

A wide-angle, low-perspective photograph of a long, straight road stretching towards the horizon. The road is dark and flanked by bright yellow-green fields. The sky is a vibrant blue with wispy white clouds. The entire image has a motion blur effect, giving a sense of speed and forward movement.

Sustainability way

Report on activities **2002** >>

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■ CHAIRMAN'S LETTER



The current international scenario and the direct effects it is having on social and economic trends place greater focus on the role that business, and especially large companies, can play in shaping societal development and in directing change in terms of framework and targets toward a system of values.

Companies which are conscious of their evolving role see themselves at the center of a network of relationships with a variety of stakeholders who can have a real influence on their reputation and competitiveness. Concern for values consequently becomes an integral part of company processes and as such can be measured, managed and monitored.

The Telecom Italia Group has performed a leading role in introducing the Sustainability Report in Italy as a means of integrated performance reporting and transparent communication of corporate strategies.

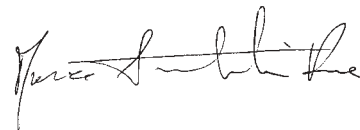
The course we have followed, from our 1997 social report to our 2002 integrated report, has been coherent and compliant with a growing and more qualified commitment to promote Sustainability as a business value.

In 2002, the Group governance structure was further enhanced through adopting practices and principles of conduct, formally expressed in codes and procedures. The corporate governance system was implemented with the Code of Ethics, which is ideally placed upstream of the whole system and which constitutes, in terms of

general policy, the set of principles which guides the Group's activities in relationships with our stakeholders for an ethical business conduct.

Corporate strategy will be integrated with the Strategic Sustainability Plan, which addresses areas for improvement in relationships with stakeholders and outlines projects and targets in accordance with appropriate lines of action, thus setting up a complete process for governance of sustainability within the Group.

Marco Tronchetti Provera



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■ ACHIEVEMENTS AND COMMITMENTS

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

(from the Chairman's letter - 2001 Sustainability Report)

■ DEPLOYMENT

In 2002, the systemic procedures for obtaining data and planning were set up. The Key Performance Indicators were re-examined to conform them to the economical-financial language, to measure them at regular intervals and against specific benchmarks. New KPIs (Key Performance Indicators) were identified through an in-depth rereading of issues that several evaluation ratings imposed. In 2002, twelve international questionnaires making inquiries about the Group, conducted by Sustainability rating agencies, were answered.

Actions and objectives accomplished in 2002 are briefly listed below:

- Signing up to the Global Compact's principles set by the UN Secretary General, Kofi Annan.
- Drawing up the Sustainability Report jointly edited with the Annual Report and presented at the Shareholders' Meeting.
- Creation of a Sustainability Database containing 380 KPIs.
- Admission to the FTSE4Good Index for Telecom Italia and Tim and to the DJSI for Seat. Eligibility for admission to the DJSI for Telecom Italia and Tim.
- Approval of the Group Code of Ethics and Group Code of Conduct for Insider Dealing.
- Start-up of the CRSA (Control & Risk Self Assessment) project supplementing the existing internal control system.
- Creation of the Group Sustainability Function and identification of the Function leaders.

■ GOVERNANCE

- At the meeting with the Financial Community (Milan 14 February 2003) Sustainability was presented as one of the cornerstones for the growth and development of the Telecom Italia Group.
- The Group Convention (Rome - 2 April 2003), which was centered on the theme "The Team, The Project, The Values", recognized that Sustainability is a key factor in successful business and goes hand-in-hand with financial policies and strategies.
- Progetto Italia, publicly presented on 21 January 2003, is a further sign of the will to give a unitary and strategic sense to all the resources and energies spent by the Group on various fronts of activities in the cultural, social, and sports field.
- Analysis of the five-year set of data and introduction of KPIs have revealed areas of particular attention: Future Generations and Shareholders. These are the focus points to which roughly 50% of the KPIs are dedicated and for which in-depth evaluations of the data and of the more sensitive areas are being carried out. The KPIs for Employees are very detailed, considering the great strategic significance given to human resources.
- The Strategic Sustainability Plan outlines a number of wide-ranging programs, or *white projects*, and other projects and recommendations that will improve some aspects of Sustainability in the Business Units and in the controlled companies and that will be reflected in the MBO of the Functions which will carry them out. Plan control and management will constitute the governance of Sustainability, which is responsible for coordinating related activities in order to be able to plan action.

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■ CONTEXT AND METHOD

In the world

The sustainability principles were solemnly restated in 2002 at the World Summit on Sustainable Development (Johannesburg, 26 August to 4 September) attended by 22,000 delegates representing virtually all member countries of the UN (191 out of 195), governmental and non-governmental international organizations, corporations and research institutes.

The Summit confirmed the commitments (signed by governments at the UN Conference on Environment and Development in Rio de Janeiro ten years earlier) to promote and to adopt national strategies for implementation by 2005 of the Agenda 21 principles and actions aiming for balance between economic growth, social development and environmental protection.

The conference in Johannesburg approved the type II partnerships, ie partnerships between governments, corporations and NGOs for the attainment of the goals of sustainability (combating poverty, protecting human rights, defending human health, promoting education, expanding access to water, defending oceans/marine resources, developing sustainable agriculture, aiding development, managing toxic chemicals, developing renewable energies, protecting the climate, protecting biodiversity).

In 2002, the United Nations Environment Programme continued its international benchmark survey of corporate reporting (embodying the concept of sustainability since 2001), assessing the social-economic performance and the environmental performance of businesses, and particularly their contribution to employment, qualification of human resources and development of local communities.

As also the Telecom Italia Group has already done in 2002, many global corporations signed up to the Global Compact, proposed by the UN Secretary General, Kofi Annan, for human rights, labor standards and environmental protection.

In Europe

The European Commission's "Communication on a sustainable development strategy", approved at the Göteborg European Council in June 2001, invited all European companies with at least 500 staff to publish a "triple bottom line" in their annual reports to shareholders that measures their performance against economic, environmental and social criteria. The Italian government has defined corporate social responsibility one of the five key objectives of the six-month Italian presidency of the European Union in the second half of 2003 and stated that it intends to relaunch the program for cooperation between businesses and governments to achieve fair and sustainable development, signed at the European Council in Lisbon in spring 2000 by the heads of state and government leaders of the EU countries.

In July 2001, the European Commission published a Green Paper promoting a European framework for Corporate Social Responsibility. It set up a Round Table on CSR Management Standards to conduct a wide consultation process addressing business representatives, stakeholders, and research institutions to draw up social responsibility standards. It also promoted concrete proposals for action to mobilize new skills, respond to employees' expectations, assure access to economic services of general interest, develop information on socially responsible investments, give Codes of Conduct credibility, make socially responsible practices more transparent, improve consumer information, evaluate the social and environmental performance of businesses, promote the social responsibility of SMEs, broaden social dialog, integrate social and ethical requirements into calls for tenders, and develop pension funds. Additionally, social-environmental reporting is being given increasing importance in the legislation of various European governments. By way of example, we mention the French law introduced in 2002 requiring listed

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companies to take into account the social and environmental consequences of their activities in their annual reports as from this year (and all other companies from 2003); and the British, French and Danish government requirements that pension fund prospectuses contain full information on their corporate social responsibility policies.

Civil society and business culture

The recommendations of national and international government institutions respond, on the one hand, to the pressures of civil society, particularly through many NGOs (environmentalist associations, associations for the defense of human rights, for fair and ethical trade, for elimination of child labor) requiring businesses to be accountable for their objectives and the consequences of their behaviors, and on the other, to changes in business culture which has now acquired the concepts of sustainable development and social responsibility as essential elements in corporate strategy.

The basic theory behind this new business culture is that a socially responsible business by responding to the legitimate expectations of its stakeholders wins their trust and cooperation and improves its reputation. This new business culture is embodied by Corporate Social Responsibility (CSR) Europe, which gathers businesses and associations at European level and promotes best practices in corporate sustainability reports through annual conferences. It set up the European Academy on CSR for research and management training on corporate social responsibility issues. A growing number of entrepreneurs and business managers is coming to believe that voluntary publication of a detailed report on social-environmental performance is far-sightedly anticipating a tendency toward compulsory, generalized standards that could prove too rigid and inappropriate for various types of business activity. The changes in business culture have also involved substantial changes in certification. As the British Association of Chartered Certified Accountants (ACCA) reports, reporting has gone from the old format

marked by mere reference to the shareholders to a report with a large number of stakeholders, from standardized information concerning only financial performance to personalized, broader information, from periodic reporting to continuous reporting, from information based on historical cost to information based on intrinsic value, from a national context to a global context, from a static system to a system in continuous evolution.

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

Indicators of economic and financial results are enriched with additional evaluation criteria on the basis of which:

- consumers, investors, customers, partners and suppliers orient their behaviors and direct their spend options and investment decisions (financial resources, competencies and knowledge) in the economic relations they establish with the business;
- entrepreneurs and business managers draw up their strategies and check performance.

Social reporting is increasingly based on shared process standards, such as the quality principles proposed by the Sustainability Reporting Guidelines developed by the Global Reporting Initiative (completeness, measurability, consistency with the stakeholders' point of view, accessibility, accuracy) and by AccountAbility 1000 (inclusiveness, completeness, comparability, meaningfulness of information, regularity, communication, external auditing, integration in management systems, and continuous improvement), with minimum core content regarding corporate identity, corporate governance mechanisms, calculation of value added distribution and the social report.

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There are also specific principles and standards for the various business sectors, such as those drawn up by ETNO (the European Telecommunications Network Operators' Association) of which Telecom Italia is a member along with 40 other telecommunications companies.

Stakeholders

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

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

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

- **suppliers - the SA 8000 index** included in the CEP indicators as an ethical standard for subsuppliers belonging to developing countries;
- **future generations - the indicators of the Sustainability Reporting Guidelines of the GRI (Global Reporting Initiative)**, launched in 1997 as a multi-stakeholder forum by the nongovernmental organization CERES (Coalition for Environmentally Responsible Economies) based in Boston, which gathers environmentalist organizations, professionals, institutional investors, trade unions, religious organizations, businesses, and consulting and auditing firms and is supported by UNEP (United Nations Environment Programme); GRI establishes economic, social, and environmental qualitative-quantitative indicators;
- **the Community - the guidelines of the London Benchmarking Group**, set up in 1994, consisting of 74 international companies, and European benchmark in measurement of social and environmental contributions;
- **employees - the Human Development Enterprise (HDE) model**, defined by Guy Standing, chief economist of ILO (International Labour Organization) based in Geneva;
- **shareholders - the Dow Jones Sustainability Group Index**, the FTSE4Good, and SIRI.

DJSGI (Dow Jones Sustainability Group Index): an index of sustainability-driven companies provided by Dow Jones in association with SAM (Sustainable Asset Management).

FTSE4Good (Financial Times Stock Exchange): an index of ethically responsible companies launched by FTSE in association with EIRIS (Ethical Investment Research Service) and Unicef (United Nations Children's Fund).

SIRI (Sustainable Investment Research International Group): a coalition of 10 research organizations aiming to provide and promote quality products and services generated by research on social investment worldwide.

Indicators and standards

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

- **customers - the criteria established in the Consumption Guidelines of the CEP (Council of Economic Priorities)**, a private American association that in 1994

(*) Prepared in Telecom Italia by the Group Sustainability function led by Dr. Aurora Sanza, in collaboration with Prof. Alberto Martinelli, professor of Politics at the University of Milan. The 1998 report was awarded the "Oscar di Bilancio e della Comunicazione Finanziaria" (Oscar of Financial Reporting and Communication) "... for being a fine combination of excellent content and clear presentation ...".

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■ CHARTERS AND CODES OF THE TELECOM ITALIA GROUP



CHARTER OF VALUES

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

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CHARTER OF SERVICES^(*)

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

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

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

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ENVIRONMENTAL CHARTER^(*)

■ Our Vision

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

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

■ Our Approach

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

■ Our Commitment

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

Awareness

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

Regulatory compliance

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

Research and development

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

Procurement

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

Providing Information

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

Environmental management systems

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

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

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CODE OF ETHICS

The Code of Ethics, adopted on 7 November 2002, forms the basis for the corporate governance system, stating the objectives and fundamental values with which the Group identifies in relation to the principal stakeholders with whom it interacts. Telecom Italia promoted adoption of the Code of Ethics by the Group companies for observation by their governing bodies, managements and workforces. The Code is on the site www.telecomitalia.it; the fundamental principles are the following.

Ethical business practices are essential to business success; Telecom Italia has accordingly adhered - and encourages all the companies in the Group to adhere - to the Global Compact promoted by the United Nations with regard to human rights, the environment and labor standards (art. 1). Group companies:

- have the primary **objective** to create value for their shareholders, to which end industrial and financial strategies and business practices based on efficient use of resources are oriented; they endeavor to achieve this objective in consistency with the following **values**:
 - observance of the principles of legality, transparency, correctness and fairness in the conduct of business;
 - consequent adoption of organizational solutions to prevent and to sanction violations by their employees and collaborators;
 - ensuring that the market, investors and the public are fully informed about their actions;
 - promotion of fair competition and pursuit of excellence and market competitiveness;
 - awareness of the strategic importance of the services they provide for the well-being and growth of the community;
 - protection and development of human resources;
 - responsible use of resources, with the targets of sustainable development, respect for the environment and the rights of future generations (art. 2);
- ensure equitable treatment of all categories of **shareholders**; they pursue the reciprocal advantages deriving from belonging to the Group in accordance with the law and without prejudice to the interest of each company (art. 3);
- found the excellence of their products and services on the attention paid to **customers**, ensuring correct, courteous and collaborative behavior (art. 4);
- contribute to the well-being and growth of the **communities** in which they operate by providing efficient and technologically advanced services; they consider research and innovation essential to growth and success; they are aware of the social importance of telecommunications services, endeavoring to meet the needs of the weakest members of the community; they maintain relations with public authorities based on full and active cooperation and transparency; they support initiatives aimed at personal development and improvement in the quality of life; they do not make contributions or give support to political parties and trade unions (art. 5);
- recognize the professional contribution of **human resources** as the principal factor of success; they protect health and safety at work, they consider respect for workers' rights fundamental; they ensure equal opportunities and promote professional development (art. 6);
- believe in sustainable global growth in the interest of all today's and tomorrow's stakeholders; they form investment and business decisions with respect for the **environment** and public health, utilizing eco-friendly technologies and production methods to reduce the impact of their operations (art. 7);
- make transparency an objective in relationships with stakeholders, being aware of the importance of correct **information** on their activities; they disclose information to the market and investors in accordance with the principles of correctness, clarity and equal access (art.8);
- adopt procedures to ensure **compliance with the Code** in the behavior of the companies, their employees and collaborators, including sanctions for violations (art. 9).

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CODE OF CONDUCT FOR INSIDER DEALING

The Code of Conduct for Insider Dealing, issued on 7 November 2002, is in line with Borsa Italiana's recent regulation, which from 1 January 2003 required listed companies to regularly disclose transactions in their listed shares and the listed shares of their controlling companies and the companies they control, by persons who may have access to price-sensitive information. The Code came into effect on 1 December 2002; the disclosure obligations apply from the first quarter in 2003. The Code is on the site www.telecomitalia.it; the most significant points are summarized below.

The Code regulates obligations regarding the declaration of and conduct related to personal transactions carried out by *significant persons*, and the information regarding such transactions to be disclosed to the market. The Code considers:

- *significant persons*, Directors, members of the Board of Statutory Auditors, General Managers, the Secretary to the Board of Directors, the Internal Control owner (for the Telecom Italia Group: the Director of In.Tel.Audit), the heads of Central Functions, Business Units and Operating Activities, the head of Latin America Operations and the assistants of the Chairman and Managing Directors of Telecom Italia SpA; the heads of the units included in the central functions of Telecom Italia S.p.A. Finance Administration and Control, Corporate and Legal Affairs, Communications and Image and Investor Relations. Others may be indicated in relation to activity or assignment. Every significant person signs up to acceptance of the Code;
- *financial instruments*, issued by Telecom Italia SpA, the companies it controls and the companies it is controlled by, listed on Italian and international regulated markets, excluding inconvertible bonds; these include the certificates; listed and unlisted financial instruments that give the right to subscribe for, purchase or sell financial instruments; derivatives;
- *transaction*, any action on financial instruments, including exercise of stock options or pre-emption rights, and *significant transaction* any *transaction* for an amount, summed with the amounts of other transactions carried out in the three preceding months and not yet declared, exceeding euro 80,000;
- *referee*, the Secretary to the Board of Directors of Telecom Italia S.p.A..

Not later than a week from the end of each quarter, significant persons shall send the *referee* a list of the *transactions* in the quarter totaling an amount equal to or more than euro 35,000, carried out also by the significant person's spouse, unless legally separated, a minor child or nominees, trustees or subsidiary companies. The declaration obligation is immediate for *significant transactions*.

