



# Sustainability Section

extract from **2003** Annual Report 

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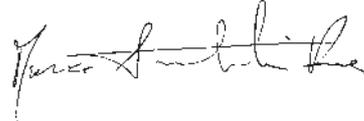
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...Since we were well aware that there could be no reliable, long-lasting growth without integrity, a good reputation and trust, we took action to make our administrative decisions even more transparent, to ensure that the interests of all our shareholders would be respected, and to establish a continuous, open dialogue with the financial community. With respect to corporate governance, we want to be at the top not only nationally but also internationally, so that every level of corporate operations will adopt the kind of conduct that will guarantee the utmost honesty and transparency. It is a continuous process: another step forward was the decision, starting with the Board of Directors taking office in 2004, that the board should have a majority of independent directors of the highest possible standing from both a personal and professional standpoint.

In more general terms, we have stepped up our commitment to implement policies of corporate responsibility that aim to satisfy all the bearers of legitimate interest – customers, employees, suppliers, the public at large, future generations – by supporting the principles of the Global Compact, the key benchmark at world level launched in 2000 by the U.N.O. to promote respect for human rights and labor standards and the safeguarding of the environment. By making the Sustainability Program an integral part of the Industrial Plan, we have planned the measures needed to assure the ethical excellence of the whole Group...



(from the Chairman's letter to the Shareholders - 2003 Annual Report)

"Telecom Italia Group proposes Sustainability as a business value, a tool for programming, management and control".

The dedicated awareness placed by the Group on satisfying those bearing legitimate interests on which the Group depends and, at the same time, influences by its own activities, has been constantly renewed for the last seven years.

As from last year, the Annual Report has included the 2003 sustainability section, taking the place of "Other information", which the legislator now leaves to the discretion of the companies.

This section is divided according to the stakeholders affected by Sustainability: Customers, Suppliers, Competitors, the State and Institutions, the Environment, the Community, Human Resources and Shareholders.

The section on Shareholders also contains information on Financial Communications, the Safeguarding of Privacy and Corporate Governance.

The section is drawn up accordingly with Global Compact principles.

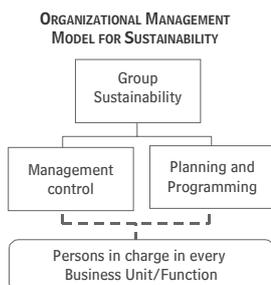
The symbol "  " beside the text identifies the most relevant paragraphs.

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## ■ RESULTS AND COMMITMENTS



### ■ RESULTS



During 2003, the Group completed a number of measures intended to introduce the model of Sustainability into the main corporate processes:

- Implementation of an organizational management model for Sustainability:
  - definition of the role of orientation, coordination and control of the Group Sustainability function (February 2003) at Group level;
  - identification of those responsible in the organization in all the corporate functions, business units and operating activities to oversee the various activities;
- integration in reporting processes:
  - inclusion of a 2003 sustainability section into the Consolidated Financial Statements and the financial statements of listed subsidiaries;
  - standardization and computerization of sustainability reporting and alignment with economic, financial and managerial systems of reporting (implementation of the Sustainability Module within the Enterprise Analytic Portal - EAP application);
  - selection of some Sustainability Key Performance Indicators (KPIs) to be introduced to the Group tableau de bord;
- start up of dedicated planning processes:
  - implementation of a system for planning, monitoring and evaluating Sustainability;
  - incorporation of the Strategic Plan for Sustainability (SPS) within the Corporate Business Plan for 2004-2006, establishing guidelines for the Group and individual Business Units.

The beginning of 2003 saw the launch of the Control & Risk Self Assessment (CRSA) project. The aim of the project is to ensure that the Group has a tool that it can use to identify, evaluate and manage operational risks, and also to adapt its performance to national and international best practices in the field of Corporate Governance (Preda Code, Sarbanes-Oxley Act).

### ■ COMMITMENTS

15 "areas of interest" have been selected and will be monitored to see whether they have a positive or negative impact in terms of sustainability, in order to harmonize stakeholders' expectations and raise their level of satisfaction. Particular focus points in 2004 include customer satisfaction and quality of service. Planning activities have been set in motion to achieve these objectives.

A joint period of active testing is to be organized with the Bocconi University in Milan to assess the Group's non-financial performance (intangible assets). The aim is to assess the creation of value generated by pursuing the aims of Sustainability.

This year will also see the start of a systematic campaign to emphasize the commitment made by the Telecom Italia Group in developing the governance processes in terms of Sustainability, with the aim of maximizing its benefits in terms of reputation.

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## ■ REFERENCES

When it was defining and implementing the strategy and programs for Sustainability, Telecom Italia Group used the guidelines proposed by the main bodies responsible for orienting and standardizing Corporate Responsibility.



Since 2002, Telecom Italia has subscribed to the nine principles of the Global Compact, the key benchmark at world level launched in 2000 by the UN to promote the safeguarding of the environment and respect for human rights and labor standards in companies.

The model for monitoring and reporting on Sustainability is based on a multi-stakeholder analysis approach and on a set of performance indicators (314). Telecom Italia Group bases its reporting on the guidelines of the Global Reporting Initiative (GRI), according to the principles of the Global Compact. These guidelines are intended to encourage harmonious reporting on economic, environmental and social issues (triple bottom line).

The indicators being monitored are consistent with the information required by the main rating agencies (SAM for the Dow Jones Sustainability Index, EIRIS for the FTSE4Good and SIRI) for admission to listing on the sustainability stock exchanges.



The Sustainability management system also takes into account the main international standards for the various stakeholders:

- ISO 9000 and ISO 14000 quality certification for systems for managing quality and the environment, to ensure quality of service for customers and respect for the environment;
- *Social Accountability 8000* (SA8000), the aim of which is to encourage respect for human rights and decent working conditions on the part of suppliers and sub-suppliers alike;
- *London Benchmarking Group* (LBG) guidelines for measuring investments in the Community;
- *International Labour Organization* (ILO) for respect for the fundamental rights of workers and the Human Development Enterprise (HDE) index of proper labor and employment practices, also drawn up by the ILO, to measure performance with regard to Human Resources.

The Group's Corporate Governance system is based on criteria of exactness and transparency and reflects the highest national and international standards, since protecting its shareholders is a top priority.

The Group not only observes the most common standards but monitors out the various stakeholders involved and compares its own performance with that of the competition and the best practices of Sustainability. Constant monitoring of Corporate Responsibility and its management tools is also a top priority.

- ◀ *DJSI (Dow Jones Sustainability Indexes)*: stock exchange listings of shares of companies committed to Sustainability, processed by *Dow Jones* in association with SAM (*Sustainable Asset Management*).
- ◀ *FTSE4Good (Financial Times Stock Exchange)*: stock exchange listings of shares of companies which respect certain standards of responsibility 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 which intend to supply and promote quality products and services resulting from research on social investment on a global scale.

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## ■ ACKNOWLEDGEMENTS

The "Trust Us - Survey of Corporate Sustainability Reporting" survey, conducted at the end of 2002 by UNEP (UN) included Telecom Italia, the only Italian company to be represented, among the 100 best companies in the world in terms of the quality of its reporting on Sustainability.

In 2003, the two main companies of the Group listed on the Stock Exchange, Telecom Italia and TIM, were admitted to the main FTSE4Good Indexes (Global 100 and Europe 50), the Global Ethibel Sustainability Index (ESI) and the ethical indexes of E.Capital Partners. Both were declared eligible and were classified as runners up in the Dow Jones Sustainability Indexes. In other words, they will automatically be able to fill the place in the index should any one of the companies in that specific sector "leave" during the course of 2004.

In November 2003, Telecom Italia received the Operational Excellence Award, awarded by the Tele Management Forum (an international, non-profit organization for promoting the ICT services industry), for the development of its new broadband platform.

In the 2003 edition of "Best 100, the best companies to work for" organized by Skillpass (a company specialized in training and selecting personnel, in which Sviluppo Italia and leading Italian banks hold investments), Telecom Italia was rated as the most desirable company to work for in Italy. Telecom Italia was "the company which won the highest number of votes from the Italian public, who thus rewarded two years of innovative management and the dynamic performance of the Group, bestowing a prestigious honor on the corporate brand of Telecom and the values which it succeeds in conveying through its activities".

In the sphere of the "Pubblicità per bene" award, Telecom Italia received a special mention as a company which has distinguished itself in making an economic contribution for social purposes for the "numerous initiatives geared to promoting, raising awareness of and supporting social and cultural ends" achieved through Progetto Italia.

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## ■ CHARTERS AND CODES

The Group's *governance* system is based on three fundamental codes of conduct, which are in the process of being applied to all the companies in the Group:

- the *Code of Ethics*, adopted in 2002, which constitutes the charter of fundamental values with which the Group identifies;
- the *Self-Regulatory Code*, updated in October 2003, regulating the responsibilities and functions of the Board of Directors, and incorporating current legislation;
- the *Code of Conduct for Insider Dealing*, also updated in October 2003, which regulates obligations regarding the disclosure conduct related to transactions of the listed shares of the Group carried out by "people in sensitive positions" and the disclosure of information regarding such transactions to the market.

The Group has adopted an organizational model in compliance with Legislative Decree 231/2001, which sanctions the administrative responsibility of a company for crimes committed by its directors or employees. The aim is to regulate internal processes in a way that reflects the Group's principles of transparency, correctness and fairness, and with the added aim of preventing situations or conduct which might potentially harm the company.

The codes and other documents related to the tools of Corporate Governance adopted by the Group can be consulted on a dedicated section of the corporate website [www.telecomitalia.it](http://www.telecomitalia.it) (Investor Relations - Corporate Governance).

Telecom Italia has adopted a system of values which must constitute a constant benchmark of conduct for everyone who works for the Group, reinforcing the idea that they belong to one company. In addition, a Managerial Model has been identified which constitutes a synthesis of the conduct to which managers in the Group should refer in the pursuit of their business objectives.

Values	Managerial Model
Customer focus	Central importance of the customer
Assuming responsibility	Creation of value
Innovation	Investing in people
Pro-action	Regulating change
Speed	Networking and integration
Integration	
Transparency	
Professional excellence	

The principles of conduct with regard to customers and the commitments made by the main companies in the Group in terms of quality of service are described in the Charter of Services. The charter was reviewed in 2003 to bring it in line with the new requirements of transparency, clarity and timeliness demanded by the Italian Communications Authority (AGCOM). Telecom Italia's Charter of Services can be viewed on the corporate website ([www.187.it](http://www.187.it)).

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## ■ FINANCIAL DATA AND VALUE ADDED

The following tables show the main financial data and the calculation of the value added generated by Telecom Italia Group, distributed among the various stakeholders.

### TELECOM ITALIA GROUP - SELECTED FINANCIAL DATA

(millions of euro)	2003	2002 <sup>(1)</sup>	Changes (a)-(b)	
	(a)	(b)	absolute	percentage
Sales and service revenues	30,850	31,408	(558)	(1.8%)
Gross operating profit (GOP)	14,280	14,015	265	1.9%
Operating profit	6,789	6,058	731	12.1%
Net income (loss) before minority interest	2,428	(306)	2,734	--
Net income (loss) - Parent Company	1,192	(773)	1,965	--
Net invested capital at 31 December	53,935	54,023	(88)	(0.2%)
Shareholders' equity at 31 December <sup>(2)</sup>	20,589	20,624	(35)	(0.2%)
Net borrowing at 31 December	33,346	33,399	(53)	(0.2%)
Capital investments	11,454	7,024	4,430	63.1%
Employees at year end	93,187	106,620	(13,433)	(12.6%)

◀ (1) The data relating to 2002 refer to the Olivetti Group following the merger with Telecom Italia.

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

The increase in investments is mainly due to the consolidation differences effect.

### GROSS VALUE ADDED AND STAKEHOLDERS

(millions of euro)	2003	2002 <sup>(1)</sup>	Change %
	(a)	(b)	(a-b)/b
Sales and service revenues	30,850	31,408	(1.8%)
Standard production value	31,595	32,053	(1.4%)
Raw materials and outside services	(13,018)	(13,311)	(2.2%)
<b>Value added</b>	<b>18,577</b>	<b>18,742</b>	-
Telecommunications license fee	56	431	(87.0%)
Other items <sup>(2)</sup>	(1,206)	(341)	-
<b>Gross value added</b>	<b>17,427</b>	<b>18,832</b>	-

◀ (1) The data relating to 2002 refer to the Olivetti Group following the merger with Telecom Italia.

◀ (2) The other items represent the balance between the various items of the statement of income: sundry income/expense, extraordinary income/expense, dividends referring to the year 2002, the TLC license fee, value adjustments to financial assets, income (expenses) from equity investments, financial income, the Parent Company interest and the minority interest in the net result for the year.

The reduction of the TLC license fee is commented upon in the section relating to the State and Institutions.

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#### DISTRIBUTION OF GROSS VALUE ADDED AMONG STAKEHOLDERS AND OTHER PARTIES

(millions of euro)	2003 (a)	2002 (*) (b)	Change % (a-b)/b
Employees	3,376	3,719	(9.2%)
State	2,506	(358)	–
of which:			
• Social security costs	1,308	1,237	5.7%
• Direct taxes	1,014	(2,210)	149.5%
• Indirect taxes	128	123	4.1%
• TLC license fee	56	431	(87%)
• Dividends (Ministry of Economy and Finance)	0	61	(100%)
Minority shareholders: (excluding the Ministry of Economy and Finance)	1,049	3,607	(70.9%)
Lenders	3,146	3,862	(18.5%)
Business (depreciation and amortization, provisions to reserves for risks and charges, other valuation adjustments)	7,350	8,002	(8.1%)

◀ (\*) The data relating to 2002 refer to the Olivetti Group following the merger with Telecom Italia.

For comments on the change in direct taxes, please refer to the section on the State and Institutions.

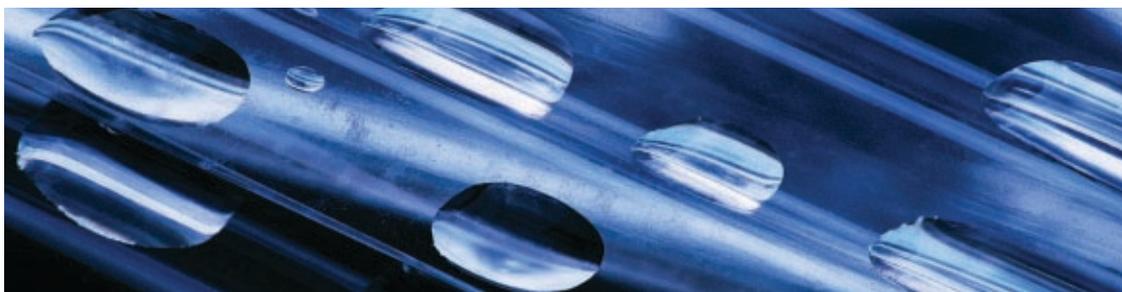
#### CONTRIBUTION TO STAKEHOLDERS IN 2003

(euro)		
Suppliers (*)	16,090 million	Consumption of raw materials and external services, industrial investments (*)
State	2,506 million	Expenses and taxes
Employees	3,376 million	
Shareholders	1,049 million	Dividends distributed
Lenders	3,146 million	

◀ (\*) The breakdown of the contribution to the stakeholders is described in the section on Suppliers.

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## CUSTOMERS



### CUSTOMER FOCUS

Telecom Italia Group's customers are one of its main assets. Indeed, the Group has decided to include customer focus, pro-action and transparency of information among its primary corporate values. In 2003, Telecom Italia SpA introduced a parameter linked to customer satisfaction in the overall incentive system. In fact, alongside the profitability indicator (gross operating profit), a Customer Loyalty indicator has been added that carries a weight of 30% on the profit bonus. The indicator is an average of customer satisfaction with regard to the offer of services, Customer Relationship Management (CRM) system, corporate image and technical quality. This change, which is highly innovative within the Italian industrial spectrum, shows the high priority being given by Telecom Italia to the satisfaction expressed by the customer. It also shows that it regards this factor as being a fundamental prerequisite for the creation of value and the maintenance of its position as market leader.

### EFFECTIVENESS OF CRM (*Customer Relationship Management*)

In order to build a closer relationship with its customers and to identify and satisfy their requirements, the Group has adopted a multi-channel approach to CRM, by making available to its customers more than 1,000 technical support centers, almost 800 toll-free numbers and numerous websites, specialized according to the segment of services or the country involved.

#### MAIN CHANNELS OF CRM ACTIVE AT DECEMBER 31, 2003

BU	Wireline	Mobile	LAW	Internet & Media
Toll-free numbers	636 <sup>(1)</sup>	56	74	3
Calls received by toll-free numbers	98,405,736	99,523,402	12,348,704	4,159,226
Technical support centers	34	937	26	27
Websites	www.187.it	www.119.tim.it	www.entelchile.net	tin.virgilio.it
	www.191.biz	www.privati.tim.it	www.entel.com.bo	areaclienti.virgilio.it
	www.aliceadsl.it	www.business.tim.it		help.virgilio.it
	www.info412.it	www.itelefoninonline.tim.it		
	www.radiomarittimi.it	www.timbrasil.com.br		
	www.wholesale-telecomitalia.it	www.timnordeste.com.br		
	www.ti-sparkle.it	www.digitel.com.ve		
	www.ti-sparkle.it	www.tim.com.pe		
	www.atesia.it	www.telestet.gr		
	www.pathnet.it			

<sup>(1)</sup> Including customized numbers for Executive customers.

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Communication with residential customers takes place mainly through call centers, websites and through e-mailshots (for example, the TIMNews newsletters, which had been delivered to almost one million subscribers by December 31, 2003) and SMS.

Communication with business customers takes place through direct (for Corporate customers) and indirect (small/medium-size businesses and professionals) sales channels; after-sales support is supplied through the call centers, Internet and other consumer channels.

During 2003, many CRM channels and instruments were update in order to ensure more complete knowledge and accurate profiles of the corporate clientele.

On the websites, registered customers have access to a wide range of services. They can modify personal data, check their traffic status, configure or activate services, pay bills or recharge their phones, change the type of subscription, purchase products, search for points of sale, request information, technical and commercial assistance, manuals for mobile phones, subscribe to or consult loyalty programs and other services.

Finally, new information systems have been introduced for CRM; the TIM information system can monitor more than 300 parameters.

The clientele is increasingly satisfied with customer care, as shown by the recent results of surveys conducted periodically by external companies into customer satisfaction with the service supplied by the Group's call centers.

#### CUSTOMER SATISFACTION WITH CUSTOMER CARE IN THE MAIN COMPANIES OF THE GROUP

Company	Clientele segment	Overall customer satisfaction
Telecom Italia Wireline	Consumer <sup>1</sup>	84%
	Business <sup>2</sup>	71%
TIM	Consumer <sup>3</sup>	90%
	Business <sup>4</sup>	77%
Stet Hellas	Consumer + Business <sup>5</sup>	94%
Telecom Italia Media (Tin.it)	Consumer <sup>6</sup>	72%
	Business <sup>6</sup>	63%

- 1 Level of satisfaction with customer care supplied by the "187" service; sum of the percentages of customers who described the service as excellent, very good, or good; data relates to the last quarter of 2003;
- 2 Level of satisfaction with customer care supplied by the "191" service; sum of the percentages of customers who described the service as excellent, very good, or good; data relates to the last quarter of 2003;
- 3 Level of satisfaction with customer care supplied by the "119" service; sum of the percentages of customers who described the service as excellent, very good, or good; data relates to the last quarter of 2003;
- 4 Level of satisfaction with customer care supplied by the Business toll-free number 800 846 900; sum of the percentages of customers who described the service as excellent, very good, or good; data relates to November 2003;
- 5 Level of satisfaction with customer care supplied by the customer service (toll-free and pay numbers); sum of the percentages of customers who described the service as excellent, very good, or good; data relates to the last quarter of 2003;
- 6 Level of satisfaction with customer care supplied by the toll-free number 80 33 80 to Tin.it Pay customers; sum of the percentages of customers who said they were very satisfied or satisfied with the service; annual average.

The range of services and rate profiles is continuously evolving with to fulfil the needs and expectations of the clientele. In an endeavor to achieve transparency and provide complete information, all the changes are communicated promptly to the clientele through the various channels available: in the pages accompanying phone bills (in the case of Wireline), on the website, through mailing, call center operators, points of sale and agents. In addition, specific announcements about changes in prices, the launch or termination of services, or changes in telephone numbers are published – in compliance with the instructions given by the national Regulatory Authority – in the leading Italian daily newspapers.

Another channel used to inform customers and help them to choose services in an informed way is advertising campaigns and promotions, to which the Telecom Italia Group applies the same principles of transparency and conformity to existing laws.

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## ■ LEADERSHIP IN INNOVATION

Telecom Italia Group is on the leading edge when it comes to technological innovation of products and services, fixed and mobile telephone services, Internet access technology, web services and television.

### MAIN INNOVATIONS ON THE ITALIAN MARKET IN THE SECOND HALF OF 2003

Company	Services segment	Services/product	Main features
Telecom Italia Wireline	Broadband Internet services	Alice (residential ADSL)	<ul style="list-style-type: none"> <li>- Re-chargeable: prepaid ADSL (first in Europe)</li> <li>- Free: ADSL pay-as-you-go (first in Europe)</li> <li>- No monthly subscription charge</li> </ul>
		Wi-Fi	<ul style="list-style-type: none"> <li>- New commercial rate plans in the private and public sphere</li> <li>- Varied pricing profiles (monthly subscription charges, pay-per-use, flat rate/time rate charged by hour/day/week) which are highly competitive compared to the main European operators</li> </ul>
	VAS residential phone service	SMS	<ul style="list-style-type: none"> <li>- Text messages can be sent from or received by a fixed phone</li> <li>- In the case of phones not equipped for this service, a voice message replaces the text message</li> </ul>
		4* 405	<ul style="list-style-type: none"> <li>- Voice portal for access to Telecom Italia services from any phone</li> <li>- Supplies the numbers of the last 5 unanswered calls</li> </ul>
	Products	Aladino	<ul style="list-style-type: none"> <li>- Cordless with the features of the latest generation of mobile phone (first in Europe): color display, text messaging, a phone directory with 200 numbers which can be interfaced with a SIM card, games, innovative ringing tones</li> </ul>
TIM	Mobile office	Blackberry	<ul style="list-style-type: none"> <li>- Expansion and improvement of the range of services (surfing the Internet, integrated management of file attachments,...)</li> <li>- Extension of service to customers (subscribers, prepaid customers, first in the world) in the Neb Client version</li> </ul>
	VAS	Video Messages	<ul style="list-style-type: none"> <li>- Facility to make short films – up to 40 seconds – and sending them by MMS or e-mail</li> <li>- Highly favorable rate options and promotions</li> </ul>
	Mobile telephone service	GSM on the ship	<ul style="list-style-type: none"> <li>- Extension of the TIM service on board Costa Crociere ships</li> <li>- Public rate plan with special rates, and customized contract for Costa Crociere customers</li> </ul>
		Prepaid pay-as-you-go abroad	<ul style="list-style-type: none"> <li>- Launched in conjunction with Telefonica and T-Mobile, this service enables prepaid customers to credit their phones in Spain and Germany, using the prepaid cards of the partner operators</li> </ul>
	SIM Card	3G SIM Card with 1 Mega of memory	<ul style="list-style-type: none"> <li>- Can store hundreds of JPG files</li> <li>- Very fast card-phone communications (40 times faster than a 2G card)</li> <li>- Developed for TIM by Oberthur Card Systems and ST Microelectronics</li> </ul>
Telecom Italia Media (Tin.it)	Internet	Chiave Unica	<ul style="list-style-type: none"> <li>- Enables users to use the Tin.it and Virgilio services in a single environment, eliminating the need for re-authentication</li> </ul>
	Broadband Internet	Hot Spot Tin.it	<ul style="list-style-type: none"> <li>- Testing and commercial launch of wireless Internet connectivity (Wi-Fi)</li> <li>- Free of charge and reserved for paying Tin.it clientele</li> </ul>
		HELP Express	<ul style="list-style-type: none"> <li>- Automatic technical support service</li> <li>- Checks the proper functioning of Internet connections, e-mail, surfing speed, configuration</li> <li>- Provides immediate solutions to configuration problems</li> <li>- Users can check on processing status of requests forwarded</li> <li>- Communication via chat with operators</li> </ul>
		Communicator (+)	<ul style="list-style-type: none"> <li>- For all customers: e-mail, remote disk and photo-album</li> <li>- For paying customers: advanced messaging services (receipt of fax and Voice messages, audio and video messages and SMS, video-calls, integrated phone directory, diary with reminders of appointments via e-mail/SMS)</li> <li>- Services accessible from any PC connected to Internet</li> </ul>

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La7	Televisione	Digital Terrestrial Television	<ul style="list-style-type: none"> <li>- Television - Start of testing in Bologna and Turin</li> <li>- Packages of content and services in still to be defined</li> <li>- Access to a greater number of TV channels with better quality audio and video</li> <li>- Possibility of supplying richer content and interactive services thanks to the integration of video/data/audio and the use of TLC access channels</li> </ul>
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## ■ CONCERN FOR THE QUALITY OF SERVICE

During 2003, Telecom Italia Wireline, TIM and Tin.it renewed their respective Charters of Services. These "Charters" describe the fundamental principles of conduct with regard to the clientele in terms of quality of service, implementing the measures contained in Resolution No. 179/03/CSP issued by Italian Communications Authority (AGCOM). The main areas of intervention include improving standards of quality in the supply of services, repairs, replies by the operators, improvements to the procedure for dealing with complaints and the supply of services/products to customers with special needs.

