



## Sustainability way

Report on activities 2005 >>

## Summary

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... we have invented a strategy that relies on five pillars. Firstly, we must exploit the synergies which have resulted from integration by allocating a large proportion of the resources which have thus been released for researching and developing innovative technologies, for strengthening our position on the market and for implementing new projects to improve customer care.

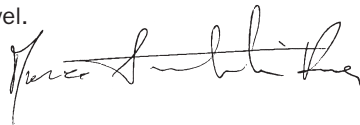
Then we shall proceed with the continuous development of the network, giving priority to the development of a single transport infrastructure based on the Internet Protocol, to bring new technologies to the market and improve the quality of service. As a result, we shall be able to concentrate our energy and initiative on the importance of the customer, by providing channels, structures and systems capable of ensuring a rapid, effective, adequate response to the new technological context. Through the new network and by giving greater attention to customer satisfaction, we are confident that we shall be able to maintain the market leadership in all areas: in fixed services, in mobile services and in convergence based on broadband. The effectiveness of such plans relies, of course, on the quality of our employees, quality which will be tailored to reflect the new technological competitive dimension towards which we are heading. It will involve large investments to enhance and raise the level of their professional skills. Over the next three years, this commitment, which will focus on training, the development of new jobs and recruitment, will involve at least 80% of our employees.

In so doing, we intend to augment our level of productivity, which has already risen by 26% since 2001.

This is the basis on which we intend to build the future growth of Telecom Italia, so that it will become one of the great protagonists of the new world of digital communications: the most advanced operator from a technological point of view, and the most attractive from the point of profits.

We intend to pursue this objective while maintaining our firm commitment to respect the principles of correct conduct, transparency of corporate decisions and responsibility with regard to the various stakeholders which regulates the governance of the Group.

We intend to reinforce these principles, in keeping with our Code of Ethics and with the commitments made at a national and international level.



(from the Chairman's letter to the Shareholders - Annual report 2005)

“To Telecom Italia Group Sustainability is a business value, a tool for planning, management and control”.

For the past nine years Telecom Italia Group has been publishing a special report about its performance towards stakeholders on which the Group depends and, at the same time, influences by its own activities: Customers, Suppliers, Competitors, Institutions, the Environment, the Community, Human Resources, Shareholders.

The Sustainability Section is included in the Annual Report, thus confirming the intention of the Group to present its financial performance together with the non-financial one.

## Acknowledgements



The inclusion of Telecom Italia S.p.A. in both the categories of indexes managed by Dow Jones has been confirmed:

- The Dow Jones Sustainability World Indexes (DJSI World), including 317 companies from 24 Countries, Sustainability leaders at World level;
- The Dow Jones STOXX Sustainability Indexes (DJSI STOXX), including 156 companies from 12 Countries, Sustainability leaders at European level.

Telecom Italia S.p.A. has also been confirmed as a component of all the significant indexes (tradable and non tradable) of the FTSE4Good:

- FTSE4Good Global (740 companies): the first 100 companies by market capitalization are included in the FTSE4Good Global 100 - tradable index;
- FTSE4Good Europe (290 companies): the first 50 companies by market capitalization are included in the FTSE4Good Europe 50 - tradable index.

Telecom Italia S.p.A. is also included the following indexes:

- ESI (Ethibel Sustainability Index): the Global index includes 180 securities, while the Europe index includes 84 securities;
- E.Capital Partners - the Global index consists of 300 securities while the Europe index consists of 150 securities;
- ASPI (Advanced Sustainable Performance Index) Eurozone includes 120 companies selected by the Vigeo agency;
- Axia: the Italian Corporate Social Responsibility index includes 30 companies while the European index consists of 40 companies.

Telecom Italia S.p.A. has been ranked among the best 100 companies at world level with reference to the quality of its Sustainability reports in the “The Global Reporters 2004 Survey” conducted by the specialised agency SustainAbility in collaboration with UNEP (United Nations Environment Programme) and the rating agency Standard & Poor’s.

The Corporate Governance of the Telecom Italia Group has earned a 7+ score (on a 10-point scale) by Standard & Poor’s Governance Services. This very positive rating achieved in 2005 reflects in particular the improvements in terms of transparency and quality of internal controls.

## Results

- Telecom Italia Group has presented to the Financial Community its Sustainability Model, meeting in London the representatives of some Investors specifically focused on Socially Responsible Investment (SRI). The meeting was based on a presentation by the Chief Financial Officer (CFO) of the Group, followed by a session of “Q & A” and by some one to one meetings. The financial analysts expressed their appreciation for the Group Sustainability Model and offered some useful suggestions for future improvements.
- Two significant events have been organised by CSR Europe, an European organisation promoting corporate responsibility, of which Telecom Italia S.p.A. is a member:
  - the launch of the “European Roadmap of Businesses towards a Sustainable and Competitive Enterprise”. The Group took part in the drawing of the document, of which Chairman M. Tronchetti Provera has been “Sponsor Ambassador” together with five other leaders of large multinational companies. The Roadmap outlines objectives and strategies aimed at consolidating the commitment of European companies on Sustainability and appeals to EU in order to integrate Corporate Responsibility into the Lisbon Strategy on competitiveness as well as to define a European Strategy on Corporate Responsibility;
  - the “European MarketPlace” on Corporate Responsibility, during which European companies presented 100 projects particularly significant in terms of application of the Corporate Responsibility concepts to business. The Group presented the projects “The intangible assets of Telecom Italia Group” coordinated by the Group Sustainability Department and “Dream Mission” coordinated by Progetto Italia.
- The Group took part in the meeting “Business Contribution to the Millennium Development Goals”, the objectives identified by the United Nations (UN) to achieve equity and solidarity at world level.  
During the round table on Public Governance the representatives of the Group illustrated two proposals:
  - to create an Authority USA/EU committed to the definition of projects, to the control of consistency with respect to targets and to the control of investments;
  - to assess the convergence between EU and USA accounting principles, in order to integrate the financial and non financial performance in an equitable and sustainable business context.
- Telecom Italia S.p.A. took part in the consultations of European Commissioners Verheugen (Commission Vice President, Commissioner for Enterprise and Industry) and Spidla (Commissioner for Employment, Social Affairs and Equal Opportunities) to launch an “Alliance” between the European Commission and the European companies committed to Sustainability, in order to make Europe a pole of excellence on CSR. Such Alliance should be formalised in the first months of 2006 and involves the following activities:
  - raising awareness and improving the knowledge of CSR;
  - developing cooperation on the CSR issues;
  - ensuring a favourable environment for the development of CSR in Europe.
- With the aim of improving awareness on the Sustainability model adopted by the Group a training plan has been launched. The initiative also aims at favouring the dialogue among people operating on this issue and to standardise common knowledge.  
The following initiatives have been organised:
  - publication of a 40-page booklet intended for the about 1,400 managers operating in Italy;
  - publication on the Intranet portal of an e-learning multimedia product initially intended for managers operating in Italy and subsequently for all the Group staff;
  - realisation of classroom courses intended for staff responsible of Sustainability and the relevant data (data owners) to be held at all the central departments and Business Units of the Group.
- The guidelines relative to an “Antitrust Compliance Program” are being defined.  
The program consists of multilevel information and training initiatives and aims at spreading within the Group the correct cultural approach to the antitrust regulation, as well as awareness that competition is not a threat but on the contrary an essential asset for business activities.

## Objectives 2006 - 2008

In order to improve support to customers as far as the two main supply processes of the fixed telephone service, that is line connection (both traditional and high speed ADSL) and technical service, the "Evolution" project has been launched, described in detail in the "Customers" section.

The following environmental targets have been defined:

- Energy: optimising consumption.
- Waste: promoting the differentiated collection.
- Paper: promoting the reduction of consumptions and the use of recycled paper.
- Emission of carbon dioxide: reducing emissions by the corporate car fleet and by heating systems.
- Electromagnetic emissions:
  - promoting the SAR qualification (Specific Absorption Rate) for mobile terminals;
  - optimising the management of the electromagnetic field intensity for Base Transceiver Stations.

Dedicated work teams will be organised in 2006 to make sure that business management is oriented to the respect of targets.

During the year a policy concerning human rights and labour standards will be defined and applied to all subsidiaries, thus assuring adequate protection in the various countries where the Group operates.

The year 2006 will also see the definition of another policy concerning the methods adopted by Telecom Italia Group in its relationships with suppliers, to safeguard ethical, environmental and social values, consistently with the principles of the Code of Ethics of the Group.

Such policy will be published on the website <http://suppliers.telecomitalia.it/> to enable consultation and sharing by all suppliers.

To ensure the respect of such policy special control procedures will be applied to the entire supply chain.

The section dedicated to Sustainability of the Group website is being reorganised in order to provide the best information service to analysts, investors and other stakeholders.

The Group is currently working to the definition of an evaluation model for intangible assets, that generally are not represented by the traditional accounting reports. The ability to innovate, human resources, the quality of service, the respect for the environment and local Communities all concur to non-financial performance, considered with increasing interest by the market. The results achieved will be presented in a convention at the Bocconi University of Milan.

Telecom Italia takes part in the drafting of guidelines aimed at minimising energy consumptions for broadband technology. The initiative has been promoted by the European Union through the Joint Research Centre and involves the most important players of the sector in the drafting of a Code of Conduct defining power management methods and technical solutions to contain energy consumptions, both by customers and providers.

## References

The strategy and programs for Sustainability have been defined and implemented by Telecom Italia Group considering the guidelines issued by the most important organisations operating at world level for the orientation and standardisation of Corporate Responsibility.

Since 2002 Telecom Italia has adhered to the principles set out by Global Compact, the most important initiative at world level, launched in 2000 by the United Nations, to promote the environment conservation, the respect of human rights and labour standards, and anti-corruption practices.

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

GC Principles	GRI Indicators	Paragraph related to the GC Principle	Pages
1 Businesses should support and respect the protection of internationally proclaimed human rights; and	HR1, HR2, HR3, HR4	Results, Objectives 2006-2008, References, Suppliers, The Community, Human Resources	4, 5, 6-7, 19-21, 44-46, 61-62
2 make sure that they are not complicit in human rights abuses.	HR2, HR3	Objectives 2006-2008, Suppliers, Human Resources	5, 19-21, 61-62
3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;	HR5, LA3, LA4	Human Resources	57-58, 61-62
4 the elimination of all forms of forced and compulsory labour;	HR7	Objectives 2006-2008, Suppliers, Human Resources	5, 19-21, 61-62
5 the effective abolition of child labour;	HR6	Objectives 2006-2008, Suppliers, Human Resources	5, 19-21, 61-62
6 the elimination of discrimination in respect of employment and occupation.	HR4, LA10, LA11	Objectives 2006-2008, Suppliers, Human Resources	5, 19, 53, 61-62
7 Businesses should support a precautionary approach to environmental challenges;	3.13	Objectives 2006-2008, Suppliers, The Environment	5, 19-21, 31-41
8 undertake initiatives to promote greater environmental responsibility; and	EN1, EN2, EN3, EN4, EN5, EN6, EN7, EN8, EN9, EN10, EN11, EN12, EN13, EN14, EN15, EN16, 1.1	Results, Objectives 2006-2008, Suppliers, The Environment	4, 5, 19-21, 31-41
9 encourage the development and diffusion of environmentally friendly technologies.	EN17	The Environment, The Community	31-41, 48-50
10 Businesses should work against all forms of corruption, including extortion and bribery.	SO2	Objectives 2006-2008, Charters, Codes and Values, Suppliers, Shareholders	5, 8, 19-21, 65, 70-76

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

- the ISO 9000 and ISO 14000 certifications for Quality and Environment Management Systems, ensuring the quality of service to customers and the safeguard of the Environment;
- the Social Accountability 8000 (SA8000) standard, aimed at favouring the respect of human rights and labour standards by companies and by their suppliers;
- the methods suggested by the London Benchmarking Group (LBG) for measuring investments in the Community;
- the principles stated in the Conventions of the International Labour Organization (ILO) for the respect of the fundamental rights of workers.

The Group Corporate Governance system, aimed at protecting Shareholders and conforming to the Code of Ethics, reflects the highest national and international standards.

The basic principles are the central role of the Board of Directors and of independent Directors, the transparency of management choices, the effectiveness of the internal control system and the strict control of potential conflicts of interest. The internal control system integrates the Organizational Model, ex Legislative Decree dated June 8, 2001, No. 231, aimed at preventing offences listed in the same and including corruption, extortion and corporate crimes. Further information is included in the “Corporate Governance” section of this report.



## Charters, Codes and Values

The Charters of Services describe the principles of conduct with regard to customers and the commitments undertaken by the main companies of the Group in terms of quality of the service. The Charter of Services and the General Subscription Conditions of Telecom Italia are available on the company's website ([www.187.it](http://www.187.it)).

Codes, procedures and principles supporting the governance system are available in the appropriate section of the [www.telecomitalia.it](http://www.telecomitalia.it) website and on the Group Intranet, providing easy access to all the staff.

The pillar of the system is the Code of Ethics, representing the primary component of the organisational model and of the overall internal control system of Telecom Italia Group, founded on the belief that ethics in the conduct of business is a requirement for business success. The respect of the Code of Ethics is a requirement for governing bodies, management and employees of all the Companies of the Group, within the boundaries of their competences, functions and responsibilities.

The commitment of the Group to ethics issues is confirmed by the fact that also for the triennium 2006-2008 Sustainability is included among the Group objectives established by CEOs Carlo Buora and Riccardo Ruggiero. The objectives identified are the basis of the risk management system CRSA (Control and Risk Self Assessment), described in detail in the section "Shareholders".

The System of Values adopted by Telecom Italia is a constant benchmark of conduct for all the Group's employees, creating a sense of belonging to a single organisation.

Concerning executive staff, the Group System of Values involves the adoption of a Managerial Model, that is a synthesis of the standards of conduct to which the Group managers are expected to conform in their dealings with the business objectives.

<b>Values</b>	<b>Managerial Model</b>
Customer focus	Central importance of the customer
Taking responsibility	Creation of value
Innovation	Investing in people
Pro-action	Management of change
Efficiency	Networking and integration
Integration	
Transparency	
Professional excellence	

The year 2005 has seen the realisation of the Project for Values, known through the brand "Values in Progress", an initiative promoted by the Company's top management and aimed at improving the spread of values with special reference to transparency, customer focus, integration. During the year the Project has involved about 3,000 people in workshops, laboratories, training.

## Reporting and planning

The analysis of the performance and the relevant reporting are based on a multi-stakeholder approach and on a set of approximately 300 KPI (Key Performance Indicators) developed taking into account the GRI (Global Reporting Initiative) indicators, based on the principles of Global Compact, the Social Statement indicators, developed by the Ministry of Labour and Social Politics within the framework of the project CSR-SC and the questionnaires sent by the main rating agencies (SAM for Dow Jones Sustainability Indexes, EIRIS for FTSE4Good, SIRI) for the purpose of admission to the Sustainability stock-exchange indexes.

The KPIs are grouped in macro areas relevant to the main themes being analysed.

The KPIs are managed through the centralised software platform “Everest”, also used to manage other Company’s applications governing accounting, financial and control processes. This also allows data sharing among the various platforms, thus ensuring the maximum integration of Sustainability in the other Company’s processes.

A Sustainability Evaluation Form has to be filled in for all the investment projects exceeding a defined amount that have to be submitted to the Investment Committee for approval.

The Evaluation Form has to report the impact in terms of Sustainability of the investment: the project managers are required to indicate whether the project submitted for approval is going to have a positive, negative or neutral impact in terms of Sustainability on some relevant areas identified for each stakeholder.

The evaluations reported on the investment forms, together with other projects reported by the Sustainability key persons for each Corporate department, are included in the Sustainability Plan, that covers 3 years.

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

FTSE4Good (Financial Times Stock Exchange): equity indexes including companies respecting defined standards of responsibility, managed by FTSE in co-operation with EIRIS (Ethical Investment Research Service).

SIRI (Sustainable Investment Research International Company): company operating in the SRI (Socially Responsible Investment) sector providing research and consultancy services.

## Hot Topics

Telecommunications may substantially contribute to the improvement of the quality of life and of the environment. Audio and videoconference systems, telework, e-government and e-learning decrease transfer needs and consequently atmospheric emissions, increasing at the same time the potential access to tools and contents that until recently were available to a minority of people.

Distance among people is thus decreased and human relationships are generally made easier, but only if the new technologies are available to everybody. It is important that the ICT (Information and Communication Technology) operators ensure access without exclusion to their services, favouring the so-called "digital inclusion".

The diffusion of innovative technologies, allowing the exchange of ever increasing volumes of data, involves possible data confidentiality problems and therefore the safeguarding of privacy. The multiplicity of contents easily accessible on the web involves the problem of protecting subjects potentially at risk, such as minors. For several years electromagnetism has been the subject of much debate within the scientific community and public opinion and is a relevant topic for the operators of the sector. Also significant is the attention to the respect of human rights and of labour conditions, most of all in developing Countries.

The sections describing the position of the Group on Sustainability hot topics are listed below:

- **Digital inclusion**
  - Training interventions in schools (section "The Community" - p. 46).
  - Services specifically devoted to elderly and disabled people (section "Customers" - p. 18; and section "The Community" - p. 46).
  - Future Centre and Science Festival (section "The Community" - p. 44).
  - Special initiatives with reference to competent international organisations such as International Telecommunications Union (ITU) (section "Competitors" - p. 23).
- **Electromagnetism and impact on local communities**
  - Technologies applied and control of emissions (section "The Environment" - p. 36 and following).
- **E-security**
  - Scientific research and protection measures applied (section "Customers" - p. 16).
- **Privacy**
  - Measures for the safeguarding and protection of data (section "Shareholders" - p. 63).
- **Protection of minors with respect to on-line contents**
  - Codes of conducts endorsed and protection measures applied (section "Customers" - p. 16).
- **Labour and human rights in Latin America**
  - Specific actions implemented in subsidiaries located in Brazil and Bolivia (section "Human Resources" - p. 61).

Further information is available from the Sustainability section of the Group website.

## Financial data and added value

The following tables show the added value of Telecom Italia Group, calculated on the basis of accounting data, its distribution among stakeholders and the related contribution (the values for 2004 have been recalculated on the basis of the IFRS principles applied in 2005).

### TELECOM ITALIA GROUP - SELECTED FINANCIAL DATA

(millions of euro)	2005 (a)	2004 (b)	Change % (a-b)/b
Sales and services revenues	29,919	28,292	5.75%
Total revenues and operation income	30,597	29,391	4.10%
Gross operating profit (GOP)	12,517	12,864	- 2.70%
Operating profit	7,499	7,603	- 1.37%
Net income (loss) before minority interest	3,690	2,834	30.20%
Net income (loss) - Parent Company	3,216	1,815	77.19%
Shareholders' equity at December 31 (Parent Company + minority interests)	26,985	20,798	29.75%
Net borrowing at December 31	39,858	32,862	21.29%
Investments	20,107	5,870	242.54%
Employees at year end	85,484	82,620	3.47%

### ADDED VALUE

(millions of euro)	12.31.2005 (a)	12.31.2004 (b)	Change % (a-b)/b
Standard production value <sup>(1)</sup>	30,409	29,010	4.8%
Raw materials and external services	(12,937)	(11,812)	9.5%
<b>Gross added value</b>	<b>17,472</b>	<b>17,198</b>	<b>1.6%</b>
Other items <sup>(2)</sup>	1,913	1,311	45.9%
<b>Added value</b>	<b>19,385</b>	<b>18,509</b>	<b>4.7%</b>

(1) Includes profits, work in progress change, inventory change, costs for internal works capitalised, contributions for operating expenses.

(2) Represent the balance between the following items of the income statement: other operating costs/other operating income, dividends distributed, value adjustments to financial assets, net income from equity investments, financial income, loss and profit from actualisation, loss and profit on exchange rates, end of year result owing to Parent Company or third parties, Discontinued Operations.

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

(millions of euro)	12.31.2005 (a)	12.31.2004 (b)	Change % (a-b)/b
Employees	2,868	2,840	1.0%
Institutions	3,524	3,724	(5.4%)
of which:			
• Social security costs	807	803	0.5%
• Income taxes	2,395	2,654	(9.8%)
• Indirect taxes	141	153	(7.8%)
• TLC license fees	181	114	58.8%
Shareholders	2,342	2,780	(15.8%)
Financers	5,113	4,093	24.9%
Business (depreciation and amortization, reserve funds for risks and fees, other accruals and adjustments)	5,538	5,072	9.2%
<b>Added value distributed to stakeholders</b>	<b>19,385</b>	<b>18,509</b>	<b>4.7%</b>

### CONTRIBUTION TO THE STAKEHOLDERS

(millions of euro)		
Suppliers <sup>(1)</sup>	16,509	Consumption of raw materials and external services, industrial investments
Institutions <sup>(2)</sup>	3,524	Expenses, taxes and state contributions
Employees	2,868	Cost of labour net of compulsory contributions
Shareholders	2,342	Dividends deliberated
Financers	5,113	Interest and other financial costs

(1) The breakdown of the contribution to this stakeholder is described at the section "Suppliers".

(2) The breakdown of the contribution to this stakeholder is described at the section "Institutions".

## Customers



### ► Fixed-mobile integration

The Group is currently implementing the integration between fixed and mobile telephony, in order to get the best out of the opportunities arising from the growing convergence among technological platforms and from market development.

The evolving technological trends favour interaction both among the various infrastructures for voice/data transfer, and among offers of telecommunications and related sectors, such as information technology, media and consumer electronics, thus offering to operators the opportunity to develop new services and to improve the management and development of network infrastructures.

The spreading of the IP protocol for voice, data and video transfer, the availability of new broadband technologies for wireless access to the fixed network, the growing usage of advanced multistandard terminals, are just some among the many factors that motivate the fixed-mobile convergence.

Thanks to its ongoing integration process, the Group is able to offer top innovative services and to meet the increasingly complex communications needs of its customers, wherever they are and whichever technological media they use.

### ► Focus on customers

The initiatives launched by the Group in view of improving customer satisfaction are described below:

- Within the framework of performance related compensation, Telecom Italia S.p.A. has a target relative to customer satisfaction. In fact, besides the income indicator (Gross Operating Profit), a Customer Loyalty indicator has a 30% incidence on performance related compensation. The latter indicator is an average of customer satisfaction with regard to services, of Customer Relationship Management, image and technical quality.
- A project, called "Evolution", has been launched in order to meet needs and expectations of Telecom Italia's customers concerning the two main features of the fixed telephone service provision, that is, access (both traditional and high speed ADSL) and maintenance. "Evolution" represents Telecom Italia's commitment, and it spreads along a three-year span. The relevant activities are due to start in January 2006, involving over 20,000 people working in call centers or in technical departments. Over 100,000 man-hours will be devoted to developing new IT tools, over 20,000 people will be trained, and investments amounting to over euro 300 million will be added in a three-year span. The most important innovations concern on the one hand, the capability of estimating the required time for problem-solution and, on the other, transparency towards customers concerning the process of problem solution, thanks to a telephone service number, 187 or 191, from which the customer will obtain professional answers and precise commitments.
- Telecom Italia S.p.A. makes use of an "Integrated Feedback System", through which customer's opinions can reach strategic and managerial levels. Customers' needs are taken in consideration when developing new services or improving existing ones.

- In order to provide an independent assurance on the safety of its services, TIM has signed a Protocol with Legambiente, promising its full availability to Legambiente technicians during their controls relative to the Radio Base Stations safety. Further information is available in the paragraph “Electromagnetic emissions”, section “Environment” of present report.
- Since July 1, 2004 Italian Mobile operators provide access to C.E.I.R., the Central Equipment Identity Register of the GSM Association. The system enables customers, in the event of theft or loss of their mobile, to contact the operator free of charge and communicate their IMEI code (the terminal identification serial number) asking to bar the handset. From July 1, 2004 to December 31, 2005 TIM Italia has barred – following requests from customers – 110,000 mobile phones (including those running on other mobile operators’ networks, in accordance with the relative agreement) which had been stolen or lost; 2,600 of such phones have subsequently been reactivated after being found by the customers.
- The “VAS (Value Added Services) network” project was launched in 2005 for mobile phones and expanded to fixed telephone services in 2006. A network of the Group’s employees has the task of testing added value services, thus providing feedback for the fine-tuning of new commercial offers and gaining information on customer behaviour.

## ► Effectiveness of CRM

The Group has adopted a multi-channel approach to CRM (Customer Relationship Management), providing customers with technical support centres, toll-free numbers and websites, each devoted to some particular kind of service and country.

The Group’s CRM systems:

- provide information and technical support;
- manage customer calls either directly (One Call Solution) or activating the proper departments in charge of solving the detected problem;
- update customer profiles, keeping track of calls received by call centers;
- manage commercial contacts, sell and activate contracts.

The CRM staff is adequately trained from the technical and behavioural viewpoints and is supported by a portal providing guidelines for solving problems, in a One Call/On Line Solution perspective.

Customer Satisfaction is monitored on a monthly basis, through external telephone surveys on the quality of Customer Care. Feedback is focused in particular on customers’ perception of the main components of service (access, courtesy and competence of the CRM Front End), besides Overall Satisfaction.

A systematic analysis of results is conducted in order to identify points of strength as well as areas for improvement, in order to plan and implement the appropriate corrective actions should critical issues be identified.

