



Sustainability Section

extract from **2004** Annual Report >>

3	CONTEXT	3	ACKNOWLEDGEMENTS
10	EXTERNAL STAKEHOLDERS	4	RESULTS
50	INTERNAL STAKEHOLDERS	5	COMMITMENTS
79	AUDITORS' REPORT	6	REFERENCES
		8	CHARTERS AND CODES
		9	FINANCIAL DATA AND VALUE ADDED

■ SUMMARY

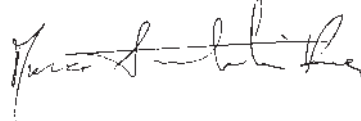
Context	Acknowledgements	3
	Results	4
	Commitments	5
	References	6
	Charters and Codes	8
	Financial data and value added	9
External Stakeholders	Customers	10
	Suppliers	17
	Competitors	19
	Institutions	24
	The Environment	27
	The Community	40
Internal Stakeholders	Human Resources	50
	Shareholders	65
Auditors' report	Auditors' report (Ernst & Young)	79

3	CONTEXT	3	ACKNOWLEDGEMENTS
10	EXTERNAL STAKEHOLDERS	4	RESULTS
50	INTERNAL STAKEHOLDERS	5	COMMITMENTS
79	AUDITORS' REPORT	6	REFERENCES
		8	CHARTERS AND CODES
		9	FINANCIAL DATA AND VALUE ADDED

...The flattering acclaim given by the market to our reorganization process is indicative of the credibility and trust which we have been able to generate. Credibility and trust have certainly found solid motivations in the strictness and transparency of the decisions taken at managerial level and in the complete sustainability of our conduct. Furthermore, the reliability of the Group is confirmed by the fact that it is capable of generating growth in all its main business units.

...Telecom Italia hopes to succeed in maintaining its position as European leader in a world of telecommunications that is rapidly changing...Telecommunications have now become a hi-tech sector and, as such, are destined to play a fundamental and driving role in economic and social development.

As far as we are concerned, it is a role for which we feel responsible and which we shall play with the utmost commitment, sustained by the enormous wealth of ability, competence and professional skills of the people who work for our Group. Their intelligence and their enthusiasm have been crucial in making the Telecom Italia Group's industrial plan into a success in such a short time.



(from the Chairman's letter to the Shareholders – 2004 Annual Report)

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

For the past eight years Telecom Italia Group has published a special report to evaluate the satisfaction of the Stakeholders on which the Group depends and, at the same time, influences by its own activities: Customers, Suppliers, Competitors, Institutions, the Environment, the Community, Human Resources and Shareholders.

For the past three years The Annual Report has included the Sustainability section in order to confirm the Group's commitment to report on its financial and non-financial performance.

The paragraph on Shareholders also contains information on Financial Communications and the Safeguarding of Privacy.

3	CONTEXT	>>	3	ACKNOWLEDGEMENTS
10	EXTERNAL STAKEHOLDERS		4	RESULTS
50	INTERNAL STAKEHOLDERS		5	COMMITMENTS
79	AUDITORS' REPORT		6	REFERENCES
			8	CHARTERS AND CODES
			9	FINANCIAL DATA AND VALUE ADDED

■ ACKNOWLEDGEMENTS



- In “The Global Reporters 2004 Survey”, which was carried out under the aegis of ONU and the rating agency Standard & Poor’s, Telecom Italia SpA was confirmed to be among the 100 best companies in the world in terms of the quality of its reporting on Sustainability.
- Telecom Italia SpA has been selected as an index component for two indexes managed by Dow Jones:
 - Dow Jones Sustainability World Indexes (DJSI World) which include 300 companies from 24 countries, Sustainability leaders at world level.
 - Dow Jones STOXX Sustainability Indexes (DJSI STOXX) which include 167 companies from 13 countries, Sustainability leaders at European level.
 The companies admitted are grouped in clusters according to the registered score. In both indexes, Telecom Italia has been included in the first cluster.
- Telecom Italia and TIM have been confirmed in the following indexes:
 - FTSE4Good Global which includes the first 100 worldwide companies as measured by their market capitalization (FTSE4Good Global 100 - tradeable index);
 - FTSE4Good Europe which includes the first 100 European companies as measured by their market capitalization (FTSE4Good Europe 50 - tradeable index);
 - ESI (Ethibel Sustainability Index): the Global index includes 180 securities, while the European index includes 84 securities;
 - E.Capital Partners: the Global index consists of 300 securities, while the European index consists of 150 securities;
 - ASPI (Advanced Sustainable Performance Index) Eurozone consists of 120 companies selected by the French agency Vigeo.

3	CONTEXT	>>	3	ACKNOWLEDGEMENTS
10	EXTERNAL STAKEHOLDERS		4	RESULTS
50	INTERNAL STAKEHOLDERS		5	COMMITMENTS
79	AUDITORS' REPORT		6	REFERENCES
			8	CHARTERS AND CODES
			9	FINANCIAL DATA AND VALUE ADDED

■ RESULTS

- The first stage of the study of the Group's intangible assets, carried out in collaboration with Bocconi University, confirmed the link existing between the financial and the non-financial performance. The results of the research were presented to the scientific Community and to financial analysts at the Bocconi University on November 24, 2004.
- The Global Compact Leaders Summit, chaired by Kofi Annan, took place in New York on June 24, 2004 and was attended by 260 corporations, 19 state governments, the European Commission, and 63 company and workers Associations. During this Summit the 10th principle against corruption was introduced. Telecom Italia and TIM undersigned the agreement and produced two proposals of their own which were taken into consideration:
 - the integration of criteria for the evaluation of the so-called "intangibles" between Europe and the USA;
 - the creation of a permanent Forum where "corporate citizenship" can be discussed.
- Telecom Italia Media also adhered to the Global Compact. To date, 1,800 important corporations all over the world have subscribed to the Global Compact.
- The Group, together with 25 TLC European operators, signed the "Sustainability Charter", a document that represents the evolution of the Environmental Charter, launched in 1996, which had already obtained wide recognition at an international level.
- The appointment of Environmental Managers for Wireline, Mobile and Internet & Media Business Units has been formalized. The Environmental Manager supervises the impact of the business processes on the environment and supports the related reporting system.
- From January 1, 2004, all important investment projects proposed by the companies of the Group have been accompanied by a "Sustainability Form" in which the impact of the investment on 12 chosen areas of interest is evaluated. The evaluations have been recorded and studied to bring the 2005-2007 strategic guidelines up to date.
- Specific actions have been carried out to communicate Sustainability outside and inside the Group.
- A specific Training Plan has been implemented within the Group with the aim of making the culture of Sustainability more widely known.
- Among the various international activities in support of Sustainability, the Group Sustainability department actively participated in the following:
 - ETNO (European Telecommunications Network Operators' Association) General Assembly which took place in Sarajevo on November 18-19, supporting the ETNO's adhesion to the Global Compact principles;
 - first European Conference on Telecommunications and Sustainability which took place in Budapest on November 25-26, where the study on the Group's intangible assets was presented;
 - Workshop on the Sustainability Reporting, which took place in London on November 1-2 during which the "Global Reporters 2004 Survey of Corporate Sustainability Reporting" was presented;
 - annual Conference of the European Environmental Bureau on the safeguarding of the environment, which took place in Brussels on September 20 and was attended by the European Commission's and European Parliament's members; during the Conference the new European strategy on sustainable development was presented.

3	CONTEXT	>>	3	ACKNOWLEDGEMENTS
10	EXTERNAL STAKEHOLDERS		4	RESULTS
50	INTERNAL STAKEHOLDERS		5	COMMITMENTS
79	AUDITORS' REPORT		6	REFERENCES
			8	CHARTERS AND CODES
			9	FINANCIAL DATA AND VALUE ADDED

■ COMMITMENTS

For the year 2005 six objectives have been defined at Group level: Reliability, Sustainability, Cash generation and Profitability, Innovation and Competitiveness, Focus on customers, Strategic and Operational Flexibility.

Among the 2005 focus points, particular attention will be given to the customer's satisfaction and the quality of the service.

The second phase of the collaboration with the Bocconi University on the Group "intangibles" will be started. A project aiming at the evaluation of the Group's intangible assets will be launched, as well as a process review in relation to six macro-areas of interest: Strategic, Financial, Governance & Stakeholders, Customers & Products, Human, Process.

Business Unit Mobile's priority objectives are the recycling and valorization of the waste from technical systems, with particular reference to the abandoning of the analogical system of mobile communications (TACS).

Telecom Italia will take part, together with other important companies, in the advisory body for the development of the Global Marshall Plan, which aims at reaching the objectives set by the United States in the "Millennium Development Goals" that ties the funding directly to the economic development and the improvement of the democratic, social and environmental standards of the poorest countries in the world.

Telecom Italia, together with other companies, will adhere to "The European Manifesto of businesses 2010" on March 3-4 2005 in Brussels. The Manifesto will indicate the European way to Corporate Responsibility, as intended by the European Commission and President Barroso.

"Voluntary business initiatives, in the form of Corporate Responsibility practices, can play a key role in contributing to sustainable development, while enhancing Europe's innovative potential and competitiveness".

Josè Manuel Barroso

3	CONTEXT	>>	3	ACKNOWLEDGEMENTS
10	EXTERNAL STAKEHOLDERS		4	RESULTS
50	INTERNAL STAKEHOLDERS		5	COMMITMENTS
79	AUDITORS' REPORT		6	REFERENCES
			8	CHARTERS AND CODES
			9	FINANCIAL DATA AND VALUE ADDED

■ REFERENCES

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

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

The model for monitoring and reporting on Sustainability is based on a multi-stakeholder analysis approach and on a set of performance indicators (316). Telecom Italia Group bases its reporting on the guidelines of the Global Reporting Initiative (GRI), according to the principles of Global Compact. These guidelines are intended to harmonize the reporting on economic issues with the data on Sustainability.

The following table shows the paragraphs and the pages whose contents directly or indirectly refer to Global Compact's principles and GRI's indicators.

	GC Principles	GRI Indicators	Paragraph related to the GC Principle	Pages
1	Businesses should support and respect the protection of internationally proclaimed human rights; and	HR1, HR2, HR3, HR4	Commitments, References, Suppliers, The Community, Human Resources	5, 6, 18, 41, 42, 52, 62-64
2	make sure that they are not complicit in human rights abuses	HR2, HR3	Commitments, Suppliers, Human Resources	5, 17-18, 52, 62-64
3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;	HR5, LA3, LA4	Human Resources	58-64
4	the elimination of all forms of forced and compulsory labour;	HR7	Human Resources	58-59, 62-64, 18
5	the effective abolition of child labour; and	HR6	Human Resources	58-59, 62-64, 18
6	the elimination of discrimination in respect of employment and occupation.	HR4, LA10, LA11	Human Resources	52, 58-59, 62-64, 18
7	Businesses should support a precautionary approach to environmental challenges;	3.13	The Environment, Suppliers	27-39, 18
8	undertake initiatives to promote greater environmental responsibility; and	EN1, EN2, EN3, EN4, EN5, EN6, EN7, EN8, EN9, EN10, EN11, EN12, EN13, EN14, EN15, EN16, 1.1	The Environment, Suppliers, The Community	34-39, 46-47, 18
9	encourage the development and diffusion of environmentally friendly technologies.	EN17	The Environment, The Community	37-38, 47-49
10	Businesses should work against all forms of corruption, including extortion and bribery.	SO2	Results, References, Charters and Codes, Suppliers, Shareholders	4, 5-6, 17-18, 65

3	CONTEXT	>>	3	ACKNOWLEDGEMENTS
10	EXTERNAL STAKEHOLDERS		4	RESULTS
50	INTERNAL STAKEHOLDERS		5	COMMITMENTS
79	AUDITORS' REPORT		6	REFERENCES
			8	CHARTERS AND CODES
			9	FINANCIAL DATA AND VALUE ADDED

The indicators being monitored are consistent with the information required by the main rating agencies (SAM for the Dow Jones Sustainability Index, EIRIS for the FTSE4Good and SIRI) for admission to the Sustainability indexes and with the guide-lines included in the Social Statement developed by the Ministry of Labor and Social Politics within the framework of the project CSR-SC.

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

- the ISO 9000 and ISO 14000 quality certification for systems for managing quality and the environment, to ensure quality of service for customers and respect for the environment;
- the standard of Social Accountability 8000 (SA8000), that aims at encouraging respect for human rights and working conditions on the part of suppliers and sub-suppliers alike;
- the methods suggested by the London Benchmarking Group (LBG) for measuring investments in the Community;
- the principles of the Conventions of the International Labour Organization (ILO) for respect of fundamental workers rights.

In order to protect shareholders, the Group's Corporate Governance system is based on criteria of exactness and transparency and reflects the highest national and international standards. The Organizational Model, ex legislative decree No. 231, dated June 8, 2001, has been adopted by all concerned companies of Telecom Italia Group (about 70).

◀ DJSI (Dow Jones Sustainability Indexes): equity indexes including companies committed to Sustainability, managed by Dow Jones in co-operation with SAM (Sustainable Asset Management).

◀ FTSE4Good (Financial Times Stock Exchange): equity indexes including companies which respect certain standards of responsibility managed by FTSE in association with EIRIS (Ethical Investment Research Service).

◀ SIRI (Sustainable Investment Research International Company): company that works in the SRI (Socially Responsible Investment) sector that supplies research and consultancy service.

3	CONTEXT	>>	3	ACKNOWLEDGEMENTS
10	EXTERNAL STAKEHOLDERS		4	RESULTS
50	INTERNAL STAKEHOLDERS		5	COMMITMENTS
79	AUDITORS' REPORT		6	REFERENCES
			8	CHARTERS AND CODES
			9	FINANCIAL DATA AND VALUE ADDED

■ CHARTERS AND CODES

The codes, procedures and principles supporting the Group's governance system can be consulted in a dedicated section of the corporate website www.telecomitalia.it.

The Group's system is based on the Code of Ethics which constitutes the charter of fundamental values with which the Group identifies.

Telecom Italia has adopted a system of values which constitutes a constant benchmark of conduct for everyone who works for the Group, reinforcing the idea that they belong to one company.

With particular reference to the managerial staff, the Group's values system foresees a Managerial Model which constitutes a synthesis of conduct to which managers in the Group should refer in the pursuit of their business objectives.

Values	Managerial Model
Customer focus	Central importance of the customers
Taking responsibility	Creation of value
Innovation	Investing in people
Pro-action	Change management
Efficiency	Networking and integration
Integration	
Transparency	
Professional excellence	

The principles of conduct with regard to customers and the commitments made by the main companies in the Group in terms of quality of service, are described in the Charters of Services drawn up accordingly to the requirements coming from the National Regulatory Authority. Telecom Italia's Charter of Services and General Subscription Conditions can be viewed on the company's website (www.187.it).

3 CONTEXT	>>	3 ACKNOWLEDGEMENTS
10 EXTERNAL STAKEHOLDERS		4 RESULTS
50 INTERNAL STAKEHOLDERS		5 COMMITMENTS
79 AUDITORS' REPORT		6 REFERENCES
		8 CHARTERS AND CODES
		9 FINANCIAL DATA AND VALUE ADDED

■ FINANCIAL DATA AND VALUE ADDED

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

TELECOM ITALIA GROUP – SELECTED FINANCIAL DATA

(millions of euro)	2004 (a)	2003 (b)	Change % (a)-(b)
Sales and service revenues	31,237	30,850	1.30%
Gross operating profit (GOP)	14,528	14,280	1.70%
Operating profit	7,200	6,789	6.10%
Net income (loss) before minority interest	1,902	2,428	-21.70%
Net income (loss) - Parent Company	781	1,192	-34.50%
Net invested capital at 31 December	49,386	53,935	-8.40%
Shareholders' equity at 31 December	19,861	20,589	-3.50%
Net borrowing at 31 December	29,525	33,346	-11.50%
Industrial investments	5,335	4,894	9.00%
Employees at year end	91,365	93,187	-2.00%

ADDED VALUE

(millions of euro)	2004 (a)	2003 (b)	Change % (a-b)/b
Standard production value	31,979	31,595	1.2%
Raw materials and external services	(13,414)	(13,018)	3.0%
Gross added value	18,565	18,577	(0.1%)
Telecommunications license fee	97	56	-
Other Items ⁽¹⁾	1,252	(1,206)	-
Corrected added value	19,914	17,427	-

(1) The Other Items represent the balance between the various items of the income statement: sundry income/expenses, extraordinary income/expenses, dividends distributed, value adjustments to financial assets, income from equity investments, financial income, loss and profit on exchange rates, end of year result owing to Parent Company or third parties.

DISTRIBUTION OF GROSS ADDED VALUE AMONG STAKEHOLDERS AND OTHER PARTIES

(millions of euro)	2004 (a)	2003 (b)	Change % (a-b)/b
Employees	3,165	3,376	(6.3%)
Institutions	4,234	2,506	-
of which:			
• Social security costs	938	1,308	(28.3)%
• Direct taxes	3,054	1,014	201.2%
• Indirect taxes	145	128	13.3%
• TLC license fee	97	56	73.2%
Shareholders	2,780	1,049	165.0%
Financers	2,728	3,146	(13.3%)
Business (depreciation and amortization, reserve funds for risks and fees, other accruals and adjustments)	7,007	7,350	(4.7%)

CONTRIBUTION TO THE STAKEHOLDERS

(millions of euro)	
Suppliers ⁽¹⁾	16,925
Institutions ⁽²⁾	4,234
Employees	3,165
Shareholders	2,780
Financers	2,728

Consumption of raw materials and external services, industrial investments

Expenses, taxes and state contributions

Cost of labor net of compulsory contributions

Dividends distributed

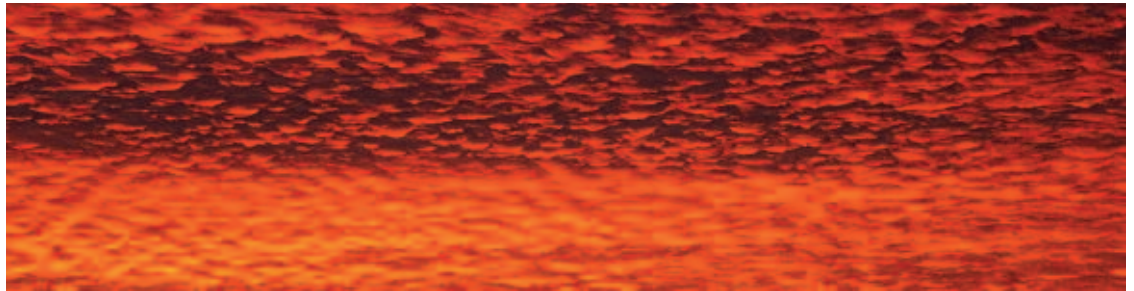
Financial expenses

(1) The breakdown of the contribution to this stakeholder is described in the paragraph on Suppliers.

(2) The breakdown of the contribution to this stakeholder is described in the paragraph on Institutions.

3	CONTEXT	10	CUSTOMERS
10	EXTERNAL STAKEHOLDERS	17	SUPPLIERS
50	INTERNAL STAKEHOLDERS	19	COMPETITORS
79	AUDITORS' REPORT	24	INSTITUTIONS
		27	THE ENVIRONMENT
		40	THE COMMUNITY

■ CUSTOMERS



■ CUSTOMER FOCUS

Telecom Italia Group's customers are one of its main assets, and so the Group has decided to include customer focus, pro-action and transparency of information among its primary corporate values.

Satisfaction expressed by the customer is a fundamental prerequisite for the creation of value and maintaining market leadership. The Group undertakes several initiatives to pursue full customer satisfaction:

- within the framework of performance related compensation, Telecom Italia SpA has adopted a target linked to customer satisfaction, in fact, alongside the profitability indicator (gross operating profit), a Customer Loyalty indicator has been added that carries a weight of 30% on the performance related compensation. The indicator is an average of customer satisfaction with regard to offered services, Customer Relationship Management (CRM), image and technical quality;
- an Integrated Feedback System is presently being used at Telecom Italia SpA. The main objective of this project is to allow customer's opinions to reach strategic and managing levels. In this way the Group has a better understanding of demands, for the development of new services and the improvement of existing ones. The customer's viewpoints are gathered in two ways:
 - in support of business development, through exploratory research that takes place during the design of new products and services (through focus groups, qualitative analyses leading to evaluation of appeal, satisfaction and potentiality) as well as during the development phase (through qualitative focus to test usability, satisfaction and functionality);
 - through the customers' perception, negative or positive, during the process of supplying the service. The satisfaction/dissatisfaction judgement is precious for the company in terms of improving service quality as well as maintaining customer loyalty. Perceived quality levels are monitored during all phases of the service delivery process and for all customer segments;
- special attention is paid to disadvantaged customers: people who fall below a certain income threshold are granted a 50% reduction on the rental fee, while the hearing/speech impaired do not pay for any rental fee and are granted free SMS services from mobile phones;
- TIM has developed a "New CRM Portfolio" whose segments are related to the socio-demographic features of the customer and his disposition to the use of innovative services. This allows the company to identify actions and services, on a one-to-one relationship with the customer, offering products closer to the clients demands. A personalized caring service was also introduced. All possible channels to contact customers have now begun to be integrated into the client relations activity;

3	CONTEXT	10	CUSTOMERS
10	EXTERNAL STAKEHOLDERS	17	SUPPLIERS
50	INTERNAL STAKEHOLDERS	19	COMPETITORS
79	AUDITORS' REPORT	24	INSTITUTIONS
		27	THE ENVIRONMENT
		40	THE COMMUNITY

- an agreement was made between the Civil Protection Department of the Prime Minister's Office and the Mobile Operators, including TIM, for implementing a national emergency information circuit. This project, which is experimental and has a one year term, gives the Civil Protection Department the possibility of asking for an informative SMS to be sent nationwide or to specific areas in order to face emergency situations, natural calamities, disasters or other tragic events that for reasons of intensity and extensity require the use of extraordinary means and powers. These requests are subject to an ordinance, signed by the competent Authority that specifically derogates the regulations relative to privacy in force at the time.

All the companies of the Group conduct surveys on the level of customer satisfaction and work for a constant improvement in their CMR systems. In accordance with the principle of transparency in the relationship with stakeholders, information on the criteria used for measuring the quality of services can be consulted on the websites dedicated to the customers.

■ EFFECTIVENESS OF CRM (Customer Relationship Management)

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

MAIN CHANNELS OF CRM ACTIVE AT DECEMBER 31, 2004

	BU Wireline	BU Mobile	LATAM ⁽¹⁾	BU Internet & Media
Toll-free numbers	521 ⁽²⁾	91	27	2
Calls received by toll-free numbers	82,525,520	303,922,458	16,783,233	4,140,027
Technical support centers	42	5,787	111	25
Websites	www.187.it	www.119.tim.it	www.entelchile.net	tin.virgilio.it
	www.191.biz	www.privati.tim.it	www.entel.bo	help.virgilio.it
	www.aliceadsl.it	www.business.tim.it		
	www.info412.it	www.iltelefononline.tim.it		
	www.radiomarittimi.it	www.timbrasil.com.br		
	www.wholesale-telecomitalia.it	www.timnordeste.com.br www.digitel.com.ve		
	www.ti-sparkle.it	www.tim.com.pe		
	www.pathnet.it	www.telestet.gr		

◀ (1) Including Entel Chile and Entel Bolivia.

◀ (2) Including customized numbers for top business customers.

Communication with residential customers takes place mainly through call centers, websites, e-mails (for example, the TIMNews newsletters, which had been delivered to almost one million subscribers by December 31, 2004), SMS text messages, or through enclosures sent with the bills.

Communication with business customers takes place through direct (for Corporate customers) and indirect (small/medium-size business and professionals) sales channels.

After-sales support is supplied through call centers, Internet and other direct or indirect channels.

The Group's CRM systems:

- provide information and technical support;
- manage customer requests either directly (one call solution) or activating the appropriate departments for the solution to the problems;

3	CONTEXT	10	CUSTOMERS
10	EXTERNAL STAKEHOLDERS	17	SUPPLIERS
50	INTERNAL STAKEHOLDERS	19	COMPETITORS
79	AUDITORS' REPORT	24	INSTITUTIONS
		27	THE ENVIRONMENT
		40	THE COMMUNITY

- update the client's profile by keeping track of the calls received from the call centers;
- manage commercial contacts, selling and activating contracts.

The CRM employees are continuously trained, from a technical and behavioral viewpoint, and have a portal available to supply them with guidelines for solving problems, in One Call/On Line Solution perspective.

The CRM automatic service (Self Caring Options) allows you, through the use of Internet, to modify personal data, check traffic status, configure or activate services, pay bills or recharge, change type of subscription, purchase products, search for sales points, request information, technical and commercial assistance, subscribe to or consult loyalty programs and other services. TIM has made almost all its services available on the web, according to the guidelines of the Web Accessibility Initiative (WAI) established by World Wide Web Consortium. Access to the CRM automatic systems is also possible through the "Individual Voice Responder" (IVR) modality.

Clients' satisfaction with customer care is of a very high level as shown by the results of surveys conducted periodically by external companies into customer satisfaction with the service supplied by the Group's call centers.

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

Company	Clientele segment	Customer satisfaction
Telecom Italia	Consumer ¹	87.5%
	Business ²	76.1%
TIM	Consumer ³	86.6%
	Business ⁴	76.4%
Tin.it	Consumer ⁵	76%
	Business ⁵	73%

- 1 Level of satisfaction with customer care supplied by the "187" service; sum of the percentages of customers who described the service positively; average 2004.
- 2 Level of satisfaction with customer care supplied by the "191" service; sum of the percentages of customers who described the service positively; average 2004.
- 3 Level of satisfaction with customer care supplied by the "119" service; sum of the percentages of customers who described the service as excellent, very good, or good; data relates to the last quarter of 2004.
- 4 Level of satisfaction with customer care supplied by the Business toll-free number 800 846 900; sum of the percentages of customers who described the service as excellent, very good, or good; data relates to December 2004.
- 5 Level of satisfaction with customer care supplied by the toll-free number 80 33 80 to Tin.it Pay customers; sum of the percentages of customers who said they were very satisfied or satisfied with the service; annual average.