The General Subscription Conditions, which are specific to the various services involved, regulate contractual dealings with customers and are in keeping with the measures contained in Legislative Decree No. 259 of August 1, 2003.

The documents mentioned can be consulted on the corporate websites.

All the companies in the Group have implemented end-to-end control systems, which are often extended to the sales networks, to monitor the quality parameters of the services supplied.

AVERAGE TIME SPENT ON TECHNICAL MAINTENANCE CALLS IN THE MAIN GROUP COMPANIES		
Company	Service	Average maintenance time
Telecom Italia Wireline	Residential phone services (general telephone network + ISDN)	13 hours
	Business phone services	6 hours
	Residential ADSL	14 hours
	Business ADSL	5 hours
TIM	Business phone services	2 working days
Telecom Italia Media (Tin.it)	ADSL	1.25 solar days
	Dial-up	Problem solved with customer over the phone

Note: in the case of Wireline and TIM the data refers to the annual average in 2003, whereas, in the case of TI Media the data refers to the second half of 2003.

In the IT Market BU, the average time spent on maintenance calls is defined in the contract (through the Service Level Agreement). In IT Telecom (IT Group), the response times for VAS services and Data Centers vary according to the type of intervention: 8 hours for restoring the line, in a standard maintenance job, 2 hours in the case of a mission critical call.

At the end of 2003, customer satisfaction with the quality of the network in TIM was higher than 90%. Customer satisfaction of Tin.it (Telecom Italia Media) customers with the quality of the ADSL service was higher than 93%.

During 2003, almost all the Business Units added further quality certification to their Quality Systems, as follows.

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BU	Certification	Company/certified areas
Wireline	ISO 9001	Telecom Italia Wireline, Atesia, Elettra, Pathnet
	Vision 2000	Atesia
Mobile	ISO 9001	TIM, Stet Hellas and Maxitel
	QWEB	Websites: Investor Relation and i.tim.tim
Internet & Media	ISO 9001	Buffetti, CIPI, Databank
	Audiweb	Matrix
ITM	ISO 9001	14 out of 19 companies
	NATO AQAP110/150	Projects acquired with the Client Ministry of Defense
ITG	BS 7799	IT Telecom
	ISO 9001	IT Telecom
Olivetti Tecnost	ISO 9001	Office Products Division, Italian Sales Division, System Division, Olivetti I-JET

All the Group companies have adopted procedures for technical assistance and customer complaint management, which have been integrated with or incorporated into the quality management systems.

## ■ DISPUTES WITH CUSTOMERS

The following table gives a complete picture of the complaints raised by customers and the cases of litigation in Italy in 2003 for all of the business units.

Group	Number of complaints		Number of cases of litigation pending
	Received	Resolved	
Group	4,589,965	3,989,169	2,690
Wireline BU	3,470,571	3,037,673	2,237
Mobile BU	1,799,949	1,191,307	416
Internet & Media BU	17,813	17,742	13
IT Market BU	7,179	7,171	12
IT Group BU	-	-	14
Olivetti Tecnost BU	200	190	3

Although the option is still at the experimental stage, both Telecom Italia and TIM are offering their customers the chance to access a free, rapid out-of-court procedure to resolve disputes (Procedure of Conciliation and Arbitration: users can access the regulations and the application forms on the following websites: [www.187.it](http://www.187.it) and [www.191.it](http://www.191.it)). The procedure was agreed with consumer associations and was reviewed in 2003 to bring it in line with the new European directives on out-of-court settlements.

Applications for conciliation and arbitration handled in 2003	Wireline BU	Mobile BU
Number of applications for conciliation served	884	102
Number of applications for conciliation discussed	708	90
Number of applications for conciliation rejected	177	3
Number of applications for conciliation awaiting discussion	5	6
Number of applications for conciliation settled	654	7
Number of applications for conciliation unsettled	52	60
Percentage of applications for conciliation executed within 90 days	43	0
Percentage of applications for conciliation executed within 45 days	57	100
Number of applications for arbitration served	148	7
Number of applications for arbitration discussed	30	7
Number of arbitration cases resolved favorably	36	1
Number of arbitration cases resolved unfavorably	82	0

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## ■ RELATIONS WITH THE CONSUMER ASSOCIATIONS

Telecom Italia Group began collaborating with the main consumer associations in 1997, when it signed the General Framework Agreement with the 11 main associations. Negotiations and meetings continued in 2003 aimed at safeguarding customers' rights, particularly through monitoring and improving the application of the Charters of Services and the General Subscription Conditions.

The aim of a meeting held between Telecom Italia top management and the national representatives of the Consumer Associations at the Future Center in Venice, was to verify and confirm the content of the General Framework Agreement, by analyzing the impact of technological development and TLC services and evaluating the main problems raised by the associations.

Within the framework of the Consumers' Forum, which brought together Consumer Associations, companies and research institutions operating in the sphere of consumers' rights, numerous research projects were launched. The projects, which will examine consumerism and the role of the associations, will be completed by mid-2004.

The representatives of the Consumer Associations were involved in the review of the Charters of Services, contracts and the Conciliation Regulations of the Group.

The Group's commitment to the area of consumers' rights was also expressed in the following activities:

- spreading information about the possibility of benefiting from special contractual conditions destined for the categories of weaker customers;
- collaboration with the Italian Communications Authority (AGCOM) for services that must be provided as part of the Universal Service and the adoption by the Agency of a procedure for reconciliation and arbitration between the operators and users of the services;
- development of a procedure to safeguard users from potential hoaxes played on the Internet using services such as 709, including the free permanent disconnection of these services and the freezing of the amounts involved in disputes.

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## ■ SUPPLIERS



With the aim of quantifying its dealings, the following table shows the consumption of external goods and services and industrial investments between Telecom Italia Group and its suppliers:

TELECOM ITALIA GROUP		
(millions of euro)	2003	2002 (*)
Consumption of raw materials and external services (net of basic subscription charge or grants)	12,962	12,880
- of which related parties	454	498
Industrial investments	4,894	4,901
- of which, related parties and internal capitalization	1,312	1,163
<b>Total contribution</b>	<b>17,856</b>	<b>17,781</b>
- of which, related parties and internal capitalization	1,766	1,661
<b>Total net contribution</b>	<b>16,090</b>	<b>16,120</b>

(\*) The data relating to 2002 refer to the Olivetti Group following the merger with Telecom Italia.

## ■ RELATIONS

Telecom Italia Group's procurement policy is based on criteria of transparency and reciprocal cooperation. Suppliers selection is based on the competition between "qualified" suppliers, who have been admitted to a special Register of Vendors. At year-end 2003, the register contained approximately 1,750 suppliers.

The Purchasing Function has been organized in a centralized way at Group level so that relations with suppliers can be managed in a uniform way and with the aim of improving the efficiency of the procurement process. In order to ensure that competitive bids take place in full respect of the criteria of objectivity, so that every supplier has the same opportunities, and with the aim of stimulating competition among suppliers, on-line bidding is being encouraged. Among other things, this will enable suppliers to check on developments and to learn the final result of the bids in real time.

The Purchasing-Quality Function always asks the main suppliers to comment on the process of evaluation and control adopted by the Telecom Italia Group. The aim of this is partly to identify areas for improvement and partly to establish a constructive dialogue with suppliers which, at the same time, is receptive to the requirements of the stakeholder.

## ▶ ■ NEW PROCEDURES

A new procedure has been adopted for the Qualification of suppliers for all the companies in the Group. The parameters used to evaluate companies who apply to be included in the Telecom Italia Group Register of Vendors have been updated, with the introduction of the criterion of ethical suitability. This move safeguards all the stakeholders to a higher degree and improves relations with the actual suppliers in the medium/long-term.

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In particular, suppliers are asked to respect the principles in the sphere of human rights, labor and the environment contained in the "Global Compact", promoted by the United Nations Organization, to which the Ethical Code of Telecom Italia Group specifically refers. A new Group Vendor Rating procedure has been determined to evaluate all the technical, commercial and administrative aspects of purchases. Periodical monitoring takes place for each commodity category on an annual or six-monthly basis. The main factors to be monitored through this process are:

- the extent to which the production process meets technical specifications;
- respect of delivery terms;
- behavior with regard to commercial dealings;
- the efficiency of the administrative invoicing process;
- respect for the guidelines expressed in the qualification procedure, and for Sustainability parameters.

Once the global vendor rating (IVR) indicator has been determined, the Vendor Rating process then classifies the supplier. This classification makes it possible to scale the controls on the quality of the supplies and ensures that the supplier will remain in the Register of Vendors permanently. Suppliers are systematically informed of the results of the Vendor Rating procedure, so that they are aware of the Group's "degree of satisfaction" with them and the positioning of their evaluation compared to that of their competitors.

Guidelines have been established for controlling the quality of incoming goods for all the Group's Business Units and Corporate Functions, with the aim of creating synergies and rationalizing the entire process. Deeper controls are carried out in the case of new suppliers or those with a low rating, whereas, in the case of suppliers who offer high enough guarantees of overall reliability, controls are delegated to a greater or lesser extent to the actual supplier, by means of a self-certification process (comaking report), which shifts the responsibility for checking supplies upstream of the production process as much as possible.

"Guidelines for monitoring suppliers and the drawing up of contracts regarding waste disposal management" have also been established. The guidelines require special controls to ensure that the services commissioned are being carried out correctly and in full respect of the highest standards governing waste management and disposal. The frequency with which controls are carried out is established according to the size of individual suppliers and their sphere of operation. The results of these controls help to establish the Vendor Rating.

## ▶ ■ CONTROL

The quality rating of suppliers is monitored throughout the procurement process. It starts before the contract is drawn up. First, suppliers are selected through the Qualification process. Next, supplies are verified and their quality rating is assessed, together with the overall performance of the suppliers, through the Vendor Rating process described above.

Controls are generally carried out on a random sample basis, according to a specific risk assessment model for the commodity category to which the supplier belongs. Further controls may be carried out in the case of new suppliers or if particular problems have been encountered. The results of the controls, which in 2003 numbered more than 13,600, lead to the following action:

- inclusion in/exclusion from the Register of Vendors listing the qualified suppliers of the TI Group;
- authorization (where appropriate) to sub-contract activities to third-party companies;
- overall assessment of the supplier with regard to specific commodity procurement categories through the award of a Vendor Rating;
- acceptance or refusal of the supplies;
- possible contractual implications which, through the application of penalties, may lead to the eventual termination of the contract.

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## ■ COMPETITORS



## ■ RELATIONS

During 2003, Telecom Italia Group continued its collaboration with the OLO (Other Licensed Operators), ISP (Internet Service Providers) and other television licensees. In many cases, the latter are also commercial partners or customers vis-à-vis the products and services offered by the Group.

A description of the main initiatives undertaken with competitors in 2003 is commented below.

### Telecom Italia

In the experimental field of Digital TV, Telecom Italia participated, in collaboration with its competitors, in conferences, seminars, study days and round tables on the main technical, economic and regulatory topics of the sector, particularly with reference to the development of innovative services. Telecom Italia Group, which has entered the Digital TV sector with the La7 and MTV channels, is actively co-operating with other television companies and is continuing testing of digital terrestrial television on its own sites.

Along with other operators of the wireline network, Telecom Italia has organized numerous encounters with the aim of creating a framework agreement for the setting up and operation of a single database containing all the numbers and other data required for identifying the subscribers of fixed national telephone service carriers. The aim is to provide Italian consumers with an information service based on one directory containing the names of all the subscribers to the fixed network.

The aim of the introduction of the ENUM (tElephone Number Mapping) protocol is to supply a translation function between telephone numbers and Internet names. By using ENUM, it is possible to turn the telephone number into a "universal name" associated with the customer, both for phone and voice/data services, using already-existing networks. Telecom Italia and other Italian TLC operators have participated in the public consultation begun by the National Regulatory Agency, with the aim of evaluating the appropriateness of and interest in introducing the protocol from the point of view of operators and the general public.

### TIM

Under the aegis of the National Regulatory Agency, TIM signed an agreement with other mobile telephone operators to create a database of mobile terminal identification codes (International Mobile Equipment Identity – IMEI). The database will enable stolen phones to be identified remotely and rendered unusable through connection to the CEIR (Central Equipment Identity Register), a centralized database set up by the GSM Association. In future, the agreement, which should become operational during the first half of 2004, will make it possible to integrate with similar systems existing in other European countries.

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As far as litigation with competitors is concerned, please refer to the "Disputes, litigations and legal proceedings pending" section of the Report on Operations.

## ■ RELATIONSHIP WITH ORGANIZATIONS AND ASSOCIATIONS

On a European level, relations with sector institutions were given a further boost with the aim of sharing experiences in the field of the regulatory framework with other competing operators and creating a truly competitive international context. Of the many initiatives, Telecom Italia supports a market and investment strategy which is directed to the promotion of eEurope. This is an action plan which aims to speed up the development of digital services in member states of the EU and establish a series of measures which the countries involved must adopt in order to exploit the opportunities offered by information technologies.

Along with the CEO of the leading European companies operating in the sphere of telecommunications, Telecom Italia has organized a round table which will act as an interface with the European Commission for deciding the future of the evolution of the Regulatory Framework. Periodically, meetings will be arranged to discuss the most important aspects of the regulations. Numerous initiatives were continued at Community level within the context of the various associations, for example:

- the Brussels Round Table, which, through a cycle of events organized during the year, intends to outline the future development scenarios of the telecommunications market, particularly for broadband services;
- ETNO (European Telecommunications Network Operators' association), which is the largest association in the sector on the Continent. Its aims include the development of a competitive, efficient European telecommunications market, through coordination between the various operators and dialogue with institutions. Telecom Italia is on the Executive Board and chairs the Sustainability working group;
- ITU (International Telecommunications Union), which is part of the United Nations System and aims to promote the development of the sector on an international level through cooperation between the public and private sectors.

Together with other operators in the sector, Telecom Italia Group participates in the activities of the Fondazione Ugo Bordoni which conducts research work in the most advanced hi-tech spheres of the telecommunications sector. Projects include work on Internet security, digital cinema and television, second-generation Internet, e-learning, radio systems with low environmental impact, new technologies for search engines and Internet access from wireless equipment. Telecom Italia's annual contribution to Fondazione Bordoni are included in the calculation of the contribution to the "Community" stakeholder according to the model of the London Benchmarking Group.

Work continued in the management of relations with associations and the coordination of representation and lobbying activities with Confindustria and member associations. Initiatives at national and local level, which, in some cases, are shared with competitors, consist in action and meetings to promote business development and the safeguarding of corporate interests. Topics include economics, standards, labour unions and labour.

## ■ REGULATORY FRAMEWORK

The regulatory framework of the telecommunications sector in Italy has been transformed with the coming into force on September 16, 2003 of the new "Code of electronic communications" which, among other things, incorporated into the national regulatory framework the EC Directives referred to in the "'99 Review" relating to electronic communications networks and services (the Directives on "Access", "Authorization", "Framework" and "Universal Service").

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The new regulations were issued on the basis of Law No. 166 dated August 1, 2002 which gave the Government a mandate to implement the new directives, and to adopt a code of legal and regulatory measures regarding telecommunications. Furthermore, in accordance with a precise criteria of the mandate, the law demanded the streamlining of administrative processes, and the express abrogation of outdated standards so that operators would have a picture of existing laws which is clear and easily accessible.

There follows a brief description of the standards adopted by the competent authorities in 2003:

#### x-DSL services

In Resolution No. 06/03/CIR of April 15, 2003, the Italian Communications Authority (AGCOM) approved the new prices of Telecom Italia's range of wholesale x-DSL services, that is, the intermediate services which operators acquire from Telecom Italia in order to supply ADSL to the public, unless they have their own infrastructures or do not use unbundling. The new range of services includes price reductions for ADSL access, the introduction of longer time-scales for starting to market new wholesale services, the specification of the factors used to define the price of wholesale services based on the retail-minus principle, and the integration of an operators' Service Level Agreement with regard to the disconnection of services.

#### Interconnection and Local loop unbundling

In Resolution No. 02/03/CIR of February 27, 2003, the Italian Communications Authority approved the rates for the Interconnection Reference Rate Plan (OIR) for 2002 which Telecom Italia will apply to competing operators for the use of its network, together with criteria for changing the charges of the OIR starting in 2003 over the next four years (the so-called network cap).

In Resolution No. 11/03/CIR of July 25, 2003, the Italian Communications Authority approved Telecom Italia's interconnection rates for the year 2003, published on April 11, 2003. The resolution includes additions and changes, particularly regarding the application of the network-cap mechanism, introduced with Resolution 03/03/CIR, for the range of some interconnection lines, and for co-sharing, local loop unbundling, partial lines and permanent virtual lines services.

In Resolution No. 12/03/CIR of November 27, 2003, the Italian Communications Authority established the criteria for calculating the surcharge applied by Telecom Italia to interconnection services for collecting calls originating from public telephone services.

In Resolution No. 16/03/CIR of December 23, 2003, the Italian Communications Authority announced a public consultation concerning the approval of the interconnection rate plan for 2004 announced by Telecom Italia on October 31, 2003.

#### Maximum costs of fixed-mobile calls

In Resolution No. 47/03/CONS of February 5, 2003, the Italian Communications Authority approved the new maximum costs, with effect from June 1, 2003, for calls from a fixed phone to a mobile phone. The new prices include a reduction of rates for termination and retention. With regard to the latter component, the Italian Communications Authority has also ordered that it should be included in the new basket of final services subjected to the price-cap mechanism.

#### National frequency plan for digital TV

In Resolution No. 15/03/CONS of January 29, 2003, the Italian Communications Authority approved the new national plan to assign frequencies for television broadcasting using digital technology (PNAF-DVB), in a way similar to that established for frequencies using analog technology. According to the plan, frequencies will be assigned for national and local networks on a regional basis. The decision to keep similar structures for the analog and digital plans will simplify the transition from analog to digital technology for the holders of the licenses that have been issued.

The above-mentioned plan was integrated, for local broadcasting, in Resolution 399/03/CONS of November 12, 2003, in which the Italian Communications Authority approved the "National integrated plan to assign frequencies for television broadcasting using land-based digital technology" (PNAF-DVB-T).

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### Wi-Fi Services

In the decree of February 20, 2003, the Ministry of Communications approved changes to the previous national plan for assigning frequencies for digital TV, extending the use of the frequencies for Radio-Lan and Hiperlan systems to the public. Furthermore, in the decree of May 28, 2003, the Ministry also issued rules governing the conditions for issuing general authorizations for the supply of Radio-LAN access to telecommunications networks and services to the public.

In Resolution No. 183/03/CONS of May 28, 2003, the Italian Communications Authority approved the measures relating to the public range of services using Radio-LAN (Local Area Networks) and Wi-Fi (wireless fidelity) technology, implementing the change to the national frequency assignment plan of February 2003.

### Code of measures to protect personal data

Decree Law No. 196 of June 30, 2003 incorporates a code containing the measures for protecting personal data, which also implements EC Directive 2002/58/CE on the treatment of personal data and the safeguarding of privacy. The measures in the code became effective on January 1, 2004 and include special rules for electronic communications services.

### Carrier preselection (CPS)

On April 18, 2003 the Italian Communications Authority sent notice to Telecom Italia about Resolution No. 4/03/CIR concerning the "Integration of measures with regard to CPS: standards relating to the disconnection of the service".

The resolution, adopted at the end of the preliminary proceedings which began on November 28, 2002, defines common measures relating to the disconnection of the CPS service, describing in detail the modes and time-scales involved in the disconnection of CPS services, to safeguard users, and stating precise obligations with regard to transparency for the operators.

### Subscriber information service "12"

On May 6, 2003 the Italian Communications Authority sent notice to Telecom Italia about Resolution No. 103/03/CONS concerning "Changes to the prices of the subscriber information service "12" for calls made by the Telecom Italia SpA customers", acknowledging an increase in the price of the service of approximately 3%.

When the Code for Electronic Communications came into force, sanctioning the non-applicability of the obligations to provide the Universal Service for this service, Telecom Italia published the new conditions of its range of services with effect from November 1, 2003, January 1, 2004 and July 1, 2004.

### National numbering plan

On July 3, 2003 the Italian Communications Authority approved Resolution No. 9/03/CIR concerning the "Numbering Plan for the telecommunications sector and regulations for implementation". The main new features include: (1) numbering for services with a surcharge, classified into three social informative categories (social and informational, assistance and mass calls); (2) numbering for social informative services; (3) numbering for subscriber information services (the number 12xxx will be attributed to those interested in supplying services of this kind).

### Price-Cap

In Regulation No. 289/03/CONS of July 23, 2003 the Italian Communications Authority approved the mechanism for controlling the maximum prices of Telecom Italia's voice telephone services, through the Price-Cap mechanism, for the 3-year period 2004-2006. The new system involves three baskets, each with different Price-Caps: **access basket**: includes basic subscriber charges and various fees for ordinary and ISDN telephone lines with a IPC-0 cap; in addition, for the residential customers, a sub-cap has been set for basic subscription charges equal to IPC-IPC; **traffic basket**: includes local and out-of-district calls with a cap equal to IPC-IPC; **fixed-mobile basket**: includes the amount to be paid by Telecom Italia for fixed-mobile traffic with a cap equal to IPC-6.

