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The Sustainability Report of the Telecom Italia Group has been prepared voluntarily by Telecom Italia SpA based on data drawn from internal sources (draft annual report, consolidated Group report, proprietary reports and other Company documents), applying the indicators and standards quoted in the text. The document has been prepared solely for information.

The Sustainability Report has been verified by the auditing company, Reconta Ernst & Young S.p.A., for an opinion on conformity.

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■ CHAIRMAN'S LETTER



Growth in the world economy, globalization, the new information and communication technologies and liberalization of monopolized production industries have reasserted market focus as the driving force for development and have sparked the demand for socially responsible businesses, capable of fostering an economic trend, in which equality, balance and respect for the environment figure more highly.

Business management policies and strategies currently reflect two conflicting models.

One sees social responsibility extending no further than its talent to generate profit, with focus primarily on shareholders and financiers. Business performance is accordingly measured based on ability to create value.

The other defines social responsibility in broader terms, endeavouring to achieve a network of relationships that connect the business to a variety of stakeholders.

Investment in human capital and research and development are considered strategic for policies to improve the quality of products, in order to increase business competitiveness.

Along with many other global corporations, the principal voluntary organizations and the International Confederation of Free Trade Unions, the Telecom Italia Group has supported the nine principles set by the Global Compact proposed by the United Nations Secretary-General, Kofi Annan, regarding human rights, labor standards and environmental protection.

The Telecom Italia Group has always invested in social and environmental values; for five years it has published a rigorous, in-depth report, refining information contained in it and selecting from it the most reliable indicators to supplement its annual report.

It stands alongside other big businesses in Italy and Europe which have already adopted this best practice and serves as an example for others wishing to profitably embark on this course.

As a leading industry it proposes sustainability as a business value, a tool for programming, management and control.

Chairman

Marco Tronchetti Provera

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■ CONTEXT AND METHOD



G8

Meetings of the heads of state and government leaders of the major industrialized countries (G8) have progressively involved the leaders of corporations and international nongovernmental organizations in task forces and foundations that propose strategies to solve global issues. Among the various initiatives, the following are of particular importance:

- the Digital Opportunity Task Force, which has the objective of reducing the digital divide, or rather the great disparities between industrial and developing countries in access to information and communication technologies;
- the Renewable Energy Task Force, which promotes diffusion of forms of renewable energy;
- the Global Health Fund, which will have the task of mobilizing financial and organizational resources, alongside the governments of the major countries, the principal pharmaceutical industries, corporations in other sectors and charities, to supply drugs and vaccines to poor countries, helping them fight malaria, tuberculosis and AIDS.

UN

Recognizing this evolution in progress, the United Nations Environment Program (UNEP) introduced the concept of sustainability for the first time in the 2001 edition of its international benchmark survey of corporate reporting. In addition to the traditional indicators of environmental performance, the economic and social

performance of the firms analyzed was also taken into consideration. Economic performance is not assessed on the basis of created value and return on invested capital alone, but based on more direct contributions to sustainable development, such as commitment to employment, to education and learning, to development of local communities, and to implementation of development policies.

In Europe

At the Lisbon summit in spring 2000 the heads of State and government leaders of the European Union countries made an appeal to companies to support equal opportunities and sustainable development.

In July 2001, the European Commission published a Green Paper promoting a European framework for Corporate Social Responsibility.

The European Union has put Corporate Social Responsibility in the European political agenda and at the Conference in Brussels (November 2001) it promoted concrete initiatives aimed also at improving consumer information, evaluating social and environmental performance, promoting socially responsible practices in small and medium sized enterprises, broadening social dialog and integrating social and ethical requirements in public calls for bids, and developing pension funds.

Civil Society

In addition to action by international

◀ Social performance includes evaluations of business ethics and management's compliance with the values declared fundamental guidelines for business conduct.

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organizations and governments, there is increasing pressure from civil society, expecting companies to give account for their actions, judging not only the effects of these actions but also their intentions.

Triple bottom line

Businesses learn from each other, diffusing and replicating innovative, reproducible, sustainable, measurable best practices that create value added.

In pioneering companies the new forms of social reporting are being integrated and combined with the more traditional instruments to produce the dual bottom line, which combines the environmental report and social report; this has prepared the way for the triple bottom line (TBL), which integrates both the preceding reports with the financial report thus forming a single document covering all aspects of corporate performance.

Economic, environmental and social performance appear to be closely related in an increasing number of cases. As Simon Zadek, who conceived AccountAbility 1000 - a scheme of process indicators for social reporting activities - reveals in The Civil Corporation (London 2002), sustainable development does not merely express the modern vision of a healthy environment and a socially just society, it also provides the strategic and practical framework fundamental for future successful enterprises.

Social reporting is increasingly based on shared process standards, such as the quality principles proposed by AccountAbility 1000 (inclusiveness, completeness, comparability, meaningfulness of information, regularity, communication, external auditing, integration in management systems, and continuous improvement), with minimum core content regarding corporate identity, corporate governance mechanisms, calculation of value added distribution and the social report.

Stakeholders

The Sustainability Report is therefore drawn up considering the following categories of stakeholders:

- **consumers**, whose needs are met by the company realizing value added through production of goods and services;
- **suppliers**, who provide the raw materials, and intermediate goods and services needed for production, so contributing to the quality of the final product;
- **competitors**, who stimulate the company to improve productivity and efficiency;
- the **State**, which receives resources in the form of taxes, social security and national insurance contributions, the telecommunications license fee and dividends;
- **future generations**, analyzed through data on the environment and civil protection, whose capacity to satisfy their own needs must not be jeopardized by pursuit of present day objectives;
- the **Community**, or civil society to which the company contributes through socially relevant activities in the fields of research and innovation, education, health and social solidarity, culture, art and sport;
- **employees**;
- **shareholders**.

Standards

In the 2002 (*) Sustainability Report Telecom Italia Group was assessed in accordance with the following international standards, using specific indicators to measure its performance in respect of:

- consumers - the criteria established in the Consumption Guidelines of the **CEP (Council of Economic Priorities)**, a private American association that in 1994 drew up a group of indicators of

(*) Prepared by the Telecom Italia Sustainable Development and Corporate Social Responsibility work group led by Dr. Aurora Sanza, in collaboration with Prof. Alberto Martinelli, professor of Politics at the University of Milan, President of I.S.A. (International Sociological Association) and member of

"Comunità e Impresa". The 1998 report was awarded the "Oscar di Bilancio e della Comunicazione Finanziaria" (Oscar of Financial Reporting and Communication) the Social Report special prize "...for being a fine combination of excellent content and clear presentation ..."

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DJSGI (Dow Jones Sustainability Group Indexes): quoting companies committed to sustainable development provided by Dow Jones in association with SAM (Sustainable Asset Management).

FTSE4Good (Financial Times Stock Exchange): index quoting companies that adopt ethical and socially responsible conduct launched by FTSE in association with EIRIS (Ethical Investment Research Service) and Unicef (United Nations Children's Fund).

SIRI (Sustainable Investment Research International Group): group of 10 research organizations intending to supply and promote world-wide quality products and services generated by research on social investment.

ethical consumption out of a cross-section of 168 companies and 1800 best-selling products in American supermarkets;

- suppliers - the **SA 8000** index included in the CEP indicators as an ethical standard for subsuppliers belonging to developing countries;
- future generations - the indicators of the Sustainability Reporting Guidelines of the **GRI (Global Reporting Initiative)**, a multi stakeholder initiative of the nongovernmental organization Ceres based in Boston, which gathers environmentalist organizations, professionals, institutional investors, trade unions, religious organizations, businesses, UNEP consulting and auditing firms and has established economic, social, and ecological qualitative-quantitative indicators since 1997;
- the Community - the guidelines of the **London Benchmarking Group**, set up in 1994, formed by 60 international companies and European benchmark in measurement of social and environmental contributions;
- employees - the **Human Development Enterprise (HDE)** model, defined by Gay Standing, chief economist of ILO (International Labor Office) Geneva;
- shareholders - the **Dow Jones Sustainability Group Indexes**, the **FTSE4Good** and **SIRI**.

Opinion

A contribution to the evaluation, both regarding reliability of reported data, and completeness and clarity of reported information, is given by the opinion expressed by Reconta Ernst & Young.

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■ CHARTERS AND CODES



CHARTER OF VALUES OF THE TELECOM ITALIA GROUP

- Pursue excellence in production and competitiveness in the marketplace, creating economic value and contributing to the prosperity of its customers and the Community at large.
- Invest in human capital, respect the rights of employees, guarantee equal opportunities, promote professional development, safeguard employees' health and safety.
- Develop service orientation, quality enhancement and speed of response in relations with customers/consumers.
- Account for the company's strategies and activities to those who are affected by the company's decisions.
- Foster cooperation among all those who contribute to achieving the aims of the company, thus creating the conditions for mutual loyalty and trust.
- Respect legality, fairness and transparency in management systems and in relations with business partners and competitors.
- Foster innovation through constant commitment in research and development.
- Respect and safeguard the environment.
- Contribute to sustainable development, pursuing current aims without jeopardizing the ability of future generations to meet their own needs.
- Aim for coherence in values, strategies and behavior.

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CHARTER OF SERVICES OF THE TELECOM ITALIA GROUP^(*)

In order to constantly supply a quality service our activities are based on principles of:

- **Transparency:**
adoption and verification of observance of the rules and contract provisions making them accessible and easy to understand for all our customers.
- **Participation:**
commitment to satisfy customer needs inviting suggestions and proposals to improve our services and the Charter of Services, maintaining regular contact with Consumer Associations.
- **Continuity:**
non-stop delivery of services, except when necessary routine and special maintenance work has to be carried out, in mutual observance of the rules.
- **Efficiency:**
guarantee of an immediate, informed and appropriate response to the customer's needs.
- **Equality and impartiality:**
provision of services on an equal basis to all customers, without discrimination, throughout the country.
- **Courtesy and helpfulness:**
attention of our operators and staff to satisfy the customer's needs, constantly listening to their requirements.