The range of services and tariff profiles is continuously evolving with a view to fulfilling the needs and expectations of clients. In an endeavor to achieve transparency and provide complete information, all the changes are communicated promptly to the clientele through the various channels available: in the pages accompanying the phone bill, on the website, through direct mailing, call center operators, sales points and agents. In addition, specific announcements about changes in prices, the launch or termination of services, or changes in contracts are communicated to users and consumers – in compliance with the instructions given by the Electronic Communication Code (art. 25, c. 5, 70, c. 4 and 71). Another channel used to inform customers and help them to choose services in an informed way is advertising campaigns and promotions, to which the Telecom Italia Group applies the principles of transparency in agreement with existing legislation.

3	CONTEXT	10	CUSTOMERS
10	EXTERNAL STAKEHOLDERS	17	SUPPLIERS
50	INTERNAL STAKEHOLDERS	19	COMPETITORS
79	AUDITORS' REPORT	24	INSTITUTIONS
		27	THE ENVIRONMENT
		40	THE COMMUNITY

■ LEADERSHIP IN INNOVATION

Telecom Italia Group is in the forefront when it comes to technological innovation of products and services, for fixed and mobile telephone services, as well as Internet access technology, webservices and television. A few innovations, among many introduced by the Group are shown here below.

MAIN INNOVATIONS ON THE ITALIAN MARKET IN 2004

Telecom Italia		
Telephony Wireline		<ul style="list-style-type: none"> In 2004 the videophone was launched: the first phone with a color display that allows video calls from fixed line network. Cordless phones with integrated camera which can send MMS were introduced. New tariff offers were introduced for all segments of the clientele.
Internet		<ul style="list-style-type: none"> Integrated offer voice+ internet, "Alice Mia", allowing a client to have up to 5 telephone numbers and up to 3 conversations at the same time (also in wireless mode) in addition to the other features of the "Alice" Internet offer. The speed of all "Alice" services was increased without charge from 256/128 Kbps to 640/256 Kbps. In 2005 other increases will be introduced free of charge. Extension of the public Wi-Fi service. Internet services and band width connection speed for business clients were increased. "Alice Sat" offer was boosted, allowing for ADSL connection by satellite in areas not covered by the fixed broadband service.
Public telephony		<ul style="list-style-type: none"> A prepaid card was launched allowing unlimited Internet access for two months from public booths. "InfoTutto in Città" service which allows you to obtain information on telephone numbers, hotels, restaurants, etc. was introduced.
VAS		<ul style="list-style-type: none"> MMS service from the fixed network which allows to send multimedia messages from fixed phones to e-mail addresses and to mobile phones. Increase of the numbers to which SMSs can be sent during special charity campaigns. Testing of the dictation SMS service (Speech2Text). Increase and strengthening of hosting and web services for business clientele.
TIM		
Network upgrade		<ul style="list-style-type: none"> Expansion of the coverage based on 3G EDGE/UMTS with completion of the upgrade of the GSM platform supporting the EDGE service. The UMTS coverage has reached more than 100 cities and numerous places of interest. Offers were introduced for returning GPRS kits in exchange of 3G dual mode cell phones with the aim of speeding up the transition to third generation mobile telephony.
3G services		<ul style="list-style-type: none"> Launch of "TIM Turbo" service: availability of broadband services with national coverage thanks to the EDGE/UMTS integration. TIM "Turbo Call" service allows enrichment in communication during vocal calls with video and images recorded in the moment by the mobile phone, showing the person we are talking to what is happening in the surrounding area. <ul style="list-style-type: none"> Launch of UMTS PC card for data transmission up to 384 Kbps. Launch of EDGE PC card for data transmission up to 200 Kbps. Launch of Dual mode EDGE/UMTS PC card. TIM video calls from WEB: a client who doesn't have a new generation videophone, can through the the use of a PC make video calls and receive video calls from other TIM customers that have a videophone.
Other services		<ul style="list-style-type: none"> The "ChiamaOra" ("Call now") service allows automatic redialing of numbers: it is a new function introduced in 2004 which allows TIM customers to repeat the call automatically (to a number previously busy or unattainable) as soon as the person called can be reached. The Wi-Fi service offer is a data access service through wide band connection, which can be obtained alternative or in addition to data transmission service through radiomobile networks of second and third generation. Data transmission through the public Wi-Fi service offer was integrated with wireless data transmission. New georeferential services (for example "kiss"- georeferred chat through SMS). Control and management of vehicle fleets.

3	CONTEXT	10	CUSTOMERS
10	EXTERNAL STAKEHOLDERS	17	SUPPLIERS
50	INTERNAL STAKEHOLDERS	19	COMPETITORS
79	AUDITORS' REPORT	24	INSTITUTIONS
		27	THE ENVIRONMENT
		40	THE COMMUNITY

Telecom Italia Internet Media	<ul style="list-style-type: none"> TIN.IT consolidated and strengthened broadband wireless connection services for the Internet, increasing the number of locations for "Hot Spot TIN.IT". The "Gettone Virtuale per navigare in Wi-Fi" service was activated for internet connection through the "Hot Spot TIN.IT" using a temporary code of access obtainable on-line or by credit card. This service can also be used by non TIN.IT customers. The "HELPEXpress" project has been strengthened. This service helps TIN.IT ADSL customers to solve any problems linked to internet connection and electronic mail in a simple and automatic way. Increase of internet services (for example photo print services, new mail services, news and so on). Free of charge applications which allow to increase the speed of internet navigation.
Television	<ul style="list-style-type: none"> The testing of Digital Terrestrial Television (DTT) which continued throughout 2004 was concluded in December. Among others, conditioned access systems have been tested and introduced.

■ CARE FOR THE QUALITY OF SERVICE

The Group's commitment to the quality of service is mainly expressed in the Charters of Services and the General Subscription Conditions.

In connection with the evolution of the market, technology, services and regulations, the Group's companies have updated the Charters of Services, the documents regarding the clientele which describe the fundamental principles of conduct and the general commitments undertaken by the companies of the Group in terms of supply of service.

The General Subscription Conditions are specific to the various services involved, which regulate contractual dealings with customers and comply with measures contained in Legislative Decree No. 259 of August 1, 2003. The Charts of Service can be consulted on the corporate website together with the General Subscription Conditions.

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

AVERAGE TIME FOR SOLVING TECHNICAL PROBLEMS IN THE MAIN COMPANIES OF THE GROUP

Company	Service	Average time
Telecom Italia	Residential phone services (public telephony network + ISDN)	17 hours and 16 minutes
	Business phone services (PTN + ISDN)	7 hours and 51 minutes
	Residential ADSL	13 hours and 53 minutes
	Business ADSL	5 hours and 5 minutes
TIM	Business phone services	1.6 working days
Telecom Italia Media (Tin.it)	ADSL	0.85 (solar day)
	Dial-up	Problems solved with customer over the phone

Note: in the case of Wireline and Tim the data refers to the annual average in 2004, whereas, in the case of TI Media the data refers to the second half of 2004.

In the IT Mercato BU, the average time for maintenance intervention is defined by contract in the Service Level Agreement.

The quality of service, as perceived by customers, is constantly monitored. Among the many monitored aspects of quality, the table shows customer satisfaction level for:

- quality of radiomobile services
 - In Tim, at the end of 2004, the customer satisfaction relating to the quality of the network was over 92%;

3 CONTEXT	10 CUSTOMERS
10 EXTERNAL STAKEHOLDERS >>	17 SUPPLIERS
50 INTERNAL STAKEHOLDERS	19 COMPETITORS
79 AUDITORS' REPORT	24 INSTITUTIONS
	27 THE ENVIRONMENT
	40 THE COMMUNITY

- in TIM Hellas, in June, 92.2% of the clientele said they were satisfied;
 - in Digitel, the annual rate of the satisfaction expressed by residential customers was 4.21, on a scale from 1 = low to 5 = excellent.
- quality of internet services from fixed line;
- in Wireline, in December 2004, 81% of the residential customers and 86% of small companies said they were satisfied with the ADSL services;
 - in Tin.it, during 2004, on average, 76% of the consumer customers and 75% of the business customers said they were satisfied;
 - in the area LATAM, in December 2004, 76% of the ADSL clients and 63% of the Internet free clients of Entel Chile, as well as and 71% of internet users in Bolivia said they were satisfied.

During 2004, almost all the Business Units added further certification to their Quality Systems.

BU	Certification	Certified Company/area
Wireline	ISO 9001/2000	Wireline, Elettra, Pathnet
	ISO 14001	Wireline (rete)
Mobile	ISO 9001	TIM, TIM Hellas, Maxitel, TIM Peru; 2005 objective for Digitel
	ISO 14001	TIM (network)
	QWEB	Websites: Investor Relations, i.tim, company.tim
	BSI OHSAS 18001	TIM's various territorial areas
	BS 7799	TIM
Internet & Media	SA8000-Social Accountability	TIM and TIM Hellas's objective 2005
	ISO 9001	Buffetti, Databank
	ISO 14001	2005 objective for Buffetti
	Audiweb	Matrix
ITM	ISO 9001	11 companies out of 15
Olivetti Tecnost	ISO 9001	Office Products Division, Italian Sales Division, System Division, Olivetti I-JET

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

■ DISPUTES WITH CUSTOMERS

The following table gives a picture of the complaints raised by customers and the case of litigation in 2004 for all the Business Units.

	Numbers of complaints		Numbers of cases of pending litigation
	Received	Resolved	
Corporate			73
BU Wireline	995,453	1,060,537 (*)	17,098 (**)
BU Mobile	5,544,225	5,324,481	744
BU Internet & Media	24,880	24,291	38
BU Market IT	6,275	6,265	59
BU Olivetti Tecnost	162	140	27
LATAM	705,248	691,564	31

(*) The number of complaints resolved is higher than those received because some complaints received in 2003 were resolved in 2004.

(**) In 2004 a new complaints tendency was registered regarding the legitimacy of the mailing expenses of telephone bills charged to the customer. The value of each complaint is very small.

Telecom Italia and TIM offer their customers the chance to access a free, rapid out-of-court procedure to resolve disputes ("Procedure of Conciliation and Arbitration" whose regulations and

3	CONTEXT	10	CUSTOMERS
10	EXTERNAL STAKEHOLDERS	17	SUPPLIERS
50	INTERNAL STAKEHOLDERS	19	COMPETITORS
79	AUDITORS' REPORT	24	INSTITUTIONS
		27	THE ENVIRONMENT
		40	THE COMMUNITY

the application forms can be found on the companies' websites). The procedure was agreed with consumer associations and was reviewed in 2004 to bring it in line with the new European directives on out-of-court settlements. For TIM, the procedure is completely on-line.

■ RELATIONSHIP WITH THE CONSUMER ASSOCIATIONS

Telecom Italia Group began collaborating with the main consumer associations in 1997, when it signed the General Framework Agreement with 12 among the main associations. Meetings aiming at safeguarding consumers' rights continued in 2004. The Consumer Associations were involved in the review of the Charters of Services, contracts, and the Conciliation Rules of the Group.

In general meetings are regularly held with the Associations, to discuss the launch of new services and technologies and the related contract conditions.

The Group takes part, as founder member in the Consumers' Forum, which brings together Consumer Associations, companies and research institutions, and deals with the sphere of consumerism. Within the framework of the Consumers' Forum, topics of customers' interest were examined with the aim to provide the competent Group's departments with strategic feedbacks.

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

- information on the possibility of benefiting from special contractual conditions for categories of disadvantaged customers;
- in the same way as the on-line procedure adopted by TIM last July, a procedure for reconciliation on-line to resolve disputes related to Internet services through out-of-court settlements is being set up by TI Media;
- creation, with the collaboration of the Consumer Associations, of a procedure to safeguard users victims of hoaxes played on Internet through services such as 709, including the free permanent disconnection of these services and the freezing of the disputed bills.

3	CONTEXT	10	CUSTOMERS
10	EXTERNAL STAKEHOLDERS	17	SUPPLIERS
50	INTERNAL STAKEHOLDERS	19	COMPETITORS
79	AUDITORS' REPORT	24	INSTITUTIONS
		27	THE ENVIRONMENT
		40	THE COMMUNITY

■ SUPPLIERS



With the aim of quantifying Telecom Italia's contribution towards the stakeholder "suppliers", the following table shows the consumption of external goods and services and industrial investments:

TELECOM ITALIA GROUP		
(millions of euro)	2004	2003
Expenditure for raw materials and external services (net of basic subscription charge or grants)	13,317	12,962
- of which correlated share	566	454
Industrial Investments	5,335	4,894
- of which correlated shares and internal capital	1,161	1,312
Total contribution	18,652	17,856
- of which correlated shares and internal capital	1,727	1,766
Total net contribution	16,925	16,090

■ QUALITY

The management of the quality of the supply process is guaranteed by a special Group procedure, which was set up during the previous year. This procedure regulates the selection of suppliers based on competition amongst "qualified" suppliers, who have been admitted to a special Register of Vendors. The supplier's evaluation leads to the attribution of a vendor rating indicator, which determines the admission or exclusion of the supplier from the Register of Vendors and makes it possible to calibrate the quality controls on supplies.

Constant commitment to quality is confirmed by the following:

- the supply qualification process has been extended to the most important product categories of to the main suppliers of some overseas subsidiary companies (TIM Hellas, TIM Brazil, Entel Chile, Entel Bolivia);
- a process for the control and authorization of subcontracts was defined for the suppliers of the companies that carry out work on the network for Telecom Italia. Telecom Italia involved these companies in the process of defining evaluation criteria for the subcontractors, by listening to their views and often taking into consideration their observations. A similar procedure, although simplified, was implemented for the subcontractor of companies which install radio base stations for TIM;
- communication with suppliers has been made easier due both to a creation of an Internet site, through which the suppliers have been also able to certify their regular administrative position, and to a dedicated helpdesk, dealing with the management of commercial information. About 300 major suppliers have been enabled to give and visualize information relating to their own position in the Register of Vendor, through the access to Telecom Italia's Internet portal (under the dedicated purchasing section).

3	CONTEXT	10	CUSTOMERS
10	EXTERNAL STAKEHOLDERS	17	SUPPLIERS
50	INTERNAL STAKEHOLDERS	19	COMPETITORS
79	AUDITORS' REPORT	24	INSTITUTIONS
		27	THE ENVIRONMENT
		40	THE COMMUNITY

■ CONTROLS

During 2004, about 14,000 inspections of the Group's suppliers and sub-suppliers on a random sample basis were carried out. The controls were planned and implemented in accordance with a specific "risk assessment" model for the industrial sectors pertaining to purchasing. In the case of situations potentially at risk, determined by a new supplier or particular supply characteristics, further controls were carried out. The results of the inspections led to the following actions:

- inclusion in/exclusion from the Register of Vendors listing the qualified suppliers of the Group;
- authorization (where appropriate) to sub-contract activities to third-party companies;
- overall assessment of the supplier with regard to specific sectors of purchasing and subsequent assessment of a Vendor Rating;
- acceptance or refusal of the supplies;
- possible contractual implications, such as application of penalties.

■ CARE FOR ETHICS AND THE ENVIRONMENT

The ethical qualification assessment, already implemented for the qualified suppliers included in the Register of Vendors, has been extended to all the Telecom Italia Group's active suppliers. This evaluation, based on the observance of the principles of Global Compact, guarantees a better safeguarding for all the stakeholders involved in the purchasing process and improves, in the mid to long-term period, the relationship with the suppliers.

The contribution given by the Purchasing department to the "Environmental Project" was significant. It helped in defining the "guidelines for the controls on the management of the waste produced by the Group's companies. The guidelines are applied to all Business Units and companies of the Group.

Specific audits were carried out in order to verify if the environmental normatives had been observed by the Group's suppliers and to check the quality of the processes relating to the application of those norms. In some cases, the audits led to requests for improvement. A procedure for the integration the Vendor Rating requirements has started, in order to include the monitoring and checking of the waste produced by suppliers in the assessment process.

3	CONTEXT	10	CUSTOMERS
10	EXTERNAL STAKEHOLDERS	17	SUPPLIERS
50	INTERNAL STAKEHOLDERS	19	COMPETITORS
79	AUDITORS' REPORT	24	INSTITUTIONS
		27	THE ENVIRONMENT
		40	THE COMMUNITY

■ COMPETITORS



■ RELATIONS

Telecom Italia Group, which joined the TV sector with the acquisition of La7 and MTV, started experimentation of Digital Terrestrial TV on a sample of 4,000 families in the following cities: Turin, Bologna, Modena, Pesaro, Macerata, Rome and Milan. The experimentation was concluded on December 31, 2004.

Telecom Italia took part, in collaboration with its competitors in the TV sector, at conventions, seminars, study days, and round tables regarding the main technical, economical and regulatory topics in the industry, concerning, in particular, to the development of innovative services.

Telecom Italia participates in the activities of DGTVi¹, the Association for the development of the Digital Terrestrial TV in Italy, which was founded by Rai, Mediaset, Bordoni Foundation, Radio Television association and D-free. The aim of the Association is to promote the conversion to Digital Terrestrial TV and to keep track of all the problems linked to the interoperability of the networks built by the various television operators.

The Association has been involved in several promotional activities of the Digital Terrestrial TV taking part in important sectorial events, organizing an important meeting at national level with the participation of journalists concerned in digital matters as well as training courses for aerial fitters and installers.

Furthermore, in collaboration with Fastweb and Telefonica, a meeting at European level was organized with the aim of promoting the development of the market of content and copyrights.

Along with other fixed line operators, Telecom Italia has supported numerous meetings in order to create a framework agreement, which is now under development, for the constitution and running of a unique Data Base containing numbers and the necessary elements for the identification of subscribers to the national fixed network operators. The objective is to supply Italian customers with an information service based on a single list of the names of all subscribers to the various operators active in Italy. During the following months, both the mobile network operators, who have already signed an agreement on this matter, and the fixed network operators should sign a protocol of intent in order to harmonize the two different framework agreements and guarantee the interoperability of the related databases.

As from July 1, 2004, an agreement between the mobile network operators has been operative. This agreement, concluded under the aegis of the National Regulatory Agency, aims at creating a database of identification codes for mobile terminals (International Mobile Equipment Identity - IMEI). The database will enable stolen phones to be identified remotely and rendered unusable through connection to the CEIR (Central Equipment Identity Register), a centralized database set up by GSM Association.

The agreement foresees the possible future integration with similar systems existing in other European countries.

3	CONTEXT	10	CUSTOMERS
10	EXTERNAL STAKEHOLDERS	17	SUPPLIERS
50	INTERNAL STAKEHOLDERS	19	COMPETITORS
79	AUDITORS' REPORT	24	INSTITUTIONS
		27	THE ENVIRONMENT
		40	THE COMMUNITY

■ ORGANIZATIONS AND ASSOCIATIONS

Collaboration with competitors has continued at Community level within the context of various associations and events:

- BRT (Brussels Round Table) unites various European TLC operators and manufacturing companies. It aims at maintaining a constant dialogue with the European Institutions about major issues relating to the ICT sector at Community level. The BRT is participated by the CEOs of the various companies, and the most senior representatives of the European institutions are invited;
- ETNO (European Telecommunications Network Operators' Association) is the largest association in the sector on the Continent and its objectives include the development of a competitive, efficient European telecommunications market, through the coordination of the various operators and dialogue with the institutions. Telecom Italia is on the Executive Board and chairs the Sustainability working groups;
- EIF (European Internet Foundation), unites the TLC manufacturers and operators, software providers, ISP and content providers. The association aims at creating, within the European Parliament and among the various communications operators in Brussels, a favorable environment for fast development of the internet, broadband, convergence and multi-media technologies and services, benefiting the final customer;
- ERT (European Round Table of Industrialists) is a forum in which 45 European Industry leaders take part. Its aim is to promote the competitiveness and growth of the European economy;
- ESF (European Service Forum), consists of European operators in the service sector aiming at promoting the interests of the industry of European services and the liberalization of the service sector at worldwide level in the framework of the GATS 2000 negotiations;
- ITU (International Telecommunications Union) is part of the United Nations System and aims at promoting the development of the sector on an international level through cooperation between the public and the private sectors;
- BRUEGEL (Brussels European and Global Economic Laboratory) was established in January 18, 2005, and is the new Center for the European Studies, based on a joint collaboration between the European Community Governments and the main companies of the Continent and dedicated to the analysis of international economy and the principal industrial sectors. Telecom Italia is the sole Italian supporting company.

Together with other operators in the sector, Telecom Italia Group participates in the activities of the Ugo Bordoni Foundation which conducts, among other things, research, study and consultancy activities in the field of communications and information technologies, in particular in the digital television sector.

The Ugo Bordoni Foundation has been legally entitled to the technical supervision of the experimental activities relating to digital terrestrial transmissions and interactive services. Telecom Italia's annual contributions to Ugo Bordoni Foundation are included in the calculation of the contribution to the "Community" stakeholder according to a model of the London Benchmarking Group (LBG) (see the dedicated section on the matter).

Work continues in the associational relations and coordination with Confindustria and its members associations. Initiatives at national and local level, which, in some cases, are shared with competitors, consist in actions and meetings to promote business development and the safeguarding of corporate interests on economical, regulatory, unions and labor matters. Telecom Italia Group takes part in 97 regional associations and in the following federations and associations: Federmeccanica, Federcomin, Aitech, Asstel, Assoelettrica and Assografici.

3	CONTEXT	10	CUSTOMERS
10	EXTERNAL STAKEHOLDERS	17	SUPPLIERS
50	INTERNAL STAKEHOLDERS	19	COMPETITORS
79	AUDITORS' REPORT	24	INSTITUTIONS
		27	THE ENVIRONMENT
		40	THE COMMUNITY

■ REGULATORY FRAMEWORK

With the coming into force of the new "Code of Electronic Communications" on September 16, 2003, the regulatory framework of the telecommunications sector, in Italy, has now been consolidated. Among other things, it included into the national regulatory framework the EC Directives referred to in the "99 Review" regarding electronic communication services and networks ("Access", "Authorization", "Framework" and "Universal Service" directives). The following is a brief description of the main regulatory issues adopted by the competent authorities in 2004.

Information service on subscribers "12"

When the Code of Electronic Communication came into force, sanctioning the non-applicability of the obligations to provide Universal Service for the subscriber information service "12", Telecom Italia published the new conditions of its service with effect on November 1, 2003, January 1, 2004 and July 1, 2004.

With Resolution No. 15/04/CIR dated November 3, 2004, the Italian Communication Authority (AGCOM) provided for the assignment by the Communication Ministry of the rights to use subscriber information numbers (12xy) to telecommunication operators that request it. The service will come into effect on July 1, 2005.

Universal Service 2002

With Resolution No. 2/04/CIR dated April 8, 2004, AGCOM launched a public consultation regarding the proposal for a resolution concerning the applicability of the mechanism to distribute and to evaluate the net cost for the year 2002. AGCOM calculates a net cost equal to about 37 millions of Euro, with a financial support of about 24 million in favor of Telecom (of which 12 million from TIM, 8 from Vodafone and 4 from WIND).

WLL public consultation service

With Resolution No. 55/04/CONS dated March 11, 2004, the Authority announces a public consultation regarding measures for the assignment of the rights to use frequencies available for broadband point-multipoint radio networks for Wireless Local Loop systems.

With Resolution No. 195/04/CONS, dated June 23, 2004, AGCOM established the modalities for the assignment of these frequencies by the Ministry of Communications.

Interconnection and unbundled access to the local network

With Resolution No. 16/03/CIR dated December 23, 2003, AGCOM announces a public consultation regarding the approval of the interconnection rates for 2004 made public by Telecom Italia on October 31, 2003. On April 14, 2004, with Resolution No. 03/04/CIR, AGCOM approved the offer, substantially confirming the proposal put forward by Telecom Italia which provides for the reduction of interconnection costs compared to last year. This is in line with the network cap system introduced by the same Authority.

Price cap

In the framework of the revision of prices of retail services subject to price cap regulations, applying from January 1, 2004, the price of connection fee for residential clients was increased by 25% (from Euro 100 to 125), the price of line transfer was increased by 20% (from Euro 50 to 60) and the cost of the monthly subscription fee for business clients was increased by 3% (from 16.5 to 17 Euro). The price of calls from fixed line numbers to mobile phones was reduced by 2% as from July 2, 2004.

Regarding the 2005 price cap, subscription fees for business clients was increased by 7.6% (from 17 to 18.30 Euro) as from January 1. A variation of price for local calls has been in force since January 23 (increase of the call set up price and decrease of the tariff per second) which, however, does not affect the customer's average telephone bill.

3 CONTEXT	10 CUSTOMERS
10 EXTERNAL STAKEHOLDERS >>	17 SUPPLIERS
50 INTERNAL STAKEHOLDERS	19 COMPETITORS
79 AUDITORS' REPORT	24 INSTITUTIONS
	27 THE ENVIRONMENT
	40 THE COMMUNITY

Law No. 448/98, art. 20 about the telecommunications licence fees

With the ruling of the European Court of Justice of September 18, 2003, the non-conformity to the European Law of the licence fee required by the law No. 448/98 art. 20, was sanctioned. With reference to this law, the regional administrative court (TAR) in Lazio upheld the appeal lodged by Telecom Italia with ruling No. 47/2005, published on January 4, 2005. On the basis of this ruling, the ministerial decree dated March 21, 2000 regarding the measures for the payment of the fee established by law No. 448 of December 23, 1998, under the second paragraph of the art. 20, has been declared invalid.

Indicators of the quality service and services charter

With Resolution No. 254/04/CSP, dated November 10, 2004, AGCOM approved a directive regarding quality and charters of services for fixed vocal telephone services for the companies supplying electronic communication services available to the public.