### Customer satisfaction on customer care

	Customer segment	Overall satisfaction	Courtesy of operator	Competence of operator
Fixed Telephony	Consumer <sup>(1)</sup>	69.5%	93.6%	84.4%
	Business <sup>(2)</sup>	59.7%	91.9%	78%
Mobile Telephony	Consumer <sup>(3)</sup>	86.3%	– <sup>(5)</sup>	– <sup>(5)</sup>
	Business <sup>(4)</sup>	78.5%	– <sup>(5)</sup>	– <sup>(5)</sup>

(1) Satisfaction with customer service provided by 187; 2005 average.

(2) Satisfaction with customer service provided by 191; 2005 average.

(3) Satisfaction with customer service provided by 119; 2005 average.

(4) Satisfaction with customer service provided by business toll-free numbers; 2005 average.

(5) Not detected.

## ► Innovation

Some among the most significant innovations introduced by the Group are detailed below:

### Main innovations introduced on the Italian market in 2005

<b>Wireline</b>	<b>Telephony</b>	<ul style="list-style-type: none"> <li>• Introduction of videophones with innovative features, such as remote upgrade and SIM card reader.</li> </ul>
	<b>Internet</b>	<ul style="list-style-type: none"> <li>• Launch of the new high speed profile "Alice 4 Mega"; to expedite usage of multimedia services on the web the launch was preceded by a speed upgrade from 640 Kbit/s to 1.2 Megabytes and subsequently from 1.2 to 4 Megabytes for Flat-rate plan offers, without increase of the monthly subscription fee paid by the customer.</li> <li>• The "Alice Mia" offer has been enhanced adding the option "Alice Mia Dect", the VoIp offer by Telecom, which uses the Dect/Gap telephones currently being marketed, such as the innovative Aladino telephones.</li> <li>• The "Alice Business" offer has been enhanced by two new options: "Alice business Voce", the VoIp offer for SOHO businesses (Small Office Home Office) allowing unlimited calls towards the fixed network against a flat rate, and "Alice Business Mobile", allowing access to broadband services also through a TIM Windows mobile palmtop.</li> </ul>
	<b>IPTV</b>	<ul style="list-style-type: none"> <li>• A trial of the IPTV (Internet Protocol TV) service has been launched in July involving over a thousand families: through an ADSL connection the service allows access to several programs and video content with high quality images. The commercial launch of the service will involve 21 towns, that is over 4 millions of families.</li> </ul>
	<b>VAS</b>	<ul style="list-style-type: none"> <li>• The new "Teleassistenza" service is available since June. A tele-assistance centre is operating over the 24 hours and may be called in case of need.</li> <li>• The offer relative to the management of business Desktops has been enhanced adding palmtop devices.</li> <li>• The "LAN Management" offer has been enhanced by a Governance Room for remote hardware and software service to customers.</li> <li>• The "ICT Security" offer has been enhanced adding the Real Time Security Monitoring services.</li> </ul>
<b>Mobile</b>	<b>Network upgrade</b>	<ul style="list-style-type: none"> <li>• The development of "TIM Turbo" in terms of coverage and data transmission speed is continuing. TIM Turbo, thanks to the EDGE and UMTS integration, allows access to the advantages offered by third generation services (3G) to the entire population covered by the GSM network, including residents of remote areas, thus contributing to the decrease of the Digital Divide.</li> <li>• TIM completed the upgrade of the GSM platform in support of the EDGE service through the related microcellular network coverage.</li> <li>• The development of UMTS continues according to a faster schedule than required by licence restrictions, aiming at increasing population coverage. UMTS coverage of 80% of the population (outdoor coverage) is planned to be achieved by 2007 through the implementation of about 11,000 Radio Stations.</li> </ul>
	<b>3G services</b>	<ul style="list-style-type: none"> <li>• "Turbo Call" allows two users to share and exchange in real time, anytime during a vocal call, multimedia content such as images, photos, videos.</li> <li>• The "Videochiamata TIM" from WEB service allows TIM customers to start or to receive videocalls from other TIM customers equipped with a videophone, directly on their home computer. This service only requires a computer equipped with the videocall software customised by TIM and an Internet connection.</li> <li>• The fixed-mobile videocall service allows TIM customers to start or to receive videocalls from a fixed network videophone.</li> </ul>
	<b>Other services</b>	<ul style="list-style-type: none"> <li>• The "TIM Talk" service is a "Voice over IP" application, based on the "Push to Talk over Cellular (PoC)" technology; it allows business customers to use the Walkie Talkie functions directly on their mobile phone, offering a one to one (between two customers) and one to many (between a sender and several recipients at the same time) communication mode.</li> <li>• The handset portfolio and the offer for TIM Mobile Office were enhanced thanks to the introduction of the Treo 650 EDGE terminal, the first smartphone with the Palm One operating system. The Treo is a particularly useful smartphone for the management of mobile emails, it integrates a wireless email service, a compact GSM/GPRS/EDGE mobile phone and a Palm OS organizer.</li> </ul>



Context	External Stakeholders	Internal Stakeholders	Auditors' report
			<ul style="list-style-type: none"> <li>• "I.Music Store" is TIM's music service. TIM customers have access, directly from their WAP terminal or from their home computer, to a wide selection of music, ringtones, sound tracks. Tracks are protected by digital rights and may be unloaded on the mobile phone or computer and enjoyed anytime.</li> <li>• "FleetNET Easy" is a service for the localisation and monitoring of vehicle fleets, simplified thanks to the innovative NIMBLE platform (Non Intrusive Mobile Location Environment) owned by TIM. The localisation occurs by means of radio-mobile network cells: simple terminals may be localised (provided they are equipped with 128k SIM), thus there is no need of the installation of <i>ad hoc</i> terminals on the fleet.</li> <li>• The "Telepay ATAC" service allows TIM customers to avail themselves, seven days a week and 24 hours a day, of the offer by the Rome City public transport company, for the paperless purchase of tickets through SMS with payment by credit card.</li> </ul>
<b>Media</b>	<b>Television</b>		<ul style="list-style-type: none"> <li>• The trial phase concerning Digital Terrestrial Television (DTT) was concluded in 2004 and the first few months of 2005 saw the launch of the Pay Per View (PPV) on DTT trial. The sale to the public of PPV service started in the summer 2005.</li> <li>• Interactive applications usable via decoder have been launched in 2005 as well as the trial phase for DVB-H technology (enabling DTT on mobile phones).</li> </ul>

## ► Care for the quality of service

The main policies through which the Group states its commitment to the quality of service are its Charters of Services and the General Subscription Conditions, both available on the Company websites ([www.187.it](http://www.187.it); [http://www.azienda.tim.it/az\\_hpcanale/0,,39,00.html](http://www.azienda.tim.it/az_hpcanale/0,,39,00.html); <http://www.la7.it/cartapiu/pagedettaglio.shtml?40>).

The quality of service, as perceived by customers, is constantly monitored. Some parameters are listed below, out of the several being analysed:

- BU Mobile: customer satisfaction relative to the quality of the Italian network was positive for 90.5% of consumer customers and for 89% of business customers (2005 average);
- in December 2005 73% of customers was satisfied with ADSL services in Italy (overall satisfaction about the service);
- BU Olivetti: the quality of services and products is positively perceived by 80% of consumer customers (weighted average of 95% relative to services and 75% relative to products) and by 77.4% of business customers (weighted average of 75% relative to services and 88% relative to products).

In 2005 the Group's Quality Systems achieved the following certifications:

	Certification	Company/certified activities
Wireline	ISO 9001/2000	Departments: Network, Sales, Marketing & Customer Care, Innovation & Engineering Services, ICT Operations Subsidiaries: TI Sparkle, Elettra, Pathnet, Loquendo
	ISO 14001	Departments: Network, Innovation & Engineering Services Subsidiaries: TI Sparkle, Elettra
	Audiweb	Matrix
	BS 7799	Provisioning, Assurance and Accounting of the Housing and Hosting services
Mobile	ISO 9001	Departments: Network, Sales, Marketing, LAN Planning, Billing
	ISO 14001	Department: Network
	QWEB	Websites: <a href="http://www.azienda.tim.it">www.azienda.tim.it</a> ; <a href="http://www.company.tim.it">www.company.tim.it</a>
	OHSAS BSI 18001	Various TIM territorial departments
	BS 7799	Activities related to information security (management of requests by judicial authorities)
Olivetti	ISO 9001	Business & Market Development, Product & Technology Development, Industrial operations, Market Communication
	ISO 14001	Olivetti Plant at Arnad



## ► Service security

Telecom Italia has set up a specific research group exclusively focused on the security of information and of networks. Over the last three years more than 20 patent applications have been filed to protect innovations achieved in this field.

Concerning the design and implementation of security measures Telecom Italia stands out thanks to the implementation of the most advanced standards. The approach to security deals with all the physical and logical aspects of networks and services, as well as with organisational aspects. Operatively, the management of security on network and service platforms is based on the integration of security activities with the activities required by the traditional processes of infrastructure development, provision of service to final customers and consistency of service quality.

Security activities consist of a cyclic process articulated in three distinct phases: risk analysis and design of security measures; operational management of measures adopted; assessment and review of planned actions.

## ► Protection of minors

The Group's companies implement measures for the protection of minors with respect to online content:

- TIM has contributed to the drafting of the "Code of conduct for premium services and protection of minors" and is asking its service suppliers to endorse it.
- Telecom Italia is a member of FEDERCOMIN, which has undersigned the "Code of self-regulation concerning Internet and minors".
- The Group's television companies, MTV and La7, are signatories of the "Code of self-regulation concerning TV and minors".

In compliance with the organisational model 231 adopted by Telecom Italia Group, the BU Mobile has implemented a procedure aimed at controlling and preventing the diffusion of juvenile pornography.

An "Abuse Desk" has been set up by TIM Italia and an organisational procedure has been adopted, defining roles and responsibilities concerning activities of prevention, reporting and management of occurrences involving the diffusion and advertisement of juvenile pornography through mobile services such as chats, iblogs, MMS application to person, links and banners displayed on institutional sites.

The Security department has the role of "Company officer" with respect to the Post and Communications Police Service. The procedure involves the institution of a "moderator" of chat and iblog services who is required to take immediate action through termination or suspension of any account identified as the author of the diffusion of illicit contents. The moderator is required to take appropriate measures so that the illicit contents detected are made inaccessible to the public. The support and collaboration of external companies providing the above services on behalf of TIM Italia, is also requested. The process to extend such procedure to the entire Group is currently ongoing.

## ► Incident Handling and Crisis Management<sup>(1)</sup>

The protection of the Group's processes and resources is managed through activities of prevention, incident handling and crisis management. Concerning prevention activities, a methodology has been developed in 2005 for Business Operational Continuity, currently applied by two Business Units, Media and Olivetti, as well as by TIM Brazil and some sites of the Italian fixed telephony network. The methodology involves three phases:

- Business Impact Analysis;
- Risk Analysis;
- Operational Continuity Planning.

(1) Considering their impact on the Community stakeholder the activities relative to Crisis Management are included at level 3 of the London Benchmarking Group scheme (see section "The Community").

The Incident Handling activities led to:

- the development of the Incident and Crisis Center for the collection, analysis and management of reports coming from all the Group's Companies;
- the definition of a detailed Group procedure for the management and assessment of incidents, also from the economic viewpoint.

The Crisis Management activities have been aimed at completing the Group Regulatory System, with the publication of the organisational procedure for emergencies and crises involving staff and physical assets.

In the month of February 2005 a test was carried out based on the simulation of a sudden computer attack. The test involved all the components of the Group and allowed to identify possible improvement areas.

## ► Relationships with consumers' associations

The company started its collaboration with consumers' Associations in 1983, when it was still named "SIP". After several agreement protocols, Telecom Italia Group signed in 1997 a Framework Agreement with 12 among the main Associations. The company continued to collaborate with the Associations in 2005, with meetings aimed at safeguarding the consumers' rights with regard to the Group's products and services.

CEO Riccardo Ruggiero has personally presented to the Associations the main projects of organisational development possibly affecting customers, as for instance the reorganisation of Customer Care services ("Evolution Project").

In general, collaboration with Associations involves informative meetings on the launch of new services and on the relevant contractual terms. A positive outcome of the collaboration with Associations is constituted by the "parity"<sup>(1)</sup> conciliation procedures, both traditional or innovative (on-line), that since 1991 have allowed the resolution of about 35,000 disputes with customers.

The Group takes part, as a founder member, in the Consumers' Forum, which brings together Consumers' Associations, companies and research institutes. The Forum deals with consumerism themes. Within this framework the Group attends – from the organisational viewpoint – to the initiatives of joint training between Companies and Associations with regard to Conciliation. Projects and initiatives have been developed in order to promote a "collaborative consumerism" and to provide strategic feedback to the appropriate Group departments. In particular the "Consumers' Week" initiative has been planned and organised. The initiative involved a week of meetings between companies and Associations and aimed at focusing and discussing the most significant issues concerning consumers and users. From November 28 to December 3, 2005 conventions were held in several Italian cities, with attendance of the Group's managers, sparking intense interest in the public and media.

The Group's commitment with regard to consumers' rights is also shown by activities aimed at communicating special contractual conditions for disadvantaged customers and by collaboration with the Associations when defining, as best as possible from the customer viewpoint, the General Subscription Conditions concerning the Digital Terrestrial TV of "La7-Cartapiù".

(1) 'Parity' or 'equivalent' conciliation is a kind of mediation involving two parties on a paritary level without there being a third judging party. In Telecom Italia's procedure the parties are a representative of Telecom Italia and a representative of the customer (chosen by one of the consumer's Associations).

## ► Services for disabled and elderly customers

In order to improve the quality of life of people with special communication needs the Group has developed innovative services in the field of fixed and mobile telephony:

- A tele-assistance service, "Big Angel", has been activated: using a simple two-key cordless phone the customer may contact the Telbios Care Centre, where an operator is available to start support actions, either using the telephone numbers previously agreed with the customer or calling emergency services. Throughout, the operator maintains contact with the customer keeping the situation under control. An automatic free of charge monitoring system periodically checks that the device works properly.
- TIM has been awarded a special mention during the 2005 edition of the Sodalitas Social Award for its software ("Talks") allowing blind and sight-impaired people to use mobile phones thanks to vocal technologies capable of reading the information shown on display (further information is available in section "The Community").
- TIM has continued its activity of development and implementation of services and products accessible through the web in compliance with the WAI (Web Accessibility Initiatives) and W3C (World Wide Web Consortium) accessibility requirements. The innovations introduced chiefly concern the conversion into an accessible format:
  - of the Home Page of the institutional site [www.tim.it](http://www.tim.it);
  - of the web area TIMXTE containing the conciliation procedure for extra-judicial resolution of disputes with customers.
- Families having some definite social and economical features are granted a 50% reduction of the subscription fee, which is also completely waived for the hearing/speech impaired.

## Suppliers



The contribution of the Group to the stakeholder “Suppliers” is reported below (the figures for 2004 have been recalculated on the basis of the IFRS principles applied in 2005).

<b>TELECOM ITALIA GROUP</b>		
(millions of euro)	<b>Financial year 2005</b>	<b>Financial year 2004</b>
Expenditure for raw materials and external services (net of TLC licence fee)	12,756	11,698
· of which correlated entities	414	552
Industrial investments	5,173	5,002
· of which correlated entities and internal capitalization	1,006	1,132
<b>Total contribution</b>	<b>17,929</b>	<b>16,700</b>
· Correlated entities and internal capitalization	(1,420)	(1,684)
<b>Total net contribution</b>	<b>16,509</b>	<b>15,016</b>

The qualitative level of suppliers is monitored along the entire purchasing process through specific procedures applicable at Group level:

- Qualification
- Incoming Quality
- Vendor Rating

These procedures provide guidelines for the definition of control methodologies by commodity categories; operational activities are planned and carried out on the basis of a specific model for risk assessment.

Compliance with procedures is guaranteed by a new assessment process carried out by the Purchasing department and by a set of internal checks for the purpose of correct application of company rules.

### ► Qualification

Qualification is carried out by homogenous categories of product/service and is based on controls of various depths, graduated on the basis of the risk level of the commodity category and even turnover thresholds.

The qualification process, for which supplier access the information through an appropriate Internet site, is divided in several phases:

- 1) Basic qualification: assesses the general and corporate structure of the candidate, possession of the legal requisites (for instance with regard to social security, safety and the environment) and the correctness of administrative position. In this phase the supplier is requested to adhere to the principles of the Code of Ethics of Telecom Italia Group, inspired to the Global Compact principles, in order to ensure the ethical suitability of suppliers.
- 2) Economic/financial qualification: takes place through the evaluation of the last two financial statements, by means of an algorithm that exams the income statements and balance sheets for the purpose of verifying the solidity of the business, with specific acceptance thresholds per sector.

3) Technical/organisational qualification: ascertains the possession of means, knowledge and the supplier's specific experience in the category. Qualification is carried out with the support of evaluation diagrams based on algorithms and audits of the supplier that also allow verification of the veracity of the data shown in the qualification questionnaires.

As regard to certain commodity sectors (for instance "battery supply" and "waste disposal") special attention is paid to safety and environment issues through more accurate checks and stricter requirements as compared to standard.

A positive result from the qualification process allows the supplier to be included into the Suppliers List, which is a required condition for commercial activities with the Group. For lower risk product categories inclusion into the Suppliers Register takes place subject to self-certification of the certification of the basic requisites and signing of the commitment to comply with the principles of the Group's Code of Ethics. As far as foreign subsidiaries suppliers a simplified qualification process is applied, which however takes into account the level of commodity category.

In 2005 the control procedures on sub-suppliers have been extended. Besides control activities on fixed network works and on supply/commutation/transmission works, already scheduled in the preceding years, the Group has implemented a systematic verification process of sub-suppliers with reference to building and technological works for Base Transceiver Stations of the mobile network and for outsourcing activities (for instance Maintenance and Environmental Services). Such process involves technical-economic adequacy assessments equivalent to those of the qualification procedure, even if with less stringent thresholds and criteria. Qualification criteria for sub-suppliers are disclosed and agreed with the suppliers. The latter are also aware of the outcome of the controls carried out.

On the national territory 1,193 product categories have undergone qualification controls in approximately 650 companies. Controls yielded a negative outcome in 55 cases and determined a fixed-term qualification in 173 cases, requiring a new qualification test within a year.

## ► Incoming quality

This is recorded by product/service category and is based on evaluations of the suppliers' conformity to the specific reference techniques.

In the initial phase of the supply or in the case of new suppliers, checks prevalently regard the products, whereas, they are mainly focused on the production process for the suppliers with whom there exists, or for whom it is wished to develop an enduring commercial relationship. The objective is the growth of a co-making relationship with the suppliers that permit achievement of greater operating efficiency and advantages for both parties. The application of penalties on the supplier is provided for in the case of a delay, attributable to the supplier, in achieving the co-making status.

The Incoming Quality assessments carried out on the basis of "check lists" ensuring unbiased verifications, are shared with suppliers, thus providing them with full visibility on the level of satisfaction perceived by the Group and making them aware of any required improvement or corrective action later to be requested.

The achievement of high qualitative standards enables suppliers to avoid regular Incoming Quality controls on batches supplied.

At the end of 2005 a new company reorganization provided for the assignation to the Purchasing department of the responsibility for the incoming quality audits of all the Groups' companies at central level.

The new reorganization will favour an increase of the number of audits performed and an improvement of the qualitative level.

During 2005 over 500 Incoming Quality controls have been performed on approximately 1,000 product batches, delivered by more than 100 suppliers. About ten audits have been performed at foreign manufacturing sites (of which seven in territories outside the European Community). Approximately 10% of the controlled batches showed nonconformity problems with reference to the relevant specifications.

Furthermore, 7,900 audits on the execution of technical works were carried out, mainly focused on the installation phases of new plants and on the phase of provision of services and works. The decreased number of audits as compared to last year is due to the outsourcing of some facility management activities.

Out of more than 4,000 controls performed in the first six months of 2005, 200 yielded a negative outcome with respect to requirements stated on specifications and technical rules. The results of such audits, besides affecting the Vendor Rating indicator, led to:

- inclusion in or exclusion from the Group's Suppliers Register;
- possible authorisation to subcontract activities to third-party companies;
- inclusion in or exclusion from tender lists;
- acceptance or refusal of supplies;
- eventual effects arising from contractual clauses, such as, for example, the application of penalties.

## ► Vendor Rating

This is an indicator calculated on the basis of evaluation of the technical, commercial and administrative performance of the suppliers. This is recorded half-yearly by product-service categories and is directed at monitoring the supplier's overall performance, linking supply volumes to purchase prices through specific contractual clauses, implementing additional quality checks and evaluating the suppliers permanency in the Suppliers Register.

The Vendor Rating system was defined through the following phases:

- definition of supplier evaluation methodology with reference to each commodity category;
- identification of the suitable relevant indicators, for measuring the administrative, commercial and technical quality, and appropriate recording instruments (questionnaires, data recorded on the field, evaluations of Incoming Quality, etc.);
- attribution of the relative weighting to each indicator leading to the construction of the so-called "Vendor Rating tree structure";
- definition of the entity of the valuation sample;
- definition of the responsibility matrix and of the evaluation recording mode;
- tests on the field to verify the correctness of results, on the basis of which appropriate adjustments have to be carried out together with the company departments involved;
- disclosure of methodology to suppliers and start up of the monitoring and reporting phase;
- disclosure of the attributed vendor rating to suppliers and company departments involved, both in Italy and abroad;
- eventual application of contractual measures (penalties, bonuses, change of purchase volumes and of contract duration).

In 2005 the Vendor Rating monitoring activities increased by 40% as compared to last year. In particular:

- new procedures were defined and tested to evaluate outsourcers' performances related to the planning and management of the real estate activity, management of internal and external correspondence and of the vehicle fleet;
- monitoring has been extended to the marketing products sector;
- evaluation indicators relative to waste management have been introduced, mainly in the fields of maintenance and transmission network expansion.

## ► Ongoing projects

The Guidelines to be applied in the analysis of the "life cycle" of products purchased by the Group were defined. Such guidelines are aimed at lowering the environmental impact of the products along their entire life cycle, from design to disposal, verifying for instance issues such as "design for environment", ecological labelling, end of life options.

Telecom Italia takes part, together with other important service and manufacturing companies operating in Italy, in the SIRF project, a Strategic Orientation working group on Sustainability and Integrity in the Relationship with Suppliers. The project defines conduct rules and implementation criteria concerning the Purchasing process through specific guidelines.



## Competitors



### ► Relations

In collaboration with the fixed network operators, Telecom Italia S.p.A. has set up a unique database containing all the numbers and elements necessary for the identification of the subscribers of the fixed network operators operating domestically. The objective is to provide consumers with an information service based on a single list that contains the names of subscribers of all the operators active in Italy. The unique database has become operative during 2005.

Telecom Italia is a signatory of the “Sanremo Pact” of March 2, 2005 aimed at the development of network content and the struggle against on-line piracy. The Pact foresees the involvement of the public and private sectors committed to the diffusion of on-line culture: the Government, suppliers of connectivity, owners of rights, music production, cinematographic, television, publishing, and entertainment houses, as well as the operators of distribution platforms.

The Pact is aimed at creating a digital environment that, while guaranteeing legal compliance, will favour the circulation of content by encouraging owners to make it available on the telematic networks.

### ► Organizations and associations

#### Collaboration with competitors at national level

The participation in the activities of DGTVI, the Association for the development of the Terrestrial Digital in Italy founded by Rai, Mediaset, Bordini Foundation, Radio Television Association and *D-free*, assured the two Group's television broadcasters – La7 and MTV Italia – full visibility on the evolution of dynamics concerning the Terrestrial Digital. In the second half of the year the objectives set out by the Association for 2005 have been achieved:

- the irreversible start up of the digitalisation process, also thanks to the strong boost given by the Association to joint activities among all the parties involved (broadcasters, producers, distributors, content providers, advertising investors, etc.);
- creation of the conditions for the realization of the so-called “all digital” areas (Sardinia and Aosta Valley). In concert with the Institutions and all the founders of the Association the deadlines for the conversion to the Terrestrial Digital in the identified regions have been fixed: March 15, 2006 for digital coverage of province chief towns and July 31, 2006 for the rest of the territory. Moreover, two working groups focusing on the various activities necessary to the Terrestrial Digital project have started, again at regional level;
- exceeding 3 millions decoders: at the end of December 2005 the figure is 3,500,000.

Telecom Italia is a member of the Radio and Television Federation (FRT) as a member of the Chairing Committee. Besides the national and satellitar broadcasters, FRT gathers 150 local TV and radio broadcasters.

Together with other operators of the sector, Telecom Italia Group participates in the Ugo Bordoni foundation, which among other things carries out research, study and consultancy in the sectors of Communications and Information Technologies, with particular reference to the Digital Television sector. The Ugo Bordoni foundation has been legally entitled to the technical supervision of experimental activities relating to Terrestrial Digital transmissions and interactive services.

The contributions of Telecom Italia and TIM to the Ugo Bordoni foundation are included in the calculation of the contribution to the "Community" stakeholder, at level 3 of the London Benchmarking Group (LBG) model (see section "The Community").