◀ (*) Effective since July 19, 2001 in fulfillment of resolution no. 820/00/CONS of the "Autorità per le Garanzie nelle Comunicazioni" (Authority for Guarantees in Communications). The full document can be found on the site www.187.it

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ENVIRONMENTAL CHARTER OF THE TELECOM ITALIA GROUP^(*)

■ Our Vision

Sustainable Development is a strategic global environmental goal that takes into consideration the need to conserve both the natural environment and the world's scarce non-renewable resources for future generations through:

- the provision of products and services that provide significant environmental benefits;
- a determination to manage our own operations in a way that minimises negative environmental impacts.

■ Our Approach

We recognize that the universal presence of telecommunications in today's society places on us a social obligation to be good corporate citizens. A responsible attitude to environmental issues is an important part of meeting that obligation. As a collective group of companies, our combined turnover represents a significant proportion of European trade and this puts us in a unique position to make a real difference.

■ Our Commitment

Whether together, or individually, we are committed to continuous improvement through action in the following areas:

Awareness

- We shall aim to ensure recognition and acknowledgement of all relevant environmental impacts, including the positive and negative impacts of our products and services. In particular, we shall build the environment into our training programmes and company communication programmes.

Regulatory compliance

- We shall strive to achieve full compliance with all relevant environmental legal requirements, and to exceed these requirements where appropriate.

Research and development

- We shall support research and development in the contribution new telecommunication services can make to sustainable development.

Procurement

- We shall build environmental considerations into our procurement processes. Special attention will be paid to: energy consumption, waste management, process and product requirements, and the use of hazardous materials.

Providing Information

- We shall provide relevant data and information about our environmental performance to employees, customers, shareholders and governments.

Environmental management systems

- We shall implement environmental management systems which support the development of appropriate and well-structured environmental protection.

◀ (*) Signed in 1996 by Telecom Italia together with 24 other European telecommunications network operators, members of ETNO (European Telecommunications Network Operators' Association - the main association in the sector for TLC operators in Europe), through which the various companies undertook to start specific actions aimed at protecting the environment.

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CODE OF PRACTICE^(*)

The Telecom Italia Group has a Code of Practice under study. In June 2001, TIM SpA introduced a Code of Practice of its own establishing the principles outlined herebelow.

■ Professional Conduct

The individual and collective conduct of employees - in respect of the performance of their duties - must conform to the Company and Group strategies and must translate into cooperation, social responsibility and compliance with domestic and international laws, in the pursuit of the Company's business goals and activities.

■ Handling of privileged information

The information and other materials received by TIM employees in connection with their work shall remain the Company's property. The information may also regard the Company's present and future activities, including unpublished news, information and announcements, even if scheduled for disclosure in the forthcoming future.

■ Relations with third parties

TIM employees must comply with this Code also in respect of their relations with third parties. In their relations with third parties, employees must always adequately inform them as to the commitments and obligations under the Code of Practice. Employees must always demand compliance with the obligations directly concerning their activities.

■ Safeguarding the employees' dignity and integrity, health and safety at the workplace

Human resources are an indispensable element for the existence, development and success of any business activity. Therefore, the professionalism and commitment of employees are decisive and essential for the attainment of a company's objective.

■ The internal control system

The internal control system, which shall be implemented by the Company Management, consists of the set of tools deemed necessary or useful to guide, manage and check the Company's activities, directing it towards the attainment of its goals and appropriately countering any impending risks.

◀ (*) Approved by the Board of Directors of TIM SpA on May 10, 2001. The full document is available on site www.tim.it

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EXTERNAL STAKEHOLDERS

CONSUMERS



The fundamental aspects of the Telecom Italia Group's loyalty policy, customer satisfaction and enduring relationships based on trust, are confirmed. Focus is placed on interpreting market demand and in responding with appropriate services. Information on the infrastructures and services of Telecom Italia SpA and the Group's main businesses is given in the 2001 Annual Report.

CONSUMER SATISFACTION

Quality of service Telecom Italia SpA

- Customers satisfied with regular operation of the telephone lines (no cut-offs or difficulty in getting the line) total 87.5% of residential customers and 86.2% of business customers (Loyalty Technical Quality-December 2001 phase / Source Doxa).
- Regarding the "187 service" (Customer Care for residential clients), 52.8% of the customers interviewed claim to be very satisfied with the courtesy of the operators and 36.6% claim to have received very clear and full information. Customers who were given a solution to their needs in a single telephone call total 56.7%.
- Positive feedback on the "191 service" (Customer Care for business clients), 96% of the customers interviewed are satisfied with the courtesy of the operators, 86.8%

with operator competence and 85.3% claim to have received clear and full information. 51.7% of customers were given a solution to their needs in a single telephone call (One Call Solution).

- The percentage of repairs carried out within the 2nd day after being reported is 86.4% for residential customers and 80.1% for business customers.
- Regarding the "182 service" (Customer Care for residential clients), those interviewed claim they are very satisfied with operator courtesy (61.5%). Concerning the service, 95.3% of interviewed customers claimed to be satisfied with the effectiveness of the repair and 64.7% very satisfied with the repair engineer's skill.
- Business customers are satisfied with both the operators who receive reports and the repair engineers; in particular, 95.8% state they are satisfied with the engineer's skill, 98.6% with courtesy and 85.2% with effectiveness of the repair (Source: Atesia).
- The findings of a survey of the Top customers of Data.com (Customer Opinion Survey) show a clear improvement in relation to the previous year: the satisfaction area is 77% (68.8% in 2000) for activation of services, 76.6% (68.5% in 2000) for the technical assistance service, 85.4% (72.4% in 2000) for the billing service and 82.9% (68.1% in 2000) for the Customer Assistance telephone service (Source: Telemarketing).

Telematic information: a web space dedicated to consumers is available on the web site at: www.187.it

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- Regarding assessment of specific services, the percentage of customers satisfied with sales personnel expertise was 78.7% for ADSL Net Economy and 83.6% for Interbusiness. The majority of customers interviewed also believes that ADSL Net Economy and Interbusiness contribute to development of their company's core business (87.8% and 88.7%, respectively) (Source: CIRM).

Foundation for Quality Management) since 1997; in 1998 the principal concepts of the EFQM's Excellence Model were incorporated into the company's quality policy also in anticipation of future participation in the European Quality Award (EQUA).

Two Sodalìa employees take part in EQUA's assessment activities as assessors.

In 2001, there were 15 service black-outs with marked effect on the traffic handled by the various network components (BSC, MSC/VLR, TR/STP and HLR) and the average duration was 2h36' (internal survey).

TIM SpA

- In 2001, ISO 9001 certification was gained for the standard of quality of the company processes used by Marketing of the Business Division for offer development and implementation.

An internal TIM survey (6th two-month period in 2001) shows an 89% level of customer satisfaction with network quality (Source: Eurisko).

The average time taken, as perceived by customers, to activate the TIM service is 18 solar days. Action was taken in 2001 to considerably reduce this average time in the course of the following year.

SEAT Pagine Gialle SpA

- The Customer Service free-phone number 800011411 was provided for customers. During the year it received 815,000 calls. Approximately 70% of customer queries were answered by the operator. As of November 2001, the following new services were introduced under the Correspondence Project:
 - a free-phone number (800011412) for faxes, which received approximately 4,000 documents;
 - a P.O. box, which received 52,000 documents;
 - an e-mail address, which received approximately 2,200 e-mails.

66% of customers claim overall satisfaction with the service of Seat Pagine Gialle SpA. Source: Databank (67% in 2000)

Other companies

Sodalìa SpA, designers of innovative software for telecommunications, report a high standard of quality as it is one of the few European companies to have both ISO 9001 certification and Level 3 of the SEI CMM (Software Engineering Institute Capability Maturity Model). It has also been a member of the EFQM (European

■ CONCILIATION AND ARBITRATION

Telecom Italia SpA

2001 was the eighth year of application of the Conciliation and Arbitration procedure (economic support for the scheme from the European Union ended after the first four years, therefore the Company fully pays the costs for which it is responsible and the Conciliation procedure continues to be free for customers).

The number of conciliation applications received from January 1, 1986 to December 31, 2001 amounts to 29,279. Of these, a total of 28,091 cases (96%) have been heard, 937 withdrawn and 251 are awaiting hearing. Of the 28,091 cases heard, 24,320 (87%) ended in conciliation and 3,771 (13%) failed to reach conciliation.

Overall, 450 arbitration applications have been received since the procedure was introduced; 265 of these have been heard, 103 have been withdrawn and 82 are awaiting hearing.

Over 77% of applications receive a reply within 90 days from the date of submission and 44% of these are settled within 45 days.

■ DISPUTES AND LITIGATION

Telecom Italia SpA

465 litigation cases were filed in 2001, relating to complaints in connection with the line **rental contract**; 455 of these were lodged against the Company. This compares with 200 disputes filed in 2000, 182 of which were against the Company. As far as concerns conclusion of cases, in

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2001, 63 were won, 17 ended with the claimant deciding not to appeal, 21 were lost, and 138 were settled. 107 disputes were raised against the Company regarding incorrect or missing entries in the **telephone directory**. 29 of these were concluded.

TIM SpA

Litigation with consumers in 2001 consists of 230 disputes.

SEAT Pagine Gialle SpA

166 lawsuits were served by customers in 2001; 164 were concluded, 43 of which with a favorable ruling, 34 with an unfavorable ruling, and in 87 cases an agreement was reached.

As far as concerns objections to errors in acquired advertisements on editorial products, 43,500 cases have been settled.

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SUPPLIERS



Capital contribution to suppliers of the Telecom Italia Group was Euro 19,431 million.

- ▶ To quantify the Telecom Italia Group's business with suppliers, consumption of outside supplies and services and industrial investments are shown herebelow:

(millions of euro)	2001	2000 (*)	2000
TELECOM ITALIA GROUP			
Consumption of raw materials and outside services (net of the telecommunications license fee or contribution)	12,518	10,832	11,475
- associated amounts	586	377	377
Industrial investments	8,164	16,484	17,008
- associated amounts and internal capitalized costs	665	1,146	1,146
Total contribution	20,682	27,316	28,483
- associated amounts and internal capitalized costs	1,251	1,523	1,523
Net total contribution	19,431	25,793	26,960

◀ (*) Reconstructed consolidating the Nortel Inversora Group (Telecom Argentina) on a one-line basis rather than by the proportional method.

