



PRIME VALUE

SUSTAINABILITY REPORT
2001 EDITION



Contents

Background	2
Method	6

Charter of Values	8
Charter of Services	9
Environmental Charter	11



THE EXTERNAL STAKEHOLDERS

Consumers	14
Suppliers	30
Competitors	33
The State	36
Future generations: the environment and sustainable development	38
The Community	56



THE INTERNAL STAKEHOLDERS

Employees	74
Shareholders	87



PricewaterhouseCoopers' report	92
Telecom Italia's ongoing commitment	94
List of indicators in the report	96

APPENDIX

The Telecom Italia Group	97
Reclassified profit and loss account and added value	100



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

Sustainable development, environmental compatibility, social responsibility and accountability are now familiar concepts in modern business practice being underpinned by beliefs held by political leaders and public opinion alike throughout the world.

The growing number of major companies that see sustainable development and corporate social responsibility as strategic objectives publish annual social and environmental reports in addition to financial reports. They see it not only as a way of regularly evaluating and communicating the results of their diverse activities but also of publicly accounting for them as fully and accessibly as possible to the various stakeholders.

At the Davos Economic Forum (January 2000) the secretary general of the United Nations, Kofi Annan, asked the leaders of the major global companies, the principal voluntary organisations and the International Confederation of Free Trade Unions to embrace the Global Compact to improve business management practices and government policies. The Compact comprises nine fundamental principles or universally held values regarding human rights, labour standards and environmental protection.

The Telecom Italia Group has played a leading role in introducing social and environmental reporting to Italy, conceived as an integrated system for evaluating and communicating the strategies and performance of the company from the point of view of sustainable development.

The Telecom Italia Group is convinced that such an instrument can improve the way a company is governed and effectively manage, through dialogue and transparent communication, its relations with stakeholders, with a view to affirming the prime value, sustainability.

Enrico Bondi

CEO

Telecom Italia S.p.A.



BACKGROUND

Corporate social accountability has taken on different meanings at different times in history and in different social contexts. The origins of the concept are to be found in 1940s American academic literature; the term, as understood today, was first used in the debates that took place in the United States around 1970, although the first corporate social reports appeared in continental Europe.

The theory of the social report was further developed with the introduction of the stakeholder concept. Stakeholders can be defined as people or groups who have expectations, ownership rights, or other rights or interests in a company's past, present and future interests; above all, a stakeholder is one whose continuing involvement is essential to the company's survival as a functioning whole.

The past decade has seen many new developments in this area, especially among transnational businesses of the English-speaking world.

Firms adopt social accountability instruments for the following main reasons:

- cultural and economic transformations connected with globalisation;
- external pressure of society;
- good stakeholder management as an effective instrument for governing the firm.

Firms must meet high standards of information and strict accountability criteria if they wish to work with international organisations and governments.

Public opinion and various groups of stakeholders seek to evaluate the firm's performance according to their own specific interests, as do entrepreneurs and managers, in order to plan their own activities and keep track of the results.



Many world business leaders have embraced Kofi Annan's challenge to sign the global pact to:

- support and respect the protection of international human rights within their sphere of influence and ensure that their firms are not complicit in human rights abuses;
- uphold freedom of association and the effective recognition of the right to collective bargaining, the elimination of all forms of forced and compulsory labour, the effective abolition of child labour and the elimination of every kind of discrimination in the workplace;
- adopt a precautionary approach to environmental challenges, undertake initiatives to promote greater environmental responsibility and encourage the development and diffusion of environmentally-friendly technologies.

At the Lisbon meeting (spring 2000) heads of state and government leaders representing the member countries of the European Union asked the business world to work with them on bringing about equal and sustainable development.

At the Brussels conference on corporate social responsibility (autumn 2000) the idea of working together was transformed into concrete commitments.

The European Commission published the Green Paper on Corporate Social Responsibility (July 2001).

The business world and international non-governmental organisations are gradually taking an active role in the meetings of the major industrialised countries (G8); they now participate in working groups to propose strategies for dealing with problems of global importance.

The aim of the Digital Opportunity Task Force is to reduce the digital divide, the marked inequality between developed and developing countries regarding access to information and communication technology.

The Renewable Energy Task Force promotes the use of renewable sources of energy; special funds such as the Global Health Fund should involve, alongside the governments of the major countries, the principal pharmaceutical industries, corporations in other sectors and charitable foundations to supply drugs and vaccines to poor countries so that they can combat malaria, tuberculosis and AIDS.

The British government recently appointed a minister for Corporate Social Responsibility to promote social responsibility in the business world.



Globalisation gradually undermines national influences and constantly boosts the influence of new global economic actors: transnational corporations.



The idea of sustainability has become established to the point where it now defines a category of firms quoted on the New York stock market. Firms in the category must respect a number of requirements set down in the Dow Jones Sustainability Index.

The Ftse4good is a new family of four ethical benchmarks launched by the Financial Times Stock Exchange, a leading compiler and manager of stock exchange indices. The FTSE decided to analyse 40 Italian firms with large capitalisation, including Telecom Italia and TIM, to evaluate their degree of social responsibility.

Recognising that the activities of transnational companies have major economic, political and social consequences, senior executives of firms such as the Body Shop (British), Procter and Gamble (American), Van City Savings Credit Union (Canadian) and Tata (Indian) have revised the role of the firm and set new criteria for measuring their success, placing sustainable strategies before economic results.

The initiatives of the United Nations, the European Union and individual governments point up the desire to achieve sustainability not through restrictive regulatory practices but through various kinds of partnerships between firms, governments and other stakeholders, and by encouraging self-regulation.

In addition to the work of international organisations and governments, there is increasing pressure from civil society to make firms account for their actions, in terms not only of the “effects” but also their “intentions”.

Boycotts organised by consumers, other activities organised by groups of citizens or entire local communities, protests by non-governmental organisations (such as Green Peace and Amnesty International) and environmentalists, press campaigns that become particularly extensive and vociferous in the case of natural catastrophes or major violations of human rights, are all expressions of the “voice” of civil society as it grows stronger. The American firm Nike and the Anglo-Dutch petroleum company Shell have both produced their own social accountability documents to counteract criticism regarding external diseconomies and the social costs deriving from their production processes.

Economic and financial results, environmental performance and social performance seem to be closely linked. According to Zadek in his book “The Civil Corporation” (in press), sustainable development is not only a utopian ideal, the desire for a liveable environment and a socially just society, it also provides the fundamental strategic and operational architecture for future successful enterprises.

In their most advanced form the new social accountability frameworks interact with the more traditional instruments giving rise to the dual bottom line framework that combines the environmental and social statements in a single report; this has prepared the way for the triple bottom line (according to the expression coined by Elkington in 1994) that integrates the environmental and social with the financial report thus distilling in a single document all aspects of the company’s performance.



The United Nations Environment Program (UNEP) noted these changes and in its fourth international benchmark survey of corporate reporting, introduced for the first time the concept of sustainability. In addition to the traditional indicators of environmental performance, the economic and social performance of the firms analysed was also taken into consideration.

Economic performance is not only assessed according to value produced and yields on invested capital, but according to more direct contributions to sustainable development, such as creating employment, adding to human resources and skills, developing local communities, and carrying out development policies.

The best global reporters, according to the UNEP survey, were BAA, Novo Nordisk, Co-operative Bank, British Telecom, BP Amoco, Royal-Dutch Shell, WMC, ESAB, Bristol-Myers Squibb and Volkswagen. No Italian company was included in the sample, but the Telecom Italia Group adopted the evaluation criteria used in the survey as a benchmark in drawing up its own sustainability report.



Social performance includes evaluating business ethics.

Social accounting involves using shared process standards, such as the quality principles proposed by Accountability 1000 (inclusivity, completeness, comparability, meaningfulness of information, regularity, communication, external monitoring, integration into management systems and continuous improvement), and core content regarding the company identity, the mechanisms of corporate governance, the calculation of how much value has been added and where, and the social report.



METHOD

The key stakeholders are:

- ▶ **consumers**, whose needs the company meets by adding value in the course of producing goods and services;
- ▶ **suppliers**, that provide the raw materials, goods and intermediate services needed for production, so contributing to the quality of the final product;
- ▶ **competitors**, that stimulate the company to improve productivity and efficiency;
- ▶ the **State**, which receives resources in the form of taxes, social security contributions, the telecommunications licence fee and dividends;
- ▶ **future generations**, defined by means of data on the environment and civil protection, whose capacity to satisfy their own needs must not be jeopardised by the aims of today;
- ▶ the **Community**, or civil society, to which the company contributes through socially relevant activities in the fields of research and innovation, education, health and social solidarity, culture, art and sport;
- ▶ **employees**;
- ▶ **shareholders**.



In the 2001^(*) Sustainability Report Telecom Italia was assessed in accordance with the following international standards, using specific indicators to measure its performance in respect of:

- ▶▶ consumers - the criteria set down in the **CEP's (Council of Economic Priorities)** consumption guide;
- ▶▶ suppliers - the **SA 8000** index;
- ▶▶ future generations - the indicators of the Sustainability Reporting Guidelines of the **GRI (Global Reporting Initiative)**;
- ▶▶ the Community - the guidelines of the **London Benchmarking Group**;
- ▶▶ employees - the **Human Development Enterprise (HDE)** model;
- ▶▶ shareholders - the **Dow Jones Sustainability Group Index^(**)**, the **Ftse4good** and the **ValueReportingTM** (corporate accountability model) developed by **PricewaterhouseCoopers**.

This approach is a fundamental stage in the process of carrying out an integrated financial, social and environmental accountability (triple bottom line) report.

In adopting this approach Telecom Italia aims to achieve a balance between the pursuit of profit, exploiting its capital, and social and environmental responsibility.

A contribution, in terms of its opinion of the reliability and completeness of the data as well as the clarity of presentation, is provided by PricewaterhouseCoopers' assessment of the report.

(*) Prepared by the Telecom Italia working group coordinated by Dr. Aurora Sanza, in collaboration with Prof. Alberto Martinelli, Professor of Politics at the University of Milan and President of the I.S.A. (International Sociology Association). The 1998 report was awarded the "Oscar di Bilancio e della Comunicazione Finanziaria" (Oscar of Financial Reporting and Communication), the Social Report special prize "for being a fine combination of excellent content and clear presentation".

(**) The first global sustainability index in which Telecom Italia appeared in 2000.



CHARTER OF VALUES^(*)

- ▶▶ Aim for excellence in production and in competition, creating economic value and contributing to the well-being of customers and the community at large.
- ▶▶ Value human resources, respect the rights of employees, guarantee equal opportunities, foster professional development, look after the safety and health of employees.
- ▶▶ Develop service orientation in staff, improving the quality and speed of response in relations with customers/consumers.
- ▶▶ Account for the company's strategies and activities to those who are affected by the company's decisions.
- ▶▶ Foster cooperation among all those who contribute to achieving the aims of the company, thus creating the conditions for mutual loyalty and trust.
- ▶▶ Respect legality, fairness and transparency in management systems and in relations with one's own business partners and competitors.
- ▶▶ Foster innovation through constant commitment in research and development.
- ▶▶ Respect and safeguard the environment.
- ▶▶ Contribute to sustainable development, pursuing current aims without jeopardising the ability of future generations to meet their own needs.
- ▶▶ Aim for coherence in values, strategies and behaviour.

(*) From the 1999 socio-environmental report of the Telecom Italia Group.



CHARTER OF SERVICES^(*)

OUR PRINCIPLES

In order to supply a quality service we ensure that our activities are based on principles of transparency, participation, continuity, efficiency, equality and impartiality, courtesy and helpfulness. The significance of each of these principles can be described as follows:

- ▶▶ **Transparency:** we ensure that the rules and contractual arrangements we adopt are fully respected; we further ensure that they are accessible to all customers and that our procedures are easy for everyone to understand.
- ▶▶ **Participation:** we undertake to satisfy customer needs inviting suggestions and proposals about how to improve our services and the Charter of Services itself. To this end Telecom Italia also maintains regular contact with Consumer Associations.
- ▶▶ **Continuity:** in keeping with the rules, we undertake to provide a service at all times, except when necessary routine and special maintenance work has to be carried out.
- ▶▶ **Efficiency:** the aim is to guarantee an immediate, informed and appropriate response to the customer's needs.
- ▶▶ **Equality and impartiality:** : we provide our services equally to all customers, without discrimination, throughout the country.
- ▶▶ **Courtesy and helpfulness:** our operators and all our staff are there to satisfy the customer's needs and the greatest emphasis is placed on listening to the customer.

(*) Abstract.



CUSTOMERS WITH SPECIAL NEEDS

Measures have been taken to enable people with special needs to use our services:

- all our public telephones have been adapted for use by customers with hearing aids;
- free-standing street telephones all have a metal bar at the base to enable the blind to identify them with their stick and thus avoid accidentally injuring themselves;
- we ensure there are enough public telephones accessible by the disabled throughout the country;
- a range of products designed to overcome minor problems associated with advanced years or disabilities can be found in our catalogue: telephones with large number pads for the visually impaired or who suffer from tremors, telephones that either amplify the incoming voice for customers who are hard of hearing or can be connected directly to customers' hearing aids.

In order to further improve services for customers with special needs and increase our range of special-needs products we are engaged in extensive technological research and development.

We are also heavily committed to supporting a number of socially responsible initiatives such as:

- issuing prepaid phone cards that contain messages to increase social awareness of institutions and associations or particular events;
- the donation of computer material that is no longer needed to institutions and associations.

THE ENVIRONMENT

Respect for the environment is one of our key values and as a telecommunications operator we feel that we can make a concrete contribution to improving environmental quality by adopting a "sustainable development" approach.

More than 40% of the paper used to produce our telephone directories is recycled. With regard to the internal management of environmental problems, together with 20 European telecommunications operators, we signed the 1996 "Environmental Charter". Signatories to the Charter undertake to carry out specific action to protect the environment.

In line with these undertakings, we are implementing an Environmental Management System in compliance with UNI EN ISO 14001. The purpose of the system is to achieve better management of the environment variable by adopting appropriate instruments such as an environmental policy, internal monitoring systems, audits of certain environmental factors, and specific training programmes.



ENVIRONMENTAL CHARTER^(*)

OUR VISION

Sustainable development is a strategic global environmental goal. It describes development that takes into consideration the need to conserve both the natural environment and the world's scarce non-renewable resources for future generations. It is our belief that we can play an important part in making this happen.

This Charter describes our commitment to sustainable development through:

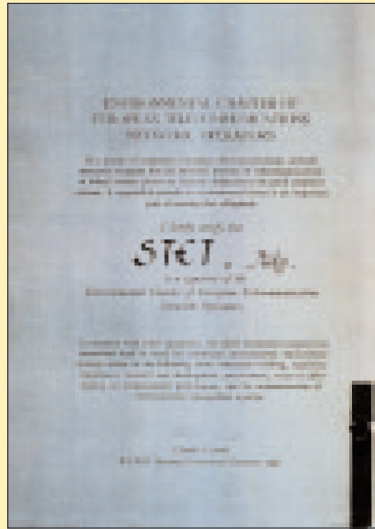
- the provision of products and services that provide significant environmental benefits; and
- a determination to manage our own operations in a way that minimises negative environmental impacts.

OUR APPROACH

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

OUR COMMITMENT

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



In '96, the merger between STET and Telecom was yet to take place.

1. Awareness

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

2. Regulatory compliance

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

3. Research and development

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

4. Procurement

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

5. Providing information

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

6. Environmental management systems

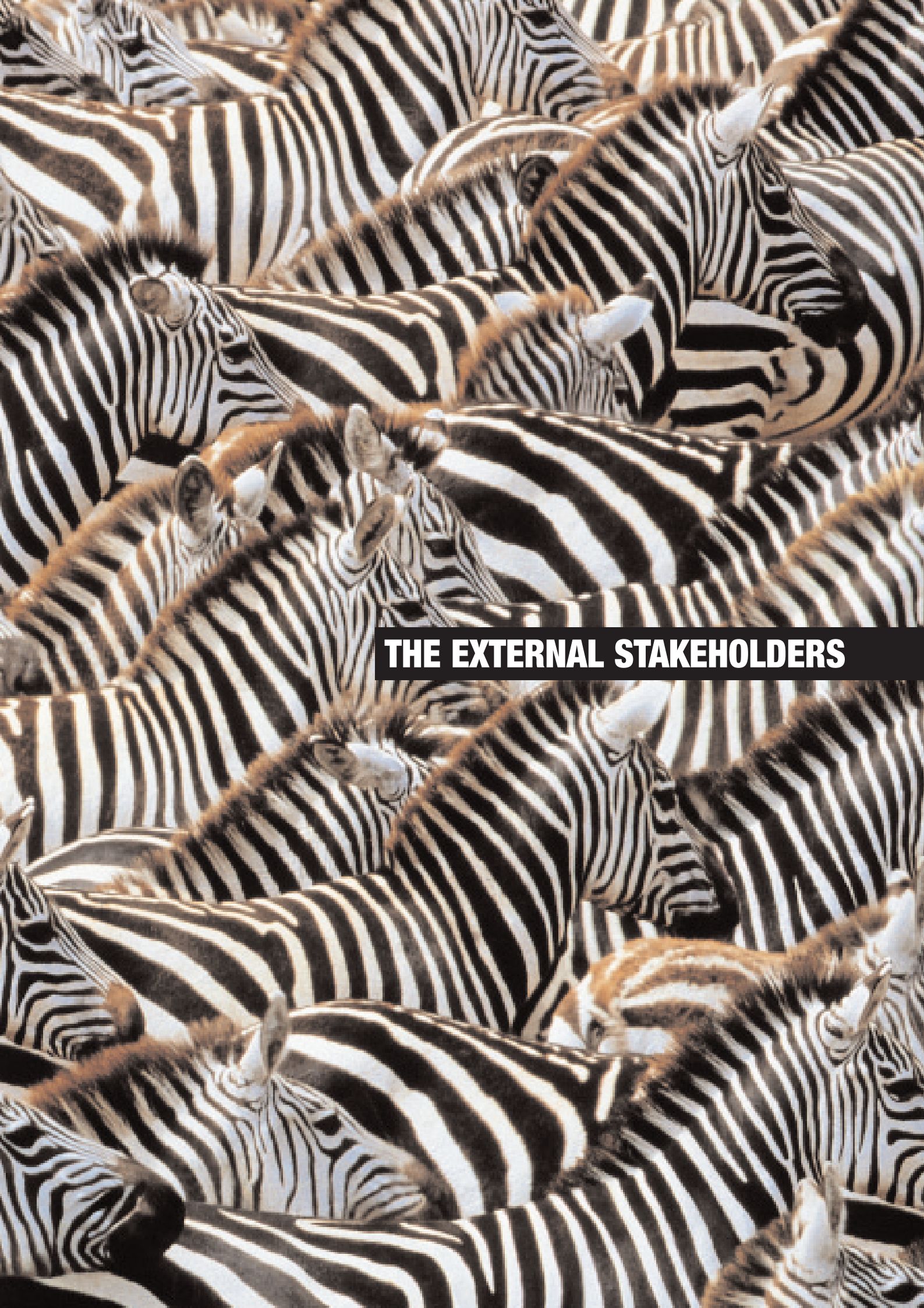
We shall implement environmental management systems which support the development of appropriate and well-structured environmental protection.

All companies signing the charter should aim to have an environmental policy statement, a management board member with specific environmental responsibility, and environmental manager(s) with designated responsibility for coordinating programmes of continuous environmental improvement.

All European public telecommunication operators are encouraged to support the charter and, as a demonstration of their commitment, all companies are individually invited to sign up to the charter's principles.

(*) ETNO Environmental Charter





THE EXTERNAL STAKEHOLDERS



CONSUMERS

In 2000 the phenomena that were a feature of 1999 became more apparent: Internet developments, the entry of new operators following deregulation and the growth of the data sector over voice services, which is now a mature sector. The obligation - set down by the Authority during the year - to provide other operators with access to Telecom Italia's local network (unbundling of the local loop - ULL), completed the opening up to competition of all market sectors.

To respond to this acceleration it was decided to concentrate on Internet activities in the new Tin.it company, which has now been integrated into Seat Pagine Gialle. The latter reached an agreement for the acquisition of Italy's third television network, testifying to the speed at which the Information and Communication Technology sector is converging. Innovative flat-rate tariff models were introduced that offered sizeable savings to high-volume residential customers. Finally the framework offer for the ULL was presented to the Authority.



The reorganisation of Telecom Italia involved shedding non-core activities (including “Grandi Immobili”, prestigious real estate), and setting up operational units to respond quickly and efficiently to the needs of specific customer sectors; “Information System Operations” were transferred to Netsiel as part of the reorganisation.

Mass Market

The increase (+12.5%) in telephone traffic compared with 1999 can be put down essentially to Internet traffic and special offers in the course of the year, in particular, the “Teleconomy” offers.

The year 2000 marked a turning point in the pricing strategy for the residential market and small businesses. In the first half of the year, the launch of the “160/89” offer to save on long-distance and international calls (the offer comprises a special price per minute for long-distance calls and a saving on international calls), made Telecom Italia the price leader in some customer sectors.

This trend was further reinforced when the “Teleconomy” offers (“24”, “No Stop” and “24 Aziende”) were introduced in June, effectively doing away with the traditional concepts of distance, cheap or expensive period (with “24” and “24 Aziende” all local and long-distance calls are charged at a single rate) and length of call (with “No Stop” a flat rate, irrespective of the length of the call, is applied to local and long-distance calls).

November saw the arrival of the “Teleconomy ADSL” offers, which combine the savings of the “Teleconomy” prices with the advantage of a fast Internet access (receiving at up to 256 Kbit/s and transmitting at 128 Kbits/s) at a fixed price, irrespective of the duration of the connection. In 2000 special price offers more than doubled compared with 1999.

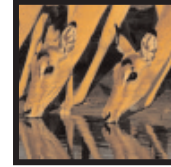
Telecom Italia was the first fixed line operator in the world to offer an SMS service (Short Message Service) to its customers.

The service, launched on the 1st of December, allows customers with suitably adapted fixed line telephones, such as the new Sirio 187, to send and receive SMS.

In 2000 the range of products was radically updated and 11 new cordless phones and a new range of “Internet products” introduced with the launch of the web phone.

In December the “400” call return service was introduced; it gives the customer information on the last missed phone call to come in.

A voice message gives the phone number, date and time of the call. The service will also put the customer through automatically to the last recorded number if desired. The customer pays 100 lire (+VAT) for each call to the service; the call is free if there is no new information.



Higher levels of customer satisfaction and enduring relationships based on trust have emerged as fundamental aspects of Telecom Italia’s loyalty policy. To reward the loyalty of its most valued customers the “Comunico” club and “Minuti Preziosi” scheme were launched in February and March. The former provides top customers with advance information and special offers, while the latter is a reward programme based on the amount spent. The success of these schemes is borne out by the high levels of customer interest.



Subscriptions to the telephone credit card "Call IT" increased 23% in the past year, thanks to the success of the special offer to the members of the "Comunico" club.

In the first half of the year there was a realignment of the fixed-mobile tariffs (February 2000): charges for calls from fixed phones to cellular phones were adjusted according to the type of contract held by the caller (residential/business) and the telephone company called (Omnitel, TIM, Wind, Blu). In August the tariffs for international calls made from private phones were revised making it cheaper and simpler to call abroad. In particular a single price, irrespective of the time, was introduced and the price structuring simplified by reducing the number of international zones from 12 to 7. The monthly line rental charges were also changed in August and increases applied to:

- category B and C RTG lines (single and party lines);
- shared line with low traffic volume contract;
- one-way incoming line for residential customers;
- one-way incoming line for business customers;
- incoming channel for ISDN, multiple basic access;
- incoming channel for ISDN, primary access.

The other categories of business and residential contracts remained unchanged, including the low-volume single contract and the ISDN fast line.

Late in the year (December 2000) the way charges are applied to traffic between districts was revised, giving rise to a reduction in the price of calls to destinations over 30 km. away.

The year 2000 saw a further improvement in network services, which not only increases customer satisfaction but also keeps Telecom Italia ahead of its competitors and is an effective loyalty inducing instrument.

