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Chairman's Letter

The year we have left behind us was, for Telecom Italia, a year of unswerving concentration on the operational management of the Group, aimed at re-balancing costs and revenues, reinforcing the generation of earnings and reducing indebtedness. This management effort took much energy and required great discipline in the use of resources. However, this did not push our commitment to all the stakeholders into second place. On the contrary, this was further strengthened by its closer integration with the activities of the business, and by the establishment of the Telecom Italia Foundation with regard to socially-purposive interventions.

These pages, as ever, present a thorough and detailed panorama of actions taken in support of sustainability, which encompass the entire company in its many parts.

One example is the progress we are achieving in the environmental sphere. Starting with our own activities. In 2008, the Group's indicator of energy efficiency – which sets the service offered to the customer, expressed in terms of bits transmitted by our networks, against its impact on the environment, measured in terms of total energy consumed – was once again improved, by as much as 35%. The growth in traffic was not the only factor contributing to this result. Also very significant was the overall reduction of electricity consumption, the first in the last four years. This would not have been possible without the continuous work of rationalisation, modernisation and technological innovation of the network infrastructure, and experimentation with new systems of energy production. Optimising consumption, modernising the fleet of company cars and converting the thermal plant have, indeed, reduced the direct and indirect emission of carbon dioxide into the atmosphere by about 20,000 tons.

Indubitably, telecommunications in general, and broadband in particular, can play a very important role in the environmental cause, with significant repercussions too on social front at the national level. Just think of the passage from paper to digital form of communications between the public administration, citizens and businesses, eliminating the distances and the necessity for travel. Think of the benefits inherent in the services of telemedicine, e-learning, telepresence, tele-working and, when travel is unavoidable, infomobility services for traffic management, transport and logistics. Now think of the possibilities of using the sensors and connections within the network for the more efficient control and management of every use of energy resources.

Another sphere of great social importance in which we are working, very often in close collaboration with local public authorities, is that of reducing the digital divide, in order to avoid the creation of new forms of discrimination towards those who find it difficult or impossible to access information technology. This is an issue we are tackling both from the geographical point of view, by extending network and broadband coverage into the more marginal areas, and from the cultural point of view, by promoting a wider awareness of digital technologies among the weakest strata of society.

This year, the Telecom Italia Foundation has become an integral part of the Group's Sustainability strategy. We have entrusted to it the task of reinforcing our commitment to the community, supporting ideas and projects in the fields of education, culture and society, targeted at improving people's quality of life and also contributing, in this way, to the promotion of innovation and modernisation within the country, which is an objective of the whole company.

We are proud to note that the determination with which we pursue this goal led to Telecom Italia's place being confirmed in 2008 in all the main global sustainability indexes, which only include the most deserving companies, selected through a rigorous process of evaluation. A further cause for satisfaction was the recent admission of Tim Participações to the ISE index (Índice de Sustentabilidade Empresarial), managed directly by the San Paolo stock market in Brazil. Another important acknowledgement has been the co-leadership role taken by the Group in the "laboratory" which – as part of the Alliance between the European Commission and companies launched in March, 2006, designed to make Europe a pole of excellence in corporate responsibility – is working to develop the criteria and methodology for the effective communication of non-financial performance. Still in the area of communication and reporting, it should be noted that Telecom Italia was judged by the Carbon Disclosure Project to be the best company in all Italy for the measurement and representation of information regarding the emission of greenhouse gases.

This sheaf of positive assessments represents a further stimulus in pursuing our commitment to sustainability, continuing to disseminate, in all the countries in which we operate, the principles of the Global Compact, the initiative launched by the United Nations in 2000 to promote the protection of the environment, respect for human rights and working conditions, and to fight corruption.

Ahead of us, the foreseeable future will continue to be characterised by the particularly difficult international economic situation. This will put the corporate system under strong pressure, forcing businesses to concentrate on the fundamentals of management to a much greater degree than in the recent past. Those who, like us, see sustainability as going hand in hand with the creation of value, will draw from this renewed motivation, which will certainly make a positive contribution in confronting complex circumstances. This will bring benefits for the company's results, but, first and foremost, it will bring benefits for all those who demand from Telecom Italia that contribution of innovation and modernisation that will be the solid foundation upon which recovery and new prospects for development can be constructed.

Gabriele Galateri di Genola
President





Introduction

For twelve years, the Group has been analysing its own performance with regard to the stakeholders.

For twelve years Telecom Italia Group has been analysing its own performance with regard to those interested parties on whom it depends and who influences by its own activities, that is, the stakeholders: Customers, Supplier, Competitors, Institutions, the Environment, the Community, Human Resources and Shareholders.

The inclusion, as of 2003, in the 'Report on Operations' of information concerning activities that regard stakeholders is confirmation of the Group's willingness to present its financial data along with non-financial information.

References and Governance

In defining and implementing its own Sustainability strategy and programmes, Telecom Italia Group makes reference to the guidelines issued by the main global organisations of guidance and standardisation in Corporate Responsibility.

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

The System of Sustainability Management also takes into account international regulations and the main standards in the area:

- the Recommendations and Communications of the European Commission;
- the OCSE guidelines directed at multi-national enterprises;
- the principles of the international research institute, AccountAbility, on Assurance and on Stakeholder Engagement;
- the ISO 9000 and ISO 14000 certificates for the Quality and Environmental Systems of Management;
- the principles of the Conventions of the International Labour Organisation (ILO) on respecting the fundamental rights of workers;
- the Social AccountAbility 8000 standard (SA8000), aimed at promoting respect for human rights and working conditions by companies and their supply chains.

The Group's Corporate Governance, aligned with the highest national and international standards, is founded on the central role of the Board of Directors and the independent administrators, on the transparency of management decisions, on the effectiveness of the Internal Control System and on the strict regulations on potential conflicts of interest. Within the scope of the Internal Control System is the Organisational Model of Legislative Decree June 8, 2001, no. 231, designed to prevent the commission of specific offences, including corruption, extortion and corporate crimes. More detailed information is contained in the "Annual Report on Corporate Governance."

The Board of Directors' meeting of November 7, 2008, decided to group the monitoring of activities in the field of Sustainability under the oversight of the External Relations Department, thus giving it a supervisory and coordinating role, and by establishing the Telecom Italia Foundation. The Board of Directors also decided to take on responsibility for scrutinising all sustainability activities through the Internal Control and Corporate Governance Committee that will check sustainability activities, including projects managed by the Telecom Italia Foundation to ensure they are consistent with the Group's ethical values.

Charters, Codes and Values

The commitments undertaken by the Group towards its stakeholders are based on a system of Charters and Codes which are available on the www.telecomitalia.it website (Sustainability/Our model/Policies), and on the Group Intranet, which ensures easy access for all employees. The pillar of the system is the Code of Ethics, which is the primary element of the organisational model, and the overall Internal Control System of Telecom Italia Group, founded on the conviction that ethics in the conduct of business is a prerequisite of the success of that business. The Code lays out the goals and guiding principles at the centre of business activities with regard to the main stakeholders with whom the Group interacts. Respecting the Code is a requirement for governing bodies, managers and employees of all the companies of the Group, as well as for collaborators and third parties in business relationships with the Group, within the boundaries of their competences, functions and responsibilities.

The Charters of Services expound the principles of conduct with regard to customers, and the commitments undertaken by the main companies of the Group in terms of the quality of the services offered to customers. The Charters of Services are available on the company websites (www.187.it; www.191.it; www.adsl.alice.it; www.tim.it and www.la7.it).

Alongside the Charter of Services of Telecom Italia S.p.A., the General Conditions of Subscription regulate the contractual relationships for the fixed voice telephony service, published together with the Charters of Services on the websites www.187.it and www.191.it and on the opening pages of telephone directories.

Moreover, in compliance with the Resolutions concerning quality issued by the Italian Communications Authority, objectives set annually for each service are published on the related web sites (fixed and mobile voice telephony, Internet access services and IP-IPTV technology pay-TV services).

The System of Values adopted by Telecom Italia is the benchmark for the conduct of all those who work for the Group, creating a sense of belonging to a single organisation. The various corporate processes and systems for development and rewards, for the assessment and training of staff, are inspired by the Charter of Values, thereby orienting individual attitudes within the whole Group in a common direction.

- **Customer focus**
To consider the customer as the main employer, and customer satisfaction as the core value. To be ready to listen to both internal and external customers' needs, and to take steps to anticipate and respond rapidly to emerging requirements.
- **Taking responsibility**
To participate in the achievement of tangible results and to accept delegation as an opportunity, without referring problems to management that are within the individual's sphere of competence.
- **Innovation**
To ensure the development of innovative solutions and promote new ways to improve the existing processes and systems in order to reinforce the positioning of the company in the market.
- **Proactivity**
To make things happen, rather than reacting to events. To seize and develop any opportunities, even if initially unpromising, that the individual may encounter within their sphere of activity, and to advance proposals and initiatives that may be useful in achieving the goals of the company and the Group.

- **Time management**

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

- **Integration**

To work together with team spirit, minimising disputes and maximising the effectiveness of the exchange of information and professional contributions, working towards a common goal on behalf the company and the Group.

- **Transparency**

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

- **Professional excellence**

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

Other policies adopted by the group, which are available in the Sustainability section of the website, concern:

The social responsibility of the Telecom Italia Group which regulates compliance with labour standards within the Group, in particular child labour, forced labour, health and safety, freedom of association, discrimination, disciplinary procedures, working hours and pay.

Relations with suppliers in Telecom Italia Group's acquisitions process which governs the negotiating ethic of the Group (transparency, the separation of roles, fairness and traceability) and the requirements that Telecom Italia demands of its suppliers in the area of working and environmental standards.

TV self-regulation code aimed at the protection of minors with respect to television services.

The performance analysis and the associated reporting are based on a multi-stakeholder approach.

Reporting and Planning

► Reporting

The performance analysis and the associated reporting of the results are based on a multi-stakeholder approach, and upon around 200 KPI (Key Performance Indicators), defined on the basis on the analysis of the GRI (Global Reporting Initiative) guidelines, the demands of stakeholders and the checklists of the leading rating agencies, with the aim of inclusion in the indexes of sustainability indexes.

The methodology adopted to measure investments in the Community is that defined by the London Benchmarking Group (LBG).

For the purposes of the sustainability report, subsidiary companies included in the area of consolidation have been taken into account, unless otherwise stated (see the “The Environment” chapter), excluding Discontinued operations/Non-current assets held for sale.

The selection of matters to be published in the sustainability report has been made on the basis of the principles of materiality, responsiveness and completeness as defined by AccountAbility, in line with the GRI guidelines: the information reported concerns the relevant impact (in economic/environmental/social terms) of the Group’s activities on stakeholders.

With the integration of Sustainability data within the TI Group Annual Report, begun in the financial year 2003, the Group has anticipated the application of European Directive 51/2003, adopted in Italy under the Legislative Decree of February 2, 2007, no. 32.

The following table lists the chapters/paragraphs and pages which make direct or indirect reference to the principles of the Global Compact and the respective GRI indicators. Regarding the GRI Application Levels, defined by the G3 guidelines, the A+⁽¹⁾ level requirements have been followed.

⁽¹⁾ The attainment of level A+ is subject to confirmation by GRI.

Global Compact Principles	GRI indicators with reference to GC	Chapter/Paragraph referring to GC Principles	Page number
1. Businesses should support and respect the protection of internationally proclaimed human rights.	HR1-7, LA4, LA7-9, LA13, PR1, PR8	References and Governance, Results, Strategy, 2009 Objectives, Stakeholder Involvement, Suppliers, The Environment, The Community, Human Resources	7, 12, 16, 22, 36, 46, 60, 71
2. Businesses should make sure that they are not complicit in human rights abuses.	HR1-7	Hot Topics, Suppliers, Human Resources	21, 36, 71
3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining	HR1-3, HR5, LA4-5	Human Resources	71
4. Businesses should uphold the elimination of all forms of forced and compulsory labour.	HR1-3, HR7	Suppliers, Human Resources	36, 71
5. Businesses should uphold the effective abolition of child labour.	HR1-3, HR6	Suppliers, Human Resources	36, 71
6. Businesses should uphold the elimination of discrimination in respect of employment and occupation.	HR1-4, LA2, LA13	Hot topics, Stakeholder Involvement, Suppliers, Human Resources	21, 22, 36, 71
7. Businesses should support a precautionary approach to environmental challenges.	EC2, EN18, EN26, EN30	Results, 2009 Objectives, Hot topics, Stakeholder Involvement, Suppliers, The Environment	12, 18, 21, 22, 36, 46
8. Businesses should undertake initiatives to promote greater environmental responsibility.	EN1-5, EN8, EN16-17, EN17, EN20, EN22-23, EN26-27, EN30, PR3	Results, 2009 Objectives, Hot topics, Stakeholder Involvement, Suppliers, The Environment	12, 18, 21, 22, 36, 46
9. Businesses should encourage the development and diffusion of environmentally friendly technologies.	EN5-7, EN18, EN26-27, EN30	Hot Topics, The Environment, The Community	21, 46, 60
10. Businesses should work against corruption in all its forms, including extortion and bribery.	S02-4	Charters, Codes and Values, Suppliers, Shareholders	8, 36, 87

► Planning

The Sustainability Plan is based on a procedure that is broken down into four phases:

1. identification of the areas for improvement in sustainability performance;
2. comparison between the areas for improvement and the projects the Group plans to carry out for the purposes of its business, with particular attention to investment projects;
3. definition of targeted actions to be taken in the areas for improvement where no projects have been conducted previously, or those where the planned projects do not have sufficient, positive impact in terms of sustainability;
4. monitoring those areas in need of supervision in order to maintain the performance level attained.

The identification of the improvement goals is based on:

- commitments required by international organisations – such as the UN, ILO, OECD – and regulatory bodies, tailored to the Group through its Code of Ethics and other charters and policies;
- general issues assessed by analysts for the purpose of admission to the sustainability indexes;
- stakeholders' requests (conveyed through associations, the media, direct contacts, etc.);
- benchmarking with peers.

Projects that require relevant investment, presented for approval by the appropriate Committee, are accompanied by an assessment schedule in which their impact, in terms of the Sustainability of the investment, is stated. The Project Managers identify whether the projects for which they are seeking approval have positive, negative or neutral impact in terms of sustainability, regarding certain key areas identified for each stakeholder. These reports are taken into account within the decision-making process that leads to the approval of investments, and they provide a useful summary for assessing the overall impact of the Group's investment choices in terms of sustainability.

Results

A summary of the main initiatives undertaken in 2008 is given below.

- To better assess performance in terms of energy consumption, Telecom Italia has developed an indicator that shows the relationship between the services offered to the customer, simplified as the measurement of bits transmitted, and the company's impact on the environment in terms of energy consumption. The improvement in eco-efficiency compared to 2007, measured by these indicators, is approximately 35%. Further information can be found in chapter The Environment/Energy.
- The numerous initiatives to optimise the use of electricity brought an overall reduction in consumption of 1.08% compared to the previous year. The improvement in the mix of electricity provision (a reduction in the acquisition from traditional sources, an increase in the acquisition from renewable sources and in-house electricity production through co-generation), the modernisation of heating plant and the company car fleet, paved the way for a reduction in emissions of carbon dioxide of 1.39% compared to 2007. Further information can be found in chapter The Environment/Energy and Atmospheric Emissions.
- In the 2008 edition of the Carbon Disclosure Project (CDP), Telecom Italia was listed as the best Italian company, among those included in the "Global 500" index, for the communication of data related to climate change. CDP is an international initiative, now in its sixth year, which provides instructions on how to measure and represent greenhouse gas emissions, encouraging companies to focus on risk management and the emerging opportunities in the field of climate change. Further information can be found in chapter The Environment/Climate change.
- Telecom Italia is one of the top ten companies of the "S&P Mib40" index in the Accountability Rating 2008, developed by AccountAbility and other partners in order to measure the Sustainability performance of companies. The assessment is based on four fundamental subject areas: integration between business strategy and non-financial objectives, governance and management systems, stakeholder involvement, tangible outcomes including actions in the area of sustainability (operational performance).
- Meetings with SRI (Socially Responsible Investing) investors have continued in 2008. These are operators who, in their choice of investments, favour those companies that pay particular attention to ethical, social and environmental issues, without detriment to the economic-financial performance. A special road show dedicated to SRI investors was held in two different European markets (Frankfurt and Paris), organised by a joint team including the Investor Relations and Group Sustainability departments. Investors expressed their general appreciation of the Group's Sustainability model and made some suggestions for future developments.
- Within the context of the Alliance between the European Commission and companies, launched on March 22, 2006 with the aim of making Europe a pole of excellence in CSR, various "laboratories" have been set up, that are working groups which bring companies and stakeholder representatives together, with the support of the European Commission. The objective of these laboratories is to explore and develop shared, operational solutions that permit measurable progress in the Alliance's priority areas, among which is an improvement in the quality of the reporting processes. In this framework, the "Sustainability and non-financial performance assessment" laboratory, of which Telecom Italia is co-leader, was established, with the aim of defining an advanced reporting model for non-financial performance to meet the needs expressed by investors and other stakeholders. To encourage a dialogue on the subject, a wide-ranging consultation process was begun through a cycle of meetings (focus groups) in Italy (Rome and Milan) and abroad (Frankfurt, Paris, Stockholm and Utrecht) which involved companies, investors, academics, representatives of the European Commission and stakeholders. In furtherance of the consultation process, an Internet site (www.investorvalue.org) has been launched, where it is possible to express an opinion on the preliminary results from the laboratory, which were presented on December 4, 2008, in Brussels, in the presence of representatives from the Institutions, academia, the business world and NGOs. Against that backdrop, the workshop got the explicit appreciation of the Vice President of the European Commission, Günter Verheugen.

In the following table, the results achieved in the year 2008 are given in comparison with the goals set out on 12/31/2007.

Area	Indicator ⁽⁴⁾	Unit of Measurement	Target 2008	Final balance 2008	Target Status 2008
CUSTOMERS	Punctuality of appointments for visits by technicians to customers' premises	%	98	96.5	▼
HUMAN RESOURCES	Employee satisfaction ⁽²⁾ measured by the questionnaire, "Group Photo"	Average level of satisfaction	≥ 6.21	6.35	▲
HUMAN RESOURCES	Training – Italian companies ⁽³⁾	Training hours per head ⁽⁴⁾	30.5	32.7	▲
HUMAN RESOURCES	Training – Italian companies ⁽³⁾ : coverage (percentage of people who have taken part in at least one training exercise)	%	85	71.5	▼
THE ENVIRONMENT	Eco-efficiency indicator ⁽⁵⁾	bit/Joule	1,130	1,177	▲
THE ENVIRONMENT	Energy saving from low-consumption lighting system (10 sites)	kWh	3,000,000	480,000	▼
THE ENVIRONMENT	Energy saving by optimizing the electricity yield of 50 sub-stations through power factor correction ⁽⁶⁾	kvar/h	1,950,000	11,019,600	▲
THE ENVIRONMENT	Number of cells in UMTS Radio Stations in which a second carrier has been installed ⁽⁷⁾	Number of cells	600	2,837	▲
THE ENVIRONMENT	SAR Qualification ⁽⁸⁾ - Italy	%	100	100	▲
THE ENVIRONMENT	SAR Qualification ⁽⁸⁾ - Brazil	%	25	25	▲
THE ENVIRONMENT	SAR Qualification ⁽⁸⁾ - Bolivia	%	40	- ⁽⁹⁾	
THE ENVIRONMENT	Other corporate offices with differentiated waste	Number of offices	100	123	▲
THE ENVIRONMENT	Reduction of paper consumption	%	3	7	▲
THE ENVIRONMENT	Purchased recycled paper ⁽¹⁰⁾	%	60	53.7	▼
THE ENVIRONMENT	Conversion of 15 diesel-fired boilers with new generators/heat pumps ⁽¹¹⁾	Tons of CO ₂ not emitted	200	200	▲
THE ENVIRONMENT	Substitution of Euro3 vehicles with Euro4 vehicles ⁽¹²⁾	Tons of CO ₂ not emitted	2,700	2,986	▲
SUPPLIERS	Increase of audits on suppliers regarding Ethics and Sustainability	%	10	12	▲
DIGITAL DIVIDE	ADSL Coverage ⁽¹³⁾	%	96	95.8	►
DIGITAL DIVIDE	IPTV Coverage ⁽¹³⁾	%	54	53.8	►
DIGITAL DIVIDE	UMTS Coverage ⁽¹⁴⁾	%	81	80.7	►
DIGITAL DIVIDE	HSDPA Coverage ⁽¹⁴⁾	%	81	80.7	►

Target status : ▲ achieved; ► partially achieved; ▼ not achieved.

⁽¹⁾ Unless otherwise stated, targets refer to the activities of Telecom Italia S.p.A.

⁽²⁾ The target was defined for 2007 and the results made official during 2008. The data is calculated on a scale of 1 to 10.

⁽³⁾ Italian companies: Telecom Italia S.p.A., BU Media, BU Olivetti, Elettra S.p.A., TI Sparkle, Telecontact Centre S.p.A., Path.Net S.p.A., Loquendo S.p.A., Matrix S.p.A.

⁽⁴⁾ The data includes training in the classroom, on line and on the job.

⁽⁵⁾ Further information on the indicator can be found in The Environment/Energy.

⁽⁶⁾ The power factor variation of the medium- and low-tension transformer sub-stations consists in the insertion of a device that, to the equivalent of active power used, allows the reduction of the losses in the transport network and thereby optimizes consumption.

⁽⁷⁾ In high traffic conditions, using two radiofrequency carriers rather than one, the total power emitted by the station is reduced. Since the target fixed for 600 cells was exceeded in the first quarter of 2008, the target has been extended to 2,500 new cells with second UMTS carrier.

⁽⁸⁾ The percentage is calculated for the most popular and technologically innovative cellphone handsets. SAR: Specific Absorption Rate.

⁽⁹⁾ The Entel Bolivia company, from April 1st, 2008, has been outside the Group's scope of consolidation.

⁽¹⁰⁾ Measured with respect to the total amount of paper purchased for office use.

⁽¹¹⁾ New plant is mainly fuelled by gas.

⁽¹²⁾ A reduction of around 30% in CO₂ emissions is obtained by using Euro4 vehicles rather than Euro3 vehicles.

⁽¹³⁾ The percentage refers to fixed telephone lines.

⁽¹⁴⁾ The percentage refers to the residential population.

Placement in the indexes

The Sustainability indexes are stock indexes in which securities are selected not only on the basis of economic-financial parameters but also in the light of social and environmental criteria. The selection process is carried out by specialised rating agencies that assess companies on the basis of publicly available information and questionnaires, taking account of opinions expressed by the media and stakeholders. The selection process is extremely rigorous and only companies deemed worthy are given a place in the indexes.

Inclusion in these indexes is of strategic importance to companies, both for the positive repercussions for their reputation and for the fact that, in addition to the pension funds and ethical funds, there is an every increasing number of “traditional” investors who favour sustainability companies, especially if they are included in certain indexes, considering them to be less risky and more promising in the medium to long term. Taking part in the process of evaluation is, moreover, a timely moment for reflection within the company on the results achieved, and the suggestions of the rating agencies at the end of the process often prove to be useful in planning improvement actions in the future.

Telecom Italia has been included in both categories in the Dow Jones Sustainability indexes:

- Dow Jones Sustainability World Indexes (DJSI World), which include 320 leading Sustainability companies at the worldwide level;
- Dow Jones STOXX Sustainability Indexes (DJSI STOXX), which include 162 leading Sustainability companies at the European level.

Telecom Italia has been included in all the relevant indexes (benchmark and tradable) of the Financial Times Stock Exchange for Good (FTSE4Good):

- FTSE4Good Global (752 companies), of which the top 100 companies in terms of capitalisation make up the FTSE4Good Global 100 - tradable index;
- FTSE4Good Europe (314 companies), of which the top 50 companies in terms of capitalisation make up the FTSE4Good Global 50 - tradable index;
- FTSE4Good Environmental Leaders Europe, which include 40 listings selected from the FTSE4Good Europe on the basis of results achieved in matters of environmental protection.

Telecom Italia is also included in the following indexes:

- Ethibel Sustainability Indexes (ESI):
 - Excellence Europe, comprising 197 listings;
 - Excellence Global, comprising 169 listings;
 - Pioneer Global, comprising 186 listings.
- Advanced Sustainable Performance Index (ASPI) Eurozone, made up of 120 companies;
- KLD Sustainability Indexes:
 - Global, comprising 664 listings;
 - Global ex US, comprising 476 listings;
 - Europe, comprising 223 listings
 - Europe Asia Pacific, comprising 197 listings.
- E.Capital Partners Indexes (ECPI):
 - Ethical Global, comprising 300 listings, with respective tradable index including 100 components;
 - Ethical Euro, comprising 150 listings, with respective tradable index including 100 components;
 - Ethical EMU, comprising 150 listings;
 - ECPI Global TOP 30;
- Axia
 - Ethical, comprising 40 listings;
 - Euro Ethical, comprising 40 listings;
 - CSR, comprising 30 listings.

Tim Participações, the stock market quoted holding of Tim Brasil Group, has been included in the ISE (Índice de Sustentabilidade Empresarial) index, run by Bovespa (the San Paolo stock ex-

change) together with the Brazilian Environment Ministry, UNEP and other financial Sustainability organisations. The index is composed of the listings of 30 companies that have obtained the highest scores in terms of Sustainability, selected on the basis of a questionnaire submitted to the 150 most traded companies of the Bovespa.

Economic value generated and distributed

Some of Telecom Italia Group's main economic, assets and financial data are reported below.

Telecom Italia Group – main consolidated operating and financial data

(million euros)	2008	2007
Revenues	30,158	31,013
EBITDA	11,367	11,668
EBIT	5,463	5,955
Profit for the year	2,215	2,455
Total equity	26,856	26,985
- attributable to the equity holders of the Parent	26,126	25,922
- attributable to the Minority Interest	730	1,063
Net financial debt	34,039	35,701
Investments:		
- Industrial	5,365	5,370
- Financial	6	637
Headcount at year-end	77,825	82,069

The economic value generated and distributed to stakeholders⁽¹⁾ follows. Since 2008, the method of presentation recommended by the Global Reporting Initiative (GRI) has been adopted, with appropriate adaptation. Data regarding the previous financial year have been recalculated for comparison purposes.

(million euros)	2008	2007
Direct economic value generated		
a) Revenues and other income	30,514	31,419
b) Interest payable and dividends paid	329	295
c) Capital gains (capital losses) from disposals of non-current activities	35	5
d) Direct economic value generated (a+b+c)	30,878	31,719
Economic value distributed		
e) Operating costs	14,508	15,513
f) Employee costs	4,220	3,822
g) Shareholders and providers of capital	4,009	5,259
h) Taxes and duties	2,126	1,164
i) Economic value distributed (e+f+g+h)	24,863	25,758
Economic value retained (d-i)	6,015	5,961

(million euros)	2008	2007
Wages and salaries	2,677	2,651
Social security costs	958	932
Provisions for employees' severance and retirement	71	71
Other expenses	514	168
Employee costs	4,220	3,822

⁽¹⁾ The value distributed to the stakeholder, The Community, is not shown in the table but can be found in the relevant chapter.

(million euros)	2008	2007
Acquisition of external goods and services	13,876	14,255
Other operating costs ^(*)	1,277	1,815
Change in inventories	(114)	(11)
Internally generated assets	(531)	(546)
Operating costs	14,508	15,513

^(*) Mainly consists of devaluations and expenses connect to the management of non-financial credits of 744 million euros (951 million euros in 2007) and contributions and fees for TLC activities of 315 million euros (283 million euros in 2007), net of "Other taxes and duties" of 419 million euros (416 million euros in 2007) included in the item "Taxes and duties."

(million euros)	2008	2007
Dividends distributed	1,668	2,840
Interest payable	2,341	2,419
Shareholders and providers of capital	4,009	5,259

(million euros)	2008	2007
Income taxes	1,707	748
Indirect taxes and duties	419	416
Taxes and duties	2,126	1,164
regarding Italian activities	1,780	944
regarding activities abroad	346	220

Strategy

Sustainability strategy for 2009-2011

The Group acts out of the conviction that business activities should be carried out taking into account the expectations of the stakeholders, in line with the principles established by the internationally recognised standards to which the Group refers (Introduction/References and Governance). The business must be oriented towards the pursuit of financial results without losing sight of the environmental and social context in which it operates.

The Sustainability strategy for the three years 2009-2011 is founded on:

- attention to quality of the service, which is monitored constantly by the responsible departments (Customers/Customer Satisfaction);
- attention to energy efficiency and the development of solutions aimed at reducing environmental impact (The Environment/Energy);
- commitment in support of the communities in which the Group operates, promoting ideas and projects aimed at improving people's quality of life through the Telecom Italia Foundation (The Community);
- integration of Sustainability data within the Group Annual Report, in confirmation of the Group's intention to present its financial performance jointly with non-financial information (Introduction/Results);
- evaluation of the impact in terms of Sustainability of the business projects presented for approval by the Group's Investment Committee, through an assessment schedule filled by the relevant project manager (Introduction/Reporting and Planning);
- the involvement of the stakeholders in the company activities (Strategy/Stakeholder Involvement);
- development of the reporting in order to achieve greater adherence to the guidelines of the Global Reporting Initiative (GRI);
- the definition of quantitative objectives in line with the most important issues of Sustainability (Introduction/Objectives 2009);

- integration of sustainability and innovation: a specific section is dedicated to matters of business responsibility within the technological plan, the document in which the company defines its strategy in terms of the evolution of the transmission network;
- confirmation of the international commitments in the area of sustainability, including membership of the Global Compact, and support for the Alliance of March, 2006, with the European Commission (Introduction/Results).

The strategy defined for the individual stakeholders is reported at the beginning of the dedicated chapters.

To ensure aspects concerning sustainability receive appropriate consideration in decisions by the Group's management, objectives regarding the system of variable remuneration have been defined and are reproduced for stakeholders in the following table.

Stakeholder	Target for incentive
Customers	- Customer Satisfaction - Quality of the service delivered
Human Resources	- Company staff attitude surveys - Health and Safety of employees - Programmes for training and professional growth - Welfare and wellbeing activities for employees
The Environment	- Consumption of raw materials, energy and gas - Emissions
Market and Institutions	- Compliance with laws, regulations and codes - Quality and timeliness of company information
The Community	- Organisation of cultural events - Quality of initiatives/projects for the Community

2009 Objectives

Telecom Italia S.p.A.