Evaluation

Telecom Italia SpA's suppliers are qualified and submitted to incoming quality inspections before being classified by means of an internal vendor rating process.

The qualification process comprises an evaluation of suppliers based on the criteria of economic-financial soundness, technical potential and the supplier's own quality control system. Roll membership, certification by "Società Organismo di Attestazione" (certification agency), and ISO certifications are also checked.

Incoming quality control, which is conducted on product categories at risk, allows the quality standards of products and services to be checked against the technical and environmental requirements specified by contract during the supply or delivery phase, and follow-up with corrective action and technical inspections.

The vendor rating is used to assess the overall standards of quality achieved by suppliers in fulfillment of contract regarding specific section performance and quality standards.

In 2001, several environment-related innovations were introduced into the qualification processes; specifically, qualification systems were defined for:

- Suppliers of lead-acid storage batteries: check that they have waste treatment plants (air filtering, water purification, etc);

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- Producers of multihole raceways: check that environmental impact assessments are carried out for set-up sites;
- Suppliers of Waste Management Services: check on the percentage of waste given to them which is subsequently recycled.

The new organizational structure launched in the second semester of 2001 envisages a centralized Procurement Function at Group level and constitution of a Group Register of Vendors, organized by product categories.

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COMPETITORS



Telecom Italia SpA

The OLO (Other Licensed Operators) and ISP (Internet Service Providers) are at the same time:

- **Competitors** and participate in defining the rules for fair competition. Creation of balanced, stable, predictable rules is a common objective in the interests of all businesses in the sector. Progress in the competitive situation in Italy, judged to be among the most advanced in continental Europe, is highlighted in the last "implementation report" recently published by the European Commission.
- **Partners** in development of new services and new business models. In the recent past, development first in mobile telephony followed by Internet was also thanks to innovations proposed by different businesses. The more successful models, from prepaid cards to free Internet, spread rapidly to the benefit of all players in the market.
- **Customers** of Telecom Italia. With the new organization introduced in the second semester of 2001 a special Wholesale Division was created to sell a wide range of services. Telecom Italia is one of the first operators in Europe to have offered services such as the "permanent virtual channel", "partial circuits", "wholesale direct circuits", and "shared access". Supply times and the quality of service guaranteed to customer-competitors are the same as offered to the internal sales divisions. With the leveling of all Internet Service Providers the legislative conditions have been created to guarantee equal treatment to all operators using the services offered by Telecom Italia.

◀ The new challenge is now wide-band services. Thanks to unbundling other licensed operators can now contribute to necessary investments and propose technological solutions.

Litigation

A number of litigation cases currently involve competitors in connection with:

- the Universal service for 1999
- the x-DSL Technology Data Transmission and Internet Access service
- failure to renew the agreement with the Internet Provider Galactica
- alleged anti-competitive strategies

Information on these cases is provided in the Annual Report 2001.

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THE STATE



In 2001 the Telecom Italia Group paid the Italian State Euro 2,585 million.

TELECOM ITALIA GROUP (millions of euro)	2001	2000^(*)	2000
Social security and national insurance contributions paid by Italian companies ^{(1) (*)}	1,157	1,250	1,250
Direct taxes paid by Italian companies	791	2,563	2,563
Indirect taxes paid by Italian companies	104	139	139
Ministry of Communications (TLC license fee) (*)	472	497	497
Ministry of Economy and Finance (dividends)	61	61	61
	2,585	4,510	4,510

In the same year the Group received Euro 22 million (Euro 41 million in 2000) from the State in capital grants, Euro 19 million pertaining to Telecom Italia SpA.

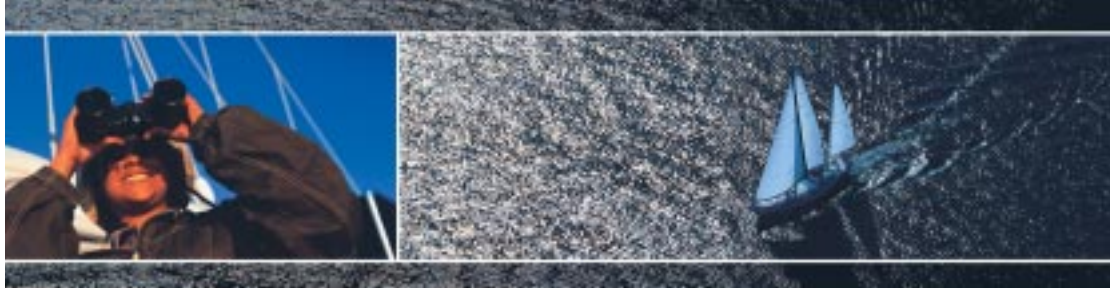
(*) Reconstructed consolidating the Nortel Inversora Group on a one-line basis rather than by the proportional method.

(1) Includes contributions to INPS as per Law no. 58/1992, amounting to Euro 155 million in 2001 and Euro 153 million in 2000, and the special contribution to INPS of Euro 77 million/year, due to suppression of the "Fondo Previdenza Telefonici (FPT)" (Pension fund for telephone employees) and changeover to the "Fondo Pensioni Lavoratori Dipendenti" (general employees pension fund).

(*) These values take into consideration only the Italian companies in the Group.

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FUTURE GENERATIONS: THE ENVIRONMENT AND SUSTAINABLE DEVELOPMENT



The Telecom Italia Group considers respect for the environment one of the prime values, contributes positively to environmental improvement, and pursues the course of Sustainable Development.

◀ Commitment to guarantee future generations an environment and social context that permit an appropriate standard of life and development is a necessary milestone on the road to corporate success.

■ ENVIRONMENTAL PERFORMANCE INDICATORS

Knowing the impacts that the Company generates and continuous monitoring of these impacts are an essential requirement for improved performance and management. Four major environmental issues are examined:

- **waste management**
- **consumption of natural resources and energy**
- **air quality and climate changes**
- **electromagnetic emissions**

The data reported herebelow has been calculated using appropriately reclassified management accounting data.

■ Management of Telecom Italia SpA's waste

Constant innovation of infrastructural property and ordinary business activities lead to disposal of a substantial quantity of telecommunications products and materials and industrial waste, given the size of Telecom Italia SpA. These have been managed by only one company, at national level, since 1999.

Approximately 85% of waste is processed for re-use and recycling.

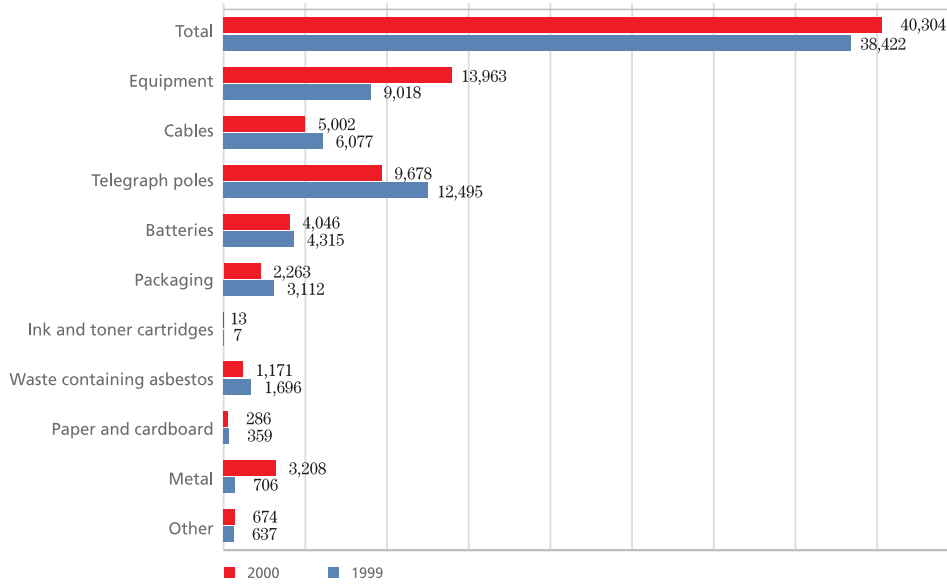
The final data for the year 2000 is reported.

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Waste produced by Telecom Italia SpA (2000-1999)

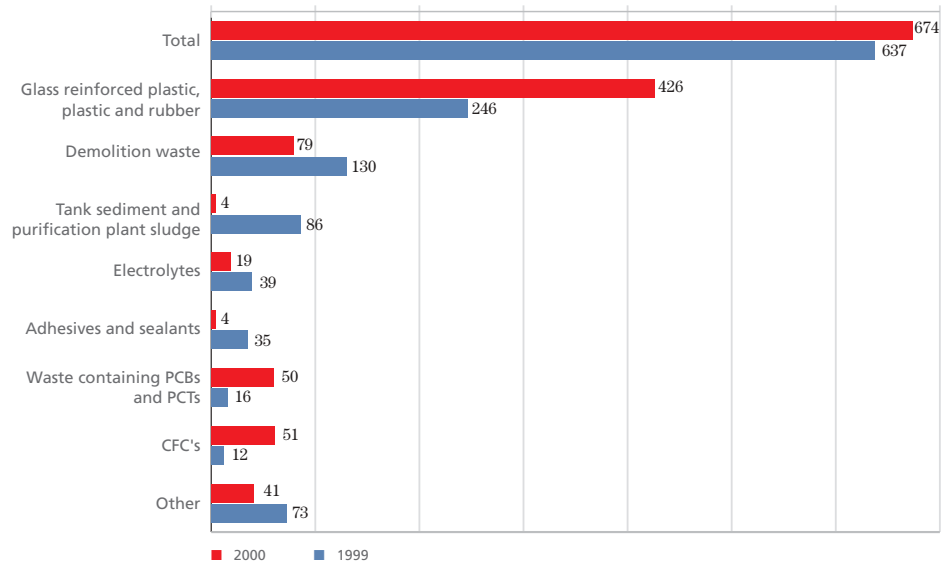
(tonnes)

◀ All measurements are metric.