Each year AGCOM sets the threshold which must to be respected, in particular, specific quality indicators for universal service are identified. In a similar way, with resolution No. 278/04/CSP dated December 10, 2004, AGCOM issued a policy regarding the quality and charters of the pay television service.

Market Analyses relative to electronic communications

In compliance with Recommendation CE No. 2003/497 and with the Electronic Communication Code (Legislative Decree No. 259 dated August 1, 2003), with the Resolution No. 118/04/CONS dated May 19, 2004, AGCOM started the preliminary consultations concerning analyses of the 18 markets mentioned in the Recommendation and in the articles numbers 18 and 19 of the Electronic Communication Code.

The procedures' objective is "market analysis, evaluation of competitiveness, identification of possible predominant operators, and creation of a proposal regarding the cancellation, maintenance and modification of the existing requirements, that is the introduction of new requirements". AGCOM launched public consultations on the following markets:

- Resolution No. 410/04/CONS, (Official Gazette of December 24, 2004) regarding local, national and fixed/mobile telephone services markets available to the public and supplied through fixed line for residential and non-residential clients (markets No. 3 and 5);
- Resolution No. 411/04/CONS (Official Gazette of January 3, 2005) regarding retail leased lines (market No. 7);
- Resolution No. 414/04/CONS (Official Gazette of January 4, 2005) regarding the international telephone services accessible to the public and supplied though fixed line to residential and non-residential clients (markets No. 4 and 6);
- Resolution No. 415/04/CONS (Official Gazette of January 19, 2005) regarding the market of unbundled access (including shared access) to copper network and sub-network for vocal and broadband services (market No. 11);
- Resolution 465/04/CONS dated December 22, 2004, regarding the market of termination of vocal calls on different mobile networks (market No. 16).

Other resolutions and measures of corporate interest

- Resolution No. 417/04/CONS containing the regulatory measures for the resolution of conflict of interest;
- Resolution No. 406/04/CONS, which published the description and report of conformity of accounting, accounting separation, and regulatory accounting of Telecom Italia, relative to 2001 financial year;
- Resolution No. 253/04/CONS on the access, of suppliers of content of particular value, to the Digital Terrestrial Television networks;
- Communication of 17/11/04 which started the procedure on the analysis and applicability of the sharing and evaluation mechanism of the net cost of the 2003 universal service.

3	CONTEXT	10	CUSTOMERS
10	EXTERNAL STAKEHOLDERS	17	SUPPLIERS
50	INTERNAL STAKEHOLDERS	19	COMPETITORS
79	AUDITORS' REPORT	24	INSTITUTIONS
		27	THE ENVIRONMENT
		40	THE COMMUNITY

■ INTERBUSINESS SERVICES

The main accounting principles used to determine the economic values for Interbusiness services are described below. These accounting principles have been verified by the auditors since 1996.

In 2004, this audit was performed by Reconta Ernst & Young SpA.

- **Revenues:** are stated at market prices for services offered in competition and at rates established by law for regulated services and recorded on accrual basis. In the case of services that imply the use of retail dedicated access lines, the revenues also include the income from leasing such lines (valued on the basis of the rates defined in the related resolutions), with the consequent accounting of the same amount among costs.
- **Direct costs:**
 - network utilization costs include the cost to use the regulated carrier services (dedicated circuits) and the cost to use the carrier products/services offered in a competitive framework; they are therefore valued, respectively, using the rates established by the law and the rates applied to all third-party customers, the same as occurs in the cost structure of other carriers in the sector;
 - labor costs represent the cost of personnel who worked to provide such services; the cost includes salary and wages, social security costs, provisions for employee termination indemnities and other sundry costs recorded on the basis of the number of people working in the appropriate structures. Such costs are determined according to accounting standards;
 - other direct costs refer to other typologies of direct costs (marketing, connection fee, operations and maintenance, etc.) and indirect costs (costs of departments supporting the operating functions) valued using unambiguous cost accounting standards and applying specific allocation methods.
- **Depreciation** of fixed assets directly employed in providing the services in question is determined on the basis of the lifecycle of the fixed assets of Telecom Italia.

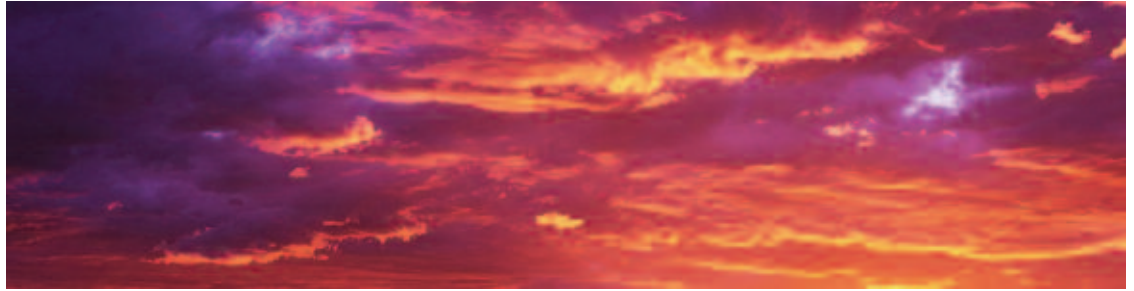
The economic results of the interbusiness services are reported as follows:

(thousand of euro)	2004	2003	Change	
			amount	%
Revenue	51,053	62,822	(11,769)	(18.7)
Direct costs	(29,385)	(46,855)	17,470	(37.3)
of which:				
Labor costs	(4,168)	(2,016)	(2,152)	106.7
Network utilization costs	(22,100)	(38,548)	16,448	(42.7)
Other	(3,117)	(6,291)	3,174	(50.5)
Gross operating profit	21,668	15,967	5,701	35.7
Depreciation	(15,742)	(16,731)	989	(5.9)
Operating result	5,926	(764)	6,690	

The results for 2004 show an operating result of euro 5,926 thousand compared to a loss of Euro 764 thousand in 2003. Such result is due to the combined effect of the reduction in revenues that was more than offset by the reduction in costs. The impact on revenues (– 18.7%) is mainly on account of a decline in customers who switched to other alternative offers. The reduction of resources absorbed by the service is due to a decline in the clientele and, in some cases, a reduction in the unit cost; in total, therefore, costs decreased by 37.3%. Depreciation shows a reduction of 5.9%.

3	CONTEXT	10	CUSTOMERS
10	EXTERNAL STAKEHOLDERS	17	SUPPLIERS
50	INTERNAL STAKEHOLDERS	19	COMPETITORS
79	AUDITORS' REPORT	24	INSTITUTIONS
		27	THE ENVIRONMENT
		40	THE COMMUNITY

■ INSTITUTIONS



In 2004, Telecom Italia Group paid the Italian State 3,650 million euro and foreign states 584 million euro, as shown in the table below. The Group received capital grants from Italian Public Administrations for 12 million euro, of which euro 8 million pertained to Telecom Italia.

TELECOM ITALIA GROUP

(in millions of euro)	2004			2003		
	Total	Italy	Foreign	Total	Italy	Foreign
Social security and pensions	938	786	152	1,308	1,267	41
Income taxes	3,054	2,757	297	1,014	753	261
Indirect taxes	145	107	38	128	110	18
TLC license fee	97	0	97	56	0	56
Dividends	0	0	0	0	0	0
Total	4,234	3,650	584	2,506	2,130	376

■ LOCAL INSTITUTIONS

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

■ NATIONAL AND INTERNATIONAL INSTITUTIONS

Telecom Italia Group maintains constant, transparent relations with the central national institutions (Parliament, Government and independent sectorial authorities), with the aim of representing the Group's position in areas of specific interest and monitoring the procedure of approval of relative prescriptive acts in those areas. Constant support is given to the competent institutions (Parliamentary commissions, the Ministry of Communications and other government departments) in preparing regulations of interest. Special attention is paid to relations and similar support is given to the authorities of countries in which controlled companies are active.

3	CONTEXT	10	CUSTOMERS
10	EXTERNAL STAKEHOLDERS	17	SUPPLIERS
50	INTERNAL STAKEHOLDERS	19	COMPETITORS
79	AUDITORS' REPORT	24	INSTITUTIONS
		27	THE ENVIRONMENT
		40	THE COMMUNITY

■ EUROPEAN INSTITUTIONS

Telecom Italia plays a continuous, interactive role with the European Commission and its Institutions (for example: the Communication Committee and the Radio Spectrum Policy Group regarding the management of spectrum), the Council of the European Union, the European Parliament and the European Regulators Group (ERG) with the aim of monitoring the activities which have significant impact on the Group.

Numerous meetings were held to discuss and initiate various projects, for example: "Local Loop Unbundling", "Partial circuits", "Recommendation on remedies", "Intellectual Property Rights" (IPR), "eEurope", "2005 Action Plan", "Regulatory policies in the broadband sector", "TV without boundaries", "Services of General Interest" (SIG), "Unsolicited commercial communications" (SPAM), "Digital Rights Management Systems", "Data retention", "eMoney", "Spectrum trading", "VoIP", "Fiber to the home", "Collecting societies", "Software patentability".

■ NATIONAL LEGISLATION

The following legislative provisions are of key interest to the Group:

- law No. 5 dated January 16, 2004 converting Legislative Decree No. 315/2003 contains dispositions concerning authorizations for electronic communication plants;
- law No. 45 dated February 26, 2004 converting Legislation Decree No. 354/2004 contains provisions to modify various articles of Legislation Decree No. 196/2003 "Code of practice for Protection of personal data" regarding the registration of telephone traffic data. Telecom Italia is obliged by law to keep data for 24 months for reasons of control and repression of general offenses, and a further 24 months reasons of control and repression of more serious crimes, including those regarding computer and telematic systems;
- law No. 112 dated May 3, 2004 (the "Gasparri law") identifies the general principles underlying the national, regional and local television broadcasting system and adapts it to the new digital technology and converging process between television and other mass and interpersonal communications sectors such as telecommunications, publishing (including electronic publishing), and Internet in all its applications. As owner of television channel La7 and MTV, the Group has particular interest regarding this law as well as for the aspects concerning antitrust regulations;
- law No. 128 dated May 21, 2004 converting Legislative Decree No. 72/2003 ("Urbani" decree) proposes measures to contrast the illegal telematic diffusion of contents protected by copyright;
- the 2005 financial act has confirmed for the year 2005 contributions for the spreading of Digital Terrestrial Television decoders (contribution of euro 70 per decoder, for a total allocation of 110 million euro) and broadband access to Internet (contribution of euro 50, up to 75 in specific conditions, for a total of 30 million euro). The financial act also established a contribution of 10 million euro for the promotion and realization of "all digital" areas and T-Government services on the Digital Terrestrial Television platform;
- the constitutional bill for the modification of second part of the Constitution. The bill establishes a federal Senate to which it entrusts the examination of the fundamental principles of concurrent legislation matter (regulations regarding communications were included too in the original version of the bill) leaving the Regions to establish the regulation in detail. Telecom Italia has supported the proposal to modify the document which is been considered in the text under examination and aims to bring telecommunications regulations back within the sphere of exclusive competence of State, assigned to the Chamber of Deputies;

3	CONTEXT	10	CUSTOMERS
10	EXTERNAL STAKEHOLDERS	17	SUPPLIERS
50	INTERNAL STAKEHOLDERS	19	COMPETITORS
79	AUDITORS' REPORT	24	INSTITUTIONS
		27	THE ENVIRONMENT
		40	THE COMMUNITY

- draft of Legislative Decree bearing a sole text of legislative provisions on radio-television matters, according to art. 16 of Law No. 112 dated May 3, 2004;
- bill regarding the legal ownership of television broadcasting rights in codified form, which entitles the ownership rights to those who are the organizers of the First and Second Division national football league championship and of other sport competitions included in the federal regulations;
- bill giving provision for the introduction of group action to safeguard the rights of consumers and subscribers (class action).

■ INTERNATIONAL LEGISLATION

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

- "Proposal for a directive of the European Parliament and of the Council on environmental liability with regard to the prevention and remedying of environmental damage": proposed by the Environment General Direction and adopted on March 30, 2004. The adoption procedure was followed by the ETNO Sustainability working group.
- "Communication from the Commission to the Council and the European Parliament - Modernizing Company Law and Enhancing Corporate Governance in the European Union - A Plan to Move Forward". In the framework of this action plan a public consultation is under way concerning the remuneration of the Directors in order to issue a Recommendation. A brief account of the contributions has been published. Regarding short term actions mentioned in the action plan, the Commission has issued "a proposal of directive for the legal control of accounts in the European Union amended by directives 78/660/EC and 83/349/EC" (COM177)". The proposal was passed on to the European Parliament and Council in March and the adoption procedures for both measures is under the supervision of the office in Brussels.
- "Proposal for a Directive of the European Parliament and of the Council on the minimum health and safety requirements regarding the exposure of workers to the risks arising from physical agents (electromagnetic fields)": task force created by ETNO Sustainability working group to deal with electromagnetic fields has issued a Reflection Document - RD171 in collaboration with the GSM Europe e Mobile Manufacturers Forum which has already been sent to the European Commission. The document regarding electromagnetic emissions and directed to European Parliament members, aims to highlight the safeguarding of public health initiatives by the telecommunications operators as well as current status of scientific research and problems regarding the implementation of 3G networks. The proposal was adopted on April 29, 2004 with directive 2004/40/EC and basically acknowledges comments of the telecommunications operators.
- "Proposal for a Directive of the European Parliament and of the Council on establishing a framework for the setting of Eco-design requirements for Energy-Using Products and amending Council Directive 92/42/EEC (COM/2003/0453 final - COD 2003/0172)": launched by the European Commissions' DG Enterprise. The ETNO Sustainability working group tracks its development.
- Other measures relating to fixed and mobile telephony of the countries in which the Group is active, for example the regulations regarding the broadband wholesale and retail offers.

3	CONTEXT	10	CUSTOMERS
10	EXTERNAL STAKEHOLDERS	17	SUPPLIERS
50	INTERNAL STAKEHOLDERS	19	COMPETITORS
79	AUDITORS' REPORT	24	INSTITUTIONS
		27	THE ENVIRONMENT
		40	THE COMMUNITY

■ THE ENVIRONMENT



In 2004, Telecom Italia Group launched the "Environmental Project" and started the study of the coordination of the various Environmental Management Systems (EMS) of the Group with the purpose of achieving an EMS at Group level.

The EMS currently adopted within the Group is being assessed in collaboration with DNV (Det Norske Veritas) which uses the evaluation method IERS (International Environment Rating System). IERS is an International Environment Evaluating System, to systematically analyze all the variables.

■ ENVIRONMENTAL PERFORMANCE INDICATORS

The data reported below is related to the environmental performance of the Group assessed in the following areas:

- waste management
- water
- energy consumption
- emissions

Comparing data with the previous years has also been reported.

All the data reported below has been calculated by processing operating data that has been appropriately reclassified.

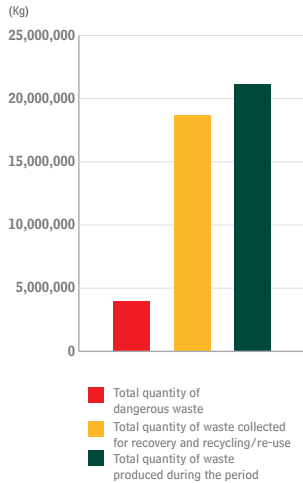
The basic data used for determining corporate performance has been inserted by the reference person of each Business Unit through a special, uniform computerized procedure used by all the subsidiaries in the Group involved in the reporting process.

The percentage pertaining to Wireline compared to Telecom Italia has been highlighted in a special column in the tables relating to the aggregate of Telecom Italia.

3	CONTEXT	10	CUSTOMERS
10	EXTERNAL STAKEHOLDERS	17	SUPPLIERS
50	INTERNAL STAKEHOLDERS	19	COMPETITORS
79	AUDITORS' REPORT	24	INSTITUTIONS
		27	THE ENVIRONMENT
		40	THE COMMUNITY

WASTE MANAGEMENT

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



WASTE PRODUCED

		Telecom Italia ^(*)	Percentage change		Percentage Wireline compared to TI
			2004 compared to 2003	2004 compared to 2002	
Total quantity of dangerous waste	Kg	3,965,515	8.65%	-61.96%	99.27%
Total quantity of waste collected for recovery and recycling/re-use	Kg	18,677,367	16.13%	-12.59%	97.09%
Total quantity of waste produced during the period	Kg	21,174,311	12.64%	-10.81%	95.77%
Ratio between quantity of recovered/recycled waste and total quantity of waste	%	88.21%	2.65%	-1.79%	

(*) In this table and in the following tables of the environmental section, besides Wireline the scope of TI refers to TILab, TIFM/TI Facility Management, TILS (TI Learning Services) and ITG (Information Technology of the Group). To facilitate comparison, the 2003 data has been recalculated accordingly to the same scope.

The data refers to waste recorded in compliance with Legislative Decree No. 22 of February 5, 1997.

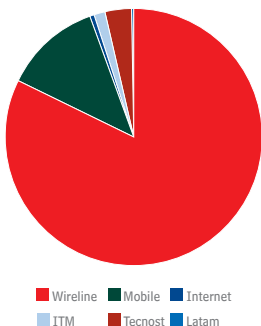
Up until 30th of March each year there could be a small adjustment of the situation described on 31st December due to the fact that the source of the data is the registers of acquisition and disposal of waste and is only confirmed with the verification of the real weight at the disposal plant. That information is supplied to the waste producer within three months of consignment and this justifies the possibility of an adjustment of these figures.

Compared to 2002, there was a reduction in the quantity of waste generated by Telecom Italia, while an increase of 12.64% was registered compared to 2003. This increase is due both to the replacement of the wooden telephone poles, in compliance with the Agreement Program with the Ministry of the Environment, the Ministry of Production Activities, the Conference of State and the Regions, and the extra clearing activities of the nationwide telephone exchanges. The percentage of the recovered and recycled waste is higher than 88%, with an increase of 2.65% compared to the previous year.

Compared to 2002, the quantity of dangerous waste was more than 61% lower, while an increase of 8.65% was registered compared to 2003. This increase is due to a clearing of diesel oil contaminated ground (equivalent to 403,080 Kilograms) as a result of a tank leakage.

The table and the chart below show the total quantity of the waste produced by the Group and the data for each Business Unit as a percentage of the Group.

Data of each Business Unit as a percentage of the total waste produced by the Group



Waste production

	Group	Data of each Business Unit as a percentage of the Group total						
		BU Wireline ^(*)	BU Mobile	BU Internet & Media	BU ITM	BU Olivetti Tecnost	BU LATAM (**)	
	Kg	26,421,977	82.42%	12.13%	0.66%	1.28%	3.47%	0.04%

(*) In this table and in the following tables of the environmental section, besides the BU Wireline data, TILab, TIFM (TI Facility Management), TILS (TI Learning Services) and ITG (Group Information Technology) data is included.

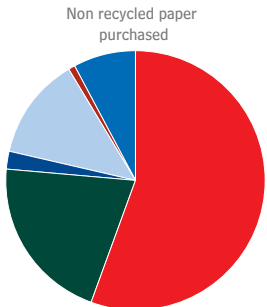
(**) Entel Chile and Entel Bolivia data is included.

Eco-recovery of wooden telephone poles

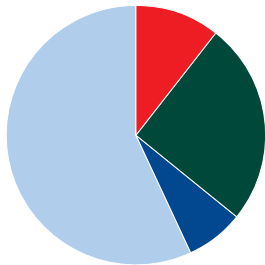
During the year 2004, a Vigilance Committee was created to control the implementation of the Agreement Program on the telephone poles signed on May 27, 2003, with the Ministry of the Environment, the Ministry of Production Activities, the Conference of State and the Regions and recycling companies. The Vigilance and Control Committee, made up of one representative from each signatory party of the agreement, together with representatives from the National Observatory of Waste, APAT and the High Institute of Health, meet periodically and monitor systematically the state of implementation of the agreement.

3	CONTEXT	10	CUSTOMERS
10	EXTERNAL STAKEHOLDERS	17	SUPPLIERS
50	INTERNAL STAKEHOLDERS	19	COMPETITORS
79	AUDITORS' REPORT	24	INSTITUTIONS
		27	THE ENVIRONMENT
		40	THE COMMUNITY

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



Recycled paper purchased



Wireline Mobile Internet
ITM Tecnost Latam

Paper

The paper purchased by the Group during the year slightly exceeded 2,100 tons, of which more than half was purchased by the Wireline Business Unit.

The amount of paper purchased compared with the previous year was almost halved, because the production activity of telephone directories and Yellow Pages was sold, with the sale of Seat Pagine Gialle Group, in the second half of August 2003.

Paper	Group	BU Wireline	BU Mobile	BU Internet & Media	BU ITM	BU Olivetti Tecnost	LATAM
Non-recycled paper purchased (Kg)	1,992,750	55.74%	20.73%	2.18%	12.81%	0.89%	7.65%
Recycled paper purchased (Kg)	123,122	10.74%	25.10%	7.31%	56.85%	-	-
Total paper purchased (Kg)	2,115,872	53.12%	20.99%	2.48%	15.37%	0.84%	7.20%

The monitoring of the procurement activity is defined in the new type of contract with suppliers.

The following charts show each Business Unit's paper purchase as the percentage of the Group's total amount of recycled and non-recycled paper.

■ WATER

In 2004, Telecom Italia's water consumption increased by 23% compared to the previous year. This increase is due to the fact that when the data was recorded in 2003, the relative end of the year balance had not yet been communicated; therefore data for the year 2003 was underestimated compared to the real consumption.

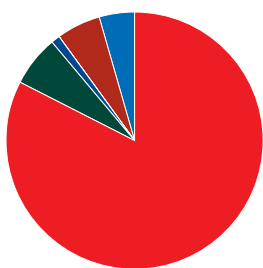
Water consumption	Telecom Italia 2004	Percentage change		Percentage Wireline compared to TI
		2004 compared to 2003	2004 compared to 2002	
m ³	5,582,275	23.22%	9.03%	85.50%

Data from the main Business Units in the Group shows that approximately 82% of water consumption is produced by the Wireline Business Unit.

Water consumption	Group 2004	Data of each Business Unit as a percentage of consolidated Group data					LATAM
		BU Wireline	BU Mobile	BU Internet & Media	BU ITM	BU Olivetti Tecnost	
m ³	6,976,138	81.99%	6.42%	0.93%	0.92%	5.47%	4.27%

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

Water consumption



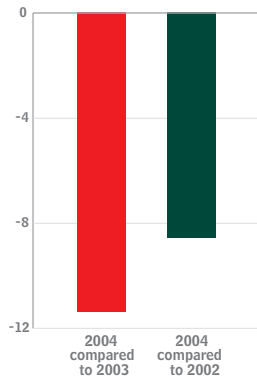
Wireline Mobile Internet
ITM Tecnost Latam

3	CONTEXT	10	CUSTOMERS
10	EXTERNAL STAKEHOLDERS	17	SUPPLIERS
50	INTERNAL STAKEHOLDERS	19	COMPETITORS
79	AUDITORS' REPORT	24	INSTITUTIONS
		27	THE ENVIRONMENT
		40	THE COMMUNITY

ENERGY

Electricity

Energy purchased or produced



Energy purchased or produced	Telecom Italia 2004	Percentage change		Percentage Wireline compared to TI
		2004 compared to 2003	2004 compared to 2002	
Total energy from various sources	Kwh 1,555,087,662	-11.39%	-8.57%	90.63%
Total energy from renewable sources	Kwh 132,000,000	-32.88% (*)	-	86.06%

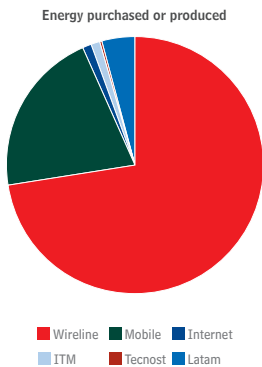
The **electrical energy** used to supply corporate buildings and infrastructures is mainly produced by fossil fuel.

Telecom Italia uses more than **88%** of the energy it purchased for its telecommunications network.

Thanks to improvements in the management of electrical energy and to the efficiency of the infrastructures developed during recent years it has proved possible to continue the trend of **reducing** electrical energy consumption (- 11.39% compared to 2003; - 8.57% compared to 2002).

Considering that electrical energy is acquired from different operators, we can estimate that at least 30% of the energy consumed comes from renewable hydroelectric and geothermic sources, solar energy plants and wind-farms, amounting to approximately 450,000,000 kWh.

The table below shows the data relating to the energy purchased and produced by the Group and the percentage change of each Business Unit.



	Group	Data of each Business Unit as a percentage of consolidated Group data					
		BU Wireline	BU Mobile	BU Internet & Media	BU ITM	BU Olivetti Tecnost	BU LATAM
Energy purchased or produced	Kwh 2,274,358,278	71.48%	21.59%	1.17%	1.36%	0.15%	4.24%

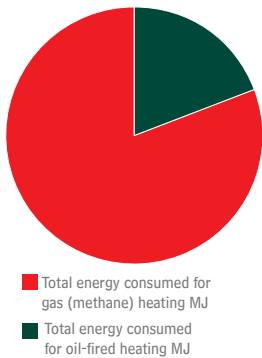
Experiments are continuing with alternative sources of electrical energy production, to supply radio base stations using photovoltaic and wind energy production technology.

The Wireline Business Unit's consumption of electrical energy amounts to approximately 71% of the total consumption of the Group, whereas the consumption of the Mobile Business Unit is more than 21% of the total.

(*) To facilitate comparison between 2004 and 2003 data, the latter has been recalculated and includes the energy purchased abroad, attributed to "green certification".