Area	Indicator	Unit of measurement	Year end 2008	Target 2009
THE COMMUNITY	Telecom Italia Foundation – Forecast financial commitment in relation to the Group's EBITDA	%	(1)	0.05
HUMAN RESOURCES - TRAINING	Training in Health and Safety	Training hours	87,141	90,000
HUMAN RESOURCES - TRAINING	Training – Italian companies ⁽²⁾	Training hours per head ⁽³⁾	32.7	33
HUMAN RESOURCES - TRAINING	Training – coverage of Italian companies (number of people who have taken part in at least one training exercise out of the total population)	%	71.5	71.5
THE ENVIRONMENT – ECO-EFFICIENCY	Eco-efficiency indicator ⁽⁴⁾	bit/Joule	1,177	1,410
THE ENVIRONMENT – ELECTROMAGNETISM	SAR qualification ⁽⁵⁾	%	100	100
THE ENVIRONMENT – ELECTROMAGNETISM	Number of UMTS Radio Station cells with second carrier installed ⁽⁶⁾	Number of cells	2,837	2,500
THE ENVIRONMENT – NATURAL RESOURCES	FSC certified paper purchase for office use ⁽⁷⁾	%	0	90
THE ENVIRONMENT – NATURAL RESOURCES	Used paper sent for recycling	Tons	10,835	13,540
THE ENVIRONMENT – ATMOSPHERIC IMPACT	Reduction of CO ₂ emissions from the substitution of diesel boilers with plant causing less impact ⁽⁸⁾	Tons	200	200
THE ENVIRONMENT – ATMOSPHERIC IMPACT	Reduction of quantity of ozone depleting gases used in air conditioning equipment and refrigerating systems	kg	4,000	6,400
THE ENVIRONMENT – ATMOSPHERIC IMPACT	Reduction of CO ₂ emissions from the substitution of Euro3 vehicles with Euro4 vehicles ⁽⁹⁾	Tons	2,986	1,630
CUSTOMERS - DIGITAL INCLUSION	ADSL coverage ⁽¹⁰⁾	%	95.8	96.5
CUSTOMERS - DIGITAL INCLUSION	IPTV coverage ⁽¹⁰⁾	%	53.8	54.8
CUSTOMERS - DIGITAL INCLUSION	UMTS and HSDPA coverage ⁽¹¹⁾	%	80.7	82.4

⁽¹⁾ The Telecom Italia Foundation was constituted in 2008 but became operational in 2009.

⁽²⁾ The data includes all the companies of the Group in Italy.

⁽³⁾ The data includes training in the classroom, on line and on the job.

⁽⁴⁾ Further information on the eco-efficiency can be found in The Environment/Energy.

⁽⁵⁾ This regards the percentage of cellphones that have undergone SAR (Specific Absorption Rate) classification. The percentage is calculated on the most popular and innovative models of cellphone handsets.

⁽⁶⁾ In high traffic conditions, using two radiofrequency carriers rather than one, the total power emitted by the station is reduced.

⁽⁷⁾ Measured against the total paper purchased for office use. FSC = Forest Stewardship Council.

⁽⁸⁾ Most new plant is fuelled by gas.

⁽⁹⁾ The use of Euro4 vehicles produces a reduction of around 30% of the CO₂ emitted compared to Euro3 vehicles. The objective has been calculated on the basis of the emissions of models of vehicles substituted.

⁽¹⁰⁾ The percentage refers to fixed telephone lines.

⁽¹¹⁾ The percentage refers to the residential population.

The qualitative objectives regarding Suppliers are contained in the appropriate chapter.

Telecom Italia S.p.A. - Customers

Area	Indicator ^(*)	Unit of measurement	Target 2009
CUSTOMERS - MOBILE	Activation time for voice service – Prepaid service – Percentage of valid orders completed within the maximum terms provided by contract	%	97
CUSTOMERS - MOBILE	Activation time for voice service – Post-paid – Percentage of valid orders completed within the maximum terms provided by contract	%	97
CUSTOMERS - MOBILE	Customer assistance services – Average time of response by operators to incoming calls	Seconds	40
CUSTOMERS - MOBILE	Complaints about charges – Ratio between the number of complaints about invoice charges received in the survey period and the number of invoices issued in the same period (post-paid service)	%	1.8
CUSTOMERS - MOBILE	Complaints about charges – Ratio between the number of complaints about pre-paid cards received in the survey period and the average number of SIM/USIM active in the same period (pre-paid service)	%	5
CUSTOMERS - INTERNET	Activation time for broadband access – Percentage of valid orders completed within the date agreed with the customer (active telephone line)	%	90
CUSTOMERS - INTERNET	Activation time for broadband access – Average time of supply (active telephone lines)	Days	11
CUSTOMERS - INTERNET	Malfunctions in broadband internet access services – Average time of repairs	Hours	34
CUSTOMERS - INTERNET	Customer assistance services – Average time of response by operators to incoming calls	Seconds	105
CUSTOMERS - INTERNET	Disputed charges – Ratio between the number of complaints about invoice charges relating to all Internet access services (received in the survey period) and the total number of invoices issued in the same period	%	1.5
CUSTOMERS – IPTV	Activation time for the IPTV service – Percentage of valid orders completed within the date agreed with the customer	%	78
CUSTOMERS – IPTV	Customer assistance response times – Average time of response by operators to incoming calls	Seconds	105
CUSTOMERS – IPTV	Disputed invoices – Ratio between the number of complaints about invoice charges related to IPTV service (received in the survey period) and the number of invoices containing charges related to the same service (issued in the same survey period)	%	1.6
CUSTOMERS – IPTV	Availability of the IPTV service – Average unavailability of the service	hours/year	50

^(*) The complete list of Telecom Italia's quality objectives laid down for 2009 is available on the Group's Internet site on which also the outcomes for 2008 will be published.

TIM Brasil

Area	Indicator	Unit of measurement	Year end 2008	Target 2009
HUMAN RESOURCES	Employee satisfaction measured by the questionnaire "Group Photo" ⁽¹⁾	Average level of satisfaction	7.36	7.5
HUMAN RESOURCES	Reduction in staff turn-over	% (monthly)	2.8	2.2
HUMAN RESOURCES	Reduction of the absenteeism rate	%	3.4	3.2
HUMAN RESOURCES	Training (number of total hours: in class + on line + at work)	Hours of training	732,815	715,000
HUMAN RESOURCES	Training – Coverage (number of people who have taken part in at least one training exercise out of the total population)	%	95.2	95.2
HUMAN RESOURCES	Training – Sustainability (number of managers who have taken part in at least one training exercise on the subject of Sustainability out of the total population)	%	1	47
THE ENVIRONMENT	Reduction in the total paper purchased (for office use only)	%	0	2.1
THE ENVIRONMENT	Ratio between recycled waste and the total waste generated by offices	%	41	43
THE ENVIRONMENT	Cellphones, batteries and accessories collected and sent for recycling	Tons	10	11
THE ENVIRONMENT	SAR qualification - Brazil ⁽²⁾	%	25	25
SUPPLIERS	Percentage of the main suppliers evaluated with Sustainability criteria	%	0	30

⁽¹⁾ The data is calculated on a scale of 1 to 10.

⁽²⁾ This is the percentage of cellphones that have undergone SAR (Specific Absorption Rate) qualification. The percentage is calculated on the most popular and innovative models of cellphone handsets.

Hot Topics

Sustainability concerns all the company's processes but certain matter are of particular importance and are consequently given special attention in implementing the model of Corporate Responsibility defined by the company. These are the "hot topics" of Sustainability which have been identified by Telecom Italia Group on the basis of:

- requests made by the Sustainability rating agencies for admission to the indexes they manage, through questionnaire assessing the Group's performance;
- requests from investors during the dedicated road shows or one-to-one contacts;
- analysis of the media and reports published by the specialist agencies;
- benchmarking of Sustainability activities carried out by other companies, in Italy and abroad.

Subject	Stakeholder	Telecom Italia's commitment	Reference
Customer Care	Customers, Human Resources	Attention to the needs of the customers and the improvement to the level of their satisfaction are among the principal objectives of Telecom Italia and are the subject of numerous projects and initiatives.	Customers/Focus on Customers/Customer Satisfaction
Digital Divide	Customers, Institutions, The Community	The dissemination of telecommunications technologies can create social and geographical discrimination. The risk of exclusion is high above all for certain population bands, including the elderly, the sick and disabled. Telecom Italia has undertaken numerous initiatives to ensure the wide availability of the new technologies.	Customers/Digital Divide, The Community/Main activities 2008
Radio Base Stations and electromagnetism	Customers, Institutions, The Environment, The Community	Telecom Italia uses technological solutions that allow the optimization of electromagnetic emissions, and adopts co-sharing solutions with other operators.	The Environment/ Electromagnetic and noise emissions
Energy and climate change	Customers, Supplier, Institutions, The Environment, The Community	The Group undertakes to reduce its emissions through energy saving, recourse to alternative energy sources and promoting the dematerialisation of goods and services.	The Environment/Climate change
Supply chain and product responsibility	Suppliers, The Environment, The Community	With the globalisation of the markets and supply, control of the supply chain has become an essential element in the sustainability of businesses. The Group is taking a series of actions aimed at protecting the environment and working standards and promoting the principles of the Life Cycle Assessment checks.	Suppliers/Main initiatives in Sustainability, The Environment/Product responsibility/ Environment Project
Innovation	Customers, Institutions, The Environment, The Community	The competitive context and the evolution of technologies in the ICT sector mean that the capacity to innovate is an important, competitive lever. The new TLC services can contribute to ever greater improvement in the public's quality of life, and in diminishing the environmental impact of human activities.	Customers/Research and innovation in e-security, Experimentation with innovative services - The Community/Research and Development
WEB content	Customers, Institutions	The proliferation of the Internet is a great opportunity but it can also be a source of danger, above all for minors. Telecom Italia has undertaken a series of measures for their protection.	Customers/Research and innovation in e-security, Protection of Minors
Intangibles	All	The accurate representation of the intangibles generated internally assumed a growing importance in the dialogue between companies and investors. Telecom Italia is co-leader of the laboratory evaluating the non-financial performance activated within the context of the Alliance with the European Commission launched in March, 2006.	Introduction/Results

Stakeholder Involvement

The involvement of the stakeholders in the decision-making process of the business forms part of the Sustainability strategy pursued by Telecom Italia and is achieved mainly through the following initiatives:

Stakeholder	Instrument used	Chapter
Customers	Collaboration with consumers' associations, which in some cases has involved directly the top management, is based on meetings designed to guarantee the protection of customers' rights regarding products and services supplied by the Group, and to inform the associations about organisational changes that could impact on customers.	Customers/ Relations with the consumers' associations
	To value and support those who work in the call centres, the "Campus" and "Tuo" projects were launched. Based on the social network concept, the projects are founded on the wide involvement of interested operators.	Customers/ Customer Satisfaction
Suppliers	The first e-community of the main suppliers, presently active just for the firms operating in the network works sector, has been launched, with the aim of improving communication with and among the suppliers, mainly on subjects regarding social and environmental sustainability.	Suppliers/ Main sustainability initiatives
	The second survey into the level of satisfaction with Purchasing Department, and with Telecom Italia in general, has been carried out among the Group's main suppliers. The on line questionnaire, made up of 28 questions, remained active for two weeks, and the analysis involved 688 suppliers with access to the Supplier Portal.	
	From 2006, Telecom Italia Group has participated in the study and strategic direction workgroup into Sustainability and Integrity in Relations with Suppliers (SIRF) which involves some of the most important Italian companies operating in the services and manufacturing sector.	
Competitors	The Group participates in the activities of numerous associations with competitors at the national and international levels.	Competitors/ Organisations and associations
	At the conclusion of the dialogue that was entered into, Telecom Italia assumed precise commitments with regard to AGCOM to improve the effectiveness of the administrative separation, introduced in 2002, between the Wholesale Area, that sells services to other operators, and the Retail Area. These commitments take into consideration the proposals for the integration and modifications put forward by AGCOM, the considerations of consumers' associations and competing operators.	Competitors/ Commitments regarding the access network
	The implementation has continued of the agreement signed between Telecom Italia and Vodafone Italia to share mobile network access sites as regards the passive infrastructure. In 2008, co-siting was in effect in 1,350 sites.	The Environment/ Electromagnetic and noise emissions
Institutions	To reduce the digital divide, numerous agreements have been signed with the Public Administration, among which is the Protocol of Understanding with the Liguria Region and the Letter of Intent with the Umbria Region. They aim at developing broadband through public support for the development in demand of network services.	Customers/ Digital Divide
	In 2008, the activities of supervision and communication to prevent the dissemination of child pornography have been intensified. The companies of the Group have formed a management team to deal with abuse called "Abuse Desks", which collaborates with the competent authorities in identifying and reporting any cases of child pornography on the Group's networks.	Customers/ Protection of Minors
The Environment	Together with the main players in the sector, Telecom Italia has taken part in defining a Code of Conduct, supported by the European Union through the Joint Research Centre (JRC) and ETNO (European Telecommunications Network Operators' Association) for the containment of energy consumption by BroadBand and Data Centre equipment.	The Environment/ Energy

The Community	<p>Many initiatives in support of the Community have been planned and realised in partnership with Institutions and NGOs, in order to direct efforts towards meeting the needs of the Community. Among these were:</p> <ul style="list-style-type: none"> • the “Solidarity Ponies”, an initiative arising out of the collaboration with Social Policies Councils and Volunteer Associations of the towns involved, and aimed at providing free assistance at home to the over 65s; • “Music in schools”, in partnership with the Brazilian government: a programme to promote the social inclusion of socially at-risk children and adolescents through the teaching of music; • “!Sou ligado” (I am connected!), a project born out of the partnership with the non-governmental organisation, Visão Mundial, to improve the economic activities of small and medium businesses through the use of mobile telephones. 	The Community/ Main activities in 2008
Human Resources	<p>In May, 2008, the sixth edition of the survey on staff attitude was undertaken involving all Group personnel in Italy and abroad. On a scale of 1 to 10, satisfaction levels were registered at 6.35 in Italy, 5.8 in Germany and 7.36 in Brazil.</p> <p>The community on the Intranet, created in 2007 and dedicated to the Group’s social solidarity initiatives, has seen an increase in employee participation in every section. Forums have been staged to share and collect suggestions and ideas from employees on subjects such as Service Quality (the “Improvement by small steps” Project) and innovation in products and services (Next Open Innovation). All the participants of Next Open Innovation also forms part of the community of those who try out the most advanced TLC services.</p> <p>From the end of 2006, in partnership with Marketing department, the listening project, “The Lighthouse” was launched to involve employees in putting forward ideas and opinions in subjects of interest to the company, and to try out the Group’s new products and services. So far, the “Lighthouse” club has attracted 2,500 members, taking part in trying out services such as “Alice Messenger”, “Wireless Connection Manager”, “lkids” and “Dynamic TV”.</p>	Human Resources/ Internal communication
Shareholders	<p>The company has organised more than 200 formal meeting with the market in addition to the regular contacts through direct meetings and telephone conversations. One road show was aimed specifically at SRI (Socially Responsible Investing) investors and was staged in two European markets (Paris and Frankfurt.)</p> <p>The financial channel of communication with individual (retail) shareholders is operational through the Shareholders’ Club “TI Alw@ys ON” (www.telecomitaliaclub.it). Launched in 2006, the Club is open to anyone who wishes to receive information on the progress of the shares on the markets and how Group is developing its business. Even those who do not own shares in the Company can, in fact, sign up for basic access to the shareholders’ club and obtain the same free services available to shareholders.</p> <p>Telecom Italia is co-leader of the laboratory evaluating the non-financial performance activated within the context of the Alliance with the European Commission launched on March 22, 2006. To encourage dialogue on the subject, a process of consultation has been launched with companies, investors, representatives of academia and stakeholders through a round of meetings (focus groups) in Italy and abroad. In order to carry out the consultation process, an Internet site (www.investorvalue.org) was launched through which it was possible to express an opinion on the documentation produced by the laboratory up until February 28, 2009.</p>	Shareholders/ Financial communication Shareholders/ Financial communication Introduction/ Results

Further information about the projects shown in the table is available on the Sustainability channel on the Group’s Internet site.





External stakeholders

The excellence of our products and services is based on the care we give to our customers and our willingness to meet their needs.

Customers

► Strategy

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

► Focus on Customers

Some of the main initiatives undertaken by the Group to increase customer satisfaction are listed below.

- The "Evolution" project has the goal of ensuring customers meet with clarity and a definite schedule for the activation of telephone lines and data services. The front-end operator will agree the date and time of visits by technicians to the customer's premises; in the event an appointment has to be changed, due to a request from the customer or technical difficulties, a new date will be fixed, in full agreement with the customer. The project, launched in 2006, has reached its targets concerning telephony services (residential and business customers), and broadband (residential customers). Further developments will allow greater flexibility in the management of appointments, and the further extension of the procedures to certain broadband services ("Alice Business") for business customers in order for the project to encompass all customers.
- The "187.it" portal is an important tool available to Telecom Italia's residential customers. In addition to information about the services, customers may access other options, including:
 - Invoice viewing
Customers may view their accounts for the last six two-month periods on line, receive clarification about all the items in the accounts, send queries to Customer Service and receive replies within 24 hours, obtain a complete list of calls, analyse information about traffic, check on the status of payments, receive an email advising on the availability on line of the last invoice issued, and ask for online billing only quitting paper. Customers who pay their bills by banker's standing order and who, between July 15, 2008, and January 13, 2009, opted for online billing, received an hour of free local calls every six months, and are entered in prize draws.

- Your line
The service allows customers to consult and change on line their personal data, the information displayed in the telephone book, consent to privacy agreements, the address where the bill is sent, barred call numbers, the way which they have chosen for their phone line the bill is sent, the services and the discount packages available.
- Your records
The service makes it possible to follow the progress of requests being processed.
- On line payments
Customers may pay their bills on line at no extra charge.
- A call centre in 9 languages has been established, which distributes information on the list of subscribers, chemists', restaurants, hotels, travel conditions, flights and trains, weather forecasts, the cinema and even about socially useful matters such as residence permits, visas, and searches for accommodation and jobs.
- For micro-business and business customers, the "191.it" website has been enhanced with a Human Digital Assistant (HDA) which helps and guides customers in navigating and solving problems on line.
- For those services that can be accessed through the telephone numbers 187 and 191, the option has been introduced of creating a personal IVR (Interactive Voice Response) code with which it is possible to use all the services, even if the call is made from a fixed telephone number other than the subscriber's own, or from a mobile. The code protects the client's privacy. In addition, customers are offered the option of activating a new service, "TI Alert", which sends a message in the event the level of usage goes over a certain threshold.
- For corporate customers, an integrated fixed line/mobile toll free number has been introduced, 800.191.101, which replaces the old customer care numbers. Using the number, large and medium-to-large companies can get in touch with their dedicated operators. A new multi-channel platform supports email messaging in addition to the telephone assistance.
- Mobile telephone Customer Care has been enhanced with new automatic ("non-human") functionalities, such as the self-diagnosis of problems and email messaging, with special emphasis on the multi-channel aspect, that is, the possibility to make use of such services from a cell phone or a computer. Steps have been taken to improve the technology controlling the efficiency of the call centres, and new initiatives have been launched for the training, development and provision of incentives for personnel in direct contact with customers. Finally, various projects dedicated to the evolution of the platforms which are used in the process leading to customer assistance have been completed.
- Technical Assistance for Alice services
 - Consumer Assistance Portal
The technical assistance portal, "aiuto.alice.it", is constantly updated with the information necessary to allow customers to independently resolve problems that may emerge during the roll-out of new offers or products. The portal is integrated with auto-diagnostic software, "Alice ti Aiuta" (Alice helps you), which guides the customer through the resolution of the problem, or else allows the transfer of information gleaned during the diagnostic phase to a technical assistance operator. A virtual assistant helps the client navigate the portal. In addition, in the course of the year, the option of checking progress on reported faults by customers was made available.
 - Business Assistance Portal
The new assistance portal aimed at Business customers, 'aiutobusiness.alice.it', was launched in October. The site contains information and guides to independently resolving problems connected to broadband services. A virtual assistant is available at the portal.

► Customer Satisfaction

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

The Customer Satisfaction surveys carried out by the company are of two kinds:

- The “reflective” survey is based on the overall, considered perceptions of the customer, and is not therefore connected to a moment in time when contact was made for some specific reason. This method permits the analysis of the causal relationships that determine the customer’s level of satisfaction. This survey, similar to the one used for the ACSI (American Customer Satisfaction Index), yields an indicator which is stable and has a predictive capacity, and that can be used to make comparisons between sectors and countries. This indicator furnishes important suggestions about the levers that can be employed to improve the levels of Customer Satisfaction. This type of survey has been extended to cover all categories of customers, consumer and business;
- The “reactive” survey is conducted immediately after the specific event that is the object of the inquiry (a contact with the Call Centre). Those interviewed are asked to express, with the experience of the call still fresh in their minds, an overall assessment of the service received (overall satisfaction) and an assessment of the individual aspects of the experience (for example, the time of the wait to speak to an operator, courtesy and competence).

The information contained in the following two tables was obtained through the first of the two kinds of surveys listed above and refers to the 2008 progressive weighted average.

	Customer segment	Satisfaction with access service ^(*)	Satisfaction with billing ^(*)
Fixed telephony	Consumer	7.98	7.14
	Business	7.59	6.56

	Customer segment	Satisfaction with network coverage ^(*)	Satisfaction with billing ^(*)
Mobile telephony	Consumer	8.34	7.60
	Business	8.10	6.97

^(*) Average satisfaction on a scale of 1-10, where 1 means “completely unsatisfied” and 10 “completely satisfied”.

The information contained in the following table was obtained through the second of the two kinds of surveys listed above and it refers to the 2008 progressive weighted average.

Customer satisfaction with Customer Care

	Customer segment	Overall satisfaction ^(*)	Courtesy of operator ^(*)	Competence of operator ^(*)
Fixed telephony	Consumer ⁽¹⁾	6.63	8.34	7.67
	Business ⁽²⁾	6.09	8.13	7.23
Mobile telephony	Consumer ⁽³⁾	7.50	8.74	8.16
	Business ⁽⁴⁾	6.49	8.31	7.32

^(*) Average satisfaction on a scale of 1-10, where 1 means “completely unsatisfied” and 10 “completely satisfied”.

⁽¹⁾ Assistance provided by the 187 service for information, commercial and administrative calls, connections/disconnections, purchases, subscriber switches, claims and reminders.

⁽²⁾ Assistance given by the 191 service for information, marketing and administrative calls, connections/disconnections, purchases, subscriber switches, claims and reminders.

⁽³⁾ Assistance given by the 119 Service for information, commercial and administrative calls, changes and claims.

⁽⁴⁾ Assistance given by the Mobile Business Toll Free Number for information, commercial and administrative calls, changes and claims.

In addition to surveys about the fixed and mobile telephone services, particular attention is paid to the satisfaction levels of ADSL customers. Surveys were conducted in 2008 among broadband customers to discover their levels of awareness and their opinions of consumers, the potential for future demand, and any opportunity to introduce innovations and widen the ADSL offer.

Customer satisfaction within the management incentives scheme

Telecom Italia's short-term management incentives scheme provides, among the targets for all those within the scheme, one linked to customer satisfaction. This target is measured through the Customer Satisfaction indices for fixed and mobile telephones, which are weighted averages of the specific, basic indicators for each customer segment, monitored through the above mentioned "reflective" first surveys ("ACSI compliant").

The involvement of the call centre operators

To support and help the people who work on Customer Care processes, two projects based on the concept of the "social network" were conducted, which were a real help, both in the rapid dissemination and sharing of information among personnel and in bringing the customer's voice within the company:

- CAMPUS is an educational social network for people who respond to the toll free numbers for residential and business customers for mobile services. The project is characterised by the extent of customisation that the system allows each participant; operators manage their own profile containing both company and personal information. These profiles are linked to and accessible from every other content produced on the same platform (in forums, blogs etc.). The outcome is a snapshot, updated in real time, of the person's competence, immediately available both to managers and other colleagues, without passing through an intermediary. Alongside the information entered by the operators, a network of "experts" guarantees ready answers to the various subjects that can arise in handling customers' requests.
- TUO (meaning "your", an acronym for the Italian for Find, Use and Organise) is a digital platform supporting call centre operators engaged in the continuous process of searching for and identifying the information required to better help customers. In developing the platform, customer care telephone operators were consulted, and their experience unleashed a wealth of valuable suggestions about how to deal with any problems connected to handling customer calls, in the most direct, simple and efficient way. TUO is a dynamic tool that offers users the option of inserting their own suggestions and those of the customer, and of creating a social network of collaboration among colleagues, who are the components of a virtual community sharing knowledge and solutions.

► Certifications

Those aspects of the company that have a significant impact on the products and services offered and, more generally, on the community, are subject to certification, in order to ensure the adoption of procedures and conduct that are in line with the expectations of the relevant stakeholders. In particular, the care of customers and the quality of the products and services offered is recognised by the certificate UNI EN ISO 9001:2000, concern for the environment is the basis of the certificate UNI EN ISO 14001:2004, health and safety at work is certified under the provisions of the regulation BS OHSAS 18001:2007 and data security is certified under regulation ISO 27001:2005.

In the following table, the certificates obtained by the various Departments/Companies of the Group, for particularly significant company procedures and activities, are listed.

More information is available on the website www.telecomitalia.it (Sustainability/Our model/Certification).

Company	Certificate	Department
Telecom Italia S.p.A.	ISO 9001	Departments: Domestic Fixed Services ^(*) and Top Client & ICT Services ^(*) , Open Access, Domestic Mobile Services ^(*) - Sales Consumer ^(*) , Technology & Operations, Purchasing Companies checked: TI Sparkle, Elettra Tlc, Path.Net, Loquendo, Telsy
	ISO 14001	Departments: Technology & Operations, Purchasing - Real estate and Facility Management acquisition, Domestic Fixed Services - Customer Operations (Front End and Back Office of Customer Care: offices in Rome and Naples) Companies checked: TI Sparkle, Elettra Tlc
	ISO 27001	ICT departments of Technology & Operations
	OHSAS 18001	Domestic Fixed Services - Customer Operations (Front End and Back Office of Customer Care: offices in Rome and Naples)
Olivetti S.p.A.	ISO 9001	Departments: Business & Market Development, Product & Technology Development, Industrial Operations, Market Communication
	ISO 14001	Olivetti Plant of Arnad (AO)
Brazil	ISO 9001	Company: Tim Brasil s.a., Tim Nordeste s.a.

^(*) At the end of 2008, the Domestic Fixed Services Department, Top Client & ICT Services, and Domestic Mobile Services were reorganised into the Consumer Market Department, Business Market, and Top Client Market & Network IT Services; during 2009, the certificates presently held by these organisations will be brought into line with the new organisational parameters.

The following certifications are planned for 2009:

- Certificate UNI EN ISO 14001:2004 for the Open Access Department
- Certificate BS OHSAS 18001:2007 for the Italian sites of Sparkle (one of the Group's fully owned subsidiaries).

► Digital Divide

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

Geographical Digital Divide

In 2006, in line with a new model for development based on public incentives, Telecom Italia launched an important Anti Digital Divide Plan, aimed at covering, at low cost, the largest possible number of towns which either generate low revenues or are not as yet provided with optical infrastructure. The Plan provides for the best combination of a mix of innovative, technological solutions on one hand and, on the other hand, of methods of raising the necessary investments. At the end of 2008, 96% of Telecom Italia's total fixed lines were within ADSL coverage, and around 54% were covered by IPTV. As regards the accessibility of BroadBand on mobiles, the percentage of residents covered by Telecom Italia through UMTS at the end of 2008 was 80.7%. The same percentage was able to access another important mobile technology, HSDPA, which allows speeds of 3.6 Mbp/s.

From the point of view of local investment, cooperation with regional authorities takes place according to two principal means of intervention: the first is "contributive" i.e., based on direct financial incentives (in accordance with the regulatory framework in matters of state aid), the second is "collaborative", based on supporting potential demand. Examples of both types of intervention are listed below.

Under the contributive model, adopted in recent years in Tuscany and Sardinia and repeated in Sardinia in 2008, the operator is given a contribution for the extension of BroadBand coverage to areas of so-called market failure (the Scottish model). In this case, the commitment of Telecom Italia (the contracting operator) is to create and maintain, for a period of at least 15 years, a fibre optic infrastructure for the inclusion of businesses and residential areas still trapped in the Digital Divide.

The collaborative model includes some of the main agreements signed by Telecom Italia during 2008, among them the Protocol of Agreement with Liguria and the Letter of Intent with Umbria. Both have the objective of increasing the development of broadband through public support to the growth of demand network services. In order to manage Digital Divide issues, Telecom Italia,

through a Digital Divide workgroup, in 2008 has continued the development and implementation of an IT platform which supports both operations and decision-making, known as the “Digital Divide Project” (DDP). The DDP contains the complete map of ADSL, ADSL 2+, 20M/IPTV coverage across Italian territory. The DDP is used not only for the daily management of the requests and complaints that are intrinsic to broadband, but also to steer, as far as possible, network operations towards those localities most exposed to the Digital Divide.

The year 2008 ended with “Digital Divide Day”. The event, organised within Telecom Italia, saw the participation of the Chief Executive Officer and the President. The workshop was the opportunity to exchange ideas on the phenomenon, and the occasion made even more evident the primary role assumed by the company in overcoming the digital barrier.

Socio-cultural Digital Divide

The Digital Divide, in the generic sense of divergence in the accessibility of the new opportunities offered by the new ICT technologies is not only a specific problem of ADSL coverage, but it must also be seen under a different point of view, that is, with references among economic and social categories.

In this light, the main areas for intervention by the Telecom Italia Group in order to reduce the socio-cultural digital divide are:

- dissemination of the culture and services of ICT;
- support for the elderly and the disabled;
- interventions in the developing countries where the Group operates.

Further information on the individual areas of intervention can be found in chapter, The Community.

► Research and innovation in e-security

Research and development in the information security sector have mainly focused on:

- the planning and development of innovative tools for monitoring and protecting the new network and service infrastructure, with particular attention on the Next Generation Network (NGN) and the Next Generation Data Centres (NGDC);
- experimentation and development of technologies for the automatic management of data protection under various risk scenarios and security targets;
- services for the integrated protection of work stations and mobile handsets;
- innovative solutions for user authentication to ensure secure access to systems and services. In this sphere, of particular interest are the results obtained by installing, on the latest generation of terminals, strong authentication technology. This is a type of recognition based on at least two factors, in the wake of what has been done in the past for biometric recognition (for example, facial recognition), that allows the development of innovative services linked to tele-ticketing or mobile payment in ways which are more secure and easier to use, above all for those less familiar with using the traditional mechanisms of security;
- new algorithms for the protection of sensitive data.

