



2002 annual report »

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■ CORPORATE BOARDS

Board of Directors ¹	Chairman	Marco Tronchetti Provera (E)	<p>♦ (E) Executive director.</p> <p>♦ 1 Appointed by the Shareholders' Meeting on November 7, 2001.</p> <p>♦ * Appointed by the Shareholders' Meeting on December 12, 2002; he holds the position of general manager since May 5, 2002.</p> <p>♦ (I) Independent director.</p> <p>♦ ° Appointed by the Shareholders' Meeting on December 12, 2002.</p>
	Deputy Chairman	Gilberto Benetton	
	Managing Directors	Carlo Orazio Buora (E) Riccardo Ruggiero (E) *	
	Directors	Umberto Colombo (I) Francesco Denozza (I) Luigi Fausti (I) Guido Ferrarini (I) Natalino Irti (I) Gianni Mion Pietro Modiano ° Massimo Moratti Carlo Alessandro Puri Negri Pier Francesco Saviotti Roberto Ulissi (I)	
	Secretary to the Board	Francesco Chiappetta	
Directors' Compensation Committee	Chairman	Luigi Fausti	
	Members	Umberto Colombo Pier Francesco Saviotti	
Audit and Corporate Governance Committee	Chairman	Roberto Ulissi	
	Members	Guido Ferrarini Natalino Irti	
Board of Statutory Auditors ²	Chairman	Paolo Germani	<p>♦ 2 Appointed by the Shareholders' Meeting on July 3, 2000.</p>
	Acting auditors	Mario Boidi Paolo Golia Fabrizio Quarta Gianfranco Zanda	
	Alternate auditors	Enrico Bignami Leonida Liuni	
Common representative of savings shareholders ³		Carlo Pasteris	<p>♦ 3 Appointed by the special Savings Shareholders' Meeting on October 31, 2001.</p>
Independent auditors ⁴		Reconta Ernst & Young S.p.A.	<p>♦ 4 Appointed by the Shareholders' Meeting on June 12, 2001.</p>

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■ CHAIRMAN'S LETTER



To the shareholders,

The industrial plan worked out at the beginning of last year to re-launch the Group gave strategic priority to the development of the competitive capacity of the various business units, continuous innovation, cost-cuts and a stronger financial structure, with the aim of ensuring the creation of value for internal and external *stakeholders alike*.

We have therefore made efforts to build up our competitiveness on the market with effective marketing initiatives and, more particularly, with selective investments focused on technological innovation, which have made it possible to introduce new products and services and increase the structures devoted to customer care. In this way, we hope to establish ever more enduring and interactive relations with our customers, and, at the same time, augment their loyalty and their satisfaction with our range of products and services.

In particular, in the national wireline network services market, the Domestic Wireline Business Unit has stepped up the spread of broadband for residential customers, focusing on a new brand and new services; in the Mobile BU, TIM has introduced new multimedia services, the so-called *Multimedia Messaging System (MMS)*, thus creating an innovative way for customers to communicate; with regard to Internet and Media, Seat Pagine Gialle focused on the core business of *directories* and Internet

services, improving operating margins through a series of organizational and commercial initiatives, while, with regard to television, it has completely renewed the program schedule of La7. Finally, in *Information Technology*, the process of repositioning the business by separating the operations that support the Group from those that support the Market has been completed, with an ever-greater focus on the Public Administration and financial institutions.

As far as cost-cuts are concerned, we have reached important results, achieving, in 2002 alone, approximately 80% of the targets set at the beginning of the year for the end of 2004; this has all been attained thanks to the optimization of purchasing processes and a selective policy with regard to investments.

Finally, the success of the plan to divest non-strategic businesses – completed almost a year ahead of schedule with respect to the original plan – and higher cash flows generated by an increase in operating profitability have enabled us to exceed the objectives set with a view to reducing indebtedness, which has also improved from the point of view of its composition.

As far as external markets are concerned, in 2002, the Telecom Italia Group concentrated on areas with the highest development potential, exploiting the activities and experience accumulated in Italy over the years and creating a special organizational

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structure to ensure the uniform coordination of all the fixed and mobile business operations in Latin America.

The year 2002 confirms the primary role of our Group in the world telecommunications scenario, in terms of competitiveness, customer service, profitability and the capacity to manage indebtedness. Despite this, the prices of our wireline telephony services are among the lowest in Europe, as the EU has acknowledged.

Therefore, not only does the Telecom Italia Group make a contribution to the economic growth of the country, but it can successfully compete with large international groups, playing an ever-more trenchant role in the development of new services, aiming to enhance its range with value-added services that will stimulate the demand towards more advanced consumption profiles.

Thanks to the results already achieved, and within the framework of the commitment to the plan to create value for shareholders, begun in July 2001, it has also been decided to proceed to streamline the corporate structure of the Olivetti-Telecom Group, in keeping with the expectations of the market, through the merger by incorporation of Telecom Italia in Olivetti.

As a result of this transaction, the shareholders of Telecom Italia will be able to benefit fully from the growth of value deriving from the implementation of the Industrial Plan.

All of this confirms the vitality of the

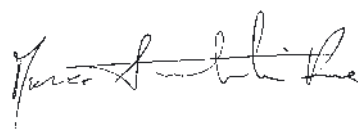
Telecom Italia Group, which can rely on a clear strategic vision, guided by a strong and solid management and on the contribution of the commitment and professional skills of the entire workforce.

This is a Group which regards transparency, dialogue with the financial community and respect for all the shareholders as important values. We can proudly say that the Group's *corporate governance* system, which was progressively introduced in 2002, is in the vanguard and reflects the *best international practices*.

The Code of Ethics is ideally placed at the summit of the entire system and represents the Group's "charter of values"; it forms, in terms of programming, the *body* of principles upon which the Group draws its essence for relations with the different *stakeholders* in order to conduct its affairs in an ethical manner.

In conclusion, I believe that the efforts made hitherto to build solid foundations are generating very positive results, and should encourage us even more to continue enthusiastically along the path we have begun to tread to ensure further progress for our companies and to strengthen the loyalty that all of you have shown.

Marco Tronchetti Provera

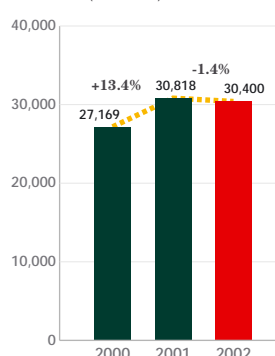


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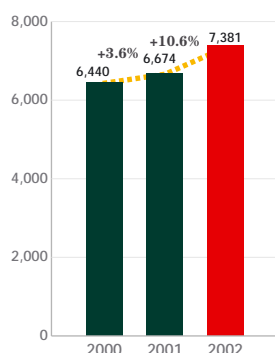
SELECTED ECONOMIC AND FINANCIAL DATA - TELECOM ITALIA GROUP

Changes in the scope of consolidation in 2002 refer to the exclusion of the 9 Telecom group, the Telespazio group and the companies Sogei S.p.A., Consiel S.p.A., DataHouse S.p.A., Emsa S.p.A., Immsi S.p.A., and Telimm S.p.A.; additions include the Webegg group, Blu S.p.A. and other minor companies. These changes, moreover, did not have a significant impact on the economic results or the financial conditions for the year ended December 31, 2002.

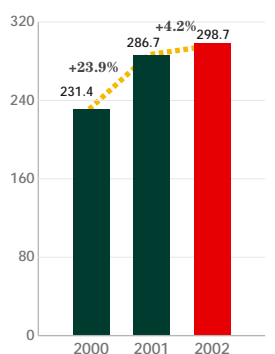
Revenues (euro/millions)



Operating income (euro/millions)



Revenues/Employees (euro/thousands)



	2002	2001	2000 (*)
Results of operations (in millions of euro)			
Sales and services revenues	30,400	30,818	27,169
Gross operating profit	13,964	13,619	12,217
Operating income	7,381	6,674	6,440
Income (loss) before income taxes	(419)	(733)	4,802
Income (loss) before minority interest	297	(1,658)	2,892
Net income (loss)	(322)	(2,068)	2,028
Free cash flow ⁽¹⁾	8,610	5,990	4,453
Investments:	6,919	11,257	19,484
- Industrial	4,842	6,990	7,375
- Difference on consolidation	369	1,174	9,109
- Financial	1,708	3,093	3,000
Financial condition (in millions of euro)			
Total assets	52,786	62,670	61,985
Net invested capital	30,941	41,250	41,923
Shareholders' equity	12,823	19,308	24,690
- Parent company's interest	9,049	13,522	18,821
- Minority interest	3,774	5,786	5,869
Net debt	18,118	21,942	17,233
Profit and financial indexes			
Gross operating profit/Revenues	45.9%	44.2%	45.0%
Operating income/Revenues (ROS)	24.3%	21.7%	23.7%
Return on investments (ROI)	20.4%	16.0%	18.4%
Free cash flow/Revenues	28.3%	19.4%	16.4%
(Debt ratio) Net debt/ Net invested capital	58.6%	53.2%	41.1%
Employees			
Employees (number in Group at year-end)	101,713	109,956	107,171
Employees (average number in Group)	101,789	107,491	117,424
Revenues/Employees (Group average), euro/thousands	298.7	286.7	231.4

(*) Restated to give effect to the consolidation of the Nortel Inversora group (Telecom Argentina) using the equity method instead of the proportional method.

(1) Calculated as follows: Operating income + Depreciation and amortization - Industrial investments - Change in operating working capital.

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■ KEY DATA - TELECOM ITALIA BUSINESS UNITS /OPERATING ACTIVITIES

In May 2002, the International Operations (IOP) "Operating Activity" was disbanded. Although maintaining the same corporate control structure, the relative companies and business segments of Telecom Italia organizationally became part of the following: the Domestic Wireline BU (Intelcom San Marino and Golden Lines), the Foreign Holdings Central Function (9 Telecom group, BB Ned group, Auna group, Telekom Austria group, Telekom Srbija, Etec S.A. and what remains of the ex IOP) and the companies in the South American area report to Latin America Operations (LAO).

Telecom Italia Group thus operated with the following Business Unit/Operating Activities structure:

		Domestic Wireline	Mobile	South America	Internet and Media	IT Market	IT Group	Sub-total	Other activities and eliminations	Consolidated total
(in millions of euro)		(1)		(1) (2)		(3)	(3)		(4)	
Sales and services revenues	2002	17,022	10,867	1,409	1,991	912	1,215	33,416	(3,016)	30,400
	2001	17,168	10,250	1,534	1,957	1,198	1,198	33,305	(2,487)	30,818
Gross operating profit	2002	7,965	5,039	450	593	104	140	14,291	(327)	13,964
	2001	7,750	4,760	527	444	166	188	13,835	(216)	13,619
Operating income	2002	4,700	3,358	146	232	61	(21)	8,476	(1,095)	7,381
	2001	4,361	3,136	187	31	123	22	7,860	(1,186)	6,674
Investments:										
- Industrial	2002	2,462	1,715	216	81	30	158	4,662	180	4,842
	2001	2,801	3,151	406	175	30	162	6,725	265	6,990
- Difference on consolidation	2002		196		40		28	264	105	369
	2001		31		203	1	6	241	933	1,174
Number of employees at December 31	2002	53,682	18,702	5,461	7,715	4,493	7,327	97,380	4,333	101,713
	2001	57,895	16,721	5,746	9,264	6,441	6,844	102,911	7,045	109,956

(1) For purposes of a more meaningful comparison, the data relating to 2001 has been restated.

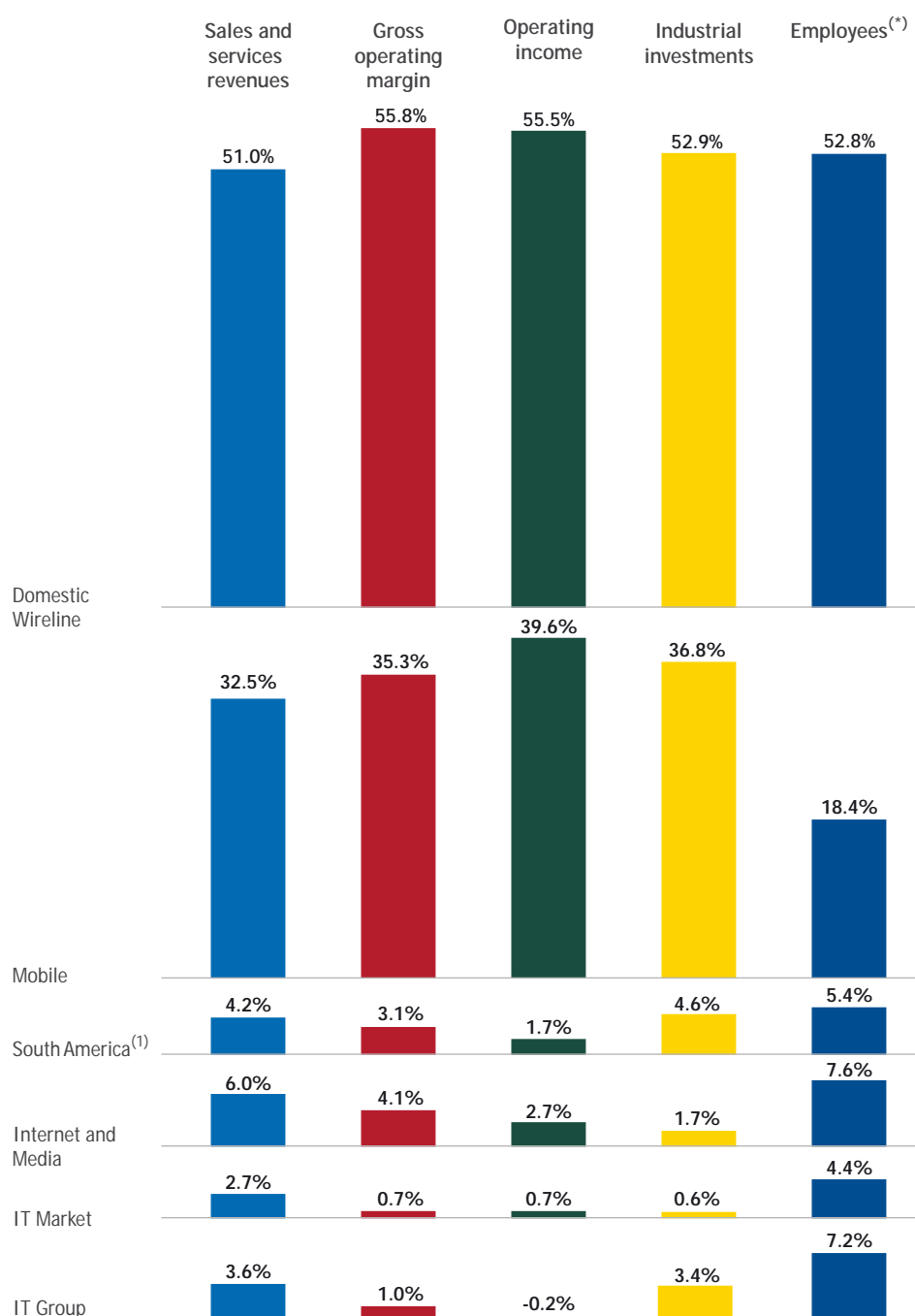
(2) The data relates to the Entel Chile group, the Entel Bolivia group, the companies Telecom Italia America Latina and the South American business segment of Telecom Italia.

(3) In the early months of 2002, the IT Services Business Unit was split into two distinct units: Information Technology Market and Information Technology Group; beginning January 1, 2002, Saritel S.p.A. has been consolidated in the Information Technology Group BU instead of the Domestic Wireline BU.

(4) The data presented above includes the Foreign Holdings Central Function and the Telespazio business unit, sold in the last quarter of 2002 and consolidated only with respect to the statement of income for the first nine months of 2002.

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Major economic and operating indicators in 2002 by Business Unit / Operating Activity



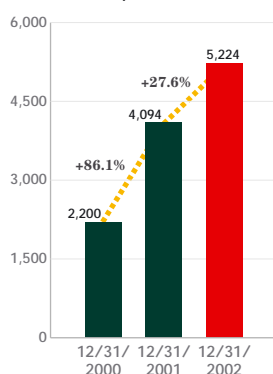
(*) 4.2% of employees work in Other Activities of the Telecom Italia Group.

(1) The data relates to the Entel Chile group, the Entel Bolivia group, the companies Telecom Italia America Latina and the South American business segment of Telecom Italia.

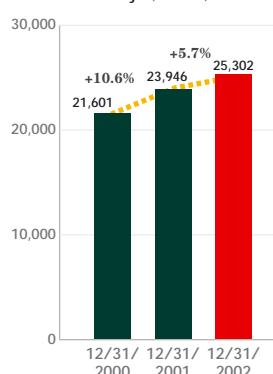
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■ OPERATING HIGHLIGHTS - TELECOM ITALIA GROUP

Voice flat rate plans (thousands)



TIM lines in Italy (thousands)



	2002	2001	2000
DOMESTIC WIRELINE			
Fixed network connections in Italy (thousands)	27,142	27,353	27,153
- of which digital (equivalent ISDN channels)	5,756	5,403	4,584
Voice flat rate plans (thousands)	5,224	4,094	2,200
Network infrastructure in Italy			
- access network in copper (millions of km - pair)	104.3	104.3	104.0
- access network and transport in fiber optics (millions of km of fiber optics)	3.6	3.2	3.1
Network infrastructure abroad			
- European backbone (km of fiber optics)	36,600	36,600	36,600
MOBILE			
TIM lines in Italy (at year-end, thousands)	25,302	23,946	21,601
TIM group foreign lines (at year-end, thousands) ⁽¹⁾	13,809	10,923	7,637
TIM group lines total (Italy + foreign in thousands) ⁽¹⁾	39,111	34,869	29,238
GSM penetration in Italy (% of population)	99.8	99.7	99.6
E-TACS penetration in Italy (% of population)	98.0	98.0	98.0
INTERNET AND MEDIA			
Directories:			
- published by Seat Pagine Gialle (units)	304	304	304
- published by Thomson (TDL Infomedia Ltd.) (units)	173	173	170
Internet:			
Page views Virgilio (millions)	5,267	3,945	2,218
Active users ISP (at year-end, thousands)	2,226	1,804	1,656

(1) The foreign lines at December 31, 2001 and December 31, 2000 have been rendered comparable to those at December 31, 2002, excluding the lines of Bouygues Decaux Telecom, Amena (mobile operator controlled by Auna) and the Mobikom Austria group. The foreign lines include those of the affiliate Aria - IS TIM Turchia and the subsidiary Radiomobil.

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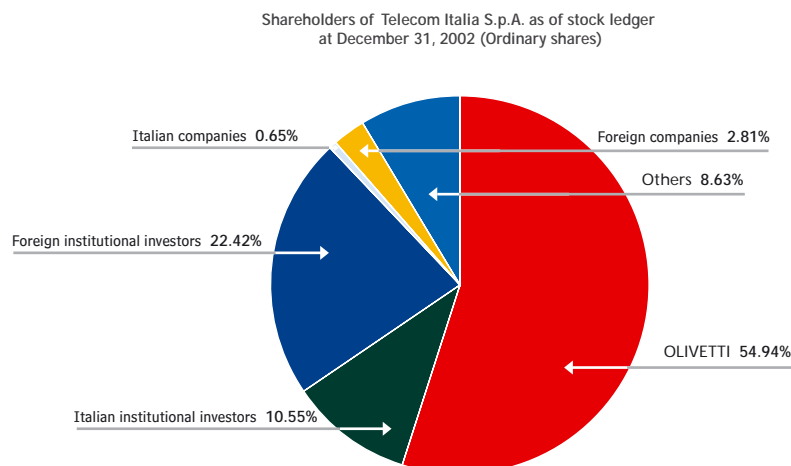
■ SHAREHOLDER INFORMATION

■ Telecom Italia S.p.A. shares

Share capital	euro 4,023,816,860.80
Ordinary shares (par value euro 0.55 each)	No. 5,262,908,631
Savings shares (par value euro 0.55 each)	No. 2,053,122,025
Market capitalization (based on average December 2002 prices)	euro 50,362 million
Percentage of Telecom Italia stock	
- on Mibtel Index (Telecom Italia - ordinary and savings)	10.1% (at 12/31/2002)
- on DJ eurostoxx TLC Index ¹ (Telecom Italia - ordinary)	5.1% (at 12/31/2002)
Percentage of the stocks of companies in the Telecom Italia Group	
- on Mibtel Index (Telecom Italia, TIM, Seat Pagine Gialle - ordinary and savings)	19.9% (at 12/31/2002)
- on DJ eurostoxx TLC Index (Telecom Italia, TIM - ordinary)	10.0% (at 12/31/2002)

¹ The Index is calculated on a geographical basis that includes all European countries.

■ Shareholders



■ Distribution of income reserves

Mention should be made of the fact that:

- the TIM Shareholders' Meeting on December 11, 2002 voted to distribute reserves to the shareholders up to a maximum of euro 1,600 million, equal to euro 0.1865 per each ordinary and savings share. Payment was made from these reserves starting from December 19, 2002; the amount paid out amounted to euro 1,597 million, of which euro 711 million was to minority shareholders.
- the Telecom Italia Shareholders' Meeting on December 12, 2002 voted to reclassify reserves by the transfer of euro 2,160 million from "miscellaneous reserves" to "additional paid-in-capital", the transfer of euro 820 million from "additional paid-in-capital" to the "legal reserve", the transfer of euro 660 million from the "legal reserve" to "miscellaneous reserves" with the contextual change in the name to "miscellaneous income reserves".

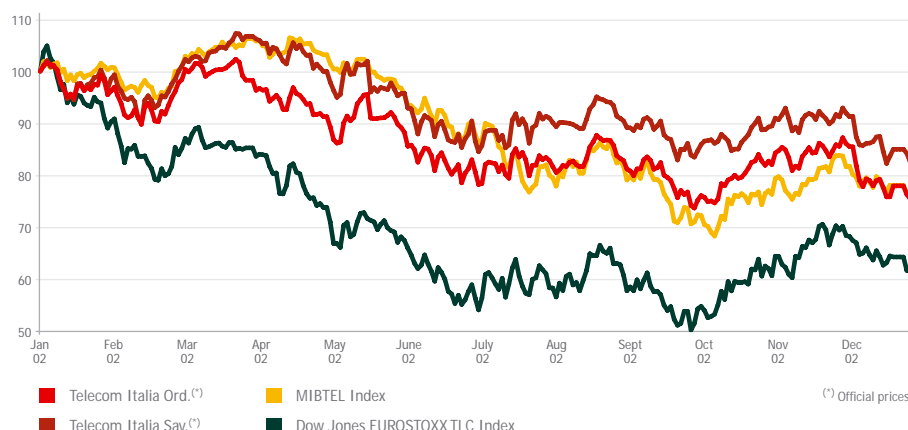
This reclassification immediately identifies the nature of the reserves in the financial statements, namely whether they are profit or capital reserves.

The same Shareholders' Meeting resolved to distribute reserves for a maximum amount of euro 1,000 million, paying euro 0.1357 to the shareholders per each ordinary and savings share. On December 19, 2002, a payment of euro 987 million was made.

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■ PERFORMANCE OF THE MAIN STOCKS OF THE TELECOM ITALIA GROUP

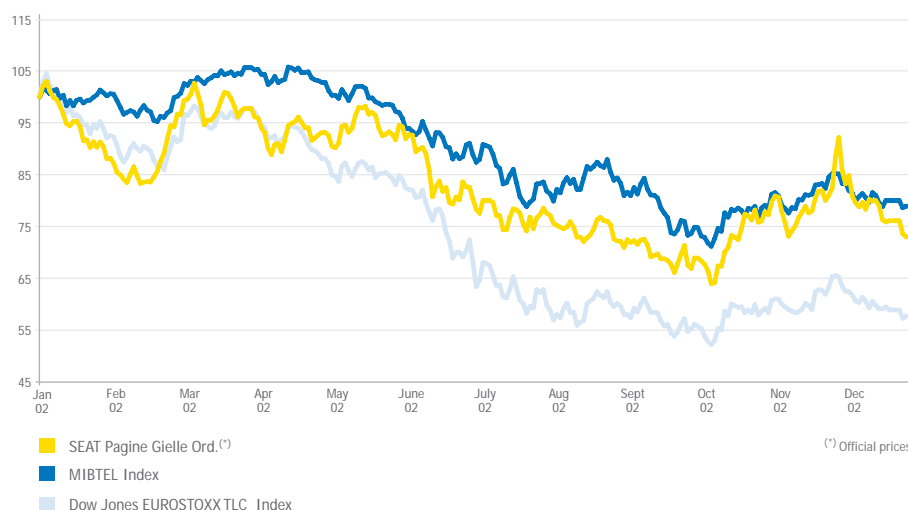
Relative performance Telecom Italia S.p.A. 2002 vs. MIBTEL Index and DJ Eurostoxx TLC Index (ordinary shares)
(Source: Reuters)



Relative performance TIM S.p.A. 2002 vs. MIBTEL Index and DJ Eurostoxx TLC Index (ordinary shares)
(Source: Reuters)



Relative performance Seat Pagine Gialle S.p.A., 2002 vs. MIBTEL Index and DJ Eurostoxx TLC Index (ordinary shares)
(Source: Reuters)



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■ FINANCIAL INDICATORS

(in euro)	2002	2001	2000
Telecom Italia S.p.A.			
Market price (December average)			
- Ordinary share	7.61	9.56	12.75
- Savings share	5.03	5.80	6.33
Dividends			
- Ordinary share	0.3125 ^(*)	0.3125	0.3125
- Savings share	0.3235 ^(*)	0.3237	0.3238
Pay Out Ratio	-	95%	90%
Market to Book Value	4.6	3.9	4.3
Dividend Yield (on December average market prices)			
- Ordinary share	4.11%	3.27%	2.45%
- Savings share	6.43%	5.58%	5.11%
Telecom Italia Group			
Earnings/(loss) per share	(0.0443)	(0.2827)	0.2770
Operating free cash flow per share	1.1851	0.8189	0.6082
Consolidated equity per share	1.2455	1.8486	2.5708
Ratings at 12/31/2002	Outlook		
STANDARD&POOR'S	BBB +	Positive	
MOODY'S	Baa1	Positive	
FITCH IBCA	A-	Stable	

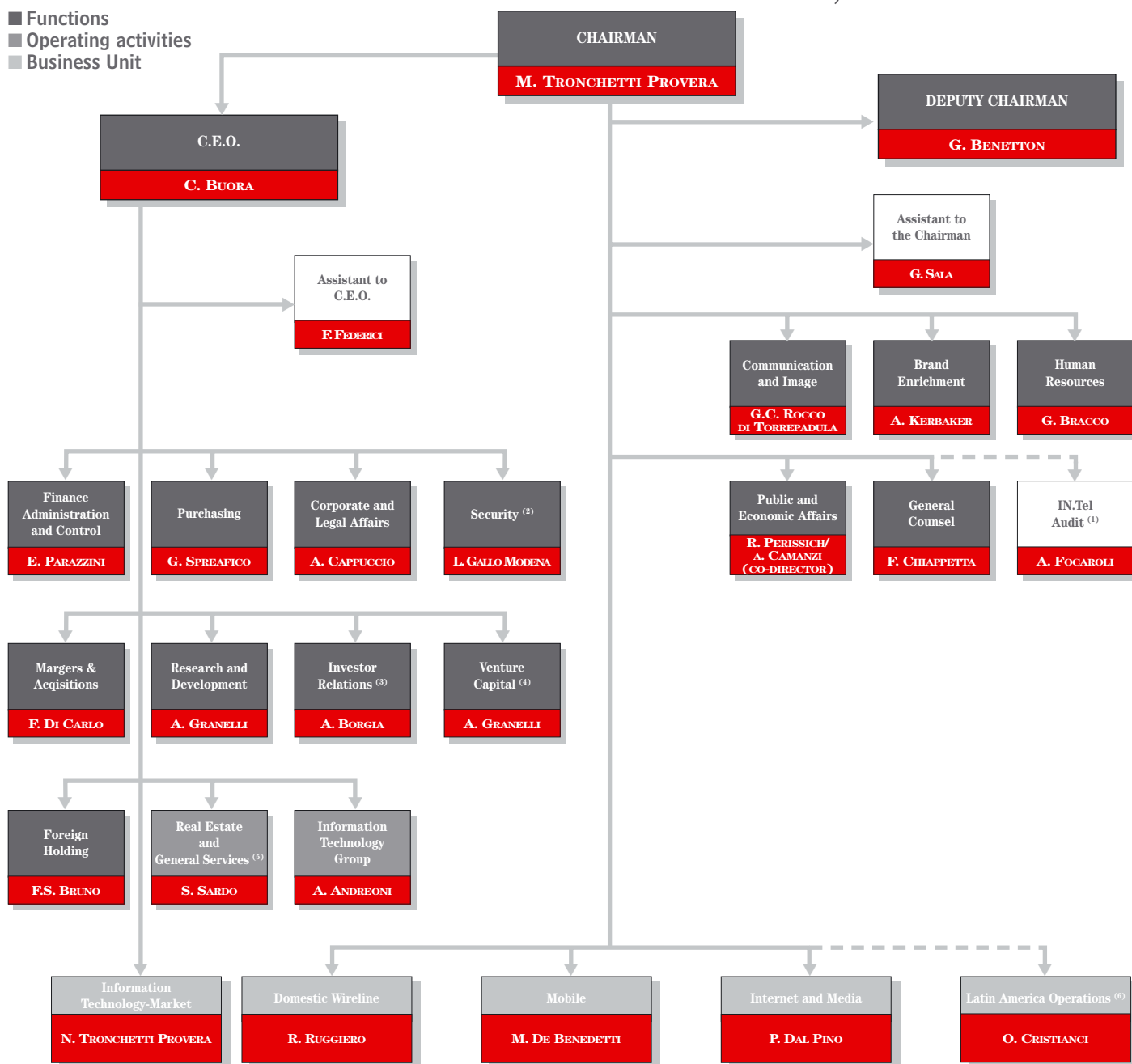
The positive outlook expressed by both Moody's and Standard & Poor's is confirmation of the Company's credibility to reduce its debt and sell its non-core businesses, as established by the Industrial Plan. The opinion expressed by the rating agencies also reflects expectations that the Company will remain the leading operator in Italy in both wireline and mobile telephone services with the ability to continue to generate cash flows.

(*) In line with the objective of ensuring shareholders dividends commensurate with those paid out for 2001, in December 2002, reserves were distributed corresponding to a per share dividend of euro 0.1357. A motion will be put before the Shareholders' Meeting for the approval of the financial statements for the year ended December 2002 to pay out the residual dividends of euro 0.1768 euro per ordinary share and euro 0.1878 per savings share, by drawing from the income and capital reserves.

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■ MACRO-ORGANIZATION CHART OF TELECOM ITALIA GROUP AT DECEMBER 31, 2002

- Functions
- Operating activities
- Business Unit



(1) Consortium company which carries out Internal Auditing activities in the Telecom Italia Group and Olivetti.

(2) Starting March 1, 2003, Giuliano Tavaroli took over responsibility for the Security function.

(3) Starting February 1, 2003, Olimpia Cuomo took over responsibility for the Investor Relations function.

(4) In January 2003, the Venture Capital function was disbanded.

(5) In February 2003, the Real Estate and General Services Operating Activities was disbanded; the relative operations and resources were reassigned to other corporate functions of the Group.

(6) The function coordinates the activities of the Telecom Italia Group in Latin America, to be developed in accordance with the strategic plan. It reports to the International Steering Committee, composed of the Chairman and CEO. Permanent invitations to the Steering Committee meetings are extended to those in charge of the Domestic Wireline and Mobile Business Units; the assistant to the Chairman is the Secretary. Beginning February 2003, Latin America Operations reports directly to the CEO Carlo Buora for wireline TLC and to the manager of the Mobile Business Unit Mobile for Mobile TLC.

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INTERNATIONAL PRESENCE OF TELECOM ITALIA GROUP AT DECEMBER 31, 2002

MAJOR SUBSIDIARIES

EUROPE

DOMESTIC WIRELINE

- Intelcom S. Marino (S. Marino) *
- Pan European Backbone (Europe) *
- TMI - Telemedia International Luxembourg S.A.

INTERNET AND MEDIA

- Consodata Group (France) *
- Telegate Group (Germany) *
- TDL Infomedia Group (Great Britain) *

FOREIGN HOLDINGS

- BBNed (Holland)
- Telecom Italia International (Holland)

OTHER ACTIVITIES

- T.I.Finance (Luxembourg) *

MEDITERRANEAN BASIN

DOMESTIC WIRELINE

- Mediterranean Nautilus Group (Mediterranean Basin) *
- Med-1 Group (Mediterranean Basin) *

MOBILE

- Stet Hellas S.A. (Greece) *

SOUTH AMERICA

DOMESTIC WIRELINE

- Latin American Nautilus Group (Latin America) *

MOBILE

- Bitel Participações S.A. (Brazil)
- Corporacion Digitel C.A. (Venezuela) *
- Tele Celular Sul Participações Group (Brazil) *
- Tele Nordeste Celular Participações Group (Brazil) *
- Maxitel S.A. (Brazil) *
- TIM Celular S.A. (Brazil) *
- TimNet Com S.A. (Brazil)
- TIM Perú S.A.C. (Peru) *

LATIN AMERICA OPERATIONS

- Entel Bolivia Group (Bolivia) *
- Entel Chile Group (Chile) *
- Telecom Italia America Latina



ITALY

DOMESTIC WIRELINE

- Atesia S.p.A. *
- Path.net S.p.A. *
- Telecom Italia Sparkle S.p.A. *
- Telecontact Center S.p.A.

MOBILE

- TIM S.p.A. *

INTERNET AND MEDIA

- Buffetti Group *
- Holding Media e Comunicazione Group *
- Matrix S.p.A. *
- Seat Pagine Gialle S.p.A. *

IT MARKET

- Agrisian S.C.p.A.
- Aspasiel S.p.A.
- Banksiel S.p.A. *
- EIS S.p.A.
- Finsiel S.p.A. *
- Insiel S.p.A. *
- Tele Sistemi Ferroviari S.p.A. *

IT GROUP

- Netikos Group *
- TILAB Group *
- Webegg Group *
- I.T. Telecom S.p.A. *

OTHER ACTIVITIES

- Saiat S.p.A. *
- TI Learning Services S.p.A. *



(1) In May 2002, the International Operations (IOP) "Operating Activity" was disbanded. Although maintaining the same corporate control structure, the relative companies became part of the following: the Domestic Wireline BU (Intelcom San Marino and Golden Lines), the Foreign Holdings Central Function (9Telecom Reseau group, BB Ned group, Auna group, Telekom Austria group, Telekom Srbija, Etec S.A. and what remains of the ex IOP) and the companies in the South American area report to Latin America Operation (LAO).

* Comments on the main economic and financial performance of these companies are provided in the report.

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■ ECONOMIC AND FINANCIAL PERFORMANCE - TELECOM ITALIA GROUP



RESULTS OF OPERATIONS

The **consolidated net result of the Group** for 2002 is a loss of euro 322 million (net income of euro 297 million *before minority interest*). In 2001, the consolidated net result of the Group was a loss of euro 2,068 million (loss of euro 1,658 million *before minority interest*).

The pretax result was a loss of euro 419 million. The improvement of euro 314 million compared to the prior year was due to:

- a notable increase in the *operating income* (+ euro 707 million);
- an improvement in *net investment and financial income (expense)* (+ euro 1,792 million)
- a deterioration in *net extraordinary income (expense)* (– euro 2,185 million).

The latter, as detailed later in the report, includes:

- gains from the disposal of investments for euro 2,413 million (euro 264 million in 2001) following the sales of Auna, Bouygues Decaux Telecom (BDT), Mobilkom Austria, Lottomatica, Telemaco Immobiliare, Telespazio and the Tiglio transaction;
- writedown of Seat Pagine Gialle difference on consolidation and provision to the reserve for charges in respect of the forward commitment to purchase Seat Pagine Gialle shares for a total of euro 3,486 million, following the decision – taken within the framework of the redefinition of Telecom Italia Group's strategies – of no longer considering the "Directories" business of Seat Pagine Gialle to be of strategic interest. In 2001, with regard to the purchase commitment, a provision of euro 569 million had been aside and was included in net investment and financial income and expense;
- writedowns of investments and difference on consolidation on investments for euro 2,751 million (euro 2,984 million in 2001) mainly with regard to Aria - Is Tim Turchia, Netco Redes, Corporacion Digitel and Blu;
- other extraordinary expense for euro 1,813 million (euro 732 million in 2001) relating in 2002, among other things, to the expenses incurred on the sale of the investment in the 9Telecom group, the loss on the sale of Telekom Austria AG shares, the expenses connected with extraordinary investment transactions, the expenses and provisions for employee cutbacks and layoffs and provisions to reserves.

Sales and service revenues in 2002 amounted to euro 30,400 million, with a reduction of 1.4% compared to 2001. Excluding the effect of the changes in the exchange rates (euro 763 million), the increase was 1.1%, while the effect of the change in the scope of consolidation was euro 755 million. Excluding such effects, the organic growth was +3.8%. Particularly affecting the change in the scope of consolidation are the exclusion of the 9Telecom group and Sogei (both consolidated for the first six months of 2002) and the exit of the Telespazio group from October 1, 2002.

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The increase in revenues reflected the positive contribution made by the Mobile BU and higher revenues from the Internet and Media BU, contrasting a reduction in the revenues contributed by the Domestic Wireline BU where traffic revenues, despite a 2.4% increase in terms of minutes, fell by euro 533 million (– 6.0%). In spite of an increase in minutes, the average return of retail and wholesale traffic fell by 8.3%. Such phenomena were partly compensated by higher basic charges and activation fees.

The breakdown of sales and service revenues is as follows:

Geographical area (millions of euro)	2002		2001	
Italy	24,652	81.1%	24,456	79.4%
Rest of Europe	2,182	7.2%	2,169	7.0%
North America	354	1.2%	968	3.1%
Central and South America	2,638	8.7%	2,592	8.4%
Australia, Africa and Asia	574	1.9%	633	2.1%

Gross operating profit, equal to euro 13,964 million, rose in comparison to 2001 by euro 345 million (+ 2.5%). As a percentage of revenues, the gross operating profit was 45.9% (44.2% in 2001). Excluding the effect of exchange rates (euro 186 million) and the effect caused by the change in the scope of consolidation (euro 120 million), the increase was 4.9% (euro 651 million).

In particular, the percentage of the Domestic Wireline BU's gross operating profit to revenues rose from 45.1% in 2001 to 46.8% in 2002, while the Mobile BU confirms its position at over 46%.

In greater detail, gross operating profit was impacted in 2002 by the following:

- **raw materials and outside services**, equal to euro 12,558 million, were down by 3.7% compared to 2001. The reduction was principally due to action taken to improve the level of efficiency. The percentage of raw materials and outside services to revenues was 41.3%, a decrease from 2001 (42.3%).
- **Labor costs**, equal to euro 4,532 million, were lower by euro 115 million compared to 2001 (2.5%). The decrease was connected to the change in the scope of consolidation as well as the headcount reduction in Telecom Italia. As a percentage of revenues, labor costs were 14.9%, in line with 2001.

Employees at December 31, 2002 numbered 101,713 (109,956 at December 31, 2001).

A breakdown is presented below:

(millions of euro)	12/31/2002 (a)	12/31/2001 (b)	Change (a)-(b)
Italy	83,541	90,628	(7,087)
Outside Italy	18,172	19,328	(1,156)
Total employees	101,713	109,956	(8,243)

Contributing to this decrease were the changes in the scope of consolidation, with a net headcount reduction of – 2,883, and the drop in the number of employees due to turnover (– 5,360). The headcount variation caused by changes in the scope of consolidation specifically refer to the exclusion of the 9Telecom group (– 1,003), the sale of the Telespazio group (– 1,168), the exit of Sogei and Consiel (a total of – 1,538) and other minor companies (– 711), as well as the inclusion of Blu (+ 618), the Webegg group (+ 719), Netesi and Epiclink (a total of + 168) and other minor companies (+ 32).

As regards turnover, during the year 12,567 employees left and 7,207 were hired.

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Operating income, equal to euro 7,381 million, increased by euro 707 million (+10.6%) compared to 2001, and as a percentage of revenues rose from 21.7% in 2001 to 24.3% in 2002. Excluding the effect of exchange rates and the consequence of the change in the scope of consolidation, the gain was 9.9%.

The increase in the absolute amount reflects higher gross operating profit, in addition to the decrease in amortization and depreciation charges.

In particular:

- **Depreciation and amortization**, equal to euro 5,877 million (euro 6,275 million in 2001), recorded a reduction of euro 398 million. Details are as follows:

(millions of euro)	2002 (a)	2001 (b)	Change (a)-(b)
Fixed assets	3,783	4,034	(251)
Intangibles	2,094	2,241	(147)
<i>of which difference on consolidation</i>	<i>844</i>	<i>1,022</i>	<i>(178)</i>
Total depreciation and amortization	5,877	6,275	(398)

The reduction in the amortization of *difference on consolidation* (– euro 178 million) was primarily due to the difference on consolidation writeoffs taken in 2001.

As a percentage of revenues, depreciation and amortization charges were 19.3%, down from 20.4% in 2001.

- **Other valuation adjustments**, equal to euro 599 million (euro 455 million in 2001), increased by euro 144 million compared to 2001. Such adjustments were principally for writedowns to reduce receivables from customers to their estimated realizable value. They referred, in particular, to:
 - Telecom Italia: euro 356 million
 - Seat Pagine Gialle group: euro 57 million
 - Tim: euro 51 million
 - Entel Chile group: euro 40 million
- **Provisions to reserves for risks and charges**, amounting to euro 153 million (euro 278 million in 2001), presented a reduction of euro 125 million, which was partly due to the amount provided in 2001 for the closing of the Astrolink contract (euro 54 million).
- **Net other income (expense)** showed an income balance of euro 46 million (an income balance of euro 63 million in 2001). Details are as follows:

(millions of euro)	2002 (a)	2001 (b)	Change (a)-(b)
Indirect duties and taxes	(115)	(120)	5
Net loss on sale of fixed assets and intangibles	(30)	(17)	(13)
Expenses connected with credit management	(60)	(37)	(23)
Late payment fees charged by TLC companies to customers	106	112	(6)
Portion of capital grants credited to income during the year	65	73	(8)
Sundry other income and expense	80	52	28
Total	46	63	(17)

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Net investment and financial income (expense) is composed of the following:

(millions of euro)	2002 (a)	2001 (b)	Change (a)-(b)
Net investment income	18	154	(136)
Net financial expense	(1,499)	(2,153)	654
Value adjustments to financial assets	(682)	(1,956)	1,274
Total	(2,163)	(3,955)	1,792

Details are as follows:

- The reduction in net investment income was due to lower net gains realized on the listed stocks classified in current assets.
- The reduction in net financial expenses, for euro 569 million, can be ascribed to the provision that was set aside in 2001 for the forward commitment to purchase Seat Pagine Gialle shares that, in 2002, instead, was recorded in extraordinary expense. Excluding such effect, the improvement in net financial expenses (+ euro 85 million) came from a lower average debt exposure of the Group during the period and lower interest rates and fees that was mainly countered by a worsening of the exchange rates which negatively affected certain South American economies, particularly Venezuela and Brazil.
- Value adjustments to financial assets, equal to euro 682 million, refer to:
 - amortization of difference on consolidation arising at the time of the purchase of the investments in companies accounted for using the equity method, equal to euro 80 million (euro 316 million in 2001). The reduction is due to the writeoffs of difference on consolidation taken in the 2001 financial statements;
 - writedowns of securities and investments included in current assets of euro 176 million (euro 291 million in 2001) and long-term securities of euro 40 million (euro 49 million in 2001), with a total reduction of euro 124 million compared to 2001;
 - the Group's share of the equity in the earnings and losses of the unconsolidated companies accounted for using the equity method which produced a loss of euro 386 million (– euro 1,300 million in 2001). This refers to the losses of Stream of euro 246 million (euro 241 million in 2001), Aria -Is Tim Turchia of euro 171 million (euro 334 million in 2001) and the earnings balance relating to the earnings and losses of the other unconsolidated companies of euro 31 million.

Moreover, in 2001, this caption had included the results of the investments in the Nortel Inversora group (euro 238 million) and the Auna group (euro 203 million) and the writedown of Astrolink (euro 259 million) effected by Telespazio as a consequence of the interruption of the relative contract. The investment in Nortel Inversora, the carrying value of which had been prudently written off in the consolidated financial statements at December 31, 2001, has remained unchanged.

Net extraordinary income (expense) showed an expense balance of euro 5,637 million (– euro 3,452 million in 2001), with a deterioration of euro 2,185 million compared to 2001. In particular:

Extraordinary income of euro 2,814 million comprised:

- euro 2,413 million of gains from disposals relating to:
 - the sale of the entire 26.89% interest held by the Telecom Italia Group in Auna, realizing a gross gain of euro 1,245 million, which contributed – net of selling expenses – euro 1,033 million to the consolidated net result of the Telecom Italia Group;

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- sale of the entire 19.61% interest held by the Mobile BU in Bouygues Decaux Telecom (BDT), realizing a gross gain of euro 484 million, which contributed euro 266 million to the consolidated net result of the Telecom Italia Group;
 - the acceptance of the tender offer for Lottomatica shares by the Information Technology Market BU (Finsiel group), realizing a gross gain of euro 133 million (euro 93 million net of income taxes), which contributed euro 73 million to the consolidated net result of the Telecom Italia Group;
 - the sale to Telekom Austria (a company in which Telecom Italia International has a 14.78% interest at December 31, 2002) of the entire 25% interest held by the Mobile BU in the Mobilkom Austria group, realizing a gross gain of euro 115 million, which contributed 64 million to the consolidated net result of the Telecom Italia Group;
 - the sale of the entire 40% interest held in Telemaco Immobiliare, realizing a gross gain of euro 110 million, which contributed euro 64 million to the consolidated net result of the Telecom Italia Group;
 - the sale of the entire 100% interest held in Telespazio, realizing a gross gain of euro 70 million, which contributed euro 36 million to the consolidated net result of the Telecom Italia Group;
 - the sale of the entire 100% interest held in Emsa and Telimm, in addition to the properties and business segment in the Tiglio transaction, realizing a total gross gain of euro 234 million, which contributed euro 150 million to the consolidated net result of the Telecom Italia Group;
 - the disposal of other investments, fixed assets, intangibles and business segments for a total of euro 22 million.
- prior period income of euro 131 million arising from the recovery of accrued pre-amortization interest – on the expenses for employee benefit obligations under Law 58/1992 that were paid, with reserve, to INPS up to 1999 – following the termination of litigation after the courts ruled in Telecom Italia's favor;
 - the release of euro 77 million, primarily to absorb a portion of the reserve for risks and charges set up in 2001 by Telecom Italia to cover the expenses connected with the agreement to sell Stream to News Corporation and Vivendi Universal/Canal+ after the parties did not go through with the agreement
 - grants of euro 9 million and other income of euro 184 million.

Extraordinary expenses of euro 8,451 million comprised:

- writedowns, for permanent impairments in value, and other provisions relating to investments for a total of euro 6,237 million (euro 2,984 million in 2001), referring to:
 - the writedown of difference on consolidation and the provision to the reserve for charges in respect of the forward commitment to purchase Seat Pagine Gialle shares for a total of euro 3,486 million. The writedown and the provision were effected on the basis of market value (average market price of ordinary shares for the last six months of 2002) within the framework of Telecom Italia Group's decision of no longer considering the "Directories" business of Seat Pagine Gialle to be of strategic interest. In 2001, with regard to the purchase commitment only, a provision of euro 569 million had been set aside and was included in net investment and financial income (expense);
 - the writedown of difference on consolidation on the subsidiaries and affiliated companies for a total of euro 225 million in respect of Blu (euro 103 million), Digitel Venezuela (euro 75 million) and other subsidiaries (euro 47 million);
 - the writeoff of the investment in Aria - Is Tim Turchia (euro 2,341 million), arising from the writeoff of the carrying value (euro 1,491 million) and the provision to the reserves for risks and charges to cover the Group's exposure with the same affiliated company (euro 850 million). The provision is commensurate with the guarantees provided by the Group to the

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international financial institutions that are creditors of Aria - Is Tim and the loan in financial receivable granted directly by the Group.

- the writedown of difference on consolidation on Netco Redes (euro 96 million), writedowns of other companies (euro 46 million) and the provision relating to the purchase of an additional stake in Consodata by Seat Pagine Gialle in order to adjust the value of the company to that determined on the basis of an appraisal (euro 43 million).

The writedowns in 2001 had referred to the difference on consolidation relating to both the consolidated companies (9 Telecom group, Entel Bolivia, Entel Chile group, Maxitel group, Tele Celular Sul group, Tele Nordeste Celular group, Tim Brasil, Med-1 group and certain companies in the Seat Pagine Gialle group) and companies valued using the equity method (Globo.com, Solpart Participações, Telekom Austria and Nortel Inversora group), as well as other provisions related to investments.

- the expenses of euro 316 million incurred in conjunction with the disposal of the investment in the 9Telecom group. In particular, in view of the loss reported prior to the sale, the French group 9Telecom produced a negative effect on the nine-months 2002 statement of income of the Telecom Italia Group for a total of euro 389 million (euro 267 million net of income taxes);
- the loss of euro 135 million on the sale of 75 million (equal to 15% of share capital) Telekom Austria AG shares during the month of November 2002. As a result of this sale, Telecom Italia Group's holding in Telekom Austria AG has been reduced to 14.78% and the investment value is aligned with the market value;
- the expenses of euro 235 million connected with extraordinary investment transactions;
- the provisions to reserves for euro 194 million, of which euro 135 million refer to guarantees provided for the disposal of investments and business segments and euro 59 million for other provisions to reserves;
- the expenses and provisions of euro 494 million for employee cutbacks and layoffs (of which euro 379 million is borne by Telecom Italia S.p.A.);
- the expenses of euro 155 million under Law 58/1992 to cover employees under the former fund "Telephone Employees Pension Fund" (FPT) and euro 74 million for the extraordinary contribution to INPS to meet the higher financial requirements covered by the rules of the former fund "Telephone Employees Pension Fund" (FPT) which became part of the general "Employees Pension Fund";
- the writedowns of euro 190 million to fixed assets, intangibles and long-term investments, mainly in reference to the mobile telephone companies in Brazil, and euro 38 million for losses on the sale of fixed assets, intangibles and long-term investments;
- other prior period expenses of euro 383 million.

Income taxes had a positive effect on the result of euro 716 million and decreased by euro 1,641 million compared to 2001. This was due to the loss for the year that was principally caused by the aforementioned investment writedowns, which contributed to the increase in deferred tax assets, as well as the utilization of tax loss carryforwards deriving from the merger of TIM and Blu.

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FINANCIAL CONDITION

Intangibles, fixed assets and long-term investments, amounting to euro 35,586 million, decreased by euro 9,432 million from the end of 2001.

Details are as follows:

- **fixed assets** decreased from euro 21,757 million at the end of 2001 to euro 19,291 million at the end of 2002 and **intangibles** fell from euro 16,197 million at the end of 2001 to euro 13,052 million at December 31, 2002. The reduction is due overall to the depreciation and amortization charge for the year that was only partly compensated by the investments made during the same period, the fall in exchange rates compared to the end of 2001, as well as the contributions of business segments under the "Tiglio" transaction and the writedowns of the difference on consolidation on consolidated companies effected in 2002 and recorded in extraordinary expense.
- **long-term investments** decreased from euro 7,064 million at the end of 2001 to euro 3,243 million at December 31, 2002. The reduction is principally due to the disposal of investments and writedowns for permanent impairments in value carried out during the year.

Investments made during the year amounted to euro 6,919 million (compared to euro 11,257 million in 2001). The breakdown is as follows:

(millions of euro)	2002 (a)	2001 (b)	Change (a)-(b)
Industrial investments	4,842	6,990	(2,148)
Difference on consolidation	369	1,174	(805)
Financial investments	1,708	3,093	(1,385)
Total investments	6,919	11,257	(4,338)

The reduction of investments by euro 4,338 million was mainly due to:

- industrial investments:
 - to lower investment made by the Mobile BU for euro 1,436 million, chiefly relating to mobile phone licenses acquired in 2001 in Brazil and Greece (about euro 1,080 million);
 - to lower investments made by the Domestic Wireline BU (– euro 339 million), by other companies in South America (– euro 190 million) and by the Seat group (– euro 94 million) partly as a result of the implementation of the selective investment program;
- for difference on consolidation: to the acquisitions which occurred in 2001 in respect of Entel Chile (euro 731 million), Holding Media e Comunicazione (euro 66 million), NetCreations (euro 93 million) and the increase in the investment in Stet Hellas (euro 31 million), compared to those in 2002 which referred mainly to the increase in the investment in Stet Hellas (euro 66 million) and in Digitel Venezuela (euro 27 million), to the acquisition of Epiclink (euro 49 million) and Netesi (euro 14 million), the acquisition of Blu (euro 103 million) and the increase in the investment holding in the Webegg group (euro 24 million);
- for financial investments: to capital injections made in 2001 in the company Aria - Is Tim Turchia (euro 1,906 million) and in Auna (euro 276 million).

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Financial investments made in 2002 mainly regarded transactions involving the share capital of Stream (euro 234 million) and Auna (euro 193 million, repaid on August 1, 2002), the investment in the share capital of Tiglio I (euro 197 million), the purchase of LDCom within the framework of the 9Telecom deal (euro 172 million), the disbursement of loans to subsidiaries and affiliated companies (euro 351 million), as well as the buy-back of treasury stock (euro 287 million), acquisitions of other investments and share capital increases for a total of euro 274 million.

Working capital showed a negative balance of euro 3,340 million (a negative balance of euro 2,418 million at December 31, 2001), with a change of euro 922 million.

Shareholders' equity amounted to euro 12,823 million (euro 19,308 million at the end of 2001), of which euro 9,049 million was Telecom Italia, the Parent Company's interest (euro 13,522 million at December 31, 2001), and euro 3,774 million was the minority interest (euro 5,786 million at December 31, 2001).

The reduction of euro 6,485 million can be analyzed as follows:

(millions of euro)	2002	2001
At beginning of year	19,308	24,690
Net income (loss) of the Parent Company and minority interest	297	(1,658)
Dividends to third parties paid by:	(3,247)	(3,097)
- <i>Telecom Italia S.p.A.</i>	(2,306)	(2,309)
- <i>TIM S.p.A.</i>	(895)	(743)
- <i>Other Group companies</i>	(46)	(45)
Extraordinary distribution of reserves to third parties:	(1,698)	-
- <i>Telecom Italia S.p.A.</i>	(987)	
- <i>TIM S.p.A.</i>	(711)	
Cancellation of Telecom Italia S.p.A. treasury stock	-	(711)
Change in scope of consolidation	(95)	358
Translation adjustments and other changes	(1,742)	(274)
At end of year	12,823	19,308

Translation adjustments and other changes, in particular, are primarily the result of the deterioration in exchange rates of certain South American countries such as Brazil, Chile and Bolivia.

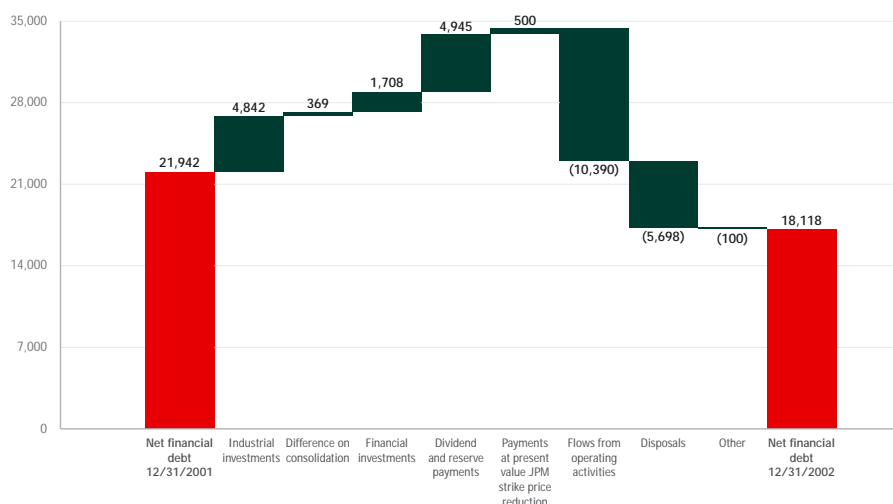
Net debt of euro 18,118 million decreased from euro 21,942 million at the end of 2001 by euro 3,824 million subsequent to the payment of dividends and the distribution of reserves for a total of euro 4,945 million.

Indebtedness at December 31, 2002 particularly benefited from the investment disposals made in 2002, net of the related expenses, for a total of euro 4,771 million mainly in connection with the sale of Auna (euro 1,998 million), Bouygues Decaux Telecom (euro 750 million), Mobilkom Austria (euro 756 million), Lottomatica (euro 212 million), Sogei (euro 176 million), Telemaco Immobiliare (euro 192 million), Immsi (euro 69 million) Tiglio (euro 328 million), Telekom Austria (euro 559 million), Telespazio (euro 239 million), 9Telecom (– euro 529 million) and other minor companies (euro 21 million).

Transactions for the securitization and factoring of trade accounts receivable were also carried out which led to an improvement in net debt at December 31, 2002 of euro 1,038 million (euro 848 million at the end of 2001).

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The following chart summarizes the major items which had an impact on the change in net debt during the course of 2002.



The portion of debt due beyond one year rose from 64% at December 31, 2001 to 75% at December 31, 2002. When also considering the current portion due next year (euro 2,677 million) as medium/long-term, the percentage rises to 88% (70% in 2001). The increase is the result of the issue of fixed-rate notes for euro 2,500 million by Telecom Italia S.p.A. on February 1, 2002, divided into two tranches of euro 1,250 million each, expiring, respectively on February 1, 2007 and February 1, 2012. This issue falls under the "Global Note Program".

Gross debt is detailed in the following table:

	At 12/31/2002				At 12/31/2001			
	euro	%	Foreign currency	%	Total	%	Total	%
(millions of euro)								
Medium/long-term debt	13,684	76	1,334	63	15,018	75	16,083	64
Short-term borrowings	4,320	24	769	37	5,089	25	9,114	36
Total	18,004	100	2,103	100	20,107	100	25,197	100

■ ACQUISITIONS AND SALES OF EQUITY INVESTMENTS

Sale of Lottomatica

In February 2002, the Information Technology Market BU (Finsiel group) tendered its Lottomatica shares to the tender offer for Lottomatica for proceeds of euro 212 million, realizing a gain that contributed euro 73 million to the consolidated net result of the Telecom Italia Group.

Sale of BDT - Bouygues Decaux Telecom

In March 2002, the Telecom Italia Group sold the investment (19.61%) held by TIM International in BDT, the holding company of the French operator Bouygues Telecom for proceeds of euro 750 million, realizing a gain that contributed euro 266 million to the consolidated net result of the Telecom Italia Group.

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Sale of Mobikom Austria

On June 28, 2002, TIM International N.V. sold the entire investment (25%) held in Mobikom Austria to Telekom Austria (a 14.78%-owned affiliate of Telecom Italia International at December 31, 2002) for proceeds of euro 756 million, realizing a gain that contributed euro 64 million to the consolidated net result of the Telecom Italia Group.

Sale of Sogei

On July 31, 2002, Finsiel concluded the sale of Sogei to the Ministry of Economy and Finance - Department of Fiscal Policy.

This had a positive impact of euro 176 million on the net debt of the Telecom Italia Group.

Sale of Auna

On August 1, 2002, the transaction was finalized for sale of the investment in Auna by the Telecom Italia Group to Endesa, Union Fenosa and Banco Santander Central Hispano, that had initially been planned for December. The transaction gave rise to proceeds of euro 1,998 million for Telecom Italia Group that contributed 1,033 million to the consolidated net result.

Sale of Telemaco Immobiliare

On August 1, 2002, Telemaco Immobiliare was sold to Mirtus, a company indirectly controlled by the American real estate fund Whitehall, promoted by the Goldman Sachs group, for net proceeds of euro 192 million, realizing a net gain of 64 million for the Telecom Italia Group.

Acquisition of EPIClink

On August 2, 2002, after having received approval from the Antitrust Authority, Telecom Italia purchased 86% of EPIClink S.p.A. for a price of euro 60.2 million. The shares were sold by Edisontel S.p.A. (30.3%), Pirelli S.p.A. (25.3%; Pirelli is considered a related party of Telecom Italia through the persons of the Chairman and the CEO Carlo Buora), IntesaBci S.p.A. (20%), E_voluzione (8%) and Camozzi Holding (2.4%). After this transaction, EPIClink's shareholder base was as follows: Telecom Italia 86%, Pirelli 5%, IntesaBci 5%, Camozzi 2% and E_voluzione 2%. Furthermore, Telecom Italia is committed to the purchase of the remaining stake (14%) at a total price of euro 10 million.

Sale of 9Telecom

On August 26, 2002, the transaction was concluded for sale of the investment in 9Telecom and the simultaneous purchase of a 7% stake in LDCom.

The net impact on the net result of the Telecom Italia Group was a loss of euro 267 million.

Sale of a stake in Solpart Participações

On August 27, 2002, the Telecom Italia Group reached an agreement with the other shareholders of Solpart (indirect parent company of Brasil Telecom) to reduce its stake in ordinary share capital from 37.29% to 19% by the sale of 18.29% of ordinary share capital to Timepart Participações and to Techold Participações. This reduction, among other things, removed the regulatory obstacles that prevented TIM's local subsidiaries from offering GSM 1800 commercial service. Within the framework of this transaction, both parties have an option which can be exercised in the event certain conditions are met that will restore the shareholder position quo ante.

Acquisition of another stake in Stet Hellas

In August, TIM International N.V., a subsidiary of TIM, purchased, from the Verizon Europe Holding II group, a 17.45% stake in the share capital of Stet Hellas, in which it already had a 63.95% interest, at a price of euro 108 million.

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The deal, which in effect makes TIM International N.V. the only industrial partner and strategic shareholder in the company, falls within the framework of the Group's strategy to rationalize its international portfolio and consolidate its position in the Mediterranean Basin.

Acquisition of another stake in Netesi

In August, following the authorization received from the Antitrust Authority, the Telecom Italia Group purchased a 69.10% stake in the share capital of Netesi, in which it already held a 17.98% interest, at a price of euro 11 million.

Acquisition of Pagine Utili

On September 11, 2002, Telecom Italia reached an agreement with Pagine Italia S.p.A. for the acquisition of the assets of the Pagine Utili directories, the business segment represented principally by the so-called pocket pages with about 60,000 advertisers.

The transaction involves the payment of consideration to Pagine Italia equal to 214 million Seat Pagine Gialle ordinary shares held by the Telecom Italia Group, corresponding to 1.9% of the Seat Pagine Gialle ordinary share capital.

The execution of this transaction is subject to the approval of the Italian Antitrust Authority. After the observations formulated by the Antitrust Authority during the preliminary investigation, on January 16, 2003, Telecom Italia and Pagine Italia S.p.A. agreed to formally withdraw the announcement about the acquisition of the Pagine Utili business segment.

The parties further agreed to extend the contract period in order to be able to re-design the transaction so that it can eventually be re-submitted to the Antitrust Authority.

Moreover, the agreement between the parties provides for exclusive consideration which would, in any case, involve the payment to Pagine Italia S.p.A. of a percentage equal to 6.6% of the 214 million of Seat Pagine Gialle shares already said.

After execution of the transaction, a decision will be made as to how the purchased business segment will be integrated in Seat Pagine Gialle.