3 CONTEXT	10 CUSTOMERS
10 EXTERNAL STAKEHOLDERS	17 SUPPLIERS
50 INTERNAL STAKEHOLDERS	19 COMPETITORS
79 AUDITORS' REPORT	24 INSTITUTIONS
	27 THE ENVIRONMENT
	40 THE COMMUNITY

Telecom Italia SpA: breakdown of energy for heating divided by type



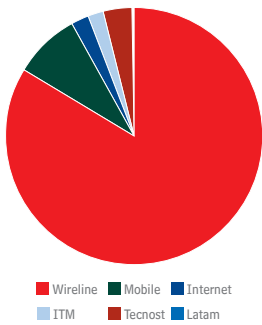
Fuel for heating

The substitution with methane gas of heating oil continues to increase, with a **reduction** of approximately 10% in the use of oil, which produces a higher level of pollution.

Energy for heating	Telecom Italia 2004	Percentage change		Percentage Wireline compared to TI
		2004 compared to 2003	2004 compared to 2002	
Total energy consumed for oil-fired heating	Mj 177,663,102	-10.72%	-8.09%	92.48%
Total energy consumed for gas (methane) heating	Mj 746,431,953	13.60%	9.08%	78.27%
Total energy consumed for heating	Mj 924,095,055	7.95%	5.30%	81.00%

Both the Wireline Business Unit and the Mobile Business Unit have decreased their consumption of natural resources for heating, substituting polluting fuel with low impact sources. Changes in emissions will be described in greater detail in the next section, where different levels of emissions produced by heating, vehicles and electrical energy will be assessed.

TI Group: breakdown of energy for heating per each BU



Group	BU Wireline	BU Mobile	BU Internet & Media	BU ITM	BU Olivetti Tecnost	LATAM	
							Data of each Business Unit as a percentage of consolidated Group data
Total energy for heating	Mj 1,111,330,984	83.86%	8.28%	2.08%	2.12%	3.67%	-

The consumption of the Wireline Business Unit as a percentage of the overall consumption of the Telecom Italia Group remains decisive: more than 83% of total energy.

Vehicle fuel

Vehicle fuel consumption	Telecom Italia 2004	Percentage change		Percentage Wireline compared to TI
		2004 compared to 2003	2004 compared to 2002	
Vehicle consumption of lead-free fuel	l 17,997,336	-14.11%	-6.47%	98.91%
Vehicle consumption of diesel fuel	l 8,220,596	60.98%	175.49%	83.36%
Total vehicle consumption	l 26,217,932	-0.60%	-	-

All the cars of the corporate fleet run on lead-free or diesel fuel.

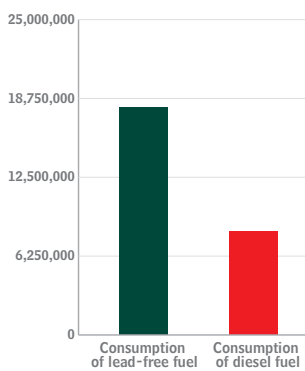
In 2004, consumption of diesel fuel represented 30% of total vehicle fuel consumption.

In 2004, Telecom Italia reduced its vehicle fleet by more than 1,000 units, equivalent to a **reduction** of 4%. At the same time, the percentage of catalytic vehicles increased to about 100% of the total.

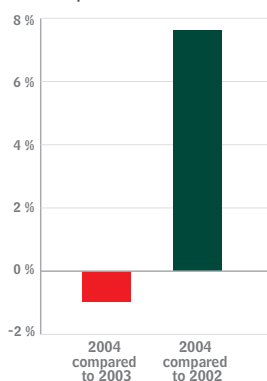
Number of vehicles and distance travelled	Telecom Italia 2004	Percentage change		Percentage Wireline compared to TI
		2004 compared to 2003	2004 compared to 2002	
Tot. No. of corporate vehicles	No. 20,949	-4.64%	-18.82%	96.46%
No. of corporate catalytic vehicles	No. 20,671	-3.37%	5.24%	96.96%
Total distance travelled by vehicles	Km 308,301,563	-0.95%	7.61%	94.36%

The overall distance travelled by vehicles of the corporate fleet shows a negative figure of about 1% compared to last year.

Vehicle fuel consumption (liters)



Overall distance travelled by vehicles of the corporate fleet



3 CONTEXT	10 CUSTOMERS
10 EXTERNAL STAKEHOLDERS >>	17 SUPPLIERS
50 INTERNAL STAKEHOLDERS	19 COMPETITORS
79 AUDITORS' REPORT	24 INSTITUTIONS
	27 THE ENVIRONMENT
	40 THE COMMUNITY

Data in the following table shows the different uses of vehicles, according to the specific industrial characteristic of each Business Unit.

	Group	Data of individual Business units as a percentage of consolidated Group data					
		BU Wireline	BU Mobile	BU Internet & Media	BU ITM	BU Olivetti Tecnost	BU LATAM
No.	25,152	84.03%	11.35%	0.81%	1.17%	1.05%	1.59%
Km	391,337,137	79.82%	13.41%	1.64%	1.30%	2.02%	1.80%

The distance travelled per vehicle also depends on the predominant type of clientele and the kind of technological network that has to be maintained.

■ EMISSIONS

Atmospheric emissions

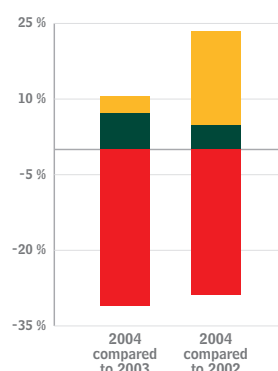
As far as Telecom Italia Group's industrial activity is concerned, the most typical and significant emissions in terms of quantity are carbon dioxide (CO₂) emissions derived from "indirect" emission, due to the purchase of energy from national suppliers (Enel and other companies) and fuel consumption for heating and transportation purposes CO₂, is a typical product of combustion and, as such, is produced almost exclusively by thermoelectric systems.

During the last year, the **decrease** of CO₂ emissions continued thanks to a **reduction** in the consumption of electrical energy and an increase in the use of gas (methane) instead of oil-fired energy for heating, together with a corporate fleet reduction and an increase in the use of green energy. CO₂ emissions have been calculated according to the instructions contained in the guidelines published by UNEP (United Nations Environment Programme) and others recommended by ETNO (European Telecommunications Network Operators' Association) within the framework of the "Climate Change" project.

The amount of CO₂ produced by combustion is calculated by applying specific emissions factors to the consumption of the various kinds of fuel ⁽¹⁾.

In 2004, the data relating to the emissions produced by the use of electrical energy was taken from the parameters published by Enel in the year 2004 (2003 Environmental Report).

Changes in emissions



■ Total CO₂ emissions due to motor vehicles
■ Total CO₂ emissions due to heating
■ CO₂ emissions from usage of electrical energy produced by mixed sources

Atmospheric emissions	Telecom Italia 2004	Percentage change		Percentage Wireline compared to TI
		2004 compared to 2003	2004 compared to 2002	
CO ₂ emissions from electrical energy produced by various sources	Kg 664,737,772	-31.05%	-28.89%	90.63%
Total emissions of CO ₂ from heating	Kg 61,614,669	7.27%	4.84%	81.35%
Total emissions of CO ₂ produced by vehicles	Kg 61,985,283	2.96%	18.59%	93.39%
Total CO ₂ emissions	Kg 788,337,724	-27.12%	-3.32%	-

(1) The factors used in the past (for reasons of uniformity, using criteria adopted at that time by the Ministry of the Environment) were: 4.03 t of CO₂/tep for coal and derivatives; 3.27 for oil products; 2.35 for natural gas.

These factors were replaced with the ones recommended in the 1996 Guidelines published by IPCC (International Panel on Climate Change) for the national inventory of greenhouse gases and have already been used for the second national communication on emissions: fuel oil: 3.24 t of CO₂/tep; orimulsion: 3.38; diesel fuel: 3.10; natural gas: 2.35; coal: 4.02; lignite: 4.24; cokery gas: 2.00. Each one of the above is then multiplied by a correcting coefficient which takes into account the typical fraction of unburnt carbon (solid fuel: 0.980; liquid fuel: 0.990; gas fuel: 0.995).

As in the past, the resulting figure regards burnt carbon – which, however, as just mentioned, is now assumed to be less than 100% – as being completely oxidized to CO₂.

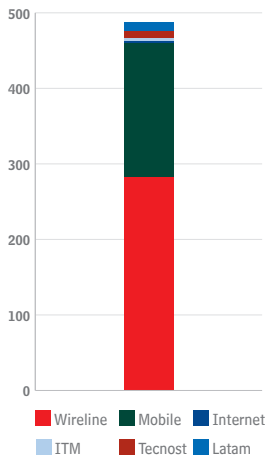
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10	EXTERNAL STAKEHOLDERS	17	SUPPLIERS
50	INTERNAL STAKEHOLDERS	19	COMPETITORS
79	AUDITORS' REPORT	24	INSTITUTIONS
		27	THE ENVIRONMENT
		40	THE COMMUNITY

Telecom Italia helped to **reduce** greenhouse gas emissions by reducing the emissions of CO₂ produced by the energy system of the Group (consumption of natural resources to produce electricity, fuel for the corporate fleet and heating) by more than 27% compared to 2003.

Atmospheric emissions		Data of each Business Unit as a percentage of consolidated Group data						
		Group	BU Wireline	BU Mobile	BU Internet & Media	BU ITM	BU Olivetti Tecnost	LATAM
Emissions of CO ₂ from the consumption of electrical energy produced by various sources	Kg	972,019,439	71.49%	21.59%	1.18%	1.36%	0.15%	4.23%
Total emissions of CO ₂ from heating	Kg	74,259,768	83.72%	8.11%	2.04%	2.27%	3.86%	-
Total emissions of CO ₂ produced by vehicles	Kg	104,988,980	80.65%	13.33%	1.13%	0.76%	1.96%	2.16%
Total CO ₂ emissions	Kg	1,151,268,188	73.12%	19.97%	1.23%	1.37%	0.55%	3.77%

Furthermore, considering the quantity of emissions avoided by purchasing energy from renewable sources, it may be observed that Telecom Italia Group contributes to the sustainable development recommended by the Kyoto Summit with more than 498 million kg of CO₂ which were avoided.

Avoided emissions of Telecom Italia Group (Millions Kg of CO₂)



Avoided atmospheric emissions

Emissions avoided		Level of emissions avoided and influence of the BUs as a percentage of the total emissions avoided by the Group						
		Group	BU Wireline	BU Mobile	BU Internet & Media	BU ITM	BU Olivetti Tecnost	LATAM
Total emissions avoided	Kg	498,174,519	287,263,102	181,041,077	3,533,224	4,104,446	9,480,435	12,752,235
			57.66%	36.34%	0.71%	0.82%	1.90%	2.56%

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

Electromagnetic emissions

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

1. absolute respect for existing laws in countries in which it operates ⁽¹⁾;
2. careful and scrupulous management of company installations throughout the whole life cycle, in compliance with internal standards concerning efficiency and security;
3. use of, and constant research for, advanced technological tools for monitoring and investigating activities.

⁽¹⁾ It is worth noting that Italian law, in relation to this, is particularly strict. Corporate process foresees a precise management at the design stage, of the choice of locations and installation of equipment. More precisely every transmitting antenna is designed in such a way as to not allow public access in the areas in which levels of exposure could possibly be exceeded.

3	CONTEXT	10	CUSTOMERS
10	EXTERNAL STAKEHOLDERS	17	SUPPLIERS
50	INTERNAL STAKEHOLDERS	19	COMPETITORS
79	AUDITORS' REPORT	24	INSTITUTIONS
		27	THE ENVIRONMENT
		40	THE COMMUNITY

Controls

TIM carries out the constant monitoring of the electromagnetic emissions in full observance of the standards set forth by the current law.

This monitoring activity is carried out within the corporation itself through a procedure that ensures the conformity to current limits during the installation of the site and throughout the period of its activity.

TIM likewise fully collaborated in the realization of the National Monitoring Network carried out by the Ministry of Communications with the help of the Ugo Bordoni Foundation. This activity aims to allow the control and supervision of the company systems and promote their periodical monitoring. The control of the systems is pursued through the Regional Offices for the Protection of the Environment (ARPA), which cooperates with the Ministry of Communications in the realization of the project through special protocols.

In 2004, the monitoring of TIM's sites begun in accordance with the agreement contained in the Legambiente/TIM Protocol.

The purpose of the protocol signed in 2003 is to guarantee and give assurance in the environmental field and to give the Legambiente technicians full support in verifying the safety of the base radio stations, particularly concerning electromagnetic emissions.

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

Even in the absence of any change to its installations, TIM carries out the measurements of electromagnetic emissions in agreement with the landowners and/or local authorities or in compliance with UNI EN ISO 14001 or UNI EN ISO 9001 certifications, for the networks nationwide.

Where it is necessary, modification of the radiant position (tilting) in order to optimize the signal strength is carried out. Surveys of planimetries of radio base stations and of radiant systems are added to the network database and used in order to survey and optimize the electromagnetic emissions parameters.

Last year a total of 2,957 controls were carried out.

Specific projects

– APOGEO Project

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

The calculation is made on the basis of georeferenced topographic surveys made through the GPS satellite system, the precision of which is increased by using the differential correction technique allowed for by GEOTIM (network of permanent GPS reference stations). The application consists in positioning the "lobe of radiation" of the transmitter accurately, and, at the same time, verifying its electromagnetic compatibility.

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

In 2004, 25 complete equipment kits were acquired and given to regional network divisions. The kit consists of a GPS satellite receiver and an integrated laser for topographical surveys.

3	CONTEXT	10	CUSTOMERS
10	EXTERNAL STAKEHOLDERS	17	SUPPLIERS
50	INTERNAL STAKEHOLDERS	19	COMPETITORS
79	AUDITORS' REPORT	24	INSTITUTIONS
		27	THE ENVIRONMENT
		40	THE COMMUNITY

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

– FORECASTING SYSTEMS

The "Guardian" tool calculates the exclusion zones relating to the areas where base radio stations are located and guarantees that the statutory limits are respected. When so applied, the tool plays a double-role depending on compatibility:

- to optimize the locationing of the stations and the positioning of transmitters in relation to the specific context (houses, streets, meeting-places);
- to provide objective data for the required comparisons (ARPA, population).

The improvement of the TIMPLAN tool used for the network planning contributed to the rational Development of the UMTS and EDGE systems.

The rational use of the radio frequencies (that can be guaranteed only by appropriate instruments) is useful for the operator and at the same time, the amount of electromagnetic energy released into the environment due to networks and services is reduced.

The new procedures for the definition of the electromagnetic propagation models, which was developed during the year, gave rise to guidelines and training courses for network planners. The innovative solutions adopted to model the radio propagation characteristics, gave rise to training courses for the system-planning staff.

These solutions have been tailored to the following radio planning issues:

- frequency-code assignment for mixed GSM-UMTS radio access
- optimization of the UMTS radio parameters
- management of the EDGE carriers within the frequency planning process.

In conclusion, the planning of the radio access network with the use of TIMPLAN tool, in addition to the improved SW process and the procedures developed both during 2004 and the previous years, contribute to the correct working of the mobile communications network of second and third generation, reducing, at the same time, the interference and consequently the superfluous power emission.

– STEREOSPACE

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

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

In 2004, the sites were increased by 7 units bringing the total to 23.

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

– EMISSION MAPPING

Within the Business Unit Internet & Media, La7 Television network in cooperation with the University of Turin, carried out the mapping of progressive electromagnetic emissions released by signal transmission systems, proving that the DTT technology (Digital Terrestrial Television) reduces the electromagnetic emissions compared to the traditional analogic technology.

3	CONTEXT	10	CUSTOMERS
10	EXTERNAL STAKEHOLDERS	17	SUPPLIERS
50	INTERNAL STAKEHOLDERS	19	COMPETITORS
79	AUDITORS' REPORT	24	INSTITUTIONS
		27	THE ENVIRONMENT
		40	THE COMMUNITY

■ ENVIRONMENTAL MANAGEMENT

The Environmental Management Systems (EMS) represents the operating instrument to plan, implement and manage the production and support processes. The EMS also identifies action plans for prevention and potential improvement, guaranteeing at the same time the conformity to existing legal requirements.

Some of the Group's companies and departments have already obtained both the UNI EN ISO 14001 and ISO 9001 certifications. The actual target is gradually to extend the implementation of the EMS to the whole Group, through a special project studied and coordinated by the Corporate Department. This plan aims to harmonize the existing EMS and provide guidelines for the creation of new ones.

The fundamental objectives of the Management Systems are the following:

- to optimize the use of energy sources, of materials and products;
- to improve waste management by making efforts to re-utilize and re-cycle used materials and residues from processes;
- to minimize the negative impact and maximize the positive impact on the environment due to the dissemination of hi-tech telecommunication services;
- to adopt procurement policies which are sensitive to environmental problems, by involving suppliers;
- to improve the indicators of effectiveness and efficiency relating to corporate processes;
- to promote the cultural propagation of a correct approach to environmental issues;
- to guarantee the commitment to a constant improvement of the environmental performances as a whole, through a periodical evaluation of the actual situation and an operative control procedure which aims to make the management system itself more efficient and effective.

Up to the present time, at Group level, remarkable improvements have been made in the spreading of the adoption of the Environmental Management Systems and obtaining certifications for them.

In 2004, the Wireline Network, which completed the ISO 14001 certification project for all its operative units in June 2003, successfully passed two audits in the North-East and South areas carried out by the Certification Entity. During the audits, 4 building yards were checked to verify the observance with environmental requirements; these areas were managed by external companies that undertake, on contract, enlargement and modernization work of the TLC network. The Management System's control has always been present to guarantee compliance with certifications.

TILAB and Olivetti I-Jet, which obtained the ISO 14001 certification in 2001, saw the certification for the year 2004 reconfirmed.

In March 2004, Elettra TLC completed the process of planning and adoption of the EMS and obtained the certification for the whole company.

In July 2004, TI Sparkle began the process of EMS planning, taking the necessary steps to obtain the certification, expected in December 2005. At the present time, TI Sparkle has already drawn up and published its own environmental policy and also settled all the actions which need to be taken.

During the year 2004, TIM completed the project to extend the integrated Environmental Management System, developed in compliance with the UNI EN ISO 9001 and UNI EN ISO 14001 standards for all the premises of the nationwide Network.

The Environment Management System is related to the activities of "Planning, Realization, and Superintendence of the nationwide network of mobile telecommunication".

3	CONTEXT	10	CUSTOMERS
10	EXTERNAL STAKEHOLDERS	17	SUPPLIERS
50	INTERNAL STAKEHOLDERS	19	COMPETITORS
79	AUDITORS' REPORT	24	INSTITUTIONS
		27	THE ENVIRONMENT
		40	THE COMMUNITY

In this regard, an environmental policy based on principles of continuous improvement of the environmental performances as well as pollution prevention has been developed.

Specific plans to monitor the consumption of natural resources and energy have been developed, together with plans to reduce and contain the production of waste, with particular attention to lead accumulators.

The monitoring and checking activities of the electromagnetic emissions continued through precise programmes of measurement and optimization.

The communication activity with the external local communities, in particular with Public Administrations and Institutions continued. Environmental communication programmes were developed for employees with the aim to promote information and awareness on these subject matters to all employees.

The checking and monitoring of activities of environmental efficiency are part of the Environmental Management System process and are carried out with dedicated instruments. Local databases were created to monitor the trend of the main environmental indicators. Periodical reports are made to be distributed and discussed afterwards with managers. The System process includes inspections (carried out both by internal staff of the company and external staff of a CSQ - IMQ certified organization) to verify the efficiency and effectiveness of the environmental processes performed by the company.

THE ENVIRONMENT PROJECT

The project consists of 10 working groups and stretches over a 3 year period, from 2004 to 2006. The project objectives are mainly related to the implementation, harmonization and certification of the Environmental Management Systems, the development of a computerized system to operate the environmental data, training and information programs, the analyses of the life cycle of products and services, control of the environmental aspects that present risk factors.

Particular relevance is given to computerized waste management, prevention of ground pollution, clearing of the materials containing asbestos, and monitoring of both acoustic emissions and electromagnetic fields.

■ ENVIRONMENTAL RESEARCH

In 2004, projects managed by Telecom Italia with a positive environmental impact can be summed up as follows:

Adaptive transmitters

Advanced prototype solutions have been developed for mobile communication (also through cooperation with the constructors) both for adaptive transmitter systems and remote-controlled transmitters.

- adaptability makes it possible to reduce the emissions by just using the power and directions necessary for communication, avoiding, at the same time, the release of unnecessary energy into the environment;
- transmitter remote controlling makes it possible to disengage the transmitter from the location of the related control systems (base station) with obvious advantages at infrastructure level (simplifying building requirements and reducing the visual impact on the environment).

Measurements and safety of the second- and third-generation (2G/3G) radio systems

The main activities of the project are related to the following aspects:

- GSM/GPRS and UMTS access networks;
- definition of technical test standards;

3	CONTEXT	10	CUSTOMERS
10	EXTERNAL STAKEHOLDERS	17	SUPPLIERS
50	INTERNAL STAKEHOLDERS	19	COMPETITORS
79	AUDITORS' REPORT	24	INSTITUTIONS
		27	THE ENVIRONMENT
		40	THE COMMUNITY

- Development of automatic tests for GSM and UMTS access networks equipment;
- assessment tests for the definition of radiant systems;
- measurements of performance parameters of termination networks;
- definition of measurements to evaluate the tools used in cell planning;
- creation of hardware/software instruments to evaluate and foresee the electromagnetic field levels irradiated by radio stations.

Evaluation of the quality and qualification of the mobile terminals

Fine-tuning of measurement procedures to assess the mobile terminal performances in relation to the customer's perception of the service in order to prevent malfunctions and other problems. Qualification of the mobile telephones on TIM's catalog in compliance with the SAR standard (Standard Absorption Rate).

Environment, health and safety management of telecommunication materials and processes

The project, which has reached an advanced stage at the Mobile Business Unit, examines how to reduce the impact of telecommunication products and services on the environment with particular reference to the following areas:

- selecting materials;
- substituting dangerous substances;
- using recycled materials;
- employing innovative processes;
- optimizing the management of materials/products/systems with a life cycle assessment;
- supporting the development and usage of alternative energy production techniques.

Evaluation of the electromagnetic impact on the brain

This is a continuous project.

Thermic and energetic effects on the human brain have been investigated through anthropomorphous puppets and sophisticated measurement instruments.

The activity is developed in cooperation with medical institutes and Universities, which help in completing the results with the necessary biological and epidemiological evaluations.

Development of service platforms for transport and info-mobility

Solutions for the optimization of traffic and reduction of the environmental impact due to private traffic in city areas have been studied.

The project, developed within Torino Wireless Project, aims (through the cooperation with FIAT and the local transport company) to make a rational use of motor vehicles, compared to its actual use, integrating the existing transport system with extra transport services supplied by the local community (parking networks, information on traffic and indications of the most convenient routes).

■ 2005 SPECIFIC AIMS

Reducing air pollution

- Analysis of fumes produced by Wirelines Networks Generators' waste pipes located in residential areas.

Reducing electromagnetic pollution

- Defining rules for the co-location of the various operators in Telecom Italia's sites in compliance with the environmental requirements associated with electromagnetic emission fields.

Reducing noise pollution

- Recording noise levels on critical Group's sites.

3 CONTEXT	10 CUSTOMERS
10 EXTERNAL STAKEHOLDERS >>	17 SUPPLIERS
50 INTERNAL STAKEHOLDERS	19 COMPETITORS
79 AUDITORS' REPORT	24 INSTITUTIONS
	27 THE ENVIRONMENT
	40 THE COMMUNITY

Reducing visual and acoustic impact of the Radio Base Stations

- Adoption of solutions to minimize the visual impact on the environment for stations that are already being planned, in cooperation with the authorities involved in the preliminary stage of the project (Superintendency of cultural heritage, Municipal Administrations, Parkland Authority and so on).
- Gradual restyling of the existing plants with strong visual impact according to a program studied in cooperation with the concerned local Institutions (inserting the equipment in false chimnies, colored and camouflaged structures, poles and pylon like false trees, where cables are hidden inside or where transmitters are concealed with radio-transparent material).

Reducing visual impact in company infrastructures

- Utilization of new cable technologies.

Reducing fuel consumption

Increase in clearings of contamination substances

- Removal of transformers still in use containing PCB/PCT.
- Clearing of asbestos substances from the plants of the Generators' structures, there where it is still present.
- Removal of 10 containers containing asbestos.
- Replacement of 200,000 pine wooden telephone poles.
- Implementation of 1,600 capacity measurements of gas-oil tanks used by Generators.

■ GUIDELINES 2005 FOR:

- monitoring Suppliers and drawing up contracts relating to waste management;
- defining performance relating to environmental acoustics by Telecom Italia Group's equipment;
- evaluating and mapping the state of preservation of the materials containing asbestos which can be found on properties or plants belonging to a third party;
- surveying the tanks belonging to Telecom Italia Group and filing a database;
- mapping and evaluation of areas contaminated by substances from leakage in storage tanks;
- checking on waste management produced by contractors;
- defining the procedures for controls and maintenance of all the Telecom Italia Group's tanks;
- implementation of clearing of materials containing asbestos, which are on properties or plants belonging to a third party.

