

Telecom Italia Group and Intangibles



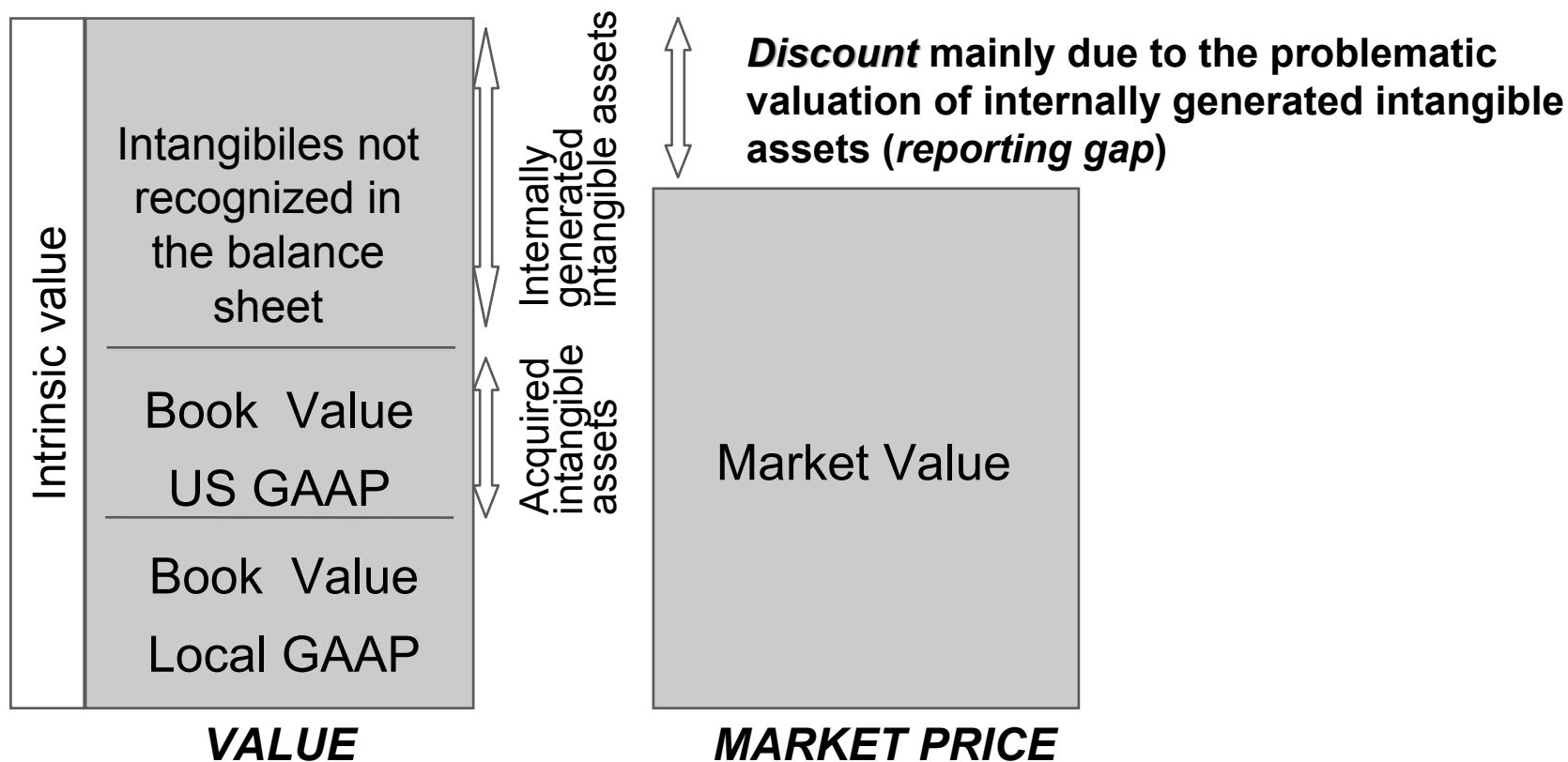
*A bridge between financial and non financial
performance in the Telecommunications sector*