Telecom Italia - News Corporation agreement

On October 1, 2002, Telecom Italia signed agreements with the News Corporation group ("News"), partner of Telecom Italia in Stream, and Vivendi Universal ("Vivendi"), current shareholder of Tele+, in order to allow Stream to purchase Tele+ and to subsequently create a single platform for pay-TV in Italy. On the basis of this agreement Telecom Italia will hold a 19.9% stake in the single platform and News Corporation will own the remaining 80.1%.

Telecom Italia will pay euro 31.84 million at the closing for a 19.9% stake in Tele+ and will waive receivables owed by Stream to the Telecom Italia Group companies due at the end of 2002 for euro 147 million (a figure entirely provided for in the 2001 financial statements). At the same time, News Corporation will waive receivables from Stream for the same amount.

The execution of the contract is subject to the approval by the European Antitrust Authority which should announce a decision by the end of April 2003.

Sale of Consiel investment

On October 3, 2002, the agreement was concluded for the sale of the shares representing the entire share capital of Consiel by Finsiel to World Investment Partners S.A.. The total amount paid by World Investment Partners S.A. amounted to euro 1 million.

Acquisition of 100% of Blu S.p.A. shares

On October 7, 2002, TIM finalized the preliminary contract signed on August 7, 2002 with Blu S.p.A. shareholders for the purchase of 100% of the company, later merged with TIM S.p.A.. The authorizations for this transaction had been previously granted by the Antitrust Authority in view of the approval by the Telecommunications Regulatory Agency. The merger plan was signed on

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December 18, 2002. On that date the final price of the sale was set at euro 83 million. The merger became effective on December 23, 2002.

Other sellers of Blu S.p.A. include Edizione Holding S.p.A. (the Chairman and Deputy Chairman of which are, respectively, the Deputy Chairman of Telecom Italia Gilberto Benetton and the Director Gianni Mion) and Autostrade S.p.A. (where the same Gilberto Benetton and Gianni Mion are members of the Executive Committee).

Progetto Tiglio

On October 29, 2002, the transaction envisaged by the framework agreement between the Pirelli, Olivetti-Telecom Italia Groups and The Morgan Stanley Real Estate Funds was finalized and integration was thus achieved for the real estate properties of the companies involved as well as the entities that provide real estate services to the same companies or to their subsidiaries. The agreement also calls for leveraging, during 2003, the assets of Tiglio I and Tiglio II through a market transaction within the framework of a strategy that could contribute to the development of the real estate financial market, with consequent significant opportunities for the Telecom Italia Group to leverage the investments currently held in the two companies.

In particular, Telecom Italia Group transferred assets worth euro 1,360 million to Tiglio I and Tiglio II, in various corporate forms. Euro 50 million of the total relates to Seat Pagine Gialle, about euro 840 million to real estate that was contributed to Emsa Immobiliare after the non-proportional spin-off of IM.SER and euro 470 million to other assets. The transaction had a gross economic impact of about euro 229 million on Telecom Italia S.p.A. and euro 234 million on the Telecom Italia Group (a net impact of euro 150 on the net result of the Telecom Italia Group). The companies in the Pirelli Group involved in the transaction were Pirelli S.p.A. (a related party of Telecom Italia through the Chairman and the Managing Director Carlo Buora) and Pirelli & C. Real Estate S.p.A. (a related party of Telecom Italia through the Chairman, the Managing Director Carlo Buora and the Director Carlo Alessandro Puri Negri).

Sale of Telespazio

In November, Telecom Italia executed the sale of Telespazio to Finmeccanica on the basis of the agreement signed on August 2, 2002. The positive impact on the financial indebtedness of the Telecom Italia Group was euro 239 million and the net gain was euro 36 million for the Telecom Italia Group.

Sale of Viasat

On November 18, 2002, Seat Pagine Gialle S.p.A. and Finsatel sold their respective 33.54% and 16.46% investments in Viasat S.p.A. to Exe Fin S.p.A. for a total of some euro 2.5 million. As a result of this sale, the company no longer holds an indirect interest in the company Viasat Assistance S.p.A.

Sale of Telekom Austria

In November 2002, Telecom Italia International N.V. placed 75 million Telekom Austria AG shares on the market (equal to 15% of share capital). The price of the placement was set at euro 7.45 per share. Gross proceeds from the sale were euro 559 million. The impact on the consolidated net result of the Telecom Italia Group was a loss of – euro 101 million. After this transaction, Telecom Italia Group's stake in Telekom Austria decreased from 29.78% to 14.78%.

Sale of Informatica Trentina

On November 21, 2002, Finsiel sold the 40.41% stake held in Informatica Trentina to DeDa S.r.l., a company controlled by Deltadator S.p.A. (Sequenza Group), for some euro 8.7 million, realizing a gain of euro 4 million in the consolidated financial statements of Telecom Italia.

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Sale of IMMSI

On November 22, 2002, Telecom Italia sold its stake in IMMSI to the company Omniapartecipazioni. The sales price was euro 69 million, with a positive impact of euro 41 million for the Parent Company, Telecom Italia.

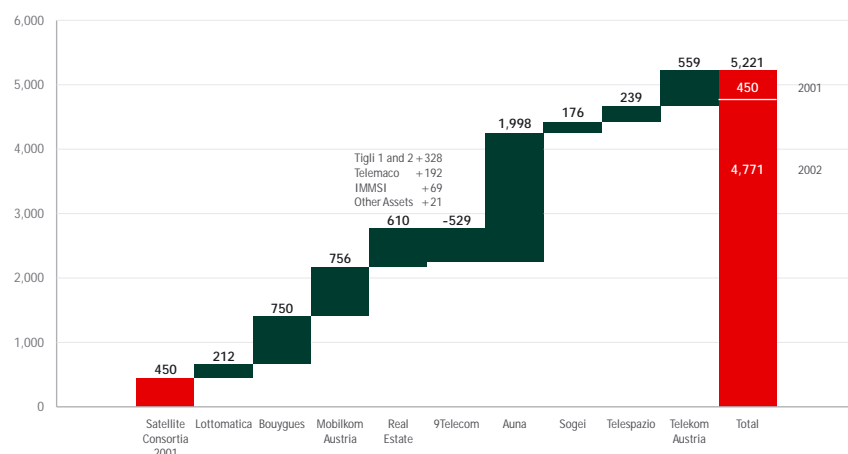
Sale of Fintech

On December 20, 2002, Telecom Italia Lab sold its investment in Fintech S.p.A. (equal to 50% of share capital) to the Belgium-registered company Eurocube S.A., for consideration of euro 4.75 million, of which about half will be paid at the closing and the remainder within 12 months thereafter.

Acquisition of a stake in Mediocredito Centrale S.p.A.

On December 27, 2002, in execution of the contract signed in July, a 3% stake was purchased in the share capital of Mediocredito Centrale S.p.A. for a price of euro 36 million.

In conclusion, the following chart depicts the impact that the sales had on the net debt of the Telecom Italia Group in the two-year period 2001-2002, reaching the objective of the divestiture program earlier than anticipated.

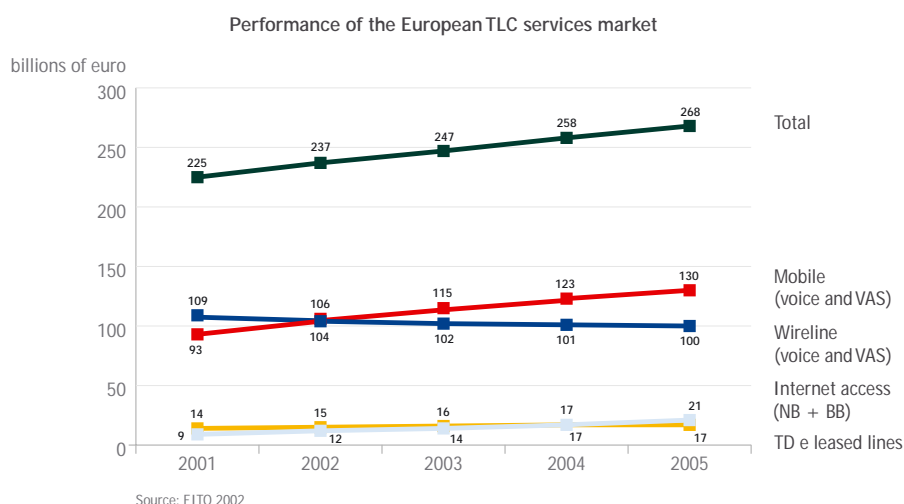


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■ MARKET SCENARIO

The projections for the world market of telecommunications services for the next few years suggest average annual growth of approximately 5.7%, lower than the growth of 7.7% reported in 2002.

In Europe, in 2002, the market grew by 5.4% and, over the next few years, annual average growth is expected to be in the order of 4.1%, and impacted by a slowdown in the growth of revenues from mobile services.



In Italy, growth over the next few years is expected to be higher than in the European market as a whole, with annual average growth of 5%. In particular, revenues from mobile services will increase at an annual average of 9%, particularly as a result of the development of innovative services, broadband and VAS on wireline networks, especially thanks to the spread of ADSL, at an annual average of approximately 18%.

In South America, annual average growth over the next few years is expected to be 11.6%. In particular, the mobile telephone services market in Brazil is expected to grow at an annual average of approximately 12%, and will be marked by a growing consolidation and by a regulatory framework that will favor the evolution of the SMC model over the SMP model, with higher standards of quality and fiercer competition.

From the point of view of the range of services available, it is probable that, over the next few years, the trend towards the consolidation of operators will continue, especially on a national level. This may prove to be to the advantage of large operators which will be able to exploit a broad customer base and control over the infrastructures.

From the point of view of technological development, there is likely to be innovation geared to expanding the bandwidth for wireline services and the development of "seamless" solutions for mobile services.

The development strategies of the larger operators are mainly focused on defending the domestic core business, launching broadband and value-added services and on reducing the level of indebtedness.

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■ STRATEGIC GUIDELINES

The fundamental objective declared by management for the next few years (as it was last year) will continue to be the creation of value. This must be ensured by capitalizing on the assets and on the distinctive competences and by further strengthening the financial structure to sustain development.

The priorities of industrial operations as described by the management are as follows:

- to consolidate its leadership of the domestic market: in wireline services, by encouraging customer loyalty with innovative products and stimulating the market of VAS and broadband, particularly through ASL access technology; in mobile services, by augmenting traffic volumes and developing a range of value-added services consistent with market expectations (MMS, community, videotelephone services), and by effectively introducing UMTS technology; in Internet and Media, by developing broadband and portals, directories and office products.
- to develop corporate presence abroad in markets where the Group can enhance its commercial and technological expertise: in the mobile sector, in South American countries, and particularly in Brazil; in the wireline sector, through the development of the pan-European broadband network.
- to continue to manage the Group according to strict criteria of efficiency thanks to the synergies activated by the organizational model based on professional categories and service centers, systems that control expenditure and results, and a careful selection of investments targeting innovation and development.

Over the next few years, the exacting dynamics in the economic and financial field will generate cash flows that will lead to a reduction in consolidated indebtedness that is expected to fall by more than euro 5 billion by the end of 2005, compared to the end of 2002.

The Group will also further develop initiatives associated with sustainability, which for the first time constitutes an integral part of corporate planning.

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TELECOM ITALIA GROUP

CONSOLIDATED STATEMENTS OF INCOME

	2002	2001	Change (a) - (b)	
(millions of euro)	(a)	(b)	amount	%
A. Sales and service revenues	30,400	30,818	(418)	(1.4)
Changes in inventories of work in progress, semifinished and finished goods	2		2	n.s.
Changes in inventory of contract work in process	(42)	(115)	73	(63.5)
Increases in capitalized internal construction costs	675	581	94	16.2
Operating grants	19	24	(5)	(20.8)
B. Standard production value	31,054	31,308	(254)	(0.8)
Raw materials and outside services ⁽¹⁾	(12,558)	(13,042)	484	(3.7)
C. Value added	18,496	18,266	230	1.3
Labor costs ⁽¹⁾	(4,532)	(4,647)	115	(2.5)
D. Gross operating profit	13,964	13,619	345	2.5
Depreciation and amortization	(5,877)	(6,275)	398	(6.3)
<i>of which difference on consolidation</i>	<i>(844)</i>	<i>(1,022)</i>	<i>178</i>	<i>(17.4)</i>
Other valuation adjustments	(599)	(455)	(144)	31.6
Provisions to reserves for risks and charges	(153)	(278)	125	(45.0)
Net other income (expense)	46	63	(17)	(27.0)
E. Operating income	7,381	6,674	707	10.6
Net investment and financial income (expense)	(2,163)	(3,955)	1,792	(45.3)
<i>of which value adjustments</i>	<i>(682)</i>	<i>(1,956)</i>	<i>1,274</i>	<i>(65.1)</i>
F. Income before extraordinary items and taxes	5,218	2,719	2,499	91.9
Net extraordinary income (expense)	(5,637)	(3,452)	(2,185)	63.3
G. Income before taxes	(419)	(733)	314	(42.8)
Income taxes	716	(925)	1,641	°
H. Net income (loss) before minority interest	297	(1,658)	1,955	°
Minority interest	(619)	(410)	(209)	51.0
I. Net income (loss)	(322)	(2,068)	1,746	(84.4)

(1) Reduced by related cost recoveries

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CONSOLIDATED BALANCE SHEETS

(millions of euro)	12/31/2002 (a)	12/31/2001 (b)	Change (a)-(b)
A. Intangibles, fixed assets and long-term investments			
Intangible assets	13,052	16,197	(3,145)
Fixed assets	19,291	21,757	(2,466)
Long-term investments			
• equity investments and advances on future capital contributions	2,286	6,586	(4,300)
• other	957	478	479
	35,586	45,018	(9,432)
B. Working capital			
Inventories	411	636	(225)
Trade accounts receivable	8,201	8,346	(145)
Other assets	6,154	5,047	1,107
Trade accounts payable	(5,966)	(6,793)	827
Reserves for risks and charges	(5,214)	(3,053)	(2,161)
Other liabilities	(6,926)	(6,601)	(325)
	(3,340)	(2,418)	(922)
C. Invested capital, net of operating liabilities (A + B)	32,246	42,600	(10,354)
D. Reserve for employee termination indemnities	(1,305)	(1,350)	45
E. Invested capital, net of operating liabilities and the reserve for employee termination indemnities (C + D)	30,941	41,250	(10,309)
Financed by:			
F. Shareholders' equity (*)			
Parent Company interest	9,049	13,522	(4,473)
Minority interest	3,774	5,786	(2,012)
	12,823	19,308	(6,485)
G. Medium/long-term debt	15,018	16,083	(1,065)
H. Net short-term borrowings			
Short-term borrowings	5,089	9,114	(4,025)
Liquid assets and short-term financial assets	(2,271)	(3,505)	1,234
Financial accrued expense (income) and deferred expense (income), net	282	250	32
	3,100	5,859	(2,759)
(G + H)	18,118	21,942	(3,824)
I. Total (F + G + H)	30,941	41,250	(10,309)

(*) Net of "Receivables from shareholders for capital contribution"

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of euro)	2002	2001
A. Net debt, at beginning of year	(21,942)	(17,233)
B. Change in scope of consolidation		(839)
C. Cash flows - operating activities		
Net income (loss)	297	(1,658)
Depreciation and amortization	5,877	6,275
(Gains) losses on sales of intangibles, fixed assets and long-term investments	(2,210)	(330)
Writedowns of intangibles, fixed assets and long-term investments	4,384	4,039
Change in working capital (*)	896	290
Net change in reserve for employee termination indemnities	(45)	31
Foreign exchange gains (losses) and other changes	691	136
	9,890	8,783
D. Cash flows - investing activities		
Long-term investments:	(6,919)	(11,257)
– <i>intangible assets:</i>		
– <i>difference on consolidation</i>	(369)	(1,174)
– <i>other investments</i>	(1,584)	(2,736)
– <i>fixed assets</i>	(3,258)	(4,254)
– <i>long-term investments</i>	(1,708)	(3,093)
Proceeds from sale, or redemption value, of intangible assets, fixed assets and long-term investments	5,698	1,439
	(1,221)	(9,818)
E. Cash flows - financing activities		
Capital contributions	58	240
Capital grants	42	22
	100	262
F. Dividends	(4,945)	(3,097)
G. Change in net debt (B + C + D + E + F)	3,824	(4,709)
H. Net debt, at end of year (A + G)	(18,118)	(21,942)

(*) The difference with respect to the reclassified consolidated balance sheets is due to the movements in capital grants and the use of the reserves for risks and charges.

The change in net debt was due to the following:

(millions of euro)	2002	2001
Increases (decreases) in medium/long-term debt	(1,065)	9,350
Increases (decreases) in short-term borrowings	(2,759)	(4,641)
Total	(3,824)	4,709

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■ ECONOMIC AND FINANCIAL PERFORMANCE - TELECOM ITALIA S.P.A.



RESULTS OF OPERATIONS

The Parent Company, **Telecom Italia S.p.A.**, closed the year 2002 with a net loss of euro 1,645 million (a net income of euro 151 million in 2001).

The result was mainly caused by a higher expense balance of *net extraordinary income (expense)* (– euro 3,200 million) that was partly offset by an improvement in the operating income (+ euro 62 million) and the income balance of *net investment and financial income (expense)* (+ euro 754 million), and lower *income taxes* (– euro 588 million).

The increase in the net expense balance of extraordinary income (expense), in particular, was caused, on one hand, by the provisions made with respect to the value of the Seat Pagine Gialle investment (euro 2,691 million) and to the forward commitment for the purchase of Seat Pagine Gialle shares (euro 1,942 million), to adjust them to the market value of the shares (based on the average of the last six months of 2002), as a result of the decision of no longer considering the “Directories” business of Seat Pagine Gialle to be of strategic interest, and, on the other hand, to the lower writedown, compared to the prior year, made in respect of Telecom Italia International (– euro 882 million) and the writedown of TI WEB (euro 542 million) effected in 2001.

As far as dividends are concerned, with a view towards meeting the objective of paying dividends to the shareholders that are substantially in line with 2001, in December 2002, reserves were distributed for euro 987 million. A motion for the residual amount of dividends will be submitted to the Shareholders’ Meeting convened to approve the 2002 financial statements.

Sales and service revenues of euro 17,055 million decreased by euro 254 million, – 1.5%, compared to 2001.

The reduction can principally be attributed to traffic, the equivalent amount of which, despite an increase of 2.4% in term of minutes, declined by euro 533 million (– 6.0%) as a result of a reduction in the average retail and wholesale return of 8.3%.

Such phenomena were partly compensated by the increase in basic charges and activation fees.

Sales and service revenues, net of the amounts due to other telecommunications operators, totaled euro 13,409 million and decreased by euro 485 million (– 3.5%) compared to the prior year.

Gross operating profit of euro 7,549 million decreased by euro 22 million compared to 2001 (euro 7,571 million). The percentage of gross operating profit to sales and service revenues was 44.3% (43.7% in the previous year).

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The change is due to the reduction in the costs of raw materials and outside services (– euro 143 million) and the reduction in labor costs, which fell by euro 65 million compared to 2001, thus compensating the aforementioned decrease in revenues.

Total raw materials and outside services, net of the amount due to other operators, amounted to euro 3,320 million, and decreased by euro 374 million compared to the prior year.

Operating income, amounting to euro 4,045 million, increased by euro 62 million compared to 2001 (+1.6%), and represents 23.7% of revenues, compared to 23.0% in 2001. The increase was essentially attributable to lower depreciation and amortization charges (– euro 301 million) that were partly compensated by expenses connected with credit management (+ euro 255 million).

Net investment and financial income (expense) is composed as follows:

(millions of euro)	2002 (a)	2001 (b)	Change (a)-(b)
Net investment income	2,118	2,022	96
Net financial expense	(1,087)	(1,624)	537
Value adjustments to financial assets	(654)	(775)	121
Total	377	(377)	754

In particular:

- the increase in net investment income (+ euro 96 million) is primarily due to higher dividends from the subsidiaries TIM (+ euro 247 million) – following the distribution of reserves in December 2002 – and Finsiel (+ euro 126 million), partly offset by the fact that in 2001 Telecom Italia had benefited from a distribution of reserves by Saiat (euro 249 million);
- the reduction in net financial expenses (– euro 537 million) was almost entirely due to the fact that a provision was set aside in 2001 (euro 569 million) for the forward commitment to purchase Seat Pagine Gialle shares; the provision in 2002, as previously described, was recorded in extraordinary expense;
- the reduction in value adjustments to financial assets (– euro 121 million) was due to the increase in the writedowns of other investments for a total of euro 131 million and to the fact that in 2001 writedowns were made to the investments in Telespazio (euro 91 million) and in TMI – Telemedia International Italia (euro 161 million).

Net extraordinary income (expense) showed an expense balance of euro 6,093 million (– euro 2,893 million in 2001), with an decrease of euro 3,200 million. Specifically:

Extraordinary income of euro 884 million comprised:

- the gains realized on the sales of investments in Telemaco Immobiliare (euro 134 million), Telespazio (euro 47 million), IMMSI (euro 51 million), EMSA (euro 70 million), the contribution of the “Asset Management” business segment to Tiglio II (euro 126 million), the sale of the non-facility business segments (property, project and agency) to the Pirelli & C. Real Estate group (euro 15 million), the sale of the “Training” segment to Telecom Italia Learning Services (euro 2 million) and the disposal of buildings (euro 7 million);
- the prior period income arising from the recovery of accrued pre-amortization interest (euro 131 million) on the expenses for employee benefit obligations under Law 58/1992 that were paid, with reserve, to INPS up to 1999 following the termination of litigation after the courts ruled in Telecom Italia’s favor;
- the recovery of expenses connected with extraordinary transactions (euro 192 million) incurred by Telecom Italia on behalf of subsidiaries (principally Telecom Italia International and TIM International);

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- the release to income (euro 59 million) of a part of the reserve for risks and charges, set up in 2001 to cover the expenses connected with the agreement for the sale of Stream to News Corporation and Vivendi Universal/Canal+, after the parties did not go through with the agreement;
- other prior period income of euro 50 million.

Extraordinary expenses of euro 6,977 million comprised:

- the writedown of the investment in Seat Pagine Gialle (euro 2,691 million) and the provision for the forward commitment to purchase Seat Pagine Gialle shares (euro 1,942 million);
- the extraordinary provisions regarding the investments in Netesi (euro 31 million) and Telecom Italia International (euro 1,102 million) mainly in conjunction with the expenses on the sale of the investment in 9Telecom to LDCom (euro 389 million), the loss on the sale of Telekom Austria (euro 189 million), the writedown of Netco Redes (euro 103 million) and the writeoff of the carrying value of the investment in Nortel Inversora (euro 37 million);
- the expenses and provisions (euro 379 million) for corporate restructuring relating to employees cutbacks and layoffs;
- expenses under Law 58/1992 (euro 154 million) to cover employees under the former fund "Telephone Employees Pension Fund" (FPT), which became part of the general "Employees Pension Fund", in accordance with the 2000 Finance Bill;
- the aforementioned expenses incurred on behalf of Group companies and recovered from the same companies (euro 192 million);
- the extraordinary contribution to INPS, euro 71 million (established by the 2000 Finance Bill for the three years 2000 - 2002);
- the provisions of euro 111 million following the guarantees provided upon the disposals of Italtel (euro 15 million) and Telespazio (euro 38 million) and at the time of the reorganization of real estate assets (Progetto Tiglio, euro 30 million), as well as for other matters totaling euro 28 million, of which euro 22 million refers to relations with Stream;
- the prior period expense (euro 158 million) relating to the adjustment of the estimated value of unused prepaid telephone cards following the introduction of technical data collection procedures;
- other prior period expenses of euro 146 million relating mainly to expenses connected with extraordinary transactions, damage compensation to third parties and sundry charges.

Income taxes had a positive effect on the result for the year of euro 26 million and decreased by euro 588 million compared to 2001. This was due to the loss for the year that was principally caused by the aforementioned investment writedowns, which contributed to the increase in deferred tax assets.

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FINANCIAL CONDITION

As far as **intangibles, fixed assets and long-term investments** are concerned, the reduction in industrial assets compared to December 31, 2001 (– euro 1,462 million) can be ascribed to the balance between investments (euro 2,322 million), depreciation and amortization (euro 3,020 million), disposals (euro 84 million), writedowns (euro 39 million) and the contributions of Telecom Italia's "Asset Management" business to Tiglio II (euro 245 million) and the "International Wholesale Services" business segment to TI Sparkle (euro 396 million). Long-term investments totaled euro 15,598 million and decreased by euro 2,772 million from December 31, 2001. The reduction is principally due to:

- new investments and recapitalizations of euro 860 million of which:
 - euro 186 million for the purchase of a 36.85% interest in the share capital of Tiglio I;
 - euro 60 million for the purchase of an 86% interest in EPIClink;
 - euro 29 million for the purchase of a 69.10% interest in the share capital of Netesi and for its successive recapitalization;
 - euro 234 million for the recapitalization and replenishment of the share capital of Stream;
 - euro 87 million for the recapitalization of Telecom Italia Sparkle;
 - euro 166 million for payments against future capital increases in investments made principally to IT Telecom;
 - euro 98 million for the purchase/recapitalization of other holdings;
- acquisition of investments, as a result of the aforementioned contributions of business segments, in Telecom Italia Sparkle (euro 698 million) and Tiglio II (euro 74 million);
- writedowns for euro 4,396 million, including extraordinary writedowns (euro 3,939 million) made to the value of investments in Seat Pagine Gialle, Telecom Italia International and Netesi;
- disposals of investments for euro 376 million, of which euro 330 million principally relates to the sale of EMSA (euro 155 million), Telespazio (euro 80 million) and Telemaco Immobiliare (euro 76 million) and euro 46 million for the disposal of investments within the framework of the contribution of the "International Wholesale Services" business segment to Telecom Italia Sparkle;
- loans made primarily to Tiglio I, Tiglio II and Telegono for a total of euro 117 million;
- euro 287 million for the purchase of 5,280,500 ordinary shares of treasury stock and 45,647,000 savings shares of treasury stock.

Working capital was a negative balance of euro 2,511 million (a positive balance of euro 12 million at December 31, 2001) and decreased by euro 2,523 million. The reduction is due to lower "trade accounts receivable" (– euro 812 million) and "other assets" (– euro 400 million) and higher "reserves for risks and charges" (+euro 1,532 million) – especially with regard to the provision for the forward commitment to purchase Seat Pagine Gialle shares of euro 1,942 million and the provisions to the reserve for corporate restructuring – and higher other liabilities (+euro 363 million). Such effects were partly compensated by the reduction in trade accounts payable (– euro 591 million).

In 2002, transactions for the securitization of trade accounts receivable from residential customers and the sale of receivables to factoring companies led to a reduction in trade accounts receivable from customers at December 31, 2002 of euro 1,031 million.

Net invested capital of euro 26,084 million (euro 32,784 million at December 31, 2001) was financed by shareholders' equity for 42% and net debt for 58%.

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Shareholders' equity went from euro 15,871 million at December 31, 2001 to euro 10,956 million at the end of 2002. The reduction, equal to euro 4,915 million, was due to:

(millions of euro)	2002	2001
At January 1	15,871	18,714
Net income (loss) for the year	(1,645)	151
Retained earnings	1	-
Portion of capital grants available	13	15
Distribution of profits	(142)	(2,309)
Distribution of income reserves	(3,151)	-
Cancellation of the reserve for treasury stock in portfolio	-	(711)
Increase in additional paid-in-capital	8	10
Increase in share capital	1	188
Reduction in revaluation reserve Law 72, 3/19/83	-	(187)
At December 31	10,956	15,871

The Telecom Italia Shareholders' Meeting on December 12, 2002 passed a resolution to reclassify reserves by the transfer of euro 2,160 million from "miscellaneous reserves" to "additional paid-in-capital", the transfer of euro 820 million from "additional paid-in-capital" to the "legal reserve", the transfer of euro 660 million from the "legal reserve" to "miscellaneous reserves" with the contextual change in the name to "miscellaneous income reserves".

This reclassification immediately identifies, in the financial statements, the nature of the reserves, namely whether they are profit or capital reserves.

The same Shareholders' Meeting resolved to distribute reserves for an amount of euro 987 million, paying euro 0.1357 to the shareholders for each ordinary and savings share, which is in line with the objective of ensuring the shareholders an amount corresponding to the dividends paid out for 2001.

Net debt of euro 15,128 million (euro 16,913 million at December 31, 2001) decreased by euro 1,785 million from December 31, 2001.

The improvement from the end of 2001 was due to the monetary flows provided by operating activities (euro 7,845 million) which more than compensated the flows used for investing activities (euro 2,799 million), for the payment of 2001 dividends and for the distribution of income reserves totaling euro 3,293 million.

Net financial debt benefited from the effects of the securitization and factoring transactions for a total amount, at December 31, 2002, of euro 1,008 million, of which euro 826 million refers to securitization (euro 848 million at December 31, 2001).

Gross debt at December 31, 2002 totals euro 17,299 million (euro 17,909 million at December 31, 2001). Details are provided in the following table:

(millions of euro)	At 12/31/2002				At 12/31/2001			
	euro	%	Foreign currency	%	Total	%	Total	%
Medium/long-term debt	11,767	69	81	26	11,848	68	10,371	58
Short-term borrowings	5,216	31	235	74	5,451	32	7,538	42
Total	16,983	100	316	100	17,299	100	17,909	100

The portion of medium/long-term debt rose from 58% at December 31, 2001 to 68% at December 31, 2002 following the issue of Telecom Italia fixed-rate notes under the "Global Note Program" for a total of euro 2,500 million.

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TELECOM ITALIA S.P.A.

STATEMENTS OF INCOME

	2002	2001	Change (a) - (b)	
(millions of euro)	(a)	(b)	amount	%
A. Sales and service revenues	17,055	17,309	(254)	(1.5)
Changes in inventory of contract work in process	-	(19)	19	
Increases in capitalized internal construction costs	11	6	5	83.3
Operating grants	-	-		
B. Standard production value	17,066	17,296	(230)	(1.3)
Raw materials and outside services ⁽¹⁾	(6,966)	(7,109)	143	(2.0)
C. Value added	10,100	10,187	(87)	(0.9)
Labor costs ⁽¹⁾	(2,551)	(2,616)	65	(2.5)
D. Gross operating profit	7,549	7,571	(22)	(0.3)
Depreciation and amortization	(3,020)	(3,321)	301	(9.1)
Other valuation adjustments	(357)	(159)	(198)	°
Provisions to reserves for risks and charges	(44)	(100)	56	(56.0)
Net other income (expense)	(83)	(8)	(75)	°
E. Operating income	4,045	3,983	62	1.6
Net investment and financial income (expense)	377	(377)	754	°
<i>Of which value adjustments</i>	<i>(654)</i>	<i>(775)</i>	<i>121</i>	<i>(15.6)</i>
F. Income before extraordinary items and taxes	4,422	3,606	816	22.6
Net extraordinary income (expense)	(6,093)	(2,893)	(3,200)	°
G. Income before taxes	(1,671)	713	(2,384)	°
Income taxes	26	(562)	588	°
H. Net income (loss)	(1,645)	151	(1,796)	°

(1) Reduced by related cost recoveries

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BALANCE SHEETS

(millions of euro)	12/31/2002 (a)	12/31/2001 (b)	Change (a)-(b)
A. Intangibles, fixed assets and long-term investments			
Intangible assets	1,287	1,336	(49)
Fixed assets	12,678	14,091	(1,413)
Long-term investments			
• Equity investments and advances on future capital contributions	15,010	18,149	(3,139)
• Other	588	221	367
	29,563	33,797	(4,234)
B. Working capital			
Inventories	70	77	(7)
Trade accounts receivable	4,292	5,104	(812)
Other assets	3,468	3,868	(400)
Trade accounts payable	(2,958)	(3,549)	591
Reserves for risks and charges	(3,145)	(1,613)	(1,532)
Other liabilities	(4,238)	(3,875)	(363)
	(2,511)	12	(2,523)
C. Invested capital, net of operating liabilities (A + B)	27,052	33,809	(6,757)
D. Reserve for employee termination indemnity	(968)	(1,025)	57
E. Invested capital, net of operating liabilities and reserve for employee termination indemnities (C + D)	26,084	32,784	(6,700)
Financed by:			
F. Shareholders' equity			
Share capital paid-in	4,024	4,023	1
Reserves and retained earnings	8,577	11,697	(3,120)
Net income (loss)	(1,645)	151	(1,796)
	10,956	15,871	(4,915)
G. Medium/long-term debt	11,848	10,371	1,477
H. Net short-term borrowings			
Short-term borrowings	5,451	7,538	(2,087)
Liquid assets and short-term financial assets	(2,698)	(1,248)	(1,450)
Financial accrued expense (income) and deferred expense (income), net	527	252	275
	3,280	6,542	(3,262)
(G + H)	15,128	16,913	(1,785)
I. Total (F + G + H)	26,084	32,784	(6,700)

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STATEMENTS OF CASH FLOWS

(millions of euro)	2002	2001
A. Net debt, at beginning of year	(16,913)	(16,839)
B. Cash flows - operating activities		
Net income (loss)	(1,645)	151
Depreciation and amortization	3,020	3,321
(Gains) losses on sales of intangibles, fixed assets and long-term investments	(423)	(241)
Writedowns of intangibles, fixed assets and long-term investments	4,371	3,148
Change in working capital (*)	2,579	(514)
Net change in reserve for employee termination indemnities	(57)	(6)
	7,845	5,859
C. Cash flows - investing activities		
Intangibles, fixed assets and long-term investments:	(3,608)	(4,495)
- <i>intangible assets</i>	(648)	(727)
- <i>fixed assets</i>	(1,674)	(1,739)
- <i>long-term investments</i>	(1,286)	(2,029)
Intangibles, fixed assets and long-term investments purchased as a result of corporate transactions	(772)	(413)
Proceeds from sale, or redemption value, of intangible assets, fixed assets and long-term investments	891	975
Intangibles, fixed assets and long-term investments sold as a result of corporate transactions	690	280
	(2,799)	(3,653)
D. Cash flows - financing activities		
Capital contributions	9	10
Capital grants	23	19
	32	29
E. Dividends	(3,293)	(2,309)
F. Change in net debt (B + C + D + E)	1,785	(74)
G. Net debt, at end of year (A + F)	(15,128)	(16,913)

(*) The difference with respect to the reclassified "balance sheet" is due to entries affecting working capital. They refer to changes in capital grants, the use of the reserve for losses of subsidiaries and affiliates, the adjustment of medium/long-term loans receivable to year-end exchange rates.

The change in net debt is due to the following:

(millions of euro)	2002	2001
Increase (decrease) in medium/long-term debt	1,477	7,183
Increase (decrease) in short-term borrowings	(3,262)	(7,109)
Total	(1,785)	74

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■ SUBSEQUENT EVENTS

There follows a description of the significant events subsequent to December 31, 2002.

Sale of Globo.com

On January 15, 2003, Telecom Italia Finance sold its 28.57% investment in the Brazilian company Glb Servicos Interativos ("Globo.com") to TIM Brasil for US \$15 million. At the end of January, TIM Brasil then sold that investment to the Globo television group. The net gain for the Telecom Italia Group was about euro 4 million.

Renewal of the first securitization tranche 2001

On January 22, the company TI Securitisation Vehicle renewed the first tranche of euro 100 million of asset backed securities issued on January 29, 2001. The transaction falls under the securitization program of Telecom Italia telephone bills and is described in greater detail in the notes to the financial statements of Telecom Italia S.p.A..

Early purchase of leased assets

On January 27, 2003, the procedures were completed for the early purchase of 12 property units (for about 300,000 square meters) from Teleleasing S.p.A. that are used by Telecom Italia S.p.A. and other Group companies under financial leasing contracts. The deal involved a total financial payment of some euro 369 million for the entire Group.

Sale of the TI Logistic business segment

On January 27, 2003, Telecom Italia announced an agreement with TNT Logistics Italia whereby this company would take over the warehouse and distribution operations of wireline telephone products for customers and for assistance and installation for the Telecom Italia network. The agreement also provides for the sale to TNT Logistics of the relative business segment of Telecom Italia, including six central warehouses, 100 advance warehouses and over 4.5 million pieces of telephone equipment and parts a year. The understanding, finalized with the aim of concentrating on the core business, became operative on March 5, 2003 following the authorization of the Antitrust Authority and the experiment with the labor consultation procedure.

Acquisition of Consodata shares

On February 12, 2003, Seat Pagine Gialle purchased 1,108,695 ordinary shares of the French subsidiary Consodata S.A. – listed on the Nouveau Marché of the Paris Stock Exchange – following the sale option exercised by the founding shareholders to which they were entitled on the basis of the agreement signed originally with the previous management of Seat Pagine Gialle on July 31, 2000. As a result of this transaction, after payment of the agreed consideration of euro 44 per share – for a total amount some euro 48.8 million – Seat Pagine Gialle acquired a further 8.17% stake and voting rights in the company, thus increasing its holding in Consodata S.A. to 98.60%.

Sale of Telekom Srbija

On December 28, 2002, the Telecom Italia Group announced that it had reached an agreement for the sale of its 29% stake in Telekom Srbija to PTT Srbija. The agreement for the sale was finalized on February 20, 2003 and the closing is scheduled to take place by the end of June. PTT will pay euro 195 million, 120 million of which will be paid in four installments beginning February 2003. The remaining amount will be paid in six semi-annual installments beginning January 2006. The shares sold will be deposited with an international bank until full payment of the price.

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Sale of Tele Pay Roll Services

On February 28, 2003, Telecom Italia sold to Accenture group the 100% interest in TE.SS – Tele Pay Roll Services, a company responsible for the administration activities connected with human resources management of the Telecom Italia Group. The sales price was euro 10 million. The transaction falls under the program for the divestiture of non-core businesses by the Telecom Italia Group.

Telecom Italia - Hewlett Packard agreement

On February 21, 2003, Telecom Italia and Hewlett-Packard signed a five-year agreement for management services and outsourcing worth a total of euro 225 million. Under the agreement, HP will supply asset management, help desk, maintenance and administration services for 90,000 Telecom Italia workstations, drawing upon the skills of around 600 IT Telecom specialists, who will be absorbed by a new HP company specialized in these services. For its part, IT Telecom is to house the systems and manage HP Italia's operating activities in the SAP environment. The agreement will lead to a closer focus on the core business and efficiency needs in terms of savings in the operation of the distributed environment. The deal becomes binding and operational once the consultations with the labor unions have been concluded and authorization has been received from the Italian Antitrust Authority.

Bonds reserved for employees

On February 13, 2003, the Board of Directors of Telecom Italia resolved, by partially revoking the resolution for the issue of bonds for the part not yet executed, to reduce the bond issue reserved for employees from euro 1 billion to euro 400 million.

Repurchase and subsequent cancellation of notes

On March 11, 2003, the Board of Directors of Telecom Italia voted to repurchase, at market price, and subsequently cancel, a part of the notes subscribed by the subsidiary Telecom Italia Finance up to a maximum amount of euro 2 billion. This decision was taken in order to regulate the ratio of net equity to notes and bonds, in view of the motion for the distribution of reserves up to a maximum amount of euro 1,333 million.

Approval of the 2002 interconnection price list by the National Regulatory Agency

On February 27, 2003, the Infrastructures and Networks Commission of the National Regulatory Agency approved the interconnection price list for 2002, currently being announced, which Telecom Italia must apply to competing operators for the use of its network with regard to Interconnection Services for traffic, Billing Services with the risk of non-payment by Telecom Italia subscribers for access to non-geographical numbers and Unbundling Local Loop Access Services. The economic effects are included in the 2002 financial statements.

LISIT Informatica

On February 4, 2003, Telecom Italia, in a temporary association of companies with Finsiel and Lutech (Lucchini group), won the bid held by the Lombardy Region (through the subsidiary Lombardia Informatica S.p.A.) for the supply of the goods and services needed to disseminate and manage the "Regional Services Card" throughout the Lombardy Region. The total value of the bid won by the association led by Telecom Italia, scheduled to last until 2009, is approximately euro 350 million. Within the framework of the obligations undertaken, Telecom Italia and Finsiel acquired 35.2% of the share capital of LISIT, for a total of euro 54 million.

Agreement for the acquisition of Megabeam

In March 2003, Telecom Italia signed the agreement for the acquisition of 100% of the share capital of Megabeam Italia S.p.A., the first Italian wireless internet service provider, for consideration of euro 11.5 million.

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Megabeam's acquisition falls under Telecom Italia's broadband strategy, in which wireless technology, such as Wi-Fi, occupies a fundamental role in solutions both for the family and for business, since it enhances the innovative connectivity services on fixed networks with functions and flexibility.

Megabeam offers Wi-Fi networking services in private sites and is experimenting the same Wi-Fi service in public places – in the main Italian airports and in an important hotel chain – using Wireless-Lan which operates on the 2400-2483.5 frequency.

The execution of the agreement is subject to the approval of the Antitrust Authority.

Buy-back of treasury stock by Telecom Italia

Under the transaction for the buy-back of treasury stock authorized by the Ordinary Shareholders' Meeting of Telecom Italia shareholders on November 7, 2001, during the period January 1, 2003 to March 11, 2003, 8,662,500 savings shares were purchased at an average price of euro 4.73 per share, for an investment of euro 41 million, and 915,000 ordinary shares at an average price of euro 6.83 per share, for an investment of euro 6 million. The total treasury stock purchased up to March 11, 2003 amounted to 54,309,500 savings shares at an average price of euro 5.24 for an investment of euro 285 million and 6,195,500 ordinary shares at an average price of euro 8.00 for an investment of euro 50 million.

Sale of SITEBA

On March 12, 2003, Telecom Italia sold, to the other shareholders which exercised their pre-emptive right, the 30% investment held in the share capital of the company SITEBA Sistemi Telematici Bancari S.p.A., for a total amount of some euro 7.2 million.

Merger by incorporation of Telecom Italia Lab in Telecom Italia

As voted by the Extraordinary Shareholders' Meetings of Telecom Italia and Telecom Italia Lab on December 12, 2002, the 100%-controlled company Telecom Italia Lab was merged by incorporation in Telecom Italia. The deed of merger was signed on March 18, 2003, effective for accounting and fiscal purposes on January 1, 2003.

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■ BUSINESS OUTLOOK

In 2003, the Telecom Italia Group expects to substantially maintain operating income at this year's level and further reduce net debt.

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■ RELATED PARTY TRANSACTIONS

With reference to related party transactions, the effects of such transactions on the balance sheet and statement of income in the consolidated financial statements of the Telecom Italia Group at December 31, 2002 are reported in the following table.

The effects of transactions between Telecom Italia S.p.A. and the relative parent companies, subsidiaries and affiliated companies are reported, as a supplement to this disclosure, in the individual notes to the statutory financial statements of Telecom Italia S.p.A..

In the consolidated financial statements, the effects of intercompany transactions on the balance sheet and statement of income, that is, all transactions among consolidated companies, have been eliminated.

All related party transactions, including intercompany transactions, fall within the normal business operations of the group, are governed by market terms or on the basis of specific laws; there aren't atipic or unusual transactions.

Major statement of income and balance sheet components

	Transactions with:		Nature of transaction
(millions of euro)	unconsolidated subsidiaries and affiliates	parent companies, subsidiaries and affiliates of parent companies	
Sales and service revenues	299	3	These comprise revenues from Teleleasing (euro 105 million), Brasil Telecom (euro 48 million), Stream (euro 42 million), Auna group (euro 18 million), Telecom Argentina (euro 18 million), Telekom Srbija (euro 17 million)
Raw materials and outside services	445	24	These mainly comprise rent payable to IMSER (euro 153 million) and Telemaco Immobiliare (euro 37 million) as well as TLC service costs from Etecsa Cuba (euro 77 million) and maintenance and assistance contracts from Italtel (euro 40 million) and Siemens Informatica (euro 24 million)
Net other (income) expense	9	-	These mainly relate to cost recoveries for personnel on loan to certain foreign subsidiaries and affiliates
Net financial (income) expense	(9)	(11)	These include accrued interest income on loans made to certain subsidiaries and affiliates (euro 14 million), interest expense payable to Teleleasing for financial leasing transactions (euro 23 million) and interest on the payable by Softe to Olivetti Finance NV (euro 11 million)
Loans in long-term investments	440	-	These comprise medium/long-term loans made to IS TIM (euro 313 million), Tiglio I (euro 54 million), Telegono (euro 34 million) and Tiglio II (euro 30 million)
Financial receivables	35	-	These comprise short-term loans made to TMI group companies (euro 14 million) and Golden Lines (euro 10 million net of provisions)
Financial payables	406	-	These refer mainly to payables for finance leases to Teleleasing (euro 393 million)
Trade and other accounts receivable	219	2	They mainly regard receivables from Stream (euro 71 million), Telekom Srbija (euro 21 million net of provisions), Teleleasing (euro 38 million) and Consorzio Telcal (euro 14 million)
Trade and other accounts payable	386	311	These refer to payables to Olivetti for the settlement of Group VAT and receivables from the tax authorities transferred (euro 296 million) and supply contracts connected with operating and investment activities: they include payables to the Italtel group (euro 150 million), Siemens Informatica (euro 40 million), Teleleasing (euro 17 million) and advances from Consorzio Telcal (euro 103 million)
Contract work in process	110	-	These refer mainly to activities on behalf of Consorzio Telcal for the Telematico Calabria Plan

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Major statement of income and balance sheet components

(millions of euro)	Transactions with:		Nature of transaction
	unconsolidated subsidiaries and affiliates	parent companies, subsidiaries and affiliates of parent companies	
Guarantees and collateral provided	908	-	These comprise sureties provided on behalf of Is Tim (euro 537 million), Consorzio Csia (euro 85 million) and Stream (euro 72 million) as well as collateral on behalf of Is Tim (euro 110 million)
Purchases and sales commitments	17	-	They refer to commitments with Teleleasing under operating leases.
Investments in fixed assets and intangibles	455	-	These mainly consist of acquisitions of telephone exchanges from the Italtel group (euro 406 million) and computer projects from Webegg (euro 14 million) and Siemens Informatica (euro 19 million)
Acquisition of investments	-	58	50% of Webegg from Olivetti
Disposal of investments	690	-	25% of Mobilkom Austria, through the disposal of the Autel holding to Telekom Austria
Contribution and sale of business segments	219	-	They refer to gains realized on the concentration of real estate assets in Tiglio I (euro 159 million) and the contribution of the "asset management" business segment to Tiglio II (euro 60 million) ⁽¹⁾

Related party transactions, excluding transactions among Group companies, also comprise those by the Telecom Italia Group with the Pirelli group and the Edizione Holding group in 2002 as follows:

(millions of euro)	2002	
Sales and service revenues	26	These mainly refer to telephone services to Pirelli group (euro 8 million) and to Edizione Holding (euro 16 million) and to information services to Pirelli group (euro 2 million).
Raw materials and outside services	23	These essentially refer to R & D expenditures and the supply of services in the IPR field to Pirelli group (euro 21 million) and to Edizione Holding group (euro 2 million).
Trade and other accounts receivable	3	These mainly refer to the above-mentioned telephone services to Pirelli group (euro 1.6 million) and to Edizione Holding group (euro 1.5 million).
Trade and other accounts payable	9	These mainly refer to the supply contracts connected with investment activities to Pirelli group (euro 8 million) and to Edizione Holding group (euro 1 million).
Investments in fixed assets and intangibles	32	These mainly refer to purchases of telecommunications cables from Pirelli group.
Acquisition of investments and purchases commitments	21	Purchase of 25.3% stake in EPIClink by Telecom Italia S.p.A. from Pirelli S.p.A. (euro 18 million) purchase commitment for remaining 5% (euro 3 million) ⁽²⁾
	35	Purchase by TIM of Blu S.p.A. shares, stake from Edizione Holding S.p.A. e Autostrade S.p.A. ⁽²⁾
Acquisition of business segments	3	Purchase of a business segment by EPIClink S.p.A. from Pirelli Informatica
Disposal of business segments	15	Gain on the sale of non-facility business segments to Pirelli Real Estate ⁽¹⁾

(1) The acquisition and sale transactions of equity investments is fully described in the section "Acquisitions and sales of equity investments" and in the section "Economic and financial performance - Telecom Italia Business Units/Operating Activities - Other activities".

(2) The transaction is extensively described in the section "Acquisitions and sales of equity investments".

Moreover, during the year 2002, TIM sold telephone cards for an equivalent amount of some euro 20 million to Autogrill (Edizione Holding Group) for subsequent resale to the public.

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■ ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA BUSINESS UNITS/OPERATING ACTIVITIES



DOMESTIC WIRELINE

- ▶ Growth of profit margins
- ▶ Innovation of products and service and in the field of Customer Care
- ▶ Efficiency in costs and investments
- ▶ Development of fiber optic networks for operators
- ▶ Corporate reorganization for international services management

■ THE BUSINESS UNIT

The Domestic Wireline Business Unit operates on a national level as the consolidated market leader in wireline telephone and data services and call centers, for final (retail) customers and other (wholesale) operators. On an international level, Domestic Wireline develops fiber optic networks for wholesale customers, mainly in Europe and Latin America.

During the year, strong competition in the market continued. It was more accentuated in the case of national traffic and was countered with new rate plans offered as part of the action to win back and retain customers.

■ THE STRUCTURE BUSINESS UNIT

The Business Unit is organized as follows:



(1) "International Wholesale Services" became part of Telecom Italia Sparkle on December 31, 2002

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■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

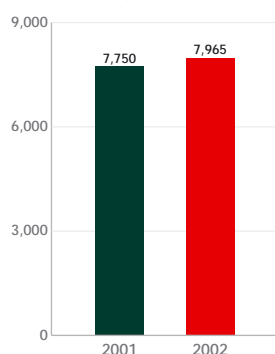
In 2002, changes in the scope of consolidation were due to the transfer of Saritel S.p.A. to the Information Technology Group Operating Activity and the addition of the company Intelcom San Marino S.p.A. (previously part of the International Operations Operating Activity) following the reorganization of the international operations of the Telecom Italia Group. 2001 figures have been restated accordingly.

On December 31, 2002, Telecom Italia's "International Wholesale Services" business was contributed to Telecom Italia Sparkle (ex TMI - Telemedia International Italia), to which the investments in the companies headed by Pan European Backbone and Telecom Italia of North America were also conferred at the same time. Telecom Italia Sparkle will have the task of developing the international services market aimed at "heavy users", these being wireline and mobile operators, ISPs (Internet Service Providers) and multinational companies. This initiative will enable Telecom Italia to step up its competitive position on the international market by focusing on high-value Data and Internet services with a high growth potential, operated on infrastructures owned by the Group in Italy and abroad.

■ ECONOMIC AND FINANCIAL DATA

The following table shows the key results in 2002 compared to those in 2001, restated for purposes of comparison.

Gross operating profit



	2002	2001	Change (a) - (b)	
(millions of euro)	(a)	(b)	amount	%
Sales and service revenues	17,022	17,168	(146)	(0.9)
Gross operating profit	7,965	7,750	215	2.8
% of revenues	46.8%	45.1%		
Operating income	4,700	4,361	339	7.8
% of revenues	27.6%	25.4%		
Investments:				
- industrial	2,462	2,801	(339)	(12.1)
- difference on consolidation	-	-	-	-
Employees at year-end (number)	53,682	57,895	(4,213)	(7.3)

For comments on the performance of operations please refer to the section "Economic and financial review of Telecom Italia S.p.A.".

Compared to the prior year, *Sales and service revenues* reported a reduction of 0.9% (– euro 146 million). This slight fall, which was considerably lower than that reported in 2001 (– 1.4% compared to 2000), constitutes a very important result that was achieved thanks to an effective focus on the telephony market, the core market of the Business Unit, and to the notable growth of the broadband markets. Growth in the segment of innovative Data services and Web services was particularly significant. This compensated the decline recorded in traditional data and leased line services, which were affected by a regimented price regime, and the effect of migration towards innovative solutions.

In particular, the reduction in revenues can be mainly attributed to traffic (– euro 533 million) and other components reporting a decline (sales and other revenues), and was offset to a large extent by the increase in charges and fees (+euro 539 million).

In greater detail, the reduction in the average yield of traffic (– 8.3%) was partially compensated

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by an increase in minutes (+2.4%), with greater stability of the market share and growth of 0.1% compared to 2001.

The main phenomena which influenced these figures were as follows:

- the spread of commercial rate plans (mainly Teleconomy and Alice) offering rate discounts on traffic in order to build customer loyalty, with payment of subscription charges;
- the rate adjustments of July 1, 2001 and February 1, 2002 which reduced the prices of national and international communications and, at the same time, led to an increase in subscriber line charges for the network;
- the competitive context;
- the sharp growth of "carried" traffic on behalf of other operators.

There was a considerable increase in the *gross operating profit* compared to the prior year (+2.8%), which was amply confirmed by the *operating income* (+7.8%), as a result of steps taken to curb costs and improve the level of the efficiency of invested capital begun in 2001.

Investments fell by 12.1% compared to the prior year, as a result of a selective policy of investments designed to combine efficiency with technological development.

The number of *employees* fell by 4,213 due to cutbacks under Law 223/1991 (3,298), other resignations (2,040), new recruits (1,104) and an increase as a result of transfers of employees from other companies in the Group (21).

■ INFORMATION ON OPERATIONS

The following table shows the operating highlights in 2002, compared to those in 2001:

Operating data	12.31.2002	12.31.2001
Fixed network connections (in thousands)	27,142	27,353
- of which ISDN	5,756	5,403
Annual increase in minutes of traffic on the fixed network (%)	2.4	22.5
• national traffic	1.8	22.8
• international traffic	17.9	16.9
- outgoing	13.0	11.4
- incoming	(0.1)	12.6
- in transit	64.1	39.3

■ Traffic and access

During 2002, new commercial rate plans were launched for Residential and Business Phone services, including:

Residential telephone services	Ricomincio da Te	Generalized plan combining minutes of free calls (local and long-distance) included in the monthly basic telephone subscription charge
	Teleconomy Forfait	Customized package offering free national calls (local and long-distance calls) of unlimited duration for a fixed monthly cost
	Teleconomy Zero	Customized package offering calls to anywhere in Italy (local and long-distance calls) at a fixed cost per call (regardless of the duration of the call) with a monthly subscription charge

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Business telephone services	Ricomincio da Te	In the second half, the plan combining minutes of free calls with a simultaneous adjustment of the monthly basic subscription charge was also introduced to the Business segment
	Business and Corporate Rate Plans	Plan directed at companies with a high volume of traffic detailed into 9 variable rate plans according to the customer's commitment for expenditure, with the expense subdivided into six installments
	Teleconomy Professional Plan	Plan enabling customers to acquire a maximum number of minutes of national traffic included in the monthly subscription charge
	Teleconomy Zero Business	Package offering calls to anywhere in Italy (local and long-distance calls) at a fixed cost per call (regardless of the duration of the call) with a monthly subscription charge

With reference to Public Telephone Service installations, terminals using ISDN technology numbered 104,635 at year-end (+ 50% compared to year-end 2001).

■ Data business

During 2002, the commercial range of data packages was expanded by the introduction of new plans in both the data transmission segment of corporate networks and Internet access, offered to Companies and Private Customers alike. These included:

Data transmission services	<ul style="list-style-type: none"> Development of new fiber optic solutions for both point-to-point connections and IP services, with new rate plan profiles especially for the small/medium size business segment Extension of geographical coverage in broadband with 600 new ADSL exchanges, and extension of the ATM service to 80 POP with consequent repricing Consolidation of the range of value-added services offered through the launch of security solutions for the small/medium-size business segment and enhancement of the range of outsourcing services
Web services	<ul style="list-style-type: none"> Launch of the web-wizard rate plan for helping users create websites on the Broadway platform Launch of storage services which make a secure, confidential space available to companies for keeping and conserving sensitive documents in Internet Data Centers Enhancement of messaging services through integration with SMS and Fax services and of streaming services on Internet WebStudios with the introduction of hi-tech production and operation tools Expansion of the IES rate plan with customized e-learning environments for companies New services for the Full Business Management plan (Housing, Hosting and Colocation)

■ National wholesale

In 2002, Telecom Italia expanded its activities in the national wholesale area as follows:

- at year-end approximately 131,000 phone lines had been connected directly to the networks of other operators, through Local Loop Unbundling.
- approximately 220,000 ADSL Wholesale lines were acquired by other operators and ISPs.
- an increase of approximately 20% of traffic from traditional interconnection services compared to the prior year.
- an increase of approximately 8% of access lines compared to 2001.
- construction of long-distance fiber optic networks for some leading mobile and wireline operators in 2002.

From the commercial point of view, in 2002 the activities of the Wholesale market were expanded through the following products:

Access to broadband	<p><i>Wholesale ADSL:</i> The plan, which was already available the prior year, was enhanced through the addition of new features in terms of services and economic incentives. A new plan was introduced whereby the ADSL connection is invoiced based on consumption, according to the traffic involved. Finally, promotional offers were introduced for activation fees and discounts on monthly subscription rates</p> <p><i>Permanent Virtual Channel:</i> new technological (SHDSL technology) and commercial (flat-rate charges applied to symmetrical connections) features have also been introduced for this type of connection</p>
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Dedicated carrier services	<i>Giganet</i> : the service for carrying data on optic connections, already available at the speed of 2.5 Gbit/s, has been expanded with the introduction of the speed of 10 Gbit/s
Unbundling Local Loop Services	<i>ULL Provisioning</i> : A new plan has been created to enable operators to obtain additional processing capacity of ULL orders from Telecom Italia compared to the standard capacity. In addition, significant economic incentives were introduced on ULL and Shared Access services
Housing and hosting	There have been significant developments in the offering to accommodate apparatus on Telecom Italia premises. It has been extended to various types of systems and includes the option of maintenance of the apparatus concerned
Internet interconnection traffic	<i>Decade 7</i> : OLOs (Other Licensed Operator) and ISPs have initiated the large-scale introduction of the new numbering system for access to Internet through the telephone network. This interconnection service makes it possible to use single numbers on a national scale to dial the access supplier, and also makes it possible to charge the final customer for the traffic in various ways <i>"Flat collection"</i> : This new offer has been introduced whereby, in addition to the minute collection system already available, operators can acquire a certain "capacity" of traffic collection at various levels of the network, in blocks of 30 lines

■ International wholesale

With regard to international wholesale services (which, as described above, were contributed to Telecom Italia Sparkle at the end of 2002 by Telecom Italia - Domestic Wireline), growth was steady both in Telephony services and in IP and Data transmission services:

- With regard to wholesale volumes there was growth (+26.2% compared to the prior year) thanks to interconnection with new international carriers, to greater collection by Italian OLOs on the domestic market and the competitiveness of the Telecom Italia offering in the transit segment.
- In the area of IP and data transmission, there was an increase in the sales of innovative international connectivity services, (+6.7% compared to 2001), in line with the growth trend of the market.

■ National network

The national network in statistics at December 31, 2002 is as follows.

Exchange areas	about 10,400
Switching areas	615, served by 628 Line Stages (LS)
Gateway areas	33, served by 66 Transit Group Stages (TGS)
Copper access network	104.3 millions of kilometers-pair
Fiber optic access network	417,000 kilometers-line
Fiber optic carrier network	3.18 million of kilometers-line
Direct dialing circuits	3.6 million
Network for direct digital circuits	511,600 access points with speed up to 2 Mbit/s
Frame Relay accesses	about 71,500 gates at 2 Mbit/s
PoP main data networks	32

As far as the national network is concerned, during 2002, infrastructures and operation systems were improved, in particular, by the development of the infrastructure supporting broadband services. The following activities are worthy of note:

National Backbone	The migration of long-distance phone traffic from a backbone based on circuit technologies to the innovative one based on IP technologies began. In 2002, work began to integrate the voice and data network platforms with the migration of voice traffic to the Rome-Milan route on the innovative IP network; the project is scheduled for completion in 2004
ADSL	In 2002, the ADSL network was extended to increase the coverage of the ADSL service to more than 74% of Internet users in 1,300 towns with 2,120 exchanges
SHDSL	New technology is making it possible to supply services at up to 2 Mbit/s by using a single two-pair copper cable

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Gigabit Ethernet	Work continued to create a network to support the marketing of services based on Gigabit Ethernet technology (Ethernity and Hyperway MPLS services)
W-LAN	The broadband wireless LAN service for private users was introduced
Open Multimedia Platform	The Open Multimedia Platform (Content Delivery Network) was introduced, making it possible to accelerate the distribution time of Web content by repetition on the network server
Carrier network	17 more SDH rings were realized for the network infrastructure called Arianna involving links between the regional networks and the national transmission backbone. The national 96-fiber T-bone fiber optic cable infrastructure using new technology linking the largest Italian cities has been completed along the main line of Turin-Venice and Milan-Palermo via Genoa-Florence-Rome-Naples, and via Bologna-Ancona-Bari. 32-fiber optic wavelength division multiplexer systems (DWDM) have been introduced at the speed of 40 times 10 Gbit/s
Organization of operating activities	Within the framework of striving to improve the efficiency and quality of service, the Single Work Center (CLU) project has been completed for the integration of work centers (which are no longer specialized according to the type of activity) and the reduction of the number of centers from 331 to 148. The Work Force Management (WFM) and Trouble Ticket Management (TTM) platform has now been spread to all the work centers. The organization of network platform supervision and control has been centralized and the number of national centers has been reduced from 11 to 5. The delivery and assurance processes were re-engineered and optimized
Value-added voice services	With regard to VAS voice services, implemented through the Intelligent Network, numerous new services were created, particularly in the field of Public Telephone Services, games and Customer Operation

■ International network

The international network in statistics at December 31, 2002 is as follows.

Network operator directly connected	237
- Countries connected by direct dialing	220 (more than 9 satellite destinations)
- Countries connected by ISDN	53
Switching exchanges	9 (5 in Milan, 3 in Rome and 1 in Palermo)
Extent of European backbone	36,600 kilometers-line
Bands	2 rings of 60,000 Mbit/s

As far as the international network is concerned, services continued to be activated on the new infrastructures and operating systems developed in 2001. These were carried out in geographical areas with a strong growth in demand for capacity and of strategic importance, thanks partly to interconnection with MED and LAN networks.

At the end of 2002, integrated voice/data POPs in Europe and the U.S.A. were nine, in Amsterdam, Brussels, Frankfurt, London, Milan, Paris, Vienna, Zürich and Newark. The submarine cable network is now approximately 360,000 km long. Highlights during the year include:

Pan European Backbone	Activation of the pan-European regional network, which connects nine countries (Austria, Belgium, France, Germany, Italy, Holland, Spain, Switzerland and Great Britain) with high-speed optical fibers and a ring structure which will guarantee the self-protection of traffic should a fault occur on any given section. Activation of cross-border services for wholesale customers such as Managed Bandwidth (transmission capacity services), IP connectivity (international IP connectivity services), international phone services (transport and delivery of international phone traffic, also using ATM technology) and GRX (GPRS Roaming eXchange for IP interconnection between GPRS mobile operators) which are now fully operational.
LAN (Latin American Nautilus)	Activation of the final configuration of the LAN ring network, which connects eight junctions in Latin America, including Rio de Janeiro, São Paulo, Buenos Aires and Santiago, to the American junctions in Miami and New York.
MED (Mediterranean Nautilus)	Work continued on the "Mediterranean Nautilus" project, the submarine optical fiber ring network which will connect Italy, Greece, Turkey and Israel, with the completion (in the configuration which ensures self-protection of the traffic) of the ring which connects the points of Catania (Sicily), Chania (Crete), Haifa (Israel) and Tel Aviv (Israel).
TINA (Telecom Italia of North America)	Within the framework of the international development of the Telecom Italia network, POPs were installed in Newark (NJ) and Miami, making it possible to expand and extend the commercial range of services currently active on the Pan-European PEB network (IP connectivity, wholesale phone services and Managed bandwidth) to North America and, through Miami, also to those of South America (LAN). Furthermore, work began to augment capacity on the trans-Atlantic route (EU-USA).