Non-executive Directors and members of the Board of Statutory Auditors shall abstain from carrying out *transactions* from the day on which the Board meeting to examine the reports for each quarter is convened, or on which they learn of their contents, if earlier, until the day after their release. Other *significant persons* can carry out *transactions* from the day after the release of data, until the closing day of the next quarter. *Transactions* outside the indicated period are allowed only in the event of exceptional circumstances of personal necessity, and shall be judged by the Chairman of the Board of Directors. Limitations shall not apply to the exercise of stock options or pre-emption rights. The Board of Directors may establish additional periods or circumstances in which *transactions* are subject to limitations and conditions.

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The *referee* shall disclose information declared by *significant persons* to Borsa Italiana not later than the tenth trading day after the end of each solar quarter. *Significant transactions* shall be reported as soon as they are received.

Failure to comply with the declaration obligations or the limitations on carrying out *transactions* shall entail:

- for employees, the disciplinary measures provided for by law and the labor contract;
- for other collaborators, termination of the relationship;
- for Directors and members of the Board of Statutory Auditors, proposal of annulment of office at the next shareholders' meeting.

Telecom Italia S.p.A. can obviously seek compensation for any loss and/or liability it may incur as a consequence of behavior in violation of the Code.

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EXTERNAL STAKEHOLDERS



CUSTOMERS

Customer satisfaction was the cornerstone of Telecom Italia Group's loyalty policy also in 2002, built through direct, enduring relationships with customers, focusing both on interpreting market demand and on responding accordingly and promptly with provision of appropriate services. Despite the diversity of Group activities, the **Customer Relationship Management (CRM)** tools adopted by the companies were similar (call centers, toll-free numbers, service centers, websites, regular customer satisfaction surveys – the latter often in collaboration with independent agencies), although tailored to the type of customer and service delivered.

To complete the information on the main business results of the Business Units, a concise description follows of CRM tools and of major achievements in 2002.

calls; the website was visited around 4 million times. Monthly surveys were conducted on customer satisfaction in terms of provision of services and overall customer satisfaction. The call centers, spread across the territory, share a common infrastructure, making the location where the call is handled immaterial. In fact, the CRM system provides operators with information on all customers in real time. In 2002, this led to the following results:

- Customers satisfied with regular operation of the telephone lines (no cut-offs or difficulty in getting the line) total 90.9% of residential customers and 89.2% of business customers (Technical Quality Loyalty - December 2002 aggregate data; source: Doxa).
- Regarding the "187" service for residential customers, 58% of the customers interviewed find the operators very polite and say they are given clear and full information in 43.6% of cases; 64% get problems solved during a single phone call (One Call Solution).
- Business customers who use the "191" service are satisfied with the courtesy of the operators in 88% of cases and with competence in 85% of cases; 50% get a one call solution.
- 77% of residential customers' repairs and 74.6% of business customers' are carried out within the 2nd day after being reported.
- Regarding the fault repair service, 60.8% of residential customers are very satisfied

CUSTOMER SATISFACTION

Quality of service

The **Domestic Wireline** Business Unit is primarily engaged in supply of fixed network telecommunications services: it comprises the Telecom Italia S.p.A. function with the same name and a number of national and international minor companies.

In 2002, customer care at Telecom Italia S.p.A. was based on 169 toll-free numbers (personalized for executive customers), 100 service centers and the company website. The helpdesks answered nearly 64 million

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with the courtesy of the service engineers while 57.5% are very satisfied with service engineer expertise; 92.7% of repairs were effective.

- Business customer satisfaction level with the courtesy of fault repair engineers is 98.5%, with expertise 95.8%; repairs are considered effective by 83% of interviewed customers (source: Atesia).
- The satisfaction levels of executive customers is, on average, 86.4% for the quality of provisioning, 81.7% for efficiency in restoration of services and 80% for billing services.

The other companies in the Business Unit operate in various markets. Intelcom San Marino (retail and internet) provides an automatic answering system for direct access to service personnel. Services for faults are immediate during office hours, and generally within 30 minutes of the customer's call. Traffic control systems are rapid and highly efficient.

Latin American Nautilus and Med-1, respectively operating in the wholesale market and in installation of networks, base customer care on individual specialized service, attaining high satisfaction levels. The same policy is followed by Atesia (telemarketing and market research). Path.net (network operator for public administrations) is the subject of an audit on service levels by the major public administrations customers and by the Presidency of the Council of Ministers. Its customer care service operates through a 24-hour call center and service centers that guarantee repair of 95% of faults within 8 hours. Annual surveys are conducted on the quality of services, interviewing at least 90% of the users of its services.

The Telecom Italia S.p.A. - Domestic Wireline network is certified to ISO 9001; the program for attainment of ISO 14001 certification relating to environmental management has reached an advanced stage. Vision 2000 certification has been obtained for customer care services for business customers.

Certifications have been obtained by Atesia and Path.net (ISO 9001) and Med-1 (ISO 9002).

The **Mobile Business Unit** (TIM group) operates in the national and international mobile telecommunications sector; its international business is concentrated in South America and the Mediterranean basin. Group customer care is based on widespread sales and service networks and services (toll-free numbers, call centers, websites) that are easily and regularly used by customers, who particularly appreciated the efficiency of these services in 2002. For example, customer satisfaction was 83.9% for the TIM call center, 90.3% for the Stet Hellas call center and, on average, around 70% for the call centers run by the companies operating in South America. Response waiting times were low and complaint rates very modest and well below estimated figures. All companies have a CRM system in place or under development; customer surveys are conducted regularly, mainly by specialized agencies.

At TIM, the three-monthly residential customer surveys and six-monthly business customer surveys determine the quality indicators on which the top management's targets are based. The mean time taken for provision of response, activation of new lines, connection to the WAP service, and mobile phone repair, is constantly monitored. Customer relationship management is followed also with loyalty programs, based on reduced-cost or free product and service offers.

Within the group, the customer care initiatives successfully implemented by TIM will be extended to all controlled companies. In Europe, Stet Hellas keeps official documentation on quality, customer satisfaction and regular monitoring of corporate objectives. In South America, the Brazilian companies have set up efficient customer care services based on service centers, call centers, toll-free numbers and websites. Regular monitoring is carried out on quality and provision of service, satisfaction with call centers and sales networks, clarity of information on charges, and complaints statistics, which are showing improvements over time. Tim Peru carries out internal quality and external satisfaction measurements – by customer and service category – through surveys and interviews,

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also using the sales network. Digitel Venezuela has started up a system for monitoring customer satisfaction based on measurement of network quality and satisfaction with services and call centers. ISO 9000 certifications are rapidly spreading (TIM, Stet Hellas, Maxitel; Digitel Venezuela has programmed ISO 9000 certification for 2004). TIM's project engineering, construction and operation of the North-West and South 2 (Calabria and Sicily) regional networks obtained ISO 14001 certification. TIM also gained OHSAS 18001 (Occupational Health and Safety Assessment Series) certification for the North-East regional organization and QualityWEB certification for its Investor Relations and i-tim sites.

Regarding the Operating Activity **Latin America Operations**, which coordinates all the South American companies, information on the Entel Chile and Entel Bolivia groups follows, having reported on the mobile telephony companies hereabove. To improve customer satisfaction, both Entel Chile and Entel Bolivia set up call centers, toll-free numbers dedicated to segments of its customer base, sales points, service centers and websites; the call centers were the most successful service receiving as many as 3.2 million calls in Bolivia. At Entel Bolivia quality monitoring is based on statistics broken down by type of service. Similar methods are used by Entel Chile, where an organized system is, however, still in the process of implementation. At both companies, surveys were conducted through the sales network as well as through specialized independent agencies. Focus was placed on service and network quality and customer satisfaction with customer care policies and call center performance. Entel Bolivia obtained ISO 9000 certification for its mobile network; Entel Chile aims to obtain the same certification for its customer service in 2004.

The **Internet and Media** Business Unit is responsible for the whole chain of value in the media sector. Its operations extend from directories to internet services, from television to marketing office products and services. A significant part of its activities is

conducted in other European countries (France, Germany and the UK).

In all the companies, customer relationship management is based on dedicated toll-free numbers, call centers, which are greatly used by customers, and corporate websites.

In the directories line, Seat Pagine Gialle provides two toll-free numbers, one for advertiser customers and one for phone directory distribution issues. Overall, it provides over 2,000 service points, comprising 48 back offices and the agent's network. In TDL Infomedia customer satisfaction is a definite corporate target, pursued through call centers, the website and regular face-to-face interviews based on a complete system of performance indicators.

As far as regards internet, Seat Tin.it keeps its services constantly monitored, also using innovative forms of contact with customers based on the web and six-monthly telephone surveys by an independent specialized agency. Guaranteed coverage in the event of faults is virtually continuous, resulting in the main indicators of availability, access and reachability for the principal home pages of the Virgilio portal nearing 100%. A similar level of attention to service is found also in Matrix.

In the television business, La7's call center and MTV's toll-free number are dedicated to customers with signal reception problems. Cipi and Databank obtained ISO 9001 certifications; Euredit obtained the Web Trust Certification for the webstore on the Europages site.

The **Information Technology Market**

Business Unit is responsible for information technology activities geared for the external market. Its operations are almost entirely concentrated in Italy.

The group leader, Finsiel, has a customer base comprising a number of the major State administrations, over 1,000 local authorities, health administrations, transport corporations, and large banking and industrial groups. Customer relations are managed through dedicated toll-free numbers, website/e-mail (with more than 70,000 hits in 2002) and automatic call centers; a vocal call center is being opened.

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The helpdesk – the main service for customer satisfaction – was used to interview customers by telephone in order to monitor customer satisfaction.

Banksiel has more than 200 customers operating in the banking and financial services sector. The customer care activities carried out with them trigger service improvements, followed by shared results. In 2002, there were around 75,000 accesses to the website.

Quality policies are implemented also in Carisiel, where a project was launched for an innovative, multi-channel front-end service for banks and their customers. Webred is standardizing its process for obtaining information on customer satisfaction; its CRM system functions through a toll-free number, regional offices and a teleservice network, which will be extended to improve promptness of service.

A significant amount of the activities carried out by Insiel, Banksiel and Webred attained ISO 9001 certifications.

The Information Technology Group

Operating Activity, almost entirely concentrated in Italy, is responsible for governing technological innovation and IT services for the Telecom Italia Group.

The various companies in the group assured customer service through toll-free numbers, service centers and websites/e-mail; Sodalìa and Webegg's sites had a very high viewing rate.

Saritel's customer service is diversified according to the services delivered; the quality monitoring system was developed through more marked automation of the system. The company's target is to resolve 50% of faults within 2 hours, and 99% within 24 hours of reporting.

Sodalìa's customer-centric quality policy takes the shape of both annual satisfaction surveys with web questionnaires and a servicing procedure, which describes the operations (technical assistance and service time) to be carried out on the installed product. This has led to a customer satisfaction, in terms of communication and service provision, of around 70%.

Webegg also bases its customer satisfaction process on customer questionnaires, the

results of which form the basis for corrective action and service improvements. Results in 2002 were good. Customers expressed clear preference (over 83%) for web/e-mail communications.

Sodalìa and Saritel both obtained ISO 9001 certification; Sodalìa also obtained data protection and website quality specific certifications.

Of the businesses in **Other Activities**, TILAB, the Group's research center, follows its customer satisfaction by sending out questionnaires to customers, statistical analysis of responses and examination of the results by the company management.

Its affiliated company Loquendo, a leader in vocal technologies and services, operates a universal 24-hour toll-free number, two service centers and a website, which received nearly 200,000 hits in 2002.

Customer service is structured on several levels, from taking on problems and failures to fault repair, through to establishing corrective action and improvements, involving the same resources who contributed to developing the platforms concerned. TILAB obtained ISO 9001 certification for its corporate quality system, ISO 14001 certification for its environmental management system which is integrated into its health and safety management system, ISO IEC (International Electrotechnical Commission) 17025 certification for its test laboratories, and a number of activity-specific certifications.

BBned operates in the Dutch market of broadband local access services for Internet Service Providers and business customers.

Its customer care policies are implemented through 2 toll-free numbers, 4 service centers and 4 websites; surveys on the quality of the network and quality of services showed excellent results with over 95% satisfaction.

■ Consumer rights

The course of collaborative confrontation, undertaken in 1997 with signing of the Framework Agreement with the major associations, continued throughout 2002, with working groups and liaison tables to monitor and improve the instruments that

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are represented by the General Subscription Conditions and the Charter of Services, which were further refined and agreed with the Consumer Associations.

The Group's commitment to consumer rights was also aimed at developing a successful working relationship with the Communications Guarantor ("Autorità per le Garanzie nelle Comunicazioni" - AGCOM), both in relation to services provided as a result of mandatory requirements and in relation to adoption by AGCOM of a conciliation and arbitration procedure for disputes arising between operators and users of communication services.

Additionally, an information campaign was targeted at the possibility of benefiting from special contract conditions for users on low incomes.

The Telecom Group regularly participates as a founder member in the Consumer's Forum, an association that joins consumer associations, business associations and study and research institutions which operate in the field of consumer interests and rights. During 2002, the Consumer's Forum focused on organizing conferences, study days and seminars on issues of interest to consumers.

In cooperation with "Ente Nazionale Sordomuti" (national association for deaf/speech impaired people), in Autumn 2002 Telecom Italia started testing a new service using ad hoc software, which will enable people with speech and hearing disabilities to access the 112, 113, 115 and 118 emergency services.

■ CONCILIATION AND ARBITRATION

Telecom Italia S.p.A.

As indicated in Telecom Italia's Charter of Services, customers may make use of a free conciliation procedure, as a result of more than ten years of cooperation with leading Consumer Associations, for resolution of complaints that are not handled to the consumer's satisfaction.

Customers can have access to the Conciliation and Arbitration procedure if they receive a response which they consider unsatisfactory or if they fail to receive a response, after making a complaint through the dedicated telephone service or in writing to Telecom Italia (Art. 2 Conciliation and Arbitration Regulations).

Customers can use the procedure for contended accounts, reported faults or repairs, phone directory errors or omissions, number changes, changes of address, failure to activate service, disconnection. There is no value restriction in the conciliation process.

In the case of arbitration, the Arbitrator has authority for disputes not exceeding euro 2,582.28.

The expenses of proceedings, which are determined by the Arbitrator, can vary according to the value of the dispute but cannot exceed euro 206.58, inclusive of any expenses borne by the losing party.

The Board of Conciliation is a joint board with territorial jurisdiction, formed by a Conciliator appointed by Telecom Italia and a member of the consumers' association appointed by the customer.

The customer contacts the Conciliation and Arbitration Office, which is located in the chief city of each region, and which has an independent role in the dispute.

The Board of Conciliation draws up a record of its decisions, which is binding for both parties:

- in the event of agreement, the meeting is concluded with a conciliation record;
- in the event of failure to reach agreement, the customer can apply for arbitration.

The number of conciliation applications received from 1 January 1986 amounts to 30,025 (725 in 2002). Of these, a total of 29,052 cases (97%) have been heard and 958 (2.5%) withdrawn. The number of applications heard or withdrawn from the total amount processed (30,010 applications equal to 99.5%). 25,182 (87% of heard cases) ended in conciliation and 3,870 (13%) failed to reach conciliation.

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Time taken for conciliation procedure: 25% of responses are within 90 days from submission and 58% of responses are within 45 days from submission.

451 arbitration applications have been received since the procedure was introduced (1 in 2002); 265 (59%) of these have been heard, 103 (23%) have been withdrawn. The number of applications heard or

withdrawn form the total amount processed (368 applications corresponding to 82%). 83 arbitration applications (18% of applications received) are awaiting hearing.

In 75 cases arbitration was judged in favor of Telecom Italia (approx. 28% of cases heard), in 9 cases (4%) arbitration was judged in favor of the Customer; 181 cases (68%) were settled before the Arbitrator.

■ DISPUTES AND LITIGATION

1,413 disputes were registered in Italy, at Group level.

Telecom Italia S.p.A.

– Financial year 2002

Subscription contracts: 799 lawsuits were served (15 by the Company and 784 against the Company); 258 were concluded, 73 of which in favor of the Company, 4 with waiver of claim, 23 against the Company, and 158 settled;

Directory: 121 lawsuits were served, 24 of which were concluded: 7 in favor of the Company, 1 with waiver of claim, and 16 settled.

– Financial year 2001

Subscription contracts: 465 lawsuits were served (10 by the Company and 455 against the Company); 199 were concluded (54 in favor of the Company, 10 with waiver of claim, 11 against the Company, and 124 settled);

Directory: 143 lawsuits were served, 30 of which were concluded: 9 in favor of the Company, 5 against the Company, and 16 settled.

TIM S.p.A.