The Group participates in the activities of Ambiente Digitale (Digital Environment), an Association promoted by the Ugo Bordoni foundation, gathering all the ICT players in the Terrestrial Digital sector. The primary objective of the Association is the identification of appropriate solutions to harmonise the interactivity development of Digital TV in terms of user services and applications. Telecom Italia S.p.A. is involved in the management of association relationship and co-ordination of lobbying and representation activities with Confindustria and the Associations belonging to the latter.

These initiatives, at national and local level, which in some cases involve concerted action with competitors, consist of actions and meetings relative to the development of the business and safeguarding the corporate interests on the economic, legislative, trade unions and labour themes.

The Group is a member of 97 territorial Associations and of the following category Federations/Associations: Federmeccanica, Federcomin, Aitech, Asstel, Assoelettrica and Assografici.

#### Collaboration with competitors at European Community level

- The Brussels Round Table (BRT), which unites various European TLC and manufacturing companies, is established to maintain a constant dialogue with European Institutions on significant themes concerning the ICT sector at Community level. The CEOs of the member companies attend the BRT and the top representatives of the European Institutions are invited;
- ETNO (European Telecommunications Network Operators' Association) is the largest association in the sector on the Continent and has the development of a competitive and efficient European telecommunication market amongst its objectives, to be achieved through the co-ordination among the operators and dialogue with the Institutions. Telecom Italia is a member of the Executive Board and chairs the Sustainability working group;
- The EIF (European Internet Foundation) unites TLC manufacturers and operators, software providers, ISPs and content providers. The Association aims at creating, within the European Parliament and among the various communications operators represented in Brussels, a favourable environment for fast development of the Internet, broadband, convergence and multimedia technologies and services, benefiting the final consumer;
- ERT (European Round Table of Industrialists) is a forum gathering about 45 leaders of European industry for the purpose of promoting competitiveness and European economy growth;
- The ESF (European Service Forum) includes the European operators in the services sector and aims at promoting the interests of the European services industry and liberalization of the services sector worldwide in the framework of the GATS 2000 negotiations;
- ITU (International Telecommunications Union) is part of the United Nation System and aims at promoting the development of the sector internationally through cooperation between the public and private sectors. Within the sector "Development" of ITU (ITU-D Sector) Telecom Italia chairs the "Project Group Question 10/1 - Impact of the convergence of Telecommunications, Broadcasting and Information Technology", whose task is the diffusion of regulatory matters and rules on convergence in developing countries;
- BRUEGEL (Brussels European and Global Economic Laboratory) is the new European Studies Center constituted on January 18, 2005, on the basis of joint collaboration among the Governments of the European Union and the principal businesses of the continent, dedicated to the analysis of the international economy and the main important industrial sectors;
- ETP (European Telecommunication Platform) unites European TLC and manufacturing companies for the purpose of promoting and discussing common issues relative to TLC.



## ▶ Antitrust activities

"Antitrust Compliance Program" guidelines are being defined. The program consists of multilevel information and training initiatives and aims at spreading within the Group the correct cultural approach to the antitrust regulation, as well as awareness that competition is not a threat but on the contrary an essential asset for business activities.

As regard to the status of the procedures started by the Antitrust Authority (AGCM) and of the related administrative litigations, please make reference to the Note 24 of the Annual Report.

## ▶ Regulatory framework

The regulatory framework of the telecommunications sector is now consolidated with:

- the coming into force, from September 16, 2003, of the "Electronic Communications Code" which adopted into the national regulations the EC directives of the "99 Review" on networks and electronic communication services ("Access", "Authorisation", "Framework" and "Universal service" directives);
- the coming into force, from September 8, 2005 of the "Consolidating act on radio-television", which, among other things, contains the principles for convergence between radio-television and other sectors of interpersonal communications.

A summary of the principal legislative/regulatory acts adopted in 2005 is given below:

### Charters of Services/Pay TV

With Resolution no. 278/04/CSP of December 10, 2004, published in the Official Journal of the Italian Republic on January 20, 2005, the Italian Communication Authority (AGCOM) fixed the minimum reference standards for the adoption of the Charters of Services for the suppliers of pay television services. The general criteria relative to the quality of services was also established.

### Universal Service 1999 - Renewal of the procedure

With Resolution no. 2/05/CIR of March 9, 2005, AGCOM has started the process finalized at the renewal of the procedure for the eligibility of financial support to the net cost for the year 1999 in order to comply with Council of State ruling of July 8, 2003, following the appeal lodged by Vodafone-Omnitel. The procedure aims at ascertaining whether the contribution obligation may be extended also to mobile network operators. With resolution no. 67/05/CIR of October 5, 2005, AGCOM has concluded the renewal of the procedure defining the applicability of the mechanism to both fixed and mobile network operators. Vodafone-Omnitel lodged an appeal with TAR Lazio also against this last resolution.

### Universal Service 2002

With Resolution no. 16/04/CIR, published in the no. 31 of the Official Journal of the Italian Republic of February 8, 2005, AGCOM defined the applicability of the mechanism to distribute and to evaluate the net cost for the year 2002.

AGCOM calculated a net cost equal to about euro 37 million, with a financial support of about euro 24 million in Telecom Italia's favour (of which 12 from TIM, 8 from Vodafone and 4 million from WIND). Vodafone didn't make the payment having lodged an appeal with TAR Lazio against this AGCOM resolution.

### Universal Service 2003 and 2004

In compliance with the Electronic Communication Code provisions, Telecom Italia sent AGCOM an evaluation of the net cost of the Universal Service for the years 2003-2004; respectively on March 30, 2004 and March 31, 2005. On November 17, 2004 and November 7, 2005, AGCOM has published a notice on the start of the related proceedings.

Pursuant to art. 11 of the Electronic Communication Code and by a notice published in the Official Journal of the Italian Republic of March 8, 2005 the Ministry of Communications launched a public consultation on networks and electronic communication services, to verify and re-examine the regulation related to public pay telephones.

By a notice published in the Official Journal of the Italian Republic of November 17, 2005, AGCOM has started the procedure to define the Universal Service quality objectives for the year 2006.

### Interconnection and unbundled access to the local network

With Resolution no. 1/05/CIR of March 9, 2005, AGCOM has approved the reference offer for 2005 that Telecom Italia published on October 29, 2004. AGCOM provided, for some services in particular, the reformulation of the supply conditions (interconnection capacity, supplementary services to the interface, internal telephone exchange links) and financial conditions (Carrier-Preselection collection, invoicing for access to services on non-geographic numbering of other operators).

AGCOM has published in the Official Journal of the Italian Republic of December 7, 2005 a notice on the start of the proceeding for the evaluation of the reference offer for the year 2006, published by Telecom Italia on October 31, 2005.

### Price cap

In the framework of the revision of prices of retail services subject to "price cap" regulations, applying as from January 1, 2005 the monthly subscription fee for business customers was increased by 7.6% (from euro 17 to 18.30). A variation of price for local calls has been in force since January 23 (increase of the call set up price and decrease of the tariff per second) which, however, does not affect the customer's average telephone bill. As from March 1, 2005 a reduction of about 10% of the one-off fee for the activation of new ISDN lines for business customers was applied.

As from September 1, 2005 the termination fees of vocal calls on mobile network operators were reduced. Finally, as from January 1, 2006 the monthly subscription fee for business customers has been increased by approximately 5% (from euro 18.30 to 19.20).

### Contribution referred to in article 20 of law no. 448/98

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

### Market analyses relative to electronic communications

In compliance with Recommendation EC no. 2003/497 and with Electronic Communications Code (Legislative Decree no. 259 dated August 1, 2003), with the Resolution no. 118/04/CONS of May 19, 2004, AGCOM started the preliminary consultations concerning the analyses of the 18 markets mentioned in the Recommendation and in the articles 18 and 19 of the Electronic Communication Code. The procedures' objective is "market analysis, evaluation of competitiveness, identification of possible predominant operators, and creation of a proposal regarding the cancellation, maintenance and modification of the existing requirements, that is the introduction of new requirements".

AGCOM has launched public consultations on the following markets:

- Resolution no. 410/04/CONS (Official Journal of the Italian Republic of December 24, 2004), regarding local, national and fixed/mobile telephone services markets available to the public and supplied through fixed line for residential and non residential customers (markets no. 3 and 5).
- Resolution no. 411/04/CONS (Official Journal of the Italian Republic of January 3, 2005), regarding retail leased lines (market no. 7).
- Resolution no. 414/04/CONS (Official Journal of the Italian Republic of January 4, 2005), regarding the international telephone services available to the public and supplied through fixed line to residential and non residential customers (markets no. 4 and 6).
- Resolution no. 415/04/CONS (Official Journal of the Italian Republic of January 19, 2005) regarding the market of unbundled access (including shared access) to copper network and sub-network for vocal and broadband services (market no. 11).
- Resolution no. 465/04/CONS of February 11, 2005, regarding the market of termination of vocal calls on different mobile networks (market no. 16).
- Resolution no. 30/05/CONS of February 18, 2005, relative to the markets of wholesale services for the collection, termination and transit of calls on the fixed public telephone network (markets no. 8, 9 and 10).
- Resolution no. 69/05/CONS of March 2, 2005, relative to the markets of retail service for access to the public telephone network from telephone booths for residential (market 1) and non-residential customers (market no. 2).

- Resolution no. 117/05/CONS of March 15, 2005, relative to the market of wholesale services for broadband access (market no. 12).
- Resolution no. 153/05/CONS of March 23, 2005, relative to the market of wholesale services for terminal segments of rented lines (market no. 13) and segments of rented lines on trunk circuits (market no. 14).
- Resolution no. 306/05/CONS of July 27, 2005, relative to the market for access and collection of calls on mobile public telephone networks (market no. 15).

The subsequent phases of the above-mentioned procedures provide for the new regulation drafts, modified on the basis of the results of the public consultations, to be dispatched to the Anti-Trust Authority, for a non-binding consultative opinion, and to the European Commission for a binding opinion on the definition of the significant markets and identification of the dominant operators in these markets. Following these two institutional steps, AGCOM will publish the final versions of the resolutions.

### Digital TV

The Ministry of Communications, by a directive of June 20, 2005, established the methods of sending requests for prolonging the length of validity of the licences and authorisations for the transmissions of private television using the analogical technique, both nationally and locally, up to the expiry of the term (December 31, 2006) for the definitive conversion of the transmissions to the digital technique.

In December 2005 two distinct public consultations, started respectively by AGCOM and by the Ministry of Communications, were concluded. The purpose was the realization of a survey on the possible development of the DVB-H services market.

By Decree of December 29, 2005 the Ministry of Communications established a contribution equal to euro 3 million (euro 2 million for Sardinia and euro 1 million for Aosta Valley), for the purpose of realizing and broadcasting interactive services of public utility.

### “12” subscribers information service

Following the coming into force of the Electronic Communications Code, the “12” subscribers information service is no longer a requirement of Universal Service supply as it can be offered in free competition among Operators.

With Resolution no. 15/04/CIR “Attribution of the usage rights for numbering of subscribers information services”, published on the Official Journal of the Italian Republic of December 9, 2004, AGCOM provided for the attribution by the Ministry of Communications of the usage rights of subscribers numbers for the information services (12xy) to the operators that requested it. The operators have been authorized to begin the service from July 1, 2005, with the simultaneous ending of the offer of subscriber information on the Telecom Italia 12 numbering.

With Resolution 12/05/CIR of May 19, 2005 AGCOM, taking into account the accumulated delays in the procedure of assigning the numbering and the request from operators, fixed October 1, 2005 for the release of the new 12xy numbering and the simultaneous ending of the offer of subscriber information on the Telecom Italia 12 numbering.

### WiMax

In October 2004 the Ministry of Communications sent operators a questionnaire regarding the broadband wireless systems (WiMax). The frequency band identified in the greater part of European countries for the development of WiMax is 3.4 - 3.8 Ghz. In Italy such frequencies are assigned to the Ministry of Defence.

At the beginning of June 2005 the Ministry of Defence has freed up a first lot of frequencies in the 3.5 Ghz band. At present these frequencies are the object of a technical experiment in the cities of Rome, Milan, Arezzo and Parma, as well as in large areas of Piedmont, Sardinia, Sicily, Aosta Valley and Abruzzo.

### Public pay telephones localisation

With the Decree dated July 4, 2005, the Ministry of Communications identified the localisation of public pay telephones to which the Universal Service provision obligations may not be applied considering the wide availability in terms of operator and similar services. The identified localisations concern the central railway stations areas of 11 regional chief towns.

**Quality and Charters of Services/Mobile**

With Resolution no. 104/05/CSP, of July 14, 2005, AGCOM issued a directive regarding Quality and Charters of Services for mobile and personal communication services offered to the public on electronic communication terrestrial radio mobile networks. Such directive provides, among other things, the use of special quality indicators and their publication on the operators website, as well as the communication to subscribers and the publication in the national newspapers of the objectives and results achieved in terms of quality of the services.

**Quality and Charters of Services/Internet**

AGCOM published in the Official Journal of the Italian Republic of December 28, 2005 the notice relative to the start of the proceeding on the directive dealing with quality and charters of services for Internet access services from fixed line. The proceeding will end on September 2006.

**AGCOM contribution 2005**

With the Decree of July 22, 2005 the Ministry of Economics and Finance defined fees and conditions of payment for the annual contribution due by operators to AGCOM for its activity. Compared to the previous year, the Decree provided for an increase of the rates from 0.50 to 0.65 per thousand of revenues related to the financial year 2004. The Group paid euro 10.4 million, of which euro 6.5 million by Telecom Italia and euro 3.9 million by TIM.

**Wi-Fi**

With Decree dated October 4, 2005 the Ministry of Communications extended the Wi-Fi regulation to the entire national territory. As a matter of fact, besides parks, railway stations and shopping malls it is now possible to cover the entire territory, offering fast web access services to homes and offices.

## Institutions



The contribution of the Group to the stakeholder “Institutions” is reported below (the figures for 2004 have been recalculated on the basis of the IFRS principles applied in 2005).

TELECOM ITALIA GROUP	Financial Year 2005			Financial Year 2004		
	Total	Italy	Abroad	Total	Italy	Abroad
(millions of euro)						
Social security and pensions	807	750	57	803	763	40
Income taxes	2,395	2,395	0	2,654	2,549	105
Indirect taxes	141	93	48	153	111	42
TLC license fee	181	39	142	114	29	85
<b>Total</b>	<b>3,524</b>	<b>3,277</b>	<b>247</b>	<b>3,724</b>	<b>3,452</b>	<b>272</b>

### ► Relations

The legislation activities of Central National Institutions (Parliament, Government) and local Institutions (Regions, Local Entities and independent sector Authorities) is constantly monitored by Telecom Italia Group. A constant and transparent relationship was established with these institutions with to the object of representing the Group's position in the areas of specific interest and monitoring the approval procedure of the main related legislation. Constant support is supplied to the competent institutions (Parliamentary Commissions, Ministry of Communications and other Ministries, local Authorities) in drafting the legislation for the relative areas of interest.

The relations with Authorities in the countries in which subsidiaries and/or associated companies operate are also the object of particular attention; similar support is supplied for drafting of the main legislation in their areas of interest.

For the purpose of monitoring the activities with a significant impact on the Group, Telecom Italia interacts with the European Commission and its Regulatory Committees (for example the Communication Committee and Radio Spectrum Policy Group regarding spectrum management), the Council of Europe, the European Parliament and ERG (European Regulators Group).

### ► National legislation

The legislative provisions of interest to the Group, both approved or under examination, for 2005, are reported below:

#### Approved laws

- Law no. 43 of March 31, 2005, which modifies the Law no. 128 of May 21, 2004 (“Urbani law”), covers the interventions to counteract telematic diffusion of pirate audiovisual material, as well as in support of the cinematographic activities and entertainment.

- Law of June 24, 2005, converting Decree Law no. 63 of 2005, which introduces measures for co-ordination of the policies on intellectual rights, redefining some competences of the Ministry of Culture and Presidency of the Counsel of Ministers.
- Legislative decree no. 177 of July 31, 2005, (Consolidating act of legislation on radio and television) issued by the Government as provided in art. 16 of law no. 112 of May 3, 2004, "Gasparri law". The legislative text integrates and modifies the existing regulation for the purpose of guaranteeing the best co-ordination and application of the rules, respecting both national laws and obligations arising from the membership to the European Union.
- Constitutional Bill to change the second part of the Constitution. The Bill establishes a Federal Senate to which it entrusts the examination of the fundamental principles of concurrent legislation matter (regulations regarding communications were included, too in the original version of the Bill) leaving the Regions to establish the regulation in details. Telecom Italia has supported the modification proposal approved in the text approved by the Parliament on November 16, 2005, that brought telecommunication regulations back within the sphere of exclusive competence of State, assigned to the Chamber of Deputies. The Bill will undergo a confirmative referendum.
- Law no. 155, July 31, 2005 (converting Decree-Law no. 144/2005) on reinforcement measures to prevent and combat international terrorism. To this purpose the Law contains a provision concerning the prohibition to erase telephony and telematic traffic data, even if not stored for billing purposes, up to December 31, 2007, as well as methods to identify mobile prepaid telephony customers. Moreover, as far as business licence granting for public communications services (telephony or Internet), the law provides for the preventive recording of identity data of subjects using unsupervised public posts for telematic communications or wireless access points. With Decree dated August 16, 2005 the Ministry of Interior has established the operational monitoring and identification procedures by such provision.
- Law no. 266 of December 23, 2005, (2006 Financial Act), has confirmed for the current year a contribution of euro 10 million for the purchase of Digital Terrestrial Television decoder, a contribution however limited to the "all digital" areas (Sardinia, Aosta Valley and 4 more areas to be identified by a decree of the Ministry of Communications). The Financial Act also states that the operative cost of some Authorities and Commissions, among which AGCOM, must be supported by the relevant market. For the year 2006 the law decrees for electronic communication operators a contribution to AGCOM equal to 1.5 per thousand of revenues resulting from the last financial statements. In the subsequent years AGCOM may possibly deliberate variations to such contributions up to a maximum of 2 per thousand. Provided the operational procedures concerning the calculation are unchanged, in 2006 the Group will pay AGCOM a contribution equal to approximately euro 24 million instead of euro 10.4 million paid in 2005.  
A compulsory annual contribution for businesses has been introduced to cover the costs regarding the control of concentration activities carried out by AGCM. The contribution is applied at the maximum rate of 1.2% of the implemented transaction, establishing minimum and maximum contribution thresholds. AGCM has issued a determination establishing for 2006 the rate of 1%, with minimum and maximum threshold equal to euro 3,000 and euro 50,000 respectively.

#### Legislative provisions under examination

- The Bill on the fight against paedophilia. The Bill imposes the obligation on suppliers of electronic communication services to communicate to a central institute at the Ministry of the Interior to counteract this phenomenon, all information relative to companies or persons spreading paedophilic material.
- Bill on telephone and environmental interceptions, aimed at introducing innovative regulation on telephone interceptions, forbidding more stringently the publication of records and reinforcing the guarantees of impartiality and transparency on this issue.
- Bill converting Decree-Law no. 273/2005 concerning the definition and extension of terms related to preceding legislative provisions; among other things it includes the extension from 2006 to 2008 of the deadline for the complete switchover of the television system on terrestrial frequencies from analogical to digital broadcasting.



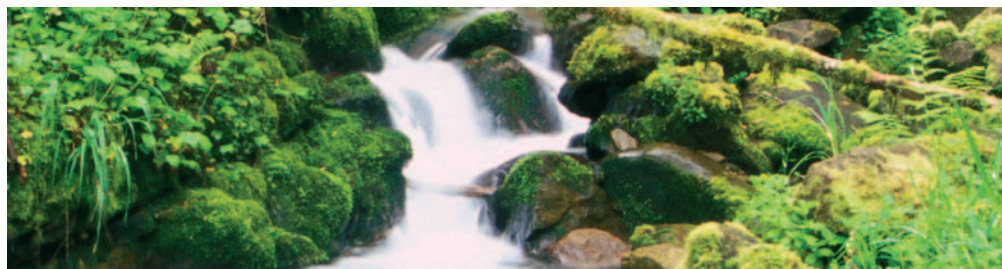
- Bill on ownership of television transmission rights in a codified form that recognizes ownership of rights by organizers of national A and B series national championships and other sporting competitions provided for by federal regulations.
- Bill giving directives for the introduction of group action protecting consumers' and users' rights (class action).

## ► International legislation

The Group activity focused on the following issues:

- analysis and benchmarking of the transposition into the national legislation of the 2002/95/EC Directive on the restriction of harmful components from electrical and electronic equipment and 2002/96/EC Directive on electrical and electronic equipment waste (RAEE) and subsequent amendment included in Directive 2003/108/EC;
- participation in the consultation launched by EC on the European strategy for sustainable development, which generated a proposal for revision of the strategy itself [COM(2005)37 final] and a draft of Declaration on the Guidelines Principles for sustainable development [COM(2005)218 final], which the Sustainability working group of ETNO is evaluating;
- examination of the draft proposal for a Code of Conduct on Energy Consumption of Broadband Equipment proposed by the Joint Research Center (JRC) within the initiative on the evaluation of energy efficiency of network equipment (on this issue see also section "The Environment");
- review of the "Television Without Frontier" Directive through a Directive proposal adopted by the European Commission, currently under parliamentary discussion, that distinguishes between linear (traditional television) and non linear (on demand audiovisual contents) services extending some television provisions to on demand services;
- adoption of EU recommendations on collecting societies;
- adoption by the European Commission of the proposal of a community directive on retention of data processed through electronic communication services;
- adoption of the EU directive on service market;
- adoption and approval procedure of the EU Directive on penalties for intellectual property rights infringement.

## The Environment



### ► Environmental performance indicators

The environmental performance data shown below refer to:

- waste
- water
- energy
- emissions

Data reported were obtained by processing appropriately reclassified operational data.

### ► Waste

Data shown in the table below refer to the quantity of waste handed over <sup>(1)</sup> to a carrier and booked in compliance with the relevant law <sup>(2)</sup>.

WASTE HANDED OVER		Telecom Italia S.p.A. 2005 (*)	Change %	
			2005 vs 2004	2005 vs 2003
Hazardous waste handed over	Kg	2,129,081	-46.31%	-41.67%
Non hazardous waste handed over	Kg	8,081,367	14.05%	22.37%
Total quantity of waste handed over	Kg	10,210,448	-7.61%	-0.42%
Waste handed over for recycling/recuperation purposes	Kg	8,635,396	-2.77%	6.44%
Ratio between recycled/recuperated waste and total waste		84.57%	5.23%	6.90%

(\*) In the Environment section, tables referring to Telecom Italia S.p.A. include TI Wireline and Corporate Department. Data pertaining to the preceding years have been recalculated for homogeneous comparison purposes. Data do not include removed telephone poles, which are reported in the table at page 32.

The decrease of hazardous waste is essentially due to the lower quantity of batteries, of waste containing asbestos and equipment containing hazardous materials disposed of by TI S.p.A.. Both batteries and equipment are mainly intended for recycling/recuperation. The increased production of non hazardous waste is due to the higher quantity of equipment not containing hazardous components disposed of in 2005.

The table below and the relevant graph show the total quantity of Group's waste handed over to carriers for recuperation, recycling or disposal and the percent incidence of Business Units.

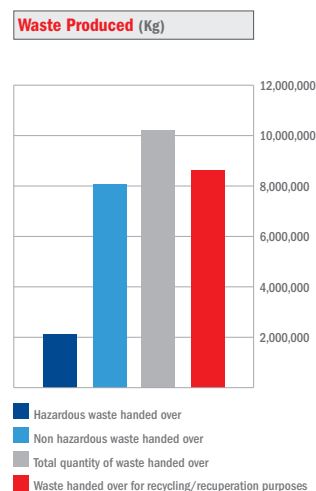
WASTE HANDED OVER		BUs' contribution as percentage of the Group total (*)				
		Group 2005	Wireline and other activities (**)	Mobile	Media	Olivetti
	kg	17,083,869	76.47%	17.15%	0.13%	6.25%

(\*) In the Environment Section, tables referring to the BU do not include sold/destined to be sold activities (disc. operations).

(\*\*) In the Environment Section, tables referring to "Wireline and other activities" include: TI Wireline and all the other companies belonging to the BU Wireline, Corporate Department, TI Learning Services, IT Telecom, Entel Bolivia.

(1) The term "handed over" refers to waste delivered to carriers and destined to be recuperated, recycled or destroyed.

(2) Slight variances as compared to statements at December 31 might occur up to March 30 as data are derived from waste accounting books that are only consolidated once the real weight has been verified at destination. Such information is provided to the waste producer within three months from delivery, hence possible data variances.





### ► Waste management

Several operation tools have been implemented over the years in order to assure the correct management of Telecom Italia waste. In compliance with current legislation computerised waste accounting books have been adopted by the main companies of the Group, in order to make waste production control easier. Appropriate provisions have been included in the agreements entered to in 2005 with recuperation and recycling service providers, in order to assure an actual recuperation of materials not lower than a pre-set per cent threshold. Contractors collaborating with the Group are subject to periodical audits on their authorisations to operate environmental services, thus ensuring continued control on compliance to the law. As far as the European Directive, effective from August 2006, on Waste Electrical and Electronic Equipment (2002/96/EC) is concerned, special Group guidelines are being set out to launch the recuperation of materials deriving from equipment disposal, in collaboration with the relevant collection consortiums. The Group processes as a hardware product manufacturer are also being analysed. Olivetti is ahead of schedule on this subject as it has launched, together with 16 other companies of prime importance, the pilot project "ecoRit" aimed at the realization of a Collective System for the collection and treatment of electrical/electronic waste of domestic and professional users.