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■ EVENTS SUBSEQUENT TO DECEMBER 31, 2002

Events already described in the section "Subsequent events" are listed below :

- New broadband network infrastructure:** in February 2003, Telecom Italia announced the start of an important project to create a new broadband network infrastructure able to distribute hi-tech multimedia services. This initiative will make it possible to adapt telephone exchanges to new technologies through the gradual replacement of current connection systems with apparatus of the new generation.
 The construction of this project was awarded by Telecom Italia to Marconi which won the bid worth more than euro 80 million under a two-year agreement, in keeping with the wide-ranging investment plan that Telecom Italia has set up for developing broadband technologies. Marconi will build the new network infrastructure together with Italtel which will supply its switching technologies and professional services. Thanks in particular to its Access Hub technology, Marconi will make it possible to distribute many services to the clientele, including xDSL, conventional and ISDN telephone services that are able to interact both with conventional exchanges and with new-generation systems based on IP protocols.
- Approval of the 2002 interconnection price list by the National Regulatory Agency**
 On February 27, 2003, the Infrastructures and Networks Commission of the National Regulatory Agency approved the interconnection price list for 2002, currently being announced, which Telecom Italia must apply to competing operators for the use of its network with regard to Interconnection Services for traffic, Billing Services with the risk of non-payment by Telecom Italia subscribers for access to non-geographical numbers and Unbundling Local Loop Access Services. The economic effects are included in the 2002 financial statements.

■ MAJOR SUBSIDIARIES



Atesia S.p.A.

Held by: Telecom Italia 100.0%

The company operates in the sector of telemarketing and market research.

The table shows the key economic highlights:

(millions of euro)	2002	2001	Change (%)
Sales and service revenues	98	83	18.1
Gross operating profit	38	40	(5.0)
Operating income	32	36	(11.1)

Activities during 2002:

- creation and operation of the first CRM platform and opening of two new Call Centers (about 700 operating stations) to manage the growth of Telecom Italia's business.



Path.Net S.p.A.

Held by: Telecom Italia 99.99%, IT Telecom 0.01%

The company is responsible for the development and management of the single Public Administration (R.U.P.A.) network.

The table shows the key economic highlights:

(millions of euro)	2002	2001	Change (%)
Sales and service revenues	93	79	17.7
Gross operating profit	5	3	66.7
Operating income	4	1	°

Activities during 2002:

- growth of access and transmission band services compared to 2001
- stipulation of eight important new contracts with the Public Administration (at year-end there were 64 active contracts).

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TMI Group - Telemedia International Italia (Telecom Italia Sparkle as from December 31, 2002)

Held by: Telecom Italia 100.0%

During 2002, the group was reorganized as a result of the contribution of the "International Wholesale Services" business segment of Telecom Italia – Domestic Wireline. It also changed its name to Telecom Italia Sparkle.

The table shows the key economic highlights, which refer exclusively to the former TMI – Telemedia International Italia group, since the contribution of the business segment took place on December 31, 2002:

(millions of euro)	2002	2001	Change (%)
Sales and service revenues	19	91	(79.1)
Gross operating loss	(30)	(53)	43.4
Operating loss	(43)	(126)	65.9

Activities during 2002:

- With reference to the reorganization described above, the economic and financial data for 2002 are not significant

Latin American Nautilus Group

Held by: Telecom Italia 70.0%, Entel Bolivia 10.0%, Entel Chile 10.0%, Tel. Arg. 10.0 %

The group ensures the transport of traffic and the supply of transmission capacity for wholesale customers in Latin America.

The table shows the key economic highlights:

	2002 (millions of euro)	2001 (millions of euro)	2002 (millions of US\$)	2001 (millions of US\$)	Change in US\$ %
Sales and service revenues	29	3	28	3	°
Gross operating profit (loss)	11	(26)	11	(24)	°
Operating loss	(6)	(27)	(6)	(24)	75.0

Activities during 2002:

- The group network has been fully operational since the first quarter of 2002. Activities during the year focused on extending the customer base and developing new products and services

Mediterranean Nautilus Group

Held by: Telecom Italia 62.51%, Telecom Italia International 7.49%

The group ensures the transport of traffic and the supply of transmission capacity for wholesale customers in the Eastern Mediterranean.

The table shows the key economic highlights:

	2002 (millions of euro)	2001 (millions of euro)	2002 (millions of US\$)	2001 (millions of US\$)	Change in US\$ %
Sales and service revenues	64	54	61	48	27.1
Gross operating profit	26	20	24	18	33.3
Operating income (loss)	56	(20)	53	(17)	°

Activities during 2002:

- completion of the creation of the submarine fiber optic link being built between Catania, Chania (Crete), Haifa and Tel Aviv (Israel) and the start of traffic carrier activities
- completion of the landing stations in Catania, Athens, Crete and of a Telehouse in Athens
- delivery of a new cable-laying vessel to update the fleet

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Med-1 Group

Held by: Telecom Italia 23.17%, Telecom Italia International 27.83%

The group is responsible for installing land-based and submarine networks in the area of the Middle East.

The table shows the key economic highlights:

	2002 (millions of euro)	2001 (millions of euro)	2002 (millions of US\$)	2001 (millions of US\$)	Change in US\$ %
Sales and service revenues	20	13	19	12	58.3
Gross operating profit	12	2	12	1	°
Operating income (loss)	4	(5)	4	(5)	°

Activities during 2002:

- management of the laying of the Lev-1 (Israel-Cyprus-Italy) fiber optic submarine network and integration of the land network

Pan European Backbone

Held by: Telecom Italia Sparkle 100.00%

This is a group of companies responsible for the transport of traffic and the supply of transmission capacity for wholesale customers in Europe.

The table shows the key economic highlights:

(millions of euro)	2002	2001	Change (%)
Sales and service revenues	27	19	42.1
Gross operating profit	18	13	38.5
Operating income	6	7	(14.3)

Activities during 2002:

- completion of the Vienna junction and consolidation of commercial activities with the aim of supplying wholesale customers with Managed Bandwidth services (transmission capacity services), IP Connectivity, international phone services and GRX (GPRS Roaming eXchange)

Intelcom San Marino S.p.A.

Held by: Telecom Italia International 70.00%

The company operates under a concession for international telephone services in the Republic of San Marino. In addition, it offers value-added services connected with the sale of international connections, as well as data-transmission, hosting and housing and Internet-access services.

The table shows the key economic highlights:

(millions of euro)	2002	2001	Change (%)
Sales and service revenues	25	41	(39.0)
Gross operating profit (loss)	(1)	2	°
Operating income (loss)	(11)	1	°
Volume of traffic handled (millions of minutes)	166	304	(45.4)
Internet customers at year-end (thousands)	5.3	4.6	15.2

Activities during the 2002:

- The company is currently working out an organizational restructuring plan and a commercial repositioning plan

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MOBILE

- ▶ Growth of revenues and improvement in profitability margins
- ▶ Confirmation of leadership on the domestic market
- ▶ Launch of GSM service in Brazil
- ▶ Completion of non-core asset divestiture program
- ▶ Completion of integration of the former company Blu S.p.A.

■ THE BUSINESS UNIT

The Mobile Services Business Unit (TIM group) operates in the sector of national and international mobile telecommunications. Its international presence is concentrated in Latin America and in the Mediterranean Basin.

During 2002, the spread of wireless telephone services throughout the world continued at a steady pace. The number of customers exceeded the billion mark, with penetration of the population at close to 20%. In this scenario, Italy is a market that can now be considered saturated (with a penetration rate of more than 90%) whereas Latin America, with approximately 100 million customers and a level of penetration of approximately 20%, is a market with enormous potential (growth in 2002 was higher than 20%).

■ THE STRUCTURE OF THE BUSINESS UNIT

The Business Unit is organized as follows:



■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

The year 2002 was marked by:

- the sale of BDT (Bouygues Decaux Telecom, a 19.61%-owned affiliate, the group holding company of the French operator Bouygues Telecom), for proceeds of euro 750 million and a gain of euro 484 million;
- the sale of Autel (a 100%-owned subsidiary which holds a 25% stake in the Mobikom Austria group) to Telekom Austria, for proceeds of euro 756 million and a gain of euro 163 million;
- the sale of Auna, for proceeds of euro 240 million and a gain of euro 198 million;
- the purchase of 17.45% of the ordinary share capital of Stet Hellas for euro 108 million, bringing the stake held by TIM International to 81.40%;
- the purchase of 10% of the ordinary share capital of Digitel for euro 32 million, bringing the stake held by TIM International to 66.56%;
- the purchase of 100% of the share capital of Blu, later absorbed by TIM S.p.A.

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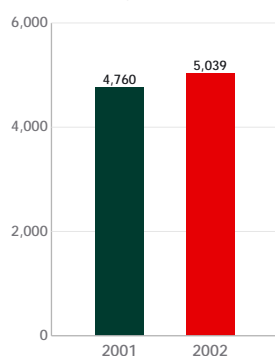
These transactions had no significant effect on the scope of consolidation in that the companies sold had been valued using the equity method, whereas the acquisition of Blu, consolidated in the Mobile Business Unit for the fourth quarter of 2002 only, had no meaningful impact on the results of operations or on the financial condition.

■ ECONOMIC AND FINANCIAL DATA

The following table shows the key results in the 2002, compared to those in 2001.

	2002	2001	Change (a) - (b)	
	(a)	(b)	amount	%
Gross operating profit (millions of euro)				
Sales and service revenues	10,867	10,250	617	6.0
Gross operating profit	5,039	4,760	279	5.9
% on Revenues	46.4%	46.4%		
Operating income	3,358	3,136	222	7.1
% on Revenues	30.9%	30.6%		
Investments:				
- industrial	1,715	3,151	(1,436)	(45.6)
- difference on consolidation	196	31	165	°
Employees at year-end (number)	18,702	16,721	1,981	11.8

Gross operating profit



In 2002, *sales and service revenues* amounted to euro 10,867 million, an increase of euro 617 million (+6% compared to 2001) despite the effects deriving from the weakness of the Brazilian and Venezuelan currencies. Excluding the effect of the changes in the exchange rates, the increase in revenues would be +11.9% compared to the prior year.

The growth in revenues can mainly be attributed to Italy (+6.7%).

In addition, the TIM Brasil group reported revenues of euro 39 million generated by the GSM service launched in the fourth quarter of 2002.

In 2002, the *gross operating profit* was euro 5,039 million, with an increase of euro 279 million (+5.9% compared to 2001). As a percentage of revenues, the *gross operating profit* was 46.4% (46.4% in 2001). Excluding the effect of the changes in the exchange rates, the growth of the gross operating profit would be +8.6% compared to the prior year, and can mainly be attributed to the positive performance reported by TIM S.p.A. (+euro 304 million), Stet Hellas (+euro 67 million) and to the improvement in the results, albeit still negative, of TIM Perù (+euro 26 million).

Operating income in 2002 was euro 3,358 million, an increase of euro 222 million (+7.1% compared to 2001) and, as a percentage of revenues was 30.9% (30.6% in 2001). The increase in the operating income can mainly be attributed to the positive results of TIM S.p.A. (+euro 213 million) and Stet Hellas (+euro 42 million) which compensates for the deterioration in the operating income of the TIM Brasil group (euro 45 million) due to expenses incurred for start-up operations.

Since the financial statements of TIM S.p.A. include the economic and financial results for the whole of 2002 of the former company Blu S.p.A., for the purposes of consolidation the economic and equity situation of TIM S.p.A. has been adjusted to eliminate the effects of the merger with Blu as regards pre-acquisition transactions. Furthermore, the economic and equity situation of TIM S.p.A. has been adjusted to account for tax interference mainly for the amortization taken on the UMTS licenses.

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Industrial investments in 2002 amounted to a total of euro 1,715 million, with a decrease compared to 2001 of euro 1,436 million, relating to the considerable investments made in 2001 for the acquisition of telecommunications licenses and for the start-up and development of foreign subsidiaries and affiliates.

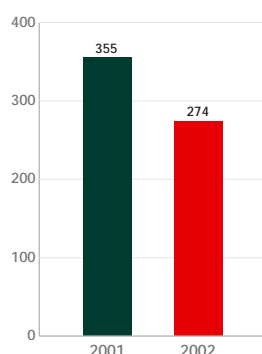
At December 31, 2002, *employees* numbered 18,702 with an increase of 1,981 compared to December 31, 2001 due both to the acquisition of Blu S.p.A. and the increase in the number of employees of the South American companies connected, amongst other things, with the launch of the GSM service in Brazil.

For a description of operations, please refer to the comment on the parent company TIM and the individual consolidated companies.

■ ECONOMIC AND FINANCIAL DATA FOR MOBILE OPERATIONS IN SOUTH AMERICA

The following table shows the key economic and financial highlights of the Mobile BU operations in Latin America, coordinated by Latin America Operations (LAO).

Gross operating profit



	2002	2001	Change (a) - (b)	
(millions of euro)	(a)	(b)	amount	%
Sales and service revenues	1,298	1,403	(105)	(7.5)
Gross operating profit	274	355	(81)	(22.8)
% on Revenues	21.1	25.3		
Operating loss	(98)	(72)	(26)	(36.1)
% on Revenues	0	0		
Investment:				
- industrial	541	1,662	(1,121)	(67.4)
- difference on consolidation				
Employees at year-end (number)	7,050	5,678	1,372	24.2

In 2002, the operations of the Mobile Business Unit in Latin America generated *revenues* of euro 1,298 million, with a decrease of 7.5% compared to 2001, and can mainly be attributed to the effect of changes in the exchange rates resulting from the weakening of the Brazilian and Venezuelan currencies.

Gross operating profit for 2002 amounted to euro 274 million, with a decrease of 22.8% compared to 2001. This was due mainly to expenses incurred for start-up activities.

Operating income for 2002 was a loss of euro 98 million.

In 2002, *industrial investments* amounted to euro 541 million, with a decrease compared to 2001 of euro 1,121 million. The decrease can be correlated to the aforementioned investments made in 2001 to acquire PCS telecommunications licenses in Brazil and the start-up and development of foreign subsidiaries. In particular, on October 18, following the concession of authorization from Anatel, the Brazilian Regulatory body for telecommunications, the TIM group launched a commercial plan for the GSM mobile telephone service throughout the Brazilian territory.

At December 31, 2002, *employees* numbered 7,050, an increase of 1,372 compared to December 31, 2001 which can mainly be attributed to the increase of employees associated with the above-mentioned launch of the GSM service in Brazil.

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■ TELECOM ITALIA MOBILE S.P.A. (PARENT COMPANY)

Held by: Telecom Italia 54.82%, TI Finance 0.17%

The following table shows the key economic highlights. Since the 2002 economic results of TIM S.p.A. also include those of the merged company Blu, for purposes of comparison with the figures of the prior year, the results are also shown net of Blu.

	2002 TIM excluding BLU (a)	2002 BLU (b)	2002 TIM POST- MERGER (*) (a + b)	2001 TIM (c)	Change % (a - c)
(milioni di euro)					
Sales and service revenues	8,915	213	9,022	8,357	6.7
Gross operating profit (loss)	4,529	(125)	4,404	4,225	7.2
Operating income (loss)	3,323	(170)	3,153	3,231	2.8

(*) The figures are net of any intercompany eliminations.

The comments on the key economic and financial results refer to data excluding the effects of Blu's operations.

The increase in *sales and service revenues* stems from higher service revenues, the VAS component of which increased by more than 41% to euro 752 million, thanks to the growth of SMS (+ 32.6%) and the increase in traffic to euro 6,845 million (+ 3.5%) especially as a result of the growth of Internet traffic.

Revenues from prepaid cards showed an increase of 19.3%.

Revenues from sales of phones, spurred on by the launch of MMS services, led to overall growth of approximately 9%.

Gross operating profit increased more than revenues, as a result of efforts to curb expenses, achieved also thanks to the considerable efforts made to improve efficiency in operating and administrative expenses.

Operating income rose by 2.8% and was affected by higher amortization and depreciation charges for the year which included:

- the amortization of the UMTS license, recorded beginning from the month of January for purposes of tax deductibility. The charge was some euro 121 million, gross of the tax effect of some euro 49 million;
- higher depreciation of fixed assets following the review of the estimates for the useful lives of the assets. Such higher depreciation, compared to the depreciation charge that would have been recorded if the previous estimated useful lives had been used, amounted to about euro 53 million.

Activities during 2002:

The following table shows the key operating highlights for 2002, compared to 2001, and the main activities carried out by each sector:

TIM - operating highlights (excluding BLU)	12/31/2002	12/31/2001
TIM lines in Italy (thousands)	25,302	23,946
Mobile traffic (millions of minutes)	36,432	33,784
GSM penetration in Italy (% of population)	99.8	99.7
E-TACS penetration in Italy (% of population)	98.0	98.0

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In 2002, TIM continued to develop innovative services with the aim of building customer loyalty and giving users greater incentives for using mobile phones. The most important initiatives are discussed below:

- TIM was the first mobile operator in Europe to launch the new **MMS** (Multimedia Messaging Service), the multimedia evolution of SMS, making it possible to send and receive, directly from and on cell phones or on PCs, messages composed by photos, images, sound and texts.
- Presentation of the Extended memory **SIM Card (64K/byte)**.
- Launch of the exclusive "**4888 Pay For Me**" service, which enables customers to charge the cost of a call to the receiver of the call (TIM cell phones and all Telecom Italia fixed phones).

■ MAJOR SUBSIDIARIES

■ EUROPE



Stet Hellas Telecommunications S.A.

Held by: TIM International N.V. 81.40%, TI Finance 0.13%

The company operates the GSM service in Greece.

The table shows the main economic and operating data:

(millions of euro)	2002	2001	Change (%)
Sales and service revenues	689	523	31.7
Gross operating profit	255	188	35.6
Operating income	131	89	47.2
Number of lines at year-end (thousands)	2,514	2,135	17.8
Market share	27%	27%	

The results achieved in 2002 confirm the positive market performance of Stet Hellas. Revenues increased by 31.7% compared to the prior year, mainly as a result of the increase in outgoing traffic and VAS services. The gross operating margin rose by 35.6% as a result of market growth, with an increase in industrial costs that was lower than the increase in revenues. The operating income was euro 131 million, an increase of 47.2%.

Activities during 2002:

- Launch of the TELEST E-bill, a service offered to subscribers through Internet
- Development of TELESTET Centers, which helped to encourage the growth of the distribution network
- Launch of the new "B Best Web SMS" service for business clientele
- Experiments with the UMTS infrastructure, currently at the testing stage

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■ LATIN AMERICA

As previously pointed out, the activities of the Mobile BU in Latin America are coordinated by Latin America Operations.



Tele Nordeste Celular Participações Group

Held by: Bitel Participações S.A. 21.18%

The group operates mobile network services in the northeast of Brazil using TDMA technology.

The table shows the main economic and operating data:

	2002 (millions of euro)	2001 (millions of euro)	2002 (millions of reais)	2001 (millions of reais)	Change in reais %
Sales and service revenues	355	416	984	876	12.3
Gross operating profit	189	198	523	416	25.7
Operating income	98	102	271	215	26.0
Number of lines at year-end (thousands)			1,926	1,758	9.6
Market share			59%	65%	

The economic results achieved in 2002 reflect a general increase compared to 2001. Revenues increased by 12.3% thanks to the expansion of telephone traffic and growth in interconnection rates which were updated by Anatel in February. The gross operating profit increased by 25.7% compared to the prior year as a result of an improvement in cost control policies. The operating income rose by 26% compared to 2001.

Activities during 2002:

- Strategy aimed at pursuing profitability and focused on the corporate segment
- Launch of programs to encourage customer loyalty and retention
- Rationalization in the operation of points of sale and with the aim of pursuing a continuous reduction of costs
- Control of investments, while pursuing the objective of maintaining an optimum level of efficiency of service



Tele Celular Sul Participações Group

Held by: Bitel Participações S.A. 20.68%

The group operates mobile network services in the south of Brazil using TDMA technology.

The table shows the main economic and operating data:

	2002 (millions of euro)	2001 (millions of euro)	2002 (millions of reais)	2001 (millions of reais)	Change in reais %
Sales and service revenues	364	423	1,010	889	13.6
Gross operating profit	152	179	422	376	12.2
Operating income	69	88	192	185	3.8
Number of lines at year-end (thousands)			1,724	1,604	7.5
Market share			61%	65%	

Positive results were reported in 2002. As in the case of Tele Nordeste Celular, revenues increased compared to 2001 (+13.6%) thanks to higher interconnection rates and greater telephone traffic. Cost control policies led to an increase in the gross operating profit of 12.2% and an improvement in the operating income of 3.8%.

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Activities during 2002:

- Implementation of strategies focused on the clientele
- Repositioning of the commercial product range for the business segment
- Growth of revenues from SMS and from value-added services
- Development of diversified sales channels



Maxitel S.A.

Held by: TIM International N.V. 58.70%, Bitel Participações S.A. 37.97%, TIM Brasil S.A. 3.33%

The group handles mobile telephone services in Brazil in the areas of Bahia Sergipe and Minas Gerais using TDMA technology.

The table shows the main economic and operating data:

	2002 (millions of euro)	2001 (millions of euro)	2002 (millions of reais)	2001 (millions of reais)	Change in reais %
Sales and service revenues	273	277	755	582	29.7
Gross operating profit	106	86	293	181	61.9
Operating income (loss)	27	(21)	74	(44)	°
Number of lines at year-end (thousands)			1,392	1,196	16.4
Market share			30%	33%	

During 2002, Maxitel reported an increase in revenues of 29.7% compared to 2001, attributed to a significant increase in telephone traffic and to the review of interconnection rates.

The increase in revenues, together with a more careful control of costs, led to growth in the gross operating profit of 61.9% and to a positive operating income.

Activities during the year:

- Special offers for subscriber customers to encourage migration to new rate plans
- Commercial strategies focused on customer acquisition and retention of high-profile customers
- Expansion of the range of value-added services

Tim Celular S.A.

Held by: TIM Brasil S.A. 100.00%

The company operates mobile network services using GSM technology in the north of Brazil and in the states of São Paulo, Rio de Janeiro and Espírito Santo.

Within the framework of the corporate reorganization process, Portale Rio Norte and TIM Celular Centro Sul were merged by absorption in Portale São Paulo, which subsequently changed its name to Tim Celular.

The table shows the main economic and operating data:

	2002 (millions of euro)	2001 (millions of euro)	2002 (millions of reais)	2001 (millions of reais)	Change in reais %
Sales and service revenues	39	0	108	0	-
Gross operating loss	(170)	(16)	(472)	(33)	°
Operating loss	(188)	(16)	(521)	(34)	°
Number of lines at year-end (thousands)	0	0	293	0	-

Revenues in 2002 were generated by the launch of the GSM service in the fourth quarter of 2002. The company reported a gross operating loss and an operating loss because of start-up expenses.

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Activities in 2002:

- Implementation of the roll-out of the network and IT systems
- Organization of the sales force and the distribution channel
- Strategy focused on innovative features of the GSM service and the SIM card
- Activation of call center services



TIM Perú S.A.C.

Held by: TIM International N.V. 100.00%

The company operates mobile telephone services in Peru.

The table shows the main economic and operating data:

	2002 (millions of euro)	2001 (millions of euro)	2002 (millions of nuevo soles)	2001 (millions of nuevo soles)	Change in nuevo soles %
Sales and service revenues	93	34	308	105	193.3
Gross operating loss	(29)	(55)	(95)	(173)	45.1
Operating loss	(61)	(76)	(201)	(238)	15.5
Number of lines at year-end (thousands)			395	173	128.3
Market share			17%	10%	

In 2002, revenues increased by approximately 193% compared to the prior year, particularly as a result of the intensification of telephone traffic generated by the increase in the customer base. The gross operating result improved by 45.1% compared to 2001 thanks to higher revenues and more careful cost control. Despite the fact that the company again reported an operating loss, it improved considerably compared to the prior year.

Activities during 2002:

- Launch of new products and services, with the aim of developing voice and data traffic
- Expansion of the distribution chain and phone recharging points



Corporacion Digitel C.A.

Held by: TIM International N.V. 66.56%

The company operates mobile telephone services in Venezuela.

The table shows the main economic and operating data:

	2002 (millions of euro)	2001 (millions of euro)	2002 (millions of bolivares)	2001 (millions of bolivares)	Change in bolivares %
Sales and service revenues	177	255	260,378	173,328	50.2
Gross operating profit	35	15	51,355	10,139	°
Operating loss	(20)	(32)	(30,070)	(21,466)	40.1
Number of lines at year-end (thousands)			894	667	34.0
Market share (*)			15%	18%	

(*) The market share in 2001 cannot be compared to that in 2002 because the latter refers to the whole of Venezuela whereas the 2001 figure refers only to the central region.

In 2002, revenues increased by 50.2% compared to 2001, thanks to an increase in the number of lines. The gross operating profit improved compared to the prior year as a combined result of a decrease in the costs of services and an increase in revenues. The operating loss shows a deterioration of 40.1% which can mainly be attributed to the impact of the writedown of assets with out-of-date technology.

Activities during 2002:

- Significant changes in the architecture of the network with the choice of Nokia as the main infrastructure supplier
- Updates of prepaid services technology
- Launch of the GPRS and MMS services

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■ AFFILIATED COMPANIES

■ MEDITERRANEAN BASIN

IS TIM T.H.A.S.

Held by: TIM International N.V. 49.00%

The company operates mobile telephone services in Turkey, under the Aria trademark.

The table shows the main economic and operating data:

	2002 (millions of euro)	2001 (millions of euro)	2002 (billions of Turkish lire)	2001 (billions of Turkish lire)	Change in Turkish lire %
Sales and service revenues	83	46	141,276	58,753	140.5
Gross operating loss	(122)	(181)	(207,609)	(229,154)	9.4
Operating loss	(420)	(382)	(715,735)	(484,897)	(47.6)
Number of lines at year-end (thousands)			1,161	540	115.0
Market share			5%	3%	

The results for 2002 cannot be compared with those of 2001 because some of the revenues and costs date from the start of the operations, that is, from March 21, 2001, and thus refer to a shorter period than the twelve months of 2002.

The growth of revenues was negatively influenced by the deterioration of the macroeconomic scenario which was already in place in 2001 and by a regulatory framework which made it impossible to conclude national roaming agreements with other operators. The company succeeded in limiting the growth of consumption costs. As a percentage of revenues, the company reported a gross operating loss, but with a considerable improvement over that of the prior year. The operating loss deteriorated primarily as a result of the higher amortization and depreciation charges.

Activities during 2002:

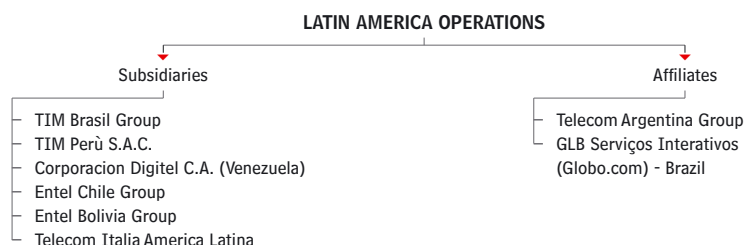
- New rate plans aimed at corporate clientele and the introduction of rates based on time frames
- Launch of new services including "pay for me"
- Continuation of the network roll-out with a significant increase in radio base stations

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SOUTH AMERICA

In May 2002, the International Operations (IOP) "Operating Activity" was disbanded. While the companies involved maintained the same corporate control structure, the companies and business segments of Telecom Italia which formerly reported to the IOP have been transferred to Domestic Wireline (Intelcom San Marino and Golden Lines), the Foreign Holdings Corporate Function (9Telecom Reseau group, BBNed group, Auna group, Telekom Austria group, Telekom Srbija, Etec S.A. and what remains of the ex IOP), while all the companies situated in Latin America are now coordinated by Latin America Operations (LAO).

LAO's structure is organized as follows:



The following comments present the key consolidated economic and financial highlights of the Entel Chile group, the Entel Bolivia group, the company Telecom Italia America Latina and the South America business segment of Telecom Italia.

The economic and financial highlights of the companies in the Tim Brasil group, Tim Perù and Corporacion Digitel are described in the section pertaining to the Mobile BU.

■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

2002 was marked by the following transactions:

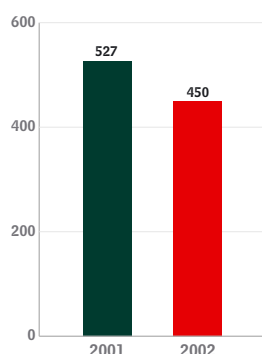
- Sale, by Telecom Italia Group of a stake in Solpart Participacoes S.A. (indirect parent company of Brasil Telecom) to other shareholders for a price of US \$47,000, which takes into account the value of the ordinary shares compared to the preferred shares based on the economic value of Solpart. Following this transaction, the Group's stake in ordinary share capital fell from 37.29% to 19.0%. As a result, the regulatory obstacle preventing the TIM group from launching a mobile telephone service based on GSM technology throughout Brazil was removed. Within the framework of this transaction, both parties have an option which can be exercised in the event certain conditions are met that will restore the shareholder position quo ante.
- on August 19, as a result of the transformation of the subsidiary Telecom Italia do Brasil Ltda, the company Telecom Italia America Latina S.A. came into being. Subsequently, on September 26, Telecom Italia S.p.A. subscribed to the share capital increase of euro 11 million voted by the subsidiary.

■ ECONOMIC AND FINANCIAL DATA

The following table shows the key highlights, restated for the purposes of comparison, of the Entel Chile group, the Entel Bolivia group, the company Telecom Italia America Latina and the South America business segment of Telecom Italia in 2002, compared to those of 2001.

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Gross operating profit



	2002	2001	Change (a) - (b)	
(millions of euro)	(a)	(b) ⁽¹⁾	amount	%
Sales and service revenues	1,409	1,534	(125)	(8.1)
Gross operating profit	450	527	(77)	(14.6)
% on Revenues	31.9%	34.4%		
Operating income	146	187	(41)	(21.9)
% on Revenues	10.4%	12.2%		
Investments:				
- industrial	216	406	(190)	(46.8)
- difference on consolidation	-	-	-	-
Employees at year-end (number)	5,461	5,746	(285)	(5.0)

(1) Figures restated for the purposes of comparison.

Sales and service revenues amounted to euro 1,409 million, with a decrease of 8.1% (– euro 125 million in absolute terms) compared to 2001. The decrease can be attributed mainly to exchange rate fluctuations (which generated a total impact of – euro 212 million, of which euro 182 million refer to the Chilean peso and euro 29 million to the Bolivian boliviano). Had this effect not been considered, consolidated revenues would have increased by 5.7%, as a result of the increase in revenues of the Entel Chile group (+12.3% in local currency). This was offset by the effects of the deregulation of the Bolivian market (Entel Bolivia reported a reduction of approximately 4.5% in local currency), and the suspension with effect from April 1, 2002 of the contribution of the management fee under the terms of the contract with Telecom Argentina.

The fluctuations described affected profitability performance. In particular, the *gross operating profit* decreased by euro 77 million (– 14.6%) compared to 2001, of which approximately euro 65 million can be attributed to the exchange effect. Excluding the exchange effect, the reduction in the gross operating profit compared to 2001 would have been 2.3% and can be ascribed to the suspension of the payment of the management fee by Telecom Argentina and lower profit margins in Bolivia that were offset by a recovery in Chile that can be attributed to improved profit margins in the mobile sector. As a percentage of revenues, the gross operating profit was 31.9% in 2002 (34.4% in the prior year).

Operating income confirms the trends already described with regard to the gross operating profit. As a percentage of revenues, the operating income was 10.4% in 2002 (compared to 12.2% in 2001).

Industrial investments show a declining trend compared to December 31 2001, with a reduction of 46.8%.

Employees numbered 5,461, with a decrease of 285 (– 5.0%) compared to December 31, 2001. This can mainly be attributed to rationalization measures adopted by the Entel Chile group and the Entel Bolivia group (reductions of – 180 and – 122 respectively compared to December 31, 2001).

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Entel Chile Group

Held by: Telecom Italia International 54.76%

The group operates in the sectors of fixed and mobile telephone services, data transmission and Internet access services in Chile.

The table shows the key economic and operating highlights 2002, compared to those of 2001:

	2002 (millions of euro)	2001 (millions of euro)	2002 (millions of pesos)	2001 (millions of pesos)	Change in pesos %
Sales and service revenues	1,223	1,251	797	710	12.3
Gross operating profit	381	374	248	212	17.0
Operating income	151	128	99	72	37.5
No. of fixed lines at year-end (thousands)			98	95	
No. of mobile customers at year-end (thousands)			2,293	1,936	
Internet customers at year-end (thousands)			513	326	

Activities during 2002:

- Despite the persisting recessive macroeconomic context in South America, in 2002, the Entel Chile group considerably improved all the economic indicators of operational profitability, consolidating its leadership position as a mobile telephone services operator and successfully implementing a fast Internet-access service using WLL technology in Chile and long distance services in Peru and Venezuela
- In August 2002, the Entel Chile group reduced the number of its employees (468 between staff and outsourcing) incurring extraordinary expenses of approximately euro 10 million



Entel Bolivia Group

Held by: Telecom Italia International through ICH/ETI 50.00%

The group operates in the sectors of wireline and mobile telephone services, Internet, data transmission, telex and telegraphy services in Bolivia.

The table shows the economic and operating highlights for 2002, compared to those of 2001:

	2002 (millions of euro)	2001 (millions of euro)	2002 (millions of bolivianos)	2001 (millions of bolivianos)	Change in bolivianos %
Sales and service revenues	186	224	1,260	1,320	(4.5)
Gross operating profit	72	92	489	545	(10.3)
Operating income	2	15	15	91	(83.5)
No of fixed lines at year-end (thousands)			50	53	
No of mobile customers at year-end (thousands)			462	368	
Internet customers at year-end (thousands)			15	12	

Activities during 2002:

- Following the deregulation of the market in November 2001, there are now 7 Long Distance and 4 mobile competitors operating in Bolivia, whereas local traffic continues to be operated mainly by pre-existing operators ("cooperativas")
In this scenario, the operating performance of the group (which formerly held the monopoly for long distance service) shows a significant reduction in revenues from wireline services (– 23% in local currency, as a result of lower volumes and price fluctuations) and a decline in profitability (the gross operating profit in local currency was – 10% compared to 2001). There was also a reduction in the market share which fell to 87% on long distance service and 71% on international long distance service. Conversely, the mobile sector showed marked growth. Revenues increased by 50% thanks to the dynamics of customers.
The company now leads the field with 52% of the market
- During 2002, the group implemented a radical rationalization plan to reduce labor costs (– 7%) and investments (– 61% compared to 2001), giving priority to the development of GSM technology in keeping with the strategies decided for South America. 2002 also saw the start-up of the xDSL service

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■ AFFILIATED COMPANIES



Telecom Argentina Group

Held by: Telecom Italia and Telecom Italia International through Nortel

Inversora 13.97%

The group operates in the sector of fixed and mobile telephone services, data-transmission and Internet-access services in Argentina.

The table shows the key economic and operating highlights:

	2002 (millions of euro)	2001 (millions of euro)	2002 (millions of pesos)	2001 (millions of pesos)	Change in pesos %
Sales and service revenues	1,127	3,558	3,983	3,188	24.9
Gross operating profit	684	1,904	2,417	1,705	41.8
Operating income	1	636	2	570	(99.6)
No of fixed lines at year-end (thousands)			3,295	3,584	
Nor of mobile lines at year-end (thousands)			2,725	2,636	
Internet customers at year-end (thousands)			177	247	

The figure for mobile lines at December 31, 2001 includes Nucleo customers.

Activities during 2002:

- The group is implementing a plan to optimize costs and investments and is making efforts to restructure the debt resulting from the serious crisis prevailing in the country
- The group maintained its leadership in the mobile sector, whereas the development of ADSL services has been slowed down by the weakness in the demand for domestic consumption

In the 2002 financial statements, the value of the investment held by Telecom Italia Group in Nortel Inversora, written off in the consolidated financial statements at December 31, 2001, has remained unchanged.

Furthermore, the Telecom Italia Group, as a result of the Nortel Inversora Shareholders' Meeting on April 25 and September 13, 2002 which gave voting rights in the shareholders' meeting to the savings shareholders and the right to appoint their own representative on the Board of Directors, has reduced its percentage of vote in the shareholders' meeting to 33.89%.

The percentage holding of ordinary share capital has remained unchanged at 50%, as well as the economic rights thereto.

Finally, as part of the plan to restructure debt, on February 12, 2003, Telecom Argentina and its subsidiary Telecom Personal announced the intention to launch an offer for a portion of its financial debt for cash and to effect a partial payment of the interest due.

The offer will be launched after the necessary approvals are received from the competent regulatory authorities.

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In order to present an overall view of **Latin America Operations (LAO)**, the following table shows the key economic and financial highlights of all the companies operating in wireline and mobile telephone services in South America in 2002, compared to those in 2001, restated for the purposes of comparison.

	2002	2001	Change (a) - (b)	
(millions of euro)	(a)	(b) ⁽¹⁾	amount	%
Sales and service revenues	2,706	2,937	(231)	(7.9)
Gross operating profit	724	882	(158)	(17.9)
% on Revenues	26.8	30.0		
Operating income	48	115	(67)	(58.3)
% on Revenues	1.8	3.9		
Investments:				
- industrial	757	2,068	(1,311)	(63.4)
- difference on consolidation	-	-	-	-
Employees at year-end (number)	12,511	11,424	1,087	9.5

◀ (1) Figures restated for the purposes of comparison.

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INTERNET AND MEDIA

- ▶ Sharp increase in profitability, gross operating profit reaches 29.8% of revenues
- ▶ Revenues gain 1.7% thanks to the positive trend of telephone publishing
- ▶ Rationalization of activities and focus on core business areas

■ THE BUSINESS UNIT

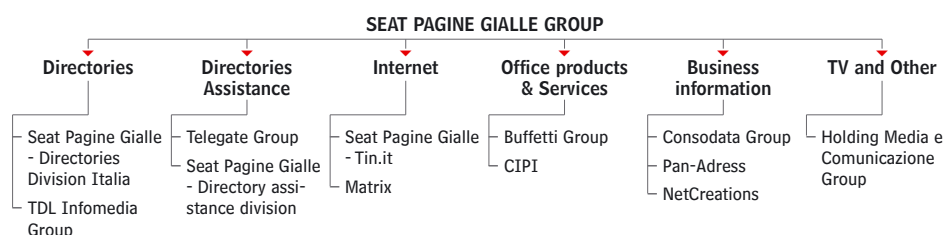
The Internet and Media Business Unit is responsible for the whole chain of value in the media sector, satisfying the public's need for information and entertainment, and the communication requirements of the business sector, through the production of traditional products on paper, and innovative products through the media of Internet, the telephone and television.

In the field of telephone publishing, the group leads the field in Italy and is the second largest telephone publishing group in the United Kingdom with a market share of 14%. In the Internet sector, Seat Pagine Gialle promotes the development of all Internet services for residential customers and for small and medium-size companies: access, portals and web services.

In Directory Assistance, the group handles the 89.24.24 Pronto Pagine Gialle 24-hour service in Italy and has a market share of more than 30% in Germany. Furthermore, in Italy, Seat Pagine Gialle is the top company in the marketing of services and products for the office and is present in the television sector with La7 and MTV Italia.

■ THE STRUCTURE OF THE BUSINESS UNIT

The Business Unit consists of the Seat Pagine Gialle group, which is organized as follows (the table shows the main consolidated companies/areas of consolidated operations):



■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

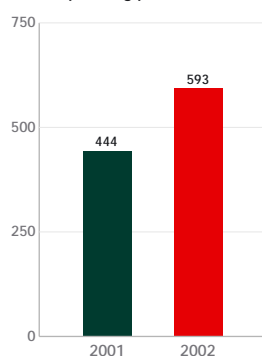
There were no significant changes in the scope of consolidation compared to 2001. Major corporate transactions during the year comprised the sale of Datahouse (Business Information) and Neoexpo (Directories) and the investments in the affiliated companies Mondus, Viasat and Roncadin. Transactions were also concluded for the rationalization and simplification of the corporate structure, particularly in the TV sector.

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■ ECONOMIC AND FINANCIAL DATA

The table shows the key highlights for 2002, compared to those for 2001.

Gross operating profit



	2002	2001	Change (a) - (b)	
(millions of euro)	(a)	(b)	amount	%
Sales and service revenues	1,991	1,957	34	1.7
Gross operating profit	593	444	149	33.6
% on Revenues	29.8%	22.7%		
Operating income	232	31	201	°
% on Revenues	11.7%	1.6%		
Investments:				
- industrial	81	175	(94)	(53.7)
- difference on consolidation	40	203	(163)	(80.3)
Employees at year-end (number)	7,715	9,264	(1,549)	(16.7)

Consolidated *revenues* of the Seat Pagine Gialle group for 2002 showed an increase of 1.7% to euro 1,991 million compared to 2001. The largest contributor to the increase was telephone publishing activities, which rose by 3.4%.

Gross operating profit reported an increase of 33.6% to euro 593 million (equal to 29.8% of revenues), while *operating income* rose from euro 31 million in 2001 to euro 232 million in 2002. These figures – despite the persisting crisis in the advertising market – are the result of the initiatives launched by management which, in a particularly difficult economic context, concentrated on rationalizing activities, curbing costs and applying selectivity in its initiatives. In particular, during 2002, important improvements in efficiency were achieved in the areas of Internet, Directories and Directory Assistance (which, together, constitute 73% of aggregate revenues). For the first time, all the areas of operations generated a gross operating profit (with the sole exception of Television, where, however, there were lower losses than in 2001).

A more effective capital allocation policy made it possible to reduce *industrial investments* by 53.7% (from euro 175 million in 2001 to euro 81 million in 2002). The reduction of 80.3% in *investments in difference on consolidation* (from euro 203 million in 2001 to euro 40 million in 2002) reflects fewer purchases of consolidated investments effected in 2002.

Rationalization measures led to a reduction in the number of *employees* of 1,549 compared to December 31, 2001, from 9,264 to 7,715.

■ INFORMATION ON OPERATIONS

During 2002, in addition to achieving significant improvements in efficiency, Seat Pagine Gialle strengthened its position on the markets in which it operates thanks to a dynamic sales strategy and to its portfolio of highly acclaimed trademarks. The business of the group was characterized by:

- New definition of internal activities and processes and the introduction of a new commercial group structure;
- Launch of new telephone publishing products on paper and the constant development of on-line products (telephone and Internet) as part of the process of integrating the various media;
- Revision of the range of text products proposed by the Virgilio portal and a more effective use of its search tool by offering outgoing priority and listing on the results of searches (PG Net product);

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- Entry of Telegate on the British Directory Assistance market, in collaboration with Thomson;
- Collaboration with Telecom Italia Domestic Wireline for the range of integrated content and services in the Alice ADSL subscription package;
- Collaboration on content between the areas of Internet and Television.

For a description of operations during 2002, please refer to the comments on the parent company Seat Pagine Gialle and its main consolidated companies, presented below.

■ EVENTS SUBSEQUENT TO DECEMBER 31, 2002

- In January 2003, the remaining 34% stake was acquired in Teleprofessional. As a result of this transaction, the company is now 100%-owned by Seat Pagine Gialle.
- On February 12, 2003, Seat Pagine Gialle purchased 1,108,695 ordinary shares of the French subsidiary Consodata S.A. – listed on the Nouveau Marché of the Paris Stock Exchange – following the sale option exercised by the founding shareholders to which they were entitled on the basis of the agreement signed originally with the previous management of Seat Pagine Gialle on July 31, 2000. As a result of this transaction, after payment of the agreed consideration of euro 44 per share – for a total amount of some euro 48.8 million – Seat Pagine Gialle acquired a further 8.17% stake and voting rights in the company, thus increasing its stake in Consodata S.A. to 98.60%.



■ SEAT PAGINE GIALLE (PARENT COMPANY)

Held by: Telecom Italia 53.21%, TI Finance 2.03%, IT Telecom 0.02%

The company operates in the sectors of telephone publishing and the Internet.

The table shows the economic highlights for 2002, compared to those for 2001.

(millions of euro)	2002	2001	Change (%)
Sales and service revenues	1,152	1,090	5.7
Gross operating profit	545	505	8.0
Operating income	348	285	22.1

Activities during 2002:

Telephone publishing	Pagine Bianche	Introduction of the Pagine Bianche name to replace the old directories
	Pagine Gialle	Launch of graphics restyling and innovations in content
	PG on line	Sharp increase in the customer base (+18%), integration with PG Net, a new product offering listing on the Virgilio search engine
	Tuttocittà	Service supplying maps of Italian cities on-line
Internet	Dial up	Growth of 6.3% in the number of users to 1.8 million despite migration towards ADSL
	ADSL	Extension of the product range, introduction of ADSL based on consumption and marked increase in the customer base (Alice+Tin.it), more than tripled compared to 450,000

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■ MAJOR SUBSIDIARIES



TDL Infomedia Group

Held by: Seat Pagine Gialle 99.73%

The group operates in the telephone publishing sector and is the second-largest publisher of directories in the United Kingdom.

The table shows the economic highlights for 2002, compared to those for 2001.

(millions of euro)	2002	2001	Change (%)
Sales and service revenues	154	151.2	1.8
Gross operating profit	52	48.4	7.4
Operating income	20	19	5.3

Activities during 2002:

- 173 Thomson Local editions were published and distributed, the same number as in 2001
- Growth in the customer base of paper editions by 4% to 92,791
- Development of the plan to relaunch the yellow pages activities on line (Thomweb)
- Growth of business information services



Telegate Group

Held by: Seat Pagine Gialle 78.44%

The group operates in the sector of Directory Assistance, mainly in Germany and Italy.

The table shows the key economic highlights for 2002, compared to those for 2001.

(millions of euro)	2002	2001	Change (%)
Sales and service revenues	116	135	(14.1)
Gross operating profit	14	(12)	°
Operating loss	(3)	(32)	90.6

Activities during 2002:

- Rationalization of Telegate activities in Germany, given the very difficult market situation
- Start-up of operations in the United Kingdom following deregulation and in collaboration with Thomson



Matrix S.p.A

Held by: Finanziaria WEB 66.0%, Seat Pagine Gialle 0.7%, NV Vertico 33.3%

The company operates in the Internet sector.

The table shows the key economic highlights for 2002, compared to those for 2001.

(millions of euro)	2002	2001	Change (%)
Sales and service revenues	28	26	7.7
Gross operating loss	(7)	(39)	82.1
Operating loss	(15)	(46)	67.4

Activities during 2002:

- New definition of range of activities and strengthening of the company's competitive position (reach of 63% compared to approximately 61% the prior year)
- Complete review of the text and graphics of the Virgilio portal and the launch of the pay-service Virgilio Più
- Introduction of PG Net (a new service offering outgoing priorities and listing on the Virgilio search tool for a fee) with almost 33 thousand on-line customers after 6 months of activity

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Buffetti Group

Held by: Seat Pagine Gialle 100.0%

The group operates in the sector of products and services for the office.

The table shows the key economic highlights for 2002, compared to those for 2001.

(millions of euro)	2002	2001	Change (%)
Sales and service revenues	253	239	5.9
Gross operating profit	11	11	-
Operating income	5	4	25

Activities during 2002:

- Repositioning towards products with greater added value, with the introduction of print on demand and the digital signature, development of software and the ADSL subscription plan
- Strengthening of the market position of Cipi (promotional gifts), generating revenues of euro 27 million



Consodata Group

Held by: Seat Pagine Gialle 90.42%

The group operates in the sector of business information in the French market.

The table shows the economic highlights for 2002, compared to those for 2001.

(Figures restated for the purposes of comparison):

(millions of euro)	2002	2001	Change (%)
Sales and service revenues	83	82	1.2
Gross operating profit	7	4	75.0
Operating loss	(5)	(13)	61.5

Activities during 2002:

- During the first half of the year a plan was started to rationalize operations and relaunch commercial activities

Holding Media e Comunicazione Group

Held by: Seat Pagine Gialle 100.0%

The group operates in the sector of radio and television broadcasting.

The table shows the key economic highlights for 2002, compared to those for 2001.

(millions of euro)	2002	2001	Change (%)
Sales and service revenues	88	85	3.5
Gross operating loss	(45)	(75)	40.0
Operating loss	(64)	(99)	35.4

Activities during 2002:

- Repositioning of the television broadcasting channel La7 with new programming and programs starting March 2002, and significant development of MTV Italia
- Consolidation of geographical coverage and the percentage of the population served by the signal distribution network
- Agreement with Cairo Communication to collect advertising business with a guaranteed minimum on channel La7 with effect from 2003
- Collaboration with the Virgilio portal for news

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INFORMATION TECHNOLOGY MARKET

- ▶ Action to improve efficiency and reduce the cost of orders in a shrinkage market with falling prices
- ▶ Relaunching of commercial dealings with all high-profile customers and acquisition of strategic new customers in the sphere of the Public Administration, banks, insurance companies and transport

■ INTRODUCTION

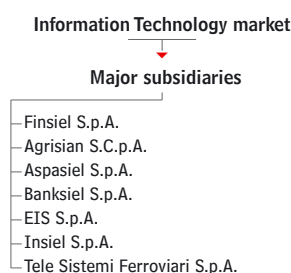
The Information Technology Market Business Unit was created in the early months of 2002 with the aim of focusing the activities previously concentrated in the Information Technology Services BU according to the type of customer.

The BU is responsible for organizing the information technology activities of the Group towards the external market, in particular, Central and Local Public Administrations moving towards decentralization and e-government, as well as banks, insurance companies and industry. Its product range covers the whole chain of value of information services. The IT Market BU creates solutions and services around platforms and products of the main market vendors. Customers' problems are solved in one of three possible ways: by acquiring existing solutions on the market, developing special solutions, or by integrating components offered by Finsiel with typical market platforms (including Microsoft, SAP and Oracle).

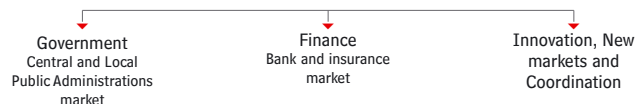
The year 2002 was marked by growth in the IT services market on a global scale, although growth was more restrained and tended to contract more compared to the prior year. The negative economic situation and the stagnation of the IT market, which affected all operators, and the acquisition of new orders and new customers at lower prices than in the past, obliged companies in the Finsiel group to adopt far-reaching measures to reduce costs and improve efficiency.

■ THE STRUCTURE OF THE BUSINESS UNIT

The Business Unit, which is represented by the Finsiel group, is organized as follows:



On October 22, 2002 a new organizational structure became operational in the IT Market BU, organized according to the following functions which have the task of guaranteeing activities relating to the design, development, operation and marketing of IT products/solutions for each respective reference market:



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■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

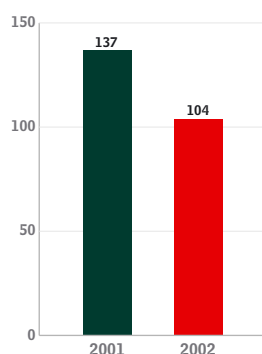
The following major corporate events and changes in the scope of consolidation took place during the year:

- Sale, in February 2002, of the investment in Lottomatica (18.33%) by Finsiel to Tyche S.p.A., through the tender of its shares in the tender offer.
- Creation, in May 2002, of Sogei Servizi Innovativi and Tecnologici S.p.A. (Sogei 51% and Finsiel 49%). The business purposes of these companies is to obtain and realize initiatives geared to the operation and development of businesses connected with Information Communication Technology (ICT) in the fiscal sector. Furthermore, on July 25, 2002, the company voted a capital increase to be paid partly in cash and partly in kind. The cash increase was subscribed to by Finsiel while the increase in kind was carried out by Sogei by contribution of its "ETI" business segment. Sogei IT, as a result of the sale of Sogei S.p.A., became an affiliated company and is valued using the equity method.
- Sale, in June 2002, of the investments held by Finsiel in Netikos (75%), Netsiel (31.35%) and Telesoft (40%) to IT Telecom.
- On July 10, 2002, Finsiel sold the investment (40.41%) in the affiliated company Informatica Trentina to Deda S.r.l.. The transfer of the shares took place on November 21, 2002.
- On July 31, 2002, Finsiel sold 100% of the share capital of Sogei to the Ministry of Economy and Finance – Department of Fiscal Policy, with the relative transfer of the shares. For purposes of the consolidation of the ITM Business Unit, Sogei's statement of income was consolidated up to June 30, 2002.
- On August 2, 2002, the company AGRISIAN - Consulenza e Servizi per l'Agricoltura S.C.p.A., was set up; Finsiel has a 50.86% stake. The company administers a five-year contract with the Ministry for Agriculture and Forestry Policy also on behalf of AGEA (Agency for Agriculture Disbursements). The company was consolidated from the month of August.
- On August 2, 2002, Finsiel signed a contract for the sale of 100% of the capital of Consiel to World Investment Partners S.A. The company was deconsolidated beginning September 1, 2002, while the transfer of shares took place on October 3, 2002.

■ ECONOMIC AND FINANCIAL DATA

The table shows the key highlights for 2002, compared to those for 2001, restated for the purposes of comparison.

Gross operating profit



	2002	2001	2001	Change (a) - (b)	
(millions of euro)	(a)	(b) ⁽¹⁾		amount	%
Sales and service revenues	912	960	1,198	(48)	(5.0)
Gross operating profit	104	137	166	(33)	(24.1)
% on Revenues	11.4%	14.3%	13.9%		
Operating income	61	100	123	(39)	(39.0)
% on Revenues	6.7%	10.4%	10.3%		
Investments:					
- industrial	30	28	30	2	7.1
- difference on consolidation	-	1	1	(1)	(100.0)
Employees at year-end (number)	4,493	4,810	6,441	(317)	(6.6)

⁽¹⁾ Restated for the purposes of comparison. Note that Sogei is included in the scope of consolidation for only the first six months of 2001 and Consiel for only the first eight months of 2001.

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Sales and service revenues, in 2002, decreased by euro 48 million compared to the prior year which was restated for purposes of comparison. A contributory factor to the decrease was a contraction in the revenues of Finsiel, Consiel and Banksiel, resulting from both lower volumes and a reduction in prices with the most important customers. This was offset by an increase in the operations of Intersiel and Insiel both for core customers and as a result of the acquisition of new customers in the Local Public Administration market.

The profitability of the IT Market BU, both in terms of the *gross operating profit* and the *operating income*, decreased as a result of the already-mentioned reduction of prices on some contracts which were renewed during the year, and the new bids won with lower contract prices, that were only partly offset by cost cuts and improved levels of efficiency. The reduction can mainly be attributed to the lower profit margins of Finsiel, Consiel and Tele Sistemi Ferroviari on outsourcing activities for companies in the Ferrovie group.

Industrial investments were much in line with those in the prior year.

The number of *employees* of the IT Market BU fell by 317 compared to the figure at December 31, 2001, adjusted for the purposes of comparison, and can mainly be attributed to Finsiel. The reduction was the result, on the one hand, of the sale by Finsiel of the "Personnel Administration" business segment to Tess S.p.A., and, on the other, to rationalization activities and measures aimed to improve efficiency.

■ INFORMATION ON OPERATIONS

During 2002, the range of services was rationalized through an organization focusing on the vertical markets (government, finance and enterprises).

Numerous contracts were acquired, including the following:

- **Finsiel** stepped up its collaboration with Inps by winning the bid for new e-service services, with Consip for the document system of the Ministry of Economy and Finance and for the public employment information system. Collaboration continued with MIFAP to create the new National Agricultural Information System and with the Ministry of the Interior on the electronic identity card; at the end of 2002 Emilia Romagna and the Veneto were added to the list of customers in the field of local health services.
- **Insiel** devoted itself to new e-government initiatives: electronic personal Health Records, which can also be consulted via Internet; a system of health-care administration, based on an epidemiological and economic datawarehouse; regional CUP; a regional Coordination and Compensation Center for the Blood Plan; completion of the Territorial and Hospital Information System.
- **Banksiel**, the leading Italian company specializing in IT solutions and services for finance, has supervised the migration of information systems of banks involved in processes of combining or merging with other banks, such as Sanpaolo IMI, Banca Antoniana Popolare Veneta and Banca Popolare di Milano; it has acquired the first important customer in the sphere of insurance (Cattolica group); it has created innovative projects in the area of derivatives (Cassa di Risparmio di Firenze) and Wealth Management for Monte dei Paschi di Siena.
- **Tele Sistemi Ferroviari**, the technological partner of the companies of the Ferrovie dello Stato group, has stepped up its presence in local public transport with projects that are highly innovative from a technological point of view; in 2002 the company won three bids for electronic ticketing systems for CIVA (the consortium of companies providing transport in the Province of Varese), ASM of Pavia and the Autonomous Province of Trento. It was also involved in numerous activities for the Italian national rail network, including the electronic system for managing investment projects on the SAP platform, the start of the Traffic Information Platform for planning and operating the rail network; the extension and integration of traffic control and public information systems and development over new companies in the FS group (Centostazioni).

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■ EVENTS SUBSEQUENT TO DECEMBER 31, 2002

- Finsiel with RTI was awarded the bid to develop and operate the new **Ministry of Education Information System** in full outsourcing for five years. The group will create an information system which will be disseminated to teachers, families and students who will be able to interact with the system wherever they are, at school or at home.
- The bid was won for the creation of an **Information System for Social Services and Health Care** and a **Regional Services Card for the Lombardy Region**, under a seven-year contract, which involves the design of a network incorporating all the facilities and operators of health care and social services, as well as new services which the public can access through a Regional Health Care Card;
- Still in the field of health care, the Ministry of Health has entrusted Finsiel with the operation of the information system of the **National Transplant Center**, which Finsiel has been involved in developing over the last three years;
- The bid was awarded for the whole project to create the **portal for Italy's six-month Presidency of the European Union**.
- In mid-January, Finsiel and Oracle Italia (a subsidiary of Oracle Corporation, a world leader in creating software for businesses) signed an **agreement to use and develop vertical applications on the innovative Oracle HTB (Healthcare Transaction Based) platform**. Finsiel aims to use the HTB platform for designing new solutions for information systems of clinics and hospitals, and intends to develop approximately 60 specialized resources using Oracle technologies.

■ MAJOR SUBSIDIARIES



Finsiel S.p.A..

Held by: Telecom Italia 77.92%

The company supplies systems integration and Internet services for the Public Administration and large businesses.

The table shows the key economic highlights for 2002, compared to those for 2001:

(millions of euro)	2002	2001	Change (%)
Sales and service revenues	244	296	(17.6)
Gross operating profit	3	24	(87.5)
Operating income (loss)	(14)	16	°

Activities during 2002:

- There was a reduction in sales and service revenues in 2002, leading to a contraction of profitability indicators. This can almost exclusively be attributed to a revision of the prices applied to important customers and to the acquisition of new orders at lower prices
- The award of numerous bids and the renewal of some important contracts
- The start of initiatives geared to considerably improving the level of efficiency, by taking measures to reduce purchase costs and improve performance through a review of the organizational structure

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Banksiel S.p.A.

Held by: Finsiel 55.5%

The company is the leading Italian company in information technology for banking and finance.

The table shows the key economic highlights for 2002, compared to those for 2001:

(millions of euro)	2002	2001	Change (%)
Sales and service revenues	114	118	(3.4)
Gross operating profit	17	16	6.3
Operating income	15	11	36.4

Activities during 2002:

- Consolidation of its market share in the sphere of banking and finance through the rationalization of its range of services
- Start of a service directed at insurance companies, and acquisition of the first important customer in this new market (Cattolica Assicurazioni group)
- New organization with the aim of improving the level of efficiency and capacity to follow its clientele effectively



Insiel S.p.A.

Held by: Finsiel 52.0%

Insiel is the leading company in Italy for solutions and information services for local Public Administrations.

The table shows the key economic highlights for 2002, compared to those for 2001:

(millions of euro)	2002	2001	Change (%)
Sales and service revenues	84	81	3.7
Gross operating profit	18	17	5.9
Operating income	12	11	9.1

Activities during 2002:

- Acquisition of new contracts in the sphere of the Public Administration and Health Care Services, including the electronic identity card project for the Bolzano City Council, the Territorial Information System for Friuli-Venezia Giulia, virtual Records and, in the field of health care, the development of an information system for the administration and operation of health-care services in Friuli-Venezia Giulia, Health Care Records and the citizens Card



Tele Sistemi Ferroviari S.p.A.

Held by: Finsiel 61.0%

The company specializes in the sector of transport and logistics and is a partner of the Italian national railways, the Ferrovie dello Stato group.

The table shows the key economic highlights for 2002, compared to those for 2001:

(millions of euro)	2002	2001	Change (%)
Sales and service revenues	155	157	(1.3)
Gross operating profit	30	35	(14.3)
Operating income	20	28	(28.6)

Activities during 2002:

- Renewal of the ten-year outsourcing contract for the period 2002-2006 for ICT services for the companies of the Ferrovie dello Stato group, with lower contract payments, obliging the company to achieve higher levels of efficiency in order to maintain its levels of profitability;
- Development and innovation of its range of products with the acquisition of important customers in the local public transport sector and new companies in the Ferrovie dello Stato group (Centostazioni)

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INFORMATION TECHNOLOGY GROUP

► Creation of a new Operating Activity directed towards Group services

■ THE OPERATING ACTIVITY

The Information Technology Group Operating Activity was created in the early months of 2002 as a result of rationalizing the activities previously included in the Information Technology Services BU. It also incorporates operations of the TILAB group ⁽¹⁾.

The unit is responsible for organizing technological innovation and service information technology activities within the Telecom Italia Group, pursuing objectives that will augment efficiency, improve quality and stimulate innovation.

◀ (1) With effect from October 2002, the TILab Group came under the direct control of the Managing Director of Telecom Italia, Carlo Buora.

■ THE STRUCTURE OF THE OPERATING ACTIVITY

The Operating Activity is responsible for the companies dedicated to the Group's information systems within the framework of the plan to integrate the various companies involved.



The Operating Activity is organized as follows:



The new operating activity is organized into five production divisions:

Domestic Wireline Solutions - design and development of systems, solutions and IT applications required to oversee the Domestic Wireline business of Telecom Italia;

VAS Solutions - basic systems integrator and technological support in the evolution of innovative services for the Telecom Italia Group;

Group Solutions - design and development of systems, solutions, and IT applications required to monitor the transversal processes of the Business Units and support activities for the information systems of the Mobile Business Unit;

IT Operations and Infrastructures - creation of the IT infrastructures required for running systems, Group applications and the delivery of investment-based services for the market;

IT Architectures - design and creation of applications and infrastructure architectures, ensuring their creation and standardization.

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■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

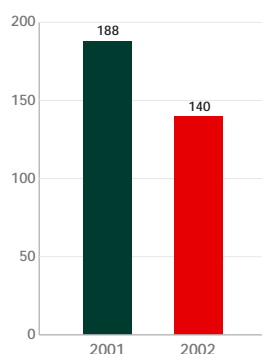
The following major corporate events and changes in the scope of consolidation took place during the year:

- On December 2, 2002, the following companies were merged by absorption in IT Telecom S.p.A. effective January 1, 2002 for accounting and tax purposes: Netsiel S.p.A., Saritel S.p.A., Sodalìa S.p.A. and Telesoft S.p.A.. The transactions previously entered into in order to the execute the mergers were the following:
 - contribution by Telecom Italia S.p.A. to IT Telecom S.p.A. of the holdings in Netsiel S.p.A. (68.65%), in Saritel S.p.A. (100%), in Sodalìa S.p.A. (100%) and in Telesoft S.p.A. (60%);
 - purchase by IT Telecom S.p.A. of the holdings held by Finsiel S.p.A. in Netikos S.p.A. (75%), in Netsiel S.p.A. (31.35%) and in Telesoft S.p.A. (40%).
- purchase by IT Telecom S.p.A., at the end of June, of the 50% stake in Webegg S.p.A. held by Olivetti S.p.A.; Webegg S.p.A. is now 69.8% controlled. The Webegg group was consolidated beginning July 1, 2002.
- Teco Soft España (100%-controlled by Telesoft S.p.A.) was sold on July 31, 2002 after the Telecom Italia group disbanded operations in Spain following the sale of Auna.