Further information on the activities carried out to improve data security from the point of view of the protection of privacy is available in the Shareholders chapter.

► Research and development of innovative services

The main tests on innovative services, designed by the laboratories of Telecom Italia Group in collaboration with research institutes and universities in Italy and abroad, are listed below.

Assistance Services

Telecom Italia’s e-Health platform permits the distribution of services in the health sector at local, regional and national levels. The principal tele-medical services provided by the platform are:

- Tele-assistance: Remote assistance services for the elderly or those in difficulty, by controlling parameters such as heart rate, body temperature and movement. The service includes the option of asking for help manually through a Panic Button, or automatically through sensors placed strategically in the home. Communication with the service centre is achieved through the use of ZigBee technology, incorporated in the videophones or mobile handsets.
- Tele-monitoring: the monitoring of diabetic, cardiac and bronchial patients etc., operating both in the home and outside.

- Geofencing service: support that gives patients with mental disabilities outside mobility through the identification of safe areas and the use of the localisation functionalities of the handset and the mobile network.
- Tele-consultation: an integrated system of video communication that allows, in addition to audiovisual communications, remote transmission of data and bio-images (radiography, scans, CAT, etc.)
- The creation of electronic health files and digital clinical records for local health agencies and hospitals.

Further information about assistance services can be found in the section, The Community/Main activities 2008/Business Basics.

E-Learning

These are solutions enabling fully-developed didactic services based on collaboration, communication and the active involvement of end users. Telecom Italia is a provider of complete solutions, developed on a platform of flexible and scalable services, which bring together:

- computer applications including e-learning, collaboration, video conferencing, e-knowledge management and e-gaming that take advantage of integration with Virtual Reality environments like Second Life;
- specialised consultancy training content supplied by the main content providers and by consultancy companies.

E-Tourism

A platform for the management and provisioning of tourism services, meant for firms working in the field and for local authorities. The platform offers interactive maps, multi-channel portals, smart ticketing and a virtual tourist guide, available on mobile phones, with information about points of interest, be they artistic or practical (consulates, tourist offices, police stations, means of transport).

Tele-working

These are tele-working solutions whose principal features are Virtual Private Network access, Security functionalities, video-communications and Web 2.0 applications.

Future developments will open up the use of virtual environments and telepresence.

E-Government

A platform for the process of digitalization of Public Administration services such as, for example, services to manage citizens' data, tax management, land registry management, wireless management of the operations of the municipal police.

Infomobility

Telecom Italia and Magneti Marelli have launched a consortium for new infomobility services in order to develop and market an open technological platform that guarantees a constant connection with information and entertainment services, which will help drivers make more responsible choices, thus reducing traffic congestion (ecodriving). The system will permit integration between the automotive and ICT environments, thanks to an in-car digital system that allows the vehicle to communicate with the software applications of various service providers. This application can be used by public authorities to supply information on the condition of the roads, and by companies with fleets of company cars to track the location of vehicles and put them in touch with each other.

Among the solutions and certified services are:

- Information on the road network and traffic conditions, payment services, navigation services. An example is the management of traffic on motorways, in partnership with Autostrade S.p.A.
- Electronic management of paid parking spaces: the location of the user of the service is monitored through their mobile terminals so that the system can tell the user the best parking spaces and the routes to get to them, identifying any parking permits and applying the correct tariff.
- Dynamic management of the access of motor vehicles to regulated urban areas through personal mobile phone systems or devices placed in the vehicles.

► Protection of Minors

To protect minors from adult content and, more generally, from content that may harm their psychological and physical development (for example, violent or racist content or content that offends religious sentiment), the Group's companies have taken the following actions.

- Guidelines have been issued for the classification and control of content distributed by the Group. These guidelines cover not only content that is offered directly but also content offered by third parties providing their own services on space acquired within Telecom Italia's portals.
- Filtering systems and procedures governing adult material offered by the Group on the Internet have been defined. These measures are designed to prevent minors accessing the adult content available on the Group's portals.
- In order to allow Customers, and in particular minors, to explore the web in a secure manner, Telecom Italia provides the Alice Total Security service which, thanks to antivirus software, a centralised firewall and Parental Controls, protects internet navigation from any attacks or digital threats. In addition, specific software for minors is available, called Alice Magic Desktop, which, as well as allowing children to use the computer in a simple and entertaining way, also allows parents to control and choose the sites that minors can access, and to manage the address book so that it is only possible to exchange emails with known persons.
- Regarding premium services, Telecom Italia restricts access to services with obscene content – which are not part of the services offered by the Group – to users with Personal Identification Numbers (PIN).
- The Group's television services do not transmit content that would require filtering systems. Methods of transmission are in accordance with the current regulatory framework and conform to the guidelines above.

In 2008, operations to combat child pornography were intensified.

On Telecom Italia's institutional portal, a themed area has been created, dedicated to the Protection of Minors and aimed at informing and making final users aware of the values and objectives pursued in order to protect minors. In this area, a form is available to report, even anonymously, any illegal activities involving child pornography encountered while navigating the Internet.

Furthermore, a specific internal document has been drawn up with the aim of speeding up the identification of cases of presumed child pornography and immediately activating the procedure of informing the competent authorities.

The point of contact between the users of the services distributed and the company, for reporting abuse or the improper use of services, is provided by the Abuse Desk operational centres. In addition to solving the problems raised by the reports made by users about abuse involving services offered by the Group, the Abuse Desks, which are divided into types of services (residential and business), also inform the competent authorities of relevant incidents, such as the existence of child pornography on the Group's networks, through a Postal Police representative.

For the interactive services, like Chats, Forums and Blogs, offered by the Group's service suppliers, a system of prevention has been put in place based on the presence of moderators, who are charged with the task of identifying and reporting the existence of illicit material and blocking its dissemination.

► Relations with Consumer's Associations

Telecom Italia Group pays the utmost attention to the protection of consumers' interests, and to its relations with the associations that represent them, in the context of reciprocal, steadfast collaboration and transparency of information.

Collaboration with consumer associations was begun in 1983. Over the years, various agreements have been reached and Telecom Italia Group actively collaborates with the major national associations that protect consumers' interests.

Such collaboration involves meetings aimed both at guaranteeing the protection of customers' rights relating to new products and services supplied by the Group, and presenting the main organisational development projects that might impact on customers (for example, the reorganisation of some

customer care procedures on the ways in which customers are informed concerning the option of enabling/barring non-geographic phone numbers through an appropriate PIN code).

The company's senior executives regularly meet with consumer associations to ensure a reciprocal exchange of information and to agree the principal measures to be adopted in order to resolve problems that customers may encounter.

Telecom Italia regularly conveys the following information to the associations:

- Conto Telecom Italia which includes information updated monthly, reported in the "Telecom News" section of Conto Telecom Italia, about price changes, launches of new services and offers, institutional information and, in general, useful information for the customer;
- On line with You, which gives a summary of institutional information, usually about tariff changes and initiatives undertaken to comply with specific regulations, published by Telecom Italia in the major national newspapers.

The recent updating of the Charter of Services and General Conditions of Subscription should also be noted, on the basis of which, from 18/11/08, the commitment was made to inform customers of the time scheduled for visits by technicians to customers' premises. As a consequence, the provision contained in the General Conditions of Subscription regarding the method of assessing compensation in the event the terms of contract are breached, including failure to keep the time scheduled, has been placed alongside other commitments in the Charter of Services.

In its role as founding member, the Group participates in the Consumers' Forum, which brings together consumer associations, businesses and research institutes to discuss consumer related matters.

Conciliation

One outcome of the collaboration with the associations is the equal conciliation procedures which, since 1991, have brought the resolution of around 60,000 disputes with customers.

These procedures operate under the "parity" model, which provide for direct responsibility on the two parties: the customer, who mandates full negotiating power to resolve the dispute to the representative of the association he/she chooses; and the company, which participates through its own representative, also furnished with an equivalent mandate. The discussions on the request for conciliation takes place under the auspices of the conciliation secretaries, which are hosted in Telecom Italia offices all over Italy. The procedure is completely free of charge for the customer. Starting with the presentation of the demand, and for 45 days thereafter, Telecom Italia ceases any operations regarding the customer and undertakes to produce within that term a proposal to resolve the dispute. The dispute is concluded with the drawing up of the minutes of conciliation, which the customer may choose to sign or not. In the event both parties sign, the conciliation decisions come into force immediately. A customer who decides not to sign the minutes is free to pursue any normal legal procedures they consider appropriate. The conciliation procedure is available to Telecom customers only if and when the normal complaints procedures have concluded in an unsatisfactory manner, and in any case does not preclude the consumer from the option of taking the normal legal/administrative steps.

In the course of 2008, the Protocol of Understanding was also signed by Codacons and by the "Consumer Counter" Association of San Marino.

In this way, the number of signatories to the Protocol has risen to 19, bearing witness to the efficiency of the conciliation instrument for the Group's customers/consumers.

During 2008, the European Commission and some important Italian service companies displayed great interest in Telecom Italia's conciliation procedures.

The purchasing process takes account of the best market conditions and respect for the prerequisites of quality, safety and the protection of the environment.

Suppliers

► Strategy

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

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

► General matters

The process of selection, assessment and control of Telecom Italia Group's suppliers is achieved, for high risk categories of commodities, through a pre-contractual phase of evaluation in which the economic/financial and technical/organisational characteristics of the potential supplier are assessed, with a view to inclusion on the Group's Register of Suppliers.

The Groups requires of every supplier a declaration of commitment, on behalf of the company in question and any authorised sub-contractors, collaborators and employees, to observe the principles of ethics and conduct contained in the Group's Code of Ethics and Conduct.

Thereafter, companies on the Register of Suppliers which, following competitive tendering, have received acquisition orders, are usually subject to controls throughout the course of supply, which range from Vendor Rating (the systematic assessment of the supply) monitoring to Incoming Quality Control (mandatory for the acceptance and use of the goods acquired).

Further details on these activities can be found in the section "Acquisti" of the Supplier Portal (<http://suppliers.telecomitalia.it/>).

► Controls

In the course of the year, in the technical field, around 17,000 checks have been carried out on the execution of work, which focused in the main on the installation phase of new equipment, the distribution of services and work, and the maintenance of the network.

A summary of the main controls carried out on suppliers in the Purchasing Department during 2008 now follows:

- Supplier Evaluation: 1,070 evaluations have been carried out on 557 suppliers, of which 119 produced negative outcomes, and 126 in which judgement was reserved for a specified period of time.

- Subcontractor Evaluation: 354 evaluation checks carried out, with 32 negative outcomes;
- Vendor Rating monitoring: 80 six-monthly reports issued, concerning 344 suppliers and 43 categories of acquisition.
- Technical-organisational audits at the suppliers' headquarters for Incoming Quality controls regarding products and services: 503 product batches were checked, of which 52 were blocked for non-conformity.
- Technical-organisational audits at the suppliers' headquarters for evaluation procedures: 203 checks were carried out on 142 suppliers, of which 23 produced negative outcomes, and 17 in which judgement was reserved for a specified period of time.
- Technical/organisational audits at the headquarters of high-risk subcontractors (equipment/operational activities) for evaluation procedures and authorisations of use on the part of supplying businesses: 147 checks on 121 suppliers were carried out, of which 5 produced negative outcomes, and 10 in which judgement was reserved for a specific period of time.

► Main Sustainability initiatives

The following initiatives were undertaken during 2008:

- the "Guidelines for the Evaluation of the Life Cycle of the Products", (issued at the end of 2006), were applied to 22 products. These guidelines allow the assessment, through an eco-compatibility index, of how far acquired goods, that are managed or marketed by the Group, meet the prerequisites of the key environmental requirements; and that they are designed, realised, used and discarded in such a way as to facilitate the management of the entire life cycle, from the environmental and economic point of view.

The product families to which the guidelines are applied are defined on the basis of the volume acquired, their impact on the company's reputation, the economic and legal risks and dangers. They are:

- products that are intended for marketing (telephone terminals, switchboards, fax machines, modems);
- office products (computers and peripherals, photocopiers, paper, consumables such as toners, batteries, etc.);
- network apparatus and materials (poles, mobile phone antennas, cabinets, accumulators, power stations)
- In acknowledgement of the commitment undertaken in 2008, the aforementioned evaluation of the life cycle of the products of 56 suppliers has been integrated with other checks, aimed at assessing, more generally, the initiatives adopted in the areas of Ethics and Sustainability, such as observance of the principles of Ethical Business conduct, and with procedures to ensure the health, safety and rights of workers. These checks also have the objective of promoting the suppliers' commitment to pursue, together with their own suppliers (sub-suppliers of the Group), Sustainability throughout the entire supply chain.
- Checks have been carried out on the suppliers of subsidiary companies abroad. In particular, the main suppliers of the subsidiary, Hansenet Telekommunikation GmbH (Germany), have signed up to the principles of Telecom Italia Group's Code of Ethics and Conduct.
- The Group's Purchasing Department completed, in November, 2008, the certification procedure confirming its conformity with the prerequisites of the standard ISO 9001:2000 of the "Management System for Quality", already obtained by some departments in 2007 and now extended to the entire Department. This initiative involved the mapping of the Management processes with the identification of more than 193 performance indicators that permit the monitoring and improvement of the administration of services supplied to internal clients and suppliers. Furthermore, the Facility Management department obtained the ISO 1400 certification.
- A second survey was carried out (the first was conducted in 2007) into the level of satisfaction of the Group's main suppliers in the Purchasing Area, and in Telecom Italia in general. The on-line questionnaire, made up of 28 questions, was live for two weeks, and the analysis involved 688 suppliers with access to the Supplier Portal. The overall average outcome of around 290 questionnaires compiled (with around 43% participation compared to 34% in 2007) was equal to 69/100 (71/100 in 2007).
- Since 2006, Telecom Italia Group has participated in the work of a study and strategic direction group for the Sustainability and Integrity in Dealings with Suppliers (SIRF), which

involves some of the most important Italian companies operating in the service and manufacturing division. Following the formalisation of the rules of conduct and the criteria for carrying out the supply procedure, through specific guidelines drawn from the international standards in the area of business responsibility, an assessment was also carried out in 2008 (with reference to the year 2007). Telecom Italia Group's conformity rating with the SIRF Guidelines, which are produced by a leading independent evaluation company and based on rising scale, was also "optimum" for the year 2007, with an overall improvement in the valuation (the total points were 87.40% against 83.42% in 2006).

- The first e-community of the main suppliers of the network works' division has been brought on line with the aim of improving communications with and between suppliers, chiefly on subjects regarding social and environmental sustainability. The initiative involved the network works' division, which has always been the object of particular attention precisely because of the importance of the question of safety at work that the activity presents. In order to guarantee a more efficient exchange of information, the e-community has even been given its own Internet site, called "TelecHome", which can be reached through the Supplier Portal by using the appropriate log-in credentials. In this way, the improvement of the interchange within the e-community has been ensured, also thanks to multimedia tools, aimed at:
 - integrating best operational practices adopted in specific subject areas;
 - publishing the results obtained, in terms of the environmental and social certification attained;
 - carrying out electronic voting campaigns on various initiatives, for the purpose of their evaluation.

Subjects dealing with the correct execution of certain activities with a high risk of accidents were discussed during the year. This has permitted the creation of documents listing the best operational methods to be adopted, which has been shared among the participants, and has, thereby, become a valuable resource for the e-community.

Furthermore, discussions have begun on the management of manufacturing waste, a subject that impacts directly on the environmental sustainability of businesses and, consequently, of Telecom Italia.

A second e-community has also been launched for the ICT partner division, which has its own discussion site. This too is focused on the subject of social and environmental sustainability. The first theme chosen for discussion regards the method for reducing the energy-consumption and environmental impact of the ICT solutions.

- An overall vendor rating indicator has been defined which considers intersecting aspects of the various suppliers, with more general attention on the stakeholder sphere. The indicator has four components:
 - the category vendor rating (40% weighting);
 - the Social and Environmental Sustainability index (20% weighting);
 - competitiveness (30% weighting);
 - the regularity of invoicing (10% weighting).

The evaluation of the overall level of the performance of the chief suppliers will be carried out annually and will allow the creation of a framework of reference that will be useful for the acquisition strategy and for interventions with the said suppliers.

In particular, the evaluation of the Sustainability Index is arrived at by considering the indexes of accidents and contributory propriety, as well as the environmental and social certification, the level of proactivity in the e-community and the adoption of initiatives to save energy and reduce environmental impact.

The initial, experimental application to suppliers in the network works' division has revealed certain areas for improvement in the businesses, including the development of the awareness among the suppliers on the subjects in question, and the pursuit, specifically, of the goal of "zero accidents".

Table summarising the 2008 Results vs 2008 Objectives and 2009 Objectives.

Subject	2008 Targets	Status	2009 Targets
ISO 9001 and ISO 14001 certification	Completion of the ISO 9001 certification of TI Group's Purchasing Department and ISO 14001 certification of the Facility Management activities of the same Department.	Achieved	Maintenance of the ISO 9001 certification of TI Group's Purchasing Department and ISO 14001 certification of the Facility Management activities of the same Department.
E-community project	The development of an e-community project through the creation in the Supplier Portal of a multimedia environment for: <ul style="list-style-type: none"> - publicising policy, standards, specific goals and best practices in the field of Sustainability; - stimulate the initiation of Sustainability projects; - organise electronic voting campaigns for suppliers, on our own Sustainability projects and those of the suppliers. 	Achieved	Development and extension of the e-community to more groups of suppliers.
Supplier evaluation	The calculation of a Global Vendor Rating index that takes account of suppliers' performance in the field of environmental and social Sustainability	Achieved	Introduction of environmental criteria, with a weighting no less than 10%, in the bidding process for some of the main products for marketing.
Controls on Telecom Italia suppliers	An increase of 10% in the scheduled checks on suppliers in the areas of Ethics and Sustainability, currently carried out by audit with monitoring conducted on a self-evaluation basis.	Achieved	
Controls on suppliers of subsidiary companies	The extension of checking activities on the main suppliers of the subsidiary, Hansenet Telekommunikation GmbH (Germany) and the requested adherence to the principles of TI Group's Code of Ethics.	Achieved	

The companies of the Group are committed to the promotion of fair competition.

Competitors

► Strategy

The Group's companies are committed to promoting fair competition, a factor considered to be in the interests of the Group and all those who operate in the market, customers and stakeholders in general.

► Organisations and associations

Cooperation with competitors at the national level

Confindustria and National Partner Associations

Telecom Italia is involved in the management of association relations, coordinating lobbying and representation activities with Confindustria and its member associations.

The initiatives at the national and local levels, which in some cases are the subject of consultative agreements with competitors, consist of actions and meetings about business development and protecting the company's interests in the fields of economics, regulations, trade unions and labour. The Group is a member of 100 territorial Associations and of the following Federations/Associations in the sector: Confindustria Servizi Innovativi, Asstel, Assoelettrica.

Association in support of the Committee on Minors in TV

In 2003, Telecom Italia Media and MTV signed up to the Code of Self-Regulation for the Protection of Minors in TV. To actively support the work of the Committee in charge of meeting the commitments assumed under the Code, an Association was constituted, to which Telecom Italia Media, Rai, Mediaset, Radio and Television Association and Aeranti-Corallo subscribed. Within the Committee, Telecom Italia Media acts as Vice president representing broadcasters.

Ugo Bordoni Foundation

Together with other operators in the sector, the Group participates in the Ugo Bordoni Foundation (FUB), which conducts, amongst other things, research, studies and consultation in the communications and information technology sector. The FUB, which by law is entrusted with the technical supervision of experimentation in the field of digital terrestrial transmission and interactive services, runs many projects in collaboration with the Ministry of Communications and with other public and private organisations. The contributions Telecom Italia has made to the Bordoni Foundation are included in level 3 of the LBG model, described in "The Community" chapter.

DGTVi

Telecom Italia Media is a member of DGTVi (National Association for Digital Terrestrial Television) together with Rai, Mediaset, D-Free, Aeranti-Corallo and FRT. Since March 2008, Mediaset has acted as president.

In 2008, the Association's activities were concentrated both on the concluding phase of the conver-

sion from analogue television to digital terrestrial that took place in Sardinia on October 31, and on the work begun under the auspices of the task-forces created for each region, which will manage the conversion to digital in 2009: Valle d'Aosta, Piedmont, the provinces of Trento and Bolzano, Lazio and Campania. It should be noted that Telecom Italia Media takes an active part in each task-force. The Association organised the fourth national conference on digital terrestrial television, which was held in Rome on January 20th and 21st, 2009.

National Committee for a Digital Italy – (CNID)

Telecom Italia Media and Telecom Italia take part in the work of the CNID, which brings together all the representatives of the value chain in the digital market. The Committee is chaired by the Undersecretary of State for Communications with two vice presidents (AGCOM and DGTVi) and directs its operations through four different operational groups of the following areas: Networks Technology and Development; Monitoring and Data; Communications and Customer Assistance; Specific Problems in the Public Broadcasting Service.

FRT

Telecom Italia subscribes to the Radio and Television Federation (FRT) in its role as a member of the Presiding Committee. Besides the national and satellite broadcasters, FRT brings together 150 local radio stations.

The Audiovisual and ICT District

Telecom Italia participates in the District, a Consortium of around 60 enterprises that operate in the information technology, telecommunications, networking and media sectors. Supported by the Municipality of Rome, the Union of Industrialists and the Rome Chamber of Commerce, it was established in Italy to represent companies that operate in the multimedia sphere.

HD Forum

Telecom Italia and Telecom Italia Media are founding members of the Forum on High Definition (HD Forum), which pursues the objective of promoting and disseminating high definition technology in Italy. Membership of the Forum enables constant updates about the activities of competitors (in particular, Sky, Mediaset and Fastweb) in the high definition field and the promotion of initiatives addressing the questions of regulation and standardisation.

Auditel

Telecom Italia Media is a partner in Auditel with a shareholding of 3.33% with a representative on the Board of Directors and another on the Technical Committee. Auditel is the only recognised body in Italy for the measurement of viewing figures, including those used by advertising agencies, who base the value of advertising slots on individual television channels on the basis of the ratings recorded by Auditel.

ANFoV

Telecom Italia is a member of ANFoV, the Association for the Convergence of Communications Services which encompasses network operators, Internet service providers, authors, publishers, equipment and terminal manufacturers, suppliers of content, hardware and software platforms, systems integration, access and services, with the aim of encouraging round-table discussions in the search for suitable strategies for the development of an integrated market.

Collaboration with competitors at the international level

At the international level, Telecom Italia Group collaborates with various organisations and associations, among which are:

- ETNO (European Telecommunications Network Operators' Association): an association in the sector among whose objectives are the development of a competitive and efficient European Telecommunications market through co-ordination amongst operators and dialogue with institutions;
- GSMA (GSMA Europe): an association that brings together European mobile phone operators, whose objectives include the development of the mobile phone and associated services market in Europe, with particular attention to the regulatory aspects;
- ITU (International Telecommunications Union): a United Nations agency whose objective is

to promote the establishment, jointly among Governments and the private sector, of international technical standards, of operating procedures for wireless services and of programmes for the improvement of the telecommunications infrastructure of developing countries;

- EIF (European Internet Foundation): a foundation aimed at supporting public policies for the rapid development of the internet, broadband and information technology: it brings together European parliamentarians, telecommunications operators and manufacturers, software provider, Internet service providers and content providers;
- ERT (European Round Table of Industrialists): a forum that brings together 45 European industry leaders in order to promote the competitiveness and growth of the European economy;
- ESF (European Services Forum): an association comprising European operators in the services sector, with the aim of promoting the industry's interests, European services and the liberalisation of services at the global level within the WTO;
- EABC (European American Business Council): an association whose objective is to support and enable a transatlantic dialogue on industrial matters relevant to the European Union and the USA;
- BRUEGEL (Brussels European and Global Economic Laboratory): European study centres dedicated to the critical analysis of the international economy, the principal industrial sectors and the role of the EU in the global context;
- ETP (European Telecommunications Platform): brings together TLC operators and manufacturers with the aim of promoting and discussing common topics in the field of telecommunications;
- BIAC (Business and Industry Advisory Committee): represents the industrial associations of OCSE countries.

Moreover, the Telecom Italia Group has launched a series of collaborative projects with Telefonica designed to deepen reciprocal awareness of the regulatory framework of the two, respective, domestic markets, and to identify opportunities for further investigating economic and regulatory matters regarding the same geographical area.

► **Commitments regarding the access network**

At the end of the dialogue that was undertaken, Telecom Italia assumed certain precise commitments with regard to AGCOM in order to improve the efficiency of the administrative separation, introduced in 2002 (Resolution 152/02/CONS) within the Wholesale Area, for the sale of services to other operators and to the Retail Areas.

The commitments take account of the proposals for integration and change put forward by AGCOM, the considerations of consumers' associations and competitors, and substantially anticipates certainly principles included in the provisions of the European Commission's Recommendation on NGA (Next Generation Access).

The commitments⁽²⁾ are subdivided into 14 groups, to which 3 methodological commitments have been added (Variation, Deadline, Modulation). They have the following objectives:

- to significantly integrate and reinforce the current regulatory framework in the area of equal treatment, both technical and financial, with regard to the production procedures of wholesale access services, by the Open Access Department, charged with the management of the access network;
- to make transparent the financial conditions of internal transfers (the so-called transfer charge) for SPM (Significant Market Power) services supplied by Open Access to Telecom Italia's marketing departments, through a separate, Open Access accounting record, which is required to check the equivalence of the transfer charges with the corresponding financial conditions applied to operators;
- to ensure the satisfaction of operators and end customers, also by reducing disputes through the development and qualitative improvement of the fixed access network and related services;
- to make the evolution of Telecom's fixed access network more transparent for operators, through the communication of the technical plans for quality and the development of the infrastructure;
- to ensure the maintenance of the conditions of competition in the transition to the new

⁽²⁾ A complete list of commitments may be obtained at www.agcom.it.

generation networks, in order to guarantee the creation of an open network on the basis of the principles that emerge from the European regulatory framework and, in particular, the proposed European Commissions Recommendation mentioned earlier.

The assumption of these commitment is consistent with the evolution of the strategic directions of Telecom Italia, targeted at ever greater attention to the needs of wholesale and retail customers, and ever more constructive relations with AGCOM. Moreover, Telecom Italia's commitments are positioned in a scenario of remarkable openness in the access market with 3.85 million lines already unbundled (at the end of 2008).

The commitments will prove to be suitable in favouring the effective development of competition and will in large part overcome the potential "competitive risks" arising from any possible conditions of privilege in access to the fixed network, including an increase in the degree of competitiveness in all retail and wholesale markets linked to the access network.

The Group intends to maintain collaborative and transparent relations with national and supranational Institutions.

Institutions

► Strategy

Telecom Italia Group is determined to continue its collaborative and transparent relations with international and national institutions in order to promote an exchange of views on matters of mutual interest, and to ensure the Group's viewpoint is correctly represented.

► Relations

The regulatory activities of the national institutions, both central (Parliament, Government) and local (Regions, local Authorities and Independent Authorities in the sector), are constantly monitored by the Group. The procedure of approval for the principal legislative acts is monitored in those areas of interest. To this end, Telecom Italia interacts with the competent national Institutions (Parliamentary Commissions, the Ministry of Economic Development and other Ministries and Local Authorities), and with the European Commission and its Regulatory Committees, that is, the Council, the European Parliament and the ERG (European Regulators Group).

► National legislative activity

The main legislative measures of interest to the Group that were approved, or were in the course of being approved, during 2008, are the following:

- Law No. 31 of February 28th, 2008, enacting the Decree Law No. 248/2007 extending the terms provided by the legislative measures on financial matters (the so-called "Bill of the thousand extensions"). The law introduces the possibility of exclusion, for television broadcasters in particular financial situations, such as La7 and MTV, from the obligation, introduced under the financial law 2008, of contributing to European audiovisual projects.
- Legislative Decree May 30 2008, No. 109, enacting directive 2006/24/EC regarding the retention of telephone voice and data traffic, including unanswered calls (the so-called "Frattoni directive"). The decree significantly amends the current legislation, providing, for providers of telecommunications, new periods of retention of such data for judicial purposes. Law no. 186/2008 "Enactment of decree law no. 151/2008 introducing measures on the matter of crime prevention and detection", amended the legislative decree in question, postponing until March 31, 2009, the date from which telecommunications suppliers would have to be in compliance with certain provisions, among which are those regarding the retention of unanswered call records.
- Law No. 101 of June 6, 2008, enacting the decree law of April 8, 2008, No. 59 (known as the "Save Infringements" decree) introducing urgent measures to implement Community obligations. In particular, article 8 i) makes the activity of a network operator dependent on the issuing of a general authorisation under the Code of Electronic Communications,

and provides for the conversion of licenses currently held by network operators into such authorisations. The penalty procedures covering advertising matters were also amended, and made more severe. In accordance with article 8 i), the Ministry of Economic Development also issued the Ministerial Decree of September 10, 2008, fixing the timetable for the final transition to digital terrestrial television. The provision sets the dates by which, over a period of four and a half years, that is, until 2012, the 16 technical regional sectors in which Italy has been subdivided will progressively move to exclusively digital television broadcasting.

- Law No. 133 of August 6, 2008, “Enactment of the decree law of June 25, 2008, No. 112, containing urgent measures for economic development, rationalisation, competition, the stabilisation of the public finances and the equal distribution of taxes.” The provision, an integral part of the Government’s triennial economic package, contains, amongst other measures, provisions to streamline the authorisation procedures for building the infrastructure for electronic communications (the recourse to the Declaration of the Start of Operations), measures to facilitate the laying of fibre optics, and the free use of existing civic infrastructure, owned by local Authorities and authorised public agencies.
- Article 19 of the Bill of the thousand extensions, approved by the Council of Ministers, No. 31 of December 18, 2008, not yet published in the Gazzetta Ufficiale, postpones until July 1, 2009, the date (contained in the 2008 Budget and already amended by the economic package 2009) starting from which it will be possible to launch joint legal proceedings for damages against businesses (so-called “class actions”).
- The Bills under “Measures for economic development, simplification, competitiveness, including matters of civil proceedings” at the government’s initiative, “connected” with the 2009 Budget, that are now under examination by Parliament, contain:
 - regulations aimed at the development of broadband and designed to enable the adaptation of the electronic communications networks, public and private, by means of a programme that incorporates EU, public and private funding. In particular, it provides for the allocation (for the period 2007/2013) of 800 million euros to funds for infrastructure projects in Underdeveloped Areas (FAS). Of particular importance is the measure encouraging the mini-trench excavation technique for the installation of broadband infrastructure;
 - the widening of the technological areas under the “Plan for Industry 2015” regarding Projects of industrial innovation, which is also extended to the ICT sector. Also of importance is the regulation on the obligations, on the part of providers of telecommunications services, to inform customers about commercial offers available on the market, in order to improve transparency towards the customer.