– Financial year 2002

429 litigation cases were initiated, 109 of which were concluded: 29 in favor of the Company, 3 against the Company and 77 settled.

– Financial year 2001

230 litigation cases were initiated.

SEAT S.p.A.

– Financial year 2002

185 lawsuits were served.

– Financial year 2001

172 lawsuits were served.

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SUPPLIERS

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

◀ Telecom Italia Group annual spend with suppliers was euro 15,370 million.

(millions of euro)	2002	2001
TELECOM ITALIA GROUP		
Consumption of raw materials and outside services (net of the telecommunications license fee or contribution)	12,127	12,518
– associated amounts	469	586
Industrial investments	4,842	8,164
– associated amounts and internal capitalized costs	1,130	665
Total contribution	16,969	20,682
– associated amounts and internal capitalized costs	1,599	1,251
Net total contribution	15,370	19,431

■ QUALIFICATION

Qualification of suppliers is centralized for all Telecom Italia Group companies.

The process, which is initiated with a request for qualification by the buying functions, users or suppliers, is based on product/service-specific parameters or checklists but meets common general criteria.

Qualification can be of three successive typologies:

- basic (sales, financial statements, safety, social responsibility, regular social security payments, compliance with environmental policies, etc.);
- economic-financial (examination of financial statements and evaluation of specific indicators);
- technical-organizational (verification of a supplier's actual capability to produce or supply required goods, services or works).

Supplier evaluations during the qualification process can result in:

- qualification;
- temporary qualification (eg, if economic/financial situations are not entirely favorable);
- provisional qualification (eg, if technical requirements are not entirely met);
- rejection.

Qualified suppliers are listed in the Telecom Italia Group Register of Vendors by commodity category, and supplier data is updated annually in relation to the principal information/characteristics of the suppliers and according to Vendor Rating results.

All the most important information relating to the Register of Vendors, obtained during qualification and in following annual updates, is managed centrally and is made available nationwide for procurement process-related activities by an intranet application.

A similar, but more simplified, selection process is applied to subcontractors, the results of which determine authorization to subcontract. The criteria for evaluating the capabilities of subcontractor applicants are restricted to basic elements such as: number of employees, minimum sales thresholds and technical/organizational ability.

Additionally, new telecommunication products/systems are qualified by the technical functions of the Telecom Italia Group companies in order to verify conformity to technical specifications.

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■ VENDOR RATING

The overall quality of suppliers is measured in Vendor Rating terms (see following point) on the basis of technical, commercial and administrative evaluations.

Specifically regarding technical evaluations, in addition to the standard quality control audits preliminary to acceptance of supplies, checks are carried out:

- at centralized level at the time of supplier qualification;
- by the individual companies in the Telecom Italia Group during the term of contract;
- on suppliers' premises to check organization and conformance of standard supplies to technical contract specifications (at prototype level technical product inspections are generally systematic);
- at the specific request of the buying function;
- on site to check the quality of execution of works.

These checks may be annual or six-monthly and the scale of the evaluation can vary according to the Vendor Rating results trend.

The scale and depth of inspections in both the Qualification and Vendor Rating processes are dependent on the risk, at Telecom Italia Group level, assigned to the specific commodity categories (based on evaluation of factors such as: sales, technological innovation, costs of poor service, safety).

The quality of supplies/works is controlled by the goods/service/work-specific Vendor Rating. The Vendor Rating overall score is split into Basic Areas and Scores; the latter are normally assessed by questionnaires that take account, where possible, of compliance with both health and safety standards and waste disposal regulations.

Vendor Rating results, stated in company reports, are sent to the technical and purchasing functions. They are also reported to suppliers and improvements are identified with suppliers at central level.

The system for verifying supplier performance is illustrated to suppliers in documents provided with contracts, covering all aspects related to the specific monitoring procedure.

■ SUPPLIER RELATIONSHIPS

Telecom Italia Group's procurement policy is based on competition between qualified suppliers. Selection of suppliers is generally determined by the parameters of: cost, procurement time, and quality of supplies.

Transparency in relationships with suppliers has so far enabled suppliers to fully meet tendering requisites (in fact very few suppliers invited to tender fail to submit an offer). Online tendering via the Corporate Internet site, allowing suppliers to know developments and the final results in real time, has made mutual relations even more transparent.

Communications to suppliers, in terms of improving the quality of communication and applying sustainability criteria, are developed by both the technical and the buying functions, consistently with their respective corporate responsibilities.

The Quality function in Corporate Procurement is the interface with the suppliers of all the companies in the Telecom Italia Group responsible for communicating the Vendor Rating results.

Information on the safety and environmental standards suppliers are required to meet is included in tender documents and related specifications.

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COMPETITORS

■ APPROACH

OLO (Other Licensed Operators), ISP (Internet Service Providers) and other television licensees can - at one and the same time - be for Telecom Italia:

- **Competitors** and participate in defining rules for fair competition and for achieving concurrence in communications. Creation of balanced, stable, predictable rules is a target shared by all businesses in the industry. Developments in competitiveness in Italy, judged one of the most advanced situations in the European context, were highlighted in the latest implementation report recently published by the European Commission.
- **Partners** in development of new services and new business models. In the recent past, development first in mobile telephony followed by internet was also thanks to innovations proposed by various businesses. The more successful models, from prepaid cards to free internet, spread rapidly to the benefit of all players in the market.
- **Customers** of Telecom Italia, whose organization comprises a Wholesale Division, which sells a wide range of services. Telecom Italia is one of the first operators in Europe to have offered services such as the permanent virtual channel, partial circuits, wholesale direct circuits, and shared access. Supply times and the quality of service guaranteed to competitor customers are the same as offered to the internal sales divisions. With the leveling of all Internet Service Providers the legislative conditions have been created to guarantee equal treatment to all operators using the services offered by Telecom Italia.

■ PARTNERSHIPS

The Telecom Italia Group joined the digital TV sector with La7 and MTV, actively participating in television associationism and starting experimentation on its own sites.

At European level, relations with institutions in the industry increased. Telecom Italia supports various initiatives, including a market and investments strategy for e-Europe.

As far as concerns relations with suppliers, participation in the working groups EIRUS (European Ipqm and Rqms Users) in Europe and QuEST (Quality Excellence for Suppliers of Telecommunications) in North America allows the Group to be informed of developments in technical quality monitoring processes applied by the leading operators and manufacturers of telecommunications products and systems.

The principal associations in which the Group actively participates are:

- **ETNO** (European Telecommunications Network Operators' Association)
ETNO is the principal policy group for European telecommunications network operators. To date, 40 telecommunications network operators from 35 countries within Europe are members of the group. Its objective is to:
 - promote development of an efficient and fair regulatory and trading environment for the European telecommunications marketplace;
 - promote cooperation and coordination of activities between its members regarding the development of harmonized telecommunications networks and services;
 - establish and maintain a constructive dialog with central institutions and policy-makers thus actively contributing to implementation of the Information Society.

Considering the value of the commitment it represents, adherence to the principles of the Environmental Charter, previously mentioned, is open to all companies wishing to support sustainability, and consequently also companies which are not ETNO members.

Telecom Italia is a member of the Executive Board and chairs the Sustainability Working Group.

- **ITU** (International Telecommunications Union)

ITU is an international organization within the United Nations System which aims to promote development of the industry internationally through cooperation between the public and private sectors.

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It is organized in three sectors which work through study groups made up of experts drawn from companies, standards-making organizations, government bodies, research centers and financing institutions. The three sectors are:

- ITU-R (Radiocommunication), which draws up the technical characteristics of terrestrial and space-based wireless services and systems, develops operational procedures, and undertakes technical studies.
- ITU-T (Telecommunication Standardization), where the technical specifications for telecommunication systems, networks and services are prepared and the tariff principles and accounting methods used to provide international service are defined.
- ITU-D (Telecommunication Development), which focuses on the preparation of recommendations, opinions, handbooks, guidelines and reports, which provide decision-makers in developing countries with best business practices relating to network management strategies and policies.

Experts from Telecom Italia, TIM and TILAB participate in, and often lead or coordinate, many study groups.

– **GSM Association**

The GSM Association's membership consists of more than 690 second and third generation wireless network operators and key manufacturers. Its members provide digital wireless services to more than 800 million customers (end of January 2003) in over 192 countries - approximately 71% of the total digital wireless market today.

Its objective is to promote global development of wireless communications guaranteeing roaming, interoperability (between operators and between equipment and services), and encouraging cooperation in identifying the essential requirements that are shared with the standards bodies in pursuit of the most technically valid solutions.

TIM was recognized international technological leadership in directing and defining strategies for development of radiomobile services with the appointment of TIM's general manager, Mauro Sentinelli, as Deputy Chairman.

■ **LITIGATION**

TELECOM ITALIA brought two claims before the competent authority against Wind; the first relating to the advertising campaign on "Canone Zero" (zero subscription charge) is pending judgment; the other concerning an advertising message on services in ULL was upheld. In addition, another two claims were put before the advertising self-disciplinary jury, both upheld, concerning Wind's campaigns on "Canone Zero" and "Minuto Zero".

Two proceedings were lodged against Telecom Italia by competitors or consumers and both are pending judgment.

By the first of these Wind notified the AGCM, the competition and market watchdog, of the allegedly misleading messages publicized on the sites www.wireline.telecomitalia.it and www.aliceadsl.it in connection with the Alice service for internet access with ADSL technology, requesting suspension of the messages. The objections concern the emphasis given to the peak speed that can be achieved with ADSL, which could mislead consumers with regard to the speed that can actually be reached in connection and navigation.

In the second, the company Argo Studio S.r.l. raised the case of alleged deception in the advertising message publicized on the "Corriere della Sera" newspaper concerning the Alice Time service, which did not specify that the offer was reserved for residential customers only.

As far as concerns TIM, in 2002 two proceedings were brought before the AGCM in connection with misleading advertising, one of which was concluded favorably while the other is in progress. No sanction was issued and no appeal is pending with the Administrative Judge opposing the negative provisions of the AGCM. During the year, no new preliminary proceedings on antitrust were opened before the AGCM.

At Group level, there were 6 preliminary proceedings concluded in the Group's favor, and 4 concluded with the AGCM entering a nonsuit, while 3 were ruled against the Group. Fines resulting from preliminary proceedings relating to competition amounted to euro 65,000.

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THE STATE AND INSTITUTIONS

Telecom Italia Group (millions of euro)	2002			2001		
	Total	Italy	Int.	Total	Italy	Int.
Social security and national insurance contributions	1,199	1,141	58	1,225	1,157	68
Direct taxes	(716)	(897)	181	925	791	134
Indirect taxes	115	103	12	120	104	16
TLC license fees	431	383	48	524	472	52
Dividends	61	61	-	61	61	-
	1,090	791	299	2,855	2,585	270

In 2002, the Telecom Italia Group paid the Italian State euro 791 million and international states euro 299 million.

Compared with 2001, direct tax (commensurate with the year's income) decreased by euro 1,641 million as a result of write-down of some investments and of the benefit arising from utilization of previous tax losses resulting from the merger of Blu into TIM.

TLC license fees are reduced owing to the change (from 2.5% to 2%) in the rate applied to the revenues of Italian companies.

In 2002, the Group received capital grants solely from Italian Public Administrations, amounting to euro 42 million (euro 22 million in 2001), euro 23 million pertaining to Telecom Italia SpA.

■ NATIONAL INSTITUTIONS

Management of relations with the national institutions (Parliament and Government) continued with the aim of representing the Group's position on a range of issues of interest and ensuring that it is taken into account in the process of approval of the principal, parliament and government-led regulatory proceedings.

In 2002, action in relation to the central institutions took the form of supporting the competent institutions (Parliament, the Ministry of Communications, the Ministry of Technologies, the Ministry of Economy, the Ministry for the Civil Service, etc.) in preparing standards on the issues of corporate interest:

- financial law and related provisions (tax, employment, competition);
- law 166/2002, which delegated the Government to adopting one or more legislative decrees to assimilate the Community Directives under Review '99, which will completely reform the current TLC standards provisions;
- legislative decree 198/2002 (the so-called "Gasparri decree") which introduced standards with the purpose of accelerating implementation of national telecommunication infrastructures and of supporting an adequate distribution.

With reference to the audit records, it is noted that the number of questions/interpellations addressed to the Group was in the region of ten or so less than in the previous year with a mean answering time of around fifteen days. Compared to the pre-privatization period, the number of questions put to the Group is roughly halved.

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■ LOCAL ORGANIZATIONS

Support for the standards activities of the Regions and local organizations - regional laws, resolutions, orders - and of the regulatory activities of the local authorities on issues such as works for implementation of network infrastructures, electromagnetic pollution, and local finance continues. Relations continue with local self-government Institutions and Associations along with presentation of Group recommendations.

■ INTERNATIONAL INSTITUTIONS

Turkey

In Turkey, the claim filed by IS-TIM with NCA (National Competition Authority) in December 2001 exposing the abuse of the dominant position of the two incumbent mobile operators in national roaming is being managed in agreement with the company IS-TIM and a final decision by the Authority's Competition Board is pending; furthermore, in view of persistent inertia on the part of the NRA (National Regulatory Authority) international arbitration proceedings were initiated against NRA.

Cuba

As far as regards Cuba, the affiliated company ETECSA, manages relations with the Ministry of Information and Communication (MIC) basically regarding: (expansion, quality, financial and technical) plans, tariffs and exemptions.

Bolivia

In agreement with Entel Bolivia, a report is being prepared on the issue of sharing Universal Service costs among the various operators (today entirely borne by Entel) and on introduction of competition in the local markets.

Brazil

In Brazil, the Group is helping in coordinating regulatory activity with NRA to govern migration of SMC (Serviço Móvel Celular) operators to SMP (Serviço Móvel Personal) service, which involves establishing all the conditions required to define the service (tariff principles, customer access to the service, network specifications for interconnection, routing, billing, etc.) in accordance with NRA directives.

Peru

In Peru, work is in progress in agreement with TIM Peru on the preparation of recommendations for the local NRA on a number of issues, such as introduction of carrier selection from mobile calls and guidance to the cost of mobile termination tariffs.

Other Countries

Relations with the local institutions in Venezuela, Chile and Greece are conducted directly by Digital Venezuela, Entel Chile and Stet Hellas.

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FUTURE GENERATIONS

Respect for the environment, which is an integral part of Telecom Italia Group's commitment in adopting Sustainability as one of its prime values, ranks among the Group's strategic objectives and is the subject of continuous verification.

■ ENVIRONMENTAL PERFORMANCE INDICATORS

The Group identified four major elements by which it measures the effectiveness of its environmental management system and establishes programs to improve performance.

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

All information reported herebelow has been obtained by processing appropriately reclassified management accounting data.

■ Waste management

Updated data on waste generated in 2002 is available at the time of reporting only for some organizations. The survey process is, however, under development and improvement.

The waste generated by Telecom Italia derives from constant innovation and development of its infrastructures and from day-to-day business activities.

Waste, primarily consisting of telecommunications materials and products, has been managed by a single company at national level since 1999. Disposal processes favor reuse and recycling options, whenever possible.

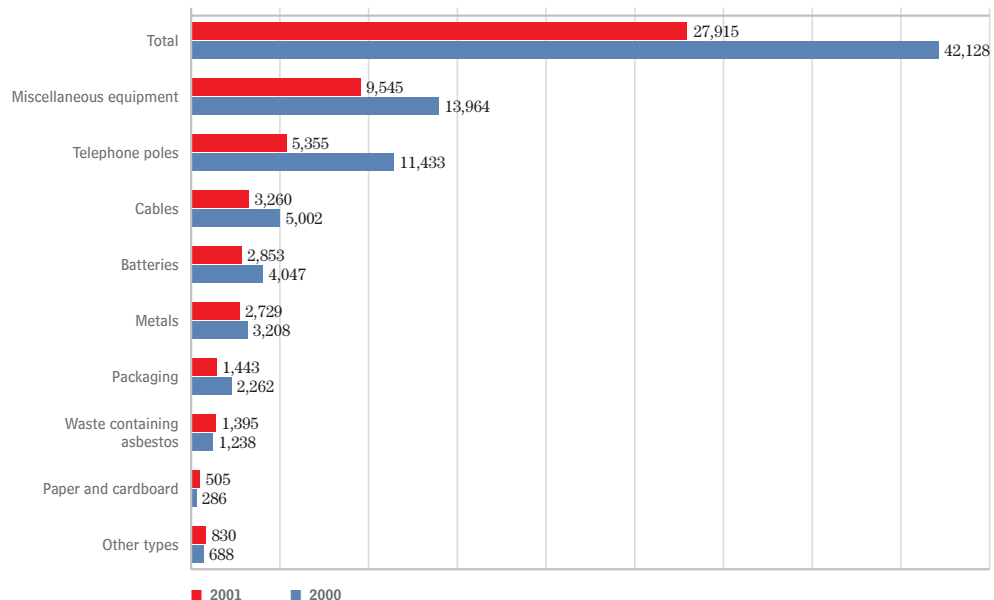
In 2001 (*), generated waste totaled 27,915 tonnes, a decrease of nearly 34% over the previous year.