■ ECONOMIC AND FINANCIAL DATA

The table shows the key highlights for 2002, compared to those for 2001, restated for the purposes of comparison.

Gross operating profit



	2002	2001	Change (a) - (b)	
(millions of euro)	(a)	(b)	amount	%
Sales and service revenues	1,215	1,198	17	1.4
Gross operating profit	140	188	(48)	(25.5)
% on Revenues	11.5%	15.7%		
Operating income	(21)	22	(43)	°
% on Revenues	(1.7%)	1.8%		
Investments:				
- industrial	158	162	(4)	(2.5)
- difference on consolidation	28	6	22	°
Employees at year-end (number)	7,327	6,844	483	7.1

Consolidated *revenues* remained fairly stable and were affected by the fall in prices.

Gross operating profit and *operating income* were also affected by the fall in prices and showed a reduction compared to 2001.

Industrial investments are much in line with those of 2001. *Investments in difference on consolidation* in 2002 refers to the acquisition of the majority stake in Webegg.

The number of *employees* increased as a result of the change in the scope of consolidation, and was particularly affected by the acquisition of the Webegg group (+701 at December 31, 2002, and +719 at June 30, 2002).

■ INFORMATION ON OPERATIONS

2002 was marked by the completion of the merger plan for absorption of Netsiel, Saritel, Sodalìa and Telesoft by IT Telecom S.p.A., within the framework of a broader reorganization of the investments of the Telecom Italia Group, with the aim of significantly streamlining the decision-making and control chain of the Information Technology segment, in order to achieve single operations, business and organization in a unitary stand for captive TLC supplying and group factories.

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In 2002 it proved possible to focus the Business Unit on its core business, TLC, ensuring the development and application of the solutions needed for the functioning of the business and the monitoring of the technological innovation of the information systems as drivers for the development of Telecom Italia.

During the year, operations were marked by a series of initiatives geared to the following objectives:

- increasing efficiency and improving performance;
- reducing the disparate architecture and infrastructure solutions, with obvious economies of scale, strengthening the operational tool and making the best possible use of existing specific professional skills.

■ EVENTS SUBSEQUENT TO DECEMBER 31, 2002

These transactions are described in the section "Significant events":

- following the Extraordinary Shareholders' Meetings of TILAB S.p.A. and Telecom Italia, held on December 12, 2002 and December 13, 2002 respectively, TILAB S.p.A. will be merged by absorption in Telecom Italia S.p.A. The merger of Tilab and Telecom Italia is scheduled for March 2003, with effect from January 1, 2003;
- On January 27, 2003, as decided by the Board of Directors on December 19, 2002, IT Telecom acquired the real estate complex in Pomezia (Rome) S.S. 148 Pontina Km. 29,100, by paying off the lease contract with Teleleasing S.p.A. before the expiration date. The purchase price was euro 32.6 million.
- On February 21, 2003, Telecom Italia signed an outsourcing agreement with Hewlett Packard to supply asset management, help desk and maintenance and administration operations regarding 90,000 workstations. The contract, which will last for five years, will draw upon the skills of about 600 IT Telecom specialists who will be transferred to a new HP entity specialized in these services. The strategic importance of this agreement, which is worth euro 255 million and will become binding and operational once consultations have been completed with the unions and a go-ahead has been received from the Italian Antitrust Authority, will generate significant savings in the management of the distributed environment and will lead to a greater focus of the resources on Telecom Italia's core business.

■ MAJOR SUBSIDIARIES

IT Telecom S.p.A.

Held by: Telecom Italia 100.0%

The table shows the key economic highlights for 2002, compared to those for 2001:

(millions of euro)	2002	2001 ⁽¹⁾	Change (%)	
Sales and service revenues	974	967	0.7	
Gross operating profit	114	198	(42.4)	
Operating income (loss)	(13)	56	°	

◀ (1) Proforma figures

Activities during 2002:

Revenues remained virtually unchanged despite being negatively influenced by the redefinition of commercial dealings with the Domestic Wireline BU, which led to a significant reduction in prices both for IT Operations and Infrastructures, and for Domestic Wireline Solutions. This phenomenon, associated with an increase in labor costs and an increase in the consumption of raw materials and external services, led to a reduction in the gross operating profit and an operating loss.

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Webegg Group

Held by: IT Telecom 69.8%, Finsiel 30.2%

The Webegg group operates in many different spheres with a network of international partners that aims its business at positioning companies on the Internet.

The group operates mainly as a supplier of CRM systems, particularly for Telecom Italia Mobile and for third-party customers, especially Software Factory, exclusively in the banking and insurance sector.

The table shows the key economic highlights for 2002, compared to those for 2001:

(millions of euro)	2002 (*)	2001 (*)	Change (%)
Sales and service revenues	80	92	(13.0)
Gross operating profit	8	13	(38.5)
Operating income	2	7	(71.4)

(*) In 2001, the Webegg group was not consolidated in the Telecom Italia Group, whereas, in 2002, the Webegg group was included in the scope of consolidation with effect from July 1,

Activities during 2002:

Revenues showed a marked reduction, particularly in the area of Web and Internet applications owing to the performance of the reference market. Despite this, thanks to constant efforts to improve corporate efficiency, it proved possible to maintain positive profit margins. Personnel costs were the target of a far-reaching and incisive cost-saving policy, through outplacements in the areas of business which had reported the highest decline in operations.

NETikos Group

Held by: IT Telecom 100.0%

The NETikos group was founded by Telecom Italia to respond to the growing need for Internet and wireless solutions, with the aim of being a "one-stop-shop partner" that would satisfy every need with regard to Mobile Internet in such a way that would enable companies, institutions and final users to be permanently on-line and to obtain better results by using wireless applications.

(millions of euro)	2002	2001	Change (%)
Sales and service revenues	21	17	23.5
Gross operating profit	2	2	-
Operating profit	0	1	(100.0)

Activities during 2002:

The NETikos group suffered from the uncertainty prevailing on the market and from the postponement of important projects by its main customers, although, during the second half of the year there was a considerable improvement in revenues and a substantial growth of international activities through the affiliated company NETikos Finland, especially in the area of Wireless Lab.

TILAB Group

Held by: Telecom Italia 100.0%

The TILAB group identifies and manages innovative initiatives, creating new business opportunities both for companies within the Group and for the external market.

The table shows the key economic highlights for 2002, compared to those for 2001:

(millions of euro)	2002	2001	Change (%)
Sales and service revenues	166	134	23.9
Gross operating profit (loss)	31	(14)	°
Operating income (loss)	7	(34)	°

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Activities during 2002:

Operations which focused on R&D, and which also involved collaboration with Pirelli Lab concerned the following projects:

- study of enabling techniques in mobile and wireless sectors
- definition of network design, planning and management tools
- definition and testing of local access techniques
- development of solutions, architectures and products integrated in silicon
- development of modular products, created in software and able to be transformed into firmware for specific solutions or hardware components
- implementation of interactive TV services

There follows a description of the most significant activities of TILAB in 2002:

- completion of the first phase of the "Network Development" project to support the Group in making strategic decisions about the evolution of the network;
- testing in the field of the localization platform, in collaboration with TIM;
- completion of the economic evaluation of a business disaster recovery service with a "storage" services center operated through fiber-optic connections;
- definition of a new release of equipment for interconnecting GSM and the Internet operating with the UCP (Universal Communication Protocol) Gateway protocol, so that SMS text messages on mobile networks can be interchanged in a Web environment;
- creation of content protection functions within the framework of the Easy Video streaming platform, based on multimedia techniques developed by TILAB for the mobile network;
- creation of the "Video Intervention" service based on video communication technologies on the Internet used for TV programming (for example, the program "Processo del lunedì");
- definition of new cost models for the broadband access network;
- definition of the functional specifications of the virtual ADSL platform to design Systems Intellectual Properties on Chips;
- testing of a prototype of a cryogenic filter to increase the efficiency of the base stations of the mobile network, in collaboration with Pirelli Labs;
- creation of an updated version of the prototype of an emulator of the UMTS network in order to assess the impact of the quality of service on Internet multimedia applications;
- creation of the specification and prototype of some OSA-Parlay components for a network intelligence architecture with standard open interfaces for the introduction of new services;
- testing on the DW and TIM networks of the StarSip platform for the delivery of integrated voice - data services on the network;
- integration of data network backbone functions on the OPB infrastructure and OPB-BBN (national backbone) cross-work;
- definition and creation of wholesale services directed at OLO and ISP customers;
- testing of the interactive TV service within TV broadcasts (LA7);
- evolution of the Mobile Amico instant messaging system used in TIM@Cafè;
- download&play and videostreaming services on a mobile terminal;
- preparation and inauguration of the "Exhibition on the Future of Telecommunications" at the Future Centre in Venice.

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OTHER ACTIVITIES

The "Other Activities" of the Telecom Italia Group are principally constituted by the "Real Estate and General Services" Operating Activity, by the companies formerly in ex-International Operations which, following the reorganization of international activities, were transferred to the Foreign Holdings Function, by the Telespazio BU, by subsidiaries which supply support activities to the Group and by the affiliated company Stream.

■ REAL ESTATE AND GENERAL SERVICES

In addition to leveraging the net asset value of the Group, up to December 31, 2002, the "Real Estate and General Services" Function constituted an interface for the various corporate Functions/Business Units in order to satisfy the needs of the real estate and general services area. In particular, the activity operated by the Real Estate and General Services Function concerns the planning of the sites and locations of the Group, the design and construction of civil works, the maintenance of the properties and technological plant, in addition to providing real estate and general services.

The Function operates through the internal structures of Telecom Italia S.p.A. – mainly for the activities conducted on behalf of the Telecom Italia BU/Functions – and through the subsidiary Emsa Servizi S.p.A., which, for the most part, gears its activities towards the other companies in the Group.

In February 2003 the Real Estate and General Services Operating Activity was disbanded; its activities and resources were reassigned to other corporate functions of the Group.

The following table shows the key highlights for 2002, compared to those for 2001, restated for purposes of comparison. The figures take into account the exchanges between the Real Estate and General Services operating activity and the other functions of Telecom Italia S.p.A.

	2002	2001	Change (a) - (b)	
(millions of euro)	(a)	(b)	amount	%
Sales and service revenues	846	953	(107)	(11.2)
Operating costs	(758)	(809)	51	(6.3)
Gross operating profit	88	145	(57)	(39.3)
% on Revenues	10.4%	15.2%		
Operating loss	(92)	(65)	(27)	41.5

In 2002, *sales and service revenues* decreased by euro 107 million to euro 846 million compared to the prior year. The reduction can be attributed mainly to a reduction of revenues from other corporate BU/Functions resulting both from the continuation of the policy of rationalizing the space occupied, and to the process of bringing prices into line with the best market terms. Operating costs benefited from a reduction of euro 51 million compared to 2001, following efforts to curb expenditures for materials and external services and from the reduction in labor costs following a marked cutback in the workforce during the year; these effects partially compensated the above-mentioned reduction in revenues, thus attenuating the decline in the gross operating profit compared to the prior year.

The *operating loss*, which includes amortization and depreciation, provisions to the reserves for risks and charges and various expenses that are mainly in reference to property taxes, amounted to euro 92 million (– euro 65 million in 2001).

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With reference to the core activities of the Function aimed at leveraging the value of the Group's real estate assets, during 2002 some important new extraordinary transactions were completed, and are described below.

Tiglio project

Following the framework agreement signed May 2002 between the Pirelli, Olivetti-Telecom Italia Groups and The Morgan Stanley Real Estate Funds for the integration of the relative real estate properties as well as the entities that provide real estate services to the same companies or to their subsidiaries, in the second half of 2002, the transactions were finalized for the concentration of the assets in the two new vehicles companies set up for this purpose (Tiglio I and Tiglio II). Such concentration is functional to specific development actions to be started in the real estate market in 2003, including the possibility of a contribution of the properties to real estate investment funds. Among the preliminary transactions for the concentration of the real estate assets in Tiglio I and Tiglio II, on October 24, 2002, the non-proportional partial spin-off IM.SER (60% Beni Stabili and 40% Telecom Italia) was effected by which the relative real estate assets were contributed to the company IMSER 60 (98% Beni Stabili group and 2% Telecom Italia) and to the company EMSA Immobiliare (100% controlled by Telecom Italia) in proportion to the stakes held in IM.SER, respectively, by Beni Stabili and Telecom Italia. Following this transaction, which came after the positive conclusion of the securitization of IMSER 60's debt, and also to the effect of certain fixed asset acquisitions by companies in the Seat Pagine Gialle group, EMSA Immobiliare had a conspicuous portfolio constituted by a total 169 real estate properties.

On October 29, 2002, having met all the preliminary conditions for the deal, a series of acts were therefore finalized whereby the first stage of the Progetto Tiglio was concluded which, for Telecom Italia regarded:

- the subscription, simultaneously with all the other participants in the initiative, to a capital increase by Tiglio I for cash, with the consequent stake in the company equaling 36.85% (in addition, at Telecom Italia Group level, to the 2.1% subscribed to by Seat Pagine Gialle), in proportion to the value of the assets transferred by Telecom Italia (and by Seat Pagine Gialle) to Tiglio I to the total assets that were taken over by the latter company;
- the subscription to a capital increase by Tiglio II paid for in kind by the contribution of its "Asset Management" business segment with the consequent stake in the company equaling 49.47%;
- the sale of the investment in EMSA Immobiliare to OMS2 (100% controlled by Tiglio I);
- the sale – directly and through the subsidiary Saiat – of the investment in Telimm S.r.l. to the company MSMC Immobiliare Holding (entirely controlled by Tiglio I).

With reference to the part of the Progetto Tiglio regarding the optimization of the service activities, in November, Telecom Italia sold the "Property Management", "Project Management" and "Agency" business segments to the Pirelli & C. Real Estate group.

These transactions gave rise to a total gross economic impact (gross gain and extraordinary dividend) for the Parent Company, Telecom Italia of euro 229 million. The impact for the Telecom Italia Group was euro 234 million.

Finally, as agreed between the parties, December 24, 2002 marked the completion of the merger by absorption, in Tiglio I and Tiglio II, of the real estate investment holdings owned by them – falling under Progetto Tiglio and already 100% controlled, directly or indirectly – so that the corporate structure of the two subjects could be optimized, in view of the successive actions to leverage the assets on the market.

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Sale of IMMSI

On November 22, 2002, Telecom Italia sold its stake in IMMSI to the company Omniapartecipazioni. The sales price was euro 68 million, with a gross gain of 51 million for the Parent Company and euro 1 million for the Group.

Sale of Telemaco Immobiliare

On December 20, 2002, the final price was fixed for the sale, which took place in July, of Telecom Italia's investment in Telemaco Immobiliare to the company Mirtus. The net proceeds were euro 192 million for the Telecom Italia Group with a gross gain of euro 134 million for the Parent Company, Telecom Italia, and euro 110 million for the Group. On October 31, 2002, Telemaco Immobiliare exercised a put option on 28 real estate properties owned by Telegono (a company which is held 40% by Telecom Italia, 45% by the Beni Stabili group and 15% by Lehman Brothers, analogously to the original shareholder base of Telemaco Immobiliare) based on agreements formalized in July 2002 between Mirtus and the three sellers of the company. For purposes of the acquisition of such assets, Telegono signed a loan agreement that will be extinguished partly by the consideration from the sale in progress of such properties.

Ortensia project

On December 24, 2002, Telecom Italia and the other shareholders of Tiglio I (MSMC Italy Holding BV, Olivetti, Seat Pagine Gialle and Pirelli) and Tiglio II (POPOY Holding B.V.) formalized a binding agreement with the company Marzotto – which became executive on March 4, 2003 – to set up a common vehicle company for the land owned by Tiglio I and Tiglio II together with the portfolio of areas owned, directly and indirectly, by Marzotto. The agreement calls for the deal to be finalized in 2003 through the spin-off of the land owned by Tiglio I and Tiglio II and other assets and liabilities related thereto to a company in which Marzotto, at the end of December 2002, on the basis of formalized agreements, had contributed a business segment inclusive of the land earmarked for the initiative. Given the valuation of the assets available at this time, it is expected that, when the spin-offs are completed, Telecom Italia will hold about a 28% stake in the company (in addition, at Group level, of the 1% stake that will be held by Seat Pagine Gialle).

Events subsequent to December 31, 2002

On January 27, 2003, the procedures were completed for the early purchase of 12 property units (for about 300,000 square meters) from Teleleasing S.p.A. that are used by Telecom Italia S.p.A. and other Group companies under financial leasing contracts. The deal involved a total financial payment of some euro 369 million for the entire Group.

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■ FOREIGN HOLDINGS

The corporate function Foreign Holdings, operating under the corporate control structure, heads up the companies Telecom Italia International, 9Telecom group (consolidated up to June 30, 2002), the BBNet group, the Telekom Austria group, Telekom Srbija, Etec S.A. and Netco Redes. The function ensures the coordination, leveraging and rationalization of the foreign holdings held by Telecom Italia operating in the fixed and integrated fixed-mobile TLC business.

The table shows the key highlights for 2002, compared to those for 2001, restated for the purposes of comparison.

(millions of euro)	2002	2001
Sales and service revenues	214	292
Gross operating loss	(49)	(149)

The above data refers to the BBNet group and Telecom Italia International and the 9 Telecom group, consolidated line-by-line for the first six months of 2002 only since they were sold in August 2002, as described below. The two years are therefore not comparable.

As far as the principal corporate transactions are concerned, the following can be said:

- on August 1, 2002, the Telecom Italia group finalized the sale of the investment in Auna and Multimedia Cable to Endesa, Union Fenosa and Banco Santander Central Hispano, realizing a total consolidated gross gain of euro 1,245 million, including the stake sold through TIM International.
- On August 26, 2002, the French group 9Telecom was sold to LDCOM with the simultaneous purchase on the part of Telecom Italia International of a 7.22% stake in LDCOM (euro 172 million).
At December 31, 2002, the stake was reduced to 6.99% after the company effected a reserved capital increase in November. In the 2002 financial statements, the Telecom Italia Group adjusted the carrying value to euro 51 million.
- Telecom Italia International, following the agreement reached in June with OIAG, in the month of November, sold 75,000,000 Telekom Austria shares at a price of euro 7.45 per share, reducing its investment from 29.78% to 14.78%. The transaction resulted in gross proceeds of euro 559 million with a loss of euro 135 million. The carrying value of the investment in the 2002 financial statements is in line with market value; the residual holding is gradually being sold.
- On December 28, 2002, the Telecom Italia Group announced that it had reached an agreement for the sale of its 29% stake in Telekom Srbija to PTT Srbija. The agreement for the sale was finalized on February 20, 2003 and the closing is scheduled to take place by the end of June.
PTT will pay euro 195 million, 120 million of which will be paid in four installments beginning February 2003. The remaining amount will be paid in six semi-annual installments beginning January 2006. The shares sold will be deposited with an international bank until full payment of the price.

Finally, as regards the investment in Netco Redes (Spain), the carrying value of the investment was adjusted to market value as at December 31, 2002, with an impact on the consolidated financial statements of the Telecom Italia Group of euro 96 million.

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■ TELESPAZIO

In 2002, the Telespazio Business Unit included the Telespazio group, sold in November 2002 and with only the statement of income consolidated up to September 30, 2002, and the "Satellite Telecommunications" business segment of Telecom Italia.

The following table shows the key highlights of the Telespazio Group (included in the scope of consolidation until September 30, 2002) and the Satellite Telecommunications business segment of Telecom Italia, compared to the whole of 2001, which included the effects of the interruption of the Astrolink initiative.

(millions of euro)	2002	2001
Sales and service revenues	237	648
Gross operating profit	12	159
Operating income (loss)	(6)	60

■ OTHER SUBSIDIARIES

Telecom Italia Finance S.A.

Held by: Telecom Italia 100.00%

Under the reorganization of the Telecom Italia Group companies in Luxembourg, in October 2002, Sogerim S.A. was absorbed by its sole shareholder Softe S.A., and Huit II was absorbed by its sole shareholder TI Media S.A..

On December 16, 2002, Softe S.A. incorporated TI Media S.A. and the new company was merged with TI WEB S.A., which, on the same date, changed its name to Telecom Italia Finance. The financial statements used in the merger were those as at October 31, 2002.

Following the merger, beginning November 1, 2002, TI Finance took over responsibility of the international treasury function operating in support of the financial needs of the foreign companies of the Telecom Italia Group, a task previously carried out by Softe.

From an economic standpoint, TI Finance's financial statements for the year ended December 31, 2002 include the former TI WEB, and beginning November 1, 2002, Softe and TI Media. Therefore, a comparison with the corresponding prior year's figures would not be meaningful.

The company ended the year 2002 with a loss of euro 85 million, due principally to writedowns for euro 80 million. The writedowns specifically refer to euro 24 million for the adjustment of third-party bonds in portfolio to market price, euro 56 million for the adjustment of investments to market value and the adjustment of the investment in GLB Serviços Interativos S.A. (Globo.com) to the sales price.

Saiat S.p.A.

Held by: Telecom Italia 100.00%

The company carries out support services for the Parent Company, Telecom Italia, in the financial area and in investment management.

In 2002, in particular, the company continued to provide services under the program for the securitization of Telecom Italia trade accounts receivable. Under the "Progetto Tiglio", the company sold its interest (99.42%) in TELIMM to MSMC Immobiliare and, as part of the reorganization of the Luxembourg companies of the Group, sold its stakes in Softe (0.01%) and Sogerim (0.05%).

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TI Learning Services S.p.A.

Held by: Telecom Italia 100.00%

The company operates in the sector of training with the aim of achieving a leadership position in the market of Learning & Knowledge Management. Thanks to the technologies at its disposal and the experience gained in this field, the company is able to design complex and customized training systems that can be used by large numbers of people. Its product range includes more than 1,000 courses for continuous training, particularly on topics associated with ICT and Business Management.

At December 31, 2002 the conferral of the "Training" business segment of Telecom Italia was completed, concluding the project to rationalize the companies of Telecom Italia operating in the field of traditional and web-based training approved by the Board of Directors of Telecom Italia on December 18, 2001.

Activities during 2002:

- Strengthening of commercial action, on internal and external markets, regarding the services industry and the Public Administration, as well as participation in bids for training with financial backing
- Harmonization of production, rationalization and cost-cutting processes

■ OTHER AFFILIATED COMPANIES

STREAM S.p.A.

Held by: Telecom Italia 50.00%

On October 1, 2002, Telecom Italia reached an agreement with News Corporation over the creation of a single Italian pay-TV company (single platform) born of the integration Stream and Tele+. Under this agreement, Telecom Italia will hold a 19.9% stake in the single platform and News Corporation the remaining 80.1% stake.

Telecom Italia, at the closing, will pay a price of euro 31.84 million for the 19.9% interest in Tele+ and will waive the receivables due to the Group companies from Stream accrued up to the end of 2002 for some euro 147 million (a figure entirely set aside in the 2001 financial statements). In the meantime, News Corporation will waive the receivables due from Stream for the same amount.

Execution of the contract is subject to the approval of the European Antitrust Authority which will announce its decision by the end of April 2003.

* * *

Furthermore, in 2002, the following transactions were carried out:

- under the project to create the Administrative Services Center (ASC) of the Telecom Italia Group, in December, the ASC business segment of Telecom Italia absorbed the business segments performing administrative and accounting activities of the companies Holding Media e Comunicazione (effective December 31, 2002) and TIM (effective January 1, 2003). The TIM business segment comprises 96 human resources and the Holding Media e Comunicazione business segment has 13 resources;
- on December 20, 2002, Telecom Italia reached an agreement for the sale to the Accenture group of 100% of TE.SS – Tele Pay Roll Services, a company responsible for the administration activities connected with human resources management of the Telecom Italia Group. The sales price was set at euro 10 million. The transaction, which is part of the divestiture program for the non-core businesses of the Telecom Italia Group, was executed on February 28, 2003, with delivery of the shares.

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■ SUSTAINABILITY SECTION



INTRODUCTION

As from this year the Annual Report will include a Sustainability Section, which shows the Group's attention to its stakeholders, stakeholder satisfaction being fundamental to its reputation and ability to compete in the market in the medium-to-long term. The section covers the same information reported last year under Other Relevant Information about Telecom Italia Group but is organized by pertinent stakeholder.

Accordingly, the Corporate Governance report is included in the section on shareholders and new information is provided specifically regarding customers, suppliers, competitors, future generations, the Community, and the State, and in greater depth in the attached Sustainability Report.

■ SUSTAINABILITY PROGRESS IN 2002

The Sustainability Report was already updated in 2001 when it was produced as a joint publication with the Annual Report.

In March 2002, the Telecom Italia Group signed up to the Global Compact's nine principles set by the UN Secretary General, Kofi Annan, concerning human rights, labor and the environment.

During 2002, a new Sustainability reporting system was developed allowing around 380 Key Performance Indicators, both quantity and quality related, to be monitored at Group level. This set of information will make it possible to measure the impact of Sustainability in relation to all stakeholders inside and outside the Group.

Telecom Italia and TIM were admitted to the FTSE4Good Global 100 Sustainability Index and Seat Pagine Gialle to the Dow Jones Sustainability Group Index, for which Telecom Italia and TIM have gained qualification.

The Code of Ethics and Code of Conduct for Insider Dealing were introduced across the Group, joining the Charter of Values, the Environmental Charter and Charter of Services already in place [the texts can be viewed on www.telecomitalia.it]

The first version of the Strategic Sustainability Plan was also prepared, forming an integral part of the 2003-2005 Industrial Plan presented to the Financial Community on February 14, 2003.

The office of Sustainability Manager was established and organizational mechanisms were introduced for management of Sustainability at Group level.

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Sustainability governance actions in 2002 were therefore:

Principles	UN Global Compact			
Sustainability Report	New joint publication with the Annual Report (Triple Bottom Line)			
Verification	New Sustainability KPIs for the Group			
Entry in indexes	FTSE4Good for Telecom Italia and Tim. DJSI for Seat and qualification for Telecom Italia and Tim			
Standards	Code of Ethics across the Group and Code of Conduct for insider dealing across the Group			
Planning	2003-2005 Strategic Sustainability Plan			
Organization	Group Sustainability Representatives in BUs and Corporate Functions			
	1 st quart.	2 nd quart.	3 rd quart.	4 th quart.

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CHARTERS AND CODES

■ CODE OF ETHICS

The Group Code of Ethics, adopted on November 7, 2002, is the charter of fundamental values with which the Group identifies and which forms the framework for the whole corporate governance system. The Code is of basic importance in programmatic terms as the *corpus* of principles necessary for the ethically-oriented conduct of affairs and states the information objectives and values of business activities, with reference to the principal stakeholders with which the Group companies interact on a daily basis: shareholders, the financial market, customers, the community and employees.

Under the Code, Group companies are committed to:

- observing, and ensuring compliance within their organizations with, the laws in force in the countries in which they operate and the ethical principles commonly accepted in the conduct of business: transparency, correctness and fairness;
- ensuring equal treatment for all classes of shareholders and avoiding biased behavior;
- pursuing their business objectives exclusively through the excellence of their products and services rejecting recourse to illegal and improper conduct;
- conducting their activities in accordance with the principles of transparency and fair competition, being aware of the importance to the market, investors and the community in general, of correct information on their operations;
- contributing to the economic well-being and growth of the communities in which they operate by providing efficient and technologically advanced services; the Group companies also support social, cultural and educational initiatives aimed at personal development and improving standards of living;
- employing resources responsibly, recognizing the central role of human resources, in the belief that the principal factor in the success of every business is the professional contribution of its employees, in a context of fairness and mutual trust;
- forming investment and business decisions with respect for the environment and public health, considering environmental issues.

Telecom Italia promoted adoption of the Code of Ethics in all companies belonging to the Group.

The governing bodies of all Group companies, their management and all those who work for them are required to observe the code in order to enforce the principles and commitments set by the Code and each company has the duty to make provision for appropriate procedures and, where necessary, sanction systems for violations.

■ CODE OF CONDUCT

The Code of Conduct for insider dealing, adopted on November 7, 2002, was drawn up in compliance with the regulation recently introduced by the Italian Stock Exchange, which requires listed companies to regularly disclose transactions in the listed stocks of the Company and its subsidiaries entered into by persons who may have access to price-sensitive information.

The criteria assumed in drawing up the Code of Conduct are consistent with the fundamental choices of Telecom Italia's corporate governance: stringency, transparency and alignment with the best international practices. Additional information on the Code of Conduct regarding insider dealing is contained in the section on corporate governance.

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HUMAN RESOURCES

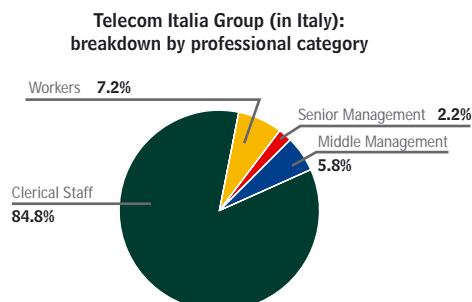
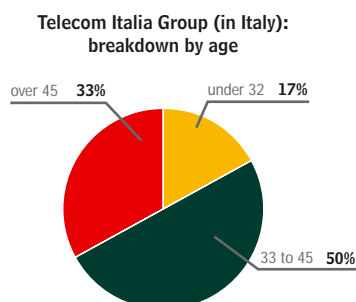
■ TELECOM ITALIA GROUP

Employees at Dec. 31, 2001	Employees at Dec. 31, 2002	Change	Hired	Left	Change in scope of consolidation
109,956	101,713	(8,243)	7,207	(12,567)	(2,883)

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

With regard to employee turnover, during the year a total of 12,567 people left the Group and 7,207 people joined the workforce.

The number of people employed in Italy is 82% of the overall workforce.



■ TELECOM ITALIA S.P.A.

Employees at Dec. 31, 2001	Employees at Dec. 31, 2002	Change	Hired	Left	Transfers from/to other Group companies	Services
61,081	54,705	(6,376)	398	(5,413)	(1,086)	(275)

■ DEVELOPMENT AND TRAINING

Around 2 million hours were spent in training activities in 2002 (classroom and on-line learning and on-the-job training for employees in Italy) and around euro 35 million in actual costs. These activities were largely delivered by Telecom Italia Learning Services, the Group company appointed with development and marketing of learning packages, and primarily addressed:

- specialist issues to meet the needs of specific businesses, with particular attention to development of customer focus and to training for front-end personnel (e.g., Info 12, Customer Relationship Management, Progetto Coaching, Progetto Concorde, Progetto CuORE, Progetto Fish);

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- management development initiatives for the Group's management, targeted both for change management according to the managerial model defined for the Group and for enhancement of skills and behaviors essential to creating value (e.g., Progetto Economics aimed at rapidly spreading knowledge about the economic value of an enterprise);
- learning packages for professional groups, to integrate and develop activity-specific knowledge and skills (e.g., Human Resources, Investor Relations);
- institutional training for new employees in management roles.

■ EMPLOYEE SATISFACTION

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

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

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

■ INTERNAL COMMUNICATION

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

- continuing the process of implementing the Group Intranet, which connected 75% of the Group companies at year-end 2002;
- organizing a convention transmitted by satellite business TV to the 35 offices in Italy and worldwide, during which the Chairman, Marco Tronchetti Provera, illustrated the Industrial Plan to the Group's management;
- making a calendar entitled "noi" (us), featuring 12 employees from different companies belonging to the Group, with the objective of developing a sense of belonging and integration between different cultures and businesses;
- producing a newsletter e-mailed to all Group employees on the occasion of Telethon, the fundraising marathon broadcast by the RAI networks.

■ INDUSTRIAL RELATIONS

During the year, negotiations in the Group mainly covered the following areas:

■ Employment

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

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

■ Performance bonus

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

■ Corporate reorganization

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

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

■ TRANSFERS WITHIN THE GROUP

Transfers of resources between the Business Units was particularly intensified during the year with a view to developing loyalty to the Group, creating new opportunities for professional development and balancing recourse to external recruitment. Around 1,300 resources were transferred at Group level.

■ STOCK OPTION PLANS

In 2002, two stock option plans were introduced, one for top management and one for middle management.

The 2002 TOP plan, voted by the Board of the Directors of the Company by the power vested in it by the Extraordinary Shareholders' Meeting of June 12, 2001, was introduced in February 2002 and 11,800,000 options were granted to sixteen top managers.

The strike price, defined as the normal value of the share at the time of the grant, in agreement with existing fiscal legislation, was euro 9.203. The plan covers a period of three years.

The 2002 plan, instead, was reserved for Group management who already held options from the 2000 stock option plan and other executives hired after July 27, 2001 (the date of the start of the 2001 stock option plan).

This plan was deemed necessary since, as a result of the general performance of the stock market during recent years, the 2000 plan had lost its effectiveness as a tool through which to encourage and retain management staff. The new plan was financed through the voluntary relinquishment of the 2000 plan by executives still working for the Group.

The 2002 plan, at December 31, 2002, covered 440 managers of the Group, 398 of whom were already covered by the 2000 plan which, as stated, they voluntarily renounced.

The options were granted in March, August and October. The strike price was defined as the normal value of the share in the month prior to the grant, in agreement with existing fiscal legislation. The weighted average price was euro 9.606. The plan covers a period of three years.

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In compliance with the recommendation contained in Consob Communication No. 11508 dated February 15, 2000, the following table summarizes the key features of the stock option plans in force in 2002:

	No.options	Options existing at 1/1/2002	New options granted during the year	Options exercised during the year	Options expired and not exercised during the year	Options extinguished during the year due to renouncement	Options expired during the year due to termination of service/ other reason	Options existing at 12/31/2002	of which exercisable at 12/31/2002
(Amount in euro)									
1999	No.options	9,846,650	-	1,375,150	-	-	-	8,471,500	8,471,500
Plan	Exercise price	6.79	-	6.79	-	-	-	6.79	6.79
	Market price	9.713	-	9.325	-	-	-	7.202	-
2000	No.options	50,570,000	-	-	-	29,820,000	150,000	20,600,000	10,699,996
Plan	Exercise price	13.815	-	-	-	13.815	13.815	13.815	13.815
	Market price	9.713	-	-	-	9.837	8.062	7.202	-
2001	No.options	66,320,000	-	-	-	-	2,032,500	64,287,500	32,560,000
Plan	Exercise price	10.488	-	-	-	-	10.488	10.488	10.488
	Market price	9.713	-	-	-	-	8.163	7.202	-
2002	No.options	-	30,998,000	-	-	-	1,974,000	29,024,000	-
Plan	Exercise price	-	9.606	-	-	-	9.665	9.602	-
	Market price	-	9.771	-	-	-	7.735	7.202	-
2002	No.options	-	11,800,000	-	-	-	-	11,800,000	-
TOP Plan	Exercise price	-	9.203	-	-	-	-	9.203	-
	Market price	-	8.694	-	-	-	-	7.202	-

Plan	Exercise price (in euro)	Number of options granted at 12/31/2002 and exercisable from						Maximum period of options
		2001	2002	2003	2004	2005	Total	
1999	6.79	3,755,750	4,715,750	-	-	-	8,471,500	3 years beginning from each year
2000	13.815	5,349,998	5,349,998	9,900,004	-	-	20,600,000	5 years beginning from each year
2001	10.488	-	32,560,000	31,727,500	-	-	64,287,500	5 years beginning from each year
2002	9.665	-	-	8,395,200	8,395,200	11,193,600	27,984,000	5 years beginning from each year
	7.952	-	-	252,000	252,000	336,000	840,000	
	7.721	-	-	60,000	60,000	80,000	200,000	
2002 TOP	9.203	-	-	3,540,000	3,540,000	4,720,000	11,800,000	5 years beginning from each year

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SHAREHOLDERS: CORPORATE GOVERNANCE

■ CODES, PRINCIPLES AND PROCEDURES

During 2002, the Company and the Group continued to improve the instruments used for corporate governance. In this context, the Group's fundamental decision to comply with the principles formulated by the Corporate Governance Committee (encompassed in the "Preda Code") was accomplished through the adoption of practices and principles of conduct, formalized in specific codes and procedures aimed at realistically putting into practice the principles of the Preda Code and adapting the system of corporate governance to the specific realities of the Company and Group. Contemporaneously, the review of certain previously adopted instruments was, for the most part, completed in accordance with the principle that governance practices should be constantly subject to verification and updating, in order to respond in a timely and effective manner to the demands arising from changes in operating practices and the evolution of the overall internal and external regulatory context. Within that framework, an overall review of the Company's Code of Self-discipline is being planned and a Group project is being developed that is aimed at verifying the suitability of the organizational models already in place in respect of the regulations set forth by Legislative Decree No. 231 of 2001, regarding the administrative responsibility of entities for violations committed by their associates, with consequent adjustment, where necessary, to the internal control system.

The documents related to the corporate governance instruments adopted by Telecom Italia during 2002 and summarized below, are, for the most part, available for consultation on the Company's website: www.telecomitalia.it.

Code of Ethics

The system of corporate governance of the Telecom Italia Group was implemented during 2002 with the adoption of the Code of Ethics that ideally is the foundation of the entire system and represents the "charter of values" of the Group, establishing, in programmatic terms, the *corpus* of principles for the ethically-oriented conduct of affairs to which the Group aspires.

The Code of Ethics, adopted by Telecom Italia and to be gradually adopted by all Group entities, sets out the objectives and guiding values of the business activities, with reference to the principal stakeholders with which Group companies find themselves interacting on a daily basis: shareholders, the financial market, customers, the community and employees.

Transactions with related parties and information flows

During 2002, the Company adopted a series of principles of conduct concerning the manner in which transactions with related parties, including intra-group transactions, are carried out. The principles of conduct are directed towards guaranteeing true accuracy and transparency in these transactions, both in substance and in form, with full joint responsibility being assumed the entire Board of Directors in the related decisions.

At the same time, internal rules were formalized, through a specific procedure, for the collection and communication to the Board of Statutory Auditors – in accordance with Article 150, paragraph 1, of Legislative Decree No. 58 of 1998 ("Testo Unico of Finance") – of the most exhaustive information inherent to the activities being carried out, to the most significant economic, financial and equity transactions, to transactions with related parties (including intra-group transactions) and to atypical or unusual transactions. Contemporaneously, that procedure ensures the completeness of information flows – also recommended by the Preda Code – from the Directors responsible for those activities to all members of the Board of Directors.

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Code of Conduct on *insider dealing*

In accordance with the regulations recently introduced in the Regulation of Markets Organized and Managed by Borsa Italiana, Telecom Italia has adopted a Code of Conduct on insider dealing aimed at disciplining the obligatory regulations concerning disclosure requirements and conduct inherent to transactions on the Group's listed securities carried out by persons who, by virtue of their positions held in the Group, have access to confidential "price sensitive" information. The criteria adopted in the drafting of the Code are consistent with Telecom Italia's fundamental decisions regarding governance: stringency, transparency and alignment with the best international practices.

Procedure for the communication of price sensitive information to the market

At the beginning of the current year, the Company formalized a specific Procedure containing the practices to be followed in the communication of price sensitive information to the market. The Procedure establishes the operating procedures for the circulation of that type of information to the market, identifies the Company Functions and Structures involved in the process, and also regulates the procedures to be followed in the event of rumors or requests for information by those responsible for the surveillance and management of the market. Furthermore, the Procedure regulates the activities to be carried out for meetings with the financial community and the Press, so as to guarantee a non-selective use of Company information.

With regard to the internal management of information relating to Telecom Italia, specific guidelines have been adopted for some time regarding the classification and management of information from the viewpoint of Company confidentiality and privacy.

■ BOARD OF DIRECTORS

■ Composition

The number of members of the Board of Directors has not changed during 2002 compared to that fixed during the Shareholders' Meeting of November 7, 2001. The Board of Directors is thus comprised of fifteen members.

During the year, following the resignations of the Directors Paolo Maria Grandi and Enrico Bondi (in July and September 2002, respectively), Pietro Modiano and Riccardo Ruggiero (already General Manager of the Company) were nominated as Directors of Telecom Italia. Consequently, the present members are: Gilberto Benetton (Deputy Chairman), Carlo Orazio Buora (Managing Director), Umberto Colombo, Francesco Denozza, Luigi Fausti, Guido Ferrarini, Natalino Irti, Gianni Mion, Pietro Modiano, Massimo Moratti, Carlo Alessandro Puri Negri, Riccardo Ruggiero (Managing Director and General Manager), Pier Francesco Saviotti, Marco Tronchetti Provera (Chairman) and Roberto Ulissi. The Board's term of office was set for three years, expiring at the time of approval of the 2003 financial statements.

As recommended by the Preda Code, the offices held by the Directors in other listed companies, in financial, banking or insurance companies or in companies that are significant in size are set out below:

Chairman	Marco Tronchetti Provera	Chairman of CAMFIN S.p.A., Chairman and CEO of Pirelli S.p.A., Chairman of Pirelli & C. S.p.A., Olimpia S.p.A. and Pirelli & C. Real Estate S.p.A., and Deputy Chairman and Managing Director of Olivetti S.p.A..
Deputy Chairman	Gilberto Benetton	Chairman of Edizione Holding S.p.A., Autogrill S.p.A., Ragione S.p.A. and Verde Sport S.p.A., Deputy Chairman of the Benetton Foundation, Olimpia S.p.A. and Olivetti S.p.A., Director of Area Nord Concessionaria di Pubblicità, Autopistas C.E.S.A., Autostrade S.p.A., Banca Antoniana Popolare Veneta, Benetton Group S.p.A., Beni Stabili S.p.A., HMS Host Corp., Lloyd Adriatico S.p.A., Pirelli S.p.A., Mediobanca S.p.A., Schemaventotto S.p.A. and Sep S.p.A..

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Managing Director	Carlo Buora	Director of Pirelli & C., Managing Director and General Manager of Pirelli S.p.A., Director of Pirelli & C. Real Estate S.p.A. and Olimpia S.p.A., Managing Director of Olivetti S.p.A., Chairman of Tim S.p.A., Director of HDP Holding di Partecipazioni S.p.A., Ras S.p.A., Mediobanca S.p.A., Olivetti Tecnost and F.C. Internazionale.
Managing Director General Manager	Riccardo Ruggiero	Deputy Chairman of Banca della Rete, Director of Telecom Italia America Latina and Sia S.p.A..
Director	Umberto Colombo	Chairman of Novamont S.p.A., Alcantara S.p.A. and Kemyx S.p.A., and Director of ACEA S.p.A., Impregilo S.p.A., Snia S.p.A. and Energy Conversion Devices.
Director	Francesco Denozza	
Director	Luigi Fausti	Chairman of Patrimonio Immobiliare dello Stato S.p.A., and Director of MONRIF S.p.A..
Director	Guido Ferrarini	Independent Director of Erg S.p.A. and Grandi Navi Veloci S.p.A..
Director	Natalino Irti	
Director	Pietro Modiano	Director of Borsa Italiana S.p.A., E-Mid S.p.A., Euro Capital Structures Ltd, Equinox Inv. Comp. S.c.p.a., TLX S.p.A., Mts S.p.A. and Locat S.p.A., Deputy General Manager of Unicredit Italiano S.p.A., Chairman of Pioneer Global Asset Management S.p.A. and TradingLab Banca S.p.A., and Deputy Chairman of Unicredit Fondi SGR p.A., Pioneer Inv. Management USA Inc. and MonteTitoli S.p.A..
Director	Gianni Mion	Managing Director of Edizione Holding S.p.A. and Schemaventotto S.p.A., Deputy Chairman of Telecom Italia Mobile S.p.A., Director of Benetton Group S.p.A., Autogrill S.p.A., 21 Investimenti S.p.A., Autostrade S.p.A., Sagat S.p.A., Olimpia S.p.A., Olivetti S.p.A., Seat PG S.p.A., Interbanca S.p.A., Banca Antonveneta S.p.A. and 21 Partners Società di Gestione del Risparmio S.p.A..
Director	Massimo Moratti	Managing Partner of Angelo Moratti di Gian Marco e Massimo Moratti & C. S.a.p.a., Managing Director and Deputy Chairman of Saras S.p.A. Raffinerie Sarde, Chairman of F.C. Internazionale Milano S.p.A. and Sarint S.A., and Director of Interbanca.
Director	Carlo Alessandro Puri Negri	Director of Aon Italia S.p.A., Deputy Chairman and Managing Director of Pirelli & C. Real Estate S.p.A., Deputy Chairman of CAMFIN S.p.A. and Pirelli & C. Ambiente S.p.A., Director of Pirelli S.p.A., Olimpia S.p.A., Olivetti S.p.A., Pirelli & C. S.a.p.A. and Parmasteelisa S.p.A., General Manager of Pirelli & C. S.a.p.A., and Management Representative of Voting Trust of Pirelli & C. S.a.p.A..
Director	Pier Francesco Saviotti	Director of Stefanel S.p.A., TOD'S S.p.A., Danieli S.p.A. and Linificio e Canapificio Nazionale S.p.A., and General Manager of Intesa BCI S.p.A., with responsibility for the credit area.
Director	Roberto Ulissi	General Manager Responsible for the 4th Directorate of the Department of Treasury of the Ministry of Economy and Finance (Banking and Financial Sector and Legal Affairs).

■ Independent Directors

Members of the Board of Directors that are considered independent, in accordance with the guidelines set down by the Preda Code, are those that (i) do not have, nor have they recently had, either directly, indirectly or on behalf of third parties, economic relationships of such significance as to influence the independence of their judgment with regard to the Company, its subsidiaries, its Executive Directors, or its controlling shareholder or group of shareholders; (ii) do not hold directly, indirectly or on behalf of third parties equity investments of such magnitude as to allow them to exercise control or significant influence over the Company, nor do they participate in shareholder agreements for control over the Company and (iii) are not close family members of Executive Directors of the Company or of persons that find themselves in the above situations.

Furthermore, Telecom Italia has adopted as a further condition of independence the requirement that Directors not participate in shareholder agreements containing clauses concerning the composition and the resolutions of the Board of Directors.

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In light of the declarations given by the members of the Board of Directors, the Directors Umberto Colombo, Francesco Denozza, Luigi Fausti, Guido Ferrarini, Natalino Irti and Roberto Ulissi are considered independent.

■ Executive Directors

In September 2002, the Board of Directors reviewed the overall system of mandates of the Company's Executive Directors' (Chairman and Managing Directors), which are as follows:

- the Chairman Marco Tronchetti Provera is granted the powers necessary to execute all acts pertaining to the corporate activity in its various forms, with the exception of investments and acts to dispose of investments in subsidiaries and associated companies, and companies or businesses thereof, of amounts in excess of euro 250 million per transaction. Furthermore, the signature of the Chairman must be joined by that of a Managing Director for the issue of guarantees against obligations of Telecom Italia or its subsidiaries in excess of euro 250 million or against the obligations of third parties in excess of euro 100 million. The Chairman is further granted emergency powers regarding matters under the Board of Directors' responsibility, the duty of reporting to the Board of Statutory Auditors in the manner and under the terms required by Article 13 of the by-laws, the mandate to provide for the management of confidential information and ensure the functioning and adequacy of the internal control system, and the power to appoint one or more persons in charge;
- the Managing Director Carlo Orazio Buora is granted the powers necessary to execute all acts pertaining to the corporate activity in its various forms, with the exception of investments and acts to purchase, sell and dispose of investments in subsidiaries and associated companies, and companies or businesses thereof, and of goods and services in general of amounts in excess of euro 150 million per transaction. The Managing Director Carlo Orazio Buora may issue guarantees against the obligations of Telecom Italia or its subsidiaries not in excess of euro 150 million, or against the obligations of third parties not in excess of euro 50 million;
- the Managing Director Riccardo Ruggiero is granted the powers necessary to execute all acts pertaining to the corporate activity in its various forms, with the exception of investments and acts to purchase, sell and dispose of investments in subsidiaries and associated companies, and companies or businesses thereof, and of goods and services in general of amounts in excess of euro 75 million per transaction, and with the exception of the issue of guarantees. The powers of the Managing Director Riccardo Ruggiero exclusively relate to the activities of the Domestic Wireline Business Unit.

In respect of the limits of value described above, an individual transaction is intended to mean the aggregate of transactions that, while individually may be below the thresholds indicated, prove to be linked together within the same strategic or executive structure and therefore, when considered together, exceed the materiality threshold.

During 2002 the Company, as mentioned previously, adopted a procedure to formalize the rules for the collection and communication to the Board of Statutory Auditors and Board of Directors of the most exhaustive information inherent to the activities carried out, to the most significant economic, financial and equity transactions, to transactions with related parties (including intra-group transactions) and to atypical or unusual transactions. This procedure sets in motion the information flows recommended by the Preda Code through which the appointed Directors periodically report to the Board of Directors and the Board of Statutory Auditors on the activities they have carried out in exercising the mandates conferred upon them. That information includes executive activities and the status of transactions already approved by the Board of Directors; in particular, Executive Directors report on the activities carried out by them – also through the Company's and its subsidiaries' structures – in exercising the mandates conferred upon them, including the initiatives adopted and projects launched.

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■ Roles and Activities of the Board of Directors

In accordance with Telecom Italia's by-laws, the Board of Directors has full and ample powers for the ordinary and extraordinary administration of the Company, including all responsibilities that are not, under the law and the by-laws, expressly reserved for the general Shareholders' Meeting. Furthermore, the Board – in accordance with paragraph 1.3 of Telecom Italia's Code of Self-discipline – is exclusively responsible for (i) the examination and approval of the Company's and Group's strategic, industrial and financial plans; (ii) the examination and approval of transactions (including, for example, the acquisition and divestiture of direct or indirect controlling interests) of particular economic or strategic significance, with particular reference to transactions with related parties; (iii) the granting and revoking of the mandates of the Managing Director and the Executive Committee, if established, defining the limits, operating procedures and frequency, normally not less than every three months, with which they should report to the Board on the activities they have carried out in exercising their mandates; (iv) the determination, after having examined the proposals of the specific committee and consulted the Board of Statutory Auditors, of the compensation of the Managing Directors and those who hold particular offices, and, providing that the Shareholders' Meeting has not already taken steps to do so, the breakdown of the overall compensation due to individual members of the Board and committees; (v) the supervision of the general management performance, with particular attention to situations of conflict of interest, taking into consideration information received from the Managing Director and the Audit and Corporate Governance Committee, and periodically comparing the results achieved with those planned; (vi) the verification of the adequacy of the Company's and Group's general organizational and administrative structure drawn up by the Managing Director.

In addition to the above matters, that are also recommended by the Preda Code, the Board – based on the provisions of paragraph 1.3 of the Code of Self-discipline – is responsible for (vii) the preparation and adoption of the Company's rules of corporate governance and the definition of the Group's corporate governance guidelines; (viii) the evaluation and approval of the Company's and Group's annual budgets; (ix) the evaluation and approval of the periodic accounting documentation as provided by the existing regulations; (x) the examination and approval of investments and divestitures (also in real estate) of amounts exceeding Lire 500 billion (approximately euro 258.2 million); (xi) the nominating, revoking and conferring of powers of the General Managers of the Company, by proposal of the Managing Director; (xii) the appointments for the offices of Managing Director and Chairman in subsidiaries with sales equal to or higher than Lire 2,000 billion (approximately euro 1,033 million) – as per the latest available financial statements – and (xiii) reporting to the Shareholders during Shareholders' Meetings.

The criteria adopted by Telecom Italia to identify transactions that should be examined, in advance, by the Board of Directors are both quantitative and qualitative, in that – in addition to an assessment of relevance based on the value of the transaction – an evaluation is carried out of the actual impact of the transaction on the performance of the Company.

This may result in the requirement for advance Board approval of transactions that, while being lower than the defined materiality thresholds, exhibit particular critical elements, such as the nature of the counterparty, the time-frame of execution or the potential risks deriving from the transaction. In this regard, during 2002 the Company adopted – as previously highlighted – a series of principles on the execution of transactions with related parties, by virtue of which the Board of Directors approves, in advance, transactions with related parties, including intra-group transactions, with the exception of typical or usual transactions or those to be concluded under standard conditions.

During 2002, the Board met nine times, more than double that required by the Company's Code of Self-discipline (paragraph 3.3 indicates a frequency of at least four meetings per year) and a greater number than communicated beforehand in disclosure to the market (eight meetings).

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Attendance at the meetings by Directors was always very high, with a percentage attendance that was never below 73% of Directors; statistically, even the independent Directors participated in the Board's activities with notable regularity, always ensuring an overall minimum presence of above 66% of independent Directors.

As provided by the Company's Code of Self-discipline, it is normal practice for the Directors to be provided, sufficiently in advance of the Board meetings, with the documentation and information necessary to allow them to effectively participate in the Board's business.

In December 2002, the Company distributed a calendar of Company events for 2003, which included the planned Board meetings. In particular, Telecom Italia will, again in 2003, anticipate the publication of the annual and semiannual financial statements, in order to take advantage of the possibility, provided by Consob Regulation 11971 of 1999, to be exempted from the preparation of the second and fourth quarter accounts.

■ DIRECTORS' NOMINATION AND COMPENSATION

■ Nomination of Directors

Telecom Italia S.p.A.'s by-laws provide that the nomination of members of the Board of Directors occurs through a ballot based on lists of candidates. That system, in place since 1997, is intended to ensure adequate representation of minority shareholders on the Board and has rendered the establishment of a nominating committee unnecessary. For the nomination of the Directors, it is now common practice in Telecom Italia to make the profiles of each candidate available to the shareholders, at the registered office, the secondary office and the premises where Shareholders' Meetings are held, so as to enable shareholders to become acquainted with their personal and professional characteristics and exercise their voting rights more knowledgeably.

■ Directors' Compensation Committee

As already highlighted in the annual report on Corporate Governance in the 2001 financial statements, the Board of Directors has a Directors' Compensation Committee with investigative and advisory functions. No changes were made during 2002 to the composition or responsibilities of the Directors' Compensation Committee, which has particular responsibility for formulating proposals to the Board in respect of the compensation of the Managing Directors and of those Directors who hold specific offices, and, at the Managing Directors' indication, in respect of the determination of criteria for the compensation of top management of the Company. The Committee is composed of the independent Directors Luigi Fausti (Chairman) and Umberto Colombo, and of Pier Francesco Saviotti.

During 2002, the Committee held six meetings, during which it examined subjects related to the start-up of new stock option plans, the criteria to be utilized for the compensation of management and the incentive formulas. Furthermore, the Committee identified the reference parameters for the variable component of Executive Directors' compensation, in accordance with Article 2389, paragraph 2, of the Italian Civil Code.

With reference to the choices made by the Company regarding the compensation of top management of the Company, the current system provides for the allocation of compensation broken down into a fixed component and a variable component, contingent upon the achievement of predetermined budget objectives. The system is similar to that used for the rest of management which – in addition to the base salary – provides for the presence of incentive and loyalty systems by means of stock options. More detailed information on the stock option plans are contained in the "Human Resources" paragraph, above.

During its meetings the Committee has availed itself of the assistance of external consultants, in addition to Company personnel.

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■ INTERNAL CONTROL SYSTEM

The system of internal controls – briefly outlined in the Company's Code of Self-discipline – is a process aimed towards guaranteeing the efficiency of administrative and operational management, its understanding and verification, the reliability of the accounting and management data, the observance of the laws and regulations from every source and the safeguarding of the Company's integrity, also to prevent fraud that may damage the Company and the financial markets.

As disclosed in the previous year's report on Corporate Governance, the Telecom Italia Group has approved the organizational decision to concentrate the so-called internal audit activities in a specific consortium company, with the formation of In.Tel.Audit – S.c.a r.l..

That solution, which was born out of the need to take into consideration the objective complexity of the Group (while at the same time evaluating the professional resources within), as well as the new requirements set forth by Legislative Decree No. 231/2001, was further implemented during 2002. Having taken into consideration the approach, now common in international doctrine and practice, by which the functions of those in charge of internal control should be the verification of the adequacy and efficiency (i.e. proper functioning) of the internal control system and – where anomalies are discovered – the proposal of necessary corrective solutions, In.Tel.Audit – S.c.a.r.l. was identified as being in charge of internal control, responsibility for internal auditing.

This organizational solution permits the maximization of independence of the those in charge of internal control from the Company's organizational structure, from which they work in complete autonomy, reporting their findings to the Chairman, the Audit and Corporate Governance Committee and the Board of Statutory Auditors.

The execution of any "maintenance" interventions on the internal control system recommended by those in charge of internal control is then, depending on the occasion, the responsibility of the various sectors of the Company or Group companies, based on the recommendations drawn up by the Board of Directors. Furthermore, the Company, in order to facilitate the overall operation of the system, will identify an "individual in charge of execution" of the above-mentioned interventions.

The Board of Directors – based on the checks carried out and having taken account of the improvement initiatives undertaken – considers the system of internal control to be adequate for the needs of the Company and in respect of the regulations in force.

■ Audit and Corporate Governance Committee

Telecom Italia's Audit and Corporate Governance Committee, in its composition and in the activities carried out by it, has already adapted to the regulations of the Code of Self-discipline adopted by Borsa Italiana in July 2002.

The Committee is, in fact, composed exclusively of independent non-executive Directors, including the Directors Roberto Ulissi (Chairman), Guido Ferrarini and Natalino Irti.

The Chairman of the Board of Statutory Auditors or, when it was considered appropriate to hold a joint meeting, all members of the Board participated in the meetings of the Committee, of which in 2002 there were eight.

The Audit and Corporate Governance Committee, based on the provisions of Telecom Italia's Code of Self-discipline, carries out the following activities: (i) evaluates the adequacy of the internal control system; (ii) evaluates the work plan prepared by those in charge of internal control and receives periodic reports from the same; (iii) evaluates proposals formulated by independent audit firms wishing to be appointed as auditors, and the audit plan and results expressed in the letter of recommendations; (iv) discloses to the Board, at least every six months, at the time of the approval of the annual and semiannual financial statements, the work carried out by it and the adequacy of the system of internal control; and (v) monitors compliance with and periodic updating of the corporate governance regulations.

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During 2002, the Committee contributed to the process of implementation of the corporate governance instruments, participating in the analysis and the definition of the documents that were subsequently adopted by the Company in the above-mentioned period. Furthermore, in adopting the new recommendations of the Preda Code, the Committee examined, with the aid of the Company's Offices and the independent auditors Reconta Ernst & Young, the appropriateness of the accounting principles used and their uniformity in the preparation of the consolidated financial statements, following the evaluation and verification activities undertaken by management on the reasonableness of the carrying values of the Group's investment portfolio. The Committee placed particular attention on the evolution of the American corporate regulations (i.e. Sarbanes Oxley Act 2002).

■ TRANSACTIONS WITH RELATED PARTIES

As previously indicated, during 2002 the Company adopted a series of principles for the execution of transactions with related parties. On the basis of those principles the Board of Directors approves in advance transactions with related parties, including intra-group transactions, with the exception of transactions that are typical or usual or to be finalized at standard conditions. To this end, the Board of Directors receives adequate information on the nature of the relationship, the manner in which the transaction is to be executed, the conditions, even economic, for its realization, the valuation technique followed, the interests and underlying motivations and any risks to the Company. Furthermore, in the event that the relationship is with a Director or with a party related through a Director, the interested Director will be limited to providing clarification and will leave the Directors' meeting at the time of the deliberations.

In relation to the nature, value or other characteristics of the transaction, the Board of Directors, in order to avoid that the transaction is realized at unreasonable conditions, is assisted by one or more experts who, depending on the circumstances, expresses an opinion on the economic conditions, and/or the objectivity, and/or the technical aspects of the transaction.

■ HANDLING OF CONFIDENTIAL INFORMATION

With regard to the internal management of information relating to Telecom Italia, some time ago the Company adopted specific guidelines regarding the classification and management of information from the viewpoint of Company confidentiality and privacy, in the knowledge that information represents a strategic component of corporate wealth and a fundamental asset for the success of all organizations that operate in the Telecom Italia Group. However, the protection of information is not only an instrument to support the business, it is also a legal obligation in the event that it deals with personal data related to customers, employees, suppliers or other persons (either physical or juridical) external to or within the Company's organization.

At the end of 2002, in compliance with the regulations of Borsa Italiana, a Code of Conduct was adopted relating to insider dealing, that regulates the requirements for information and conduct in relation to transactions regarding the listed stocks of the Group carried out by "relevant persons" who operate within the Company. The criteria assumed in the drafting of the Code are consistent with the Telecom Italia's fundamental decisions regarding governance: stringency, transparency and alignment with the best international practices.

The Code goes beyond the regulations prescribed by Borsa Italiana, providing flexibility in the identification of persons subject to the disclosure obligation and extending the communication requirement to transactions executed on listed financial instruments issued by the Parent Company (in addition to the subsidiaries), even if carried out within an individual investment portfolio relationship, in which the client foregoes the right to give instructions.

Furthermore, Telecom Italia has significantly reduced the materiality thresholds, compared to those indicated by Borsa Italiana, on the transactions to be periodically communicated to the

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market (from euro 50,000 to euro 35,000) or to be immediately communicated at the time the transaction is carried out (from euro 250,000 to euro 80,000), assuming a flexible period of time for the verification of whether the materiality threshold for communication without delay has been attained. Finally, Telecom Italia's Code of Conduct – which came into force (on December 1, 2002) in advance of the obligatory deadline set by the Regulation of Borsa Italiana (of January 1, 2003) – limits the period of free trading of Group stocks by "relevant persons" and provides for a particularly stringent system of sanctions.

At the beginning of 2003, the Company formalized a specific Procedure containing the operating procedures for communication of price sensitive information to the market, identifying the Functions and Structures involved in the process and also regulating the procedures to be followed in the event of rumors or requests for information by those responsible for the surveillance and management of the market. Furthermore, the Procedure regulates the activities to be carried out for meetings with the financial community and the media, so as to guarantee a non-selective use of Company information.

■ BOARD OF STATUTORY AUDITORS

The Board of Statutory Auditors of Telecom Italia, appointed by the Shareholders' Meeting of July 2000, is composed of five Acting Auditors (Paolo Germani - Chairman, Mario Boidi, Paolo Golia, Fabrizio Quarta and Gianfranco Zanda), of which two (Paolo Germani - Chairman and Fabrizio Quarta) are appointed by the government and one (Paolo Golia) was elected from the list presented by the minority shareholders.

In accordance with paragraph 13.1 of the Code of Self-discipline, proposals put to the Shareholders' meeting for the appointment of Statutory Auditors, accompanied by comprehensive information concerning the personal and professional characteristics of the candidates, are normally deposited at the Company's registered office at least ten days prior to the date set for the meeting, or at the time the lists are deposited.

The Board of Statutory Auditors conducted 24 meetings during 2002, in addition to meetings with the Audit Committee, the internal auditors, and the external auditors and Company management.