► **European legislative activity**

The Group has concentrated on the following issues:

- the monitoring of the activities of the European Parliament and the EU Council of Ministers on the Community’s new regulatory framework for electronic communications (the review of the four Directives – Access, Authorisations, Universal Service and Privacy);
- the process of adoption of the Directive on electronic payments in the internal market;
- the proposal to amend the regulation on international roaming services and the process of adoption of the amendments to such regulation;
- the analysis of the texts of the Recommendation on regulated access to NGN, and on fixed and mobile terminals;
- the analysis of the activities and decisions of the European bodies charged with the implementation of the regulatory framework (the sector Committee – Cocom and the European Regulators Group – ERG);
- monitoring the evaluation of the European Commission of the provisions made by national authorities in markets liable for the imposition of the prior obligations identified by the Recommendation 2007/879/EC.

The Group intends to optimise the use of natural resources, improve environmental performance and disseminate a culture of environmental awareness.

The Environment

► Strategy

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

- optimising the use of energy sources and natural resources;
- minimizing negative environmental impact and maximizing positive impact;
- pursuing the improvement of the environmental performance;
- adopting procurement policies that take account of environmental issues;
- disseminating a culture promoting the correct approach to environmental issues.

► Environmental performance

The information on environmental performance has been drawn up from management data and, in accordance with the principle of relevance, only those subsidiary companies have been included in the consolidated accounts that fulfil both of the following two prerequisites: revenue greater than 300,000 euros and more than 40 employees, excluding discontinued operations/non-current assets held for sale.

The environmental performance data reported in the following pages cover:

- energy;
- atmospheric emissions;
- water;
- paper;
- waste.

► Energy

The energy consumption of Telecom Italia S.p.A. and of the Group as a whole are shown below, calculated according to the accounting procedures established by the Global Reporting Initiative – GRI G3 Guidelines.

Direct consumption for heating and transport and indirect consumption for the acquisition and consumption of electricity are shown below.

Heating systems

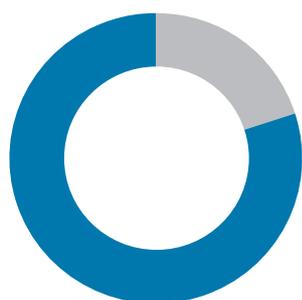
			Changes %	
		Telecom Italia S.p.A. 2008	2008 vs 2007	2008 vs 2006
Energy consumed in diesel fuel	MJ	142,647,530	-4.36%	-11.80%
Energy consumed in methane fuel	MJ	684,483,906	-5.11%	-5.74%
Total energy for heating	MJ	827,131,436	-4.98%	-6.84%

Heating systems

			TI Group breakdown by BU (%)		
		TI Group 2008	Domestic/BroadBand/ Brazil (*)	Media	Olivetti
Total energy for heating	MJ	950,005,158	91.45%	0.27%	8.28%

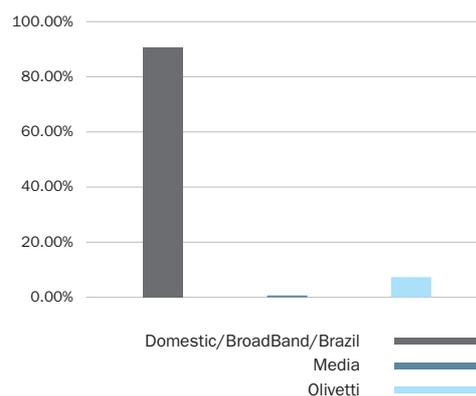
(*) In this table, and in the subsequent tables in this chapter, the Domestic/BroadBand/Brazil heading includes domestic activities of fixed and mobile TLC, as well as the related support activities, BroadBand services in Germany and the Netherlands and the activities of Tim Brasil Group. Following the Bolivian government's Decree of May 1, 2008, which provided for the nationalisation of the shares of Entel Bolivia held by Telecom Italia Group, Entel Bolivia has been excluded from the scope of the 2008 reporting.

Total energy for heating in MJ
Telecom Italia S.p.A.



Energy consumed in diesel fuel
Energy consumed in methane fuel

Total energy for heating in MJ
TI Group



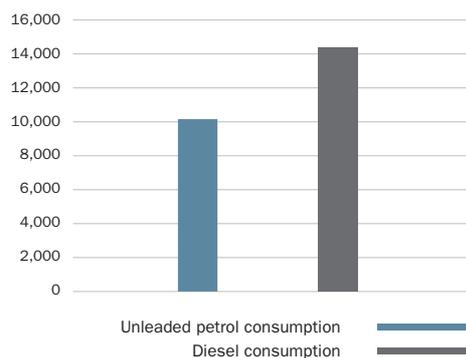
Vehicles

			Changes %	
		Telecom Italia S.p.A. 2008	2008 vs 2007	2008 vs 2006
Unleaded petrol consumption	l	10,164,548	-27.63%	-40.16%
Diesel consumption	l	14,509,532	34.58%	62.12%
Total energy consumption (*)	MJ	844,539,630	0.96%	-2.45%

(*) Represents the conversion into MegaJoules of the consumption of unleaded petrol and diesel expressed in litres. The data also includes LPG consumption (330 liters, equal to 9,890 MJ)

The increase in the consumption of diesel and the reduction in the consumption of petrol are to be ascribed to the gradual change in the composition of the company fleet, which has favoured cars with diesel engines.

Total fuel consumption (litres) - Telecom Italia S.p.A.



Vehicle

		TI Group breakdown by BU (%)			
TI Group 2008		Domestic/BroadBand/ Brazil	Media	Olivetti	
Total energy consumption	MJ	1,337,027,854	98.04%	0.62%	1.34%

Number of vehicles and distance travelled

		Changes %		
Telecom Italia S.p.A. 2008		2008 vs 2007	2008 vs 2006	
Total number of company vehicles	no.	21,448	-0.51%	-3.09%
Number of low-emission vehicles ^(*)	no.	21,097	-0.52%	-3.11%
Total distance travelled	km	313,946,775	0.63%	-0.12%

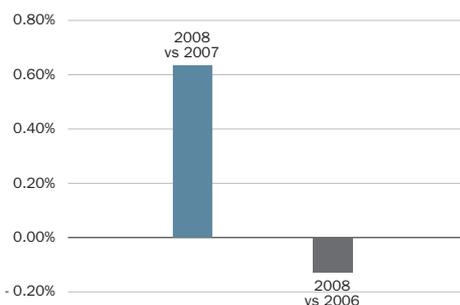
^(*) Vehicles fuelled by unleaded petrol, eco-diesel, biodiesel, GPL (meeting the Euro4 standard or higher), electricity or fuelled by other combustibles with comparable or lower emissions.

Number of vehicles and distance travelled ^(*)

		TI Group breakdown by BU (%)			
TI Group 2008		Domestic/BroadBand/ Brazil	Media	Olivetti	
Total number of vehicles	no.	23,252	98.42%	0.60%	0.98%
Total distance travelled	km	351,955,120	97.28%	0.97%	1.75%

^(*) The data shown refer to travel time and to the number of all vehicles (including ships) of the Group (industrial, commercial, used by senior and middle management) both owned and hired. Only where usage is significant and continuous, vehicles (and travel times) owned or in use by the sales force of Tim Participações have been included.

Total distance travelled - Telecom Italia S.p.A.



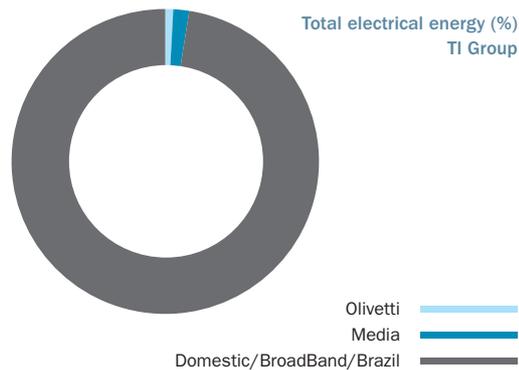
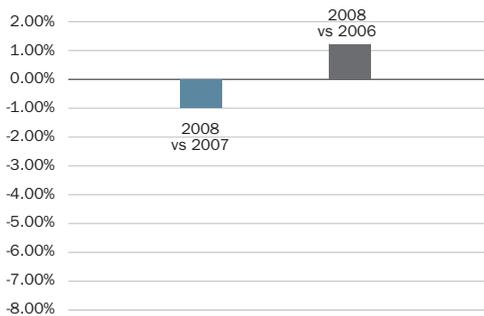
Electricity consumption for transmission and civil/industrial plant.

		Purchased or produced energy		
		Changes %		
		Telecom Italia S.p.A. 2008	2008 vs 2007	2008 vs 2006
Electrical energy from mixed sources (*)	kWh	2,093,422,340	-1.34%	0.79%
Electrical energy from renewable sources	kWh	37,219,674	16.31%	24.07%
Total electrical energy	kWh	2,130,642,014	-1.08%	1.13%

(*) Electrical energy acquired from mixed sources is equal to 2,079 GWh. Self-produced electrical energy is equal to around 14 GWh and is supplied by a co-generation plant which also produces almost 4 GWh of thermal energy, with an associated consumption of methane gas equal to m³ 3.39 millions.

		Purchased or produced energy			
		TI Group breakdown by BU (%)			
		TI Group 2008	Domestic/BroadBand/ Brazil	Media	Olivetti
Total electrical energy	kWh	2,561,248,540	97.99%	1.13%	0.88%

Purchased or produced energy - Telecom Italia S.p.A.



Telecom Italia S.p.A. has launched a series of projects aimed at optimising energy consumption and encouraging the use of renewable energy sources. Among these were:

- decommissioning obsolete technologies and platforms, rationalising the network infrastructure and updating plant technology;
- co-generation systems;
- using alternative climate control systems in the exchanges and raising temperatures;
- using information technology resources in shared, virtual environments;
- remote control and measurement of energy of the exchanges' rooms;
- the separation of climate control in offices, exchanges and Base Transceiver Stations;
- the regulation of the power factor of plant to reduce the reactive energy drawn by the network;
- sharing Base Transceiver Stations thanks to co-siting agreements with other Operators;
- reduction/rationalisation of premises;
- experiments with traditional and innovative photo voltaic equipment;
- experiments with mixed energy sources (wind and photo voltaic);
- the acquisition of energy that is certified as being from renewable sources.

Beginning in 2009, a plan to reduce the acquisition of electricity within Telecom Italia S.p.A. will be undertaken based on the following actions:

- supervision of energy consumption through the installation of timers and remote monitoring systems for the continuous control, in real time, of telephone centres;
- modernising of the fuel and climate control systems;

- increasing energy production through tri-generation plant;
- reduction in areas requiring climate control, through sectioning;
- raising the temperature of the telephone centres and Radio Base Stations.

Telecom Italia is among the promoters of the EE IOCG (Energy Efficiency Inter-Operator Collaboration Group), a work group made up of operators active in the sector at the global level (operators and suppliers of equipment), aimed at speeding up the spread of low-energy consumption devices to encourage the development of effective technological options through agreed actions of standardisation.

The commitment to contain energy consumption also takes the form of collaboration in the definition of the Codes of Conduct on the energy consumption of Broadband equipment and Data Centres, promoted by the European Union through the Joint Research Centre (JRC) and ETNO (European Telecommunications Network Operators' Association). The objective of the initiative is to define guidelines and consumption targets for equipment that are designed to minimise energy consumption without interfering with technological development and the quality of the services.

Eco-efficiency Indicator

Telecom Italia S.p.A. measures its own energy efficiency by using an indicator that establishes a relationship between the service offered to the customer, simplified as the measurement of bits transmitted, and the company's impact on the environment in terms of energy consumed. The factors taken into consideration are the amounts of data and voice traffic of the fixed/mobile networks and industrial energy consumption (for transmission and climate control in the centres), domestic (electricity for office use, air conditioning and heating in the centres) and consumption for transport.

The following table shows the trend of the eco-efficiency indicator in recent years.

Year	kbit/kWh	bit/Joule	Increase % year 200x vs. 200x-1
2004	777,248	216	+58%
2005	1,311,676	364	+70%
2006	2,175,006	596	+63%
2007	3,144,283	873	+45%
2008	4,237,038	1,177	+35%

In 2008, the indicator's value was around 35% higher than 2007, exceeding the target set (1,130 bit/Joule). The annual increase is progressively diminishing: energy efficiency measures and the rise in traffic already achieved have reduced the margin for further improvement.

The commitment is being carried through with the definition of the target for 2009: 1,410 bit/Joule (+20% compared to 2008).

► Atmospheric emissions

The emissions of greenhouse gases by Telecom Italia are due to the use of fossil fuels, the purchase of electricity and hydrofluorocarbons (HFCs) in air conditioning equipment.

As with the classification of energy consumed, the Global Reporting Initiative (GRI G3) guidelines are followed which refer to the definitions of the GHG Protocol⁽³⁾ distinguishing between direct emissions (Scope1: use of fossil fuels for heating, transport⁽⁴⁾ and co-generation) and indirect emissions (Scope2: purchase of electricity for industrial and domestic use⁽⁵⁾).

⁽³⁾ The GHG Protocol, instituted in 1998 within the World Resources Institute and the World Business Council for Sustainable Development, supports business on the subject of greenhouse gas emissions through methods of calculation and investigation aimed at promoting innovation and the acceptance of responsibility for climate change.

⁽⁴⁾ Emissions of CO₂ connected to the use of fossil fuels for powering motor vehicles and heating systems have been calculated following the directions of the UNEP (United Nations Environment Programme Guidelines for Calculating Greenhouse Gas Emissions for Businesses and Non-Commercial Organisations - www.unep.it/ie.org).

⁽⁵⁾ To calculate the emissions from the acquisition of electrical energy, the GHG Protocol method has been used. This takes into consideration the energy mix of individual countries. The national GHG coefficient, expressed in grammes of CO₂/kWh, are as follows: Italy 405; Germany 349; the Netherlands 387. For Brazil, the coefficient worked out by the local Energy Ministry has been used, which is equal to 29 grammes of CO₂/kWh, and which is held to be more accurate.

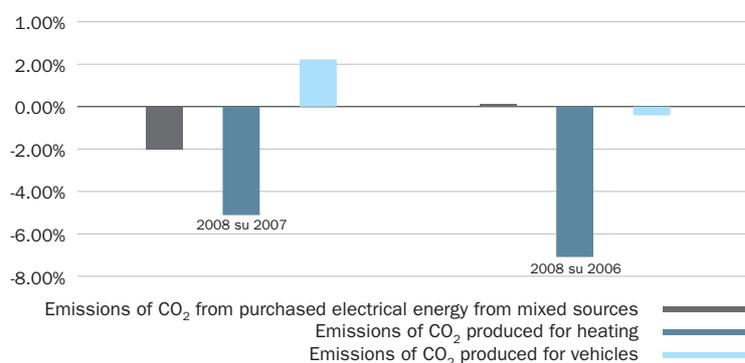
Atmospheric emissions

		Changes %		
		Telecom Italia S.p.A. 2008	2008 vs 2007	2008 vs 2006
Emissions of CO ₂ from purchased electrical energy produced from mixed sources	kg	842,189,133	-2.00%	0.12%
Emissions of CO ₂ from co-generation	kg	5,100,000	-	-
Emissions of CO ₂ produced for heating	kg	54,977,728	-4.96%	-6.99%
Emissions of CO ₂ produced for vehicles	kg	61,451,387	2.29%	-0.39%
Total emissions of CO ₂	kg	963,718,248	-1.39%	0.18%

Atmospheric emissions

		TI Group breakdown by BU (%)			
		TI Group 2008	Domestic/BroadBand/ Brazil	Media	Olivetti
Emissions of CO ₂ from purchased electrical energy produced from mixed sources	kg	902,476,843	98.35%	1.29%	0.36%
Emissions of CO ₂ from co-generation	kg	5,100,000	100%	-	-
Emissions of CO ₂ produced for heating	kg	63,050,162	91.48%	0.26%	8.26%
Emissions of CO ₂ produced for vehicles	kg	98,059,571	97.99%	0.64%	1.37%
Total emissions of CO ₂	kg	1,068,686,576	97.91%	1.17%	0.92%

Emission change - Telecom Italia S.p.A.



CO₂ emissions are calculated using the conversion co-efficient worked out by the GHG Protocol for Italy of 405 g CO₂/kWh.

Scope3 defines the indirect atmospheric emissions that are not included within the bounds of Scope2. It is estimated that these emissions by Telecom Italia S.p.A. amount to:

- 68 million kilogrammes of CO₂ for travelling between home and work;
- 16 million kilogrammes of CO₂ in business travel by air;
- 4 million kilogrammes of CO₂ relating to electricity generation, controlled by suppliers, at the Radio Base Stations;
- 40 million kilogrammes of CO₂ relating to the dispersal of hydrochlorofluorocarbon (HCFC) gases.

HCFC gases, in addition to qualifying as greenhouse gases with high global warming potential⁽⁶⁾, damage the ozone layer. From January 1st, 2010, use of new HCFCs in maintenance will be forbidden, while the use of regenerated HCFCs is allowed until 2014. From 2015, the use of recycled and regenerated HCFCs will be forbidden.

⁽⁶⁾ The Global Warming Potential (GWP) is the measurement of how much a specific gas contributes to the greenhouse effect. This index is based on a relative scale which compares the gas under consideration with an equal mass of carbon dioxide whose GWP is by definition equal to 1. The GWP of the HCFC used is equal to 1,780.

Interventions to adapt and replace these substances with others less damaging to the environment have been undertaken for some time within Telecom Italia.

Climate change

The necessity of reducing CO₂ is based on scientific evidence supporting the cause/effect link between the emission of greenhouse gases and climate change.

The TLC sector can play an important role in putting forward technologies and encouraging beneficial behaviour to reduce greenhouse gas emissions and the Telecom Italia Group is well aware of this.

The approach pursued by the Group in fighting climate change is based on action on two levels:

- reducing direct and indirect emissions of greenhouse gases;
- encouraging and supporting the dematerialising of goods and services.

The following activities aimed at the reduction of atmospheric emissions by Telecom Italia S.p.A. were undertaken in 2008.

- The replacement of Euro3 standard vehicles with Euro4 vehicles. The modernisation of the fleet involved more than 5,200 cars and brought a reduction of around 30%, that is, of the amount of emissions that would have been produced by the cars removed (equal to a little over 3,000 tons of CO₂ emissions avoided).
- Modernisation of the oil-fired thermal power stations with mainly gas-fired plant. Conversions carried out during 2008 brought a reduction in CO₂ emissions of 200 tons.
- Projects to optimise energy consumption have brought an overall saving, compared to 2007, of 1.39% in CO₂ emissions, the equivalent of 12,000 tons. This result is due to the acquisition of electricity from mixed sources, in-house energy production from co-generation plant, an increase in the acquisition of renewable energy and greater efficiency in the use of fossil fuels.

As regards dematerialisation, the Group supplies products and services that permit the elimination or reduction of greenhouse gases generated by the transport of people or objects. Some examples follow⁽⁷⁾:

- Video and audio conferencing services avoid the need for the transport of personnel.
- TLC services allow tele-working with a consequent reduction in commuting by employees.
- The use of on line invoicing and payments, in addition to saving paper, and therefore the energy required to produce and transport it, eliminates the need for transport for making payments.
- Tele-medicine services, described in the relevant paragraph in the chapter, The Community, allow the reduction of the requirement for doctor and patient to physically meet, reducing the use of transport and the consequent emission of greenhouse gases.
- Infomobility systems, described in the paragraph “Research and experimentation with innovative services” in the chapter, Customers, by using information received from mobile handsets, allow the more efficient management of traffic, reducing journey times and therefore the emission of carbon dioxide.

The Group has also attained important results in the measurement and presentation of greenhouse gas emissions, which has been acknowledged by the Carbon Disclosure Project (CDP). The CDP is an international initiative, now in its sixth year, which provides instructions on how to measure and represent greenhouse gas emissions, encouraging companies to focus on risk management and the emerging opportunities in the field of climate change. The Group has taken part in this initiative since 2005, and this year it achieved the best results among those Italian companies that belong to the “Global 500” index: with a score of 81 points out of 100, the Group’s performance was described as “remarkable” by the organisers.

With specific commitment on the issue of climate change, Telecom Italia took part in various initiatives promoted by the bodies that concern the ICT sector, among which: CSR Europe, EE IOCG, ITU, ETNO, ETSI, GeSi, Sodalitas.

⁽⁷⁾ It has been estimated that 100 million audioconferences in place of physical travel could save more than 2 million tons of CO₂ emissions; that 10 million tele-workers spending only two days a week at home would bring a saving of almost 11 million tons of CO₂; and that if 10 million users received their invoices for telephone services on line instead of the traditional paper version would bring a saving of around 11,000 tons of CO₂. The examples are indicative and are intended to give a concrete idea of the potential of TLC services. They are based on projects, verified by independent third parties, carried out on small scale by members of ETNO within the scope of the initiative “Saving the climate @ the speed of light” developed together with WWF (www.etno.be/sustainability).

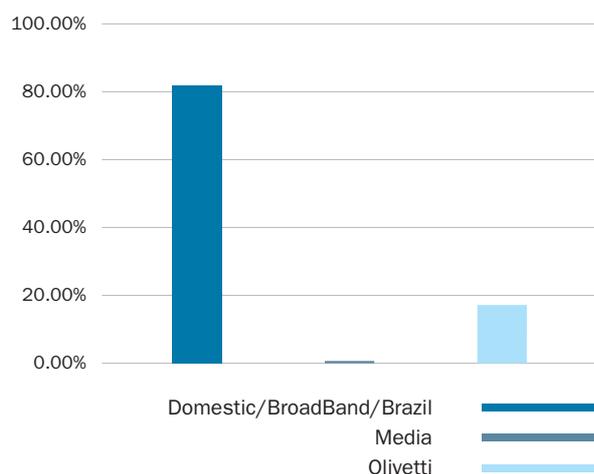
► Water

Water consumption by Telecom Italia S.p.A and the Group as a whole is shown below.

		Changes %		
		Telecom Italia S.p.A. 2008	2008 vs 2007	2008 vs 2006
	m ³	4,542,774	9.53%	7.64%

		TI Group breakdown by BU (%)			
		TI Group 2008	Domestic/BroadBand/ Brazil	Media	Olivetti
	m ³	5,884,493	82.83%	0.42%	16.75%

Water consumption - TI Group



► Paper

Paper consumption by Telecom Italia S.p.A and the Group as a whole is shown below.

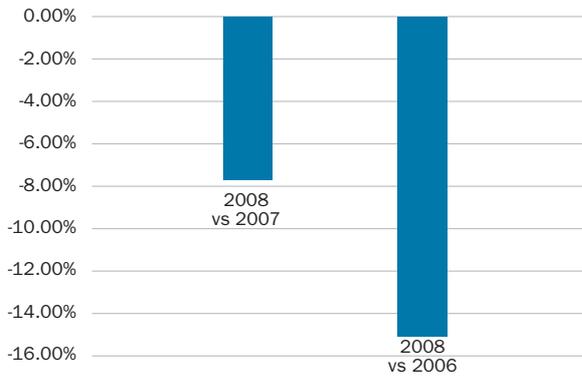
		Changes %		
		Telecom Italia S.p.A 2008	2008 vs 2007	2008 vs 2006
Non-recycled paper purchased	kg	311,305	-20.48%	-59.83%
Recycled paper purchased	kg	356,139	7.44%	4,516.19%
Total paper purchased	kg	667,444	-7.68%	-14.72%

Telecom Italia S.p.A. has obtained the reduction in paper acquisition through consumption containment initiatives. Buying recycled paper in place of wood fibre paper for office use was begun at Telecom Italia S.p.A. at the end of 2006: this explains the remarkable percentage increase compared to that year. The collection of differentiated waste in offices, underway in nearly all company premises, allowed the recycling of 10,835 tons of used paper.

The last months of 2008 saw the acquisition, for office use, of paper with low environmental impact from forests certified and managed according to the rigorous environmental standards of the Forest Stewardship Council (FSC). In 2009, Telecom Italia S.p.A. undertook to buy FSC certified paper for 90% of the total for office use.

Starting in February, 2009, in order to limit the environmental impact of the invoicing process, FSC certified paper has been used for printing and sending the Telecom Italia bills to consumer and business customers.

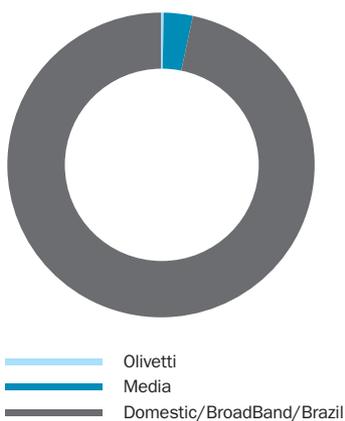
Total paper purchased (kg) - Telecom Italia S.p.A.



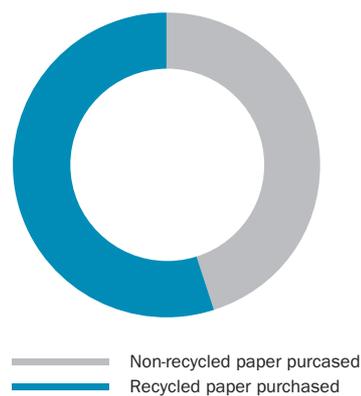
Paper for office use

		TI Group breakdown by BU (%)			
		TI Group 2008	Domestic/BroadBand/ Brazil	Media	Olivetti
Non-recycled paper purchased	kg	404,952	94.32%	4.81%	0.87%
Recycled paper purchased	kg	466,105	99.33%	0.67%	-
Total paper purchased	kg	871,057	97.00%	2.60%	0.40%

Total paper purchased (%) - TI Group



Recycled and non-recycled paper purchased TI Group



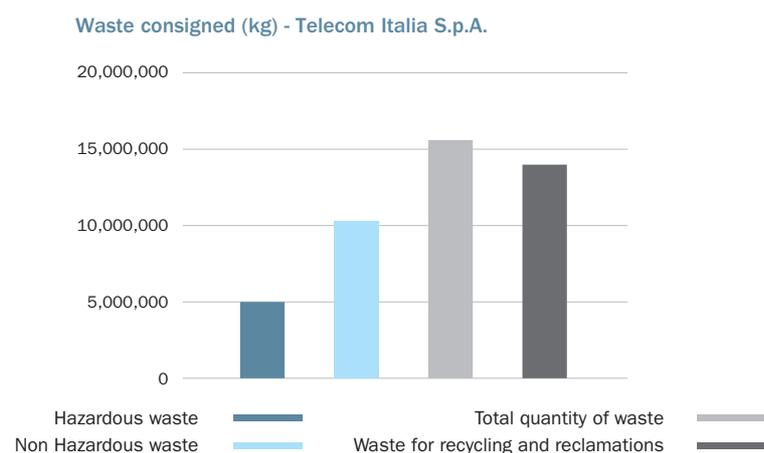
► Waste

The data shown in the table refer to the quantity of waste consigned⁽⁸⁾ and legally accounted for⁽⁹⁾.

Waste consigned ^(*)		Changes %		
		Telecom Italia S.p.A 2008	2008 vs 2007	2008 vs 2006
Hazardous waste	kg	5,120,123	75.73%	80.35%
Non hazardous waste	kg	10,784,584	-16.92%	39.78%
Total quantity of waste	kg	15,904,707	0.07%	50.70%
Waste for recycling/reclamation	kg	14,106,145	-9.33%	40.64%
Ratio between recycled/reclaimed waste and total waste		88.69%	-9.39%	-6.67%

(*) The data does not include telephone poles.

The increase in dangerous waste at Telecom Italia S.p.A. is due to the disposal of lead batteries and excavated earth and rocks from reclamation. The increase in excavated earth and rocks caused a diminution of the ratio between the quantity of refused sent for recycling/reclamation and the total waste consigned.



Waste consigned		TI Group breakdown by BU (%)			
		TI Group 2008	Domestic/BroadBand/Brazil	Media	Olivetti
	kg	19,603,617	92.73%	0.82%	6.45%

The differentiated disposal of waste in offices was successfully carried out during 2008 and extended to branches with fewer than 100 employees. Another 123 premises have been included and, up to now, the service is active in 230 premises on Italian territory. In four locations, an experiment was launched in which collection bins have been placed in the rooms rather than the corridors.

⁽⁸⁾ By "waste consigned" is meant waste delivered to carriers for recycling or reclamation or disposal. From checks carried out in 2007 in the field of technological waste on around 6,000,000 kg of waste delivered to carriers for recycling and reclamation, 97% was recycled and reclaimed effectively while the remaining 3% was disposed of.

⁽⁹⁾ There may be slight variations in the situation as at December 31 until the following March 30, in so far as the source for the data are the records of loading and unloading of waste that are made once the actual weight has been checked at destination. The information was supplied to the producer of the waste within 3 months of the consignment and this explains the possible variations in the data.

In addition, to contribute to the reduction of waste produced, Telecom Italia S.p.A. reclaimed 490,000 of its devices during 2008: 247,000 modems, 19,000 set top boxes for IPTV, 139,000 fixed telephones and 85,000 mobile handsets.

Regarding the application of European regulations on the transport by road of hazardous goods (ADR – “Agreement concerning the international carriage of Dangerous goods by Road”), training programmes have been held for those in charge of the Services of Prevention, Protection and Environment, and personnel working in those areas. Specific controls were conducted during the collection of waste by the carriers.

Regarding electrical and electronic apparatus waste (RAEE), regulated by the Decree Law 151/05, Telecom Italia S.p.A. acts in some cases as producer and in all cases as distributor of specified equipment and is responsible for organising the management of its end-life cycle, as far as aspects which involve TI S.p.A.