Subscriptions to the "Chi è" ("Who is it?") service (the incoming number appears on the display) increased 210% compared with 1999, while the success of the "Memotel" service (Telecom answering service) was also due to the new "prepaid" and "pay-per-use" offers.

The ISDN fast line continued to develop apace: by 31 December the number of basic accesses had risen 81.5% compared with the beginning of the year.

Public telephony diversification continued with the range of prepaid phone cards. In particular competitions tied to the purchase of cards and special issues of cards commemorating special events were introduced. With collectors in mind, limited editions to mark special events were issued in partnership with publishing companies, while a competition was effective in increasing the average amount spent per customer. The pricing of the "Welcome" card for outgoing international traffic was revised in December and outgoing national traffic was brought into line with the pricing of the main European telephone companies.



The trial phase of the “Internet Corner” terminals for net-surfing using a phone card was successfully completed and the service was launched nationwide. The upgrading of equipment also continued as 68,000 telephones were dismantled and the traditional public telephones replaced with more advanced telephones to exploit the potential of intelligent networks. These innovations, based on ISDN technology, will help to further expand the range of services, improve the quality of the service and reduce running and maintenance costs. At the close of the fiscal year there were 294,000 public telephones; of the 100,000 connected to an intelligent network, 45,000 utilise ISDN technology.

The new “ZeroeVia” service was launched, allowing customers to connect directly to the number requested by pressing zero. In December trials for access to a voice interactive portal got under way in Bologna. Customers can speak to it and obtain information on chemists, cinema, the weather, road conditions and the stock market. Finally the web site www.info12.it was launched. It is an on-line phone directory providing all the Telecom Italia information services in a “search-find-communicate” format. In addition, the “187” customer information service has been improved and extended to provide information 24-hours, 7 days a week.

Changes regarding the sales channels include: renaming the sales points and introducing the new logo “Punto 187” in 84 directly owned shops and 1,481 partnerships; the “187” telephone channel was given a stronger sales focus; the introduction of a specialised e-commerce channel on the site www.187buy.it.

Connection time in 2000 amounted to 66.6 billion minutes, including traffic to/from other fixed line and mobile operators.

The technical quality of the network, for local and long distance calls, was measured according to an efficiency rating based on the percentage of calls that reach the number called (see the table below).

Network Efficiency Rating	2000	1999	1998
Local calls	99.6%	99.7%	99.5%
Long-distance calls	99.1%	99.1%	99.2%



In 2000 the upgrading of information services got under way. A voice recognition system was set up for the “12” (directory enquiry) service that enables the customer to automatically receive the information requested following automatically transmitted voice instructions.



Small and Medium Enterprises

In 2000 Telecom Italia further improved its range of telecommunications services for Small and Medium Enterprises (SME), which are an important driving force in the Italian economy. The following are indicative of uptake rates for telephony services:

- a net increase in ISDN connections, with 161,000 new BRAs (Basic Rate Accesses), and 1,000 new PRAs (Primary Rate Accesses), that is, increases of 39% and 145% since the 1st of January; at year end they accounted for 37% of all telephone accesses (54% in line equivalent terms);
- a significant increase in intelligent numbers (freephone numbers and shared charges): 2,200 new numbers.

In addition to the basic proposal, specific value added voice, data and internet services were introduced to meet the requirements of the SMEs. Voice services included the following:

- “Teleconomy 24 Aziende”, which has a highly innovative pricing scheme from the point of view of transparency, simplicity and savings (a single price is charged for all local and long-distance calls,

irrespective of the distance involved and the time of day). This offer has produced significant results in terms of retaining customers, borne out by the 156,000 firms that had signed up to the service by the year end.

- “Easy St@rt”, aimed at start-ups, is a “turn-key” range of TLC products and services provided by Telecom Italia, which also sees to the installation of all products and provides a one-call assistance service. Such a service clearly offers savings over shopping around for separate products and services and is a valuable support for new-economy businesses.

In Italy start-up companies are a significant part of the industrial scene; each year 54,000 new SMEs are formed with between 20 and 100 million lire of start-up capital, 74% of which have less than nine employees. A typical ICT profile for these firms at three months is: 65% have at least two phone lines, 46% have an ISDN line, 65% have at least one PC, 54% have an Internet connection and 30% a LAN.



The SME portal (www.tuttopmi.it) was set up by Telecom Italia to help small and medium enterprises develop their businesses. Companies can get and exchange information and monitor new developments. In particular, it provides business phone services for SMEs, the e-commerce platform, which became operational at the end of July 2001. The “Tutto PMI” portal also gives customers access to the customer care site, 191 Web.



The following offers were launched in the data and Internet sector:

- the “Teleconomy ADSL” offer combines particularly economical telephone costs with the advantage of a fast Internet connection at a flat rate irrespective of the time spent on-line;
- the “Neteconomy ADSL” offer (“Group” and “Multigroup”) was designed to introduce SMEs to the Internet world. The service provides high-speed connections for groups of users in LANs and always-on connections at a flat rate. Since the launch of the offer (end of September) 1,800 contracts have been signed;
- the “Full Business Company” introduces companies to the world of the new economy; it offers network, security, an Internet data centre, hosting and basic applications services;
- the “Easy Cabling” offer provides flexible solutions for integrated telephony-data cabling.

Trials have also been launched of Application Provider Services for SMEs that want to focus on their core business and delegate the running of the technical and management aspects of their information systems to others. To this end partnership agreements have been signed with leading software applications companies.

Finally, in 2000 the sales force was strengthened both internally through the creation of specialised tele-sales units and the recruitment of more staff, bringing the indirect network, launched in 1999, to 900 agents. This significantly increased contact levels with customers and,

combined with targeted sales campaigns, it has had a positive impact on the marketing of services and the retention of market shares of traffic.

The Business Market

The following offers were introduced in 2000 as part of the plan to expand Telecom Italia’s portfolio:

- “Business One”, to provide customers with support in managing their telecommunications systems and to advise them on how to develop their infrastructure;
- “Full Business Company” to assist companies wishing to adopt e-company models;
- “Full Business Security” to provide customers with on-line security services in IP (Internet Protocol) applications;
- “Dataw@n”, in the data services section, to provide corporate level connections for multi-site companies.

An ADSL wholesale package was also offered to operators wishing to market Internet access services using this technology. “Videonet” (communication via video using IP) was introduced for IP services. The range of “Net Manager” services for monitoring, managing and analysing telecommunications usage/traffic was improved with the introduction of “Internet SecurP@y” (for paying invoices over the Internet by credit card), and “Internet Billing” (legally valid invoices in electronic format). Regarding telephony, the “Full Business Card” offer was expanded to cover new profiles and functions. Finally, new subscription methods were introduced for the InterBusiness offer.



International Traffic

In the year 2000 much time and effort was devoted to changing the architecture of the international network from the traditional bilateral model, where carriers in the various countries share the transmission equipment that transports the incoming/outgoing traffic, to the cross-border model which uses regional multilateral backbones that are integrated into the (voice/data) services and are interconnected. The geographical areas concerned are Europe, where the PanEuropean Backbone is currently being created; the Mediterranean, with the Mediterranean Nautilus project; and Latin America, with the Latin American Nautilus project. The new architecture will initially operate alongside the existing architecture. It will support the new business models that are emerging in an increasingly competitive market, underpinned by steady liberalisation and the fast pace of technological innovation, which allows international traffic to be collected, routed and delivered in a variety of ways and no longer only by bilateral agreements.

Much effort was also dedicated to increasing the transmission capacity of the Transatlantic section in light of the growing demand for Internet access services, and to rationalising Telecom Italia's own network, with a view to containing the unit costs of the product/service and keeping within the established quality parameters. Since 1999 the average cost of the band unit used has dropped about 30%. The development of the international network also contributed to the launch of new services. By further increasing the range on offer to wholesale customers and improving their competitive capacity, Telecom Italia has been able to hold on to its share of the market and enjoy an increased volume of traffic. The reliability and quality of the service has helped it to keep ahead of its competitors. In 2000 although fierce competition limited incoming terminal traffic, there was still a significant increase in overall traffic volumes over 1999 figures, as can be seen in the table below:

International traffic	+11.5%
Incoming	-0.1%
Outgoing	+13.2%
In transit	+52.9%

There was also a big increase in IP services for access to the Big Internet via SEA-BONE; by the end of 2000, band capacity had more than tripled (+205.5%) compared with sales for the previous year.



Cashless services were further boosted as the international telephone card system expanded (to handle 30 million cards), and new services for foreign markets were introduced.

The quality of the international network is measured in terms of ease of access to telephony services using the ABR (Answer Bid Ratio - the ratio between calls answered and attempted calls).

ABR	2000	1999
Outgoing	54.5 %	55.1 %
Incoming	64.0 %	62.6 %

In spite of efforts to solve the problem during the year, the outgoing ABR has worsened slightly because of the increased traffic to low quality networks.

Innovative Services

In 2000 **TIM** added to its range of value added services and brought them all under the new label *i-TIM*. The range of advanced integrated services comprises: WAP, SIM ToolKit technology, voice information and UNI.TIM applications (the integrated voice, fax, e-mail and Internet surfing, accessed via a universal number). The *i-TIM* services also provide direct, fast, easy access to the Internet. Agreements have already been signed with Seat-Tin.it and Yahoo! Europe to develop *i-TIM* content.

With regard to applications for specific markets, **TIM** was the first Italian operator to enable its customers to make large-scale use of their cell-phones for banking transactions; the architecture guarantees high levels of security in terms of authentication and encoding of messages.

International bodies have continued to work in parallel on standardising the architecture. In October **TIM** launched the GPRS (General Pocket Radio Service) in the Rome and Milan areas, where a sample group of customers are trying out the new technology. The service will be extended initially to business customers, and later to private customers.

Its leadership of the Italian market enables the **I.T. Telecom** business unit (comprising Finsiel, Telesoft, Sodalìa and Telecom Italia's former Information Technology operations) to be fully integrated into the changing context of the ICT value chain.

I.T. Telecom's strong points are its: complete range of products and services, country-wide presence, capacity to undertake large projects, and knowledge of the processes. The IT software and services market is now an open market, the days when it had a captive market, in particular the Public Administration, are long gone. In this new competitive context I.T. Telecom develops and creates value



Introduce firms and government offices to the web, network applications and customers' information databases, partner them in exploiting information and transforming it into innovation, reduce the waiting times spent daily by companies and members of the public, improve the quality of life.



from new markets and new products, while continuing to innovate and develop the shareholder's information system and adopting a policy of rigid cost-containment.

SEAT has launched the new Pronto Pagine Gialle service (available 24 hrs/day) countrywide. The Call Centre provides the name, phone number and address of businesses in the area indicated by the caller. The service is aimed mainly at cell phone users or those who are away from home or the office, although it is also useful for getting information on an area for which a user has no Yellow Pages directory.



SEAT customers can also use a free-phone number that will put them in touch with Customer Services, which is able to deal with 70% of the requests for assistance, the others are passed on to the appropriate companies or offices. The Customer Service received approximately 640,000 calls in 2000.

CONSUMER SATISFACTION AND QUALITY SERVICE

The indicators for consumer satisfaction with the network have been honed and developed in the past year and are much improved.

Analysis of the indicators reveals that the "percentage of customers who had no problems during their last local conversation" is between 95% and 96% in the case of ISDN (VIP residential, SVT Business, Outbound business), 96%-98% in RTG (VIP residential, Medium, Basic, SVT Business, Outbound Business). In the case of long distance conversations the range was between 92% and 94% for ISDN and between 96% and 98% for RTG. According to customers the "number of hours that elapsed between first reporting a fault and its repair", less than 24 hours in 75% of cases and less than 48 hours in 83% of cases.

Changes required of the market in terms of specialisation, assistance and consultancy services to customers have been given high visibility by the Wireline Services Data.com operations, which constantly provide specific on-line information about new offers and services. In particular, there were 13 publicity campaigns. The sales network ensured that customers and the market received information about new offers with technical and business support, feasibility studies, and mailing shots, including specialised brochures.



Data.com has a nationwide support structure with staff specialised in front-end business and support. By dialling 803.123 (Gold Number) customers can access, with various levels of personalisation, nine operational units, each of which covers several regions. They are organised in such a way as to provide the highest levels of assistance over the phone and on site to top customers. A specialised Customer Care service was set up to assist Full Business Company customers and those of other services available from the Internet Data Centre.

Growth in the use of data transmission networks, and therefore the infrastructure for accessing the Internet, set off a process of optimisation and reduction in the time to complete many company processes among its top business customers.

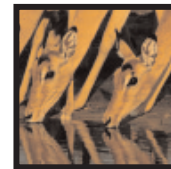
The marked acceleration in supplying networks and accesses to company networks had the effect of making many customers' business sectors more efficient (buying, distribution, ordering) and notably improved relations and communication in the whole services sector and in the industry. The impact of the new support systems (free-phone numbers, personalised access, e-mail) with regard to Telecom Italia's top customers has been to streamline customer-supplier contacts speeding up many of the formalities, apart from the inevitable institutional meetings, and eliminating much travelling. The combination of speed

and personalisation has reduced the supply times, therefore improving the waiting times and the efficiency of the customer's processes.

In addition some of the new products/services have a significant impact on the public, in particular those relating to the health service (projects involving the 118 emergency service and the Centri Unificati di Prenotazione, the centralized booking service) and protection of the environment (the support system for monitoring air quality).

The average time taken (as perceived by customers) to activate the DDC (direct digital circuits) data transmission service was 22.7 days in 2000 (24.9 days in 1999). The percentage of customers who declared they had received the information they needed from the Gold Number 803.123 was 46.7% in 2000 (36.7% in 1999). According to customers, the average time taken to respond to a request for maintenance of the DDC data transmission circuits was 15.9 hours in 2000 (20.7 hours in 1999). The percentage of customers satisfied with the way the Business Frame/ATM service was working was 74.3%.

All the services in the Top range were developed according to international standards; in particular IETF standards were used for Internet services, while data transmission services based on Frame Relay followed standards set down by the ITU-T, the ATMforum and the FRforum.



The certification process for Data.com's new ISO 9000:2000 standard was started in 2000 (the former Top system had ISO 9001 certification).



ISO certification in TIM covers seven quality systems for Business Sales (UNI EN ISO 9001), six quality systems for Customer Sales (UNI EN ISO 9002), and one quality system for the Planning and Invoicing process of Corporate Mobile Telecommunications services (UNI EN ISO 9001).

Business customers' perception of the quality of the provisioning and assurance service was, on the whole, positive. Surveys revealed that the average time to repair a fault was less than 8 hours in 54% of cases (75% within 24 hours); the level of service was high (99% were satisfied with the technician's courtesy and 95.8% with their professional skill). The overall level of quality perceived by the customer was about 73%.

TIM customers' Satisfaction Index

- 74% of customers satisfied with the time taken to connect them to services;
- 76.4% is the success rate of the Subscriber Information Service operator to understand the customer's needs and supply the appropriate information (call centres and the TIM Internet site provide users with the full range of information);
- 67.2% of customers who use Call Solution are satisfied;
- 52% of customers who use One Call Solution are satisfied;
- 60% is the success rate of the free-phone number to respond satisfactorily and come up with solutions.

TIM customers can use the 119 service on-line (www.119.tim.it) to request information about available products or services. They can also send information regarding a change in their personal details, report the theft or loss of their mobile telephone or SIM card and make complaints. They in turn are contacted by e-mail or directly by a TIM operator.

To further assist its clients TIM has more than 5,406 sales points, free-phone numbers (800-555333 for UNI.TIM interactive services and i-TIM's WAP), an Internet web site (www.tim.it and www.i-tim.it) and more than 1,000 Technical Assistance Centres.

During 2000, fourteen black-outs in the service had a marked effect on the traffic handled by the various components of the network. The average duration of these events was 2 hours 7 minutes.

As of December 2000 customer satisfaction with the quality of the network was 87%.

The monitoring systems installed at the Network Management Centre (the national network supervision centre) can keep track of every aspect of the whole TIM network and ensure it is running smoothly. The TIM network employs a total of 1,500 people, 300 work in administration and 1,200 are distributed throughout the country.



CONCILIATION AND ARBITRATION

2000 marks the seventh year of the conciliation and arbitration procedure between Telecom Italia and consumer associations. The project, the biggest of its kind in Italy, received European Union funding between 1995 and 1998. Although the funding came to an end in 2000 and the future of the procedure was uncertain it was decided that customers should not be deprived of an instrument that had proved useful in resolving disputes quickly and without any cost to them.

By leading the way in conciliation and arbitration procedures, the success of which can be measured not only in terms of concrete results, Telecom Italia has inspired other firms and industries to adopt this instrument for out-of-court settlement of disputes.



EC legislative guidelines and market regulatory bodies have come out in favour of simpler less expensive procedures such as the ones adopted by Telecom Italia to facilitate access to justice in the area of consumer complaints.

Since the procedure was set up in 1994, there have been 26,380 conciliation cases. Of these cases, 22,789 ended in conciliation (the percentage is still over 86%) while in 3,591 no conciliation was reached.

There were 1,739 conciliation cases in 2000 (compared with 2,488 in 1999), 1,578 of which were heard by the 18 regional committees.

The steadily declining number of conciliation claims and hearings, directly related to the lower number of complaints, is an indication of improvements in customer relations and complaint management.

There were 273 arbitration cases between 1994 and 2000. In 177 of these cases settlement was reached before the Arbitrator, in 77 cases the Arbitrator found in favour of Telecom and in 9 cases in favour of the customer. As of 31 December 2000 10 cases were pending.

Brief scrutiny of the data reveals a steady downward trend (about 30%) in the number of conciliation cases, directly related to the number of complaints, much lower than in previous years.



The overall picture therefore suggests a better relationship with customers although it probably owes more to the better management of complaints.

In December a **National Training Seminar** was held in Naples for new personnel involved in the project, representatives of consumer associations and Telecom Italia.

CONSUMER RIGHTS

In 2000 Telecom Italia continued to work closely with consumer associations. It participated in joint working groups and provided the associations with regular information regarding new services, the launch of new products and new prices.

Underlining its strong commitment to transparency, and in addition to the information at the front of the directory, Telecom Italia now delivers information with the phone bill on how to start a conciliation and arbitration process.

Convinced that consensus in consumer relations is essential to the life of a company, Telecom took part in the conference organised by the European Union “EEJ-NET” and reported on its positive experience in adopting extra-judicial conciliatory procedures. In such contexts consumers and the associations representing them have an important role to play in that their criticisms or consensus informs company **policy makers** and provides a point of reference for regulators.



I.T. INFORMATION

A web site for consumers at:
<http://www.187.it>.



THE CHARTER OF SERVICES AND GENERAL SUBSCRIPTION CONDITIONS

In connection with the changing competitive and regulatory scenario in TLC, Telecom Italia has defined new more flexible and transparent instruments to govern customer relations and constantly improve quality standards in order to simplify, reinforce and render more transparent the relationship with the customer, while always aiming for better quality.

The Charter of Services is flanked by the General Subscription Conditions governing the contractual relationship with the customer.

The Charter is published in the telephone directory, can be consulted on Telecom Italia's web site at www.187.it and is also available from "Punto 187" shops.



Telecom Italia undertakes to:

- connect a new line or transfer a line (if the customer is moving house) within 10 days of such requests; if there is a delay the client will be reimbursed 50% of the monthly rental for every delay of one working day;
- complete repairs within two working days of the fault being reported; for every additional delay of one day the abovementioned sum will be paid;
- deal with complaints regarding over-charging: provided the customer makes the complaint by the due date of the bill in question, Telecom Italia will reply in writing within 30 days;
- compensate any customer whose name or telephone number has been incorrectly entered or omitted from the directory: compensation equivalent to two months line rental is paid in the case of incorrect entries and the equivalent of four months rental in the case of an omitted entry;

- give three months warning when, for technical reasons, Telecom has to change a customer's phone number; Telecom must also provide, free of charge, a recorded message giving the new number for 45 days after the number has been changed;
- respect the customer's right to cancel the contract for up to ten days after the contract has been signed and the line activated.

Ways of Informing Customers

Phone bills are an excellent instrument for communicating with customers since all users get one on a regular basis. It can be used to pass on many different kinds of information. The first page of the bill contains information such as:

- Price changes.
- New regulations and changes in contracts (e.g. Charter of Services).
- New services and products.
- Information regarding billing methods (e.g. collecting payment for previous traffic).
- Other important information (e.g. Trojan Horse, how to cancel accessory services).



The layout of the bill has recently been revised to make it easier to read. The first page contains the billing details regarding the customer and the amount due (taxes, subscriptions, traffic).

This is followed by detailed information (discounts, type of call, etc.). The customer can also request, at no extra cost, a detailed list of all calls made.

Impact on the customer's quality of life

These new services allow the customer to choose the most convenient payment method from a range of possibilities. Customers no longer need to go looking for the nearest post office or bank with all the inconvenience associated with using the car, urban traffic, parking, queues for service, etc.



Telecom Italia has set up new payment channels so increasing the number of places where customers can pay their phone bills. The new channels are: the Internet, commercial credit cards, tobacconists and "Punto 187" shops.

In fact, customers can pay their phone bills by commercial credit card over the Internet from the comfort of their own homes without having to go anywhere. Or they can have the bill paid directly by CCC (commercial credit card), an alternative to the more widely used bank standing order. Not only is it a convenient way of paying but there is a saving to be made since both these services are free.

In addition the extensive network of Italian Federation of Tobacconists' sales points is a good alternative to post offices and banks since their opening hours have been extended in many cases to 8 pm and payments can also be made on Saturdays. Finally, the "Punto 187" shops can now offer customers who go in for information and/or to purchase products and services the opportunity to pay their bill at the same time.

Disputes/litigation

There was a sharp drop in the number of civil legal actions taken against Telecom Italia in 2000 compared with the previous year. A total of 2,252 summons were served, estimated to be worth about 46.5 billion lire.

Of these, 184 cases, worth about 520 million lire, were settled in the course of the year.



In particular, 52 cases were resolved by the appropriate sectors or insurance companies, 25 concluded favourably, 14 were closed because the claimant decided not to pursue the claim, 10 returned a judgement against Telecom Italia and in 83 cases an agreement was reached. Compared with 1999, when 3,721 summons were served on Telecom for an estimated value of 114.787 billion lire, there has been a sharp decrease in action against Telecom Italia, in the order of 39% of the total value.

The number of legal actions started in 2000 regarding complaints about the line rental contract (this includes disagreements over call traffic or the activation of services that haven't been requested) is substantially unchanged in respect of 1999 figures and smaller in respect of 1998 figures.

TIM was involved in 14 legal disputes with its customers, 85 of which are in progress, two found in TIM's favour, one found against and in 26 cases an agreement was reached. Of 12 cases involving its chain of shops (former dealers and TBPs), 11 are in progress and one has concluded in TIM's favour.

The fact that Telecom Italia is receiving fewer claims for damages from customers for incorrect or missing entries in the telephone directory is very encouraging. The number of customers taking legal action has steadily declined from 107 cases started in 1999, with claims for damages of 6.3 billion lire, to 78 cases in 2000 worth about 2.5 billion lire.

Regarding lawsuits arising from errors in business customers' advertisements in SEAT publications, agreements were reached in 29,700 cases for a value of 28.9 billion lire.

As to SEAT's legal disputes with customers, writs were served for 165 cases (worth 15.9 billion lire). Ninety-one cases were settled as follows: in 41 cases an agreement was reached (with the disbursement of 388 million lire), in 40 the court found in SEAT's favour, and in 10 it found against (with disbursement of 296 million lire).



SUPPLIERS

To assess Telecom Italia's contribution to suppliers, in addition to the balance for the consumption of raw materials and out-servicing (after deducting costs for the telecommunications licence fee included in the product added value cost), industrial investments have also been taken into account, deducting the quota concerning related parties and capitalised internal costs.

The contribution to outside economies (after deduction of costs for the telecommunications licence fee and the quota for the correlated parties and internal capitalisation) has risen since 1999.

There has been a sharp increase in the Group's industrial investments, which have tripled in the past year. In sustainability reports increased investment is considered a particularly significant indicator of the company's improved economic performance.