Telecom Italia Group and Intangibles

- **Intangibles: overview of the project**
- **Sustainability and value creation**

Project scope

To decrease the gap between the *intrinsic value* and the *market value* of equity by **merging financial and non financial information** (i.e. lowering the *reporting gap*)



The measures that most suffer the reporting gap (R.G. Eccles *et alia*, 2001)

The reporting gap (*)

Very Large

Employee retention rate

Customer turnover rates

Product development cycle time

Employee acquisition costs

Intellectual capital

Customer acquisition cost

Large

Speed to market

Brand development costs

Reject rates

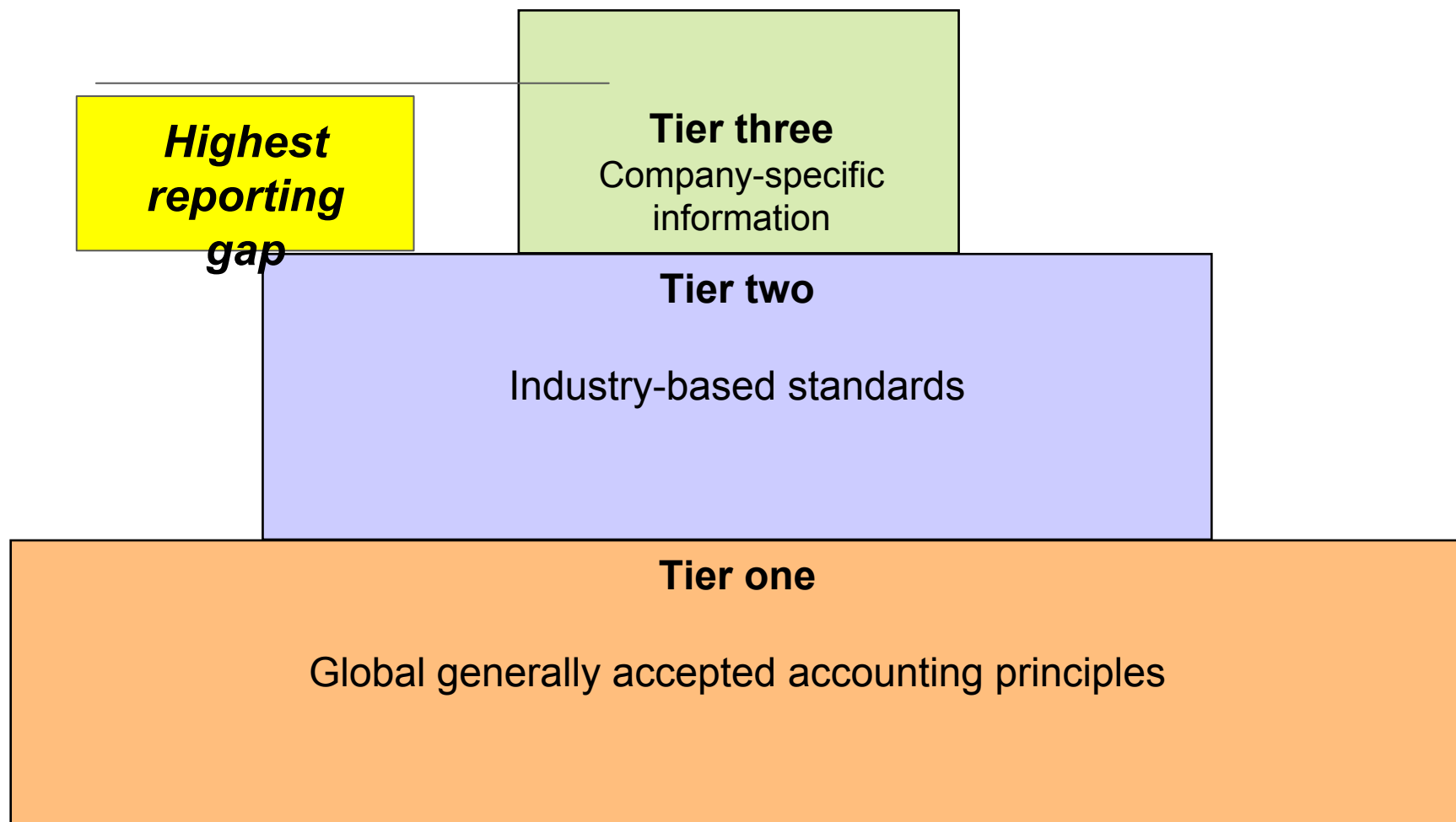
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(*) Reporting gap = the difference between the importance managers attach to a measure and how actively they work to report it (R.G. Eccles *et alia*, 2001).

