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Executive Summary

The Supervisory Board's Annual Report provides a summary of the board's activities. The goal is to list all actions taken to uphold the principles of non-discrimination and equality of access throughout 2016, especially in light of recent regulations, which have significantly changed the board's role, duties and functions.

On November 5 2015 the Communications Regulatory Authority had, among other things, strengthened its efforts to guarantee non discrimination in favour of Other Licensed Operators, through Resolution no. 623/15/CONS, which closed the Market Analysis for the 2014-2017 period.

Pursuant to said resolution, the Regulatory Authority aimed to bolster the equivalence model, confirming the Supervisory Board's role in monitoring and enforcing the Undertakings contained in Resolution no. 718/08/CONS and, at the same time, widening the scope of the board's actions to include oversight of obligations relating to the broader principle of non-discrimination.

To better establish the autonomy and effectiveness of the Supervisory Board through its governance model, the aforementioned Resolution called upon Telecom Italia to submit a proposal with changes to the Internal Regulations. The proposal, which was to be submitted to the Regulatory Authority, would update the role, functions and organisation of the SB in light of the new regulatory framework, taking into account specific guidelines designed to guarantee the neutrality of its members and sufficient independence for the SB's staff, as well as introducing appropriate measures for the participation of Other Licensed Operators in the Board's activities regarding equality of treatment.

The new Internal Regulations of the Board of Supervisors introduced several changes and went into effect at end of July 2016 (see the section on Governance for more information). Membership in the Board was extended to five members and the Regulatory Authority and Telecom Italia designated two new members, Giovanni Amendola and Fabio Di Marco, as well as confirming previous members, Antonio Sassano, Michele Poro and Marco Lamadini immediately putting the new provision into effect. Later, in October, the Regulatory Authority felt changes needed to be made to Undertakings Group no. 7 contained in Resolution n. 718/08/CONS, to bring the Undertakings up to date with the current regulatory framework and the new Internal Regulations of the Supervisory Board; Resolution no. 451/16/CONS was therefore adopted.

There's no doubt, in light of the information that follows, that 2016 was a very important year for the Supervisory Board as it bolstered its role and enforced equality of treatment thanks to the new powers it was granted and to the significance of the activities delegated to it by the Regulatory Authority, through the new regulatory framework.

The Supervisory Board's scope of action has been significantly extended. The Board is no longer limited to verifying compliance with the Undertakings pursuant to Resolution n. 718/08/CONS, rather the Board's responsibilities now include active surveillance of all aspects pertaining to the principle of non-discrimination. Most importantly, the identity of the Supervisory Board has been clarified. The Board acts to spur and provide support both for the Regulatory Authority and for Telecom Italia given that the latter has undertaken the journey toward the development and later application of the new conditions needed to put non-discrimination obligations into effect, as set forth in Resolution n. 652/16/CONS. A new "strengthened" understanding of the principle of equality of treatment has thus emerged, something the Supervisory Board had long hoped for.

In light of the new provision found in article 15-bis of the Internal Regulation, the Communications Regulatory Authority has requested the Supervisory Board's support for the analysis of measures taken to implement the New Equivalence Model (NEM), especially pertaining to: migration to the new delivery system, changes to the KPI-KPO system regarding equality of treatment, tests for new software releases, analysing the quality of the new NetMap database, and simplifying the reasons for rejections of Work Orders.

On August 30 2016, following the ritual preparations for the inauguration of the Supervisory Board, the SB was established and began to conduct its activities in accordance with the new and strengthened prerogatives conferred upon the Board.

The new direction taken by the SB stems, on the one hand, from the new regulations (described above) that govern the Board of Supervisors following the approval of the new Internal Regulation by the Communications Regulatory Authority and Telecom Italia, and, on the other, of the introduction of the New Equivalence Model (NEM): given that the Supervisory Board has been empowered to ensure that the NEM is implemented correctly.

Besides the main changes already mentioned, the Board's term has also been extended from three years to five years. What's more, a Director has been named for the Supervisory Office, replacing the General Secretary and Head of the SO; a temporary Coadjutor has also been named, and the SB has been entrusted with a broader scope of inquiry, as already mentioned previously.

In light of the new Internal Regulation, the Supervisory Board has recognised the need to bring greater harmony to the provisions that establish the criteria applied when handling complaints and reports, adjusting for the changes brought about by the new provisions found in the Internal Regulation.