As previously highlighted, during 2002 the Company formalized, through a specific procedure, internal rules for the collection and communication to the Board of Statutory Auditors – in accordance with Article 150, paragraph 1, of the Testo Unico of Finance – of information on the activities and significant transactions carried out by the Company and its subsidiaries, as well as on transactions that are potentially in conflict of interest. Through that procedure – which also ensures, as already noted, the completeness of information flows recommended by the Preda Code from the Directors responsible for those activities to all members of the Board of Directors – the Chairman, by the mandate delegated to him for this purpose, reports, in writing, to the Board of Statutory Auditors:

- on the activities carried out by the Company, with particular reference to executive activities and the status of transactions already approved by the Board of Directors, as well as to activities carried out by Executive Directors, also through the Company's and its subsidiaries' structures, in exercising their mandates, including the initiatives adopted and the projects begun;
- on the most significant economic, financial and equity transactions, highlighting, in particular, the strategic aims, the consistency with the budget and industrial plan, the terms of execution (including the terms and conditions, also economic, of their realization) and the developments, and any conditions and implications that they carry on the Group's activities;
- on transactions that are potentially in conflict of interest, that is to say on intra-group transactions and on transactions with related parties that are not intra-group transactions. The information concerning those types of transactions illustrates the underlying interests (and, for intra-group transactions, their rationale in the Group context) as well as the

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terms of execution of the transaction (including the terms and conditions, also economic, of their realization) with particular regard to the valuation methods followed.

The concept of related parties utilized in this procedure was adapted during 2002 to that prescribed by Consob in its Communication No. 2064231 dated September 30, 2002, whilst maintaining the remaining parts of the definition utilized in the Telecom Italia procedure, where they conform to more stringent criteria than prescribed by Consob;

- d) on the atypical or unusual transactions, by which it is intended those transactions whose subject or nature are outside the normal course of the Company's business or that present particular critical elements due to their characteristics and to the risks inherent to the nature of the counterparty or to the time of their completion. Also in this case, the information provided about those transactions highlights the underlying interests and illustrates the terms of execution of the transactions (including the terms and conditions of their realization) with particular regard to the valuation methods followed.

■ SHAREHOLDERS

■ Shareholders' Meetings

During 2002, two Shareholders' Meetings took place. During the first, on May 7, the 2001 financial statements were examined, whereas on December 12, during the ordinary session of the Shareholders' Meeting the nomination of two Directors (Modiano and Ruggiero) and the reclassification and distribution of certain reserves were approved, and during the extraordinary session the merger through incorporation of TILAB into Telecom Italia was approved. Again during the Shareholders' Meetings in 2002, which the Company views as a constant commitment on its part, shareholders were encouraged and supported to participate in direct discussions with management and shareholders, with a view towards a productive exchange of opinions. Furthermore, with a view to carrying out its responsibilities in a more orderly and productive manner, the Company, in 2001, adopted regulations for Shareholders' Meetings that are applicable to ordinary and extraordinary meetings of the Shareholders.

Finally, a specific function within Telecom Italia's organizational structure (Investor Relations) is dedicated to relations with the national and international financial communities. More detailed information is contained in the paragraph relating to "Financial Communications".

■ Shareholders' agreements

During 2001, shareholders' agreements were signed among the shareholders of Olimpia S.p.A. (Pirelli S.p.A., Edizione Holding S.p.A., Unicredito Italiano S.p.A. and Intesa BCI S.p.A.) that contain certain clauses concerning, amongst other things, the composition and resolutions of Telecom Italia's Board of Directors. The cited agreements and any variations thereto were communicated to the market in accordance with the regulations in force.

In December 2002, a new shareholders' agreement was signed among Pirelli, Edizione Holding, Unicredito Italiano, IntesaBCI, Olimpia and Hopa S.p.A., that provides for a change in the shareholder base of Olimpia upon the conclusion of certain transactions (amongst which the merger of Holy S.p.A., 100% - controlled by Hopa, into Olimpia). The shareholder base of Olimpia will then comprise Pirelli, 50.40%, Edizione Finance International 16.80%, UniCredito 8.40%, IntesaBCI 8.40% and Hopa 16.00%.

After the aforementioned merger, Olimpia S.p.A. will hold 28.5% of the share capital of Olivetti, the parent company of Telecom Italia.

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■ FINANCIAL COMMUNICATIONS

Since the end of 2001 and throughout 2002, the Telecom Italia Group has wanted to provide information about financial matters that is ever-more accurate, continuous and timely, with the aim of achieving greater transparency and reliability both in terms of the business results and corporate governance of Telecom Italia S.p.A. and its subsidiaries, in order to meet in full the requirements of investors and the regulations established by the official bodies involved.

Moreover, this high level of commitment is recognized by the financial market which, through a study conducted by Deutsche Bank in collaboration with DWS Investment, ranked Telecom Italia in first place among European telecommunications companies in terms of respecting corporate governance regulations.

It should be pointed out that the operations of Investor Relations have been entrusted to an independent Corporate Function which reports directly to the Managing Director, with key accounts devoted to the various categories of internal and external interlocutors, with the aim of ensuring that communication will be more timely, complete and effective.

With this in mind, it has been decided to disseminate precise, exhaustive information through the delivery of communiqués and the publication of institutional bulletins (compulsory and optional periodical reports, such as the Sustainability Report, and disclosure giving details of shareholders' meetings and individual transactions on the market) and by taking advantage of both traditional paper and innovative on-line tools.

In fact, the Telecom Italia website www.telecomitalia.it has been renovated with a special area devoted to institutional investors and the retail sector. In addition to the continuous enhancing and updating of the content of the website, special care has been taken to provide information on the performance of shares and corporate events.

In 2002, the company organized more than 25 formal encounters with the market (with analysts, institutional investors and members of the national and international specialized Press). They took the form of quarterly conference calls, road shows, participation in conventions, Press conferences, to which must be added daily dealings with all the financial analysts and investors both through direct meetings or by phone, to supply them with the information they need for their activities.

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

Finally, on February 13, 2003, within the framework of the activities undertaken to implement the rules of Corporate Governance, the Board of Directors of Telecom Italia also approved the "Procedure for the communication of price-sensitive information to the market".

The document establishes ways of operating with the aim of disseminating this kind of information to the market, identifies the Functions and Structures involved in the process, and also lays down the procedure that must be observed in the presence of rumors or requests for information from people involved in the supervision or management of the market. Furthermore, the procedure lays down rules about activities to be conducted whenever there are encounters between the Company and the financial community or the Press, so as to ensure a non-selective use of corporate information.

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CUSTOMERS

■ CUSTOMER SATISFACTION

Customer satisfaction and direct, ongoing business with customers were the cornerstone of Telecom Italia Group's loyalty policy also in 2002. Despite the diversity of operations of the various businesses, the **customer relationship management** tools are quite similar (call centers, toll-free numbers, service centers, websites, regular customer satisfaction surveys – the latter often in collaboration with independent agencies), although tailored to the type of customer and service delivered.

In 2002, customer care at Telecom Italia S.p.A. - **Domestic Wireline** was based on 169 toll-free numbers, 100 service centers and the company website. The helpdesks answered nearly 64 million calls, while the website was visited around 4 million times. Monthly surveys on customer satisfaction produced the following feedback:

- customers satisfied with line operations were on average over 90% (90.9% residential customers and 89.2% business customers);
- 64% of residential customers and 50% of business customers receive a solution to their problems in a single telephone call, a so-called "one-call solution";
- 77% of residential customers' repairs and 74.6% of business customers' are carried out within the 2nd day after being reported;
- Residential customer satisfaction with fault repairs measures 92.7% and business customer satisfaction 83%;
- Executive customer satisfaction levels are high and, on average, over 80%.

The other companies belonging to the Domestic Wireline Business Unit, operating in various markets, use similar tools, adapting them according to their specific customers.

The organizational model of the TIM group (**Mobile Business Unit**) consists in extending the controlling company's model to all affiliates. Its customer care policies are underpinned by nationwide sales and service networks and services (toll-free numbers, call centers, websites) that are easily and regularly used by customers, who particularly appreciated the effectiveness of these services in 2002. Customer satisfaction was 83.9% for the TIM call center, 90.3% for the Stet Hellas call center and, on average, around 70% for the call centers run by the companies operating in South America.

To improve customer satisfaction, both Entel Chile and Entel Bolivia (**Latin America Operations**) set up call centers, toll-free numbers dedicated to segments of its customer base, sales points, service centers and websites; the call centers were the most successful service with as many as 3.2 million calls in Bolivia.

All companies in the Seat group (**Internet and Media Business Unit**) employ dedicated toll-free numbers and call centers, greatly used by customers, and corporate websites for customer relationship management. Seat Tin.it also uses innovative web-based forms of contact with customers. The La7 call center and MTV toll-free number are dedicated to customers who have signal reception problems.

As regards the **Information Technology Market Business Unit**, the group leader, Finsiel, manages customer relations through dedicated toll-free numbers, websites/e-mail (with more than 70,000 hits in 2002) and automatic call centers. The help desk – the main service for customer satisfaction – was used to interview customers by telephone in order to monitor customer satisfaction.

In the companies forming the **Information Technology Group Business Unit**, customer service was guaranteed by toll-free numbers, service centers and websites/e-mail; in 2002, Sodalìa and Webegg's sites had a very high viewing rate. Saritel's service procedures are diversified according to the services delivered. Customer satisfaction with Sodalìa's communication and supply of service was around 70%.

ISO 9000 **certifications** were obtained by companies belonging to all Business Units and operating activities in the Group, including Telecom Italia S.p.A. – Domestic Wireline, TIM, Stet Hellas, Maxitel, Entel Bolivia, Banksiel, Saritel and TILAB. Digitel Venezuela and Entel Chile expect to obtain them in 2004. Part of TIM's network operations are certified according to the ISO 14001 standard concerning the environmental management system. The same certification is pending for Telecom Italia's network; TILAB has already obtained it for its Environment, Health & Safety system. A number of companies obtained special certifications for specific activities.

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SUPPLIERS

■ CONTRIBUTION TO SUPPLIERS OF THE TELECOM ITALIA GROUP

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

(millions of euro)		2002	2001
TELECOM ITALIA GROUP			
* Consumption of raw materials and outside services (net of the telecommunications license fee or charge)	(A)	12,127	12,518
- of which related parties	(a)	469	586
* Industrial investments	(B)	4,842	8,164
- of which related parties and capitalized internal construction costs	(b)	1,130	665
* Total contribution	(C = A + B)	16,969	20,682
- of which related parties and capitalized internal construction costs	(c = a + b)	1,599	1,251
* Net total contribution	(C - c)	15,370	19,431

■ QUALIFICATION

The supplier qualification process is centralized for all Telecom Italia Group companies through application of common general criteria, but taking into account product/service-specific parameters or checklists.

Qualification can be of three typologies, each preliminary to the subsequent assessment:

- Basic (sales, safety, tort liability, compliance with environmental policies, etc.);
- Economic-Financial (examination of financial statements and evaluation of specific indicators);
- Technical-Organizational (actual capability to produce or supply products and services).

Qualified suppliers are listed in the Telecom Italia Group Register of Vendors by product category. The Group's procurement policy is based on competition between qualified Vendors in terms of purchase cost, procurement time, and quality of supplies.

A similar, but more simplified, selection process is applied to subcontractors, the results of which determine authorization to subcontract.

■ VENDOR RATING

The quality of supplies/services is monitored by means of the product/service-specific Vendor Rating based on technical, commercial and administrative evaluations.

Assessments are made both at centralized level during supplier qualification and by the individual companies in the Telecom Italia Group during the term of contract.

The latter assessments may be annual or six-monthly and the number of assessments can vary according to performance resulting from the Vendor Rating.

■ TRANSPARENCY

Transparency is assured in relationships with suppliers by:

- informing suppliers of the results of the Vendor Rating in order to agree on improvements;
- informing suppliers of the verification system, illustrating all aspects related to the specific monitoring procedure in documents enclosed with contracts;
- on-line bids via the Corporate Internet site, allowing suppliers to know developments and the final results in real time;
- including health & safety and environmental standards in bidding documents and related specifications.

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COMPETITORS AND REGULATORY FRAMEWORK

■ APPROACH

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

- **Competitors** and participate in defining rules for fair competition and for achieving convergence in communications. Creation of balanced, stable, predictable rules is a target shared by all businesses in the sector.
- **Partners** in development of new services and new business models. In the recent past, development first in mobile telephony followed by Internet was also the result of innovations proposed by various businesses.
- **Customers.** Telecom Italia's organization comprises a Wholesale Division, which sells a wide range of services. Telecom is one of the first operators in Europe to have offered services such as the permanent virtual channel, partial lines, wholesale direct lines, and shared access.

■ PARTNERSHIPS

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

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

The principal associations in which the Group actively participates are:

- **ETNO** (European Telecommunications Network Operators' Association) founded to promote development of a competitive and efficient European market for telecommunications. Telecom Italia is a member of the Executive Board of the Association and chairs the Sustainability Working Group;
- **ITU** (International Telecommunications Union) which aims to support development of the industry internationally through cooperation between the public and private sectors. Telecom Italia, TIM and TILAB participate in, and often lead or coordinate, many study groups.
- **GSM Association** which promotes global development of wireless communications guaranteeing interoperability between operators, equipment, services and roaming, in which TIM was recognized technological leadership in addressing and defining strategies for development of global radiomobile services worldwide.

In the field of relationships with suppliers, participation in the Task Forces EIRUS (European Ipqm and Rqms UserS) in Europe and QuEST (Quality Excellence for Suppliers of Telecommunications) in North America allows the Telecom Italia Group to be informed of developments in technical quality monitoring processes applied by the leading operators and manufacturers of telecommunications products and systems.

■ REGULATORY FRAMEWORK

The new regulatory framework will be governed by new standards which will be introduced in national regulations by incorporating the EC Directives in the "99 Review" relating to electronic communication networks and services (directives concerning "Access", "Authorization", "Framework", "Universal Service" and "Data Protection"). The new standards will be included in the national regulatory framework by July 24, 2003. In this connection, Law No. 166 of August 1,

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2002 gave the Government a mandate to implement the new directives, and to adopt a code of legal and regulatory measures in the field of TLC. Furthermore, the European Commission published Recommendations on important product and services markets in electronic communications, as well as Guidelines for market analysis and the evaluation of significant market power.

There follows a brief description of the standards adopted during 2002.

■ RATE REBALANCING

Within the framework of the price cap formulas and in observance of Resolution No. 847/00/CONS of December 11, 2000, the price adjustments of February 1, July 1, and December 30, 2002 became effective and further reduced telephone expenses for residential and business customers. The adjustment of basic subscription charges was accompanied by further price reductions for local, inter-district and international calls. On August 5, 2002, the National Regulatory Agency began a public consultation with Resolution No. 183/02/CONS on the review of the price-cap formulas with effect from 2003.

■ INTERCONNECTION AND LOCAL LOOP UNBUNDLING

In compliance with the rules laid down in Resolution No. 4/02/CIR, on April 18, 2002 Telecom Italia published the Interconnection Reference Plan (OIR) which contains technical and economic conditions for using the network, both in terms of switched transport and local loop unbundling to the last mile. The new plan offers generalized reductions on the services distributed to interconnected operators. On February 27, 2003, the National Regulatory Agency approved the OIR together with the criteria for changing the charges of the OIR for the next 4 years (the so-called network cap). In compliance with Resolution No. 5/02/CIR, on April 30, 2002 Telecom Italia published the new flat-rate interconnection rate for Internet access known as FRIACO. The terms of supplying Partial lines according to the 2002 price list were published on the same date.

■ ADSL BROADBAND ACCESS SERVICES

On September 30, 2002, Telecom Italia presented a new ADSL wholesale rate plan, based on a flat rate, which enables an operator to separately acquire access and "carry" data traffic to its point of presence. These changes, together with simultaneous price reductions for unbundling and shared access services led the National Regulatory Agency to grant approval of Telecom Italia's new "Alice time" rate plan, on September 25, 2002.

■ EQUALITY IN INTERNAL/EXTERNAL TREATMENT

In Resolution No. 152/02/CONS, the National Regulatory Agency approved measures that are intended to ensure the full application of the principle of equality in internal and external treatment on the part of fixed telephone operators with significant market power. These measures concern accounting reports, the ways in which services are offered to other operators, the application of the Network Cap model to the interconnection price list and *unbundling*, and ways of verifying the terms of the plans offered to the public.

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■ GENERAL TELEPHONE DIRECTORY

In Resolutions No. 36/02/CONS and 180/02/CONS, the National Regulatory Agency established the rules and organizational methods for the creation and supply of a general telephone directory containing the numbers of subscribers to the services of all fixed and mobile telephone operators. The creation of the single database will be organized within the regulatory framework agreements stipulated among the various operators.

■ MOBILE NUMBER PORTABILITY

In Resolution No. 7/02/CIR, the National Regulatory Agency issued the regulations for the pricing of Mobile Number Portability. The prices which the Recipient (the operator who acquires the customer with the same number) must pay to the Donor (the operator who gives up the customer) will be established by the National Regulatory Agency and must not, in any case, be higher than the prices for Number Portability on fixed networks. In addition, the customer migrating to another operator has the right to use up any credit remaining on prepaid cards.

■ UNIVERSAL SERVICE

Telecom Italia continues to maintain its obligation to provide certain services – including phone services – at “accessible” prices. Such services, which are guaranteed in unprofitable geographical areas to low-profile customers, constitute the so-called “Universal Service”, for the supply of which Telecom Italia sustains a “net cost”. On December 23, 2002, the Infrastructures and Networks Commission of the National Regulatory Agency approved the measure in which the net cost sustained by Telecom Italia to provide the Universal Service in 2001 was estimated at euro 40.28 million, to which Telecom Italia itself contributes 42.68% (euro 17.19 million).

■ EQUALITY FOR ISP/OLO

In its implementation of Law No. 59/02, the National Regulatory Agency declared that Internet Service Providers (ISP) are to be considered on an equal basis with other licensed operators, granting ISPs the right of access to the prices on the Interconnection Reference Plan (OIR), and to ask the Ministry of Communications to grant them the right to use numbering resources for Internet services and for the routing of the traffic involved. In implementation of the above-mentioned law, the National Regulatory Agency made known that Telecom Italia and Wind were “Significant Market Power” (SMP) operators in the intermediate market for the termination of calls destined for Internet, and Telecom Italia was an SMP in the market of final Internet access services from the wireline network using dial-up technology.

■ LEASED LINES

In Resolution No. 59/02/CONS, the National Regulatory Agency approved the wholesale plan of charges for leased lines for OLO and ISP in compliance with the obligation to levy charges based on the “retail-minus” principle established in Resolution No. 393/01/CONS.

■ LICENSES

DPR No. 211 of August 1, 2002 changed the period of individual licenses in the TLC sector from 15 to 20 years (with an extension for those already issued).

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■ TLC INFRASTRUCTURES

Legislative Decree No. 198 of September 4, 2002 establishes the fundamental principles with regard to the installation and alteration of TLC infrastructures that are regarded as being strategic, and fixing precise terms for the issue of authorizations, abrogating the procedure of environmental impact assessment (VIA) and limiting the financial responsibility of companies to expenses associated with installation operations, digging and occupation of public property. Law No. 166 of August 1, 2002, also defined the new standards relating to the installation, access and sharing of multi-service cables and cable ducts that need to be built following construction and maintenance work on civil works.

■ EVOLUTION OF THE EC REGULATORY FRAMEWORK

New directives have been published and are in the "99 Review":

- Directive 2002/19/EC concerning access to electronic communications networks and related resources, and interconnection of the said networks (known as the "Access" directive);
- Directive 2002/20/EC concerning authorizations for electronic communications networks and services (known as the "Authorizations" directive);
- Directive 2002/21/EC which establishes a common regulatory framework for electronic communications networks and services (known as the "Framework" directive);
- Directive 2002/22/EC concerning the universal service and the rights of users with regard to electronic communications networks and services (known as the "Universal Service" directive);
- Directive 2002/58/EC on the treatment of personal information and on the safeguarding of privacy (known as the "Data Protection" directive).

The new standard must be incorporated in national regulations by July 24, 2003 and, in this context, Law No. 166 of August 1, 2002 gave the Government a mandate to introduce the new directives and to adopt a code of legal and regulatory measures for TLC.

In addition, the European Commission is in the process of defining a recommendation concerning important markets for services and products with the aim of imposing, changing or revoking the observance of regulations.

THE STATE AND OTHER INSTITUTIONS

In 2002 the contribution of Telecom Italia Group to Public Administrations, in Italy and internationally, was euro 1,090 million.

TELECOM ITALIA GROUP

(millions of euro)	2002	2001
Social security and national health insurance contributions	1,199	1,225
Direct taxes	(716)	925
Indirect taxes	115	120
TLC license fees	431	524
Ministry of Economy and Finance (dividends)	61	61
	1,090	2,855

In 2002, the Group received capital grants from Italian Public Administrations only amounting to euro 42 million (euro 22 million in 2001), including euro 23 million pertaining to Telecom Italia S.p.A..

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FUTURE GENERATIONS

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

■ ENVIRONMENTAL PERFORMANCE INDICATORS

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

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

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

■ Waste management

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

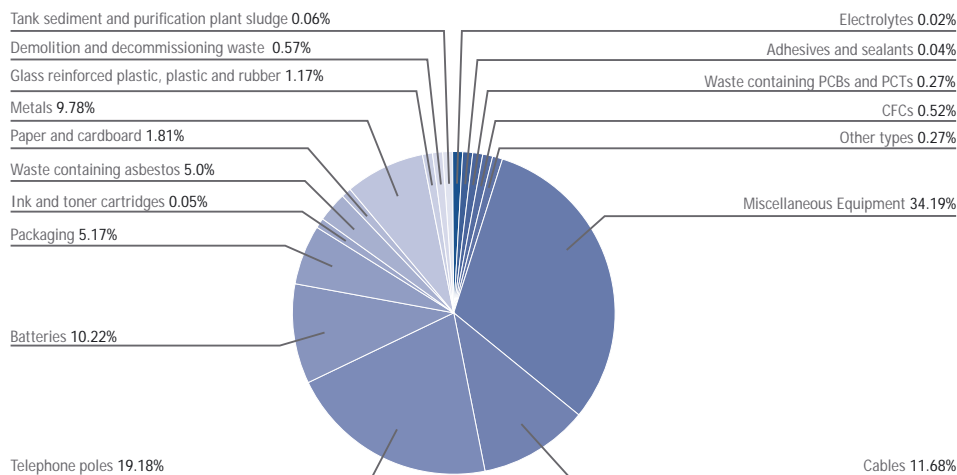
Waste, primarily consisting of telecommunications materials and products, has been managed by a single company at national level since 1999. Disposal processes favor reuse and recycling options, whenever possible.

The data reported herebelow refer to the financial year 2001 and Telecom Italia S.p.A..

In 2001, generated waste totaled 27,915 tons, a decrease of nearly 34% over the previous year. Compared with the year 2000, there was a significant reduction in disposal of equipment and batteries, which were related to decommissioning of analog telephone exchanges, poles and cables.

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

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



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■ Consumption of natural resources and energy

The natural resources used directly by the company include materials employed in material manufacturing processes and products acquired and operated directly or made available to the public:

- **water**, for civil use. In 2002, consumption rose 17.7%;
- **diesel oil and natural gas** used in heating systems. In 2002, diesel oil consumption decreased by more than 14%, whereas natural gas consumption increased by just over 4.3%; from an energy standpoint, this means a global reduction of 0.68% (from consumption of 825,151 GJ in 2001 to 819,540 GJ in 2002). Thanks to an optimization plan currently underway diesel oil consumption for heating purposes is expected to be reduced by 3% in 2003;
- **fuel** for corporate fleet vehicles. Consumption was reduced by around 11.5% compared with 2001, as a result of a reduction in vehicle numbers and distances covered. A project is in place that should lead to the reduction of the corporate fleet by approx. 4,000 vehicles in 2003 and the introduction of a certain number of vehicles using both gasoline and natural gas as fuel, aimed at reducing polluting atmospheric emissions.

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

As a result of action to improve the energetic efficiency of infrastructures over the last three years, the Group succeeded in achieving an annual reduction in the consumption of electricity used to power the telecommunications network exceeding 3%. The action plans should also make it possible to continue the declining trend in 2003.

The Group is experimenting alternative sources of electric power generation to power the Radio Base Stations (RBS) including photovoltaic and wind power production. In 2002, a program was launched to produce four RBSs in Calabria able to produce a total of 80KW. It is estimated that for every RBSs with a power of 18KW there will be a daily saving of 110 liters of diesel oil; this significantly reduces pollutant emissions to air (particulate, carbon monoxide, nitric oxide).

■ Air quality and climate change

The Group's contribution to greenhouse emissions, primarily carbon dioxide (CO₂), is basically due to use of fuels for heating and transport and, indirectly, to consumption of electricity. In 2002, Telecom Italia S.p.A.'s emissions amounted to 950,304 tonnes of CO₂; the estimated net reduction compared with the previous year was above 13%.

Electricity consumption [GWh]	2002	2001
Telecom Italia S.p.A.	1,706	1,835
TIM S.p.A.	431	410
Seat S.p.A. ⁽¹⁾	6	5
Total	2,143	2,250

(1) The consumption figures for Seat S.p.A. refer to the 7 company offices where electricity supplies are registered in the name of the company.

Water consumption [m ³]	2002	2001
Telecom Italia S.p.A.	4,967,312	4,220,253
TIM S.p.A.	310,000	432,000
Seat S.p.A.	55,000	54,122
Total	5,332,312	4,706,375

Diesel oil consumption for heating [liters]	2002	2001
Telecom Italia S.p.A.	5,393,518	6,280,431
TIM S.p.A.	140,000	147,000
Seat S.p.A.	0	0
Total	5,533,518	6,427,431

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Natural gas consumption for heating [m ³]	2002	2001
Telecom Italia S.p.A.	17,990,314	17,241,706
TIM S.p.A.	2,950,000	2,275,000
Seat S.p.A.	500,000	411,650
Total	21,440,314	19,928,356

CO ₂ emissions [t]	2002			2001		
	Electricity	Heating fuel	Transport fuel	Electricity	Heating fuel	Transport fuel
Telecom Italia S.p.A.	843,186	54,887	52,231	979,890	55,581	58,410
TIM S.p.A.	217,338	7,005	6,949	218,940	5,507	6,332
Seat S.p.A.	3,204	1,124	1,424	2,873	925	NA
Total	1,063,728	63,016	60,604	1,201,703	62,013	64,742

■ Electromagnetic emissions

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

- absolute compliance with the legislation in force in the countries in which it operates.
The corporate process is structured on rigorous management of project engineering, of the selection of sites, and of installation of systems;
- careful and scrupulous management of company installations throughout the whole life cycle, in compliance with additional internal efficiency and safety standards;
- use of, and constant research for, leading-edge technology tools for control and investigation activities.

Specifically, as far as regards GSM, a procedure for monitoring the fraction of power emitted with respect to the maximum rated power is currently in an advanced stage of development.

Regarding UMTS, definition of methodologies of analysis and simulation for estimation of radioelectric power in various propagating environments and multimedia traffic contexts is in the process of refinement. The first results have already been presented at a number of international conferences. The technology developed by TILAB for measurement of radiofrequency power generated by a radio base station will shortly be integrated by a sensor that will allow direct measurement of electromagnetic emission levels.

In 2002, TIM monitored 2,896 transmission installations out of 4,059.

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

- cooperation and support in medical-scientific studies. Specifically, Telecom Italia S.p.A., in cooperation with a number of Italian universities and national and international organizations, promoted investigations to check the emission values of electromagnetic radiations and possible impacts.

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■ ENVIRONMENTAL MANAGEMENT

An Environmental Management System (EMS) is under development; implementation of the system is a target to be progressively extended across the Group.

Telecom Italia Lab developed an integrated system for environmental management in accordance with the standard UNI EN ISO 14001 and for Health & Safety management in accordance with standard OHSAS 18001. The Environmental Management System obtained certification by DNV (Det Norske Veritas, an internationally accredited certification body) in 2001.

Additionally, Telecom Italia Lab conducted research on behalf of Telecom Italia S.p.A. and TIM, to promote the improvement process in terms of sustainable development.

The project for UNI EN ISO 4001 certification of the Environmental Management System of the **Network Function** of the **Domestic Wireline** (DW) Business Unit is in the stage of completion.

In 2002, audits were carried out by the certification body IMQ-CSQ, all with positive results, in the Network's territorial structures "Centro 2" (which covers Lazio, Abruzzo, Molise and Sardinia), Milan, "Centro-Nord" (which covers Emilia Romagna, the Marches and Umbria), "Sud 2" (which covers Calabria and Sicily), Piedmont-Valle d'Aosta, plus Network's central Function SQ, which coordinates the project.

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

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

The project will be completed in 2004.

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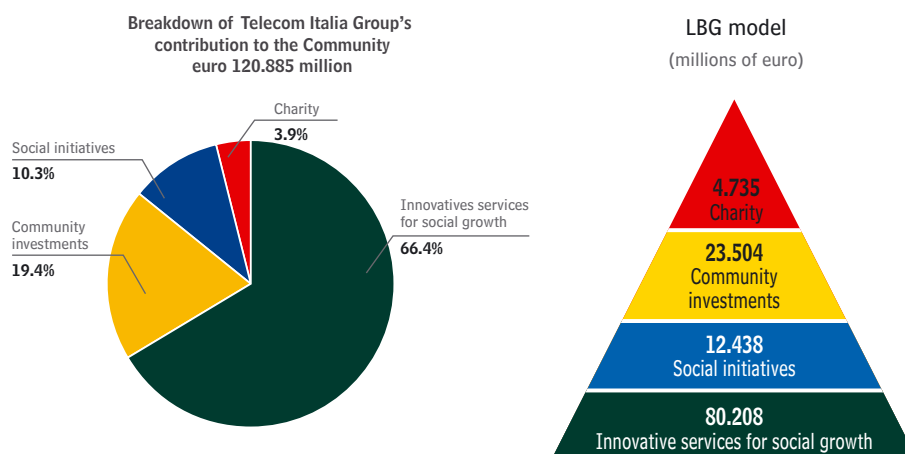
THE COMMUNITY

In 2002, the Telecom Italia Group companies' commitment to the Community and Future Generations stakeholders was estimated at euro 120,885,000, equal to 1.6% of the Group's operating income.

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

■ CONTRIBUTION CLASSIFICATION (LONDON BENCHMARKING GROUP MODEL)

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



This model reclassifies contributions into four different categories.

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

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

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

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

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

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

■ Charity

Group companies in Italy and other countries supported various initiatives including “Telefono Azzurro” (helpline for children), AIRC (cancer research), Telethon, San Patrignano (community for recovery of drug addicts), donation of medicines to the needy and surgical equipment to public hospitals in Bolivia, support for the populations hit by the earthquake in Molise and by flooding in Brazil and for the victims of domestic violence in South America.

■ Community investments

Group activities to improve infrastructures (building and technological infrastructures) from a safety and environmental viewpoint continued in 2002.

Numerous scholarships were offered by the Group (“Master Bocconi MEGeS”, “Borsa Scuola Superiore di Specializzazione in TLC”, “Borsa di studio Master LUISS”, “Consorzio ELIS” (CONSEL); “Federazione Nazionale Cavalieri del Lavoro”). Additionally, the “TIM Fellowship Programme”, conceived with the aim of creating a preferential channel for identifying the best candidates, through promoting lifelong learning and professional development of university students in the new economy, mobile business and ICT, was started up.

The Project “Telecom alleniamoci alla Vita” (Telecom let’s train for life) is conceived with the aim of promoting social and individual growth of the young through the values of sport. It is a three-year, nation-wide project for schools of all types and levels, targeted and diversified for students, teachers and families by an integrated package of educational materials and aids: teaching cards, posters, films, CD-Roms, guides and booklets.

Support has been provided to the Children’s Hospital “Ospedale Pediatrico Bambino Gesù” in Rome for a research project to set up human endothelial cell banks to treat diseases and pathological injuries resistant to pharmacological therapy.

■ Social initiatives

Participation of the Telecom Italia Group in the 13th edition of the television marathon Telethon, providing Group facilities and technology to raise awareness for and most successfully support fundraising for muscular dystrophy and other genetic diseases.

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The Group also provided support in the form of an important press campaign in the leading national and regional newspapers to maximize circulation of the message of the appeal.

Support for the 19th edition of "ViviCittà", recognized as a major social and sports event, with stops in 60 cities in Italy (and 30 prisons and juvenile detention centers) and 50 cities worldwide, covering a total distance of 14,535 km and involving one million participants. Africa was chosen as the testimonial for the 2002 edition, named "Run for rights". Support for the "Bread project", an educational program for alternative nutrition in the poor regions in Brazil aimed at eliminating infantile malnutrition through education for 10,000 people.

■ Innovative services for social growth

These basically refer to research and development activities by TILAB for the Group companies in ICT, which have reverberations of great social importance.

The E_Learning platform, begun in 2001, was completed.

This service has made it possible to deliver "distance" learning and mixed learning (traditional classroom teaching supported by and/or replaced by on-line learning).

In the distance learning field, the "Application Service Provider" facility (interactivity with the customer's IT structure or setting up the learning package on the customer's premises) proved the key solution for the future of training. Teaching packages were designed and produced and put into operation, as well as the E_Educational branch for training services for Schools and Universities.

In 2003, "**PROGETTO ITALIA**" was launched programming community investment initiatives.

Progetto Italia, publicly presented on January 21, 2003, is a further sign of the will to give a unitary and strategic sense to all the resources and energies spent by the Group on various fronts of activities in the cultural, social and sports field.

Specifically, the aim of the program is to promote growth of the country through improving diffusion of culture and cultural values.

With an initial annual budget of euro 30 million, Progetto Italia comprises more than 30 initiatives. Each of them is conceived and realized directly by Telecom Italia, either independently or in partnership allowing the Group to actively participate with a contribution of ideas and technologies.

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RESEARCH & DEVELOPMENT

During 2002, the R&D activities of the Telecom Italia Group were largely conducted by TILAB, also in collaboration with Pirelli Labs, dedicating 1,081 employees.

The activities involved research and testing in the field of fixed, mobile and Internet telecommunications.

As far as Internet and mobile applications are concerned, research activities were focused on testing integrated applications and technological solutions for multimedia, the definition of the manner and methods of accessing contents and managing broadband users, creating and evaluating hi-tech solutions for user environments (terminals, domestic cabling and applications platforms).

Activities in the sphere of switching and networking were geared to the evolution of IP networks, developing Content Delivery Network architectures for an efficient distribution of multimedia content. Particular attention was also focused on Wireless LANs and on innovative solutions for telephone services on package networks.

Research into network infrastructures involved both the metropolitan and transport network, with the testing of new automatic fiber optic switching architectures, and the access network, with the proposal of innovative solutions based on copper wire and fiber optic connections.

In 2002, these research activities led to the registration of 45 patents, an increase of 13% compared to the prior year.

Overall R&D expenditures incurred during the year amounted to approximately euro 121 million.

The total of grants and low-interest loans to support R&D costs, already received or awaiting receipt by TILAB, amounted to approximately euro 12 million.

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EQUITY INVESTMENTS HELD BY DIRECTORS, STATUTORY AUDITORS AND GENERAL MANAGER

Pursuant to art. 79 which introduced Legislative Decree No. 58 of February 24, 1998, adopted by Consob under Resolution No. 11971 of May 14, 1999 and later amendments and supplements, the following table presents the equity interests held by the Directors, Statutory Auditors and General Manager of Telecom Italia S.p.A. and its subsidiaries.

Name	Company	Class of shares	Number of shares held at the end of 2001	Number of shares purchased	Number of shares sold	Number of shares held at the end of 2002
BOARD OF DIRECTORS						
Marco TRONCHETTI PROVERA	=	=	=	=	=	=
Gilberto BENETTON	=	=	=	=	=	=
Carlo Orazio BUORA	=	=	=	=	=	=
Riccardo RUGGIERO	=	=	=	=	=	=
Enrico BONDI	=	=	=	=	=	=
Umberto COLOMBO	=	=	=	=	=	=
Francesco DENOZZA	=	=	=	=	=	=
Luigi FAUSTI	Telecom Italia Mobile	ordinary	50,000	=	=	50,000
Guido FERRARINI	=	=	=	=	=	=
Paolo GRANDI	=	=	=	=	=	=
Natalino IRTI	Telecom Italia Mobile	ordinary	11,000	=	11,000	=
Gianni MION	=	=	=	=	=	=
Pietro MODIANO	=	=	=	=	=	=
Massimo MORATTI	=	=	=	=	=	=
Carlo Alessandro PURI NEGRI	=	=	=	=	=	=
Pier Francesco SAVIOTTI	Telecom Italia Mobile	ordinary	10,000	=	=	10,000
Roberto ULISSI	=	=	=	=	=	=
BOARD OF STATUTORY AUDITORS						
Paolo GERMANI	=	=	=	=	=	=
Mario BOIDI	=	=	=	=	=	=
Paolo GOLIA	Telecom Italia	savings	=	4,309	4,309	=
Fabrizio QUARTA	=	=	=	=	=	=
Gianfranco ZANDA	=	=	=	=	=	=

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LITIGATION

There follows a description of the main disputes and litigation in which the Telecom Italia Group is involved at December 31, 2002. Except where specifically mentioned, the Telecom Italia Group did not make any provision to the risk reserves because of the absence of definite and certain elements and/or because a negative outcome to the litigation is not considered probable.

■ DISPUTE CONCERNING RESOLUTIONS PASSED AT TELECOM ITALIA SHAREHOLDERS' MEETINGS

Personal action is pending for damages claimed for a total of euro 18.9 million brought against Olivetti, Telecom Italia and the Chairman and Deputy Chairman pro tempore. The claim is based upon the alleged non-fulfillment of the commitments contained in the "Offer Document" relating to the takeover and exchange bid by Olivetti and Tecnost for Telecom Italia in 1999, and also for the resolution passed by the Shareholders' Meeting of January 14, 2000 for the buy-back of savings treasury stock.

■ UNIVERSAL SERVICE

In January 2002, the Regional Administrative Court (TAR) of Lazio ruled in favor of the appeal presented by Omnitel to obtain the annulment of the resolution passed by the National Regulatory Agency on the subject of the "Applicability of the formula for sharing the net cost of the universal service for the year 1999", that was also contested by Infostrada. In particular, the TAR ruled that the dispute concerning the errors in the administrative proceedings was valid whereas it turned down the plea over the merits of the regulation, which in any case will be updated. Meanwhile, Omnitel did not pay its share of the universal service (some euro 9 million) and the Ministry of Communication was thus unable to pay the amount due to Telecom Italia for the costs it incurred in 1999 to supply the universal service.

* * *

In the early months of 2002, Telecom Italia was notified of the appeal presented by Omnitel to the TAR of Lazio and the extraordinary appeal filed by Wind to the Head of State to annul the resolution containing the regulations on the "Universal Service: Applicability of the formula for sharing the net cost of the universal service for the year 2000". In addition to the suspension of the efficacy of the law, Omnitel also requested that the case be referred to the Court of Justice of the European Community for a preliminary opinion on the correct interpretation of the EC directives. This being the case, Omnitel and Wind did not pay their share of the contribution for supplying the universal service for the year 2000 which amounted to euro 12 million.

■ DATA TRANSMISSION SERVICES AND INTERNET ACCESS BASED ON X-DSL TECHNOLOGY

Following a preliminary investigation into Telecom Italia's conduct with regard to the supply of basic band direct lines and the offer to its business users of broadband data-transmission and Internet access services based on x-DSL technology, without any corresponding wholesale rate plan for its competitors, in April 2001 the Antitrust Authorities imposed a fine of euro 59 million on Telecom Italia. In November, the TAR of Lazio reduced the fine to euro 29 million which was paid, with reserve, in January, in relation to a proposed appeal to the Council of State. The appeal was then filed to obtain the integral annulment of the contested proceedings, which was disputed on the basis of general unreasonableness and lack of motivation and preliminary investigation. In the meantime, claims for the payment of damages have been brought before the competent civil courts by Albacom, Infostrada, AIIP, Unidata, Data Service and other operators, for the

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alleged abuse of a dominant position on the part of Telecom Italia for the same conduct contested by the Antitrust Authorities.

In January 2003, the Court of Appeal of Rome sentenced Telecom Italia to pay a total of about euro 2 million as compensatory damages to Albacom, Wind (formerly Infostrada), Cable & Wireless (formerly Unidata) and Data Service.

Similar actions are pending for claims brought by other operators.

■ GALACTICA DISPUTE

At the end of May 2001 a dispute arose between Telecom Italia and the Internet Service Provider Galactica S.p.A. (currently in liquidation) for failure to renew the agreement concerning the testing of an Internet access service, at a flat rate. Assuming the alleged illegality of not renewing the agreement, Galactica claimed damages, challenging Telecom Italia not to interrupt the distribution of the service.

In February 2002, Galactica therefore presented a new summons in action for damages suffered as a result of the alleged unfair trade practices of Telecom Italia.

In May 2002, the magistrate judge combined the two cases.

On October 16, 2002, the company Servinternet S.p.A. (formerly Galactica) in liquidation, presented a third summons in action against Telecom Italia to appear before the Milan Court. This case has also been combined with the other two cases pending before the same magistrate judge.

■ ALLEGED UNFAIR TRADE PRACTICES BY TELECOM ITALIA

Following a petition by 27 operators of the competition in which Telecom Italia was denounced for alleged market strategies hurting market development, in regulation No. 179/01/CONS, the National Regulatory Agency objected to violations committed by the Company, and proceeded to commence the relative procedures for sanctions with independent and specific resolutions. A counter-action is pending before the TAR of Lazio for both the presumed procedure and the successive resolutions.

In the meantime, the National Regulatory Agency notified Telecom Italia of certain proceedings relating to administrative sanctions which were contested by the Company before the TAR of Lazio.

■ SEAT PAGINE GIALLE/DE AGOSTINI

Arbitration proceedings initiated by De Agostini are pending against Seat Pagine Gialle, Finanziaria Web, Matrix and Buffetti group for the alleged non-fulfillment of the agreement signed in 2000 governing – among other things – the sale of the 40% stake in Finanziaria Web (which, in turn, controls Matrix) by De Agostini to Seat. Maintaining that all the conditions stipulated in the contract were met, De Agostini is asking for the specific execution of the agreement and, therefore, the transfer of its Finanziaria Web shares to Seat at the price of euro 700 million, with payment beginning on June 30, 2003.

■ SEAT PAGINE GIALLE/CECCHI GORI

On June 13, 2002, the Rome Court rejected the complaint filed by Cecchi Gori Group Media Holding and Fin.Ma.Vi. to find the financial statements and related balance sheet at December 31, 2000 of Cecchi Gori Communications - CGC (now Holding Media Communications) null and void and to find the resolutions passed by the Shareholders' Meeting of April 27, 2001 invalid. Cecchi Gori Group Media Holding and Fin.Ma.Vi. appealed the decision, re-proposing the complaint in the first degree court.

Pending at this date is: i) the case for the annulment of the pledge of the CGC shares to guarantee

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the proper fulfillment of all the obligations covered by the contract under which, on August 7, 2000, Seat Pagine Gialle acquired control of CGC; ii) the case for a declaratory judgement finding the resolution passed by the CGC Extraordinary Shareholders' Meeting invalid and to change the quorum for voting in the Board of Directors' Meeting and the Shareholders' Meeting. In August 2001, Cecchi Gori Group Media Holding and Fin.Ma.Vi. also initiated arbitration proceedings to find for the rescission or the invalidity of the contract for the acquisition of Cecchi Gori Communications dated August 7, 2000, signed between Seat Pagine Gialle and the Cecchi Gori Group, and to sentence Seat Pagine Gialle to return 75% of the share capital of Cecchi Gori Communication or to pay damages for breach of contract.

■ FASTWEB

On July 11, 2001, Telecom Italia and Fastweb signed the "Contract for access and utilization of civil infrastructures" in compliance with the ruling handed down by the Antitrust Authority, which obliged Telecom Italia to make its civil infrastructures available to competing operators for the supply of interactive and multimedia services, at non-discriminatory terms and prices aligned to costs. Telecom Italia was subpoenaed on August 29, 2002 to appear before courts in action brought by Fastweb so that the judge could ascertain and state the precise amount of consideration due for the access and the utilization of the infrastructures, eliminating any doubts arising from the interpretation of the clause governing the determination of price. Telecom Italia asked, by way of a counterclaim, the payment of some euro 46 million as consideration for the services contained in the above-mentioned contract.

■ FEE CONCERNING ARTICLE 20, PARAGRAPH 2 OF LAW NO. 448 OF DECEMBER 23, 1998

The Ministerial Decree of March 21, 2000 introducing Italian Law No. 448 of December 23, 1998, which, on January 1, 1999, established a new license fee in place of the concession fee was contested by Telecom Italia, TIM, Wind and Omnitel, before the TAR of Lazio and extraordinary appeals were presented by Infostrada and Albacom to the Head of State. Furthermore, with regard to extraordinary appeals presented to the Head of State, asking for the annulment of the above-mentioned decree, the Council of State brought the case before the European Court of Justice, raising the preliminary question of the non-compatibility of the fee with Community regulations relating to telecommunications.

Following the dispute, Telecom Italia and TIM did not proceed to pay the fee for 2000, 2001 and 2002, although the corresponding costs, included interest, were recorded in the financial statements in the pertinent years.

■ STET HELLAS

In 1996, Mobitel – a company in the Greek Interamerican group (now Demco Reinsurance), and, at that time, the exclusive representative of Stet Hellas – initiated arbitration proceedings to ascertain its right to receive commissions not only on outgoing traffic generated by the subscribers it had signed up, but also on incoming traffic and on that generated by customers in default of payment. It also requested the payment of the corresponding damages in addition to damages generated by the cancellation of the exclusive agency agreement with Stet Hellas. The latter and Telecom Italia (which took over from Stet International which was already the guarantor of Stet Hellas and, as such, a party to the contracts at one time signed) presented a counterclaim seeking damages suffered as a result of the loss of the acquisition of market share caused by non-fulfillment on the part of Mobitel.

In October 2000, a partial award was ruled which, in principle, agreed with Mobitel's request for recognition of a commission also on Stet Hellas' revenues from incoming traffic; in November

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2001, the Board of Arbitration affirmed its jurisdiction over the quantification of the amount of damages, besides its payment. The parties therefore indicated their final claims which can be summarized in damages for some euro 140 million on the part of Mobitel and some euro 890 million on the part of Stet Hellas and Telecom Italia.

■ NORTEL INVERSORA

In August 2001, a minority shareholder of Nortel filed a complaint summoning the company's appearance before the Civil Court of Buenos Aires to try and reach an agreement (which did not have a positive outcome) over the alleged irregularities in the resolution passed by the Nortel Shareholders' Meeting approving the financial statements for the year ended December 31, 2000. The same shareholder had previously contested the resolution passed by the Nortel Shareholders' Meeting approving the financial statements at September 30, 2000. In September 2001, the effectiveness of both the aforementioned shareholders' resolutions was suspended by the Buenos Aires Court with a precautionary relief order.

In August 2002, based on complaints filed by the same shareholder, two further hearings were held to attempt reconciliation (which proved inconclusive) regarding the alleged irregularities in the resolution passed by the Nortel Ordinary and Extraordinary Shareholders' Meeting on April 25, 2002, concerning, among other things, the approval of the financial statements at December 31, 2001.

On March 3, 2003, a settlement agreement was reached with the aforesaid minority shareholder in which the same shareholder has agreed to desist from continuing with the pending legal cases against Nortel and its representatives and not to bring other similar actions against Nortel and/or its representatives. The agreement was validated by the Buenos Aires Court on March 5, 2003.

■ BRASIL TELECOM

There are two cases pending from 2001 brought by Brasil Telecom before the Civil Court of Rio de Janeiro (Brazil), against, respectively, Telecom Italia and Telecom Italia International and against two directors of Brasil Telecom nominated by Telecom Italia International.

The suits request compensation for the damages suffered by Brasil Telecom as a result of the acquisition of CRT and the failure to participate in the auction of the SMP licenses.

■ CHASE MANHATTAN BANK DISPUTE

On April 5, 2002, the magistrate judge of the U.S. District Court for the District of Delaware dismissed the case against Telecom Italia (since it is no longer a direct shareholder of Iridium LLC) begun in June 2000 by Chase Manhattan Bank (now JP Morgan Chase Bank) over the U.S. \$800 million loan given to Iridium Operating LLC (a subsidiary of Iridium LLC) in 1998. The above decision was appealed by Chase, which also decided to sue Iridium Italia S.p.A., a 30%-owned affiliate of Telecom Italia (with the remaining stake divided equally between TIM and Telespazio), and the direct shareholder of Iridium LLC.

■ TIM PCS SUBSIDIARIES IN BRAZIL

Following the denial of the request for precautionary measures presented by the local operators, Telesp Celular and BCP, to obtain suspension of the effect of the share transfer of about 18.3% of the capital of Solpart by Telecom Italia International to Techold and to Timepart, as well as the administrative regulations related thereto, BCP brought ordinary action against Anatel, before the Brazilian Federal Court, to obtain the nullification of the assignment of PCS frequencies to the Brazilian subsidiaries of TIM.

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■ BANCOMEXT/ETEC S.A. DISPUTE

By order of August 12, 2002, the Civil Court of Turin issued a cautionary attachment order for all the assets of Etec S.A. (a Cuban affiliated company of Telecom Italia) and Telan (a majority shareholder of Etec S.A., a subsidiary of the Cuban government), also including the receivables from third parties up to the amount of euro 33 million.

This ruling follows an appeal presented by Banco Nacional de Comercio Exterior ("Bancomext") which claims breach of contract, on the part of Etec S.A. and Telan, concerning alleged obligations for the restitution and guarantee – to date, of an amount of about U.S. \$300 million – established in a loan contract stipulated between Etec S.A., Telan, Bancuba (Central Bank of Cuba) and Bancomext. Notice of the attachment was successively served to Telecom Italia, TIM, Intesa BCI and Deutsche Telekom, which were ordered to suspend any payment to Etec S.A., up to euro 33 million.

TIM has already made a negative statement as third party pursuant to art. 547 of the Italian Civil Code.

Telecom Italia, on February 6, 2003, again pursuant to art. 547 of the Italian Civil Code, made a positive statement as third party.

■ TELEQUE COMMUNICATIONS S.P.A.

Under the summons of November 6, 2002, Teleque Communications S.p.A., a company operating in the sector of prepaid telephone cards for international telephone services, has brought suit to summon Telecom Italia before the Rome Court of Appeal to find for alleged unfair trade practices and to obtain damages quantifiable in euro 65 million. Teleque Communications claims that Telecom Italia acquired a competitive advantage by adding, for the supply of its interconnecting services, additional costs which, vice-versa, would not have been charged to Telecom Italia's final customers of prepaid international services.

■ EXPENSE COMPENSATION TO THE MINISTRY OF DEFENSE FOR THE LIBERATION OF THE 900 FREQUENCY BAND

The Ministry of Defense and the Ministry of Communications, with the regulations formalized in 2001, have quantified the expenses to liberate the frequency band in question, charging such expenses mainly to TIM as the licenseholder of the TAC mobile service. The liberation of the band in question, instead, was aimed at amplifying the frequency resources to be destined to GSM and, as such, to be allocated among all the beneficiary operators.

Maintaining that such judgements are not legal, since they are based upon an incorrect interpretation of Ministerial Decree 113/98 which governs the matter, said judgements have been contested before the TAR of Lazio, asking for their annulment.

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INTERBUSINESS SERVICES

As required by the Antitrust Authority, the accounting principles used to determine the economic values for Interbusiness services are described below. These accounting principles have been audited starting from the year 1996.

In 2002, this examination was performed by Reconta Ernst & Young S.p.A..

- **Revenues** are stated at market prices for competitive services and at rates established by law for services granted by license and are recorded on the accrual basis. In the case of services provided that imply the use of dedicated access lines by the final customer, the revenues also include the income from leasing such lines (valued on the basis of the rates defined in the ministerial decrees), with the consequent recognition of the same amount in costs.
- **Direct costs**
 - *labor costs* represent the cost of personnel who worked to provide such services; the cost includes salary and wages, social security costs, provisions for employee termination indemnities and other sundry costs recorded on the basis of the number of people in the dedicated operating structures and using cost accounting standards;
 - *network utilization costs* include the cost to use the regulated carrier services (usually direct connections) and the cost to use the carrier products/services offered in a competitive environment; they are therefore valued, respectively, using the rates established by law and the rates applied to all third-party customers, the same as that which occurs in the cost structure of other carriers in the sector;
 - *other direct costs* refer to direct costs (advertising, marketing, service connection, operating and maintenance, etc.) and indirect costs (corporate structure costs supporting the operating lines) valued using cost accounting standards and applying specific allocation methods.
- **Depreciation** of fixed assets directly employed in providing the services in question are determined on the basis of the estimated useful lives of the assets of Telecom Italia.

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

	2002	2001	Change (a) - (b)	
(thousands of euro)	(a)	(b)	amount	%
Revenues	70,157	88,913	(18,756)	(21.1)
Costs	(56,286)	(80,810)	24,524	(30.3)
Of which:				
Labor cost	(2,871)	(5,920)	3,049	(51.5)
Network utilization costs	(36,023)	(44,878)	8,855	(19.7)
Other costs	(17,392)	(30,012)	12,620	(42.0)
Gross operating profit	13,871	8,103	5,768	71.2
Depreciation and amortization	(17,696)	(18,439)	743	(4.0)
Operating loss	(3,825)	(10,336)	6,511	n.s.

The results for 2002 show an operating loss of euro 3.8 million compared to a loss of euro 10.3 million in 2001. Such result is due to the combined effect of the reduction in revenues that was more than offset by the reduction in costs. The impact on revenues (– 21.1%) is mainly on account of a decline in customers who switched to other alternative plans.

The reduction of resources absorbed by the service is due to a decline in the clientele and, in some cases, a reduction in the unit cost; in total, therefore, costs decreased by 30.3%. Depreciation and amortization show a reduction of 4.0%.



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■ CONSOLIDATED BALANCE SHEETS

ASSETS

(in millions of euro)

	12/31/2002	12/31/2001
RECEIVABLES FROM SHAREHOLDERS FOR CAPITAL CONTRIBUTIONS		
- PORTION CALLED IN	-	-
- PORTION NOT CALLED IN	4	1
TOTAL RECEIVABLES FROM SHAREHOLDERS FOR CAPITAL CONTRIBUTIONS	4	1
INTANGIBLES, FIXED ASSETS AND LONG-TERM INVESTMENTS		
- INTANGIBLE ASSETS		
Start-up and expansion costs	73	104
Industrial patents and intellectual property rights	1,256	1,274
Concession, licenses, trademarks and similar rights	3,995	4,452
Goodwill	15	47
Consolidation difference	6,597	9,094
Work in progress and advances to suppliers	831	874
Other intangibles	285	352
TOTAL INTANGIBLE ASSETS	13,052	16,197
- FIXED ASSETS		
Land and buildings	2,145	2,877
Plant and machinery	14,933	16,649
Manufacturing and distribution equipment	49	73
Other fixed assets	677	731
Construction in progress and advances to suppliers	1,487	1,427
TOTAL FIXED ASSETS	19,291	21,757
- LONG-TERM INVESTMENTS		
Equity investments in:		
unconsolidated subsidiaries	18	18
affiliated companies	2,051	4,764
other companies	217	145
Total equity investments	2,286	4,927
Advances on future capital contributions	-	1,659
Accounts receivable: (*)		
unconsolidated subsidiaries	5	2
affiliated companies	2	117
other receivables	55	273
Total accounts receivable	62	392
Other securities	15	86
Treasury stock (total par value of euro 28 million at 12/31/2002)	287	-
TOTAL LONG-TERM INVESTMENTS	3,243	7,064
TOTAL INTANGIBLES, FIXED ASSETS AND LONG-TERM INVESTMENTS	35,586	45,018
CURRENT ASSETS		
- INVENTORIES		
Raw materials and supplies	19	22
Work in progress and semifinished goods	8	6
Contract work in process	179	352
Finished goods and merchandise:		
finished goods	2	2
merchandise	202	253
Advances to suppliers	1	1
TOTAL INVENTORIES	411	636
- ACCOUNTS RECEIVABLE (**)		
Trade accounts receivable	1	3
Accounts receivable from unconsolidated subsidiaries	41	31
Accounts receivable from affiliated companies	213	567
Accounts receivable from parent companies	2	1
Other receivables	1,221	478
TOTAL ACCOUNTS RECEIVABLE	1,222	481
- SHORT-TERM FINANCIAL ASSETS		
Equity investments in unconsolidated subsidiaries	170	247
Other equity investments	1	9
Other securities	278	1,935
Receivables for sales of securities	55	3
TOTAL SHORT-TERM FINANCIAL ASSETS	504	2,194
- LIQUID ASSETS		
Bank and postal accounts	1,251	757
Cash and valuables on hand	4	5
TOTAL LIQUID ASSETS	1,255	762
TOTAL CURRENT ASSETS	16,563	16,619
ACCRUED INCOME AND PREPAID EXPENSES		
Issue discounts and similar charges	108	94
Accrued income and other prepaid expenses	525	938
TOTAL ACCRUED INCOME AND PREPAID EXPENSES	633	1,032
TOTAL ASSETS	52,786	62,670

(*) Amounts due within one year.
 (**) Amounts due beyond one year.

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LIABILITIES AND SHAREHOLDERS' EQUITY

(in millions of euro)

	12/31/2002	12/31/2001
SHAREHOLDERS' EQUITY		
PARENT COMPANY INTEREST IN:		
- SHARE CAPITAL	4,024	4,023
- RESERVE FOR TREASURY STOCK	287	-
- RESERVES AND RETAINED EARNINGS	5,060	11,567
- NET LOSS	(322)	(2,068)
TOTAL PARENT COMPANY INTEREST	9,049	13,522
MINORITY INTEREST IN:		
- SHARE CAPITAL, RESERVES AND RETAINED EARNING	3,159	5,377
- NET INCOME	619	410
TOTAL MINORITY INTEREST	3,778	5,787
TOTAL SHAREHOLDERS' EQUITY	12,827	19,309
RESERVES FOR RISKS AND CHARGES		
Reserve for pension and similar obligation	32	49
Reserve for taxes		
for taxes	198	154
for deferred taxes	34	35
Total reserve for taxes	232	189
Other reserves	4,950	2,815
TOTAL RESERVES FOR RISKS AND CHARGES	5,214	3,053
RESERVE FOR EMPLOYEE TERMINATION INDEMNITIES	1,305	1,350
LIABILITIES	(**)	(**)
Debentures	10,511	10,624
Convertible debentures	1,964	1,964
Due to banks	1,803	5,028
Due to other lenders	644	1,419
Advances		263
Trade accounts payable	13	5,477
Notes payable		241
Accounts payable to unconsolidated subsidiaries		16
Accounts payable to affiliated companies	24	645
Accounts payable to parent companies		296
Taxes payables	20	597
Contributions to pension and social security institutions	535	784
Other liabilities	50	4,516
TOTAL LIABILITIES	15,564	31,870
ACCRUED EXPENSES AND DEFERRED INCOME	1,570	1,476
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	52,786	62,670

(**) Amounts due beyond one year.

MEMORANDUM ACCOUNTS

(in millions of euro)

	12/31/2002	12/31/2001
GUARANTEES PROVIDED		
Sureties:		
on behalf of unconsolidated subsidiaries	5	20
on behalf of affiliated companies	783	1,041
on behalf of others	231	213
Total sureties	1,019	1,274
Endorsements:		
on behalf of others	-	-
Other guarantees:		
on behalf of unconsolidated subsidiaries	-	3
on behalf of affiliated companies	10	50
on behalf of others	84	95
Total other guarantees	94	148
TOTAL GUARANTEES PROVIDED	1,113	1,422
COLLATERAL PROVIDED		
For obligations of others, of affiliated companies	110	147
For own obligations, not including liabilities	1	16
TOTAL COLLATERAL PROVIDED	111	163
PURCHASES AND SALES COMMITMENTS	3,077	5,369
OTHER MEMORANDUM ACCOUNTS	88	287
TOTAL MEMORANDUM ACCOUNTS	4,389	7,241

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■ CONSOLIDATED STATEMENTS OF INCOME

(in millions of euro)

	2002	2001
PRODUCTION VALUE		
Sales and service revenues	30,400	30,818
Changes in inventories of work in progress, semifinished and finished goods	2	-
Changes in inventory of contract work in process	(42)	(115)
Increases in capitalized internal construction costs	675	581
Other revenue and income:		
operating grants	19	24
other	460	393
Total other revenue and income	479	417
TOTAL PRODUCTION VALUE	31,514	31,701
PRODUCTION COST		
Raw materials, supplies and merchandise	(1,579)	(1,767)
Semifinished and finished goods	(200)	(205)
Services	(9,229)	(9,552)
Use of property not owned	(1,145)	(1,069)
Personnel:		
wages and salaries	(3,272)	(3,355)
social security contributions	(970)	(993)
termination indemnities	(208)	(211)
other costs	(90)	(107)
Total personnel costs	(4,540)	(4,666)
Amortization, depreciation and writedowns		
amortization of intangible assets	(2,094)	(2,241)
depreciation of fixed assets	(3,783)	(4,034)
other writedowns of intangibles and fixed assets	(57)	(16)
writedowns of receivables included in current assets and liquid assets	(542)	(439)
Total amortization, depreciation and writedowns	(6,476)	(6,730)
Changes in inventory of raw materials, supplies and merchandise	12	57
Provisions for risks	(109)	(189)
Other provisions	(44)	(89)
Miscellaneous operating costs	(823)	(817)
TOTAL PRODUCTION COST	(24,133)	(25,027)
OPERATING INCOME	7,381	6,674
FINANCIAL INCOME AND EXPENSE		
Income from equity investments:		
dividends from unconsolidated subsidiaries	16	9
dividends from other companies	-	8
other income from equity investments	2	137
Total income from equity investments	18	154
Other financial income from:		
accounts receivable included in long-term investments		
affiliated companies	1	7
other	16	16
Total accounts receivable included in long-term investments	17	23
securities, other than equity investments, included in long-term investments	4	3
securities, other than equity investments, included in current assets	90	135
other income		
interest and fees from unconsolidated subsidiaries	1	1
interest and fees from affiliated companies	12	16
interest and fees from others and miscellaneous income	1,094	744
Total other income	1,107	761
Total other financial income	1,218	922
Interest and other financial expense:		
interest and fees paid to affiliated companies	(23)	(31)
interest and fees paid to others and miscellaneous expense	(2,694)	(3,044)
Total interest and other financial expense	(2,717)	(3,075)
TOTAL FINANCIAL INCOME AND EXPENSE	(1,481)	(1,999)

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(in millions of euro)

	Year 2002	Year 2001
VALUE ADJUSTMENTS TO FINANCIAL ASSETS		
Upward adjustments of		
equity investments	121	167
Total upward adjustments	121	167
Writedowns of		
equity investments	(668)	(1,933)
long-term investments, other than equity investments	(40)	(49)
securities, other than equity investments, included in current assets	(95)	(141)
Total writedowns	(803)	(2,123)
TOTAL VALUE ADJUSTMENTS	(682)	(1,956)
EXTRAORDINARY INCOME AND EXPENSE		
Income		
gains on disposals	2,413	392
miscellaneous	401	460
Total income	2,814	852
Expense		
losses on disposals	(173)	(46)
prior years' taxes	(6)	(5)
provisions and writedowns of equity investments	(6,552)	(2,984)
miscellaneous	(1,720)	(1,269)
Total expense	(8,451)	(4,304)
TOTAL EXTRAORDINARY ITEMS	(5,637)	(3,452)
LOSS BEFORE TAXES	(419)	(733)
Income taxes		
current taxes	(1,451)	(1,186)
deferred taxes	2,167	261
Total income taxes	716	(925)
NET INCOME (LOSS) BEFORE MINORITY INTEREST	297	(1,658)
Minority interest	(619)	(410)
NET LOSS	(322)	(2,068)

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■ NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with the provisions of the Italian Civil Code and are also accompanied by the Report on the Group's operations together with the Report on Telecom Italia. At December 31, 2002, a 54.94% stake is held in Telecom Italia by Olivetti S.p.A..

Reclassifications made to certain captions of the consolidated financial statements have also been made to the consolidated financial statements at December 31, 2001 for purposes of comparison.