Consumption of outside supplies, services and capital expenditures		
Billion lire	Tax year 2000	Tax year 1999
TELECOM ITALIA GROUP		
• Consumption of raw materials and outside services (not inclusive of telecommunications licence fee)	22,127	20,357
- of which the related parties	730	469
• Capital investments	32,932	10,560
- of which the related parties	2,218	3,294
• Total cost	55,059	30,917
- of which the related parties	2,948	3,763
* Net total cost	52,111	27,154
TELECOM ITALIA S.p.A.		
• Consumption of raw materials and outside services (not inclusive of telecommunications licence fee)	12,687	13,557
- of which the related parties	4,209	4,901
• Capital investments	4,974	5,926
- of which the related parties	1,827	2,344
• Total cost	17,661	19,483
- of which the related parties	6,036	7,245
* Net total cost	11,625	12,238

EVALUATION OF SUPPLIERS

During 2000, in the wake of the organizational restructuring of Telecom Italia S.p.A., procurement activities, which had traditionally been based in a single centralised structure, were broken up and allocated to the various Business Units in the interests of efficiency and in order to bring the purchasing process closer to the internal customer. In the context of this reorganisation the vetting process for suppliers was repositioned within the various Business Units, each unit managing its own suppliers.

The reorganisation did not affect general policy regarding the certification of suppliers, therefore the supplier evaluation processes continued to be based on quality issues that also cover safety in the workplace and environmental protection. Telecom Italia's suppliers are submitted to a careful selection process that includes assessing levels of environmental efficiency, which also involves checking any environmental certification they may hold, and their full compliance with legal regulations regarding safety in the workplace.



The suppliers' register lists the companies SARITEL deals with for the supply of goods and services. Registration is compulsory for companies who supply more than 50 million lire of goods/services a year. A and B categories are registered under the ISO 9000 standard, while category C follows a shorter registration process.

With regard to procurement processes there is also a specific company procedure for checking that contractors and sub-contractors fulfill their legal obligations in respect of social security contributions, insurance and the Cassa Edile (the building industry insurance fund). This information is gathered during the routine quality control inspections of suppliers, both registered and qualifying for registration.

TIM does not demand that suppliers adopt specific quality, safety or environmental policies. Nevertheless some types of contracts do contain clauses regarding national and international regulations governing environmental protection and industrial safety.

Moreover, during the registration process suppliers have to show that their quality levels and their safety and environmental policies are up to standard.

TIM's evaluation of suppliers is based on an analysis of the principal legal, financial, and technical organizational characteristics; the location and geographical position, insofar as it boosts economic development in the external context, does not come into the choice.

SEAT's vetting procedure for suppliers uses vendor rating methods. The companies' economic and financial profiles and their performance are evaluated using quality parameters and reliability indices. Given the procurement requirements (mainly services)

no specific contract terms regarding safety and respect for environmental regulations are applied. Current criteria for selecting suppliers tends to favour the most reliable and competitive. For large contracts suppliers are invited to tender a bid. They are given clear information on the criteria used to evaluate the bids and the selection process is also made as transparent as possible.

Disputes with suppliers

Litigation citing Telecom Italia S.p.A as the defendant comprises four law suits (estimated to be worth more than 700 million lire), one of which was settled in 2000 and three pending.

Of the three lawsuits brought against Telecom Italia by the INPS (national social security/pensions institute) for non-payment of contractor's social security contributions, two reached a conclusion in favour of Telecom and the third is still pending.

TIM faced five legal cases with suppliers: three of them are still in progress, while an agreement has been reached in the other two.

SEAT currently has three legal cases against suppliers for breach of contract. Four cases involving past disputes with suppliers were resolved in 2000.



COMPETITORS

The year 2000 saw the continuation (or rather, in comparison with 1999, the development) of the process towards the total liberalisation of the telecommunications sector as observed by the President of the Italian Antitrust Authority (l'Autorità Garante della Concorrenza e del Mercato).

The prescribed procedure faced the issues of abuse of a dominant position and comparative and misleading advertising, both of which are of crucial importance if a fully competitive set-up is to be achieved.

Telecom Italia took an active part in this process and collaborated fully with the sector Authority as it is the

company's conviction that the opening-up of competition in the so-called "last mile" and innovative broadband services may actually boost market development and generate value for all those involved. Telecom Italia's conduct reflects its strategic decision to base its competitiveness on respect for market rules and antitrust regulations so that its capacity for innovation and its managerial efficiency may be maximised. In view of this, Telecom Italia operates with the conviction that the development of a properly competitive environment will provide growth opportunities for the whole telecommunications system.



Preliminary proceedings instituted by the Italian Antitrust authority (L'Autorità Garante della Concorrenza e del Mercato) in relation to Telecom Italia S.p.A.'s activities during the period 1 January 2000 - 13 March 2001

(The preliminary proceedings concern both the aforesaid issue of abuse of dominant position under article 3 of Law 287/90 and consolidation activities capable of eliminating or substantially and permanently reducing competition under article 6 of Law 287/90 on account of which the Authority instituted a preliminary investigation)

The preliminary proceedings against Telecom Italia concluded by the Authority during the period referred to numbered 5. One of these (resulting from a report made by the Italian Association of Internet Providers) ended with the imposition of a sanction amounting to 1,248 billion lire and another (based on a report made by Infostrada-technology ADSL) is still pending.

1. On 17 November 1999, following a report made by Infostrada S.p.A., the aforesaid Authority instituted preliminary proceedings to ascertain whether or not certain aspects of Telecom Italia's behaviour in relation to the marketing of data transmission services based on ADSL technology constituted an abuse.

2. On 28 January 2000 the preliminary proceedings instituted against Telecom Italia for abuse of a dominant position (following a report made by the Italian Association of Internet Providers [AIIP]) was closed. The report concerned certain alleged actions of Telecom Italia S.p.A. in the markets for services providing access to the Internet network.

3. During its sitting on 13 July 2000, the Authority closed the preliminary proceedings instituted against Telecom Italia for abuse of dominant position following reports forwarded by Tiscali S.p.A., Albacom S.p.A. and Infostrada S.p.A. regarding T.I.'s allegedly abusive actions in relation to:

- supplying call-termination services for fixed-line telecommunications networks;
- supplying telecommunications switching networks (the so-called "collection networks") to the Internet Services Providers (ISP).

The Authority ruled that the undertakings Telecom Italia gave to it in the context of a document reaching it on 10 March 2000 (regarding the application of a new standard offer for termination on the Officially Licensed Operators' networks) were sufficient to put an end to the actions constituting a violation of Article 3 of Law 287/90 and to compensate the economic consequences deriving from such actions throughout the period they occurred.

4. During its sitting of 27 July 2000, the Authority ruled that it would authorise Telecom Italia S.p.A.'s act of consolidation consisting of its acquiring exclusive control of the company Seat Pagine Gialle S.p.A. (so as to integrate and consolidate the two companies' Internet activities within one single context), whilst prescribing full compliance with certain conditions.



5. On 23 January 2001, the Authority authorised SEAT's consolidatory acquisition of exclusive control of Cecchi Gori Communications S.p.A. whilst prescribing the Telecom Group's compliance with certain measures.

Preliminary proceedings instituted by the Italian Antitrust Authority at Telecom Italia's instance

During the year 2000, the Stream/Telepiù case had a positive outcome. This was the only case instituted on the basis of a report made by one of the Group's companies. It concerned alleged actions initiated by Telepiù S.p.A. restricting competition in the pay TV market. The company Telepiù was bound to present a report on the concrete steps taken to eliminate the reported infringements within 180 days of the notification that the preliminary proceedings had been concluded.

**Preliminary proceedings for misleading and/or comparative advertising
Period from 1st January 2000
to 13 March 2001**

The period under consideration saw the conclusion of **14** preliminary proceedings instituted against Telecom Italia (or Group companies) for allegedly misleading advertising. Of these, **11** had a **negative outcome** as the misleading nature of the contested advertising message was recognised; **2** had a **partially positive outcome** as the legitimacy of some of the contested messages was recognised whilst others were found to be misleading and **1** had a **totally positive outcome**.

One case is being pursued with the Antitrust Authority in relation to FINSIEL's acquiring control of the company Crued (a 2% increase on the 49% shareholding Finsiel S.p.A. already owned).

The Council of State partially allowed appeals brought by TIM and Omnitel against the Antitrust Authority's judgement of 28 September 1999 ordering the companies to pay fines in relation to their collusion in fixing tariffs for fixed-line/mobile calls over the period 1995-1998. Indeed, the most onerous of the three fines ordered (relating to alleged collusion during the course of 1998 and equal to approximately 62 billion lire) was quashed. The original fine of 100 billion lire TIM was required to pay (and paid on 30 June 2000 so as to avoid possible additional sanctions provided for by law) was thus reduced to 38 billion lire.

TIM is involved in legal proceedings in relation to the contract award in the Consip bidding for Civil Service telephony. The Regional Administrative Court for Lazio has published the decision part of its judgement confirming the award to Wind. TIM is waiting to know the grounds.

With regard to preliminary proceedings in 2001 see the six-monthly report for that year.



THE STATE

**23.5% of added value (8,733 billion lire)
is paid to the Italian Government**

Telecom Italia Group

Billion lire	2000	1999
Telecommunications licence fee (*)	962	1,124
Indirect taxes	270	215
Italian company direct taxes	4,962	6,172
Social security payments for Italian companies (1) (*)	2,420	2,404
Dividends paid to the Treasury	119	118
	8,733	10,033

(*) These figures take into account only Italian companies in the Group.

(1) Inclusive of INPS payments (according to law no. 58 of 1992) of 297 billion lire in 2000 and 364 billion lire in 1999, the special INPS contribution of 150 billion lire following the winding up of the Fondo Previdenza Telefonici (Telephone Insurance Fund) and the transfer of contributions directly to the Fondo Pensioni Lavoratori Dipendenti (Employees Pension Fund).

The decrease on 1999 can be put down to the lower amount paid in direct taxes as a result of a reduction in the tax rate deriving from tax benefits on TIM

investments and the application of substitute taxation to the proceeds deriving from the sale of holdings and the transfer of the “Grandi Immobili - prestigious real estate” branch from the parent company to IM.SER..

The Group received 79.6 billion lire in non-returnable grants and 115 billion lire in special funding, of which 33.4 billion lire in non-returnable grants and 3.4 billion lire in special funding for Telecom Italia S.p.A alone. The principal programmes and projects for which these sums were received are:



- **The European Regional Development Fund – ERDF – Community Support Framework 1989/93**
- **Modernisation of telecommunications installations in Campania and Calabria**
- **Acceleration of the telecommunications installation programme in the Basso Adriatico (Puglia and Abruzzo)**

These programmes are carried out in the context of the Community Support Framework and receive structural funding for creating infrastructure in the South of Italy. In 2000 they received a total of about 25.7 billion lire.

Trento Project 1991-93
Bolzano Project 1982-94

The special projects for Trento and Bolzano were set up to provide the provinces with advanced TLC infrastructure by extending the digital network, introducing ISDN services, reinforcing the distribution network and introducing GSM technology. About 2.7 billion lire has been received in grants for these programmes.

1993 Flood – Liguria – Law no. 471 of 25.7.94

After the floods that hit many regions including Liguria, and later in 1993 the province of Genoa, the Ministry for Industry disbursed, through the Chamber of Commerce in Genoa, 271 million lire.

S.I.G.R.A. Programme – Design and implementation of a distributed and integrated graphic system to be used in the planning and development of the TLC network – Law no. 46/82

The project is part of a larger programme of initiatives for the Technological Innovation Fund. Its aim is to develop a flexible and integrated instrument to aid in the planning design and implementation of TLC equipment. The project has received about 3.4 billion lire of special funding.

Enlargement of the Fucino Station (Aquila) a joint Telecom Italia and Telespazio initiative

This initiative involved enlarging the installation for the reception, amplification, diffusion, data and signal processing to and from space, situated in Ortucchio (Aquila). The project has received about 4.7 billion lire from Telecom Italia.

Companies within the Group that received tax benefits were:

- **CSELT**
- **FINSIEL**
- **ITALTEL**
- **TELESPAZIO**



FUTURE GENERATIONS: the environment and sustainable development

The sustainability report pays particular attention to future generations; it sees them as being strategically placed alongside current generations represented by the stakeholders. Sustainable development can be described as the capacity of current generations to adopt a development method that in satisfying the needs of today does not jeopardise the capacity of future generations to meet their needs. Telecommunications can play a very important part in achieving ecologically compatible development. On one hand the mission of companies in the sector is to develop goods and services for communication. Since communication is about getting information from A to B without physically

transporting it, objectively speaking TLC operators can make a big contribution to the conservation of natural resources and environmental protection. On the other hand, while the telecommunications sector has a fairly low impact on the environment, its sheer size in economic and investment terms means that it purchases large amounts of raw materials, goods and services that all have their own potential effect on the eco-systems in which they operate. Both the general strategies and the specific environmental policies of companies such as those in the Telecom Italia Group play a particularly significant role in drawing up plans for sustainable development.



The European Union's Sixth Environment Action Programme, "Environment 2010: Our Future, Our Choice", emphasises the need for close cooperation between governments and business, the financial sector, consumers, local authorities and other interest groups in drawing up and implementing environmental policy. And as the government report on the environment states, central to the

achievement of sustainable development is the deepening involvement, also regarding choices and behaviour, of an ever broader range of actors, firms, institutions, consumers, associations, and experts, with their diverse and often conflicting interests. Business must play its part responsibly, aiming for compatibility between competitive growth and environmental protection.

GROUP ENVIRONMENTAL PROGRAMMES (*)		Company Values			
		A	B	C	D
Sustainable mobility	Home-to-work schemes for participating towns	X	X	X	X
	Support/services for local government environment policy		X	X	X
Services and products	Adoption of environmental criteria in purchasing products and/or services			X	X
	Adoption of LCA(*) in the technical specifications of products		X	X	X
	Development of products using recycled materials		X	X	X
EMAS	Experimental application of EMAS		X	X	X
Emissions	Mapping of electromagnetic emissions	X	X	X	
	Noise mapping	X	X	X	
	Conversion of heating plants to methane		X	X	X
Energy	Reduction of energy consumption for plant telephone lines		X	X	X
Waste	Recycling decommissioned telegraph poles		X	X	
	Impregnation of poles with eco-compatible substances		X	X	
Digging	Alternative digging techniques		X	X	
Auditing	Carrying out environmental audits	X		X	
Training	Improved training in the environment, health and safety of personnel			X	X
Environmental balance	Introduction of environmental accounting at Telecom Italia		X		

(*) Some of the environmental programmes mentioned are continuing programmes that were set up in recent years.
 (*) Life Cycle Assessment

TELECOM ITALIA'S CHARTER OF VALUES (1998)
A. RESPECT THE LAWS
B. FOSTER INNOVATION
C. RESPECT AND SAFEGUARD THE ENVIRONMENT
D. CONTRIBUTE TO SUSTAINABLE DEVELOPMENT



THE COMPANY'S COMMITMENT TO THE ENVIRONMENT

In November 1996, the Environmental Charter of the European Telecommunications Network Operators' Association (ETNO), was signed by Telecom Italia and 20 other ETNO members^(*). Recognising that their sector is an engine for economic and social development in the third millennium, they undertook to work towards environmental protection

and sustainable development, setting down challenging concrete objectives. The number of signatories to the Charter has risen to 25 and since 1998 Italy has been the president of the Working Group set up by ETNO to ensure the declared aims are achieved and to foster cooperation among telecommunications operators on environmental issues.



In response to the growing need to adopt a more structured approach to environmental issues, in the mid-nineties Telecom Italia developed an Environmental Management System (EMS) modelled on the UNI EN ISO 14001 international standard. The aim of this instrument, which is currently being implemented, is to completely revise the process for managing environmental issues and to achieve the objectives set down in the Environmental Charter (EC) that underpins the **company's environmental policy**:

- Ensure compliance with regulations, take preventive action where possible and identify potential areas of improvement by adopting additional company standards.
- Promote and carry out technological research aimed at minimising the environmental impact.
- Promote environmental awareness within the company through specific staff information and training programmes.
- Contribute to informing public opinion about environmental issues and the role telecommunications can play in minimising environmental impact.
- Work with associations and the authorities to establish common ground for possible future programmes.
- Optimise the use of energy sources, natural resources, materials and products, adopt green technology when possible to reduce the impact on the environment.
- Improve waste management by concentrating on the re-utilisation and recycling of materials and products.
- Adopt environmentally aware purchasing policies that also include the suppliers.
- Design and implement an Environmental Management System, with regular monitoring of the application.
- Publish data and information on environmental performance.

Rome, September 1998

(*) Detailed information can be found on ETNO's web site: www.etno.be



ENVIRONMENTAL PERFORMANCE INDICATORS

Telecom Italia maintains that in order to be in a position to carry out the underlying aims of the principles of sustainability the following quantitative and qualitative aspects must be shared by all the companies in the Group:

1. The company mission, as set down in a formal environmental policy document and reflected in the company's organizational approach to environmental management.
2. The routine management, in detail and overall, of the major environmental issues of the Group:
 - a) waste management;
 - b) consumption of natural resources;
 - c) air quality and climate change;
 - d) electromagnetic pollution.

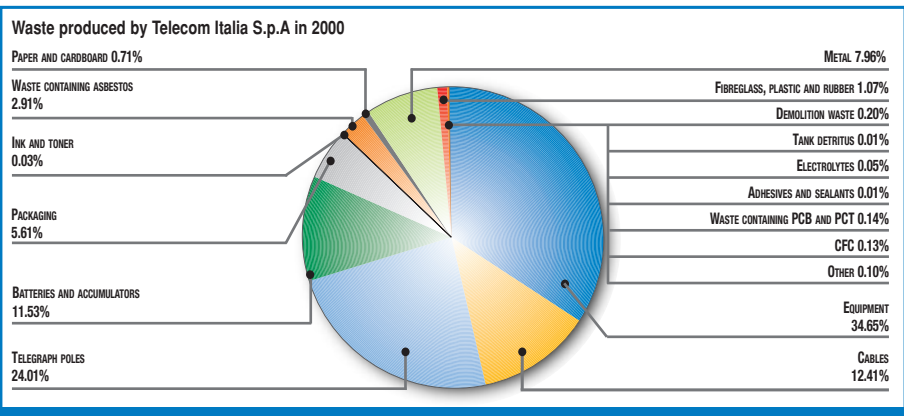
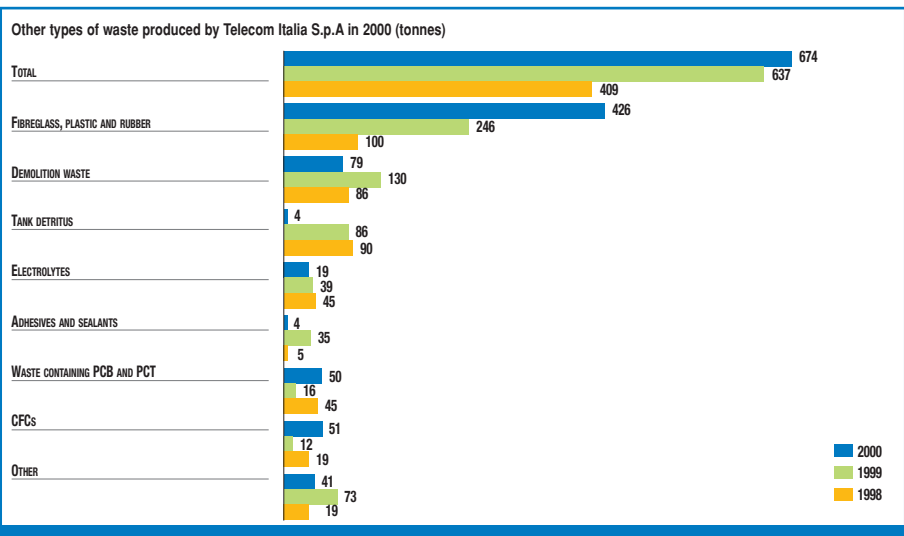
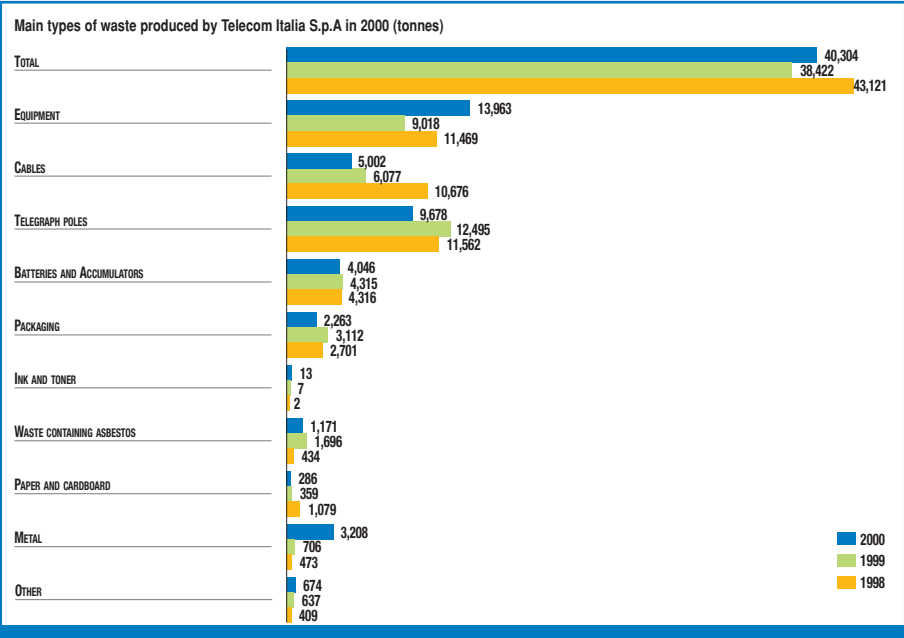
Telecom Italia does not see the sustainability report as a photograph fixed in time of a definitive situation, the underlying causes of which cannot be removed or dealt with: but rather as a valuable management tool not only in internal relations and development strategies, but also in bringing certain important information to the dialogue with the stakeholders.

The environmental performance of Telecom Italia S.p.A. in its key areas is presented below, where possible alongside comparative details of the other companies in the Group. During 2000 the Group underwent major organizational changes and the picture that emerges may at times be incomplete: such gaps are noted for each case in the following pages.

WASTE MANAGEMENT

Given its size and the constant upgrading of its infrastructure, Telecom Italia annually produces waste of various types. Since 1999 there has been only one industrial waste management company in Italy dealing with telecommunications products and materials. The statistics on the following pages refer to waste produced by the Wireline Services Business Unit, which manages the telecommunications network, and by the "Real Estate" Business Unit. Together these units produce about 95% of Telecom Italia's waste. The data for other units was not taken into consideration.

The volume of waste produced in 2000 was slightly larger than last year's. The amount of metal and equipment was much greater because of the upgrading of the network's infrastructure. The programme to eliminate asbestos insulation in the generators was also completed in 2000.





TELEGRAPH POLES

The management of telegraph poles for overhead phone lines deserves a special mention. The management process is governed by an internal procedure, as of March 1999, and underpinned by the following legislation: legislative decree no. 22, 5/2/97 (the Ronchi decree), the Ministerial decree of 5/2/98 “Identification of non-hazardous waste suitable for simplified salvage procedures in accordance with articles 31 and 33 of legislative decree 5/2/97, no. 22” and law no. 426, 9/12/98, “New interventions in the environmental field”. During 2000 the situation regarding pinewood telegraph poles was as follows:

- 155,000 poles purchased for a total expenditure of 19 billion lire;
- 95,500 poles (whole) decommissioned;
- 39,000 lengths of pole decommissioned.