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#### Quality and TLC Services Cards

In Resolution 179/03/CSP of July 24, 2003, the Italian Communications Authority issued a general directive concerning quality and telecommunications Services Cards, in compliance with Law No. 249/97. The resolution contains the minimum measures to be taken by telecommunications organizations when adopting the cards for telecommunications services accessible to the public and, at the same time, establishes general criteria relating to the quality of the services involved.

#### Retail and wholesale leased lines

In Resolution No. 304/03/CONS of August 5, 2003, the Italian Communications Authority approved the criteria for the preparation of the new rate plans for retail and wholesale leased lines. In particular, the resolution involves the re-formulation of Telecom Italia's retail rate plans with a reduction of expenditure of at least 5.25% for direct national lines and 7% for digital 2-Mbit/s lines. As far as wholesale rate plans are concerned, terminations co-shared with Telecom Italia exchanges are to be introduced, along with all the extra services, including RPV-D, diversity of routing and the link of protected access. Furthermore, items of cost must be reduced by at least 12% compared to the prices of the retail rate plans. Finally, the resolution involves the re-formulation of the Service Level Agreements and of certain conditions relating to the supply of retail and wholesale services.

In Resolution No. 440/03/CONS of December 17, 2003, the Italian Communications Authority confirmed the new rate plans for Telecom Italia's retail and wholesale leased lines, published on October 30, 2003.

#### Net cost of the universal service

In its Communication of July 30, 2003, the Italian Communications Authority initiated preliminary proceedings to verify the net cost of supplying the Universal Service sustained by Telecom Italia in 2002 and evaluate the possibility of applying a mechanism whereby the above-mentioned costs would be shared with the other operators.

#### Public telephone services

In Resolution No. 182/03/CONS of June 3, 2003, the Italian Communications Authority approved the maximum change (7.2%) that can be applied to charges for the range of vocal telephone services from Telecom Italia's public telephone systems.

## ■ INTERBUSINESS SERVICES

As required by the Antitrust Authority, the accounting principles used to determine the economic values for Interbusiness services are described below. These accounting principles have been verified by the auditors ever since 1996.

In 2003, this examination was performed by Reconta Ernst & Young SpA.

- **Revenues** are stated at market prices for competitive services and at rates established by the resolutions of the Italian Communications Authority for the services of leased lines and recorded on the accrual basis. In the case of services provided that imply the use of dedicated access lines by the final customer, the revenues also include the income from leasing such lines (valued on the basis of the rates defined in the related resolutions of the Italian Communications Authority), with the consequent recognition of the same amount in costs.
- **Direct costs**
  - *labour costs* represent the cost of personnel who worked to provide such services; the cost includes salary and wages, social security costs, provisions for employee termination indemnities and other sundry costs recorded on the basis of the number of persons in the dedicated operating structures and using cost accounting standards;

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- *network utilization costs* include the cost to use the regulated carrier services (direct connections) and the cost to use the carrier products/services offered in a competitive environment; they are therefore valued, respectively, using the rates established by the Italian Communications Authority resolutions and the rates applied to all third-party customers, the same as that which occurs in the cost structure of other carriers in the sector;
- *other costs* refer to direct costs (marketing, service connection, operating and maintenance, etc.) and indirect costs (corporate structure costs supporting the operating lines) valued using cost accounting standards and applying specific allocation methods.

- **Depreciation** of fixed assets directly employed in providing the services in question are determined on the basis of the estimated useful life of the fixed assets of Telecom Italia.

The economic results of the interbusiness services are reported as follows:

(thousands of euro)	2003	2002	Change	
			amount	%
Revenues	62,822	70,157	(7,335)	(10%)
Direct costs	(46,856)	(56,286)	9,430	(17%)
of which:				
Labour costs	(2,016)	(2,871)	855	(30%)
Network utilization costs	(38,548)	(36,023)	(2,525)	7%
Other costs	(6,291)	(17,392)	11,101	(64%)
Gross operating profit	15,966	13,871	2,095	15%
Depreciation	(16,731)	(17,696)	965	(5%)
Operating loss	(765)	(3,825)	3,060	n.s.

The results for 2003 show an operating loss of euro 0.76 million compared to a loss of euro 3.8 million in 2002. Such result is due to the combined effect of the reduction in revenues that was more than offset by the reduction in costs. The impact on revenues (– 10%) is mainly on account of a decline in customers who switched to alternative commercial offers. The reduction of resources absorbed by the service is due to a decreasing number of customers and, in some cases, a reduction in the unit cost; in total, therefore, costs decreased by 17%. Depreciation shows a reduction of 5%.

3	CONTEXT	9	CUSTOMERS
9	EXTERNAL STAKEHOLDERS	15	SUPPLIERS
50	INTERNAL STAKEHOLDERS	17	COMPETITORS
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## ■ THE STATE AND INSTITUTIONS



TELECOM ITALIA GROUP						
(in millions of euro)	2003			2002 (*)		
	Total	Italy	Foreign	Total	Italy	Foreign
Social security and pensions	1,308	1,267	41	1,237	1,172	65
Income taxes	1,014	753	261	(2,210)	(2,453)	243
Indirect taxes	128	110	18	123	111	12
TLC license fee	56	0	56	431	383	48
Dividends	0	0	0	61	61	0
<b>Total</b>	<b>2,506</b>	<b>2,130</b>	<b>376</b>	<b>(358)</b>	<b>(726)</b>	<b>368</b>

◀ (\*) The data relating to 2002 refer to the Olivetti Group following the merger with Telecom Italia.

In 2003, Telecom Italia Group paid the Italian State euro 2,130 million and foreign states euro 376 million.

The change in the TLC license fee in 2003 is attributable to the cancellation of the fee in Italy following the verdict of the European Court of Justice.

Income taxes amounted to euro 1,014 million. In 2002, this item benefited from the writedown of investments and the tax effect deriving from the merger of TIM with Blu.

In 2003, the Group received operating grants solely from Italian Public Administrations amounting to euro 14 million, of which euro 13 million pertained to Telecom Italia.

## ■ LOCAL INSTITUTIONS

The Group continues to support the legislative activities of the Regions and local institutions – regional laws, resolutions, ordinances – and the regulatory activities of the local authorities. The main issues of interest include the work for the installation of network infrastructures, electromagnetic pollution, local funding and regional funding of special projects by the EU. Relations continued with the institutions and Associations of the local authorities and the work of representing the Group's position with regard to such organizations.

3	CONTEXT	9	CUSTOMERS
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## ■ NATIONAL INSTITUTIONS

Telecom Italia Group maintains constant, transparent relations with the central national institutions (Parliament and Government), with the aim of representing the Group's position in areas of specific interest and monitoring the procedure of approval of the standards governing those areas. Constant support is given to the competent institutions (Parliamentary commissions, the Ministry of Communications and other government departments) in preparing standards on issues of corporate interest.

## ■ INTERNATIONAL INSTITUTIONS

Telecom Italia plays a continuous, interactive role with the European Commission, the Council of the European Union and the European Parliament with the aim of monitoring the activities which have a significant impact on the Group. Numerous meetings were held with the European Commission and the European Parliament to discuss and initiate various projects, for example: "Local Loop Unbundling", "Partial lines", "Recommendation on remedies", "Intellectual Property Rights (IPR)", "eEurope", the "2005 Action Plan", "Regulatory policies in the broadband sector", "TV without boundaries", "Services of General Interest (SIG)" and "Unsolicited commercial communications (SPAM)".

The Group contributed to the publication of the "IX Implementation Report" by providing information and data, and also participated in debates organized by institutional organizations such as ERG (European Regulatory Group) and CoCom (Communication Committee) on topics of strategic importance, including the re-sale of customer access, leased lines, partial lines and the implementation of the new regulatory framework.

## ■ NATIONAL LEGISLATION

The efforts of the Group are concentrated on the following legislation of key interest to the sector:

- Legislative Decree containing the Code of Electronic Communications, which, according to the mandate ordered by Law No. 166/2002, contains the new legal and regulatory measures for the reorganization of the field of telecommunications. The Code also implements the EC directives on TLC within the national regulatory framework, thus bringing it into line with its European counterpart. The important factor about this legislative decree, considering that the previous law for the postal system and telecommunications dates from 1973, is that all the legislation on this subject, following the express abrogation of outdated laws, was established in a single law. By improving the level of certainty of the laws and streamlining administrative processes, the new framework hopes to give operators a clear and easily accessible picture of existing laws.
- Legislative Decree No. 196 of June 30, 2003, which introduced the Code protecting personal information and also implements the EU Directive 2002/58/CE on the treatment of personal information and the protection of privacy. The measures contained in the Code became effective on January 1, 2004.
- Bill for reorganizing the television system, of interest to the Telecom Italia Group since it owns channels such as La7 and MTV, and on account of the aspects of the bill relating to anti-trust rules.
- Legislative Decree No. 70/2003 which implements the EU Directive 2000/31/CE regulating e-commerce.
- Legislative Decree No. 196/2003 containing the "Code for protecting personal information" which, in addition to incorporating the measures regulating data protection in a code, implements the EU Directive 2002/58/CE relating to the use of personal information and the protection of privacy in the electronic communications sector.

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Decree of March 14, 2003, in which the Ministry of Communications implemented the measures contained in Article 89 of Law No. 289 (2003 Finance Bill) of December 27, 2002, establishing the modus operandi for awarding grants for purchasing receivers for digital terrestrial television (euro 150) and broadband access to the Internet (euro 75). The 2004 Finance Bill also confirmed that the grants would be awarded in 2004, the amounts being established in the Ministerial Decree of December 30, 2003.

With reference to the audit records, it is noted that the number of Parliamentary questions/interpellations addressed to the Group showed a stable trend, similar to that of the prior year.

The Group continued to monitor and intervene on the constitutional bill which will form the basis for changing the second part of the Constitution. The Bill establishes a Federal Senate to which it entrusts the examination of the fundamental principles in legislation covering the same subject matter, including the communications regulations, delegating power to issue laws on matters of minor importance to the Regions.

Telecom Italia is supporting a proposal to change the document currently under examination with the aim of removing telecommunications regulations from the competence of the Federal Senate and the Regions and bringing them back within the sphere of competence of Parliament, to avoid an increase in the legislative activities of local authorities in matters of key interest to the Group.

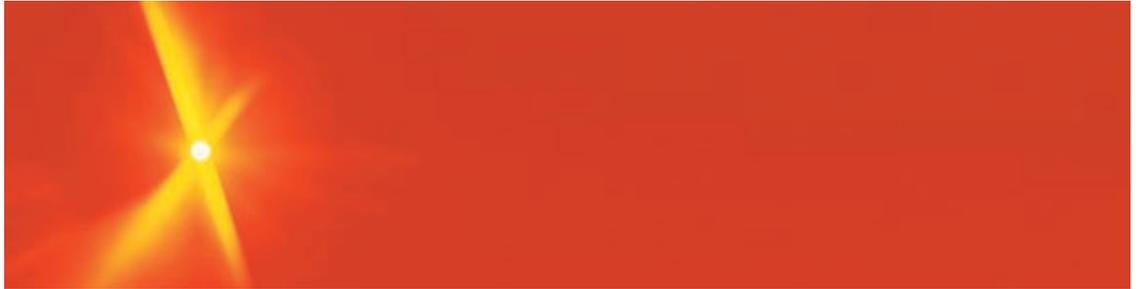
## ▶ ■ INTERNATIONAL LEGISLATION

The Group concentrated on the following measures with regard to international legislation:

- “Proposal for a directive of the European Parliament and of the Council on environmental liability with regard to the prevention and remedying of environmental damage”: the proposal of the Environment Directorate-General was approved for a second reading at the European Parliament, but full agreement has yet to be reached on the contents of the proposal. The adoption procedure is currently being followed through the ETNO Sustainability working group.
- “Communication from the Commission to the Council and the European Parliament - Modernizing Company Law and Enhancing Corporate Governance in the European Union - A Plan to Move Forward”: a public consultation is currently being held on this subject, conducted by the Directorate-General for the Internal Market, to which the ETNO Sustainability working group contributed with a Reflection Document (RD182), suggested by the executive board.
- “Proposal for a Directive of the European Parliament and of the Council on the minimum health and safety requirements regarding the exposure of workers to the risks arising from physical agents (electromagnetic fields)”: the Task Force on Electro-magnetic Fields, created by the ETNO Sustainability working group has drawn up a Reflection Document - RD171 - which has already been sent to the European Commission, with the collaboration of GSM Europe and the Mobile Manufacturers Forum. The document on electromagnetic fields is directed at members of the European Parliament and aims to emphasize the initiatives being taken by operating companies to safeguard public health, the current status of scientific knowledge and the problems linked to the implementation of 3G networks.
- “Draft proposal for a directive of the European Parliament and of the Council on establishing a framework for Eco-design of End Use Equipment”: The Directive proposal is still being worked out.

3	CONTEXT	9	CUSTOMERS
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## ▶ ■ THE ENVIRONMENT



Respect for the environment, which is an integral part of Telecom Italia Group's commitment in adopting Sustainability as one of its prime values, is a specific stakeholder in the Group's "Strategic Plan for Sustainability".

### ■ ENVIRONMENTAL PERFORMANCE INDICATORS

The Group identified four major areas for assessing its performance:

- waste management;
- water;
- energy consumption;
- emissions.

All the data reported below has been calculated by processing operating data that has been appropriately reclassified with particular reference to the data required by the law.

The basic data used for determining corporate performance has been inserted by the reference person of the Business Units through a special, uniform computerized procedure used by all the subsidiaries in the Group.

When analyzing the data relating to 2003, it should be borne in mind that the scope considered in gathering the data has increased compared to the previous year, and that, at that time, the basic data was collected and evaluated using methods that had not yet been systematically organized at Group level.

The tables relating to the aggregate of Telecom Italia SpA include a column showing the percentage pertaining to the Wireline Business Unit compared to the complete scope of Telecom Italia SpA.

As a result, the automated system for collecting basic data relating to Sustainability is now an integral part of the overall traditional system of data-collection used by the Planning and Control Department for economic and financial accounting purposes.

### ■ WASTE MANAGEMENT

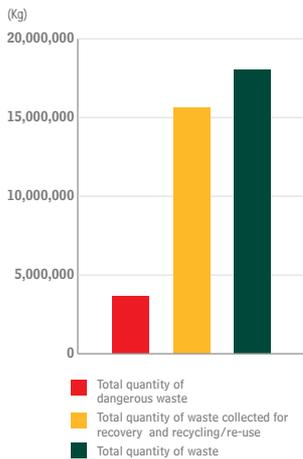
The data relating to waste management shown below is stated in kilograms and refers to the quantity of waste, for the most part recorded in accordance with the law.

The law clearly states that the data recorded in the waste management registers which must be presented to the relative institutions may be changed within 3 months of the waste being sent to the waste treatment and disposal plant, so that it may be updated with the real weight measured at the disposal plant.

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Therefore, there may be slight discrepancies in the situation described at December 31 up until March 30 of each year, the date by which the law requires companies to present the Environmental Declaration Form (MUD).

## WASTE

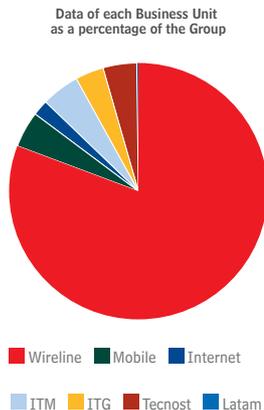


	Unit	Telecom Italia SpA (Wireline Network) 2003	Percentage change 2003 compared to 2002	Percentage change 2003 compared to 2001	Percentage of total Wireline Network compared to TI SpA
Total quantity of dangerous waste	Kg	3,649,956	-64.98%	-55.98%	97.92%
Total quantity of waste collected for recovery and recycling/re-use	Kg	15,597,422	-27.00%	-32.68%	90.02%
Total quantity of waste	Kg	18,043,695	-23.99%	-35.36%	90.68%
Ratio between quantity of recovered/recycled waste and total quantity of waste	%	86.44%	-3.95%	4.15%	

The quantity of waste has decreased considerably both compared to 2002 (> -23%) and 2001 (> -35%), while the quantity of recovered or recycled waste remained high (> 85%).

This includes 165,789 telephone poles which were dismantled and disposed of according to internal procedure and according to the agreement signed in May 2003 by Telecom Italia, the Ministry of the Environment, the Ministry of Production Activities, the Conference of State and the Regions and recycling companies, which is described in greater detail below.

The quantity of dangerous waste recorded was 65% less than in 2002.



	Group	Data of each Business Unit as a percentage of the Group total							
		Wireline	Mobile	Internet	ITM	ITG	Tecnost	LATAM	
Waste produced by the Group	Kg	22,871,566	74.80%	4.20%	1.83%	4.42%	3.30%	3.90%	0.19%

Telecom Italia SpA recorded around 75% of the total waste recorded by the Group.

Improvements have been made in waste management in comakership with suppliers, and by establishing a special standard on "Guidelines for monitoring suppliers and the drawing up of contracts regarding waste disposal management".

With regard to monitoring suppliers, the new standard makes additions to the previous internal procedure (code DRRP0DAPA02002) on waste management issued in 2002 and pinpoints the "responsibilities" for every stage of handling waste and for the coordination of the activities, which is carried out by a specific function.

For further information on relations with suppliers, please refer to the section on "Suppliers".

### Eco-recovery of wooden telephone poles

Around 8 million wooden poles are used to support overhead lines. To make them last longer, they are treated with toxic preserving substances such as copper salts, chromium and arsenic (CCA).

With the passing of time, the poles impregnated with these substances tend to release some of these substances which then infiltrate water, soil and sediments.

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If the wood impregnated with these substances is used as fuel, dioxins are released into the atmosphere.

- Between 1993-1996, in collaboration with the "La Sapienza" University in Rome, Telecom Italia Group undertook a research project to investigate the pollution potential of the wooden telephone poles impregnated with the above-mentioned substances. The results of the research and the soil samples taken in the field showed that environmental pollution is restricted to a piece of ground with a radius of about 20 cm around the bottom of the pole. No evidence was found of water tables being affected, a factor probably due to microbic absorption and the low level of solubility of the substances used.
- On May 27, 2003, Telecom Italia, the Ministry of the Environment, the Ministry of Production Activities, the Conference of State and the Regions and recycling companies signed an agreement for a program to prevent the production of waste deriving from the management of wooden telephone poles. The impregnated poles are regarded as dangerous waste. In this context, Telecom Italia, as owner of the poles, undertakes:
  - to carry out a structured analysis with the aim of re-using the poles for other purposes that are compatible with the safeguarding of the environment;
  - to gradually replace 200,000 degraded poles a year with others that are not dangerous for the local habitat;
  - to step up maintenance to prevent its activities from having a negative impact on the environment.

Recovery companies have undertaken to find another use for the recovered material for activities which will not have a negative impact on the environment and, together with transport and network companies, to respect a series of conditions in terms of stockpiling and transport. The Ministries of the Environment and Production Activities will have to promote research to encourage the use of non-dangerous substances for treating wood.

The Regions will ensure that the treated poles are re-used for work and projects within their sphere of competence.

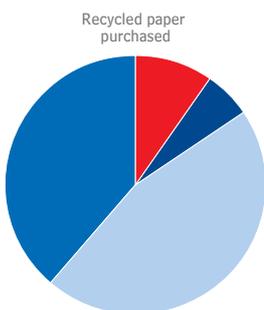
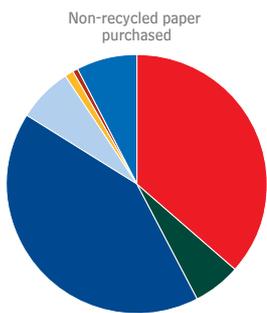
Furthermore, a Vigilance and Control Committee made up of representatives of the various signatories of the agreement, together with representatives from the National Observatory on Waste, APAT and the High Institute of Health, will monitor the implementation of the agreement and examine and propose any adaptations which may prove necessary.

#### Paper and telephone directories

The SEAT Pagine Gialle Group, formerly responsible for producing telephone subscriber directories and the Yellow Pages, was sold to third parties in August 2003.

The paper purchased by the SEAT Pagine Gialle Group until August 2003 did not exceed 33,000 tons.

Recycled and non-recycled paper purchased as a percentage of the Group total



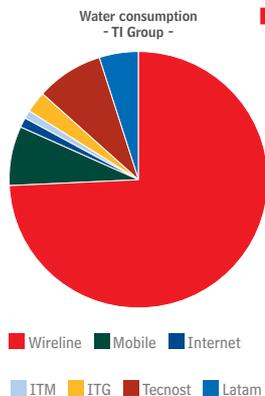
Wireline Mobile Internet  
ITM ITG Tecnost Latam

Paper	Group	Wireline	Mobile	Internet	ITM	ITG	Tecnost	LATAM
Non-recycled paper purchased	3,465,423	34.75%	5.64%	39.65%	6.49%	1.04%	0.61%	7.21%
Recycled paper purchased	362,855	9.59%	0.00%	5.85%	45.53%	0.00%	0.00%	38.53%
Total paper purchased	3,828,278	32.36%	5.10%	36.44%	10.19%	0.94%	0.55%	10.18%

The monitoring of the supply of the service has been defined in the new type of contract with suppliers.

The following table shows paper consumption by each Business Unit, with the amounts of recycled and non-recycled paper as a percentage of the total amount purchased by the Group.

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9	EXTERNAL STAKEHOLDERS	15	SUPPLIERS
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## WATER

The water consumption of Telecom Italia SpA decreased by nearly 12% in 2003.

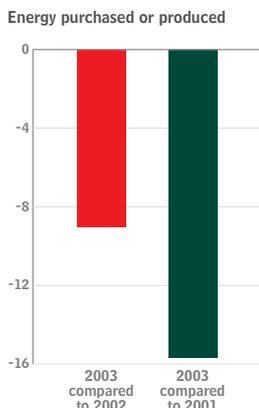
	Telecom Italia SpA 2003	Percentage change		Percentage of total Wireline Network compared to TI SpA
		2003 compared to 2002	2003 compared to 2001	
Water consumption	m <sup>3</sup> 4,379,696	-11.83%	3.78%	91.43%

Data from the main Business Units in the Group shows that approximately 70% of water consumption is produced by the Wireline Business Unit.

	Group 2003	Data of each Business Unit as a percentage of consolidated Group data						
		Wireline	Mobile	Internet	ITM	ITG	Tecnost	LATAM
Water consumption	m <sup>3</sup> 5,986,994	69.61%	7.00%	1.16%	0.96%	2.52%	7.88%	4.60%

The Tecnost Group, despite having only a few sites, has higher water consumption due to industrial processes.

## ENERGY



### Electrical energy

Energy purchased or produced	Telecom Italia SpA 2003	Percentage change		Percentage of total Wireline Network compared to TI SpA
		2003 compared to 2002	2003 compared to 2001	
Total energy from various sources (renewable and non)	Kwh 1,547,071,646	-9.04%	-15.69%	98.08%
Total energy attributed to "green certification" and own production from renewable sources	Kwh 2,696,212	-48.54%	-	98.85%

The electrical energy used to supply corporate buildings and infrastructures is mainly produced by fossil fuels (approximately 76%).