3	CONTEXT	10	CUSTOMERS
10	EXTERNAL STAKEHOLDERS	17	SUPPLIERS
50	INTERNAL STAKEHOLDERS	19	COMPETITORS
79	AUDITORS' REPORT	24	INSTITUTIONS
		27	THE ENVIRONMENT
		40	THE COMMUNITY

■ THE COMMUNITY



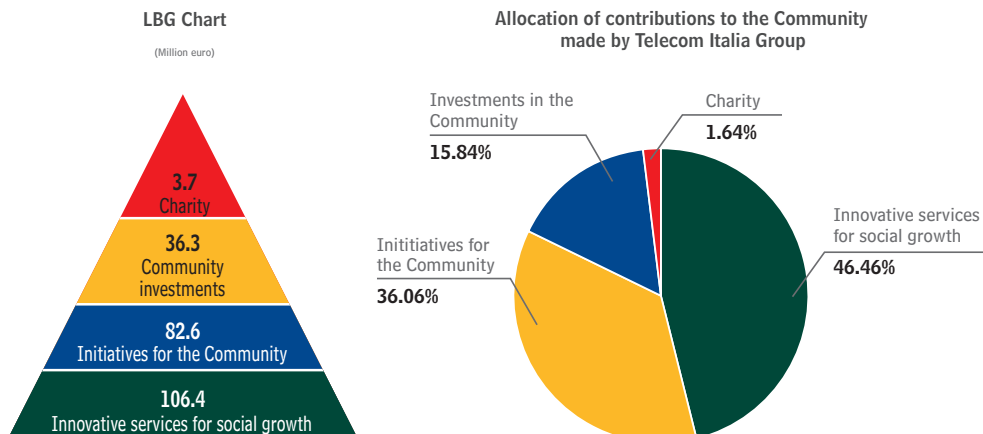
Telecom Italia Group's contribution to the Community, calculated taking into account the guidelines issued from London Benchmarking Group, amounts to 229 million euro in 2004 (203 million euro in 2003), accounting for 3.2% of the Group's Net Operating Profit. This contribution was calculated utilizing management data which had been appropriately reclassified and partially estimated.

■ CLASSIFICATION OF THE CONTRIBUTION IN ACCORDANCE WITH THE LONDON BENCHMARKING GROUP MODEL

The London Benchmarking Group (LBG), established in 1994, is an association comprising more than 90 big international member companies, and it represents the worldwide standard. In order to evaluate and report their commitment to the "Community", the companies adhering to the LBG have formulated a model that reclassifies contributions on the basis of 4 different categories.

The pyramid diagram makes it possible to measure the benefits and returns from business deriving from the various activities:

- activities directly connected with the core business are grouped at the base of the pyramid;
- activities linked more directly to the Group's sense of moral responsibility appear at the top.



3	CONTEXT	10	CUSTOMERS
10	EXTERNAL STAKEHOLDERS	17	SUPPLIERS
50	INTERNAL STAKEHOLDERS	19	COMPETITORS
79	AUDITORS' REPORT	24	INSTITUTIONS
		27	THE ENVIRONMENT
		40	THE COMMUNITY

Charity	Contributions to associations and liberal grants Donations Contributions to solidarity without business returns
Investments in the Community	Amateur cultural and sports events that provide brand exposure Solidarity-related events that provide brand exposure Accessory costs for solidarity that provide brand exposure
Initiatives for the Community	Cultural events in support of single products or services Sponsorship of socially-useful products and services Costs of monitoring electromagnetism Energy-saving interventions Initiatives in support of scientific research Costs for communicating sustainable activities Investments in health and safety Financing trainees and scholarships
Innovative services for social growth	Costs and investments for projects concerning innovative products and services which have a positive impact on the Community Research and development of projects for innovative products and services which have a positive impact on the Community

■ CHARITY

■ Wireline

Donation to AMREF

AMREF is the leading non-profit private healthcare organization and is based in Africa. Its multidisciplinary technical staff, 95% of whom are African professionals - doctors, health experts, sociologists and engineers - manages hundreds of development programs every year in 14 West-African countries to support healthcare and social development among the poorest populations, by involving them actively.

■ Mobile

In order to manage its initiatives in favor of the Community efficiently and in a coordinated manner in accordance with the company's targets, TIM launched the program "A World for Everyone", identifying some target areas for developing single projects: disabilities, the family, infancy and childhood, the elderly, legality, the environment, research and medical assistance. Some of the outstanding projects carried out in 2004 are listed below.

Eliminate barriers in sports

In the European Year of Education through Sports, TIM created the project "Eliminate barriers in Sports" jointly managed with Cittadinanzattiva onlus; the project aims at eliminating architectural barriers in sports facilities in order to guarantee disabled people's right to participate in sports activities.

A census of architectural barriers in public sports facilities was carried out, also with the assistance from citizen volunteers, in order to provide a guide to accessibility conditions. A concrete plan of action to remove the barriers was drawn up on the basis of that census.

The plan was carried out in partnership with the Italian Federation Overcoming Handicaps and the Italian Federation Sports for Disabled Persons and it was backed by RAI's Social Secretariat.

Pony Express for Solidarity

The project Pony Express for Solidarity, now in its sixth edition, is a free service to provide home assistance to people over 65.

Liaising with the Departments of Social Politics and Volunteer Associations, TIM contributed to the creation of an articulated network of solidarity. Elderly people can call a phone number,

3	CONTEXT	10	CUSTOMERS
10	EXTERNAL STAKEHOLDERS	17	SUPPLIERS
50	INTERNAL STAKEHOLDERS	19	COMPETITORS
79	AUDITORS' REPORT	24	INSTITUTIONS
		27	THE ENVIRONMENT
		40	THE COMMUNITY

provided by their town council or the Associations which participate in the project, and ask for assistance with daily tasks or simply for some companionship.

The local council operators, connected to a main switchboard, transfer calls to volunteers' mobile phones, and the volunteers take immediate action, even on public holidays.

In 2004 the project Pony for Solidarity involved about 1500 Ponies in six big Italian cities where TIM has territorial headquarters (Bari, Bologna, Naples, Rome, Turin, Palermo).

Libera project

Tim has been working since 1996 with Libera - Abele Group, an association headed by Don Luigi Ciotti. This association operates in social services, with the aim of enhancing and co-ordinating in the effort of civil society against every form of illegal acts.

TIM continues to support the Association with a wide-ranging and articulated project called "Progetto Libera"; its main purpose is to raise social awareness and to use it as a tool to fight crime of all types. The Project is broken up into a series of further initiatives:

- the "School" Project, which educates students about legality using examples from real life;
- the "Libera Sport" project, consisting of sports activities;
- the "Libera Terra" project, which established agricultural and food co-ops with young people from underprivileged backgrounds where they manage property that has been confiscated from the mafia.

Santa Lucia Foundation

TIM has continued to support the Santa Lucia Foundation, an Institution for Hospitalization and Treatment, that, among other things, researches on neuromotor rehabilitation and neurosciences.

In 2004, TIM provided special support to the following projects:

- "Multi-sensorial interactivity in the human brain" to evaluate the possibility of interactivity between attentive factors and the integration of multi-sensorial signals;
- "Listening does not always leave hands free" to study whether acoustic stimuli affect memories of visual and spatial stimuli;
- "An integrated artificial-intelligence system to assist disabled people and help them moving" to evaluate whether to use some of the most recent technologies, for example intelligent software agents and robots, to help disabled people accessing a range of services;
- "Direct, non-invasive brain-computer interfaces" to create a transportable device that acts as interface between the brain and a computer;
- "Experiments with a device to overcome communicative barriers" to overcome the difficulties deaf patients encounter today in the Health Care System, especially in outpatient surgeries and hospital wards.

■ Information Technology Market

National Association for the fight against Aids

The company TSF has promoted fund-raising activities in support of ANLAIDS - Lazio section. Funds raised have contributed to implementing some of the projects the Association promotes, for example an information campaign for high-school students in Lazio; a project for collaborating with the government of Cameroun on maternal-foetal prophylaxis; and a first-aid surgery for outpatient immigrants with this type of pathology.

3	CONTEXT	10	CUSTOMERS
10	EXTERNAL STAKEHOLDERS	17	SUPPLIERS
50	INTERNAL STAKEHOLDERS	19	COMPETITORS
79	AUDITORS' REPORT	24	INSTITUTIONS
		27	THE ENVIRONMENT
		40	THE COMMUNITY

■ INVESTMENTS IN THE COMMUNITY

■ Project Italia

In 2004 Project Italia continued its activities. The project, focused on supporting cultural, social and sports undertakings, distinguished itself for its close cooperation with scientific partners, to whom Telecom Italia supplied technical, organizational and communications expertise. Important alliances were thus developed with public and private institutions, local governments, associations and organizations. Progetto Italia's distinguishing feature is its direct organization of projects undertaken, and the quality and uniqueness of events planned.

The following is a list of projects the Group supported in 2004, divided by subject matter.

Culture

- **Telecom journey:** inspired by a leitmotif that illustrates the particular characteristics of each host city, the Journey, which is Progetto Italia's 2004 novelty, is a stimulating three-day cultural experience dedicated to discovering the history and traditions of our country. Art, music, theater, dance, mime are the languages used to express the cultural itinerary. The first two stages of the Telecom Journey took place in Cosenza (May 21-23, the theme was "Utopia and Heresy") and Perugia (June 4-6, the theme was "Spirituality and Poetry").
- **Telecom Award:** the "Telecom Award, Beauty is Infectious" is for projects aiming to enhance art, culture, the environment; in a word: beauty. The jury, with Umberto Eco, Riccardo Chiaberge, Dario Del Corno, Philippe Daverio, Andrea Kerbaker, Marco Magnifico, Renato Mannheimer, Vittorio Sermonti, Andrée Ruth Shammah, Guido Vergani, Massimo Vitta Zelman and Ugo Volli, will award a prize to the most original projects in May 2005.
- **Dial me:** Telecom Italia has provided its know how and technologies to the Milan digital library, located in the Sormani library. On www.digitami.it, therefore, rare texts that are too delicate to be lent out and can only be consulted in the library, may be read, free of charge. The virtual library is different from common search engines because it certifies the quality of the on-line text; that may be personalized, even with notes in the margins, thanks to their conversion to Word format.
- **Lectura Dantis by Vittorio Sermonti in Florence - Purgatory:** the Lectura Dantis has continued with the second part of the poem in Florence, in the Refectory of Santa Croce. Total participants at the 33 evenings: 12,500 people.
- **Strega award:** Telecom Italia, in its role of institutional partner, commissioned Melania Mazzucco (winner of the award for her novel "Vita") to write a book that, together with the books by Domenico Starnone and Margaret Mazzantini (winner of preceding awards) has been included in the "I libri Stregati" series created by Progetto Italia to promote and highlight contemporary literature. The title of Mazzucco's book is: "L'anno marziano o il compleanno della tigre".
- **Digital laboratory for the National School of Cinema:** the new 2003-2004 courses have started at the Experimental Center for Cinematography directed by Francesco Alberoni.
- **Digital Laboratory at the "La Sapienza" university in Rome:** new courses for the academic year have started at the Laboratory directed by Maurizio Costanzo, set up within the faculty of Communication Sciences; at the end of the summer session work done by the students will be publicized.
- **Conversations about History of Art - Rome:** a cycle of conferences on various topics held by well-known experts in the field (university professors and Italian and foreign curators) at the Casino dell'Aurora in Palazzo Pallavicini Rospigliosi.
- **7 Poets for 7 Cities:** in partnership with the Corriere della Sera Foundation, this project has an ambitious target: popularizing poetry. The cycle of 12 appointments, organized in 7 Italian cities during the first half of 2004, brought together Italian literary writers and popular actors known to the general public, who performed as narrators.

3	CONTEXT	10	CUSTOMERS
10	EXTERNAL STAKEHOLDERS	17	SUPPLIERS
50	INTERNAL STAKEHOLDERS	19	COMPETITORS
79	AUDITORS' REPORT	24	INSTITUTIONS
		27	THE ENVIRONMENT
		40	THE COMMUNITY

- **FAI - Italian Environmental Fund:** Telecom Italia contributed to the restoration of the Necchi Campiglio home, a historic building in Milan dating to the beginning of the century that is the only remaining example left of an urban villa in the city center in a state of perfect preservation. This initiative was presented by the president of Telecom Italia, Marco Tronchetti Provera, together with the president of FAI, Giulia Maria Mozzoni Crespi.

Social activities

Social activities were organized for the purpose of promoting solidarity and spreading culture.

• Solidarity

- **Dreams mission:** Telecom Italia supports this non-profit association with a project, “Webcam with a view”, for children hospitalized at the Institute of Tumors in Milan. The Group has provided its technology (computer, webcam, adsl connection) to alleviate suffering caused by long-term hospitalization: by connecting to the site www.missionesogni.org, the young patients, using a simple password, can communicate long distance with their families and follow school lessons.
- **The Spirit of Stella:** TIM and Project Italia support a new project for sailing with solidarity: a disabled man, Andrea Stella, organizes a tour of Italy every year in his boat for people with severe spinal-marrow pathologies.
- **Crazy about sailing:** also continuing this year, the initiative for sailing with solidarity for patients with psychological problems which, supported by a team of doctors and volunteers, participate both in important regattas (Millevele Telecom Italia, Settimana dei 3 Golfi, Trofeo Pirelli) and a tour of Italy by sailboat for therapeutic purposes, ending up with the participation in the Barcolana race in Trieste.
- **114 Emergency infancy:** support for the phone number 114, created jointly with the Ministry of the Interior, the Ministry of Equal Opportunities and the Ministry of Communications, continues this year, managed by “Telefono Azzuro”, the entity headed by Prof. Ernesto Caffo, who has fought against the abuse of minors for many years.

• Divulgation

Telecom Italia Future Center (Venice): the center’s activities have become more intensive, with new multi-disciplinary undertakings: the San Salvador Conversations, Wednesdays in the Future Center, Art Experience and the presentation of the album by Gianni Maroccolo, founder of Litfiba, for a total of 26 events. Several celebrities from artistic and cultural milieus participated in the Conversations, which were organized by the art historian Philippe Daverio. The multidisciplinary approach was the common denominator between the Wednesdays and the Conversations and afforded an opportunity to compare experiences of changes in our life styles brought about by new information and communication technologies. Contemporary art was the main topic at Art Experience, a series of workshops lasting a week organized with Domus Academy; thanks to Art Experience, the public from Future Center attended interactive seminars with world-famous artists.

Over 25,000 people took part in activities at the center and 50,000 videostreaming contacts were made.

IDI - Interaction Design Institute Ivrea: established by Senator Franco Debenedetti, IDI graduates the best designers in the world every year. Telecom Italia has been supporting its activities for a few years with tangible contributions in the form of scholarships for students.

Sport

Telecom Alleniamoci alla Vita (Telecom Let’s Train for Life): 15,000 texts prepared by students from schools all over Italy to participate in the second edition of the contest “Hunting for values”, part of “Telecom Let’s Train for Life”. This year the initiative acquired further lustre with its “Direct connection to Athletes”, a series of testimonials given by great sports champions in Italian schools. The purpose of the project, which uses educational material for professors, students and their families, is to acquaint young people with positive values.

3	CONTEXT	10	CUSTOMERS
10	EXTERNAL STAKEHOLDERS	17	SUPPLIERS
50	INTERNAL STAKEHOLDERS	19	COMPETITORS
79	AUDITORS' REPORT	24	INSTITUTIONS
		27	THE ENVIRONMENT
		40	THE COMMUNITY

A show by Marco Anelli in Rome: a show by Marco Anelli, a photographer for the Grazia Neri agency, exposed Italy's greatest tennis players in black and white during the 2003 edition of the Telecom Italia Masters. Five thousand people visited the show.

■ Mobile

TIM meets schools

This initiative showed children from Roman middle schools how communicative technologies have evolved, with a guided tour of TIM's control room and machinery.

These meetings, with 25/30 people each time, included an introductory lesson on various forms of communication and their evolution, using illustrated exercise books, followed by an educational game to test how much the participants had learned. At the end a group work shop was organized (for example, a drawing) with which the students could give their opinions on how mobile phones influence socializing, and on possible future developments in the communications sector.

Climate Bank Project

In 2004 TIM continued its support of the "Climate Bank", a project promoted by Cittadinanzattiva and WWF for the purpose of reducing greenhouse emissions into the atmosphere with a wide-ranging communication campaign to encourage individuals, businesses and public administration to adopt energy-saving practices.

TIM participated in organizing a series of information/training seminars held at local institutions (regions, provinces, and municipalities) and a travelling exhibition with events in ten Italian cities.

■ Internet & Media

The Group's TV

During 2004 the Group's television continued to be involved in supporting culturally and socially important topics. La7 included special news programs and debates on current topics of the moment in its schedule; the project "Be Equal", partially funded by the European Community, aired a series of ads against racism; on the world day for the struggle against AIDS, it broadcasted a tv series on the subject.

MTV created, or contributed to the creation of, events and initiatives to safeguard health, education, culture, solidarity and humanitarian aid.

We would particularly like to point out:

- the campaigns "Free your mind - drugs" to raise awareness about using narcotics and "Free your mind - human trafficking" concerning the trade in human beings;
- the book "Clean Cut Kids - Youngsters in a world where you have to have to be" written out of a desire to know its audience, explain its expectations, and intuit its evolution. It's the result of a study of Italian boys and girls carried out by MTV Lab, a monitoring centre for young people in relation to broad social concerns.

The following special programs were also of particular interest:

- "I've good baby mama drama": an episode about undesired or difficult pregnancies in the "True Life" series dealing with current topics, to inform young people and encourage them to think about issues;
- "Drugline": 3 special live programs about narcotics with guests, experts and phone calls from viewers;
- the "World AIDS 2004": a day-long event to raise public awareness of the AIDS problem and help Lila (Italian Organization for the fight against AIDS) raising funds for research, realized by sending SMS.

3	CONTEXT	10	CUSTOMERS
10	EXTERNAL STAKEHOLDERS	17	SUPPLIERS
50	INTERNAL STAKEHOLDERS	19	COMPETITORS
79	AUDITORS' REPORT	24	INSTITUTIONS
		27	THE ENVIRONMENT
		40	THE COMMUNITY

■ INITIATIVES FOR THE COMMUNITY

■ Corporate

Telecom Italia Lab

Business Unit Wireline, Mobile, TI Media and the Information Technology Group department contributed considerably in financing scientific research carried out by Telecom Italia Lab. Research activities covered, among other things:

- how the access network has evolved in relation to the diffusion of wide-band services and technology;
- the evolution of the transport and commuting network with low-cost structures that guarantee the required levels of quality as well as transforming it in line with the “all IP” model;
- additional voice services along with the video component and development of wide-band and multimedia services;
- evolution of the mobile network toward the third generation; estimate of its impact on radio, and development of adequate control and planning tools;
- development of third-generation mobile services and their integration with the EDGE package;
- network solutions and the apparatus needed in order to guarantee safety for communications and related computer systems.

Crisis Management

The Group has set up a system to deal with any critical situations that might impact negatively on business, caused by, for example, natural disasters, hacking or other criminal activities in Italy or abroad. The system, formalized with a Group procedure signed by the Chairman, is based on the following bodies:

- the Crisis Management Board, including representatives of the Group's top management, with strategic and coordinating tasks;
- the Crisis Management Board's Secretary, in charge of generally managing the system and updating it;
- the Operational Crisis Teams, that carry out the Board's strategic orders in the field;
- the Incident and Crisis Center, which monitors all signals that might be premonitory of critical situations and channels information flows required by top-management in order to optimize decision making. The Incident and Crisis Center is also the contact and assistance point for all company structures and single employees having specific security needs in connection with possible incidents or transfers in foreign countries that are potentially risky.

CRSA (Control & Risk Self Assessment)

The operative deployment phase of the project continued, providing the Group with a method of structured self-evaluation of risks made by the management, in relation to defined company objectives. This methodology has been integrated within the Group's planning process.

A web-based application has been set up to support the main phases of the CRSA process: allocating objectives, pointing out and evaluating possible risks associated with them, formalizing action plans and their subsequent controls.

In 2004 training programs were further expanded for CRSA members within the Group and the methodology is being introduced in TIM Peru' for Latin America, and in the BBNET Group for Europe.

In 2005 the methodology will be extended to other European subsidiaries such as HanseNet Telekommunikation, TI France and TIM Hellas.

3	CONTEXT	10	CUSTOMERS
10	EXTERNAL STAKEHOLDERS	17	SUPPLIERS
50	INTERNAL STAKEHOLDERS	19	COMPETITORS
79	AUDITORS' REPORT	24	INSTITUTIONS
		27	THE ENVIRONMENT
		40	THE COMMUNITY

■ Mobile

Elettromagnetism

New radio transmission equipment that was installed and the modification of existing equipment require the electromagnetic emission to be measured in order to ensure they conform to current legislation.

For further details refer to the paragraph "Electromagnetic Emissions" in the stakeholder "Environment" section.

■ BU Olivetti Tecnost

MEMS (Micro-Electro Mechanical Systems)

MEMS measurement and implementation systems were created which are useful for augmenting the quality and safety of people's lives. These developments had two main areas of application:

- a) a range of differential, absolute and gauge pressure sensors based on a piezoresistant silicone chip that supplies tension in proportion to pressure applied, having the following specific applications:
 - home appliances;
 - measuring tire pressure and temperature;
 - industrial controls.
- b) optical instruments on silicon for telecommunications, developed in conjunction with Pirelli Labs for use in the field of photonics.

■ INNOVATIVE SERVICES FOR SOCIAL GROWTH

■ Wireline

Wi-Fi (Wireless Fidelity)

The service provides high-speed wireless connection to Internet or company Intranets from public places where it has been installed (hot spots) using laptop computers or palmtops. During 2004 the home page that appears automatically to users who access services in the hot spots was completely renewed both in structure and content, making it simpler and more comfortable to enter and remain in Wi-Fi areas. In the new portal pre-paid Wi-Fi cards may be bought on-line in any denomination.

Thanks to creating many new hot spots and to several new roaming contracts, Telecom Italia has one of the largest Wi-Fi networks in the world.

"Loquendo" platform

This is an advanced interactive voice system that allows the user to access information and transactional data with a simple telephone call. The platform has undergone restructuring in order to improve voice recognition technology so as to provide services that are even more advanced and of increasingly high quality. The platform supports 15 languages and can recognize 50,000 words; it can use voice prints as a biometric feature to verify a person's identity.

There are various possible applications also for the business sector, such as, for example, automation of Call Centers, introducing voice services for Customer Relationship Management applications, creating infomobile services, and dialogue services for company Intranet systems.

Telemedicina

Telecom Italia continues to contribute to the activities of Telbios, a company that operates in the Telemedicine sector to develop added value services for healthcare facilities and for final clients. The following are its main achievements in 2004:

- a specialistic network for treating patients with head injuries which was used by several territorial healthcare structures; because it transfers clinical data and images in real time, patients don't have to be transferred unless it's absolutely necessary;

3	CONTEXT	10	CUSTOMERS
10	EXTERNAL STAKEHOLDERS	17	SUPPLIERS
50	INTERNAL STAKEHOLDERS	19	COMPETITORS
79	AUDITORS' REPORT	24	INSTITUTIONS
		27	THE ENVIRONMENT
		40	THE COMMUNITY

- the safe network for the National Center for Transplants allows all data on explanted organs to be checked so they can be immediately and efficiently reimplanted;
- the introduction of Telemedicine services that distance monitor main cardiac parameters of patients released from hospitals and their medical reports; the services can be extended to other branches like for example pneumatology or diabetology;
- development of the technological platform that provides the Teleassistance service for the elderly, chronic patients, people who live alone and who are difficult to reach through traditional channels.

■ Mobile

Talks

TIM launched the Talks software, a revolutionary application that makes it possible for blind, visually-impaired and the elderly to use all the functions on mobile phones by themselves thanks to an electronic voice that reads the display screen and guides the user to the various options offered on the menu.

The Talks software uses the "ETI Eloquence" program, the same one used by other programs that read the screen on personal computers; it is very popular with blind people.

EDGE and UMTS

The update of the GSM platform that supports EDGE (Enhanced Data rates for Global Evolution) was completed in order to provide access to the advantages of third-generation (3G) services to a wider range of clients, including people living in remote areas; this helped to reduce the digital divide.

Meanwhile, planning and realization of the UMTS (Universal Mobile Telecommunications System) network, which guarantees coverage of regional capitals as per contractual obligations stipulated in their licenses, proceeded in several other cities and localities of interest.

In 2004 TIM launched its commercial TIM Turbo service; thanks to integration with EDGE and UMTS it provides broad-band services with significantly better data transmission speed than GPRS, similar to UMTS speed.

In order to support the new broad-band 3G services while ensuring high-quality levels, the Core Network IP platform, which was already used by most of the technologies, has been updated.

■ Olivetti Tecnost

Inkjet technology

A new technological platform was developed to expand inkjet technologies to new products and markets. The development of these new projects allows an important technological and professional relaunch of the Arnad research center; this is the only European active center for research in this field, one of the only four in the world.

Products that use inkjet technology, which uses water-based inks and paper that has not been chemically treated, have less environmental impact than products that use other printing technologies.

■ Information Technology Market

Hypovision kit

The company Venis took part in the "Easier Reading" project presented by the city council of Venice during the FORUM PA 2004, realising a "hypovision kit." It is a mini compact disk which contains a series of easy-to-install programs to help visually-disabled people, like the visually-impaired or the elderly, to use computers more easily by, for example, making it easier to read data and prompts.

3	CONTEXT	10	CUSTOMERS
10	EXTERNAL STAKEHOLDERS	17	SUPPLIERS
50	INTERNAL STAKEHOLDERS	19	COMPETITORS
79	AUDITORS' REPORT	24	INSTITUTIONS
		27	THE ENVIRONMENT
		40	THE COMMUNITY

■ Internet & Media

Terrestrial Digital

Investments in 2004 were mainly to acquire frequencies and update technology on the transmission networks, which now cover more than 65% of the Italian population, and operate the service, which served about 4,000 users in some sample cities. Terrestrial Digital represents the technology of the future in the television sector, and beginning in 2006 will be present in all Italian homes. Via interaction with ADSL and third-generation mobile phones, the Group will be able to offer its clients services that are steadily more integrated and highly value enhancing.

■ RESEARCH AND DEVELOPMENT

During the year 2004 research and development activities at Telecom Italia Group were mainly carried out by the central department TILAB, also in collaboration with Pirelli Labs. Furthermore, at year-end 2004 the TILAB department signed an agreement for Telecom Italia to acquire projects and research and development activities carried out by Olivetti Tecnost and authorized by TILAB.

Total costs sustained in 2004 amounted to about 144 million euro, of which 5 million euro, covered by and, were collected or are to be collected. The number of employees involved in said activity was 1,209 units.