To effectively supervise the area of RAEE, in expectation of the enactment (still incomplete) of the decrees, implemented under the cited Decree Laws, that are required to make the procedure operational, Telecom Italia S.p.A. has set up a working party which has carried out, amongst other things, the following activities:

- membership of the consortium that is specialised in managing the end-life cycle of equipment (Consorzio Re-Media) has been formalised;
- the collection and selection procedures for RAEE have been defined for each direct sales channel;
- appropriate clauses on the issues of RAEE and RoHS⁽¹⁰⁾ have been inserted in the terms and conditions of purchase contracts.

Following the Agreement Programme for managing obsolete wooden telephone poles, signed in 2003, upon the favourable opinion of the autonomous State-Region-Province Conference, with the Ministry for the Environment and Protection of the Territory, and production and reclamation companies, the decommissioning also continued in 2008 with the substitution or elimination of 152,060 poles.

► Electromagnetic and noise emissions

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

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

Within the Telecom Italia Media Group, systematic monitoring has continued of the levels of electromagnetic emissions in the installations of La7, MTV and Telecom Italia Media Broadcasting in order to guarantee that legal limits are respected, and high safety standards are maintained. In particular, Telecom Italia Media Group checks that:

- the levels of electromagnetic field produced by the emissions from its plant are always lower than 20 V/m in locations accessible by people outside the company, while in residential areas, near nurseries, schools and anywhere occupied for a period greater than 4 hours a day, the level of electromagnetic field is always below 6 V/m.
- the level of exposure by workers does not exceed the value laid down by Directive 2004/40/EC, recently brought into Italian law by Decree Law 257/2007.

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

⁽¹⁰⁾ European Directive 2002/95/EC on the restriction of prescribed hazardous substances in electrical and electronic machinery (Restriction of Hazardous Substances Directive).

The Group also optimises emissions from mobile telephone Radio Base Stations (SRB). In 2008, the target of installing secondary carriers in order to reduce the power of the overall field of SRB emissions, during periods of maximum voice traffic, was attained and exceeded. The use of two radio frequency carriers, also linked to the development of “High Speed” coverage, allows the total power emission from the station to be reduced by 15% for the same amount of traffic. The reduction of the theoretical power of the electromagnetic field emitted has been verified through laboratory testing carried out in TILab.

Similar attention is paid to emissions from mobile handsets operating on the GSM bands 900Mhz, DCS 1800Mhz and UMTS. In 2008, 100% of the models of technologically innovative cell phones widely distributed in Italy, and 25% of the models of Brazilian handsets, have been subjected to the SAR qualification.

The agreement with Vodafone to share the mobile network access sites has continued (in 2008, this concerned 1,000 sites) in terms of the passive infrastructure: telephone poles and pylons, electrical and climate control equipment, and civil infrastructure. This accord meets the express position of the Code for Electronic Communications, promoting the more efficient use of the network infrastructure in urban and rural areas. The agreement lays down that each operator, while retaining ownership of its own equipment, shall offer to host the others at the radiomobile stations on all national territory, with the aim of optimising the coverage of the mobile network.

The issue of electromagnetism and the study into its possible effects on biological systems has been the subject in recent years of a wide ranging debate involving the scientific community and public opinion. More in-depth information is available at the Internet site www.telecomitalia.it (Sustainability/Hot Topics/Electromagnetism Impact).

In the area of the reduction of noise pollution, checks have been carried out on noise emissions by company equipment and, in the course of 2008, 96 sites, where critical levels were discovered, have been rectified.

► Product responsibility

To improve the company's Product Stewardship profile, products/services marketed by Telecom Italia S.p.A. are also examined under the following criteria:

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

Marketed products are subject to a technical test aimed at ensuring their conformity with European Directives and the National Laws of Implementation. Among the main regulations are:

- the EU regulations on the protection and safety of customers in using the equipment;
- the RoHS regulation which prohibits the use of certain substances in electrical and electronic equipment;
- the RAEE regulation on the management of product end-life cycle.

Quality tests are conducted on products to check they comply with the environmental and safety requirements agreed with suppliers. See the preceding paragraph for checks conducted on mobile phone handsets.

During 2008, the methodology of Life Cycle Assessment (LCA) was applied to 22 products intended for marketing (cell phones, fixed telephones, fax machines and printers) under the auspices of the Green Procurement project.

The LCA approach allows, amongst other things, the evaluation of the environmental and energy burden of products/services during their entire life cycle.

In addition, Telecom Italia has conducted, in collaboration with the University of Palermo (the Department of Chemical Engineering of Processes and Materials), an analysis of materials used to

construct the shells of cordless telephones and associated wiring, as part of the development of a new mobile handset with reduced environmental impact.

The analyses, carried out using the LCA methodology, compared a copolymer of fossil origin (acrylonitrile butadiene styrene, ABS) with a biodegradable polymer from renewable sources (polylactic acid, PLA). The evaluation regards three macro-categories: Human Health, Eco-system and Exploitation of Resources. PLA has less overall impact and could replace the ABS normally used in the production of handsets.

► **Training/Information**

Actions undertaken in support of a widespread environmental culture constitute an essential stimulus for the informed collaboration and commitment of each person in the sustainable development of the Group's activities. Issues of general interest have been covered, placing particular emphasis on the specialised training of personnel.

Articles designed to spread information on specific issues have been published on the company Intranet, within the "Environment Project" site. The contents have been formulated to give a general treatment and focus attention on the problems and opportunities regarding Group of activities. These are the issues covered:

- Business and the Environment: a connection that should be understood
- Environment Project
- Environmental Management System
- Life Cycle Assessment
- Mobility Management
- Energy conservation and renewable energy
- Reduction of emissions
- Electromagnetic pollution
- Green Procurement
- Waste management
- Soil pollution
- Reduction of the consumption of paper and the replacement of virgin paper with recycled paper.

An article was published in the internal magazine "noi.magazine" covering the development of the Integrated Management System of Safety and the Environment in customer care, and the publication of the bulletin "noi.flash," dedicated to the issue of business responsibility, has continued, with articles on differentiated waste and sustainable mobility.

The first edition of the seminar, "Management of Environmental Emergency", was held. It was designed specifically to increase awareness, within the company, of the prevention of soil pollution and promote an understanding of the correct management of possible diesel leaks.

The online information campaign has continued, aimed at all staff, informing them of initiatives in the environmental field, such as, for example, the celebration of the World Environment Day, the start of trials of differentiated waste paper collection and the survey on home-work commuting.

► **Environmental Management Systems**

Environmental Management Systems (EMS) contribute to the management in a sustainable way of the production and support processes, and are a stimulus to continuous improvement in environmental performance.

Over the years, the Group has promoted the creation of systems and instruments to ensure the effective management, prevention and continuous reduction of environmental impact in the area of working processes. The Group's Environmental Management Systems developed thus far have attained ISO 14001 certification; in addition, there is an Integrated Safety and Environment System in two customer care centres (Rome and Naples), which have attained ISO 14001 and OHSAS 18001 certification.

Following organisational changes, an Environmental Management System has been put in place in the new Property Purchase and Facility Management Departments, with subsequent ISO 14001 certification. In addition, a new project has been implemented, aimed at integrating the activities converged in the Technology & Operations Department, in the Integrated Management System for Safety, Quality and Environment, already ISO 14001 certified.

The environmental certificates attained or confirmed in the course of the year are reported in the chapter, Customers/Certification.

► **Environment Project**

Begun in 2004, the Environment Project is aimed at guaranteeing the improvement of the company's performance on the main environmental issues.

The project works through an Operations Committee, tasked with making proposals, and a Steering Committee, which approves the projects proposed, ensuring the necessary financial backing. In the course of 2008, both Committees underwent certain changes in their composition due to the company reorganisation.

New working groups have been established, centred on: green procurement; environmental accounting; the prevention of soil pollution and the reclamation of contaminated sites; and the management of telephone poles.

The work of other groups has continued, concerning: Telecom Italia Media Broadcasting's System of Environmental Management; the organisation of the management of waste from electrical and electronic machinery; intervention on climate control equipment containing ozone-harmful gases; the prevention and reduction of noise pollution; the map and disposal of asbestos; the optimisation of energy consumption; the reduction of paper consumption and the gradual replacement of virgin fibre paper with recycled paper; the promotion of differentiated collection of waste; the reduction of the emissions produced by the fleet and heating equipment; the optimisation of the management of the intensity of electromagnetic fields emitted by Radio Base Stations; the SAR qualification for cellphone handsets; the promotion of cultural initiatives; and environmental training and information.

The "Environment Project" site on the company Intranet has been used to better display the contents of the initiatives, and a section has been developed that is dedicated to employees' queries on environmental issues.

The Group takes into consideration the social relevance of TLC services.

The Community

► Strategy

The intention of the Companies of the Group is to contribute to the economic wellbeing and growth of the community by supplying efficient and technologically advanced services. Consistent with these objectives, and the engagements undertaken with stakeholders, research and innovation are considered to be priority factors for growth and success. Compatible with its role as a private company and the associated demands of an economically efficient management, the Group takes into consideration the social impact of TLC services, meeting the needs of even the weakest members of society. The Group looks favourably on and, where appropriate, supports social, cultural and educational initiatives aimed at the advancement of the individual and the improvement of living conditions.

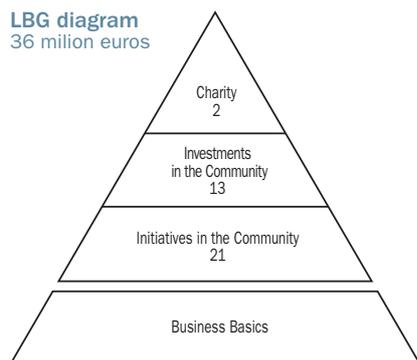
► Classification of the contributions according to the LBG

Contributions made by the Telecom Italia Group to the Community during 2008, according to the guidelines of the London Benchmarking Group (LBG), amounted to around 36 million euros (32 million euros in 2007), equal to 1.25% of the Pre-tax Profits. The calculation of the contributions was carried out using management data, in part based on estimates.

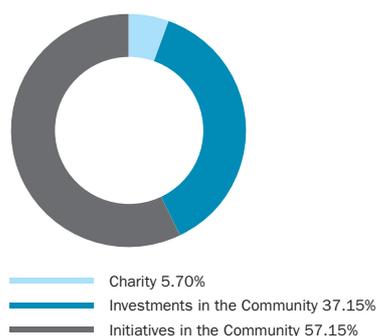
More than 100 major international companies subscribe to the LBG, which was founded in 1994 and represents the gold standard at the global level in the classification of voluntary contributions by companies in favour of the Community.

In line with the LBG model, in order to measure and represent the Group's commitment to the community, the contributions paid out have been subdivided into 3 categories (Charity, Community Investment, Initiatives in the Community), adopting the usual pyramid diagram:

LBG diagram
36 million euros



Allocation by % of the contributions to the Community by Telecom Italia Group



The criteria used to assign the contributions to the various levels of the pyramid now follow.

<p><u>Charity</u> Support to a wide range of “social” issues in response to the needs and appeals of community organisations, increasingly through partnerships between the company, its employees, customers and suppliers.</p>	<p>Contributions to national/international organisations not based on a specific medium/long term program. Sponsorship of causes or events, not part of a marketing strategy. Company matching of employee giving and fund-raising. Costs of supporting and promoting employee involvement. Costs of facilitating giving by customers and suppliers.</p>
<p><u>Investments in the Community</u> Long-term strategic involvement of the company to address a limited range of “social” issues.</p>	<p>Memberships and subscriptions. Grants and donations based on a specific medium/long term program.</p>
<p><u>Initiatives in the Community</u> Activities in the Community usually by commercial departments to support directly the success of the company, also in partnership with philanthropic organizations.</p>	<p>Sponsorship of events, publications and activities promoting brand or corporate identity. Cause related marketing, promotional sales Support to scientific and University research and to philanthropic organizations Care for consumers with special needs. Civil Protection activities.</p>
<p><u>Business Basics</u> Core business activities for the production of socially useful goods and services in a manner that is ethically, socially and environmentally responsible acceptable.</p>	<p>Optimization of the electromagnetic field. Reduction of the Digital Divide. Energy saving initiatives. Reduction of the visual/acoustic impact of telephonic apparatus. Electronic healthcare initiatives. Products and services for the disabled and elderly.</p>

► The Telecom Italia Foundation

The Telecom Italia Foundation was established during 2008 and became operational in 2009. The Foundation is a manifestation of Telecom Italia Group's Sustainability strategy in relation to the community. With its establishment, Telecom Italia is determined to strengthen the Group's commitment towards the communities in which it operates, promoting ideas and projects designed to improve people's quality of life. Specifically, the Foundation is active in the following areas:

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

The Foundation's president, Professor Joaquín Navarro-Valls, will be supported by a Scientific Steering Committee, composed of experts in various fields, in defining the operational plan of activities.

The Telecom Italia Foundation – whose offices are in Rome – is a business foundation of the distributive kind, with a management fund tied to the profitability of the Telecom Italia Group. The financial commitment for 2009 is the equivalent of 0.5 per thousand of the consolidated EBTIDA for the year 2008.

► Main activities in 2008

Some of the Group's activities, subdivided according to the LBG method, are reported below.

LEVEL 1 – Charity

SMS, solidarity calls and Clicksolidarity

In 2008, numerous fund-raising activities were carried out through SMS and telephone donations in support of non-profit organisations and associations.

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

More than 90 fund-raising activities were carried out during 2008. Among these were:

- Cancer Research Day 2008, in support of the Italian association, AIRC (Associazione Italiana per la Ricerca sul Cancro);
- The "Poinsettia 2008" initiative, in support of the leukaemia association, AIL (Associazione Italiana per la Lotta alle Leucemie);
- The Research into Rare Diseases Project, in support of the Telethon Foundation.

As part of its fund-raising activities for Telethon, Telecom Italia launched Clicksolidarity, a new way of donating to fund-raising campaigns by non-profit associations. This system operates alongside the other mechanisms, such as, for example, the SMS solidarity, which has revolutionised fund-raising in recent years. This is a method of payment via the Internet under which 5 or 10 euros may be donated by clicking on the appropriate icon. The sum is then debited directly on the Alice ADSL bill. Sums donated through Clicksolidarity are also exempt from VAT.

LEVEL 2 – Investments in the Community

!Sou Ligado

Begun in 2004 in partnership with the non-governmental organisation, Visão Mundial, the !Sou Ligado (I am connected!) project allows small and medium enterprises to use the mobile phone service to develop their businesses with the aid of ICT technology.

As had been initially planned, in 2007 and 2008 the project was self-financing through the micro-credit facility and the Group did not advance further financial resources to the initiative, whose management has been completely passed on to Visão Mundial.

Music in schools

Born out of the collaboration between the Group's mobile companies in Latin America and the Brazilian government, the project began in 2003 with the aim of promoting, through musical education, the social inclusion of young children and adolescents who live in at-risk situations in 13 Brazilian cities. During the music courses, notions of civic responsibility and peaceful coexistence

are disseminated. In many cases, moreover, the musical knowledge acquired has smoothed the way for participants into the world of work.

So far, 20,540 students from 62 public schools have benefited from the project.

Telecom Training for Life

It is a learn-through-play project directed at schools as a contribution to the cultural, civic and social growth of young people through physical education and sport. The project covers all Italy and is aimed at students in primary schools (elementary) and first (middle) and second (upper) levels of secondary schools. It puts at the disposal of pupils, parents and teachers a bundle of educational tools and multidisciplinary didactic materials tailor-made for the three age groups. Around 8,000 kits were produced and distributed to schools during the scholastic year, 2007/2008.

A competition was announced for elementary and middle schools with individual and group participation based on the principles of the Olympics. Nine students won trips to Beijing to watch the Olympic Games.

The Solidarity Ponies

This initiative was launched in 1997, in collaboration with the Social Policy Departments and several Voluntary Associations in six major Italian cities (Milan, Turin, Bologna, Rome, Naples and Palermo). Its objective is to supply free assistance in the home to people over 65.

The elderly can call a telephone number, made available by the Municipalities and participating Associations, to ask for help of various kinds (general assistance, keeping them company, accompaniment on excursions, etc.). The operators in the Municipalities are connected to an operations room and the calls are diverted to the mobile phones of volunteers, who respond quickly, even during the summer months, the most critical period from the assistance standpoint.

Beyond supplying the technical instruments, Telecom Italia supports the initiative by financing the participating Non-Profit Associations that create and manage the social assistance network through the volunteers. During 2008, more than 35,000 calls for help were acted upon.

LEVEL 3 – Initiatives in the Community

TIM Mobile Speak

The result of collaboration with Loquendo (a Group company) and the Italian Association of the Blind and Visually Impaired, TIM Mobile Speak is a more developed version of TIM Talks. This involves a software application that allows the blind, visually impaired and the elderly to use all the functions of mobile phones thanks to an electronic voice that reads out the contents of the display, depending on the requirements and instructions of the user.

The users of the service can read and write SMS and emails, compose and upload multimedia messages (MMS), call and change numbers in their address book, change the phone's settings, manage an appointments schedule, read and write text documents, navigate the Internet and use the clock and alarm clock.

The Italian Association of the Blind and Visually Impaired guarantees, in agreement with TIM, a dedicated, after-sales assistance service for the resolution of problems connected to the use of the new application.

As TIM Talks was in the past, TIM Mobile Speak is available free of charge, by obtaining a new, compatible handset at Telecom Italia's major sales outlets.

Crazy for the blog

Telecom Italia supports the Lighea Foundation, which takes care of people with psychological disorders and provides assistance to their families.

In particular, through the initiative "Crazy for the blog", Telecom Italia has made available its own technological resources for the creation of a blog within the therapeutic community.

The diary-on-line can be accessed by all adult patients who are afflicted with serious psychological disorders and whose illness has caused side effects such as inertia, isolation and social exclusion. The chance to swap ideas with the world around them, together with suitable rehabilitation and drug therapy, can be a real help in gradually getting them back into society. The positive effects from the creation of the blog are not restricted only to patients. The network also helps to break down the barriers and the fear that people often feel when faced with psychological ailments and those who suffer from them.

Science Festival

In 2008, Telecom Italia, as a Founding Partner, also supported the Genoa Science Festival, one of the most important events in Italy and Europe for the dissemination of scientific culture in the Community. The 2008 edition, which focused on the subject of diversity, was visited by 250,000 people. The Telecom Italia Stand, dedicated to electromagnetic radiation, was the most successful with the public, attracting more than 40,000 visitors.

Technological innovation and services through collaboration with universities.

Telecom Italia Lab also promotes technological innovation and services through collaborative relationships with the academic world. In cooperation with Milan Polytechnic, as part of a master's degree in Design, a project has been launched that is aimed at making the services distributed to the public – not just telephony - more accessible and usable.

Within the scope of this degree course, the “Innovative Services for Sustainable Ways of Life” laboratory was put into operation. This designs services for groups of people who form part of the same social or environmental grouping, for example, services for foreigners who wish to join a community that faces the same problems they do. Telecom Italia has made available to this laboratory its technological competence in networks and ICT services, supplying whatever is necessary for the planning and design of services based on mobile telephony and on the Web 2.0 evolution, while the Province of Milan has supplied actual social services “Case Studies” as subjects for innovation through ICT.

Business Basics

Electronic Healthcare Solutions

Several ICT solutions that have been developed by Telecom Italia to help health service providers improve procedures for the assistance and treatment of patients are reported below.

- **MYDoctor@Home:** it is a service that allows patients suffering from chronic illnesses to monitor their own physiological parameters (body weight, blood pressure, heart rate, the absorption of oxygen by the blood cells, blood sugar levels, pulmonary function, electrocardiography etc.) in their own homes simply by using their mobile phones. The technological platform that makes this service possible was developed by Telecom Italia.

Appropriate portable devices directly record the parameters required by the doctor and then, thanks to their built-in Bluetooth technology, they automatically send the data to the network through the mobile phone.

By accessing the network, the doctor in charge of treatment can check the progress of the therapy from his office and make corrections at any moment, immediately sending the details to the patient. In a similar way, while making a house call on a patient, nursing staff can send clinical data to the doctor on the ward and immediately receive his opinion or urgent instructions, speeding up diagnosis and intervention.

Telecom Italia and the San Giovanni Battista University Hospital of Turin (Molinette Hospital) have signed an annual agreement to experiment with this service with the aim of assessing its benefits both in terms of improvements in patients' quality of life and in optimizing the expenditure of the health service provider.

- **MyVirtual Rehabilitation:** it is a virtual reality system for the treatment of motor deficiency syndrome of the upper and lower limbs. The therapist designs a course of exercises for the patient to follow, with the aid of several sensors applied to the affected limb. The sensors are linked to a system which reproduces on a screen a pleasurable and game-like virtual environment that guides the patient through the correct execution of the movements. The system assigns points for the execution of the exercise and this gives the patient an incentive while, at the same time, providing useful information to the therapist about the progress achieved.

The therapy can even be conducted remotely, at centres other than the hospital, or in the patient's own home. An associated video-conferencing system allows a dialogue between patient and therapist.

- **Multimedia Counters:** it is a solution aimed at health agencies, which:
 - enables patients to pay health charges by cash, credit card or bank card, request certificates and book services, even when the service till is not open;
 - provides information to citizens and health workers about the list of services and the location of offices and departments within the buildings and the hospital campus. By means of an audio link (video is also an option), it is possible to speak directly with an operator to obtain further information. The information available to health workers concerns rosters, as well as company and union communications.

Tim Mobile care

Developed in collaboration with the National Organisation for the Protection of the Deaf (ENS), TIM Mobile care is a multimedia service offering video assistance that enables the deaf to receive, free of charge in the Italian Sign Language, all the instructions required to use the mobile telephone services (for example, configuring email, SMS/MMS, remaining credit, details of the tariff, etc.) By connecting to the WAP 119 services and accessing the dedicated area, the deaf can navigate their way through a menu. Once the required information is selected, a video gives the necessary explanation.

It is now possible, again through the WAP 119 services, to take advantage of other information services (tourism and entertainment).

► Research and Development

For Telecom Italia Group, technological innovation is an essential and distinctive element in developing its competitive advantage and maintaining its leadership of a market with increasing levels of competition.

Research and development directed towards technological innovation range from reviewing basic technologies in order to increase efficiency in the operation of networks and systems, to the complex operation of radically overhauling the platforms, services and architectures; the unstinting commitment in the field of the Operational Departments of the Business Unit to ensure the new services meet the needs of customers is vital, as is the continuous improvement in the levels of quality.

In addition to the TILab, Telecom Italia Group's research and development activities are carried out by departments responsible for the Group's technological innovation, at the Operational Units and businesses (Networks, Marketing, Information Technology, Security) and within the Group's companies.

TILab's remit is the supervision of technological innovation for the Group, scouting for new technologies and carrying out engineering operations on services and network platforms. The work carried out by TILab is the outcome of a strategic partnership with the main manufacturers of telecommunications equipment and systems, and with centres of excellence in research at the most highly qualified national and international academic institutions (including Turin Polytechnic, Milan Polytechnic, the University of Berkeley and MIT). In this area, during 2008, 29 new collaborative projects were begun with the same number of universities covering research into various types of technology, encryption algorithms, services concepts and new paradigms of communication.

As in the past, opportunities to generate competitive advantage and create market value for Telecom Italia Group have been pursued through the strategic management of the relationship between research, Intellectual Property Rights (IPR) and business, aimed at the development of the company's assets in patents' rights; in this context, placing greater attention on the quality of the patents rather than their quantity, 39 new applications for patents were filed during 2008.

The main activities carried out by TILab are:

- in the field of mobile phone access, solutions based on femtocells have been developed which represent an innovative way of providing radio access, with an increased number of cells, greatly reduced in size. TILab has furthermore confirmed its role as the driving force in technological innovation in the field of mobile BroadBand, thanks also to experiments in the Turin laboratories on HSPA+ technology, capable of enabling in the first phase a theoretic bite rate of 21 Mbit/s which could rise to 28 Mbit/s, thanks to MIMO technology.

- In the field of widening access to broadband, the identification of solutions capable of supporting the development of optic fibre access under the various scenarios available in the coming years, with terminals in the customer's business premises, office or home. The access network will evolve during 2009-2010 towards NGN2, with FTTH (access via fibres up to the customer's home) and FTTB (access via fibres up to the customer's building).
- Innovations in the Home Network and Terminals in the field of the domestic 'always-on' BroadBand network (Digital Home Always-on Broadband) have seen the development of solutions that share the different flows of multimedia content (Media Sharing on Home Network) through technologies based on the main international standards: DLNA, UPnP Forum and Open IPTV Forum.
- Within the scope of services based on converging content and applications, the development of innovations for specific groups of clients has continued. In particular, the e-tourism solutions have been enhanced with an application that allows access to and visualisation of the tourist portal in a dynamic way, based on the profile of the terminal used. Furthermore, the provision has been enriched with Web2.0 functionality in the generation and contextualised sharing of photos and video, with the integration of the eTourism platform (Virtual Cicero) and the management of points of tourist interest (Teamlife). These innovative platforms were tried out for the first time in an integrated version on the occasion of the Venice Carnival 2008, and then became operational.
- In the field of video and multimedia services, the TIM SKY Mobile TV/Radio has been launched allowing customers to enjoy 10 SKY channels and 25 radio stations, for 2G and 3G users, with the conversion of the radio/TV channels from the "ON AIR" DVB broadcasting on IP format to that of 3GPP on IP.
- The Group's Technological Plan for 2009-2011 has been formulated, tracing the main innovations over the three years. The most important aspects regard the technological evolution of the various segments that make up the network, an application and management platform, terminals and the environment of the users.
- On the international level, TILab has pledged a substantial commitment to the task of standardisation, through which future solutions will be made possible, influencing the manufacturers' road map. In 2008, on the initiative of Telecom Italia, the Energy Efficiency Inter Operator Collaboration Group was launched. This is an ad hoc working party, currently made up of 18 of the principle global TLC Operators, with the aim of maximising energy efficiency in the telecommunications sector, interceding on standards and proposing actions to suppliers.

Finally, an outline agreement on development was jointly drawn up between the Telecom Italia Group and the Telefonica Group. The agreement envisages, within the range of synergic projects with Telefonica Group, technical collaboration in carrying out specific research projects with Telefonica I+D, a Telefonica Group company that works in research and development, aimed at sharing R&D work in certain areas of common interest. The subjects of the first projects arising from this collaboration are as follows: Wireless Sensor Network Applications, Context Awareness/Ambient Intelligence Platforms & Services, Innovative Services and Applications Z-SIM Enabled, Connected Car, 3D Multimedia Technologies, Software Defined Radio, e-Tourism and the observation and analysis of the main trends in technological innovation.

The research and development activities carried out by the Operational Units and businesses of Telecom Italia have been directed towards developments carried out internally or sub-contracted to outside suppliers in order to create:

- software products dedicated to systems for managing both marketing offers and activities on behalf of customers (Business Support Systems) and for managing the functioning of networks (Operational Support Systems), Security and other IT services;
- testing and verification; specifications for tenders; network architecture studies.

The main activities were:

- the development of a new Customer Centred platform “CRM Business”, for the commercial management of the clients SOHO, SME, Enterprise and Top;
- the evolution of the digital platform in support of business and implementation of new services for the consumer and business customers, & Top. In particular, work has been aimed at supporting the following offers: Family offer; “Friend & Family”; MTV (main functionality), IPTV, “Alice CASA” (naked), “Alice Total Security”, “Alice DATA KIT” (upselling fixed-mobile), “TIM Affare Fatto al Lavoro”, “Office On Hand”, “Alice Affare Fatto su VoIP”, “Alice Business” (naked).





Internal stakeholders

The Group recognises the central importance of Human Resources, the principal factor in the success of any business.

Human Resources

► Strategy

The companies of the Group recognise the central importance of Human Resources, in the conviction that the principal factor in the success of any business is the professional contribution of the people who work there, within a framework of loyalty and reciprocal trust. The companies of the Group protect health and safety in work places and hold as a fundamental principle the respect for workers' rights in the conduct of economic activity. The management of labour relations is directed at guaranteeing equal opportunities and promoting the professional growth of each person.

► Headcount and changes

Telecom Italia Group

The headcount of personnel at December 31, 2008, was divided as follows:

(units)	12.31.2008	12.31.2007	Changes
Italy	63,521	65,591	(2,070)
Abroad	13,229	14,509	(1,280)
Total personnel on payroll	76,750	80,100	(3,350)
Leased personnel	1,075	1,969	(894)
Total personnel	77,825	82,069	(4,244)
Non-current assets held for sale	-	1,360	(1,360)
Total	77,825	83,429	(5,604)

Excluding personnel concerned with "Non-current assets held for sale" (Liberty Surf Group) and leased personnel, the Group's workforce has been reduced by 3,350 units, compared to December 31, 2007. The changes can be itemized as follows:

- the departure of Entel Bolivia (-1,475 units) from the area of consolidation and the sale of the activities related to the company's "On Air" strand in MTV Italia (-14 units);

- net turnover down by 1,861 units, as specified for individual Business Units:

(units) ^(*)	Recruited	Departed	Net change
Domestic	626	(2,558)	(1,932)
Brazil	3,650	(3,395)	255
European BroadBand, Olivetti, Media and Others	641	(825)	(184)
Turn over	4,917	(6,778)	(1,861)

(*) Excluding 26 units due to transfers within the Group.

Telecom Italia S.p.A.

(units)	12.31.2008	12.31.2007	Changes
Personnel on payroll	56,650	58,686	(2,036)
Leased personnel	635	1,273	(638)
Total	57,285	59,959	(2,674)

At December 31, 2008, Telecom Italia S.p.A.'s on-payroll personnel numbered 56,650 units.