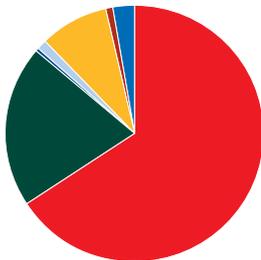
Telecom Italia SpA uses approximately 98% of the energy it purchases for the telecommunications network.

Thanks to improvements in the management of electrical energy and the efficiency of the infrastructures developed during recent years it has proved possible to make annual savings on electrical energy consumption of more than 9%.

Considering that electrical energy is acquired from different operators (mainly from Enel), we can estimate that at least 30% of the energy consumed comes from renewable hydroelectric and geothermic sources, solar energy plants and wind-farms, amounting to approximately 464,000,000 kWh.

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Energy purchased or produced



■ Wireline ■ Mobile ■ Internet  
■ ITM ■ ITG ■ Tecnost ■ Latam

About 1% of the energy acquired comes directly from operators who only produce energy from renewable hydroelectric sources.

Data of each Business Unit as a percentage of consolidated Group data

	Group	Wireline	Mobile	Internet	ITM	ITG	Tecnost	Latam	
Energy purchased or produced	Kwh	2,449,875,249	64.96%	20.15%	0.40%	1.22%	8.49%	0.87%	2.70%

Experiments are continuing with alternative sources of electrical energy production to supply radio base stations using photovoltaic and wind energy production technology.

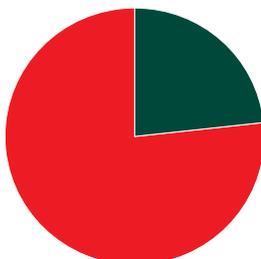
Energy installations are already in place to supply four radio base stations capable of producing 80 kW in Calabria and 1.2 kW in Sardinia.

The Wireline Business Unit's consumption of electrical energy amounts to approximately 66% of the total consumption of the Group, whereas the consumption of the Mobile Business Unit is more than 20% of the total.

To measure the consumption of fixed and mobile telecommunications services, the consumption of the Wireline and Mobile BUs must be added to the consumption (approximately 9%) of the Information Technology Services Business Unit which supplies services exclusively to the Group.

Programs to monitor consumption are currently being implemented to detect potential anomalies and to develop corrective action.

Energy for heating Telecom Italia SpA



■ Total energy consumed for oil-fired heating MJ  
■ Total energy consumed for gas (methane) heating MJ

### Fuel for heating

The consumption of methane gas instead of fuel oil for heating continues to increase, with a reduction of approximately 14% in the two-year period in the use of oil, which produces a higher level of pollution.

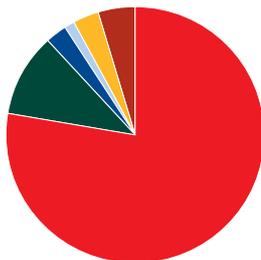
Energy for heating	Telecom Italia SpA 2003	Percentage change		Percentage of total Wireline Network compared to TI SpA
		2003 compared to 2002	2003 compared to 2001	
Total energy consumed for oil-fired heating	Mj 192,212,790	-0.07%	-14.18%	94.54%
Total energy consumed for gas (methane) heating	Mj 633,823,865	1.38%	5.78%	83.34%
Total energy consumed for heating	Mj 826,036,655	1.04%	0.35%	85.95%

The consumption of the Wireline Business Unit as a percentage of the overall consumption of the Telecom Italia Group remains decisive, with more than 85% of the total energy consumed.

The Mobile Business Unit reduced its consumption of natural resources for heating whereas the consumption of the Wireline Business Unit remained stable, although there has been a shift away from oil towards fuel that produces less pollution.

The situation of the changes in polluting emissions will be described in greater detail in the next section where the different levels of emissions produced by heating, vehicles and electrical energy will all be assessed.

Energy for heating - TI Group -



■ Wireline ■ Mobile ■ Internet  
■ ITM ■ ITG ■ Tecnost ■ Latam

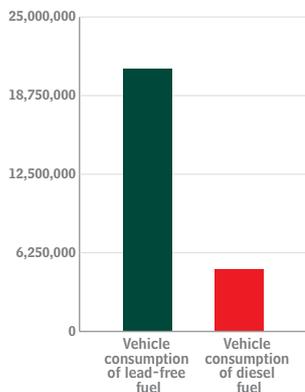
Data of each Business Unit as a percentage of consolidated Group data

	Group	Wireline	Mobile	Internet	ITM	ITG	Tecnost	Latam
Total energy for heating	1,041,870,224	69.05%	9.31%	2.38%	1.13%	2.88%	4.12%	0.00%

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## Fuel for vehicles

Vehicle fuel consumption (liters)



Vehicle fuel consumption	Telecom Italia SpA 2003	Percentage change		Percentage of total Wireline Network compared to TI SpA
		2003 compared to 2002	2003 compared to 2001	
Vehicle consumption of lead-free fuel	l 20,921,312	8.80%	23.91%	96.01%
Vehicle consumption of diesel fuel	l 4,988,655	67.40%	138.88%	87.24%
Total vehicle consumption	l 25,909,967	-16.66%	-	-

In 2002 and 2003, all the cars in the corporate fleet which ran on high-octane fuel were converted to lead-free fuel or diesel.

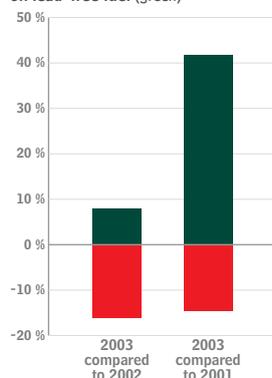
In 2003 consumption of diesel fuel represented only 20% of total vehicle fuel consumption.

In 2003, Telecom Italia SpA achieved the objectives set in 2002 by reducing their vehicle fleet by more than 4,000, equivalent to a reduction of 16%. At the same time, the percentage of vehicles running on lead-free fuel increased by about 8% of the total.

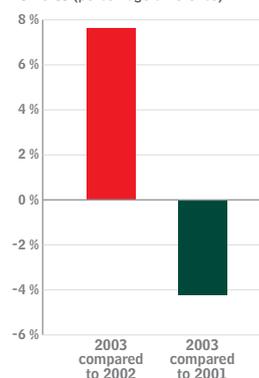
Number of vehicles and distance traveled		Telecom Italia SpA 2003	Percentage change		Percentage of total Wireline Network compared to TI SpA
			2003 compared to 2002	2003 compared to 2001	
Total No. of corporate vehicles	n.	21,630	-16.13%	-14.49%	96.37%
No. of corporate vehicles running on lead-free fuel	n.	21,201	7.99%	41.80%	96.35%
Total distance traveled by vehicles	Km	308,185,006	7.64%	-4.21%	94.91%

The overall distance traveled by vehicles of the corporate fleet shows a negative figure compared to 2001, even with an increase compared to 2002, due to territorial reorganization which had a marked influence on the reallocation of resources and temporary commuting.

Percentage decrease in vehicles (red) and increase in vehicles running on lead-free fuel (green)



Total distance traveled by corporate vehicles (percentage difference)



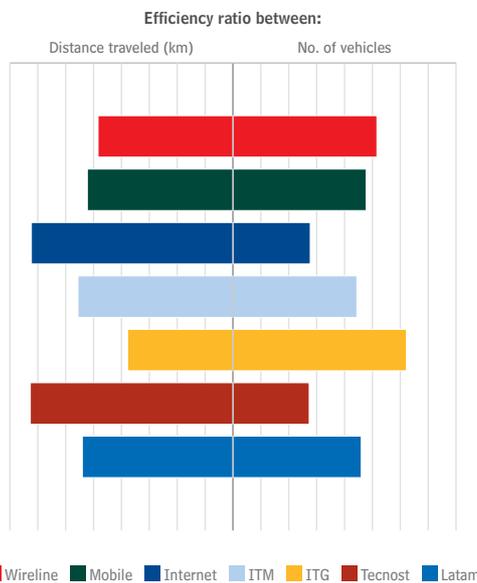
Group values identify the different utilization of vehicles, according to the specific industrial characteristics of each Business Unit.

3	CONTEXT	9	CUSTOMERS
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The distance traveled per vehicle also depends on the predominant type of clientele and the kind of technological network that has to be maintained.

Total no. of vehicles and distance traveled	Group	Data of individual Business Units as a percentage of consolidated Group data						
		Wireline	Mobile	Internet	ITM	ITG	Tecnost	Latam
no.	26,005	80.48%	10.44%	0.87%	1.43%	1.30%	0.91%	1.54%
Km	390,337,259	75.47%	11.42%	2.27%	1.79%	0.79%	2.42%	1.81%

The following diagram shows the different ratios between the number of vehicles of each Business Unit and the distance traveled.



## ■ EMISSIONS

### Atmospheric emissions

Emissions may be in gas, liquid or solid form.

The emissions of certain substances into the air pollute the atmosphere, while the emissions of other substances contribute to global warming.

As far as the industrial operations of Telecom Italia Group are concerned, the most typical and significant emissions in terms of quantity belong to the second category, which includes carbon dioxide (CO<sub>2</sub>) from "indirect" emission, due to the purchase of energy from national suppliers (Enel and other companies) and fuel consumption for heating and transportation purposes.

CO<sub>2</sub> is a typical product of combustion and, as such, is produced almost exclusively by thermo-electric systems.

The quantity of emissions per amount of energy purchase has been estimated on the basis of periodical controls of the amount and composition of geo-thermic steam used by power plants.

3	CONTEXT	9	CUSTOMERS
9	EXTERNAL STAKEHOLDERS	15	SUPPLIERS
50	INTERNAL STAKEHOLDERS	17	COMPETITORS
74	AUDITORS' REPORT	23	THE STATE AND INSTITUTIONS
		26	THE ENVIRONMENT
		41	THE COMMUNITY

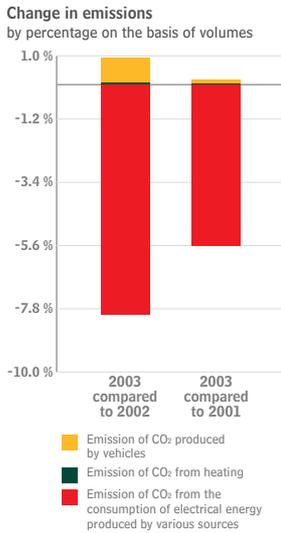
During the last year, despite the recovery of geo-thermic electricity production, reduction of emissions continued, thanks to the adoption of abatement systems.

CO<sub>2</sub> emissions have been calculated according to the instructions contained in the guidelines published by UNEP (United Nations Environment Programme) and others recommended by ETNO (European Telecommunications Network Operators' Association) within the framework of the "Climate Change" project.

The amount of CO<sub>2</sub> produced by combustion is calculated by applying specific emission factors to the consumption of the various fuels <sup>(1)</sup>.

In 2003, the data relating to emissions produced by the use of electrical energy was taken from the parameters published by Enel (2002 Environmental Report).

The data relating to emissions in 2002 have been re-calculated using the same parameters.



Atmospheric emissions	Telecom Italia SpA 2003	Percentage change calculated on the basis of volumes		Percentage of total Wireline Network compared to TI SpA
		2003 compared to 2002	2003 compared to 2001	
CO <sub>2</sub> emissions from electrical energy produced by various sources	Kg 849,831,208	-8.00%	-5.61%	98.08%
Total emissions of CO <sub>2</sub> from heating	Kg 55,427,078	0.06%	-0.02%	86.26%
Total emissions of CO <sub>2</sub> produced by vehicles	Kg 59,814,908	0.90%	0.15%	94.05%
Total CO <sub>2</sub> emissions	Kg 965,073,194	-7.37%	-1.94%	-

Telecom Italia SpA helped to reduce greenhouse gas emissions by reducing the emissions of carbon dioxide (CO<sub>2</sub>) produced by the energy system of the Group (consumption of natural resources to produce electricity, fuel for the corporate fleet and heating) by approximately 7% compared to 2002.

(1) The factors used in the past (for reasons of uniformity, using the criteria adopted at that time by the Ministry of the Environment) were: 4.03 t of CO<sub>2</sub>/tep for coal and derivatives; 3.27 for oil products; 2.35 for natural gas.

These factors were replaced with the ones recommended in the 1996 Guidelines published by the IPCC (International Panel on Climate Change) for the national inventory of greenhouse gases and have already been used for the second national communication on emissions: fuel oil: 3.24 t of CO<sub>2</sub>/tep; orimulsion: 3.38; diesel fuel: 3.10; natural gas: 2.35; coal: 4.02; lignite: 4.24; cokery gas: 2.00. Each one of the above is then multiplied by a correcting co-efficient which takes into account the typical fraction of unburnt carbon (solid fuel: 0.980; liquid fuel: 0.990; gas fuel: 0.995).

As in the past, the resulting figure regards burnt carbon – which, however, as just mentioned, is now assumed to be less than 100% – as being completely oxidized to CO<sub>2</sub>.

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### Atmospheric emissions

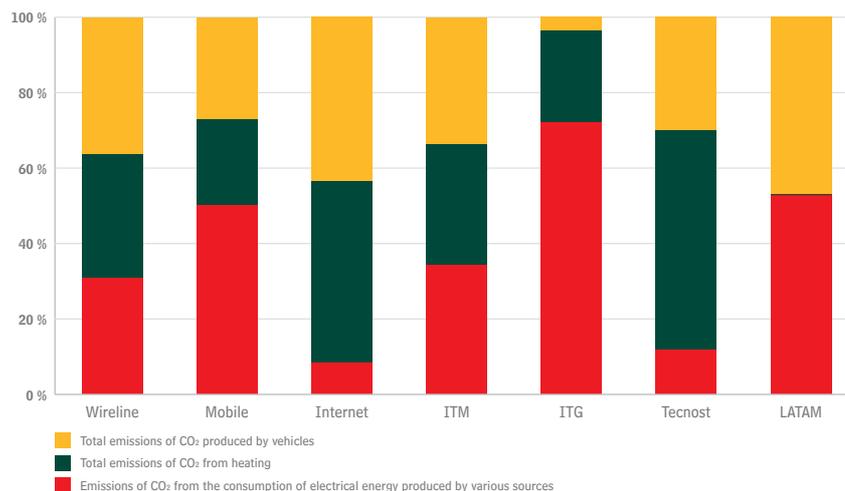
### Data of each Business Unit as a percentage of consolidated Group data

	Group	Wireline	Mobile	Internet	ITM	ITG	Tecnost	Latam	
Emissions of CO <sub>2</sub> from the consumption of electrical energy produced by various sources	Kg	1,345,634,823	64.96%	20.15%	0.40%	1.22%	8.49%	0.87%	2.70%
Total emissions of CO <sub>2</sub> from heating	Kg	69,941,374	69.34%	9.11%	2.33%	1.14%	2.88%	4.31%	0.00%
Total emissions of CO <sub>2</sub> produced by vehicles	Kg	95,342,584	77.03%	10.93%	2.09%	1.20%	0.41%	2.21%	2.40%
Total CO <sub>2</sub> emissions	Kg	1,510,918,781	65.92%	19.06%	0.60%	1.21%	7.72%	1.11%	2.56%

Emissions produced by the consumption of electrical energy, heating fuels and fuel for the corporate fleet for each Business Unit are shown in the chart below.

The chart shows the specifics of the emissions produced by each Business Unit, for example, the equilibrium between emissions produced by consumption of fuel for heating, vehicles and energy of Telecom Italia – the Wireline B.U., and the marked influence of heating of the permanent services of the Information Technology Group, which, since it has no clientele to visit, has almost reduced its consumption of vehicle fuel to zero.

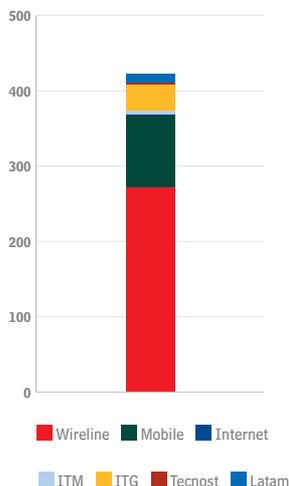
Furthermore, considering the quantity of emissions based on the quantity of energy purchased from renewable sources, it may be observed that Telecom Italia Group SpA contributes to the sustainable development recommended by the Kyoto Summit to the tune of more than 430 million kg of CO<sub>2</sub> which were either not emitted or "saved".



The Wireline Business Unit continues to dominate the emissions scenario with more than 65% of the total emissions produced by the Group.

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Emissions saved by Telecom Italia Group SpA (Millions of Kg of CO<sub>2</sub>)



### Atmospheric emissions saved

Emissions saved	Level of emissions saved and influence of the BUs of Telecom Italia SpA as a percentage of the total emissions saved by the Group									
	Group	Wireline	Mobile	Internet	ITM	ITG	Tecnost	Latam	TI SpA	
Total emissions saved	Kg 430,023,217	271,474,420	96,601,667	1,668,378	5,073,623	35,311,243	3,605,724	11,225,284	263,996,222	
		63.13%	22.46%	0.39%	1.18%	8.21%	0.84%	2.61%	61.39%	

The "emissions saved" are calculated by considering the quantity of energy consumed from renewable sources (which do not produce emissions) and the quantity of energy subjected to "green certification".

### Electromagnetic emissions

Telecom Italia Group's concern for the topic of electromagnetic emissions can be summarized in the following commitments and action:

1. Absolute respect for existing laws in countries in which it operates <sup>(1)</sup>.
2. Careful and scrupulous management of company installations throughout the whole life cycle, and in compliance with latest additional internal efficiency and safety standards.
3. Use of, and constant search for, hi-tech technological tools for monitoring and investigating activities <sup>(2)</sup>.

### Verification

In 2003, TIM controlled all its transmission systems, its new installations and the changes that had been made to existing systems. The electromagnetic emissions of such systems were measured to ensure that they conform to current standards in the field of public health.

In most cases, TIM relies on external companies to carry out these measurements, whereas, in others, it directly delegates the responsibility of measuring emissions to the territorial representatives of the Ministry of the Environment and the ARPA (Regional Offices for the Protection of the Environment), especially when specific environmental situations are involved (regional laws, local regulations, and so on).

Even in the absence of any change to its installations, TIM carries out measurements of electromagnetic emissions in agreement with the land-owners and/or towns or in compliance with the UNI EN ISO 14001 or UNI EN ISO 9001 certifications, for the networks nationwide which have obtained certification.

The ARPA often carry out measurements ex post, the cost of which is charged to TIM, as laid down by regional laws.

During 2003, 2,985 investigations were carried out for a total cost of euro 4,566,954.

### New technologies

The technology developed for measuring the carrier power output rating generated by a base radio station will soon be integrated by a sensor which will allow direct measurement of electromagnetic pollution. This technology, which is being patented, should be more economical and more efficient than solutions currently available.

(1) Italian law on the subject is particularly strict and the corporate process is structured on rigorous project engineering, site selection and plant installation management. In particular, every transmission mast is protected to create a restricted-access area (exclusion zone) where permitted exposure values could be exceeded.

(2) Specifically regarding GSM, a procedure for monitoring the fraction of power emitted with respect to the maximum rated power, obtaining testing data from measurements on the connection between base radio stations and base radio station controllers (BSC), is currently at an advanced stage of development. Subsequently it will be assessed whether to implement the application on a national scale. With regard to UMTS, definition of methodologies of analysis and simulation for estimation of radioelectric power in various propagating environments and multimedia traffic contexts is in the process of refinement. The first results have already been presented at a number of international conferences.

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– APOGEO Project

The APOGEO (Antennas Procedures On Geographic Enhanced Orientation) procedure aims to calculate radioelectric parameters relating to the three-dimensional positioning of TACS, GSM and UMTS transmitters.

The calculation is made using the geo-reference points of topographical features provided by the GPS satellite system, the precision of which is increased by using the differential correction technique provided by GEOTIM (network of permanent GPS reference stations). The application consists in positioning the "lobe of radiation" of a transmitter accurately, and, at the same time, verifying its electromagnetic compatibility.

Radioelectric parameters have to be measured accurately to optimize the mobile planning process and reduce interference on TIM networks. Furthermore, the accuracy of the data measured is considered essential for evaluating the exclusion zones (TIM can certify its own installation data by guaranteeing transparency and respect for current laws) with the aim of respecting and safeguarding the environment.

In 2003, 33 complete instrumentation kits were acquired for a total of euro 678,000.

The kit consists of a GPS satellite receiver and an integrated laser for measuring topographical features.

The use of this instrumentation according to the APOGEO operating procedure (a TIM patent) aims to give the correct geographical reference points (latitude, longitude and height above sea level) of the radio base stations and accurately measure the Tilt, the Azimuth and the height of transmitters.

– STEREOSPACE Project

StereoSpace software makes it possible to visualise twin images, acquired digitally and appropriately oriented (SV Master) stereoscopically on a computer screen, and to carry out measurements, and make comparisons and updates, with the same precision as that produced using classic measuring tools.

StereoSpace contains digital images (stereophotomaps) of areas regarded as being of strategic importance to TIM. These images are of key importance not only because they are aerial photographs with an adequate amount of resolution, but especially because they give key geo-reference points. The tool makes it possible to identify the exact position of the transmission installations, thus providing accurate data for frequency planning and for calculating and seeing the exclusion zones on screen.

In 2003, digital stereo photomaps were acquired for 17 different areas for a total of euro 235,484.

With regard to the mobile phones marketed through its sales network, TIM makes a selection based on the level of technical innovation and the measurements of the Standard Absorption Rate (SAR) to guarantee reduced electromagnetic emissions levels.

In cooperation with a number of Italian universities and various national and international organizations, Telecom Italia SpA promoted investigations to check the emission values of electromagnetic radiation and possible environmental effect. These investigations confirmed that the values of the electromagnetic fields produced by the equipment managed by the Telecom Italia Group in Italy are within the statutory limits and that, according to current knowledge, there are no associated risks at biological level.

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## ■ ENVIRONMENTAL MANAGEMENT

The industrial part of Telecom Italia SpA (Wireline - Network) designs, implements and manages its production and support processes and ensures that they conform to existing legal requirements. It also identifies action plans with a view to prevention and potential improvement, bearing in mind fundamental values, with the following specific environmental objectives:

- to optimize the use of energy sources, natural resources, materials and products;
- to improve waste management by making efforts to re-utilize and re-cycle materials used and residues from processes;
- to minimize the negative impact and maximize those which, thanks to the dissemination of hi-tech telecommunications services, have a positive impact on the environment;
- to adopt procurement policies which are sensitive to environmental problems, by involving suppliers;
- to improve the indicators of effectiveness and efficiency relating to corporate processes.

The ISO 9001 and ISO 14001 certifications are regarded as the main levers for ensuring that corporate production processes give quality service to its customers and reflect the principles of sustainable development.

To support this policy, an integrated system for Managing Quality and the Environment is being developed and applied throughout the Group.

The impact of the company on the environment is identified, controlled and governed through special management tools and the procedures of the Environmental Management System (EMS) are being implemented in every corporate sector. The aim is to extend these procedures gradually to the whole Group, through a special project coordinated by the Corporate Function.