### ► Recuperation of wooden telephone poles

In compliance with the Agreement Program on wooden telephone poles, signed in 2003 with the Ministry of the Environment, the Ministry of Production Activities, the Conference of State and Regions and recuperation companies, in 2005 the Group continued the recovery of the poles. Details are shown in the table below.

TELEPHONE POLES REMOVED			
	Telecom Italia S.p.A. 2005	Change %	
		2005 vs 2004	2005 vs 2003
Kg	9,180,761	-2.08%	31.17% <sup>(1)</sup>

(1) As the agreement was signed in 2003, recuperation activities started late in the year.

### ► Paper

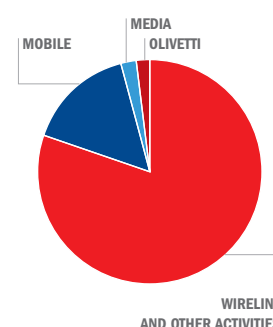
Paper consumption results are reported for each Business Unit together with single incidence values on the total volume used by the Group. As compared to 2004, a marked reduction of paper consumption is observed, which is mainly due to the optimization of purchasing procedures on one side and to the effort to raise employee awareness for a more responsible use on the other.

	Group 2005	BUs' contribution as percentage of the Group total			
		Wireline and other activities	Mobile	Media	Olivetti
Non recycled paper purchased	kg 994,253	80.39%	15.58%	2.14%	1.89%
Recycled paper purchased	kg 126,265	8.79%	91.20%	-	0.01%
Total paper purchased	kg 1,120,518	72.33%	24.10%	1.90%	1.67%

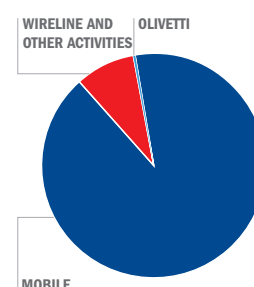
An online management system for incoming/outgoing paper mail (SIGEC) has been experimentally launched in Turin. The system scans documents, classifies and sends images to addressees for consultation. The application involves many advantages, among which the optimization of paper mail transfer and the rationalization of document filing processes. Once concluded the trial phase, the system will be progressively applied to the rest of the Group.

The Group's targets, set out in the Context, also include the commitment to promote the use of recycled paper by all the Group Business Units.

Non-recycled paper purchased (%)



Recycled paper purchased (%)



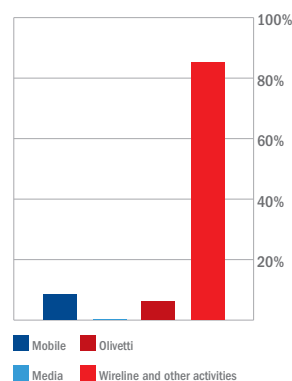
## ▶ Water

Water consumption data relative to Telecom Italia S.p.A. and Business Units are shown below:

WATER CONSUMPTION		Change %		
		Telecom Italia S.p.A. 2005	2005 vs 2004	2005 vs 2003
	m <sup>3</sup>	4,441,661	-15.17%	2.04%

WATER CONSUMPTION		BUS' contribution as percentage of the Group total				
		Group 2005	Wireline and other activities	Mobile	Media	Olivetti
	m <sup>3</sup>	5,610,854	85.04%	8.51%	0.24%	6.21%

Water consumption



## ▶ Energy

Electricity consumption data relative to Telecom Italia S.p.A. and Business Units are shown below:

### ▶ Electricity

PURCHASED OR PRODUCED ENERGY		Change %		
		Telecom Italia S.p.A. 2005	2005 vs 2004 (*)	2005 vs 2003
Electricity from non-renewable or mixed energy sources	kWh	1,615,000,000	4.10%	7.92%
Electricity from renewable energy sources	kWh	56,000,000	-50.73%	-66.21%
Total purchased or produced electricity	kWh	1,671,000,000	0.36%	0.53%

(\*) Considering aggregate variances occurred in the year 2005 in some corporate branches with high energy consumption, IT Telecom has also been included in Telecom Italia S.p.A. aggregate data for a correct comparison of energy consumption during the years.

The total purchased or produced energy for 2005 is consistent with data relative to 2003 and 2004, notwithstanding the progressive increase of TLC consumptions due to the increase of services offered to customers and to interconnected operators. The decrease of energy from renewable sources is due to lower import band (energy imports from abroad) acquisitions in 2005 following the increase of customers on the free market in Italy.

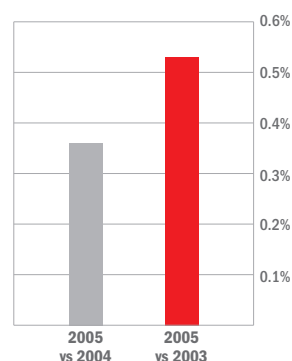
Thanks to the implementation of rationalization and optimization projects concerning supply and conditioning plants, together with other energy saving initiatives, Wireline BU achieved a reduction of electricity net consumption equal to 25.4 GWh.

According to estimates, 30% of the energy consumed comes from renewable hydroelectric and geothermic sources, solar energy plants and wind-farms, totalling approximately 500,000,000 kWh.

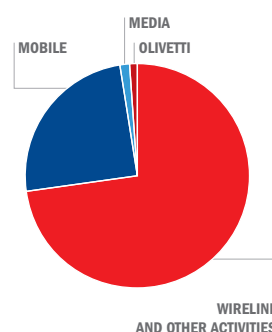
The table below shows data relative to purchased or produced energy at Group level with per cent distribution by Business Unit.

PURCHASED OR PRODUCED ENERGY		BUS' contribution as percentage of the Group total				
		Group 2005	Wireline and other activities	Mobile	Media	Olivetti
Total electric energy	kWh	2,443,238,241	73.02%	24.66%	1.33%	0.98%

Purchased or produced electrical energy



Purchased or produced energy (%)



Experiments with alternative sources of electrical energy to supply Base Transceiver Stations continue through photovoltaic plant technology (further details in the following box).

### Photovoltaic plants

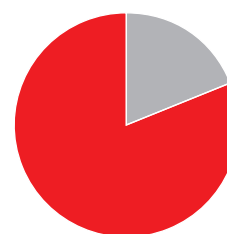
Telecom Italia has submitted to the national company for Electrical Energy System Management (GRTN) four applications for the incentives concerning energy produced by photovoltaic plants. The plants designed by Telecom Italia for its locations (Lazio, Campania and Sicily) have a 30 kWp nominal power (peak power) and should produce approximately 38,000 kWh each (energy production has been estimated assuming approximately 1,300 hours of operation) with electrical yield varying from 10 to 16%. Following a positive outcome by GRTN and approval by the Investment Committee of Telecom Italia the plants should be installed within the end of 2007.

The commitment of Telecom Italia for energy consumption containment is also substantiated by initiatives at European level in agreement with other telecommunication operators. Among these initiatives is the Code of Conduct on Energy Consumption of Broad Band Equipment promoted by the European Union through the Joint Research Centre and involving the most important players of the sector in the drafting of guidelines aimed at minimising energy consumption for broadband technology. The Code of Conduct (CoC) will define power management methods and technical solutions for the containment of energy consumption concerning both customers and providers. Adhesion to CoC is voluntary and energy savings should be achieved without compromising the technological development and the quality of services provided to customers. The document should be finalized in this current year 2006.

### ► Heating fuels

Consumption of methane, replacing heating oil, is continuously increasing against an approximately 8% lower consumption of more polluting fuel as compared to 2004.

Telecom Italia S.p.A.: breakdown of energy for heating divided by type

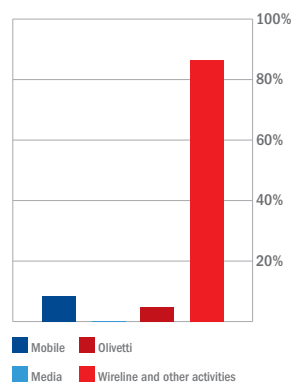


■ Energy consumed - heating fuel (Mj)  
■ Energy consumed - methane heating (Mj)

#### ENERGY CONSUMPTION FOR HEATING SYSTEMS

		Telecom Italia S.p.A. 2005	Change %	
			2005 vs 2004	2005 vs 2003
Energy consumed - heating fuel	Mj	159,673,768	-8.10%	-16.93%
Energy consumed - methane heating	Mj	676,930,733	0.49%	9.81%
Total energy consumed for heating	Mj	836,604,501	-1.27%	3.46%

Telecom Italia Group: breakdown of energy for heating by BU



■ Mobile ■ Olivetti  
■ Media ■ Wireline and other activities

Atmospheric emissions are dealt with in the next paragraph, including a joint assessment of emissions from heating systems, vehicles and electrical energy.

#### ENERGY CONSUMPTION FOR HEATING SYSTEMS

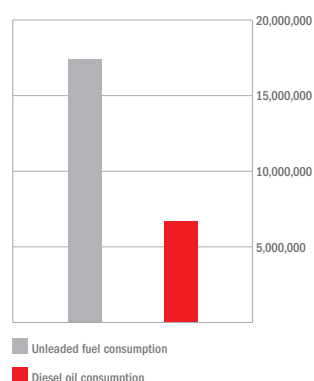
	Group 2005	BUs' contribution as percentage of the Group total			
		Wireline and other activities	Mobile	Media	Olivetti
	Mj 1,071,268,829	86.58%	8.58%	0.19%	4.64%

### ► Vehicle fuel

#### VEHICLE FUEL CONSUMPTION

		Telecom Italia S.p.A. 2005	Change %	
			2005 vs 2004	2005 vs 2003
Unleaded petrol consumption	l	17,432,191	-2.95%	-16.62%
Diesel oil consumption	l	6,731,847	-15.14%	34.94%
Total consumption	l	24,164,038	-6.68%	-6.68%

Vehicle fuel consumption (liters)



■ Unleaded fuel consumption  
■ Diesel oil consumption

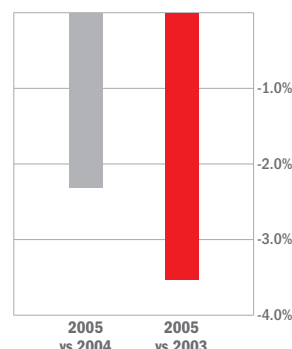
A decreasing trend for vehicle fuel consumption is confirmed for 2005. The increased consumption of diesel oil, as compared to 2003, is mainly due to a higher number of diesel vehicles. As compared to 2004 and 2003, Telecom Italia has reduced the corporate vehicle fleet in 2005 as well as the overall distance travelled. The disposal of the most polluting vehicles has continued.

**NUMBER OF VEHICLES AND DISTANCE TRAVELLED <sup>(1)</sup>**

		Telecom Italia S.p.A. 2005	Change %	
			2005 vs 2004	2005 vs 2003
Total number of vehicles	no.	20,559	-1.21%	-4.93%
Number of low-emitting vehicles <sup>(2)</sup>	no.	20,459	-0.86%	-3.48%
Overall distance travelled by vehicles	km	297,199,047	-2.31%	-3.53%

- (1) Data reported are relative to all vehicles (including ship consumption) used within the company (industrial, commercial, assigned to executives/middle management). These vehicles may be leased or owned.  
 (2) Unleaded petrol vehicles, catalytic, eco-diesel, biodiesel, EUROX (for Europe, with X≥4), GPL, electrical or vehicles using other fuels with comparable or lower emissions.

**Overall distance travelled by vehicles of the corporate fleet**



**TOTAL NUMBER OF VEHICLES AND DISTANCE TRAVELLED**

		Group 2005	BUs' contribution as percentage of the Group total			
			Wireline and other activities	Mobile	Media	Olivetti
Total number of vehicles	no.	24,327	86.86%	11.57%	0.47%	1.09%
Overall distance travelled by vehicles	km	370,395,634	83.59%	13.84%	0.77%	1.79%

**► Atmospheric emissions**

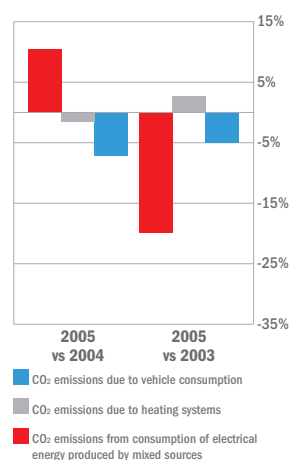
The only significant concern of Telecom Italia Group as to atmospheric emissions is carbon dioxide (CO<sub>2</sub>), deriving from the consumption of energy purchased from suppliers and from fuel consumption used for heating and motor propulsion purposes. In 2005, notwithstanding the confirmed downward trend of emissions coming from vehicles consumption and heating, the increased use of energy from non-renewable sources has caused an increased of CO<sub>2</sub> emissions as compared to 2004 (in the comparison with 2003, CO<sub>2</sub> emissions show a decreasing trend).

CO<sub>2</sub> emissions have been calculated according to UNEP (The GHG Indicator: United Nations Environment Programme Guidelines for Calculating Greenhouse Gas Emissions for Businesses and Non-Commercial Organisations) and ETNO indications (European Telecommunications Network Operators' Association) within the framework of the "Climate Change" project. Data pertaining to emissions from electrical energy consumption have been derived from parameters published by Enel in 2004 (2004 Environmental Report).

**ATMOSPHERIC EMISSIONS**

		Telecom Italia S.p.A. 2005	Change %	
			2005 vs 2004	2005 vs 2003
CO <sub>2</sub> emissions from consumption of electrical energy produced by mixed sources	kg	679,699,680	10.56%	-19.93%
CO <sub>2</sub> emissions due to heating systems	kg	55,768,912	-1.49%	2.70%
CO <sub>2</sub> emissions due to vehicle consumption	kg	56,740,814	-7.19%	-5.09%
Total CO <sub>2</sub> emissions	kg	792,209,406	8.15%	-17.73%

**Emission change**



**ATMOSPHERIC EMISSIONS**

		Group 2005	BUs' contribution as percentage of the Group total			
			Wireline and other activities	Mobile	Media	Olivetti
CO <sub>2</sub> emissions from consumption of electrical energy produced by mixed sources	kg	945,277,904	80.46%	17.70%	1.52%	0.33%
Total CO <sub>2</sub> emissions due to heating systems	kg	71,338,799	86.50%	8.43%	0.19%	4.88%
Total CO <sub>2</sub> emissions due to vehicle consumption	kg	93,242,374	85.32%	12.34%	0.75%	1.59%
Total CO <sub>2</sub> emissions	kg	1,109,859,077	81.26%	16.65%	1.37%	0.73%

The Group supports the initiative launched by ETNO and by WWF “Saving the climate at the speed of light - information & communication technology for CO<sub>2</sub> reductions <sup>(1)</sup>”. The initiative is set out in two proposals:

- to assess the reduction of emissions achievable through the application of ICT solutions and services on the basis of the energy consumption of 17 European telecommunication operators;
- to promote with the European Commission the implementation of such services for the reduction of greenhouse gases.

The initiative aims at including ICT among the solutions supporting sustainable mobility and in particular among the tools for greenhouse gases reduction through a decreased use of combustion-powered vehicles.

## ► Electromagnetic emissions

The commitment of Telecom Italia Group to the electromagnetic emission issue is substantiated by the following:

1. careful and accurate management of plants along their whole life cycle, also in compliance with internal standards of efficiency and security;
2. use and continuous research of advanced technological tools for control and monitoring.

As to the Group position on the interaction between electromagnetic fields and biological systems, as well as on studies and researches carried out, please see reports on website: [http://www.azienda.tim.it/az\\_elenco/0,,15071\\_15167\\_15171,00.html](http://www.azienda.tim.it/az_elenco/0,,15071_15167_15171,00.html)

The most significant Group activities concerning the management of electromagnetic emissions are detailed below.

### Controls

Italian legislation is particularly strict on electromagnetic emission issues.

The corporate procedures adopted by TIM involve a careful management of designs, choice of locations and plant installation. The procedure authorizing the implementation of sites requires the observance of provisions included in the Electronic Communications Code as well as of rules set forth by Regions and local authorities. Each transmitting antenna is protected in order to avoid public access in the areas where exposure levels might be exceeded (“exclusion zones”).

TIM also fully collaborated to the implementation of the National Monitoring Network carried out by the Ministry of Communications through the Ugo Bordoni Foundation. The activity is aimed at controlling and supervising plants. Controls are pursued by the Regional Environment Protection Agencies (ARPA) collaborating with the Ministry of Communications to the project realisation on the basis of appropriate protocols.

The monitoring of sites continued in 2005 in compliance with the Legambiente/TIM Protocol. The Protocol, signed in 2003, endorses TIM commitment to provide full support to Legambiente technicians while verifying the safety of Base Transceiver Stations, particularly concerning electromagnetic emissions.

The supervision of network structures continued in 2005 in compliance with the ISO 14000 certifications setting stricter parameters than current legislation. The network territorial structures have identified objectives related to instrument measurements, power performance controls and simulations on real models, concerning both the new plants and the existing ones. In 2005 all the targets have been achieved, also thanks to measurements taken on 4,200 plants.

(1) For further information see the Sustainability Section on the website: [www.etno.be](http://www.etno.be)

As to the control of the electromagnetic field produced by energy transformation substations, servicing the energy stations for TLC plants, measurements have been carried out on 19 test substations. Such sample is considered significant for the assessment of emissions.

### Tilting

Wherever necessary TIM Italia has carried out the appropriate modification of the radiant position (tilting) in order to optimise the signal propagation. To facilitate tilting and operate in real time, in 2005 TIM continued the updating of equipment already installed on the UMTS Base Transceiver Stations, allowing the remote electrical tilting variation of radiant systems.

The planimetric surveys of Base Transceiver Stations and of radiant systems have been added to the network database and are used to survey and optimise the electromagnetic emission parameters.

Quality measurements have been carried out on all the new UMTS sites (i.e. drops, surroundings), in order to decrease interferences and optimise electromagnetic emissions.

An improvement project for the 2G service has been implemented in 2005, aimed at expanding coverage and increasing power of some Base Transceiver Stations. Wherever possible an antenna equipment has been installed instead of a new Base Transceiver Station, thus reducing energy consumption and environmental impact.

### Specific procedures and software

In 2005 TIM Italia continued to make use of the APOGEO procedure and of StereoSpace, GUARDIAN and TIMPLAN tool software to design the radio access network and to identify optimal solutions from the viewpoints of the environmental and electromagnetic impact.

#### – APOGEO

The APOGEO (Antennas Procedures On Geographic Enhanced Orientation) procedure's purpose is the calculation of radio electrical parameters relative to the three-dimensional positioning of GSM and UMTS antennas.

The accurate measurement of radio electrical parameters is essential to optimize the mobile planning process and reduce interferences on TIM Italia networks, as well as to assess the exclusion zones for environmental protection purposes. TIM can certify its own installation data assuring transparency and observance of current legislation.

The calculation is performed through geo-referred topographic surveys made by the GPS satellite system; the precision is increased thanks to the differential correction technique provided by GEOTIM (network of permanent GPS reference stations).

#### – PREVISIONAL SYSTEMS

The Guardian software calculates the exclusion zones related to sites hosting Base Transceiver Stations and assures the observance of limits established by law.

The software can optimize site positioning and antenna orientation with respect to the surrounding context (housing, streets, meeting places) and provides objective data for the required controls (ARPA, population).

The Guardian software functions have been extended in 2005 to the calculation of fields generated by the Digital Video Broadcasting-Handheld (DVB-H) antennas, to be added to the network in the next future.

The TIMPLAN system has been used to design the EDGE and UMTS radio access network, aiming at the rational exploitation of radio resources and at minimization of interference and of unnecessary power emission.

#### – STEREOSPACE

The StereoSpace software allows the stereoscopic visualisation directly on the computer monitor of digital georeferred aerial image pairs used to perform measurements, comparisons and updating. The tool identifies the exact position of transmitting plants, providing accurate data for frequency planning as well as for the calculation and visualization of exclusion zones.

## Co-Siting

The coordinated management of issues related to population exposure to electromagnetic fields and the observance of limits established by the law involves the definition of common rules, committing the Group Companies/Business Units to play a promoting and stimulating role also towards other operators and external organizations <sup>(1)</sup>.

Among other things the document defines specific contractual provisions such as:

- the cumulative electromagnetic field levels produced by all the operators sharing a site should not exceed the limits established by current legislation;
- should these limits be exceeded immediate action is required, i.e. adjustment, deactivation or removal of plants;
- the hosted provider/organization should adopt technologies and design procedures for transmitting systems aimed at minimizing the visual impact.

### – TIM ITALIA-MUNICIPALITIES AGREEMENTS

In 2004 mobile telephony operators signed with the Municipality of Rome an agreement protocol committing themselves to providing 60 local exchanges for the continuous monitoring of electromagnetic fields emitted by Base Transceiver Stations within the municipality area. In 2005 on the basis of the same protocol TIM provided the Municipality of Rome with 15 additional local exchanges monitoring electromagnetic fields.

On January 18, 2005 an agreement protocol has been signed by TIM Italia, other mobile telephony operators and the Municipality of Catania concerning the installation, monitoring, control and rationalisation of Base Transceiver Stations. The protocol is part of the Agreement signed on December 17, 2003 between ANCI (National Association of Italian Municipalities) and the Ministry of Communications, which set out the development of relations between telecommunication operators and municipalities on the basis of dialogue and mutual collaboration.

### – EMISSION MAPPING

Telecom Italia Media Broadcasting s.r.l. (TIMB), the company in charge of the maintenance and operation of the high-frequency plants of La7 and MTV, using both analogical and digital technologies, has carried out the appropriate controls on electromagnetic emissions also in 2005. The measurements have involved 80 television stations of La7, 40 of MTV and one of TIMB (main location) and were carried out in collaboration with the Department of Occupational Medicine of the University of Turin. The measurements have concerned specific stations where significant emission levels could be foreseen due to the concentration of radio-television broadcasters. Emissions by La7 and MTV were within the limits established by law, as in preceding surveys, with significantly lower values for the stations on which La7 has started to experiment with digital technology for television broadcasting <sup>(2)</sup>.

## ► Environmental Management Systems

Environmental Management Systems (EMS) ensure the sustainable management of productive and support processes and stimulate a continuous improvement of the environmental performance.

In view of creating a single EMS for Telecom Italia Group by matching the existing different EMS and by providing consistent guidelines for new EMS, the "Guidelines for the development of Environmental Management Systems for Telecom Italia Group" have been issued in 2005. The guidelines have been drawn in collaboration with Det Norske Veritas (DNV).

(1) In 2005 the hosting of H3G plants on TIM sites has continued and the first UMTS TIM plants have been implemented on H3G sites. A frame agreement for mutual site hosting is being formalised also with Vodafone and Wind.

(2) Digital technologies allow a 75% reduction of electromagnetic emissions as compared to traditional analogical techniques.



Details related to certified systems of Group's business units and departments are reported below:

### Fixed network

The Certification Board IMQ-CSQ conducted three audits with positive outcome, with reference to the new edition of the ISO 14001 certification. The audits concerned:

- the central departments of Rome headquarters;
- the premises of Florence and Genoa;
- the premises of Turin, Asti, Alessandria and Pavia.

Fifty internal audits have also been conducted to verify the implementation and application of the Environmental Management System in observance of the ISO 14001 standards and of the requirements established by corporate procedures regulating activities with environmental impact.

### Mobile Network

At the end of 2004 TIM Italia has completed the project of Certification of the integrated Management System for Quality and Environment of the relevant structures. The Management System, developed in compliance with the UNI EN ISO 9001 and UNI EN ISO 14001 standards, is related to the activities of "Planning, realization and supervision of territorial mobile telecommunication networks". In 2005 the Group continued to monitor the consumptions of natural resources and energy as well as plans for the reduction and containment of waste production, particularly concerning lead accumulators. The Group also continued to monitor and control electromagnetic emissions through appropriate measurement and optimisation plans. During the year 2005 all the network structures underwent internal audits while five local structures successfully underwent external audits conducted according to the programs of the certification board.

### Other structures

The ISO 14001 Certifications of TILab and Olivetti I-Jet have been confirmed for 2005. TI Sparkle completed the ISO 14001 certification of the system in 2005.

## ► Other environmental activities

### Conventions and training

In September 2005 a convention on "Responsibility for Environment" involved about 200 executives and managers of the Group as well as important representatives of institutions and business. The convention is a step in the framework of a wide project of involvement of the whole staff of Telecom Italia Group on environmental issues and succeeded in raising awareness in the management representatives whose activities may have a major impact on environmental issues. The convention offered a chance to confirm the validity of environmental investments not only out of compliance to the law, but for creating value as well.

As to training activities on the Health and Safety issues please see the dedicated paragraph in the Human Resources section.

### Environmental Managers

Three Environmental Managers have been appointed within the Group and are in charge of improving supervision on the management of environmental issues, thus assuring further control on these activities. Data provided by departments and Group companies are collected into appropriate centralised databases and processed to achieve the environmental indicators used to monitor and improve Telecom Italia performance as well as for information such as Sustainability reports.