The 3 tiers in Corporate disclosure



The Sustainability behaviours more directly tied to the value of the intangible assets

Methodology

We regressed the P-to-BV ratio of each company in the S&P 500 with:

- 1) **KLD social ratings** (14 *ratings*)
- 2) the **ROE spread** and the **growth spread** (g-k) (as control variables)

and we found that some ratings are important to explain the valuation levels expressed by the financial markets.

Summary of the findings

Three ratings help to explain the P-to-BV expressed by Wall Street:

COM-con

=

Score on **Community concerns**
(investment controversies, negative economic impact & other concerns)

PRO-str

=

Score on **Product strengths** (quality, R&D/Innovation, Other strengths)

EMP-str

=

Score on **Employee Relations strengths**
(strong union relations, no-layoff policy, cash profit sharing, employee involvement, strong retirement benefits, other strengths)

Conclusions:

The EVA (ROE-k) remains the main determinant of the P-to-BV ratio
but

The sustainability of EVA depends on the Sustainability ratings

An example: Motorola

	PTBV	Financial Performance			KLD Ratings		
		ROE	K	g	COM Con	EMP Str	PRO Str
Motorola, Inc.	2,58	5%	10%	10%	100%	200%	200%
Forecasted PTBV (full info)	2,42						
Forecasted PTBV (without ratings)	1,14						