Some of the Environmental management Systems obtained certification from DNV (Det Norske Veritas, an internationally accredited certification agency) in 2001 and, in 2003, the certification project was completed for the UNI EN ISO 14001 standard of the Environmental Management System for the whole of Wireline. Since 2002, checks have been carried out by the Certification Entity IMQ-CSQ on structures belonging to the Wireline Network nationwide, all of which yielded positive results.

When all the checks had been completed, all the certificates issued for individual structures converged in a single ISO 14001 certificate, which is valid for the whole Network Function.

Numerous information tools are used for monitoring, reporting and auditing for the Environmental Management System, including the following software applications:

- GAVI (Gestione Automatiche delle Verifiche Ispettive – Automatic Verification Management): this system is devoted to the management of planning, work assignment, auditing report management and non-conformity of internal verifications;
- MOSE (MONitoraggio Sistema Ecoambientale – Monitoring of the Eco-System and the Environment): this system is devoted to collecting and analyzing environmental indicators;
- Hermes: a procedure for managing communications relating to environmental problems;
- ENEA (Elenco Norme Eco Ambientali – List of Eco-environmental standards): an electronic archive of legislative measures that can be used by the Network Function for environmental matters.

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TIM is also continuing the project, begun in 2001, to implement and certify the integrated Environmental Management System, developed in compliance with the UNI EN ISO 9001 and UNI EN ISO 14001 standards at the premises of the Network Function. The process will be completed during 2004.

A plan has been launched to monitor the consumption of natural resources and energy (in keeping with the development of the EMS), together with a plan to reduce the production of waste. In particular, this initiative aims to reduce the total number of lead accumulators being used. Organizations which have received certification have activated separate collections for paper and toners. In addition, a communication program has been started involving all the employees, partly through the corporate Intranet, as well as local authorities and suppliers of the territorial organizations concerned.

Initiatives have been launched to reduce the visible impact of base radio stations with the aim of improving the integration of the installations on the territory.

TIM intends to publish information about its environmental management with the aim of increasing its customers' confidence and satisfaction, as well as that of the community at large. It intends also to promote its environmental policy amongst its suppliers and to develop a relationship of collaboration with the Public Administrations.

## ■ ENVIRONMENTAL RESEARCH

In 2003, projects managed by Telecom Italia SpA with a positive environmental impact can be summed up as follows:

### Broadband Home Lab

The project is devoted to "home networking", "in house" systems and the development of networks and services in residential environments.

In particular, two prototypes were developed using eco-design techniques with the aim of minimizing the environmental impact associated with the use of materials, modes of installation and the type of packaging used:

1. a cordless telephone able to manage a local domestic network connected to the Internet through broadband technology;
2. a device for the hi-tech and organised management of a series of multimedia applications, with a user-friendly interface, which can be connected to the local domestic network.

### Environment and safety

The project has developed a sensor for measuring the intensity of the electromagnetic field present in certain key bands (FM, TV, GSM) with the aim of safeguarding both the health of workers and the public at large.

### Evolution of TIMPLAN in 2003

The project (TIMPLAN software) involves the planning and design of mobile networks and second- and third-generation UMTS networks. The software optimizes the quality of service and reduces the impact on the environment in terms of electromagnetic emissions.

### Environment, health and safety management of telecommunication materials and processes

This project examines how to reduce the environmental impact of telecommunications products and services, especially in the following areas:

1. selecting materials
2. substituting dangerous substances

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3. using recycled materials
4. employing innovative processes
5. optimizing the management of materials/products/systems with a life cycle
6. supporting the development and exploiting of alternative energy production techniques

## ■ PROJECTS WITH SPECIFIC AIMS OF REDUCING ENVIRONMENTAL IMPACT

Telecom Italia SpA has set itself the following specific targets which are in the process of being implemented for 2004:

Reducing the consumption of electrical energy by more than 50 GWh

- Implementing the "Free Cooling" project
- Updating of dc/ac and CDZ equipment
- Rationalizing technological installations
- Other saving measures (illumination/services, thermostat calibration, etc.)
- Degrading competence office to ex RS
- Reducing TLC consumption (Removing obsolete equipment and networks)

Removal of containers containing asbestos

- Identification of containers containing asbestos through core boring
- Removal of containers according to the assigned budget

Eliminating waste from switching exchanges

- Implementation of the "Clean exchanges" project

Reducing fuel consumption

- Rationalization and reducing the Network fleet by more than 20%

Reducing objections to noise levels of generator units (Procedure to be extended to fulfill legal obligations in compliance with ISO 14000 quality standard)

- Record the noise levels of the systems in question and organize intervention according to legal requirements and the available budget
- Prepare a plan of intervention

Reducing visual impact in company infrastructures

- Reducing infrastructures in cable and utilization of new technologies
- Provisioning and experimentation of a new multi-couples self-carrier cable

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## ■ APPENDIX 1

### ■ Environmental standards and procedures

#### Waste management

- Guidelines for monitoring Suppliers and for drawing up contracts relating to waste management (version 1-22/12/2003)
- Procedure for waste management (DRRPODAPA02002)
- Procedure for the application of the ADR standard on waste management (edition May 2003)
- Guide to compiling the Single Environmental Declaration Form (MUD) (edition April 2003)
- Plan for dismantled wooden telephone poles (DRRYFOPILO3006)
- Standards for supplying contracted companies with the material required for work on the networks (DRRJAOPIL01015)
- Managing the treatment and disposal of dangerous and harmless special waste associated with power-supply and air-conditioning (DRRJSOPIL00001-rev1)
- Procedure for managing vehicles destined for scrap (DRRMNDAPA03001)

#### Noise pollution

- Procedure for acoustic emissions produced by technological installations and power-supply systems (DRRPODAPA02001-rev1)
- Specification for creating sound-proofing systems and adapting generator units to the legal standards (DRAIATEST98001)
- Operational procedure for conducting acoustic measurements with regard to noise pollution (DRRPODAPA03001)

#### Air pollution

- Procedure for air pollution from technological installations and power-supply systems (DRRPOPILO1009)

#### Water

- Standards for wastewater (rev. 2 - edited November 2000)

#### Ground

- Scouring of poles in use - investigation conducted by Telecom Italia DPC2003.01261
- Work on underground tanks following the issue of Ministerial Decree No. 246 of May 24, 1999 (DRRMSOPIL01001)

#### Electromagnetic fields

- Guidelines for the internal management of external requests in the sphere of electromagnetic fields generated by installations/equipment DW.RT and DW.DCR (DRRATOPIL03003)
- Guidelines for contracts for hosting third-party transmitter systems on Telecom Italia mobile sites (DRRATOPIL03005)
- Assessments of "electromagnetic fields" generated by installations managed by the Network Function of Telecom Italia SpA (DRRATDARA03001)

#### Energy

- Energy-saving measures – guidelines for checking the efficiency of installations in terms of energy consumption and recommendations for improvements – feasibility analysis in terms of costs and benefits (DRRMSOPIL01013)
- Energy-saving project for Network Operating Centers for the year 2000 (DRRMSTEPT00002)
- Low-cost measures with a view to saving energy, for the year 2000 (DRRMSTEPT00003)

#### Environmental Management System

- Environmental Management System W.RT
- TILAB Integrated Environmental and Safety Management System (SGAS/ESMS)

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## ■ THE COMMUNITY



In 2003, Telecom Italia Group companies' commitment to the Community was estimated at euro 203.5 million (euro 120.8 million in 2002), equal to 3% of the Group's operating income. This was calculated by using appropriately reclassified management accounting data and partly by making quantitative estimates.

### ■ CONTRIBUTION CLASSIFICATION (LONDON BENCHMARKING GROUP MODEL)

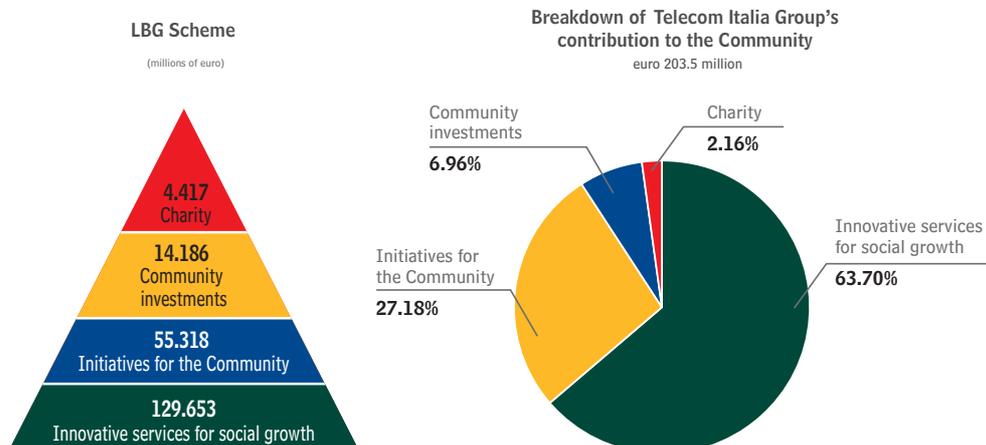
The London Benchmarking Group (LBG), established in 1994, comprises 80 leading international companies and is currently an important benchmark on a global scale.

The companies belonging to LBG have come up with a model for measuring and representing commitment to the Community, which reclassifies the contributions made into 4 categories.

The pyramid diagram reflects the possibility of measuring the benefits and business returns arising from the various activities:

- the activities directly connected to the core business are grouped together at the base of the pyramid;
- at the apex, donations are strictly linked to the Group's sense of social and moral responsibility.

The way activities are classified has been changed slightly compared to the previous year to reflect the Group's commitment in a more effective way. The general increase in the contribution of the Group compared to 2002 is due to a more analytical data entry system.



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Charity	Funding to associations and liberal grants Donations Humanitarian projects with no business returns
Community investments	Non-professional cultural and sporting events promoting the corporate trademark Solidarity-related events promoting the corporate trademark Additional costs related to solidarity-related events promoting the corporate trademark
Initiatives for the Community	Cultural events supporting individual products or services Sponsorship of products and services with a socially useful purpose Costs for monitoring electromagnetic fields Energy-saving measures Support for scientific research Costs for communicating sustainable development activities Investments for health and safety Financing internships and scholarships
Innovative services for social growth	Costs and investments for projects related to innovative products and services or which have positive repercussions for the Community Research and development for innovative products and services which have positive impact on the Community

## ▣ ■ CHARITY

There follows a description of the Group's most important contributions to the community:

### ■ Wireline

#### Telefono azzurro (helpline for children)

The equipment used in the Telefono Azzurro call centers were replaced to improve quality standards and the performance of the operators who work there.

#### A boat for Niky

Telecom Italia contributed to the cost of satellite communications to enable a 7-year old boy, who suffers from a severe form of asthma and is forced to live on a boat, to talk to his teachers and school-friends.

### ■ Mobile

#### "Pony support for the elderly"

The aim of this project, started in 1997, is to provide concrete help for elderly people who live alone and suffer from loneliness, a common situation in large cities. A group of volunteers armed with "ponies" (mobile phones) is contacted by the operating base and responds to the requests for help by visiting the callers at home and providing support.

#### "Libera"

Since 1996, TIM has been collaborating with Libera, the voluntary association headed by Don Luigi Ciotti, committed to the fight against all forms of illegality. TIM is supporting a number of initiatives to create jobs on farms on land confiscated from the Mafia, and has activated a cultural promotion process through civic and professional training courses.

#### Fondazione G.B. Bietti

TIM is supporting Fondazione G.B. Bietti in a far-reaching project to promote the spread of clinical and surgical research in the ophthalmic sector. It also helped to organize an important international conference attended by leading national and international academics and experts in the sector.

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#### World Food Programme

TIM joined forces with the World Food Programme, the largest Agency of the United Nations of food aid, to help children in the poorest nations by supplying food and education support. Also involved in the project were TIM's customers, who contributed funds by sending text messages to a dedicated number.

#### Vital drugs project

TIM is cooperating with the international charity Médecins sans Frontières in a project to ensure that vital drugs reach the poorest populations in third-world countries.

#### "Brasile senza fame" and "Natale senza fame"

The Mobile Business Unit operating in Latin America have made significant contributions to support these two projects, which aim to eliminate hunger "in Brazil" and "at Christmas", promoted by the "Acao da Cidadania" Association.

### ■ Information Technology Market

#### Airlift for Baghdad

The company Tele Sistemi Ferroviari collected funds for the voluntary association "Un Ponte per Baghdad" which promotes humanitarian aid initiatives on behalf of the Iraqi people. The contribution will be spent on supplying drugs and medical staff to help children suffering from chronic illnesses.

#### Maternity center in Afghanistan

Teleap's contribution will go towards the new maternity center being built in Afghanistan by Emergency, the Italian humanitarian association which provides care and rehabilitation for the victims of war and land-mine accidents. The new center will provide free, qualified assistance for expectant mothers who, for years, have been living in a precarious situation because of the war.

### ■ COMMUNITY INVESTMENTS

#### ■ Progetto Italia

Progetto Italia is a whole spectrum of cultural, social and sporting initiatives, launched at the beginning of the previous year with a budget of euro 30 million, to demonstrate the Telecom Italia Group's social and civic commitment. The Project prides itself on having established close relations with scientific partners, to whom Telecom Italia has supplied its expertise in technology, organization and communications, and focuses on support for scientific research, culture and social initiatives. As a result, a close rapport has been built up with public and private institutions, local administrations, associations and other organizations. Progetto Italia is unusual because the initiatives that have been selected are all jointly organized, are outstanding in terms of quality and are quite unique. In 2003, initiatives were organized in three main spheres: culture, social activities and sport.

#### Culture

- **Telecom Italia Digital Laboratory for the National Film School - Rome:** the laboratory, directed by Francesco Alberoni, is located in Italy's most prestigious film school. It was conceived with the idea of developing new digital film-making techniques. To date, courses have been organized on animation, modeling and 3-D film-making.
- **Telecom Italia Digital Communications Laboratory - the "La Sapienza" University - Rome:** another laboratory, directed by the well-known TV talk-show host Maurizio Costanzo, is located at the Faculty of Sociology. The laboratory will be frequented by students attending under and post-graduate courses in Communications Sciences. It was established to promote new projects in the sphere of the media and telecommunications (web casting and interactive multimedia content for the latest generation of mobile phones).

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- **Digita.MI, Milan's Digital Library:** Telecom Italia undertakes to create an online connection for all the Milan libraries and to make available old documents online about the history of the city.
- **First Science Festival - Genoa:** Telecom Italia Group was one of the founders of the festival and participated in the organization of the first festival as well as providing content. In total, 136,000 visitors attended the event, 34,000 tickets were sold and 15,000 people visited the Telecom pavilion at the Old Harbor.
- **Patron saints of Italy - A look at the city values that are worth passing on:** this project pays homage to the patron saints of some Italian cities (Catania, Padua, Turin and Bologna), and to aspects of Italian traditions and culture. The project is a joint venture with the Franco Parenti Theater in Milan directed by Andr e Ruth Shammah.
- **TLC services for the Rome Museum Pool:** the Telecom Italia Group provided TLC services, making it possible to create a high-speed telematic connection between Rome's museums.
- **Telecom Italia Lab provides innovation for the Film Museum in Turin:** at last, the Film Museum and the Main Hall of the Mole Antonelliana are on the Internet. This is the first museum to have a fiber optic connection and the second with a wireless LAN system.
- **Telecom Italia and Dante's Divina Commedia - Florence, the Church of Santa Croce, Milan, the Church of Santa Maria delle Grazie:** 85,000 people in Florence and Milan attended the readings from Dante's Inferno by Vittorio Sermoni at 68 evening performances, an event which brought prestige to Milan's cultural season and represents a new phenomenon: the cultural "happening".
- **The Strega Prize:** Telecom Italia in its role as institutional partner commissioned Margaret Mazzantini, who won the Strega Award for her novel "Non ti muovere" (Don't move) to write a book. The book, together with another by Domenico Starnone, is now part of the series of books ("I libri Stregati"), created by Progetto Italia to promote and enhance contemporary literature.
- **The Campiello Prize:** as well as sponsoring the section of the Campiello Prize dedicated to young writers, Telecom Italia Group presented the jury with Sirio 187 telephones for nominating the winner, making the Campiello competition the only one where votes are cast via SMS.
- **Conversations on Art History - Rome:** a series of conferences attended by the top experts in the sector (academics and cultural superintendents from Italy and abroad) in the Casino dell'Aurora at Palazzo Pallavicini Rospigliosi.
- **Restoration of the wall of the apse of Santa Croce in Gerusalemme in Rome, a joint project with the World Monument Fund:** restoration work involved the tempera decoration of the walls, marble overlays, stuccoes and a fresco by Corrado Giaquinto.
- **Concert by Paul McCartney at the Coliseum:** two concerts were organized featuring the celebrated former "Beatle". The first was held at the Coliseum (the only event for which the audience was charged for tickets, bought through an online auction). The second concert, held at the Fori Imperiali, was free. Part of the takings from the tickets sold for the first concert was donated to the "Adopt a Minefield" association. The rest was donated to the Archaeological Superintendency of Rome to sponsor the reconstruction of the Museum in Baghdad, which houses a collection of key importance charting the historical and cultural development of mankind. The second concert was attended by 500,000 people and was one of the top musical events of the year.
- **Le Vie dell'amicizia (Roads of Friendship): Riccardo Muti conducts in Cairo:** the last concert of the Ravenna Festival conducted by Riccardo Muti was watched on the Raiuno TV channel (only in Italy) by 2,000,000 viewers, confirming its reputation as one of the major events of the classical music season.
- **2003 Telecom Italia Colloquia at the Future Center:** 4 Nobel Prize-winners for economics discussed social and economic topics with Telecom Italia Group's Chairman, Marco Tronchetti Provera. The topics of discussion included China's increasing economic importance, the problems of welfare and employment. In all, 100 university students from all over Italy participated in the discussions, along with world experts on social and economic matters.



#### Social initiatives

Social initiatives organized during 2003 include the spread of information, solidarity (classified in the top level of the LBG pyramid chart) and fund-raising.

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- **Spreading information**

- **Telecom Italia Future Center:** The Future Center was opened in 2002 and, each year, hosts important events such as the Telecom Italia Colloquia, exhibitions and series of conferences. At the Internet Café, visitors can try out the latest technologies from Telecom Italia Labs. So far, 85,855 people have visited the Future Center.
- **Interaction Design Institute Ivrea:** The IDII was founded by Senator Franco Debenedetti, and, each year, awards prestigious degrees to students of design. Telecom Italia supports the institute's activities, providing concrete help to its students through scholarships.

- **Solidarity**

- **Matti per la Vela (Mad about Sailing):** this initiative sets out to help people with psychological problems by introducing them to this sport for therapeutic purposes. Patients of the Genoa local health authority who have participated in the project have sailed around the Italian coast and competed in important races such as the Barcolana at Trieste.
- **"I nostri bambini, come proteggerli, come soccorrerli" (Our children, how to protect them, how to help them):** this video-cassette gives instructions on how to apply First Aid when serious accidents happen in the home. The video, produced jointly with Annamaria Testa, was distributed as an insert with one of the leading periodicals published by the Mondadori group.
- **114 Emergency for Kids:** The service was conceived jointly with the Ministry of Home Affairs, the Ministry of Equal Opportunities and the Ministry of Communications and organized with "Telefono Azzurro" (helpline for children). The organization is headed by Prof. Ernesto Caffo, who, for years, has battled against child abuse. An experimental phase of the 114 emergency service has been launched in three high-risk cities: Milan, Treviso and Palermo.

- **Fund-raising**

- **Telethon:** all the main Group companies contributed to this television fund-raising marathon: TIM with solidarity text messages (1 euro including VAT was donated to the fund-raising committee for each message sent), Virgilio collected online promises of donations and Info412 inaugurated a new service to support non-profit organizations. As a result, euro 3,537,428 was subscribed through Info412 or TIM solidarity SMS, helping to raise the new Telethon record to euro 25,260,495. The new call center at the Milan prison of San Vittore was also used to collect promises of donations. The calls were handled by 30 detainees, all of whom donated their pay to Telethon.
- **Associazione Italiana per la Ricerca sul Cancro (Italian Cancer Research Association):** Telecom Italia Wireline collected promises of donations through Info412 and TIM and Lega Calcio promoted the "an SMS for research" campaign, inviting football fans to contribute 1 euro to the AIRC.
- **FAI - Fondo Ambiente Italiano (Italian Fund for the Environment):** Progetto Italia helped to organize the "Dietro le quinte della tua città" (Behind the scenes in your city) project, a day of fund-raising for the FAI, held on October 26, 2003. Many celebrities took part.

### Sport

- **Alleniamoci alla Vita (Telecom let's train for life)** was conceived with the aim of promoting social and individual growth of the young through the values of sport. In 2003, 600 schools, 1,200 classes and 30,000 kids from all over Italy participated in this project. The initiative provides didactic material for teachers, students and their families and is organized in conjunction with the "A caccia di valori" (Hunting for values) competition.
- **Special Olympics:** with the "Un Natale da Campioni" (A Champion's Christmas) campaign, members of the public could buy a ball for their Christmas tree from "Il telefonino Tim" shops starting from a minimum of 2 euro. In this way it was possible to finance the training programs of 2,500 special athletes belonging to "Special Olympics", the non-profit association founded by Eunice Kennedy and present in 167 countries.

- **Internet & Media**

Group TV channels MTV and La 7 ran several campaigns to support areas of social interest. They include Free your mind, a project to support children in Iraq, War is not the answer, a project for World AIDS Day, when special programs were televised without any advertising spots, and a campaign to stop people smoking.

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## ■ INITIATIVE FOR THE COMMUNITY

### ■ Corporate

#### Telecom Italia Lab

The Wireline, Mobile, Internet and Media Business Units and the IT Group Function made a significant financial contribution to scientific research conducted by Telecom Italia Lab. Research included the following initiatives:

- development of the access network (given the growth in demand for band availability) and the transport network (associated with the gradual transition towards optical technologies);
- development of phone services, with the aim of making the network architecture converge with an “all-IP” model;
- development of the mobile phone network and hi-tech services of the third generation;
- the new frontiers of the Internet, multimedia and security.

#### CRSA (Control & Risk Self Assessment)

The aim of the project is to spread a tool for identifying, assessing and managing operational risks that is integrated with the planning and control process at Group level. Another aim is to bring the Group in line with national and international best practices in the sphere of Corporate Governance. The project is based on risk self-assessment on the part of the management, after which the existing control system is examined and proposals are made for improving controls in the future. The first phase of the project has already been completed.

A specific web-based application is being prepared to support the phases of risk assessment and management and for implementing the proposed action plans.

#### Crisis Management Model

This is the main tool used for tackling risks which would have a major impact, but are very unlikely to happen. The model is based on interaction with the Crisis Management Board, which is in charge of strategic coordination, and the Operational Crisis Teams (OCT), who are responsible for the operational and territorial management of the crisis. A Group “Policy of Crisis Management” has been prepared, along with “Group Guidelines” and a number of “Operating Procedures”, which differ according to the type of crisis involved. The most important aspects of the model are:

- the pro-active logic of crisis management;
- different types of OCT based on the characteristics of the various business units;
- the uniformity of the operating solutions, ensured by strategic co-ordination by the Crisis Management Board.