Compared to 2000, there was a significant reduction in disposal of equipment and batteries, which were related to decommissioning of analog telephone exchanges, poles and cables.

Hazardous waste accounted for 29.7% of the total amount of waste (against 36.9% in 2000) while the percentage of waste for recovery was 83% (89% in 2000).

◀ (*) The data for 2002, currently under processing, will be available with the first 2003 six-monthly report.

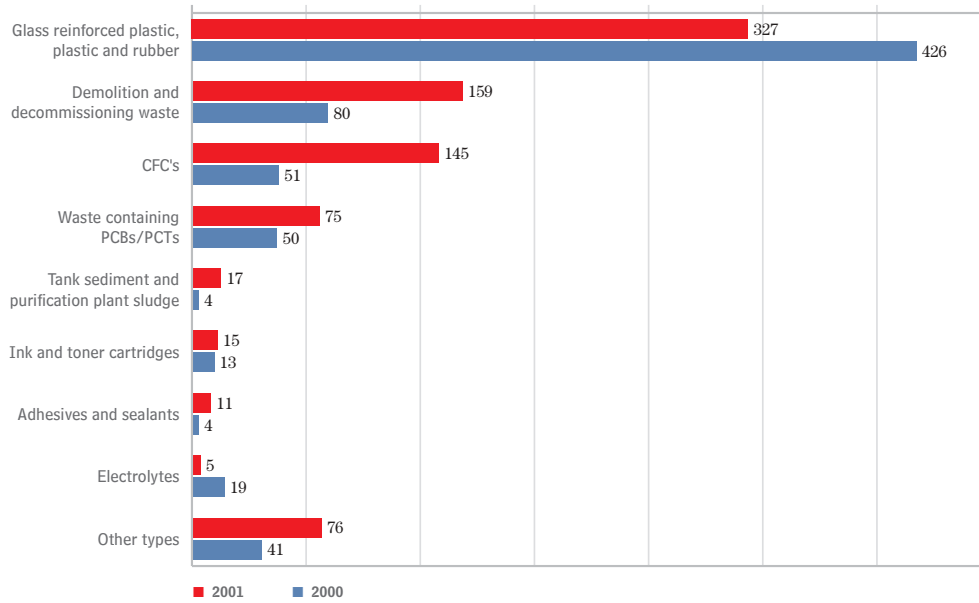
Waste produced by Telecom Italia S.p.A. (2000-2001) [tonnes]



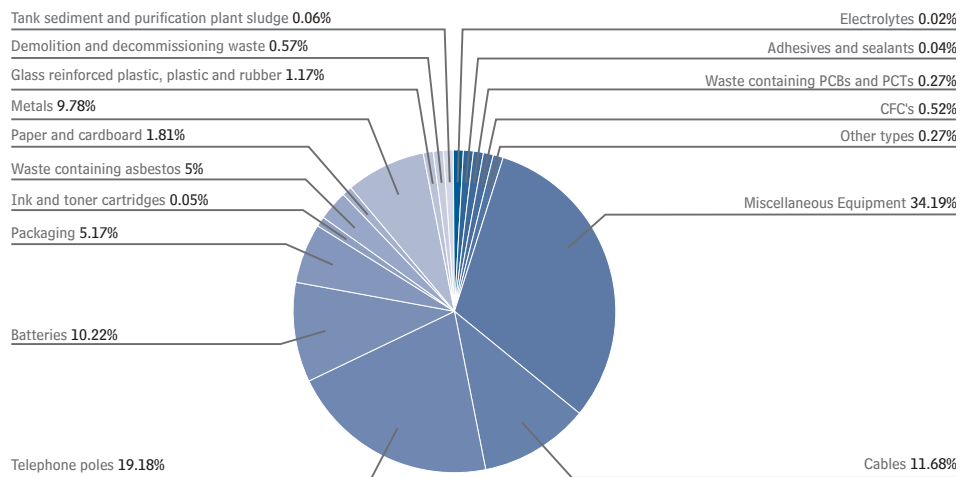
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Other types of waste produced by Telecom Italia S.p.A. (2000-2001)

[tonnes]



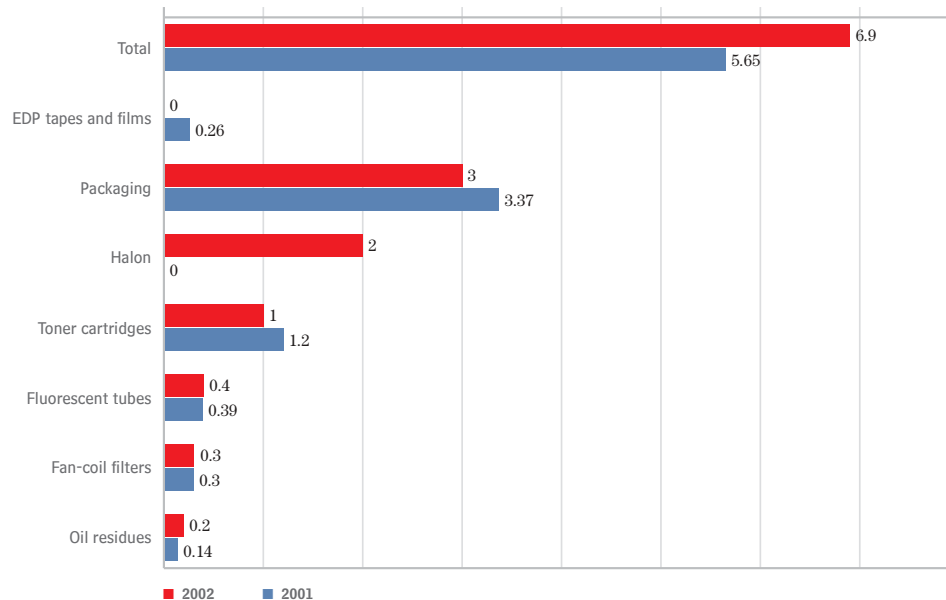
Types of waste produced by Telecom Italia S.p.A. in 2001



In 2002, Seat S.p.A. produced 6.9 tonnes of sundry waste: the 22% increase in relation to 2001 is primarily due to the campaign to eliminate halon which was carried out in 2002 and which can be considered completed.

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Waste produced by Seat S.p.A. (2001-2002)



Up-to-date information on waste generated by TIM S.p.A. is not available at the time of reporting.

■ Consumption of natural resources and energy

The **natural resources** used directly by the Group's companies include the materials employed in the processes to produce the services operated either directly or made available to other telecommunication companies, including:

- **water**, for civil use.

In 2002, consumption by Telecom Italia S.p.A. rose 17.7%; consumption by TIM S.p.A. fell 28.2%, while it increased by just over 1.6% at Seat S.p.A. ⁽¹⁾;

- **diesel oil and natural gas** used in heating systems.

Telecom Italia S.p.A.'s diesel oil consumption in 2002 was reduced by over 14%, whereas natural gas consumption rose by just over 4.3%; from an energy point of view, this means an overall reduction of 0.68% for as far as regards consumption associated with heating (from 825,151 GJ consumed in 2001 to 819,540 GJ in 2002). The optimization program which is under implementation expects to achieve a 3% reduction in fuel consumption for heating in 2003. In 2002, TIM S.p.A.'s consumption of diesel oil was down 4.7% and natural gas up 29.7% in respect to 2001. Seat S.p.A., which has solely natural gas fuelled heating in its premises where utility supplies are registered in the company's name, reported a 1.6% increase in consumption;

- **fuel** for corporate fleet vehicles.

The fuel consumption of Telecom Italia S.p.A.'s fleet has reduced by around 11.5% compared with 2001, as a result of a reduction in the size of the fleet and distances traveled. A project is under way to reduce the corporate fleet by around 4,000 vehicles in 2003 and to introduce a number of vehicles using both gasoline and natural gas as fuels with the aim of reducing pollution emissions to air.

The overall consumption of the TIM S.p.A. fleet was almost stable; a consumption trend for Seat S.p.A. cannot be provided, as there is no record for fleet fuel consumption in 2001.

The data indicated in the charts and tables include consumption by commercial fleet and company cars used by managers and sales teams.

⁽¹⁾ Seat S.p.A.'s water consumption refers to the 7 company offices where supplies are registered in the company's name.

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Electricity for power for corporate infrastructures and buildings is classed indirect consumption of natural resources, as the majority of electric power generation in Italy utilizes fossil fuels (approx. 76%).

As far as regards Telecom Italia S.p.A., approximately 90% of purchased electric power is used by the telecommunications network. As a result of action to improve energy management and the efficiency of infrastructures developed over the last three years, the Group succeeded in achieving an annual reduction in the consumption of electricity used to power the telecommunications network exceeding 3%. In 2002, the reduction over the previous year was 3.36%. Planned actions should enable the downward trend to be maintained also over 2003.

The consumption relating to other company premises fell by over 42%, chiefly due to the reduction in real estate and optimization of the use of space. 127 GWh (equal to 7.4%) are purchased directly from hydroelectric power production.

In 2002, electric power consumption by TIM S.p.A. increased 5.12%.

The company is experimenting alternative sources of electric power generation to power the Base Radio Stations (BRS), including photovoltaic and wind power production.

In 2002, a program was launched to produce four BRSs in Calabria able to produce a total of 80kW.

A 1.2 kW plant is already operating in Sardinia. It is estimated that for every BRS with a power of 18kW there will be a daily saving of 110 litres of diesel oil; this significantly reduces pollutant emissions to air (particulate, carbon monoxide, nitric oxide).

Seat S.p.A. increased electricity consumption in 2002 by 11.5% with respect to the previous year. The company has developed a consumption monitoring plan to identify wastage and to target corrective action and an energy survey on the lighting situation in new premises using systems, in full compliance with the standards, employing light bulbs that can regulate lighting power in relation to the natural light.

■ Air quality and climate change

Telecom Italia's contribution to greenhouse emissions, primarily carbon dioxide (CO₂), is basically due to use of fuels for heating and transport and, indirectly, to consumption of electricity.

In 2002, Telecom Italia S.p.A.'s emissions amounted to 950,304 tonnes of CO₂, produced directly and indirectly; the estimated net reduction from 2001 was over 13%, which shows how actions to optimize energy consumption have enabled the company to make a significant contribution to the country's overall reduction in greenhouse emissions, which aims to achieve the targets set by the Kyoto Protocol and by the commitments undertaken by the Italian Government.

In the same year, TIM S.p.A. and SEAT S.p.A. ⁽²⁾ produced 231,293 tonnes of CO₂ (just over 2001's emissions) and 5,752 tonnes of CO₂, respectively.

◀ (2) A comparison with SEAT S.p.A. CO₂ emissions in 2001 is not provided as some impacts were not recorded.

The CO₂ emissions were calculated following the guidelines published by UNEP ⁽³⁾ (United Nations Environment Programme) and the procedures prepared by ETNO (European Telecommunications Network Operators' Association) under the Climate Change Project.

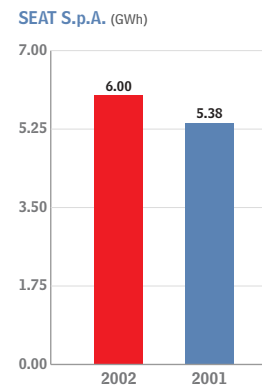
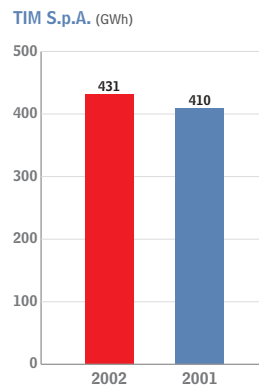
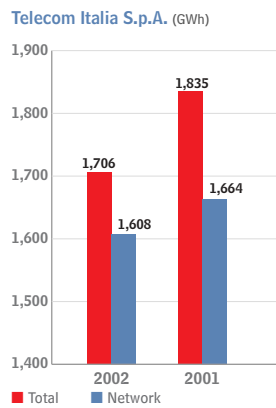
◀ (3) The GHG Indicator, edition 2000

The data on emissions resulting from use of electricity were drawn from the 2001 Environmental Report published by ENEL.

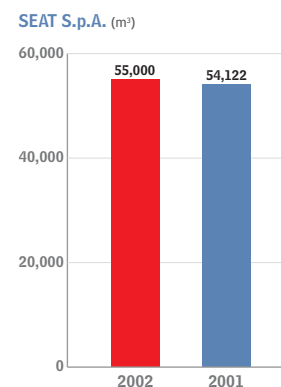
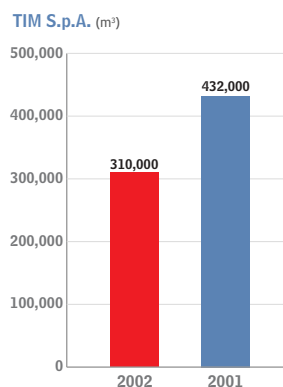
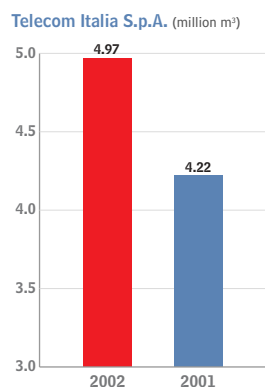
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ELECTRICITY CONSUMPTION [GWh]	2002	2001
Telecom Italia S.p.A.	1,706	1,835.0
TIM S.p.A.	431	410.0
Seat S.p.A. ⁽⁴⁾	6	5.4
Total	2,143	2,250.4

(4) The consumption figures for Seat SpA refer to the 7 company offices where electricity supplies are registered in the name of the company.



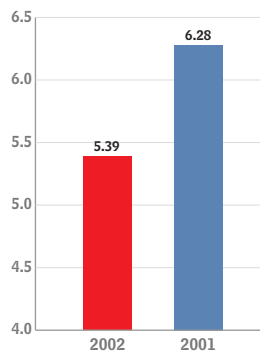
WATER CONSUMPTION [m³]	2002	2001
Telecom Italia S.p.A.	4,967,312	4,220,253
TIM S.p.A.	310,000	432,000
Seat S.p.A.	55,000	54,122
Total	5,332,312	4,706,375



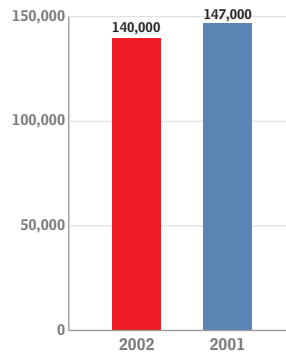
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CONSUMPTION OF HEATING OIL [liters]	2002	2001
Telecom Italia S.p.A.	5,393,518	6,280,431
TIM S.p.A.	140,000	147,000
Seat S.p.A.	0	0
Total	5,533,518	6,427,431

Telecom Italia S.p.A. (million liters)

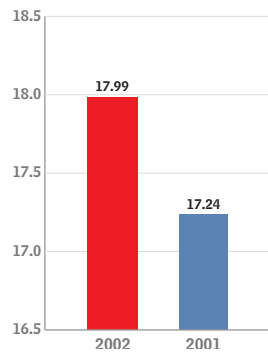


TIM S.p.A. (liters)

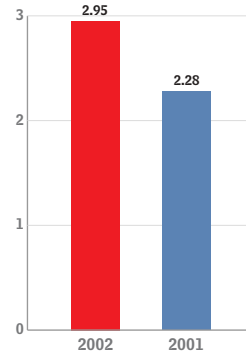


CONSUMPTION OF NATURAL GAS FOR HEATING [m³]	2002	2001
Telecom Italia S.p.A.	17,990,314	17,241,706
TIM S.p.A.	2,950,000	2,275,000
Seat S.p.A.	500,000	411,650
Total	21,440,314	19,928,356

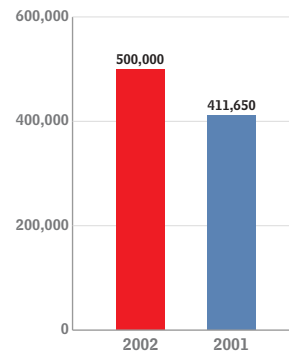
Telecom Italia S.p.A. (million m³)



TIM S.p.A. (million m³)



SEAT S.p.A. (m³)

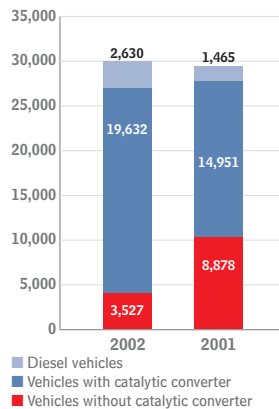


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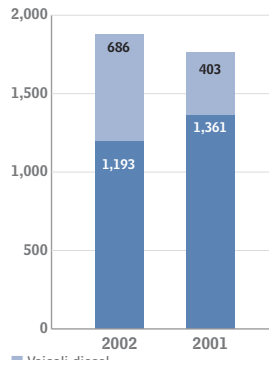
DISTRIBUTION OF VEHICLES	2002			2001		
	w/out catalytic converter	with catalytic converter	Diesel	w/out catalytic converter	with catalytic converter	Diesel
Telecom Italia S.p.A. ⁽⁵⁾	3,527	19,632	2,630	8,878	14,951	1,465
TIM S.p.A.	0	1,193	686	0	1,361	403
Seat S.p.A.	0	145	136	0	162	102
Total	3,527	20,970	3,452	8,878	16,474	1,970

(5) The real size of the fleet, ie, the number of vehicles actually running, in 2002, was 24,346 against a reported 25,789, which corresponds to 5.6% reduction; the difference is due to time for delivery/disposal of vehicles.