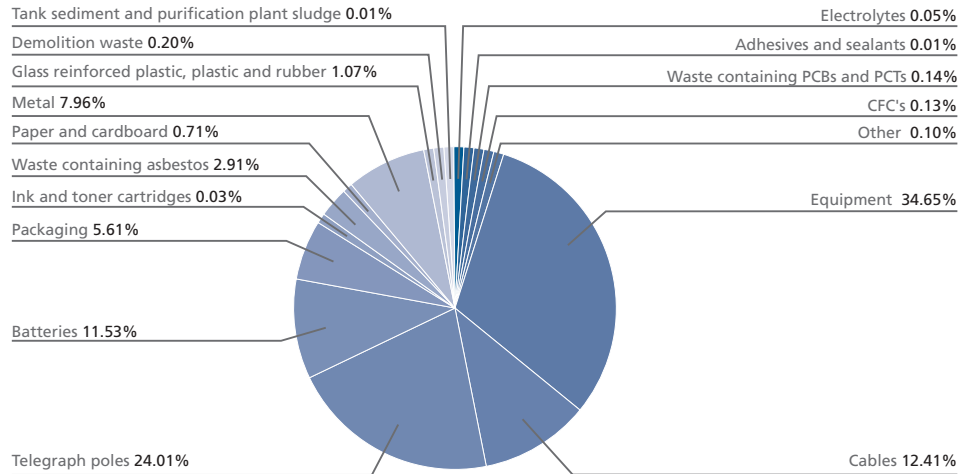
Other types of waste produced by Telecom Italia SpA (2000-1999)

(tonnes)



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Types of waste produced by Telecom Italia SpA in 2000



Telecom Italia SpA's consumption of natural resources and energy

The natural resources and energy consumed by Telecom Italia SpA can be estimated at 80% of the total consumption of the Group's companies operating in Italy.

These include raw materials used to produce materials and products used by the company itself and/or made available to the public:

- **water** used essentially for sanitary purposes. In 2001, (estimated) consumption was slightly lower than in the previous year (down 4%), and was equal to approximately 80% of the consumption of the whole Group.
- **diesel oil** for heating. Consumption in 2001 was reduced by over 19% and equaled almost 92% of the Group overall consumption.
- **natural gas** for heating. In 2001, (estimated) consumption was about the same as in the year 2000, and amounted to approximately 78% of the consumption of the whole Group.
- **fuel** for transport, for the Company's fleet of vehicles. In 2001, it was substantially reduced, by approximately 16%. Both distance covered and fuel consumption decreased by over 19% compared with the year 2000. Telecom Italia SpA accounted for 87% of the consumption of the whole Group.

Electricity for the power supply for infrastructures and company buildings is classed as indirect consumption of natural resources. In Italy, electricity is mainly (77%) generated from fossil fuels.

Natural resources and energy consumption of Group companies operating in Italy

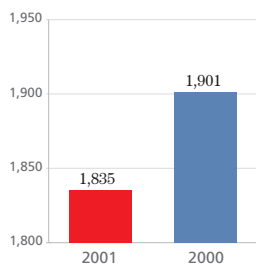
Consumption figures for the companies in the Group:

ELECTRICITY CONSUMPTION (GWh)

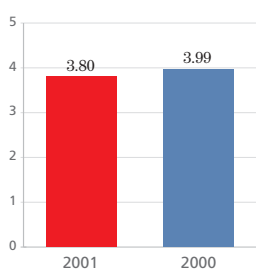
	2001	2000
Telecom Italia SpA	1,835 (30,042 kWh/emp.)	1,901
TIM	398 (4,594 kWh/emp.)	446
Other companies in the Group (*)	134	87
Total	2,367	2,434

(*) Atesia, Finsiel, Netsiel, Telesoft, Saritel, Telespazio, TILAB, Emsa, Seat, Matrix, Buffetti, Sodalìa, Immsi, SSGRR.

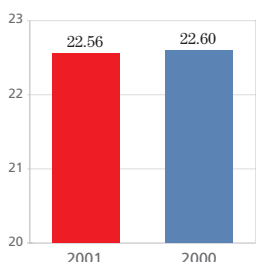
Electricity Consumption (GWh)
Telecom Italia SpA
(2000-2001)



Water Consumption (million m³)
Telecom Italia SpA
(2000-2001)

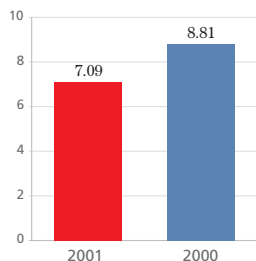


Consumption of Natural Gas used for heating (million m³)
Telecom Italia SpA
(2000-2001)

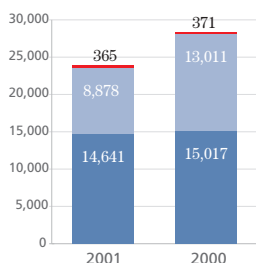


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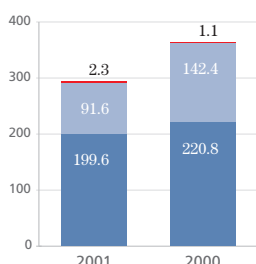
Consumption of Diesel Oil used for heating (million liters) Telecom Italia SpA (2000-2001)



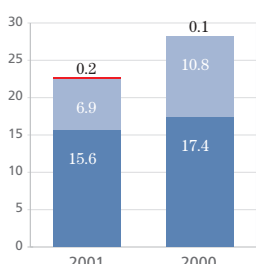
Number of vehicles in the Telecom Italia SpA fleet (2000-2001)



Annual distance covered by vehicles (million km) Telecom Italia SpA (2000-2001)



Vehicle fuel consumption (million liters) Telecom Italia SpA (2000-2001)



WATER CONSUMPTION (m³)

	2001		2000	
Telecom Italia SpA	3,800,000	(62 m³/emp.)	3,990,000	
TIM	432,000	(44 m³/emp.)	133,000	
Other companies in the Group (*)	537,000		362,000	
Total	4,769,000		4,485,000	

NATURAL GAS CONSUMPTION FOR HEATING (m³)

	2001		2000	
Telecom Italia SpA	22,560,000 (**)	(369 m³/emp.)	22,600,000	
TIM	333,000	(34 m³/emp.)	302,400	
Other companies in the Group (*)	6,164,800		3,708,000	
Total	29,057,800		26,610,400	

DIESEL CONSUMPTION FOR HEATING (LITERS)

	2001		2000	
Telecom Italia SpA	7,094,500	(116 lt/emp.)	7,245,000	
TIM	147,000	(15 lt/emp.)	173,000	
Other companies in the Group (*)	501,200		369,000	
Total	7,742,700		7,787,000	

DISTRIBUTION OF VEHICLES IN THE TELECOM ITALIA GROUP

	2001			2000		
	Diesel	without catalytic converter	with catalytic converter	Diesel	without catalytic converter	with catalytic converter
Telecom Italia SpA	365	8,878	14,641	371	13,011	15,017
TIM	403	0	1,361	30	0	1,360
Other companies in the Group (*)	152	21	219	107	63	326
Total	920	8,899	16,221	508	13,074	16,703

DISTANCE COVERED BY VEHICLES IN THE TELECOM ITALIA GROUP (km)

	2001			2000		
	Diesel	without catalytic converter	with catalytic converter	Diesel	without catalytic converter	with catalytic converter
Telecom Italia SpA	2,260,000	91,575,000	199,592,000	1,119,200	142,442,000	220,770,100
TIM	750,000	0	22,352,000	48,000	0	15,820,000
Other companies in the Group (*)	1,232,400	11,900	4,427,300	1,131,200	846,000	7,440,000
Total	4,242,400	91,586,900	226,371,300	2,298,400	143,288,000	244,030,100

VEHICLE FUEL CONSUMPTION IN THE TELECOM ITALIA GROUP (liters)

	2001			2000		
	Diesel	Leaded Gasoline	Unleaded Gasoline	Diesel	Leaded Gasoline	Unleaded Gasoline
Telecom Italia SpA	214,000	6,905,500	15,626,800	106,600	10,767,500	17,356,000
TIM	60,000	0	2,780,000	4,000	0	2,000,000
Other companies in the Group (*)	92,800	0	458,700	12,200	70,600	98,100
Total	366,800	6,905,500	18,865,500	122,800	10,838,100	19,454,100

(*) Atesia, Finsiel, Netsiel, Telesoft, Saritel, Telespazio, TILAB, Emsa, Seat, Matrix, Buffetti, Sodalia, Immsi, SSGRR.

(**) estimated value

(*) Atesia, Finsiel, Netsiel, Telesoft, Saritel, Telespazio, TILAB, Emsa, Seat, Matrix, Buffetti, Sodalia, Immsi, SSGRR.

(*) Atesia, Finsiel, Netsiel, Telesoft, Saritel, Telespazio, TILAB, Emsa, Seat, Matrix, Buffetti, Sodalia, Immsi, SSGRR.

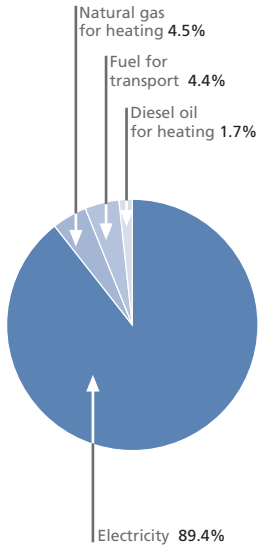
(*) Atesia, Finsiel, Netsiel, Telesoft, Saritel, Telespazio, TILAB, Emsa, Seat, Matrix, Buffetti, Sodalia, Immsi, SSGRR.

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CO₂ emissions generated by Telecom Italia SpA in 2001



■ Air quality and climate change.

Telecom Italia SpA's impact

Combustion of fossil fuels, generated directly (use of fuels for transport and heating) and indirectly (electricity consumption), contribute to the greenhouse effect essentially through producing carbon dioxide (CO₂) emissions. Telecom Italia SpA's emissions in 2001 totaled 1,136,899 tonnes, equal to 78% of the whole Group. As the charts show, CO₂ emissions are primarily due to use of electricity and company vehicles, which are both being constantly reduced as previously stated.