For that very reason, over the months that followed, the Supervisory Board approved new procedures for handling its own processes and the Internal Regulation with detailed provisions for the organisation of the Supervisory Office and the tasks assigned to said office.

The new Board's main priority is to ensure that compliance with equality of treatment regulations is monitored at the highest level possible during the transition from the "old" EOO model to the new Equivalence model introduced by Telecom Italia. In order for the Supervisory Board to fulfil said role, in September, the Board itself asked Telecom Italia for a detailed description of the Delivery and Assurance Processes being applied during the transition to the New Model. Specifically, the Board asked for a complete description of all delivery processes relating to ULL, Subloop ULL, WLR and BTS as well as a complete description of all assurance processes pertaining to said services.

The Supervisory Board, in keeping with Planned Activities for 2016 and with Resolution n. 718/08/CONS, initiated a series of new activities that, as in previous years, specifically investigated Telecom Italia's compliance with the Undertakings.

As part of Undertakings Group n. 1, an audit was initiated to check the operation of the so-called "Single Queue" within the New Delivery Process. As part of this activity, which was comparable to audits carried out in previous years, members of the Supervisory Office inspected the application of the aforementioned mechanism in 17 geographic areas, inspecting a total of 1,129 work orders.

In conjunction with said activity, the Supervisory Board opened a new series of investigations, part of the "P01/16" proceedings, looking into management of the Single Queue work order queuing system. Considering the outcome of the 15 and 16 February 2016 audit in Rome, at which time certain procedural issues emerged pertaining to the queuing system, the Board decided to take an in-depth look at the procedure that governs this particular aspect of the delivery process.

As a result of the inspection the Supervisory Board found apparent irregularities in the execution of Undertakings Group n. 1 and on the basis of said irregularities sent a Preliminary Report to Telecom Italia in keeping with article 14 of the Internal Regulation. Over the month of May, the Supervisory Board saw an opportunity to approve a reasoned Decision, asking Telecom Italia to take all suitable action to adequately solve the problem, June 30, 2016 was set as the final deadline for the issue to be solved. After compliance was ascertained by the Office, at its session dated July 7, 2016 the Supervisory Board closed the proceedings, reserving the right to carry out further inspections once corrective action taken by the Company went into effect.

Regarding the closed proceedings for "S02/13" (Fastweb/Wholesale CRM), affected by the same Undertakings Group, the activity continued to analyse the performance of Telecom Italia's Wholesale CRM system using the indicator set by the Supervisory Board, the goal being to rapidly spot any operational issues.

The Supervisory Board received two complaints from the Operator WIND over the course of the year pertaining to the same Undertakings Group. The issues raised were proposals for improving the Contact Policy and instances in which Telecom Italia's *on field* technicians failed to show up for appointments with customers. Based on what was reported, the SB ordered a joint working group to be set up, under the supervision of the Supervisory Office, to solve the problems, the goal being to identify and implement the best technical and operational solutions agreed upon by both parties, these may also be exportable to other Operators.

The creation of these technical roundtables is in compliance with the provision made in the Internal Regulation, and mentioned before, which allows the Supervisory Board to encourage Telecom and complainants to search for joint technical-operational solutions that may solve the possible issues raised.

Regarding the broader issue of failing to show up for appointments with customers, Telecom Italia sent the Board a detailed description of the procedures that govern appointments related to the delivery process, and the Board decided to continue to investigate the issue in the month of September 2016, in preparation for a subsequent decision on the action to be taken to guarantee compliance with the principle of non-discrimination pursuant to the Regulatory Authority's Resolution no. 623/15/CONS.

The Board also continued to verify that Telecom Italia was applying the Contact Policy correctly pursuant to the Supervisory Board's 2015 investigation, which had been triggered by a complaint received from Operator Wind "*S01/15 - Irregularities hampering migration to the New Delivery Process - Implementation of Undertakings Group n. 1 pertaining to the creation of a New Delivery Process for SMP Services*". At the January 19 2016 meeting, the Board verified that the issues responsible for the problem raised by the complainant had been solved and gave a favourable evaluation of the reparative action taken by Telecom Italia regarding said issues, which had resulted in the incorrect reporting of information pertaining to the implementation of the Contact Policy to the OLOs.

Regarding Undertakings Group n. 2, the Supervisory Board, as in previous years, inspected the documentation provided by Telecom Italia pertaining to said Undertakings and, specifically, to the Plan for incentives for managers, staff training and the satisfaction of Operators who purchase SMP services from Telecom Italia.