### Management of environmental emergencies

Environmental emergencies, if any, are dealt with on the basis of procedures included in the Environmental Management Systems of each single department and company of the Group. Environmental risks are assessed in terms of probability of happening and of consequences within the framework of the CRSA system (Control and Risk Self Assessment) as reported in detail in the "Shareholders" section.



### Progetto ambiente

The project aims at issuing Guidelines on the most significant environmental issues for the Group. It involves ten project groups and should complete its tasks within three years, i.e. 2004-2006.

The Guidelines issued so far concern:

- the monitoring of suppliers and the drafting/management of contracts related to waste management;
- the definition of environmental acoustic requirements related to the Group's plants;
- control and mapping of the condition of asbestos-containing materials;
- decontamination of asbestos-containing materials;
- collection and computerised storage of data concerning tanks of the companies/Business Units of the Group;
- mapping and monitoring of polluted areas following leakage from storage tanks;
- definition of procedures to monitor and decontaminate all the Group's tanks;
- controls on the management of waste produced by Business Units;
- collaboration among operators for electromagnetic emission optimization;
- development of Group Environmental Management Systems.

These last two guidelines have been implemented in 2005.

## ► Environmental research

Besides the GUARDIAN and TIMPLAN studies already mentioned in the "Electromagnetic emissions" paragraph, the most significant environmental projects undertaken by the Group are described below.

### Low visual impact antennas

The difficulty of finding appropriate sites to host Base Transceiver Stations for mobile telephony is often due to antenna invasiveness. Two small size antenna prototypes have been realised using innovative materials and the tests conducted proved the validity of such technology.

### Intelligent Transport Systems (ITS) & Infomobility Services

The primary objective of this project, carried out within the framework of Turin Wireless, is the identification and development of technologies and synergies between the world of transportation and that of wireless TLC, with significant contributions to the realisation of the Intelligent Transport Systems (ITS) of the future. Among the innovative solutions studied in view of the development and management of a "more sustainable" mobility are car pooling, park & ride, bus on demand and collective taxis.

### Quality control and qualification of mobile terminals

The activities of this ongoing project aim at:

- qualification of mobile phones through radio test;
- test of protocols and test of exposure to electromagnetic field (SAR, Specific Absorption Rate);
- test on software for the management of terminal self-configuration and of the correct operation for MMS messages receipt.

Test results are studied to better understand terminal performance in terms of quality, reliability and safety in relation to human exposure to electromagnetic fields.

## ► Environmental targets

### ► 2005 Targets

The environmental targets for 2005, reported in the 2004 Sustainability Section, were specifically focused on the transmission network. Actions undertaken and work in progress are commented below.

#### **Atmospheric pollution (generator sets)**

Generator sets are used as back-up only in case of primary energy blackout from public networks. According to current legislation no emission limits have been established for generators, however Telecom Italia has conducted a survey on 48 generator sets to measure the relevant atmospheric emission levels, using as reference more stringent limits as established for continuous operation equipment. Test units have been chosen by selecting the 10% of plants located in residential areas with > 20,000 residents.

Considering the results of analyses and the generator running procedures the environmental impact appears scarcely significant.

#### **Electromagnetic emissions (operator co-siting)**

Rules regarding operator co-siting have been established as reported in the "Electromagnetic Emissions" paragraph.

#### **Acoustic pollution**

In order to monitor the acoustic impact of plants, the Group continued its survey involving noise measurements in approximately 1,300 premises.

Concerning TIM the interventions to reduce acoustic impact are usually conducted at Base Transceiver Stations located inside or near to residential areas.

The procedure for reduction of acoustic impact involves in sequence: phonometric measurements, intervention planning, realization of project. In 2005, consistently with the program for acoustic monitoring of Base Transceiver Stations – essentially due to the presence of air conditioners and energy stations – TIM conducted 1,090 phonometric measurements followed by some corrective interventions.

#### **Fuel consumption**

The total fuel consumption for vehicles of Telecom Italia S.p.A. shows a 6.68% reduction as compared to 2004.

#### **Visual impact**

Please see paragraphs: "Electromagnetic emissions" and "Environmental research".

#### **Soil pollution**

In order to prevent possible leakages from fuel tanks servicing generator sets the Group continued the seal test survey, monitoring 1,150 underground tanks.

The last 37 transformers still in use containing PCB/PCT have been replaced and disposed of.

Still ongoing is the disposal of 10 asbestos-containing containers and the asbestos decontamination operations on generator sets. These activities will be concluded in 2006.

### ► Targets 2006-2008

The Group's environmental targets for the three years 2006-2008 have been set as reported in the "Objectives 2006-2008" paragraph of "Context". Dedicated project groups will be appointed to ensure that business choices are consistent with such targets.

# The Community



In 2005 the contribution of Telecom Italia Group companies to the Community, calculated taking into account the guidelines of the London Benchmarking Group (LBG), is equal to euro 193 million. The amount, net of costs and investments undertaken for activities more strictly linked to the core business, the so-called business basics, is equal to euro 41.8 million. Contributions have been calculated on the basis of management data appropriately reclassified and partly based on estimates <sup>(1)</sup>.

## ► Classification of the contribution according to the LBG model

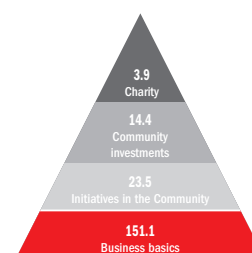
Founded in 1994 the LBG is an association comprising over 100 large international companies and represents a worldwide reference standard.

To measure and report corporate commitment to the “Community”, LBG has devised a pyramid model that reclassifies contributions according to four different categories:

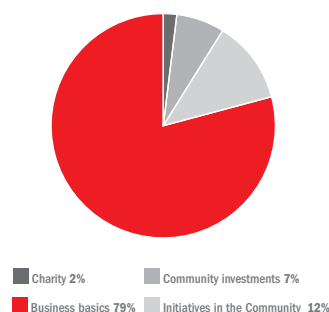
- activities directly linked to core business are grouped at the base;
- at the top are activities mainly characterised by the Group’s sense of moral responsibility.

The criteria adopted for the allocation of contributions to the various levels of the pyramid, partially modified as compared to last year, are reported below.

LBG model (millions euro)



Breakdown of contribution to the Community by Telecom Italia Group (%)



### Charity

Support to a wide range of “social” issues in response to the needs and appeals of community organisations, increasingly through partnerships between the company, its employees, customers and suppliers.

### Community investments

Long-term strategic involvement of the company to address a limited range of “social” issues chosen in order to enhance the company reputation.

### Initiatives in the Community

Activities in the Community usually by commercial departments to support directly the success of the company, promoting corporate brand and policies, also in partnership with charities and community-based organisations

### Business basics

Core business activities for the production of socially useful goods and services in a manner which is ethically, socially and environmentally acceptable.

Contributions to national/international organisations not based on a specific medium/long term program

Sponsorship of causes or events, not part of a marketing strategy

Company matching of employee giving and fundraising

Costs of supporting and promoting employee involvement

Costs of facilitating giving by customers and suppliers

Memberships and subscriptions

Grants and donations based on a specific medium/long term program

Sponsorship of events, publications and activities promoting brand or corporate identity

Civil protection activities

Support for Universities, research and other charitable institutions

Community-based care for consumers with special needs

Research activities

Electromagnetism

Reduction of Digital Divide

Energy saving activities

Reduction of the visual/acoustic impact of telephony equipment

Services and products for disabled people and the elderly

(1) Activities performed by sold/designed to be sold companies (discontinued operations) have not been considered in the calculation of the contribution.

## ► Progetto Italia

The commitment of Telecom Italia Group to the Community has been supported in the last years by the Brand Enrichment Department, meant to promote and valorise the image of Telecom Italia Group with respect to institutions, society, public and private bodies, besides single citizens, both Italian and foreign, contributing to the cultural and social growth of our Country.

At the beginning of 2005, to reinforce the determination and continuity of its activity, the Group has established an ad hoc company, the Progetto Italia S.p.A., with a Board of Directors including Top Managers of the Group and an Advisory Board made up of important personalities from the world of culture and international solidarity: Susanna Agnelli, Franco De Benedetti, Tara Gandhi Bhattacharjee, Enrique V. Iglesias, Paolo Mieli, Sergio Romano, Peter Sutherland and Umberto Veronesi.

During the year the company organized in 80 Italian towns about 100 initiatives, which saw the participation of nearly 500 prominent protagonists of the world of culture, solidarity, education, show and sport.

For these initiatives, directly participated by over a million people, Progetto Italia has integrated the partners' competence with its own abilities in the field of organisation, promotion and communication.

Starting from 2006 some initiatives will be broadcasted live at no charge through the Internet on Rosso Alice and free-to-air on television through the digital channels of La7.

The year 2006 will also see the start in Brazil of activities mainly consisting of music teachings for 15,000 youngsters living in the favelas of seven towns. The activities will take place at San Paolo, in the Ibirapuera Auditorium, entirely realized by our Group thanks to a project by architect Oscar Niemeyer: music without frontiers also as a contribution to the development of the country.

The most significant areas of intervention for 2005 and the relevant initiatives, whose costs are included in the first 3 levels of the LBG pyramid, are detailed below.

The complete list of initiatives with the relevant description is available at website [www.telecomprogettoitalia.it](http://www.telecomprogettoitalia.it).

### ► Culture

Progetto Italia is meant to reach out to the greater public and spread the knowledge of our artistic and literary heritage through the organisation of events involving important protagonists of the Italian and worldwide culture. Among the projects realised within this framework: "The narration of the Classics", "The rediscovery of our Country", "The contemporary".

#### **The narration of the Classics**

The rediscovery of the classics is a traditional point of strength of the cultural proposal of Progetto Italia which also in 2005 renewed its commitment finalized at drawing the greater public up to the classic culture. Among other initiatives the Project includes: "Lectura Dantis" by Vittorio Sermonetti in Florence and Milan, "Reading the Odissea" and "FAI (Italian Environment Fund) - behind the curtains of your city".

#### **The rediscovery of our Country**

The general public is often unaware of the incredibly rich Italian heritage: splendid historical and artistic places not open to visitors, secret places hidden in cities, without mentioning the many initiatives and cultural projects which never come to the fore. In any case a non-communicated value is a diminished value and the intention of Progetto Italia is to make these places and events known through differentiated projects and initiatives. Among these: "Telecom Italia Journey", "Telecom Italia Award", "Discovering masterpieces".

#### **The contemporary**

Progetto Italia contributed in 2005 to valorise the contemporary through the creation of spaces, itineraries, ad hoc events stimulating discussion on authors and works of our time, with a multifaceted approach mixing literature, art and music. Among the various initiatives of the project: the "Strega" and "Campiello" literary awards, the "Telecomcert", the "Writers' League", the "Storytellers" in Bologna.

## ► Solidarity

Telecom Italia Group's social responsibility is shown by Progetto Italia's significant contributions to training, teaching methods and improvement in the living conditions of the less fortunate.

Within this framework these projects have been realized: "On the side of minors", "Social recovering initiatives", "Contribution to medical research", "Solidarity and sport", "Peace Paths".

### On the side of minors

Children represent the future of a Country and Progetto Italia sees the need to assure a tangible help to destitute minors, victims of family violence or disease.

To enhance the hope of a better future Progetto Italia offers Telecom Italia technologies for the realisation of projects supporting children, among which the initiatives "Dream Mission" and "114 - Childhood emergency".

### Social recovering initiatives

Progetto Italia's care for social issues led to the design of alternative social recovering initiatives involving music, art and new technologies as creative tools offering on one side a tangible help to the less fortunate and on the other an unusual opportunity to promote culture in our Country.

Among the various initiatives: "Music in San Vittore Prison", "Down with grey!", "Charity Home".

### Contributions to medical research

Telecom Italia - Progetto Italia continues its support to two among the most significant fund raising initiatives in Italy: "Cancer Research Day" (organized by AIRC) and "Telethon".

### Solidarity and Sport

Progetto Italia has always been committed to promote sport as a rehabilitation tool for disadvantaged people. The experience "Crazy about sailing" is continuing and the new one "Sailing Together" has been launched. More initiatives are being designed concerning Andrea Stella and his catamaran, with a contest for ideas that brings the experience of the disabled sailor into schools and among architects and transfers the "for everyone" approach from the world of sailing into everyday life. Among the various initiatives of the project: "The spirit of Stella", the contest "Design and realization for everyone", "Niky's boat".

### Peace Paths

The non-profit humanitarian organization founded by surgeon Gino Strada, offering medical and surgical assistance to victim of wars and of the relevant social consequences, is building in Khartoum, capital of Sudan, a specialised heart surgery centre to assist the population of Sudan and of the nine bordering countries. Progetto Italia continues to ensure its support for the building of the centre, that was started in October 2004 and should be completed within 2006.

## ► Training

In its effort towards training Progetto Italia favours new opportunities for spreading the technologies supporting the Group services, paying special attention to sectors of the population having fewer updating chances and thus contributing to the reduction of digital divide. The post-lauream preparation of young people is also considered most important, particularly in the fields of design and application of new technologies. The projects realized to this purpose are: "Science" and "The world of school and University".

### Science

Science is one of the matters for which Telecom Italia confirmed and renewed its commitment also in 2005, as indicated by the choice of scientific themes to which one of the stops of the Telecom Italia Journey is devoted. Other initiatives favour a deeper consideration of these issues, aiming at arousing interest on issues too often forgotten in everyday life, while contributing to stimulate discussion on subjects which are of crucial importance for the development and innovation of the Country.

Among the initiatives included in the project are "Dial me", "Telecom Italia Future Centre", "Festival of the Science" held in Genoa and "Rome Museums".

### The world of school and University

New initiatives arose from the commitment of Progetto Italia to the school world, projects that are meant to contribute to the valorisation and re-discovery of places of the utmost importance both for the education of young generations and the development of our cultural identity. Among the various initiatives: “Domus Academy” and “Interaction Design Institute”.

#### ► Sport

Sport activities promote positive values such as loyalty, teamwork and respect for opponents. Progetto Italia is committed to the spreading of sport values at the higher level, from competitions to schools, from clubs to town squares. Among projects realized on this issue: “Sport and values”, “Sailing as a school for life”, “Tennis and Golf, a sport for everyone”.

#### Sport and values

Since its very beginning Progetto Italia has supported sport to promote its positive values, that is teamwork, will-power, correctness. To favour the diffusion and development of these values Progetto Italia is consolidating its commitment in schools and squares with initiatives such as: “Telecom Italia Let’s Train for Life”, “Athletics - live”.

#### Sailing as a school of life

Passion for challenges, teamwork, respect for the environment: these are characteristics of the world of sailing that can easily be applied to the everyday life. In a country endowed with 7,375 km of coast Progetto Italia wishes to contribute to the development of sailing from a cultural viewpoint, favouring the interest for this sport both of the general public and young generations. Among the initiatives: “The week of the three gulfs”, “Telecom Italia one thousand sails”.

#### Tennis and Golf, a sport for everyone

The initiatives of Progetto Italia in the field of sport are aimed at favouring a wider access, besides promoting positive values. The commitment to golf, in particular, is meant to the spreading of a discipline that involves significant educational benefits most of all for young peoples, thanks to its rules, its philosophy and the places where it is practiced.

Other initiatives of Telecom Italia Group for the Community are described below, indicating the relevant category with reference to the LBG model.

#### ► Charity

##### Giving back the sight

The G.B. Bietti Foundation is a non-profit organisation established in 1984, legally recognised by the Presidency of the Republic for its research activities in the field of ophthalmology.

The Foundation has created an innovative treatment, not yet marketed, based on the use of eye-drops containing the NGF (Nerve Growth Factor) protein, discovered in 1986 by Rita Levi Montalcini, that can be used to treat patients suffering from corneal neurotrophic ulcers, until recently considered incurable and cause of blindness.

The treatment is very expensive and the shortage of funds prevents the adequate treatment of all those who need it. TIM has contributed to the project, also involving its employees who continued to donate for 4 consecutive months. The total amount collected has been doubled by the company.

##### Coração Amigo Program

Through the “Best friend program”, supported by the local NGO “Recife Voluntario”, TIM Participações encourages and provides financial support to voluntary activities among its employees in favour of projects promoting youth entrepreneurship, through complementary training activities and professional qualification of youth living in social conditions that place them at risk.



## ► Investments in the Community

### Safe learning

The “Safe learning” campaign launched by TIM in collaboration with Cittadinanzattiva ONLUS (Non-profit Public Organisation) under the distinguished patronage of the Presidency of the Republic, aims at raising awareness in students on the issue of safety for themselves and for others.

The project involves several schools nationwide and is based on a direct easy language for young people. Issues dealt with are personal safety, the responsible and correct use of new technologies, the safety of buildings and eco-sustainable behaviours.

The framework of the project includes training courses intended for teachers and organized by the Territorial Management Department of the Ministry of Education (MIUR - Ministry of Education, University and Research). Moreover a campaign has been launched through the diffusion of educational contents with the aim of raising parent and citizen awareness.

### Music in the schools

Now in its third edition, the project “TIM Music in the schools”, stems from the partnership among Brazilian government, TIM Celular, TIM Maxitel and TIM Participações.

For 2005 the objective established is social recovery, through musical education, of 12,500 children and teenagers living in conditions that place them at risk. The teachings involved 34 public schools and about 500 teachers and were based on an innovative learning method: during the weekly music courses notions of civics and peaceful coexistence are imparted to students. Teachers use novels, poetry, films, comedies, as hints for their lessons, in the attempt to attract young people to studies.

The project also includes shows organized by students in hospitals and other healthcare centres, contributing to improve the self-esteem of participants and to help their integration in society as Little Ambassadors of Peace. The project covers six towns (São Paulo, Recife, Salvador, Porto Alegre, Belem and Rio de Janeiro, added in 2005).

### Responsible TV

MTV has reinforced its reputation as a TV strongly committed on the social front by realizing numerous television spots and campaigns among which:

- **No Excuse 2015:** a campaign conducted in collaboration with UN, aimed at reducing extreme poverty in the world making it more equitable and safer. The campaign is articulated on air, through the Action Idents spot, during which famous Italian and international artists tell youths about concrete actions they may perform to free the world from poverty, and on-line, through the [www.mtv.it/noexcuse](http://www.mtv.it/noexcuse) website.
- **Don't Drink And Drive:** a spot against drink-driving.
- **Tolerance:** a campaign whose purpose is the spread of the concept of diversity as a positive component of social life.

## ► Initiatives in the Community

### Talks

In 2004 TIM launched the “Talks” software, a revolutionary application allowing blind and sight-impaired people as well as the elderly to independently use all the functions of the mobile, thanks to an electronic voice reading the display. A personalised free-of-charge assistance service network is available to “Talks” users at customer care facilities and company shops.

In 2005 “Talks” has received a special mention from the Sodalitas Social Award, in the category devoted to service innovation of significant products from a social and environmental point of view.

### ASPHI

ASPHI (Launch and Development of Projects to reduce Handicap through ICT) is a non-profit association of businesses and organizations aimed at promoting the integration of people afflicted by disabilities in the community through the use of ICT technology (Information and Communication Technology).

In 2005 TIM became a member of ASPHI thus reinforcing its collaboration, started in 2003, in the professional training of young disabled on the use of information and communication technologies. Every year TIM takes part in “HANDImatica”, organized by ASPHI and presents in its stand innovative and socially useful products.



### Relations with Universities

The Group continues the support, both in Italy and abroad, in favour of the University world and of training centres for young graduates, sponsoring scholarship and masters. Thanks to a stage mechanism the Group supports the technical training of approximately 300 young people every year with a financial commitment equal to about euro 800,000. The time dedicated by many Group managers to internship workers and University lessons, enriches the panorama of the Group's contribution to training of youths.

## ► Business Basics

### Loquendo technologies

Loquendo is a company of Telecom Italia Group and develops innovative vocal technologies for automatic applications. The Loquendo platform allows the user to access information and transactional data with a simple telephone call, supporting sight and speech impairments. Thanks to the continuous improvements of voice recognition technology services are now available in 17 languages, with the use of "voice prints" as a biometric feature to check individual identity and even recognising whether the caller is a man or a woman. The platform also allows call centre automation, the introduction of voice services for Customer Relationship Management applications and the telephone access to Web applications.

### Telemedicine and Teleassistance

Telecom Italia continues to participate in the activities of Telbios, an Italian company developing Telemedicine services and networks devoted to healthcare facilities and homecare medical assistance.

Telemedicine initiatives are as follows:

- Safe Network for National Transplant Centre, allowing the management and control of data and imaging relative to explanted organs, for optimal and immediate reimplant.
- Telecardiology and Telemonitoring, allowing to monitor the patient's vital parameters at home and then to transmit these data to the Telbios Telemedicine Service Centre - CST through a simple phone call or using a GSM mobile. The data are verified in real time by cardiologists operating at CST or are sent to specialists of other healthcare facilities taking care of the patient.

A call centre with operators specialised in the management of healthcare issues is operating 24 hours a day.

### Area coverage

TIM continued its activity on coverage and improvement of the quality of service in remote areas in order to reduce the Digital Divide:

- following the agreement signed at the end of 2004 with the Piemonte Region (Department for Mountain, Forests and Environmental assets) TIM Italia has started the installation of low environmental impact plants in mountain areas, supporting tourism and improving safety;
- following the protocol of understanding signed on November 25, 2005 with the Province of Reggio Calabria, TIM Italia has started a GSM/EDGE coverage project concerning some remote areas of the National Park of Aspromonte.

## ► Research, development and innovation

The Italian market of telecommunications is considered among the most advanced, both from the technological viewpoint and evolution of customer attitudes as well as customer consumption profiles.

To Telecom Italia Group technological innovation is therefore an essential and differentiating issue to develop a competitive advantage and maintain leadership in an increasingly competitive market.

The wealth of technological and innovative competences of the Group has allowed in these years the design, development and adoption on the field of state-of-the-art networks, terminals and services, a wealth to be used also in foreign countries where the Group operates through subsidiaries.

Technological innovation activities are carried out also by the operational and business units (Network, Market, Information Technology, Web & Media and Security) as well as by Olivetti, besides the "Innovation & Engineering Services" department (ex Telecom Italia Lab) of Operations where lie all the activities and competences concerning basic research, the assessment of developing technologies and the "intra-moenia" development.

The technological innovation of Telecom Italia Group arises moreover from the strategic partnerships with the most important manufacturers of telecommunication equipment and systems and with research centres of excellence in the most qualified academic institutions both at national and international level.

Technological innovation activities range from reviews of basic technologies, aimed at increasing network and system efficiency, to complex activities involving the radical review of platforms, services and architectures; the effort concentrated on the field by business unit operational departments is therefore essential to assure the compliance of new services to customer needs and the continuous improvement of service quality.

During the financial year 2005 the investments of Telecom Italia Group for tangible and intangible assets related to development and innovation totalled approximately euro 3,700 million. Internal resources devoted to these activities as well as to research, in Italy and Brazil, are about 5,600, with an overall commitment equal to about euro 350 million (of which about euro 121 million already included in the investments).

In 2005 the research and development centres of Telecom Italia carried out in particular the activities detailed below:

### ► Innovation & Engineering Services

In the new organisational structure of Telecom Italia Group, launched on October 5, 2005, innovation and research activities are a responsibility of the "Innovation & Engineering Services" department of Operations.

"Innovation & Engineering Services" inherits the experience, the resources and the know-how of the TILab research centre, supported by the resources and competences of development engineering of the network, both fixed and mobile.

Its 1,600 technicians operate to develop and engineer innovation, to make it rapidly and economically accessible to the Group customers.

Innovation is designed, created and tested in the laboratories of Turin and Rome, analysing both the fixed and mobile access network, striving to improve the transport network, developing services and platforms; all this requiring a careful analysis of the needs of both final customers and businesses, for whom the future telecommunication network is the qualifying issue enabling their competitiveness on the market at worldwide level. Among the ongoing activities, that in the next few years will be significantly perceived by the general public, the following should be mentioned: the development of mobile communications and the spreading of broadband in a perspective of evolution of the network and services projected up to 2015, with the identification of the relevant transition strategies.

Thanks to the "Innovation & Engineering Services" department, operating in strict collaboration with the Pirelli Labs, Universities, Research Centres and Industry, the future is nearer and offers advanced services in many sectors, ranging from mobile to multimedia, from home to business, ensuring quality and security.

As for the past, the opportunity to generate competitive advantages and to create value for Telecom Italia Group has been pursued also through a strategic management of relations among research, Intellectual Property Rights (IPR) and business, aimed at developing the corporate patent portfolio; within this framework 82 new patents have been registered in 2005 (86 in 2004), 3 of which following joint research projects with Pirelli Labs.

The most important results achieved in 2005, nearly all relative to activities of the pre-existing TILab, are consistent with the strategy aimed at pursuing innovations leading, on one side, to outline the technological and architectural course of the network and of user terminals, and on the other side, to open perspectives involving new services and revenues for the Group as well as favouring at the same time operational improvement.