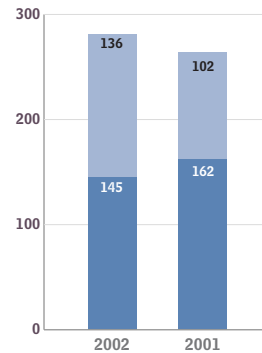
Telecom Italia S.p.A.



TIM S.p.A.

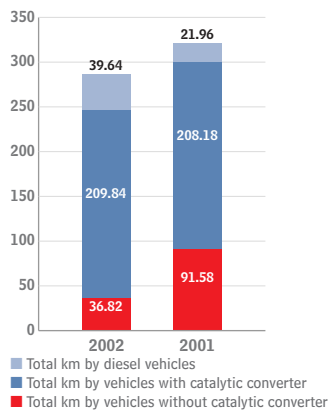


SEAT S.p.A.

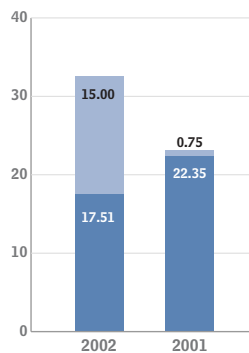


DISTANCE TRAVELED BY VEHICLES [km]	2002			2001		
	w/out catalytic converter	with catalytic converter	Diesel	w/out catalytic converter	with catalytic converter	Diesel
Telecom Italia S.p.A.	36,820,000	209,840,000	39,640,000	91,575,000	208,177,000	21,962,000
TIM S.p.A.	0	17,510,000	15,004,000	0	22,352,000	750,000
Seat S.p.A.	0	3,200,000	3,000,000	0	NA	NA
Total	36,820,000	230,550,000	57,644,000	91,575,000	230,529,000	22,712,000

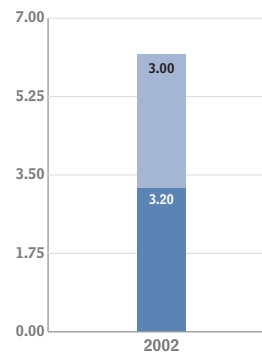
Telecom Italia S.p.A. (million km)



TIM S.p.A. (million km)



SEAT S.p.A. (million km)

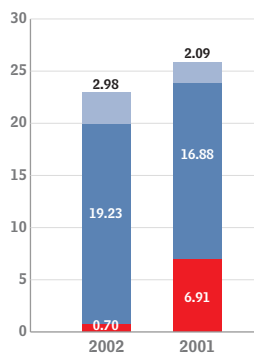


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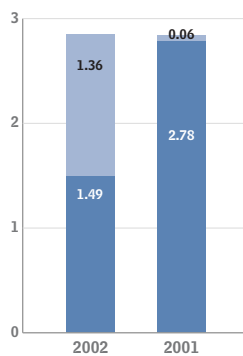
VEHICLE FUEL CONSUMPTION [liters]

	2002			2001		
	Leaded Gasoline	Unleaded Gasoline	Diesel	Leaded Gasoline	Unleaded Gasoline	Diesel
Telecom Italia S.p.A.	700,000	19,230,000	2,980,000	6,905,500	16,884,202	2,088,339
TIM S.p.A.	0	1,485,714	1,362,353	0	2,780,000	60,000
Seat S.p.A.	0	400,000	200,000	0	NA	NA
Total	700,000	21,115,714	4,542,353	6,905,500	19,664,202	2,148,339

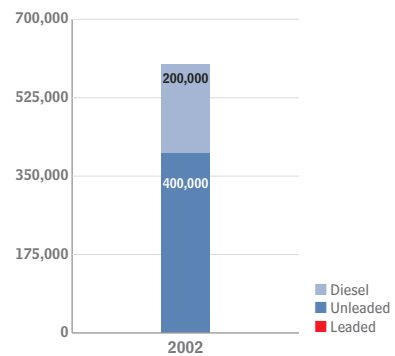
Telecom Italia S.p.A. (million liters)



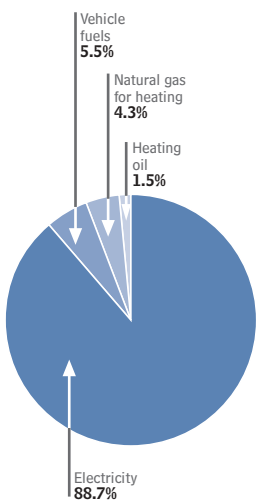
TIM S.p.A. (million liters)



SEAT S.p.A. (liters)



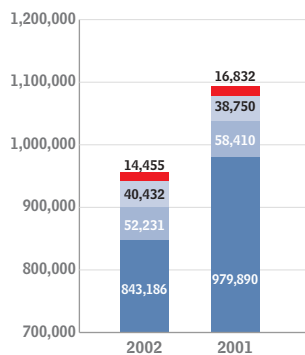
Percentage breakdown of CO₂ emissions generated by Telecom Italia S.p.A.



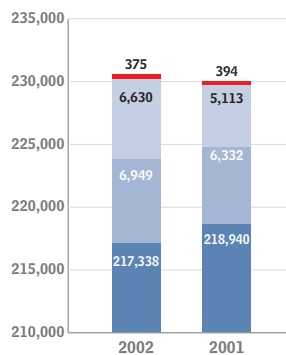
CO₂ EMISSIONS [t]

	2002			2001		
	Electricity	Fuel for heating	Vehicle fuels	Electricity	Fuel for heating	Vehicle fuels
Telecom Italia S.p.A.	843,186	54,887	52,231	979,890	55,582	58,410
TIM S.p.A.	217,338	7,005	6,949	218,940	5,507	6,332
Seat S.p.A.	3,204	1,124	1,424	2,873	925	NA
Total	1,063,728	63,016	60,604	1,201,703	62,014	64,742

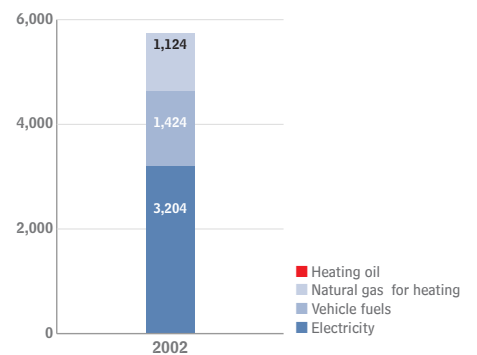
Telecom Italia S.p.A. (direct and indirect) [t]



TIM S.p.A. (direct and indirect) [t]



SEAT S.p.A. (direct and indirect) [t]



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■ Electromagnetic emissions

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

- Absolute compliance with the legislation in force in the countries in which it operates. Italian law on the subject is particularly strict. The 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.
- Careful and scrupulous management of company installations throughout the whole life cycle, in compliance with additional internal efficiency and safety standards;
- Use of, and constant research for, leading-edge technology tools for monitoring and investigation activities.

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 under development. The possibility of promoting the application on a national scale will be considered at a later stage.

Regarding 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. The technology developed by TILAB for measurement of radiofrequency power generated by a base radio station will shortly be integrated by a sensor that will allow direct measurement of electromagnetic pollution.

This technology, which is being patented, should prove more economical than the solutions currently available.

Furthermore, detailed monitoring is conducted under the abovementioned programs. In 2002, TIM monitored 2,896 out of 4,059 transmitters.

As far as regards mobile phones marketed through its sales network, TIM makes a selection based on the level of technological innovation and Standard Absorption Rate (SAR) ⁽⁶⁾ measurements, to guarantee reduced electromagnetic emissions levels.

- Cooperation and support in medical-scientific studies. Specifically, Telecom Italia S.p.A., in cooperation with a number of Italian universities and national and international organizations, promoted investigations to check the emission values of electromagnetic radiations and possible impacts. These investigations confirmed that the values of the electromagnetic fields generated by the equipment managed by Telecom Italia Group in Italy are within the statutory limits and that, according to current knowledge, there are no associated risks at biological level.

◀ (6) Experimental measurement of the absorption of energy associated with electromagnetic radiation by biological tissues.

■ ENVIRONMENTAL MANAGEMENT

The environmental implications of the Group's activities are identified, monitored and controlled with specific management instruments and an Environmental Management System (EMS) has already been developed, or is under development, in some of the Group companies; implementation of the system is a target to be progressively extended across the Group.

TILAB developed an integrated system for environmental management in accordance with the standard UNI EN ISO 14001 and for Health & Safety management to standard OHSAS 18001. The Environmental Management System received DNV (Det Norske Veritas, an internationally accredited certification agency) certification in 2001.

The system covers operations in Turin, with a total of around 1,100 employees; in 2002, it involved a commitment in terms of human resources equal to 1.5 man/years.

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The project for ISO 14001 certification of the Environmental Management System of the Network Function of the **Domestic Wireline (DW)** Business Unit is nearing completion. In 2002, audits were carried out by the certification agency IMQ-CSQ, all with positive results, in the Network's territorial facilities Center 2 (covering Lazio, Abruzzo, Molise and Sardinia), Milan, Center-North (Emilia Romagna, Marche and Umbria), South 2 (Calabria and Sicily), Piemonte-Valle d'Aosta, plus Network's central function SQ, which coordinates the project.

Audits at the remaining facilities will be terminated by July 2003. On completion of the project, all certificates issued for the individually certified operations will go to form a single ISO 14001 certificate applying to the whole Network Function.

TIM is carrying on the project, begun in 2001, for implementation and certification of the integrated system for Quality Management and Environmental Management, respectively developed to standards UNI EN ISO 9001 and UNI EN ISO 14001, in its territorial organizations of the Network Function. To date, IMQ-CSQ awarded certification to the Network organizations in Piemonte, Liguria, Valle d'Aosta, Calabria and Sicily; certification is expected to be extended to Campania, Basilicata and Puglia by April 2003. The project will be completed in 2004.

A program to monitor natural resources and energy consumption (consistent with development of the EMS) was started up and a program to reduce waste. The latter program aims for an overall reduction in the number of lead-acid storage batteries used (the target is a 1-2% reduction). Separate paper and toner collection was started in the certified organizations.

A communication program was also started in these organizations involving all employees, both through in-house publications (TIMTAMTAM) and an intranet guide, and all local organizations and suppliers to the territorial organizations involved. Communication initiatives are to include an opportunity to communicate on environmental issues with the national and local press, and the concerned authorities.

Initiatives aimed at reducing the visual impact of Base Radio Stations were carried out to improve integration in the environment. Particular attention is paid to protecting the cultural heritage: for example the radio stations placed on the "Palazzo Ducale" in Genoa and the "Palazzo dei Normanni" in Palermo were camouflaged and adapted to preserve the architectural and esthetic integrity of the aforementioned sites of historical-cultural interest as much as possible.

TIM intends to report on its environmental management with the aim of promoting consumer and community trust and satisfaction, to extend its environmental policy to suppliers, and to develop a collaborative relationship with public administrations.

■ Telephone directories

In 2002, 30,500,000 telephone directories were printed, using 43,500 tonnes of paper, and 25,200,000 copies of the "Pagine Gialle" (yellow pages) requiring 26,500 tonnes of paper. The total, amounting to 70,000 tonnes, represents a 2.8% reduction from 2001.

The directories and "Pagine Gialle" are printed on recycled paper with a 40% recycled fiber content for the former and a 30% fiber content for the latter. The **Seat Group** also recovers old phone directories for recycling. In 2002, 70% of the telephone directories and 67% of the "Pagine Gialle" were recycled. It must also be reported that new multimedia products are being developed and will reduce industrial consumption of paper and chemical additives.

The company forecasts a further 2% reduction in the amount of paper used for printing telephone directories and the "Pagine Gialle" in 2003.

■ Environmental research

Environmental research activities are conducted primarily by TILAB (a wholly owned subsidiary of Telecom Italia S.p.A.) on behalf of the companies belonging to the Group.

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In 2002, a number of activities were carried out by the Environment Lab:

- a) evaluation of exposure to electromagnetic fields and electrical safety in work environments in Telecom Italia, and investigation into the electroacoustical performance of operator headsets;
- b) evaluation of technologies and suppliers able to minimize the environmental impact of Telecom Italia products (electronic equipment, telephones, telephone poles and network materials) and processes;
- c) feasibility analysis on a remote environmental monitoring system able to make use of both the fixed and mobile network capacities, guaranteeing good quality measurements at low cost;
- d) development of instruments for optimizing energy management;
- e) study on electromagnetic fields, spanning three areas:
 - dosimetry, ie, the activities serving for experimental evaluation of the Specific Absorption Rate (SAR), for qualification of mobile telephones and development of contributions for drawing up/revising national and international standards.
 - electromagnetic theory, which has the objective of analyzing cell response when exposed to an electromagnetic field and of calculating field distributions in the human head at UMTS frequencies. It comprises theoretical activities for calibration of exposure facilities used in biological testing.
 - study and experimentation of the physiological and cellular effects of electromagnetic fields at mobile telephony frequencies.

■ Fuel storage tank testing

The Group companies have oil storage tanks. The oil is used for both heating their premises and to supply diesel generators. These tanks are tested periodically to ensure fuel tank integrity and prevent oil leakage and consequent ground contamination.

In 2002:

- Telecom Italia S.p.A. tested 420 tanks without finding any irregularity;
- the 26 tanks belonging to TIM S.p.A., which receive regular scheduled maintenance, required no additional service;
- Seat S.p.A.'s 2 tanks were both tested and found to have no irregularities.

■ Generators

Compliance with standards, particularly on noise and emissions to air, calls for thorough maintenance and testing, and also decommissioning and/or replacement of generators that fail to meet service and/or performance requirements. Generators are basically used to back-up the power supply from the electricity grid.

In 2002, 123 generators belonging to Telecom Italia S.p.A. were tested; one was replaced.

Also in 2002, TIM tested 8 generators.

Seat S.p.A. has 2 generators covered by routine service contracts; both were tested in 2002.

■ Civil Protection

To maintain increasingly efficient infrastructures dedicated to Civil Protection activities and, at the same time aim to continuously improve them in terms of quality and quantity, it is necessary to promote constant development of the Crisis Management process.

Consequently, Telecom Italia's Emergency and Civil Protection Plan is frequently revised to keep pace with external requirements and in line with internal organizational developments (composition of the Crisis Teams, maintenance of the Interdisciplinary Coordination Centers, training programs, national and local practical drilling with the Civil Protection Department).

The CI.PRO (Civil Protection) Information System, consisting of a database that provides the mapping of the geographic areas at risk and the distribution of the resources needed in

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emergencies, has been implemented with a more detailed cartography and can be accessed on the network by the whole Group, enabling specific, customized services, thus becoming an invaluable support for decision-making processes in crisis situations. The versatility and facility of access to the system make CI.PRO also a product of commercial interest for bodies and organizations concerned with this field.

Themed telephone cards (eg, forest fire prevention - summer 2002) and participation in displays and conferences help to further communicate Telecom Italia's commitment to civil protection.

All these activities combined and the highly-valued contribution of the employees involved, have enabled Telecom Italia to carry out the role with which it is institutionally appointed in a fitting manner, especially:

- on the occasion of the NATO - Russia Summit, for which the Group attended to the provision/implementation of the complex TLC infrastructures at the Pratica di Mare military airport, taking care of every detail to an extremely tight deadline;
- in response to the natural calamities that struck Italy during 2002. The earthquake in Molise put severe strain on the territorial and central organizations involved, especially due to concurrence with other natural disasters such as flooding in the north of Italy and volcanic activity by Mount Etna, which required an extremely high contribution in resources and equipment to restore the severely damaged national TLC networks.

In both circumstances, the Group's efforts were recognized and greatly appreciated by both representatives of the State organizations, particularly the Civil Protection Department, and other bodies such as the rescue and aid organizations.

■ Health and Safety Telecom Italia S.p.A.