Regarding Undertakings Groups 3 and 4, the Supervisory Board approved a technical report in February closing surveillance over the basic data used to calculate the indicators set by said Undertakings, on the basis of the specifications related to the process for certifying data, which Telecom Italia had shared with the Supervisory Board on January 24, 2011. No issues or discrepancies were found between the data present in operational databases and the data later extracted from the certified database. This investigation confirmed both that the certification system adopted by Telecom Italia is valid and that the data used to calculate the indicators contained in Undertakings Groups 3 and 4 is reliable for 2015 as well. Nonetheless, due to the re-engineering of the accounting systems (the Opera system and its sources) and the redesigning of the delivery systems, following the introduction of the New Equivalence Model, the Supervisory Board was unable to completely certify the systems that help produce the basic data used when calculating the indicators. The SB will have to wait for the consolidation of the processes and systems affected by the New Equivalence Model before it can certify those systems.

Regarding the same Undertakings Group, the Supervisory Board decided to continue collaborating with the University of Catania on the *Key Performance Objectives* (KPO) for equality of treatment indicators. After having defined and selected the KPOs to be used for monitoring internal/external equality of treatment, the SB felt the calculation parameters used for every KPI measured needed *fine tuning*. At the same time, because of the new route to equivalence undertaken by Telecom Italia at the end of last year, the Supervisory Board decided to look into the possible evolution of the calculation methods used for the paths to equivalence. To that end, with a note dated May 18, 2016 the SB invited Telecom Italia to participate in said activity, continuing the approach taken for P01/14 and selecting the KPOs. Telecom Italia stated that it was open to such a collaboration.

Regarding Undertakings Group n. 4, in March 2016 the Supervisory Board felt the need to ask Telecom Italia for any useful information regarding certain indicators that had highlighted a more favourable treatment of the company's own Retail divisions in January of the same year. Telecom Italia, having received the Supervisory Board's request, sent the requested information in a letter dated April 13, 2016 and offered an explanation for the apparently irregular performance in January.

In this letter, the Company explained the apparent discrepancy in equality of treatment as stemming from a temporary issue with the database, which had required data for January to be recalculated, the presence of so-called "Special Projects", and a different mix of Active and Non Active Lines for Wholesale and Retail. Telecom Italia further pointed out the overall improvement in equality performance over the months that followed the period subject to inspection.

Regarding Undertakings Groups 5 and 6, in keeping with previous years, the Supervisory Board focused the utmost attention on analysing the multi-year and three-year technical plans for the quality and development of the fixed access network, thanks in part to frequent meetings with the Open Access directors.

As with previous years, the Supervisory Board and Communications Regulatory Authority continued to compare notes regarding the topics each had analysed. The meeting between Supervisory Office staff and the Regulatory Authority's Infrastructure and Digital Services Development Office dated May 10, 2016 is particularly worth noting. At the meeting the SO outlined the model it uses to calculate KPOs for equality of treatment indicators. As was stated earlier, the model was developed through a collaboration with the University of Catania.

Dialogue with Telecom Italia also continued without interruption throughout the year, especially regarding the evolution of the New Equivalence Model, and was focused on the company's compliance with the Undertakings adopted in 2008, which have become regulatory obligations.

Continuous dialogue with Other Licensed Operators was equally strategic for the New Board, which immediately took steps to establish such a relationship and to work with OLOs when looking into individual issues that fall within the scope of the Board's enquiries.

Constantly heeding the experience of OLOs is in fact a necessary step, as it helps the Board remain aware of areas where intervention needs to be strengthened. In order to ensure the widest and motivated involvement of the Other Licensed Operators in the investigations by the SB, at the Board Meeting held on August 30, 2016 the Board confirmed the assignment to the Director of the Supervisory Office of the task of preparing a calendar of hearings to collect complaints, assessments, indications and any other element that may be useful on the state of implementation of the Undertakings by Telecom Italia.

Thanks to these ongoing meetings with the Operators, the SB was able to act decisively when investigating issues reported to the Board.



The Supervisory Board addressed the complaints outlined above in keeping with the new role assigned to the Board through the Internal Regulation, which calls upon the Board to promote the joint search for technical-operational solutions between Telecom and the Operators, aiming to solve any issues raised. The SB had, to a lesser extent, taken a similar approach in previous years, with positive results, and the role has now been institutionalised.