#### Sistema Ci.Pro. (Civil Protection)

The aim of this project is to achieve optimum management of emergencies such as natural disasters, catastrophes or other exceptional events. It relies on a database containing a complete list of all the leaders to contact if a crisis arises, and description of all the technical resources and vehicles available. The information is supported by maps which users can access to give warning of any problems or emergencies that may have occurred, and by a detailed analysis of the potential risk (seismic, hydro-geological, etc.) nationwide.

### ▶ Sistema I.C.S. (International Contact System)

This is based on a procedure managed by special software, using travel documentation, enabling users to keep up-to-date with the situation of their employees working abroad. In the case of natural calamities, terrorist attacks, or other disasters, the employees can immediately be contacted, report their status and make requests for help.

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#### ■ Mobile

##### Control of electromagnetic emissions at installations

The electromagnetic emissions of new radio transmitter installations and alterations to existing installations must be measured to check that they comply with current standards safeguarding public health. For further information, please consult the section on "Electromagnetic emissions" in the section of the report on the Environment. Telecom Italia LAB has set up a special project to monitor the effects of the electromagnetic fields generated by mobile telephone services and mobile phones on the eco-system.

##### Apogeo (Antennas Procedures On Geographic Enhanced Orientation)

This procedure aims to calculate radioelectric parameters associated with the positioning of antennas for mobile telephone transmission equipment. For further details please refer to the section on "Electromagnetic emissions" in the section of the report on the Environment.

#### ■ Olivetti Tecnost

##### MEMS (Micro-Electro Mechanical Systems)

Olivetti I-Jet uses a technology based on silicon to build low-cost MEMS identification and implementation systems which are small, reliable, and useful for improving quality and safety. The main sectors of application are:

- automotive: TPMS pressure sensors for tires;
- photonics: components;
- biomedical: sensors and micro-remote control devices for medical diagnostics;
- environmental monitoring: humidity, gas, pressure and temperature sensors, jointly produced with Telecom Italia Lab.



#### ■ Information Technology Market

##### Transport of Dangerous Goods

This research project is jointly financed by the Ministry of Education, Universities and Research and is being conducted by Finsiel with the cooperation of the Ferrovie dello Stato group and various universities. The aim of the project is to create and field-test a telematic system that is capable of locating, controlling and interacting with a train carrying dangerous goods, on a section of track between Naples and Gela.

The project aims to tackle the problems of risk associated with the rail transport of dangerous substances in high-density industrial and residential areas.

### ■ INNOVATIVE SERVICES FOR SOCIAL GROWTH

#### ■ Wireline

##### The "Loquendo" platform

This platform, which takes its name from the company that developed it, is based on the integration of sophisticated voice synthesis and recognition technologies, making it possible to access information and transaction content by making a simple telephone call.

##### Wi-Fi

This service provides high-speed wireless access to the Internet in public places where the service has been activated (airports, railway stations, sports complexes, trade fairs) through a lap-top computer or hand-held devices. It is particularly useful for customers who need to stay in touch with their companies during business trips or while they are on the move.

##### MMS for fixed networks

This service enables users to send or receive MMS (Multimedia Messaging Service) from a fixed phone. It will therefore be possible to send photographs or short videos between fixed phones and ensure interaction with mobile phones. Thus a simple phone call may be transformed into a multimedia experience based on sounds and images.

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### Broadband access

The aim of the project was to introduce x-DSL technologies and products to the network and check that they function and perform properly, especially innovative x-DSL technologies and products (VDSL and FTTx). For further information, please refer to the section on "Environmental research" in the section of the report on the Environment .

### Evolution of the transport network

Support was given to procurement and to the introduction to the network of new apparatus and installations associated with the urban and regional network using CWDM (Coarse Wavelength Division Multiplexer) and DWDM (Dense Wave Division Multiplexing) technology. The modes of integration of the optical network have been defined with the aim of optimizing the use of network resources and reducing running costs. The synchronization network has also been made more reliable.

### Telemedicine

The Group has acquired an equity interest in Telbios, a company operating in the sector which uses innovative technologies to book and manage medical services from a distance and to transfer clinical data and images in real time. As a result, the Group is now present in the telemedicine sector and aims to develop VAS services for the final customer (Home Care) using broadband access.

## ■ Mobile

### Measurements and protection for 2G and 3G mobile systems

This project involves the testing of GSM/GPRS and UMTS access networks, and concentrates on the following aspects:

- problems of work between the access network and terminals;
- drawing up technical standards for testing;
- development of automatic tests for GSM and UMTS network access equipment;
- tests for establishing the characteristics of systems generating emissions;
- measurement of network performance parameters and terminals to improve the design process of the mobile network;
- development of measuring benches used to validate mobile design tools (cell planning);
- creation of hardware/software tools for assessing and predicting the levels of electromagnetic fields generated by mobile transmitters.

### Mobile telephone services

Projects associated with mobile services mainly concerned the following areas:

- development of demonstration equipment for Value Added Services (VAS);
- development of new platforms for the VAS services center;
- research into new software architectures for interconnecting the VAS services center to the external ASP world and content providers;
- study of communications protocols for mobile terminals and the new mobile terminal operating systems (Java, Symbian);
- identification and definition of a range of innovative services for the wholesale services market, directed at national telecommunications operators (OLO and Service Providers).

## ■ Olivetti Tecnost

### FAX Technology

This project aims to develop ink-jet technology for fax products which use water-based inks with non-toxic colorants and ordinary paper for printing, to provide an alternative to other products on the market which are based on technologies using toxic inks and chemically treated paper.

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■ Information Technology Market

Front office for online banks

This project developed by Carisiel aims to develop the multi-channel front office system for online banks by developing non-traditional channels (vocal channels), by integrating the front end and the back end and supplying asynchronous services. By creating an innovative front end, the project aims to improve modes of interaction between the customer and the bank.

■ RESEARCH AND DEVELOPMENT

In 2003, Telecom Italia Group's R&D activities were mainly conducted by the subsidiary TILAB, and partly through cooperation with Pirelli Labs, dedicating 1,001 employees. In 2003, in all, 68 new patents were registered, 14 of them jointly with Pirelli Labs.

Overall R&D expenditures incurred in 2003 amounted to approximately euro 148 million. The total of grants and low-interest loans to support R&D costs, already received or awaiting receipt, amounted to approximately euro 9 million.

The R&D activities, in the areas of business "Office Products" and "Systems Divisions" of Olivetti Tecnost, are fully described in the section of the report on the "Economic and financial performance - Telecom Italia Group - Business Units/Operating Activities - Olivetti Tecnost".

R&D activities involved research and testing in the sphere of network innovation, mobile and broadband services, and are fully described in the section on TILAB in the section of the report on the "Economic and financial performance - Telecom Italia Group - Business Units/Operating Activities - Other Activities".

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## ■ HUMAN RESOURCES



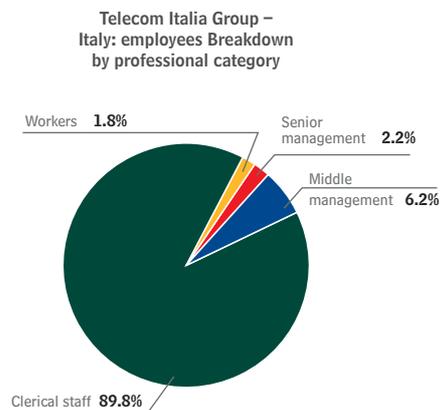
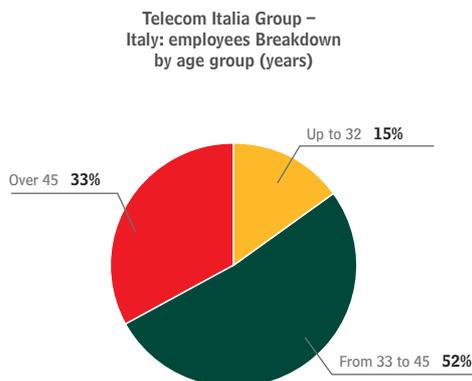
### ■ HEADCOUNT AND CHANGES IN THE TELECOM ITALIA GROUP

Employees at December 31, 2002	Changes during the year				Employees at December 31, 2003
	Hired	Terminated employment	Change in scope of consolidation	Total	
106,620	5,537	(10,141)	(8,829)	(13,433)	93,187

Headcount of Telecom Italia Group at December 31, 2003 was 93,187; this is 13,433 less than at year-end 2002. This reduction was the result of the change in the companies consolidated (- 8,829) and employee turnover (4,604).

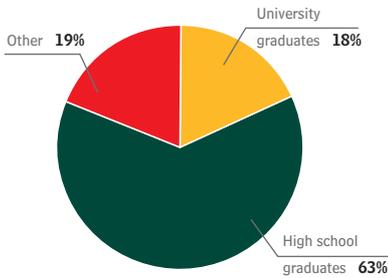
The more significant changes in the Group were due to: the spin-off of companies in the Internet and Media Business Unit (- 5,642 in total, of which - 5,402 refers to the sale of Nuova Seat Pagine Gialle), the Olivetti Tecnost Business Unit (- 1,348), the sale of TE.SS (- 404) and Netikos (- 207) as well as the outsourcing to third-party companies of the logistics business segment of Telecom Italia (- 337), the facility business segment of Olivetti Multiservices (- 208) and information system activities for both Desktop Management (- 582 from IT Group and - 22 from IT Market) and Corporate Solutions (- 380 from IT Group, - 21 from Olivetti Tecnost). During the year, the Group acquired the following companies: Hansenet (+ 381 employees), Tm News (+ 55) and Top Services (+ 21).

83.8% of the total of the Group's employees work in Italy and are distributed as follows:

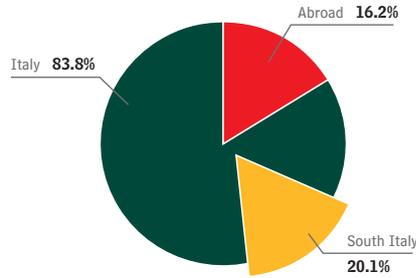


3	CONTEXT	50	HUMAN RESOURCES
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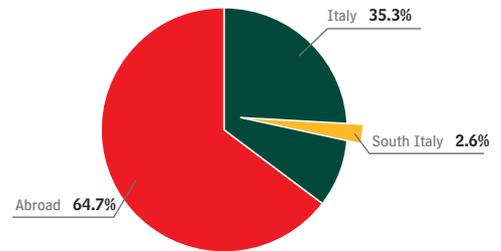
Telecom Italia Group - Italy: employees Breakdown by academic qualification



Telecom Italia Group: employees Breakdown by geographic area



Telecom Italia Group: hiring Breakdown by geographic area



## ■ HEADCOUNT AND CHANGES AT TELECOM ITALIA SpA

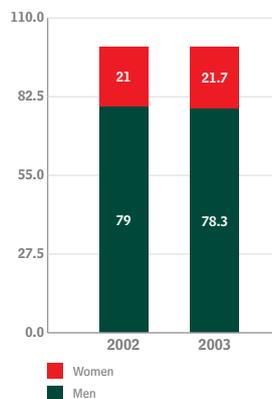
Employees at December 31, 2002		Change during year					Employees at December 31, 2003
		Hired	Terminations	Transfers from Group companies	Sale of "logistics" and "Insurance Administration" business segments	Total	
Olivetti SpA	Merged company	537	(3,916)	1,314	(349)	(2,414)	52,361
70	54,705						

In particular, 1,169 of the transfers from Group companies refer to the merger of TILAB SpA in Telecom Italia and 145 refer to the balance of professional mobility between Telecom Italia SpA and the rest of the Group.

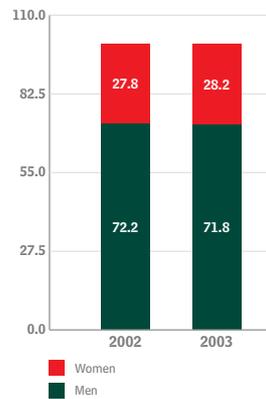
## ■ GENDER BALANCE

The percentage breakdown of men and women employees in the Telecom Italia Group and Telecom Italia SpA is shown in the following charts:

Men and women employees in 2002 and 2003 Telecom Italia SpA



Men and women employees in 2002 and 2003 Telecom Italia Group (in Italy)



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In 2003, the percentage of women holding senior management positions in the Group (in Italy) was around 12%, rising to 24% at middle management level.

Progetto Donna was launched, with the aim of promoting the professional development of women and spreading the equal opportunities culture throughout the Telecom Italia Group. 2,100 Group employees were interviewed over the phone about topics such as work satisfaction, and career opportunities for men and women. The results of this survey, and of benchmarking against 30 other Italian and foreign companies, were analyzed at a seminar that involved about a hundred Group employees.

At the same time, projects were formulated to promote opportunities for women and, more generally, to improve life in the company. These projects will be implemented in 2004.

## ■ DEVELOPMENT

In 2003, Development, Training and Internal Communication activities were geared to supporting the cultural re-orientation process begun in 2002.

The Group's development policies continue to promote the spread of behavior consistent with the system of values that has been adopted by Telecom Italia Group, through appropriate action and projects. These include customer focus, taking responsibility, innovation, pro-action, speed, integration, transparency and professional excellence.

The Managerial style adopted by the Group has been pursued by creating a network of Development Centers. The Managerial Model used is based on these principles: customer focus, the creation of value, investing in people, change management, networking and integration.

## ■ TRAINING

Training activities in Telecom Italia Group in 2003 registered an aggregate value of around 2 million hours (classroom and online learning, on the job training for employees in Italy) and around euro 35 million in actual costs (excluding the cost of labor and logistics expenses). These activities were largely delivered by Telecom Italia Learning Services, and mainly concerned:

- training to develop customer focus and role adequacy for front-end staff, to develop the technical, professional and behavioral expertise required for managing customer relations successfully (for example, "Progetto Fish", "Progetto Loyalty", "Progetto Coaching", "Progetto Empowerment gestionale Info 12", 187 Technical Services, Network Total Assistance System - SAT);
- training for Sales employees to pursue of excellent knowledge of Telecom Italia products and services, dealings with customers (for example, "Progetto High Sales", "Progetto Real TV") and capacity to create value for our customers (for example, "Progetto Value Based Selling");
- management development initiatives for the Group's senior management, targeted both for change management according to the managerial model defined for the Group and for the enhancement of skills and behavior essential to creating value;
- training programs for professional "families", to integrate and develop the distinctive skills and expertise of the family (Human Resources and Finance, Administration and Control and Investor Relations).

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June 2003 saw the launch of "Progetto Obiettivo Immagine", directed at all the Group's senior management. The project aims to spread a form of organizational culture which safeguards and reinforces the corporate image, by developing an awareness among its senior managers of the contribution that can be made by every employee to enhance the overall image of the Telecom Italia Group.

In November 2003, the first Group Learning Tour visited the United States. 15 managers from the various Business Units were involved in a full immersion course on the theme of "Customer orientation" involving visits to "companies of excellence".

In 2003, training activities of Olivetti Tecnost totaled more than 54,000 hours and were included in the above-mentioned Group total. Training was mainly directed at employees being placed in new companies as a result of the restructuring program, and the sales force.

## ■ EMPLOYEE SATISFACTION

In May 2003, the survey on employee attitude across the Group, known as the "Group Photo" involved more than 77,000 Group employees in Italy and, for the first time, included employees from the Group's Brazilian subsidiaries. Over 58% of employees in Italy and about 74% of employees in Brazil completed the questionnaires.

The general level of satisfaction increased to a value of 6.01 (on a scale from 1 to 10) in Italy and 3.75 (on a scale from 1 to 5) in Brazil. These results were communicated to all the employees in the Group.

Between August and December 2003, the survey was extended to employees in other Latin American countries. 77% of employees in Peru participated (in August), while, in December, 68%, 66% and 72% of the employees of subsidiaries in Chile, Bolivia and Venezuela participated, respectively.

## ■ INTERNAL COMMUNICATION

In 2003, Internal Communication implemented a number of initiatives for Telecom Italia Group employees:

- the 2003 Group Convention, which took place on April 2, 2003 at five different locations in Italy, involving around 6,000 middle and senior management of Telecom Italia Group;
- the launch of the Convention system for the professional families of the Group: conventions were organized for the Security, Human Resources, Finance, Administration and Control "families" and involved around 800 middle and senior managers of the Group;
- the first issue (number zero) of the new Group magazine, noi.magazine, was published in May 2003. A questionnaire was sent to a significant number of workers, clerical staff and middle and senior management throughout Telecom Italia Group;  
After the survey had been carried out and feedback received, two issues of noi.magazine were distributed to all the Group employees in Italy and abroad with translations attached in English, Spanish and Portuguese for employees in South America and Europe;
- the noi.2004 calendar was distributed to all the Group employees in Italy and abroad with photographs of around 60 employees of the Group with a bi-lingual text (Italian and English);
- July 2003 saw the launch of the new version of the Group Intranet portal, Open, which all Group employees connected to the network can access;

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- the extensive use of e-mail to all Group employees to inform them about special events;
- consolidation of the "Sono" project in the Wireline Business Unit.

Also, during 2003, the organization for internal communication in the Wireline Business Unit was reinforced, by establishing internal structures nationwide that can provide better support for activities such as spreading information and receiving feedback.

## ■ INDUSTRIAL RELATIONS

**On July 9, 2003 the economic part of the National Collective Labor Contract for the telecommunications sector was renewed. It expires on December 31, 2004.**

During the year, negotiations with the Group were predominantly concerned with:

### Employment

On June 25, 2003 an agreement was signed with the labour unions to lay off 2,500 Telecom Italia SpA employees, in application of the Group agreements to guarantee the correct size of the workforce in relation to the 2002-2004 Industrial Plan (signed on May 27, 2002 and June 10, 2003).

Furthermore, on June 16, 2003, the Olivetti Tecnost Group signed an agreement with the labour unions on the status of the restructuring plan, which was confirmed by an agreement signed on July 3, 2003 at the Ministry of Labour. According to the agreement, the workforce will be reduced by a further 250 employees and resort will be made to a public Fund for Temporary lay-offs (Cassa Integrazione Guadagni), until July 14, 2004, with the aim of retraining the employees concerned. Agreements were also signed with IT Telecom, TIM and Telecom Italia Learning Services to lay off a total of 156 employees. Another agreement was signed with the Buffetti SpA group to grant early retirement to 20 clerical staff according to Law No. 416/81.

### Organizational restructuring

The merger of Telecom Italia SpA and Olivetti SpA was finalized.

With a view towards focusing on the telecommunications core business, agreements were signed for the disposal of the following business segments:

- Logistics of Wireline, by Telecom Italia SpA to TNT Logistics Italia SpA;
- I.T.User Support (desktop management), by I.T. Telecom SpA to Hewlett Packard Distributed Computing Services Srl;
- Desktop Management, by Finsiel SpA to Hewlett Packard Distributed Computing Services Srl;
- Back End Sales & Administration, by Olivetti Tecnost SpA to Accenture Outsourcing Srl;
- Insurance Administration, by Telecom Italia SpA to PG.A. Srl (now Asscom Insurance Brokers Srl);
- Centro Documentazione e Stampa, by Telecom Italia Learning Services SpA to Xerox SpA;
- Facility, by Olivetti Multiservices SpA to OMS Facility Srl, later sold to Pirelli Real Estate SpA;
- Corporate Solutions, by I.T. Telecom SpA to Pirelli Informatica SpA (now Shared Service Center S.c.r.l.);
- Information services activities, by Olivetti Tecnost SpA to Pirelli Informatica SpA (now Shared Service Center S.c.r.l.);

Also finalized was the proportional partial spin-off of SEAT Pagine Gialle SpA to Telecom Italia Media SpA and SEAT Pagine Gialle SpA, later sold to parties outside the Telecom Italia Group.

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#### Profit bonus

On June 10, the labor unions signed an agreement concerning the Profit Bonus 2003-2006 for Telecom Italia SpA which will be paid on the basis of the gross profit margin and a Customer Loyalty index.

### ■ TRANSFERS WITHIN THE GROUP

During 2003, the transfer of professional resources among the various Business Units continued with a view towards reinforcing the sense of belonging to the Group, creating new opportunities for professional development and stabilizing recourse to outside recruitment. In all, 662 employees were affected by job rotation among the various Group companies, of whom 402 were transferred to jobs within the same Business Unit and 260 to another company in the Group.

### ■ REMUNERATION POLICY

In 2003, the company worked towards aligning fixed pay more closely to the strategic nature and width of the managerial role occupied. At the same time, the variable component (MBO incentives, long-term incentive plans, one-off bonuses, Special Awards) has become a permanent feature of the pay package which is increasingly geared to corporate and individual performance.

The Group continued its commitment to harmonizing benefit policies.

### ■ STOCK OPTION PLANS

The Board of Directors of Telecom Italia SpA (the merged company pre-merger) ascertained the following:

- in April, the forfeiture of stock options that were still standing from the second lot of the Telecom Italia stock option plan 2001 (residual number of 30,855,000), as a result of not having reached the relative performance parameter, calculated on the basis of the prices of Telecom Italia ordinary shares in the months of March 2002 and March 2003 and the corresponding prices of the Dow Jones Eurostoxx TLC Index.
- in July, the forfeiture of the stock options that were still standing from the third lot of the Telecom Italia stock option plan 2000 (residual number of 9,900,004), as a result of not having reached the relative performance parameter, calculated on the basis of the prices of Telecom Italia ordinary shares in the months of June 2002 and June 2003 and the corresponding prices of the Dow Jones Eurostoxx TLC Index.

The exercise of Telecom Italia stock options was suspended beginning May 12, 2003, the tenth trading day of the stock market prior to the date of the first call of the Shareholders' Meeting, up to August 4, 2003, the effective date of the merger.

With reference to the merger of Telecom Italia SpA in Olivetti SpA, the Company resulting from the merger took over all the Stock Option Plans previously in force in Telecom Italia and Olivetti, namely: the Stock Option Plan 1999, the Stock Option Plan 2000, the Stock Option Plan 2001, the Stock Option Plan 2002 and the Top Stock Option Plan 2002 of the merged company, as well as the three-year Stock Option Plan 2002-2004 and the three-year Stock Option Plan February 2002 - December 2004 of the merged company.

The holders of the corresponding stock options will retain the right to subscribe, at the strike price already determined, not the original number of shares stated in the respective regulations

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(and corresponding to one ordinary share for every option), but the number of shares of the new Company corresponding to the ratio established for the shareholders of the two companies, equal to 0.471553 ordinary shares for each ex-Olivetti option and 3.300871 shares for each ex-Telecom Italia option.

The per unit subscription price of the ordinary shares coming from the exercise of the options was thus changed for each Plan, dividing the exercise price already determined by the relative exercise ratio.

In the cases where the application of this ratio to the various lots results in a fraction of a share in the exchange, the holder of the options has the right to subscribe for each lot a whole number of shares rounded down to the nearest unit, exercising only the corresponding quota-part of the options. Following the exercise of the options after the date of the merger, there were residual options for fractions of shares.

On December 31, 2003, the period for exercising rights on the first lot of the Stock Option Plan 1999 expired. The lot was entirely exercised except for the residual options for fractions of shares which arose as a result of the above, which, accordingly, on the same date, expired.