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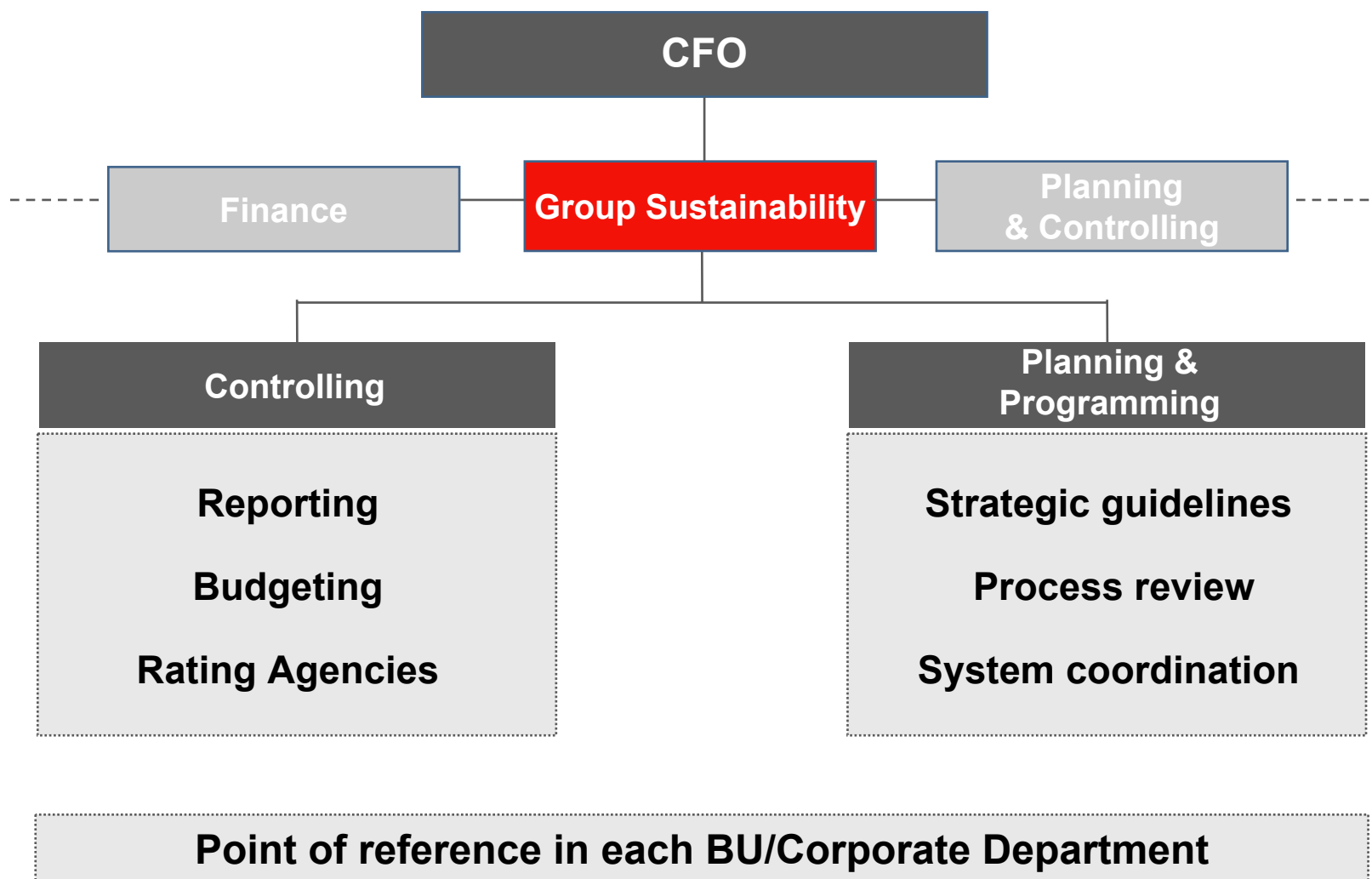
Definition

Sustainability for Telecom Italia Group means :

- ▶ **“Business value, a tool for programming, management and control”**
M. Tronchetti Provera

- ▶ **“Pursuing the highest achievable equilibrium among the stakeholders' interests”**
C.O. Buora