Occupational Health and Safety Management System

During 2002 Telecom Italia continued development of its occupational health and safety management system by the creation of:

- a corporate accident prevention policy;
- health and safety targets and a program to achieve them, which involved:
 - completing and defining the principal procedures for prior assessment of health and safety risks in introducing new work equipment, chemical substances or compounds, arranging workplaces, changing work organization or methods;
 - processing industrial accident statistics;
 - establishing health and safety responsibilities;
 - raising "key people's" awareness of health and safety issues;
 - providing information and training for all employees exposed to specific hazards.

Training

Regarding training on health and safety in the workplace in 2002, training delivered directly by the Environment, Health and Safety Service exceeded 24,000 hours. The areas covered included:

- training for emergency response teams and employees responsible for helping the disabled in emergencies;
- specialist training following introduction of new technologies and health and safety procedures;
- basic health and safety training for newly-hired employees;
- training on Legislative Decree 626/94 and related legislation;
- training on specific hazards and the occupational health and safety management system.

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Monitoring

After completing characterization of the levels of professional exposure to electromagnetic fields of employees who work on transmission towers, a three-year exposure level monitoring program was started in 2002. Monitoring was conducted on around 150 sites.

TIM S.p.A.

TIM's activities in the Health and Safety sector were:

- Design and implementation of a Health and Safety Management System to BSI-OHSAS 18001, in the North-East region.
- Analysis of the company's organizational situation and subsequent development of a documents, procedures and standards system required to implement the Health and Safety Management System.
- Definition of the corporate Health and Safety Policy, of a program for improvement and related targets, deadlines, indicators, resources and responsibilities designed to maintain, monitor and raise the health and safety performance.
- Organization and provision of a training program for all employees in the North-East region on the whole Health and Safety Management System.
- Evaluation of the effectiveness and correct implementation of the Health and Safety Management System through periodic in-house and on-site audits.

Training comprised:

- Health and Safety Fundamentals for all newly recruited or transferred (from other Group companies or other functions) professional figures.
- Specialist training related to introduction of new technologies/operating procedures, health and safety standards and procedures.
- Training for Contractor employees in the head offices and regional offices.
- Training on the Health and Safety Management System.
- Training for employees with responsibilities in emergencies.

Six hundred audits were conducted nationwide by the Environment, Health and Safety Service. This is around 7% of the sites where audits could potentially be carried out (considering also the new BLU acquisitions).

To continuously monitor the observance of working conditions, operating procedures and implementation standards were issued concerning incident reporting, for the purposes of workplace safety, the safety of premises, of plants, equipment, materials and protective equipment. Procedures and standards were also drawn up for the measurement and monitoring of health and safety performance, for health and safety audits, and use of videoterminal (VDT) workstations/environments.

A health campaign was addressed to VDT operators, involving 391 employees.

Indoor environmental investigations were conducted in the S. Barbara premises in Padua and the Tiburtina premises in Rome.

Seat S.p.A.

In compliance with Legislative Decree 626/94 and the Ministerial Decree of 10 March 1998, health and safety training courses were carried out for Health and Safety Workers Representatives and employees with fire prevention, evacuation and first aid responsibilities.

Seat continuously monitors working conditions and carries out inspections in all its premises. As a result of these inspections, any modifications and implementations required for the Fire Prevention Certificate are defined and carried out.

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In accordance with the Risk Assessment document, the site surveys provided for by Legislative Decree 626/94 and subsequent amendments were carried out in agreement with the competent physician. All 18 company premises are surveyed at least once a year, with the exception of special reported cases.

Provision is made for health surveillance of videoterminal operators as required by Legislative Decree 626/94, art. 55. In 2002, 99 operators in Turin received medical checks and 159 operators in Rome (Tin.it).

A consultant provides the in-house Environment, Health and Safety Service with professional support. Software is currently being installed for space planning and management, which will be a valid aid also in this field.

Data on industrial accidents:

	Telecom Italia	TIM	Seat
Number of industrial accidents	1,056 *	119 **	48 ***
Accident severity rate	0.33	0.19	-
Accident incidence rate	11.47	9.12	-
Mean absence time	154.67	112.15	-
Loss of working hours rate	1.77	1.05	-
% of injured workers (against total)	1.71	1.2	-

* 924 in 2001

** 124 in 2001

*** 29 in 2001

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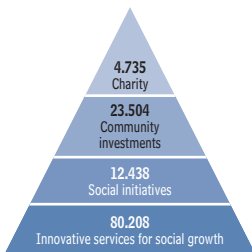
THE COMMUNITY

In 2002, the Telecom Italia Group companies' commitment to the Community and Future Generations stakeholders was worth euro 120,885,000, equal to 1.6% of the Group's operating income (euro 77,212,000 in 2001).

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

CONTRIBUTION CLASSIFICATION ON THE LONDON BENCHMARKING GROUP MODEL

LBG model
(millions of euro)

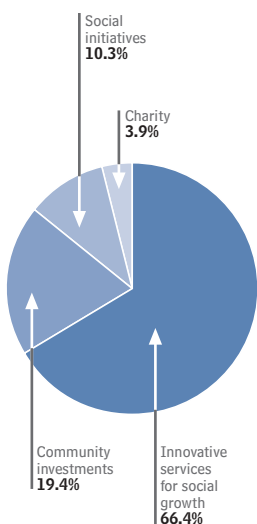


The London Benchmarking Group (LBG), established in 1994, now comprises 74 leading international companies and is currently the European benchmark in evolution of social-environmental reporting.

This model reclassifies contributions into four different categories. The pyramid diagram reflects the possibility of measuring the benefits and business returns arising from the various activities:

- at the base of the pyramid, the return can easily be measured since it is connected to the core business;
- at the apex, donations are strictly linked to the Group's sense of social and moral responsibility.

Breakdown of Telecom Italia Group's contribution to the Community
(euro 120.885 million)



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

Classification according to this model compared with 2001, shows a general increase in the contribution also as a result of introducing a more analytical data entry system. Nevertheless, the share of investment in each category is basically the same as in 2001.

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

Charity	Funding to Associations and liberal grants Donations Humanitarian projects [CRALT]
Community investments	Scholarships, student work places Education and employment projects Investments in the social field Environmental Management Development Electromagnetic emissions – monitoring and measurement Health & Safety Management System – improvement Environment, Health & Safety research Energy saving schemes Territorial safety plans Civil Protection
Social initiatives	Short-term projects in the social field Health and social solidarity related events Culture, arts and sports events
Innovative services for social growth	Research and development for innovative services Support for university research Technological innovation projects Initiatives and projects promoting social growth E-learning platform project

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■ Charity

Domestic Wireline/Corporate

Numerous donations were made to support initiatives, foundations and associations such as “Telefono Azzurro” (helpline for children), AIRC (Italian Association for Cancer Research), Telethon, and the Community of San Patrignano.

Atesia provided a freephone number to take donations over the phone, on the occasion of the “La partita del cuore” sports event, the proceeds of which were donated to not-for-profit associations. Intelcom S. Marino donated a minibus for the disabled.

Mobile

- Molise earthquake:
TIM participated in fundraising for the population hit by the earthquake by inviting all its GSM customers to send an SMS to the number 4466 at a cost of one euro from 5 to 11 November. All proceeds from the appeal went to assistance for the families in the Molise region hit by the earthquake.
- Peru Project:
TIM and TIM employees provided funding throughout 2002 for the project of the Human Rights Office run by the Caritas in Lima, which aims to help over 4 thousand victims of domestic violence who have benefited from health, legal and psychological counseling and professional training courses.
The employees had the possibility to arrange their donations by accessing the company intranet and filling in a form authorizing the donation to be taken from their pay. Each employee donation was matched by TIM.
- Telethon for muscular dystrophy and other genetic diseases:
TIM customers made their donations by sending an SMS to the number 44644, at a cost of 1 euro, including VAT. Telethon, therefore, received a net amount of Euro 0.833 for every message sent. TIM also provided “TIM informa” messages publicizing the appeal: whoever wished to respond to the appeal was able to do so as from 5 December 2002, by answering the message in the affirmative.
- AIRC:
“Research is waiting for a message from you”: TIM supported this initiative directed at consumers by donating 1 euro for each of its employees who have company mobile phones which are not enabled to send text messages and could not be used to respond to the appeal.
- Funding was provided for a number of not-for-profit organizations (ELEPAR, an organization which helps disabled children, Child’s Smile and Make A Wish Foundation). Stet Hellas donated telecommunication infrastructures to hospitals in Evros, one of the most depressed regions in Greece, and support in the construction of school infrastructures on twelve islands in the Dodecanese region, struck by a natural disaster.
- TIM’s Maxitel Group bought hospital equipment for the children’s oncology department in the Baleia Hospital (Brazil).
- TIM Peru donated prepaid cards and SIM Cards to the Firemen in Peru to help their work for the community.
- The TIM Group’s Tele Celular Sul formed a partnership with Pastoral da Criança (an institution internationally renowned for its achievements in reducing infantile mortality in poverty-stricken communities) and renewed its membership in the Abrinq Foundation for children’s rights and abolition of child labor.

Internet and Media

Support was given to a number of initiatives including donations to the non-profit charity organization ASIA through purchase of calendars (Seat S.p.A.), sponsor-a-child schemes (Giallo Voice OPS), donations to parishes and to the Molise earthquake disaster fund (La7).

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Other companies

Information Technology Market

Banksiel chose to use Unicef Christmas cards again in 2002 and donated the sum allocated for Christmas gifts to the Molise earthquake disaster fund.

Insiel's donations favored local not-for-profit causes, such as the International Center of Mechanical Science of Udine and associations such as AGMEN for the parents of children with haemopathic-neoplastic disorders, ANFFAS for the families of subnormal children and adults, Pro-Senectute which helps and entertains the elderly, as well as UNICEF, Lega del Filo d'Oro, Medicins sans frontières and the Don Bosco Missions.

Information Technology Group

Netsiel gave donations to the children's hospital "Bambino Gesù" in Rome and to the hospice "Casa Sollievo della Sofferenza" in San Giovanni Rotondo.

Sodalìa gave donations to the SOS Village in Trento and an introductory computer and internet course for fourteen children living in the village.

Latin America Operations

Entel Chile supported a number of institutions fighting the use of drugs by the young and providing social support. Entel Bolivia donated medicines and equipment to hospitals to help the needy.

■ Community Investments

Group activities to improve (building and technological) infrastructures from a safety and environmental point of view continued also throughout 2002.

Domestic Wireline/Corporate

Education

The project "Telecom Alleniamoci alla Vita" (Telecom fit for life), which has been sponsored by the Ministry of Education, Universities and Research, aims to promote the social and individual growth of the young through the values of sport. It is a three-year, nation-wide project for schools of all types and levels, targeted and diversified for students, teachers and families by an integrated package of educational materials and aids: teaching cards, posters, films, CD Roms, guides and booklets.

Telecom Italia's collaborative projects with the academic world, which are now consolidated, aim to initiate a profitable exchange with reference to career opportunities. In 2002, nineteen scholarships were awarded:

- "Master Bocconi MEGeS";
- "Borsa Scuola Superiore di Specializzazione in TLC";
- "Borsa di studio Master LUISS";
- "Consorzio ELIS (CONSEL);
- "Federazione Nazionale Cavalieri del Lavoro".

Telecom Italia entered into agreements with Italian universities giving graduates/students the opportunity to develop their skills within the Group with specific training programs and training on the job. In 2002, ninety-five people were hosted by Telecom Italia organizations and four of them were employed.

As part of the Telecom Italia/Universities project, a series of Job Meetings are held with face-to-face sessions between young academics and businesses within the universities.

Health and social solidarity

During 2002, Telecom Italia Learning Services launched a project for ICT educators for the visually impaired. The initiative, funded by the Province of Rome, in partnership with the Italian

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Union of the Blind and with the direct involvement of the Training Institute IRIFOR, was realized with a total commitment of 680 hours, 488 of which in classroom learning and 192 in online learning. The purpose of the project was to train twelve learners, who in turn formed a group of trainers of new resources.

Another project, in which Telecom Italia participated, was "Jonad". Also this initiative was funded by the Lazio Region and the European Community, which directly invested I.R.F.I. (Regional Institute of Business Educators) with the operation. The aforementioned institute asked Telecom Italia and the former Secondary School "Guglielmo Reiss Romoli" to develop and implement the project. To carry out the obligations that were undertaken meant customizing a branch of the E-Learning platform. The project actually involved creating a web portal for women, where applications for employment and offers of employment are matched, and information is provided on Business Management and ICT.

Mobile

Education

The TIM Fellowship Program, designed to create a preferential channel for identifying the best candidates, through promoting lifelong learning and professional development of university students in the new economy, mobile business and ICT, was started.

The following initiatives included in the TIM Fellowship Program are highlighted:

- sponsoring of the Euro-Mediterranean Master in International Business and student work places in the Sant'Anna Institute in Pisa;
- funding a chair as part of the doctorate in Economy and Management at the University of Tor Vergata in Rome;
- funding the Master in "Economy of Competition and Regulation of Public Utilities" at the Marconi Radioelectric Center;
- sponsoring three scholarships for the Master in Radiocommunications at the University Federico II of Naples;
- participation in the consortium "Alta Formazione" at the Politecnico in Milan;
- partnership for management and development of the content of the (blacked out) TFP site at Isufi in Lecce.

Health and social solidarity

- In anticipation of the inauguration of the European Year of the Disabled (2003), TIM worked alongside observers of the internet sites of the UIC (Italian Union of the Blind) and ANPVI (National Association of the Blind and Visually Impaired) to develop an accessible version of the TIM portal www.tim.it. The accessible site is intended for people with serious sight problems or motor control problems, besides internet users who log on with connections that are not particularly fast or with Browser versions that are not very up-to-date.
- As a result of collaboration between TIM and Venis, a company belonging to the Telecom Italia Group and technology partner of the City of Venice, all TIM customers can send an SMS with the text "marea" (tide) to the number 41041 and receive a mobile message with the latest flood level forecast.

In the first trial month, 1,500 SMS were sent to forty organizations and over one thousand requests for the service were received. The next step will be enablement in WAP Push, to date reserved for only a number of institutions, but which will shortly be extended, on request, to businesses, shopkeepers and residents in tidal areas, or even tourists who may be planning a trip to Venice.

Internet and Media

Education

SEAT S.p.A. increased relations with the leading Italian universities, awarding eleven scholarships and providing several student work places.

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Health and social solidarity

- SEAT S.p.A. helped the Children’s Hospital “Ospedale Pediatrico Bambino Gesù” in Rome with a research project to set up human endothelial cell banks to treat diseases and pathological injuries resistant to pharmacological treatment.
- Promotion of the World Aids Day on MTV’s live programs with an awareness campaign (one spot produced in Italy and seven by MTV Europe); planning for a month of the pro-social campaign “Lila Cedius”, mini site on mtv.it with a link to Lila Cedius; special programming for 1 December with information crawls, SMS donations and a charity auction of assorted articles with artists; agreements with Radio 101 for cross promotion and live broadcasting.
- MTV broadcast pro-social campaigns with an average duration of one month (4 spots a day) supporting: Emergency, Whispering Freedom (Burma), Tolerance, Drink & Drive, Pause.

Other companies

Information Technology Market

Insiel provided collaboration in projects aimed at teaching the techniques characteristic of industrial production of software and support in the form of sponsorship of master degrees, scholarships and student work places with the aim of facilitating young people’s first approach to industry and the world of work.

Latin America Operations

Entel Chile supported the project “Desarrollo Académico” (oncology) of the faculty of Medicine of the Pontificia Universidad Católica (PUC).

Entel Bolivia helped various hospitals ranging from pediatric to geriatric hospitals and burns units.

Other Activities

The “Ten Telecom” project, run by Loquendo, aims to increase European market penetration of devices that support vocal navigation and access to web contents. Studies conducted on the project enabled users with serious sight problems to use telephone access vocal services.

■ Social initiatives

In 2002, the Telecom Italia Group participated in the 13th edition of the television marathon Telethon, providing Group facilities and technology to raise awareness for and most successfully support fundraising for muscular dystrophy and other genetic diseases. The Group also provided support in the form of an important press campaign in the leading national and regional newspapers to maximize circulation of the message of the appeal. Commencing from 4 December 2002, over fifty full color pages were published in the leading national and local newspapers.

Domestic Wireline

Throughout the television fundraising marathon, Telethon, (from 14.00 on 13 December to 02.00 on 15 December) Telecom Italia Wireline provided the “187” call center and around 5,000 telephonists to take calls.