Telecom Italia SpA's reduction in greenhouse gas emissions is in compliance with the commitments undertaken by the Italian Government and the EU in ratifying the Kyoto Protocol.

CO₂ EMISSIONS GENERATED BY TELECOM ITALIA SpA (tonnes)

	2001	2000
Electricity	1,016,590	1,047,451
Fuel for transport	50,594	62,720
Natural gas for heating	50,702	47,660
Diesel oil for heating	19,013	19,417
Total	1,136,899 (18.6 t/emp.)	1,177,248

Impact of Group companies operating in Italy

Data on the CO₂ emissions of the companies in the Group are shown in the following table:

CO₂ EMISSIONS GENERATED BY THE TELECOM ITALIA GROUP (tonnes)

	2001	2000
Telecom Italia SpA	1,136,899	1,177,248
TIM	227,690	251,298
Other companies in the Group (*)	93,951	57,155
Total	1,458,540	1,485,701

◀ (*) Atesia, Finsiel, Netsiel, Telesoft, Saritel, TILAB, Emsa, Seat, Matrix, Buffetti, Sodalia, Immsi.

CO₂ emissions were calculated in accordance with the guidelines of the UN Environment Program (The GHG Indicator, ed. 2000) and the guidelines drawn up by ETNO in the Climate Change Project.

■ Electromagnetic emissions

Technological development in the telecommunications field now makes it possible to communicate and transmit or receive increasingly more complex information without requiring physical connections, thanks to sophisticated systems that use radio waves. These waves, which are of the same nature as light, consist of electromagnetic fields which propagate through space and belong to a radiation range termed non-ionizing, that is not capable of causing functional or morphological changes in biological systems.

The effects of exposure to electromagnetic fields have been under study for years; current scientific knowledge, confirmed by the World Health Organization, makes it possible to consider it unlikely that exposure to the electromagnetic field levels generated by telecommunications transmission systems can lead to pathologies which may even be serious.

At the same time the World Health Organization stresses that it is important to continue studying the phenomenon in order to achieve an increasingly in-depth understanding of it, a statement that is fully supported by the Telecom Italia Group, which closely follows developments in related scientific studies in order to guarantee maximum safety in operation of its installations and use of the services it offers the public.

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The Telecom Italia Group's attention to the issue of electromagnetic emissions can be summed up in the following commitments and actions:

- absolute compliance with the legislation in force in the countries in which it operates. Italian law on the subject is particularly strict. The Company process is structured on rigorous management of project engineering, of the selection of sites, and of installation of systems. In particular, every transmission antenna is protected to create a restricted-access area where permitted exposure values (regulatory volume) could be exceeded.
- careful and scrupulous management of Company installations throughout the whole life cycle, in compliance with additional internal efficiency and safety standards;
- use of, and constant research for, leading-edge technology tools for control and investigation activities. In particular, close predictions of the electromagnetic fields generated on the surrounding environment are made for mobile telephony installations by advanced simulation programs with the objective of checking constant compliance with legal limits;
- cooperation and support in medical-scientific studies. Specifically, Telecom Italia SpA, in cooperation with a number of Italian universities and national and international organizations, promoted investigations to check the emission values of electromagnetic radiations and their possible effects. These investigations confirmed that the values of the electromagnetic fields generated by the equipment managed by the Telecom Italia Group in Italy are within the regulatory limits and that, according to current knowledge, there are no associated risks at biological level. In addition, in relation to the electromagnetic emissions issue, TIM SpA gave support to ANPA "Agenzia Nazionale per la Protezione dell'Ambiente" (National Environmental Protection Agency) for defining, on a statistical basis, propagation models for the creation of an electromagnetic emissions data bank in Italy.

■ ENVIRONMENTAL RESEARCH

Environmental research within the companies in the Group operating in Italy is principally conducted by TILAB SpA (a wholly owned subsidiary of Telecom Italia SpA).

In 2001, it tackled and conducted the following for:

- Telecom Italia SpA:
 - activities related to checking electromagnetic emissions on critical sites and measurement of toxic gases in work environments;
 - methodologies for collection and analysis of microbiological contaminants in indoor air (office environment);
 - investigations on eco-compatible materials to substitute the substances traditionally used to impregnate wooden telegraph/telephone poles, including revision of the related specifications, and evaluation of issues regarding poles made of glass reinforced plastic;
 - methodologies and instruments to monitor and optimize energy consumption relating to the power supply and air-conditioning of network equipment.
- TIM SpA
 - characterization of electromagnetic emissions from mobile phones and studies and testing to acquire more in-depth knowledge of the interaction between such emissions and biological tissue.

In 2001 TIM completed the detail design of a wind-solar system for continuous electric power; 18 systems are to be produced in 2002.

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■ ENVIRONMENTAL MANAGEMENT SYSTEMS

The Environmental Management System is the most effective tool for rational management of the Company's environmental impacts.

■ Telecom Italia SpA

The Network function of the business unit Domestic Wireline started work (in January 2001) on preparation of its Environmental Management System, in accordance with the international standard UNI EN ISO 14001. Six Project Groups were formed with the task of developing the various requirements for the System, which will be integrated into the Quality Management System; certification is scheduled for September 2003.

- TILAB obtained the certification (in March 2001) of its Environmental Management System, developed in accordance with the international standard UNI EN ISO 14001 by DNV (Det Norske Veritas - internationally accredited certification body established in 1864). TILAB's Management System integrates environment and health & safety issues, health & safety being managed in accordance with standard OHSAS 18001.

■ TIM SpA

The Network function implemented an integrated Quality and Environment Management System for the North-West Network. It is directed towards achieving ISO 9001 certification for Quality and ISO 14001 for the Environment and will later be extended to the other areas. Progress at year-end was 80%.

A number of phenomena peculiar to **Telecom Italia SpA's** business are analyzed herebelow in relation to environmental impact.

■ Pinewood telephone poles

Supply of new poles and management of obsolete poles are integrated in a single process. This includes various forms of recovery and disposal of obsolete poles.

In 2001, approximately 120,000 pinewood poles were purchased, 86% of which were "ecological" type (treated with low environmental impact organic salts to protect them from atmospheric agents and especially from fungi, insects and moulds).

Approximately 63,000 poles, weighing 5,355 tonnes, were removed and recovered or disposed of (about 45% less than in 2000). 86% of these were put up for sale in accordance with statutory procedures, approximately 5% were recycled after impregnation removal processes, and approximately 8% were salvaged for re-use in telecommunications aerial lines. Less than 1% went to landfill.

■ Generator units

As a result of the program to switch off 27 kVA generator units, launched by the Network function, 269 units, equivalent to 86% of the total number of installed units, were taken out of service. The measure led to a saving of 13,000 liters of diesel oil.

■ Acoustic Emission Monitoring

Monitoring of the acoustic emissions from installations on 994 sites selected from the most important and potentially exposed to the risk of noise pollution continued in the Network function. 17% of monitored sites were found non-compliant; remedial action is in progress.

■ Modification and Upgrading

In 2001, approximately Euro 6,609 million were spent under the "Program for conversion, modification and upgrading of power plants and air-conditioning systems" in accordance with statutory provisions, while approximately Euro 10,349 million were spent in extension

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and upgrading of power plants and air-conditioning systems required for development of the TLC network.

■ Procurement processes

Implementation of procurement policies directed towards increased efficiency for improved environmental performance continued.

In this approach, pursuit of objective-based partnerships with suppliers and categorization taking into consideration the whole life cycle of a product, make it possible to minimize the environmental impacts of products introduced into the Company and the product management procedures, optimizing waste management at end of life and possibilities of reuse and recycle.

In addition to confirming the processes for ecological supply and management of pinewood telegraph/telephone poles, another two typologies of full-cycle agreement were defined. In these agreements, the principal offering, supply of goods or services, is linked with an attached service concerning recovery and disposal of discarded products. The first typology reviewed was the one concerning management of scrap cable left over and/or recovered from telecommunications network development and maintenance operations. The reference procedure was modified outsourcing management of scrap cable to the Network Companies. The other typology concerned the supply, assistance and maintenance of some types of access systems, to which the principle of buy-back of old products present in the network and the related condition of correct environmental management was applied. Such an initiative succeeds in reducing the number of parties involved in the process as well as in motivating a reduction in waste through studying forms of reuse and/or effective refinements.

■ EHS data record

Full application of the EHS Data Record Management Procedure was confirmed. It was improved with more straightforward and effective procedures, in line with the Company's current requirements in the environment, health and safety area.

Concerning products and materials acquired on the basis of specifications drawn up by the technical functions, consistent with the role of procurement, the objectives are finalized to ensure that the products and materials introduced into the Company are designed, manufactured and delivered in an environmentally responsible manner and that they have recognizable and recognized technical-environmental requirements.

■ Paper consumption

Tim SpA

409,830 kg of paper were recovered in 2001.

Seat Pagine Gialle SpA

72,000 tonnes of paper were needed to print the Telephone Directories and Yellow Pages (3% less than the previous year). Approximately 30% was produced with recycled fiber.

22.5 million copies of the Yellow Pages were distributed, 64% of which was recovered for recycle.

27.1 million copies of the Telephone Directories were distributed, 68% of which was recovered for recycle.

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■ CIVIL PROTECTION

Telecom Italia SpA

Commitment to Civil Protection continued, providing the country with valid and valuable support in natural disasters, in the form of people and equipment. Highly skilled people, forming Crisis Teams, use the most advanced instruments to overcome crises in good time.

Telephone cards give useful advice on what to do in the event of natural disasters and emergency numbers are provided in the front pages of the Telephone Directories.

The Crisis Teams, as also the Company's area organizations, are centered in the cities of Turin, Milan, Mestre, Bologna, Florence, Rome, Naples and Palermo and operate in Interdisciplinary Coordination Centers equipped with advanced technologies and in contact with the local authorities and central business units.

The CI.PRO. (Civil Protection) information system is the main support for the Crisis Teams' activities during emergencies. It is now also on the Company's Intranet as a useful prevention tool in the event of natural calamities and can be made available - through Internet - to organizations that require it. CI.PRO. is a data bank that contains the mapping of areas at risk (in highest detail and complete with full information) and the location of the necessary resources to deal with emergencies at national level.