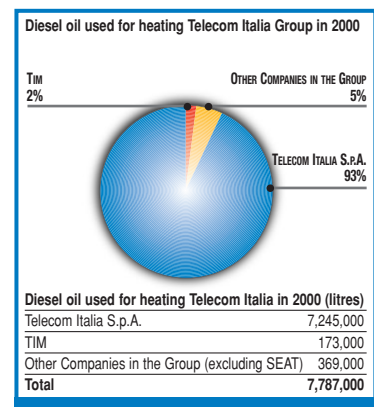
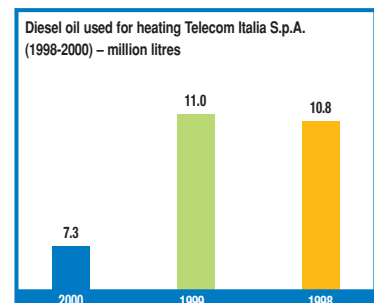
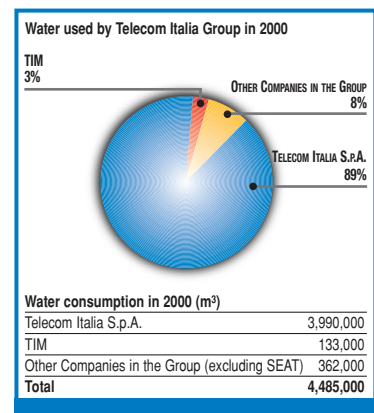
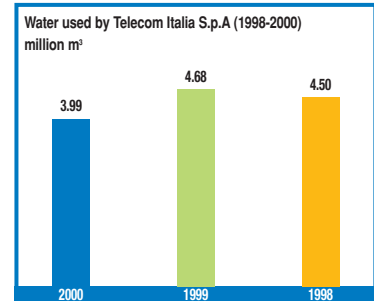
The poles are extracted from renewable forests in the north of Europe; the pine telegraph poles purchased (77%) are “ecological” in that they are impregnated with organic salts that have a low environmental impact; the salts help to protect the wood from atmospheric agents and especially from fungi, insects and moulds that could eat into the wood and weaken the poles. The proceeds from the decommissioning of 134,500 poles amounted to about 605 million lire. After salvage operations, 86% of these poles were put up for sale in accordance with statutory procedures, approximately

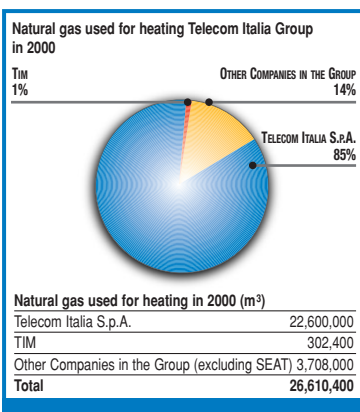
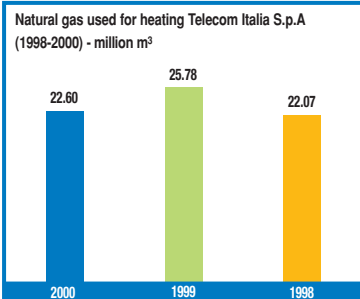
5% were recycled after undergoing a de-impregnation process and about 8% were re-used as telegraph poles. Less than 1% ended up as waste to be processed.

CONSUMPTION OF NATURAL RESOURCES AND ENERGY

In addition to the use of raw materials for production processes and the materials and apparatus Telecom Italia uses to make its services available to the public, i.e. its infrastructure and management operations, direct and indirect consumption of natural resources has a considerable impact:

- consumption of water, essentially for sanitation purposes, was down 15% on last year, and is equivalent to 89% of the Group’s consumption as a whole (the figure is based on water consumption in 2000 updated to 30/9/2001);
- there was a marked reduction of about 34% in the consumption of diesel oil for heating; it is equivalent to 93% of the Group’s overall consumption.

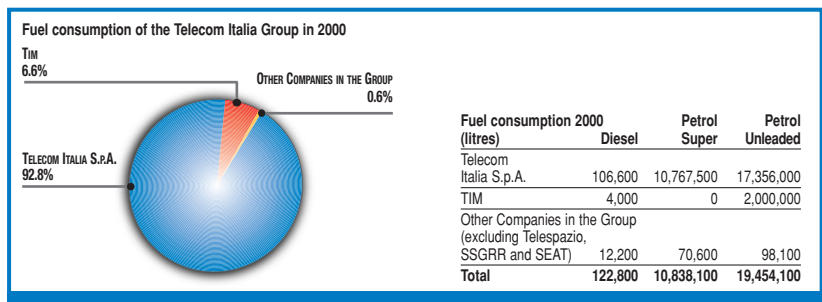
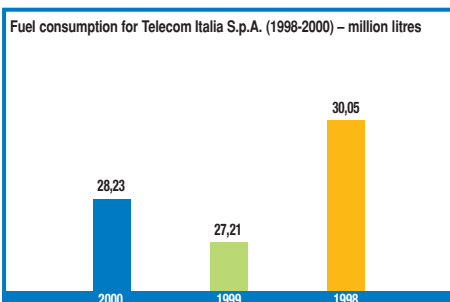
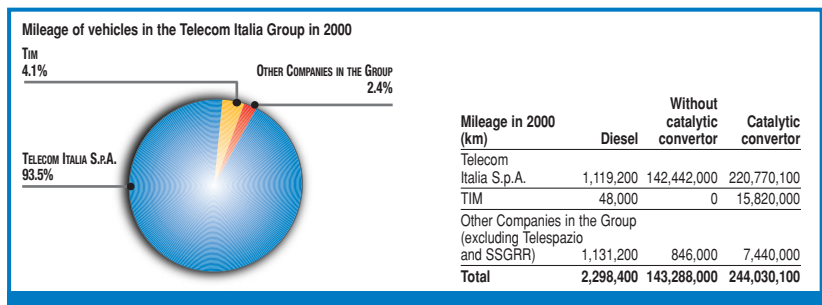
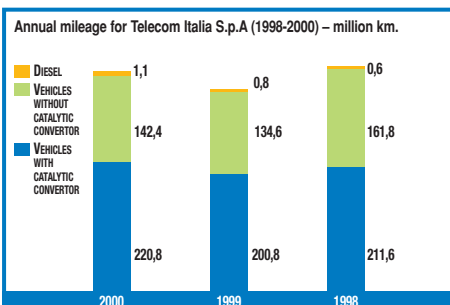
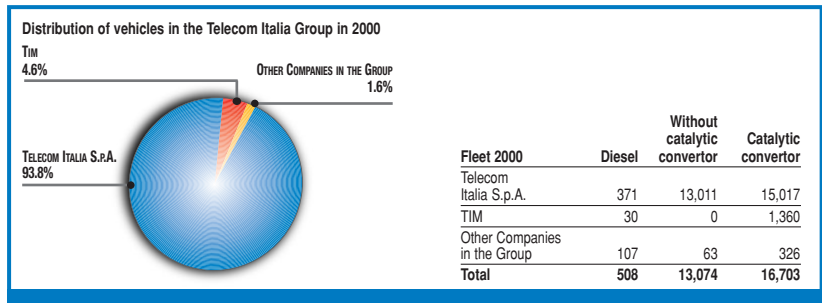
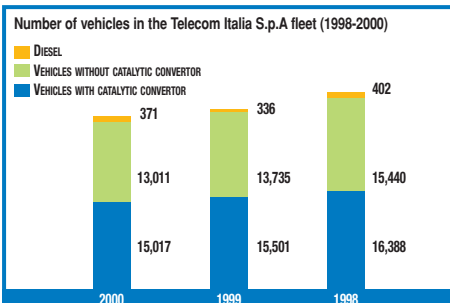




- consumption of natural gas for heating was down 12% and amounts to 85% of the Group's overall consumption;
- fuel for transport accounts for a large share of the consumption of fossil fuels; Telecom Italia's fleet of vehicles, accounting for almost 94% of the Group's vehicles, is steadily becoming smaller: in 2000 it dropped 4% over the previous year. Conversely mileage increased about 8.4% and consequently fuel consumption also rose, by about 4%.

- electricity used by Telecom Italia is classed as indirect consumption of natural resources, since approximately 77% of it is generated from fossil fuels; the measures, mainly managerial, taken by Telecom Italia to optimise and therefore reduce over time the consumption of electricity were quite effective in 2000, giving rise to an overall reduction of about 2%. This reduction can also be expressed using a specific indicator of consumption per line equivalent (*), which has gone down from 65.7 kWh to 62.6 kWh (- 4.7%).

(*) The number of line equivalents (30,382,135 in 2000) is the sum of user telephone connections plus the active reserve lines in the exchange and lines included in ISDN traffic from exchange.

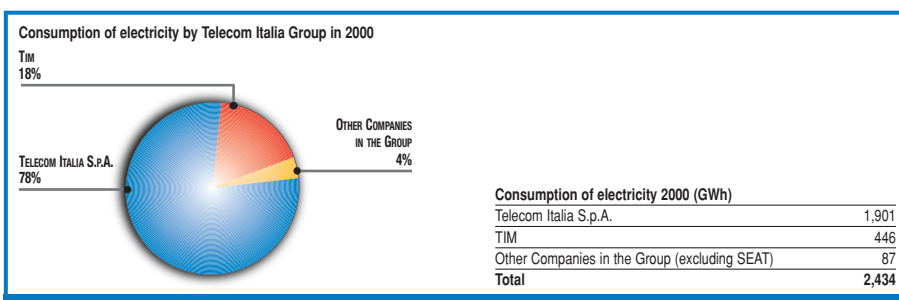
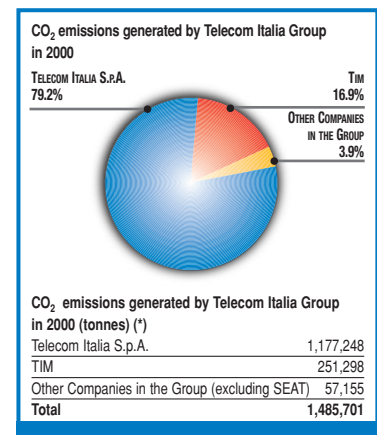
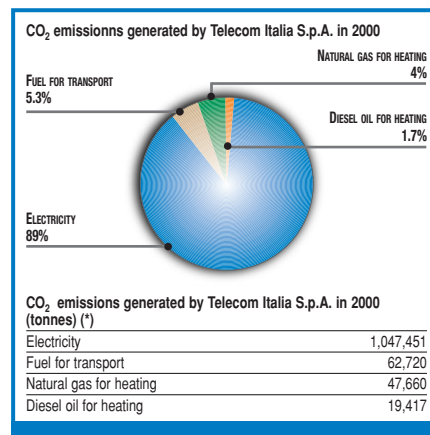
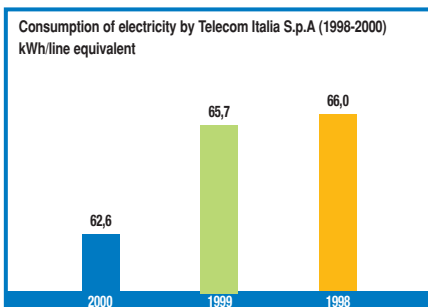
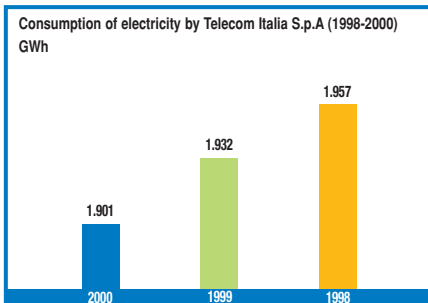




Particularly significant is the reduction in energy consumption from 1,805 GWh in 1999 to 1,735 GWh in 2000 by the Wireline Services Business Unit, which manages the Company's communications network, considering that the new installations alone used 30 GWh last year. The energy savings therefore, given the same network configuration, would have been 100 GWh, or more than 5%. The electricity used by Telecom Italia S.p.A. accounts for 78% of the consumption of the whole Group.

AIR QUALITY AND CLIMATE CHANGE

The direct and indirect use of fossil fuels generates pollutants, in particular carbon dioxide (CO₂), which is responsible for the greenhouse effect together with other gases the production of which in the processes mentioned is, however, quite limited. The reduction in the production of carbon dioxide is the main issue in the Kyoto agreement. The first step in controlling emissions of greenhouse gases is to measure how much each civil and industrial subject contributes to the process of climate change through its activities. As can be seen from the graphs below, most of the CO₂ emissions generated by Telecom Italia S.p.A. are caused by the consumption of electricity (89%).



(*) Emissions were calculated in keeping with UNEP guidelines (The GHG Indicator, 2000) and the guidelines drawn up by ETNO in the climate change project. The electricity data were taken from ENEL's 1999 Environmental Report.

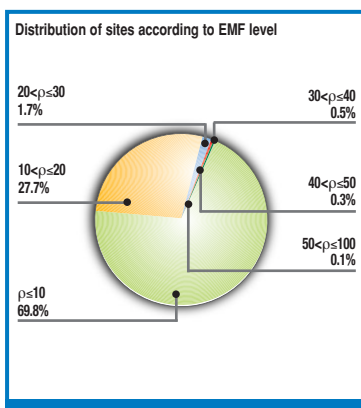


ELECTROMAGNETIC POLLUTION

All Telecom Italia's transmission installations/units operate in keeping with the national laws and international regulations governing emissions of Electromagnetic Fields (EF).

The characterisation of the level of Electromagnetic Fields (EF) of antenna-bearing structures

In 2000 a study was carried out to measure the level of electromagnetic field Telecom Italia technicians are exposed to when working on TLC equipment with radio carriers. The information was used to establish what protection and preventive measures must be taken to limit the risk and therefore improve the technicians working conditions. The level of exposure was measured according to the power density emitted. All Telecom Italia sites with transmission installations equipped with antennae were tested; single channel installations (such as radio links or yagi) were not tested as they have very low emissions and no other emitting sources in the vicinity.



The study was carried out in three consecutive phases:

- **survey of the sites** – using broad band analysis, which is less accurate but can be carried out in less time;
- **detailed investigation of sites at greatest risk** – using more accurate broad band analysis;
- **risk assessment** – using selective frequency methods of analysis at sites confirmed as high risk in the second phase.

This approach had the advantage of limiting the technical and economic resources used at sites with negligible exposure levels in order to focus on those with higher emissions. In each phase the typical value of the level of exposure to EMFs assigned to the site was always the highest value recorded. Exposure to EMFs was measured using the parameter ρ (rho) expressed as a number, normally between 0 and 1 (or between 0% and 100 %), where 1 (or 100%) is the maximum permitted level. The tables on occupational exposure published by the International Councilor Non-Ionising Radiation Protection (ICNIRP) were used as reference points. Extremely low values were recorded in most of the 2,657 sites surveyed. As can be seen in the following table, the EMF levels recorded using the ρ parameter, which is expressed as a percentage of the permitted



threshold of occupational exposure, are on average 9% and only in three sites, or 0.1% of the total, is it over 50%.

ρ max	no. of sites
0÷10%	1853
10÷20%	735
20÷30%	44
30÷40%	13
40÷50%	7
>50%	3

Specific TIM activities

Telecom Italia's mobile telephone company takes specific measures to ensure a good quality service in full compliance with current legislation; it is worth noting that TIM has simulation software instruments for planning and scaling antennae that are frequently updated. TIM also takes regular measurements of electromagnetic emissions to check that they are within the legal limits. The supervision of electromagnetic fields can be divided into the following two categories:

- work involved in the measurement, preparation of technical reports with planimetric maps and the documentation needed to verify the Base Radio Station's compliance with the regulations;
- drawing up of monitoring plans with local authorities and making available the resources needed to carry out monitoring themselves.

One of the research projects TIM commissioned from CSELT is on "Biological Effects", the scope of which is to carry out theoretical (simulations) and experimental (using dummies to measure

radiation effects) research on the biological effect on humans of electromagnetic fields created by radiomobile terminals/handsets.

OTHER ACTIVITIES

Technology with low environmental and social impact

The infrastructure for the organisation and distribution of any service, and therefore the excavation work necessary for laying and repairing cables/ducts, is created has a significant social and environmental impact.

Light no-dig technology: Telecom Italia has invested heavily in **no-dig** technologies (guided horizontal boring techniques for laying cables without digging trenches) and developed the **light no-dig** technique (laying two or three single pipelines with a diameter of 40 mm), which has significantly reduced costs.

It has proved particularly valuable in urban settings and at the intersections of roads, waterways and railways where traditional digging methods can seriously disrupt road and pedestrian traffic.

Micro-trenching: which was developed in 1998, is used for laying fibre-optic cables in grooves in the road surface. They are barely 1-1.5 centimetres wide and 7-10 centimetres deep. The main advantages of microtrenching are: speed of execution, less disruption of traffic, it costs less than traditional methods, low environmental impact (digging) and reduced social costs.

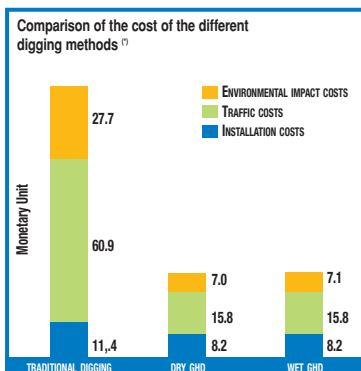


Mini-trenching is another direct cabling system used when two to three ducts have to be laid. The width of the mini-trench varies between 5 and 10 centimetres, and it is 30 centimetres deep. The advantages are similar to micro-trenching. About 10 kilometres of fibre-optic cable and approximately 3 km of copper cable were laid using this method in 2000.

Studies carried out jointly by Telecom Italia and CSELT highlighted the advantages of non-invasive digging techniques. The comparison of dry and wet guided horizontal drilling (GHD) with traditional digging methods was based on the results of a life-cycle assessment (LCA) analysis, the environmental impact of which was then monetised using the environmental priority strategies (EPS) method.

MEASURING THE ACOUSTIC POLLUTION PRODUCED BY THE INSTALLATIONS

In June 2000, Network operations of the Wireline Services Business Unit instructed its national installations to proceed with the acoustic mapping of those centres where noise levels are a problem. By the end of 2000 47% of installations (629 out of 1,345) had been monitored. The mapping will be completed in 2001.



(*) The sum of the costs for traditional digging methods was set at 100 (using an arbitrary monetary unit). The costs of the other methods were calculated against this base figure.

ENVIRONMENTAL AUDITING AND SAFETY

Telecom Italia continued to tackle environment issues and safety at work by carrying out audits in some sections of the Wireline Services Business Unit.

Two reviews of environmental impact factors were carried out concerning: the management of special categories of waste (accumulators, telephone exchanges, pinewood telegraph poles, diathermic oil transformers) produced in the workplace, as well as sound emissions generated by air-conditioning plant and auxiliary energy producing plant installed in the company's buildings. The reviews were carried out by certified auditors listed in the environmental auditors' register. The training of environmental auditors is something the Company attaches great importance to and is keen to continue investing in.

Two safety audits were also carried out. They concerned the implementation of the process of accident prevention and health and hygiene at work, with special reference to specific high-risk factors and in particular to work in: high places, underground sites where endogenous gases may be present, and telecommunications installations equipped with transmitting antennae, and therefore emitting electromagnetic fields. In all the audit took about 120 working days spread over two semesters. The audited installations were able to improve their internal control system by raising awareness



of the obligations linked to environmental impact factors, and ensure better protection of workers and awareness of risks in the workplace following the revision, at centralised level, of internal regulations.

ENGINE GENERATORS

About 700 million lire were spent on acoustic adjustments and the same amount was spent on legally required adaptations.

MONITORING TANKS FOR FUEL STORAGE

The Wireline Services Business Unit gave instructions to go ahead with the survey of the tanks where fuel for the engine generators is stored. The data gathered will be used to plan future operations such as adjustments, removal from service, and replacement of the tanks.

With regard to energy saving, 99 oil-burning boilers were converted to more efficient gas boilers.

PURCHASING AND SPECIFICATION PROCESSES

Telecom Italia drafted an environmental management system in the second half of the nineties detailing the company's methods and policies concerning environmental protection and sustainable development; a new version of the **“Environmental requirements in the technical specification of products”** was drawn up in 1999 to integrate environmental requirements into all the specifications of the transport and access systems.

In particular, with regard to the technical specifications of products, Telecom Italia has undertaken to:

- support research in technologies designed to minimise the environmental impact;
 - make the re-utilisation and recycling, where possible, of materials and products a requirement;
 - adopt purchasing policies that take environmental problems into consideration, adding words to this effect to the technical specifications.
- The technical specifications are therefore drawn up in accordance with current legislation and environmental regulations at both national and European levels (e.g. the ISO 64 Guide and the IEC 109 Guide) introducing ecologically compatible criteria that also covers the disposal/recycling of products at the end of their useful lives.



In the purchasing process the technical score assigned to products during tenders usually favours the ones with the highest level of eco-compatibility.

Furthermore, in the case of products containing hazardous materials suppliers are required to submit the **safety data sheet** before the contract is signed, in accordance with decree law 52/97.

The safety data sheet contains all the information on the risks associated with the use of the products, materials and substances adopted within the Company. Finally, in line with problems encountered last year, Telecom Italia has continued to monitor the life cycle of products (design, production, use and end of useful life) in order to reduce the environmental impact of the products it uses.

In the course of the year sections on environmental issues (impact, recycling, disposal or end-of-life options, eco-design and energy saving) were added to all the technical specifications drawn up by the Wireline Services.

For example, suppliers are asked to provide engine generators that emit **low levels of atmospheric pollutants**, and to supply the appropriate certification with the equipment.

Noise levels are also specified: suppliers are asked to supply engine generators (Diesel) **with low-acoustic impact**.

CONSUMPTION OF PAPER FOR TELEPHONE DIRECTORIES

Regarding industrial use, that is, the paper used by SEAT to print telephone directories and Yellow Pages, the requirement in 2000 was 74,300 tonnes (0.6% less than last year) of which 30% with recycled fibre.

About 31 million **telephone directories** were produced by SEAT in 2000. About 27 million were distributed and 25 million were recovered to give an 80% recovery rate.

SEAT distributed directly 22 million copies of the Yellow Pages, while 64% of last year's directories were recycled.

On the Internet pages of SEAT and Telecom Italia search engines have already been set up to provide the public with information about telephone subscribers and to more easily trace business numbers.

As the Internet becomes more established throughout the country, its more widespread use should help to reduce the volume of paper used in publishing directories.



LEGAL DISPUTES

There are three civil cases pending against Telecom Italia regarding town planning and telephone occupation/utilisation: one of the claimants is the SURIA condominium, the dispute concerns the building of a Telecom exchange in Frosinone. The condominium claims the regulatory distance between the buildings has not been respected. In the second case a private individual has claimed damages for the noise created by the cooling plants in our Belle Arti exchange in Rome (to which has been added a case against TIM for electromagnetic pollution produced by its antennae). Finally, the IMEF case regards damages for expropriation of an area already expropriated by the state-owned telephone services.

Five legal actions were started against TIM for acoustic pollution created by its installations of which 2 are in progress, 2 found in favour of TIM, one found against; and 24 actions were started for electromagnetic emissions, of which 15 are in progress and 9 have had favourable outcomes.

CSELT MEASURES TO SAFEGUARD THE ENVIRONMENT

In September 2000 CSELT launched its Environmental Management System, in accordance with the UNI EN ISO 14001 standard.

The system, which was developed by an internal working group, took two years to complete. It received its DNV certification at the beginning of March 2001.

Through the Environmental Management System, CSELT has affirmed its strong commitment to managing its own activities with respect for the environment and has laid the foundation for future improvements. First among these is the integration between environmental management and safety management, according to the OHSAS 18001 standard, which has already been partially implemented. With regard to on-going safety training, an internal seminar for managers and those in charge (according to Legislative Decree 626/94) in which the regulatory aspects, responsibilities, role of the ASL (the local health service) and safety management were discussed with regard to the above regulation.



THE TELESPAZIO INITIATIVES

The growing interest in environmental protection issues has lead Telespazio to become involved on several fronts.

- The increase in the number of eco-diesel vehicles in its fleet.
- The adoption of reusable cartridges for its printers in close to 100% of cases.
- Paper consumption that amounts to 12,480 reams per year, but is destined to diminish drastically in light of the policy to gradually eliminate local printers.
- The many measuring surveys carried out in workplaces and both inside and outside the antennae to monitor the EMF level, have consistently recorded levels well below the legal limits.
- The inspections by the Rome ASL to check that the Legislative Decree 626/94 is being properly applied, have given wholly positive reports.