In compliance with the recommendation contained in Consob Communication No. 11508 dated February 15, 2000, the following table summarizes the key features of the stock option plans in force in 2003. For the sake of ensuring a consistent reading of the table, the figures shown (for the market prices and the subscription prices of the shares as a result of exercising the options), relating to the number, exercise, expiration dates, forfeitures or cancellations which occurred prior to the effectiveness of the merger, have been adjusted on the basis of the ratios and returns thus rendering them comparable to the prices relating to the ordinary shares of the Company resulting from the merger.

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(Amount in euro)		Options existing at 1/1/2003	New options granted during the year	Options exercised during the year	Options expired and not exercised or forfeit during the year	Options forfeited during the year due to termination of service	Options existing at 12/31/2003	of which exercisable at 12/31/2003
Plan 1999	No. options	8,471,500	-	3,959,579.956	18,801	-	4,511,901.243	4,511,901.243
	Exercise ratio	3.300871	-	3.300871	3.300871	-	3.300871	3.300871
	Subscription price	2.057033	-	2.057033	2.057033	-	2.057033	2.057033
	Market price	2.182	-	2.390 (*)	2.374	-	2.374	-
Plan 2000	No. options	20,600,000	-	-	9,900,004	-	10,699,996	10,699,996
	Exercise ratio	3.300871	-	-	3.300871	-	3.300871	3.300871
	Subscription price	4.185259	-	-	4.185259	-	4.185259	4.185259
	Market price	2.182	-	-	2.376	-	2.374	-
Plan 2001	No. options	63,507,500	-	-	30,855,000	312,500	32,340,000	32,340,000
	Exercise ratio	3.300871	-	-	3.300871	3.300871	3.300871	3.300871
	Subscription price	3.177343	-	-	3.177343	3.177343	3.177343	3.177343
	Market price	2.182	-	-	1.952	2.060 (*)	2.374	-
Plan 2002	No. options	28,076,000	-	-	-	1,789,500	26,286,500	8,065,500
	Exercise ratio	3.300871	-	-	-	3.300871	3.300871	3.300871
	Average subscription price	2.908293	-	-	-	2.928015	2.906951	2.907420
	Market price	2.182	-	-	-	2.258 (*)	2.374	-
TOP Plan 2002	No. options	11,800,000	-	-	-	460,000	11,340,000	3,465,000
	Exercise ratio	3.300871	-	-	-	3.300871	3.300871	3.300871
	Subscription price	2.788052	-	-	-	2.788052	2.788052	2.788052
	Market price	2.182	-	-	-	2.070	2.374	-
Plan 2002-2004	No. options (**)	800,000	-	-	-	-	800,000	533,332
	Exercise ratio	0.471553	-	-	-	-	0.471553	0.471553
	Subscription price	7.015118	-	-	-	-	7.015118	7.015118
	Market price	2.075	-	-	-	-	2.374	-
Plan Feb. 2002-Dec. 2004	No. options (***)	7,030,000	-	-	-	1,090,000	5,940,000	3,918,342
	Exercise ratio	0.471553	-	-	-	0.471553	0.471553	0.471553
	Subscription price	5.333441	-	-	-	5.333441	5.333441	5.333441
	Market price	2.075	-	-	-	2.299 (*)	2.374	-

(\*) weighted-average price.

(\*\*) referring to no. 1,330,000 warrants assigned.

(\*\*\*) referring to no. 29,000,000 warrants voted, of which 26,475,000 assigned.

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Plan	Exercise ratio	Sub- scription price of shares (euro)	Number of options granted at 12/31/2003 and exercisable from					Total	Maximum period of options
			2001	2002	2003	2004	2005		
1999	3.300871	2.057033	-	4,511,901.243	-	-	-	4,511,901.243	December 31, 2004
2000	3.300871	4.185259	5,349,998	5,349,998	-	-	-	10,699,996	5 years beginning from each year
2001	3.300871	3.177343	-	32,340,000	-	-	-	32,340,000	April 15, 2007
2002	3.300871	2.928015	-	-	7,753,500	7,497,000	9,996,000	25,246,500	5 years beginning from each year
	3.300871	2.409061	-	-	252,000	252,000	336,000	840,000	
	3.300871	2.339080	-	-	60,000	60,000	80,000	200,000	
2002 TOP	3.300871	2.788052	-	-	3,465,000	3,375,000	4,500,000	11,340,000	5 years beginning from each year
2002-2004	0.471553	7.015118	-	266,666 <sup>(1)</sup>	266,666 <sup>(1)</sup>	266,668 <sup>(1)</sup>	-	800,000	December 15, 2004
Feb. 2002- Dec. 2004	0.471553	5.333441	-	1,980,004 <sup>(2)</sup>	1,980,004 <sup>(2)</sup>	1,979,992 <sup>(2)</sup>	-	5,940,000	December 31, 2004

(1) Exercisable in the period from November 1, to December 15, of each year, or, cumulatively, at successive annual expiration dates until the last.

(2) Exercisable in the period from December 1, to December 31, of each year, or, cumulatively, at successive annual expiration dates until the last.

## ▶ HEALTH AND SAFETY

The Group has begun to organize activities to promote health and safety at work, with the following aims:

- defining common guidelines for analyzing, implementing and monitoring health and safety activities;
- identifying potential synergies;
- promoting strategic integration and guidelines.

There follows a description of the activities of the main companies in the Group.

### Telecom Italia SpA

- More than 700 instrumental checks were made to monitor the environmental conditions of new work-places and sites which have had structural modifications;
- 1,464 medical checks were conducted by the doctor in charge and the Head of the Prevention and Protection Service in workplaces where employees use videoterminals;
- 369 fire drills were conducted, to check the efficiency of emergency plans;
- 70 instrumental checks were made to assess corporate noise pollution;
- 223 investigations were conducted, as part of the three-year program to monitor levels of professional exposure to electromagnetic fields by employees working on transmission towers;
- Employees were given 26,000 hours of training on health and safety at work.

### TIM SpA

- Work continued to implement the Health and Safety Management System in compliance with the BSI OHSAS 18001 standard;
- The health of 3,000 employees who use videoterminals was monitored as part of a new campaign;
- TIM declared itself a no-smoking company: a campaign was organized to raise awareness of the dangers of smoking and, along with the Lega Italiana per la Lotta contro i Tumori, courses were started to help people stop smoking;
- Training courses were held involving 2,029 employees for a total of 14,200 hours.

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### I.T. Telecom SpA

- In agreement with Workers' Safety Representatives, I.T. Telecom SpA became a no smoking company;
- The quality of the air was monitored in all 12 of the sites where corporate employees work;
- Periodical medical checks were made on about 70% of corporate employees (exceeding the minimum required by law, especially in the case of ophthalmological examinations);
- An e-mail address of the Prevention and Protection Service has been put at the employees' disposal on the corporate portal, to enable them to request information, report anomalies, make suggestions, etc.

The following table shows the data on industrial accidents for Telecom Italia and TIM in 2003:

	Telecom Italia SpA	TIM
Number of industrial accidents	750	201
Accident severity rate (*)	0.27	0.27
Accident incidence rate (*)	7.4	13.5
Mean absence time (in hours)	148.6	173.2
Loss of working hours rate (*)	1.10	2.35
Percentage of injured workers	1.57	2.0

(\*) The data relating to severity, incidence and loss of working hours refers respectively to:

- the number of conventional days lost per year per thousand hours worked;
- the number of accidents per million hours worked;
- the number of hours lost due to accidents per thousand hours worked.

## EMPLOYEE BENEFITS

### ASSILT

At December 31, 2003, the Association for Supplementary Health Care for employees of Telecom Italia had more than 220,000 members: 69,400 employees, 41,100 retirees, 110,200 family members.

Besides reimbursing the cost of health care supplementary to that provided by the National Health Service (505,000 cases were handled in 2003), Assilt conducts campaigns of preventative medicine and health education, in conjunction with public health structures and by using its own mobile diagnostic units. In 2003, the oncological prevention program (breast cancer and skin cancer screening) went forward, along with the campaign for the prevention of respiratory allergic reactions.

### CRALT

The Company Recreational Club for Telecommunications Workers organizes tourism, sport, culture, recreation and solidarity initiatives for employees and retired employees of the Group.

At December 31, 2003, membership totaled around 56,000 employees and 10,000 retirees.

### Telemaco

The Complementary Pension Fund for the Workers of Telecom Italia Group has become the pension fund for all the companies who apply the National Collective Labor Contract for Telecommunications. At December 31, 2003, membership totaled more than 59,000.

### Initiatives for employees' children

The summer camp holidays offered 4,739 children the chance to spend two weeks at one of the 11 centers (5 at the seaside, 6 in the mountains) put at their disposal.

The camp activities are organized according to an educational plan which is periodically updated with contributions from academics and experts in the sector.

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In addition to the usual initiatives providing support to students (reimbursement of the first year's university fees and study holidays abroad for children aged 16 and 17), the Digital Age project has been launched it enabled children between 15 and 18 to take advantage of online courses to study English or obtain the European Computer Driving Licence (ECDL).

#### ALATEL

Following the merger between Telecom Italia and Olivetti, the Association of Senior Workers of the Telecom Italia Group (more than 26,000 members, of whom one third are currently employed by the Group) began to collaborate with Olivetti's counterpart association, Spille d'Oro Olivetti (around 6,400 members).

### ■ LATIN AMERICA

The Code of Ethics adopted by Telecom Italia Group, based on the Global Compact promoted by the United Nations Organization, sanctions numerous principles in the sphere of Human Resources, such as health and safety protection, respect for human rights, guarantee of equal opportunities and the promotion of professional growth.

These principles are applied not only in Italy but also in all the other countries where the Group has important interests, including Latin America. Here, human resources and industrial relations policies, which were initially organized at a local level, are gradually being harmonized. These policies will steadily be extended to the whole Business Unit.

In Bolivia, where the *Acuerdo del Lago* was signed (involving special commitments in terms of non-discrimination and the protection of human rights), there are policies to minimize the effects of reorganization processes. A significant percentage (45%) of workers is covered by the collective bargaining contracts.

The TIM Brasil Group has extended collective bargaining to all its companies, including the GSM activities begun in the previous year.

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## ■ SHAREHOLDERS



### ■ FINANCIAL COMMUNICATIONS

Since the end of 2002 and throughout 2003, Telecom Italia Group has acted to communicate ever-more accurate, continuous and timely information about financial matters. The aim is to provide greater transparency and reliability both in terms of the business results and corporate governance of Telecom Italia SpA and its subsidiaries, in order to meet in full the needs of investors and the requirements of the regulations established by official bodies.

In 2003, the merger of Olivetti and Telecom Italia was completed. This event was meticulously described on a special website containing all the relevant documentation and a call center was set up to handle queries from shareholders and investors alike.

Investor Relations, it should be pointed out, has been assigned to an autonomous Corporate Function which reports directly to the Managing Director. This too ensures more timely, complete and effective communications.

This has been achieved with a view towards ensuring the dissemination of extensive and timely information through the delivery of communiqués and the publication of institutional bulletins (periodical reports, both obligatory and discretionary, such as the Sustainability Report, and documents concerning shareholders' meetings and individual transactions on the market by the Company) using traditional paper methods of communication and also more innovative on-line tools.

In fact, the Telecom Italia website [www.telecomitalia.it](http://www.telecomitalia.it), has been enhanced with a special area entirely devoted to institutional and retail investors. Besides continuous additions and updating of the content of the website, special care has been taken to provide information on share performance and corporate events.

During 2003, the Company organized more than 50 formal encounters with the market (with analysts, institutional investors and members of the national and international specialized Press). They took the form of quarterly conference calls, road shows, seminar attendance, Press conferences, in addition to the day-to-day dealings with financial analysts and investors, both through direct meetings or by phone, to supply them with the information they need for their activities. Moreover, the annual meeting was held in Milan on February 14 to present the Group's financial plan for 2003-2005.

### ■ SAFEGUARDING OF PRIVACY AND DATA PROTECTION

Again in 2003 Telecom Italia Group has embarked on important initiatives to guarantee its compliance with the regulations in force for the protection of personal data (Law No. 675/96 and subsequent changes and supplements).

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From an organizational viewpoint, a special structure (the "Privacy Project") was set up within Telecom Italia's Corporate and Legal Affairs Function to improve the co-ordination of the application of the aforementioned regulations at a Group level, and to monitor the related progress and verify the results achieved.

From an operational viewpoint, the principal new initiatives adopted by Telecom Italia included:

- the preparation of a compendium summary outlining the fundamental principles of the privacy regulations, which was distributed to all Telecom Italia employees;
- the delivery, to all persons responsible for the treatment of personal data, of updated instructions on the correct application of the minimum security measures established by law;
- the creation of an intranet website to allow the employees of Group companies easier access to the principal regulatory and statutory texts and to the Company's implementation procedures;
- the planning and implementation of improvements at a Group level;
- the establishment of a control system for the persons supervising the treatment of personal data within the Group through the preparation of updated self-assessment checklists and subsequent sample testing.

For the timely implementation of the provisions introduced, effective from January 1, 2004, in the Code on the protection of personal data (Legislative Decree 196/03 - known as the "Privacy Code"), which gathers into one single text ("Testo Unico") all the provisions related to the protection of personal data, all persons supervising and responsible for the treatment of personal data were provided with information on the changes introduced by the Code, and the procedures and standard forms used to fulfill the legal requirements were also changed (for example, information to employees, customers and suppliers, instructions for the people responsible for the treatment of personal data, with particular reference to the treatment of sensitive and legal data, etc.).

In accordance with the provisions of the Code on the protection of personal data (Legislative Decree 196/2003), in Attachment B (Technical Specification on the subject of minimum security measures), paragraph 26, Telecom Italia SpA discloses that it prepared the programming document on security (PDS) for 2003.

That document describes, based on an assessment of the risks, the technical and organizational criteria adopted for the protection of sensitive personal data treated, by Telecom Italia SpA, using computerized tools. The PDS also provides for a training plan to acquaint the persons responsible for the treatment of personal data with the security measures set in relation to the assessed risks.

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## CORPORATE GOVERNANCE (\*)

◀ (\*) The following section is taken from the corresponding section of the 2003 Report on operations to which reference is made for the complete text.

### ■ INTRODUCTION

The merger of Telecom Italia into Olivetti was concluded and became effective from 4 August 2003; the company resulting from the merger adopted the name of Telecom Italia. The Board of Directors of the new company, elected on 26 May 2003 by the Olivetti shareholders' meeting, appointed the corporate officers, assigned the related powers and basically took over the corporate governance system of the "old" (i.e. pre-merger) Telecom Italia. However, it also adopted a new Self-Regulatory Code [HYPERLINK](#) containing significant innovations with respect to the earlier governance rules in the light of international best practice.

In general, the Company's corporate governance system is based on the central role of the Board of Directors, transparency in operational decisions, effective internal controls and rigorous rules governing conflicts of interest. This system, designed and constructed bearing in mind the principles formulated by the Committee for Corporate Governance of Borsa Italiana (known as the Preda Code), has been implemented with the adoption of codes, rules and procedures covering the activity of all the organizational and operational components of the Company. These documents are checked constantly and updated to respond effectively to legislative and regulatory developments and changes in operational practice.

This section of the Report describes how Telecom Italia's corporate governance system worked during the year. The name Telecom Italia indicates the company resulting from the merger, without a break vis-à-vis the "old" Telecom Italia; where appropriate, reference will also be made to the activity of Olivetti S.p.A. before the merger.

The present section represents an extract of the corresponding section of the "Report on operations 2003", to which reference is made for the complete text Da inserire nella nota a margine.

### ■ BOARD OF DIRECTORS

#### ■ Role and tasks

The Board of Directors has the power (and the duty) to lead the Company by pursuing the primary objective of creating value for its shareholders; to that end it takes all the decisions needed to achieve the corporate purpose (Article 2 of the Self-Regulatory Code). The Self-Regulatory Code reserves several especially important tasks exclusively to the Board, including those of:

- (i) examining and approving the strategic, business and financial plans of the Company and the Group;
- (ii) evaluating and approving the annual budget of the Company and the Group;
- (iii) examining and approving transactions – including investments and disinvestments – with a substantial impact on the Company's activity in view of their nature, strategic importance or size;
- (iv) verifying the adequacy of the general organizational and administrative structure of the Company and the Group;
- (v) preparing and adopting the Company's corporate governance rules and the Group's governance guidelines;
- (vi) nominating the persons who are to hold the offices of Chairman and Managing Director in strategic subsidiaries, except such as are subsidiaries of listed subsidiaries;
- (vii) evaluating and approving the periodic reports required by the applicable legislation.

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■ Meetings

The Self-Regulatory Code requires the Board to meet periodically (and at least quarterly). In 2003 the Board of Directors met 11 times (the Board of Directors of Olivetti met 5 times before the merger). Board meetings were always well attended, with 81% of the directors being present on average. The independent directors were assiduous participants, with an overall attendance rate of 76%. When board meetings were to be held, documentation permitting informed participation in the proceedings was transmitted in good time to the directors and the members of the Board of Auditors. In November 2003 the Company distributed a calendar scheduling at least 7 meetings for 2004.

■ Appointment

The members of the Board of Directors are elected by means of "slates" (Article 9 of the bylaws). The slate system, which de facto renders the creation of a nominating committee superfluous, is designed to ensure an adequate representation on the Board of Directors of persons drawn from lists presented by minority shareholders (slates may be presented by shareholders who individually or together with others hold at least 1% of the share capital with the right to vote in ordinary shareholders' meetings). Although the Company's current Board of Directors was elected by the Olivetti shareholders' meeting of 26 May 2003 under the old Olivetti bylaws, which did not contemplate slates, the meeting basically confirmed the composition of the Board of Directors of the "old" Telecom Italia, which included 3 directors drawn from slates presented in October 2001 by minority shareholders (Umberto Colombo from the slate presented by the Ministry for the Economy and Finance, and Francesco Denozza and Guido Ferrarini from the slate presented by Italian institutional investors). On that occasion the shareholders who put forward the proposals for directors to be appointed made available the profiles of the individual candidates so that all the shareholders could know their personal and professional data and exercise the right to vote in an informed manner. This principle is expressly contemplated by the current bylaws of Telecom Italia.

■ Composition

Telecom Italia's Board of Directors has not less than 7 and not more than 23 members; it is up to the shareholders' meeting to decide the exact number (Article 9 of the bylaws). The Olivetti shareholders' meeting of 26 May 2003 elected the present directors after establishing their number at 15. The new Board took office on 4 August 2003 (the date on which the merger became effective) and will remain in office until the date of the approval of the annual accounts for the year to 31 December 2003. It is made up of the following directors:

Marco Tronchetti Provera	Chairman
Gilberto Benetton	Deputy Chairman
Carlo Buora	Managing Director
Riccardo Ruggiero	Managing Director and General Manager
Umberto Colombo	Member of the Remuneration Committee
Giovanni Consorte	
Francesco Denozza	
Luigi Fausti	Chairman of the Remuneration Committee and member of the Committee for Internal Control and Corporate Governance
Guido Ferrarini	Chairman of the Committee for Internal Control and Corporate Governance
Natalino Irti	Member of the Committee for Internal Control and Corporate Governance

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Pietro Modiano

Gianni Mion

Massimo Moratti

Carlo Alessandro Puri Negri

Pier Francesco Saviotti                      Member of the Remuneration Committee

The Board of Directors of the "old" Telecom Italia, which served until the date on which the merger became effective, was composed of the same directors with the exception of Roberto Ulissi (in place of Giovanni Consorte), whom the Minister for the Economy and Finance had designated exercising the powers of appointment – now lapsed – reserved to the Minister (so-called Golden Share; see Article. 22 of the Company's bylaws).

The composition of the Board of Directors of Olivetti, which served until the date on which the merger became effective, was as follows:

Antonio Tesone	Chairman of the Board, of the Remuneration Committee and of the Internal Control Committee
Marco Tronchetti Provera	Deputy Chairman and Managing Director
Gilberto Benetton	Deputy Chairman
Carlo Buora	Managing Director
Lorenzo Caprio	Member of the Remuneration Committee and of the Internal Control Committee
Giorgio Cirila	
Pier Luigi Fabrizi	
Cesare Geronzi	
Gianni Mion	
Giampietro Nattino	
Paola Pierri	Member of the Remuneration Committee
Alberto Pirelli	
Carlo Alessandro Puri Negri	
Gian Carlo Rocco di Torrepadula	
Dario Trevisan	(resigned on 16 April 2003)
Alberto Varisco	Member of the Internal Control Committee

#### ■ Independent directors

The Company has adopted specific criteria conforming with international best practice and the Preda Code to qualify directors as "independent". On the basis of these criteria and in the light of the declarations submitted by the members of the Board of Directors, 5 of the 15 directors are considered independent, namely, Umberto Colombo, Francesco Denozza, Luigi Fausti, Guido Ferrarini and Natalino Irti. The directors in question:

- (i) neither have nor have recently had, directly, indirectly or on behalf of third parties, business relationships of a significance able to influence their autonomous judgement with the Company, its subsidiaries, the executive directors or the shareholder or group of shareholders who control the Company. The timeframe considered is the last three fiscal years for employment and executive directorships and the last fiscal year for other business relationships;
- (ii) do not hold, directly, indirectly or on behalf of third parties, equity interests allowing them to control the Company or exercise a significant influence over it;
- (iii) do not participate in shareholders' agreements to control the Company or containing clauses regarding the composition of the Board of Directors or its decisions. This requirement is interpreted broadly, with an eye to the "substantial" independence that an independent director must enjoy. Accordingly, "participation in shareholders' agreements" precludes independence not only when a natural person, a director

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of the Company, participates directly in such an agreement but also when he has significant relationships with the natural or legal persons participating therein and is thus to be considered a representative of (some of) the parties to the agreements;

- (iv) are not close relatives of executive directors of the Company or of persons in the situations indicated above (i.e. persons tied to the Group by significant business dealings; shareholders or groups of shareholders who control the Company or have a significant influence over it; participants in shareholders' agreements to control the Company or containing clauses regarding the composition of the Board of Directors or its decisions).

#### ■ Executive directors

The authority to grant delegated powers to directors and revoke such mandates is reserved to the Board of Directors, which also establishes the limits of such powers, the manner in which they may be exercised and the quarterly or shorter intervals at which persons with delegated powers must report to the Board of Directors and the Board of Auditors on the activity performed under the mandates conferred on them. The authority to determine the duties and powers of the general managers is also reserved to the Board of Directors.

On 4 August 2003 the Board of Directors of Telecom Italia, confirming decisions already taken in the "old" Telecom Italia, appointed Marco Tronchetti Provera as Chairman of the Company, Gilberto Benetton as Deputy Chairman, Carlo Buora and Riccardo Ruggiero as Managing Directors, and Riccardo Ruggiero and Giuseppe Sala as General Managers.

The Board of Directors is composed of 3 executive Directors and 12 non-executive Directors, 5 of whom, as already said, are independent.