Organizational model



Process

Corporate

Business Units

Corporate / BU

Corporate / BU

**Planning
& Programming**

Acting

Controlling

Reporting

**Model and
definition of
KPIs**

**Sustainability
targets**

**Strategic
Sustainability
Plan**

KPI management

**Current projects
management**

**New projects
proposals**

**KPIs & projects
monitoring**

**Variance
assessment**

**Performance
review**

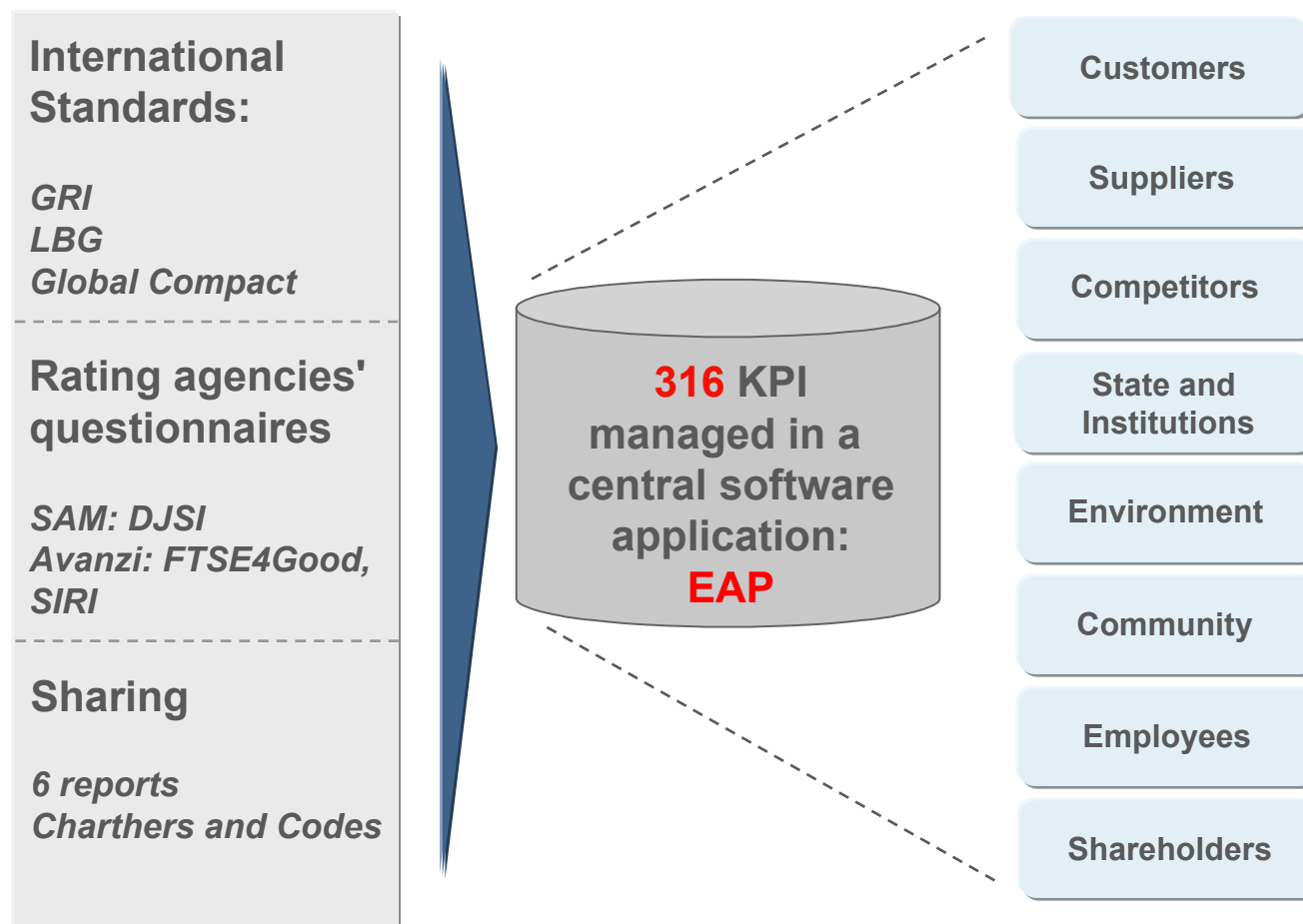