Telespazio contributed to the organisation of the ASITA exhibition on the Observation of the Earth and to the Fourth National Conference on the Environment.

Of particular relevance to safeguarding the environment is the vast range of services provided by Telespazio, in particular:

- regarding the V-SAT network, the successful testing of the SARC system, built for the Ministry of Internal Affairs to monitor the Salerno-Reggio Calabria motorway, is worthy of note. The system has strong development potential,

in terms of the services it could provide to the rest of the country.

- The contract it has won from NASA for the preliminary design of FIRES (a fire early-warning system) is of prime importance.

- The conclusion of the design phase of CosmoSkymed, the Italian Space Agency's (ASI) main project, in which Telespazio's specific task concerns the whole earth segment. The aim is to create the first Earth Observation System for civil and military applications, based on a constellation of satellites equipped to send back high-resolution data (detail discrimination down to one metre) in all lighting conditions.

- Support for local authorities from the Service Centre, the services of which include environmental monitoring, emergency management and, more generally, assistance for Civil Defence (provinces of Aquila, Ancona and the Abruzzo region).

- Monitoring landslides using GPS technology that can be an alternative and/or complementary to traditional monitoring instruments, as well as applications based on differential SAR interferometry, particularly useful technology for measuring the level in centimetres of earth movements especially in urban settings and where there is a risk of a landslide.

- Finally, Space Systems and Services where research and development have continued under the ASI programmes for new standard platforms; at the same time there has been a move towards the study of complete systems for innovative missions, such as locating the site of fires and the location of emergency calls.



CIVIL PROTECTION AND DEFENCE

The Telecom Italia Group has a long history of involvement through its people, communications and economic resources in the field of Crisis Management and in particular in the sector of Civil Protection and Defence, so making a valuable contribution in times of crisis in our country. Planning and prevention are fundamental concepts of the Crisis Management project developed by Telecom Italia. In particular the Civil Protection and Defence emergency plan outlines the extraordinary organisational measures to be integrated with the normal organisation for the duration of an emergency. It describes the procedures, drawn up in the course of the year, that are required to make it operational. It focuses on protecting and repairing the telecommunications networks as well as providing TLC support to institutional bodies. The “Crisis Groups” are mobilised, they work from interdisciplinary coordination centres equipped with advanced technology and in contact with the national crisis units (EMERCOM) and the units within the company.

The centres are equipped with an information system called CI.PRO to aid the decision-making process. The CI.PRO system comprises a centralised database that can be networked to make available maps of areas at risk: seismic, volcanic eruption, hydrogeological, nuclear, industrial-chemical. It also provides information on the location of the resources needed to deal with the different kinds of emergency.

During the year CI.PRO’s architecture was revised to increase its functions. Two aspects peculiar to it are: a more advanced technological profile, in accordance with the modern Internet configuration, that makes it easier to use and improves its capacity; and a more efficient structural profile that transforms the support instrument into a valuable aid to taking preventive measures. Indeed there is increasing awareness at Telecom of the importance of prevention. Take the example of the Vesuvius emergency plan, which adopted this approach drawing up a series of technical-organisational safety measures and alternative technical measures to avoid telephone blackouts in the case of an emergency and ensure the rapid repair of the service, thus enabling the rescue services to carry out their work.

The worth of the organisational model outlined in the emergency Civil Protection and Defence plan and its related procedures was once again proved during the emergency in October 2000 in Piedmont and Valle d’Aosta where members of the Turin “Crisis Groups” and a Telecom team at the national crisis unit (EMERCOM) worked for a week.

Badly damaged by the flood, the transmission network was promptly repaired, in some cases using alternative routes that are kept for emergencies of this kind. It was also possible to supply all the services the authorities (the Civil Protection department, prefectures, town councils, firemen etc.) asked for in a very short space of time.



Indeed the Civil Protection department and the ministry for internal affairs publicly said so in official communications to the top managers of the Company, and once again there was general satisfaction for the help given.

The top priority does, however, remain the development of the right approach to emergency management both within and outside the company. Specific courses and special training sessions were carried out in the principal Italian cities for members of the "Crisis Groups". Campaigns to inform the public also continued. For example, instructions on what to do in the event of an earthquake were published at the front of the telephone directory; advice on what to do during and after an earthquake was printed on telephone cards.



The bigger companies in the Group spent 5,000 hours on safety-at-work training.

Since 2000, and in accordance with Legislative Decree 626, TIM has provided all new staff with a CD-Rom containing information on health and safety.

HEALTH AND SAFETY IN THE WORKPLACE

Health and safety training given in 2000 by the staff of Telecom Italia's Prevention, Protection and Environment Service can be broken down as follows:

- Number of staff members who received training: 8,033
- Number of classroom hours: 27,451

The main subjects covered were:

- Legislative Decree 626/94 and related legislation;
- risk assessment;
- safety regulations;
- environment and safety procedures;
- emergency management plans.

The total of **163** inspections were carried out in 2000 by supervisory bodies (ASL, VVFF, etc. - local health service, fire service); 117 inspections of manned installations and 46 of unmanned stations.

A total of **1,318** medical checks of staff working at video terminals were carried out by appropriately qualified doctors with the cooperation of the national Prevention and Protection Service.



Accidents in Telecom Italia S.p.A. 1990-2000						
Year (*)	Number of accidents	Seriousness index	Frequency index	Accidents per 100 employees	Average duration of incapacity	Non-productivity index
1990	2,934		20.3	3.5	123.8	2.5
1991	2,894		19.7	3.3	129.0	2.5
1992	2,551		17.1	2.9	134.7	2.3
1993	2,239		15.2	2.6	130.7	2.0
1994	1,949		12.0	2.0	124.9	1.5
1995	1,661		10.8	1.8	115.4	1.2
1996	1,552	0.55	10.5	1.8	125.7	1.3
1997	1,529	0.43	11.0	1.8	122.37	1.3
1998	1,371	0.43	10.3	1.7	125.7	1.3
1999	1,373	0.40	10.8	1.8	139.86	1.5
2000	1,121	0.78	12.8	2.1	141.6	1.8

The number of accidents in the decade 1990-2000 diminished by 62%.

(*) SIP data until 1993.

(*) Since 1996 the index of seriousness has been calculated according to UNI 7249-December 95, and is not therefore comparable with the years prior to 96.

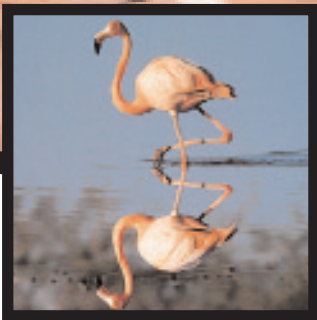
(*) Senior management are not included in these figures. Since 1998 accidents that occur while travelling outside working hours are no longer taken into consideration.

	No. accidents	No. accidents per 100 workers
TIM	135	1.43
Finsiel	31	1.07
Telesoft	0	0
Seat-Tin.it	22	1.5
Cselt	4	0.35
Telespazio	9	0.89
Saritel	2	0.4

As part of its **Safety Plan**, Telecom Italia has launched a modification programme for all its Italian premises to bring it into line with current safety legislation (the removal of structural obstacles, the addition of bathroom facilities for the handicapped, the elimination of asbestos, the construction of emergency exits, etc.).

A selection of eight graphic designs on a natural theme have been produced for a series of public phone cards. The series, which will appear on seven million cards, illustrates some of the finest seashells and is called appropriately "Jewels of the Sea".

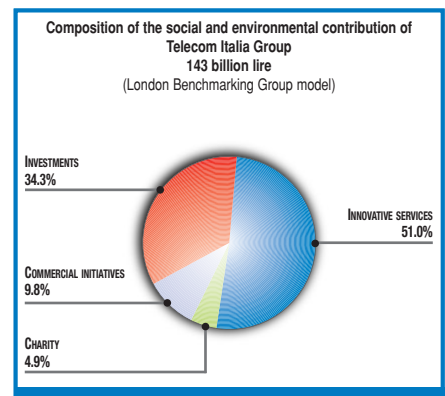
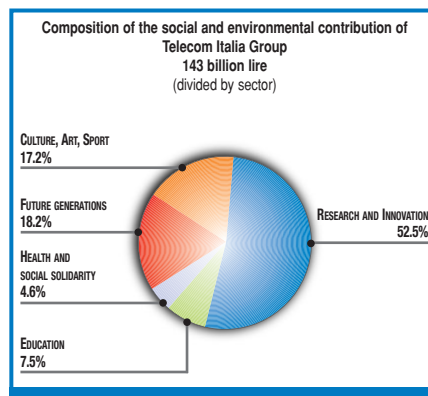
The Telecom Italia Group has made donations to environmental causes and associations working in the field of safety.



THE COMMUNITY

This chapter looks at the Community as stakeholder and the Telecom Italia Group's principal undertakings in the fields of research, education, health and social solidarity, culture, art and sport.

The contribution of the Telecom Italia Group to the Community and Future Generations stakeholders was 143 billion lire (*) in 2000 (in the previous year it was 141 billion lire), equal to 1% of the operating profit of the Group, made up as follows:



(*) Operational data

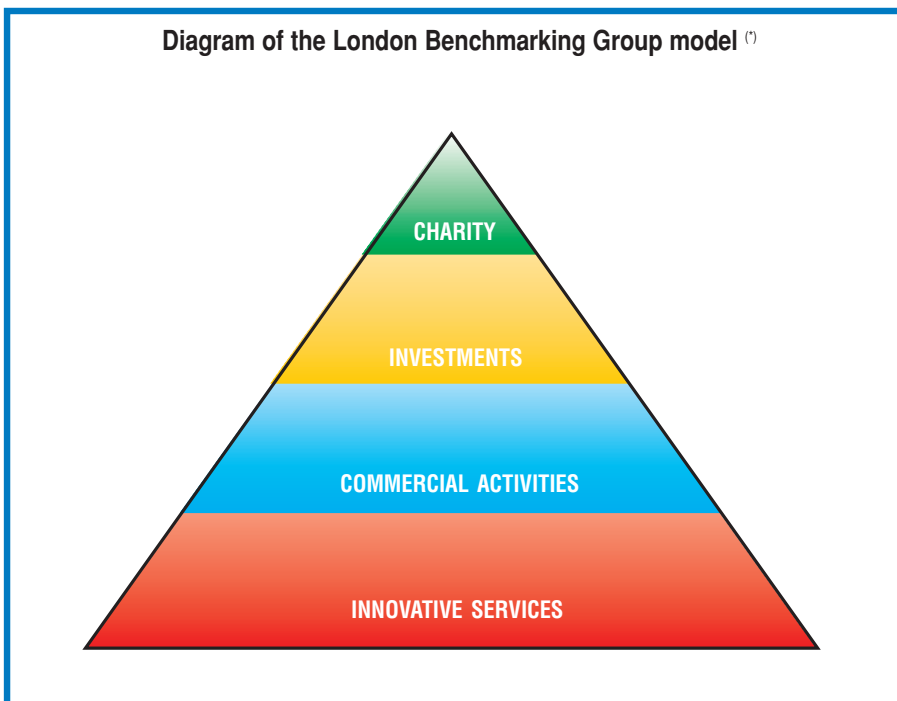


The reclassification of this contribution according to the London Benchmarking Group model may be estimated as follows:

CHARITY	7 billion
INVESTMENTS	49 billion
COMMERCIAL INITIATIVES	14 billion
INNOVATIVE SERVICES	73 billion

It is not easy to classify the various socially and environmentally significant activities of the business using the four categories proposed by the London Benchmarking Group model, since a single intervention may have effects in more than one different category.

The economic value determined for such activities is an estimate, since they are recorded in aggregate balance sheet items such as “use of external materials and services”, “investments in tangible and intangible assets”, “staff costs”, etc. Nonetheless, it was thought worthwhile to make a partial quantitative estimate of the cost of these activities, since this figure is included in the data relating to the reclassification of the balance.



(*) The London Benchmarking Group was established in 1994, is composed of 18 large international companies and currently represents the European reference point for measuring good business practice. (Cf. Pre-publication “Getting to measure”, May, 2000)

The pyramid diagram reflects the difficulties of measuring the benefits and business returns arising from the various activities. The return can easily be measured at the base of the pyramid since it is connected to the core business. At the apex, donations are strictly linked to the Group’s sense of social and moral responsibility.



RESEARCH AND INNOVATION

▶▶ Projects jointly financed by MURST

Telecom Italia Lab has recently launched two highly innovative projects concerning the digital city and data services of the future, which commenced in 2000 and were approved by the Ministry of Universities and Scientific Research at the beginning of 2001.

In terms of services both on the Internet and on mobile networks, public utility services were identified, including those for the disabled and older people, for schools and for residential customers in general. On the other hand, technological solutions for associations, businesses, especially small and medium-sized ones, were considered. “Virtual Multimedia Communities” is a particularly innovative idea. These are groups of people with shared interests in specific matters that are discussed on a network with a high degree of interactivity. On a technological level, the most innovative solutions involve voice interaction, encryption and data security and intelligent information-oriented searching.

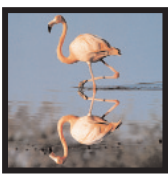
These projects have launched Telecom Italia into a new cycle of investments aimed at creating a positive synergy between basic research, applied research and business development.

The motivation is the desire to increase the Group’s leadership, through Telecom Italia Lab, in innovation in the field of ICT.

With a view to the continued improvement of the services offered to its customers, Telecom Italia Wireline Services has used the services of the CSELT study centre to develop new services for residential customers, to examine new anti-fraud questions, to develop an automatic directory enquiries service, to examine the definition of and questions related to the creation of an e-care portal accessible from the Telecom Italia site and also to support strategic marketing.

Telecom Italia has also supported TLC conferences and events such as the “Sportello Integrato Catania”, Piazza Italia SMAU, “from e-business to business”, etc.

As always, CSELT has put considerable effort into making the public aware of the possibilities that are being opened up by the new telecommunications and multimedia technologies, at such high-profile events as the Innovation Horizon exhibition at the SMAU in Milan and the Turin Book Fair, where it demonstrated technologies and applications based on the latest research results. In the scientific publishing field, it has edited the journal “Rapporti Tecnici CSELT”, distributed without charge to more than 100 universities and research centres in Italy and world-wide. It has also published two technical books aimed at universities. The one on the principles of UMTS and its services, the third generation mobile technologies, has been presented in numerous schools and universities in Italy and has sold over 4,500 copies.



Telecom Italia Lab participates in the Digital Life Consortium of MIT MediaLab in Boston, which provides a panorama of the research activities of MediaLab itself and allows the use of its results without payment of copyright fees.



On the subject of mobile communications in the future, an interactive CD has been designed and produced which presents a series of examples of applications of UMTS services for wireless multimedia communications, inserted in the CD entitled “XXI Secolo” (21st century) produced and distributed by the newspaper “Corriere della Sera” at the SMAU fair.

CSELT has also organised important economic-social and technical-scientific conferences (“The metamorphosis of communications”, “Networking the memory of knowledge”, “Towards a net economy: the role of the information provider”, also available on-line) and produced popular informative publications aimed at making an ICT culture available to ever wider sectors of the community.

Community relations took the form of frequent meetings to discuss and develop themes of joint interest, and initiatives to increase awareness of the local or regional cultural and business environment, through the implementation of regional studies (SME). Technology Review (Italian edition), partly based on the MIT publication of the same name, has continued to fulfill a fundamental role in the Italian technical and scientific world as a meeting point and debating arena for advanced ideas on research and technical innovation.

The CSELT library, the most important in Italy in the field of ICT, has been the usual reference point

for academic users requiring access to complete and up-to-date information in the most advanced sectors of telecommunications.

TIM has used CSELT to carry out research and development activities. The most significant projects developed, in terms of innovation in the services provided, have been the following:

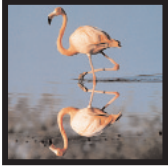
- New Intelligent Network services
- The UMTS system
- VAS platforms on the GSM network
- New data services for GSM
- Innovative services and terminals for mobile applications
- Voice messaging services
- Special mobile services.

TIM has also supported various conferences including “Wireless Forum”, “Wireless 2003” and “Business TLC networks”.

It has commissioned a study of “The Internet and Consumerism” and publicised various value added services such as Bancomat, Telechek-in, Tim Taxi etc.

INSIEL (Finsiel Group) supported a meeting at the Consorzio per l’Area di Ricerca di Trieste (“Gateway to an Information Society”) and sponsored a CD-ROM on the history of the Municipality of Codroipo.

BANKSIEL (Finsiel Group) has contributed to a study commissioned from the NewFin company of Milan’s Bocconi University on “E-Finance and E-Commerce – Banks and new competitors”.



In September 2000, Telecom Italia launched the Marketing Brain Exchange prize, an initiative aimed at universities which has allowed a group of students to try out life at Telecom. The students were in contact with the marketing managers of TIWS for one week, participating in a business game and developing a marketing project. At the end of this, nine of them were selected for a six-month internship in the company with accompanying scholarships.

VENIS (Finsiel Group) has sponsored “Settimana Web”, an event organised in Venice to promote Internet use, and the international conference Tele Region Network, held in Venice on the subject of ICT in Europe.

SODALIA is part of the Steering Committee of the regional division (“Trans-Alpine Chapter”) of the “Society for Technical Communication”, bringing conferences on technical communications to Italy for the first time, establishing the first group of technical editors working in Italy and hosting the third meeting of the Trans-Alpine Chapter. It is a member of the European Union’s IST programme, which develops projects (Angelo and Cadenus) aimed at producing innovative technologies for the automation of the work in a call centre and developing innovative methods for managing Service Level Agreements in “Premium IP” networks. As a member of the TeleManagement Forum, Sodalìa participates in the business process modelling groups (SLA Handbook, Integrated Customer Care Projects) and has also participated in the Catalyst Projects (projects aimed at developing innovative multi-vendor

solutions), “Plug and Play IP VPN Management” and “Plug and Play IP Service Management”, presented at TeleManagement World in Chicago. Sodalìa also participates in the Object Management Group (a body whose aim is setting standards for the ICT sector). It participates in the work of the validation groups for the new ISO standards (ISO 9001 and VISION 2000) on the definition of quality management systems.

The SCUOLA SUPERIORE G. REISS ROMOLI has provided services within the SkillPass project, run by Sviluppo Italia, designing and producing on-line training for three technical-managerial posts in the Net Economy, E-commerce Project Manager, Internet Marketing Manager and Change Manager.

The Telecom Italia Group has made donations to associations with scientific and innovation technology research activities.

EDUCATION

►► Scholarships

Around 100 scholarships have been awarded by Telecom Italia Group to undergraduate and post-graduate students, including:

- 35 to the Consorzio Elis to assist deserving young people to attend two-year, residential, post-graduate training courses to become Communications Managers and Advanced Multimedia Technicians.



Telecom Italia/University Project

Co-operation with the academic world, now consolidated over time, aims at initiating a rich exchange between Universities and the Businesses, in relation to opportunities for professional entry.

These activities are covered by the agreements, entered into with the main Italian universities (around 20), and specifically with the Electronic Engineering and Economics faculties and, in recent years, also with the principal post-graduate Management Schools and post-graduate Institutes.



- 40 awarded by TIM (Fellowship Programme) to undergraduates and post-graduates from various universities and institutes in Italy.

▶▶ **Summer schools and internships**

- The **summer schools** at the Scuola Superiore Guglielmo Reiss Romoli for undergraduates in Electronic Engineering, Information Science and TLC and in Business and Economics involved 50 undergraduates from across Italy. The participants take part in a simulation project related to “The economic evaluation of alternative technologies: the case of a TLC operator who is sent to a foreign country”, and produce a business plan for three different countries, including a technical project for the construction of the most economical TLC network.

- Generally in the final phase, the Master of Business Administration courses involve carrying out **project work** in companies. Particularly significant is the one organised for the Masters course at the LUISS University. This year, the participants took part in a work project in the field of finance.

- Telecom Italia hosted 50 undergraduates and post-graduates in its own facilities (some of the interns received a fixed-sum refund of their expenses), allowing them to develop their skills within the company.

- SODALIA gave 3 people a work experience opportunity and support with the writing of their degree theses.

Telecom Italia Wireline Services promoted the use of ADSL/Internet connectivity by means of scholarships, internships and multimedia workshops and organised conferences on the development of TLC in SMEs.

Telecom Italia has had a productive relationship with the Sacro Cuore Catholic University of Milan for some time, and organises telecommunications studies weeks, the twelfth of which has now been held. Twenty-five Business and Economics undergraduates were given the opportunity to gain direct knowledge of a business environment and to acquire useful professional skills and knowledge by working alongside experienced Telecom staff members.

In 2000, Telecom Italia also participated in the event known as **Task**, organised by Il Sole 24 Ore, which offers new graduates a view of possible careers and means of entering the world of work, providing them with the working tools to guide their choices and to make informed evaluations of opportunities for professional growth.

Telecom Italia Lab participated in the MIT-Italia Programme, sponsored by the Council for Relations between Italy and the USA, the objective of which is to encourage exchanges between students of the two countries.

SEAT has pledged its support to the Fondazione IG Students for the project on training young people starting work.



During the course of 2000, CSELT hosted visits by secondary school pupils (about 600 over the 12 month period) as well as teachers and professors from various universities in Italy (Turin, Padua, Pisa etc). It also actively participated in the MURST initiatives promoted through the Science and Technology Week, when it organised a special event dedicated to schools. CSELT staff carried out 75 days of teaching at universities and other institutes.



TIM's fellowship programme has helped it to create an international network with universities, through the partnership agreements it is defining with a number of academic centres in Italy and abroad.

(To date there are 11 universities involved: Politecnico di Milano, Federico II in Naples, Palermo University, Cagliari University, Istituto St. Anna in Pisa, CERISDI in Palermo, ISUFI in Lecce, the Catholic University in Milan, Milan University, Tor Vergata in Rome and Roma 3 in Rome.) The agreements promote the training and professional growth of university students in the fields of the new economy, mobile business and ICT. (Around 800,000 students are involved in the initiatives.) The web site www.timfellowship.it was designed as an integrated means of communication between the company, the universities participating in the network and the university students, to create a virtual community (with distance learning courses, bulletin boards, chat rooms and an e-library covering topics related to the new economy and mobile business).

The SCUOLA SUPERIORE G. REISS ROMOLI has provided courses within the Euroteam project, in which the major European TLC providers participate, aimed at promoting an international vision of the reference scenarios among management. It has also worked with the universities of Rome and Aquila on internships, theses and work experience activities.

SODALIA has begun programmes of co-operation with the University of Trent aimed at promoting business development methodology in the region and at the joint development of software products in the field of the research (tool for the calculation of software metrics). In December 2000, an agreement was signed with the University of Trent to carry out innovative applications research. There have been further initial contacts with the universities of Naples and Catalunya to use the experience of the company in case studies.

▶▶ Interaction Design Institute

The Institute, promoted by Telecom Italia and Olivetti who have undertaken to guarantee financial cover for the initiative, will be a post-university school where it will be possible to develop technical and cultural knowledge in the communications sector and receive training in management and entrepreneurial initiative. An integral part of the project will be the creation of a research laboratory which will host talented young people with different academic experiences, with the aim of creating the proper mix of design and technology.

▶▶ Initiatives for schools

For more than three years, creating an innovative training system, suitable for technologically advanced communications systems and for the new challenges of the information society, has been the objective pursued by **Webscuola.it** a service of Tin.it (now SEAT Pagine Gialle), set up in 1997 in collaboration with the Ministry for Education.