The consolidated statement of cash flows, although presented in the Report on Operations, constitutes an integral part of these Notes to consolidated financial statements pursuant to Article 29, paragraph 3 of Legislative Decree No. 127/1991.

The scope and principles of consolidation, the summary of significant accounting policies, along with the composition and changes in the individual components of the consolidated financial statements are set out below.

■ SCOPE OF CONSOLIDATION

The scope of the consolidation at December 31, 2002, which was affected by the far-reaching reorganization of the Business Units compared to December 31, 2001, includes the Italian and foreign companies listed in Annex 5, in which the Telecom Italia holds a majority of voting rights, and all other companies in which it exercises a dominant influence.

The companies in which Telecom Italia holds between a 20% and 50% investment in share capital, with voting rights, including jointly controlled companies and companies in which a significant influence is exercised, have been accounted for using the equity method.

The following changes have taken place in the scope of consolidation since December 31, 2001:

a) added to the scope of consolidation:

- for *Domestic Wireline*: Mediterranean Nautilus Telekomunikasyon Hizmetleri Ticaret Anonim Sirketi, Latin American Nautilus Saint Croix, Latin American Nautilus Colombia Limitada and Latin American Nautilus Bolivia;
- for *Mobile*: Timnet Usa, Starcel and Blu;
- for *IT Market*: Agrisian;
- for *IT Group*: Webegg group and Teco Soft Argentina;
- for *Other Activities*: EMSA Servizi Immobiliari, IN.TEL.AUDIT, Epiclink and Netesi.

b) eliminated from the scope of consolidation:

- for *Domestic Wireline*: Euro Datacom, TMI Italy-Canada and TMI do Brasil;
- for *Mobile*: Autel;
- for *Internet and Media*: Data House Group and certain minor companies in the Internet Business Area;
- for *IT Market*: Consiel, Sogei;
- for *IT Group*: Teco Soft Espana;
- for *Other Activities*: Telespazio group, Emsa, Immsi, Telimm, Trainet, 9Telecom group, Indian Telecommunication Holding, Telecom Italia de Espana and Telecom Italia GmbH.

c) merged:

- for *Mobile*: Blu in TIM, Telepolis in Stet Hellas, and Tim Celular Centro Sul and Portale Rio Norte in Tim Celular (ex Portale Sao Paulo);
- for *Internet and Media*: H.M.C. Broadcasting and H.M.C. Produzioni in TV Internazionale;
- for *IT Group*: Sibisiel in Netsiel; Sodalia, Telesoft, Saritel and Netsiel in IT Telecom;
- for *Other Activities*: Softe, Sogerim, Huit II and TI Media in Telecom Italia Finance (ex TI Web).

Telecom Italia S.p.A. also conferred the "International Wholesale Services" business segment to Telecom Italia Sparkle S.p.A. (ex TMI Telemedia International Italia S.p.A.) and the "Training" business to Telecom Italia Learning Services S.p.A..

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At December 31, 2002, Telecom Italia's subsidiaries and affiliates listed in Annexes 5 to 7, were categorized as follows:

	Subsidiaries			Affiliates			Total
	Italy	Abroad	Total	Italy	Abroad	Total	
Companies:							
- consolidated line-by-line	80	155	235				235
- valued by the equity method	2	7	9	32	38	70	79
- valued at cost	31	16	47	20	7	27	74
Total companies	113	178	291	52	45	97	388

■ SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements used in consolidation are those of each consolidated company at December 31, 2002, approved by the respective boards, and adjusted where necessary to conform to the accounting policies adopted by the Parent Company, Telecom Italia.

The financial statements expressed in foreign currency have been translated into euro by applying the average annual exchange rate to the individual items of the statement of income and the year-end exchange rate to the items of the balance sheet.

The difference arising from the translation of beginning shareholders' equity and the net result for the year at the year-end exchange rate is recorded in the reserves under consolidated shareholders' equity.

For the consolidated subsidiaries and affiliates which use inflation accounting to eliminate distorting effects on the results for the year, the statements of income have been translated at the year-end exchange rates instead of at the average rates. The companies in the Group which apply inflation accounting principles are Corporacion Digitel C.A. (Venezuela), Finsiel Romania S.r.l. (Romania), IS Tim Telekomunikasyon Hizmetleri A.S. (Turkey) and Teco Soft Argentina (Argentina).

The exchange rates used are those presented in "Other information".

All subsidiaries included in the scope of consolidation have been consolidated using the line-by-line method, which can be summarized as follows:

- assumption of the total amount of assets, liabilities, revenues and expenses, regardless of the interest held, separately showing the minority interest in shareholders' equity and net income;
- the difference arising from the elimination of the carrying value of an investment in a company included in the scope of consolidation against the underlying share of the shareholders' equity at the date of acquisition is allocated, where possible, to the assets and liabilities of the company. Any residual amount is treated as follows:
 - if positive, it is recorded in "consolidation difference" under "intangible assets" and is amortized on the straight-line method over the estimated time required to recover the amount and, in any case, not more than a period of 15 years;
 - if negative, it is recorded in shareholders' equity as "consolidation reserve", or, when the amount is due to expectations of unfavorable financial results, to "consolidation reserve for future risks and charges";
- elimination of receivables and payables, as well as expenses and revenues among consolidated companies;
- elimination of profit included in fixed assets and intangible assets which stem from intra-Group purchases of goods and services at market prices. The portion of intra-Group revenues referring to the above goods and services has been reclassified, net of intra-Group profit, to the item "increase in capitalized internal construction costs".

Provisions and value adjustments made by individual consolidated companies exclusively for the purpose of securing tax benefits allowed by law have also been eliminated from the consolidated financial statements.

■ ACCOUNTING POLICIES

The accounting policies adopted in preparing the consolidated financial statements conform to the law and have been applied on a basis consistent with the prior year.

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The accounting policies are set out below:

■ Intangible assets

Intangible assets are recorded at acquisition or production cost and are amortized systematically over their estimated period of benefit, as follows:

Licenses, trademarks and similar rights	Contract term
Difference on consolidation	Years expected to be benefited
Software	Generally 3 years
Leasehold improvements	Lease period

Capitalized software costs only represent costs for the development of new software or improvements to software for the introduction of new features. The Group applies the same principle to website development costs and software development costs for internal use. All costs for software maintenance, for software development of new features that are not introduced and for the preliminary stages of software development are expensed in the statement of income in the year incurred.

■ Fixed assets

Fixed assets are recorded at acquisition or production cost, including incidental purchase costs and expenses directly attributable to construction. They are depreciated on the straight-line method over their estimated useful lives or possibility of utilization. They include inflation adjustments required or allowed by specific laws in the countries in which the fixed assets are located.

Construction in progress is stated at the amount of direct costs incurred. Ordinary maintenance is expensed in the statement of income in the year incurred. The elimination, disposal or sale of fixed assets is recorded in the financial statements by eliminating the cost and accumulated depreciation from the balance sheet and booking the related gain or loss in the statement of income.

■ Equity investments

Equity investments considered long-term in nature are recorded in long-term investments or, if acquired for subsequent sale, recorded in short-term financial assets.

Long-term equity investments in unconsolidated subsidiaries and affiliates are generally valued by the equity method; positive differences arising upon acquisition, between the carrying value of the investments in said companies and the underlying share of net equity at current values, are included in the value of the investments and amortized on the straight-line method over their expected period of recoverability and, in any case, for a period not exceeding 15 years. Such amortization is charged to the statement of income in "value adjustments to financial assets" under writedowns of equity investments.

Other long-term investments in unconsolidated companies are recorded at acquisition or subscription cost, including incidental costs, adjusted for any reasonable expectations of a decline in profitability or recoverability in future years.

In the case of a permanent impairment, the value of such investments is written down and the impairment in value in excess of the corresponding carrying value is recorded in "reserves for risks and charges".

Contracts for the loan of securities are represented in the financial statements as two functionally related transactions: a loan and a "repurchase transaction" on the securities with the obligation of the borrower to resell them at maturity. Accordingly, "Other receivables" and "Other liabilities" include, respectively, a receivable and a payable of the same amount at the fixed amount of the contract (market price of stock at the date of delivery of the securities).

Equity investments included under current assets, consisting mainly of shares of consolidated listed companies purchased for trading purposes, are stated at the lower of cost and realizable value, based on the year-end stock market prices.

■ Writedown of long-term assets

Long-term assets (intangibles, including difference on consolidation, fixed assets and equity investments) are written down when there is a permanent impairment to below their net book value. The lower value is not maintained in subsequent financial statements whenever the reasons for the adjustment no longer apply. The Group periodically evaluates its long-term assets for any permanent impairments in value.

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The writedown is recorded when the recoverable value of the asset is below the net book value and, in this case, the amount of the writedown is given by the difference between the two amounts, as stated in Article 2426, paragraph 1, paragraph 3 of the Italian Civil Code.

■ Other securities (other than equity investments)

Securities that the company intends to hold to maturity are included among long-term investments; those bought for trading purposes are listed under short-term financial assets.

Securities held as long-term investments are valued at cost, adjusted by any permanent impairment in value.

Securities included in current assets are valued at the lower of cost of acquisition and realizable value based on market prices.

Writedowns of securities will be reversed in subsequent years, if the underlying assumptions are no longer correct.

Securities acquired under "repurchase agreements", for which the obligation exists to resell them at maturity, are included at purchase cost in receivables under short-term financial assets. The difference between the sales price and the purchase price is allocated to income as it accrues with a contra-entry to accrued income/expense in the balance sheet.

■ Inventories

Inventories are valued at the lower of purchase or production cost and market.

The methods mainly used in computing cost are the following:

- raw materials and finished goods: LIFO with annual adjustments;
- merchandise: weighted average;
- work in progress and semifinished goods: production cost;
- contract work in process:
 - contracts covering less than 12 months: industrial cost;
 - contracts covering more than one year: at estimated revenues using the percentage of completion method.

In determining the value of contract work in process, anticipated losses upon completion and any other risks are also taken into account. Inventories of raw materials, finished goods and merchandise which exceed foreseeable manufacturing requirements or have become obsolete are written down to their estimated realizable value.

■ Accounts receivable and liabilities

Receivables are stated at estimated realizable value and classified under long-term investments or current assets. Estimated realizable value is based upon an analysis of receivables at year-end. Uncollectible receivables are accounted for in the year they are identified. Liabilities are shown at their nominal value.

■ Transactions in foreign currency

Monetary assets and liabilities are accounted for at the exchange rate as of the transaction date and updated to the exchange rates prevailing at year-end, taking into account hedging contracts. Unrealized positive and negative differences arising from recording foreign currency assets and liabilities at the exchange rates at the transaction date and at year-end date are recorded in the statement of income, respectively, in "financial income" and "financial expense".

■ Accruals and deferrals

These items are recorded on the accrual basis.

■ Reserves for risks and charges

"For taxes": this reserve includes prudent provisions for estimated tax charges, including any surtaxes and late payment interest, on positions not yet agreed or in dispute.

"For deferred taxes": this reserve includes deferred taxes calculated as described in the note on income taxes.

"Other reserves" relate primarily to provisions to cover risks and charges for losses or liabilities of certain or likely existence whose amount or date of occurrence could, however, not be determined at the end of the year. The provisions reflect the best possible estimate, based on the commitments made and on the available data.

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■ Reserve for employee termination indemnities

The amount of this reserve is determined in accordance with current laws and collective bargaining agreements and includes the liability matured at the end of the year in favor of all personnel employed by the Italian consolidated companies, net of advances paid.

■ Employee benefit obligations under Law No. 58/1992

Employee benefit obligations, as required by Law No. 58/1992, are accounted for on a cash basis, as described in the notes to financial statements of Telecom Italia. The remaining liability for such obligations, payable in fifteen deferred annual installments on the basis of the statement updated to December 31, 2002 by the National Social Security Institute (INPS) and according to its interpretation, amounts to euro 1,227 million, divided as follows:

- a) euro 859 million for the principal amount (except for the portion attributable to former Iritel employees);
- b) euro 368 million for accrued interest.

As regards pre-amortization interest and the related accrued interest, as described in the notes of Telecom Italia, the dispute with INPS was won by Telecom Italia and the ensuing credit of euro 131 million has been completely offset against the payment of the regular expense installments.

The consolidated balance sheet also includes euro 595 million due to INPS for the residual liability relating to the estimate for the employees of the former State Company for Telephone Services (ASST) made by the special Ministerial Commission established under Law No. 58/1992, upon the contribution of the assets of the Post and Telecommunications Administration to Iritel.

The employee benefit obligations to guarantee uniform insurance status recorded in the consolidated statement of income for the year 2002 (under "extraordinary expense") amount to euro 155 million inclusive of accrued and pre-amortization interest.

■ Grants

Both operating grants (directly credited to the statement of income) and capital grants or grants for installations are recorded in the accounting period in which the paperwork documenting the grants is received, or in the period in which the respective costs are incurred, provided that the certainty of payment is confirmed by established procedures. Such grants are not subject to restrictions regarding their use and are not subject to reimbursement.

Specifically, capital grants are recorded in deferred income and recognized in future years in the statement of income in relation to the amount of depreciation taken on the underlying assets to which the grants refer.

■ Revenues and expenses

Revenues and expenses are recorded on an accrual basis.

In particular, revenue are recognized in the consolidated statement of income as follows:

- a) telecommunications services (wireline and mobile): in the year in which the services are rendered; in particular, traffic revenues are shown gross of the amounts due to other carriers which are recorded, for the same amount, in production costs. Certain services deriving from wireline and mobile telephony are invoiced in advance and recognized as revenues when they are used. The revenues deriving from other telecommunications services, principally those related to network access, long-distance calls and the use of local and wireless networks, are recognized in the statement of income on the basis of the minutes of traffic used or on the basis of fixed rates by contract. The revenues deriving from installations or activations are recognized in the statement of income at the date of installation or activation. The revenues and costs relating to sales of wireless equipment and related accessories are recognized in the statement of income at the time of delivery and acceptance on the part of the customers in that these revenues are considered separate from the revenues deriving from the use of wireless services;
- b) information technology and innovative network services, other activities: to the extent to which the related services were carried out during the fiscal year.
- c) revenues from the segments Internet and Media, which principally derive from advertising and publishing, the sale of office and similar products and internet access (including related services) are recognized in the statement of income as follows: i) the revenues from advertising and publishing sales are recognized in the income statement on the basis of the date of publication which corresponds to the date the telephone directories are printed and distributed ii) revenues from advertising sales from on-line services are recognized in revenues when

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the advertising appears on the website iii) revenues from TV advertising are recognized when the advertising is broadcast and iv) the sales of office and similar products are recognized in revenues when passage of title takes place, usually upon delivery of the products.

Provisions for returns and other sales-related provisions are recorded in the year of the relative sales. Revenues for internet access and related services, mainly subscriber revenues, are recognized in the period in which the subscription is in effect, using the straight-line method.

■ Leased assets

Assets covered by finance lease contracts with a purchase option are recorded in fixed assets and depreciated from the date of the lease contract using rates consistent with those used for similarly owned assets. At the same time, a liability is recorded for the same amount, adjusted by the principal lease payments. The statement of income is charged for the financial expenses for the period and the depreciation charge on the assets acquired in leasing.

■ Income taxes

Current income taxes are computed on the basis of a realistic estimate of the income tax charge according to the tax laws of the country; the related income tax payable is shown net of payments on account, withholding taxes and tax credits in "income taxes payable". Any net receivable position is shown in "other receivables".

Deferred income taxes are calculated in the financial statements of the individual consolidated companies on the basis of the temporary differences between the value attributed to the assets and liabilities for statutory purposes and the value attributed to the same assets and liabilities for tax purposes, as well as on the consolidation adjustments in the consolidated financial statements. Deferred tax assets, including benefits from tax loss carryforwards, are booked in "other receivables" in current assets. The tax benefit relating to tax loss carryforwards is recorded only when there is reasonable certainty of recovery.

Deferred tax assets and liabilities are offset, whenever the assumptions for doing so exist. Deferred taxes on the reserves and funds in abeyance of taxation carried by the consolidated companies or the companies accounted for using the equity method are book if such reserves will be distributed or, in any case, utilized and their distribution or utilization gives rise to a tax charge.

■ Capitalization of interest

Interest on construction projects is capitalized only when loans have been taken out that can be specifically attributed to the project.

■ Memorandum accounts

"Collateral and guarantees provided" are recorded for an amount equal to the guarantee provided; those in foreign currencies are translated at year-end exchange rates.

"Purchases and sales commitments" are determined on the basis of the unperformed portion of contracts outstanding at the end of the fiscal year which do not fall under the normal "operating cycle".

■ Derivative financial instruments

Derivative financial instruments are used by the Group to hedge exposure on interest rate and exchange rate risks. They are valued consistently with the underlying asset and liability positions and any net expenses connected with each single transaction are recognized in the statement of income.

For financial instruments used to hedge interest rate risks, the interest differentials are recorded in the statement of income in "financial income and expense" based on the accrual principle.

For financial instruments used to hedge exchange rate risks, the cost (or "financial component" calculated as the difference between the rate at the date of stipulating the contract and the forward rate) is recorded in the statement of income in "financial income and expense" based on the accrual principle.

■ Receivables transactions

Securitization

As a result of the sale of receivables (securitization) to TI Securitization Vehicle S.r.l., such receivables are reversed from the balance sheet and the difference between the carrying value of the receivables sold and consideration received on the sale (including the deferred consideration provided on the deferred purchase price) is charged on the accrual basis to the statement of income in "miscellaneous operating costs". All expenses incurred for the securitization program are recorded in "costs for services".

The securities issued under the securitization program are not recorded in the balance sheet of the Group since these represent legal obligations of TI Securitization Vehicle S.r.l.

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The program for the securitization of trade accounts receivable generated by the services rendered to the clientele of Telecom Italia Domestic Wireline (*TIDW*) begun during 2001 has continued into 2002. Reference should be made to the 2001 annual report for a description of the program.

In 2002, the total amount of trade accounts receivable sold under the securitization program was equal to euro 9 billion and referred to Telecom Italia's receivables from residential customers. At December 31, 2002, receivables sold amounted to euro 849 million (of which euro 757 was not yet due).

The securitization transaction led to an improvement in net financial debt of euro 826 million at December 31, 2002.

At December 31, 2002, Telecom Italia showed financial payables of euro 165 million due to TI Securitisation Vehicle for the investment of excess temporary liquid resources by the latter in Telecom Italia.

Factoring

In 2002, Telecom Italia, Seat Pagine Gialle and TIM sold trade accounts receivables without recourse for a total of euro 3,843 million.

These factoring transactions led to a reduction in net financial debt at December 31, 2002 of euro 212 million.

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■ CONSOLIDATED BALANCE SHEETS - ASSETS

INTANGIBLES, FIXED ASSETS AND LONG-TERM INVESTMENTS

■ INTANGIBLE ASSETS

euro 13,052 million

(euro 16,197 million at December 31, 2001)

Intangible assets decreased by euro 3,145 million compared to December 31, 2001. A breakdown of the composition and the changes in this account are provided below:

(in millions of euro)	12/31/2001	Additions	Amortization	Other changes	12/31/2002
Start-up and expansion costs	104	14	(37)	(8)	73
Industrial patents and intellectual property rights	1,274	578	(1,007)	411	1,256
Concessions, licenses, trademarks and similar rights	4,452	117	(107)	(467)	3,995
Difference on consolidation	47	3	(8)	(27)	15
Consolidation difference	9,094	369	(844)	(2,022)	6,597
Work in progress and advances to suppliers	874	816		(859)	831
Other intangibles	352	56	(91)	(32)	285
Total	16,197	1,953	(2,094)	(3,004)	13,052

The other changes include writedowns for euro 2,004 million and translation adjustments, for euro 933 million, referred to foreign companies, in particular South American.

■ Start-up and expansion costs

Start-up and expansion costs referred primarily to registration fees paid when consolidated companies were established or when their capital was increased.

■ Industrial patents and intellectual property rights

Industrial patents and intellectual property rights consisted mainly of applications software either owned outright or acquired under a license for an unspecified period of time.

■ Concessions, licenses, trademarks and similar rights

Concessions, licenses, trademarks and similar rights decreased by euro 457 million mainly as a result of the variation in the exchange rates of South American countries (-euro 650 million). They refer to the Mobile BU for euro 3,446 million, principally for the residual cost on UMTS and PCS licenses (of which euro 2,417 million relates to TIM), and to other Telecom Italia Group companies for euro 549 million, mainly Indefeasible Rights Of Use - IRU.

■ Consolidation difference

The consolidation difference decreased by euro 2,497 million from the end of 2001 mainly due to the amortization taken during the year (euro 844 million), the writedown of residual difference on consolidation of 9Telecom relating to the subsidiary JetMultimedia (euro 134 million), the difference on consolidation relating to the companies Seat Pagine Gialle (euro 1,544 million), Blu (euro 103 million), Corporacion Digitel (euro 75 million) and other minor companies (euro 47 million) and the negative performance of the Brazilian real and the Chilean peso (euro 84 million) in respect of the difference on consolidation in those currencies.

Additions during the year mainly referred to the purchase of Blu by Tim (euro 103 million) and Netesi and Epiclink by Telecom Italia (euro 67 million), the increase in the stake in Webegg (euro 24 million) by ITTEL and in Stet Hellas (euro 66 million) and in Digitel (euro 27 million) by Tim International.

The remaining amount of euro 6,597 million mainly referred to:

(in millions of euro)	12/31/2002
Seat Pagine Gialle	3,780
TIM	748
Entel Chile	739
Corporacion Digitel	266
TDL Infomedia	252
Holding Media e Comunicazione	163
Other companies	649
Total	6,597

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■ Work in progress and advances to suppliers

Work in progress and advances to suppliers decreased by euro 43 million, compared to December 31, 2001, and represented the difference between the capitalization of costs incurred mainly by Telecom Italia for software development projects in progress and the projects which came into use during the year.

■ Other intangibles

Other intangibles, totaling euro 285 million (euro 352 million at December 31, 2001) mainly referred to leasehold improvements.

■ FIXED ASSETS

euro 19,291 million

(euro 21,757 million at December 31, 2001)

Fixed assets decreased by euro 2,466 million compared to the end of 2001. They are shown net of accumulated depreciation and writedowns and have been adjusted to eliminate intra-Group profits generated by purchases of internally produced goods and services by the Group. An analysis of fixed assets is provided in the following table:

(in millions of euro)	Owned assets			Leased assets			12/31/2002	12/31/2001
	Gross value	Accumulated depreciation	Total	Gross value	Accumulated depreciation	Total	Total	Net book value
Land and buildings	2,998	(1,305)	1,693	565	(113)	452	2,145	2,877
Plant and machinery	56,644	(41,716)	14,928	22	(17)	5	14,933	16,649
Manufacturing and distribution equipment	955	(906)	49	2	(2)	-	49	73
Other fixed assets	1,987	(1,365)	622	82	(27)	55	677	731
Construction in progress and advances to suppliers	1,462		1,462	25		25	1,487	1,427
Total	64,046	(45,292)	18,754	696	(159)	537	19,291	21,757

The gross value of fixed assets included euro 1,167 million of monetary revaluations made by the Italian companies. Accumulated depreciation covered 71.9% of gross fixed assets, compared to 70.4% at the end of last year.

Certain fixed assets leased by Telecom Italia and other Group companies were purchased in January 2003, before the expiration date.

A summary of the changes in fixed assets during the year is shown in the following table:

(in millions of euro)	2002	2001
At January 1	21,757	20,721
- Additions	3,258	4,254
- Disposals and contributions	(533)	(172)
- Depreciation for the year	(3,783)	(4,034)
- Writedowns	(88)	(11)
- Change in the scope of consolidation	(313)	1,345
- Translation adjustment and other	(1,007)	(346)
At December 31	19,291	21,757

Translation adjustments equal to euro 1,154 million referred to the Mobile BU for euro 674 million, the Entel Chile group for euro 305 million, the Entel Bolivia group for euro 111 million and other minor companies (euro 64 million).

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Additions for the year amounted to euro 3,258 million (euro 4,254 million in 2001), with a decrease of euro 996 million compared to 2001. Details by Business Unit are as follows:

(in millions of euro)	2002	2001
Domestic Wireline	1,828	1,949
Mobile	1,075	1,547
Sud America	201	351
Internet and Media	28	82
IT Market	12	19
IT Group	85	111
	3,229	4,059
Other operations and intra-Group eliminations	29	195
Total	3,258	4,254

■ LONG-TERM INVESTMENTS

(euro 7,064 million at December 31, 2001)

euro 3,243 million

Long-term investments, which decreased by euro 3,821 million from December 31, 2001, comprised the following:

(in millions of euro)	12/31/2002	12/31/2001
Equity investments in:		
- unconsolidated subsidiaries	18	18
- affiliated companies	2,051	4,764
- other companies	217	145
	2,286	4,927
Advances on future capital contributions	-	1,659
	2,286	6,586
Accounts receivable:		
- unconsolidated subsidiaries	5	2
- affiliated companies	435	117
- other receivables	215	273
	655	392
Other securities	15	86
Treasury stock	287	-
Total	3,243	7,064

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■ Equity investments in affiliated companies

Equity investments in affiliated companies, amounting to euro 2,051 million, decreased by euro 2,713 million from December 31, 2001 chiefly due to the sale of equity investments made during the year.

Equity investments in affiliated companies refer to the following:

(in millions of euro)	12/31/2001	Additions	Disposals	Valuation using equity method (*)	12/31/2002
Auna	690	193	(883)		-
BDT	158		(158)		-
Etec S.A.	551			(84)	467
GLB Serviços Interativos	24			(11)	13
IM.SER	141		(126)	(3)	12
IS Tim	81			(81)	-
Italtel Holding	65			(22)	43
Lottomatica	78		(78)		-
Mirror International Holding	94				94
Mobilkom Austria	544		(553)	9	-
Mondus	18		(18)		-
Netco Redes	125			(103)	22
Solpart Participações	238		(7)	(89)	142
Stream	32	234		(247)	19
Telemaco Immobiliare	91		(109)	18	-
Telekom Austria	1,460		(718)	(34)	708
Telekom Srbija	195			(8)	187
Tiglio I	-	197			197
Tiglio II	-	74			74
Other	179	6	(85)	(27)	73
Total	4,764	704	(2,735)	(682)	2,051

(*) Includes the share of earnings or losses for the period, amortization of difference on consolidation and adjustments on the translation of foreign currency financial statements.

The investments valued using the equity method include the unamortized portion of the excess, euro 504 million (euro 1,688 million at December 31, 2001), of book values over the corresponding share of the underlying net equity at the time of purchase. The excess mainly referred to Telekom Austria, euro 315 million, and Etec S.A., euro 100 million.

A list of the companies valued using the equity method is provided in Annex 6; equity investments in unconsolidated subsidiaries and affiliates are listed in Annex 7.

■ Advances on future capital contributions

Advances on future capital contributions at December 31, 2001 mainly referred to advances made by Tim International to IS TIM. The advances have been completely written off due to the worsening of the prospects for the recoverability of the investment.

■ Accounts receivable from affiliated companies

Accounts receivable from affiliated companies mainly referred to loans made to IS Tim (euro 313 million), Tiglio I (euro 54 million), Telegono (euro 34 million), Tiglio II (euro 30 million) and other minor companies (euro 4 million). Relating to the loan made to IS Tim, the relative allowance for doubtful accounts has been set aside for uncollectible receivables.

■ Other receivables

Other receivables included the revalued amount of the tax receivable from the prepayment of the taxes on the reserve for employee severance indemnities (euro 89 million), loans to employees (euro 85 million), loans to other companies and security deposits (euro 41 million).

■ Other securities

Other securities decreased by euro 71 million from December 31, 2001, and mainly referred to the closed investment fund Saturn Venture Partners LLC held by TIM and TILAB (euro 9 million) and other investments in securities (euro 6 million).

■ Treasury stock

Treasury stock referred to 45,647,000 Telecom Italia ordinary shares and 5,280,500 Telecom Italia savings shares purchased by authorization of the Ordinary Shareholders' Meeting held on November 7, 2001.

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CURRENT ASSETS

■ INVENTORIES

euro 411 million

(euro 636 million at December 31, 2001)

Inventories include the following:

(in millions of euro)	12/31/2002	12/31/2001
Raw materials and supplies	19	22
Merchandise	202	253
	221	275
Work in progress and semifinished goods	8	6
Finished goods	2	2
	10	8
Contract work in process	179	352
Advances to suppliers	1	1
	180	353
Total	411	636

Inventories were held by companies providing telecommunications services for euro 193 million (euro 245 million at December 31, 2001), the companies in the information technology BU for euro 170 million (euro 234 million at December 31, 2001) and the Seat Pagine Gialle group and other minor companies for euro 48 million. The reduction from December 31, 2001 is substantially due to the sale of Sogei and the Telespazio group (– euro 133 million). Contract work in process included work on behalf of Consorzio Telcal for the Piano Telematico Calabria (euro 110 million).

Raw materials and supplies and work in progress and semifinished goods are in line with current costs.

■ ACCOUNTS RECEIVABLE

euro 14,393 million

(euro 13,027 million at December 31, 2001)

A breakdown of accounts receivable, which increased by euro 1,366 million, is provided below:

(in millions of euro)	12/31/2002	12/31/2001
Trade accounts receivable	8,731	8,712
- allowance for doubtful accounts	(830)	(808)
Total trade accounts receivable	7,901	7,904
Accounts receivable from unconsolidated subsidiaries	41	31
Accounts receivable from affiliated companies	213	567
Accounts receivable from parent companies	2	1
Other receivables	6,236	4,524
Total	14,393	13,027

■ Trade accounts receivable

Gross trade accounts receivable totaled euro 8,731 million and consisted, for the most part, of receivables for telecommunications services. Receivables have been adjusted to estimated realizable value by writedowns and they, too, refer mostly to telecommunications companies. Trade accounts receivable referred, in particular, to Telecom Italia (euro 3,753 million), TIM (euro 1,404 million) and the Seat Pagine Gialle group (euro 894 million).

The balance is in line with that at December 31, 2001 owing to the fact that the increase in Tim (euro 487 million) and Telecom Italia (euro 91 million net of the contribution to Telecom Italia Sparkle) is compensated by the exit from the scope of consolidation of the 9 Telecom group, Sogei and the Telespazio group (euro 487 million) and by the negative performance of the currencies of the South American countries (euro 208 million).

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This caption also includes euro 1,107 million of receivables from other telecommunications carriers and euro 113 million of services to be performed by Seat Pagine Gialle, with a contra-entry to other liabilities for the same amount, representing advertising commitments undertaken and invoiced by the company for directories that will be published in 2003.

Furthermore, the securitization of receivables by Telecom Italia led to a reduction in trade accounts receivable at December 31, 2002 of euro 849 million, of which euro 757 million refer to receivables not yet due.

During 2002, the Group sold trade accounts receivable without recourse under factoring arrangements for euro 3,843 million. At December 31, 2002, such receivables sold and not yet due totaled euro 573 million.

■ Accounts receivable from unconsolidated subsidiaries

Accounts receivable from unconsolidated subsidiaries included loans of euro 23 million and trade accounts receivables and other receivables from subsidiaries of euro 18 million.

■ Accounts receivable from affiliated companies

Accounts receivable from affiliated companies of euro 213 million decreased by euro 354 million and referred to financial receivables of euro 12 million and trade and other receivables of euro 201 million. Trade and other receivables chiefly referred to Stream (euro 106 million, of which euro 35 million was completely written off following the enforcement of the guarantees provided by Telecom Italia to Italtel) and Teleleasing (euro 38 million).

■ Other receivables

Other receivables of euro 6,236 million (euro 4,524 million at December 31, 2001) included the following:

- financial receivables of euro 648 million (euro 591 million at December 31, 2001), almost entirely in reference to Telecom Italia for the loan of securities transactions on Seat Pagine Gialle shares (euro 176 million) that was concluded in February and March 2003, and receivables for the "deferred purchasing price" connected with the securitization transaction (euro 370 million);
- other receivables totaling euro 5,588 million (euro 3,933 million at December 31, 2001), which referred to the following:

(in millions of euro)	12/31/2002	12/31/2001
Government and other public entities for subsidies and grants	68	45
Customer payments in transit	98	95
Due from the Tax Administration	1,262	1,544
Deferred tax assets	3,336	1,410
Employees	94	93
Other receivables (from the Government, other public entities and items)	730	746
Total	5,588	3,933

The increase in deferred tax assets of TIM (euro 928 million) and Telecom Italia (euro 1,080 million) was due to the writedowns of investments recorded in long-term investments and provisions made to the reserves for risks and charges whereas the decrease in receivables from the Tax Administration was caused by lower VAT receivables and direct income taxes of Telecom Italia (euro 596 million) that were partly offset by the increase in TIM receivables (euro 376 million) due primarily to the utilization of Blu's tax loss carryforwards.

Net deferred tax assets were composed as follows:

(in millions of euro)	12/31/2002	12/31/2001
Deferred tax assets	3,336	1,410
Reserve for deferred taxes	(34)	(35)
Total	3,302	1,375

Deferred tax assets mainly referred to the writedown of investments, reserves for risks and the writedown of receivables; deferred tax liabilities mainly originated from gains.

No deferred tax assets have been set aside because of uncertainty over their recoverability against future taxable profits. In particular, tax losses carryforwards, which have not been considered in the determination of deferred tax assets, amount to some euro 2,830 million.

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■ SHORT-TERM FINANCIAL ASSETS

euro 504 million

(euro 2,194 million at December 31, 2001)

This item, which decreased by euro 1,690 million compared to December 31, 2001, included the following:

(in millions of euro)	12/31/2002	12/31/2001
Equity investments in unconsolidated subsidiaries	170	247
Other equity investments	1	9
Other securities	278	1,935
Receivables for sales of securities	55	3
Total	504	2,194

Equity investments in unconsolidated subsidiaries mainly referred to listed shares purchased for trading; the reduction from December 31, 2001 is chiefly attributable to the writedown of TIM shares by Telecom Italia (euro 75 million).

Other securities consist of bank certificates of deposit held by the Tele Nordeste Celular group and bonds held by Telecom Italia Finance. Other securities decreased by euro 1,657 million compared to December 31, 2001 mainly with regard to those held by Softe and Sogerim which, before their merger with Telecom Italia Finance, had reduced their bond portfolios.

The carrying values of both equity investments and other securities have been adjusted by euro 177 million to approximate market values at year end.

■ LIQUID ASSETS

euro 1,255 million

(euro 762 million at December 31, 2001)

Liquid assets increased by euro 493 million. They consist mainly of funds on deposit in Italian and foreign banks in current accounts. Euro 300 million, due in the first months of 2003, are lodged for the creditors of the companies Netsiel, Saritel, Sodalìa and Telesoft due to their mergers and absorption in IT Telecom, for the creditors of Blu due to its merger and absorption by TIM and for the creditors of the companies H.M.C. Broadcasting and H.M.C.Produzioni for their mergers and absorption in TV Internazionale. Euro 198 million are lodged for a guarantee provided by Royal Bank of Scotland on behalf of Mediobanca in the interest of IS Tim.

■ ACCRUED INCOME AND PREPAID EXPENSES

euro 633 million

(euro 1,032 million at December 31, 2001)

This item, which decreased by euro 399 million, can be analyzed as follows:

(in millions of euro)	12/31/2002	12/31/2001
Issue discounts and similar charges	108	94
Accrued income:		
- production value	8	95
- financial income	31	57
- other	-	-
	39	152
Other prepaid expenses:		
- production costs	85	127
- financial expense	20	60
- other	381	599
	486	786
Accrued income and other prepaid expenses	525	938
Total	633	1,032

Other prepaid expenses referred to the deferral of the put option on Seat Pagine Gialle shares.

An analysis of accounts receivable and accrued income by maturity and type is provided in Annex 1.

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■ LIABILITIES AND SHAREHOLDERS' EQUITY

SHAREHOLDERS' EQUITY

euro 12,827 million

(euro 19,309 million at December 31, 2001)

A breakdown of shareholders' equity is presented below:

(in millions of euro)	12/31/2002	12/31/2001
Parent company interest	9,049	13,522
Minority interest	3,778	5,787
Total	12,827	19,309

Telecom Italia's interest in shareholders' equity decreased by euro 4,473 million compared to December 31, 2001. The reduction was due mainly to the payment of 2001 dividends (euro 2,306 million), the distribution of reserves (euro 987 million), the loss for the year (euro 322 million), as well as the decrease in the net equities of some foreign companies as a result of the unfavorable performance of the local currency against the euro.

■ SHARE CAPITAL

The share capital of Telecom Italia consists of 5,262,908,631 ordinary shares and 2,053,122,025 savings shares, both with a par value of euro 0.55 each.

■ PARENT COMPANY INTEREST IN RESERVES AND RETAINED EARNINGS

The Parent company interest in reserves and retained earnings includes Telecom Italia's own retained earnings and reserves, as well as the consolidated companies' retained earnings and inflation adjustment reserves and tax-deferred reserves. No deferred taxes have been provided on the latter reserves since, based on current plans, no transactions are expected to be entered into that would warrant their taxation.

The reconciliation of Telecom Italia's financial statements with the consolidated financial statements as regards shareholders' equity and net result for the year, and the changes in the components of consolidated shareholders' equity, are provided in Annexes 3 and 4.

RESERVES FOR RISKS AND CHARGES

euro 5,214 million

(euro 3,053 million at December 31, 2001)

These reserves increased by euro 2,161 million from December 31, 2001 and referred to the following:

■ Reserve for taxes

The reserve for taxes, amounting to euro 198 million (euro 154 million at December 31, 2001), consisted of estimated tax liabilities on positions still to be agreed or in dispute.

■ Reserve for deferred taxes

The reserve for deferred taxes, amounting to euro 34 million (euro 35 million compared to December 31, 2001), included deferred taxes provided by the individual consolidated companies on the income components subject to deferred taxation and on consolidation adjustments.

■ Other reserves

Other reserves, amounting to euro 4,982 million, increased by euro 2,118 million compared to December 31, 2001.

They comprised:

- the reserve for the forward commitment to purchase Seat Pagine Gialle shares of euro 1,942 million provided to cover the estimate of the non-recoverability of the original price to exercise the option. The amount set aside in 2001 of euro 569 million was completely utilized following the renegotiation of the put and call option exercise price on February 25, 2002, reclassifying the amount to "due to other lenders" under liabilities. In November, this liability was extinguished before the expiration date by paying JP Morgan Chase consideration equal to euro 500 million, corresponding to the present value of the liability;

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- Seat Pagine Gialle's reserve totaling euro 43 million, for expenses connected with the exercise of the put option by the founding shareholders of Consodata S.A.;
- TIM's reserves totaling euro 850 million, set aside to cover the guarantees provided by the group to the creditor financial institutions of IS TIM and the loan made directly by the group;
- the reserves for contractual risks and other risks, mainly in respect of Telecom Italia, for a total of euro 978 million provided in previous years and in the current year, relating to the contribution of the business segment "Large Buildings", the sales of Italtel, Telespazio and the satellite consortia. The release to income is mainly connected to the agreement for the sale of Stream to News Corporation and Vivendi Universal/Canal+ (euro 59 million) which did not go through;
- the reserves for corporate restructuring of euro 299 million, of which euro 194 million, related to Telecom Italia, for the framework agreement with the labor unions concerning the layoffs for the month of May 2002;
- the reserves for the risks of technological revisions and future risks inherent to the regulatory framework of TIM for euro 453 million;
- Telecom Italia Finance's (ex Sogerim) reserve totaling euro 124 million, relating to the financial expenses connected with the notes;
- reserve for losses of subsidiaries and affiliates of euro 293 million.

RESERVE FOR EMPLOYEE TERMINATION INDEMNITIES

euro 1,305 million

(euro 1,350 million at December 31, 2001)

A breakdown of the changes which occurred during the year are provided below:

(in millions of euro)

January 1	1,350
Change during the period:	
provisions charged to income	208
utilizations for:	
- indemnities paid to employees	(159)
- advances	(19)
- pension funds	(30)
other changes	(45)
December 31	1,305

"Other changes" mainly refer to the change in the scope of consolidation.

LIABILITIES

euro 31,870 million

(euro 37,482 million at December 31, 2001)

A breakdown of liabilities, which increased by euro 5,612 million from December 31, 2001, is as follows:

(in millions of euro)	12/31/2002		12/31/2001	
	Financial payables	Trade accounts payable and other payables	Financial payables	Trade accounts payable and other payables
Debentures	10,624	-	8,183	-
Convertible debentures	1,964	-	2,500	-
Due to banks	5,028	-	10,235	-
Due to other lenders	1,419	-	2,163	-
Advances	-	263	-	388
Trade accounts payable	21	5,456	168	6,058
Notes payable	241	-	221	-
Accounts payable to unconsolidated subsidiaries	8	8	17	8
Accounts payable to affiliated companies	398	247	553	349
Accounts payable to parent companies	-	296	-	1
Taxes payable	32	565	50	872
Contributions to pensions and social security institutions	-	784	-	865
Other liabilities	372	4,144	1,107	3,744
Total	20,107	11,763	25,197	12,285

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■ Debentures

Debentures totaled euro 10,624 million and increased by euro 2,441 million compared to December 31, 2001; details are as follows:

- notes issued by the subsidiary Sogerim (merged in Telecom Italia Finance) on international markets for euro 6,000 million. The issue was divided in three tranches: the first, for euro 1,000 million of floating rate notes, maturing on April 20, 2004; the second, for euro 3,000 million of fixed-rate notes, maturing on April 20, 2006; the third, for euro 2,000 million of fixed-rate notes, maturing on April 20, 2011;
- floating rate notes of euro 1,500 million issued by Telecom Italia (this is the first issue under the Global Medium-Term Note Program with Telecom Italia as the issuer). The maturity date is June 21, 2005 and the issuer can call in the notes at an earlier date at face value beginning from the second year and at every coupon date for interest thereafter;
- notes maturing in 2003 issued by the Brazilian companies Tele Nordeste Celular and Tele Celular Sul for a total of euro 108 million;
- notes maturing between 2007 and 2023 issued by Entel Chile for a total of euro 208 million;
- notes maturing between 2009 and 2010 issued by the TDL Infomedia Ltd group for a total of euro 116 million;
- notes issued by Telecom Italia on February 1, 2002 for euro 2,500 million, divided into two tranches of euro 1,250 million each, at fixed interest rates, maturing, respectively on February 1, 2007 and February 1, 2012. The issue is part of the "Global Note Program";
- notes 2002 – 2022 reserved for subscription by employees, in service and retired, of companies, directly and indirectly, controlled by Telecom Italia with headquarters in Italy, for euro 192 million.

■ Convertible debentures

Convertible debentures included notes issued by Sogerim (merged with Telecom Italia Finance) in March 2001, for euro 2,500 million convertible into TIM or Seat Pagine Gialle shares, with the right of the issuer to pay off the amount due in cash.

These are five-year notes and can be redeemed by the noteholders before maturity at the end of the third year after issue. Debentures decreased by euro 536 million due to the purchase of own notes by Telecom Italia Finance, subsequently cancelled.

■ Due to banks

Due to banks, totaling euro 5,028 million, were secured by euro 254 million including mortgages of euro 25 million and liens and pledges of euro 229 million mainly referring to Maxitel. The balance decreased by euro 5,207 million compared to December 31, 2001. It should be pointed out that TIM pledged Digital shares to guarantee the credit facility granted to Digital.

■ Due to other lenders

Due to other lenders, totaling euro 1,419 million, decreased by euro 744 million compared to December 31, 2001. This caption refers to payables for a loan received by Seat Pagine Gialle (euro 780 million) from Seat Pagine Gialle Finance S.r.l., a corporate vehicle entirely owned by third parties, operating under Law No. 130/99 on securitization, short-term loans received by Telecom Italia from TI Securitisation Vehicle S.r.l., from the excess liquidity generated by the securitization of receivables (euro 165 million), and loans received by Telecom Italia from the Cassa Depositi e Prestiti (euro 284 million).

■ Advances

Advances, which totaled euro 263 million, decreased by euro 125 million compared to December 31, 2001 and included advances received from customers, of which euro 103 million referred to Consorzio Telcal.

■ Trade accounts payable

Trade accounts payable amounted to euro 5,477 million and decreased by euro 749 million from December 31, 2001, mainly as a result of the reduction in payables by Telecom Italia (–euro 146 million net of payables transferred to Telecom Italia Sparkle), the change in the scope of consolidation (–euro 368 million) and the negative performance of the currencies of the South American companies (euro 282 million).

This item also included euro 513 million of amounts due to other telecommunications operators.

It should be pointed out that Tim Group pledged its Maxitel shares to guarantee the supply contract between Maxitel and Ericsson.

■ Notes payable

Notes payable, totaling euro 241 million, increased by euro 20 million compared at December 31, 2001. They refer to investment certificates, maturing in June 30, 2003, issued by Seat Pagine Gialle as part of the securitization transaction with Seat Pagine Gialle Finance S.r.l. for euro 221 million and short-term financial notes issued by Telecom Italia for euro 20 million.

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■ Accounts payable to unconsolidated subsidiaries

Accounts payable to unconsolidated subsidiaries amounted to euro 16 million and decreased by euro 9 million from December 31, 2001. The balance included financial payables of euro 8 million and trade accounts payable and other payables of euro 8 million.

■ Accounts payable to affiliated companies

Accounts payable to affiliated companies, totaling euro 645 million, decreased by euro 257 million compared to December 31, 2001. They included financial payables of euro 398 million, mainly to Teleleasing (euro 393 million) for financial lease contracts, some of which were paid off before the expiration date in January 2003 (euro 369 million) and trade accounts payable and other payables for euro 247 million due to the Italtel group (euro 150 million), Siemens Informatica (euro 40 million), Teleleasing (euro 17 million) and Etec S.A. (euro 12 million).

■ Accounts payable to parent companies

Accounts payable to parent companies of euro 296 million referred to the payable to Olivetti for Group VAT (euro 214 million) and the sale of Irpeg receivables (euro 82 million).

■ Taxes payable

Taxes payable amounted to euro 597 million and decreased by euro 325 million compared to December 31, 2001. Taxes payable included euro 162 million for income taxes and euro 403 million for indirect taxes and withholdings made by the companies as substitute taxpayers, as well as euro 32 million for medium/long-term financial debt relating to the agreement reached with the Tax Administration over the assessments received in 2001 by Telecom Italia.

■ Contributions to pensions and social security institutions

Contributions to pensions and social security institutions totaled euro 784 million and decreased by euro 81 million compared to December 31, 2001; they included amounts owed to social security and health institutions. This item includes euro 595 million payable to INPS for the remaining balance of the estimated charges assessed for employees of the former ASST pursuant to Law No. 58/1992.

■ Other liabilities

Other liabilities, of euro 4,516 million, decreased by euro 335 million compared to December 31, 2001. A breakdown is provided below:

(in millions of euro)	12/31/2002	12/31/2001
Customer-related items	1,604	1,650
Employee-related items	707	631
Telecommunications license fee	1,394	1,034
Other financial items	372	1,108
Other recurring and miscellaneous items (contra-entries for accrued costs, accrued interest expense at December 31 and payable the following year, sundry payables, etc.)	439	428
Total	4,516	4,851

In particular, customer-related items consisted of deposits paid by customers and basic subscriber charges (mainly for January and February), as well as prepaid traffic. The item also included other liabilities for services to be performed by Seat Pagine Gialle (euro 113 million). The financial items payable principally comprised euro 181 million payable by Telecom Italia and include the transaction for the loan on securities to Morgan Stanley (euro 176 million), and euro 161 million by the Mobile BU, for the remaining amount due on the UMTS licenses acquired in Italy and Greece. Such liabilities are considerably lower as a result of the payment of the residual liability for the purchase of the PCS licenses by Tim Celular.

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ACCRUED EXPENSES AND DEFERRED INCOME

euro 1,570 million

(euro 1,476 million at December 31, 2001)

A breakdown of accrued expenses and deferred income, which increased by euro 94 million, is provided below:

(in millions of euro)	12/31/2002	12/31/2001
Accrued expenses:		
- production costs	24	51
- financial expense	431	352
	455	403
Deferred income:		
- capital grants (unavailable amount)	325	349
- production value	526	452
- financial income	10	14
- other income	254	258
	1,115	1,073
Total	1,570	1,476

An analysis of liabilities and accrued expenses by maturity and type is provided in Annex 2.

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■ MEMORANDUM ACCOUNTS

Memorandum accounts at December 31, 2002 totaled euro 4,389 million and decreased, compared to December 31, 2001, by euro 2,852 million.

Memorandum accounts are detailed as follows:

(in millions of euro)	12/31/2002	12/31/2001
Guarantees provided	1,113	1,422
Collateral provided	111	163
Purchases and sales commitments	3,077	5,369
Other	88	287
Total	4,389	7,241

■ GUARANTEES PROVIDED

Guarantees provided, net of counter-guarantees received of euro 378 million, totaled euro 1,113 million and mainly consisted of sureties provided by Telecom Italia and TIM on behalf of affiliated companies (of which euro 537 million was in the interests of IS Tim, set aside in the reserves for risks and charges) and others for medium/long-term loan transactions and guarantees on bids to acquire fixed line and mobile licenses abroad.

■ COLLATERAL PROVIDED

Collateral provided of euro 111 million referred mainly to the IS Tim shares pledged as guarantees by TIM International for the performance of the obligations covered by the supply contracts signed by IS TIM with Ericsson and Siemens..

■ PURCHASES AND SALES COMMITMENTS

Purchases and sales commitments at the end of the year, respectively, of euro 2,858 million (euro 3,305 million at December 31, 2001) and euro 219 million (euro 2,064 million at December 31, 2001), referred to commitments, for the portion still to be executed, which do not fall within the normal "operating cycle" of the individual consolidated companies.

In particular, the purchases commitments refer to:

- Telecom Italia's commitment for the put option on Seat Pagine Gialle shares (euro 2,417 million), revised in relation to the renegotiation with JP Morgan Chase of the put and call options on Seat Pagine Gialle shares on February 25, 2002. This renegotiation is fully described in the notes to the financial statements of Telecom Italia S.p.A. and led to the reduction of the original option exercise price (from euro 4.2 to euro 3.4 per share). To guarantee the performance of the obligations relating to the put option on Seat Pagine Gialle shares, Telecom Italia Finance provided a guarantee (euro 1,940 million) in the form of a Direct Participation Letter of Credit to JPMorgan Chase Equity Limited. Furthermore, the valuation of the forward commitment to purchase Seat Pagine Gialle shares at year-end 2002 led to a provision set aside in the reserve for risks and charges of euro 1,942 million to account for the estimated non-recoverability of the exercise option price as a result of the decision, taken within the framework of the redefinition of Telecom Italia Group's strategies, of no longer considering the "Directories" business of Seat Pagine Gialle to be of strategic interest;
- commitment by Seat Pagine Gialle (euro 55 million) to purchase 9,122,733 Seat Pagine Gialle shares and the remaining 0.27% stake in TDL Infomedia Ltd from the manager shareholders of TDL Infomedia Ltd;
- commitment by Telecom Italia (euro 10 million) to purchase the remaining 14% stake in Epiclink from Pirelli and other shareholders;
- commitment by Tim (euro 20 million) to purchase the assets of the ex Blu core network from Wind;
- future operating lease obligations including the purchase option price (euro 34 million, of which euro 17 million refers to Teleleasing).

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Sales commitments mainly included the Group's commitment for the sale of the investment in Telekom Srbija to PTT Srbija (euro 195 million), the sale of TESS to Accenture (euro 10 million) and the sale of Siteba to other shareholders (euro 7 million).

Purchases and sales commitments include commitments by Telecom Italia International, for the same amount (euro 7 million), by which, if the transfer of the investment in Mediterranean Broadband Access by Forthnet has not occurred by the date of June 30, 2003 in exchange for the capital increase by Forthnet reserved for Telecom Italia International, beginning July 1, 2003, the transfer of said investment will be effected for the same amount in cash.

Furthermore, there are purchase commitments for the stakes held by the minority shareholders (equal to 49% of the companies) of Mediterranean Nautilus Ltd and Med-1 Submarine Cables Ltd based on the market value of the companies at the option expiration date.

■ OTHER MEMORANDUM ACCOUNTS

Other memorandum accounts of euro 88 million referred mainly to third-party assets held by the individual consolidated companies, principally those in the information technology sector. They decreased by euro 199 million as a result of the deconsolidation of Sogei and Telespazio Group.

Furthermore:

- The consolidated companies of the Group issued weak letters of patronage totaling euro 241 million chiefly on behalf of unconsolidated subsidiaries and affiliated companies to guarantee insurance policies, lines of credit and overdraft arrangements;
- assets held by third parties on loan, on deposit for safekeeping or for similar purposes amounted to euro 261 million and consisted mainly of equipment leased to customers;
- collateral received amounted to euro 2 million;
- guarantees received amounted to euro 18 million;
- guarantees provided by others for obligations of the Group companies, which consisted primarily of sureties to guarantee the proper performance of non-financial contractual obligations, totaled euro 1,752 million. They comprised euro 1,110 million of bank guarantees provided for the merger by absorption of Blu in TIM, euro 123 million of bank guarantees for the merger of Netsiel, Saritel, Sodalia Telesoft in ITTEL. They also comprised euro 207 million for the surety policy replacing the security deposit for contracts with public agencies, issued by Fondiaria Assicurazioni S.p.A. on behalf of the temporary association of companies, of which Finsiel is the principal on behalf of the guaranteed agency (MIPAF – Ministry of Agriculture and Forest Policies) after having won the bid for the contract, euro 208 million for sureties provided by insurance companies to guarantee Agrisian's contractual commitments with MIPAF and AGEA and euro 7 million for the bank surety provided in order to take part in a bid set up by the Lombardy Region for the Regional Service Card-Health Care Information System;
- the value of the shares of employees and private shareholders deposited on December 31, 2002 at the companies of the Group amounted to about euro 99 million;
- the total amount of Telecom Italia commitments at December 31, 2002 for building lease obligations to be paid to IMSER 60, Tiglio I and Tiglio II, under 21-year contracts was euro 3,818 million. The amount for each single year is euro 209 million. Furthermore, Telecom Italia provided guarantees to IMSER 60 for contractual risks on previously sold buildings for a maximum amount of euro 450 million.
- a purchase and sale commitment is currently being set up by TIM with H3G for the transfer of certain equipment and property lease contracts arising from the revision of the value of the Blu business segment sold to H3G.

■ DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments mainly for the management of its debt positions, primarily interest rate swaps (IRS) and interest rate options (IRO) to reduce the interest rate exposure on fixed-rate and floating-rate bank loans and bonds, and the use of cross currency and interest rate swaps (CIRS) and currency forwards to convert various currency loans – mainly in US dollar and euro – into the functional currencies of the various subsidiaries of the Group.

The following table gives a description of the derivative financial instruments used to hedge medium/long-term debt positions of the Group at December 31, 2002.

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(in millions of euro)

Notional amount/
Capital exchanged
at 12/31/2002

Interest rate swaps and interest rate options

5,054

Cross currency and interest rate swaps

827

IRSs and IROs involve or can involve the exchange of flows of interest calculated on the notional amount of reference at the agreed fixed or variable rates at the specified maturity date with the counterparts. This amount does not represent the amount exchanged between the parties and therefore does not constitute a measure of exposure to credit risk, which is instead limited to the amount of interest or interest differentials to be received at the interest date.

The same also applies to CIRs which involve the exchange of capital, in the respective currencies of denomination, in addition to the settlement of periodic interest flows, at maturity and at another date.

The counterparts to derivative contracts are only the best rated banks and financial institutions and continually monitored in order to minimize the risk of non-performance.

Besides the derivative contracts for the management of debt exposure, at December 31, 2002, IRSs and CIRs were in place at the subsidiaries Telecom Italia Finance and Tim Cellular to hedge financial assets of euro 150 million. There are also currency forwards to hedge exchange rate risks on short-term cash management transactions for a total of euro 1,433 million.

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■ CONSOLIDATED STATEMENTS OF INCOME

PRODUCTION VALUE

(euro 31,701 million in 2001)

euro 31,514 million

Production value decreased by euro 187 million (–0.6% compared to 2001) and included the captions below.

■ Sales and service revenues

Sales and service revenues amounted to euro 30,400 million and decreased by euro 418 million compared to 2001 (–1.4% compared to 2001). This growth is due to the positive performance of mobile telephone services and the increase in revenues from the Internet area countered by a reduction in wireline telephone services and exclusion from the scope of consolidation of the 9 Telecom group and Sogei, beginning from July 1, 2002, and the Telespazio group, beginning from October 1, 2002. A breakdown by Business Unit is presented below:

(in millions of euro)	2002	2001	Change	
			Amount	%
Domestic Wireline	17,022	17,168	(146)	(0.9)
Mobile	10,867	10,250	617	6.0
Sud America	1,409	1,534	(125)	(8.1)
Internet and Media	1,991	1,957	34	1.7
IT Market	912	1,198	(286)	(23.9)
IT Group	1,215	1,198	17	1.4
	33,416	33,305	111	0.3
Other activities and Intra-Group eliminations	(3,016)	(2,487)	(529)	21.3
Consolidated Group revenues	30,400	30,818	(418)	(1.4)

Revenues from telecommunications services are shown gross of the amount due to other carriers of euro 4,159 million (euro 3,714 million in 2001). Revenues from foreign operations totaled euro 5,748 million (euro 6,362 million in 2001) and decreased mainly as a result of the weakness of the currencies of the South American countries against the euro and the end of the Astrolink contract in 2001.

■ Increases in capitalized internal construction costs

Increases in capitalized internal construction costs totaled euro 675 million, with an increase of euro 94 million compared to 2001; they may be analyzed as follows:

(in millions of euro)	2002	2001	Change
intra-Group revenues from sales of systems	643	549	94
- personnel	19	14	
- financial expenses	1	3	
- materials and other costs	12 32	15 32	-
Total	675	581	94

The financial expenses were charged to "construction in progress and advances to suppliers" in fixed assets.

■ Other revenues and income

Other revenues and income of euro 479 million (euro 417 million in 2001) included the following:

(in millions of euro)	2002	2001	Change
- operating grants	19	24	(5)
- gains on disposal of intangibles and fixed assets	6	12	(6)
- portion of capital grants recorded in income	65	73	(8)
- other income	389	308	81
Total	479	417	62

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In particular:

- operating grants, for the most part, referred to the amounts bestowed by public institutions to defray the costs incurred for research, development and technological innovation;
- the portion of capital grants recorded in income represents the portion that became available during the year;
- other income from operations mainly included charges to customers by the telecommunications services companies for the late payment of telephone bills (euro 106 million compared to euro 112 million in 2001).

PRODUCTION COST

euro 24,133 million

(euro 25,027 million in 2001)

Production cost increased by euro 894 million compared to 2001 (-3.6% compared to 2001) and included the following captions.

■ Raw materials, supplies and merchandise

Raw materials, supplies and merchandise amounted to euro 1,579 million (euro 1,767 million in 2001) and *semifinished and finished goods* amounted to euro 200 million (euro 205 million in 2001). These costs, which principally represented purchases of raw materials and other goods to be used in operations, decreased by a total of euro 193 million.

■ Services

Service costs totaled euro 9,229 million (euro 9,552 million in 2001) and the *cost for the use of property not owned* amounted to euro 1,145 million (euro 1,069 million in 2001). Overall, these two items increased by euro 247 million, mainly due to higher costs for the operation and development of mobile telecommunications (euro 187 million) and the exclusion from the scope of consolidation of the Telespazio group, the 9 Telecom group and Sogei (-euro 252 million).

■ Personnel costs

Personnel costs amounted to euro 4,540 million (euro 4,666 million in 2001), including euro 3,373 million relating to companies which provide telecommunications services. The decrease from 2001 is due to the reduction in Telecom Italia's personnel costs following layoffs and the change in the scope of consolidation due to the exclusion from the scope of consolidation of the Telespazio group, the 9 Telecom group and Sogei and the addition of the Webegg group, of Blu, Epiclink and Netesi.

The average cost per capita for the Group was euro 45 thousand (euro 43 thousand in 2001).

At December 31, 2002, employees of the Group numbered 101,713 (109,956 at December 31, 2001), a decrease of 8,243, owing to personnel turnover (-5,360) and the effect of the change in the scope of consolidation (-2,883). A breakdown of personnel by Business Unit is presented as follows:

(in millions of euro)	12/31/2002	12/31/2001	Change
Domestic Wireline	53,682	57,895	(4,213)
Mobile Services	18,702	16,721	1,981
Sud America	5,461	5,746	(285)
Internet and Media	7,715	9,264	(1,549)
IT Market	4,493	6,441	(1,948)
IT Group	7,327	6,844	483
Other activities	4,333	7,045	(2,712)
Total	101,713	109,956	(8,243)

The equivalent average number of salaried employees was 101,789 in 2002 (107,491 in 2001).

A breakdown by category follows:

	2002	2001
Executive	2,317	2,454
Middle management	6,648	6,379
Clerical staff	84,841	89,066
Technicians	7,983	9,592
Total	101,789	107,491

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■ Amortization, depreciation and writedowns

Amortization, depreciation and writedowns amounted to euro 6,476 million (euro 6,730 million in 2001), with a decrease of euro 254 million. Details are as follows:

- amortization of intangible assets totaled euro 2,094 million, compared to euro 2,241 million in 2001, with a decrease of euro 147 million. The change is due to the writeoff of difference on consolidation in 2001 of euro 1,303 million;
- depreciation of fixed assets totaled euro 3,783 million, compared to euro 4,034 million in 2001, with a decrease of euro 251 million. A breakdown of depreciation expense by asset category is provided below:

(in millions of euro)	2002	2001	Change
Non-industrial and industrial buildings	147	152	(5)
Plant and machinery	3,331	3,542	(211)
Manufacturing and distribution equipment	32	34	(2)
Other fixed assets	273	306	(33)
Total	3,783	4,034	(251)

Depreciation decreased as a result of the change in the scope of consolidation, a reduction in the depreciation expense of Telecom Italia (euro 250 million) owing to a lower amount of depreciable assets and a change in the mix of depreciable assets.

- lother writedowns of intangibles and fixed assets totaled euro 57 million (euro 16 million in 2001), of which euro 18 million refer to the writedoff of IRU.
- writedowns of receivables included in current assets and liquid assets amounted to euro 542 million (euro 439 million in 2001) and represent the provisions made during the year to adjust receivables to their estimated realizable value.

■ Provisions for risks and other provisions

Provisions for risks and other provisions totaled euro 153 million (euro 278 million in 2001) and consisted of provisions made during the year to the various reserves for contractual risks and pending disputes.

■ Miscellaneous operating costs

Miscellaneous operating costs amounted to euro 823 million compared to euro 817 million in 2001. They referred to the following:

(in millions of euro)	2002	2001
TLC license fee	431	524
losses on disposal of intangibles and fixed assets	36	29
expenses connected with receivables management	60	37
indirect duties and annual taxes, including the local property tax (I.C.I.)	115	120
membership dues and other costs	181	107
Total	823	817

FINANCIAL INCOME AND EXPENSE

– euro 1,481 million

(-euro 1,999 million in 2001)

Financial income and expense refers to the following items:

(in millions of euro)	2002	2001	Change
Income from equity investments, net	18	154	(136)
Other financial income	1,218	922	296
Interest and other financial expense	(2,717)	(3,075)	358
Total	(1,481)	(1,999)	518

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■ Income from equity investments

Income from equity investments, net, totaled euro 18 million (euro 154 million in 2001) and mainly included dividends from unconsolidated companies.