Concerning the **Innovation of Services**, some contributions to the development and improvement of the Group offer of services are worth mentioning:

- release of the Phase II Video telephony service, completely based on the IP protocol and the interoperability of the same with mobile video communication: a step forward towards Convergence, using on the fixed network the same architecture used for the mobile network (IP Multimedia Subsystem with standard 3GPP);
- release of the Mobile Instant Messaging (MIM) Blah service on the south-American market: the TILab contribution concerned the expansion of the TIMCafè platform (implemented by TILab and already providing the MIM service, leader on the national market) with a community/chatting SMS solution successfully launched by TIM Brazil and subsequently by other TIM subsidiaries;
- improvement of the Telecom Italia Alice Mia service, thanks to the expansion to Personal Computers of functions currently available on the phone: in particular TILab has designed and released the client software that, once installed on the PC, allows the workstation to be integrated within the network and service architecture of Telecom Italia, thus enabling customers to make voice calls on IP and to take advantage of additional services such as supplementary telephone services and service quality management;
- spreading of TV contents on mobile terminals, both through the UMTS technology and DVB-H broadcasting: TILab contributed in terms of design and development of an Interactive Mobile TV platform then integrated in the DVB-H distribution chain, with some prototype characteristics that make it a world's first standard, such as the contemporary DTT and DVB-H transmission, live contents transcoding in advanced MPEG-4 format;
- spreading of charged musical content on mobile terminal: TILab contributed during the year to the realisation and installation at TIM partners' and TIM Service Centre of the i-Music Store service platform;
- contribution to the launch of the Alice Home TV service, through laboratory testing of network equipment (DSLAM-IP and Service Platform) and of the user Set Top Box as well as through a service trial with friendly users.

Concerning the **Innovation of terminals** two important initiatives should be mentioned, both aimed at increasing services available to customers and assuring at the same time adequate security levels:

- the first is related to the integration on the SIM of a mobile terminal with ZigBee proximity technology: thanks to these radiofrequency low-cost readers, easily integrable inside mobile terminals, these are enabled to interact with external devices using an analogous ZigBee technology. New services, such as tele-ticketing or automatic payment are thus enabled on the terminal;
- the second refers to the development of prototype solutions based on the use of biometric facial recognition technologies, improving the security of "sensitive" services when used through a camera-equipped mobile terminal: in this case the client face image, partly stored on the server, partly on the SIM, is compared with the real time image provided by the phone, thus ensuring a high degree of protection from illicit intrusion.

As far as the **Innovation of the Home Network**, TILab:

- has boosted to the establishment of the Home Gateway Initiative (HGI), the new Forum in which the leader vendors of the sector, including Pirelli Broadband Solutions, are participating;
- has defined, consistently with international standards, the updating specifications for the Home Network management system, thus enabling the integrated management of home network equipment. This will bring considerable advantages both to Telecom Italia as a service provider and to final customers perceiving the quality of the end-to-end service used.

In the **Innovation of the Geographic Network**, consistently with the Group strategic lines, significant contributions have been provided regarding both architectures and specific technological network junctions, as detailed below:

- during the first half of 2005 a long-term perspective has been outlined concerning a fixed-mobile network that, besides pursuing technological synergy objectives, pictures scenarios of services accessible through fixed lines, mobiles and multimodal applications within the next ten years. In this context and in collaboration with the sector vendors the specifications of collection junctions and of the IP service junctions for the target network have been developed;

- consistently with the Group's strategy to enable a Quadruple Play offer (fixed telephony, broadband Internet access, services on TV + mobile communication) TILab also made a significant step forward by completing – in advance with respect to the Vendor's roadmaps and thus influencing them – the technical specifications of the network element (QoS-Server) that will assure to the single customer the "Quality of Service" required for optimal service, and starting the first laboratory tests with commercial products;
- TILab also contributed, in the second half of 2005, to the drafting of the Group Technological Plan with regard to network architectural vision issues for the future, with particular reference to the technological drivers that will direct the development and the management of the network, to the standardisation and regulatory scenarios that are emerging and to benchmarking of other telecommunication operators;
- TILab has designed, consolidated and activated in the month of November 2005 the first version of a multi-vendor management system for the activation of innovative DSLAM-IP services, based on proprietary techniques and platform. This solution is the first functional and systematic element of the mediation layer between the network and the management systems; named Neutral Element Management and identified as one of the evolutive key solutions of the convergent management platform of Telecom Italia;
- TILab has completed within the end of 2005 (release on January 23, 2006) the co-development with Italtel of the IMS/IP Multimedia Subsystem platform, enabled to deal with advanced telecommunication services based on the SIP/Session Initiation Protocol.

In the framework of Progetto Italia, TILab has contributed to spread the image of Telecom Italia as an innovative company through a series of events held in Venice ("Robot", "The Evolution of communication beyond current horizon", "4 steps in the future"), in Genoa (Science Festival) and several other events both in Italy and abroad.

#### ► Olivetti S.p.A.

The Olivetti Business Unit devotes to the technological Research and Development sector a significant share of its resources. Over 300 employees work in the five research poles (Agliè, Arnad, Carsoli and Scarmagno in Italy; Yverdon in Switzerland), that means 17% of the entire staff.

In particular the ink-jet technology, of which Olivetti is the only proprietary European company, together with other five companies in the world, has been created and developed in the Arnad (AO) plant, where over 200 resources are involved in the complete manufacturing cycle of the thermal inkjet technology: from silicon processing to the assembling of print cartridges.

During 2005 the Olivetti research centres have been deeply committed to the development and improvement of the new generation of multifunctional printers launched in the months of August and September 2005.

## Human Resources



### ► Headcount and changes in Telecom Italia Group

#### EMPLOYEES AND TEMPORARY STAFF

Staff at 12.31.2004 (*)	Changes in the period					Total	Staff at 12.31.2005
	Recruited	Terminated	Increase of temporary staff	Changes in the area of consolidation			
94,022	7,735	(5,603)	732	(10,355)	(7,491)	86,531	

(\*) includes staff on temporary contract, equal to 2,650 in 2004 and 3,382 in 2005.

**Headcount** at December 31, 2005 is 86,531, including 1,047 employees related to sold/destined to be sold activities (discontinued operations). Excluding these activities Group's headcount is 85,484.

The reduction of 7,491 employees as compared to December 31, 2004 is due to:

- the sale of Entel Cile Group (– 4,166 employees), Finsiel Group (– 3,972 employees), TIM Hellas (– 1,495 employees) and TIM Peru (– 653 employees);
- the entry of 7,735 employees (of which 514 related to the activities sold/destined to be sold "discontinued operations") and the termination of 5,603 employees (of which 576 relative to discontinued operations), plus an increase of 732 employees of temporary staff;
- the changes in the area of consolidation linked to the acquisition of Liberty Surf (+ 614 employees), the establishment of TIS France (+ 24 employees), the sales of Televoice (– 169 employees), Innovis (– 222 employees), Cell-Tel (– 112 employees), Databank (– 86 employees) and Med 11C-1 (– 14 employees), as well as to the transfer of the business branch Territorial Centres of Surveillance by Telecom Italia (– 104 employees) to Tecnosis S.p.A..

### ► Headcount and changes in Telecom Italia S.p.A.

Staff at 12.31.2004 (*)	Changes in the period								Total	Staff at 12.31.2005 (*)
	Incorporated companies			Recruited	Terminated	Decrease of temporary staff	Transfers among Group's companies	Break up of business branches		
TIM 1.1.2005	TI Data Center 12.31.2005		Territorial Centres of Surveillance					TIM Italia S.p.A. 2.28.2005		
53,034	10,424	596	521	(1,494)	(177)	339	(104)	(10,399)	(294)	52,740

(\*) includes staff on temporary contract, equal to 186 employees in 2004 and to 9 employees in 2005.

Headcount of Telecom Italia S.p.A. at December 31, 2005 is 52,740. As compared to December 31, 2004 an overall decrease of 294 employees is observed.

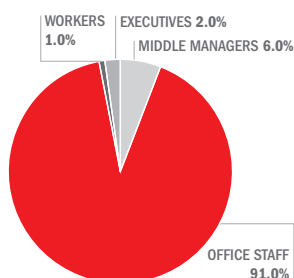
The merger by incorporation of TIM S.p.A. into Telecom Italia S.p.A. went into effect on June 30, 2005 with accounting and fiscal effects as from January 1, 2005. On February 24, 2005 TIM S.p.A. went ahead with the transfer of the business unit relative to mobile communication

in Italy in favour of TIM Italia S.p.A., a company 100% controlled by TIM itself; the break up was performed through the increase in kind of TIM Italia's share capital freed with the award of the whole company with effect from March 1, 2005.

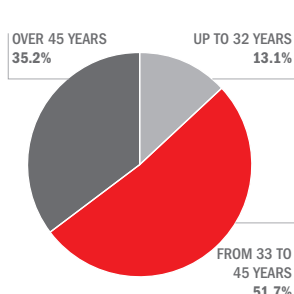
On December 31, 2005 the merger by incorporation of Telecom Italia Data Center s.r.l. into Telecom Italia S.p.A. (+ 596 employees) went into effect. On December 30, 2005 the former benefited from the partial transfer of the business unites constituted by the infra-structural assets related to the management of data centres of IT Telecom s.r.l. (540 employees) and of TIM Italia S.p.A. (56 employees) as well as of basic services (mail, office automation, management of workstations) of IT Telecom s.r.l..

In Italy the Group's payroll headcount is equal to 84.5% with the following characteristics:

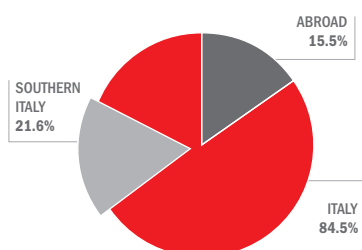
**Telecom Italia Group - Italy: employee breakdown by professional category**



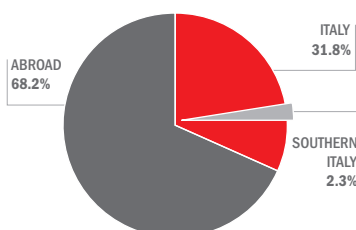
**Telecom Italia Group - Italy: employee breakdown by age group**



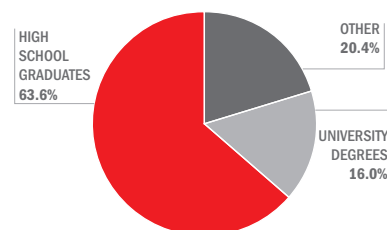
**Telecom Italia Group: employee breakdown by geographic area**



**Telecom Italia Group: recruitment breakdown by geographic area**

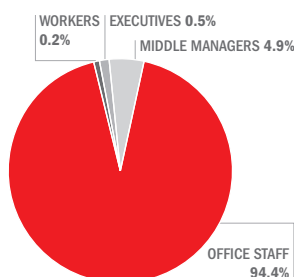


**Telecom Italia Group - Italy: employee breakdown by academic qualification**

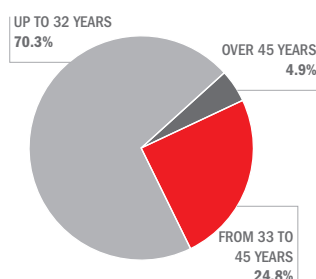


## ► Focus on Latin America

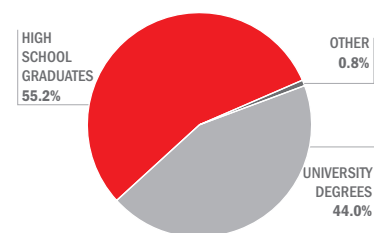
**Latin America: employee breakdown by professional category**



**Latin America: employee breakdown by age group**



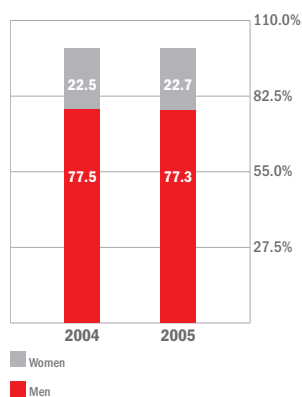
**Latin America: employee breakdown by academic qualification**



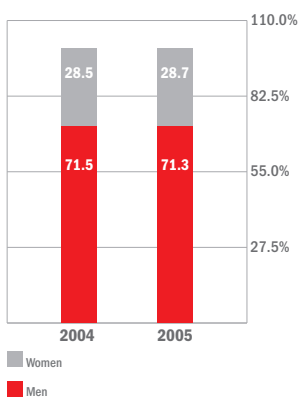


## ► Gender balance

Distribution of men and women  
(2004-2005) Telecom Italia S.p.A. (%)



Distribution of men and women  
(2004-2005) TI Group (in Italy) (%)



In 2005 the percentage of women holding senior management positions in the Group (in Italy) was approximately 13%; at middle management level it was about 24%.

### Equal opportunities

*Woman Project* is an integrated program launched on July 1, 2003 in the framework of corporate Welfare initiatives aimed at identifying interventions favouring women professional growth and fostering equal opportunities within Telecom Italia Group. During 2005 the project promoted and carried out the following activities:

- a web portal devoted to the project, updated with all the activities promoted in favour of employees and providing a wealth of information on maternity/paternity and raising children;
- loans for mothers: designed for employees mothers of children aged 0-3 years. The maximum amount granted is euro 2,500 for each child, to be repaid in 18-24-36 monthly instalments. Loans granted in 2005: no. 158;
- Children's Day: half-days during which employee's children may access corporate offices and visit their parents' work place. The initiative includes entertainment, play, snacks and gadget distribution;
- development of management policies (training, mentoring, coaching, intervention on flexibility, etc.) to help employees resume their jobs after maternity leave.

## ► Development

In keeping with an action plan started last year and aimed at supporting business evolution through appropriate identification and valorization of key know-how, during 2005 the **assessment of employees' competence portfolio** (specialized knowledge and personal ability) carried out within the Group's companies in Italy was completed. The census involved approximately 66,000 employees and their managers.

The Assessment allows the company to estimate the patrimonial value of the know-how present in the Group, to evaluate the best allocation/valorization of the resources in terms of business needs and to set up measures of retention and development of key competences.

Again on the issue of the valorization of competences existing in the Group: during the year special attention has been paid to **Infragroup Mobility** with the aim of resorting to internal professionalism to cover personnel requirements, thus favouring the development of resources. During 2005 about 80 announcements have been posted on the Group **Job Posting** (as compared to 34 in 2004) and about 500 curricula have been collected (as compared to 259 in 2004).



Another specific course of action followed in 2005 was keeping on in harmonizing policies and systems of developing resources **at international level** in the various companies of the Group abroad. In this framework several initiatives were launched to spread in these areas the development procedures already in use in the Italian Business Units, for example by extending to the companies in Latin America the experience of the **Knowledge Review** which allowed the identification of those resources who, thanks to their know-how, represent a professional reference point.

The **Management Review** has allowed also in 2005 to analyze the qualitative profiles of all the Group's managers, both in Italy and abroad, by assessing about 1,500 executives and managers, and to build a tableau of excellence managerial profiles, shared at top level.

### Recruiting

The Project "University Tour" has been launched in 2005 with the aim of presenting the company in the most important Italian Universities. The program to recruit and select high-potential new graduates, mainly in engineering and economics, has been continued. The positive placement within the company has been verified through individual interviews to make a first assessment of the experience, to monitor satisfaction with regard to the activities, as well as to acquire a first assessment of the profile and of the correct job allocation in the Group.

## ► Training

Training activities for the Italian staff of Telecom Italia Group in 2005 have involved approximately 2 million hours (classroom, on-line, training on the job) and about euro 32 million of outlay costs (excluding the cost of labour and logistic expenses). Around 30,000 employees took part in **classroom training events**. Over 72,000 hours have been devoted to health and safety issues and more than 31,000 to environmental issues. Training activities, largely carried out by Telecom Italia Learning Services, occur within two wide frameworks: a first one related to overall Group projects, the second to the safeguard of business know-how.

### Overall Group Projects

- Two editions of the Learning Tour, designed for high-potential managers: the first was meant to analyze the Corporate Identity issue through visits to companies renown for business excellence in London and Paris (16 participants), while the other dealt with the role of Human Resources as strategic partner of business in European companies (22 participants).
- Training project "Public and Media Speaking" designed for 27 managers allocated to various corporate departments, aimed at developing effective media communication skills.
- Training activities devoted to Professional Families, Security, Human Resources, to the Advertisement and Promotion Professional framework and to the Buyer role (Purchasing Professional Family).
- Launch of the Project "Mastering IT", devoted to the Professional Family Information Technology, involving about 50 managers of the Family itself.
- E-learning project "Sailing Master" devoted to Group executives and aimed to consolidate the competences related to the managerial model; about 50% of the overall value of the project has been funded by Fondirigenti.
- Two editions of the seminar designed for new executives, one edition of the placement course for new graduates and one for professional resources.
- Institutional training activities related to the projects "Sarbanes Oxley (404)", "Sustainability" and "Convergence and integration".

### Business training

Training activities both in Operations and other Business Units have been implemented as following.

### Operations Wireline

Continuation of the projects aimed at safeguarding the competences of staff operating within **Customer Operations** (employees, supervisors, and managers in charge of Call Center, Invoicing and Credit), meant to improve relation skills with customers and develop leadership and effective management of groups. This population has also been involved in training activities related to the updating and consolidation of technical specialist know-how, with special focus on the knowledge of new products/services (ADSL, video-telephone, etc.).

Concerning **Sales**, training activities have been devoted to resources operating in the Large Business Customers facilities, focusing on the development of “advisory” skills in dealing with customers, on management of complex sales, on integration within Account Teams as well as on the consolidation of managerial role competences (Area Managers, Large Business Customers Managers and Territorial Area Managers).

Again concerning Sales, but in the Consumer segment, training activities were related to motivation issues and role adjustment of Accounts.

Innovative training projects have been designed for **Marketing** in order to reinforce the managerial skills of high-potential resources.

Concerning the BU Wireline **Network** training was mainly focused on the development of business competences and to technological evolution (particularly on ADSL issues) as well as on the development of competences related to the Cisco certification plans. The role adjustment sessions designed for assurance and delivery front end resources have also been completed.

Updating interventions on the ICT market evolution have been designed with regard to the specific needs of the various reference targets (as for instance Network and Sales).

Special attention has been paid to the improvement of language skills also through the spreading of specific on-line applications.

### TIM Operations

Training activities were mainly focused on issues such as “Employee enhancement”, “Customer Care” and “Customer orientation”. In the first case post assessment and post performance training plans have been made to fill specific gaps of single resources focusing on macro areas of ability. As far as the last issues two specific projects have been implemented: a project designed for customer agents aimed at spreading empowerment concepts and behaviors through an innovative methodology (reality training); the second one involved in a single event both TIM resources belonging to different departments, though operating on the same service, and business customers, and was focused on the improvement of customer orientation ability, on the effective and direct knowledge of the customer and on teamwork.

### Media

Training initiatives concerned the continuation of the Business Unit overall project on “People enhancement”, designed for executives and middle management and meant to stimulate integration and teamwork. Concerning the single business areas actions focused on the development of specific competences, such as the updating on Terrestrial Digital issues for technicians and journalists of La7, and the improvement of relational capabilities with customers for the Sales and Marketing departments and of Customer Care in MTV and Tin.it.

### Olivetti

A managerial training project, designed for a population of selected middle management, has been implemented at the conclusion of an Assessment Centre phase. The project was focused on the soft skills required for business and management processes, with special attention to issues such as Management of Change and Team Building.

Special attention has also been paid to the updating of professional competence and reinforcement of language skills for Research and Development resources.

A professional re-qualification program has been launched for CIGS staff for the purpose of outplacement of redundant resources in the TLC equipment repair, contact management and customer service sectors.

As far as training activities concerning Telecom Italia Group **staff abroad**, the monitoring refers to Operations Mobile and South-America (Bolivia), i.e. approximately 83% of the Group's staff abroad, totaling 760,000 hours.

## ► Internal Communication

During 2005 several Internal Communication initiatives have been launched in order to favour the integration and promotion of corporate culture.

Within this framework **Conventions** and **Meeting** play a significant role.

Some events among the most important:

- 2005 Group Convention - with the participation of about 6,000 executives and middle managers of Telecom Italia Group both in Italy and South America. 5,000 more employees attended all sessions by connecting their workstation to the Intranet portal;
- Meeting of Chairman Marco Tronchetti Provera with 124 new graduates recruited by the Group in 2004;
- Convention of the Purchasing Professional Family, involving 300 executives and middle managers;
- Workshop "Create today to innovate tomorrow", with the participation of 150 Marketing executives and middle managers;
- Human Resources Meeting, with the participation of 130 employees of the Human Resources Professional Family.

The 10<sup>th</sup> anniversary of the creation of TIM occurred in 2005 and it has been celebrated with a TIM Birthday Party and the participation of 10,000 people in main corporate offices and premises.

In order to present the **new organization** based on the One Company model the "Meeting top executives" event was organized, with streaming transmission to the entire corporate staff. At the end of the year the "Operations meeting: targets for 2006" involved about 4,500 executives and middle managers of Operations and Central Departments in order to present results and strategies; 3,000 more employee followed the event through streaming.

**Corporate Press** contributed most significantly to the communication of experience and information within the Group. Main publications are: noi.magazine; TIM TAM TAM; @tilab; il Notiziario Tecnico (Technical Bulletin).

The Group Intranet portal platform with profiled and restricted access to all the Group's companies, has been improved. Over one million visits to the portal have been recorded in the year.

Internal Communication Department also organized the following **Special initiatives**:

- organization of the First Literary Competition of Telecom Italia Group, with prize-giving ceremony in Turin for 150 employees, among which winners, finalists and participants, and realization of a volume including the 40 best stories selected by the jury;
- participation of employees in "Telecomcert" with Elton John in Rome.

The **Values Project** identified by the brand "Values in progress" has been launched with a view to emphasize the significance of the Group's Values. 3,000 resources of the Group took an active part in the project.

## ► Remuneration policies

In 2005 fixed-compensation policy was based on a selective management of interventions correlated both to role and competences and aimed at improving internal equity.

The “variable” component of compensation, correlated to company/individual performance, is confirmed as the distinctive element of the compensation package. In this respect, formalised systems take on particular significance as shown by the consolidated use of the managerial incentive system MBO and of the Performance Bonus Program (PBP), introduced in 2004 and meant for resources holding relevant business positions with more of a professional than a managerial content.

In a perspective of valorization of the compensation package the commitment to harmonise policies on benefits continued, as well as that to expand the population receiving benefits.

## ► Stock options

Stock options have been used over the years by Telecom Italia Group for retention purposes and as a long-term incentive for managers.

At the end of 2005 the stock option plans existing in the Group are related to options entitling to the subscription of Telecom Italia S.p.A. and Telecom Italia Media S.p.A. shares.

Following the merger by incorporation of Telecom Italia Mobile into Telecom Italia, the latter took over all the Stock Option Plans previously effective in Telecom Italia Mobile: stock option holders maintained their right to subscribe, when exercising the option and at the subscription price, a number of Telecom Italia ordinary shares equal to the number of options multiplied by the exercise ratio of ordinary shares (ratio 1 to 1.73).

In 2005 a new stock option plan has been launched in Telecom Italia Media S.p.A., approved by the Company Board of Directors on February 23, 2005 (“2005 Plan”).

The Plan is reserved for employees on duty at Telecom Italia Media and its Subsidiaries, holding special responsibilities and/or competences and is offered against the voluntary renunciation to options of preceding plans formerly assigned by Seat Pagine Gialle S.p.A. (2000-2002 Plan and 2002 Key People Plan).

The essential characteristics of Telecom Italia (including those formerly assigned by Tim S.p.A.) and of Telecom Italia Media Stock Option Plans are summarized in the Note “Other information - Stock option Plans of Telecom Italia Group” of the annual report.

## ► Industrial relations

During the period collective Group bargaining mainly concerned:

### Company re-organization

The Group’s initiatives to focus on core business activities were carried out in accordance to legal procedures governing the transfer of the business branch Territorial Centers of Surveillance of Telecom Italia S.p.A. to TecnoSis S.p.A., effective as of July 1, 2005.

The operations described below were also carried out during Group reorganization:

- transfer of the business branch Divisione Tin.it from Telecom Italia Media S.p.A. to Società Nuova Tin.it s.r.l.;
- transfer of mobile telephony Business Unit of Telecom Italia Mobile S.p.A. to TIM Italia S.p.A.;
- transfer of the business branch Immobili e Servizi of TIM Italia S.p.A. to Telecom Italia S.p.A.;
- transfer of business branches Infrastructure Operations 1 and Infrastructure Operations 2 of TIM Italia S.p.A. and contextual transfer of the Business Unit IT Telecom s.r.l. (excluding the Certification Authority organization) to Telecom Italia Data Center S.p.A. and subsequent merger by incorporation into Telecom Italia S.p.A..

On January 29, 2005, Telecom Italia S.p.A. and the Trade Union Organizations, SLC-Cgil, FISTel-Cisl and UILCom-UIL signed an agreement concerning the statutory reform of the Association for Integrative Healthcare for Telecom Italia workers (ASSILT) and of the Telecom Italia Workers Recreational Club (CRALT).

Concerning ASSILT, the reform involves the confluence of the technical and operational activities of the Association in a specific department for Welfare in Telecom Italia, the rationalization and simplification of the member bodies of the Association, the possibility to join the Association for all the Group's companies, even with a CCNL (collective agreement) different from that of Telecommunications sector.

For CRALT the reform involves the reduction of the number of Area Councils from 22 to 12 and the confluence of Service Centers in the Welfare department of Telecom Italia.

A specific Code of Ethics has been agreed with Trade Unions to be adopted by both Associations and valid with respect to members, associates and components of associative Bodies and Offices.