Only through specific ventures and dedicated operations is it possible to promote development of the information society and the digital economy, helping to reduce the deficit of professionals which, in the absence of specific education-based measures, is forecast to exceed 1.5 million in 2002 according to an accredited Europe-wide survey. As a result of a new agreement signed with the Public Education Ministry in January 2001, in addition to its consolidated on-line teaching activities, Webscuola.it is now offering schools advanced e-learning and specialised Internet service solutions such as safe navigation incorporating the filtering out of unsuitable content, fast Internet access using “ADSL 640” and “Easy SelfSite Plus”, a personalised development environment for straightforward school site development. The Webscuola.it portal offers dedicated content and services specifically designed for schools through two sections, **Aulaperta** (the site for classes) and **Professione Scuola** (the site for teachers). **Aulaperta** is dedicated to interactive class activities. During lesson time, under the guidance of class teachers, students can access multimedia teaching resources developed in collaboration with the site’s editorial partners, for whom Webscuola is an innovative and fast-track channel for efficiently reaching students and teachers. The bi-monthly workshops and the extremely full calendar of on-line events, moderated by Webscuola community experts and realised in collaboration with the site editorial

partners, provide the core to these activities: interaction, dialogue and communication are the key features of this innovative approach to teaching and learning.

Professione Scuola is the section of the site targeted at meeting the needs of people who work in schools, whether they be teachers or administrators: it combines a specialist news and information service with distance seminars, forums and other tools to help make the most of the Internet. Its goal is to facilitate classroom learning activities for these important workers, to help them hone their teaching skills and school managerial abilities.

Every year Webscuola also holds a competition open to every school in Italy, to stimulate output of multimedia content and to promote experimentation with the new teaching possibilities opened up by the Internet. The prizes on offer are donated by well-known education and high-tech companies, for whom working with Webscuola is a way of helping to promote diffusion of the technical and cultural skills that have become indispensable to modern-day living.

TIM has conducted a number of ventures targeted at schools and the labour market. Conferences include: “TLC and Information Theory - Università degli studi di Calabria”; Confartigianato; Confindustria; the National Telecommunications Conference; and “Capital Markets in the Age of the Euro”. The company was also involved in the Franchising Fair, and paid for press advertising in periodicals for a

Webscuola in figures ^(*)	
30,000	students involved
2,200	teachers registered at the site
970	classes registered at the site
30,000	daily page views
Current partnerships: EF Education, Hewlett-Packard Italia, Editori Riuniti, Fratelli Alinari, Hochfeiler, Eufic, Bonsaka, Laboratorio di Tecnologie Audiovisive, Cliomedia, Officina.	

(*) data updated to 28 February 2001



campaign to promote careers for young people (Ateneo per Azienda) and to help people prepare for and succeed at job interviews (Operazione Mercurius).

FINSIEL organised and managed “Campus in Fabula”, a training course for “people working in cultural and environmental tourism”, financed by the ESF (European Social Fund, paid for and administered by the Ministry of Employment) Youthstart programme and sponsored by the Rome municipal council social policies office.

The 900 hour course was targeted at 50 boys and girls of between 14 and 19 years of age whose school performance had been below standard and were at risk of social exclusion. The course began in November 1998 and ended in May 2000. Those taking part attended classroom lessons (around 700 hours) and went on a three month work experience placement (between December 1999 and April 2000) at companies in the accommodation/tourism industry.

INSIEL (Finsiel Group) not only contributed its own teachers to the IRRSAE-MCE committee for the regional “Schools On-line” project, the company also held courses for students of middle and high schools on Internet technologies (12 hours) and on-line services for citizens (12 hours); it arranged school visits to the company premises (20 hours), provided planning and training consultancy to teachers to build web sites and associated services (28 hours), offered web site hosting for schools in the Friuli Venezia

Giulia region on the Insiel network (60 hours), set up and administered a multimedia lab at the Pordenone university consortium (60 hours), offered computer literacy courses for the audiovisual and multimedia technicians university diploma at the University of Udine (80 hours) and computer and territorial design courses for the territorial policies university diploma at the University of Trieste (60 hours). The company opened a new information technology workshop at the Area Science Park (12 hours), and ran conferences on new careers in computers, multimedia and telecommunications for students at high schools and universities. The company also assisted AIESEC for a conference organised at Trieste University, and designed and assisted on the publication of ten lessons regarding Internet technology and HTML programming for the “Il Piccolo” newspaper.

TELESOFT provided support to careers orientation ventures promoted by Italian universities and by university-based companies.

▶▶ Work opportunities

TIM’s commitment to a human resources development approach that focuses on people and covers not just the working environment but society at large is evident in its efforts to bring **in young employees (around 5,000 under 30-year-olds over the last three years)**.

During 2000 SEAT hired 25 young graduates for their first jobs, of whom eight had worked as interns, representing 32% of total new hirings.



In 2000 SARITEL took on 49 young school leavers and 24 university graduates for a total of 73 people, an increase of 58% on 1999.

The Telecom Italia Group has contributed funding to associations and University Institutes whose focus is on job training and job creation.

HEALTH AND SOCIAL SOLIDARITY

As part of its social solidarity activities, Telecom Italia S.p.A. includes a number of **Blood Donor Groups**. These people have distinguished themselves by helping fellow employees and their families who require blood or blood products. These Groups exist in a number of different company areas, and belong to a variety of associations (Italian Red Cross, AVIS, etc); their efforts are of particular importance in Southern Italy where there is a shortage of blood derivatives.

TELESOFT has encouraged and supported a group of 62 employee blood donors by organizing a blood donation facility.

Telecom Italia Wireline Services has conducted two advertising campaigns for the benefit of society: **“Charity 12”** in August (when the 12 information service undertook assistance and support for the elderly in the cities of Milan and Naples) and a campaign **against the exploitation of prostitution** (by setting up a free-phone number for requests for help) in collaboration with the Italian Prime Minister’s office.

Through **Ginestra Project** TIM has prepared the ground to create job opportunities for inmates organised into co-operatives at a number of correctional facilities.

The goal is to promote the acquisition of useful work experience and, in the process, provide a concrete component for the re-educational aspect of imprisonment, whereby work is viewed as a tool of social reintegration.

Under this venture a number of corporate activities have been outsourced to the “Out&Sider” cooperative at the San Vittore prison in Milan, where 15 inmates are currently employed, and to the “E-team” cooperative at Rebibbia in Rome, where 12 inmates are currently employed. The work concerned is administrative in nature and TIM provides all the necessary equipment and, through the involvement of company managers, training courses for working inmates. Progetto Ginestra is already showing positive results: the two co-operatives are developing business acumen, acquiring skills and experience and making new contacts with public and private sector customers.



Thousands of young people took part in the Internet careers development programme, presented on the Telecom Italia corporate web site, which resulted in the hiring of 500 new employees by various Group companies. Candidates were invited to send in their CV to the web site.



FLASH 2001

- The Telecom Italia Group has entered an agreement with YouManCom S.p.A. (a company that operates in the voluntary sector, offering non-profit organisations marketing and communications services for fundraising) under which, via the “Multi-access Info12 Portal”, citizens may obtain information on the voluntary sector.
- TIM Peru launched a venture in support of Pèrez Aranibar paediatricians, donating a contribution of “10 soles” for each TIM Pack purchased by 8am on 15 February.



Thanks to the skills they have acquired, two inmates from the Milan cooperative have found jobs outside the prison.

TIM's **Arcobaleno Project**

(the "targeted and productive" placement of disabled workers in Customer Services, in implementation of law no. 68, 12 Mar. 1999) is up and running in Bologna, Padua, Bologna, Naples and Rome. Thus far 54 disabled people have found work, with more joining the company through the rest of the year. The new employees follow a precise method of insertion, which combines targeted and customised training based upon the specific characteristics of each disability, alongside a process of raising awareness amongst co-workers and the managers who will be overseeing these employees.

Use of existing structures and the input of a specialist consulting company makes it possible to offer ongoing support to the corporate function where these new employees have started working. Monitoring undertaken thus far shows not just a high degree of job satisfaction among the new workers, but also a general enrichment of corporate know-how thanks to the development of problem-solving abilities that relations with disabled workers have stimulated among a number of members of staff.

TIM has offered its support to conferences on "Electromagnetism", "Telemedicine", "Organised Crime" (UN Conference) and to initiatives including "a benefit dinner for Kenyan children" (AICOS),

"The City of Children" (Palazzo Isimbardi in Milan), "Convivio" (a benefit for Anlaids), "Sconcerto" (100 lire for solidarity) and the "Marconi Foundation Prize".

SEAT has made donations to the La Stampa - Specchio dei Tempi Foundation, set up to aid people affected by the October 2000 floods, and to the Bambino Gesù Paediatric Hospital for the purchase of a FACS machine, which is of prime importance in conducting scientific research necessary for diagnosis and research into diseases ranging from immunology to haematology, in addition to research into organ transplant rejection.

To mark the **Telefono Azzurro** fundraising day (25-26 April 2000, 25,000 lire or a donation of choice in exchange for a blue hydrangea, as a sign of support for the project) Tin.it (which was incorporated into Seat Pagine Gialle on 15 November 2000) produced 100,000 CD-ROMs at its own expense containing complete Telefono Azzurro documentation and a free Clubnet Internet subscription (the design was undertaken by Telefono Azzurro). Visitors to the Tin.it and Telefono Azzurro homepages (www.azzurro.it, where the promotion continues) could sign up on-line to Tin.it. The 100,000 CDs were distributed by volunteers in 2,000 squares across Italy. Tin.it donated 5,000 lire to Telefono Azzurro for every CD or on-line subscription taken out. As there were around 2,000 activations, Tin.it donated 10 million lire to Telefono Azzurro.



In celebration of UN Week (late October 2000) Tin.it produced 10,000 CD-ROMs in collaboration with Skysset.

The design was the work of UN Italy in partnership with the Senate and Chamber of Deputies. Two thousand CDs were distributed to all of Italy's members of parliament following the press conference given by the Italian secretary-general Staffan De Mistura at Palazzo Giustiniani. The CD contains UN documents concerning the organisation's objectives, plus humanitarian content, in addition to a subscription to the free Clubnet Internet service.

TELESPAZIO set up a major V-SAT network on behalf of the World Food Program, linking 15 African Nations with the headquarters in Rome. Telespazio also won the commission to realise the Central and South American subnetwork. Building on its success, jointly with the Parent company Telespazio presented a bid to the call for tenders issued by FAO for a similar international network.

Significant development opportunities are expected to arise from a number of projects principally in the distance learning and telemedicine fields, jointly funded by the ESA and EU, for which work has begun on a multimedia platform. Telespazio contributed to the organisation of the international conference on "Telemedicine, Telecommunications and Health".

▶▶ Public Telephony

Two designs were commissioned for a total of 5 million phonecards, using images in support of social themes ("Don't play with fire" in collaboration with the Ministry of the Environment and "World Alzheimer's Day" with AIMA).

▶▶ Donation of Computer Equipment

INSIEL (Finsiel Group) has donated 77 personal computers and five printers to the Police, Carabinieri, Financial Police, various associations, schools and parishes.

TELESOFT has donated 227 personal computers to a number of schools in Italy.

The SCUOLA SUPERIORE G. REISS ROMOLI has given furnishings and furniture to charity organisations and non-profit making associations and has continued to support the activities of associations of disabled people by acquiring packaging and mailing services from them.

The Group has supplied funding to assistance and protection associations and foundations that look after the disadvantaged, undertaking quality of life improvement schemes and social solidarity initiatives (Nelson Mandela Children's Fund, "La Stampa-Specchio dei Tempi" for victims of the floods in Piedmont and Val d'Aosta, Médecins sans Frontières, UNICEF, Amnesty International etc). The Group has also supported a number of social solidarity and healthcare events, including a conference with the San Patignano Consorzio, and the "Casco" Project encouraging use of helmets by motorcyclists.



More and more of Italy's Armed Forces contingents posted outside Italy on peace missions are using communications supplied by Telespazio for their primary communications purposes. The latest linkup is with Eritrea, alongside existing connections with Bosnia, Kosovo and Albania.



CULTURE, ART, SPORT



The exceptional nature of the Jubilee event, and the remarkable social and religious impact the celebration has had around the world, saw Telecom Italia involved in a project that included not only the provision of dedicated technologically-advanced structures and services to the Holy See and to its Episcopal Nunciatures and Conferences around the world, but during the course of 2000 included the provision of services of public utility such as a Call Center providing information to pilgrims, an Internet site, and the provision of extra public telephony at Jubilee venues, with special infrastructure provided for Major Events.

► Jubilee Project

Call Center: the official telephone service (06/6802000) of the Year 2000 Grand Jubilee Central Committee at the service of pilgrims, providing exhaustive information on the Holy Year in Rome. Information was provided on the events scheduled for the Holy Year (35.3% of all calls), information regarding accommodation (12.1%), on the location of churches for Mass and Confession, and on reception facilities.

Information was provided in **five languages** (Italian, English, Spanish, French and German) through an automatic voice recognition system that functioned 24 hours a day or, where requests for information were more specific, through operators (available every day between 8 AM and 6 PM).

Web Site: the official website of the Year 2000 Grand Jubilee Central Committee (www.jubil2000.com) offering access to more than **80,000** pages available in **11 languages** (Italian, English, Spanish, French, German, Portuguese, Polish, Russian, Arab, Cantonese, Mandarin), prayers with the Holy Father, broadcasts of the Pope's voice, direct viewing of the

main events broadcast by the Vatican Television Centre, and access to Vatican Radio news on the Grand Jubilee. The site included a section on historical and spiritual topics from past Jubilees, Vatican Museum frescoes and "virtual" tours of the Roman catacombs and of the Vatican City State.

In Rome the Group set up a **public telephony** network comprising **132** low environmental impact **public telephones** in **high affluence areas** (tourist sites, reception structures, car parks and Major Event venues), with **61 terminals** installed in and around **Basilicas** (St Peters, Piazza Risorgimento, San Giovanni, Santa Croce in Gerusalemme, Santa Maria Maggiore, San Paolo, San Lorenzo and San Sebastiano), and along special **Jubilee routes**. Throughout the rest of Italy around **300 extra public telephones** were installed at sites most closely associated with the Jubilee (Assisi, Padua, Naples, Florence, Perugia, San Giovanni Rotondo).

Telecom Italia played a key role in two major events: the **Workers Jubilee** (1 May) and the **World Youth Day** (15-20 August). This consisted of setting up **52 public telephones** and **34 lines** (for the police forces and Civil Protection working at the unified Operations Room, the Holy See Organisation, TV and Media) for 1 May, and **97 public telephones** (external reception structures and emplacements), **407 ISDN lines** (for Organs of the State and companies working for the Holy See Organisation, for the Press,



TV and Media), **three mobile radio links**, a **Mobile Public Telephony Centre** (10 telephones plus fax and devices for the hard of hearing), as well as guaranteeing 24-hour on-site maintenance and backup for the World Youth Day.

The **Group corporate web site** is an example of a new Internet strategy designed to improve the standards of communication, image and service that the Group offers its customers on-line. Published in Italian and English and targeted at institutional users (members of the media, investors and financial analysts, public and private institutions) the site is the ideal place to go to find out anything and everything about the Group and its telecommunications, ICT, finance and the economy.

The objective is to provide clear, thorough and complete information on Telecom Italia Group operations, strategies and projects through the “media”, “shareholder” and “technology” channels.

In addition to information and content, the site offers on-line coverage of Group events, demonstrations and corporate initiatives.

In 2000 the Telecom Italia web site provided an Internet corollary to the images, content and themes of the advertising campaign created to communicate the Group image in the new symbolic universe of technology, innovation and the future.

For the SMAU trade fair a special multimedia area was set up offering web cam images of the event from Telecom Italia Group stands.

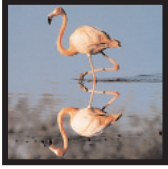
The site has also provided in-depth coverage of meetings with the financial community (Venice, New York and Florence) through a section reserved for economic and finance analysts and media representatives, who were able to follow speeches live through streaming, and at leisure look up materials and documentation added to the site in real-time.

From 19 October, when the Corporate web site went on-line, to 31 December 2000, total page views numbered around 11 million, with more than 1.5 million accesses to the www.telecomitalia.it homepage. The “media” channel received around 10,000 monthly hits, as did the “shareholders” channel; accesses to the “technology” channel exceeded 20,000.

The **Telecom Italia Historical Archive** was established through the merger of the archives belonging to STET and SIP. It brings together all the paper and image holdings produced by Italy’s telephone concession companies (SIP, STET, Stipel, Telve, Timo, Teti, Set and other smaller companies).

The documentation includes the company records of major hydroelectric companies dating back to the end of the 19th-century.

With 13,441 archive folders and over one million catalogued paper items, 20,000 catalogued photographic images in 1,837 picture documents and 1,357 volumes, the Telecom Italia Historical Archive is Italy’s most important telecom industry resource of its kind and one of the largest in Europe.



To mark “Palatelecom”, the Telecom Italia travelling roadshow in which the company presents some of its products and services to the Italian public, the Historical Archive designed and took part in realisation of an area dedicated exclusively to history and the past. Incorporating a number of important documents from its collection, a CD-ROM was produced on the history of the telephone in Italy, which was “explored” by thousands of visitors. Many visitors (636) used the technology available to leave their own audiovisual comment on the topic. Their contributions are currently being catalogued.

Among Italy’s private companies, only the Fiat archive is of a similar size.

Over the course of the year the team of professional archivists assisted three school classes (36 students), 11 scholars and many company employees in consulting Archive material.

Telecom Italia continues to pursue its commitment to cultural and musical events (Campiello Prize, Verona Arena, the Scala Theatre in Milan, concerts by Gianni Morandi), art exhibitions, and its support of sport (Soldini’s yacht, the Mille Miglia, the Sydney Olympics) to raise the profile of Italy’s culture, music, art and sport.

TIM has provided its support to major cultural and artistic events (706th Perdonanza Celestiniana, Grotta di Tiberio Prize, G. Marconi Museum, the drafting of maps for the Jubilee, the Genoa Municipal Theatre, the Nogara theatre season, Mediolanum Tour, the interactive “Forbici follia” show, Europa Card Show, the Verona Fil Stamp Collectors Exhibition, etc.) and associated its image with sports events including “Vivicittà 2000” and the 23rd Azimut Rally.

SEAT offered its support to the Turin Regio Theatre Foundation and contributed to the “Pubblicità e Progresso” festival of social communication initiatives.

During 2000 work was completed on the Seat Pagine Gialle S.p.A.

Multimedia Library and Showroom, devised to achieve the twin objective of preserving the most important of the company’s historical documentation while facilitating its updating and consultation. Housed on a 250 sq m site, the structure comprises different components for storage, consultation and general use, all of which are highly integrated. Located in a specially-designed environment, the archive contains more than 10,000 volumes of SEAT telephone directories and products (Yellow Pages, yearly telephone directories etc) published between 1913 and the present-day, as well as documentation regarding company accounts and minutes from Shareholders’ Meetings and from Board meetings.

One of the most innovative elements is the electronic access system. From a number of computers set up in ad hoc showcases, it is possible to access the catalogue of publications available or browse through the company’s history and products, using a user-friendly interface. Visitors may leaf through the first ever telephone directory published in Turin in 1926, or look back at how telephone directory design and content has changed over the years, analysing differences in language, habits and advertising over almost a century.

Internet access makes it possible to visit SEAT sites and to obtain the most up-to-date information on the company and its product portfolio. Computer consultation workstations and a number of showcases containing SEAT’s lead products



form a veritable showroom which stands out for its ultra-modern architectural design while providing access to the most advanced audiovisual systems.

FINSIEL has lent its support to the “Global Junior Challenge - Young People in the Digital Age” event which took place in Rome on 4 December 2000 (exhibition, conference and international competition to reward the best projects realised by young people in the field of learning through new technologies); the 2nd National Congress of the Italian Technological and Computer Assisted Surgery Society, held in Naples between 16 and 18 November 2000; the international song competition dedicated to Italian and international opera composers as part of the 5th Mario Lanza 2000 Festival and the 3rd Filignano Arte 2000 Award (an event held in August organised by the Municipality of Filignano, Isernia, in collaboration with the Mario Lanza Association). The company also provided technical sponsorship (hardware) to enable the Bollettino Telematico dell’Arte to participate at the Venice Cultural Heritage Show.

INSIEL (Finsiel Group) backed cultural, artistic and sports initiatives including the Trieste Song Festival, the opera and ballet program and the Operetta Festival at the Giuseppe Verdi Municipal Theatre, the libretto for the Teatro La Contrada season, the Trieste Chamber Music Concert, and the “Municipality of Trieste Grandparents and Grandchildren Internet Project”.

VENIS (Finsiel Group) provided funding for the publication of the book “Venetian Spiritual Itineraries - A Guide to the Discovery of Places of Worship”.

TELESOFT sponsored a theatre event.

TELESPAZIO teamed up with the G. Marconi Foundation to provide funds for the creation of a monument to reproduce the bow of the “Elettra” ship, and sponsored an international rugby competition to mark “La Perdonanza”.

The SCUOLA SUPERIORE G. REISS ROMOLI’s library containing around 6,000 books and 300 specialist magazines is open not just to those attending its courses but also to external students, university students and researchers. Visitors may consult external and CD-ROM databases. The School acts as a publishing house for the editing and publication of a series of books on topics spanning engineering, IT and company management. The hallmark of this series is its systematic and balanced approach combining managerial theory and practice.

The Telecom Italia Group has offered funding to a number of cultural associations and foundations.



The Reiss Romoli School held the 10th Delphi Forum, a look into future developments in Italy’s political, economic and social environment over the three-year period 2000-2002.





THE INTERNAL STAKEHOLDERS



EMPLOYEES

Labour costs amounted to 20.8% of the added value (7,717 billion lire), slightly up on last year's figures.

The number of employees in the Group as of 31.12.2000 were 114,669 (122,662 as of 31.12.1999). The reduction in personnel, 7,993 fewer staff members, was due to staff turnover, variations in Telecom Italia's holdings and the acquisition and sale of companies during the course of the year. The component having the biggest effect on turnover was termination of employment with the Parent company Telecom Italia, also as a result of the application of the mobility plan (as per law no. 223/1991) following the agreements

reached with the trade union organisations in March and July 2000. With regard to corporate operations, 17,978 staff members left the company essentially as a result of the selling off of companies operating in the manufacturing sectors (Italtel group) and plant engineering (Sirti group); this was counter-balanced by an equivalent increase of 17,567 staff members that arrived with the Nortel Inversora Group (7,498 resources), Maxitel (1,229 resources) and the Seat Group (7,515 resources).



Breakdown of employees						
Telecom Italia Group 2000 (fixed term + permanent term + locals)		Telecom Italia S.p.A. (fixed term + permanent term + locals)				
		2000	1999	1998	1997	1996 (*)
114,669	Total	66,541	76,113	79,508	82,317	86,030
14,171 (*)	University Graduates	5,675	6,478	6,697	6,768	6,648
52,690 (*)	High School Graduates	39,660	43,829	45,414	46,617	47,763
22,111 (*)	Others	21,206	25,772	27,397	28,932	31,619
15.8 (*)	Average length of service	18.08(*)	18	17.11	17.03	17.02
3,961	New permanent recruits	384	421	609	1,101	1,589
11,324	Permanent employees leaving	7,962	3,816	3,418	5,419	5,781

(*) The breakdown of academic qualifications is limited only to the employees working in Italy, also the data relative to the average year of service doesn't include SEAT personnel (7,515 resources)

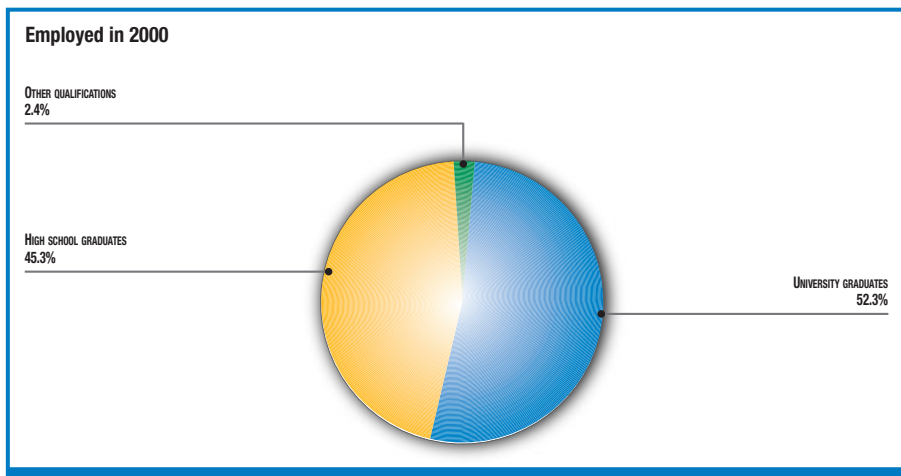
(*) 1996 excluding STET figures (605 resources)

T.I. Employees	66,541	76,113	79,508	82,317	86,030
STET Employees					605
Total	66,541	76,113	79,508	82,317	86,635
Difference	-9,572	-3,395	-2,809	-4,318	-3,587

During the year 2000 a process of reorganisation of the Group was started, which brought about the formation of autonomous "Business Units", coordinated by a parent company with policy and controlling roles. The new organisation will become fully operational during the course of 2001.