Compared to December 31, 2007, an overall reduction of 2,036 units was registered, due to:

- the balance of 139 units moving to other Group Companies;
- net turnover down by 1,897 units, as specified:

(units)	Recruited	Departed	Net change
Telecom Italia S.p.A.-Turn over	220	(2,117)	(1,897)

Tim Brasil Group

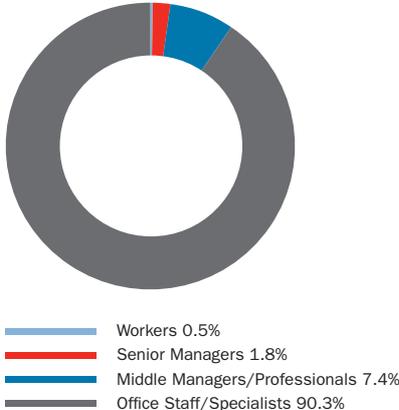
(units)	12.31.2008	12.31.2007	Changes
Tim Brasil Group-Total	10,285	10,030	255

The headcount of personnel as of December 31, 2008 was equal to 10,285 units. Net turnover is detailed below:

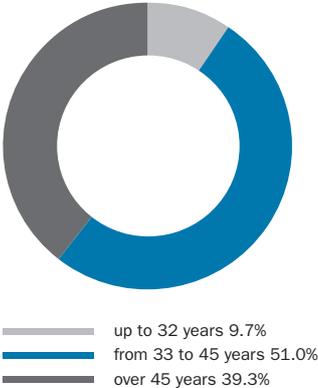
(units)	Recruited	Department	Net change
Tim Brasil Group-Turn over	3,650	(3,395)	255

Excluding leased personnel, the number of personnel operating in Italy is equal to 82.8% of the Group total, and can be broken down as follows:

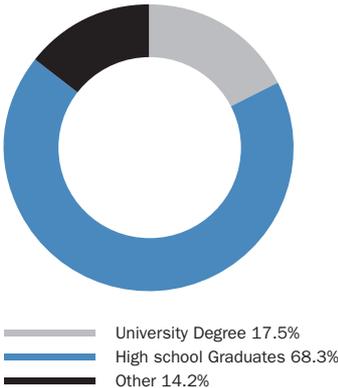
Telecom Italia Group - Italy:
employee breakdown by professional category



Telecom Italia Group - Italy:
employee breakdown by age group

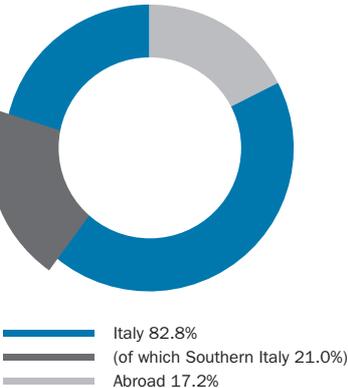


Telecom Italia Group - Italy:
employee breakdown by level of education

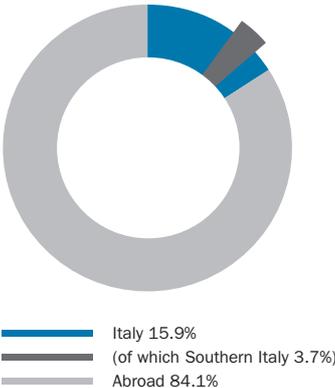


The distribution of personnel by geographic area, and recruitment undertaken by the Group (excluding leased personnel), are detailed below:

Telecom Italia Group: employee
breakdown by geographic area

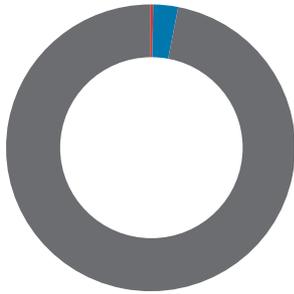


Telecom Italia Group: recruitment
breakdown by geographic area



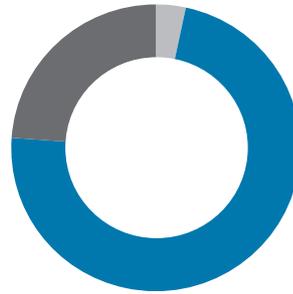
The number of personnel operating in Tim Brasil Group is equal to 13.4% of the Group total, and can be broken down as follows:

Tim Brasil Group:
employee breakdown by professional category



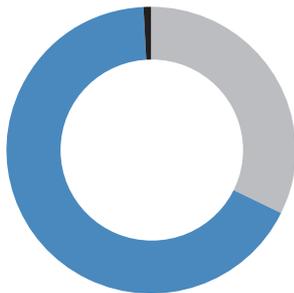
■ Senior Managers 0.2%
■ Middle Managers/Professionals 3.0%
■ Office Staff/Specialists 96.8%

Tim Brasil Group:
employee breakdown by age group



■ up to 32 years 72.7%
■ from 33 to 45 years 23.7%
■ over 45 years 3.6%

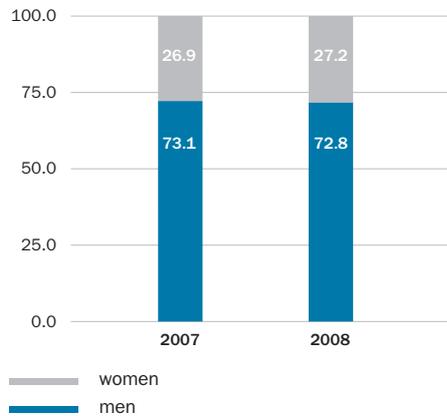
Tim Brasil Group:
employee breakdown by level of education



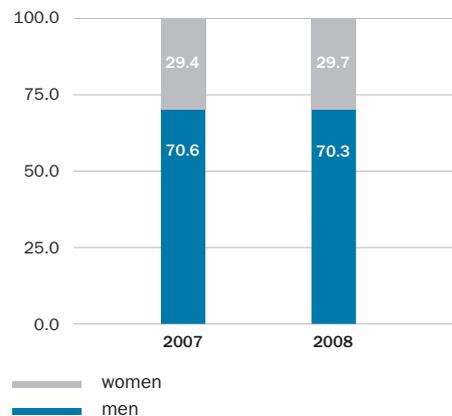
■ University Degree 32.4%
■ High school Graduates 66.9%
■ Other 0.7%

► Gender Balance

Distribution of men and women
Telecom Italia S.p.A. - (2007-2008)

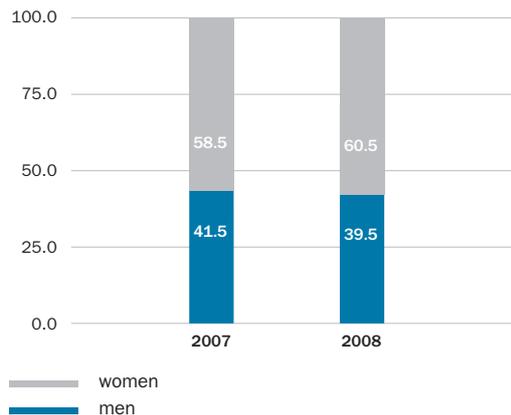


Distribution of men and women (in Italy)
TI Group - (2007-2008)



In 2008, the percentage of women holding senior management positions in the Group (in Italy) was approximately 15%, and, in middle management, the proportion was 26%.

Distribution of men and women
Tim Brasil Group - (2007-2008)



In 2008, the percentage of women holding senior management positions in Tim Brasil was approximately 6%, and, in middle management, the proportion of the total was 24%. In Tim Brasil, the number of women employed by the company rose from 3,263 in 2003 (54% of the total) to 5,874 in 2007 (58% of the total), and to 6,220 in 2008 (60% of the total).

► Actions in support of employees - Italy

Welfare

The following projects and initiatives have been implemented in support of employees:

- Nurseries: another 2 nurseries have been opened (Rome and Cantanzaro) in addition to the seven already in operation in Rivoli (TO), Milan, Ancona, Rome (2), Naples and Palermo.
- Loans for new parents: 253 loans have been granted to new parents of children up to three years old.
- Children's day: on May 23, 2008, on the occasion of Working Parents' Day, the children of employees in all Telecom Italia premises were allowed to visit their parents' workplace. Parties were held in 41 branches, with cartoons, snacks and the distribution of little gifts. More than 5,700 children took part.
- Christmas Day: parties were held with cartoons and little gifts for employees' children up to 12 years of age.

- Parents' Days Off: booklets of time vouchers for 150 hours' off annually, to be repaid through overtime, for employees up to level 5 with children up to 8 years of age.
- Time off to attend pre-natal classes: time off, to be repaid, up to a maximum of 12 hours a month, for working mothers-to-be and fathers-to-be.
- Intervention to ease the readmittance to the Company of employees following maternity leave: the development of management policies such as, for example, the option to work part-time for a year, which can be renewed, for mothers of children up to 8 years of age.
- Agency Services: within the 27 company premises (Turin, Milan, Venice, Padua, Bologna, Florence, Rome, Naples, Bari and Palermo), counters are available for dealing with practicalities (administration, postal services, etc.).
- Health Areas: in the company offices in Turin, Milan, Padua, Rome and Palermo, there are areas where it is possible to follow courses in physical wellbeing.
- Laundry/shoe repairs: this service is operational in 4 premises (Milan and Rome).
- Newspaper kiosks: are available in 2 premises (Rome).
- Special deals: on line offers of products and services arising out of Telecom Italia's partnership agreements, mostly within Italy (cars and motorbikes, entertainment and shows, electronic goods, sports goods, offers from financial institutions, health and wellbeing, trips and holidays, miscellaneous).
- Company loans: 463 loans have been granted, of which 62 were for buying/building homes, 69 for home renovation expenses and 332 for various other reasons.
- Company loyalty: during 2008, 4,300 employees were rewarded for 25, 30 and 35 years' service.

The following opportunities were provided for the children of employees:

- Traditional summer camp: a 15-day stay for children aged between 6 and 12 years old; 4,578 children took part.
- Themed summer camp: a 14-day stay for children between 10 and 17 years old, dedicated to the study of English or Spanish, sporting activities (football, tennis, sailing, horse-riding, volley ball, basket ball, canoeing, etc.) or dancing and the theatre. 1,353 young people took part.
- Study visit to England: a 14-day stay at colleges in 3 locations: 181 young people between 14 and 17 years old signed up.
- Foreign study bursaries: 80 four-week visits abroad dedicated to the study of the English language for young people between 15-17 years old (45 in Ireland and 35 in Finland); 20 study trips for an academic year, for young people between 15-17 years old (Europe, United States and Canada).
- Reimbursement of university fees: the reimbursement of fees for the first year at University for children of employees of Group companies who achieved a score of 90/100 in their school-leaving diploma.

ALATEL and the Gold Pins

The Association of Senior Workers of TI Group (23,218 members, of which 3,918 are current employees) has continued to carry out its institutional activities, confirming its collaboration with Olivetti's Gold Pins Association (3,904 members).

ASSILT

At December 31, 2008, the Association had 206,390 members, of whom 63,941 were employees, 40,603 were pensioners and 101,846 were families.

ASSILT conducts campaigns in support of preventive medicine and health education from mobile diagnostic units, in collaboration with public bodies and scientific institutes.

In addition, the Association distributes reimbursements for integrated health services supplied by the National Health Service (471,500 were carried out in 2008, for a total of more than 50.2 million euros.)

In 2008, the multidisciplinary Oncological Prevention programmes for detecting breast and skin cancers (Lazio and Piedmont) were concluded, and the programme for the prevention of respiratory allergies (Campania and Lombardy) has continued. An information campaign on correct nutrition has been conducted throughout Italy, which will end in the first months of 2009.

ASSIDA

At December 31, 2008, the Association had 5,650 members among managers in service and on pensions, along with their families, for a total of 13,400 clients. ASSIDA distributes reimbursements for integrated health services supplied by the National Health Service (in 2008, over 60,000 reimbursements were made, for an overall total of about 20 million euros).

CRALT

CRALT organises initiatives for its members, employees and pensioners, such as:

- tourism (group and individual trips) with an average saving of 15% compared to market prices;
- sports (participation at national and regional meetings of the main sports);
- cultural and recreational (guided tours, painting courses, theatre and cinema evenings);

The contribution in support of members can reach up to 40%. The fees to participate in the initiatives can be paid by instalments, as deductions from salary.

At December 2008, there were 51,776 members (45,197 employees and 6,579 pensioners).

► Actions in support of employees - Brazil

Welfare

Among the initiatives carried out by Tim Brasil are the following:

- "TIM opens the doors": is aimed at allowing children to get to know their parents' working environment during Brazil's Children's Day; recreational activities were staged for the occasion for all employees' children aged between 3 and 12 years.
- Happy Day: on their birthdays, employees have the right to a day off and to receive a birthday card signed by all their work colleagues.
- Gymnastics and ergonomics: in the company's premises in Rio de Janeiro, Belo Horizonte, São Paulo, Curitiba, Recife, Santo André, Brasília and Belém, sessions in gymnastics for correct posture have been held. In the regional offices in Rio de Janeiro, Belo Horizonte, São Paulo and Curitiba it is possible to follow courses in physical well-being and relaxation, such as Shiatsu and Yoga, either in a gym or a dedicated area.
- Special Deals: national and/or regional agreements for the purchase/use of goods and services under advantageous conditions, for car and motorbike insurance, culture and entertainment, restaurants, health and well-being, and the practice of sport.

Private Health Assistance

At December 31, 2008, 18,500 people (10,300 employees and 8,200 families) subscribed to the programme of Private Health Assistance for Group companies' workers.

The Private Health Assistance provides both an accredited network of medical and dental services, and a system of reimbursement (within pre-defined limits) for services outside the network. The overall cost of health services during 2008 was 12 million euros. In 2008, in addition, a programme of voluntary vaccination was carried out, aimed at preventing influenza.

Supplementary Social Security

The implementation of the Private Social Security Plan for all employees was begun in Tim Brasil in 2006; by the end of December, 2008, the rate of enrolment reached 88% of employees, attesting to the high level of satisfaction with the service.

► Development

In the course of 2008, the implementation has continued of the development plans targeted at a group of key resources among senior and middle managers, and young people with high potential. This has taken the form of the evaluation, development and retention of these resources, promoting their growth over the medium term.

Several initiatives have therefore been undertaken in training and development – for individuals and groups – including, within the annual merit programme, specific actions to value and protect this group. The definition of Individual Development Plans and dedicated initiatives will be enlarged to the "knowledge people" who were identified during the knowledge review that was completed in 2008.

In parallel, in the first months of 2008, the management review was completed, making available evaluations of around 1,800 senior and middle managers in order to make better choices in the area of “succession management”, and of planning actions of organisational and managerial development.

The evaluation of the performance of the resources, which is followed by structured feedback, is also regularly carried out in Tim Brasil. To improve the level of preparation of all managers of resources, a course in feedback and coaching was held. During the year, 98.5% of eligible collaborators were evaluated, while 85.5% of managers of resources took part in the feedback and coaching training course.

Tim Brasil has also identified high potential resources (the so-called key resources) in order to manage the course of development, training and organisational mobility through dedicated plans. The methodology used to evaluate the potential of the resources is the Assessment Centre, which consists in implementing activities designed to identify abilities and strengths, and areas for further development. The knowledge reviews and management reviews are conducted regularly in Tim Brasil.

► Recruitment

The commitment of the Group during 2008 has been directed towards the implementation of various activities in collaboration with the academic world, with the aim of supplying a concrete contribution that is targeted at the training and development of the abilities of the young. This contribution is achieved through various initiatives, among which are: sponsoring study bursaries and the development of employer awareness projects and actions for a total investment of around 2 million euros.

In particular, during 2008, 25 initiatives were undertaken to sponsor study bursaries. Among the most important was: the Innovation Master’s, completely financed by Telecom Italia and developed in collaboration with Turin Polytechnic. Throughout the year, 11 young people from various parts of Italy took part in the second edition of the Master’s, having the opportunity to carry out their project work directly in the company. In parallel, planning was begun for the third edition; the invitation to take part attracted numerous young graduates from all over Italy, who underwent the selection process during December. From this intake, 22 young resources have been identified who will take part in the 2009 programme.

Also of importance was the investment made in sponsoring 40 study bursaries, granted to participants of two Telecom-TILS Masters in “Networking for Enterprise and Careers” and “Information and Communication Security”. From the two Master’s, 25 resources were hired as trainees in the last quarter of 2008, for the development of projects in the field of Technology & Operations.

The commitment to the creation of expertise has also been fulfilled through the hiring as trainees of new graduates in various disciplines from the main Italian universities.

In 2008, 169 young people were welcomed into the Group, for a financial investment of around 500,000 euros.

The Group has also maintained its presence in the university world through participation in workshops, job meetings and the delivery of lectures and talks by its managers. In 2008, we took part in 12 career days held across Italy: 3 in Rome, 4 in Milan, 1 in Turin, 1 in Pisa, 1 in Bologna, 1 in Naples and 1 in Catania.

Tim Brasil has favoured the recruitment during 2008 of personnel who were already providing services within the company. Among the recruitment programmes adopted are:

- “*Nosso Aprendiz*”, which promotes the training of young people aged between 16 and 24 for work in the call centres, or in customer reception in company outlets. A course of administrative training has been launched for juveniles to prepare them to enter the world of work. The programme, begun in 2008, has enrolled 144 participants.
- The “*Estágio Sem Fronteiras*” programme, which provides young university and technical students with the opportunity to carry out work experience in Tim Brasil, offering a chance to develop but also direct access to the jobs market, given that a high percentage (33%) of interns are recruited by Tim Brasil. Training activities are targeted at promoting business awareness and professional growth. In addition, all the trainees have been sent to take part in the “*Concurso sem Fronteiras*” programme, whose objective is to put forward a project that could contribute to the improvement of Tim Brasil.

► Training

In the Telecom Italia Group, training activities undertaken in 2008 amount, for personnel in Italy, to around 2 million hours (in classrooms, on-line and on-the-job training), as the following table shows, for direct costs of 25 million euros, excluding the costs of the work and travel expenses. In all, 71.5% of the Group's personnel have participated in at least one training session. As regards training in health and safety matters, see the relevant paragraph. For 2009, two initiatives are planned in the environmental field, and two in the management of diversity.

Hours and participants by professional category

	CLASSROOM, ON LINE, TRAINING ON THE JOB - TOTAL				CLASSROOM, ON LINE				TRAINING ON THE JOB			
	HOURS		PARTICIPANTS	COVERAGE	HOURS		PARTICIPANTS	COVERAGE	HOURS		PARTICIPANTS	COVERAGE
	TOTALS	PERCAPITA			TOTALS	PERCAPITA			TOTALS	PERCAPITA		
TOTAL	2,056,783	32.7	44,955	71.5	988,533	15.7	34,905	55.5	1,068,250	17.0	25,993	41.4
Senior Managers	30,012	27.0	826	74.3	29,988	27.0	826	74.3	24	0.0	3	0.3
Middle Managers	92,961	20.8	2,777	62.3	92,573	20.8	2,764	62.0	388	0.1	33	0.7
Office Staff/Workers	1,933,810	33.8	41,352	72.2	865,972	15.1	31,315	54.7	1,067,838	18.6	25,957	45.3

Activities fall into two areas: the first concerning cross-Group projects, the second in training aimed at ensuring and upgrading business and technological expertise.

Cross-Group projects

Following on from 2007, training sessions have been fulfilled on effective conduct, and on ICT scenarios for senior managers, middle managers and levels 6 and 7, which were designed to reinforce the spread of a uniform managerial culture.

The "Bridge the Gap" Project, begun in 2007, has involved top managers in high-level training initiatives, such as participation in seminars at International Business Schools and Learning Tours. The 2008 Training Plan on the Sarbanes Oxley Act - 404 has been completed, aimed at updating awareness about the implementation of the SOA, and about obligations arising from law 262/2006.

Concerning the introduction of the new Organisation Model 231, a training programme has been developed, divided into specific interventions aimed at Referents 231 and their collaborators, and at those resources that occupy roles within the company that have strong impact in terms of risk.

In addition, two editions of the "Trainers training" course have been held in order to furnish instruments for the effective classroom management for Telecom Italia personnel who are asked to deliver talks during internal and external training sessions.

Training to ensure business and technological effectiveness

Above all, this type of training involves updates on technological innovation, and empowering the expertise required for the Customer Care and Sales profiles, with particular attention to the topics Quality of Services and Customer Satisfaction.

For the Marketing Area (sales, marketing, strategy and customer care), the first edition was held of the MAKTEL (Marketing Actionable Knowledge Through Experiential Learning) Master's, a project aimed at junior specialists that is designed to make Telecom Italia a centre of excellence in marketing expertise.

In addition, specifically for the Marketing departments, five themed training courses have been held for the development and consolidation of specialised, management expertise.

Finally, a training programme has been launched, with two initial, experimental editions targeted at the Public Affairs and Regulatory Affairs Departments, which will be extended in 2009 to other Staff Departments, aimed at improving the collaborative relationship between these Departments and the Line Departments, under the rationale of business partnership.

In Tim Brasil, the average number of training hours was 72 hours per employee, augmented by e-learning.

The annual training plans for collaborators are decided at the moment of the evaluation of the service, once the training requirements have been identified.

Managerial training initiatives in Tim Brasil have involved around 800 employees and have been predominately centred on the role of the managers, on best practice achieved in Tim, on the expertise gaps discovered and on instruments for competing in the market place. The development of managerial expertise is also reinforced by participation in training programmes carried out in two leading Brazilian institutions.

The other initiatives carried out by Tim Brasil concern:

- behavioural training, which is designed to develop conduct and expertise, improving the effectiveness of collaborators;
- specialised training based on seminars and conference, designed to develop the technical expertise of collaborators. In 2008, workshops were conducted on 3G technology and on portability with all collaborators;
- MBAs and post-graduate courses;
- linguistic training aimed at collaborators who have direct contacts abroad, or who fill roles for which a good knowledge of a foreign language is necessary;
- specialised training, for the Sales Channels and Customer Care, concerning, in particular, promotions, products and customer assistance.

► Internal communication

The goal of paying ever greater attention to listening to and valuing its employees has been pursued and reinforced by internal communication, encouraging staff to participate in company events, with special emphasis on new ways of interacting via the web. Members of the Group's staff have been the subject of photographs, videos and stories that have enriched and empowered the company's media.

Scenarios

In May, the meeting "Towards Telecom 2015" of around 100 Top Managers was held in Venice to debate and compare various scenarios, and discuss the future of ICT businesses.

Listening activities and projects

In May, the sixth edition of the staff attitude survey was held, which involved Group personnel in Italy and abroad. On a scale of one to ten, the level of satisfaction expressed was 6.35 in Italy, 5.8 in Germany and 7.36 in Brazil.

At the end of 2006, in partnership with the Marketing departments, the listening project "The Lighthouse" was launched to encourage employees to put forward ideas and opinions on matters of interest to the company, and to test new products and services for the Group. So far, around 2,500 members are taking part in "The Lighthouse" club, involving the testing of services such as "Alice Messenger", "Wireless Connection Manager", "iKids" and "Dynamic TV".

Information and company media

- noi.magazine: three issues of the magazine were published.
- noi.flash: three editions have been produced: one dedicated to the reorganisation of Technology and Operations, one on Sustainability and one on broadband.
- agenda noi.2009: produced in the main languages of the Group, with articles and pictures submitted by colleagues.
- noi.tv: 88 editions of the bi-weekly news programme, "Videonews" have been produced, 66 monographic services, as well as 208 videos and selected articles from the press.
- Intranet: the development and launch of the company's blog platform, with experiments with "noi.space" and a "wiki."
- Intranet Hansenet: the launch and updating of Telecom Italia Kompakt.
- Radio Frizz: the Fixed Customer Care radio has been on line since April 3, 2008, with two editions a week.

Integration activities and projects

- The "Comunico-IO" project is intended to make communication easier for deaf employees, promoting integration in the company. The project has two phases:

- in the first phase, already completed, non-hearing employees received tools that allow them to communicate amongst themselves both in the Italian Sign Language and in Italian in written form, that is:
 - a mobile phone with a special, large, high-definition screen capable of reproducing Sign Language;
 - a web cam;
 - PC applications that allow real time “chatting”.
- In the second phase, now underway, a feasibility study is being conducted to prepare technology that allows non-hearers to communicate through the automatic conversion of written texts into speech and vice versa. The technology in question has been made available by Loquendo, a Telecom Italia Group company that is a leader in voice recognition.
- The “noi.perloro” community, launched in 2007 and inspired by the theme of voluntary social work, currently boasts the participation of hundreds of associations and Onlus. In December, 2008, “solidarity banquets” were staged in Turin, Milan, Mestre, Padua, Florence, Rome, Naples and Palermo. More than 40 of Telecom Italia’s fellow organisations participated, augmented by the involvement of Amnesty International, Save the Children and the Parents’ Oncological and Paediatrics Association (AGOP).
- The Intranet community has recorded an increase in participation by employees of 5% in each section in which it operates. Within the scope of the Intranet, a number of forums have been put into operation for sharing and gathering employees’ suggestions and ideas on themes such as the Quality of the Service (“Improvement by little steps”) and innovation in services and products (Next Open Innovation). Anyone who joins the Next Open Innovation forms part of a community of testers of the most advanced TLC services.
- The Archimedes project, a competition of ideas with four presentational road shows plus the prize-giving, was launched and involved 900 employees.
- In addition, a Quality of Services team building event (50 colleagues) was organised and there were four road shows for Open Access projects: Assurance (160 colleagues), Kick Off and Business Review (250 colleagues).
- Three sessions of the Management Technology & Operations Meeting were held with 1,200 employees, and the Innovation and Usability event (200 participants).
- For the Top Clients department, an event was staged at Ivrea (100 participants), and another in Madrid with the Best Performers Enterprise (100 participants).

Activities and projects involving employees

- *noi.shop*: ten new promotions were launched of products from Telecom Italia and its commercial partners, aimed exclusively at employees, with more than 30,000 visitors a month.
- In May, 2008, in Turin, on the occasion of the Book Fair, the prize-giving was held for the 2008 edition of “Have a story published in noi.magazine”, with four employees receiving prizes from the 700 stories submitted.
- For fixed Customer Care, a theatrical performance was staged entitled “*Isso, Essa e o’Customer Care*” with 190 participants.
- For the end of year festivities, cultural training visits were organised on themes such as innovation, quality and creativity, with the participation of around 1,000 employees in Turin, Vicenza, Parma, Rome, Caserta and Catania.
- The established tradition of Children’s Day continued in May, and this year it involved around 6,000 children of employees in 41 offices.
- Around 1,200 employees were involved in the observance of Seniority Day in Rome and Milan in December.
- Internal Communication’s volunteers’ network was hosted at Campus SDI in L’Aquila for three days of team building, with 140 participants.
- Around 100 employees were involved in an event at the Gallery of Modern Art in Rome, aimed at making an active contribution to the Internal Communication’s initiatives.

Among the main instruments of internal communication used in Tim Brasil are:

- TIM Express is a daily on line newsletter whose purpose is the disclosure of useful information in a standardised, organised way, through a single email.
- The “Atmosphere” magazine is delivered every two months to all Tim Brasil’s collaborators and contains, among other things, articles on best practice in the regions, national projects, new innovative services and the performance of the business. In addition, there are appropriate sections dedicated to employees with a story to tell, either about activities carried out within the company or about activities outside.
- TIM Mobile is the company’s noticeboard. This is used every week to present the news and internal/external campaigns of Tim Brasil.

Among other initiatives implemented by Tim Brasil are:

- the annual internal communication campaign, with the slogan “INOVA, UMA NOVA ERA”, was launched in April, 2008. The campaign is centred on four main issues Aptitude, Quality, Sustainability and Innovation;
- sessions demonstrating Tim services were staged to familiarise employees with the new 3G technology;
- the “Bazar Solidário”, which is repeated annually: company gadgets that were not used in events and actions during the previous year are offered to collaborators in exchange for food and drink products to be donated to charitable institutions. In 2008, the “Bazar Solidário” collected 2.3 tons of groceries;
- every year, on the occasion of World Environment Day (June 5), the company launches an internal information campaign with the aim of making Tim employees aware of their role in relation to natural resources and the environment. In 2008, the importance of simple actions was reiterated, such as practising differentiated waste collection, collecting used batteries, giving preference to the use of recycled materials, and water and energy saving. In addition, a leaflet was distributed to all collaborators containing suggestions for the protection of the environment and sustainable development;
- certain regions have set up a library room in their branches, open to all collaborators for the loan of books and DVDs. Books are frequently donated by employees. For the inauguration of each library, a campaign was launched to encourage colleagues to use the service.

► Health and Safety

During 2008, at Group level, certain specific projects/initiatives were carried forward or begun:

- Wellbeing in the care centres project
Under this project, begun in 2004, a survey was carried out of all operators in the Paduan call centre, later extended to the numerous call centres distributed around the entire country, using a new, computerised questionnaire prepared by Turin University, which involved a sample of around 3,000 workers.
Adjustments were carried out, in accordance with the Company/Union Organisations (OO. SS.) agreement on “wellbeing in the call centre”, signed on May, 2008, regarding the macro areas for improvement that were identified.
Meetings have been held with outside Bodies, including the requisite meetings at regional level with other interested parties (Representatives of Workers for Safety, the Joint Environmental Committee, etc.).
Moreover, the ergonomic/environmental campaign dedicated to the company’s call centres has been completed.
- The Drive Safely project
Nineteen editions of the theoretical-practical safe-driving course started in 2007 were staged for 681 technicians who frequently use vehicles in the normal course of their work. In addition, the awareness campaign created by the Service of Prevention, Protection and the Environment (SPPA), directed at operational personnel, has continued, with meetings supported with dedicated audiovisual equipment.
- Awareness campaign
New initiatives were launched, aimed at the promotion of safety in the workplace, among which were the drawing up and wide distribution of a new information leaflet on the subject, and a more systematic use of internal channels of communication.

In Tim Brasil, the “Prevention of Accidents in the Workplace Week” was launched, centred on four main themes: the environment, accident prevention, health care and the quality of life. A competition was launched in which collaborators designed projects to improve the quality of life in the company. The best projects will be implemented starting in 2009.

- Exposure to physical agents
The evaluation of the concentration of radon gas in certain types of workplaces has continued, through a scientific collaboration with the Higher Institute of Health to develop an operational methodology, and an accredited laboratory.
- Exposure to biological agents
In agreement with the Higher Institute of Health, the investigation has been extended to subterranean plant where Telecom Italia’s technicians work, as part of the widest possible process of evaluation of biological risk (Legionella).
- Site Sharing Project
Common protocols for managing safety-at-work issues in shared Radio Base Stations have been completed, in agreement with Vodafone.

Among the other activities undertaken to guarantee and promote the health and safety at work, the following are of particular importance:

- The up-dating of the company’s Risk Evaluation Document.
- Training in health and safety at work matters – 164,782 hours for workers exposed to specific risks, those responsible for emergency management, those who work at video terminals, newly recruited staff and/or those whose duties have changed.
- In the area of health supervision, 225 inspections were carried out by competent doctors and the SPPA in places where video terminals are used.
- Implementation of activities for the application of the Safety Management Systems in conformity with the OHSAS 18001 standard in certain organisational areas.
- Carrying out controls and monitoring of buildings, plant, equipment and processes. In particular, the following have been implemented:
 - 351 micro-climatic measurements in the call centres;
 - 124 measurements of noise pollution, and corrections.
- Carrying out of 304 evacuation rehearsals to check the efficiency of the Emergency Management Plans. In Tim Brasil, 9 rehearsals were carried out.
- Up-dating of 314 First Aid Operational Plans.