**Follow up and
corrective actions**

**Sustainability
Section in
financial reports
(annual and half-
year)**

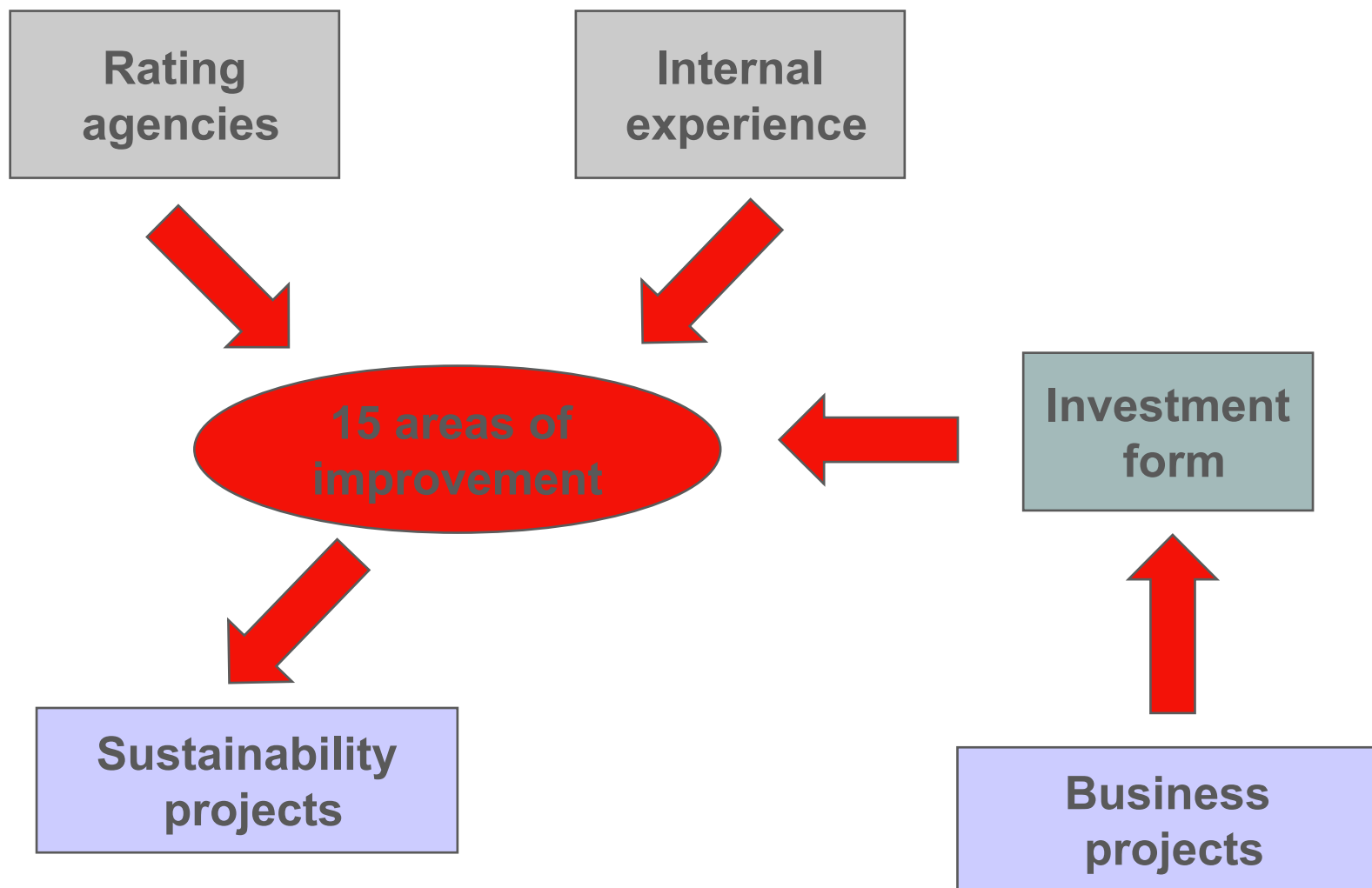
Main achievements

- ▶ Advanced **internal reporting system** fully developed
- ▶ Integration of
 - Sustainability report into the Annual Report
(**Triple Bottom Line**)
 - Strategic Sustainability Plan into the
Industrial Plan
- ▶ Inclusion in specific **equity indexes**