On May 2, 2005 agreements have been signed with Trade Unions in order to redefine the entire internal corporate participatory and representative system. In the first place the Industrial Relations Protocol has been updated consistently with the new corporate policies aimed at reconciling economic, social and environmental targets. The principle of the participatory model has been confirmed as the tool to reconcile objectives aimed at safeguarding workers as well as the company's competitiveness.

Furthermore, agreements have been signed to redefine the concept of Productive Unit with respect to Trade Union representation; as a consequence the number of Trade Union Unitary Representatives and the total amount of hours granted to these organisms for their activities have been reduced, matching them to the current corporate organizational model.

Also redefined are the prerogatives granted to workers representatives participating in the organisms of the Associations ASSILT and CRALT. The tasks of the Environmental Joint Committees, comprising internal company members and union members operating inside the company also underwent redefinition and adjustment adapting them to the new corporate requirements.

After a few months of negotiation, on November 7, 2005, an agreement has been reached with Trade Unions on the development and reorganization plan for the three-year span 2005-2007. The agreement signed by the parties is based on the industrial project for the integration of the fixed and mobile telephony businesses. The agreement with Trade Unions also identifies some tools aimed at ensuring the correct occupational dimension and the necessary professional remix, such as the targeted introduction of new resources, the professional and intercompany mobility and mobility ex lege no. 223/91.

Consistently with the Development and Reorganization Plan on December 20, 2005 agreements have been signed with Trade Unions concerning mobility of 3,403 Telecom Italia S.p.A. workers. On the same day similar agreements have been signed with other Group companies (TIM Italia S.p.A., Telecom Italia Sparkle S.p.A., IT Telecom s.r.l., Telecom Italia Learning Services S.p.A.), over a total of 97 resources.

On December 3, 2005, after nearly a year of negotiations, a draft agreement has been signed between ASSTEL (Assotelecomunicazioni) and Trade Unions on renewal of the National Collective Labour Agreement for telecommunication service businesses. The regulation section of CCNL relative to tlc, effective up to December 31, 2008, has been adapted to the most significant new concepts introduced by Legislative Decree no. 276/03 concerning the labour market, and those introduced by specific legislation on working hours; the economic section of the agreement, on the contrary, will be effective up to December 31, 2006.

## ► Health and safety

At the end of 2005 the state of the art relative to some important projects launched the preceding year was the following:

- The research into wellbeing in call-centres, managed by a Scientific Committee composed of Italian university professors specialized in Psychology, Ergonomics and Medicine in the Workplace was concluded.
- The assessment of concentration levels of radon gas in some workplaces, by means of scientific collaboration with the Istituto Superior Health Institute continued, in order to develop a working methodology and an accredited laboratory.
- An assessment of the biological risk occurring in underground plants, operated by Telecom Italia technical staff, is in progress.

Furthermore, in order to ensure and promote health and safety on the job, the following significant activities were carried out:

- controls and monitoring on buildings and plants;
- evacuation tests to verify the efficiency of the Emergency Plans;
- first-aid operational plans;
- health surveillance and inspections of video terminal workstations carried out with competent physicians;
- control and maintenance of TIM Safety Management System;
- training on the subject of health and safety in the workplace – about 60,000 hours by SPPA – devoted in particular to employees in charge of emergency management (over 300 employees), to first-aid (about 1,500 employees) and to workers exposed to specific risks;
- a specific training session on “safe driving” dedicated to about 200 TIM technicians.

## ► Accidents

Data on accidents occurred in Telecom Italia S.p.A. and TIM S.p.A. are shown below:

	Telecom Italia S.p.A.	TIM S.p.A.
Total accidents	873	70
Accident severity index (*)	0.38	0.05
Frequency rate (*)	10.25	4.4
Average duration	110.1	90.2
Unproductiveness rate (*)	1.13	0.4
% workers on total	1.68	0.7

(\*) The severity, frequency and unproductiveness indexes represent respectively:

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

Against a marked increase in absolute terms of the number of events as compared to 2004 (attributable to normal statistical oscillation of phenomena), a significant reduction of average duration and unproductiveness index has been observed in 2005.

## ► Initiatives for employees

### Welfare

In the second half of 2005 the service department **Welfare** was established, meant to ensure the operation of the **Group Recreational and Welfare Organisations**, the provision of social services for the improvement of employees wellbeing, the implementation of **health assistance**/prevention and **medicine in the workplace** initiatives, and solutions for leisure time.



This framework includes projects and initiatives dedicated to all employees:

- Personal affairs service: management of errands (post office payments, fines, road tax, etc.), thanks to a permanent counter inside five corporate premises;
- Conventions with Hotel chains, tourist packages and car rent at reduced cost;
- Conventions for entertainment events: discounted tickets for employees;
- Renovation of some company canteens, now turned into pleasant dining rooms;
- Company loans:
  - Estate: to buy house up to a maximum of euro 17,500, to renovate up to a maximum of euro 12,500. Granted in 2005: no. 76 for the first type and no. 104 for the second;
  - Other reasons: up to a maximum of euro 2,500. Granted in 2005: no. 267.
- Prize-giving ceremonies: for employees with 25-30-35 years seniority. Awarded in 2005: 5,300;
- Intranet website: a portal for information, training and access to services favouring balance between life and work;
- Internet website: devoted to information/provision of Social Services;
- Health information: dedicated interactive section via Intranet.

Moreover, projects and initiatives for employee's children:

- Childcare centres: Telecom Italia S.p.A. has inaugurated two new childcare centres, one in Rome (Parco de' Medici) and the other, created to meet the special needs of call centre employees, in Naples (Telecontact - CDR). These structures follow those of Tim in Rivoli (Turin), Rome and Palermo;
- Local summer day centres: conventions with two summer day centres in Naples and Bari located near to the workplace and encouraging participation in sports; the initiatives are dedicated to employees' children aged 7-15. Participants in 2005: 71 children;
- Traditional summer holiday camps: 16-day holidays for Group company employees' children, aged 6-12. Activities in the camp are organised around an educational project which is periodically updated with input from university professors and experts in the sector. Participants in 2005: 4,705 children;
- Thematic summer holidays: 15-day holidays devoted to learning English and sport practice, for Group company employees' children, aged 11-14 in the first case and 7-15 in the second. Participants in 2005: 427 children;
- Scholarships: periods abroad to study English, thus favouring intercultural communication between young people and families all over the world. Four weeks for boys and girls aged 15-16 and/or one year if aged 16-17. Participants in 2005: 60 for the 4-week period (Ireland and Finland); 20 for one-year period (Europe, United States and Canada);
- Refund of university fees: refund of first-year enrolment fee for employees' children with marks at least 90/100.

## **ALATEL**

### **Association for the Elderly (ALATEL and Gold Pins)**

The Senior Worker's Association of Telecom Italia Group (over 26,000 members, of which a third are working employees) continued the realisation of its institutional activities, confirming the collaboration with the Olivetti Gold Pins Association (about 6,400 members).

## **ASSILT**

At December 31, 2005 more than 215,000 were enrolled in the Association for Integrative Healthcare for Telecom Italia Group workers: 67,300 employees, 41,350 retirees, 107,300 family members.

As well as reimbursing healthcare expenses to integrate the National Healthcare Service (660,000 cases in 2005), Assilt conducts campaigns for preventive medicine and healthcare education, using its mobile diagnostic units and support from public healthcare facilities.

Also in 2005 the programs for multidisciplinary Oncological Prevention to discover breast and skin pathologies continued (Puglia, Lombardia, Veneto, Campania and Emilia Romagna), as did the program for respiratory allergies, started in 2003 (Lazio, Tuscany and Sicily).



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

### **CRALT**

The Telecommunications Workers Recreational Club of Telecom Italia Group organises tourist, sport, cultural and recreational activities for employees and retired employees from the companies of the Group.

At December 31, 2005 about 49,000 employees and 8,000 retirees had joined the Club.

## ► **Labour and human rights in Latin America**

The following shows the main actions undertaken by the Group in Latin American countries – Brazil and Bolivia – to implement the principles of the Global Compact regarding human rights and safeguards for labour standards.

### **Human Rights**

Specific regulations against race, religion and gender discrimination are effective in Brazil, both in the Federal Constitution (respecting the International Labour Organisation and Universal Declaration of Rights for Man principles) and in national legislation.

The Human Resources Department of TIM Brazil is in charge of monitoring the observance of these rules in the basic processes relating to human resources (recruitment, management and development), making use of its own holding and territorial organisations.

The first corporate Code of Ethics, distributed to all employees, includes the general principles stated in the Group Code (consistent with Global Compact principles), with appropriate adjustments based on local needs.

At Entel Bolivia the Collective Labour Contract, in force between the parties, sanctions the respect for dignity and human rights of employees and foster equal opportunities for men and women, promoting in particular female participation in company activities.

The Contract includes a Code of Ethics stating principles of conduct and of respect of human dignity and relations.

The instruments provided by the Collective Contract enabled the application of innovative policies related to industrial relations, training and internal communication, such as to arouse the interest not only of national businesses and Trade Unions but of the International Labour Organisation (ILO) as well.

Concerning juvenile labour Entel Bolivia respects the international ILO rules.

### **Safeguards for labour**

Freedom to associate is ensured by legislation in force both in Brazil and Bolivia.

The Collective Contracts of all the operating TIM companies in Brazil have been renewed in 2005 and involve new economic wage advantages and benefits.

Entel Bolivia recognizes and actively cooperates with Trade Unions. In compliance with local labour laws freedom to associate is ensured. According to the country's Constitution no-one may be forced to perform any job without proper remuneration and Entel monitors observance of this provision.

Some data concerning unions:

- TIM Brazil: approximately 5.2% of workers are members of Trade Unions Organizations.
- Entel Bolivia: 52% of workers are members of Union Associations.

In both countries the results of negotiations affect all employees, including non members.

In case of company re-organization, the company's obligations to employees and Trade Unions differ from one country to another:

- TIM Brazil: no special formality is provided by legislation however trade unions are involved in re-organisation processes. Duties exist towards institutional bodies such as ANATEL (regulatory) and CADE (antitrust).
- Entel Bolivia has developed tools to prevent potential conflicts, by means of widespread information on corporate plans and policies.
- These tools are:
  - Foro Estratégico (Strategic Forum): meets every six months to discuss industrial policies and strategies, financial and legislative scenarios, market trends, technological innovation and investments.
  - Observatorio (Observatory): involves representatives of the company and of the workers and aims at analysing and discussing issues of general interest such as market and competition, improvement of working conditions as well as improvement and preservation of corporate profits.
  - Sistema de Informaciones (Information system): ENTEL reports information every four months to CEN of FESENTEL (executive committee of the Federation Labour Union), on the following issues:
    - developing scenarios of the sector;
    - evolution of internal occupational levels;
    - trend of main economic indicators of the sector;
    - evolution of production and investment perspectives;
    - evolution of technological and organisational aspects and their impact on work organisation;
    - significant training and professional updating programs.

On the subject of regulations protecting child labour all Group companies conform to the principles in national and international regulations.

To create a shared-values base and raise employee involvement on corporate management issues, the Group launched initiatives to spread shared values and to communicate corporate strategic plans.

Talent enhancement programs are active in TIM Brazil such as the enrolment of employees to post-graduate masters with company contributions to expenses. An internal job-posting system allows to fill vacancies through intranet or posting on company notice boards.

During the last eight years employees training activities at Entel Bolivia amounted to 578,000 hours/man and this has involved a deep change in the workers mix: in 1996 only 46% of employees consisted of professionals and skilled technicians, while in 2005 the 96% of workers has achieved a certificate, of which 15% postgrade, 56% graduation and 25% school-leaving certificate.

## Shareholders



### ► Financial communication

Consistently with preceding years also in 2005 Telecom Italia Group financial communication is accurate and immediate as well as focused on fundamental values of the ICT sector. Investor Relations activities continue to be managed by a Central Department directly responding to the Chairman so as to ensure the fastest and most efficient communication possible.

The [www.telecomitalia.it](http://www.telecomitalia.it) Group website provides comprehensive and accurate information through the spreading of institutional documents such as financial statements and the Sustainability Reports, *communiqués* on corporate issues and salient operations on the market, along with on line quotations of the Group's shares. At year-end 2005 a project has been undertaken for the redefinition of the website Investor Relations section to make it more appropriate with respect to investor requirements.

During 2005 the company organized over 100 formal encounters with the market (sell side analysts, institutional investors and both national and international specialized press) involving quarterly conference calls, road shows, attendance at conventions and press conferences, as well as daily contacts with financial analysts and investors both direct and by telephone.

On April 12, 2005 the yearly meeting with the financial community has been held in Milan to present the Group's targets for the three-years 2005-2007.

The industrial plan to integrate the Group's fixed and mobile communication was concluded with the merger by incorporation of TIM Italia S.p.A. into Telecom Italia S.p.A. effective as of March 1, 2006. A comprehensive and timely information campaign was provided to the market, also including a conference call to institutional investors, with the required documentation available on Telecom Italia S.p.A. website.

### ► Safeguarding privacy and protecting data

Great significance is attached by Telecom Italia Group to issues related to personal data handling, particularly for interacting subjects (customers, employees, suppliers, etc.); the Group has therefore developed an internal organizational and regulatory system to ensure that all handling complies with legislative provisions and with the correctness principles outlined in the Group's Code of Ethics.

Within this framework also in 2005 significant initiatives were launched to ensure the observance of the laws in force concerning the protection of personal data (Legislative Decree 196/03, the so-called "Privacy Code"). The coordination of these activities is a responsibility of the "Privacy" Department, established within the Corporate and Legal Affairs Department which is in charge of controlling the correct application of sector regulations at Group level.

The actual application of these rules is monitored by Telecom Italia through an audit system based on periodic self-evaluation procedures undertaken by managers responsible for data handling and on random test audits applied by the competent central departments. In particular, during 2005, audits were conducted at thirteen central and local facilities to ensure the observance of privacy rules relative to the management of Telecom Italia's employees, relations with customers and implementation of measures for data protection. Actions plans are programmed for continued improvement of the operational issues associated with rule observance.

At Group level nineteen subsidiaries underwent audits on implementation of privacy rules, with the aim of ensuring the correct application of the rules as well as receiving useful indications to update and improve – through a bottom-up approach – the Group's regulation system on personal data handling.

Among other initiatives undertaken:

- Drafting of the Group normative “Regulation system for data handling”, based on current laws and on the Privacy Authority “case laws” and defining for each case treated provisions and operational indications for Group companies, in order to ensure the correct and homogeneous application of the Privacy Code;
- realization of a computerized system allowing employees in charge of handling data to access, through the company intranet, the updated list of handlings performed in their departments, for improved observance of Privacy Code provisions;
- spreading of privacy culture, through constant updating of the dedicated site in the company intranet, the organization of meetings and encounters in Telecom Italia Group companies, and the drafting and diffusion of informative materials as for instance the “Summary of privacy normative” for employees dealing with data handling, the brochure “Privacy in Pills” for persons in charge, and the on-line course on privacy available to all the Group’s employees.

Lastly, in compliance with provision 26 of attachment B (Technical Manual on Minimal Required Security Measures) of the Privacy Code, Telecom Italia confirms of having drawn up the Personal Data Security document (DPS) for 2005, reviewed and updated with respect to preceding editions to make it even more compliant to Privacy Authority requirements. This document describes the technical and organizational criteria adopted to protect common, sensitive and legal personal data handled with information technology tools, as well as the training plan designed for people responsible of handling personal data.

## ► Risk Management

CRSA (Control & Risk Self Assessment) is a system aiming at the systematic identification, assessment and management of operative risks, that has been included in Telecom Italia Group’s governance system more than two years ago. The system is based on a self-evaluation of risks made by the management, followed by the existing audit system and proposals, if any, for improvement. The cycle of identification and management of risks through CRSA, performed each year, involves the following operations steps:

- definition of Group’s targets by Chief Executive Officers. For 2006 the following have been defined: Market Leadership and Competitiveness, Integration, Cash generation and Operative efficiency, Focus on customers, Reliability and Transparency of Information, Sustainable Management;
- definition of targets for each Business Unit and Corporate Department by the relevant persons in charge consistently with Group’s targets;
- identification and consolidation of risks which may compromise the achievement of the established targets;
- assessment of identified risks in terms of impact and probability of occurrence and “weighing” of the same through the assignment of a coefficient of relevance;
- overall assessment of “weighed” risks within the Group’s internal control system and identification of risks considered acceptable and of those requiring instead appropriate protection measures;
- development of action plans involving special protective measures for risks that are considered “not acceptable” and their approval by Management Committee;
- adjustment of the internal control system, if required.

The CRSA cycle for 2005 has been concluded in September 2005 with the approval of the *action plans* related to the Group Risk Portfolio (30 actions against 15 identified risks) and the definition of 313 actions with respect to the Central Department and Business Unit Risk Portfolios (436 consolidated risks).

The implementation of the mentioned action plans is being monitored by the Compliance Managers operating in the various organizations and coordinated by a Group Compliance Officer; they provide assistance and methodological support to operative management during the CRSA cycle steps.

The practical management of the cycle steps is supported by a web-based application started in September 2005 that integrates the CRSA and APM (Action Plan Monitoring) systems and allows the automatic management and monitoring of Action Plans deadlines defined by CRSA, as done for action plans deriving from audits. All employee involved in the various CRSA steps, both in Italy and abroad, underwent specific training.

## Corporate Governance

### ► Introduction

Telecom Italia has adopted the self-regulatory Code of Conduct drawn up by the Committee for the Corporate Governance of Listed Companies in the ways and within the limits set out here. In fact this section describes the Company's system of corporate governance, which consists of a series of principles, rules and procedures that are constantly updated and, where necessary, adapted to legislative and regulatory developments and changes in international best practice.

**Telecom Italia's system of corporate governance hinges on the central role of the Board of Directors in providing strategic guidance, the complete transparency of operational decisions, both internal and in relation to the market, the efficiency and effectiveness of the internal control system, the strict regulation of potential conflicts of interest and rigorous rules for transactions with related parties.**

In what follows the system is analyzed in the light of the important decisions taken during the year, which saw the completion of the convergence of the Wireline and Mobile telecommunications businesses.

The present section is an excerpt from the section "Annual Report on Corporate Governance" contained in the Annual Report 2005, to which reference is made for the complete text (available, as well as all the other corporate governance documents mentioned herein – codes, principles, procedures, charts – at the website: [www.telecomitalia.it](http://www.telecomitalia.it), Investors, Governance).

### ► Board of Directors

#### ► Role and tasks

Effective and correct corporate governance requires the Board to play an active role in the strategic guidance of the Company and the control of operations, with powers to direct the business as a whole and intervene in a series of decisions.

In the first place Telecom Italia has embraced the principle that the Board of Directors **has the right (and the duty) to direct the Company's activity and pursue the ultimate objective of creating value for its shareholders.**

To this end, among the tasks reserved exclusively to the Board under the Company's Self-Regulatory Code, the following are especially noteworthy:

- examining and approving **strategic, business and financial plans;**
- reviewing and approving **the annual budget;**
- examining and approving **transactions** – including investments and disinvestments – **with a significant impact on the Company's activity in view of their nature, strategic importance or size;**
- verifying the **adequacy of the general organizational and administrative structure** of the Company and the Group;
- preparing and adopting the Company's **corporate governance rules** and the Group's governance guidelines;
- appointing the Supervisory Panel set up under Legislative Decree no. 231 of June 8, 2001;
- **nominating the persons who are to hold the offices** of Chairman and Managing Director **in strategic subsidiaries**, as well as of **General Manager;**
- **assessing the overall performance of operations**, particularly as regards conflicts of interest and with special account taken of the reports received from the Managing Directors and the Internal Control and Corporate Governance Committee;
- examining and approving the **periodic financial reports.**

### ► Meetings

In 2005 the Board of Directors met **eleven** times. Board meetings were always well attended, with more than **88%** of the directors present on average (the independent directors recorded an attendance rate above **94%**).

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

In November 2005 the Company released a calendar providing for five meetings in 2006. It should also be noted that in 2006 Telecom Italia has again opted to publish its annual financial statements and half-yearly report respectively within 90 days of the close of the fiscal year and 75 days of the close of the half year (which allows it to benefit from the exemption from the obligation to prepare the last quarterly report for 2005 and the second quarterly report for 2006).

### ► Appointment of directors

The members of the Board of Directors are elected using the slate system (Article 9 of the bylaws).

This solution, which means that the Company **does not need to have a nominations committee** and that it also complies with the rules on the appointment of directors introduced by the recent law on the protection of savings, is intended to ensure the presence on the Board of persons elected from slates submitted by minority shareholders (in fact slates may be submitted by shareholders who alone or together with other shareholders hold shares representing at least 1% of the share capital entitled to vote in the ordinary shareholders' meeting).

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

The slates were accompanied by the profiles of the individual candidates to enable shareholders to evaluate their personal and professional qualifications and, for some candidates, by evidence of their satisfying the requirements laid down in Telecom Italia's Self-Regulatory Code to qualify as independent directors. Also the résumés submitted when the slates were presented are available on the Company's website [www.telecomitalia.it](http://www.telecomitalia.it).

The composition of the Board changed during the year in connection with the merger of Telecom Italia Mobile S.p.A. into Telecom Italia S.p.A. In fact on April 7, 2005, after approving the merger, the shareholders' meeting **voted to increase the membership of the Board** from 19 to 21 and to appoint two new directors, Marco De Benedetti and Enzo Grilli, both of whom had previously been on the board of Telecom Italia Mobile.

These appointments were made without using the slate system, which the bylaws require only when the entire Board has to be appointed. However, the candidacy of Enzo Grilli was put forward by the independent directors, coordinated by the Lead Independent Director, and the two candidates' résumés were made available at the Company's registered office and at the market operating company fifteen days before the shareholders' meeting. Since Enzo Grilli qualifies as independent, Telecom Italia's Board **still has a majority of independent directors** (11 out of 21).

On July 26, 2005, as part of the process of integrating Telecom Italia and Tim, the Board of Directors made Marco De Benedetti a managing director of Telecom Italia, with responsibility for the Mobile Business Unit.

In October the process of integrating fixed and mobile telecommunications was concluded, in terms of corporate structure, with the start of the merger of Tim Italia into Telecom Italia and, from the organizational point of view, with the termination of the separation of operations between the Wireline and Mobile Business Units and the adoption of the **"One Company Model"**. This led to the entire **business being placed under the management of one person**, Mr. Ruggiero. Subsequently, Mr. De Benedetti resigned his directorship and gave up all his operational responsibilities within the Group.



### ► Composition

Telecom Italia's bylaws provide for the Board of Directors to have not less than 7 and not more than 23 members. The shareholders' meeting of April 7, 2005 fixed the number of directors at 21 but, following Marco De Benedetti's resignation, at December 31, 2005 it had 20 members.

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

The composition of the Board changed again on January 23, 2006 following the resignation of Giovanni Consorte and it now has 19 members, of whom 11 are independent.

The directors Francesco Denozza, Guido Ferrarini, Jean Paul Fitoussi and Pasquale Pistorio were elected from the slate presented by the group of institutional investors and the others from the slate presented by Olimpia S.p.A., which at present holds approximately 18% of the ordinary share capital.

### ► Board performance evaluation

In 2005, for the first time, **the directors carried out a Board performance self-evaluation**, in line with international best practice. The evaluation (carried out through the use of specific questionnaires) permitted two objectives to be pursued: on the one hand to check the working of the Board as a whole and on the other to assess the contributions to its activity and the conduct of the executive directors, the non-executive directors and the independent directors.

The analysis of the responses to the questionnaires revealed a generally positive assessment of the Board and its members but also some aspects susceptible to improvement.

This permitted the identification of measures to make the organization of the Board more efficient and enhance its effectiveness, basically by increasing the involvement of the Board as a whole in issues addressed in a specialist manner by Board committees and organizing structured meetings with the management, with a consequent heightening of individual directors' appreciation of the matters of interest to the Company.

### ► Independent directors

In conformity with international best practice and the recommendations of the Italian corporate governance code, known as the Preda Code, Telecom Italia has laid down a set of principles by means of which to establish directors' independence. According to the Board of Directors' annual assessment of the declarations submitted by the directors concerned, **at present 11 of the 19 members of the Board qualify as independent**,

namely: Paolo Baratta, John Robert Sotheby Boas, Domenico De Sole, Francesco Denozza, Luigi Fausti, Guido Ferrarini, Jean Paul Fitoussi, Enzo Grilli, Marco Onado, Pasquale Pistorio and Luigi Roth. The composition of the Board also complies with the recently adopted law on the protection of savings, according to which at least one director must satisfy the independence requirements for the members of the Board of Auditors laid down in Legislative Decree 58/1998, as amended by the law on the protection of savings.

Telecom Italia's Self-Regulatory Code) defines independent directors **as those who neither have nor have recently had business dealings with Group companies or executive directors or members of their families on a scale able to influence their judgement and who are not in a position to exercise a significant influence over the Company** as a consequence of the shares they hold or their participation in shareholders' agreements. This requirement is interpreted extensively, in order to assess "substantial" independence; accordingly, directors who have material dealings with natural or legal persons who are parties to a shareholders' agreement do not qualify as independent.