Among projects in hand, development of a Civil Protection network is particularly important. It will guarantee communications in any situation between Friuli Venezia Giulia (exchange in Palmanova, connected to the region's 209 "comuni" (local administrations) and the National Civil Protection Department (Rome - Via Ulpiano).

■ HEALTH AND SAFETY

Telecom Italia SpA

20,080 hours dedicated to training in health and safety at work were delivered directly to 5,851 employees by the Environment, Health and Safety Service staff.

A total of 142 audits were conducted in 2001 by supervisory bodies (local health authorities, Fire Brigade, etc.).

Progress continued with the program of upgrading building and installations work under the **Territorial Health and Safety Plans** to comply with legislative standards particularly related to health and safety (removal of selected building access features, toilets for the disabled, removal of asbestos, emergency exits, etc.).

A total of 1,472 inspections of premises where staff work at video terminals were carried out by appropriately qualified doctors, in cooperation with the Environment, Health and Safety Service.

At year-end, a new version of the document which assesses the risks to workers' health and safety was drawn up by Telecom Italia SpA's Health and Safety Service. The first phase of implementation of the management system within the year 2002 will lead to the attainment of a constant improvement of health and safety conditions.

Injuries at Telecom Italia SpA fell from 1,121 in 2000 to 924 in 2001.

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In 2001, the Telecom Italia Group companies^(*) commitment to the Community and Future Generations stakeholders was estimated to be worth Euro 77.212 million (Euro 73.853 million in 2000), equal to 1% of the Group's operating profit.

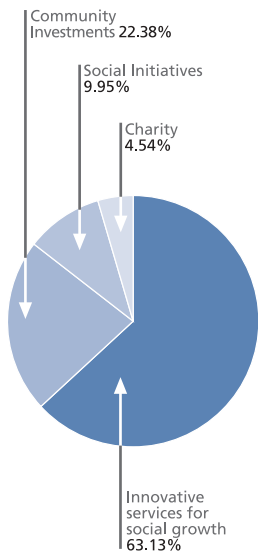
This was calculated using appropriately reclassified management accounting data and is a partial quantitative estimate of the cost of community projects and initiatives recorded in the accounts according to several criteria.

^(*) Gruppo Telecom Italia SpA, TIM SpA, Gruppo Seat Pagine Gialle SpA, Gruppo Finsiel, TILAB, Netsial, Telesoft, Sodalia, Telespazio, Entel Chile, Entel Bolivia and 9Telecom.

LBG diagram
(millions of euro)



Breakdown of the Telecom Italia Group's social and environmental investment
(LBG model) euro 77.212 million



■ CLASSIFICATION ACCORDING TO THE LONDON BENCHMARKING GROUP MODEL

The London Benchmarking Group (LBG), established in 1994, comprises 60 large international companies and is currently the European benchmark in evolution of social-environmental reporting.

This model reclassifies contributions into four different categories. The pyramid diagram reflects the possibility of measuring the benefits and business returns arising from the various activities. The return can easily be measured at the base of the pyramid since it is connected to the core business. At the apex, donations are strictly linked to the Group's sense of social and moral responsibility.

The four-category classification proposed by the LBG model is not straightforward as a single initiative may have effects in more than one different category. As a general rule, preference has been given to comparability with previous years.

Classification according to this model compared with 2000, shows a 12% increase in the share for innovative services, while the share spent in investments in the social field decreases by the same percentage. The percentage contributed to charity, however, is unchanged.

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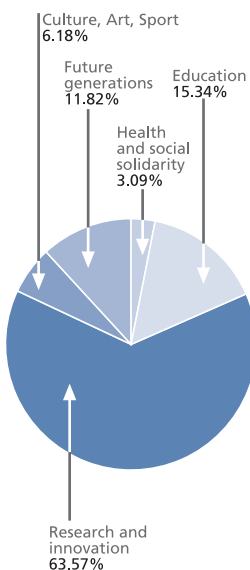
Community activities selected to form the categories according to the LBG model

Charity	Funding to Associations and liberal grants Humanitarian projects (CRALT) Donations
Community Investments	Scholarships, internships Education and employment projects Environmental Management Development Electromagnetic emissions - monitoring and measurement Environment, Health and Safety research Energy saving schemes Territorial safety plans Environmental protection conferences and events Civil Protection
Social Initiatives	Internet Careers Development Program Projects in the social field Health and social solidarity related events Culture, arts and sports events Editorial activities Archeological restoration/recovery
Innovative Services for Social Growth	Projects for the digital city and data services of the future Research and development for innovative services Conference activities E-learning platform project

■ CLASSIFICATION BY SECTOR

Compared with 2000, classification by sector shows an over 10% increase in Research and Innovation, offset by a decrease of the same percentage in Culture, Art, and Sport.

Breakdown of the Telecom Italia Group's social and environmental investment
euro 77.212 millions



(millions of euro)	2001	2000
Future Generations	9.132	13.441
Research and innovation	49.087	38.773
Education	11.840	5.540
Health and social solidarity	2.384	3.397
Culture, art and sport	4.769	12.702
Total	77.212	73.853

Some of the most important projects and initiatives from each sector are highlighted below.

■ Research and innovation

Digital city

TILAB concluded two projects regarding the digital city and data services of the future, jointly funded and approved by the Ministry of Education, Universities and Research; they concern services on Internet and mobile networks, of public interest to citizens (including the disabled and the elderly), schools, and residential consumers, and services with technological solutions of interest to associations and medium and small enterprises.

Internet Saloon

This initiative was organized by the "Associazione degli Interessi Metropolitan" (an association in Milan which supports social initiatives related to the theme of innovation) and TILAB; it offers free internet classes for the over 60s at Palazzo delle Stelline in Milan. Lessons are held daily in a classroom equipped with 18 personal computers. Diplomas have been awarded to about 3,000 senior citizens. The tutors, who are paid, are students from various university faculties.

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Vocal Browsing

The project is funded by the EU and coordinated by LOQUENDO (TILAB), with a commitment of 10 man-years; it concerns development of services to enable vocal access to web contents by fixed and mobile phone, a valid aid for the disadvantaged.

E-learning platform

The Learning Services Project (Telecom Italia SpA) offers multimedia training to individual consumers and virtual classes, including additional services of assessment, checking and teacher-tutor support.

"E-Government for development

Finsiel SpA has been entrusted with operational coordination of the design activities of the Task Force, in cooperation with the Ministry of Innovation: in the G8 the Italian Government proposed an initiative which sees IT technologies as opportunity to improve public administration organizations and the quality of welfare of citizens in developing countries.

■ Education

Collaborative projects between Telecom Italia and the academic world, which have now been consolidated over the years, aim to establish a profitable exchange with reference to career opportunities.

In 2001, about 100 **scholarships** were awarded to undergraduate and post-graduate students and many **student work places** were organized.

Palatelecom

80 touring multimedia stations were set up to allow young people across Italy to learn the new technologies for using the "broadband".

Brain exchange

The second edition of the Marketing award from Domestic Wireline for students graduating in Economics, Communications and Engineering was held from April 9 to 13. Thirty students, selected from 1,400 CVs, experienced a full immersion learning session built around a business game. A website was created for the event: www.187.it/brainexchange.it.

Webscuola

The TINWEB website dedicated to schools went on-line with the updated version of the site with improved content.

In cooperation with the Ministry of Education, Universities and Research, the Webscuola site was structured around three areas: "*Professione Scuola*" (for teachers), "*Aula Aperta*" (for classes) and "*Impresa Scuola*" (for school managers).

Internet Careers Development Program

300 young people were recruited by the Telecom Italia Group for Internet-related activities. Following three months of classroom training at the Scuola Superiore G. Reiss Romoli, these young people completed a period of on-the-job training in the various Group companies to which they were later assigned.

Fellowship Program

TIM SpA provided development grants for its own employees who study at university (80 awards).

SEAT sponsored the international seminar "Donne Economia e Potere" (Women, Economy and Power) organized by the Marisa Bellisario Foundation.

◀ VirgilioTin's Customer Care was winner of the Contact Center Manager 2001 award from the "Associazione CMMC" (Customer Management Multimedia Callcenter Association), which is the world benchmark of Italian call centers, with over 150 member companies, for its contribution to innovation.

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Career Book Lavoro 2001

This is a career's guidance publication for those looking for employment, to which MATRIX and other Group companies contributed.

■ Health and social solidarity

Blood Donor Group

Telecom Italia SpA has several Blood Donor Groups: their donations benefit fellow employees and their families who need blood or blood derivatives.

These Groups exist in a number of different company areas and belong to a variety of associations (the Italian Red Cross, AVIS, etc.). Their efforts are of particular importance in Southern Italy, where stocks of blood derivatives are lower.

A Blood Donor Group was established by TIM in April 2001.

"Trenta ore per la vita" Appeal

The "187" call centers took active part in taking donations for multiple sclerosis and cancer research raised in response to television broadcasts.

TIM SpA Initiatives:

"Ospedale Amico"

16 Internet accesses with multimedia computer stations specially designed for children were installed in sixteen hospitals for children and a video server was installed in Mangiagalli hospital in Milan to allow parents to communicate with their children through Internet. The www.ospedaleamico.it website was also set up.

"Ginestra"

Agreement between the Ministry of Labor and Social Welfare and TIM. A cooperative of prisoners and ex-convicts was formed in the Rebibbia prison; it shall perform data loading operations for the Home Radio Stations.

"Arcobaleno"

This project provides for inclusion of the disabled in the world of work. In 2001, a number of disabled people were recruited in the organization in Naples.

Peru

Economic support for the Human Rights Office (Caritas in Lima) from TIM and TIM employees. The project aims to help over 4,000 people, mainly women and children, who are victims of domestic violence.

"Medguard"

GSM based cardiology telemedicine and teleassistance scheme, set up by the Emergency Medical Service in Milan and the Cardiology Department of the San Raffaele Hospital.