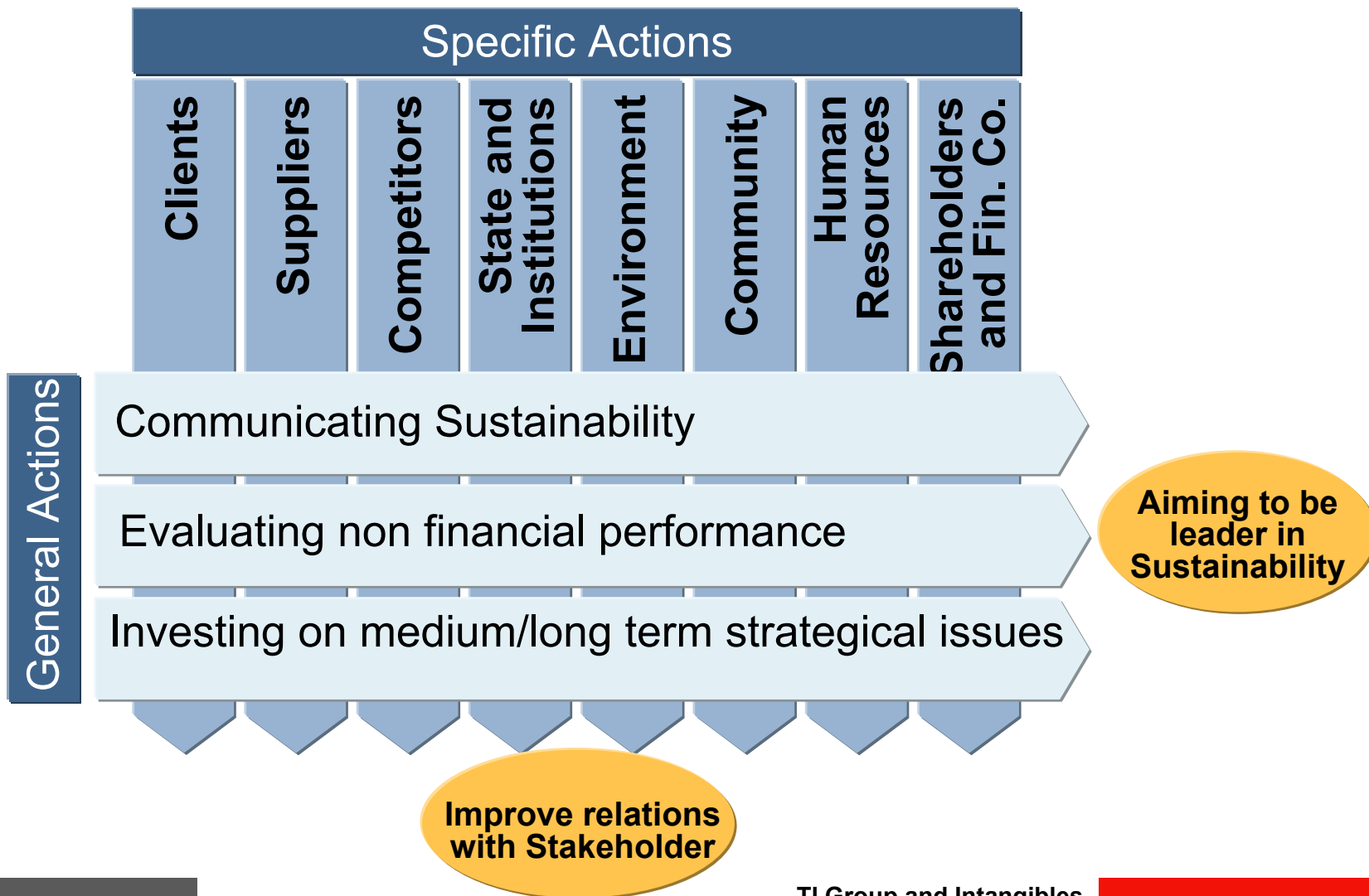
Key Performance Indicators



Project Management



Strategic actions



Leadership in Sustainability

- ▶ TI included among the first 100 Companies in the *Survey of Corporate Sustainability reporters* (UN, Standard & Poor's)
- ▶ TI included in the Dow Jones Sustainability Indexes
- ▶ TI and TIM confirmed in FTSE4Good Global 100 and Europe 50
- ▶ TI and TIM included in Aspi Eurozone Index
- ▶ TI and TIM confirmed in the index ESI, run by the Belgian agency Ethibel
- ▶ TI and TIM confirmed in E.Capital Partners indexes

Conclusions

Leadership in Sustainability increases the value of intangible assets (non financial performance)

Non financial performance has an impact on the financial performance



The world of Sustainability and the financial markets are getting closer and closer