Research and development activities carried out by Telecom Italia Group appear in detail in the Report on Operations in the section "Performance of Business Units/Central Departments of the Telecom Italia Group" in the comments on the TILAB department and the Olivetti Tecnost business unit (the "Office Products" and "Systems Division").

3	CONTEXT	50	HUMAN RESOURCES
10	EXTERNAL STAKEHOLDERS	65	SHAREHOLDERS
50	INTERNAL STAKEHOLDERS	>>	
79	AUDITORS' REPORT		

■ HUMAN RESOURCES



■ HEADCOUNT AND CHANGES IN TELECOM ITALIA GROUP

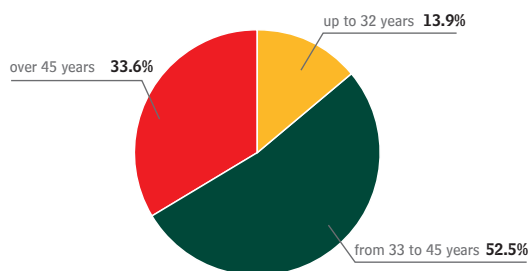
Employees at December 31, 2003	Changes in the year				Employees at December 31, 2004
	Recruited	Terminated	Changes in consolidation area	Total	
93,187	6,818	(6,528)	(2,112)	(1,822)	91,365

At December 31, 2004 there were 91,365 employees in Telecom Italia Group. The overall difference of 1,822 units compared the 2003 headcount is attributable to 6,528 terminations, 6,818 recruitments (for a global turnover of + 290 units) and 2,112 fewer units due to reshaping. The latter is mainly connected:

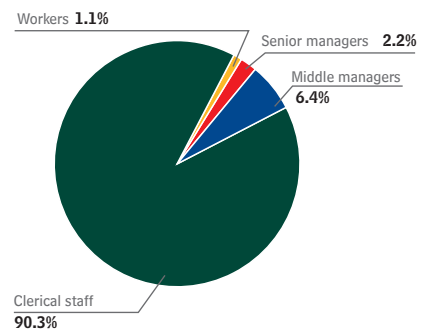
- to the outsourcing of the "Document Management" activities (– 257 units from Telecom Italia SpA and Emsa Servizi), "Maintenance and Environmental Services" (– 437 units from Telecom Italia SpA and Emsa Servizi) and "Industries and Services" (– 201 units from IT Telecom SpA);
- to the sale of Webegg Group (– 622 units), the Atesia company (– 99 units), CIPI and GPP Group (– 311 units).

In Italy personnel in the Group make up 82.1% of the total and has the following characteristics:

Telecom Italia Group - Italy:
employee breakdown by age group

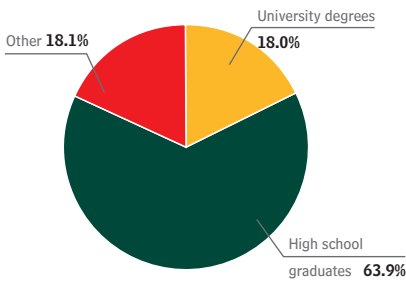


Telecom Italia Group - Italy:
employee breakdown by professional category

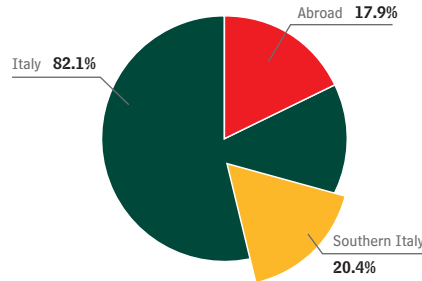


3 CONTEXT	50 HUMAN RESOURCES
10 EXTERNAL STAKEHOLDERS	65 SHAREHOLDERS
50 INTERNAL STAKEHOLDERS >>	
79 AUDITORS' REPORT	

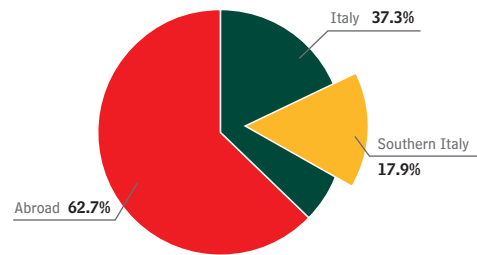
Telecom Italia Group - Italy: employee breakdown by academic qualification



Telecom Italia Group: employee breakdown by geographic area



Telecom Italia Group: recruitment breakdown by geographic area



■ HEADCOUNT AND CHANGES IN TELECOM ITALIA SPA

Employees at December 31, 2003	Changes in the year						Employees at December 31, 2004
	IT Telecom & Epiclink employees at December 31, 2003	Recruited	Terminated	Transfers among companies in the Group	Transfer of company activities	Total	
52,361	4,020	696	(2,399)	(1,112)	(718)	487	52,848

The employees at December 31, 2004 include the resources (2,554 units) that joined Telecom Italia following the merger to incorporate IT Telecom and Epiclink on December 31, 2004 fiscally effective as of January 1, 2004.

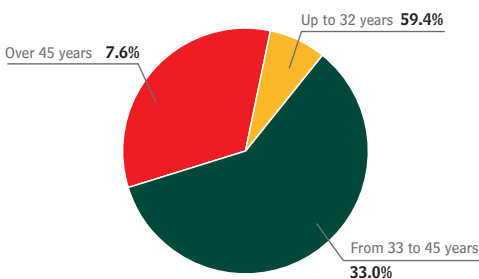
During 2004 staff from the incorporated IT Telecom diminished, especially due to employee departures following transfer of the company's "Sviluppo" activity to TIM (- 551 units) and the company's data center activity to the newly-created IT Telecom S.r.l. (- 606 units).

As for the other changes, it is worth noting that the "transfer of company activities" refers mainly to the outsourcing of the "Document Management" activities (- 189 units), "Maintenance and Environmental Services" (- 334 units), and "Industries and Services" (- 201 units).

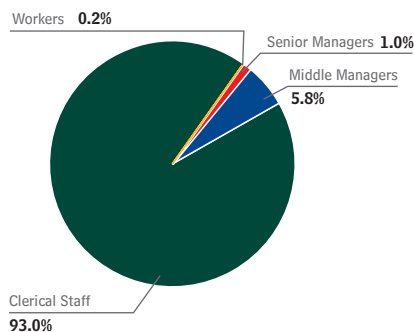
■ FOCUS ON LATIN AMERICA

The data on companies in South America refers to the Business Unit Mobile and the Entel Chile Group, the Entel Bolivia Group, Telecom Italia America Latina and Telecom Italia Audit sa.

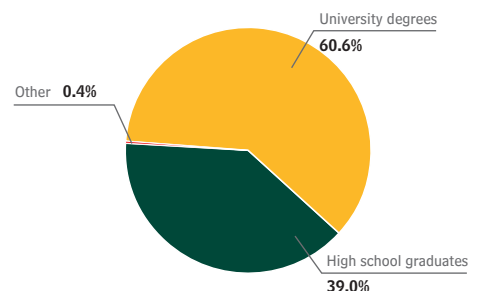
Latin America: employee breakdown by age group



Latin America: employee breakdown by professional category



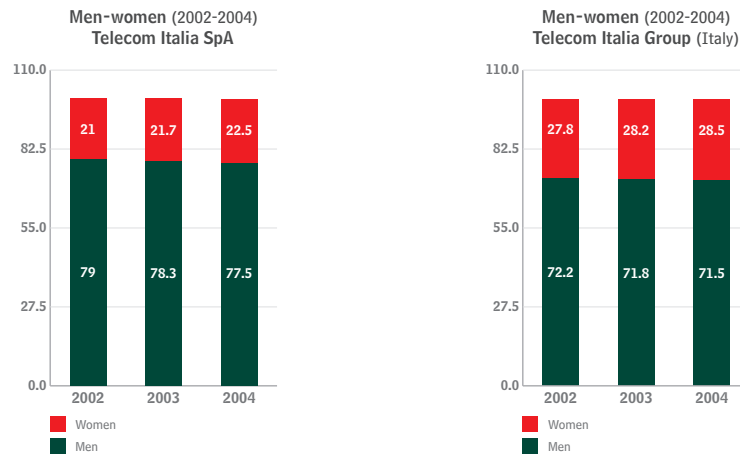
Latin America: employee breakdown by academic qualification



3 CONTEXT	50 HUMAN RESOURCES
10 EXTERNAL STAKEHOLDERS	65 SHAREHOLDERS
50 INTERNAL STAKEHOLDERS >>	
79 AUDITORS' REPORT	

■ GENDER BALANCE

Distribution percentages of men and women are shown in the following graphs:



During 2004 the percentage of women holding senior management positions in the Group (in Italy) was around 12%; at middle management level it was around 25%.

Welfare Project and Equal Opportunities

For the purpose of fostering a better balance between work and free time, Telecom Italia is following a company Welfare policy with the goal of developing initiatives to facilitate its employees' wellbeing.

Some of these initiatives are:

- a "Personal affairs" service (by which employees can pay bills, fines, etc.);
- an Easy Free-time service where employees can organize their free time, including conventions with tour operators, railroad companies, car-hire services and hotel chains;
- some company canteens have been renovated and turned into pleasant dining rooms.

In 2004, the Woman Project, an integrated program which was launched on July 1, 2003 to identify initiatives in support of professional development for women and foster equal opportunities within Telecom Italia Group, promoted and carried out the following activities:

- a web portal dedicated to the project, updated with all the activities for employees and offering a wealth of information about maternity/paternity and raising children;
- loans for mothers;
- the introduction of a Children's Day to the company calendar and the organization of several initiatives for the employees' children (summer day camps, refunds for university enrolment fees, scholarships and Master studies);
- the introduction of an on-line shopping service.

Management policies (training, mentoring, coaching, etc.) to help employees resume their jobs after maternity leave, as well as the opening of childcare centers in some company offices, are under consideration.

3	CONTEXT	50	HUMAN RESOURCES
10	EXTERNAL STAKEHOLDERS	65	SHAREHOLDERS
50	INTERNAL STAKEHOLDERS	>>	
79	AUDITORS' REPORT		

■ DEVELOPMENT

During 2004 development activities were characterized by the special attention given to the **talent enhancement**.

In this perspective several initiatives were launched in the various Business Units to implement the Group Professional System, with projects for the purpose of assessing employees' competence portfolio (specialized knowledge and personal ability).

In more detail, during the year a census was made of specialized knowledge for around 60,000 people working in the various Business Units, using a common model that allows the company to estimate the patrimonial value of the know-how present in the Group, to evaluate the best allocation of the resources in terms of business needs and to set up measures of retention and development of core competences.

As regard to talent enhancement within the larger framework of the annual process to identify Key People in the Group, during 2004 a **Knowledge Review** study was carried out according to a common model in all the Business Units. This study identified resources within the various company realities who, due to their competences, represent professional reference points.

In keeping with a policy of continual reinforcement, dissemination and internalization of the System of Group Values, several initiatives were carried out by the Business Units during the year to develop and increase management competences, at all levels, on the theme of **employee enhancement**.

Another specific course of action followed in 2004 was **harmonizing** policies and systems of developing resources at **international level** in the various companies of the Group abroad. In this framework there were numerous initiatives to promulgate the development procedures already in use in the Business Units in Italy, for example by extending the experiences of the Development Center and the Assessment Center to the management of the companies in Latin America.

The Internal Development, Training and Communication activities during 2004 were orientated towards the logic of the reinforcement of the of **Professional Families' system and culture**.

Several surveys (questionnaires and focus groups) were carried out to constantly monitor perception and motivation levels in the various Professional Families; get-togethers and conventions were organized to gather resources from various professional areas; professional families fostered job-rotation following a logic of richer and larger professional development.

Recruiting

In 2004 a program was implemented to recruit, screen and place a considerable number of high-potential new graduates, mainly in engineering and finance.

This project, which began in May, underlined the importance of transferring the Group culture following a common path of recruitment, screening, placement, training and use of tools for professional development. In coherence with the Industrial Plan and the Professional Families' orientation, the project was based on the data on the Group's recruitment requirements as to quality and quantity.

3	CONTEXT	50	HUMAN RESOURCES
10	EXTERNAL STAKEHOLDERS	65	SHAREHOLDERS
50	INTERNAL STAKEHOLDERS	>>	
79	AUDITORS' REPORT		

The placement and professional development path that resulted ensures a good-quality generational turn-over in the intermediate term, while keeping sight of the Group's objectives and culture.

■ TRAINING

During 2004 there were around 1.9 million hours of training activities in Telecom Italia Group (classroom, on-line, training on the job for Italian personnel) and around 33 million euro for basic training costs (excluding the labor costs and logistic expenses).

These activities, largely carried out by Telecom Italia Learning Services, regarded mainly the following areas:

Overall Group Projects

- Completion of the managerial training program for executives aiming at change management in accordance with the managerial model drawn up for the Group ("Tools for Change") and the "Objective: Image" project for all executives in the Group, to foster and spread an organizational culture that defends and reinforces the company image.
- Realization of 5 editions of the placement-training program for new graduates in Telecom Italia Group to acquaint them all with identical knowledge of the organization and the Group's values and teach them the basic "tools of the trade".
- A Learning Tour was held in the USA for 15 managers from various Business Units, with a full immersion in top American corporate realities on the subject of "Business Innovation".
- The training programs for the Professional Families Human Resources and Finance, Administration and Control, and the launch of the training program for professional Buyers (Purchasing Professional Family) were concluded.

Training for the Business Units

Training in the Business Units was mostly to develop competences needed to run the separate businesses.

Specifically:

- In Wireline training projects in client relations and role adjustment for front-end personnel continued (i.e. the Evolution Project for SAT, Coaching Project, Minerva Project) as well as training projects for sales personnel to acquire expertise at high level both in Telecom Italia products, services and offers and in client relationships (i.e. the Negotiation Project, Projects for Organizational Development of Sales to Business Clients, General Management of Public Telephony Clients and General Management of Residential Clients). On the emergent topic of convergence between electronic communication and television services from a technical and regulatory angle (national and European Community regulations on acquiring and defending intellectual property rights to new platforms and in the television sector) the first training sessions mainly directed to managers and professionals in Business Regulations and Legal Department were held. These training sessions also saw the participation of resources from Marketing and Network.
- In TIM the main initiatives have been in "multinationality" to foster integration and networking between TIM Italia and the foreign companies (i.e. First International Business Championship - TIM CUP), "People enhancement" with a training plan for executives and key middle managers in charge of structures for furthering knowledge and modalities of managing the Performance Management process and "Orientation toward the Client" (i.e. the training project involving TIM key people and executives from corporate TIM clients).

3	CONTEXT	50	HUMAN RESOURCES
10	EXTERNAL STAKEHOLDERS	65	SHAREHOLDERS
50	INTERNAL STAKEHOLDERS	>>	
79	AUDITORS' REPORT		

- The "Orienteering" training plan begun in late 2003 continued in IT Telecom, to provide all heads of departments with instruments to develop competences and motivate their employees.
- In TI Media some of the main training programs involved Tin.it departments, and dealt both with managerial and specialist topics; a training activity about Terrestrial Digital was held for technicians from La7 channel.
- Training courses continued for employees' requalification at Olivetti Tecnost S.p.A. according to the reorientation processes required for new industrial initiatives.

As regards training programs for Telecom Italia Group foreign personnel, monitoring of Mobile and South America (Chile, Bolivia), i.e. around 92% of foreign personnel in the Group, recorded about 690,000 hours in 2004.

■ EMPLOYEE SATISFACTION

A study of climate analysis with an on-line questionnaire, named Group Photo 2004, was made in May and June 2004.

It included more than 76,000 employees in the Group in Italy and for the first time employees in Greece participated too.

Participation was around 70% in Italy and 50% in Greece.

Overall satisfaction continued to grow for the third consecutive year and stabilized at about 6.25 (on a scale from 1 to 10) in Italy and 3.77 (on a scale from 1 to 5) in Greece.

During 2004 the study was made in Brazil and Peru as well, where satisfaction stabilized at 3.44 (on a scale from 1 to 5) and 3.45 (also on a scale from 1 to 5).

The results were gradually circulated to all Group employees.

■ INTERNAL COMMUNICATION

During 2004 Internal Communication carried out a series of initiatives for employees at Telecom Italia Group, some of which were:

- A Group 2004 convention: it was held on April 7, 2004 and about 7,000 executives and middle managers of Telecom Italia Group took part at locations in Italy and South America.
- Four issues of the Group *noi.magazine*.
- A questionnaire was sent out to a statistically-representative sample of blue collar workers, clerical staff, middle managers and executives in Telecom Italia Group to assess the efficacy of *noi.magazine* and study how to improve it.
- A questionnaire was sent out to assess the efficacy of the 2004 calendar and agenda and undertake new initiatives for 2005.
- A Human Resources professional family newsletter was launched, intended for the roughly 1000 professionals in the company.
- A quarterly newsletter that periodically informs all Group employees of the Group's financial results.
- Extensive use of emails to all personnel for special events.
- Intranet sites were launched for the Woman Project, Olivetti Tecnost, and Telecom Italia Audit.
- Connectivity between Italy and South America was realized that guarantees access to all contents on intranet site "Open" and the reserved areas.
- Between April and June 2004 the new version of the Group's Intranet Portal *noi.portal* for employees in Telecom Italia Media and Central Departments was launched.

3	CONTEXT	50	HUMAN RESOURCES
10	EXTERNAL STAKEHOLDERS	65	SHAREHOLDERS
50	INTERNAL STAKEHOLDERS	>>	
79	AUDITORS' REPORT		

- A Security Professional Family convention (second session) was held with middle managers and executives in the Group.
- A Human Resources Professional Family convention (third session) was held with middle managers and executives in the Group.
- A plan of specific communication for boardroom managers, executives and all Group employees was held on occasion of the announcement of the merger between Telecom Italia and TIM.
- A calendar, a diary and a badge holder with the logos of all Group Business Units was sent to all employees for the end-of-year holidays.
- The "I am" project in the Wireline Business Unit was consolidated.
- The "Tim People" project for TIM employees was started.

■ REMUNERATION POLICIES

In 2004 the management of interventions on fixed-compensation was consolidated. The interventions are ever more targeted to link it directly with the level of strategic importance and roles filled.

The variable compensation element in compensation packages was increasingly-tightly linked to company/individual performance. In this respect, formalized systems took on particular significance; in 2004 we saw a consolidation of the systems already in place (MBO Managerial Incentives and Long Term Incentive Plan) as well as the introduction of a new formal incentive plan – named Performance Bonus Program (PBP) – destined at resources holding relevant business positions which have more of a professional than a managerial content.

In a Group perspective, the commitment to harmonize policies on benefits continued; furthermore, during 2004 the number of people receiving some type of benefits increased. This was to valorize the overall compensation package.

■ STOCK OPTIONS

During the first quarter of 2004, in conjunction with the Shareholders' Meeting, trading in Telecom Italia SpA shares was suspended from April 24, 2004 (the tenth trading day of the Stock Market prior to the date of the first call of the Shareholders' Meeting) until May 21, 2004, inclusive.

On December 15, 2004 and December 31, 2004, deadlines for the "Stock Option Plan 2002-2004" and the "Stock Option Plan February 2002 - December 2004" came due; consequently, on those dates all options to underwrite assigned shares elapsed, in Olivetti SpA, before the operation to merge by incorporation.

On December 31, 2004 the deadline to underwrite shares in the second and last lot of the "Stock Option 1999 Plan" fell due. The trading lot was entirely bought up except for residual shares with fractional certificates created after the trading which followed the merger by incorporation of Telecom Italia SpA with Olivetti SpA; consequently, these residual shares elapsed on the same date.

In accordance with the recommendation in Consob directive No. 11508 dated February 15, 2000, the following table summarizes the essential elements in the Stock Option Plans effective in FY 2004. Relative to items shown in the tables, please note that stock option holders are entitled to subscribe, at the subscription price, the total number of shares obtained by multiplying the number of options held by the exercise ratio, rounded down to the nearest whole number.

3	CONTEXT	50	HUMAN RESOURCES
10	EXTERNAL STAKEHOLDERS	65	SHAREHOLDERS
50	INTERNAL STAKEHOLDERS	>>	
79	AUDITORS' REPORT		

(Amount in euro)		Options existing at 1/1/2004	New options granted during the year	Options exercised during the year	Options expired and not exercised or forfeited during the year	Options forfeited during the year due to termination of service	Options existing at 12/31/2004	of which exercisable at 12/31/2004
1999	No. options	4,511,901.24	-	4,511,879.74	21.50	-	-	-
Plan	Exercise ratio	3.300871	-	3.300871	3.300871	-	-	-
	Subscription price	2.057033	-	2.057033	2.057033	-	-	-
	Market price	2.403	-	2.764 (*)	3.006	-	-	-
2000	No. options	10,699,996.00	-	-	-	-	10,699,996.00	10,699,996.00
Plan	Exercise ratio	3.300871	-	-	-	-	3.300871	3.300871
	Subscription price	4.185259	-	-	-	-	4.185259	4.185259
	Market price	2.403	-	-	-	-	3.006	3.006
2001	No. options	32,340,000.00	-	-	-	360,000.00	31,980,000.00	31,980,000.00
Plan	Exercise ratio	3.300871	-	-	-	3.300871	3.300871	3.300871
	Subscription price	3.177343	-	-	-	3.177343	3.177343	3.177343
	Market price	2.403	-	-	-	3.177 (*)	3.006	3.006
2002	No. options	25,744,700.00	-	208,498.91	-	1,999,700.00	23,536,501.09	14,340,901.09
Plan	Exercise ratio	3.300871	-	3.300871	-	3.300871	3.300871	3.300871
	Average subscription price	2.906507	-	2.906507	-	2.928015	2.905390	2.905424
	Market price	2.403	-	2.973 (*)	-	2.654 (*)	3.006	3.006
2002 TOP	No. options	11,340,000.00	-	749,999.02	-	90,000.00	10,500,000.98	6,000,000.98
Plan	Exercise ratio	3.300871	-	3.300871	-	3.300871	3.300871	3.300871
	Subscription price	2.788052	-	2.788052	-	2.788052	2.788052	2.788052
	Market price	2.403	-	2.938 (*)	-	2.537 (*)	3.006	3.006
2002-2004	No. options (**)	800,000.00	-	-	800,000.00	-	-	-
Plan	Exercise ratio	0.471553	-	-	0.471553	-	-	-
	Subscription price	7.015118	-	-	7.015118	-	-	-
	Market price	2.403	-	-	3.006	-	-	-
Feb. 2002-2004	No. options (***)	5,940,000.00	-	-	5,640,000.00	300,000.00	-	-
Plan	Exercise ratio	0.471553	-	-	0.471553	0.471553	-	-
	Subscription price	5.333441	-	-	5.333441	5.333441	-	-
	Market price	2.403	-	-	3.006	2.531 (*)	-	-

(*) Weighted average price.

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

(***) Refers to no. 29,000,000 warrants deliberated of which 26,475,000 assigned.

3 CONTEXT	50 HUMAN RESOURCES
10 EXTERNAL STAKEHOLDERS	65 SHAREHOLDERS
50 INTERNAL STAKEHOLDERS >>	
79 AUDITORS' REPORT	

Plan	Exercise ratio	Subscription price of shares (euro)	Number of options granted at 12/31/2004 and exercisable from					Total	Maximum period of options
			2001	2002	2003	2004	2005		
1999	3.300871	2.057033	-	-	-	-	-	-	December 31, 2004
2000	3.300871	4.185259	5,349,998.00	5,349,998.00	-	-	-	10,699,996.00	5 years starting from each year
2001	3.300871	3.177343	-	31,980,000.00	-	-	-	31,980,000.00	April 15, 2007
2002	3.300871	2.928015	-	-	6,868,200.70	6,908,700.31	8,779,600.00	22,556,501.01	5 years starting from each year
	3.300871	2.409061	-	-	222,000.04	222,000.04	336,000.00	780,000.08	
	3.300871	2.339080	-	-	60,000.00	60,000.00	80,000.00	200,000.00	
2002 TOP	3.300871	2.788052	-	-	3,000,000.49	3,000,000.49	4,500,000.00	10,500,000.98	5 years starting from each year
2002-2004	0.471553	7.015118	-	-	-	-	-	-	
Feb. 2002- Dec. 2004	0.471553	5.333441	-	-	-	-	-	-	December 31, 2004

■ INDUSTRIAL RELATIONS

During the financial year collective Group bargaining mainly concerned:

Company reorganization

The Group's initiatives to focus on core business activities were carried out in accordance to legal procedures governing transfers of the following company activities:

- Telecom Italia SpA and EMSA Servizi SpA Document Management to Telepost SpA;
- TIM SpA Administrative Services to Shared Service Center S.c.r.l.;
- Loquendo SpA Applications to CITEC SpA;
- Telecom Italia SpA Maintenance and Environmental Services and EMSA Servizi SpA to MP Facility SpA;
- IT Telecom SpA Industries & Services to Shared Service Center S.c.r.l.

Furthermore, during the Group reorganization legal procedures were applied to the following areas:

- Transfer of the Business Solution Mobile activities from IT Telecom SpA to TIM SpA;
- Transfer of the Infrastructures Center activities from IT Telecom SpA to IT Telecom Srl;
- Merger by incorporation of IT Telecom SpA and of Epiclink SpA in Telecom Italia SpA;
- Transfer of EMSA Servizi SpA to Telecom Italia SpA.

An agreement on the reorganization and development plan at Atesia SpA with the Unions was also reached foreseeing the transfer of the Atesia company activities of fixed network telephony to Telecontact Center SpA and the sale of the controlling share of the remaining part of Atesia (concerning TIM and other companies) to an operator in the sector.

The agreement provides for an adjustment to the contractual stipulations with personnel working in these areas in accordance with the "Riforma Biagi" (Biagi Reform law).

Other topics

- Regarding health care, an agreement was made with the unions representing Group executives that allows the Assida's Board of Directors to redefine, with a statutory reform, the system that manages the Fund guaranteeing greater involvement from the adhering companies and a streamlining of company bodies. In this way they are able to act more quickly and efficiently to achieve the Fund's institutional aims.