SMS messages

SMS messages were sent to customers to raise awareness related to the "fight against AIDS", the National Census of the Population and Homes, and the Census of Industry and Services. At New Year, customers in the Naples area were also advised against using unauthorized fireworks.

"3xgioco"

The initiative to raise public awareness of children's rights to play and sport was supported with three projects thought up by children.

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Save the World

VIRGILIO (SEAT) is an editorial partner in the project promoted on introduction of the Euro by Amnesty International, UNICEF and WWF, which invite donations of coins in favor of initiatives to protect human rights, children and the environment. Virgilio dedicates reports, videos and interviews to "Save the World" and, in cooperation with Pagine Gialle Online, traces the coin collection boxes throughout Italy.

As partner of AIRC (the Italian Association for Cancer Research), it sponsored the national day for cancer research making it possible to consult the home page of editorial content dedicated to the day.

For every subscription to V-Family sold, VirgilioTin donates 15 Euro to a charity of the customer's choice from the major non-profit associations.

Adoption of children

SARITEL sponsored a campaign for long-distance adoptions among its employees: 77 children were adopted by January 2002.

■ Culture, art, and sport

The Telecom Italia Group provided funding for many cultural and musical events and supported amateur sports events.

Telecom Italia Group Website

The new Internet strategy to improve the standards of communication led to creation of the new website, with an improved image and on-line service. It is available in Italian and English.

The aim of the institutional channels (Group, Press, Investor Relations) is to provide clear and complete information on the Group's operations, strategies and projects, also through coverage of corporate events, displays and exhibitions, and initiatives.

Bit About is a magazine area which gathers contributions from inside and outside the Group on current issues concerning telecommunications and the ICT world.

In 2001, the www.telecomitalia.it homepage totaled a monthly average of about 800,000 hits.

The Telecom Italia Historical Archive

The Historical Archive has always been an exceptional mine of information for studies on the two major network technologies in Italy, the electric power grid and the telephone system, since the end of the nineteenth century. The collections are a source of information not only for the economical history and business history, but also for the history of modernization of Italian society.

Overall, it consists of approximately 1,600 linear meters. In past years, the complex task of cataloging and reorganization of the collections was completed. The chief result has been the records that were made, totaling over 16,000. The heritage collections include approximately 64,000 pictures, 20,000 of which are cataloged, a newspaper and periodical library with over 400 Company journals, a library of more than 1,000 volumes, films, tapes, and video cassettes.

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INTERNAL STAKEHOLDERS

EMPLOYEES

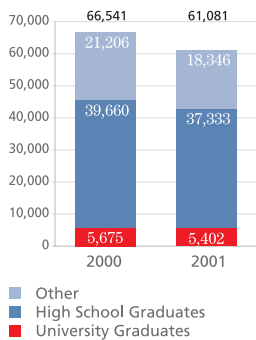


The number of employees in the Telecom Italia Group fell by 4,713 in 2001, from 114,669 in 2000 to 109,956 in 2001.

Employees cost Euro 3,722 million.

The component having the biggest effect on turnover was reduction in the establishment of Telecom Italia SpA from 66,541 to 61,081 employees.

Breakdown by academic qualifications Telecom Italia SpA



For more information, consult the 2001 Annual Report.

Employee satisfaction

A survey of the organizational climate was carried out in 2001 aimed at all resources in the Telecom Italia Group. The aim of the survey was to capture the level of employee motivation and satisfaction.

Response was high: 39.4% of all contacts.

Consultation was carried out through use of a questionnaire distributed via web in February. Overall satisfaction was sufficient, competence a fundamental asset for development of the Group, and motivational potential was also good.

The survey, which is known as the "Group Photo", will be run again in 2002. This will show the trend in motivation and satisfaction in the Telecom Italia SpA Group.

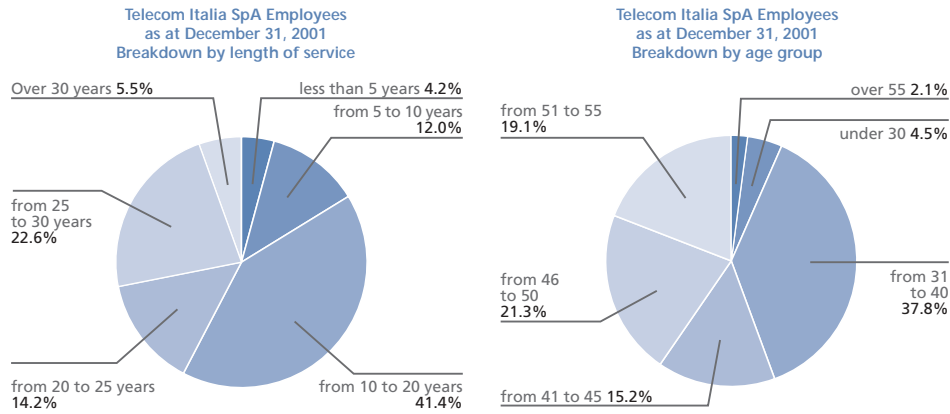
Internal communication

On-line communication was confirmed as the best channel for employee communications due to the speed, simplicity and extensive distribution of the web. Work was completed for launching of the Group's new Intranet portal Open, which has been given a new look and feel. It enables access to the Intranet sites and portals of all Group functions and businesses. Open hosts cross-Group services, which are highly innovative from the technological and content viewpoint and which give visibility to the projects, objectives and targets, and results of the Telecom Italia Group.

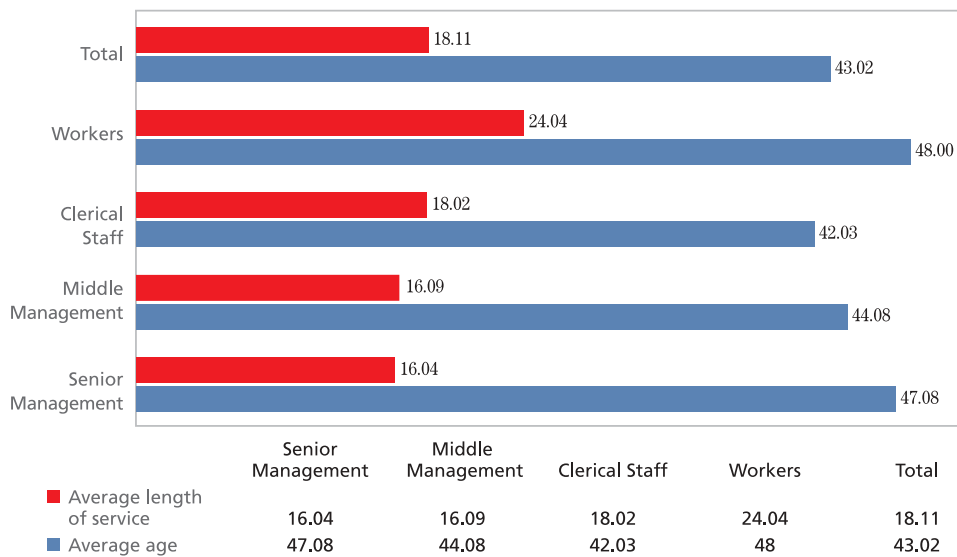
Open's potential target is formed by the Group's employees inside and outside Italy.

An area is reserved for the Group's managers, who have been able to participate in presentations of the Group's economic results and other high strategic profile events by video and audiostreaming in Intranet.

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Telecom Italia SpA Employees - 2001 - Average age and length of service (yrs.months)



The average length of service in 2001 was 18.11 years and is substantially unchanged from 2000 (18.08 years).

Men/women employees in 2000 and 2001



GENDER BALANCE IN TELECOM ITALIA SpA

The figures for men and women employees were substantially unchanged during the year.

The percentage of women managers in Telecom Italia SpA is 8% and 16% of middle management are women.

TIM "Mamma"

A scheme for employees who are mothers of children aged 1 to 8, who are given an annual time bank of 150 hours - 14 hours per month, which can be made up or deducted from pay (287 women used the scheme, totaling 6,562.41 hours).

(*) Data does not include foreign staff employed locally and extraordinary staff requirements totaling 27 people.

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■ EMPLOYEE BENEFITS

Assilt

The Association for Supplementary Health Care for Workers of Telecom Italia SpA, founded in 1981 by an agreement between Sip and the trade unions, has regional administrative and health care facilities, plus a central office in Rome.

It reimburses the cost of health care supplementary to the National Health Service. In association with the public health service, and with its own mobile diagnostic units, it also carries out preventive medicine and health education campaigns.

At December 31, 2001 members numbered 227,465 (74,121 employees, 35,744 retirees, 117,600 family members).

Reimbursements are governed by Regulations on Services and a General List of Rates. In 2001, 510,000 reimbursements were made.

Telemaco

In 2001, the National Complementary Pension Fund for Telecommunications Companies selected the depositary bank and in October the process of selecting the organizations to be entrusted with management of the Fund's resources was started.

The work of the Bilateral Joint Committee of Confindustria-CGIL-CISL-UIL, which shall arrange conversion of Telemaco into a complementary pension fund for employees of the companies which apply the industry's collective agreement, got underway.

CRALT

The club for telecommunications employees organizes activities for employees and retired employees of the Group Companies in the areas of tourism, sport, culture, recreation and solidarity. It also arranges discounts with shops and other services. The club is funded by an annual membership fee paid by each employee or retiree wishing to join the club, as well as by a contribution to be paid by Telecom Italia's business units or the Group Companies. The club uses the support of a Services Center. Membership in 2001 totaled 68,000 employees and 10,200 retirees.

National events were organized with the participation of approximately 35,000 members and their families in summer and winter holiday resorts, and over 2,300 athletes at sports meetings; 1,580 retired employees joined organized holidays for senior citizens.

The club also participated in humanitarian initiatives supporting *Medicins sans Frontières*, other non-profit charity organizations, and Bosnian children, donating approximately Euro 129,144.

ALATEL

This is an association for employees with at least 25 years of service and retirees of certain Telecom Italia Group companies. It implements and encourages mainly solidarity activities and promotes cultural and leisure activities. It has around 28,000 members, 38% of whom are still employed.

Contract work opportunities for 1,400 young people were created by the companies which manage the summer holiday centers.