► Accidents

The data on accidents regarding Telecom Italia S.p.A. are presented below in comparison with data referring to the preceding year.

	2008	2007
Number of accidents	932	969
Severity index ^(*)	0.45	0.24
Frequency rate ^(*)	9.77	10.28
Average duration in hours	127.31	136.01
Rate of unproductiveness ^(*)	1.24	1.40
Accidents per 100 workers	1.63	1.62

^(*) The indices of severity, frequency and unproductiveness are respectively:
 - the number of conventional working days lost in the year for every thousand hours worked;
 - the number of accidents per every million hours worked;
 - the number of hours lost due to accidents for every thousand hours worked.

The increase in the index of severity is due to three fatal accidents that occurred during 2008, of which one was work-related and two unrelated to work (road accidents).

► Industrial relations

The year 2008 was crowded with union appointments and the results from negotiations.

On May 14, 2008, the Company signed an agreement, defining the new Productivity Bonus as valid until December 2011, with SLC-CGIL, FISTEL-CISL, UILCOM-UIL and the National Co-ordinating Committee of the RSU and, on May 15, 2008, with UGL Telecomunicazioni.

The amount of the Award, distributed every six months, is made up of 70% pegged to the company's economic performance (EBITDA), with the remaining 30% pegged to the level of Customer Satisfaction. It provides a system of annual distribution until 100% of the target is reached for the fifth level of the employee scale of 2,870 euros.

In addition, negotiations are underway with the Trade Union Organisations to define a third parameter of quality/productivity, differentiated for large-scale organisational areas, which will be introduced from January 1, 2009.

With specific understandings, the union agreement on the Productivity Bonus of Telecom Italia S.p.A. has been extended to Elettra Tlc S.p.A., IT Telecom S.r.l., Path.Net S.p.A., Telecom Italia Audit and Compliance Services Scarl.

This negotiation fell within the scope of wider company negotiations that saw the signing of the renewal of the company's regulations on reconciliation with the National Collective Work Contract. Specifically, the areas covered by the agreements were: working hours and availability, various permissions, training, illness, travel expenses and luncheon vouchers, an electronic union noticeboard and tele-working.

With specific understandings, the agreement on the secondary level of negotiations of Telecom Italia S.p.A. has been extended to IT Telecom S.r.l., Path.Net S.p.A., Telecom Italia Audit and Compliance Services Scarl.

The second level agreements were later signed with SLC-CGIL, FISTEL-CISL, UILCOM-UIL and the competent RSUs, both the regulatory part and the part dealing with performance-related pay for the companies: Telecom Italia Sparkle S.p.A., Elettra Tlc S.p.A., Loquendo S.p.A., TeleContact Centre S.p.A.

At the end of a broader phase of discussions in the headquarters of the joint Company-Union Commissions, on May 14, 2008, an agreement was reached with SLC-CGIL, FISTEL-CISL, UILCOM-UIL and the National Coordinating Committee of the RSUs on the subject of wellbeing in the call centres. The main interventions to improve working conditions in customer care were focused on the following areas: organisation of the work; valuing, training and updating personnel; working environments; reconciling the work-life balance.

On May 15, 2008, the understanding was also signed by UGL Telecomunicazioni.

Following the start, on June 26, 2008, of the mobility procedures under law no. 223/1991 for a total of 5,000 workers across the entire national territory, the relative agreements were reached, on September 19, 2008 at the Ministry of Labour, with SLC-CGIL, FISTEL-CISL, UILCOM-UIL, UGL Telecomunicazioni, CISAL Comunicazione, SNATER TLC and the RSUs.

These agreements allow the mobility placement, before December 31, 2010, of a maximum number of 5,000 workers, according to the priority criterion of maturation of the pension requirements during the period of mobility and for those workers who confirm their willingness to accept this option. The Company will, in addition, guarantee workers an amount no less than the net difference between 90% of their monthly wages and the mobility payment, in accordance with article 7 of the Law 223/91.

Within the scope of the overall agreement, the Company undertakes for the two years, 2009–2010 to proceed with the placement of 600 workers and, from January 1st, 2009, to make permanent the contracts of 300 leased workers presently in force. Finally, 1,600 workers at Telecontract Center S.p.A. will be upgraded from 50% part-time working to 75%, during the period 2009–2010.

On October 28, 2008, a further agreement was signed with SLC-CGIL, FISTEL-CISL, UILCOM-UIL and the competent RSUs on mobility procedures under law 223/1991 for Telecom Italia Sparkle S.p.A.

The agreement allows a maximum of 65 mobility placements during the period 2008-2010.

Moreover, on December 11, 2008, Olivetti S.p.A. and Olivetti I-Jet S.p.A. have started with FIM-

CISL, FIOM-CGIL, UILM-UIL and the competent RSUs, the specific mobility procedures under law 223/1991, involving 80 and 25 employees, respectively.

Following the presentation to the financial community of the Strategic Plan 2009-2011, on December 10, 2008, the Plan has been presented to the leadership of the Union Organisations and follow-up meetings have been scheduled to evaluate the organisation's development and the implications for employment.

In Tim Brasil, the collective union agreements of 2008 are coherent with the current economic, political and juridical scenario of the country. Three agreements have been negotiated by Tim Brasil with the two federations that represent the entire workforce, FITTEL and FENATTEL, concerning:

- economic and social conditions;
- the company's profit-sharing programme;
- the hourly rate of pay. On the basis of this agreement, overtime hours may be met by a reduction in the normal working hours or in days off in the three months following the completion of the overtime; after that period, employees will be paid for outstanding overtime.

In 2008, the reduction of the working week from 44 to 42 hours in 2009, and 40 hours a week in 2010, was agreed in negotiations.

Finally, wages will be increased by 6% from July, 2009.

► **Remuneration policy**

The policies and systems of remuneration have been directed during 2008 towards fairness, internal coherence and market competitiveness.

The management of the fixed component is based on the criterion of greater selectivity, aimed at prioritising resources with personal characteristics of excellence and holding key organisational roles.

The variable component in remuneration has been established as a distinctive element, with ever closer correlation between the remunerative package and the performance and revenue of the company.

The Management By Objectives (MBO) 2008 system, the sole, official instrument of short-term incentivisation aimed at the managerial group and to professionals of particular value, has reinforced the importance given to the company's general objectives and to those set for company departments.

The harmonisation of the company's remunerations systems of subsidiary companies abroad has continued. In particular, in Hansenet (Germany), the MBO has been applied to all management, according to the same guidelines introduced in 2008 for Italian management.

Tim Brasil guarantees that the remuneration of its employees is in line with the internal levels of seniority in the company and market standards.

The salary policy includes fixed remuneration and variable remuneration which, at the organisational level, may be pegged solely to the company results, or also to personal results.

Other than the MBO programme and the incentive programme for the sales force, Tim Brasil has adopted the "Participação nos Lucros e Resultados" (PLR) under which a part of the company's profits are redistributed among employees, as required under a federal law. All the Group's employees, except those with the right to MBO, take part in the programme, which has proved to be a valid instrument for improving the quality of the service and productivity.

During 2008, the collective contracts of all the operational companies were renewed.

► **Performance Share Granting**

In the course of 2008, a plan was begun for awarding shares to top management at no cost, dependent on the attainment of pre-established performance goals pegged to Telecom Italia's Total Shareholder's Return (TSR TI) according to two criteria, absolute (on which 20% of the full award depends) and relative (80% of the full award) as measured against variations in the share prices of European telecommunications companies on the TLC sector of the Dow Jones Stoxx index.

The Plan will last for three years, from July 1st, 2008, to June 30th, 2011, with maturation of share allocation rights at the end of the period.

► Stock Options

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

In the course of 2008, a new stock option Plan was initiated within Telecom Italia S.p.A. (the “Top Plan 2008”), approved by the Shareholders’ Meeting on April 14, 2008, the implementation of which was decided by the Board of Directors in the meeting of April 15, 2008.

The Plan is reserved to the Top Executives of the Company and consists in granting options to acquire ordinary shares in Telecom Italia S.p.A., up to 3,000,000 for the President and 8,400,000 for the Managing Director, at the option price of 1.95 euros. The Plan envisages the maturation of the right of acquisition of shares in the course of three years from their being assigned, an exercise of option period of three years’ duration and, for 25% of the options, availability based on the relative performance of Telecom Italia’s Total Shareholder Return measured against the 10 main companies of the DJ STOXX TLC index.

At December 31, 2008, the Group’s existing Stock Option Plans were related to options giving the right to shares in Telecom Italia S.p.A. and Telecom Italia Media S.p.A.

At December 31, 2008, the Group’s existing *stock option* Plans were related to options giving the right to shares in Telecom Italia S.p.A. and Telecom Italia Media S.p.A.

Telecom Italia

In the course of 2008, the deadline passed for exercising options relative to:

- the first lot of the stock option 2002 Plan;
- the first lot of the stock option 2002 Top Plan;
- the first lot of the stock option 2003-2005 Plan (ex TIM);
- all lots of the stock option 2000-2002 Plan (ex TIM);
- all lots of the stock option 2002-2003 Plan (ex TIM).

In addition, the exercising of options of existing Plans was suspended during the Shareholders’ Meeting from March 31, 2008 to April 18, 2008, in accordance with relevant Regulations.

Telecom Italia Media

In the course of 2008, the deadline passed for exercising options relative to:

- all lots of the key people stock option Plan;
- all lots of the stock option 2005 Plan.

In addition, the exercising of options of existing Plans was suspended during the Shareholders’ Meeting from March 27, 2008 to April 12, 2008, in accordance with relevant Regulations.

The essential elements of the stock option Plans of Telecom Italia and Telecom Italia Media are summarised in the Note “Further information – Telecom Italia Group’s stock option Plans” in the Consolidated Financial Statement.

Communication with the market and investors is conducted on the basis of the criteria of transparency, fairness, clarity and equal access to information.

Shareholders

► Strategy

Group companies are committed to ensuring equal treatment for all classes of shareholders and avoiding biased behaviour. The advantages that come from belonging to a Group must be pursued in accordance with applicable laws and regulations and without prejudice to the interest of each company in the profitability of its activities and the creation of value for its shareholders.

► Financial communication

In 2008, the most important event in the area of financial communication was the meeting with the Financial Community, which was held in Milan on March 7, and the updating of the strategic plan, which took place in London on December 3. During the latter meeting, Telecom Italia laid out for the Financial Community its strategies and objectives for the three-year period, 2009-2011. Moreover, the company organised more than 200 formal meetings with the market (financial analysts, institutional and individual investors) consisting of conference calls, road shows and participation in sector conferences, in addition to regular contacts through face-to-face meetings and telephone conversations.

Of particular importance was the financial communication aimed at investors with a specific focus on Socially Responsible Investing (SRI), conducted in concert with the Group Sustainability department. In their choice of investments, SRI investors favour those companies that can demonstrate they pay particular attention to ethical, social and environmental issues, without detriment to economic considerations. One road show was aimed specifically at SRI investors and was staged in two European markets (Paris and Frankfurt).

With regard to the relationship with individual shareholders (retail) who today represent – in terms of sole possessors of ordinary shares - nearly 630,000 individuals, Telecom Italia's strategy is aimed at widening the channels of financial communication in order to respond in an efficient manner to the ever more numerous requests for information and speedy updates on the Group.

The central tool in this strategy is the Shareholders' Club, "TI Alw@ys ON" (www.telecomitaliaclub.it). Launched in 2006, the Club is a virtual meeting place for the company and its individual investors and is also open to anyone who wishes to receive information on the progress of the shares on the financial markets, and how the Group is developing its business. Even those who do not own shares in the Company can, in fact, sign up for basic membership of the shareholders' club and obtain the same free services reserved for shareholders, which include:

- SMS alert, which every day reports the closing price and the percentage variations of Telecom Italia's ordinary and savings shares compared to the previous day, as well as the daily percentage variations in the S&P/Mib index;
- Weekly Market report, a summary of the week's progress, sent out every Friday evening within an hour of the close of trading on the markets;
- Quarterly Newsletter, commenting on the most recent financial-economic results together with the latest news from the Group, technological and marketing updates, interviews with managers, results from businesses abroad and future diary events.

Telecom Italia also supplies shareholders with the Individual Shareholder Guide, a detailed document concerning the Group which is available to anyone who requests it, and can be viewed on the company website.

From September, 2008, the Investor Relations department has, in addition, strengthened its organisational structure through the creation of a specialised facility for managing relations with bondholders.

Regarding financial communication on line, Telecom Italia's company website (<http://www.telecomitalia.it>) has been further updated, resulting once again this year in an excellent placing for the Group in the classification drawn up by the Swedish company, Hallvarsson & Halvarsson, a world leader in financial communication.

► Safeguarding privacy and data protection

Telecom Italia Group is firmly committed to acting in accordance with the regulations on the protection of personal data (Decree Law 196/03, the so-called "Privacy Code"),

To this end, Telecom Italia's organisation model is based on central departments that supervise, at Group level, the correct application of regulations in the sector.

The adoption of legal measures and the stipulations of the Privacy Guarantor is assured by constantly updating the regulations and policies of the Group in the light of actual experience and any organisational changes undertaken. Specifically, in 2008, the Group's guidelines were updated to bring operational procedures and information systems in conformity with privacy requirements in handling customer, or ex-customer, information. Furthermore, a review was held of the Group's policies on the self-evaluation of the security measures adopted for the treatment of personal information entrusted to third parties (suppliers, consultants etc.) and new guidelines have been issued for the treatment of personal data in computer processing concerning, in particular, the handling of system-access passwords, the recording of operations carried out (audit log) and the compliance requirements for environment-specific information technology systems.

Regarding data protection, a wide-ranging project was launched in 2008 to further raise the level of information protection both for voice and data traffic, with regard also to the specific rules of the Privacy Guarantor for suppliers of electronic communications services (Provision of 17/01/2008).

The principal change is the introduction of robust authentication systems for digital and physical access to information systems containing data on traffic, including biometric recognition for those responsible for systems dedicated to services for the judicial authorities. The action plan, which will be finished in the early months of 2009, provides for the adaptation of information systems, arrangements for operational processes, communication activities, training and the Help Desk.

It has been continued the dissemination of a privacy culture within the company through training sessions, which, in 2008, covered, in particular, the prerequisites of compliance with regulations on the treatment of customer information in the marketing and customer care departments.

The effective application of the regulations is monitored through a control system based on regular self-evaluation procedures by those responsible, and on random checks carried out by the relevant central departments, based on procedures and methodologies worked out with the contribution of the Group's Auditing and Compliance firm. In 2008, control activities were focused in particular on the sales network, in the light also of certain, general provisions adopted by the Privacy Guarantor;

as part of this process, checks were also carried out on the treatment of customer information by dealers and commercial partners. Other checks were carried out on customer care operations and debt recovery, as well as the implementation status of privacy compliance in certain subsidiary companies. Furthermore, a dedicated team from the Group's Auditing and Compliance Company has carried out dozens of checks at company and third party premises (for example, suppliers of software services) on the adoption of the security measures for the protection of personal data. Finally, in accordance with rule 26 of attachment B (Technical Regulations on minimum security measures) of the Privacy Code, Telecom Italia declares it has drawn up the Data Security Planning Document (DPS) for 2008. This Document lays out the technical and organisational criteria adopted for the protection of personal data, be it of a general, sensitive or judicial nature, that is processed by information technology, as well as the training schedule for those responsible for the treatment of data.

► Risk Management

Since 2003, Telecom Italia Group has used the CRSA (Control & Risk Self Assessment) as the governance instrument of company risk management through which the identification, assessment and management of operational risks is achieved.

The CRSA is based on the self-assessment of risk by management with the aid of qualitative and quantitative evaluations and parameters, followed by the identification of the existing control systems and any proposals for their improvement.

The cycle of detection and management of risk through CRSA requires the drafting of an Action Plan to deal with the Consolidated Risk Portfolio at the Central Departments/Operations/Business Unit levels, broken down into the usual operational phases:

- the definition of the Group's objectives by Senior Management;
- the elaboration of the Group's objectives by the company structures within their own organisational context;
- the identification of those risks that may impede the attainment of the objectives;
- communication of the risks to senior company management and their consolidation through the creation of "cross-company portfolios";
- evaluation of the consolidated risks in terms of impact, probability of occurrence and the assignment of a qualitative-quantitative coefficient;
- identification of those risks considered acceptable and those which require protective measures;
- the development of an Action Plan incorporating the protective measures;
- the adaptation of the internal control system, with follow up actions, where necessary.

The management of the various phases is underpinned by a web-based information system that integrates the CRSA and APM (Action Plan Monitoring) systems and makes possible the management and automatic monitoring of the Action Plan defined during the CRSA, in a similar way to that already carried out for the Action Plan that emerged from the audit.

New strategic directions and objectives for the Group were drawn up during 2008 for the three years 2009-2011.

► Corporate governance

Hereinbelow is reproduced an excerpt from the "Annual Report on Corporate Governance" (hereinafter "Report"), published in an autonomous document having the same title, to which reference is made for the consultation of the complete text (also available, as well as all other corporate governance documents mentioned herein – principles, codes, procedures, charts, tables – at the Company's website: www.telecomitalia.com, under "Governance"; see, in particular, under "Corporate Governance", "Corporate Governance Reports", where all the Annual Reports on Corporate Governance – starting from 2004, are reproduced).

Structure of the paid-up capital

The subscribed and paid-up share capital on December 31, 2008 is shown in Table 1, attached to the complete text of the Report.

The Company's ordinary and savings shares are listed on Borsa Italiana and on the New York Stock

Exchange in the form of American Depositary Shares, each of which corresponds to 10 ordinary shares or 10 savings shares as the case may be, represented by American Depositary Receipts issued by JPMorgan Chase Bank.

The bonds issued by the Company that give holders the right to subscribe for newly issued shares are shown in Table 2, attached as well to the complete text of the Report.

For information on Telecom Italia's existing stock option plans and the capital increases for their implementation, see the notes to Telecom Italia's financial statements for the year ended December 31, 2008.

Restrictions on voting rights and the transfer of securities

The bylaws contain no restrictions on the voting rights attached to Telecom Italia's ordinary shares or on their being freely available, except for what is laid down in Article 22 concerning the special powers granted to the Ministry for the Economy and Finance under Law 474/1994, which include the power to oppose the acquisition of holdings of more than 3% of the voting capital.

Savings shares do not carry the right to vote in ordinary shareholders' meetings.

Significant shareholdings

According to the information available, the following are the significant holdings of Telecom Italia's ordinary share capital:

Declarant	Type of ownership	% of ordinary shares	% of voting shares
Telco S.p.A.	Direct	24.503%	24.503%
Findim Group S.A.	Direct	5.006%	5.006%

In addition, the following have disclosed the availability of ordinary shares exceeding 2% of the ordinary share capital in their capacity as asset management companies:

- Brandes Investment Partners LP, which on July 23, 2008 reported a holding of ordinary shares equal to 4.024%;
- Alliance Bernstein LP, which on November 14, 2008 reported a holding of ordinary shares equal to 2.069%.

Securities giving special rights

No securities are issued giving special rights with regard to the control of Telecom Italia.

Employee share ownership: mechanism for exercising voting rights

At present there is no programme promoting employee share ownership.

Shareholders' agreements

Telco S.p.A. (Telco) is Telecom Italia's main shareholder. In turn Telco is owned by Intesa San Paolo S.p.A. (10.6%), Mediobanca S.p.A. (10.6%), Sintonia S.A. (8.4%), companies belonging to the Generali Group (28.1%) and Telefónica S.A. (42.3%).

On the basis of information in the public domain, on April 28, 2007 the shareholders of Telco signed an agreement that, among other things, lays down the criteria for nominating its slate of candidates for the positions of director of Telecom Italia:

- Telefónica, if it possesses at least 30% of Telco's share capital, will be entitled to nominate two candidates;
- the other shareholders of Telco, if they possess the absolute majority of its share capital, will be entitled to nominate the other persons on the slate, of whom three candidates chosen unanimously and the others on a pro rata basis.

The shareholders' agreement provides for the Telecom Italia Group and the Telefónica Group to be run autonomously and independently. In particular, the directors nominated by Telefónica in Telco and Telecom Italia will receive instructions from Telefónica not to take part or vote in board meetings that discuss and propose resolutions concerning the policies, management or operations of companies directly or indirectly controlled by Telecom Italia that supply services in countries where there are legal or regulatory restrictions or limitations to Telefónica's exercise of its voting rights.

On November 19 the agreement was amended to take account of the ruling handed down by

the Brazilian regulator for the telecommunications industry (Anatel) on October 23, 2007 and published on November 5, 2007 (the Anatel Decision), whereby:

- Telefónica and the directors/officers nominated by Telefónica may not participate, vote or veto resolutions in meetings of shareholders', the board or committees or organs with equivalent functions of Telco, Telecom Italia or any other company controlled by Telecom Italia when the subject matter concerns engaging in telecommunications activity in the Brazilian market. In addition, Telefónica may not indicate directors or officers (i) of companies with their registered office in Brazil that are controlled by Telecom Italia and supply telecommunications services in the Brazilian market or (ii) of companies with their registered office in Brazil controlling such suppliers of telecommunications services;
- Telefónica must take steps to ensure that its subsidiaries supplying telecommunications services in the Brazilian market do not enter into certain types of relationship with the companies controlled by Telecom Italia that supply telecommunications services in the Brazilian market, on terms and conditions different from those envisaged by the provisions of Brazilian law applicable to telecommunications;
- Telefónica, including where it exercises the right to acquire shares of Telco, may not exercise direct or indirect control over any company controlled by Telecom Italia in Brazil;
- the parties to the agreement must give instructions to the members of the Board of Directors of Telco they have respectively nominated and to the members of the Board of Directors of Telecom Italia nominated by Telco for: (i) separate agendas to be prepared for the meetings of the Boards of Directors of Telco, Telecom Italia and Telecom Italia International N.V. and every other company with its registered office outside Brazil that is controlled by Telecom Italia and has investments in the Brazilian telecommunications sector in which the directors nominated by Telefónica are allowed to attend and for the meetings in which the participation of the directors nominated by Telefónica is not allowed; and (ii) a copy of the agendas and minutes of the meetings referred to in point (i) is to be delivered to Anatel within a time limit of 30 days.

The restrictions and limitations referred to above will also apply in the event of Telco's spin-off.

In accordance with the Anatel Decision, Tim Brasil Serviços e Participações S.A., Tim Celular S.A. and Tim Nordeste S.A., controlled by Telecom Italia, filed their constituent instruments with Anatel on November 22, 2007 in order to comply with the measures and procedures requested by the Anatel Decision to ensure the separation of the activities of the Telecom Italia Group and the Telefónica Group in Brazil.

Subsequently, on May 2, 2008, they proposed a series of additional measures in pursuit of the same aim. On July 31, 2008 Anatel approved the constituent instruments filed on November 22, 2007 after finding full compliance with the restrictions imposed by the Anatel Decision in this respect. Approval of the additional measures filed on May 2, 2008 is still pending.

In accordance with the above, the directors Alierta and Linares undertook not to take part or vote in meetings of the Board of Directors (or the Executive Committee) when the subject matter concerned the activity of Telecom Italia or its subsidiaries in the Brazilian or Argentine telecommunications market and – in general – whenever the interests of the Telecom Italia Group might be prejudiced.

Lastly, on December 2, 2008 the Board of Directors adopted an internal procedure that formalizes the previously existing separation between the activities of the Telecom Italia Group and the Telefónica Group on the Argentine telecommunications market.

Appointment and replacement of directors

Article 9 of the Company's bylaws provide for the Board of Directors to be made up of not less than seven and not more than nineteen members, elected on the basis of slates presented by shareholders who together hold at least 0.5% of the ordinary share capital:

- four fifths of the directors to be elected are chosen from the slate that obtains the majority of the votes cast by the shareholders, in the order in which they are listed on the slate; in the event of a fractional number, it is rounded down to the nearest whole number;
- the remaining directors are chosen from the other slates. To that end, the votes they obtain are divided successively by whole numbers from one up to the number of directors to be chosen and the quotients obtained are assigned to the candidates on each slate in the order specified thereon. The quotients assigned in this way are arranged in a single decreasing ranking and the candidates elected are those coupled with the highest quotients.

In appointing directors who for any reason have not been chosen pursuant to the procedure specified above, the shareholders' meeting votes using the majorities required by law.

Mandates to increase the share capital and authorizations to purchase treasury shares

Until May 6, 2009 the Directors may increase the share capital in one or more tranches by means of cash issues of up to a maximum of 1,600,000,000 ordinary shares, all or part of which:

- to be offered with the right of pre-emption to shareholders and holders of convertible bonds, or
- to be offered for subscription to employees of Telecom Italia S.p.A. and its subsidiaries,

and may also issue, in one or more tranches, convertible bonds up to a maximum amount of euro 880,000,000.

The shareholders' meeting held on April 14, 2008 authorized the buyback of up to a maximum of 11,400,000 ordinary shares by October 14, 2009 for the stock-option plan reserved to the executive directors. The purchases must be made on regulated markets, in the manner prescribed by the applicable laws and regulations. The consideration must be between a minimum and a maximum corresponding to the weighted average of the official prices of the ordinary shares recorded by Borsa Italiana in the last ten trading days prior to the purchase, respectively decreased and increased by 10%.

Change-of-control clauses

A series of agreements to which Telecom Italia is a party require the Company to notify any change of control. In the first place such an obligation, provided for by national legislation on authorizations, is contained in the general licences granted to Telecom Italia for the running and supply of electronic network communications and in the general concessions/licences granted to TI Media for operating networks and providing content. A similar obligation governed by applicable local law is contained in concessions/licences to provide telecommunications services granted to foreign subsidiaries of the Group (notably in Bolivia and Brazil).

Telecom Italia is also a party to agreements in which change of control entails modification or even termination of the relationship. Some of these cases, not concerning loan agreements, are subject to confidentiality constraints such that disclosure of the existence of the change-of-control clause would cause serious harm to the Company, which consequently invokes the right not to disclose its existence pursuant to the second part of paragraph 1.h) of Article 123-bis of the Consolidated Law on Finance. In other cases the agreement is deemed not to be material.

There remain the following cases, all of which concern loan agreements.

- Multi-currency revolving credit facility (euro 8,000,000,000). The loan agreement was concluded by Telecom Italia with a syndicate of banks on August 1, 2005 and subsequently amended. In the event of a change of control Telecom Italia must inform the agent within 5 business days and the agent, acting on behalf of the lending banks, will negotiate in good faith on how to continue the relationship. None of the parties are obliged to continue the negotiation beyond 30 days. If this time limit expires without an understanding, the facility will cease to be effective and Telecom Italia will be required to repay the amounts it has received (currently equal to euro 1,500,000,000). Conventionally, there is not deemed to be a change of control when control, as defined by Article 2359 of the Civil Code, is acquired: (i) by shareholders who at the date the loan agreement was signed held, directly and indirectly, more than 13% of the voting rights in the shareholders' meeting; (ii) by the investors (Telefónica, Assicurazioni Generali, Sintonia, Intesa Sanpaolo and Mediobanca) who on April 28, 2007 signed a shareholders' agreement in relation to Telecom Italia shares; or (iii) by some combination of the two categories referred to above;
- Term Loan facility (euro 1,500,000,000). The loan agreement was concluded by Telecom Italia with a syndicate of banks on December 8, 2004 and subsequently amended. The rules are basically the same as those of the facility referred to above. The total amount actually disbursed under this facility is currently equal to euro 1,500,000,000;
- Bond loans. The terms and conditions of the loans issued under the EMTN Programme by Olivetti and Telecom Italia and of the loans denominated in US dollars typically provide that, in the event of a merger or the transfer of all or substantially all of the assets of the issuer or the guarantor, the merging company or the company to which the assets are transferred must assume all the obligations of the merged company or the company whose assets are transferred. Failure to fulfil the obligation, without this being remedied, constitutes a default event;

- contracts with the European Investment Bank (EIB). The contracts concluded by Telecom Italia with the EIB, for a total maximum amount of approximately euro 2.5 billion, require Telecom Italia to notify the EIB promptly of changes concerning the bylaws and the distribution of the capital among the shareholders capable of leading to a change of control. Provision is made for termination of the contract in the event of failure to make such notifications and when a shareholder who did not hold at least 2% of the capital when the contract was signed comes to hold more than 50% of the voting rights in the ordinary shareholders' meeting or of the share capital if the EIB reasonably considers that this may cause it harm or compromise the implementation of the project financed.

Indemnity of directors in the event of resignation, dismissal or termination of the relationship following a takeover bid

For the Chairman and the Managing Director (Gabriele Galateri di Genola and Franco Bernabè) provision is made if the appointment is interrupted before the end of the mandate established by the shareholders' meeting held on April 14, 2008 (i) for objective reasons (such as the merger of the Company or the termination of the entire Board of Directors pursuant to Article 9.12 of the bylaws), (ii) at the initiative of the Company (except in the case of just cause) or (iii) at the initiative of the interested parties for just cause (e.g. change in the position, especially with reference to the delegated powers, or significant changes in the composition of the reference shareholders), for payment of the remuneration due until the end of the mandate, supplemented by an indemnity equal to one year's remuneration. In the case of the Managing Director, the payment also includes the variable component, calculated as the average of the disbursements already made or, in the absence thereof, as the target value.

Compliance

Telecom Italia complies with Borsa Italiana's Self-Regulatory Code and since 2000 has provided information on the development of its system of corporate governance in its annual and half-yearly reports.

Telecom Italia is also subject to US law as a foreign issuer registered with the Securities and Exchange Commission and listed on the New York Stock Exchange. Accordingly, as specified in the Company's Self-Regulatory Code, the Board of Statutory Auditors performs the tasks entrusted to the audit committee under US law.

Telecom Italia's strategic subsidiaries include the companies belonging to the Tim Brasil group, of which the holding company Tim Participações S.A. (indirectly controlled by Telecom Italia) is a Brazilian company listed in Brazil; this company is also registered with the Securities and Exchange Commission and listed on the New York Stock Exchange.

Direction and coordination

Telecom Italia is not subject to direction and coordination as referred to in Article 2497 et seq. of the Civil Code.