3	CONTEXT	50	HUMAN RESOURCES
10	EXTERNAL STAKEHOLDERS	65	SHAREHOLDERS
50	INTERNAL STAKEHOLDERS	>>	
79	AUDITORS' REPORT		

- In 2004 early retirement was completed for 20 employees at Gruppo Buffetti as provided for by law No. 416/81.
- On July 14, 2004 a union agreement was signed that ended the resort of CIGS' funds for professional re-training of employees at Olivetti Tecnost Group, according to the two-year reorganizational plan FY 2003-04.
- As regards disabilities and obligations stipulated by law 68/1999, Telecom Italia started a project to guarantee the targeted inclusion of disabled people in the world of work, with innovative use of all the conventional tools provided by this law.
A protocol of understanding was signed with the Labor Unions in which two time periods are set out for the realization of the project; following this the protocol was approved by the Ministry of Labor and Social Policies and associations representing people with disabilities.
The first phase, ending in 2006, foresees the introduction of 200 disabled workers throughout Italy, according to the modalities set out in the protocol, using contractual procedures normally carried out within the company but also telework and remote work.
- On November 12, 2004 two agreements were signed with the Unions for Outsourcing and Training for company workers.
The agreement regarding management of outsourcing processes confirms the use of this tool as an organizational instrument in order to achieve business objectives.
This also allows reinforcing of advanced communication to the Unions of any outsourcing operations as well as strengthening the system of social guarantees for the workers, which Telecom Italia agrees to impose on the companies that take over outsourced activities.
The Training agreement, based on the creation of Fondimpresa, "Interprofessional Fund to boost the continuous training of middle managers, clerical workers and blue collar workers in the companies" will allow companies to benefit from the pertinent funds to realize training courses for employees.
- As regards the Renewal of the Collective National Labor Contract for executives, undersigned by Confindustria and Federmanager on November 2004, an agreement was signed on December 14, 2004 with the coordination the company union representatives of the Group's executives in order to harmonize some of the regulations established in the company with those in the aforementioned Collective National Contract.

■ HEALTH AND SAFETY

During 2004 some important projects began/were consolidated at Group level:

- Research into wellbeing in call centers, managed by a Scientific Committee composed of Italian university professors specialized in Psychology, Ergonomics, and Medicine in the Workplace.
- Assessment of concentration levels of radon gas in some work places by means of scientific collaboration with the Istituto Superiore di Sanita (Superior Health Institute) to develop a working methodology and an accredited laboratory.
- "Environment Project", to guarantee coherent defence of environmental themes within all the

3	CONTEXT	50	HUMAN RESOURCES
10	EXTERNAL STAKEHOLDERS	65	SHAREHOLDERS
50	INTERNAL STAKEHOLDERS	>>	
79	AUDITORS' REPORT		

companies in the Group, in line with the principles and codes set forth in the Sustainability Report and the Code of Ethics.

Furthermore, in order to guarantee and promote health and safety on the job, the following significant activities were carried out in the main companies of the Group:

Telecom Italia SpA

More than 200 specific assessments were carried out to inspect environmental conditions in work places, especially the ones that have been structurally modified;

The physician in charge and the manager of the Servizio di Prevenzione e Protezione (Prevention and Protection service) visited videoterminal workstations 1,541 times;

7,312 videoterminal workers were examined in accordance with the process of health surveillance;

348 company-evacuation tests to test the efficiency of the Plans for Managing Emergencies;

279 specific assessments to check the level of acoustic pollution in the companies;

195 inspections to check the level of exposure to electromagnetic fields for personnel who work on antenna supporting structures;

more than 30,000 training hours were carried out by the Prevention, Protection and Environment Service. Among topics treated were the regulations, the procedures and the related legislation, the managing of emergencies, and also training courses for new recruits.

TIM

The Security Management System

During 2004 two further territorial areas of TIM - Northwest and South 2 - worked to implement the Security Management System in compliance with regulation BSI OHSAS 18001; thanks to a structured path, including training for all personnel involved, the system was activated and inspected in specific Audit cycles. The final certification phase, managed by a third party, will take place within the first months of 2005.

Training

Training courses were constantly held throughout 2004 in the framework of the basic and specialist training programs for all personnel; in particular, in 2004 specific training programs were developed for:

- "Safe Driving", courses for operative personnel aiming at awareness and training of people who frequently use cars for their professional activities.
- "Working at heights" for some Network workers.

Comprehensively, the program involved 2,108 resources for a total of 17,573 hours.

Health

The Campaign of Healthcare Surveillance saw a total of 1,433 resources involved. The examinations covered all video terminal workers.

"Wellbeing in the Call Centers" project:

In agreement with Telecom Italia SpA an experimental project was launched to monitor quality of life of the workers at the TIM Call Center in Torino Rivoli, using subjective, behavioural, physiological and biochemical criteria.

3	CONTEXT	50	HUMAN RESOURCES
10	EXTERNAL STAKEHOLDERS	65	SHAREHOLDERS
50	INTERNAL STAKEHOLDERS	>>	
79	AUDITORS' REPORT		

The following table illustrates data on accidents in Telecom Italia SpA and TIM SpA:

	Telecom Italia SpA	TIM SpA
Total accidents	732	57
Accident severity index ^(*)	0.37	0.2
Frequency rate ^(*)	9.78	3.7
Average duration (in hours)	154.89	155
Unproductiveness rate ^(*)	1.51	0.89
Accidents x 100 workers	1.48	0.54

(*) The data relating to severity, incidence and unproductiveness refers respectively to:
 - the number of conventional days lost per year per thousand hours worked;
 - the number of accidents per million hours worked;
 - the number of hours lost due to accidents per thousand hours worked.

■ INITIATIVES FOR EMPLOYEES

CRALT

The Telecommunications Workers Company Recreational Club organizes tourist, sports, cultural, recreational and solidarity activities for employees and retired employees from the companies in the Group.

Around 52,000 employees and 8,000 retirees had joined as of December 31, 2004.

ASSILT

At December 31, 2004, more than 217,000 people were enrolled in the Association for Integrative Healthcare for Telecom Italia workers: 68,200 employees, 40,200 retirees and 109,000 family members.

As well as reimbursing healthcare expenses to integrate the National Healthcare Service (561,000 cases in 2004), Assilt created campaigns for preventive medicine and healthcare education, using its mobile diagnostic units and support from public healthcare facilities.

Also in 2004 the programs for multidisciplinary Oncological Prevention to discover breast and skin pathologies continued, as did the program, which began in 2003, for respiratory allergies.

Furthermore, Assilt, in collaboration with OSSFAD, supported Telecom Italia's "No Smoking" initiative for the benefit of its employees.

Initiatives for employees' children

Summer Holiday Camps provided 4,644 children with an opportunity to spend two weeks in one of the 11 camps reserved specifically for them (5 at the seaside, 6 in the mountains).

Activities in the camps are organized around an educational project which is periodically updated with input from university professors and experts in the sector.

Around 300 young people were reimbursed their enrolment fees for the first year at university; 60 adolescents took part in a four-week study holiday abroad to study English and 20 adolescents between the ages of 16 and 17 went away for a school year abroad (13 in the United States and 7 in various European countries).

ALATEL

Association for the Elderly (ALATEL and Gold Pins)

Following the merger between Telecom Italia and Olivetti, the Senior Workers' Association in the Telecom Italia Group (over 26,000 members, of which a third are working employees) started a collaboration with the Olivetti Gold Pins Association (about 6,400 members).

3	CONTEXT	50	HUMAN RESOURCES
10	EXTERNAL STAKEHOLDERS	65	SHAREHOLDERS
50	INTERNAL STAKEHOLDERS	>>	
79	AUDITORS' REPORT		

■ WORK AND HUMAN RIGHTS IN LATIN AMERICA

The following shows the main actions taken by the Group in Latin American countries to implement the Principles of the Global Compact regarding human rights and safeguards for work.

Human Rights

At TIM Peru, as of November 2003 a document called "Internal Manual of Labor" was introduced which defines clear rules for rights and obligations of Company employees.

This document is given out at the moment of employment, listing the person's rights regarding: respect for ideas/personal contributions, privacy, health and safety, equal opportunities, facilities/aids for disabled personnel.

Human Resources' administration and welfare departments ensure the observance and respect of the rules.

In the Company Code of Ethics and yet another document called "TIM Peru Policy for Conduct", the principle of mutual respect between workers without discrimination on the basis of race, religion or nationality is cited. This principle is strictly applied also when recruiting personnel.

TIM Peru, through its activities in the struggle against child poverty, was considered by UNICEF to be a "Friendly UNICEF Enterprise".

In TIM Brazil, where there are specific regulations to guard against discrimination on the basis of race, religion and gender, both in the Federal Constitution (which respects the principles of the International Labour Organization and the Universal Declaration of Rights for Man) and in national legislation, it was not deemed necessary to introduce a specific policy on the subject; it was left to Human Resources to monitor the fundamental processes relating to human resources (recruitment, management and development) making use of its own holding and territorial organizations. The first Company Code of Ethics is being distributed to employees; it cites the general principles of the Group and supplements them according to specific local requirements.

In Chile the government has set up a special body to monitor compliance with guidelines to safeguard relationships between companies and workers. Entel Chile fully respects these regulations.

At Entel Bolivia, the Collective Labor Contract in force between the parties stipulates respect for dignity and human rights of employees and fosters equal opportunities for men and women; it especially promotes female participation in company activities.

Safeguards for Labor

On the subject of freedom to belong to associations, in Group companies in Latin America specific policies that refer to and regulate in detail the general rules of each country are usually not formalized.

The collective contracts of all the operative companies in TIM Brazil were renewed in 2004, with new salaries and contracts (for example fixed-term contracts).

Entel Bolivia actively cooperates with the Unions to guarantee freedom to associate in conformity with local labor laws. The country's constitution stipulates that no-one may be forced to perform any job without proper remuneration and Entel Bolivia monitors observance of this provision.

In Entel Chile there are professional continuing-education programs about labor law for union members; relevant regulations are published on the company Intranet.

3	CONTEXT	50	HUMAN RESOURCES
10	EXTERNAL STAKEHOLDERS	65	SHAREHOLDERS
50	INTERNAL STAKEHOLDERS	>>	
79	AUDITORS' REPORT		

Regarding union representation the following data has been collected:

- TIM Brazil: about 6% of workers are members of collective union organizations; results of negotiations affect the entire employee base, including non members;
- TIM Peru: membership is not high given the traditional weakness of union associations in this country;
- Entel Bolivia: 48% of workers are members of union associations;
- Entel Chile: 39% of personnel are members of union associations and 59% of them benefit from results of negotiations.

When there are company reorganizations, the company's obligations to the workers and union representatives differ from one country to another:

- TIM Brazil: there are no particular formalities to observe with workers and union representatives; the only duties are towards institutional bodies such as ANATEL (regulatory) and CADE (anti-trust);
- TIM Peru: although there are no formalities at legislative level, specific measures to involve employees and listen to them have been adopted, such as open forums, focus groups, meetings to talk directly to top management, etc.;
- Entel Bolivia: developed a series of tools to prevent possible conflicts by means of wide-spread information about company plans and policies.

These tools are:

- Foro Estratégico (Strategic Forum): it meets bi-monthly to discuss industrial policies and strategies, financial and legislative scenarios, market trends, technological innovations and investments.
- Observatorio (Observatory): with representatives of the company and the workers, it aims to analyze and discuss topics of general interest such as markets and competition, action to improve working conditions, action to improve and preserve company profits.
- Sistema de Informaciones (Information System): ENTEL reports information every four months to CEN of FESENTEL (executive committee of the Federation Labor Union) about:
 - developing scenarios in the sector;
 - evolution of internal occupational levels;
 - trends for main economic indicators in the sector;
 - evolution of prospects for production and investment;
 - evolution of technological and organizational aspects and their impact on organization of work;
 - notable programs in training and professional continuing education.
- Entel Chile: there aren't any special obligations, but special operations affecting profits are discussed with union representatives.

On the subject of respecting regulations that protect child labor, all companies in the Group conform to the principles in national and international regulations. To counter exploitation and unfavourable socio-economic conditions, specific initiatives of a social nature were activated at a national level:

- TIM Brazil: projects for social inclusion and to fight discrimination through teaching music (i.e. Tim Musica nas Escolas, Tim Arteducação, etc.), reading and writing projects (i.e. Alfa 100, Pastoral da Crianca), humanitarian aid programs (i.e. TIM Ajuda sem Fronteiras).
- TIM Peru: Carabayllo project (fighting child poverty), program to train young people and prepare them for work.

3	CONTEXT	50	HUMAN RESOURCES
10	EXTERNAL STAKEHOLDERS	65	SHAREHOLDERS
50	INTERNAL STAKEHOLDERS	>>	
79	AUDITORS' REPORT		

To create a shared-values base and raise the level of involvement of employees in company management topics, initiatives were undertaken to spread Group values and communicate the company's strategic programs. Results of these efforts were monitored with polls using the questionnaire "Group Photo" that reaches all the employees in the companies every year.

In TIM Brazil and Entel Chile there are active programs talent enhancement by enrolling people in post-graduate Master studies with company contributions towards expenses. In Entel Bolivia there is an internal job-posting system to fill vacancies through an intranet publication or by posting available positions on a company notice board.

3	CONTEXT	50	HUMAN RESOURCES
10	EXTERNAL STAKEHOLDERS	65	SHAREHOLDERS
50	INTERNAL STAKEHOLDERS	>>	
79	AUDITORS' REPORT		

■ SHAREHOLDERS



■ FINANCIAL COMMUNICATION

In 2004 Telecom Italia Group issued an ever more accurate and fast financial communication in line with preceding years, focussed on fundamental values of its fixed-telephone and mobile businesses.

Investor Relations activities continued to be managed by a Central Department which also managed Merger & Acquisition activities, which in turn reports directly to the chief executive so as to ensure the fastest and most efficient communication possible.

The www.telecomitalia.it website provides comprehensive and accurate information with institutional documents such as the year-end financial statement and the Sustainability Report, and communiqués about company activities and its salient operations in the market, along with on-line quotations for the Group's shares.

At year-end 2004 a project to redesign the website and give ample space to Sustainability began.

During 2004 the company organized over 100 formal encounters with the market (sell side analysts, institutional investors and specialized national and international press) such as quarterly conference calls, road shows, attendance at conventions and press conferences. There were also daily contacts with financial analysts and investors, both direct and by telephone.

On March 25 and 26, 2004 the yearly meeting with the financial community was held in Milan to present the Group's targets for the three-year period 2004-2006.

In December the company announced the merger with its subsidiary, Telecom Italia Mobile following a public bid to acquire 2/3 of ordinary TIM shares on the market and the entire amount of the saving shares. A comprehensive and timely information campaign was provided to the market by conference call to institutional investors and the necessary documentation was published on Telecom Italia's website.

■ SAFEGUARDING PRIVACY AND PROTECTING DATA

In 2004 Telecom Italia Group's concrete commitment to guarantee observance of current regulations concerning the protection of personal data (Legislative Decree 196/03, so called "Privacy Code") continued.

In particular, the "Privacy Project", realized by Telecom Italia's Corporate and Legal Affairs, coordinated and delivered the guidelines and policies to guarantee coherence and the correct

3	CONTEXT	50	HUMAN RESOURCES
10	EXTERNAL STAKEHOLDERS	65	SHAREHOLDERS
50	INTERNAL STAKEHOLDERS	>>	
79	AUDITORS' REPORT		

application of new regulations introduced with the privacy code and the Garantor's regulations to protect personal details (i.e. new notification to the Privacy Authority, methods of getting the information to the people involved, video surveillance) to all the companies in the Group.

Some of the main initiatives undertaken were:

- the setting up of various operational procedures to comply with the law, in Telecom Italia and in the rest of the Group (System for regulation of personal data, internal control activities, assigning the privacy role in contractual relationships with third parties, dealing with client request about privacy, etc.);
- preparation, in accordance with principles established by the Privacy Authority, relative to the handling of personal data in the new telephone books, sent to all Telecom Italia clients in January and February 2005. The briefing includes a form wherein the client can give explicit consent for the use of his data for different purposes;
- spreading awareness of a privacy culture by means of an on-line course for all Group employees on privacy laws, with special mention of security measures and a day-long training course for all the people in charge of privacy in the Group's companies;
- a program to carry out spot checks in Telecom Italia central and territorial facilities and companies that handle personal data belonging to Telecom Italia, to ensure that privacy laws are complied with correctly. Controls were especially careful in regard to compliance when managing personnel, dealing with requests of interested parties (employees and clients), putting in place the required minimal security measures, and giving the management of personal data to third parties;
- ascertaining the extent to which the companies in the Group apply regulations and monitoring action eventually taken to improve it.

Lastly, in accordance with rule 26 of attachment B (Technical Manual about the required minimal security measures) of the Privacy Code, Telecom Italia drew up the Personal Data Security document on Security (DPS) FY 2004. This document describes the technical and organizational criteria adopted to protect common, sensitive and legal personal data handled with information technology tools; the DPS also foresees a training project to inform people responsible of handling personal data about security measures related to identified risks.

3	CONTEXT	50	HUMAN RESOURCES
10	EXTERNAL STAKEHOLDERS	65	SHAREHOLDERS
50	INTERNAL STAKEHOLDERS	>>	
79	AUDITORS' REPORT		

CORPORATE GOVERNANCE

■ INTRODUCTION

The Company's system of corporate governance is based on the central role of the Board of Directors, the complete transparency of operational decisions, both internal and in relation to the market, efficient and effective internal controls and rigorous rules governing conflicts of interest. The backbone of the system consists of a series of codes, rules and procedures. In 2004 these documents were carefully reviewed and, where necessary, updated in response to legislative and regulatory developments and changes in international best practices and the Company's operations. Furthermore, some amendments and additions were made to the bylaws, partly to take account of the changes in company law introduced by the "Vietti reform". This section describes the innovations concerning Telecom Italia's system of corporate governance and how it operated during the year; the section is an excerpt from the corresponding section of the "Report on operations" of the Annual Report 2004, to which reference is made for the complete text (available, as all the other corporate governance documents mentioned herein – principles, codes procedures, charts – on the website: www.telecomitalia.it/Investors, sections "governance" and "shareholders").

■ BOARD OF DIRECTORS

■ Role and tasks

The Board of Directors has the power (and the duty) to lead the Company and pursue the primary objective of creating value for its shareholders. To that end the Self-Regulatory Code reserves several especially important tasks exclusively to the Board, including those of:

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

■ Meetings

In 2004 the Board of Directors met twelve times. Board meetings were always well attended, with more than 90% of the directors present on average (the independent directors recorded an attendance rate of 94%).

When board meetings were to be held, documentation permitting effective participation in the proceedings was provided in advance.

3	CONTEXT	50	HUMAN RESOURCES
10	EXTERNAL STAKEHOLDERS	65	SHAREHOLDERS
50	INTERNAL STAKEHOLDERS	>>	
79	AUDITORS' REPORT		

In October 2004 the Company released the calendar of corporate events scheduled in 2005. In consideration of the planned merger between Telecom Italia and Tim, a revised version of the calendar was released in December 2004.

■ Appointment of directors

The bylaws require the members of the Board of Directors to be elected using the slate system. This ensures an adequate representation on the Board of persons not representing the shareholders commanding a majority of votes in shareholders' meetings since they are drawn from slates presented by minority shareholders (in fact slates may be presented by shareholders who, individually or together with others, hold at least 1% of the voting capital).

The present Board was appointed by the shareholders' meeting held on 6 May 2004, on the basis of two slates: one presented by the majority shareholder, Olimpia S.p.A., and the other by a group of Italian institutional investors.

The slates were accompanied by the profiles of the individual candidates to enable shareholders to evaluate their personal and professional qualifications. Also the curricula submitted when the slates were presented are on the Company's website.

■ Composition of the Board

Telecom Italia's bylaws provide for the Board of Directors to have not less than 7 and not more than 23 members. The shareholders' meeting of 6 May 2004 fixed the number of directors at 19 and established that they would remain in office until the date of the approval of the 2006 financial statements.

The Board is made up of the following directors:

Marco Tronchetti Provera	Chairman
Gilberto Benetton	Deputy Chairman
Carlo Buora	Managing Director
Riccardo Ruggiero	Managing Director and General Manager
Paolo Baratta	Member of the Remuneration Committee
John Robert Sotheby Boas	
Giovanni Consorte	
Domenico De Sole	Member of the Internal Control and Corporate Governance Committee and the Strategy Committee
Francesco Denozza	Member of the Internal Control and Corporate Governance Committee
Luigi Fausti	Chairman of the Remuneration Committee
Guido Ferrarini	Chairman of the Internal Control and Corporate Governance Committee (Lead Independent Director)
Jean Paul Fitoussi	
Gianni Mion	
Massimo Moratti	
Marco Onado	Member of the Internal Control and Corporate Governance Committee and the Strategy Committee
Renato Pagliaro	
Pasquale Pistorio	Member of the Remuneration Committee and the Strategy Committee
Carlo Alessandro Puri Negri	
Luigi Roth	

The directors Francesco Denozza, Guido Ferrarini, Jean Paul Fitoussi and Pasquale Pistorio were elected from the slate presented by the group of institutional investors and the others from the slate presented by Olimpia S.p.A., which at present holds approximately 21.8% of the ordinary share capital.

3	CONTEXT	50	HUMAN RESOURCES
10	EXTERNAL STAKEHOLDERS	65	SHAREHOLDERS
50	INTERNAL STAKEHOLDERS	>>	
79	AUDITORS' REPORT		

■ Independent directors

The Company has adopted criteria conforming with international best practice and the Italian corporate governance code, known as the Preda Code, to qualify directors as "independent".

In the light of the declarations submitted and the annual assessment carried out by the Board of Directors, 10 of the 19 directors qualify as independent, namely: Paolo Baratta, John Robert Sotheby Boas, Domenico De Sole, Francesco Denozza, Luigi Fausti, Guido Ferrarini, Jean Paul Fitoussi, Marco Onado, Pasquale Pistorio and Luigi Roth. The directors in question:

- (i) neither have nor have recently had, directly, indirectly or on behalf of third parties, business relationships of a significance able to influence their autonomous judgement with the Company, its subsidiaries, the executive directors or the shareholder or group of shareholders who control the Company;
- (ii) do not hold, directly, indirectly or on behalf of third parties, equity interests allowing them to control the Company or exercise a significant influence over it;
- (iii) do not participate in shareholders' agreements to control the Company or containing clauses regarding the composition of the Board of Directors or its decisions. This requirement is interpreted broadly, with an eye to "substantial" independence. Accordingly, "participation in shareholders' agreements" precludes independence when a director has significant relationships with the natural or legal persons that are parties thereto;
- (iv) are not close relatives of executive directors of the Company or of persons in the situations indicated above.

During the year the Board of Directors of Telecom Italia S.p.A. decided it was desirable to appoint a Lead Independent Director, with the aim of further enhancing the role of the independent directors.

Professor Guido Ferrarini, Chairman of the Internal Control and Corporate Governance Committee, was chosen to be the Lead Independent Director. The position is intended to provide a point of reference and coordination for the needs and contributions of the independent directors and ensure they can decide with the greatest possible autonomy with respect to the management. Among other things, the Lead Independent Director is authorized to call, at his own initiative or at the request of other directors, special meetings of the independent directors (Independent Directors' Executive Sessions) to discuss issues related to the working of the Board or operational activity (with the possibility of requesting the participation of members of the management).

One such Independent Directors' Executive Session was held before the meeting of the Board called on 7 December 2004 to launch the plan for the merger of Tim into Telecom Italia. The meeting was devoted to examining the terms and conditions of the transaction. The independent directors were assisted by Goldman Sachs, the advisor selected directly by the Internal Control and Corporate Governance Committee (see below).

■ Executive directors

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

On 6 May 2004, in the first meeting following its renewal, the Board of Directors appointed Marco Tronchetti Provera as Chairman, Carlo Orazio Buora and Riccardo Ruggiero as Managing Directors, and Gilberto Benetton as Deputy Chairman.

Looking beyond the system of powers delegated to the executive directors, it is worth noting that in practice decisions concerning transactions of particular significance are taken by the Board, even though they theoretically fall within the scope of the delegated powers. In fact, delegation does not mean the assignment of exclusive powers but is rather the solution adopted by Telecom Italia to ensure, in terms of the Board's organization, a high degree of operational flexibility, both within the Company and in relation to third parties.

3	CONTEXT	50	HUMAN RESOURCES
10	EXTERNAL STAKEHOLDERS	65	SHAREHOLDERS
50	INTERNAL STAKEHOLDERS	>>	
79	AUDITORS' REPORT		

The powers delegated by the Board to the Company's executive directors are as follows:

- Marco Tronchetti Provera (Chairman) is entrusted with the powers needed to carry out every transaction relating to the Company's activity, apart from the issue of guarantees for obligations of Telecom Italia or its subsidiaries where the individual amount exceeds € 250 million and for obligations of third parties where the individual amount exceeds € 100 million and apart from investments and acquisitions and disposals of shareholdings involving control or affiliation or businesses or divisions where the value of the transaction exceeds € 250 million. For the issue of guarantees where the amount exceeds the above thresholds, the Chairman must sign jointly with a Managing Director. The Chairman is authorized to act as a matter of urgency in the matters for which the Board of Directors is competent and is charged with overseeing the management of confidential information and ensuring the effectiveness and adequacy of the internal control system. Lastly, the Chairman is authorized to represent the Company with no limit to the amount involved in the performance of acts vis-à-vis any regulatory authority or governmental body, in judicial and extra-judicial settlements, and in arbitration proceedings and shareholders' and other meetings.
- Carlo Buora (Managing Director) is entrusted with the powers needed to carry out every transaction relating to the Company's activity, apart from investments and acquisitions and disposals of shareholdings involving control or affiliation or businesses or divisions and in general of goods and services where the value of the individual transaction exceeds € 150 million. He may issue guarantees for obligations of Telecom Italia or its subsidiaries where the individual amount does not exceed € 150 million and for obligations of third parties where the individual amount does not exceed € 50 million. He must sign jointly with the other Managing Director (Riccardo Ruggiero) for the issue of guarantees for obligations of Telecom Italia or its subsidiaries where the individual amount is between € 150 million and € 250 million and for obligations of third parties where the individual amount is between € 50 million and € 100 million. Carlo Buora is also authorized to represent the Company with no limit to the amount involved in the performance of acts vis-à-vis any regulatory authority or governmental body, in judicial and extra-judicial settlements, and in arbitration proceedings and shareholders' and other meetings.
- Riccardo Ruggiero (Managing Director) is entrusted with the powers needed to carry out every transaction relating to the Company's activity, except for investments and acquisitions and disposals of shareholdings involving control or affiliation, businesses or divisions and in general of goods and services where the value of the individual transaction exceeds € 75 million. He may issue guarantees for obligations of Telecom Italia or its subsidiaries where the individual amount does not exceed € 150 million and for obligations of third parties where the individual amount does not exceed € 25 million. Riccardo Ruggiero is also authorized to represent the Company with no limit to the amount involved in the performance of acts vis-à-vis any regulatory authority or governmental body, in judicial and extra-judicial settlements, and in arbitration proceedings and shareholders' and other meetings.