▶ Summer holidays

Summer holidays offer employees' children between 6 and 12 years a recreational and educational opportunity and an experience of community life. 5,387 children (870 from companies belonging to the Group) stayed in 9 mountain centers and 6 seaside centers.

Award ceremonies

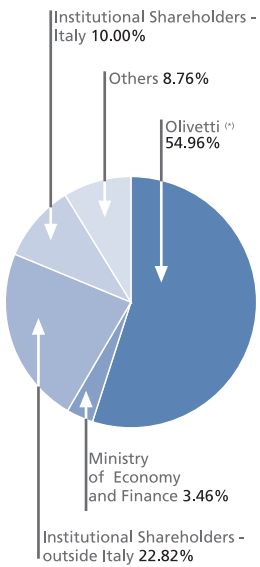
These have changed from awards for length of service with the Company to an occasion in recognition of the professional contribution of workers who reach 25 years of service (1,700 people from Telecom Italia SpA were awarded).

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SHAREHOLDERS



Breakdown of holdings
(ordinary shares)



(*) 0.787% of which is held indirectly through Olivetti Finance N.V.

Holdings of the major shareholders of the Telecom Italia Group

Olivetti SpA (*)	54.96%
Ministry of Economy and Finance	3.46%
Institutional Shareholders - outside Italy	22.82%
Institutional Shareholders - Italy	10.00%
Others	8.76%

◀ Dividends in 2001 were worth Euro 3,097 million.

At December 31, 2001, net invested capital was Euro 41,250 million, Euro 673 million down from December 31, 2000 (Euro 41,923 million). Net financial debt was Euro 21,942 million, Euro 4,709 million up from December 31, 2000 (Euro 17,233 million).

CORPORATE GOVERNANCE

Adherence to the principles of corporate governance developed by Borsa Italiana SpA represents a fundamental choice for the Telecom Italia Group, by way of a process of progressive improvement of the system in place.

For more information, consult the 2001 Annual Report.

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AUDITORS' REPORT
(Translation from the original Italian text)

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

We have performed compliance audit procedures and analyses on the 2001 Sustainability Report of the Telecom Italia Group prepared by Telecom Italia S.p.A.'s management.

Our examination included the audit procedures, described below, which we deemed necessary in the circumstances:

- tests of the Sustainability Report to ascertain its compliance with the guidelines described in the report, as well as with the guidelines established by the "Board for the Study and Implementation of Standards for the Preparation of the Social Report – GBS", and analyses, through discussion with group management, of the internal procedures adopted to compile the information contained in the Sustainability Report;
- agreeing of financial data in the Sustainability Report to data and information included in the consolidated financial statements on which we have issued the auditors' report dated April 15, 2002;
- tests, on a sample basis, of other data and information included in the Sustainability Report with internal records, analyses prepared by internal relevant functions or with other supporting evidence made available to us.

Based on the work performed:

- a) we deem that the 2001 Sustainability Report of the Telecom Italia Group has been prepared in conformity with the guidelines described in the report as well as with the guidelines established by the "Board for the Study and Implementation of Standards for the Preparation of the Social Report – GBS";
- b) the financial data in the Sustainability Report agree with the data and information included in the consolidated financial statements;
- c) the other data and information included in the Sustainability Report agree with supporting documents made available to us and with tests and analyses performed.

As described in the section "Ongoing commitment", the Telecom Italia Group has introduced projects aimed at achieving complete conformity with the Principles of Sustainability described in the report, including the definition of specific operating procedures.

Turin, April 16, 2002

RECONTA ERNST & YOUNG S.P.A.
signed by: Felice Persico (partner)

■ Reconta Ernst & Young S.p.A.
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C.F. 30444010584 - P.I. 00891231003
Registro Imprese n. 669789 Roma
Capitale Sociale L. 2.020.000.000 i.v.
Euro 1.043.243

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■ ONGOING COMMITMENT

"While all firms are driven by the profit motive to increase productivity and maintain a competitive edge in their chosen markets such a goal should be pursued in a way that is socially responsible and ecologically compatible"

(from the letter of introduction to the 2001 Report)

The Telecom Italia Group has introduced new Corporate Governance processes which provide for:

- simplification of the corporate organization;
- establishment of management committees for investments and international operations;
- introduction of the "professional families" system to improve management efficiency and control;
- new investments and procurement procedures;
- rationalization of the Regional Service Centers.

The objective is creation of value, leveraging on infrastructures, available technologies and characteristic competences with substantial investment in applied research into process and product innovation.

The intention is to make Italy play a leading role in high technology and patents, actively contributing to building the "Country System", investing in e-government and, certainly, turning invested capital into profit.

Focus on consumers will lead to changing the internal organization in the business units, making it more customer oriented than product oriented.

Human resources are a strategic resource for attainment of the objectives. They will be involved in the corporate changes by intensifying two-way communication.

(from presentation of the Industrial Plan to the Financial Community - 02/14/2002)

Determination to adhere to the principles of sustainability stated in the Charter of Values, Charter of Services and Environmental Charter is reflected in the projects under definition and/or implementation concerning a number of instruments considered indispensable:

- planning of environmental actions consistent with the global strategy, such as conservation of energy and natural resources, supporting recycle and renewable sources;
- development of a common environmental conscience in suppliers and customers;
- the Environmental Management System;
- Life Cycle Assessment studies;
- the Group Code of Practice;
- voluntary agreements with the Public Administration.

Some Group Companies are already equipped to move towards sustainability; the commitment is aimed at introducing these instruments throughout the Group at a gradual pace suited to its dimensions and range of interests.

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■ SELECTED FINANCIAL DATA

■ Telecom Italia Group - Selected financial data

(millions of euro)	2001	2000 ^(^)	2000	Changes (a-b)	
	(a)	(b)		absolute	percentage
Sales and service revenues ⁽¹⁾	30,818	27,169	28,911	3,649	13.4
Gross operating profit (GOP) % of sales and service revenues	13,619	12,217	13,118	1,402	11.5
Operating profit % of sales and service revenues	6,674	6,440	6,805	234	3.6
Net income (loss) before minority interest % of sales and service revenues	(1,658)	2,892	2,948	(4,550)	
Net income (loss) - Parent Company	(2,068)	2,028	2,028	(4,096)	
Net invested capital at December 31	41,250	41,923	44,556	(673)	(1.6)
Shareholders' equity at December 31 ⁽²⁾	19,308	24,690	25,527	(5,382)	(21.8)
Net borrowing at December 31	21,942	17,233	19,029	4,709	27.3
Capital investments	11,257	19,484	20,009	(8,227)	(42.2)
Employees at year end	109,956	107,171	114,669	2,785	2.6

^(^) Reconstructed consolidating the Nortel Inversora Group on a one-line basis rather than by the proportional method.

⁽¹⁾ Inclusive of the shares to be paid to other carriers.

⁽²⁾ Net of "Receivables from Shareholders for capital contributions".

In 2001, investments amounted to Euro 11,257 million, a decrease of 42.2% compared with the reconstructed 2000 data.

Industrial investments amounted to Euro 8,164 million (Euro 16,484 million in reconstructed 2000) and comprised the goodwill (Euro 1,174 million) arising from the takeover of the Entel Chile Group.

The gross value added of the Telecom Italia Group is calculated in the following table and the distribution among the principal stakeholders is shown.

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■ Gross value added and stakeholders

(millions of euro)	2001 (a)	2000 (*) (b)	2000 Changes % (a-b)/b	
Sales and service revenues	30,818	27,169	28,911	13.4
Standard production value	31,308	28,296	30,122	10.6
Raw materials and outside services	(13,042)	(11,356)	(11,999)	14.8
Value added	18,266	16,940	18,123	7.8
Telecommunications license fee	524	524	571	°
Other entries (**)	636	668	477	°
Gross value added	19,426	18,132	19,171	7.1

◀ (*) Reconstructed consolidating the Nortel Inversora Group on a one-line basis rather than by the proportional method.

◀ (**) Other entries are the balance between the following items in the Statement of Income: other income, extraordinary income, direct and indirect tax of companies outside Italy, dividends distributed for the year 2000, TLC license fee, adjustments in value of financial assets, net investment income, financial income, net income before minority interest.

■ Distribution of gross value added among stakeholders and other parties

(millions of euro)	2001 (a)	2000 (*) (b)	2000 Changes % (a-b)/b	
Employees	3,722	3,704	3,986	0.5
State	2,585	4,510	4,510	(42.7)
of which:				
• Social security costs	1,157	1,250	1,250	(7.4)
• Ministry of Economy and Finance	895	2,702	2,702	(66.9)
• Direct taxes - Italian companies	791	2,563	2,563	(69.1)
• Indirect taxes - Italian companies	104	139	139	(25.2)
• Ministry of Communication (telecommunications license fee)	472	497	497	(5.0)
• Ministry of Economy and Finance (Dividends)	61	61	61	(0.0)
Minority shareholders excluding the Ministry of Economy and Finance	3,036	3,005	3,038	1.0
Business (Depreciation and amortization, provisions to reserves for risks and charges, other valuation adjustments)	7,008	5,797	6,330	20.9
Financiers	3,075	1,116	1,307	175.5

The aggregate contribution of the Telecom Italia Group to internal and external stakeholders for 2001 was Euro 28,774 million.

■ Contribution to stakeholders in 2001

(euro)

EMPLOYEES 3,722 million	
Shareholders 3,036 million	Dividends distributed (excluding the Ministry of Economy and Finance, already included under State)
STATE 2,585 million	Taxes and dividends
SUPPLIERS 19,431 million	Consumption of raw materials and outside services, industrial investments (**)

◀ (**) External costs, net of license fee, including industrial investments, net of increases in capitalized internal construction costs, net of associated amounts for costs and investments.

Special thanks to:

- All those colleagues who have taken an active part in gathering the data necessary for preparing this document.
- **SODALITAS** - "Associazione per lo Sviluppo dell'Imprenditoria nel Sociale" - (formed by Assolombarda) for its support and guidance on the path to sustainability reporting.
- **CSR Europe** (Corporate Social Responsibility) for providing the information regarding themes and programs on building Corporate Social Responsibility in Europe.

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