■ Other financial income

Other financial income of euro 1,218 million (euro 922 million in 2001), included the following:

(in millions of euro)	2002	2001	Change
Interest and capital gains on fixed-income securities	93	138	(45)
Interest and fees from:			
– unconsolidated subsidiaries	1	1	
– affiliated companies	13	23	
– banks	84	110	
– customers	2	2	
Foreign exchange gains	100	136	(36)
Other	478	217	261
	547	431	116
Total	1,218	922	296

Interest and capital gains on fixed-income securities referred to interest on long-term investment securities for euro 4 million (euro 3 million in 2001) and interest and capital gains on marketable securities for euro 89 million (euro 135 million in 2001).

Foreign exchange gains referred essentially to the TIM group. "Other" included euro 392 million of income on hedging contracts and income from the application of inflation accounting principles.

■ Interest and other financial expense

Interest and other financial expense of euro 2,717 million (euro 3,075 million in 2001), included the following:

(in millions of euro)	2002	2001	Change
Interest and fees paid to:			
- affiliated companies	23	31	
- banks	257	815	
- suppliers and other lenders	181	165	
	461	1,011	(550)
Interest and other charges on note issues	765	449	316
Foreign exchange losses	874	348	526
Other financial expense	617	1,267	(650)
Total	2,717	3,075	(358)

The reduction in financial expense can mainly be ascribed to the provision of euro 569 million set aside, in 2001, for the forward commitment to purchase Seat Pagine Gialle shares in connection with the estimated nonrecoverability of the original option exercise price whereas the improvement in net financial expense came from a lower average debt exposure of the Group that was partly neutralized by a worsening of the exchange rates of the South American countries.

Foreign exchange losses referred mainly to the TIM group. "Other" included euro 153 million of expenses on hedging contracts and expenses from the application of inflation accounting principles.

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VALUE ADJUSTMENTS TO FINANCIAL ASSETS

– euro 682 million

(–euro 1,956 million in 2001)

These include:

(in millions of euro)	2002	2001	Change
Upward adjustments of:			
- equity investments	121	167	(46)
	121	167	(46)
Writedowns of:			
- equity investments	(668)	(1,933)	1,265
- long-term investments other than equity investments included in current assets	(40)	(49)	9
- securities included in current assets other than equity investments	(95)	(141)	46
	(803)	(2,123)	1,320
Total	(682)	(1,956)	1,274

Value adjustments to financial assets amounted to a net expense balance of euro 682 million. They refer to:

- amortization of difference on consolidation arising at the time of the purchase of the investments in companies accounted for using the equity method, equal to euro 80 million (euro 316 million in 2001), with a reduction of euro 236 million from the writeoffs of difference on consolidation taken in the 2001 financial statements;
- writedowns of securities and investments included in current assets of euro 176 million (euro 291 million in 2001) and long-term securities of euro 40 million (euro 49 million in 2001), with a total reduction of euro 123 million compared to 2001;
- the Group's share of the equity in the earnings and losses of the unconsolidated companies accounted for using the equity method which produced a loss of euro 386 million (–euro 1,300 million in 2001). This refers to the losses of Stream of euro 246 million (euro 241 million in 2001), Aria -Is Tim Turchia of euro 171 million (euro 334 million in 2001) and the earnings balance relating to the earnings and losses of the other unconsolidated companies of euro 32 million (a loss balance of 725 million in 2001).

Moreover, this caption was not affected by the results of the investments in Astrolink, Nortel Inversora (Telecom Argentina) and the Auna Group which, in 2001, reported losses of euro 700 million. The investment in Nortel Inversora, the carrying value of which had been prudently written off in the consolidated financial statements at December 31, 2001, has remained unchanged. As for the Auna Group and the company Astrolink, the carry values recorded in the 2001 consolidated financial statements were maintained until their sale on, respectively, August 1, 2002 and November 30, 2002, with the divestiture of the Telespazio group.

EXTRAORDINARY INCOME AND EXPENSE

– euro 5,637 million

(–euro 3,452 million in 2001)

Extraordinary income and expense showed a net expense balance of euro 5,637 million (–euro 3,452 million in 2001) which included euro 2,814 million of income and euro 8,451 million of expense.

Extraordinary income of euro 2,814 million comprised:

- euro 2,391 million for gains on the disposals of the investments and business segments, detailed as follows:
 - euro 1,245 million for the sale of the 26.89% stake in Auna;
 - euro 484 million for the sale of the 19.61% stake in Bouygues Decaux Telecom (BDT);
 - euro 133 million for the shares tendered in the tender offer for Lottomatica;
 - euro 115 million for the sale of the 25% stake in the Mobikom Austria group to Telekom Austria;
 - euro 110 million for the sale of the 40% stake in Telemaco Immobiliare;
 - euro 70 million for the sale of the 100% stake in Telespazio ;
 - euro 159 million for the concentration of the real estate assets in Tiglio I through the companies Imser, Emsa and Telimm;
 - euro 60 million for the contribution of the "Asset Management" business segment to Tiglio II;
 - euro 15 million for the sale of the non-facility business to Pirelli Real Estate;

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- euro 22 million for the disposal of other investments, fixed assets and business segments;
- euro 131 million for prior period income arising from the recovery of accrued pre-amortization interest – on the expenses for employee benefit obligations under Law 58/1992 that were paid, with reserve, to INPS up to 1999 – following the termination of litigation after the courts ruled in Telecom Italia's favor;
- euro 270 million, of which euro 77 million was for the release of reserves primarily to absorb a portion of the reserve for risks and charges set up in 2001 by Telecom Italia to cover the expenses connected with the agreement to sell Stream to News Corporation and Vivendi Universal/Canal+ after the parties did not go through with the agreement, grants of euro 9 million and other income of euro 184 million.

Extraordinary expense of euro 8,451 million comprised:

- writedowns for impairment losses of investments for a total of euro 6,237 million (euro 2,984 million in 2001), for:
 - the investment held in IS Tim (euro 1,491 million), owing to the changed conditions of the macroeconomic scenario and the difficulties in supplying services independent of the company and the provisions (euro 850 million) connected with the loans made and the guarantees provided on behalf of the company;
 - the difference on consolidation relating to the consolidated companies Seat (euro 1,544 million), Blu (euro 103 million), Corporacion Digitel (euro 75 million) and other minor companies (euro 47 million);
 - the difference on consolidation relating to Netco Redes (euro 96 million) and writedowns of other investments (euro 46 million);
 - the provision for the forward commitment to purchase Seat Pagine Gialle shares (euro 1,942 million) that had already been partly written down in 2001 by a charge to "financial expense" of euro 569 million and the provision for the purchase of an additional 8.17% holding in Consodata (euro 43 million) to adjust it to the current value of the company as determined on the basis of an appraisal.

The writedowns of euro 2,984 million in 2001 had referred to the writedowns of difference on consolidation relating to both the consolidated companies (9 Telecom group, Entel Bolivia, Entel Chile group, Maxitel, Tele Celular Sul group, Tele Nordeste Celular group, Tim Brasil, Med-1 group and certain companies in the Seat Pagine Gialle group) and companies valued using the equity method (GLB Servicios Interativos, Solpart Participações, Telekom Austria and Nortel Inversora group), as well as other provisions related to investments.

- euro 316 million relating to the provisions effected in conjunction with the disposal of the investment in the 9Telecom group. In particular, in view of the loss reported prior to sale, the French group 9Telecom produced a negative effect on the nine-months 2002 statement of income of the Telecom Italia Group for a total of euro 389 million;
- euro 135 million of losses for the sale of the 15% stake in Telekom Austria;
- euro 494 million of expenses and provisions for employee cutbacks and layoffs (of which euro 379 million was borne by Telecom Italia);
- euro 235 million of expenses in connection with extraordinary investment transactions;
- euro 155 million of expenses under Law 58/1992 to cover employees under the former fund "Telephone Employees Pension Fund" (FPT) and euro 74 million for the extraordinary contribution to INPS to meet the higher financial requirements covered by the rules of the former fund "Telephone Employees Pension Fund" (FPT) which became part of the general "Employees Pension Fund";
- euro 190 million of writedowns of intangibles and fixed assets, of which euro 142 million related to the Brazilian companies;
- euro 194 million of provisions to reserves, of which 135 million referred to guarantees provided upon the sale of investments and business segments;
- euro 158 million for the adjustment of Telecom Italia's liability to customers for prepaid telephone cards;
- euro 38 million of losses relating to intangibles, fixed assets and long-term investments and euro 225 million of other expenses.

■ INCOME TAXES

– euro 716 million

(euro 925 million in 2001)

Income taxes decreased by euro 1,641 million due to the investment writedowns which contributed to the increase in deferred tax assets, as well as the benefit from the utilization of tax loss carryforwards deriving from the merger of TIM and Blu.

Income taxes included current taxes for euro 1,451 million and deferred tax assets for euro 2,167 million, of which euro 1,900 million deriving from the application of D.L. 209/02 (turned ex L. n. 265/02) to writedowns of equity investments.

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■ Compensation to directors and statutory auditors

The compensation to which the directors and statutory auditors of Telecom Italia are entitled for fiscal 2002 for carrying out their responsibilities and functions in Telecom Italia and also in other consolidated companies, totaled euro 7,887 thousand for directors and euro 748 thousand for statutory auditors.

■ EXCHANGE RATES USED TO TRANSLATE FOREIGN CURRENCY FINANCIAL STATEMENTS

(currency/euro)	Year-end exchange rates (balance sheet items)			Average exchange rate for the year (statement of income items)		
	31/12/2002	31/12/2001	% Change	2002	2001	% Change
Europe						
Romanian leu	0.000028462	0.000035949	(20.8)	0.000028462	0.000035949	(20.8)
Pound sterling	1.537279016	1.643385374	(6.5)	1.590356081	1.608054208	(1.1)
Turkish lira	0.000000587	0.000000788	(25.5)	0.000000587	0.000000788	(25.5)
Hungarian forint	0.004232088	0.004078636	3.8	0.004115926	0.003896759	5.6
Russian rouble	0.029864127	0.037240619	(19.8)	0.033702329	0.038242782	(11.9)
Polish zloty	0.248694355	0.286098475	(13.1)	0.259273567	0.272476471	(4.8)
North America						
USA dollar	0.953561552	1.134687394	(16.0)	1.057753332	1.116525329	(5.3)
South America						
Venezuelan bolivar	0.000679659	0.001471562	(53.8)	0.000679659	0.001471562	(53.8)
Bolivian boliviano	0.127251881	0.166535381	(23.6)	0.147504156	0.169668023	(13.1)
Costarican colon	0.002520449	0.003302924	(23.7)	0.002942266	0.003362076	(12.5)
Peruvian nuevo sol	0.272368242	0.329612014	(17.4)	0.300762734	0.318505825	(5.6)
Argentinean peso	0.282955870	0.667463173	(57.6)	0.282955870	1.116525329	(74.7)
Chilean peso	0.001324391	0.001740402	(23.9)	0.001534176	0.001762476	(13.0)
Colombian peso	0.000334056	0.000483854	(31.0)	0.000334055	0.000498525	(33.0)
Brazilian real	0.269878582	0.488901926	(44.8)	0.360892270	0.475524176	(24.1)
Asia						
Hong Kong dollar	0.122277791	0.145511692	(16.0)	0.135565648	0.143152839	(5.3)
Israeli shekel	0.199782237	0.258742254	(22.8)	0.223439720	0.265806340	(15.9)

The following Annexes numbered 1 to 7 are an integral part of these notes.

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■ ANNEX 1

ACCOUNTS RECEIVABLE AND ACCRUED INCOME BY MATURITY AND TYPE

	12/31/2002 Amount due				12/31/2001 Amount due			
	Within one year	From two to five years	Beyond five years	Total	Within one year	From two to five years	Beyond five years	Total
(in millions of euro)								
Accounts receivable in long-term investments								
Unconsolidated subsidiaries	5			5	2			2
Affiliated companies	2	433		435		3	114	117
Other:								
Customers	2	13	1	16	2	3	1	6
Others	53	115	31	199	78	155	34	267
	62	561	32	655	82	161	149	392
Accounts receivable in current assets								
Other loans to:								
Unconsolidated subsidiaries	23			23	7			7
Affiliated companies	12			12	206			206
Others	646	2		648	591			591
	681	2		683	804			804
Trade accounts receivables:								
Customers	7,900	1		7,901	7,901	3		7,904
Unconsolidated subsidiaries	16			16	10			10
Affiliated companies	184			184	360			360
Parent companies	2			2	1			1
Others	88	2	8	98	70	1		71
	8,190	3	8	8,201	8,342	4		8,346
Other receivables:								
Unconsolidated subsidiaries	2			2	14			14
Affiliated companies	17			17	1			1
Others	4,281	1,059	150	5,490	3,385	223	254	3,862
	4,300	1,059	150	5,509	3,400	223	254	3,877
Total accounts receivables	13,171	1,064	158	14,393	12,546	227	254	13,027
Accrued income	39			39	152			152

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■ ANNEX 2

LIABILITIES AND ACCRUED EXPENSES BY MATURITY AND TYPE

	12/31/2002 Amount due				12/31/2001 Amount due			
	Within one year	From two to five years	After five years	Total	Within one year	From two to five years	After five years	Total
(in millions of euro)								
Medium and long-term debt								
Debentures	113	6,285	4,226	10,624	180	5,722	2,281	8,183
Convertible debentures		1,964		1,964		2,500		2,500
Due to banks	1,225	1,801	2	3,028	1,105	2,995	345	4,445
Due to other lenders	609	567	77	1,253	186	1,090	96	1,372
Suppliers	3	13		16	12	155		167
Notes	221			221		221		221
Affiliated companies	369	18	6	393	48	176	298	522
Taxes payables	18	14		32	18	32		50
Other liabilities	119	30	15	164	120	157	15	292
	2,677	10,692	4,326	17,695	1,669	13,048	3,035	17,752
Short-term debt								
Due to banks	2,000			2,000	5,790			5,790
Due to other lenders	166			166	791			791
Trade accounts payable	5			5	1			1
Notes payable	20			20				
Unconsolidated subsidiaries	8			8	17			17
Affiliated companies	5			5	31			31
Other liabilities	208			208	815			815
	2,412			2,412	7,445			7,445
Trade accounts payable ⁽¹⁾								
Suppliers	5,456			5,456	6,058			6,058
Unconsolidated subsidiaries	2			2	3			3
Affiliated companies	245			245	343			343
Parent companies					1			1
	5,703			5,703	6,405			6,405
Other payables								
Unconsolidated subsidiaries	6			6	5			5
Affiliated companies	2			2	6			6
Parent companies	296			296				
Taxes payable	559	6		565	822	50		872
Contributions to pension and social security institutions	249	286	249	784	267	272	326	865
Other liabilities	4,139	5		4,144	3,738	6		3,744
	5,251	297	249	5,797	4,838	328	326	5,492
Total liabilities ⁽¹⁾	16,043	10,989	4,575	31,607	20,357	13,376	3,361	37,094
Accrued expenses	455			455	403			403

(1) not including advances

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RECONCILIATION OF THE SHAREHOLDERS' EQUITY AND NET INCOME OF TELECOM ITALIA AND THE CONSOLIDATED FIGURES IN THE FINANCIAL STATEMENTS AT DECEMBER 31, 2001

(in millions of euro)	TELECOM ITALIA'S INTEREST				MINORITY INTEREST			Total
	Share capital	Reserves and retained earnings	Net income (loss)	Total	share capital and reserves	Net income (loss)	Total	
Financial statements of Telecom Italia at December 31, 2001	4,023	11,697	151	15,871				15,871
Results of consolidated companies			(7,020)	(7,020)		(1,048)	(1,048)	(8,068)
Share capital and reserves of consolidated companies		32,301		32,301	5,914		5,914	38,215
- carrying value of investments in consolidated companies		(39,539)		(39,539)				(39,539)
Consolidation adjustments:								
- elimination of tax-related entries		(137)	70	(67)	4	1	5	(62)
- valuation of investments using the equity method		(1,526)	(888)	(2,414)	(636)	(136)	(772)	(3,186)
- positive differences on purchase of investments		9,788	(860)	8,928	464	(43)	421	9,349
- elimination of intra-Group dividends		263	(1,334)	(1,071)		(27)	(27)	(1,098)
- losses of subsidiaries included in the results of parent companies and extraordinary writedowns of investments		(612)	7,826	7,214	7	1,609	1,616	8,830
- gains on sales of investments		(149)	(35)	(184)	(4)	4		(184)
- elimination of intra-Group profits included in fixed assets and intangibles		(283)	57	(226)	(21)	4	(17)	(243)
- elimination of intra-Group profits on investments		(469)		(469)	(283)		(283)	(752)
- other		233	(35)	198	(68)	46	(22)	176
Consolidated financial statements at December 31, 2001	4,023	11,567	(2,068)	13,522	5,377	410	5,787	19,309

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RECONCILIATION OF THE SHAREHOLDERS' EQUITY AND NET INCOME OF TELECOM ITALIA AND THE CONSOLIDATED FIGURES IN THE FINANCIAL STATEMENTS AT DECEMBER 31, 2002

(in millions of euro)	TELECOM ITALIA'S INTEREST				MINORITY INTEREST			Total
	Share capital	Reserves and retained earnings	Net income (loss)	Total	share capital and reserves	Net income (loss)	Total	
Financial statements of Telecom Italia at December 31, 2002	4,024	8,577	(1,645)	10,956				10,956
Results of consolidated companies			(2,428)	(2,428)		(1,002)	(1,002)	(3,430)
Share capital and reserves of consolidated companies		24,728		24,728	3,388		3,388	28,116
- carrying value of investments in consolidated companies		(32,773)		(32,773)				(32,773)
Consolidation adjustments:								
- elimination of tax-related entries		(86)	36	(50)	2		2	(48)
- valuation of investments by the equity method		(720)	222	(498)	(417)	(743)	(1,160)	(1,658)
- positive differences on purchase of investments		6,844	(784)	6,060	598	(61)	537	6,597
- elimination of intra-Group dividends		1,119	(1,478)	(359)	10	(16)	(6)	(365)
- losses of subsidiaries included in the results of parent companies and extraordinary writedowns of investments		(1,081)	5,223	4,142	(26)	2,284	2,258	6,400
- gains on sales of investments		(690)	493	(197)	(158)	129	(29)	(226)
- elimination of intra-Group profits included in fixed assets and intangibles		(224)	66	(158)	(14)	4	(10)	(168)
- elimination of intra-Group profits on investments		(418)		(418)	(261)		(261)	(679)
- other		71	(27)	44	37	24	61	105
Consolidated financial statements at December 31, 2002	4,024	5,347	(322)	9,049	3,159	619	3,778	12,827

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STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY FOR THE YEAR ENDED DECEMBER 31, 2001

	TELECOM ITALIA'S INTEREST				MINORITY INTEREST			Total
	Share capital	Reserves and retained earnings	Net income (loss)	Total	share capital and reserves	Net income (loss)	Total	
(in millions of euro)								
Consolidated financial statements at December 31, 2000	3,835	12,958	2,028	18,821	5,788	920	6,708	25,529
Deconsolidation of Nortel Inversora group					(781)	(56)	(837)	(837)
Consolidated financial statements at December 31, 2000	3,835	12,958	2,028	18,821	5,007	864	5,871	24,692
Contribution by shareholders	1	137		138	102		102	240
Cancellation of treasury stock and euro conversion	187	(898)		(711)				(711)
Appropriation of 2000 net income:								
Dividends distributed		(281)	(2,028)	(2,309)		(788)	(788)	(3,097)
Transfer to reserves					76	(76)		
Consolidation of Entel Chile group					358		358	358
Translation adjustments on the conversion of financial statements in foreign currencies and other		(349)		(349)	(166)		(166)	(515)
Net income (loss) for the year 2001			(2,068)	(2,068)		410	410	(1,658)
Consolidated financial statements at December 31, 2001	4,023	11,567	(2,068)	13,522	5,377	410	5,787	19,309

■ ANNEX 4

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY FOR THE YEAR ENDED DECEMBER 31, 2002

	TELECOM ITALIA'S INTEREST				MINORITY INTEREST			Total
	Share capital	Reserves and retained earnings	Net income (loss)	Total	share capital and reserves	Net income (loss)	Total	
(in millions of euro)								
Consolidated financial statements at December 31, 2001	4,023	11,567	(2,068)	13,522	5,377	410	5,787	19,309
Contribution by shareholders	1	8		9	49		49	58
Appropriation of 2001 net income:								
Dividends distributed		(2,306)		(2,306)	(531)	(410)	(941)	(3,247)
Transfer to reserves		(2,068)	2,068					
Distribution of extraordinary reserves		(987)		(987)	(711)		(711)	(1,698)
Translation adjustments on the conversion of financial statements in foreign currencies and other		(867)		(867)	(1,025)		(1,025)	(1,892)
Net income (loss) for the year 2002			(322)	(322)		619	619	297
Consolidated financial statements at December 31, 2002	4,024	5,347	(322)	9,049	3,159	619	3,778	12,827

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■ ANNEX 5

LIST OF COMPANIES CONSOLIDATED ON A LINE-BY-LINE BASIS

Name (type of business)	Head office	Share capital	% owner- ship	% of voting rights	Held by
Domestic Wireline					
ATESIA -Telemarketing Comunicazione Telefonica e Ricerche di Mercato S.p.A. (telemarketing)	Rome (Italy)	EUR	3,150,406	100.00	TELECOM ITALIA
INTELCOM SAN MARINO S.p.A. (telecommunications services in San Marino)	Republic of San Marino	EUR	1,550,000	70.00	TELECOM ITALIA INTERNATIONAL
LATIN AMERICAN NAUTILUS S.A. (holding company)	Luxembourg	USD	60,000,000	70.00 10.00 10.00	TELECOM ITALIA ENTEL BOLIVIA ENTEL CHILE TELECOM ARGENTINA STET-FRANCE TELECOM
- LATIN AMERICAN NAUTILUS ARGENTINA S.A. (installation and maintenance of submarine cable systems)	Buenos Aires (Argentina)	ARS	12,000	100.00 (*)	LATIN AMERICAN NAUTILUS S.A.
- LATIN AMERICAN NAUTILUS BOLIVIA Srl (installation and maintenance of submarine cable systems)	La Paz (Bolivia)	BOB	1,000	100.00	LATIN AMERICAN NAUTILUS S.A.
- LATIN AMERICAN NAUTILUS BRASIL Ltda (installation and maintenance of submarine cable systems)	Rio de Janeiro (Brazil)	BRL	20,000	99.99 0.01	LATIN AMERICAN NAUTILUS S.A. LATIN AMERICAN NAUTILUS USA
- LATIN AMERICAN NAUTILUS CHILE S.A. (installation and maintenance of submarine cable systems)	Santiago (Chile)	CLP	6,200,000	100.00 (*)	LATIN AMERICAN NAUTILUS S.A.
- LATIN AMERICAN NAUTILUS COLOMBIA S.A. (installation and maintenance of submarine cable systems)	Bogotá (Colombia)	COP	28,430,000	100.00 (*)	LATIN AMERICAN NAUTILUS S.A.
- LATIN AMERICAN NAUTILUS Ltd (installation and maintenance of submarine cable systems)	Dublin (Ireland)	USD	1,000,000	100.00	LATIN AMERICAN NAUTILUS S.A.
- LATIN AMERICAN NAUTILUS PANAMA S.A. (installation and maintenance of submarine cable systems)	Panama	USD	10,000	100.00	LATIN AMERICAN NAUTILUS S.A.
- LATIN AMERICAN NAUTILUS PERU' S.A. (installation and maintenance of submarine cable systems)	Lima (Perù)	PEN	3,500	100.00 (*)	LATIN AMERICAN NAUTILUS S.A.
- LATIN AMERICAN NAUTILUS ST.CROIX LLC (installation and maintenance of submarine cable systems)	St. Croix (USA Virgin Islands)	USD	1,000	100.00	LATIN AMERICAN NAUTILUS S.A.
- LATIN AMERICAN NAUTILUS USA Inc. (installation and maintenance of submarine cable systems)	Florida (USA)	USD	10,000	100.00	LATIN AMERICAN NAUTILUS S.A.
- LATIN AMERICAN NAUTILUS SERVICE Inc. (installation and maintenance of submarine cable systems)	Florida (USA)	USD	10,000	100.00	LATIN AMERICAN NAUTILUS USA
- LATIN AMERICAN NAUTILUS VENEZUELA C.A. (installation and maintenance of submarine cable systems)	Caracas (Venezuela)	VEB	7,000,000	100.00 (*)	LATIN AMERICAN NAUTILUS S.A.
MED-1 SUBMARINE CABLES Ltd (construction and maintenance of submarine cable Lev)	Tel Aviv (Israel)	ILS	100,000	23.17 27.83	TELECOM ITALIA TELECOM ITALIA INTERNATIONAL
- MED 1 IC-1 (1999) Ltd (installation and maintenance of submarine cable IC1)	Tel Aviv (Israel)	ILS	1,000	99.99 0.01	MED-1 SUBMARINE CABLES MED-1 ITALY
- MED-1 (NETHERLANDS) B.V. (holding company)	Amsterdam (Holland)	EUR	18,151	100.00	MED-1 SUBMARINE CABLES
- MED-1 ITALY S.r.l. (installation and maintenance submarine cable systems in Italian seas)	Rome (Italy)	EUR	548,477	100.00	MED-1 NETHERLANDS
MEDITERRANEAN NAUTILUS S.A. (holding company)	Luxembourg	USD	326,480,000	62.51 7.49	TELECOM ITALIA TELECOM ITALIA INTERNATIONAL
- ELETTRA TLC S.p.A. (installation and maintenance of submarine cable systems)	Rome (Italy)	EUR	10,329,200	100.00	MEDITERRANEAN NAUTILUS S.A.
- MEDITERRANEAN NAUTILUS Ltd (installation and maintenance of submarine cable systems)	Dublin (Ireland)	USD	100,000	51.00	MEDITERRANEAN NAUTILUS S.A.
- MEDITERRANEAN NAUTILUS B.V. (holding company)	Amsterdam (Holland)	EUR	18,003	100.00	MEDITERRANEAN NAUTILUS Ltd
- MEDITERRANEAN NAUTILUS GREECE S.A. (installation and maintenance of submarine cable systems)	Athens (Greece)	EUR	111,600	100.00	MEDITERRANEAN NAUTILUS B.V.

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List of companies consolidated on a line-by-line basis

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- MEDITERRANEAN NAUTILUS ISRAEL Ltd (installation and maintenance of submarine cable systems)	Tel Aviv (Israel)	ILS	1,000	100.00	MEDITERRANEAN NAUTILUS B.V.
- MEDITERRANEAN NAUTILUS ITALY S.p.A. (installation and maintenance of submarine cable systems)	Rome (Italy)	EUR	3,100,000	100.00	MEDITERRANEAN NAUTILUS B.V.
- MEDITERRANEAN NAUTILUS Inc. (telecommunications activities)	Delaware (USA)	USD	3,000	100.00	MEDITERRANEAN NAUTILUS B.V.
- MEDITERRANEAN NAUTILUS TELEKOMUNIKASYON HIZMETLERI TICARET ANONIM SIRKETI (telecommunications activities)	Istanbul (Turkey)	TRL	350,000,000,000	99.9988 0.0003 0.0003 0.0003 0.0003	MEDITERRANEAN NAUTILUS B.V. MEDITERRANEAN NAUTILUS Ltd MEDITERRANEAN NAUTILUS ISRAEL MEDITERRANEAN NAUTILUS ITALY MEDITERRANEAN NAUTILUS GREECE
PATH.NET S.p.A. (networking systems and telecommunications)	Rome (Italy)	EUR	25,800,000	99.99 0.01	TELECOM ITALIA IT TELECOM
TELECONTACT CENTER S.p.A. (telemarketing)	Naples (Italy)	EUR	110,000	100.00	TELECOM ITALIA
TELECOM ITALIA SPARKLE S.p.A. (EX TMI) (public and private telecommunication services)	Rome (Italy)	EUR	200,000,000	100.00	TELECOM ITALIA
- TELECOM ITALIA NETHERLANDS B.V. (telecommunications services)	Amsterdam (Holland)	EUR	18,200	100.00	TELECOM ITALIA SPARKLE
- TELECOM ITALIA OF NORTH AMERICA Inc. (telecommunications promotional services)	New York (USA)	USD	15,550,000	100.00	TELECOM ITALIA SPARKLE
- TELECOM ITALIA SPAIN S.L. UNIPERSONAL (telecommunications services)	Madrid (Spain)	EUR	703,111	100.00	TELECOM ITALIA SPARKLE
- TI BELGIUM S.P.R.L. - B.V.B.A (telecommunications services)	Brussels (Belgium)	EUR	3,000,000	100.00	TELECOM ITALIA SPARKLE
- TI FRANCE S.A.R.L. (telecommunications services)	Paris (France)	EUR	10,307,800	100.00	TELECOM ITALIA SPARKLE
- TI GERMANY GmbH (telecommunications services)	Frankfurt (Germany)	EUR	25,000	100.00	TELECOM ITALIA SPARKLE
- TI SWITZERLAND GmbH (telecommunications services)	Zürich (Switzerland)	CHF	2,000,000	100.00	TELECOM ITALIA SPARKLE
- TI TELECOM ITALIA (AUSTRIA) TELEKOMMUNIKATIONSDIENSTE GmbH (telecommunications services)	Vienna (Austria)	EUR	1,835,000	100.00	TELECOM ITALIA SPARKLE
- TI UNITED KINGDOM Ltd (telecommunications services)	London (UK)	GBP	2,680,000	100.00	TELECOM ITALIA SPARKLE
- TMI TELEMEDIA INTERNATIONAL LUXEMBOURG S.A. (holding company)	Luxembourg	EUR	82,150,674.64	100.00 (*)	TELECOM ITALIA SPARKLE
- TMI TELEMEDIA INTERNATIONAL Ltd (telecommunications services)	London (UK)	USD	558,472,454	67.88 32.12	TMI TELEMEDIA INTERN. LUX. TELECOM ITALIA SPARKLE
- TELEMEDIA INTERNATIONAL USA Inc. (telecommunications services)	New Jersey (USA)	USD	119,022,889.68	100.00	TMI TELEMEDIA INTERN. Ltd
Mobile					
TELECOM ITALIA MOBILE S.p.A. (mobile telecommunications)	Turin (Italy)	EUR	513,964,432.74	54.82 0.17	55.68 0.17 TELECOM ITALIA TELECOM ITALIA FINANCE
- TIM INTERNATIONAL N.V. (holding company)	Amsterdam (Holland)	EUR	555,427,000	100.00	TELECOM ITALIA MOBILE
- STET HELLAS TELECOMMUNICATIONS S.A. (mobile telephony services)	Athens (Greece)	EUR	126,453,694.4	81.40 0.13	TIM INTERNATIONAL TELECOM ITALIA FINANCE
- TIM BRASIL S.A. (holding company)	São Paulo (Brazil)	BRL	4,760,522,987.04	100.00 (*)	TIM INTERNATIONAL
- BITEL PARTICIPACOES S.A. (holding company)	Rio de Janeiro (Brazil)	BRL	2,290,264,028	100.00 (*)	TIM BRASIL
- TELE CELULAR SUL PARTICIPACOES S.A. (holding company for operating companies providing mobile network services)	Curitiba (Brazil)	BRL	324,666,393.24	20.68 (*)	52.06 BITEL PARTICIPACOES

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- TELEPAR CELULAR S.A. (mobile telephony operator)	Curitiba (Brazil)	BRL 912,839,704.66	80.79 (*)	90.19	TELE CELULAR SUL
- CTMR CELULAR S.A. (mobile telephony operator)	Pelotas (Brazil)	BRL 21,251,917.26	100.00 (*)		TELEPAR CELULAR
- TELESC CELULAR S.A. (mobile telephony operator)	Florianopolis (Brazil)	BRL 266,803,506.58	100.00 (*)		TELEPAR CELULAR
- TELE NORDESTE CELULAR PARTICIPACOES S.A. (holding company for operating companies providing mobile network services)	Recife (Brazil)	BRL 288,442,548.62	21.18 (*)	52.32	BITEL PARTICIPACOES
- TELASA CELULAR S.A. (mobile telephony operator)	Recife (Brazil)	BRL 33,970,730.02	78.78 (*)	97.31	TELE NORDESTE CELULAR
- TELECEARA' CELULAR S.A. (mobile telephony operator)	Fortaleza (Brazil)	BRL 148,484,134.39	79.99 (*)	86.00	TELE NORDESTE CELULAR
- TELEPISA CELULAR S.A. (mobile telephony operator)	Teresina (Brazil)	BRL 24,762,149.14	79.46 (*)	97.59	TELE NORDESTE CELULAR
- TELERN CELULAR S.A. (mobile telephony operator)	Natal (Brazil)	BRL 45,011,693.89	76.19 (*)	92.87	TELE NORDESTE CELULAR
- TELPA CELULAR S.A. (mobile telephony operator)	Joao Pessoa (Brazil)	BRL 43,164,229.17	71.85 (*)	94.87	TELE NORDESTE CELULAR
- TELPE CELULAR S.A. (mobile telephony operator)	Recife (Brazil)	BRL 125,620,727.74	78.68 (*)	95.16	TELE NORDESTE CELULAR
- STARCEL Ltda (call center services))	Saõ Paulo (Brazil)	BRL 30,000	100.00 (*)		TIM BRASIL
- TIM CELULAR S.A. (ex PORTALE SAO PAULO S.A.) (mobile telephony operator)	Saõ Paulo (Brazil)	BRL 1,251,790,742	100.00 (*)		TIM BRASIL
- MAXITEL S.A. (mobile telephony operator)	Belo Horizonte (Brazil)	BRL 677,679,703	58.70 (*) 37.97 3.33	43.15 46.85 10.00	TIM INTERNATIONAL BITEL PARTICIPACOES TIM BRASIL
- TIMNET.COM S.A. (Internet services)	Rio de Janeiro (Brazil)	BRL 78,000,000	20.00 (*) 20.00 20.00 20.00		TIM INTERNATIONAL MAXITEL TELE NORDESTE CELULAR TELE CELULAR SUL TIM CELULAR
- TIMNET USA Inc. (mobile services)	New Jersey (USA)	USD 11,000,000	100.00		TIM INTERNATIONAL
- TIM PERU' S.A.C. (mobile telephony operator)	Lima (Perù)	PEN 1,337,542,452	100.00 (*)		TIM INTERNATIONAL
- CORPORACION DIGITEL C.A. (telecommunications services)	Caracas (Venezuela)	VEB 42,823,450,241	66.56		TIM INTERNATIONAL
South America					
ENTEL CHILE S.A. (telecommunications services)	Santiago (Chile)	CLP 408,096,296,423	54.76		TELECOM ITALIA INTERNATIONAL
- AMERICATEL CENTROAMERICA S.A. (holding company)	Guatemala City (Guatemala)	USD 2,649,608	78.65		ENTEL CHILE
- AMERICATEL EL SALVADOR S.A. DE C.V. (telecommunications services)	San Salvador (El Salvador)	USD 1,143,572.24	15.00 85.00		ENTEL CHILE AMERICATEL CENTROAMERICA
- AMERICATEL GUATEMALA S.A. (telecommunications services)	Guatemala City (Guatemala)	GTQ 450,000	100.00		AMERICATEL CENTROAMERICA
- AMERICATEL HONDURAS S.A. (telecommunications services)	Tegucigalpa (Honduras)	HNL 500,000	100.00 (*)		AMERICATEL CENTROAMERICA
- ENTEL CALL CENTER S.A. (telecommunications services)	Santiago (Chile)	CLP 10,827,422,540	90.00 10.00		ENTEL CHILE ENTEL INVERSIONES
- ENTEL INTERNATIONAL B.V.I. Corp. (holding company)	Tortola (British Virgin Islands)	CLP 32,424,451,213	100.00		ENTEL CHILE
- AMERICATEL CORP USA (telecommunications services)	Florida (USA)	USD 62,372,552.74	80.00		ENTEL INTERNATIONAL B.V.I.

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- ENTEL USA HOLDING Inc. (holding company)	Florida (USA)	USD	1,000	100.00	ENTEL INTERNATIONAL B.V.I.
- AMERICASKY Corporation (telecommunications services)	Florida (USA)	USD	1,000	80.00 20.00	ENTEL USA HOLDING ENTEL INTERNATIONAL B.V.I.
- ENTEL INVERSIONES S.A. (holding company)	Santiago (Chile)	CLP	3,223,396,817	100.00 (*)	ENTEL CHILE
- AMERICATEL PERU' S.A. (telecommunications services)	Lima (Perù)	PEN	39,288,339.60	45.69 54.31	ENTEL CHILE ENTEL INVERSIONES
- ENTEL INVESTMENTS Inc. (holding company)	Tortola (British Virgin Islands)	USD	1,630	100.00	ENTEL CHILE
- ENTEL SERVICIOS TELEFONICOS S.A. (telecommunications services)	Santiago (Chile)	CLP	1,103,479,919	91.42 8.58	ENTEL CHILE ENTEL INVERSIONES
- ENTEL TELEFONIA LOCAL S.A. (local telecommunications services)	Santiago (Chile)	CLP	23,113,989,207	99.00 1.00	ENTEL CHILE ENTEL INVERSIONES
- CHILE WIRELESS S.A. (holding company)	Santiago (Chile)	CLP	116,128,205	99.00 1.00	ENTEL TELEFONIA LOCAL ENTEL INVERSIONES
- ENTEL TELEFONIA PERSONAL S.A. (holding company)	Santiago (Chile)	CLP	127,256,898,429	94.64 5.36	ENTEL CHILE ENTEL INVERSIONES
- EMPRESA DE RADIOCOMUNICACIONES INSTA BEEP Ltda (telecommunications services)	Santiago (Chile)	CLP	1,757,062,939	99.90	ENTEL TELEFONIA PERSONAL
- ENTEL PCS TELECOMUNICACIONES S.A. (mobile telecommunications services)	Santiago (Chile)	CLP	98,369,022,334	0.10 99.90	ENTEL CHILE ENTEL TELEFONIA PERSONAL
- ENTEL TELEFONIA MOVIL S.A. (mobile telecommunications services)	Santiago (Chile)	CLP	1,883,969,582	0.08 99.92	ENTEL CHILE ENTEL TELEFONIA PERSONAL
- MICARRIER TELECOMUNICACIONES S.A. (telecommunications services)	Santiago (Chile)	CLP	3,233,725,941	99.99 0.01	ENTEL CHILE ENTEL INVERSIONES
- ENTEL VENEZUELA C.A. (ex ORBITEL VENEZUELA C.A.) (telecommunications services)	Caracas (Venezuela)	VEB	709,500,000	100.00	ENTEL CHILE
- RED DE TRANSACCIONES ELECTRONICAS S.A. (telecommunications services)	Santiago (Chile)	CLP	1,629,756,041	93.76	ENTEL CHILE
- SATEL TELECOMUNICACIONES S.A. (telecommunications services)	Santiago (Chile)	CLP	2,779,689,356	99.90 0.10	ENTEL CHILE ENTEL INVERSIONES
ENTEL Empresa Nacional de Telecomunicaciones S.A. (telecommunications services)	La Paz (Bolivia)	BOB	1,280,898,800	50.00	ETI
- DATACOM S.A. (data transmission services)	La Paz (Bolivia)	BOB	66,938,200	99.99	ENTEL S.A.
TELECOM ITALIA AMERICA LATINA S.A. (telecommunications promotional services)	Saõ Paulo (Brazil)	BRL	43,614,072	100.00	TELECOM ITALIA
Internet and Media					
SEAT PAGINE GIALLE S.p.A. (publishing and Internet services)	Milan (Italy)	EUR	341,183,511.30	53.21 2.03 0.02	53.5850 2.068 0.0171 TELECOM ITALIA TELECOM ITALIA FINANCE IT TELECOM
- ANNUARI ITALIANI S.p.A. (EX KOMPASS ITALIA) (publishing of annuals and sale of telematic products)	Turin (Italy)	EUR	1,610,904.88	100.00	SEAT PAGINE GIALLE
- CIPI S.p.A. (personalized products for companies)	Milan (Italy)	EUR	1,200,000	60.00	SEAT PAGINE GIALLE
- CONSODATA S.A. (management and supply of data banks and market research)	Levallois Perret (France)	EUR	4,748,159.50	90.42	SEAT PAGINE GIALLE
- BCA FINANCES S.A. (analysis, management and marketing of data banks) di banche dati)	Lille (France)	EUR	107,100	100.00	CONSODATA S.A.
- BCA S.A. (analysis, management and marketing of data banks)	Lille (France)	EUR	80,000	17.00 83.00	CONSODATA S.A. BCA FINANCES
- CAL - CONSUMER ACCESS Ltd (management and supply of data banks)	Kingston (UK)	GBP	200,000	100.00	CONSODATA S.A.

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- CONSODATA UK Ltd (business information)	Kingston (UK)	GBP	2	100.00	CAL - CONSUMER ACCESS
- CHINALOOP HOLDINGS (direct marketing)	Isole Cayman	USD	29,961.3	50.06	CONSODATA S.A.
- CHINALOOP (MAURITIUS) Co. (direct marketing)	Port Louis (Mauritius)	USD	200	100.00	CHINALOOP HOLDINGS
- SHANGHAI CHINALOOP INFORMATION SERVICES (direct marketing)	Shanghai (China)	USD	1,730,000	100.00	CHINALOOP (MAURITIUS)
- CONSOBELGIUM S.A. (business information)	Bruxelles (Belgium)	EUR	62,500	100.00	CONSODATA S.A.
- CONSODATA ESPANA S.A. (business information)	Barcelona (Spain)	ESP	310,000,000	100.00	CONSODATA S.A.
- QUANTITATIVE MARKETING TECHNOLOGIES S.L. (direct marketing)	Barcelona (Spain)	EUR	13,113	70.00	CONSODATA ESPANA
- CONSODATA SOLUTIONS S.A. (data management)	Levallois Perret (France)	EUR	270,000	100.00	CONSODATA S.A.
- CONSODATA S.p.A. (services of direct marketing, creation, management and marketing of data bank)	Rome (Italy)	EUR	13,200,000	100.00	CONSODATA S.A.
- CONSODATA MARKETING INTELLIGENCE S.r.l. (ex DOMINO RESEARCH S.r.l.) (data processing geomarketing sector)	Milan (Italy)	EUR	46,400	96.00	CONSODATA S.p.A.
- DWI S.p.A. (design, software realization)	Verona (Italy)	EUR	500,000	51.00	CONSODATA S.p.A.
- FINANZA E GESTIONE S.r.l. (creation, management and trading of data banks for the banking sector)	Milan (Italy)	EUR	77,450	100.00	CONSODATA S.p.A.
- PUBBLIBABY S.p.A. (design, management and marketing of native sector data bank)	Cusago (Milan Italy)	EUR	100,000	100.00	CONSODATA S.p.A.
- MEDIA PRISME S.A. (analysis, management and marketing of data banks)	Levallois Perret (France)	EUR	40,000	50.00 50.00	CONSODATA S.A. BCA FINANCES
- MEDIA PRISME ESPAGNE S.A. (direct marketing)	Madrid (Spain)	EUR	30,490	100.00	MEDIA PRISME
- MP LIST S.A. (analysis, management and marketing of data banks)	Brussels (Belgium)	FB	750,000	100.00	MEDIA PRISME
- CONSODATA GROUP Ltd (management and supply of data banks)	London (UK)	GBP	25,146,140	99.996 0.004	SEAT PAGINE GIALLE CAL - CONSUMER ACCESS
- NETCREATIONS Inc. (management of the license regarding the software products of Netex Ltd)	New York (USA)	USD	1	100.00	CONSODATA GROUP
- PAN-ADRESS DIREKTMARKETING VERWALTUNG GmbH (direct marketing)	Munich (Germany)	EUR	25,000	100.00	CONSODATA GROUP
- PAN-ADRESS DIREKTMARKETING & Co. KG (direct marketing)	Munich (Germany)	DEM	2,040,000	100.00	CONSODATA GROUP
- CONSODATA DEUTSCHLAND GmbH (in liquidation) (direct marketing)	Munich (Germany)	DEM	50,000	100.00	PAN-ADRESS DIREKTMARK. & Co. KG
- CONSODATA MARKETING INTELLIGENCE GmbH (direct marketing)	Munich (Germany)	EUR	25,000	100.00	PAN-ADRESS DIREKTMARK. & Co. KG
- MEDIPLAN GmbH (in liquidation) (direct marketing)	Munich (Germany)	EUR	26,000	100.00	PAN-ADRESS DIREKTMARK. & Co. KG
- DATABANK S.p.A. (marketing)	Milan (Italy)	EUR	937,300	93.465	SEAT PAGINE GIALLE
- DBK S.A. (marketing)	Madrid (Spain)	EUR	99,000	99.99	DATABANK S.p.A.
- EUREDIT S.A. (realization, promotion and marketing of European "Europages" product annual)	Parigi (France)	EUR	2,800,000	93.562	SEAT PAGINE GIALLE
- FINANZIARIA WEB S.p.A. (financing)	Turin (Italy)	EUR	9,606,073.50	60.00	SEAT PAGINE GIALLE

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- MATRIX S.p.A. (Internet services)	Milan (Italy)	EUR 1,100,000	0.70 66.00 33.30		SEAT PAGINE GIALLE FINANZIARIA WEB N.V. VERTICO
- FREE FINANCE S.p.A. (Internet loans for the real estate market)	Milan (Italy)	EUR 148,102	100.00		MATRIX
- WEBNEXT S.r.l. (EX XOOM.it) (in liquidation) (development and management of virtual communities)	Milan (Italy)	EUR 100,000	100.00		MATRIX
- FINSATEL S.r.l. (in liquidation) (holding company)	Turin (Italy)	EUR 10,000	100.00		SEAT PAGINE GIALLE
- GIALLO PROFESSIONAL PUBLISHING S.p.A. (publishing, typographic and graphic marketing, advertising)	Turin (Italy)	EUR 1,000,000	100.00		SEAT PAGINE GIALLE
- GRUPPO EDITORIALE FAENZA EDITRICE S.p.A. (publishing house)	Faenza (Ravenna, Italy)	EUR 260,000	60.00		GIALLO PROFESSIONAL PUBLISHING
- FAENZA EDITRICE IBERICA S.L. (publishing house also on behalf of third parties)	Castellon de La Plana (Spain)	EUR 3,005.50	100.00		GRUPPO EDITORIALE FAENZA EDITRICE
- FAENZA EDITRICE DO BRASIL Ltda (publishing house also on behalf of third parties)	Saõ Paulo (Brazil)	BRL 133,169.00	91.00 9.00		GRUPPO EDITORIALE FAENZA EDITRICE FAENZA EDITRICE IBERICA
- PROMO ADVERTISING S.r.l. (acquisition of advertising on behalf of magazines, TV and multimedia broadcasting)	Faenza (Ravenna)	EUR 10,320	100.00		GRUPPO EDITORIALE FAENZA EDITRICE
- GRUPPO EDITORIALE JCE S.p.A. (publishing house)	Cinisello Balsamo (Milan, Italy)	EUR 1,032,800	65.00		GIALLO PROFESSIONAL PUBLISHING
- QUASAR E ASSOCIATI S.r.l. (multimedia publishers)	Milan, (Italy)	EUR 20,408	51.00		GIALLO PROFESSIONAL PUBLISHING
- EDITORIALE QUASAR S.r.l. (publishing house and advertising agency)	Milan (Italy)	EUR 10,000	100.00		QUASAR E ASSOCIATI
- TTG ITALIA S.p.A. (publishing house for the tourist market)	Turin (Italy)	EUR 100,000	98.00		GIALLO PROFESSIONAL PUBLISHING
- GIALLO VOICE S.p.A. (teleselling, telemarketing, call centers and marketing)	Turin (Italy)	EUR 1,000,000	100.00		SEAT PAGINE GIALLE
- IMR S.r.l. (call center services)	Turin (Italy)	EUR 10,500	100.00		GIALLO VOICE
- OPS S.r.l. (call center services)	Milan (Italy)	EUR 10,200	66.00		GIALLO VOICE
- TELEPROFESSIONAL S.r.l. (call center services)	Monza (Milan, Italy)	EUR 52,000	66.00		GIALLO VOICE
- GRUPPO BUFFETTI S.p.A. (supply of products regarding the paper industry, printing and publishing)	Rome (Italy)	EUR 11,817,000	100.00		SEAT PAGINE GIALLE
- OFFICE AUTOMATION PRODUCTS S.p.A. (wholesale magnetic support sales)	Lecco (Italy)	EUR 774,000	84.00		GRUPPO BUFFETTI
- IS PRODUCTS S.p.A. (marketing of office automation)	Lecco (Italy)	EUR 9,360,000	27.78 72.22		GRUPPO BUFFETTI OFFICE AUTOMATION PRODUCTS
- INCAS PRODUCTIONS S.r.l. (wholesale production and marketing of office consumable products)	Venaria Reale (Turin, Italy)	EUR 510,000	100.00		OFFICE AUTOMATION PRODUCTS
- PBS PROFESSIONAL BUSINESS SOFTWARE S.p.A. (production and marketing of business software)	Rome (Italy)	EUR 127,500	100.00		GRUPPO BUFFETTI
- SK DIRECT S.r.l. (graphic arts)	Rome (Italy)	EUR 5,522,920	58.37 41.63		GRUPPO BUFFETTI OFFICE AUTOMATION PRODUCTS
- HOLDING MEDIA E COMUNICAZIONE H.M.C. S.p.A. (production, marketing on TV and press)	Rome (Italy)	EUR 5,064,000	100.00		SEAT PAGINE GIALLE
- GLOBO EUROPA B.V. (in liquidation) (services and operations in the field of radio and TV broadcasting)	Amsterdam (Holland)	EUR 181,512.09	100.00		HOLDING MEDIA E COMUNICAZIONE H.M.C.
- HOLDING MEDIA E COMUNICAZIONE PUBBLICITÀ S.r.l. (in liquidation) (purchase and sale of advertising spaces and management of advertising in the field of radio and TV broadcasting)	Rome (Italy)	EUR 516,500	100.00		HOLDING MEDIA E COMUNICAZIONE H.M.C.

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- TV INTERNAZIONALE S.p.A. (purchase, management and maintenance of technical transmission systems for audio and video broadcasting)	Rome (Italy)	EUR	6,200,000	100.00	HOLDING MEDIA E COMUNICAZIONE H.M.C.
- BEIGUA S.r.l. (purchase, management and maintenance of installation for the repair and distribution of radio and TV broadcasting)	Rome (Italy)	EUR	51,480	51.00	TV INTERNAZIONALE
- GIAROLO S.r.l. (purchase, management and maintenance of installation for the repair and distribution of radio and TV broadcasting)	Rome (Italy)	EUR	50,490	75.50	TV INTERNAZIONALE
- MTV ITALIA S.r.l. (services in the field of radio and TV broadcasting, production and sale of radio, TV and cinema programs)	Rome (Italy)	EUR	12,151,928	51.00	TV INTERNAZIONALE
- MTV PUBBLICITA' S.r.l. (advertising agency)	Milan (Italy)	EUR	10,400	100.00	MTV ITALIA
- TDL INFOMEDIA Ltd (holding company)	Hampshire (UK)	GBP	139,524.78	99.73	SEAT PAGINE GIALLE
- MYBLUECAT.COM Ltd (in liquidation) (supply of services)	Hampshire (UK)	GBP	2	100.00	TDL INFOMEDIA
- TDL INFOMEDIA FINANCE Ltd (holding company)	Hampshire (UK)	GBP	9,734.09	100.00	TDL INFOMEDIA
- TDL INFOMEDIA HOLDINGS Plc (holding company)	Hampshire (UK)	GBP	397,126.43	100.00	TDL INFOMEDIA FINANCE
- TDL INFOMEDIA GROUP Plc (holding company)	Hampshire (UK)	GBP	624,576.64	100.00	TDL INFOMEDIA HOLDINGS
- TDL GROUP Ltd (holding company)	Hampshire (UK)	GBP	89,864.25	100.00	TDL INFOMEDIA GROUP
- THOMSON DIRECTORIES Ltd (publishing and marketing directories)	Hampshire (UK)	GBP	1,340,000	100.00	TDL GROUP
- THOMSON DIRECTORIES PENSION COMPANY Ltd (management of Thomson Directories Pension Fund)	Hampshire (UK)	GBP	2	100.00	THOMSON DIRECTORIES
- TDL INVESTMENTS B.V. (in liquidation) (supply of services)	Rotterdam (Holland)	EUR	20,000	100.00	TDL INFOMEDIA
- TELEGATE HOLDING GmbH (holding company)	Martinsried (Germany)	EUR	26,076	100.00	SEAT PAGINE GIALLE
- TELEGATE A.G. (call center services)	Martinsried (Germany)	EUR	20,944,355	16.46 61.98	SEAT PAGINE GIALLE TELEGATE HOLDING
- 118866 Ltd (ex- TELEGATE Ltd) (call center services)	London (UK)	GBP	1	100.00	TELEGATE A.G.
- ARSMOVENDI.COM A.G. (in liquidation) (Internet services)	Munich (Germany)	EUR	150,000	100.00	TELEGATE A.G.
- TRAVELGATE BUSINESS GmbH (in liquidation) (business tour operator)	Munich (Germany)	EUR	25,000	100.00	ARSMOVENDI .COM
- DATAGATE GmbH (call center services)	Martinsried (Germany)	EUR	25,000	100.00	TELEGATE A.G.
- KIMTRAVEL CONSULTING A.G. (in liquidation) (Internet services)	Munich (Germany)	EUR	69,493	100.00	TELEGATE A.G.
- TELEGATE AKADEMIE GmbH (training center for employees of call centers)	Rostock (Germany)	EUR	25,000	100.00	TELEGATE A.G.
- TELEGATE ANKLAM GmbH (Internet services)	Anklam (Germany)	EUR	51,129	100.00	TELEGATE A.G.
- 11880.com GmbH (call center services)	Martinsried (Germany)	EUR	25,000	100.00	TELEGATE ANKLAM
- MOBILSAFE A.G. (in liquidation) (Internet services)	Meerbusch (Germany)	EUR	150,000	100.00	TELEGATE ANKLAM
- TELEGATE ESPANA S.A. (call center services)	Madrid (Spain)	EUR	3,061,000	100.00	TELEGATE A.G.

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- TELEGATE GmbH (call center services)	Vienna (Austria)	EUR	35,000	100.00	TELEGATE A.G.
- TELEGATE Inc. (call center services)	Texas (USA)	USD	10,010,000	100.00	TELEGATE A.G.
- TELEGATE ITALIA S.r.l. (call center services)	Milan (Italy)	EUR	129,000	100.00	TELEGATE A.G.
- TGT HOLDING B.V. (in liquidation) (holding company)	Schiphol (Holland)	EUR	18,200	100.00	TELEGATE A.G.

Information Technology Market

FINSIEL - Consulenza e Applicazioni Informatiche S.p.A. (conception and implementation of projects in information technology applications)	Rome (Italy)	EUR	59,982,384.60	77.92 0.63	TELECOM ITALIA FINSIEL
- AGRISIAN - Consulenza e Servizi per l'Agricoltura S.C.p.A. (consulting and services in favor of agriculture)	Rome (Italy)	EUR	10,330,000	50.86	FINSIEL
- ASPASIEL S.r.l. (information systems)	Rome (Italy)	EUR	260,000	50.00	51.00 FINSIEL
- BANKSIEL - Società di informatica e Organizzazione p.A. (design, installation, operation and maintenance of information systems for bank and insurance companies)	Milan (Italy)	EUR	10,400,000	55.50	FINSIEL
- CARISIEL Sistemi Informativi Elettronici per il Settore Credito e Finanziario S.p.A. (electronic information systems for banking and financial industry)	Rende (Cosenza, Italy)	EUR	769,585	2.00 98.00	FINSIEL BANKSIEL
- CENTROSIEL S.p.A. (information systems)	Milan (Italy)	EUR	516,600	47.00	51.00 BANKSIEL
- EIS - Elettronica Ingegneria Sistemi S.p.A. (design, installation, operation and maintenance of sophisticated electronic systems)	Rome (Italy)	EUR	5,165,000	100.00	FINSIEL
- FINSIEL ROMANIA S.r.l. (information systems)	Bucharest (Romania)	ROL	11,841,500,000	90.53	FINSIEL
- INSIEL - Informatica per il Sistema degli Enti Locali S.p.A. (information systems)	Trieste (Italy)	EUR	7,755,000	52.00	FINSIEL
- VENIS - VENEZIA INFORMATICA E SISTEMI S.p.A. (information systems for the municipality of Venice and other public entities)	Venice (Italy)	EUR	1,549,500	20.40 30.60	FINSIEL INSIEL
- INTERSIEL - Società Interregionale Sistemi Informativi Elettronici S.p.A. (design, installation, operation and maintenance of information systems)	Rende (Cosenza, Italy)	EUR	1,033,000	100.00	FINSIEL
- KRENESIEL - Società Sarda di Informatica S.p.A. (information systems)	Sassari (Italy)	EUR	2,582,300	41.00 10.00	FINSIEL INSIEL
- TELE SISTEMI FERROVIARI S.p.A. (information systems)	Rome (Italy)	EUR	77,003,669.54	61.00	FINSIEL
- WEBRED S.p.A. (information systems)	Perugia (Italy)	EUR	1,560,000	51.00	FINSIEL

Information Technology Group

IT TELECOM S.p.A. (information e communication technology)	Rome (Italy)	EUR	96,853,000	100.00	TELECOM ITALIA
- NETIKOS S.p.A. (information systems)	Rome (Italy)	EUR	13,416,000	100.00	IT TELECOM
- NETIKOS FINLAND OY (development of wireless solutions)	Helsinki (Finland)	EUR	10,700	100.00	NETIKOS
- SODALIA NORTH AMERICA Inc. (telecommunications software)	Virginia (USA)	USD	700,000	100.00	IT TELECOM
- EUSTEMA S.p.A. (design, research, development and marketing of software, information and online systems)	Rome (Italy)	EUR	312,000	67.33	IT TELECOM

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- TECO SOFT ARGENTINA S.A. (design, realization and sale of software) di software)	Buenos Aires (Argentina)	ARS	12,000	100.00 (*)	IT TELECOM
- TELESOFT HELLAS S.A. (telecommunications software)	Athens (Greece)	EUR	489,000	100.00	IT TELECOM
- TELESOFT RUSSIA ZAO (telecommunications software)	Moscow (Russia)	RUB	1,592,000	75.00	IT TELECOM
- WEBEGG S.p.A. (e-business solution)	Milan (Italy)	EUR	33,107,160	69.80 30.20	IT TELECOM FINSIEL
- TELEAP S.p.A. (software applications, architecture)	Ivrea (Turin)	EUR	1,560,000	100.00	WEBEGG
- @LIVE S.r.l. (international training)	Turin (Italy)	EUR	10,000	100.00	WEBEGG
- DOMUS ACCADEMY S.p.A. (design research)	Milan (Italy)	EUR	140,000	67.33	WEBEGG
- W.P. WINNER PROJECT B.V. (software applications)	Rotterdam (Holland)	EUR	18,152	100.00	WEBEGG
- SOFTWARE FACTORY S.p.A. (software applications)	Milan (Italy)	EUR	1,500,000	100.00	W.P. WINNER PROJECT
TELECOM ITALIA LAB S.p.A. (studies, research and venture capital in telecommunications and electronics)	Turin (Italy)	EUR	27,455,000	100.00	TELECOM ITALIA
- LOQUENDO - SOCIETÀ PER AZIONI (research, development and marketing of technologies and equipment regarding voice recognition and interaction)	Turin (Italy)	EUR	3,573,741	99.99	TELECOM ITALIA LAB S.p.A.
- TELECOM ITALIA LAB GENERAL PARTNER S.A. (holding company)	Luxembourg	USD	30,000	99.97 0.03	TELECOM ITALIA LAB S.p.A. TELECOM ITALIA FINANCE
- TELECOM ITALIA LAB S.A. (holding company)	Luxembourg	USD	25,894,360	99.99 0.01	TELECOM ITALIA LAB S.p.A. TELECOM ITALIA FINANCE
- TELECOM ITALIA LAB B.V. (holding company)	Amsterdam (Holland)	EUR	18,655	100.00	TELECOM ITALIA LAB S.A.
- TELS Y Elettronica e Telecomunicazioni S.p.A. (manufacturing and sale of systems for encrypted telecommunications)	Turin (Italy)	EUR	390,000	100.00	TELECOM ITALIA LAB S.p.A.
Other operations					
EMSA Servizi S.p.A. (ex CONSUTEL S.p.A.) (real estate management)	Rome (Italy)	EUR	5,000,000	100.00	TELECOM ITALIA
EPICLINCK S.p.A. (telecommunications services)	Segrate (Milan Italy)	EUR	12,500,000	86.00	TELECOM ITALIA
IN.TEL.AUDIT S.c.a r.l. (internal auditing for the Telecom Italia Group)	Milan (Italy)	EUR	2,750,000	54.55 18.18 18.18	TELECOM ITALIA SEAT PAGINE GIALLE TELECOM ITALIA MOBILE
NETESI S.p.A. (telecommunication and multimedia services)	Milan (Italy)	EUR	14,744,573	100.00	TELECOM ITALIA
SAIAT - Società Attività Intermedie Ausiliarie Telecomunicazioni p.A. (financing)	Turin (Italy)	EUR	35,745,120	100.00	TELECOM ITALIA
TELECOM ITALIA LEARNING SERVICES S.p.A. (EX SSGRR) (professional training)	L'Aquila (Italy)	EUR	1,560,000	100.00	TELECOM ITALIA
- TELECOM ITALIA LEARNING SERVICES DO BRASIL Ltda (EX CONSIEL DO BRASIL) (consulting and information systems)	Saõ Paulo (Brazil)	BRL	174,040	100.00 (*)	TELECOM ITALIA LEARNING SERVICES
TECNO SERVIZI MOBILI S.r.l. (real estate management)	Rome (Italy)	EUR	26,000	51.00	TELECOM ITALIA
TELECOM ITALIA INTERNATIONAL N.V. (ex STET INTERNATIONAL NETHERLANDS N.V.) (holding company)	Amsterdam (Holland)	EUR	2,399,483,300	100.00	TELECOM ITALIA

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List of companies consolidated on a line-by-line basis

Name (type of business)	Head office	Share capital	% owner- ship	% of voting rights	Held by
- BBNED N.V. (telecommunications services)	Amsterdam (Holland)	EUR	82,425,000	97.56	TELECOM ITALIA INTERNATIONAL
- BBeyond B.V. (telecommunications services)	Amsterdam (Holland)	EUR	18,000	100.00	BBNED
- ICH - International Communication Holding N.V. (holding company)	Amsterdam (Holland)	EUR	50,000	100.00	TELECOM ITALIA INTERNATIONAL
- ETI - EURO Telecom International N.V. (holding company)	Amsterdam (Holland)	EUR	50,050	100.00	ICH
TELECOM ITALIA FINANCE S.A. (EX TI WEB S.A.) (holding company)	Luxembourg	EUR	869,162,615	100.00 (*)	TELECOM ITALIA
- ISM S.r.l. (holding company)	Turin (Italy)	EUR	10,000	100.00	TELECOM ITALIA FINANCE
- N.V. VERTICO S.A. (holding company)	Brussels (Belgium)	EUR	3,533,781	99.99 0.01	ISM TELECOM ITALIA FINANCE
- TELSI (holding company)	London (UK)	EUR	603,565,000	100.00 (*)	TELECOM ITALIA FINANCE
TELE PAY ROLL SERVICES S.p.A. (information systems for payroll services)	Rome (Italy)	EUR	2,840,000	100.00	TELECOM ITALIA

[*] The percentage of ownership includes Ordinary Shares/Quotas held by members of the Board of Directors/Managers, as requested by local laws in order take to the post of Director/Manager, or held by Fiduciaries.