The powers delegated to the Company's executive directors (the Chairman and Managing Directors) are as follows:

- Marco Tronchetti Provera (Chairman) is entrusted with the powers needed to carry out every transaction relating to the Company's activity, except for acquisitions and disposals of shareholdings involving control or affiliation, and of businesses or business segments where the value of the transaction exceeds € 250 million. Moreover, the Chairman must sign jointly with a Managing Director for the issue of guarantees in respect of bonds of Telecom Italia or its subsidiaries where the amount exceeds € 250 million and in respect of bonds of third parties where the amount exceeds € 100 million. The Chairman is authorized to act as a matter of urgency in the matters for which the Board of Directors is competent and is entrusted with the tasks of reporting to the Board of Auditors in the manner and within the time limits established in the bylaws, overseeing the management of confidential information and ensuring the effectiveness and adequacy of the internal control system.
- Carlo Buora (Managing Director) is authorized to carry out every transaction relating to the Company's activity, except for acquisitions and disposals where the amount of the transaction exceeds € 150 million. Mr. Buora may issue guarantees in respect of bonds of Telecom Italia or its subsidiaries where the amount does not exceed € 150 million and in respect of bonds of third parties where the amount does not exceed € 50 million.
- Riccardo Ruggiero (Managing Director) is authorized to carry out every transaction relating to the Company's activity, except for investments and disposals where the amount of the transaction exceeds € 75 million and the issue of guarantees.

For the purposes of compliance with the above-mentioned thresholds, a set of transactions that individually fall below the relevant threshold but are interconnected within the same strategic or executive structure are considered to constitute a single transaction and, accordingly, may exceed the threshold.

In practice, transactions of particular significance have been submitted to the Board of Directors even though their conclusion theoretically fell within the scope of the executive directors' delegated powers. As mentioned earlier, in fact, the examination and approval of

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transactions likely to have a substantial impact on the Company's activity in view of their nature (e.g. transactions with related parties and atypical or unusual transactions), strategic importance or size is reserved to the Board of Directors.

Moreover, the Company has adopted a procedure formalizing the rules for gathering and transmitting information to the Board of Auditors and the Board of Directors on the activity performed, transactions with major implications for the profitability, financial position and/or balance sheet of the Company and the Group, transactions with related parties (including intra-group dealings) and atypical or unusual transactions. This procedure generates the information flows by means of which the directors with delegated powers periodically report to the Board of Directors and the Board of Auditors not only on the steps they have taken under their mandates, through the organizational structure of the Company and its subsidiaries or otherwise, including the decisions adopted and the projects launched, but also on the implementation of transactions already approved by the Board of Directors.

#### ■ Directors' remuneration

It is up to the Board of Directors to determine the remuneration of the Chairman and the Managing Directors, after examining the proposals of the Board's Remuneration Committee and consulting the Board of Auditors. The Board is also required to allocate the total compensation to be paid to the individual members of the Board and its committees if the shareholders' meeting has not already done so.

The Board's Remuneration Committee is charged with fact-finding and advisory functions.

In particular, it formulates proposals for the remuneration of the directors who hold particular offices and (acting on a report by the Managing Directors) for the criteria for the remuneration of the Company's senior management. The Committee is composed exclusively of non-executive directors (Umberto Colombo, Pier Francesco Saviotti and Luigi Fausti, chairman), the majority of whom are independent (Umberto Colombo and Luigi Fausti).

The Committee held two meetings in 2003.

As with the Board's composition, in the case of directors' compensation the Olivetti shareholders' meeting of 26 May 2003 again simply replicated the situation existing in the "old" Telecom Italia. In particular, the total annual compensation of the Board of Directors was fixed at € 1,860,000, equivalent to the figure of 3.6 billion lire decided by the shareholders' meeting of the "old" Telecom Italia on 7 November 2001.

The current remuneration system for executive directors provides for them to receive a fixed component and a variable component, subject to the achievement of pre-established budget objectives (EBIT with positive Delta EVA). On the other hand, there is no provision for stock options for the directors (whether executive or non-executive).

Further information on the division of the total compensation among the members of the Board of Directors as well as on the compensation paid to the executive directors can be found in a table in the Notes to the Accounts.

Lastly, the remuneration system for management provides performance and loyalty incentives on top of a basic salary. The incentives include stock options. Details in this regard are given in the section on "Human Resources".

## ■ THE INTERNAL CONTROL SYSTEM

#### ■ The internal control system, internal auditing and the organizational model

The Company's internal control system is conceived as a process for the achievement of substantial and procedural fairness, transparency and accountability by ensuring that corporate operations are efficient and can be known and verified, that accounting and operational data are accurate, that applicable laws and regulations are complied with, and that the assets of the business are safeguarded, not least with a view to preventing the perpetration of fraud against the Company and the consequent repercussions on the shareholders.

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The cardinal rules of Telecom Italia's internal control system are:

- (i) separation of roles in the performance of the principal activities involved in each operating process;
- (ii) traceability and constant visibility of decisions, so that responsibility can be pinpointed and the rationale identified;
- (iii) decision-making on an objective basis, so that purely subjective considerations are set aside and decisions are taken according to criteria that are established in advance and can be verified.

The Board of Directors is responsible for the internal control system. It lays down the guidelines for the system and verifies that it is adequate and works effectively, making sure that the main corporate risks are appropriately identified and managed. To verify the correct operation of the internal control system the Board uses the Committee for Internal Control and Corporate Governance and a suitably independent person endowed with sufficient resources to perform the internal control function.

There is a broad consensus, both in theory and in international practice, that the tasks of the person responsible for internal control should be to verify the adequacy and effectiveness of the system and, where anomalies are found, to recommend the necessary remedies. In conformity with this approach, Telecom Italia has appointed the Company's internal auditor (Telecom Italia Audit), in the person of the director assigned to the task, to be responsible for its internal control system.

A director appointed for the purpose (currently the Chairman of the Board) determines the mechanisms of the internal control system and the manner in which it is to be implemented under the guidelines established by the Board, and ensures the system's overall adequacy, its effectiveness and its adaptation to changes in operating conditions and the legislative and regulatory framework. Any "maintenance" work that the person responsible for the internal control system may recommend is performed by the competent sectors of the Company or Group companies. The efficient operation of the system is promoted by the appointment of managers of particular standing and authority within the organization as "persons responsible for implementation".

Internal auditing has been entrusted by the Group to a consortium company called Telecom Italia Audit, in which Tim and TI Media also hold equity interests. The organizational solution adopted maximizes the independence of the appointed company in the performance of the internal audit function within Telecom Italia. Audit reports are submitted to the competent Telecom Italia director, the Committee for Internal Control and Corporate Governance and the Board of the Auditors.

This organizational solution has been submitted to PriceWaterhouseCoopers for strategic analysis. The Institute of Internal Auditors will conduct a quality assessment of Telecom Italia Audit to verify its operating capacity in terms of organization, methods and professional resources and the degree of assurance it provides.

The Group's internal control system was implemented during the year through the adoption of an ad hoc organizational model designed in particular to meet the needs arising from Legislative Decree 231/2001 concerning the administrative liability of companies for crimes committed by their employees or collaborators.

The organizational model is based on the principles of the Group's Code of Ethics and focused on situations where there is a significant risk of crime (corruption, extortion, misappropriation, undue receipt of disbursements, fraud against the State, etc.).

In particular, it consists of rules for dealings with representatives of governmental bodies that apply the precepts of the Code of Ethics at the operational level and "internal control checklists" that list the rules for identifying the principal phases of every process, the possible crimes in connection with the individual processes, and the control activities for preventing the related risks.

The functioning of the model and compliance with it are monitored by a Supervisory Panel composed of a member of the Board of Auditors (Ferdinando Superti Furga, chairman), an

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independent director who is a member of the Committee for Internal Control and Corporate Governance (Guido Ferrarini) and the person responsible for internal control. The panel's composition thus embraces all the professional skills that contribute to corporate control and highlights its autonomy.

The Supervisory Panel will encourage the Board of Directors to adapt the model as needed to changes in the legislative and regulatory framework, the nature of the Company's business activities and the ways they are conducted. It reports to the Board of Directors, the Committee for Internal Control and Corporate Governance and the Board of Auditors on the checks performed and their results.

■ **The Committee for Internal Control and Corporate Governance**

The Board of Directors of Telecom Italia has its own Committee for Internal Control and Corporate Governance, charged with advisory functions and the formulation of proposals.

The Committee:

- (i) evaluates the adequacy of the internal control system;
- (ii) evaluates the work plan prepared by the person responsible for internal control, from whom it receives periodic reports;
- (iii) assesses, together with the heads of the Company's administrative departments and the external auditors, whether the accounting policies have been correctly applied and are homogeneous for the purpose of preparing the consolidated accounts;
- (iv) evaluates the proposals made by the external auditors in order to be awarded the appointment, the audit plan and the results set out in the letter of suggestions;
- (v) reports to the Board of Directors at least once every half year on the activity performed and the adequacy of the internal control system;
- (vi) performs the additional tasks that may be assigned to it by the Board of Directors, particularly as regards relations with the external auditors;
- (vii) monitors compliance with the rules of corporate governance and the periodic updating thereof.

The Committee is composed exclusively of independent directors (Luigi Fausti, Natalino Irti and Guido Ferrarini, chairman). In 2003 it held seven meetings, which were assiduously attended by its members. Committee meetings are also attended by the Chairman of the Board of Auditors or by the auditor he designates. Where it is deemed desirable in the light of the issues on the agenda, the Committee for Internal Control and Corporate Governance and the Board of Auditors may hold joint meetings.

In 2003 the Committee contributed significantly to the process of implementing the Company's system of corporate governance, taking part in the analysis and drafting of the documents that the Company adopted. Special mention should be made of the new Group Procedure for the Appointment of External Auditors, approved by the Board of Directors on 10 October 2003, which not only satisfies the requirements of Italian law but also takes into account the obligations arising from the fact that Telecom Italia is registered under Section 12 of the Securities Exchange Act of 1934 and is therefore subject to US securities laws and, in particular, to the Sarbanes-Oxley Act of 2002 and the implementing regulations of the Securities and Exchange Commission. Following the merger the Committee participated actively in revising and updating the governance mechanisms originally put in place by the "old" Telecom Italia, paying constant attention to legislative and regulatory changes and to developments in the field of self-regulation.

The Committee periodically checked the activities performed by the internal auditor and examined the request the external auditors submitted after the merger for an increase in the fees that the Olivetti Shareholders' Meeting had originally approved.

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## ■ BOARD OF AUDITORS

The Company's Board of Auditors was appointed by the Olivetti shareholders' meeting of 26 May 2003 and has five members: Ferdinando Superti Furga (Chairman), Gianfranco Zanda, Salvatore Spiniello, Rosalba Casiraghi and Paolo Golia. Rosalba Casiraghi and Paolo Golia were elected from slates presented by minority shareholders (Article 16 of the bylaws).

The Board of Auditors plays a key role in the Company's system of corporate governance.

This is confirmed not only by the number of meetings in 2003 (no less than 25, of which some, as mentioned earlier, were held jointly with the Committee for Internal Control and Corporate Governance) but also by the Company's choices with regard to US company law.

More specifically, the Board of Auditors has been identified as Telecom Italia's Audit Committee for the purposes of the applicable US legislation. In fact the SEC has allowed foreign companies to refrain from establishing an audit committee from among the directors when their governing bodies already include a "board of auditors" that is separate from the board of directors and not an expression of the management and that is responsible – within the limits of applicable law – "for the appointment, compensation, retention and oversight of the work of any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the issuer". This body – which is required to "establish procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, including procedures for the confidential, anonymous submission by employees of the issuer of concerns regarding questionable accounting or auditing matters" (currently being prepared) – must be provided with appropriate funding to engage independent counsel and other advisors.

Among other things the US legislation makes it obligatory for the audit committee to approve all the services rendered by the auditing firm (and associated persons) to the issuer and its directly and indirectly controlled subsidiaries. Telecom Italia has consequently adopted a Group Procedure for the Appointment of Auditors that establishes the general principle of centralized control of relations with auditing firms with the aim of preventing engagements being granted to firms that fail to comply with the applicable Italian or US law and could undermine auditor independence. The procedure regulates the engagement of auditing firms and persons (consulting firms, law firms, etc.) associated with the auditing firm on a continuous basis and significantly limits the power of the Board of Directors (and the management) while enhancing the control function performed by Telecom Italia's Board of Auditors. At the same time the Company has adopted the general principle of employing the same auditing firm throughout the group it heads and requires the appointment of a different firm to be agreed in advance with the parent company following a reasoned request on which Telecom Italia's Board of Auditors gives its opinion on the basis of investigations carried out by the person responsible for internal control.

In order to make available the broad range of information needed by the Board of Auditors to perform its control function effectively, a specific procedure has been put in place, as mentioned earlier, for the collection and transmission to the members of the Board of Auditors (and the directors) of in-depth information on:

1. the activity carried out by the Company, with special reference to the implementation of transactions already approved by the Board of Directors and the action taken by executive directors in the exercise of their delegated powers, including the projects launched;
2. the transactions of greatest significance for the Company's profitability, financial position and balance sheet, highlighting the strategic goals, consistency with the budget and the business plan, the manner of implementation and developments, and any resulting constraints on or implications for the activity of the Group;
3. any transactions potentially involving a conflict of interest, i.e. intra-group transactions and transactions with related parties other than those of an intra-group nature. The information on such transactions must indicate the underlying interest for the Company (and in the case of intra-group transactions their rationale within the context of the Group), as well as the manner of implementation and the evaluation procedures followed;

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- atypical and unusual transactions, taken to mean those in which the subject or the nature of the transaction falls outside the normal sphere of the Company's business and those that have particularly critical aspects in relation to their nature, the risks inherent in the type of the counterparty or the time needed for their implementation. Here again the information provided must indicate the underlying interest for the Company and describe the manner of implementation of the transactions, with special reference to the evaluation procedures followed.

## ■ SHAREHOLDERS' MEETINGS

Ordinary and extraordinary shareholder's meetings of the "old" Telecom Italia and Olivetti were held on respectively 24 and 26 May 2003. In addition to adopting the annual reports for the year to 31 December 2002, the shareholders of the two companies approved the merger of Telecom Italia into Olivetti and the contemporaneous change of the latter's name to Telecom Italia. Subsequently, on 9 June 2003, a special meeting of the "old" Telecom Italia's savings shareholders was held.

The Company seeks to encourage and facilitate shareholders' participation in meetings by providing the documents needed to follow the discussion and allowing ordinary shareholders to vote by mail. Furthermore, pursuant to Article 18 of the bylaws, the Company assists associations of employee shareholders by making available special areas where they can provide information and collect proxy forms.

At present the Company does not have any rules of proceeding for shareholders' meetings since those adopted by the "old" Telecom Italia's shareholders' meeting on 20 October 2000 lapsed when the company's merger into Olivetti became effective. However, the Board of Directors intends to propose the adoption of new rules to the shareholders' meeting called to approve the Annual Report for the year to 31 December 2003.

## ■ CODE OF ETHICS

The Code of Ethics of the Telecom Italia Group can ideally be considered as lying upstream from the whole system of corporate governance and as enshrining the set of fundamental values and principles that serve to ensure an ethically-oriented conduct of business. The Code, which has gradually been adopted by all the companies belonging to the Group, specifies the objectives to be aimed at and the values to be fostered in relation to all the main stakeholders Telecom Italia interacts with every day: shareholders, financial markets, customers, local communities and employees.

Like all the Company's other instruments of corporate governance, the Code of Ethics is continuously reviewed in the light of developments in the applicable law and operational and market practices, and with consideration also given to the results of the monitoring of units' compliance by the person responsible for internal control. The current version of the Code has recently been revised to take account, among other things, of US requirements and suggestions.

## ■ GUIDELINES FOR TRANSACTIONS WITH RELATED PARTIES

The Company has adopted a series of guidelines [HYPERLINK](#) on the way transactions with related parties are to be carried out. Their aim is to ensure both procedural and substantial fairness and transparency and to involve the Board of Directors as a whole in the related decisions. Under the guidelines, the Board of Directors is required to give advance approval to transactions with related parties, including intra-group transactions apart from those of a customary nature to

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be concluded at standard conditions. To this end, provision is made for the Board of Directors to be adequately informed of all the relevant aspects (the nature of the relationship, the manner of carrying out the transaction, the economic and other conditions, the evaluation procedures used, the rationale for the transaction and the Company's interest in its implementation and the associated risks). Moreover, if the related party is a director or a third party that is related via a director, the person concerned may only provide clarifications and must leave the meeting when the motion is examined and put to a vote.

Depending on the nature, value and other characteristics of related-party transactions, the Board may be assisted by one or more outside experts engaged to give an opinion on their economic clauses and/or legitimacy and/or technical aspects, in order to prevent their being concluded at inappropriate conditions. Such experts must have suitable professional experience and qualifications in the field in question and their independence and freedom from conflicts of interests must be carefully assessed.

## ■ HANDLING OF CONFIDENTIAL INFORMATION, THE DISCLOSURE COMMITTEE AND THE CODE OF CONDUCT FOR INSIDER DEALING

Transparent relations with holders of the Company's financial instruments and, more generally, with the financial markets, and the provision of accurate, clear and complete information are standards for the conduct of the members of the governing bodies, the management and all the workers of the Telecom Italia Group.

Confidential information is managed by the director appointed for the purpose (currently the Chairman of the Board) on the basis of procedures for the internal handling and disclosure to third parties of documents and information concerning the Company, with special reference to price-sensitive information.

A special procedure establishes the ways in which price-sensitive information is to be communicated to the market. It identifies the units of the Company's organization involved and lays down guidelines for the action to be taken in the presence of rumours and in response to requests for information from those responsible for supervising and operating the markets (Consob and Borsa Italiana). The procedure also lays down guidelines for meetings with the financial community and the press, to ensure that information concerning the Company and the Group is not disclosed selectively.

The Company has also established a Disclosure Committee to provide assistance to the Board of Directors and top management as regards the processing and handling of data and news necessary for the correct provision of information. The main tasks of the Committee are:

- (i) to assist the Board in the preparation of corporate communications, the top management in the certification of the annual report in accordance with the Sarbanes-Oxley Act, and the director appointed to handle price-sensitive information;
- (ii) to ensure that corporate communications are prepared correctly with a view to their approval by the competent body;
- (iii) to monitor the application of the procedures and controls for the collection, analysis and retention of data and information for publication and filing, verify their adequacy and effectiveness and propose corrective measures;
- (iv) to verify the correct application and need for updating of the "Procedure for communicating price-sensitive information" and suggest improvements where appropriate;
- (v) to supervise the structure and updating of the Company's website as regards its institutional contents.

Lastly, the Telecom Italia has a Code of Conduct for Insider Dealing that lays down the disclosure requirements and rules applicable to transactions involving financial instruments carried out by persons who, as a consequence of their position in the Company, have access to material information (taken to mean information on matters capable of producing significant changes in the outlook for the profitability, financial position and/or balance sheet of the Company and the

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Group and likely, if made public, to have a significant effect on the price of the listed securities in question). The criteria applied in drawing up the Code are consistent with the basic choices underpinning the Company's system of corporate governance: rigour, transparency and alignment with best international practice. The key features of the Code are:

- flexibility in identifying the persons subject to the disclosure obligations, to take account of situations where persons come to have temporary access to inside information;
- immediate disclosure to the market of transactions whose amount, summed with the amounts of other transactions carried out in the three preceding months and not yet declared to the Company, exceeds € 80,000;
- quarterly disclosure of transactions whose cumulative amount is more than 35,000 and less than € 80,000;
- extension of the disclosure obligations to the exercise of stock options and pre-emption rights and all transactions involving securities issued by companies belonging to the Telecom Italia Group, even when carried out under a contract for the management of an investment portfolio under which the investor renounces the right to give instructions;
- black-out periods during which, in general, persons subject to the disclosure obligations may not carry out transactions.

In the event of non-compliance, the Code provides for particularly severe sanctions; where the offender is a director or a member of the Board of Auditors, the Board of Directors may propose the revocation of his/her appointment to the next shareholders' meeting.

## ■ SHAREHOLDERS' AGREEMENTS

The largest shareholder of the "new" Telecom Italia (the company resulting from the merger of the "old" Telecom Italia into Olivetti) is Olimpia S.p.A., with about 17% of the ordinary share capital.

The shareholders of Olimpia S.p.A. have concluded a number of shareholders' agreements; published (in the form of excerpts) in the Italian press.

## ■ AUDITORS' REPORT (ERNST & YOUNG)



■ **Reconta Ernst & Young S.p.A.**  
Eurosistemi Finance s.r.l. s.3  
39128 Torino

■ Tel. (+39) 011 5161611  
Fax (+39) 011 5612554  
www.ey.com

### AUDITORS' REPORT (Translation from the original Italian text)

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

1. We have carried out the compliance procedures and analyses on the Sustainability Section of the Telecom Italia Group as of December 31, 2003, described in paragraph 2 of this report.

The aim of the procedures has been to evaluate the Board of Directors' statements, included in paragraph "References" of the Sustainability Section of the Telecom Italia Group as of December 31, 2003, that describes the guidelines adopted for the preparation of the Sustainability Section. The preparation of the Sustainability Section is responsibility of Telecom Italia S.p.A.'s management.

2. In order to evaluate the Board of Directors' statements mentioned in paragraph 1, we have performed certain procedures which are summarized as follows:

- verifying that the financial data and information are consistent with those included in the Group's consolidated financial statements as of and for the year ended December 31, 2003, approved by the Board of Directors, with respect to which we issued our audit report dated April 15, 2004;
- analysis of how the processes underlying the generation, recording and management of quantitative data operate. In particular, we have performed the following procedures:
  - interviews and discussions with management and personnel, to obtain an overview of the activity of the Telecom Italia Group, to gather information on the information technology, accounting and reporting systems used in preparing the Sustainability Section, and to chart the processes and procedures used to gather, combine, process and transmit data and information of the Group's operating units and offices to the function responsible for preparing the Sustainability Section;
  - sample-based analysis of supporting documentation used in preparing the Sustainability Section to confirm the reliability of the interview-derived information, as well as the effectiveness of processes and their adequacy in relation to business objectives, and that the internal control system correctly manages data and information;

■ **Reconta Ernst & Young S.p.A.**  
Sede Legale: 00198 Roma - Via G. D. Romagnosi, 18/A  
Capitale Sociale € 1.311.000,00 i.v.  
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- analyzing the completeness and consistency of the qualitative information included in the Sustainability Section. This activity was carried out in line with the above-mentioned guidelines;
- verifying the stakeholders' involvement process, in terms of the methods used and completeness, with respect to the information reported in the Sustainability Section.

The Sustainability Section presents the prior year's data and information for comparative purposes, with respect to which, reference should be made to our report dated April 18, 2003.

3. Based on the procedures performed, we believe that the Sustainability Section of the Telecom Italia Group as of December 31, 2003 complies with the guidelines and principles based on which it has been prepared and which are described in paragraph "References" of the Sustainability Section. Moreover, the financial data included in the Sustainability Section are consistent with the data and information included in the Group's consolidated financial statements and the other data and information are coherent with the documentation and meet the content requirements established by the guidelines and principles governing Sustainability Section preparation.

Turin, April 15, 2004

Reconta Ernst & Young S.p.A.  
Signed by: Felice Persico  
Partner

### Special thanks to

- All 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.
- **C.S.R. Europe** for providing information on Corporate Social Responsibility issues and programs in Europe.

Telecom Italia S.p.A.  
Corso d'Italia, 41  
00198 Rome

Tel.: +39.06.3688.2840  
Fax: +39.06.3688.2803  
e-mail: [GroupSustainability@telecomitalia.it](mailto:GroupSustainability@telecomitalia.it)

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