	May	June
<p>Within 6 months since the publication of AGCom's measure</p> <p>Should AGCom designate Telecom Italia as an operator with SMP and impose obligations to provide at non-discriminatory conditions one or more intermediate access services by means of next generation networks, the Undertakings related to SMP Services shall also apply to these services within 6 months since the publication of the relevant measure by AGCom</p>					

10) Setting up of a disputes resolution committee to solve disputes of technical and operative nature related to network access services

January	February	March	April	May	June
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11) Ban against sales by network field engineers and sales workforce training programmes

January	February	March	April	May	June
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12) Obligation to report activation of unrequested services

January	February	March	April	May	June
<p>January 31st, 2010</p> <p>Survey on activation of unrequested services - Q4th 09 Summary</p>			<p>April 30th, 2010</p> <p>Survey on activation of unrequested services - Q1st 10 Summary</p>		

13) Obligation of notice for deactivation of CPS services

January	February	March	April	May	June
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14) Measures to reduce disputes with customers

January	February	March	April	May	June
<p>January 31st, 2010</p> <p>Half-yearly information on the results obtained with the plan for reducing settlement requests 2nd semester of 2009</p>					

July	August	September	October	November	December
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July	August	September	October	November	December
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July	August	September	October	November	December
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July	August	September	October	November	December
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July 31st, 2010

Survey on activation
of unrequested
services - Q2nd 10
Summary

October 31st, 2010

Survey on activation
of unrequested
services - Q3rd 10
Summary

July	August	September	October	November	December
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July	August	September	October	November	December
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July 31st, 2010

Half-yearly informa-
tion on the results
obtained with the
plan for reducing
settlement requests
1st semester of
2010

8 | Glossary

Glossary

ADSL	ADSL Asymmetric Digital Subscriber Line
AGCM	Autorità Garante della Concorrenza e del Mercato (Italian Antitrust Authority)
AGCOM	Autorità per le Garanzie nelle Comunicazioni (Italian National Regulatory Authority)
AL	Active Line
BT	British Telecom
CNCU	Consiglio Nazionale dei Consumatori e degli Utenti (National Council of Consumers and Users)
Co.Re.Com.	Comitati Regionali per le Comunicazioni (Regional Communications Committee)
CPS	Carrier Pre-Selection
CRM	Customer Relationship Management
CS	Carrier Selection
EDD	Expected Delivery Date
DAD	Desired Appointment Date
DSLAM	Digital Subscriber Line Access Multiplexer
EAB	Equality of Access Board
EA0	Equality of Access Office
EOI	Equivalence of Input
EOO	Equivalence of Output
ERA	Equivalence and Regulatory Affairs
FTTB	Fiber To The Building
FTTH	Fiber To The Home
FTTP	Fiber To The Premises
HU	Housing Unit
IL	Inactive Line
IOG	Independent Oversight Group
IPTV	Internet Protocol Television
ISDN	Integrated Services Digital Network
KPI	Key Performance Indicator
KPO	Key Performance Objective
LLU	Local Loop Unbundling
MBO	Management By Objectives
NDP	New Delivery Process
NGAN	Next Generation Access Network
NGN	Next Generation Network
NWS	National Wholesale Services
OA	Open Access
Ofcom	Office of Communications
OLOs	Other Licensed Operators
OTA	Office of the Telecommunications Adjudicator
POTS	Plain Old Telephone Service
PSTN	Public Switched Telephone Network
PU	Property Unit
PVC	Permanent Virtual Channel
RO	Reference Offer
SA	Shared Access
SB	Supervisory Board
S/HDSL	Single-Pair High-Speed Digital Subscriber Line
SLA	Service Level Agreement
SMP	Significant Market Power
WLR	Wholesale Line Rental