Composition of the Board of Directors

Tables 3 and 4, attached to the complete version of the Report, show information on the members of the Board of Directors as of February 27, 2009 and on those whose directorships ended during the 2008 fiscal year.

Cap on offices held in other companies

Under the Company's Self-Regulatory Code the position of Telecom Italia director is not compatible with membership of the board of directors or auditors of more than five companies other than companies that are directed and coordinated by Telecom Italia or are Telecom Italia subsidiaries or affiliates, when the companies in question:

- are listed and included in the S&P/MIB index and/or
- operate prevalently in the financial sector on a public basis and/or
- engage in banking or insurance.

When it is a case of executive positions in companies of the types specified above, the limit is reduced to three. The Board of Directors may nonetheless make different individual evaluations, which may be based on other criteria.

In its meeting on February 27, 2009 the Board of Directors checked that the directors in office complied with the rules on the cap on offices held in other companies contained in the Company's Self-Regulatory Code.

The shareholders' meeting of April 14, 2008 authorized the Directors to continue the activities indicated in the *curricula vitae* they submitted with their candidacies and voted to free them from the ban on competition referred to in Article 2390 of the Civil Code.

Board of Directors

Board meetings in 2008: 10 (of which 8 subsequent to the election of the new board by the shareholders' meeting on April 14, 2008)

Average length of meetings: 3 hours

Attendance rate (new board): 93.5% (100% for the independent directors)

Number of meetings planned for 2009: 7

Telecom Italia's Self-Regulatory Code reserves an active role to the Board of Directors both in the strategic guidance of the Company and in the control of operations, with the full Board empowered to formulate strategy and responsible for intervening directly in decisions having the greatest impact on the activity of the Company and the Group. In particular, the tasks of the Board of Directors include:

- examining and approving strategic, business and financial plans and the budget;
- examining and approving strategic transactions;
- verifying the adequacy of the organizational, administrative and accounting structure, with special reference to the internal control system;
- preparing and adopting the Company's corporate governance rules and drawing up the Group's governance guidelines;
- specifying the limits to delegated powers, the manner of exercising them and the frequency with which bodies with such powers must report on the activity performed in exercising them;
- nominating the persons who are to hold the offices of Chairman and CEO in strategic subsidiaries;
- assessing the overall performance of operations and periodically comparing the results achieved with those planned.

The strategic transactions to be submitted to the Board for its prior approval include:

- agreements with competitors of the Group that, owing to the subject, the commitments, the conditionings and the limits capable of deriving from them, have a lasting influence on the freedom of strategic business choices;
- deeds and transactions that entail the entry into (or exit from) geographical and/or product markets;
- business investments and disinvestments exceeding euro 250 million;
- purchase and sale deeds referring to companies or business units that are of strategic significance in the overall framework of the business or exceed euro 250 million;
- purchase and sale deeds of controlling or affiliation shareholdings exceeding euro 250 million or (even if less) in companies carrying out activities included in the core business of the Group, and the conclusion of contracts for the exercise of rights attaching to such shareholdings;
- the taking out of loans and the granting of loans and guarantees in favour of non-subsidiary companies for amounts exceeding euro 250 million;
- transactions referred to above to be carried out by unlisted subsidiaries of the Group, except for subsidiaries of listed subsidiaries;
- the listing on or the delisting from European and non-European regulated markets of financial instruments issued by the Company or companies belonging to the Group;
- the instructions to be given to listed subsidiaries (and their subsidiaries) in the performance of the Parent Company's direction and coordination function in relation to the carrying out of transactions having the characteristics referred to above.

In light of the effective Group operations, the Board of Directors meeting of February 27, 2009 amended its Self Regulatory Code increasing the threshold for the Board's decision on the receiving of loans and guarantees to euro 500 million.

The assessment of the performance of operations is based on a continuous flow of information

coordinated by the Chairman of the Board of Directors and directed towards the non-executive directors and the members of the Board of Statutory Auditors. Assessments are made at intervals in the various meetings, notably with a comparison of the results achieved with those budgeted during the examination of the financial reports.

The Board of Directors assesses the adequacy of the organizational, administrative and accounting structure of the Company on the basis of information made available by the management and, with specific reference to the internal control system, in light of the results of the investigations carried out by the Internal Control and Corporate Governance Committee. In performing its function as the body primarily responsible for the internal control system, the Board of Directors also avails itself of:

- the person responsible for internal control, chosen from within the internal auditing function, which is entrusted to the consortium company Telecom Italia Audit & Compliance Services;
- with reference to internal controls in relation to financial reporting, the manager responsible for preparing the Company's financial reports.

Pursuant to the Self-Regulatory Code, related-party transactions carried out by the Company, directly or via subsidiaries, including intragroup transactions, must comply with criteria of substantial and procedural correctness. The Board of Directors monitors this compliance through the Internal Control and Corporate Governance Committee.

In its meeting on March 6, 2008 the Board of Directors adopted a set guidelines, which – on the basis of predefined qualitative and quantitative criteria – assign the preliminary verification of such transactions directly to the management, a special management committee or the Internal Control and Corporate Governance Committee.

The annual board assessment has shown directors to be generally satisfied, but with some matters indicated for analysis and discussion with a view to putting forward constructive suggestions.

As regards the composition of the Board of Directors, the assessment saw the expression of an opinion in favour of an increase in the number of independent directors (currently 5 out of 15). The recommendation is directed towards the shareholders and confirms the belief in the positive contribution that such directors can make to discussions within the Board and to the latter's external credibility. As to the functioning of the Board of Directors, some suggestions were made for improvement, essentially in connection with the preparation of meetings. In this respect all the directors considered the information received before meetings to be adequate, but, although noting an improvement, several directors recommended that the documents in question should be distributed earlier.

Bodies with delegated powers

The authority to grant delegated powers to directors and revoke such mandates is reserved to the Board of Directors, which also establishes their objects, limits, manner of exercise and the intervals – of not more than three months – at which persons with delegated powers must report on their activity, the general results of operations, and the transactions of greatest economic, financial and balance sheet significance.

On April 15, 2008 the Board of Directors appointed Gabriele Galateri di Genola Chairman of the Board and Franco Bernabè Managing Director.

In addition to legal representation of the Company, the Chairman was assigned the following powers:

- supervision of the preparation of strategic, business and financial plans and their development and implementation;
- supervision of the design of organizational structures;
- supervision of the economic and financial performance;
- responsibility for overseeing the examination and definition of the strategic guidelines for the internal control system.

The Managing Director – in addition to legal representation of the Company and all the powers, to be exercised with a single signature, needed to carry out all the acts involved in the Company's various activities, without any exceptions – was assigned responsibility for the overall governance of the Company and the Group and, in particular with:

- responsibility for drawing up, submitting to the Board of Directors and subsequently developing and implementing the strategic, business and financial plans;
- responsibility for defining the organizational arrangements;
- all the organizational responsibilities involved in ensuring the operation and growth of the business, by coordinating the organizational aspects not entrusted to the Chairman.

Executive Committee

Number of meetings in 2008: 4
Average length of meetings: 2 hours and 45 minutes
Attendance rate: 93% (100% for the independent directors)
Number of meetings planned for 2009: 4

In its meeting on April 15, 2008 the Board of Directors created an Executive Committee made up of the executive directors (who ensure coordination with the management of the Group) and the non-executive directors. The Committee is chaired by the Chairman of the Board and its members are shown in Table 5, attached to the complete text of the Report.

The Committee is charged with monitoring the performance of operations at Company and Group level, approving the executive directors' proposals for macro organizational arrangements, submitting opinions to the Board on the budget and the strategic, business and financial plans of the Company and the Group and performing any other tasks delegated by the Board of Directors. The Committee reports to the Board of Directors on the activity it has performed in the most suitable manner and in any case on the occasion of the next meeting of the Board.

Independent directors

Telecom Italia has adopted the criteria established by Borsa Italiana's Self-Regulatory Code for determining whether directors qualify as independent.

In its meeting on February 27, 2009 the Board of Directors verified that the individual directors indicated in Table 3 satisfied the independence requirements of Article 147-ter, paragraph 4, of Legislative Decree 58/1998 and that the Board as a whole satisfied the composition requirements (at least two directors satisfying the independence requirements laid down by law for the members of the Board of Statutory Auditors).

Lead Independent Director

The Lead Independent Director is currently the Chairman of the Internal Control and Corporate Governance Committee and member of the Supervision Panel set up under Legislative Decree 231/2001.

The Lead Independent Director is intended to provide a point of reference and coordination for the needs and inputs of the independent directors. In performing this function, he may use the Company's structures and call special meetings of the independent directors (Independent Directors' Executive Sessions) to discuss issues related to the working of the Board of Directors or the management of the business. In 2008 two such sessions were held.

As laid down in the Company's Self-Regulatory Code, the Chairman of the Board of Directors also avails himself of the collaboration of the Lead Independent Director to improve the working of the Board (including the choice of matters to be discussed in collegial meetings).

Treatment of corporate information

Telecom Italia has special procedures for classifying and handling information from the point of view of its confidentiality.

It has also adopted a procedure for the internal management and external disclosure of documents and information concerning the Company, with special reference to inside information. The procedure governs the management of inside information concerning Telecom Italia, its unlisted subsidiaries and listed financial instruments of the Group and is addressed to all the members of the governing bodies, employees and outside collaborators of Group companies who have access to potentially inside information. It also gives instructions to all subsidiaries for the purpose of promptly obtaining the information needed for timely and correct compliance with public disclosure requirements.

The procedure also governs the register of persons with access to inside information referred to in Article 152-bis et seq. of Consob Regulation on Issuers.

Board Committees

In addition to the Executive Committee referred to above, the following committees consisting of members of the Board of Directors have been established: the Internal Control and Corporate Governance Committee and the Appointment and Remuneration Committee; their functions are governed by the Company's Self-Regulatory Code.

Appointment and Remuneration Committee

Number of meetings in 2008: 10 (of which 6 subsequent to the election of the new board by the shareholders' meeting on April 14, 2008)

Average length of meetings: 2 hours

Attendance rate (subsequent to the election of the new board): 100%

As of 2000 there has been a committee charged with putting forward proposals for the remuneration of the directors who hold particular offices and criteria for the remuneration of the Company's senior management. In its meeting on April 15, 2008 the Board of Directors decided to morph this committee into an Appointment and Remuneration Committee.

In its present configuration the committee continues to be charged with advisory functions and the formulation of proposals:

- concerning the remuneration of the directors who hold particular offices in order to ensure alignment with the objective of creating shareholder value over time;
- concerning the periodic evaluation of the criteria for the remuneration of the Company's senior management and the adoption, acting on a proposal from the Managing Director, of stock option or share award plans;
- concerning the monitoring of the application of the decisions adopted and Company policies in relation to the compensation of top management.

These tasks have been supplemented by that of proposing candidates for appointment to the Board of Directors in the event of the replacement of an independent director during the Board's term of office. The members of the Appointment and Remuneration Committee must all be non-executive directors, a majority of whom must be independent and at least one must have been chosen from a minority slate. For the committee's composition, see Table 5, attached to the complete text of the Report. The activity performed in 2008 concerned the system of remuneration applicable to the Company's executive directors (Chairman and Managing Director), among other things with a view to the renewal of the Board of Directors.

In addition, with reference to the system of remuneration applicable to the Company's management, the committee examined the terms and conditions and beneficiaries of the Performance Share Granting plan for the award of ordinary shares to the management, launched in August.

Directors' Remuneration

The compensation received in 2008 by directors and general managers is shown in Note 44 to Telecom Italia S.p.A.'s annual financial statements.

Following the shareholders' meeting held on April 14, 2008 the Board of Directors divided the total compensation of euro 2.2 million approved by the shareholders for the three years 2008-2010 as shown below:

- euro 110,000 to be paid to each director in office;
- an additional euro 35,000 to be paid to each member of the Executive Committee;
- an additional euro 45,000 to be paid to each member of the Internal Control and Corporate Governance Committee;
- an additional euro 20,000 to be paid to each member of the Appointment and Remuneration Committee;
- an additional euro 20,000 to be paid to the director appointed to the Supervision Panel set up under Legislative Decree 231/2001.

The Chairman and the Managing Director have been awarded a fixed component of compensation for the position – on top of that paid under Article 2389, first paragraph, of the Civil Code – amounting respectively to euro 1,300,000 and euro 1,400,000. In addition the Managing Director benefits from a payment for retirement benefits equal to 10% of his fixed compensation and is entitled to a short-term variable component based on the Company's economic results and a series of operational objectives. The value of this incentive ranges from 50% to 200% of the fixed component and is linked to the achievement of predetermined objectives. Each objective is measured on a scale that goes from 50 percentage points, corresponding to the minimum level of achievement of the objective, to 100 points, corresponding to the target level of achievement, to 200 points, corresponding to the maximum level of achievement; the intermediate levels of achievement are measured on a straight line basis.

The objectives are as follows:

- Return on Investment (30% share of the variable compensation);
- Net Cash Flow before Dividends (30% share of the variable compensation);
- Customer Satisfaction (weighted average of the fixed/mobile indices calculated using the American Customer Satisfaction Index (ACSI) methodology; 30% share of the variable compensation);
- Innovative Revenues (percentage ratio of VAS Mobile turnover to total turnover of mobile and ICT and fixed Internet; 10% share of the variable compensation).

Gabriele Galateri di Genola and Franco Bernabè have also been awarded respectively 3,000,000 and 8,400,000 stock options under the plan approved by the shareholders' meeting held on April 14, 2008. The plan is described in detail in the information document published pursuant to Article 84-bis of Consob's Regulation on Issuers.

The non-executive directors receive the compensation resulting from the division of the total retribution approved by the shareholders' meeting held on April 14, 2008, as specified earlier. Accordingly, their compensation is not linked to the Company's economic results.

The compensation of managers with strategic responsibilities has a variable component linked to the Company's economic results and/or to the achievement of specific objectives set within an MBO framework.

In its meeting on August 8, the Board of Directors also decided to implement the Performance Share Granting plan for the award of ordinary shares to the management, which the shareholders' meeting had approved in April 2007. The aim of the plan is to provide incentives, enhance the loyalty and foster the retention of top management by means of remuneration in the form of equity, which rewards the creation of shareholder value (measured with reference to Total Shareholder Return), thereby aligning the interests of shareholders and the beneficiaries of the plan.

The plan consists in the assignment to the beneficiaries (identified among the managers of Telecom Italia and its subsidiaries with a strategic role) of the right to receive a number of ordinary shares of the Company up to a predetermined maximum and dependent on the period of participation in the plan and the degree to which specific share performance objectives are achieved.

The information document prepared for when the plan was launched can be consulted in the Governance section of the Company's website.

In its meeting on February 27, 2009 the Board of Directors took note of the new group of managers with strategic responsibilities (known as executive officers and key managers), following the implementation of the customer-centric organization, with effect from January 2009.

The Managing Director has identified these persons in the light of the strategic priorities of the 2009-2011 business plan as those who *pro tempore* are: the Chief Financial Officer, the Heads of Domestic Market Operations, Technology & Operations, Disposals, Director Presidente of Tim Brasil, Human Resources and Organization, General Counsel & Corporate and Legal Affairs, and Purchasing, supplemented by the Chairman of the Board of Directors and the Managing Director.

The total compensation disbursed in 2008 to managers recognized as having strategic responsibilities is given in aggregate form in Note 44 to Telecom Italia's annual financial statements.

Internal Control and Corporate Governance Committee

Number of meetings in 2008: 8 (of which 5 subsequent to the election of the new board by the shareholders' meeting on April 14, 2008 and 4 held jointly with the Board of Statutory Auditors)

Average length of meetings: 2 hours and 30 minutes

Attendance rate (subsequent to the election of the new board): 95% (100% for the independent directors)

Set up in 2000, the Internal Control and Corporate Governance Committee is charged with advisory functions and the formulation of proposals. In particular, it:

- assists the Board of Directors and, at his request, the Managing Director in the performance of tasks in matters concerning the Company's internal control system;
- evaluates the work plan prepared by the person responsible for internal control, who is required to send the Committee periodic reports (on a quarterly basis);
- assesses – together with the persons in charge of administrative affairs, the manager responsible for preparing the Company's financial reports and the external auditors – the correct use of accounting standards and their uniform application within the Group for the purpose of preparing the consolidated financial statements;

- evaluates the proposals made by the external auditors in order to be awarded the appointment, the audit plan and the results set out in their report and any letter of suggestions;
- reports to the Board of Directors on the activity it has performed in the first suitable meeting and in any case on the adequacy of the internal control system on the occasion of the meetings held to approve the annual financial statements and the half-yearly report.

The Committee also:

- supervises the effectiveness of the audit process, compliance with the standards for carrying out related-party transactions (with generalized ex post monitoring and ex ante examination of some important transactions), and compliance with the rules of corporate governance and their periodic updating;
- expresses its opinion on the proposals for appointing, removing and assigning duties to the person responsible for internal control and the manager responsible for preparing the Company's financial reports;
- defines the procedures and time limits for conducting the "board performance evaluation";
- performs the additional tasks that may be assigned to it by the Board of Directors.

With reference to the oversight of internal controls, in 2008 the Committee again undertook to oversee the matters involving the former head of the Security Department, Giuliano Tavaroli, including in court proceedings. Among other things this activity involved careful oversight of the initiatives and measures adopted with regard to compliance with the rules on privacy and the handling of traffic data.

The Committee also closely followed the work of maintaining and updating the so-called 231 Organizational Model (see below).

The members of the Internal Control and Corporate Governance Committee must all be non-executive directors, a majority of whom must be independent and at least one must have been chosen from a minority slate. For the committee's composition, see Table 5, attached to the complete version of the Report. All the members have had accounting and financial experience.

Internal control system

The internal control system is a process made up of rules, procedures and organizational structures and designed to pursue substantial and procedural correctness, transparency and accountability, values that are considered fundamental for Telecom Italia's business dealings, as laid down in the Group Code of Ethics and the Company's Self-Regulatory Code. The aim of the process is to ensure that the management of the business is efficient and can be known and verified, that accounting and operational data are reliable, that applicable laws and regulations are complied with, and that the assets of the business are safeguarded, not least with a view to preventing fraud against the Company and financial markets.

As the body responsible for the internal control system, the Board of Directors lays down the guidelines for the system and verifies its adequacy, efficacy and proper functioning, while making sure that the main operational, compliance, economic and financial risks are appropriately identified and managed. In performing this responsibility, the Board, in addition to the Internal Control and Corporate Governance Committee, uses a person endowed with an appropriate degree of independence and adequate means to be responsible for the internal control function (as explained in earlier Corporate Governance Reports, the Chairman of Telecom Italia Audit & Compliance Services).

The functions assigned to this person are to assist in verifying the adequacy and efficacy of the internal control system and, where anomalies are found, to propose appropriate remedies. The person responsible for internal control reports to the Internal Control and Corporate Governance Committee and to the member of the Board of Directors responsible for the internal control system (at present the Chairman of the Board of Directors).

In 2005 the position of Group Compliance Officer was created with a view to better coordinating the development and maintenance of the internal control system. The Group Compliance Officer performs a role of liaison and coordination among the plans for the improvement of the Group's internal control system and is responsible for monitoring and facilitating the relationship between management and the internal control system, so as to guarantee, with the assistance of Telecom Italia Audit & Compliance Services, methodological correctness in the management of risk.

The Company's internal control system is completed by the so-called 231 Organizational Model, which is divided into "general internal control principles", "behavioural principles" (consisting of

a set of rules for relations with representatives of governmental bodies for corporate issues and transactions involving shares and other securities of the Company) and “internal control checklists” specifying the main stages of every process, the offences that may be committed in relation to individual processes and the control activities to prevent the related risks from arising. In 2008 the 231 Organizational Model was updated (in the light of changes in the law) and improved (to reflect the results of the model’s application and the suggestions made by an external consultant).

Monitoring of the functioning and compliance with the model is performed by a Supervisory Panel made up of a member of the Board of Statutory Auditors (Chairman), an independent director on the Internal Control and Corporate Governance Committee and the head of the internal control system in the person of the Chairman of Telecom Italia Audit & Compliance Services. The Panel, reappointed on April 15, 2008 following the renewal of the Board of Directors (by the shareholders’ meeting held on April 14, 2008) reports to the Board of Directors, the Internal Control and Corporate Governance Committee and the Board of Statutory Auditors on the checks performed and their results.

In addition, with the aim of providing operational support to the Supervisory Panels of Group companies a special unit (the Compliance Support Group) has been created within Telecom Italia Audit & Compliance Services to handle reports of violations of the organizational model and conduct compliance audits on the basis of the data received in connection with the information flows that have been put in place within the Group.

With regard to the undertakings approved in December by the Competition Authority, at the closing of the A/375 procedure (claiming abuse of dominant position, created through illegitimate strategies of retention and win back) the Board of Directors has resolved to amend the Group’s Code of Ethics and Conduct to strengthen the concepts of fair and even competition, with particular regard to a commitment for accurate information regarding competitor operations.

Person responsible for internal control

The Board of Directors has chosen the consortium company Telecom Italia Audit & Compliance Services (of which Telecom Italia Media is also a partner and which performs internal audit functions for the partners and their subsidiaries) to be responsible for assisting with verifying that the internal control system is always adequate and fully operational.

Telecom Italia Audit & Compliance Services has an adequate level of independence (it is not responsible for any operational areas and does not depend hierarchically on anybody responsible for an operational area) and suitable means for the performance of its functions, which include providing support to the Company’s administrative and control bodies in verifying the adequacy and efficacy of the internal control system and, where anomalies are found, to propose appropriate remedies.

The person responsible for internal control:

- reports to the designated director, the Internal Control and Corporate Governance Committee (and thus the Board of Directors), and the Board of Statutory Auditors;
- carries out checks at the request of the manager responsible for preparing the Company’s financial reports;
- ensures compliance with the principles and values set out in the Code of Ethics of the Telecom Italia Group, investigates reports by employees and third parties of legal and regulatory violations and irregularities (including those of an accounting nature) and promotes suitable remedies, including proposals for punishments.

External auditor

Reconta Ernst & Young S.p.A. is charged with auditing the annual financial statements of Telecom Italia S.p.A. and the consolidated annual financial statements of the Telecom Italia Group and with making a limited review of the Telecom Italia company and consolidated half-yearly reports and with auditing the annual report prepared in accordance with US securities laws. The engagement will terminate with the 2009 annual financial statements.

Manager responsible for preparing the Company’s financial reports

Following the resignation during 2008 of Enrico Parazzini from the positions of General Manager and Head of the of the Finance, Administration and Control Department, the new Head of the of the Finance, Administration and Control Department, Marco Patuano, was appointed “Manager responsible for preparing the Company’s financial reports” (the Manager).

On a self-regulatory basis the Board of Directors has taken it upon itself to fill this position and has specified the related duties and powers in an *ad hoc* regulation. The Manager is charged by law with putting adequate administrative and accounting procedures in place for the preparation of the company and consolidated annual financial statements and every other communication of a financial nature; the regulation imposes a functional responsibility (organizational and by field) with respect to the internal controls for financial reporting and specifies that in this respect the Manager responsible for preparing the Company's financial reports is to be supported by the executive directors and the Company's management.

The Manager reports to the Board of Directors, the Internal Control and Corporate Governance Committee and – for matters for which it is competent – the Board of Statutory Auditors.

Interests of directors and related-party transactions

In March 2008 the Board of Directors replaced the existing procedure for related-party transactions with a more comprehensive set of procedures whereby decision-making roles and responsibilities are classified according to the types of activity involved.

In particular, provision has been made for a distinction between transactions according to whether or not they are deemed to be part of the ordinary course of business and therefore require or not an escalation of the authorization process depending on the manner of determining the conditions of the relationship with the related-party, distinguishing between unalterable "other-directed" conditions and competitive conditions (where the risk of conflicts of interest is excluded *in re ipsa*) and conditions comparable to market conditions (i.e. at arm's length). The matrix for verifying and approving related-party transactions (which is in addition to the usual internal authorization procedure) is determined on the basis of the importance of the transaction, in terms of duration and value, and entrusted either to a manager, or to a management committee (made up of the Group Compliance Officer, the Chief Financial Officer, the General Counsel and the senior manager reporting directly to the Managing Director competent for the transaction), or to the Internal Control and Corporate Governance Committee. Provision is made for each procedure to be replaced by that of the next level up and for ex post monitoring of the whole process by the Internal Control and Corporate Governance Committee.

To foster compliance with the principles of conduct for transactions with related parties, since July 2008 a computer application has been available that makes it possible in each case to verify the nature of the party's relationship with Telecom Italia and establish the correct authorization procedure. The application also ensures the traceability of related-party transactions.

Appointment of statutory auditors

The Board of Statutory Auditors is made up of 5 statutory auditors. The shareholders' meeting also appoints four alternates.

The Board of Statutory Auditors is elected in accordance with the applicable laws and regulations on the basis of slates presented by shareholders who alone or together with others hold a total number of shares representing at least 0.5% of the voting ordinary share capital.

The slates are divided into two sections: one for candidates to the position of statutory auditor and the other for candidates to the position of alternate. Three statutory auditors and two alternates are chosen from the slate that obtains the majority of votes cast (the Majority Slate), while the remaining statutory auditors and alternates are chosen from the other slates (the Minority Slates), without prejudice to the provisions of laws and regulations limiting the link with the Majority List. To that end, the votes obtained by the Minority Slates are divided successively by one and two and the quotients obtained are assigned to the candidates in one or the other section in the order specified. The quotients assigned in this way to the candidates on the various slates are arranged in single decreasing rankings, one for statutory auditors and the other for alternates. In both cases the candidates who have obtained the two highest quotients are elected.

In the event of the termination of the appointment of a statutory auditor chosen from the Majority Slate or one of the Minority Slates, the replacements shall be chosen, according to age, from among the alternates elected respectively from the Majority Slate or the Minority Slates. In the event of the termination of the appointment of a statutory auditor chosen from one of the Minority Slates, the principle of the necessary representation of the minority shareholders is deemed to be complied with in the event of the appointment of an alternate chosen from the Minority Slates.

Board of statutory Auditors

Table 7, attached to the complete text of the Report, shows information on the membership of the Board of Statutory Auditors.

The three-year mandate of the Board of Statutory Auditors will expire with the approval of the financial statements for 2008. The shareholders' meeting is therefore invited to elect a new control body.

Investor relations

A member of the Telecom Italia staff (Ms Elisabetta Ripa) has been appointed investor relations manager to handle dealings with the Italian and international financial communities and with all the Company's shareholders. A specific section of the Company's website contains information for present and potential shareholders and investors (including bondholders).

Shareholders' meetings

Under Article 19 of the bylaws, shareholders may attend shareholders' meetings when the Company has received the communication referred to in the second paragraph of Article 2370 of the Civil Code, at least two days prior to the date set for each meeting.

Telecom Italia does not require shareholders to block their shares to be eligible to attend a meeting, instead they must deposit them, i.e. give the intermediary that keeps the relevant accounts instructions to make the communication referred to above. This does not prevent subsequent withdrawal of the shares; although if they are withdrawn, the earlier deposit ceases to be effective for the purpose of entitlement to attend the meeting. Any requests for advance notice to perform the relevant formalities or unavailability of shares to be deposited as a consequence of intermediaries' market practices may not be imputed in any way to the Company.

Ordinary shareholders may vote by mail or be represented by a proxy in the form of a legal or natural person.

In order to facilitate the collection of proxy forms among employees of the Company or its subsidiaries who hold ordinary shares of the Company and belong to shareholder associations satisfying the requirements established by law, special areas are made available where information can be provided and proxy forms collected.

To ensure the regular conduct of shareholders' meetings, from 2000 the Company has adopted a set of Meeting Regulations.

Auditors' report

(Translation from the original Italian text)

To the Board of Directors of
Telecom Italia S.p.A.

1. We have carried out the compliance procedures and analyses of the Sustainability Report of the Telecom Italia Group as of December 31, 2008, described in paragraph 2 of this report.

The procedures were carried out to evaluate the Board of Directors' statements, included in paragraph "References and Governance" of the Sustainability Report of the Telecom Italia Group as of December 31, 2008, which describes the criteria and methods adopted for the preparation of the Sustainability Report. The preparation of the Sustainability Report is the responsibility of Telecom Italia S.p.A.'s management.

2. In order to evaluate the Board of Directors' statements mentioned in paragraph 1, we have performed specific procedures, which are summarized below:
 - verified that the financial data and information are consistent with those included in the Group's consolidated financial statement for the year ended December 31, 2008, approved by the Board of Directors, with respect to which we issued our audit report dated March 16, 2009;
 - analyzed the operation of the processes underlying the generation, recording and management of quantitative data. In particular, we have performed the following procedures:
 - interviews and discussions with management and personnel, to obtain an overview of the activity of the Telecom Italia Group, to gather information on the information technology, accounting and reporting systems used in preparing the Sustainability Report, and to document the processes and procedures used to gather, combine, process and transmit data and information of the Group's operating units and areas to the department responsible for preparing the Sustainability Report;
 - sample-based analysis of supporting documentation used in preparing the Sustainability Report to confirm the reliability of the interview-derived information, the effectiveness of processes and their adequacy in relation to business objectives, and the operation of the internal control system in managing the data and information;
 - analyzed the completeness and consistency of the qualitative information included in the Sustainability Report. This activity was carried out in line with the above-mentioned criteria;

- verified the stakeholder involvement process, in terms of the methods used, completeness of the stakeholders and analysis of data and significant findings in this respect, as compared to the information reported in the Sustainability Report;
- obtained the representation letter signed by the legal representative of Telecom Italia S.p.A., attesting the reliability and completeness of the Sustainability Report, and of the information and data contained therein, as well as its compliance with the criteria and methods mentioned in paragraph 1.

The Sustainability Report presents the prior year's data and information for comparative purposes, with respect to which reference should be made to our report dated April 18, 2008.

3. Based on the procedures performed, we believe that the Sustainability Report of the Telecom Italia Group as of December 31, 2008 complies with the criteria and methods which form the basis of its preparation which are described in the paragraph "References and Governance" of the Sustainability Report. Moreover, the financial data included in the Sustainability Report agree with the data and information included in the Group's consolidated financial statement and the other data and information are consistent with the documentation and meet the content requirements established by the criteria and methods governing the preparation of the Sustainability Report.

Milan, Italy
April 6, 2009

A handwritten signature in black ink, appearing to read 'Nadia Locati'.

Reconta Ernst & Young S.p.A.
Signed by - Nadia Locati, Partner

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