Mobile

- TIM S.p.A. was the sole sponsor for production and staging of the musical “The Ten Commandments”.
- Presence in the Scala Theatre with a message on the correct use of mobile phones in the theater and visualization of the opera text on a display.
- Contribution to the “Giffoni Film Festival”.
- Contribution to “Esperimenta 2002”, an exhibition on the brain’s powers of perception, memory, thought and emotions.
- Support for the 19th edition of “ViviCittà”, a social and sports event: Sponsored by UISP (Italian Union for Sport for Everyone) and with the collaboration of “Liberia”, an association committed to the fight against mafia, ViviCittà 2002 is a running race

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for professionals and amateurs, which is held annually and on the global stage allowing it to be present and active on many issues: from solidarity (child labor, war, famine, disease) to environmental issues (indiscriminate building, poor quality of life, pollution), to human rights and respect for the individual. ViviCittà 2002 was organized with stages in 60 cities in Italy (and 30 prisons and juvenile detention centers) and 50 cities worldwide, covering a total distance of 14,535 km and involving around one million runners. Africa was chosen as the testimonial for this latest edition, subtitled "Run for rights", while a similar initiative joining groups and associations cooperating to develop awareness actions supporting Africa was "Chiama l'Africa" (Call Africa).

- TIM's Maxitel funded the Bread Project, an educational program for alternative nutrition in the poor regions in Brazil aimed at eliminating infantile malnutrition through health education for 10,000 people.

Internet and Media

Seat S.p.A. supported the "Teatro Regio di Torino" (Royal Theater of Turin) and Seat Tin.it supported Gruppo Edo S.p.A. for the concert held on 1 May in Piazza S. Giovanni in Rome.

Other companies

Information Technology Market

Insiel gave donations to institutions such as the "Fondazione del Teatro Verdi di Trieste", for printing the playbills and programs of the theaters "Teatro Stabile di Prosa" and "Teatro Stabile La Contrada", to popular musical festivals such as "Il festival della canzone triestina", to music groups such as the "Cameristi Triestini" and "Note del Timavo", to culture groups such as "Musici Artis" and for the exhibition "Pulcherrimae Strade".

In November 2002, Banksiel sponsored the concert marking the beginning of the academic year at the Giuseppe Verdi Conservatory in Milan.

Information Technology Group

For the third consecutive year Webegg organized an exhibition in its own premises of the works of Micol, inspired by classical music: large oil paintings and corroded ink studies. The exhibition included a collection of black and white work.

Latin America Operations

Entel Chile and Entel Bolivia sponsored several culture, arts and sports events in their respective countries.

■ Innovative services for social growth

In 2002, research and development within the Telecom Italia Group was predominantly carried out by TILAB, also in joint projects with Pirelli Lab, with 1,081 resources and aggregate research and development costs of euro 121 million. Investment grants and subsidized loans supporting research and development costs, collected or pending collection by TILAB, amount to around euro 12 million.

Research and development activities consisted of studies and testing concerning fixed, mobile and internet telecommunications.

As far as regards internet and mobile applications, research was focused on:

- testing integrated technological and applications solutions for multimedia services;
- definition of the modes of access to broadband content and of broadband service management;
- realization and evaluation of advanced user environment solutions (terminals, domestic wiring, application platforms).

Switching and networking activities were applied to evolving IP networks, developing Content Delivery Network architectures for an efficient distribution of multimedia content.

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Particular attention was also dedicated to Wireless LAN and to innovative solutions for packet network telephony.

Research on network infrastructures concerned:

- the metropolitan transport network, testing new automatic switching optical network architectures;
- the access network, proposing innovative solutions based on copper and optical fiber connections.

These research activities led to 45 patents being registered in 2002, a 13% increase from the previous year.

Domestic Wireline/Corporate

The E_Learning platform, begun in 2001 by TI Learning Services, was completed.

This service has made it possible to deliver online learning and mixed learning (traditional classroom teaching supported by and/or replaced by online learning). The Application Service Provider facility (interactivity with the customer's IT structure or setting up the learning package on the customer's premises) proved the most effective in the online learning field.

The Content Delivery Network, an infrastructural network that will interactively connect the traditional Learning Centers with satellite connections for the Tutor function, is expected to be set up in 2003.

Mobile

TIM contributed to the study on the transversal nature of public transport in relation to society, health and the environment.

The Stet Hellas Group took part in a project with the National Greek University and the European Commission concerning emerging services in the mobile telephony business.

Internet and Media

The Seat Group is considerably engaged in development of new products and services which are offered to the public through its various platforms; this is considered an integral part of the production process and delivery of services and is therefore not specifically identified as traditional research and development but included in production costs. The Group did not capitalize costs related to this specific activity.

The projects carried out by Tin.it were all focused on internet end-users (Virgilio and Tin.it users) and were:

- a radio listening service on internet;
- a videochat and video mail service;
- advanced electronic mail services (Anti spamming - Antivirus).

Other companies

Information Technology Market

In collaboration with the Telecom research centers, Banksiel promoted a project to adapt internet/intranet solutions to make them accessible to the visually impaired and to users with motor control problems. It is not confined to simply adopting the W3C (World Wide Web Consortium) WAI (Web Accessibility Initiative) project regulations for internet sites (suitable for predominantly text type sites) but takes into account the spirit of the European Community's "eEurope program" and sets the target of:

- re-examining presentation/navigation in order to make it easily usable by the visually impaired while maintaining the characteristic features of a public internet banking site;
- extending the usability of home banking services by natural language and vocal interface.

Information Technology Group

Sodalìa is a member of the European Community's IST (Information Society Technologies) Organization and takes part in the program which develops projects such as:

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- Angelo, targeted at creating innovative technologies for automation of Call Center work.
- Cadenus, which concerns development of innovative methods for managing Service Level Agreements in Premium IP networks.
- ESERNET (Experimental Software EngineeRing NETwork), which has the main objective of establishing a world-leading network of excellence in Experimental Software Engineering with the aim of improving software products and processes.
- WISE (Wireless Internet Service Engineering), which has the objective of establishing a business model (specifying roles and skills of involved parties), a development process (methodologies, observations, guidelines) and a high level architecture to produce applications which can provide internet/intranet value-added services extended to wireless customers (WAP, PDA, etc.).
- EURESCOM P1103, with the objective of studying and validating a framework for management of QoS (quality of service) for end-to-end services crossing the domains of several operators.

Latin America Operations

Entel Chile participated in the Dibam Project (digitized network of libraries covering the whole of Chile); Entel Bolivia supported the creation of educational Telecenters in rural areas in coordination with the competent municipalities.

On 21 January 2003, "**PROGETTO ITALIA**" was launched programming community investment initiatives.

The objective of the Project is to promote the growth of the country through improving the spread of culture and culture values.

With an initial annual budget of euro 30 million, the Project is split into over 30 initiatives. Each of them is conceived and realized directly by Telecom Italia, either independently or in partnership, allowing the Group to actively participate with ideas and technologies.

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INTERNAL STAKEHOLDERS



EMPLOYEES

Employees cost euro 3,562 million

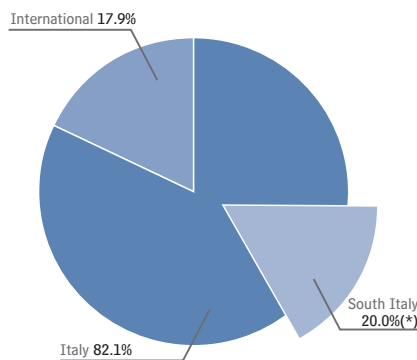
TELECOM ITALIA GROUP

Employees at December 31, 2001	Employees at December 31, 2002	Change	Hired	Terminated employment	Group reshaping
109,956	101,713	(8,243)	7,207	(12,567)	(2,883)

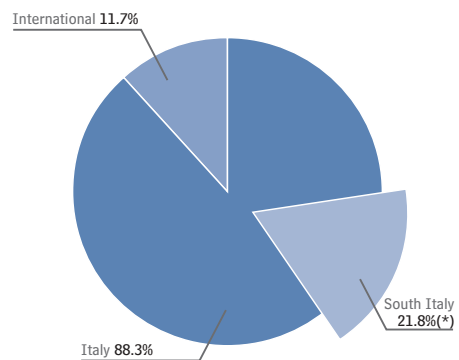
At 31 December 2002, Telecom Italia Group employed 101,713 people, 8,243 less than at year-end 2001. This reduction was the result of Group reshaping (-2,883 people) and employee turnover (-5,360 people). The more significant movements in the Group were: disposal of 9Telecom Group (-1,003 people), sale of Telespazio (-1,168 people), disposal of Sogei and Consiel (in total -1,538 people) and other minor movements (-711), as well as acquisition of BLU (+618 people), Webegg Group (+719 people), Netesi and Epiclink (in total +168 people) and other minor acquisitions (+32 people).

With regard to employee turnover, during the year a total of 12,567 people left the Group (5,413 from the parent company) and 7,207 people joined the workforce.

Telecom Italia Group employees
Breakdown by geographic area



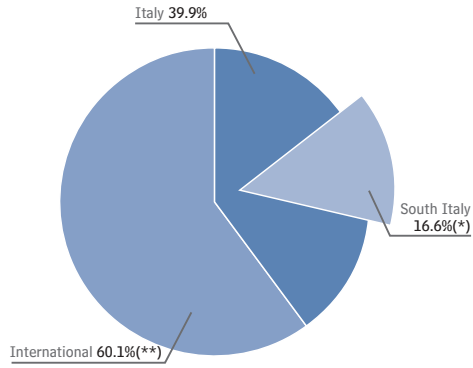
Telecom Italia Group cost of labour
Breakdown by geographic area



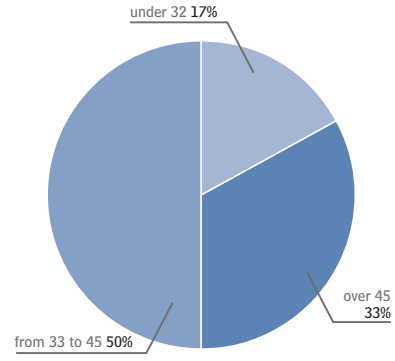
(* Percentage of the Group total (Italy and International))

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Telecom Italia Group hiring Breakdown by geographic area

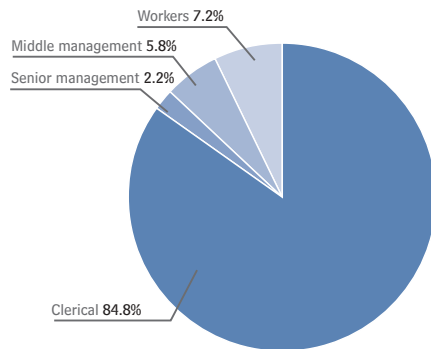


Telecom Italia Group employees (in Italy) Breakdown by age group (years)

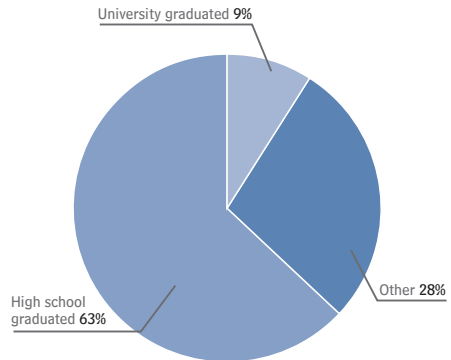


◀ (*) Percentage of the Group total (Italy and International)
 ▶ (***) 49.4% (3,562 people) of the total hiring was in Latin America

Telecom Italia Group employees (in Italy) Breakdown by professional category



Telecom Italia Group employees (in Italy) Breakdown by academic qualifications

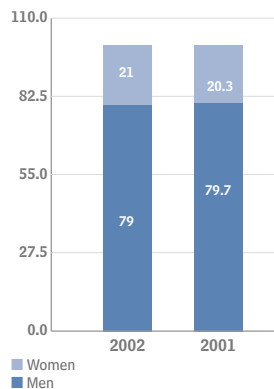


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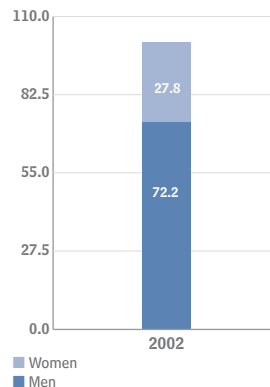
■ Gender balance

The percentage breakdown of men and women employees in the Telecom Italia Group and Telecom Italia S.p.A. is shown in the following charts:

Telecom Italia S.p.A. men and women employees in 2002 and 2001



Telecom Italia Group - 2002 men and women employees in Italy



In 2002, the percentage of senior management positions in the Group (in Italy) held by women was around 11%, rising to 23% at middle management level.

Equal opportunity is one of the principles of the Charter of Values and Code of Ethics of the Telecom Italia Group. The Group adheres to the United Nations Global Compact principles which include no discrimination. A balance between work and personal life is facilitated, where possible, by flexible working hours (TIM operates a scheme for working mothers, called TIM Mamma). In Italy, the Group companies guarantee up to ten months' maternity leave and adopt local best practices in other countries.

■ Employee satisfaction

In the first six months of 2002, the quantitative phase of the survey on employee attitude across the Group, known as the "Group Photo", was carried out via intranet. A total of 33,919 questionnaires were completed.

The results were communicated through the Group intranet portal and focus group meetings. In October 2002, the qualitative phase of the survey was run with 19 focus groups, counting around one hundred participants including senior and middle managers, clerical staff and workers.

Based on feedback from both phases, the general picture of employee satisfaction and motivation shows steady improvement.

■ Internal communication

In 2002, Internal Communication implemented a number of initiatives for Telecom Italia Group employees:

- the process of implementing the Group intranet was continued and at year-end 2002 75% of the Group companies were connected;
- live and recorded audiostreaming transmissions of the major presentations to the financial community were organized for around 2,000 senior managers of the Group;

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- a convention was organized and transmitted by satellite business TV to the 35 offices in Italy and worldwide, during which the Chairman, Marco Tronchetti Provera, illustrated the industrial plan to the Group's management;
- a convention was held involving the 130 Human Resources managers; a video was made with the participation of around thirty employees from across the Group. The take-aways were cascaded to the Human Resources professional group by a specially made CD Rom;
- a calendar was made, entitled "noi" (us), featuring 12 employees from different companies belonging to the Group, with the objective of developing a sense of belonging and integration between different cultures and businesses;
- a newsletter was produced and e-mailed to all Group employees on the occasion of Telethon, the fundraising marathon broadcast on the RAI networks.

■ Training

Training activities (classroom and online learning and on-the-job coaching for employees in Italy) in 2002 registered an aggregate value of around 2 million hours and around euro 35 million in actual costs (excluding the cost of labor and logistic expenses). These activities were largely delivered by Telecom Italia Learning Services, the Group company appointed with development and marketing of learning programs. They mainly concerned:

- specialist issues to meet the needs of specific businesses, with particular attention to development of customer focus and to training for front-end personnel (eg, Info 12, Customer Relationship Management, "Progetto Coaching", "Progetto Concorde", "Progetto CuORE", "Progetto Fish");
- 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 enhancement of skills and behaviors essential to creating value (eg, "Progetto Economics" aimed at rapidly sharing knowledge of business economics);
- institutional induction for newly appointed managers.
- learning packages for professional groups, to integrate and develop activity-specific knowledge and skills (eg, Human Resources, Investor Relations).

■ Industrial relations

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

- **Employment**

On 27 May, the Group framework agreement was signed with the labor unions to guarantee correct sizing of the workforce in relation to the 2002-2004 industrial plan. In implementation of the understanding, a union agreement was signed on 30 July downsizing the Telecom Italia workforce by 3,803. Similar agreements were signed in following months for other Group companies for a further reduction in force of 380.

Under the same framework agreement, on 8 October Telecontact Center signed a union agreement for 350 new entrants and on 13 November an understanding was signed between Telecom Italia and the labor unions to recruit 110 young people in Domestic Wireline. Lastly, on 12 December the procedure transferring Blu employees to TIM was completed.

- **Performance bonus**

On 3 June, Telecom Italia and the labor unions reached agreement over the Performance Bonus for 2002, calculated in relation to 2001's Gross Operating Profit. For the years 2003-2005 the bonus will be determined also considering a Customer Loyalty rating.

- **Corporate reorganization**

Procedures were carried out for transfer of business lines of Telecom Italia responsible for management and development of corporate real estate to the companies Pirelli & C. Commercial Agency, Pirelli & C. Project Management, Pirelli & C. Property Management, Tiglio II.

Procedures were also completed for assigning organization units within the Group according to the missions of the various companies.

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■ Remuneration policy

To economically enhance the performance of managerial and professional resources, the Group offers benefits that vary according to the professional category and type of performance: MBO (management-by-objectives), one-off services and special awards.

Long Term Incentive Plans and Stock Option Plans, for a more selected target of resources, are used in the Group as loyalty and retention systems.