Academic qualifications at 31.12.2000 – Telecom Italia S.p.A. (*)						
	Senior Management	Middle Management	Clerical Staff	Workers	Total	% of total
University Graduates	959	1,163	3,549	4	5,675	8.5
High School Graduates	92	459	37,938	1,144	39,633	59.5
Other Qualifications	1	21	12,527	8,657	21,206	32.0
Total	1,052	1,643	54,014	9,805	66,514	100.0

(*) The data does not include local foreign personnel (27 resources).





Breakdown by professional status at 31.12.1999 – Telecom Italia S.p.A. (*)

	Senior Management	Middle Management	Clerical Staff	Workers	Total
	1,103	5,049	58,086	11,875	76,113

(*) The data includes the 33 local foreign resources and the ex SIRM personnel.

Breakdown by professional status at 31.12.2000 – Telecom Italia S.p.A. (*)

	Senior Management	Middle Management	Clerical Staff	Workers	Total
	1,052	1,643	54,041	9,805	66,541

(*) The data includes the 27 local foreign resources.

Employment – intake/departure of permanent staff at 31.12.2000 - Telecom Italia S.p.A.

Total recruitment and transfer from other Companies in Group	497
Total departure and transfer to other Companies in Group	10,071

**Breakdown of personnel at 31.12.2000 – Telecom Italia S.p.A. (*)
(by age and professional status)**

	Senior Management	Middle Management	Clerical Staff	Workers	Total
Under 20	–	–	16	–	16
From 21 to 30	2	5	4,056	91	4,154
From 31 to 40	193	556	22,542	1,146	24,437
From 41 to 45	226	354	7,772	1,450	9,802
From 46 to 50	255	316	10,163	3,934	14,668
From 51 to 55	297	318	8,254	3,009	11,878
Over 55	79	94	1,211	175	1,559
Total	1,052	1,643	54,014	9,805	66,514

**Breakdown of personnel at 31.12.2000 – Telecom Italia S.p.A. (*)
(by length of service and professional status)**

	Senior Management	Middle Management	Clerical Staff	Workers	Total
Less than one year (°)	64	34	274	–	372
From 1 to 5 years	131	186	2,277	22	2,616
From 6 to 10 years	129	264	9,752	534	10,679
From 11 to 20 years	368	582	22,475	2,308	25,733
From 21 to 25 years	136	148	6,208	1,829	8,321
From 26 to 30 years	183	311	10,737	4,564	15,795
Over 30 years	41	118	2,291	548	2,998
Total	1,052	1,643	54,014	9,805	66,514

(*) The data does not include local foreign personnel (27 resources).

(°) The data refers to length of service within the professional category and not the total number of years of service.



Average age of personnel - Telecom Italia S.p.A. (by professional status)

Year – months	2000	1999
Senior Management	47.07	47.11
Middle Management	45.01	44.11
Clerical Staff	41.01	41.06
Workers	47.09	47.09
Total	42.11	42.09

Average length of service - Telecom Italia S.p.A. (by professional status)

Year – months	2000	1999
Senior Management	16.05	17.03
Middle Management	17.03	18.11
Clerical Staff	17.09	17.04
Workers	23.11	23.10
Total	18.08	18.05

Five TIM employees were given 15 working days paid leave for voluntary civil protection work, 580 employees were allowed time off work to give blood (for a total of 1,112 days).

In SEAT paid leave for blood donation involved 90 employees for a total of 694 working hours.



Paid leave in Telecom Italia S.p.A., for voluntary activities regarded 122 employees for a total of 4,418 hours; the leave for blood donation regarded 8,578 employees for a total of 129,428 working hours.



REMUNERATION OF HUMAN RESOURCES

The reduction in labour costs in Telecom Italia S.p.A. in 2000 compared with 1999 was 198,406 million lire (-3.2%), and was the result of the reduction in the number of the average employee equivalents (-5.5%) and the increase in the average unit cost (+2.4%) due to the continuing effect of the 1998 trade union agreement, the trade union agreement of 2000 and the increase in the incentive policies, partly offset by the reduction in performance awards (-1.4%).

Labour productivity has increased, as is shown by the number of fixed line links – including ISDN – per employee at the end of the fiscal year (from 354 in 1999 to 416 in 2000).

TRAINING

The Telecom Italia Group has invested heavily in training human resources, carrying out around 3,000,000 hours of training activity.

Labour costs - Telecom Italia S.p.A. (million lire)				
	2000	1999	Difference	Variation
Total Remuneration	4,155,804	4,292,924	(137,120)	(3.2)
Social Security Contributions (*)	1,366,436	1,399,775	(33,338)	(2.4)
Severance pay	332,906	337,103	(4,197)	(1.2)
Other costs (**)	125,146	148,896	(23,751)	(16.0)
Gross working costs	5,980,292	6,178,698	(198,406)	(3.2)
Recovery of costs of Employees working in other Companies of the Group	(60,616)	(72,348)	11,732	(16.2)
Overall total	5,919,676	6,106,350	(186,674)	(3.1)

Average costs (thousand lire)			
	2000	1999	Variation
Average number of employees remunerated	72,936	77,184	(5.5)
Average costs per capita	81,994	80,051	2.4

(*) Including integrated insurance fund.

(**) Excluding integrated insurance fund.



Telecom Italia S.p.A has invested 1,573,759 hours training, informing and increasing levels of awareness; training courses were subdivided into the following topics: 4,303 hours were dedicated to basic initial training, 38,695 hours to management training, 667,716 hours to specialised training, 53,045 hours to language training, 80,000 hours to distance training, 730,000 hours to continuous on-the-job training. The trainees (excluding distance training and the continuous on-the-job training) consisted of 572 senior managers, 1,635 middle managers and 36,563 clerical staff and workers.

Three new training standards were created:

- programmes to back-up the restructuring processes with the relative professional reorientation of the resources involved (Jobnet project for employees made redundant);
- programmes designed to strengthen expertise, critical to the successful development of business, the main focus was on technological and commercial refresher courses (Internet, office automation, sales, call centre);
- training programmes for the implementation of SAP (System Applications and Products in Data Processing), so that end users (system users) and the teams responsible for developing the project can do their jobs more efficiently, and at the same enable top and middle management to become familiar with SAP, and thereby understand the organisational impact of its adoption by the company.

The following outside services were provided:

- design and organisation of training courses (targeted to heads of institutes seconded to parliamentary and/or administrative mandates) on the management of independent schools and on school system strategies, on the role of information technology in teaching, and on self-evaluation;
- training courses for the Department of Training Services, University of Rome Three, on technology applied to training;
- organisation and implementation of ICT training courses requested by the Confindustria, in middle schools and high schools, to create synergies between schools and the labour market;
- teaching courses for the AIF master's in training and the Meta master's in human resources management with the Abele company;
- courses in education and learning techniques given by Telecom Italia staff at the Department of Media Studies, University of Pisa.



The SCUOLA SUPERIORE G. REISS ROMOLI pursues its own mission to support the global competitiveness of the Telecom Italia Group, with training courses in ICT and business management, for the diffusion of net-economy culture, to encourage the overall growth of the nation system. In 2000, the school's in-house activities accounted for 30,292 student-days, of which 15,500 for Telecom Italia and another 8,600 student-days for other companies belonging to the Group. It also implemented 1,450 days of off-site teaching, 640 of which for the external market. A total of 24,770 hours of teaching were carried out, of which 6,952 hours by the school's own teaching staff.



INTERNAL COMMUNICATION

Internal on-line communication, which has the advantage of being fast, simple to use, and with an extensive distribution network, really took off in 2000.

The big communication event of the year for staff was the opening in July 2000 of the Group's Extranet portal, which puts the companies of the Group in contact with one another in Italy and in other countries, but above all it guarantees the reliable and timely diffusion of institutional information and of the latest news on the life of the Group.

Advanced audio/video-streaming transmission techniques have been implemented to enable distance participation in meetings and events in real time.

The Group's executives, numbering around 1,900, were involved in two specifically organised meetings, during which strategic plans and objectives were illustrated and shared.

The Extranet has not, however, replaced the use of traditional techniques which can be used outside the workplace, such as a video "Sull'onda del futuro" distributed to all employees, introducing top managers to them. Widespread internal visibility has been given to the contents of the campaign "How do you want your future?", aimed at renewing the Group's identity.

The images of the press campaign, showing the faces of our customers, were displayed in advance to employees in all our offices before they were published in the newspapers and magazines.

In December the last printed version of "Pianeta", a magazine for all staff members, covering a broad range of topics of interest to all the Group's staff members.

Horizontal, vertical, and transversal communication in SODALIA takes the form of a brochure containing the company's report on activities performed and results achieved. With the creation of the company's internal website, computerised information was made available to staff. At the same time, the "Newsletter INSIEME" was published, dealing with such questions as the progress of the company's projects, internal cultural and recreational activities, and references to regional cultural events.



In 2000 *Pianeta* once again sponsored the Children's Competition, which attracted more than two thousand participants (employees' children), distributing books and CD-ROMs as prizes.



EMPLOYEE SATISFACTION

A survey of the company culture and general climate in TIM made it possible to study a statistically representative sample of 878 respondents, covering all company functions and categories (top management, middle management/professionals, clerical staff). The aim of the study was to understand how much and in what way TIM's company culture has a customer service orientation, as staff satisfaction/discontent (atmosphere) is closely related to the extent to which they are service oriented.

The results of the survey show that competence is considered a very important factor in the workplace and customer orientation is increasingly becoming an integral part of TIM's company culture.

SODALIA employee satisfaction was also evaluated by means of a survey of the climate within the company: on a total of 62.7% of the staff, the satisfaction index was 62.9%, a clear increase over the previous year (the staff satisfaction index of the company that won the European Quality Award in 1997 was 64%).

TRADE UNION RELATIONS

An agreement was reached on 28 March with the trade unions, signed at the Ministry of Labour and Social Security regarding the triennial **Development and Reorganisation Plan** for 2000-2002.

Intense negotiations among the Unions lasted a number of months, leading to the identification of a balanced plurality of operational measures, regarding: incentives for leaving, mobility as per Law 223/91, intercompany mobility, part-time work, retraining with a view to re-employment under an Extraordinary Unemployment Benefit Fund – to work out the number of employees required and to manage the 13,500 declared redundancies.

The Extraordinary Unemployment Benefit Fund, adopted by Telecom Italia for the first time, involving 2,200 employees (678 in the first phase and 1,522 in the second phase; at 31.12.2000, following a number of terminations, 2,144 workers were registered with the Fund). On the basis of the aforementioned agreement, mobility as per Law 223/91 involved 5,300 employees in the three-year period 2000-2002; at 31.12 terminated employees numbered 3,656.



As of 1 October 2000 the new **Collective Labour Agreement** was applied to all staff of telecommunications companies, signed Confindustria on 28 June 2000. It will remain in force until 31 December 2002 for economic issues and until 31 December 2004 for normative questions.

At the same time, the company applied regulations stipulated in the pertinent section of the Labour Agreement, as defined in the draft signed on 19 July 2000, to guarantee substantial continuity of earlier agreements in force for staff already in service.

In line with the contents of the Development and Reorganisation Plan, the need to focus the company's mission on the chain of value of the TLC market, in harmony with technological change and with its own commitments, during 2000 Telecom Italia **transferred certain branches of activity** – as per Art. 47 of Law 428/90 – organisational departments not strictly connected with the company's mission, to other companies: Tin.it-Seat, Tess, Netsiel, Im.Ser, Printel, TI Lab and Telesoft.



The relatively small number of claims in Telecom Italia S.p.A. during 2000 and the percentage of cases won (almost 80%) can be interpreted as indirect indicators of the company's efficient management of industrial relations.

For the last five years the per capita annual data on strikes is recorded as follows:

Year	No. of hours on strike
1996	13.81
1997	2.48
1998	1.05
1999	4.89
2000	8.10

The increase in the number of hours on strike in 2000 over 1999 is a result of the new Collective Labour Agreement.

In 2000 **labour claims** numbered **555**, of which **92** were settled within the year, and judgement was passed on **347** cases, the majority of which (**275**) in favour of Telecom Italia S.p.A.

Five labour claims in TIM were settled (TIM has never been a claimant in any labour action): the company settled three cases out of court, won one case and lost another.

Twelve cases are pending.

In SEAT the following cases were served: **5** labour claims by employees and **8** agents.

Fourteen cases with employees were settled, **6** of which were favourable, **1** was unfavourable and **7** were subject to negotiation.

Thirteen cases were settled with agents, **3** of which were favourable, **2** unfavourable, and in **8** cases an agreement was reached.



EQUAL OPPORTUNITIES

The year 2000 confirmed the steady upward trend regarding the overall number of women employed, also reflected in the individual categories, from 19.4% to 19.8%. Since 1995 the percentage of women in senior management has grown from 3.8% to 8.8%, and in middle management from 11.4% to 16.1%. In new recruits, women in senior management represent approximately 17% of the total.

TIM's "Valore Donna" project, financed by the Equal Opportunities Committee of the Ministry of Labour, which ran for three consecutive years from 1996 to 1998, has seen 160 unemployed women aged 40 to 45, reintegrated in the labour force.

Today 147 of these women are still employed. Two objectives have been reached:

- the reinstatement of female workers, often penalised by maternity leave, in part-time morning work, which enables them to combine work with their family responsibilities;
- incorporation of women who are more experienced and more sensitive to customers' needs.

Total employment - Telecom Italia S.p.A. (*)						
	2000	% of total	1999	% of total	1998	% of total
Men	53,315	80.2	61,329	80.6	64,192	80.8
Women	13,199	19.8	14,750	19.4	15,278	19.2
Total	66,514	100.0	76,079	100.0	79,470	100.0

	2000			1999			1998		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Senior management	959	93	1,052	1,016	87	1,103	1,057	75	1,132
Middle management	1,379	264	1,643	4,260	788	5,048	4,359	722	5,081
Clerical staff	41,179	12,835	54,014	44,183	13,870	58,053	45,732	14,476	60,208
Workers	9,798	7	9,805	11,870	5	11,875	13,044	5	13,049
Total (*)	53,315	13,199	66,514	61,329	14,750	76,079	64,192	15,278	79,470

(*) These figures do not include foreign staff employed locally or extraordinary staff requirements.



HEALTH CARE FOR EMPLOYEES

ASSILT - Association for Supplementary Health Care for Workers of Telecom Italia, founded in 1981 by an agreement between SIP and the trade unions, has regional administrative and health care structures plus a central office in Rome. The function of ASSILT is to reimburse the cost of health care supplementary to the National Health service. Moreover, in association with the public health service, and with its own mobile diagnostic units, it carries out preventive tests and increases awareness of health issues.

At 31 December 2000 ASSILT members numbered 243,325 as follows:

- 82,966 employees
- 34,047 pensioners
- 126,312 family members

Its activities are governed by regulations on services and with a general price list, which in 2000 paid out 540,000 reimbursements.

One of the most important preventive medicine campaigns includes **ophthalmological testing**, which throughout the year benefited some 39,000 employees; the campaign is due to end this year.

The **cancer prevention** programme continues for breast and skin cancer. It commenced in 2000 in the Friuli Venezia Giulia region, and spread to the regions of Umbria, Marche, Abruzzo, Liguria, Basilicata, Calabria and Sardinia involving a potential 13,000 participants. Another of ASSILT's activities concerns **specialised medical support** in Telecom Italia and TIM, for the implications stemming from the application of Law 626/94, for eye tests as well as additional tests required to establish whether workers at computer monitors are suited to this kind of work.

COMPLEMENTARY SOCIAL SECURITY CONTRIBUTIONS

In late October 2000, the Superintending Committee for pension funds authorised the operations of **TELEMACO**, the National Complementary Pension Fund for Telecommunications Companies. November 2000 saw the beginning of a move to deduct the sums due from the pay slips of employees paying in to the Fund and to Telemaco; measures have also been taken – on explicit request – to allow additional contributions to be made for the period from 1 January 1999 to 27 October 2000.



OTHER EMPLOYEE PROVISIONS

The **CRALT** (club for telecommunications employees) organises leisure activities for employees and pensioners of the Group's companies: tourism, sport, culture, recreation. It also offers discounts in participating shops and services. Following the agreement of 28.3.2000 with the trade unions, an annual membership fee was introduced to be paid by each employee or pensioner wishing to join the club, as well as a contribution to be paid by the Group's Business Units or companies based on the number of members. The funds will enable the club to be financially independent. The club will also be given the use of a Telecom Services Centre to assist in the smooth running of CRALT.

National events organised in 2000 saw the participation of:

- some 33,000 members with their families in summer and winter holiday resorts;
- more than 1,700 athletes at sports meetings;
- 1,450 pensioners in organised holidays.

The Club also participated in humanitarian initiatives in favour of Bosnian children (donating 120 million lire).

Telecom Italia organises transport services to take employees to and from work sites in outlying areas.

SODALIA organises an annual ski competition, as well as football and five-a-side football matches for employees.

SOCIAL SERVICES

ALATEL is an association for employees with at least 25 years of service and pensioners of certain Telecom Italia Group companies. It implements and encourages mainly solidarity activities and promotes cultural and leisure activities. It has around 29,300 members, of whom 40% are still employed.



The **TIM Fellowship Programme** (created with a declaration of intent signed in the presence of the Labour Minister on 24 May 2000 by the chief executive officer of TIM and the national secretaries of trade unions CGIL, CISL and UIL), is a project to collaborate with Italian universities to develop the professional skills of young workers in the TLC sector. TIM rewarded 80 employees, university students, and winners of an internal competition, with company grants to develop their skills and facilitate their studies (200 hours of paid leave, PCs with free use of the Internet, an agency for university procedures, multimedia CD-ROM computer and language training).



THE CHILDREN OF EMPLOYEES

Summer holidays offer children between 6 and 12 years a unique recreational and educational opportunity and an experience of community living.

The experience is based on the application of educational principles to leisure time and on periodically updated training principles with the contribution of sectoral experts (university professors, operators in the leisure sector, and participants' parents).

All children of employees of Telecom Italia and other companies of the Group can go on these holidays if they meet the age and other requirements.

In 2000 more than **6,300** children (736 from companies belonging to the Group) stayed in 9 mountain centres and 5 seaside centres.

A number of **jobs** were created with short-term contracts for some 1,700 young people by the companies managing the holiday centres.

The special website set up to give news and other information on this initiative has been very popular (around 50,000 log-ons per season).

The two new initiatives to provide **scholarships** for employees' children attracted 242 applications for "Evviva l'Università" (reimbursement of fees for first-year enrolment in a university course) and 120 applicants, 90 of whom with the appropriate qualifications, for a 4-week stay in a foreign country, under the "Window on Europe" programme, with the participation of 45 graduates.

AWARD CEREMONIES

Awards are given to staff members who have accumulated 25 years of service in companies belonging to the Group.

In 2000 awards went to 2,400 staff members.

E.VAI PROJECT

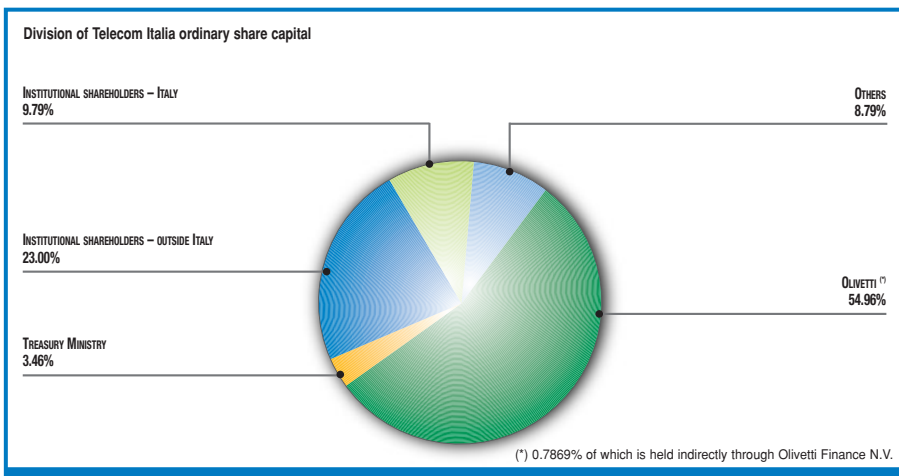
SEAT and the trade unions have agreed to implement a measure to teach all employees how to use the Internet. The company is willing to provide all employees, free of charge, with computers and basic training in addition to three years free use of Internet Premium. The operation involves some 1,800 employees.



SHAREHOLDERS

15.9% of the added value has been allocated to shareholders (excluding the Treasury Ministry), a percentage amounting to 5,882 billion lire, which is an increase of 1.8% on the previous year.

On the basis of the results from the shareholders' register and other available information at 31 July 2000, the shareholders in possession of ordinary Telecom Italia shares are thus divided:



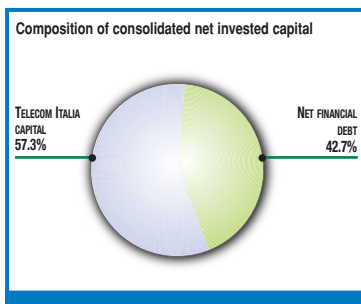


The Telecom Italia Group – Composition of Net Invested Capital		
(Billion lire)	2000	1999
Net invested capital ⁽¹⁾	86,273	54,069
Telecom Italia capital ⁽²⁾	49,428	38,311
% of N.I.C.	57.3%	70.9%
of which		
Parent company share	36,443	33,004
Third-party share	12,985	5,307
Net financial debt	36,845	15,758
% of N.I.C.	42.7%	29.1%
of which		
medium/long-term financial debt	16,010	10,002
short-term financial debt	29,421	9,805
cash and short-term financial receivables	(8,586)	(4,049)
Operating income – parent company and third parties	5,709	4,665
Return on equity ⁽³⁾	13.0%	12.6%
Dividends paid		
excluding Treasury Ministry	5,882	5,779

(1) Invested Capital net of liabilities and severance pay.

(2) Net of "receivables from shareholders for payments due".

(3) Operating income due to the parent company and third parties/own average capital (parent company share + third party share).



In 2000 a sharp increase in invested capital was recorded, net of liabilities and severance pay, going from 54,069 billion lire to 86,273 billion, evidence of the investment policy in an ever more competitive environment. Net financial debt more than doubled, rising from 29% to 42.7% of the total, whereas the increase in treasury capital was more moderate; its share fell from 71% to 57.3% of the total. Operating income rose from 4,665 billion lire to 5,709 billion, whereas the return on equity went from 12.6% to 13.0%.

CORPORATE GOVERNANCE

Telecom Italia was one of the first Italian companies to adopt a system of corporate governance.

In the course of 2000 the Company adopted a code of self-discipline, identifying as the main target of good corporate governance the maximisation of value for shareholders, believing that pursuing that target in a longer time space can start up a virtuous circle in terms of company efficiency and integrity, to such an extent that it can have a positive influence on the other stakeholders. From this perspective the following committees were also established within the Board of Directors: the Committee for the Remuneration of the Directors and the Committee for internal control and corporate governance. The first committee



formulates proposals for the Board of Directors regarding the remuneration of the Managing Director and those who hold special posts, as well as, at the Managing Director's suggestion, proposals for the definition of criteria regarding the remuneration of company top management.

The Committee for internal control and corporate governance, on the other hand, evaluates

- i)* the adequacy of the internal control system,
- ii)* the work plan prepared by people in charge of internal control, and receives their periodic reports,
- iii)* the proposals formulated by the external auditors in order to obtain the relative assignments,
- iv)* the work plan set out for the audit and the results on the letter of suggestions.