For the purposes of compliance with the above-mentioned thresholds, individual transaction is to be understood as meaning a set of transactions that are interconnected within the same strategic or executive structure.

Procedures adopted on a self-regulatory basis govern the information contained in the executive directors' reports to the Board of Directors and the Board of Auditors on the action they take using their delegated powers and the implementation of transactions approved by the Board of Directors. In particular, the Company has adopted a procedure formalizing the rules and methods for gathering and transmitting information on their activity, transactions with major implications for the profitability, financial position and/or assets and liabilities of the Company and the Group, transactions with related parties (including intra-group business) and atypical or unusual transactions.

3	CONTEXT	50	HUMAN RESOURCES
10	EXTERNAL STAKEHOLDERS	65	SHAREHOLDERS
50	INTERNAL STAKEHOLDERS	>>	
79	AUDITORS' REPORT		

■ Directors' remuneration

The shareholders' meeting established the total annual remuneration of the Board of Directors at € 2.7 million (previously it had amounted to Italian Lire 3.6 billion), divided by the Board as follows:

- € 114,000 to be paid to each director in office;
- an additional € 63,000 to be paid to each of the four members of the Internal Control and Corporate Governance Committee (Guido Ferrarini, Francesco Denozza, Domenico De Sole and Marco Onado);
- an additional € 52,000 to be paid to each of the three members of the Remuneration Committee (Luigi Fausti, Paolo Baratta and Pasquale Pistorio);
- an additional € 20,000 to be paid to each of the three members of the Strategy Committee other than the Chairman of the Board and the Managing Director Carlo Buora (Domenico De Sole, Marco Onado and Pasquale Pistorio);
- an additional € 20,000 to be paid to the director appointed to the Supervisory Panel set up under Legislative Decree 231/2001 (Guido Ferrarini).

The Board's Remuneration Committee, set up in 2000, is charged with fact-finding and advisory functions. In particular, it formulates proposals for the remuneration of the directors who hold particular offices and for the criteria for the remuneration of the Company's senior management. The Committee is composed exclusively of independent directors.

On 6 May 2004 the Board appointed the following directors to be members of the Remuneration Committee: Paolo Baratta, Pasquale Pistorio and Luigi Fausti, chairman. Subsequent to the renewal of the Board of Directors, the Committee met twice in 2004.

The current remuneration system for executive directors provides for them to receive a fixed component and an additional payment subject to the achievement of the objective for consolidated EBIT with positive Delta EVA, in other words when value is created for all investors. There is no provision for stock options for either executive or non-executive directors.⁽¹⁾

Further information on the compensation paid to the directors can be found in the relevant table in the Notes to the financial statements of the Annual report 2004.

(1) The Managing Director Riccardo Ruggiero is an exception in this respect since, prior to his being co-opted to the Board of Directors, as General Manager he was among the beneficiaries of a stock-option plan.

The remuneration system for management provides performance and loyalty incentives on top of a basic salary. The incentives include both cash payments and stock options. Further details on the latter are contained in the section "Human resources" of the Report on Operations.

■ THE INTERNAL CONTROL SYSTEM

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

The Company's internal control system has developed as a process intended to achieve substantial and procedural fairness, transparency and accountability by ensuring that transactions and, more generally, business-related activities are efficient and can be known and verified, that accounting and operational data are accurate, that applicable laws and regulations are complied with, and that the assets of the business are safeguarded, not least with a view to preventing the perpetration of fraud against the Company and financial markets.

The cardinal rules of the Company's internal control system are:

- separation of roles in the performance of the principal activities involved in each operating process;
- traceability and constant visibility of decisions;
- decision-making on an objective basis.

3	CONTEXT	50	HUMAN RESOURCES
10	EXTERNAL STAKEHOLDERS	65	SHAREHOLDERS
50	INTERNAL STAKEHOLDERS	>>	
79	AUDITORS' REPORT		

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

It is the Chairman of the Board who determines the mechanisms of the system and the manner in which it is to be implemented under the guidelines established by the Board; he is also responsible for ensuring the system's overall adequacy, its effectiveness and its adaptation to changes in operating conditions and the legislative and regulatory framework.

The basic functions of the person responsible for internal control are to verify the adequacy and effectiveness of the system and, where anomalies are found, to recommend the necessary remedies. The Board has appointed the Company's internal auditor (Telecom Italia Audit), in the person of the director assigned to the task, to be responsible for its internal control system. This company reports on its activity to the Board of Directors, the Internal Control and Corporate Governance Committee and the Board of Auditors.

Any maintenance work on the internal control system is performed by the competent sectors of the Company or Group companies. The efficient operation of the system is promoted by the appointment of managers of particular standing and authority within the organization as "persons responsible for implementation" (currently the head of the Group's Human Resources and the head of the Wireline Business Unit).

Internal auditing has been entrusted to the above-mentioned consortium company Telecom Italia Audit, in which Tim and TI Media also hold equity interests. The solution adopted maximizes the independence of the internal audit function with respect to Telecom Italia's corporate structures. The Company's internal control system is completed by the so-called 231 Organizational Model, which goes beyond the mere application of the provisions of Legislative Decree 231/2001, since it provides a paradigm for the conduct of all those who act in the Company's name and on its behalf. More specifically, the model comprises "principles for dealings with governmental bodies" (elaborated as a set of rules for relations with representatives of such bodies) and "internal control checklists" listing the main stages of every process, the offences that may be committed in relation to individual processes, and the control activities to prevent the related risks from arising.

The organizational model is reviewed periodically in the light of experience in its application and changes to the law subsequent to the initial framework created by Legislative Decree 231/2001. Monitoring of the functioning and compliance with the model is performed by a Supervisory Panel made up of a member of the Board of Auditors (Ferdinando Superti Furga, chairman), an independent director on the Internal Control and Corporate Governance Committee (Guido Ferrarini) and the person responsible for the internal control system. This ensures that the members of the Panel embody all the professional skills involved in the control of the Company's operations. The membership, term of office and powers of the present Panel were confirmed by the Board of Directors in their meeting on 6 May 2004.

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

The shareholders' meeting of 6 May 2004 resolved that the member of the Board of Auditors serving on the Supervisory Panel should be paid a gross annual fee of € 20,000, the same as that assigned by the Board of Directors to the member of the Internal Control and Corporate Governance Committee serving on the Panel.

Lastly, it should be noted that a special unit has been created within Telecom Italia Audit to provide operational support to the Supervisory Panels of Group companies by handling reports of violations of the organizational model and conducting compliance audits on the basis of the data received by way of the information flows that have been put in place.

3	CONTEXT	50	HUMAN RESOURCES
10	EXTERNAL STAKEHOLDERS	65	SHAREHOLDERS
50	INTERNAL STAKEHOLDERS	>>	
73	AUDITORS' REPORT		

■ The Internal Control and Corporate Governance Committee

Since 2001 Telecom Italia has had a Board of Directors Internal Control and Corporate Governance Committee, charged with advisory functions and the formulation of proposals. The Committee:

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

The Committee is composed exclusively of independent directors, in its meeting on 6 May 2004 the Board of Directors appointed Domenico De Sole, Francesco Denozza, Marco Onado and Guido Ferrarini (chairman).

In 2004 nine meetings were held, of which seven were after the renewal of the Board of Directors; attendance at the meetings was almost 100 per cent, with one member absent on just two occasions. Committee meetings are also attended by the Chairman of the Board of Auditors or by the auditor he designates. Where it is deemed desirable in the light of the issues on the agenda, the Committee and the Board of Auditors may hold joint meetings.

In 2004 the Committee contributed significantly to the process of implementing the Company's corporate governance mechanisms, taking part in the related analyses, drafting and updating. In particular, the Committee agreed with amendments to the Group Code of Ethics designed to satisfy the requirements in connection with the obligations arising from the fact that Telecom Italia is registered in the United States pursuant to the Securities Exchange Act of 1934 and is therefore subject in some respects to US securities laws. It also agreed with the Rules of Proceeding for the Shareholders' Meeting and the amendments made to the bylaws to adapt them to the changes in company law introduced by the "Vietti reform". The Committee examined and approved the setting up of the Strategy Committee and the introduction of the position of Lead Independent Director; it also took part in the revision of the Company's rules and regulations concerning transactions with related parties and in the updating of the 231 Organizational Model.

Last year the Committee drew up the proposal to be submitted by the Board of Directors for the appointment of Reconta Ernst & Young to audit the financial statements for the years 2004-2006; and examined issues concerning periodic financial reports (Company and consolidated financial statements, annual reports and half-yearly reports). It agreed with the launch of the so-called 404 Project aimed at identifying the steps to be taken to ensure compliance with Section 404 of the Sarbanes-Oxley Act. It followed the A/351 proceeding instituted by the Antitrust Authority in relation to alleged abuses of dominant position by Telecom Italia. In this connection it evaluated and agreed with the strategy adopted by management, first during the Authority's investigation and then in the appeal to the Lazio Administrative Tribunal. At the request of the Board it also monitored the steps taken by the Company to comply with the order issued by the Authority at the close of its investigation.

The Committee also played an active role in connection with the plan for the merger of Tim into Telecom Italia and verified the procedural correctness of the valuation methods and the fairness

3	CONTEXT	50	HUMAN RESOURCES
10	EXTERNAL STAKEHOLDERS	65	SHAREHOLDERS
50	INTERNAL STAKEHOLDERS	>>	
79	AUDITORS' REPORT		

of the transaction as a whole. As mentioned earlier, it also chose Goldman Sachs as the advisor to act in a guarantee capacity alongside the financial advisors selected by the Company's management.

The Committee periodically checked the work of the internal auditor, Telecom Italia Audit, and in particular examined the report on the activities performed in carrying out the 2003 Audit Plan, the checks performed under the 2004 Audit Plan, and the progress made by the Group projects called Control Risk Self-Assessment and Check-Up of Administrative Systems. The Committee also examined and approved the audit plan for 2005 prepared by the person responsible for internal control and discussed the plan for the 2005 statutory audit with representatives of the external auditors, Reconta Ernst & Young.

■ STRATEGY COMMITTEE

In 2004 a Board of Directors Strategy Committee was established to increase the involvement of the Board in the Company's strategic decision-making, especially as regards guiding the evolutionary processes under way in the Group's business in the light of the rapid transformation of technologies and markets.

The Strategy Committee consists of the Chairman of the Board (who ensures the alignment and coordination of the activities of the Committee, the Board and management), the Managing Director charged with Group-wide corporate functions (and therefore not involved in the management of Business Units (Carlo Buora), and three non-executive directors (Domenico De Sole, Marco Onado and Pasquale Pistorio) specialized in the fields of technology, organizational strategies and corporate finance.

The Committee is entrusted with the task of assisting the Board of Directors in making strategic choices in the light of competitive developments, with special reference to decisions concerning:

- the potential evolution of the structure of the telecommunications industry;
- the strategic positioning and business models of the Group;
- the evolution of the Group's organization in relation to its business models;
- the evolution of the Group's corporate and financial structure;
- the monitoring of the stage reached in the process of change.

In addition to calling on the heads of units within the Company, the Committee may employ consultants and external experts. It reports on its activity to the Board of Directors at least once a year, at the time the budget is presented.

■ BOARD OF STATUTORY AUDITORS

The Company's Board of Statutory Auditors took office in May 2003 and consists of five auditors: Ferdinando Superti Furga (chairman), Salvatore Spiniello and Gianfranco Zanda (elected from the slate presented by Olimpia) and Rosalba Casiraghi and Paolo Golia (elected from the slate presented by institutional investors).

The Board of Statutory Auditors plays a key role in the Company's system of corporate governance. In addition to the meetings of the Board of Statutory Auditors (14 in the year, some of which were held jointly with the Internal Control and Corporate Governance Committee), the auditors participated in the twelve meetings of the Board of Directors, so that contacts between the members of the two bodies were frequent.

The importance of the Board of Statutory Auditors is confirmed by the choices made with regard to US company law. In fact, the Board of Statutory Auditors is the Company's Audit Committee for purposes of the applicable US legislation.

3	CONTEXT	50	HUMAN RESOURCES
10	EXTERNAL STAKEHOLDERS	65	SHAREHOLDERS
50	INTERNAL STAKEHOLDERS	>>	
73	AUDITORS' REPORT		

In view of the requirement that the Audit Committee approve all the services the auditing firm (and associated persons) supply to the issuer and its directly and indirectly controlled subsidiaries, the Company has adopted a Group Procedure for the Appointment of Auditors. In particular, this provides on a general basis for the centralized control of relations with auditing firms to prevent engagements for non-audit services being granted that fail to comply with the applicable Italian or US law and that ultimately could undermine auditor independence. The procedure regulates the engagement of auditing firms and persons associated with them on a continuous basis, distinguishing between engagements that must be individually authorized in advance by the Audit Committee and those falling within categories subject to a generic authorization. The procedure significantly restricts the power of the Board of Directors (and the management) while enhancing the control function performed by the Company's Board of Statutory Auditors.

The Company has also adopted the principle of employing the same auditing firm throughout the Group; in fact the appointment of other firms must be agreed in advance with the parent company following a reasoned request on which Telecom Italia's Board of Statutory Auditors gives its opinion on the basis of inquiries made by the person responsible for internal control. In order to make available the broad range of information needed by the Board of Statutory Auditors to perform its control function effectively, a procedure has been put in place, as mentioned earlier, for the collection and transmission to the members of the Board of Statutory Auditors (and the directors) of information on: the activity carried out by the Company; the transactions of greatest significance for the Company's profitability, financial position and assets and liabilities; transactions with related parties (including intra-group transactions); and atypical and unusual transactions.

In addition to the tasks performed in its Audit Committee capacity, the Board of Statutory Auditors carried out supervisory functions provided for under Italian law: verifying that the transactions of greatest significance for the Company's profitability, financial position and assets and liabilities conformed with the law, the bylaws and the principles of correct management; checking that transactions with related parties complied with the self-regulatory principles and procedures adopted by the Company and that they were in its interest; and checking the adequacy of the organizational structure. The Board of Statutory Auditors also monitored the adequacy of the internal control system and that of the administrative and accounting system and the latter's reliability in correctly representing transactions. Lastly, the Board of Statutory Auditors investigated the reports it received under Article 2408 of the Civil Code and the complaints submitted to it during the year, as described in its report to the shareholders' meeting.

■ SHAREHOLDERS' MEETINGS

Ordinary and extraordinary shareholders' meetings were held on 6 May 2004. In addition to approving the annual report for 2003, appointing the new Board of Directors, engaging the external auditors for the three years 2004-06 and redetermining the fees to be paid to the Board of Auditors, the shareholders approved, in accordance with the bylaws, the Rules of Proceeding for the Shareholders' Meeting and some amendments to the bylaws. The latter served not only to bring the bylaws into line with the reform of company law but also (i) to broaden the powers of the Board of Directors under Article 2365 of the Civil Code; (ii) to exclude from the events giving the right of withdrawal the extension of the duration of the Company and the introduction/amendment of restrictions on the circulation of shares; (iii) to introduce the possibility of increasing the share capital for cash with the exclusion of the right of pre-emption within the limits laid down by law; (iv) to change the mechanism whereby shareholders are legitimized to attend shareholders' meetings; and (v) to authorize the Board of Directors to increase the share capital and to issue convertible bonds.

3	CONTEXT	50	HUMAN RESOURCES
10	EXTERNAL STAKEHOLDERS	65	SHAREHOLDERS
50	INTERNAL STAKEHOLDERS	>>	
79	AUDITORS' REPORT		

The Company has acted to increase the attendance of shareholders in meetings by providing the documents needed for informed participation to all those who request them and by allowing ordinary shareholders to vote by mail.

Furthermore, pursuant to the bylaws, the Company makes special areas available to associations of employee shareholders where they can provide information and collect proxy forms.

The special meeting of savings shareholders held on 26 October 2004 reappointed Professor Carlo Pasteris as the common representative for the three years 2004-06.

■ CODE OF ETHICS

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

Like all the Company's other instruments of corporate governance, the Group Code of Ethics is continuously reviewed in the light of developments in the applicable law and operational and market practices, and with consideration also given to the results of the monitoring of units' compliance by the person responsible for internal control. The present version of the Code, last revised in March 2004, replaces that adopted following the completion of the merger of the "old" Telecom Italia into Olivetti on 4 August 2003. Compared with the earlier version, it takes account of the requirements deriving from the company's listing in the United States, primarily as regards the Code of Ethics referred to in the Sarbanes-Oxley Act and the Code of Conduct required by the listing standards of the New York Stock Exchange, which make it mandatory to have a code of conduct for certain categories of officers (executive, financial and accounting). In addition, the form and substance of the earlier text were improved by reorganizing and adding to the content.

The Group Code of Ethics is thus more closely coordinated with the Company's other instruments of corporate governance and increasingly at the centre of the internal control system.

■ RULES OF CONDUCT FOR TRANSACTIONS WITH RELATED PARTIES

Since 2002, the Company has adopted guidelines for carrying out transactions with related parties. They are intended to ensure both procedural and substantial fairness and transparency by entrusting the related decisions to the Board of Directors.

In fact, under the guidelines, the Board of Directors is required to give advance approval to transactions with related parties, including intra-group transactions, apart from those of a customary nature to be concluded at standard conditions. To this end, provision is made for the Board to be adequately informed of all the relevant aspects: the nature of the relationship, the manner of carrying out the transaction, the economic and other conditions, the evaluation procedures used, the rationale for the transaction and the Company's interest in its implementation and the associated risks. Moreover, if the related party is a director or a party related via a director, he or she may only provide clarification and must leave the meeting when the motion is examined and put to a vote.

Depending on the nature, value and other aspects of related-party transactions, the Board may be assisted by outside experts in order to prevent contracts being concluded at inappropriate

3	CONTEXT	50	HUMAN RESOURCES
10	EXTERNAL STAKEHOLDERS	65	SHAREHOLDERS
50	INTERNAL STAKEHOLDERS	>>	
79	AUDITORS' REPORT		

conditions. Such experts must have suitable professional experience and qualifications in the field in question and their independence must be carefully assessed.

The changes made to the "Vietti reform" of company law by Legislative Decree 310/2004 were a factor in the revision of the guidelines, with the introduction of an explicit reference to a concept of "normality" applicable to intra-group transactions. Provision has also been made for a procedure (currently in preparation) to complete and overarch the system. More specifically, the aim of the procedure is to provide an objective basis for the treatment of concrete situations. Before any transaction is carried out, it will be necessary to consult an expert system (appropriately interfaced with a database containing the related parties of the Group companies that have adopted the guidelines) that will automatically provide - on the basis of information gathered using ad hoc checklists - indications concerning decision-making powers, internal information flows for reporting purposes, and the need for an external opinion in evaluating the fairness of transactions.

■ MANAGEMENT OF INFORMATION

Transparent relations with the market and the provision of accurate, clear and complete information are standards for the conduct of the members of the governing bodies, the management and all the employees of the Telecom Italia Group.

Confidential information is dealt with the Chairman of the Board of Directors on the basis of procedures for the internal processing and disclosure to third parties of documents and information concerning the Company, with special reference to price-sensitive information.

Telecom Italia has adopted a special procedure, partly amended in 2004, establishing the ways in which price-sensitive information is to be communicated to the market. It identifies the units of the Company's organization involved and lays down guidelines for the action to be taken in the presence of rumours and in response to requests for information from the entities responsible for supervising and operating the markets (Consob and Borsa Italiana). The procedure also lays down guidelines for meetings with the financial community and the press, to ensure that information concerning the Company and the Group is not disclosed selectively.

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

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

■ CODE OF CONDUCT ON INSIDER DEALING

The Company's Code of Conduct on Insider Dealing, which underwent some purely formal changes in 2004, lays down the rules of conduct and disclosure requirements applicable to

3	CONTEXT	50	HUMAN RESOURCES
10	EXTERNAL STAKEHOLDERS	65	SHAREHOLDERS
50	INTERNAL STAKEHOLDERS	>>	
79	AUDITORS' REPORT		

transactions involving financial instruments issued by Group companies carried out by persons who, as a consequence of their positions, have access to material information (i.e. information capable of producing significant changes in the outlook for the profitability, financial position and/or assets and liabilities of the Company and the Group and likely, if made public, to have a significant effect on the price of the listed securities in question).

The criteria applied in drawing up the Code are consistent with the basic choices underpinning the Company's system of corporate governance: rigour (with provision made for the imposition of severe penalties) and transparency.

■ RULES OF PROCEEDING FOR SHAREHOLDERS' MEETINGS

On 6 May 2004 the shareholders' meeting approved the Rules of Proceeding for Shareholders' Meetings, as provided for in the bylaws.

The rules are substantially the same as those that were in force at the "old" Telecom Italia before it was merged into Olivetti, which had been found to provide effective support for conducting shareholders' meetings. The rules have therefore been updated and simplified, with the addition of a section on voting by mail, so as to ensure the document provides the fullest possible organizational and procedural guidance for an important moment in shareholders' participation in the life of the Company.

■ SHAREHOLDERS' AGREEMENTS

The largest shareholder of Telecom Italia is Olimpia S.p.A., with approximately 21.8% of the ordinary share capital.

The shareholders of Olimpia S.p.A. have concluded a number of shareholders' agreements, published (in the form of excerpts) in the Italian press available, as mentioned in the Introduction, on the Company website

(www.telecomitalia.it/Investors/Shareholders/Shareholders' Structure).

■ AUDITORS' REPORT (ERNST & YOUNG)



■ **Reconta Ernst & Young S.p.A.**
Corso Vittorio Emanuele II, 81
10128 Torino

■ Tel. +39 011 5616611
Fax +39 011 5617574
www.ey.com

AUDITORS' REPORT (Translation from the original Italian text)

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

1. We have carried out the compliance procedures and analyses on the Sustainability Section of the Telecom Italia Group as of December 31, 2004, described in paragraph 2 of this report.

The procedures were carried out to evaluate the Board of Directors' statements, included in paragraph "References" of the Sustainability Section of the Telecom Italia Group as of December 31, 2004, which describe the guidelines adopted for the preparation of the Sustainability Section. The preparation of the Sustainability Section is the responsibility of Telecom Italia S.p.A.'s management.

2. In order to evaluate the Board of Directors' statements mentioned in paragraph 1, we have performed certain procedures which are summarized as follows:
 - verified that the financial data and information are consistent with those included in the Group's consolidated financial statements as of and for the year ended December 31, 2004, approved by the Board of Directors, with respect to which we issued our audit report dated March 16, 2005;
 - analyzed the operation of the processes underlying the generation, recording and management of quantitative data. In particular, we have performed the following procedures:
 - interviews and discussions with management and personnel, to obtain an overview of the activity of the Telecom Italia Group, to gather information on the information technology, accounting and reporting systems used in preparing the Sustainability Section, and to document the processes and procedures used to gather, combine, process and transmit data and information of the Group's operating units and departments to the function responsible for preparing the Sustainability Section;

■ **Reconta Ernst & Young S.p.A.**
Sede Legale: 00196 Roma - Via G.D. Romagnosi, 18-A
Capitale Sociale € 1.258.300.000 i.v.
Iscrizione alla S.I. del Registro delle Imprese presso la C.C.I.A.A. di Roma
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- sample-based analysis of supporting documentation used in preparing the Sustainability Section to confirm the reliability of the interview-derived information, the effectiveness of processes and their adequacy in relation to business objectives, and the operation of the internal control system in managing the data and information;

- analyzed the completeness and consistency of the qualitative information included in the Sustainability Section. This activity was carried out in line with the above-mentioned guidelines;
- verified the process of stakeholders' involvement, in terms of the methods used, completeness of the stakeholders and analysis of the minutes of significant findings in this respect, compared to the information reported in the Sustainability Section.

The Sustainability Section presents the prior year's data and information for comparative purposes, with respect to which reference should be made to our report dated April 15, 2004.

3. Based on the procedures performed, we believe that the Sustainability Section of the Telecom Italia Group as of December 31, 2004 complies with the guidelines and principles which form the basis of preparation and which are described in the paragraph "References" of the Sustainability Section. Moreover, the financial data included in the Sustainability Section is consistent with the data and information included in the Group's consolidated financial statements and the other data and information are coherent with the documentation and meet the content requirements established by the guidelines and principles governing the preparation of the Sustainability Section.

Turin, March 16, 2005

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

Special thanks to:

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- **SODALITAS** - "Associazione per lo Sviluppo dell'Imprenditore nel Sociale" (formed by Assolombarda) for its support and guidance on the path to Sustainability reporting.
- **C.S.R. Europe** for encouraging and supporting the debate on Corporate Responsibility issues in Europe.

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

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