An additional benefits package is provided for employees posted outside Europe. These additional benefits include:

- medical health cover extended to family members;
- industrial and personal accidental permanent invalidity or death insurance (including accidental bodily injury resulting from flying, war, invasion, or act of foreign enemy, hostilities, insurrection, rebellion, terrorism, tropical diseases, reptile bites, insect stings, poisoning), extended also to family members for personal accidental bodily injury;
- language courses for family members and contributions to educational expenses for employees' children.

■ EMPLOYEE BENEFITS

ASSILT

The Association for Supplementary Health Care for Telecom Italia Group workers reimburses the cost of health care supplementary to the National Health Service. In association with the public health service, and with its own mobile diagnostic units, it also carries out preventive medicine and health education campaigns.

At 31 December 2002 the association had more than 223,000 members (71,000 employees, 38,000 retirees, 114,000 family members).

In 2002, 521,000 reimbursements were made.

In the context of preventive medicine and health education, the ophthalmological examination initiative which has involved more than 40,000 employees over the years was completed in 2002.

The oncological prevention program (breast cancer and skin cancer screening) continued in 2002. A total of around 15,000 members were examined.

A campaign for the prevention of respiratory allergic reactions was experimentally launched in the Umbria region and will be conducted in 2003 in Friuli-Venezia Giulia, Liguria and Lazio.

CRALT

The Company Recreational Group for Telecommunications Workers organizes tourism, sport, culture, recreation and solidarity initiatives for employees and retired employees of the Group Companies. It also arranges special conditions with shops, theaters, and sports centers.

At year-end 2002, membership totaled around 63,000 employees and 9,000 retirees.

National events organized in 2002:

- summer and winter holidays, with the participation of around 36,000 members and their families;
- (summer and winter) sports meetings, with the participation of more than 2,700 athletes and their families;
- organized holidays for senior citizens for 1,800 retirees;
- celebrations to mark the twenty-fifth year of CRALT, in which 1,500 members and their families took part.

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CRALT also participated in humanitarian initiatives (Support-a-Child campaigns) promoted by ARCI and AVSI, to which it donated more than euro 150,000, and sponsored projects to help children in stricken areas in Molise.

Telemaco

The National Complementary Pension Fund for Telecommunications Companies Workers has approximately 56,000 members. In 2002, the financial managers were selected and the articles of association were amended.

Company loans

The new regulations governing company loans for Telecom Italia S.p.A. workers granted as from 2003 were drawn up. Loans are granted for renovation or purchase of first home property (amounts from euro 2,500 to euro 17,500) or for other purposes (up to a maximum of euro 2,500).

Summer camp for employees' children

The summer camp holidays offer children between the ages of 6 and 12 a recreational and formative opportunity of community life, based on an educational project which is continuously updated with the contribution of experts, university lecturers and operators in the field. In 2002, 4,766 children stayed in 8 mountain centers and 4 seaside centers. Overall, job opportunities were created for around 1,400 young people under term contracts with the organizations which manage the summer camps.

Study support for employees' families

In 2002, first-year university fees were reimbursed to 300 students and 60 youngsters received a 4-week stay abroad to study English.

Award ceremonies

In 2002, around 1,000 employees completed 25 years of service in Group companies. The awards will take place in 2003.

ALATEL

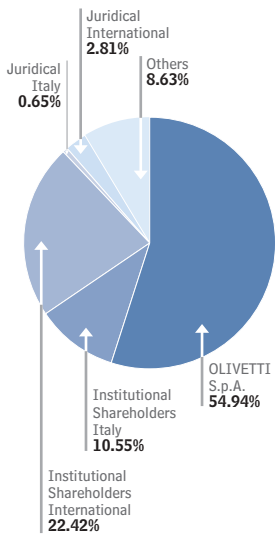
The Association of Senior Workers of the Telecom Italia Group joins retirees and workers with at least 20 years' of service. It promotes solidarity and cultural activities and counts around 28,000 members, 38% of whom are employees in service.

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SHAREHOLDERS

The composition of the holdings in Telecom Italia S.p.A., as results from the Shareholders Register at 31 December 2002 (ordinary shares), is reported.

◀ Dividends in 2002 were worth euro 4,945 million



Application of the principles of Corporate Governance is a fundamental commitment for the Telecom Italia Group, underpinned by a process of progressive improvement. The majority of the documents relating to the instruments of Corporate Governance, outlined herebelow, are available for consultation on the internet site www.telecomitalia.it.

Internal Control and Corporate Governance Committee

Telecom Italia's Internal Control and Corporate Governance Committee already fully complies with the provisions of the Code of Self-Discipline adopted by Borsa Italiana in July 2002 as far as regards the composition and activities of the Committee.

In fact, the Committee comprises solely independent, non-executive directors, in the persons of the Directors Roberto Ulissi (Chairman), Guido Ferrarini and Natalino Irti. The Committee met eight times during the 2002 financial year, and the meetings were attended by the Chairman of the Board of Statutory Auditors or by all members of the Board of Statutory auditors whenever a joint meeting was considered appropriate.

In accordance with the provisions of Telecom Italia's Code of Self-Discipline, the Internal Control and Corporate Governance Committee is responsible for: (i) evaluating the adequacy of the internal control system; (ii) evaluating the work plan prepared by the owner of internal control, who sends it regular reports; (iii) evaluating the proposals formulated by the independent auditors in order to be appointed, as well as the audit work plan and the results expressed in the letter of recommendations; (iv) informing the Board, at least every six months, on approval of the annual financial statements and six-monthly report, about the work carried out and the adequacy of the system of internal control, and (v) monitoring application and periodic reviewing of the rules of corporate governance.

Directors' Remuneration Committee

On 7 November 2001, the Board of Directors established a Remuneration Committee with investigative and advisory functions. During the 2002 financial year no changes were made to the composition or responsibilities of the Committee. Specifically, the Directors' Remuneration Committee's role is to make proposals to the Board of Directors for the remuneration of the Chief Executive Officers and executives holding particular appointments. As directed by the Chief Executive Officers, the Committee also makes proposals to determine the criteria for the remuneration of the top management of the Company. The Committee members are independent directors and were Luigi Fausti (Chairman), Umberto Colombo and Pier Francesco Saviotti.

Rules for the Board of Directors

Members of the Board of Directors may deal in company shares. There is, however, under the provisions of Telecom Italia's Code of Conduct for Insider Dealing, which was adopted by the Board of Directors on 7 November 2002, a so-called black-out period, during which executive directors are allowed to carry out transactions (defined as any action that creates, modifies or extinguishes rights with respect to financial instruments, listed in Italy or internationally, issued by Telecom Italia S.p.A., by the companies it controls and the companies it is controlled by, even if done under a contract for the management of a portfolio of investments or on an individual basis) only from the day after the release of the final or preliminary periodic reports for each quarter (or half year or financial year) until the closing day of the next quarter. For non-executive directors and members of the Board of Statutory Auditors the obligation to abstain from carrying out transactions is less extensive and applies from the day on which the board meeting to examine the abovementioned reports is convened, or on which they learn of their contents if earlier, until the day after release. In the event of exceptional circumstances of personal

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necessity, adequately justified by the concerned party, provision is made for a possibility of exception for the sale of shares.

These limitations do not apply to the exercise of stock options or pre-emption rights, or to sales carried out at the same time as the exercise of the rights.

■ Financial communication

Since year-end 2001, and throughout 2002, the Telecom Italia Group has been committed to improving financial communication in terms of detail, continuity and timing with the aim of giving both the business performance and the corporate governance of Telecom Italia S.p.A. and its affiliated and associated companies greater transparency and dependability, in full compliance with investors' requirements and the guidelines set by the regulatory authorities.

This effort was also recognized by the financial market, which ranked Telecom Italia as the leading European telecommunications company for compliance with corporate governance principles, following a survey conducted by Deutsche Bank in collaboration with DWS Investment.

Investor Relations was entrusted to an independent Central Function reporting to the Chief Executive Officer, with key accounts dedicated to the various categories of internal and external stakeholders to ensure that communication is more immediate, more complete and more effective.

To this end, detailed and prompt disclosure of information was ensured through press releases and publication of institutional documentation (regulatory and voluntary periodic reports such as the Sustainability Report, and information about shareholders' meetings and specific market transactions), which are available to shareholders in print or on the internet.

In fact, the internet site www.telecomitalia.it was restructured creating a specific section entirely dedicated to investor relations and retail. In addition to enriching and updating the content, particular attention has been placed on information regarding share performance and company events. During 2002, the Company organized more than twenty-five formal meetings with the market (analysts, institutional investors and national and international specialist press).

They included quarter conference calls, road shows, meetings, press conferences, plus the day-to-day relations with all the financial analysts and investors either through meetings or by telephone to provide them with the details they need for their work.

Additionally, the annual meeting was held in Milan on 14 and 15 February to present the guidelines of the Group's industrial and financial plan for the 2002-2004 three-year period and for the first time an event entitled "Technology Day" was organized in Rome, on 18 and 19 July, to illustrate Telecom Italia Group's development of technologies and innovative services to the financial community.

Finally, as part of the activities undertaken to implement the rules of Corporate Governance, on 13 February 2003, the Board of Directors of Telecom Italia also approved the "Procedure for communication of share price sensitive information to the market". The document establishes guidelines for disclosure of such information to the market, identifies the Functions and Structures involved in the process, setting also the procedure to be followed in the event of rumors or of requests for information from market watchdog or management bodies. The guidelines also discipline the activities to put in place when the Company meets with the financial community and press so as to ensure non-selective use of Company information.

■ Legal proceedings

Telecom Italia S.p.A.

Legal proceedings are pending for compensation for damages amounting to euro 18.9 million, filed against Olivetti, Telecom Italia, and the Chairman and pro tem. Deputy Chairman, based on the alleged non-fulfillment of the commitments undertaken in the Offer Document relating to the takeover and exchange bid by Olivetti and Tecnost for Telecom Italia in 1999, and also for the resolutions passed by the Shareholders' Meeting on 14 January 2000 in connection with the purchase of Treasury savings shares.

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TIM S.p.A.

No lawsuits are in progress.

SEAT S.p.A.

Only two litigation cases are reported: the first filed by the shareholder Carlo Fabris, who has asked the Court of Milan to pronounce the resolution of the Shareholders' Meeting on 20 November 2000, by which SEAT approved the proposal to increase the share capital reserved to De Agostini Invest S.A., excluding the Shareholders' pre-emption right, null and of no effect. According to the plaintiff, the resolution was made in infringement of art. 2441, paragraph 5, of the Civil Code, which stipulates that in the event of an increase in capital with exclusion of the shareholders' pre-emption right "the number of votes for the resolution must represent more than half the share capital". The case, currently pending before the VIII Section, should go forward for judgment after the memorials and replications have been lodged, the former by 29 March 2003 and the latter by 18 April 2003.

The second legal proceeding was filed by the shareholder Franco Porta, before the Court of Milan, to contest the resolution of the Extraordinary Meeting of the Shareholders of SEAT on 30 July 2001 regarding the extension of the deadline for execution of the resolution to increase the capital reserved for Vertico. According to the shareholder, the aforementioned resolution has become unnecessary as a result of the fact that Telecom Italia has bought control of the company Vertico, which holds 33,3% of Matrix. The case is pending before the VIII Section and the summing-up session has been set for 1 October 2003.

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SELECTED FINANCIAL DATA



Telecom Italia Group - Selected financial data

(millions of euro)	2002 (a)	2001 (b)	Changes (a) - (b)	
			absolute	percentage
Sales and service revenues	30,400	30,818	(418)	(1.4%)
Gross operating profit (GOP)				
% of sales and service revenues	13,964	13,619	345	2.5%
Operating profit				
% of sales and service revenues	7,381	6,674	707	10.6%
Net income (loss) before minority interest	297	(1,658)	1,955	-
% of sales and service revenues				
Net income (loss) - Parent Company	(322)	(2,068)	1,746	(84.4%)
Net invested capital at 31 December	30,941	41,250	(10,309)	-
Shareholders' equity at 31 December ⁽¹⁾	12,823	19,308	(6,485)	-
Net borrowing at 31 December	18,118	21,942	(3,824)	-
Capital investments	6,919	11,257	(4,338)	-
Employees at year end	101,713	109,956	(8,243)	(7.5%)

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

In 2002, investments amounted to euro 6,919 million, a 38.5% decrease from 2001.

Industrial investments amounted to euro 5,211 million (euro 8,164 million in 2001) and comprised the goodwill (euro 369 million) arising from acquisition of Blu by TIM and from TIM International's increased investments in Stet Hellas and Digitel.

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

Gross value added and stakeholders

(millions of euro)	2002 (a)	2001 (b)	Changes % (a-b)/b
Sales and service revenues	30,400	30,818	(1.4%)
Standard production value	31,054	31,308	(0.8%)
Raw materials and outside services	(12,558)	(13,042)	(3.7%)
Value added	18,496	18,266	1.3%
Telecommunications license fee	431	524	(17.7%)
Other entries ^(*)	(45)	838	-
Gross value added	18,882	19,628	(3.8%)

(*) Other entries are the balance between the following items in the Statement of Income: other income/expense, extraordinary income/expense, dividends distributed for the year 2001, TLC license fee, adjustments in value of financial assets, net investment income, financial income, and net income before minority interest.

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■ Distribution of gross value added among stakeholders and other parties

(millions of euro)	2002 (a)	2001 (b)	Changes % (a-b)/b
Employees	3,562	3,654	(2.5%)
State	1,090	2,855	(61.8%)
of which:			
• Social security costs	1,199	1,225	(2.1%)
• Taxes	(601)	1,045	-
• Direct taxes	(716)	925	-
• Indirect taxes	115	120	(4.2%)
• TLC license fee	431	524	(17.7%)
• Dividends (Ministry of Economy and Finance)	61	61	-
Minority shareholders (excluding the Ministry of Economy and Finance)	4,884	3,036	60.9
Financiers	2,717	3,075	(11.6%)
Business (depreciation and amortization, provisions to reserves for risks and charges, other valuation adjustments)	6,629	7,008	(5.4%)

The data for 2001 have been restated to take account of the Telecom Italia Group aggregate contribution to the State stakeholder in Italy and internationally (the 2001 Sustainability Report stated only the contribution to the Italian Public Administrations) thus resulting in a slight change in the gross value added. As far as regards employees, the euro 68 million change with respect to the 2001 figure published in the previous year's report is offset by an equivalent increase in social security costs.

The aggregate contribution of the Telecom Italia Group to internal and external stakeholders for 2002 was euro 27,623 million (including financiers).

The reduction in direct taxes was commented in the paragraph relating to the State. The increase in dividends in relation to 2001 reflects the exceptional distribution of reserves resolved and effected by Telecom Italia (euro 987 million) and TIM (for the part for minority shareholders, of euro 711 million) in December 2002.

■ Contribution to stakeholders in 2002

(euro)

SUPPLIERS	
15,370 million	Raw materials and outside services, industrial investments (*)
STATE	
1,090 million	Social security costs, taxes and dividends
EMPLOYEES	
3,562 million	
SHAREHOLDERS	
4,884 million	Dividends distributed (excluding the Ministry of Economy and Finance, already included under State)
FINANCIERS	
2,717 million	

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

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Reconta Ernst & Young S.p.A.
Corso Vittorio Emanuele II, 83
10128 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.

We have performed compliance audit procedures and analyses on the 2002 Sustainability Report of the Telecom Italia Group prepared by Telecom Italia S.p.A.'s management.

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

- tests of the Sustainability Report to ascertain its compliance with the guidelines described in the report, as well as with the guidelines established by the "Board for the Study and Implementation of Standards for the Preparation of the Social Report – GBS", and analyses, through discussion with group management, of the internal procedures adopted to compile the information contained in the Sustainability Report;
- agreed financial data in the Sustainability Report to data and information included in the consolidated financial statements on which we have issued the auditors' report dated April 18, 2003;
- tests, on a sample basis, of other data and information included in the Sustainability Report with internal records, analyses prepared by internal relevant functions or with other supporting evidence made available to us.

Based on the work performed:

- a) we deem that the 2002 Sustainability Report of the Telecom Italia Group has been prepared in conformity with the guidelines described in the report as well as with the guidelines established by the "Board for the Study and Implementation of Standards for the Preparation of the Social Report – GBS";
- b) the financial data in the Sustainability Report agree with the data and information included in the consolidated financial statements;
- c) the other data and information included in the Sustainability Report agree with supporting documents made available to us and with tests and analyses performed.

We draw your attention on the positive aspect described in the section "Achievements and Commitments", with respect to the actions initiated by Telecom Italia aimed to achieve an integrated process of governance incorporating its objectives and its operating instruments into the Group's sustainability.

Turin, April 18, 2003

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

Reconta Ernst & Young S.p.A.
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Telecom Italia S.p.A.
Corso d'Italia, 41
00198 Roma

Tel.: +39.06.3688.2840
Fax: +39.06.3688.2803
e-mail: GroupSustainability@telecomitalia.it

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