In addition, since 2004 the Company's Board of Directors has also had a **Lead Independent Director**, who is intended to provide a point of reference and coordination for the needs and inputs of the independent directors. At present the position is held by Professor Guido Ferrarini, Chairman of the Internal Control and Corporate Governance Committee.

Among other things, the Lead Independent Director is authorized to call, at his own initiative or at the request of other directors, special meetings of the independent directors (Independent Directors' Executive Sessions) to discuss issues related to the working of the Board or the management of the business.

**Five** Independent Directors' Executive Sessions were held in 2005; the main extraordinary corporate actions were examined as well as some issues concerning management remuneration and incentives. In accordance with international best practice, the independent directors also carried out a management evaluation, the results of which were shared with the other non-executive directors in a special executive session of the Board. The overall assessment was positive: in a context marked by fast-changing strategic scenarios, technologies and markets, Telecom Italia's management had shown itself to be aware of the scale and rapidity of the transformation under way and of the dangers (but also the opportunities) for the Group. In particular, it had identified the strategy of convergence as the means of creating a long-term competitive advantage and achieving the growth and earnings objectives, notwithstanding the increasing pressure on market shares and prices.

### ► Executive directors

The authority to grant delegated powers to directors and revoke such mandates is reserved to the Board of Directors, which also establishes their objects and limits, their duration and the intervals at which persons with delegated powers must report on their activity, the general results of operations, and the transactions of greatest economic, financial or balance sheet significance concluded by the Company or its subsidiaries.

In 2004 the Board of Directors appointed Marco Tronchetti Provera as Chairman and Carlo Orazio Buora and Riccardo Ruggiero as Managing Directors; Gilberto Benetton was made Deputy Chairman.

Following the merger with Tim and until the adoption of the One Company Model, from July to October Marco De Benedetti was also a Managing Director.

Despite the broad scope of the mandates granted to the executive directors, the power to take decisions on transactions of particular significance continues to be exercised by the Board as a whole, even when they are theoretically within the limits of the executive directors' mandates. This is because **delegating powers is not considered a way of attributing exclusive competences** but as a means of ensuring, from the standpoint of organizing the management function, the greatest possible operational flexibility, both within the Company and in relation to third parties. During the year this concept was taken a step further by reclassifying what had originally been defined as substantial limits (in terms of eligible transactions and amounts) as mere **internal limits to the relationship of trust between the Board that delegates powers and the persons who exercise them**. In fact the Chairman and the Managing Directors are all **legal representatives of the Company and they are individually authorized to carry out any transaction relating to the Company's activity**.

On October 5, 2005, consistently with the adoption of the **One Company Model**, **responsibility for the development of fixed, mobile and Internet services was assigned to the same person**. This provides for the **unitary direction of the business** in addition to the **unitary direction of corporate affairs**.

The consequent allocation of functions and related organizational responsibilities is set out below:

- Riccardo Ruggiero, **Managing Director**, is responsible for operations from the standpoint of the management and development of the business;
- Carlo Buora, **Managing Director**, is responsible for the guidance and control of the business and for matters of a transversal nature affecting the entire business;
- Marco Tronchetti Provera, **Chairman**, is entrusted with coordinating the activity of the two Managing Directors and with establishing, together with them, the strategic guidelines for the Group and its development, with direct responsibility for the following areas: institutional affairs, communications and image, and investor relations.

As regards **the reports** the Chairman and the Managing Directors are required to make to the Board of Directors and the Board of Auditors, the Company has adopted procedures formalizing the rules and methods for gathering and transmitting information on their activity, transactions with major implications for the profitability, financial position and/or assets and liabilities of the Company and the Group, transactions with related parties (including intra-group business) and atypical or unusual transactions.

#### ► **Directors' remuneration**

The shareholders' meeting of April 7, 2005, after voting to increase the number of directors on the Board from 19 to 21 and in accordance with the first paragraph of Article 2389 of the Civil Code, augmented the maximum total annual remuneration of the Board for the second and third years of its mandate, from euro 2,700,000 to euro 3,000,000. It left the method of allocating this amount unchanged:

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

Set up in 2000, the Board's **Remuneration Committee consists exclusively of independent directors** and is charged with **fact-finding and advisory functions**. Since May 6, 2004 the membership has been as follows: Paolo Baratta, Pasquale Pistorio and Luigi Fausti, chairman. In 2005 the Committee met **three** times; the average attendance rate was approximately **90%**.

The Committee is charged with putting forward proposals with regard to the remuneration of the directors who hold particular offices and the criteria for the remuneration of the Company's senior management. Last year it also made an assessment of the appropriateness and effectiveness of the compensation and incentive schemes for managers and executive directors.

The current remuneration system for **executive directors** provides for them to receive a **fixed component and an additional payment subject to the achievement of the objective for consolidated EBIT with positive Delta EVA**, in other words when value is created for all investors.

**There is no provision of stock options for directors.** <sup>(1)</sup>

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

Further information on the compensation paid to the executive directors can be found in the relevant table in the Notes to the 2005 financial statements.

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

## ► The internal control system

The internal control system is one of the aspects of corporate governance to which Telecom Italia has devoted the most attention. It has developed as **a process** intended to achieve substantial and procedural fairness, **transparency** and **accountability, corner-stones of the Company's entrepreneurial activity**, as laid down in the Group Code of Ethics. The aim of the process is to ensure that the management of the business is efficient and can be known and verified, that accounting and operational data are accurate, that applicable laws and regulations are complied with, and that the assets of the business are safeguarded, not least with a view to preventing fraud against the Company and financial markets.

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

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

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

The Managing Director Carlo Buora is charged with the task of determining the mechanisms of the system and the manner in which it is to be implemented in accordance with the guidelines established by the Board; he is also responsible for ensuring the system's overall adequacy, its effectiveness and its adaptation to changes in operating conditions and the legislative and regulatory framework.

The basic functions assigned to the person responsible for internal control are to verify the adequacy and effectiveness of the system and, where anomalies are found, to propose appropriate remedies.

The Board has appointed the Company's internal auditor (Telecom Italia Audit), in the person of the director assigned to the task, to be responsible for its internal control system. The person responsible for internal control reports on its activity to the Internal Control and Corporate Governance Committee and the Board of Auditors.

Any maintenance work on the internal control system is performed by the competent sectors of the Company or Group companies. In order to ensure the implementation of improvements to the internal control system and foster the dissemination of a methodology and culture of governance and risk management, managers of particular standing and authority within the organization are appointed as "**persons responsible for implementation**". In order to improve the deployment of the Group internal control system, in 2005 the position of Group Compliance Officer was created to ensure the overall coordination of the various implementation plans and thus guarantee, with the assistance of Telecom Italia Audit, methodological correctness in the management of risk. To further strengthen the system, the persons responsible for implementation have been flanked by compliance managers coordinated by the Group Compliance Officer.

As mentioned earlier, **internal auditing** has been entrusted to the **consortium company Telecom Italia Audit**, in which TI Media also holds an interest, with the aim of maximizing the independence of the person responsible for internal control from Telecom Italia's corporate structures, with respect to which the audit function is completely autonomous.

As regards compliance with the provisions implementing the Sarbanes-Oxley Act, last year saw further progress in carrying out **Project 404**, which involves the whole Group and, under the guidance of the related Steering Committee, is intended to equip the Company with the most suitable instruments to ensure timely compliance with the attestation requirements introduced by Section 404 of the Act with regard to the **internal control system and procedures for financial reporting, requirements** to which Telecom Italia will be subject as of its annual report for 2006.

The Company's internal control system is completed by the so-called **231 Organizational Model**, which goes beyond the mere application of the provisions of Legislative Decree 231/2001, since it provides a paradigm for the conduct of all those who act in the Company's name and on its behalf.

More specifically, the model comprises "principles for dealings with governmental bodies" (elaborated as a set of rules for relations with representatives of such bodies) and "internal control checklists" (i) listing the main stages of every process, (ii) the offences that may be committed in relation to individual processes, and (iii) the control activities to prevent the related risks from arising.

The organizational model is reviewed periodically in the light of experience in its application and changes to the law subsequent to the initial framework created by Legislative Decree 231/2001, including the broadening of its scope to encompass other cases. In 2005 the Company verified, in accordance with the discipline established by Legislative Decree 231/2001, the adequacy of the internal control system with respect to the new types of offence considered, with special reference to violations of company law. For the most part the results of the checks were satisfactory; for cases that were not fully regulated the 231 Organizational Model was supplemented as necessary with the adoption of some new internal control checklists for operational and instrumental processes exposed to the risk of offences being committed. At present the model is being fine tuned to incorporate the risks associated with the legislation on market abuse.

Monitoring of the functioning and compliance with the model is performed by a **Supervisory Panel** made up of a member of the Board of Auditors (Ferdinando Superti Furga, chairman), an independent director on the Internal Control and Corporate Governance Committee (Guido Ferrarini) and the person responsible for the internal control system. This ensures that the members of the Panel embody all the professional skills involved in the control of the Company's operations.

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

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

Lastly, it should be noted that a special unit (the 231 Support Group) has been created within Telecom Italia Audit to provide operational support to the Supervisory Panels of Group companies by handling reports of violations of the organizational model and conducting compliance audits on the basis of the data received by way of the information flows that have been put in place.

### ► The Internal Control and Corporate Governance Committee

Since 2000 the Board of Directors of Telecom Italia has had an Internal Control and Corporate Governance Committee, charged with **advisory functions and the formulation of proposals**.

In particular the Committee:

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

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



In 2005 the Committee met **eleven** times; attendance at the meetings was **100 per cent**. Committee meetings are also attended by the Chairman of the Board of Auditors or by the auditor he designates.

Where it is deemed desirable in the light of the issues on the agenda, the Committee and the Board of Auditors may hold joint meetings.

During the year the Committee contributed to the **implementation of the Company's instruments of corporate governance** and participated in the process of analyzing, specifying and updating them. It **also played an active role in the integration of Telecom Italia and Tim, verifying the procedural correctness of valuations and the fairness of the operation**.

It examined the plan for the restructuring of the Group, with special reference to the merger of Tim into Telecom Italia and the concentration of the Group's Internet operations in the parent company. In addition, it analyzed the application of IAS/IFRS to the financial statements and kept abreast of the progress made by Project 404.

As well as monitoring transactions that the Board deemed to be especially delicate, the Committee examined and approved the basic elements of the internal audit plan for 2006 and the quarterly plans of the person responsible for internal control. It periodically assessed the work of Telecom Italia Audit, paying particular attention to the company's report on internal auditing activity in 2005 and the checks it performed, and the progress made by the Group projects known as Control Risk Self-Assessment and Check-Up of Administrative Systems. Lastly, the Committee discussed the plan for the 2006 statutory audits with representatives of the external auditors, Reconta Ernst & Young.

## ► The Strategy Committee

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

The Strategy Committee consists of the Chairman of the Board (who ensures the alignment and coordination of the activities of the Committee, the Board and management), the Managing Director charged with ensuring the guidance and control of the business (Carlo Buora), and three independent directors (Domenico De Sole, Marco Onado and Pasquale Pistorio) specialized in the fields of technology, organizational strategies and corporate finance. The Committee is entrusted with the task of **assisting the Board of Directors in making strategic choices in the light of competitive developments**, with special reference to decisions concerning:

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

In addition to calling on the heads of units within the Company, the Committee may employ consultants and external experts.

The Committee met four times in 2005, generally at the same time as a meeting of the Board of Directors and with an attendance rate of **95%**. The meetings were attended by managers of the Group, invited according to their specific expertise to provide inputs with regard to the matters on the agenda. The Committee **examined and produced recommendations on the following subjects**:

- **Market scenarios**: technological trends, evolution of consumption patterns, convergence initiatives by the main telecommunications operators – analysis of regulatory frameworks and the strategy and positioning of the Group with regard to telecommunications and, more generally, to information and communication technology (ICT).
- Internet: plans for the integration of platforms and business models (Tin.it, Virgilio and Rosso Alice).
- Sharpening the focus of the business.
- Strategic projects and international positioning: Europe, Mediterranean basin, Latin America.
- Integrated organizational model: basic principles, business objectives and the One Company Model.



## ► Board of Auditors

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

The Board of Auditors plays a key role in **the Company's system of corporate governance**. In addition to the **fifteen** meetings it held during the year (some jointly with the Internal Control and Corporate Governance Committee and with an attendance rate of **96%**), its members participated in the eleven meetings of the Board of Directors and periodically received the reports submitted by the bodies with delegated powers, as provided for in the relevant procedure.

The importance of the Board of Auditors is confirmed by the choices made with regard to US company law. Specifically, under the applicable provisions, **the existence of the Board of Auditors makes it unnecessary for the Company to set up a separate Audit Committee**.

In view of the requirement that the Audit Committee approve all the services the auditing firm (and associated persons) supply to the issuer and its directly and indirectly controlled subsidiaries, in 2003 the Company has adopted a **Group Procedure for the Appointment of Auditors**. In particular, this provides on a general basis for the centralized control of relations with auditing firms to prevent engagements for non-audit services being granted that fail to comply with the applicable Italian or US law and that ultimately could undermine auditor independence. The procedure (which appears to be consistent with the requirements introduced by the new law on the protection of savings) regulates the engagement of auditing firms and persons associated with them on a continuous basis, distinguishing between engagements that must be individually authorized in advance by the Board of Auditors and those falling within categories subject to a generic authorization. The procedure significantly restricts the power of the Board of Directors (and the management) while enhancing the independent control function performed by the Board of Auditors.

The Company has also adopted the principle of employing the same auditing firm throughout the Group; in fact the appointment of other firms must be agreed in advance with the parent company following a reasoned request on which Telecom Italia's Board of Auditors gives its opinion on the basis of inquiries made by the person responsible for internal control.

In order to make available the broad range of information needed by the Board of Auditors to perform its control function effectively, a procedure has been put in place, as mentioned earlier, for the collection and transmission to the members of the Board of Auditors (and the directors) of information on: the activity carried out by the Company; the transactions of greatest significance for the Company's profitability, financial position and assets and liabilities; transactions with related parties (including intra-group transactions); and atypical and unusual transactions.

In view of its responsibilities under Italian law and the obligations deriving from US law, in 2005 the Board of Auditors adopted a procedure for receiving, retaining and treating the reports it receives.

Such reports can be of the following kinds:

- statements of violations submitted by shareholders concerning matters deemed to be censurable;
- complaints by any person, thus including non-shareholders, concerning alleged irregularities, censurable facts or, more generally, any problem or issue deemed to merit investigation by the control body;
- complaints specifically regarding accounting, internal accounting controls, or auditing matters;
- confidential, anonymous submissions of "concerns" by employees of the Company or the Group regarding questionable accounting or auditing matters.

In addition to the tasks performed in its Audit Committee capacity, in 2005 the Board of Auditors carried out **supervisory functions** provided for under Italian law: verifying that the transactions of greatest significance for the Company's profitability, financial position and assets and liabilities conformed with the law, the bylaws and the principles of correct management; checking that transactions with related parties complied with the self-regulatory principles and procedures adopted by the Company and that they were in its interest; and

checking the adequacy of the organizational structure. The Board of Auditors also **monitored the adequacy of the internal control system and that of the administrative and accounting system and the latter's reliability in correctly representing transactions.**

Lastly, it investigated the reports it received under Article 2408 of the Civil Code and the complaints submitted to it during the year, as described in its report to the shareholders' meeting.

## ► Shareholders' meetings

Ordinary and extraordinary shareholders' meetings were held on April 7, 2005. In the extraordinary meeting the shareholders approved the plan for the merger of Telecom Italia Media S.p.A. into Telecom Italia S.p.A. and approved the consequent amendments to Article 5 of the bylaws (under the heading Share Capital - Shares - Bonds). In the ordinary meeting, in addition to approving the annual report for 2004, the shareholders brought the Board of the "new" Telecom Italia up to full strength following approval of the merger plan by appointing Marco De Benedetti and Enzo Grilli as directors. At the same time, in accordance with Article 2389 of the Civil Code, the meeting augmented the maximum total annual remuneration of the Board from euro 2.7 million to euro 3 million.

As usual, the Company sought to increase shareholders' attendance at the meetings by providing the documents needed for informed participation to all those who requested them and, as provided for in the bylaws, ordinary shareholders were able to vote by mail.

Furthermore, pursuant to the bylaws, the Company made special areas available to associations of employee shareholders in which to provide information and collect proxy forms.

## ► Code of Ethics

The Code of Ethics of the Telecom Italia Group can be considered as lying upstream from the whole system of corporate governance and as enshrining the set of fundamental values and principles that serve to ensure an ethically-oriented conduct of business.

The Code, which has gradually been adopted by all the companies belonging to the Group, specifies the objectives to be aimed at and the values to be fostered in relation to all the main stakeholders Telecom Italia interacts with every day: shareholders, financial markets, customers, local communities and employees.

Like all the Company's other instruments of corporate governance, the Group Code of Ethics is **continuously reviewed in the light of developments in the applicable law** and operational and market practices, and with consideration also given to the results of the monitoring of units' compliance by the person responsible for internal control. The present version of the Code takes account of the requirements of the US discipline, primarily as regards the Code of Ethics referred to in the Sarbanes-Oxley Act and the Code of Conduct required by the listing standards of the New York Stock Exchange, which make it mandatory to have a code of conduct for certain categories of officers (executives and financial and accounting officers).

The Company's other governance documents are tied in with the Group Code of Ethics and thus increasingly enhance the importance of its role at the centre of the internal control system.

## ► Rules of conduct for transactions with related parties

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

In fact **the Board of Directors is required to give advance approval to transactions with related parties, including intra-group transactions, apart from those of a customary nature to be concluded at standard conditions.** To this end, provision is made for the Board to be adequately informed of all the relevant aspects: the nature of the relationship, the manner of carrying out the transaction, the economic and other conditions, the

evaluation procedures used, the rationale for the transaction, the Company's interest in its implementation and the associated risks. Moreover, if the related party is a director or a party related via a director, he or she may only provide clarifications and must leave the meeting when the motion is examined and put to a vote. Depending on the nature, value and other aspects of related-party transactions, the Board may be assisted by outside experts in order to prevent contracts being concluded at inappropriate conditions.

The rules are consistent with the legal framework established by the reform of company law known as the Vietti reform and in 2006, despite Consob not having issued the indications provided for, were supplemented by a **procedure designed** to provide an objective basis for the treatment of concrete situations. Before any transaction is carried out, it will be necessary to consult an expert system (appropriately interfaced with a database that is being added to as the system is deployed) that will automatically provide – on the basis of information gathered using ad hoc checklists – indications concerning decision-making powers, internal information flows for reporting purposes, and the need for an external opinion in evaluating the congruousness of transactions.

It should be noted that on two occasions, during 2005, the Board of Directors exonerated directors who were related to the counterparty of the transaction on the agenda from leaving the meeting since a discussion was not considered necessary in light of the information received in preparation for the meetings.

## ► Management of information

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

**Confidential information is dealt** with by the Chairman of the Board of Directors on the basis of procedures for the internal processing and disclosure to third parties of documents and information concerning the Company. **The procedure for disclosing price-sensitive information was replaced in 2006 by a more general procedure for the disclosure of inside information, which takes account of the legislation on market abuse and provides for the creation, with effect from April 1, 2006, of a register of persons with access to inside information.**

The adoption of the new procedure is the most tangible result of the activity of the working group the Company set up to evaluate the effects of the transposition into Italian law of the Market Abuse Directive (Community Law 2004).

The decision to set up the working group was taken at the initiative of the Disclosure Committee, a body made up of managers that provides assistance to the Board of Directors and top management on the processing and handling of the data and news necessary for correct disclosure. The Committee is charged with assisting in the preparation and checking of periodic financial reports, prospectuses and corporate disclosures in general.

The role and operating rules of the Disclosure Committee are likely to be revised in the process of adapting the Company's system of corporate governance to the requirements of the recent law on the protection of savings (including the introduction of the "manager responsible for preparing the Company's financial reports").

## ► Code of Conduct on Insider Dealing

The Company's **Code of Conduct** on Insider Dealing, adopted in December 2002 and laying down the rules of conduct and the disclosure requirements applicable **to transactions involving financial instruments issued by Group companies carried out by persons who have access to material information as a consequence of their positions** will be superseded, as of April 1, 2006, with the entry into force of a Consob regulation issued pursuant to Legislative Decree 58/1998, as amended by the law on market abuse.

The law imposes a disclosure obligation for so-called insider-dealing transactions on, among others, the directors and members of the board of auditors of a listed company and "persons performing administrative, supervisory and management functions in a listed issuer and managers who have regular access to inside information and the power to make managerial

decisions affecting the future development and prospects of the issuer". Telecom Italia has chosen to identify such persons in the key managers referred to in IAS/IFRS 24 and in executive officers for the purposes of US applicable law.

In 2005 the Company made 10 filings in accordance with Article 2.6.4 of Borsa Italiana's Market Rules.

## ▶ Meeting regulations

As provided for in the bylaws, the shareholders' meeting has approved a set of regulations for shareholders' meetings.

The document also contains the procedure for ordinary shareholders to vote by mail, as provided for in the bylaws, so as to ensure the fullest possible **guidance on the organizational and procedural aspects** of this important moment in shareholders' participation in the life of the Company.

## ▶ Investor relations

A special unit, headed by the Chairman, is responsible for handling relations with the financial community in Italy and abroad. In 2006 the scope of the unit's activity was extended to include retail investors.

## ▶ Shareholders' agreements

At December 31, 2005 the largest shareholder of Telecom Italia was still Olimpia S.p.A., with approximately 18% of the ordinary share capital (2,407 million ordinary shares). The shareholders of Olimpia S.p.A. have concluded a number of shareholders' agreements; published (in the form of excerpts) in the Italian press and available, as mentioned in the Introduction, in the Company website (Investors, Shareholders, Shareholders' Structure). It should be noted that on February 14, 2006 a notice was published announcing the notification to Hopa S.p.A. of the withdrawal from the agreement (concluded on February 21, 2003) of Pirelli & C. S.p.A., Banca Intesa S.p.A., Unicredito Italiano S.p.A., Edizione Holding S.p.A. - Edizione Finance International S.A. and Olimpia S.p.A., effective May 8, 2006. The shareholders of Olimpia S.p.A. are currently Pirelli & C. S.p.A. (57.66%), Edizione Finance International S.A. (8.4%), Edizione Holding S.p.A. (8.4%), Hopa S.p.A. (16%), Unicredito Italiano S.p.A. (4.77%) and Banca Intesa S.p.A. (4.77%).

## ▶ Assessment by Standard & Poor's

Telecom Italia considered it desirable to have its corporate governance system **assessed independently by Standard & Poor's**. Upon completion of the analysis, the Company was assigned an overall corporate governance score of 7+, the highest ever published by an Italian company.

The rating company recognized that Telecom Italia had progressively created a solid system of governance and strengthened the **independence and effectiveness of the Board of Directors**, which, with a majority of independent directors, stands out with respect to the majority of Italian listed companies by providing a forum for discussion and effective supervision of management.

In its report Standard & Poor's also noted that Telecom Italia's corporate governance system was marked by a high level of transparency and disclosure, combined with strong internal controls and effective supervision of the audit process provided by both the Board of Auditors and the Internal Control and Corporate Governance Committee.

# Auditors' report



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## Auditors' report (Translation from the original Italian text)

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

1. We have carried out the compliance procedures and analyses on the Sustainability Section of the Telecom Italia Group as of December 31, 2005, described in paragraph 2 of this report.

The procedures were carried out to evaluate the Board of Directors' statements, included in paragraph "References" of the Sustainability Section of the Telecom Italia Group as of December 31, 2005, which describes the guidelines adopted for the preparation of the Sustainability Section. The preparation of the Sustainability Section is the responsibility of Telecom Italia S.p.A.'s management.

2. In order to evaluate the Board of Directors' statements mentioned in paragraph 1, we have performed certain procedures which are summarized as follows:
  - verified that the financial data and information are consistent with those included in the Group's consolidated financial statements as of and for the year ended December 31, 2005, approved by the Board of Directors, with respect to which we issued our audit report dated March 22, 2006;
  - analyzed the operation of the processes underlying the generation, recording and management of quantitative data. In particular, we have performed the following procedures:
    - interviews and discussions with management and personnel, to obtain an overview of the activity of the Telecom Italia Group, to gather information on the information technology, accounting and reporting systems used in preparing the Sustainability Section, and to document the processes and procedures used to gather, combine, process and transmit data and information of the Group's operating units and departments to the function responsible for preparing the Sustainability Section;
    - sample-based analysis of supporting documentation used in preparing the Sustainability Section to confirm the reliability of the interview-derived information, the effectiveness of processes and their adequacy in relation to business objectives, and the operation of the internal control system in managing the data and information;

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

The Sustainability Section presents the prior year's data and information for comparative purposes, with respect to which reference should be made to our report dated March 16, 2005.

3. Based on the procedures performed, we believe that the Sustainability Section of the Telecom Italia Group as of December 31, 2005 complies with the guidelines and principles which form the basis of preparation and which are described in the paragraph "References" of the Sustainability Section. Moreover, the financial data included in the Sustainability Section is consistent with the data and information included in the Group's consolidated financial statements and the other data and information are coherent with the documentation and meet the content requirements established by the guidelines and principles governing the preparation of the Sustainability Section.

Milan, Italy  
March 22, 2006

Reconta Ernst & Young S.p.A.  
Signed by: Nadia Locati, Partner



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