It furthermore reports to the Board, at least every six months, on the occasion of the approval of the balance sheet and the half-yearly report, on the work carried out and the adequacy of the internal control system. It also carries out other tasks which the Board of Directors assigns it, particularly with regard to relations with the external auditor. The Committee for internal control and for corporate governance also supervises the adherence to, and periodic update of, the corporate governance rules and the observance of the code of behaviour and ethical standards which may be adopted by Telecom Italia and/or its subsidiaries.

On 9 August 2001, in accordance with article 122 of Legislative Decree no. 58/1998 and article 129

of the Consob ruling no. 1197/1999 and subsequent alterations, a summary of the following agreements was published: agreements made on 30 July 2001 between the companies Pirelli S.p.A., Edizioni Holding S.p.A. and Bell S.p.A., and on 7 August 2001 between the companies Pirelli S.p.A. and Edizioni Holding S.p.A..

The agreement between Pirelli, Edizioni Holding and Bell provides for the purchase from Bell and other third parties of the stake in Olivetti, at a price of 4.175 Euro per share. The transfer of shares is dependent on the granting of any authorisation which may be required by any applicable ruling. Pirelli and Edizioni Holding have therefore made a pact regarding the criteria of governance and discipline of the common quality of the shareholders of the vehicle company identified for the purchase regulated by the aforementioned agreement. The pact furthermore contemplates a series of commitments with regard to social tasks and the rulings of the Board of Directors of Olivetti, Telecom Italia, TIM and SEAT. On the basis of the expected share transfers, the vehicle company will hold a total of around 27% of Olivetti's stock.





PricewaterhouseCoopers' report
Telecom Italia's ongoing commitment
List of indicators in the report
Appendix

REPORT ON "PRIME VALUE - Sustainability Report 2001 Edition" OF TELECOM ITALIA GROUP

We have performed the agreed-upon verification procedures in order to express an opinion on the "PRIME VALUE - Sustainability Report 2001 Edition (the "Report 2001") of Telecom Italia Group with respect to:

- Reliability of the data reported therein.
- Completeness and clarity of expression of the data and information disclosed therein.

Our engagement was carried out by performing the agreed-upon procedures summarized below:

1. Verification, on a sample basis, of the correspondence of the economic and financial data reported in the Report 2001 with those disclosed in the statutory financial statements approved by the Shareholders' Meeting or in the consolidated financial statements.
2. Verification, on a sample basis, of the correspondence of other data and information with management reports or other supporting documentation.
3. Evaluation of the completeness and clarity of the Report 2001 with respect to the information generally included in the social and environmental reports already published and to the stakeholders identified.

Therefore, this report stems from the results of the application of the aforementioned procedures and we cannot exclude that, had we performed additional procedures, other elements might have been detected and brought to your attention, in addition to those already reported in the following paragraphs.

The application of the agreed-upon verification procedures have permitted to point out the following:

1. The economic and financial data included in the Report 2001 correspond with those included in the statutory financial statements approved by the Shareholders' Meeting or in the consolidated financial statements.
2. The other data and information disclosed in the Report 2001 can be related to management reports or to other supporting documentation.

As to the completeness and clarity of the Report 2001, we base our report on our professional experience, on the comparison of the Italian and international best practices and on PricewaterhouseCoopers guidelines developed on the basis of the information requirements deriving from the most reliable social-related reporting standards.

As to these aspects, the document is substantially complete and well-structured compared to the best social and environmental reports published to date and the data and the information are clearly stated.

The Report 2001 issued by Telecom Italia Group represents a remarkable example of reporting that is able to communicate the effects of the Group strategies towards the reference stakeholders. In this fourth edition, the document allows an easy reading of its contents and while developing its consistent methodology, it is characterized by a progressive approach to the triple bottom line reporting scheme,

as reported in the chapter "Method" of the Report 2001. In this edition particular attention has been paid by the Group to the "Consumers" stakeholder.

However, while considering the complexity of the sustainable development and the way it reflects in the reporting format adopted by the Group, we point out that:

1. The Report 2001 has been prepared on the basis of the data and information that the work team in charge of it obtained from the Telecom Italia Group companies. As mentioned in the relevant sections, in some cases data and information only refer to Telecom Italia SpA. Therefore, it is necessary to pursue the improvement of the reporting process by a punctual and coherent elaboration of social and environmental planning with respect to all Group companies.
2. The reporting areas that should be developed in the future, in application of a process for continuous improvement, mainly relate to the planning and development of the dialogue with the stakeholders and the management of the environmental systems. These improvement areas have been already identified by the Group as a priority, as reported in the chapter "Telecom Italia's ongoing commitment " of the Report 2001.

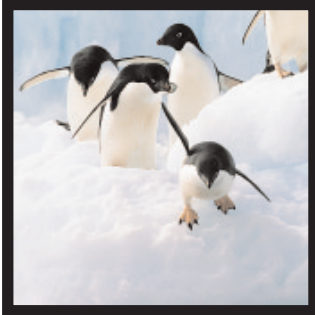
Rome, 28 September 2001

Price Servizi e Monitoraggio Srl



Alfonso Dell'Isola
(Partner)

This report has been translated from the original which was issued in Italian. We have not performed any control on the "**PRIME VALUE - Sustainability Report 2001 Edition**" translation.



TELECOM ITALIA'S ONGOING COMMITMENT

“Value and sustainability together can be said to form a core of aims and principles which must be at the root of all strategies and practice adopted by any enterprise that wants to survive on the market”
(from the letter of introduction to the 2000 Report).

Telecom Italia undertakes to:

- Respect the written and unwritten rules that underpin its actions, cooperating actively with the supervisory bodies.
- Let each of its actions be informed by the need to find a balance between development and the environment.
- Adopt plans to save natural and energy resources, promoting, where technically and economically feasible, technologies that have a low impact on the environment.
- Encourage the adoption of employee, organisation and performance certification systems.
- Seek, where possible, voluntary agreements at every government level.

The management of the Group is convinced that, if the principles of sustainable development are to be upheld, certain rules must increasingly become part of the Group's strategy:

- A voluntary approach and participatory decision making.
- A clear environmental vision, clear objectives and timely programmes.
- A range of products and services based on safety and environmental considerations.



Telecom Italia aims to engage all its employees, in their various capacities, in the committed application of these rules to define and implement the Group's strategy.

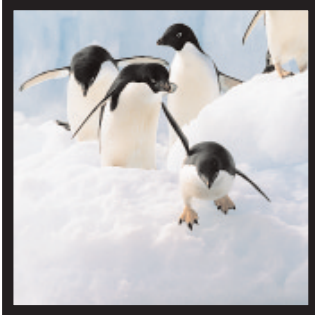
Certain instruments are crucial to the application of these rules:

- a system of environmental management for the companies in the Group which may have an impact on the environment; they will be based on common lines for each company, differentiated according to the work of the company.
- Life-cycle assessment (LCA) studies to steer the Group's purchasing and output towards minimising the overall environmental impact.
- Environmental planning that is consistent with the Group's global strategy.

Some units in the Group are already equipped to move towards sustainability. Telecom Italia is committed to introducing these instruments throughout the company at a gradual pace suited to its dimensions and range of interests.

The commitment to uphold the principles of sustainability, together with the availability of effective instruments for environmental protection, will be demonstrated in the following ways:

- participation in Agenda 21 local programmes, to make the concepts of sustainable development part of the country's heritage.
- Voluntary agreements with government on electromagnetic pollution, to demonstrate Telecom Italia's acceptance of the principle of precaution and open up the way to the involvement of other telecommunications operators.
- Development of high capacity and information-intensive telecommunications. This would make it possible to improve the quality of life of the key stakeholders (customers, employees) and contribute to developing with the responsible authorities, a new approach to work.
- Promotion of an environmental conscience among suppliers and customers, taking steps to involve consumer associations.
- Adoption of a plan to limit emissions of greenhouse gases.
- Adoption and use of vehicles that run on alternative fuel (natural gas, hydrogen, electricity, hybrid) to reduce atmospheric pollution in urban areas.
- Plans to save energy and natural-resources, including recycling and renewable sources.
- A global multi-year environmental reclamation plan, which covers in a structured and thorough manner an audit of environmental needs, the planning and realisation of environmental reclamation and the financing of the whole process.



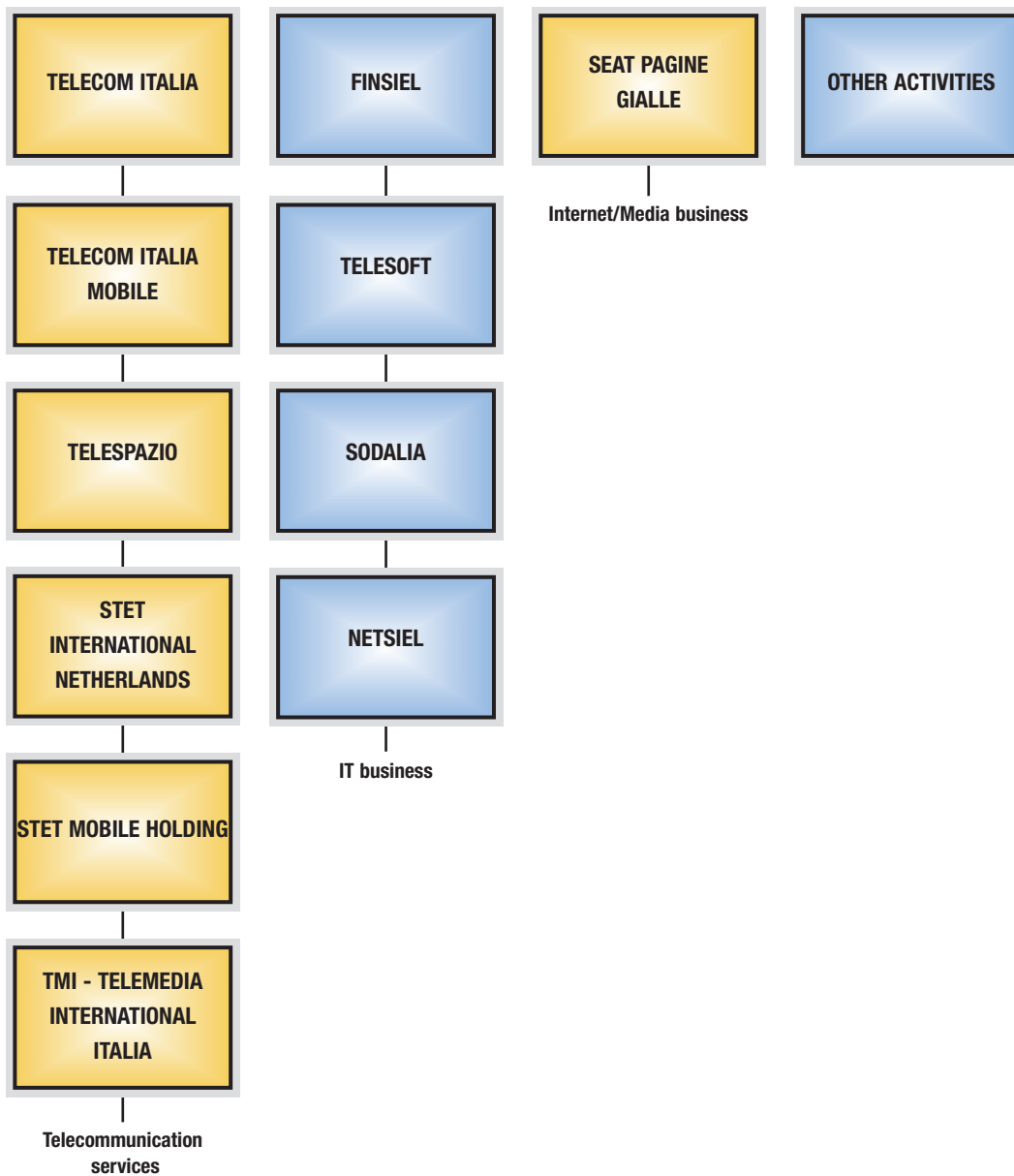
LIST OF INDICATORS IN THE REPORT

	<i>page</i>
● New products and services	15-22
● Technical quality of the network for local and long-distance calls	17
● Quality of the international network concerning ease of access to telephone services	21
● Quality of the mobile phone network	24
● Legal actions involving stakeholders and outcomes	28,29,32,51,82
● Anti-trust rulings regarding competitors	34,35
● Misleading advertising suits	35
● Contribution of TLC to sustainable development	38-40
● Waste (annual quantities by type)	41,42
● Consumption (annual quantity of electricity, water, gas/methane, fuel)	43-45
● Annual mileage of company vehicles	44
● Size and distribution of the company fleet	44
● Atmospheric emissions (annual quantity and type of emissions)	45
● Health and safety in the workplace and the wellbeing of workers	54
● Number of hours spent annually on health and safety training for employees	54
● Accidents in the workplace	55
● Percentage of the Group's operating profit that is an "intentional" contribution to "Future generations" and "Community" stakeholders	56
● Work force	74-77
● Breakdown of labour costs	78
● Labour productivity	78
● Characteristics of training programmes	79
● Industrial relations	81,82
● Equal opportunities	83
● Social security and other contributions	84,85
● Voluntary preventive medicine campaigns	84
● Distribution of added value among the stakeholders	101,102



TELECOM ITALIA GROUP

[at 31.12.2000]





The Telecom Italia Group comprises leading companies based in Italy and abroad, with a presence in all sectors relating to communications: fixed, mobile, satellite, Internet/media, information technology.

In 2000 the Group's proceeds, amounting to 55,979 billion lire, increased 6.7% on 1999, while Ebitda of 25,400 billion lire, showed a 7.3% improvement, with net profits of 3,927 billion lire to give an increase of 16.7% on 1999 figures.

In 2000 the reorganisation of the Group got under way with the shedding of non-core activities to focus on strategic areas and the realignment of the way its international companies are controlled, through the reorganisation into seven Business Units that are independent as regards their management, aims, strategies and management instruments.

In line with the process of decentralisation of all the management instruments to the Business Units, the Parent Company was restructured in terms of its role, activities and share of resources. It now has five functions (Finance and Control, Human Resources, Corporate and Legal Affairs, Public and Regulatory Affairs, Corporate Communication and Image) and it directs, coordinates and controls the seven Business Units that manage and develop the core business.

The activities of the Business Unit can be summarised as follows:

- “Wireline Services” (Telecom Italia) has nationwide responsibility for data and voice business on the fixed network and call centres; its services are designed for end-users and other operators. Its objectives are to maintain its position in the telephony market and to expand the data business, to be achieved through continuous product innovation, in terms of both services and prices; the development of integrated solutions and the Internet; the diffusion of broadband access systems (XDSL and optic fibre).

- “Mobile Services” (TIM group) is responsible for national and foreign mobile telecommunications. Its objectives are to maintain its share of the market; expand into countries with a high growth rate, thanks also to its “plug & play” approach (exporting price offers, innovative services and “turn-key” operations for fast start-ups); offer new services - including the Internet - by implementing the latest technological platforms (WAP, UMTS).

- “Internet and Media” (Seat Pagine Gialle group) is responsible for the development of all kinds of Internet services for residential customers and small and medium enterprises: access, portals, web services. In addition to being the number one Italian Internet Service Provider (since the merger with Tin.it) it also oversees the



whole value chain in the media sector, extending its activities to publishing, information and television.

- “International Operations” (Telecom Italia, SIN) is responsible for managing foreign holdings in fixed telephony and developing international network business for wholesale customers. In this context the realisation of the projects, “Mediterranean Nautilus”, “Latin American Nautilus” and “Pan-European Backbone” will provide the Telecom Italia Group with a ring of optic fibres able to reinforce its presence in areas of greater strategic importance.

- “Venture Capital and Innovation” (Telecom Italia Lab, the new name for CSELT) is responsible for identifying and managing new initiatives in the Information and Communication Technology sector; it also coordinates the research and development activities of the Group. The decision to place Telecom Italia’s “Venture Capital” operations under TI Lab (1 March 2001) was taken in response to pressure from a competitive market that impinges on research activities, increasingly seen as business opportunities.

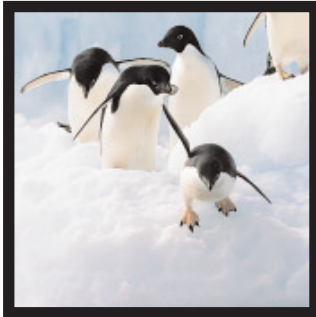
- “Satellite Services” (Telespazio group and Telecom Italia’s “Satellite Telecommunications”) is responsible for developing satellite communication systems for telephony and data

(with particular emphasis on the Internet), radio-television broadcasting and earth observation. The Telespazio group also participates at international level in the principal innovative projects, such as Astrolink (broadband multimedia system) and Galileo (European system for localising mobile equipment).

- “Information Technology Services” (IT Telecom) is responsible for the Group’s IT development. When the consolidation of the various companies and operations (Finsiel, Netsiel, Telesoft, Sodalia, Telecom Italia’s “IT” operations) is complete, IT Telecom will cover the whole value chain for IT services. It will then set about repositioning its high value products and transforming on-the-ground units into hubs for the development of the different geographical areas.

Saritel is the largest Italian provider of Internet services and networking services for business.

- Training activities are looked after by the Scuola Superiore Guglielmo Reiss Romoli.
- Softe, Saiat, Emsa and Atesia handle and provide support for financial, property and marketing concerns.



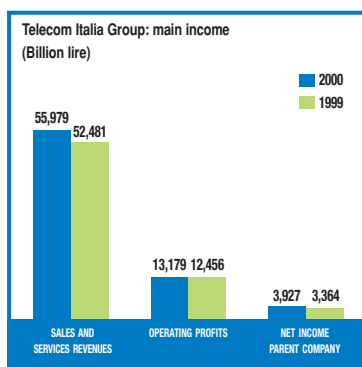
RECLASSIFIED PROFIT AND LOSS ACCOUNT AND ADDED VALUE

The consolidated balance for 2000 confirms the positive direction seen in recent years highlighting growth within the Group, and therefore its capacity to generate value to positive effect for all stakeholders.

Telecom Italia Group - Financial Position				
(Billion lire)	2000	1999	Changes	
			absolute	percentage
Sales and service revenues ⁽¹⁾	55,979	52,481	3,498	6.7
Gross operating profit (GOP)	25,400	23,673	1,727	7.3
% of sales and service revenues	45.4	45.1	0.3	0.7
Operating profit	13,179	12,456	723	5.8
% of sales and service revenues	23.5	23.7	(0.2)	(0.8)
Net income before minority interest	5,709	4,665	1,044	22.4
% of sales and service revenues	10.2	8.9	1.3	14.6
Net income - Parent company	3,927	3,364	563	16.7
Net invested capital as of 31.12	86,273	54,069	32,204	59.6
Stockholders' equity as of 31.12 ⁽²⁾	49,428	38,311	11,117	29.0
Net borrowing as of 31.12	36,845	15,758	21,087	133.8
Capital investments	38,742	13,077	25,665	196.3
Employees as of 31.12	114,669	122,662	(7,993)	(6.5)

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

(2) Net of receivables from stockholders for capital contributions.



In 2000, investments amounted to 38,742 billion lire, an increase of 196% on 1999.

Industrial investments amount to 32,932 billion lire (10,560 billion in 1999) and comprise:

- the goodwill (17,637 billion lire) arising from the takeover of Seat Pagine Gialle, Maxitel, Digitel and Jet Multimedia, the acquisition by the Parent Company of 50 million TIM ordinary shares and the adjustments in the international sector;
- the cost of the UMTS licence purchased by TIM in Italy (4,680 billion lire) and the PCS 1900 licence purchased through TIM Peru (381 billion lire).



Financial investments comprise:

- 1,686 billion lire for the purchase of a 30% share in GLB Servicios Interativos;
- 1,281 billion lire for buying back Telecom Italia's savings shares;
- 594 billion lire regarding the constitution of IS TIM, the holder of the third GSM 1800 licence in Turkey.

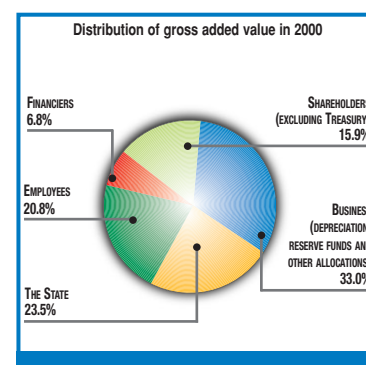
In the following table the items have been reclassified to show how the added value is distributed among the stakeholders.

Telecom Italia Group - Gross added value and stakeholders			
(Billion lire)	2000	1999	% Variation 99/00
Sales and service revenue	55,979	52,481	6.7
Standard production value	58,324	54,790	6.4
Outside spending (net of telecommunications licence fee in 2000 and 1999)	22,127	20,357	8.7
Non-imputable items (*)	891	(2,003)	●
Gross added value	37,088	36,436	1.8

Distribution of added value

Employees	7,717	7,546	1.7
State	8,733	10,033	(13.0)
of which:			
Social security costs	2,420	2,404	0.7
Ministry of Finance	5,232	6,387	(18.1)
Direct taxes - Italian companies	4,962	6,172	(19.6)
Indirect taxes - Italian companies	270	215	25.6
Ministry of Communication (telecommunications licence fee)	962	1,124	(14.4)
Ministry of the Treasury (Dividends)	119	118	0.8
Business (Depreciation, reserve funds, and other allocations)	12,225	11,377	7.5
Minority shareholders excluding Treasury	5,882	5,779	1.8
Financiers	2,531	1,701	48.8

(*) The "non-imputable items" are basically representative of the differences between overall dividends distributed by the companies in the Group for the year in question and the consolidated result of the minority interests, which also takes account of the amortisation of the goodwill between the acquisition values and the effective overall value of the subsidiaries.





The contribution of Telecom Italia Group to internal and external stakeholders for 2000 was 74,443 billion lire (including items that do not appear in the balance).

EMPLOYEES	
7,717 billion	
SHAREHOLDERS	Dividends distributed (excluding the Ministry of the Treasury)
5,882 billion	
THE STATE	Taxes and dividends
8,733 billion	
SUPPLIERS	Consumption of raw materials and external services, industrial investments (*)
52,111 billion	

(*) External costs, net of licence fee, industrial investment, net of increments for internal work, net of related costs and investments.

The reconstruction of the process of distributing added value, by reclassifying the items in the balance sheet, highlights significant increases over 1999 in the contribution Telecom Italia made to the principal stakeholders.

The share of value added destined to go to the State (including taxes, social security contributions, telecommunications licence fee and dividends to the Ministry of the Treasury) amounted to 8.733 billion lire with a reduction of 13% on last year, in view of a decrease from 167 billion lire to 79.6 billion lire of non-repayable grants received by the Group. The value distributed to the minority shareholders increased by 1.8%.

The value distributed to the approximately 115,000 employees, notwithstanding a 6.5% reduction in personnel, also increased by 1.7%. The net contribution to suppliers for industrial investments and for the procurement of raw materials and external services (net of the telecommunications licence fee) was 52,111 billion lire, almost double the previous year's figure, contributing significantly to the production and activities of many Italian companies.

Special thanks to:

- All those colleagues who have taken an active part in gathering the data necessary for preparing this document.
- **SODALITAS** – Associazione per lo Sviluppo dell’Imprenditoria nel Sociale (formed by Assolombarda) for its support and guidance on the path to sustainability reporting. (E-mail: sodal@tin.it)
- **CSR Europe** (Corporate Social Responsibility) for providing the information regarding themes and programmes on Building Corporate Social Responsibility in Europe. (E-mail: csreurope@csreurope.org)

Telecom Italia S.p.A.
Viale Europa, 190
00144 Rome

Tel.: +39.06.36876060
Fax: +39.06.36875170

E-mail: maria.puzzo@telecomitalia.it

Graphics Project

Massmedia partners srl - Milano

Photographs

Laura Ronchi/Tony Stone

Grazia Neri

Olympia Stock Division

Contrasto

Translation and editing

Teach In - Language and Training Workshop srl

Printing

Ilte Moncalieri

on ecological paper

Printed November 2001