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LIST OF COMPANIES CONSOLIDATED BY THE EQUITY METHOD

Name (type of business)	Head office	Share capital	% owner- ship	% of voting rights	Held by
Subsidiaries					
EDOTEL S.p.A. (holding company)	Turin (Italy)	EUR	15,080,541.90	60.00 40.00	TELECOM ITALIA TELECOM ITALIA MOBILE
EURO DATACOM Ltd (telecommunications services)	Huddersfield (UK)	GBP	306,666	100.00	TMI TELEMEDIA INTERN. Ltd
GOALLARS B.V. (management of an Internet site)	Amsterdam (Holland)	EUR	100,000	55.00	MATRIX
TELECOM ITALIA CAPITAL S.A. (financing)	Luxembourg	EUR	2,336,000	99.999 0.001	TELECOM ITALIA TELECOM ITALIA FINANCE
TELECOM MEDIA INTERNATIONAL ITALY-CANADA Inc. (telecommunications services)	Montreal (Canada)	CAD	952,100	100.00	TMI TELEMEDIA INTERN. Ltd
TELEFONIA MOBILE SAMMARINESE S.p.A. (mobile telecommunications)	Republic of San Marino	EUR	78,000	51.00	INTELCOM SAN MARINO
THINX-SM TELEHOUSE INTERNET EXCHANGE S.A. (housing and hosting)	Republic of San Marino	EUR	870,000	100.00	INTELCOM SAN MARINO
TMI TELEMEDIA INTERNATIONAL DO BRASIL Ltda (telecommunications services)	São Paulo (Brazil)	BRL	2,443,217	100.00 (*)	TMI TELEMEDIA INTERN. Ltd
ZDNET ITALIA S.p.A. (creation and management of Internet sites)	Milan (Italy)	EUR	400,000	51.00	MATRIX
Affiliated companies					
ASCAI SERVIZI S.r.l. (promotion of communications strategies and process)	Rome (Italy)	EUR	73,336.84	35.21	SAIAT
BROAD BAND SERVICE S.A. (production and sales of multimedia services)	Republic of San Marino	EUR	258,000	20.00 20.00	INTELCOM SAN MARINO STREAM
BUENAVENTURA S.A. (telecommunications services)	Santiago (Chile)	CLP	1,841,258,210	50.00	ENTEL TELEFONIA PERSONAL
CABLE INSIGNIA S.A. (telecommunications services)	Asuncion (Paraguay)	PYG	1,000,000,000	75.00	TELECOM PERSONAL
CARTESIA-CARTOGRAFIA DIGITALE S.p.A. (design, realization, marketing of numeric cartography)	Rome (Italy)	EUR	1,032,800	50.00	TELECOM ITALIA
CYGENT Inc. (development and sale of software)	California (USA)	USD	52,273,000	25.21	TELECOM ITALIA LAB B.V.
DATASIEL - Sistemi e Tecnologie di Informatica S.p.A. (data processing products and services for public administration agencies, institutions and enterprises under Ligurian Regional Law n. 17/85)	Genoa (Italy)	EUR	2,582,500	49.00	FINSIEL
DISCOVERITALIA S.p.A. (communication services)	Novara (Italy)	EUR	5,160,000	25.00	SEAT PAGINE GIALLE
EISYS S.p.A. (information systems)	Rome (Italy)	EUR	619,200	25.00	EIS
ESRI ITALIA S.p.A. (development and distribution of services based on the GIS - "Geographical Information Systems" technology)	Rome (Italy)	EUR	500,000	49.00	SEAT PAGINE GIALLE
ETEC S.A. - Empresa de Telecomunicaciones de Cuba S.A. (telecommunications services)	La Habana (Cuba)	USD	1,441,900,000	29.29	TELECOM ITALIA INTERNATIONAL
EURODIRECTORY S.A. (holding company of the publishers of the Kompass directories)	Luxembourg	EUR	1,625,320	50.00	SEAT PAGINE GIALLE
GARAGE S.r.l. (multimedia and cinema broadcasting)	Milan (Italy)	EUR	49,400	35.00	WEBEGG
GLB SERVICOS INTERATIVOS S.A. (Internet services)	Rio de Janeiro (Brazil)	BRL	182,732,615	28.57	TELECOM ITALIA FINANCE
GO TO WEB S.p.A. (web-based software solutions)	Ivrea (Turin, Italy)	EUR	3,719,764	20.00	WEBEGG
GOLDEN LINES INTERNATIONAL COMMUNICATIONS SERVICES Ltd (long distance telephony services)	Ramat Gan (Israel)	ILS	3,000,000	26.40	TELECOM ITALIA INTERNATIONAL

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ICOM Inc. (development of data bank and Internet market place)	Toronto (Canada)	CAD	203.09	40.00	NETCREATIONS
IM.SER S.p.A. (real estate management)	Rome (Italy)	EUR	1,315,800	40.00	TELECOM ITALIA
IS TIM TELEKOMUNIKASYON HIZMETLERI A.S. (mobile telephony operator)	Istanbul (Turkey)	TRL	545,000,000,000,000	49.00	TIM INTERNATIONAL
ISCE Investor in Sapient & Cuneo EURpe S.A. (consulting)	Luxembourg	EUR	4,334,400	25.00	SEAT PAGINE GIALLE
ITALCOM S.p.A. (multimedia systems and devices)	Milan (Italy)	EUR	103,200	100.00	ITALTEL S.p.A.
ITALDATA S.p.A. (solutions and services for the web economy)	Avellino (Italy)	EUR	3,096,000	100.00	SIEMENS INFORMATICA
ITALTEL A.O. (telecommunications systems)	Saint Petersburg (Russia)	RUB	20,000	100.00	ITALTEL B.V.
ITALTEL ARGENTINA S.A. (telecommunications systems)	Buenos Aires (Argentina)	ARS	600,000	96.00 4.00	ITALTEL B.V. ITALTEL S.p.A.
ITALTEL B.V. (trading and financial company)	Amsterdam (Holland)	EUR	6,000,000	100.00	ITALTEL S.p.A.
ITALTEL BRASIL Ltda (trading company)	São Paulo (Brazil)	BRL	2,018,302	51.44 48.56	ITALTEL S.p.A. ITALTEL B.V.
ITALTEL CERM PALERMO S.c.p.a. (research)	Palermo (Italy)	EUR	2,125,000	90.00 10.00	ITALTEL S.p.A. TELECOM ITALIA LAB S.p.A.
ITALTEL DE CHILE S.A. (telecommunications systems)	Santiago (Chile)	CLP	50,119,607	90.00 10.00	ITALTEL B.V. ITALTEL S.p.A.
ITALTEL DEUTSCHLAND GmbH (trading company)	Düsseldorf (Germany)	EUR	40,000	60.00 40.00	ITALTEL HOLDING ITALTEL B.V.
ITALTEL FRANCE S.a.s. (trading company)	Issy (France)	EUR	40,000	100.00	ITALTEL HOLDING
ITALTEL HOLDING S.p.A. (holding company)	Milan (Italy)	EUR	115,459,344	19.37	TELECOM ITALIA FINANCE
ITALTEL Inc. (trading company)	Delaware (USA)	USD	100	60.00 40.00	ITALTEL HOLDING ITALTEL B.V.
ITALTEL KENYA Ltd (telecommunications systems)	Nairobi (Kenya)	KES	500,000	99.98 0.02	ITALTEL B.V. ITALTEL S.p.A.
ITALTEL NIGERIA Ltd (telecommunications systems)	Lagos (Nigeria)	NGN	2,000,000	99.99 0.01	ITALTEL B.V. ITALTEL S.p.A.
ITALTEL S.A. (telecommunications systems)	Madrid (Spain)	EUR	6,460,750	100.00	ITALTEL B.V.
ITALTEL S.p.A. (telecommunications systems)	Milan (Italy)	EUR	196,830,400	100.00	ITALTEL HOLDING
ITALTEL UK Ltd (trading company)	Staines (UK)	GBP	26,000	60.00 40.00	ITALTEL HOLDING ITALTEL B.V.
L'UFFICIO MODERNO S.r.l. (sale of books and office supplies)	Florence (Italy)	EUR	10,400	15.00 15.00	GRUPPO BUFFETTI IL CENTRO CONTABILE
MARCAM ITALY S.r.l. (services for automatic data management)	Milan (Italy)	EUR	92,962	99.00	PRAXIS CALCOLO
MESNIL HOLDING S.A. (holding company)	Luxembourg	EUR	78,000	99.99	ISCE
MIA ECONOMIA.com S.r.l. (publishing in the field of personal finance)	Milan (Italy)	EUR	1,500,000	30.00	MATRIX
MICRO SISTEMAS S.A. (telecommunications services)	Buenos Aires (Argentina)	ARS	210,000	99.99 0.01	TELECOM ARGENTINA STET-FRANCE TELECOM PUBLICOM
MIRROR INTERNATIONAL HOLDING S.a.r.l. (holding company)	Luxembourg	EUR	250,000	30.00	TELECOM ITALIA
MIRROR INTERNATIONAL GmbH (holding company)	Frankfurt (Germany)	EUR	25,000	100.00	MIRROR INTERN. HOLDING
MOVENDA S.p.A. (technological platforms for the development of mobile Internet services)	Rome (Italy)	EUR	133,333	25.00	TELECOM ITALIA LAB B.V.
NETCO REDES S.A. (provider of telecommunications infrastructures)	Madrid (Spain)	EUR	6,038,248	30.00	TELECOM ITALIA INTERNATIONAL

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List of companies consolidated by the equity method

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NORDCOM S.p.A. (application service provider)	Milan (Italy)	EUR	5,000,000	42.00	TELECOM ITALIA
NORTEL INVERSORA S.A. (holding company)	Buenos Aires (Argentina)	ARS	78,633,050	22.03 11.86	32.50 17.50 TELECOM ITALIA TELECOM ITALIA INTERNATIONAL
NUCLEO S.A. (telecommunications services)	Asuncion (Paraguay)	PYG	175,200,000,000	67.50	TELECOM PERSONAL
PRAXIS CALCOLO S.p.A. (technical and organizational services for automatic data management)	Milan (Italy)	EUR	1,056,000	22.50	FINSIEL
PUBLICOM S.A. (telecommunications services)	Buenos Aires (Argentina)	ARS	16,000,000	99.99 0.01	TELECOM ARGENTINA STET-FRANCE TELECOM NORTEL INVERSORA
SIEMENS INFORMATICA S.p.A. (sale of innovating solutions in the field of electronic and mobile business)	Milan (Italy)	EUR	6,192,000	49.00	TELECOM ITALIA
SIOSISTEMI S.p.A. (systems networking with special emphasis on the design of LAN and WAN systems and related hardware support systems)	Brescia (Italy)	EUR	260,000	40.00	TELECOM ITALIA LAB S.p.A.
SISPI S.p.A. (information systems for the municipality of Palermo and other private and public entities)	Palermo (Italy)	EUR	2,066,000	49.00	FINSIEL
SITEBA SISTEMI TELEMATICI BANCARI S.p.A. (support services for payments systems)	Milan (Italy)	EUR	2,600,000	30.00	TELECOM ITALIA
SITECNICA S.p.A. (IT multivendor services)	Milan (Italy)	EUR	143,000	100.00	SIEMENS INFORMATICA
SITEKNE S.p.A. (furnishing of resources in the field of ITC-Information Technology Communication solutions)	Rome (Italy)	EUR	103,200	100.00	SIEMENS INFORMATICA
SOGEI SERVIZI INNOVATIVI E TECNOLOGICI S.p.A. (development of business enterprises in the field of ITC and technological information)	Rome (Italy)	EUR	5,200,000	49.00	FINSIEL
STREAM S.p.A. (multimedia services)	Rome (Italy)	EUR	302,399,080	50.00	TELECOM ITALIA
TELECOM ARGENTINA STET-FRANCE TELECOM S.A. (telecommunications services)	Buenos Aires (Argentina)	ARS	984,380,978	54.74	NORTEL INVERSORA
TELECOM ARGENTINA USA Inc. (telecommunications services)	Delaware (USA)	USD	249,873	100.00	TELECOM ARGENTINA STET-FRANCE TELECOM
TELECOM PERSONAL S.A. (telecommunications services)	Buenos Aires (Argentina)	ARS	310,514,481	99.99 0.01	TELECOM ARGENTINA STET-FRANCE TELECOM PUBLICOM
TELEGONO S.r.l. (real estate management)	Rome (Italy)	EUR	1,000,000	40.00	TELECOM ITALIA
TELEKOM AUSTRIA A.G. (wireline telephony)	Vienna (Austria)	EUR	1,090,500,000	14.78	TELECOM ITALIA INTERNATIONAL
TELEKOM SRBIJA a.d. (telecommunications services)	Belgrade (Serbia)	YUM	10,800,000,000	29.00	TELECOM ITALIA INTERNATIONAL
TELELEASING - Leasing di Telecomunicazioni e Generale S.p.A. (financial leasing of real estate and other assets)	Milan (Italy)	EUR	9,500,000	20.00	SAIAT
TIGLIO I S.r.l. (real estate management)	Milan (Italy)	EUR	5,255,704	36.85 2.10	TELECOM ITALIA SEAT PAGINE GIALLE
TIGLIO II S.r.l. (real estate management)	Milan (Italy)	EUR	14,185,288	49.47	TELECOM ITALIA
USABLENET Inc. (development of software for the analysis of web site usability)	Delaware (USA)	USD	1	20.00	TELECOM ITALIA LAB B.V.
VIRTUAL SELF Ltd. (development and sale of internet services based on a technology for the linguistic analysis for the research of contents)	Ramat Gan (Israel)	ILS	4,749	38.70	TELECOM ITALIA LAB B.V.

[*] The percentage of ownership includes Ordinary Shares/Quotas held by members of the Board of Directors/Managers, as requested by local laws in order to take the post of Director /Manager, or held by Fiduciaries.

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LIST OF OTHER SUBSIDIARIES AND AFFILIATED COMPANIES

Name (type of business)	Head office	Share capital	% owner- ship	% of voting rights	Held by
Subsidiaries					
ARTES S.r.l. (in liquidation) (telecommunications services)	Rome (Italy)	EUR	10,000	100.00	HOLDING MEDIA E COMUNICAZIONE H.M.C.
BUFFETTI S.r.l. (in liquidation) (sale of books and office supplies)	Rome (Italy)	EUR	10,000	100.00	GRUPPO BUFFETTI
CABESTAN S.A. (in liquidation) (software design)	Suresnes (France)	FRF	250,000	100.00	CONSODATA S.A.
CONSODATA INTERACTIVE S.A. (in liquidation) (business information services)	Levallois Perret (France)	EUR	40,000	100.00	CONSODATA S.A.
CONSODATA ITALIA S.r.l. (in liquidation) (business information)	Milan (Italy)	EUR	10,200	100.00	CONSODATA S.A.
CONSODATA SYSTEME S.A. (in liquidation) (business information services)	Levallois Perret (France)	EUR	40,000	100.00	CONSODATA S.A.
DATABANK WETTBEWERBS-MARKT UND FINANZANALYSE GMBH (in liquidation) (marketing)	Darmstadt (Germany)	EUR	153,387.56	60.00	DATABANK S.p.A.
EMAX-TRADE S.r.l. (in liquidation) (management of Internet sites)	Milan (Italy)	EUR	100,000	100.00	MATRIX
GIALLO MARKET S.r.l. (in liquidation) (owner of Virgilio.it)	Milan (Italy)	EUR	10,000	90.00 10.00	MATRIX SEAT PAGINE GIALLE
GIALLO VIAGGI.IT S.p.A. (in liquidation) (research, development, production of information and telematic products for tourism)	Milan (Italy)	EUR	10,000	100.00	SEAT PAGINE GIALLE
EVEREST S.r.l. (telematic services)	Trieste (Italy)	EUR	10,400	100.00	WAVENET
FINSIEL HELLAS S.A. (in liquidation) (computer products for public and private customers)	Koropi (Greece)	GRD	230,000,000	91.00	FINSIEL
IL CENTRO CONTABILE S.p.A. (in liquidation) (sale of books and office ware)	Rome (Italy)	EUR	2,233,507.26	89.70	GRUPPO BUFFETTI
INCAS FRANCE S.A. (in liquidation) (sale of products for office automation)	Asnieres (France)	FRF	19,168,900	100.00	IS PRODUCTS
IREOS S.p.A. (in liquidation) (promotion and management of remote at-home assistance)	Rome (Italy)	EUR	100,000	100.00	TELECOM ITALIA
IRIDIUM ITALIA S.p.A. (in liquidation) (satellite telecommunications services)	Rome (Italy)	EUR	2,575,000	30.00 35.00	TELECOM ITALIA TELECOM ITALIA MOBILE
KMATRIX S.r.l. (in liquidation) (creation and management of an Internet site)	Milan (Italy)	EUR	100,000	100.00	MATRIX
LINK S.r.l. (in liquidation) (supply of computer services)	Milan (Italy)	EUR	10,400	100.00	MATRIX
LOQUENDO Inc. (in liquidation) (development of software for web voice interaction)	California (USA)	USD	14,021,000	100.00	LOQUENDO S.p.A.
NETESI S.A.S. (in liquidation) (telecommunication services)	Parigi (France)	EUR	40,000	100.00 (*)	NETESI
NEW WORLD TELECOM S.A. (telecommunications services)	Santiago (Chile)	CLP	14,000,000	100.00 (*)	LATIN AMERICAN NAUTILUS CHILE
OR.MA INFORMATICA S.r.l. (wholesale of computer products)	Rome (Italy)	EUR	10,200	100.00	GRUPPO BUFFETTI
RFM DATA Ltd (in liquidation) (list broking)	Kingston (UK)	GBP	2	100.00	CAL - CONSUMER ACCESS
SCS COMUNICAZIONE INTEGRATA S.p.A. (in liquidation) (marketing and communication consulting)	Rome (Italy)	EUR	600,000	100.00	SEAT PAGINE GIALLE
SERVICE IN S.r.l. (in liquidation) (furnishing of services)	Milan (Italy)	EUR	10,691	95.00	CIPI
TELECOM ITALIA GmbH (in liquidation) (holding company)	Vienna (Austria)	EUR	36,336.42	100.00	TELECOM ITALIA
TELECOM ITALIA IRELAND Ltd (telecommunications services)	Dublin (Ireland)	EUR	2	100.00	TELECOM ITALIA
TELECOMMUNICATIONS ADVISER LLC (management of Saturn Venture Partners fund)	Delaware (USA)	USD	560,280	100.00	TELECOM ITALIA LAB G.P.

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TELENERGIA S.r.l. (import, export, purchase, sale and exchange of electrical energy)	Rome (Italy)	EUR	50,000	80.00 20.00		TELECOM ITALIA TELECOM ITALIA MOBILE
TIM.COM HOLDING B.V. (holding company)	Amsterdam (Holland)	EUR	18,000	100.00		TIM INTERNATIONAL
TIMNET.COM PERU' S.A.C. (services for mobile networks)	Lima (Perù)	PEN	1,000	100.00		TIM PERU'
TIN WEB S.p.A. (in liquidation) (consulting for the creation of Internet sites)	Milan (Italy)	EUR	10,000	100.00		SEAT PAGINE GIALLE
TMI HUNGARY TRADING AND SERVICES Ltd (in liquidation) (telecommunications services)	Budapest (Hungary)	HUF	3,000,000	100.00		TMI TELEMEDIA INTERN. Ltd
TRAINET S.p.A. (in liquidation) (development, operation and sales of lines teaching systems)	Rome (Italy)	EUR	674,445.70	100.00		TELECOM ITALIA
WAVENET S.r.l. (telematic services)	Monfalcone (Gorizia, Italy)	EUR	51,600	84.37		NETESI

Affiliated companies

CITEL - Corporacion Interamericana de Telecomunicaciones S.A. (holding company)	Monterrey (Mexico)	MXN	2,073,729,933	25.00		TELECOM ITALIA INTERNATIONAL
CLIPPER S.p.A. (in liquidation) (marketing and communication consulting)	Rome (Italy)	EUR	100,000	50.00		SCS COMUNICAZIONE INTEGR. (in liq.)
CROMA S.r.l. (in liquidation) (hardware maintenance)	P. San Giovanni (Perugia, Italy)	EUR	41,317	50.00		WEBRED
DATATRADER S.A. (in liquidation) (creation and sale of data base)	Rueil Mailmaison (France)	EUR	266,980	50.00		CONSODATA S.A.
E-UTILE S.p.A. (ICT solutions and services for companies in the field of public utilities)	Milan (Italy)	EUR	482,000	51.00		SIEMENS INFORMATICA
INDIRECT S.P.R.L. (in liquidation) (sale of services)	Brussels (Belgium)	BEF	6,000,000	19.17 7.83		TDL INVESTMENTS TDL INFOMEDIA Ltd
MEDITERRANEAN BROAD BAND ACCESS S.A. (telecommunications services)	Heraklion Creta (Greece)	EUR	17,580,000	40.00		TELECOM ITALIA INTERNATIONAL
NETEX S.r.l. (in liquidation) (activities relating to the contract regarding the license of the software of Netex Ltd)	Milan (Italy)	EUR	10,000	50.00		MATRIX
TDL BELGIUM S.A. (in liquidation) (publishing and sale of directories)	Brussels (Belgium)	FB	750,087,200	49.60		TDL INVESTMENTS
UBA - NET S.A. (teledidactic services)	Buenos Aires (Argentina)	ARS	12,000	50.00		TRAINET (in liquidation)
VOICEMAIL INTERNATIONAL Inc. (in liquidation) (voice message services)	California (USA)	USD	48,580	37.07		TELECOM ITALIA

Consortium subsidiaries

CONSORZIO ABECA (in liquidation) (information systems for the Ministry of Cultural Works and the Environment)	Rome (Italy)	EUR	103,291.38	33.33 33.33		FINSIEL INTERSIEL
CONSORZIO CONNET FORMAZIONE (professional training for the Ministry of Labor and Social Security)	Bari (Italy)	EUR	51,645.69	60.00		TELECOM ITALIA LEARNING SERVICES
CONSORZIO ENERGIA GRUPPO TELECOM ITALIA (coordination of power for fixed and mobile network of the associated companies)	Rome (Italy)	EUR	10,000	50.00 50.00		TELECOM ITALIA TELECOM ITALIA MOBILE
CONSORZIO GEODOC (in liquidation) (realization of an information system for the geological documentation of the national territory)	Rome (Italy)	EUR	103,291.38	90.00		FINSIEL
CONSORZIO IRIS BENI CULTURALI (filing and recovery of documents and system assistance for the Ministry of Cultural Works and the Environment)	Rome (Italy)	EUR	171,600	90.91 9.09		FINSIEL IT TELECOM
CONSORZIO ISIB (in liquidation) (harmonization of the infrastructure system of the Central Institute which manages the unique catalogue of the Italian libraries)	Rome (Italy)	EUR	51,645.69	70.00 30.00		FINSIEL INTERSIEL
CONSORZIO NAUTILUS (professional training)	Rome (Italy)	EUR	30,000	31.00 20.00		TELECOM ITALIA LEARNING SERVICES MEDITERRANEAN NAUTILUS Ltd

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List of other subsidiaries and affiliated companies

Name (type of business)	Head office	Share capital	% owner- ship	% of voting rights	Held by
CONSORZIO SEGISIEL (in liquidation) (realization of operating systems in the field of justice for the Telcal consortium)	Rende (Cosenza, Italy)	EUR 103,291.38	85.00 15.00		INTERSIEL FINSIEL
CONSORZIO SER (in liquidation) (realization of the information plan Calabria for the Telcal consortium)	Catanzaro (Italy)	EUR 103,291.38	46.00 5.00		INTERSIEL INSIEL
CONSORZIO SESIT (realization of the integrated information system for the Ministry of Transport and Navigation)	Rome (Italy)	EUR 51,645.69	70.00		FINSIEL
CONSORZIO SOFTIN (in liquidation) (research and development in the field of industrial software and consulting)	Naples (Italy)	EUR 877,976.73	100.00		FINSIEL
CONSORZIO TURISTEL (information systems for tourism)	Rome (Italy)	EUR 77,460	33.33 33.33		IT TELECOM FINSIEL
Consortium affiliates					
CONSORZIO ACCAM (automation of the communication centers of the agencies and operating units of the Air Force)	Rome (Italy)	EUR 6,120	33.33		EIS
CONSORZIO C.O.M.P.A. (in liquidation) (study and monitoring of the problems of the Padano-Adriatico basin and professional training)	Bologna (Italy)	EUR 180,759.91	20.00		FINSIEL
CONSORZIO CEW (electronic publishing)	Perugia (Italy)	EUR 15,400	40.00		WEBRED
CONSORZIO CSIA (information systems for the State agency for the agricultural market)	Rome (Italy)	EUR 206,582.76	44.00		FINSIEL
CONSORZIO DREAM FACTORY (promotion and development of new economy in the weak areas of the Nation)	Rome (Italy)	EUR 20,000	20.00		TELECOM ITALIA LAB S.p.A.
CONSORZIO ITALTEL TELESIS (in liquidation) (integrated telematic systems)	Milan (Italy)	EUR 516,456	100.00		ITALTEL S.p.A.
CONSORZIO LABORATORIO DELLA CONOSCENZA (realization of a research project for innovative remote professional training and platforms in Naples)	Naples (Italy)	EUR 51,646	25.00 25.00		TELECOM ITALIA LAB S.p.A. TELECOM ITALIA LEARNING SERVICES
CONSORZIO LA CARTA DI VENEZIA (in liquidation) (integrated services for the metropolitan area of Venice)	Venice (Italy)	EUR 10,500	50.00		VENIS
CONSORZIO OMNIA (in liquidation) (hardware maintenance)	Perugia (Italy)	EUR 2,582.28	50.00		WEBRED
CONSORZIO PAOLA (in liquidation) (applied research for the development of information systems for clinics and medical structures)	Udine (Italy)	EUR 8,143.88	50.00		INSIEL
CONSORZIO REISSFORM (services and consulting regarding professional training and management)	Rome (Italy)	EUR 51,000	50.00		TELECOM ITALIA LEARNING SERVICES
CONSORZIO SCUOLA SUPERIORE ALTA FORMAZIONE UNIVERSITA' FEDERICO II (professional training)	Naples (Italy)	EUR 127,500	20.00		TELECOM ITALIA MOBILE
CONSORZIO SIMT (information systems for the General Management of the civil traffic and transport control authority)	Rome (Italy)	EUR 51,645.69	45.00		FINSIEL
CONSORZIO STOAMED (projects and management of technologically advanced services regarding professional training)	Ercolano (Naples, Italy)	EUR 10,000	30.00		TELECOM ITALIA LEARNING SERVICES
CONSORZIO TELCAL (planning and development of the organic project "Piano Telematico Calabria")	Catanzaro (Italy)	EUR 877,975	24.00 24.00		TELECOM ITALIA INTERSIEL
CONSORZIO TELEMED (in liquidation) (telematic activities for social and sanitary assistance)	Rome (Italy)	EUR 103,291	33.33		TELECOM ITALIA

[*]The percentage of ownership includes Ordinary Shares/Quotas held by members of the Board of Directors/Managers, as requested by local laws in order to take the post of Director/Manager, or held by Fiduciaries.

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OTHER MAJOR EQUITY HOLDINGS AS PER CONSOB RESOLUTION N. 11971 OF MAY 14, 1999

Name (type of business)	Head office	Share capital	% owner- ship	% of voting rights	Held by
ANCITEL S.p.A. (telecommunications services)	Rome (Italy)	EUR	1,087,232	8.55 7.13	TELECOM ITALIA INSIEL
CIFRA S.c.a.r.l. (information technology activities)	Cagliari (Italy)	EUR	61,976	16.67	KRENESIEL
COMUNICARE VIA SATELLITE S.r.l. (in liquidation) (sale of services relating to TV business)	Republic of San Marino	EUR	72,000	15.00	INTELCOM SAN MARINO
ELETTROCLICK S.p.A. (in liquidation) (software production)	Milan (Italy)	EUR	127,420	14.70	SEAT PAGINE GIALLE
EUSKALTEL S.A. (telecommunications services)	Zamudio Bizkaia (Spain)	EUR	295,000,000	15.26	TELECOM ITALIA INTERNATIONAL
HOLDING BANCA DELLA RETE S.p.A. (financing)	Milan (Italy)	EUR	25,040,000	15.00	EDOTEL
IFM INFOMASTER S.p.A. (planning and realization of call center solutions)	Genoa (Italy)	EUR	161,765	12.00	TELECOM ITALIA LAB B.V.
INSULA S.p.A. (telecommunications services)	Mestre (Venice, Italy)	EUR	2,064,000	12.00	TELECOM ITALIA
ITALBIZ.COM Inc. (management of an Internet site)	California (USA)	USD	4,720	19.50	SEAT PAGINE GIALLE
LOCALPORT S.p.A. (study, research, development and sale of information systems)	Ivrea (Turin, Italy)	EUR	922,365	12.14	TELECOM ITALIA LAB S.p.A.
PAS GROUP - Professional Application Software S.r.l. (software production)	Milan (Italy)	EUR	91,800	16.67	EUSTEMA
POLCESCA S.r.l. (in liquidation) (management of information services)	Bologna (Italy)	EUR	89,000	16.67	EIS
SOLPART PARTECIPACOES S.A. (holding company for investment in Brasil Telecom Participações S.A.)	Rio de Janeiro (Brazil)	BRL	2,023,103,679	19.00	TELECOM ITALIA INTERNATIONAL
TELEPORTO ADRIATICO S.r.l. (telecommunications services)	Venice (Italy)	EUR	1,650,000	7.50 4.69	TELECOM ITALIA INSIEL
TRADIZIONI ITALIANE S.p.A. (agro-food company)	Cirò (Crotone, Italy)	EUR	8,263,111	11.38	INTERSIEL
TWICE SIM S.p.A. (investment services)	Milan (Italy)	EUR	12,925,000	18.64	SEAT PAGINE GIALLE
VIRTUALAND PARK S.p.A. (in liquidation) (information services)	Castiglione del Lago (Perugia, Italy)	EUR	103,280	12.50	WEBRED

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■ **Revisita Ernst & Young S.p.A.**
Via della Spina, 10 - 00186 Roma
Tel. 06/47811 - Fax 06/47812

■ **Stato di diritto**
n. 10.04.02/0001
11.05.02

AUDITORS' REPORT

pursuant to article 156 of Legislative Decree of February 24, 1998, n. 58
(Translation from the original Italian text)

To the Shareholders
of Telecom Italia S.p.A.

1. We have audited the consolidated financial statements of Telecom Italia S.p.A. as of and for the year ended December 31, 2002. These financial statements are the responsibility of the Telecom Italia S.p.A.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. Our audit was made in accordance with auditing standards and procedures recommended by CONSOB. In accordance with such standards and procedures we planned and performed our audit to obtain the information necessary in order to determine whether the consolidated financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness of the accounting principles applied and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

The financial statements of certain subsidiaries and associated companies, which represent respectively 6% and 8% of consolidated total assets and consolidated total revenues, have been examined by other auditors, whose reports have been furnished to us. Our opinion, expressed herein, insofar as it relates to the data relating to these subsidiaries and associated companies included in the consolidated financial statements, is based also on the reports of the other auditors.

For the opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes as required by the law, reference should be made to our auditors' report dated April 15, 2002.

3. In our opinion, the consolidated financial statements of Telecom Italia S.p.A. comply with the Italian regulations governing consolidated financial statements; accordingly, they clearly present and give a true and fair view of the consolidated financial position of Telecom Italia S.p.A. as of December 31, 2002, and the consolidated results of its operations for the year then ended.

■ **Stato di diritto**
n. 10.04.02/0001
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■ Reconta Ernst & Young S.p.A.

4. We draw your attention to the information presented in the explanatory notes, "Summary of significant accounting policies", regarding the accounting criteria utilized for the employee benefit obligations as required by Law no. 58/1992.
5. On March 11, 2003, the Board of Directors of Telecom Italia S.p.A., approved the proposal for a project aimed to shorten the corporate structure through the merger of Telecom Italia S.p.A. into Olivetti S.p.A. and subsequently, on April 15, 2003 it approved the related plan for the merger, prepared in accordance with art. 2501 - *bis* of the Italian Civil Code.

Turin, April 18, 2003

Reconta Ernst & Young S.p.A.

signed by: Felice Persico (Partner)



financial statements of Telecom Italia S.p.A. >>

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BALANCE SHEETS

ASSETS

(in euros)

	12/31/2002	12/31/2001
RECEIVABLES FROM SHAREHOLDERS FOR CAPITAL CONTRIBUTIONS		
INTANGIBLES, FIXED ASSETS AND LONG-TERM INVESTMENTS		
- INTANGIBLE ASSETS		
Start-up and expansion costs	-	-
Industrial patents and intellectual property rights	525,523,663	665,720,762
Concessions, licenses, trademarks and similar rights	10,791,308	85,560
Goodwill	16,000	-
Work in progress and advances to suppliers	637,069,639	479,961,536
Other intangibles	114,048,229	172,154,470
TOTAL INTANGIBLE ASSETS	1,287,448,839	1,317,922,328
- FIXED ASSETS		
Land and buildings	1,178,606,207	1,497,470,780
Plant and machinery	10,692,289,963	11,800,587,380
Manufacturing and distribution equipment	11,937,567	27,952,989
Other fixed assets	63,711,467	102,835,291
Construction in progress and advances to suppliers	731,490,279	680,743,184
TOTAL FIXED ASSETS	12,678,035,483	14,109,589,624
- LONG-TERM INVESTMENTS		
Equity investments in		
subsidiaries	14,399,645,612	17,659,160,313
affiliated companies	388,273,288	386,923,301
other companies	55,233,459	24,326,711
Total equity investments	14,843,152,359	18,070,410,325
Advances on future capital contributions	166,183,295	78,895,821
Accounts receivable (*)		(*)
subsidiaries	60,000,000	60,000,000
affiliated companies	117,406,373	-
other receivables 34,795,153	123,533,159	60,523,522
Total accounts receivable 34,795,153	300,939,532	60,523,522
Treasury stocks (par value euro 28,010 thousand at 12/31/2002)	287,212,760	-
TOTAL LONG-TERM INVESTMENTS	15,597,487,946	18,370,044,172
TOTAL INTANGIBLES, FIXED ASSETS AND LONG-TERM INVESTMENTS	29,562,972,268	33,797,556,124
CURRENT ASSETS		
- INVENTORIES		
Contract work in process	16,868,691	16,593,288
Finished goods and merchandise		
merchandise	52,703,650	60,300,588
TOTAL INVENTORIES	69,572,341	76,893,876
- ACCOUNTS RECEIVABLE (* *)		(* *)
Trade accounts receivable	3,753,467,984	4,241,654,077
Accounts receivable from subsidiaries	2,796,623,107	2,196,920,276
Accounts receivable from affiliated companies	91,519,524	311,569,853
Accounts receivable from parent companies	1,243,144	1,090,158
Other receivables due from		
Government and other public entities for grants and subsidies	1,265,371	1,265,371
deferred tax assets 850,727,767	1,589,039,225	94,489,404
other receivables	1,399,099,236	1,958,800,056
Total other receivables 850,727,767	2,989,403,832	94,489,404
TOTAL ACCOUNTS RECEIVABLE	9,632,257,591	9,220,393,495
- SHORT-TERM FINANCIAL ASSETS		
Equity investments in subsidiaries	165,282,784	240,456,832
Other equity investments	-	-
Other securities	-	-
TOTAL SHORT-TERM FINANCIAL ASSETS	165,282,784	240,456,832
- LIQUID ASSETS		
Bank and postal accounts	235,044,882	80,219,566
Checks	15,028	9,021
Cash and valuables on hand	478,432	384,569
TOTAL LIQUID ASSETS	235,538,342	80,613,156
TOTAL CURRENT ASSETS	10,102,651,058	9,618,357,359
ACCRUED INCOME AND PREPARED EXPENSES		
Issue discounts and similar charges	40,952,035	25,097,171
Accrued income and other prepaid expenses	438,973,972	669,942,075
TOTAL ACCRUED INCOME AND PREPARED EXPENSES	479,926,007	695,039,246
TOTAL ASSETS	40,145,549,333	44,110,952,729

(*) Amounts due within one year

(**) Amounts due beyond one year

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LIABILITIES AND SHAREHOLDERS' EQUITY

(in euros)

	12/31/2002	12/31/2001
SHAREHOLDERS' EQUITY		
- SHARE CAPITAL	4,023,816,861	4,023,060,528
- ADDITIONAL PAID-IN-CAPITAL	3,038,373,925	1,812,283,565
- RESERVES FOR INFLATION ADJUSTMENTS UNDER Law No. 72 of 3.19.1983	2,294,719,878	2,294,719,878
Law No. 413 of 12.30.1991	468,944,257	468,944,257
TOTAL RESERVES FOR INFLATION ADJUSTMENTS UNDER	2,763,664,135	2,763,664,135
- LEGAL RESERVE	820,000,000	652,025,781
- RESERVE FOR TREASURY STOCK	287,212,760	-
- OTHER RESERVES		
Reserve for accelerated depreciation	-	-
Reserve under Law No. 342 of 11.21.2000 - art.14	716,378,105	716,378,105
Reserve under Legislative Decree No. 124/93 - art. 13	169,300	169,300
Reserve under Law No. 488/1992	118,677,664	118,677,664
Special reserve	-	1,369,062,099
Reserve for capital grants	485,702,698	471,946,843
Miscellaneous reserves	-	2,324,722,183
Miscellaneous income reserves	345,503,775	1,467,854,031
TOTAL OTHER RESERVES	1,666,431,542	6,468,810,225
- RETAINED EARNINGS	1,146,812	-
- NET INCOME (LOSS)	(1,645,375,512)	150,809,707
TOTAL SHAREHOLDERS' EQUITY	10,955,270,523	15,870,653,941
RESERVES FOR RISK AND CHARGES		
Reserves for taxes	134,682,384	116,647,942
Other reserves	3,010,304,006	1,496,089,636
TOTAL RESERVES FOR RISK AND CHARGES	3,144,986,390	1,612,737,578
RESERVE FOR EMPLOYEE TERMINATION INDEMNITIES	968,553,216	1,025,348,862
LIABILITIES	(**)	(**)
Debentures	10,941,662,050	8,250,000,000
Due to banks	657,448,391	3,447,500,472
Due to other lenders	235,273,938	502,544,735
Advances		9,967,386
Trade accounts payable		1,855,721,117
Notes payable		20,000,000
Accounts payable to subsidiaries		3,181,937,098
Accounts payable to affiliated companies		156,023,258
Accounts payable to parent companies		213,968,607
Taxes payables	18,063,563	221,260,462
Contributions to pension and social security institutions	529,899,160	691,021,070
Other liabilities	1,019,681	2,731,143,190
TOTAL LIABILITIES	12,383,366,783	23,972,749,445
ACCRUED EXPENSES AND DEFERRED INCOME	1,103,989,759	10,977,954,394
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	40,145,549,333	24,898,003,299
		44,110,952,729

(**) Amounts due beyond one year

MEMORANDUM ACCOUNTS

(in euros)

	12/31/2002	12/31/2001
GUARANTEES PROVIDED		
Sureties		
on behalf of subsidiaries	10,504,477,542	11,191,302,621
on behalf of affiliated companies	157,028,262	185,450,107
on behalf others	143,255,055	164,576,258
TOTAL GUARANTEES PROVIDED	10,804,760,859	11,541,328,986
COLLATERAL PROVIDED	-	-
PURCHASES AND SALES COMMITMENTS	2,802,362,068	3,388,579,706
OTHER MEMORANDUM ACCOUNTS	6,253,354	7,060,549
TOTAL MEMORANDUM ACCOUNTS	13,613,376,281	14,936,969,241

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■ STATEMENTS OF INCOME

(in euros)

	2002	2001
PRODUCTION VALUE		
Sales and service revenues	17,055,185,163	17,309,065,135
Changes in inventory of contract work in process	275,402	(19,317,463)
Increases in capitalized internal construction costs	10,582,584	5,615,206
Other revenue and income		
operating grants	-	278,080
other	226,669,754	241,624,830
Total other revenue and income	226,669,754	241,902,910
TOTAL PRODUCTION VALUE	17,292,712,903	17,537,265,788
PRODUCTION COSTS		
Raw materials, supplies and merchandise	244,546,331	301,446,894
Services	5,906,771,486	5,945,961,040
Use of property not owned	599,807,343	619,499,094
Personnel		
wages and salaries	1,823,410,523	1,858,020,773
social security contributions	577,147,337	590,283,266
termination indemnities	138,990,806	142,974,705
other costs	43,407,726	52,961,421
Total personnel costs	2,582,956,392	2,644,240,165
Amortization, depreciation and writedowns		
amortization of intangible assets	566,495,015	617,565,388
amortization of fixed assets	2,453,875,371	2,703,674,290
other writedowns of intangibles and fixed assets	39,306,896	-
writedowns of receivables included in current assets and liquid assets	317,041,940	158,542,120
Total Amortization, depreciation and writedowns	3,376,719,222	3,479,781,798
Changes in inventory of raw materials, supplies and merchandise	7,596,937	(19,058,872)
Provisions for risks	44,118,787	76,784,534
Other provisions	-	23,429,622
Miscellaneous operating costs		
losses on disposals of assets	31,386,328	24,747,506
license fee	224,769,247	289,581,611
other miscellaneous costs	228,750,172	167,567,664
Total miscellaneous operating costs	484,905,747	481,896,781
TOTAL PRODUCTION COSTS	(13,247,422,245)	(13,553,981,056)
OPERATING INCOME	4,045,290,658	3,983,284,732
FINANCIAL INCOME AND EXPENSE		
Income from equity investments		
dividends from subsidiaries	1,396,474,300	1,259,193,465
dividends from affiliated companies	16,771,548	41,055,604
dividends from other companies	462,993	4,384,727
other income from equity investments	704,048,145	717,456,025
Total income from equity investments	2,117,756,986	2,022,089,821
Other financial income from		
accounts receivable included in long-term investments		
subsidiaries	3,420,000	2,466,241
affiliated companies	1,265,043	-
other	12,458,360	11,917,535
Total accounts receivable included in long-term investments	17,143,403	14,383,776
securities, other than equity investments, included in long-term investments	90	-
securities, other than equity investments, included in current assets	638,065	-
other income		
interest and fees from subsidiaries	35,859,244	57,163,147
interest and fees from affiliated companies	2,550,633	8,336,127
interest and fees from others and miscellaneous income	148,922,941	108,168,456
Total other income	187,332,818	173,667,730
Total other financial income from	205,114,376	188,051,506
Interest and other financial expense		
interest and fees paid to subsidiaries	217,345,362	257,799,579
interest and fees paid to affiliated companies	914,833	1,454,675
interest and fees paid to others and miscellaneous expense	1,073,366,852	1,553,551,229
Total interest and other financial expense	(1,291,627,047)	(1,812,805,483)
TOTAL FINANCIAL INCOME AND EXPENSE	1,031,244,315	397,335,844

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(in euros)

	2002	2001
VALUE ADJUSTMENTS TO FINANCIAL ASSETS		
Upward adjustments of		
equity investments	-	13,792
Total upward adjustments	-	13,792
Writedowns of		
equity investments	654,332,869	774,881,369
Total writedowns	(654,332,869)	(774,881,369)
TOTAL VALUE ADJUSTMENTS TO FINANCIAL ASSETS	(654,332,869)	(774,867,577)
EXTRAORDINARY INCOME AND EXPENSE		
Income		
gains on disposals	451,941,771	264,388,273
miscellaneous	431,487,024	230,823,224
Total income	883,428,795	495,211,497
Expense		
losses on disposals	19,161	1,134,306
prior years' taxes	1,324,604	1,225,839
provisions and writedowns of equity investments	5,765,466,512	2,526,767,530
miscellaneous	1,209,796,215	859,005,899
Total expense	(6,976,606,492)	(3,388,133,574)
TOTAL EXTRAORDINARY ITEMS	(6,093,177,697)	(2,892,922,077)
INCOME (LOSS) BEFORE TAXES	(1,670,975,593)	712,830,922
Income taxes		
current taxes	926,203,111	73,554,063
deferred taxes	(951,803,192)	488,467,152
Total income taxes	25,600,081	(562,021,215)
NET INCOME (LOSS)	(1,645,375,512)	150,809,707

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■ NOTES TO FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with the provisions of the Italian Civil Code.

The accounting policies adopted in the preparation of the financial statements have been applied on a basis consistent with the prior year and are described below.

No special situations arose during the year that would require the use of the waivers allowed under Article 2423, paragraph 4, of the Italian Civil Code.

Reclassifications made to certain captions of the financial statements have also been made to the consolidated financial statements at December 31, 2001 for purposes of comparison.

As required by Legislative Decree No. 127/1991, consolidated financial statements have also been prepared and are presented together with the financial statements of Telecom Italia.

The statement of cash flows, although presented in the Report on Operations, constitutes an integral part of these Notes to financial statements pursuant to Article 2423, paragraph 3 of the Italian Civil Code.

Unless otherwise specified, all figures are stated in thousands of euro.

It should be pointed out that as a result of the sale and contribution transactions carried out during 2002, the balance sheet does not include the assets and liabilities that were transferred, whereas the statement of income takes into account the results of the companies sold/contributed up to the date the transactions went into effect.

■ SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

■ Intangible assets

Intangible assets are recorded at acquisition or production cost and are amortized systematically over their estimated period of benefit. Intangible assets are written down when there is a permanent impairment to below their net book value, in accordance with article 2426, paragraph 1, item 3 of the Italian Civil Code.

Intangible assets refer to the following:

"Industrial patents and intellectual property rights" are amortized over their estimated period of benefit on a five-year basis (industrial patents) or on a three-year basis (software), starting from the year of their initial use.

"Concessions, licenses, trademarks and similar rights" refer mainly to satellite utilization rights and are amortized over the contract period. Amortization also includes the amortization charge, calculated over the contract period, on the rights of way (DDP) and indefeasible rights of use (IRU), conferred to Telecom Italia Sparkle on December 31, 2002 upon the contribution of the "International Wholesale Services" business segment.

"Goodwill" relates to the acquisition of the "administrative services" business segment from Holding Media e Comunicazioni and is amortized over five years;

"Others" refer almost entirely to leasehold improvements. Amortization is calculated on the basis of the remaining period of the lease contracts.

"Research, development and advertising costs" are charged to income in the year incurred.

■ Fixed assets

Fixed assets are recorded at acquisition or production cost and depreciated on the straight-line method at rates determined on the basis of their estimated remaining useful life. They include monetary revaluations made on the basis of the special laws regarding assets existing on or before December 31, 1981, entries required under Law No. 823 of December 19, 1973, regarding the settlement of tax liabilities, as well as mandatory inflation adjustments of buildings as required by Law No. 413 of December 30, 1991.

Fixed assets are written down when there is a permanent impairment to below their net book value, in accordance with article 2426, paragraph 1, item 3 of the Italian Civil Code.

Construction in progress is stated at the amount of direct costs incurred (materials used for or intended for installations, third-party services, miscellaneous expenses, as well as company labor). The value of fixed assets does not include maintenance costs incurred for their upkeep to guarantee their expected useful life, their original capacity and productivity, and costs borne to repair malfunctions and failures; such expenses are charged to the statement of income in the year incurred.

Depreciation is calculated on the basis of the estimated useful lives of the installations.

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Total accumulated depreciation for fixed assets was upwardly adjusted where called for by the previously mentioned special laws. The elimination, disposal or sale of fixed assets is recorded in the financial statements by eliminating the cost and accumulated depreciation from the balance sheet and booking the related gain or loss in the statement of income.

■ Equity investments

Equity investments in subsidiaries, affiliated companies and other companies considered long-term in nature are recorded in long-term investments or, if acquired for subsequent sale, recorded in short-term financial assets.

Long-term equity investments in "*subsidiaries, affiliated companies and other companies*" are valued at acquisition or subscription cost – determined according to the continuous LIFO method – increased by the statutory inflation adjustments, as well as the voluntary one made to several investments during the preparation of the financial statements at December 31, 1981.

The carrying value of investments recorded in long-term investments is adjusted for any reasonable expectations of a decline in profitability or recoverability in future years.

In the case of a permanent impairment, the value of such equity investments is written down and the impairment in value in excess of the corresponding carrying value is recorded among "*reserves for risks and charges*".

Writedowns of investments, whether included in long-term investments or current assets, will be reversed in subsequent years if the underlying assumptions are no longer correct.

Contracts for the loan of securities are represented in the financial statements as two functionally related transactions: a loan and a repurchase transaction on the securities with the obligation of the borrower to resell them at maturity. Accordingly, "Other receivables" and "Other liabilities" include, respectively, a receivable and a payable of the same amount at the fixed amount of the contract (market price of stock at the date of delivery of the securities).

Equity investments included under current assets, consisting mainly of shares of subsidiaries listed companies purchased for trading purposes, are stated at the lower of cost – determined according to the continuous LIFO method – and realizable value, based on the year-end prices on the Italian Online Stock Market.

The costs of investments in foreign companies have been translated at historical exchange rates prevailing at the time of acquisition or subscription.

■ Inventories

Inventories – consisting of goods intended for sale, as well as stock on hand of technical materials and replacement parts to be used in the business during the year and for maintenance – are valued at the lower of cost, calculated using the weighted-average method, and realizable value.

The carrying value of goods in stock is reduced, through appropriate writedowns, for obsolete materials.

Inventories include the amount of work on behalf of third parties in progress at the end of the year, valued according to the "costs" already incurred.

■ Accounts receivable and liabilities

Accounts receivable are stated at estimated realizable value and classified under long-term investments or current assets. Estimated realizable value is based upon an analysis of receivables at year-end. They include – as far as telecommunications services are concerned – the amount of services already rendered to customers and other carriers, already billed or still to be billed, as well as invoices for the sale of telephone and on-line products.

Liabilities are shown at their nominal value.

■ Transactions in foreign currency

Monetary assets and liabilities are accounted for at the exchange rate as of the transaction date and updated to the exchange rates prevailing at year-end, taking into account hedging contracts. Unrealized positive and negative differences arising from recording foreign currency assets and liabilities at the exchange rates at the transaction date and at year-end date are recorded in the statement of income, respectively, in "financial income" and "financial expense".

■ Receivables transactions

Securitization

The program for the securitization of trade accounts receivable generated by the services rendered to the clientele of Telecom Italia Domestic Wireline (TIDW) begun during 2001 has continued into 2002. Reference should be made to the 2001 annual report for a description of the program.

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In 2002, the total amount of trade accounts receivables sold under securitization transactions amounted to euro 9 billion and only took into account the receivables due by Telecom Italia from residential customers. At December 31, 2002, trade receivables sold totaled euro 849 million (of which euro 757 million were not yet due).

As far as the accounting treatment of securitization transactions is concerned, the total amount of receivables sold is reversed from the balance sheet with a contra-entry for the consideration received on the sale: the amount paid is represented by the non-repeatable amount received immediately (without recourse) whereas the deferred portion is recorded in *Other receivables (financial)* in current assets. This balance sheet caption is presented net of the relative allowance for doubtful accounts calculated on the basis of estimated realizable value; the change in the allowance account is recorded in *financial expense* in the statement of income. The difference between the accounting value of the receivables sold and the consideration on the sale, for the commercial portion, is charged to *Miscellaneous operating costs*, and for the financial portion, to *interest and other financial expense* in the statement of income. The costs and expenses relating to the start-up and completion and implementation of the securitization program (arrangement, underwriting, legal, rating, audit and other expenses) were charged directly to the 2001 statement of income in *Costs for Services*.

The securitization transaction led to an improvement in net financial debt at December 31, 2002 of euro 826 million.

At December 31, 2002, Telecom Italia showed financial payables of euro 165 million due to TI Securitisation Vehicle for the investment of excess temporary liquid resources by the latter in Telecom Italia.

Lastly, under the securitization program, in January 2003, TI Securitisation Vehicle S.p.A. (TISV) reimbursed the first tranche of securities denominated Series 2001-1, Class A1, issued in June 2001 for an amount of euro 100 million. At the same time, TISV issued a new tranche of securities for the same amount denominated Series 2003-1, Class A1, at a variable interest rate with a 27 basis point margin on the 3-month Euribor maturing July 25, 2004. The placement price was above face value with a yield of 24 basis points over the 3-month Euribor. Therefore, the total securities currently outstanding under the securitization program continue to be equal to euro 700 million. As was the case for the securities issued in 2001, this new tranche was awarded the highest ratings by Fitch, Moody's and Standard & Poors of AAA/Aaa/AAA.

Factoring

In 2002, Telecom Italia entered into certain transactions with leading factoring companies for the sale of trade accounts receivables without recourse for a total of euro 414 million. These factoring transactions led to a reduction in net financial debt at December 31, 2002 of euro 182 million.

■ Accruals and deferrals

These items are recorded on the accrual basis. "*Issue discounts and similar charges*" consist of costs in connection with long-term loans, which are charged to the statement of income over the duration of the loan in proportion to the accrued interest.

■ Reserves for risks and charges

"*For taxes*": this reserve includes prudent provisions for estimated tax charges (including any surtaxes and late payment interest) on positions not yet agreed or in dispute.

"*For deferred taxes*": this reserve includes deferred taxes calculated as described in the note on income taxes.

"*Other reserves*" relate primarily to provisions to cover risks and charges for losses or liabilities of certain or likely existence whose amount or date of occurrence could, however, not be determined at the end of the year. The provisions reflect the best possible estimate, based on the commitments made and on the available data.

■ Reserve for employee termination indemnities

The amount of this reserve is determined in accordance with current laws (in particular Law No. 297 of May 29, 1982, which provides for fixed and variable cost-of-living adjustments) and collective bargaining agreements. The reserve is adjusted to the liability matured at the end of the year for personnel in force at that date and is net of advances paid.

■ Employee benefit obligations under Law No. 58/1992

With regard to Telecom Italia's obligation required by Law No. 58/1992 to guarantee a uniform insurance status under the Telephone Workers' Social Security Fund – FPT (part of the general "Employees Pension Fund" beginning January 1, 2000) to all employees in service in the Group's telephone companies (Stet, Sip, Italcable and Telespazio) as of February 20, 1992, as well as those who moved from the Public Administration to Iritel, Article 66, paragraph 1 of Law 331/1993 and converted into Law No. 427/1993 specifies that the sums due to the Fund should be recorded in the financial statements and are tax deductible in the years in which the fifteen equal annual deferred installments are paid to discharge this obligation.

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At the present time, the amount of the liability, which will be determined by the National Social Security Institute (Istituto Nazionale della Previdenza Sociale - INPS), can be estimated only roughly, due to problems relating to the interpretation and application of the social security legislation and to the lack of certain data which only the social security institutions currently possess (at December 31, 2002, INPS had notified the Company of around 97% of the positions, the uniform insurance status of which gives rise to expenses for Telecom Italia).

Nevertheless, these financial statements include euro 590 million of residual payables to INPS, (net of the amount attributed to Group companies for the employees transferred to those companies), relating to the estimate made for the employees of the former State Company for Telephone Services (ASST) by the special Ministerial Commission established under Law No. 58/1992 upon the transfer of the assets of the Post and Telecommunications Administration to Iritel, and recorded by the latter company in its financial statements at December 31, 1993. As a result, these charges will have no impact on the results of future years, since they were already included in the aforementioned calculation.

A dispute concerning the application and interpretation of this law arose with INPS regarding, firstly, the effective date for the computation of the accrued interest due under Law No. 58/1992, in view of the fact that the liability is paid in installments. Telecom Italia maintains that interest should accrue from the time INPS notifies it of the actual amount of the liability, while INPS claims that the computation should be made as from February 20, 1992 or from the date of the transfer to Iritel, thus giving rise to pre-amortization interest. The second issue is the exclusion from the estimates under Law No. 58/1992 of all employees (except for employees of the former Iritel) who had filed an application to join pursuant to Law No. 29/1979 before February 20, 1992, unless that application had not been processed by INPS. The position of the Company is that the criteria set forth in Law No. 29/1979 – and, therefore, payment of the respective obligations – apply to these employees.

At the present time, the parties have agreed that the differences in interpretation shall be settled through test appeals, with recourse to the Court of Appeals being waived for a final determination of the correct interpretation of the law in question.

While the proceedings are pending, Telecom Italia has agreed to pay, with reservation, the amounts requested by INPS based on the criteria determined by the latter, subject to subsequent equalization adjustments, if the Courts ultimately accept the Company's interpretation.

As stated later in the report, the dispute concerning pre-amortization interest was settled in the first half of the year.

Having said that, a reasonable estimate of the principal amount of the liability attributable to Telecom Italia (excluding, as mentioned earlier, the part relating to the former Iritel employees) could vary between euro 964 million and euro 1,289 million (euro 409 million of which has already been paid), depending on conflicting interpretations and taking into account all personnel involved.

In either case, the impact of the charge should definitely be compatible with the income of future years, since, as allowed under Article 5, paragraph 3 of Law No. 58/1992, the payments requested by INPS will be made in fifteen equal annual deferred installments (including annual interest of 5%), starting when INPS formally submits its requests.

The remaining liability for obligations under Law No. 58/1992, to be paid in fifteen annual installments on the basis of the formal requests made by INPS up to December 31, 2002 and the interpretation of said requests, amounts to euro 1,227 million, divided as follows:

- euro 859 million for the principal amount (except for the portion attributable to former Iritel employees);
- euro 368 million in accrued interest.

Pre-amortization interest (including that relating to the employees of the former Iritel), subsequent to the agreement between INPS and Telecom Italia, was paid by the latter - with reservation - in fifteen equal annual deferred installments, including interest at an annual rate of 5%, up to the end of 1999, for a total amount of euro 110 million, net of equalization interest and certain refunds made by INPS. As previously mentioned, Telecom Italia won the case under the ruling issued by the Court of Cassation No. 3398/2002, in keeping with the previous ruling No. 4242/2000 (as a result of which, from June 2000, the payment of the aforementioned interest and accrued interest was suspended). Consequently, Telecom Italia has a credit of euro 131 million (inclusive of an additional amount at the conventional annual rate of 5%) that was completely offset against the payment of the regular expense installments.

During 2002, Telecom Italia paid INPS the above-mentioned expenses also on behalf of other Group companies – mainly TIM and TI Lab – for those employees transferred and covered by the obligation of a uniform insurance status under Law No. 58/1992, recovering the amounts paid from these same companies. The recovery is recorded in the statement of income under "extraordinary income" and amounts to euro 2 million.

■ Grants

Operating grants (directly credited to the statement of income) and capital grants or grants for installations are recorded in the accounting period in which the paperwork documenting the grants is received, or in the period in which the respective costs are incurred, provided that the certainty of payment is confirmed by established procedures.

The treatment of capital grants and grants for installations in the balance sheet is as follows:

- grants received through December 31, 1992, are included under "*reserves for risks and charges*". The portions equivalent to the depreciation taken on assets financed with the grants in question (the so-called "available" portion) are transferred to a special equity reserve in order to obtain the benefits allowed under the tax law;

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- b) for grants received from January 1, 1993 to December 31, 1997, 50% of the amount received is recorded in a special reserve of shareholders' equity in order to take advantage of the benefits available under the tax laws, and the remaining 50% is recorded under "deferred income". These amounts are gradually credited to income in accordance with the pertinent laws;
- c) for grants received from January 1, 1998, the amount is recorded under "deferred income" and progressively credited to the statement of income in relation to the depreciation taken on the assets to which the grants refer.

■ Revenues and expenses

Revenues and expenses are recorded on an accrual basis. Revenues relating to telecommunications services are shown gross of the amounts due to other carriers which are recorded, for the same amount, in production cost.

Fees for new access lines and line transfers are recorded as income when the service is provided.

Dividends from subsidiaries are recorded on the maturity principle, that is, in the year when the income from which they are paid is earned by the subsidiaries, providing there is a substantial certainty that they will be paid, and, in any event, when the shareholders' resolution declaring the dividend is passed or when the appropriation of net income is set forth in the preliminary financial statements prepared by the management of the subsidiaries prior to the Board Meeting of the parent company that resolves upon the financial statements.

Dividends from affiliated companies and other companies, on the other hand, are recognized in the statement of income according to the accrual principle, that is, in the year in which the respective right to the receivable arises, following the declaration of dividends approved by the shareholders' resolution of those companies. The tax credits are recorded in the same manner as the dividends to which they refer.

■ Leased assets

Capital goods acquired under leasing agreements are recorded in the financial statements by a method consistent with current legislation, which requires that leasing payments be recorded as operating costs.

■ Income taxes

Current income taxes are computed on the basis of a realistic estimate of the income tax charge according to the tax law; the related income tax payable is shown net of payments on account, withholding taxes and tax credits in "income taxes payable". Any net receivable position is shown in "other receivables".

Deferred income taxes are calculated in the financial statements on the basis of the temporary differences between the value attributed to the assets and liabilities for statutory purposes and the value attributed to the same assets and liabilities for tax purposes. Deferred tax assets, including benefits from tax loss carryforwards, are booked in "other receivables" in current assets. The tax benefit relating to tax loss carryforwards is recorded only when there is reasonable certainty of recovery.

Deferred tax assets and liabilities are offset, whenever the assumptions for doing so exist. Deferred taxes on the reserves and funds in abeyance of taxation are book if such reserves will be distributed or, in any case, utilized and their distribution or utilization gives rise to a tax charge.

■ Memorandum accounts

"Guarantees provided" are shown for the amount of the remaining liability or other obligation guaranteed; those provided in foreign currencies are translated at year-end exchange rates.

"Purchases and sales commitments" are determined on the basis of the unperformed portion of contracts outstanding at the end of the fiscal year which do not fall under the normal "operating cycle".

■ Derivative financial instruments

Derivative financial instruments are used by the Company to hedge exposure to interest rate and exchange rate risks. They are valued consistently with the underlying asset and liability positions and any net expenses connected with each single transaction are recognized in the statement of income.

For derivative financial instruments used to hedge interest rate risks, the interest differentials are recorded in the statement of income in "financial income and expense" based on the accrual principle.

For financial instruments used to hedge exchange rate risks, the cost (or "financial component" calculated as the difference between the rate at the date of stipulating the contract and the forward rate) is recorded in the statement of income in "financial income and expense" based on the accrual principle.

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■ BALANCE SHEETS ASSETS

INTANGIBLES, FIXED ASSETS AND LONG-TERM INVESTMENTS

■ INTANGIBLE ASSETS

euro 1,287,449 thousand

(euro 1,336,128 thousand at December 31, 2001)

A summary of the changes in intangible assets during the year is presented as follows:

(in thousands of euro)	2002
– additions	648,064
– disposals	(20,279)
– sales and contributions of business segments	(109,969)
– amortization	(566,495)
Total	(48,679)

An analysis of the composition and the changes in intangible assets during the year is shown below:

					12/31/2001
(in thousands of euro)	Cost	Upward adjustments	Writedowns	Amortization	Total
Start-up and expansion costs	2,635			(2,635)	-
Industrial patents and intellectual property rights	2,850,338			(2,184,617)	665,721
Concessions, licenses, trademarks and similar rights	169,095			(96,916)	72,179
Work in progress and advances to suppliers	498,167				498,167
Other intangibles (*)	375,103			(275,042)	100,061
Total	3,895,338	-	-	(2,559,210)	1,336,128
(*) of which:					
Leasehold improvements	374,696	-	-	(274,635)	100,061

CHANGES DURING THE YEAR

(in thousands of euro)	Additions	Reclassifications	Sales / Retirements / Other changes (a)	Writedowns / Reinstatements	Amortization	Total
Industrial patents and intellectual property rights		421,531	(33,644)		(528,084)	(140,197)
Concessions, licenses, trademarks and similar rights		3,767	(50,267)		(14,887)	(61,387)
Goodwill		20			(4)	16
Work in progress and advances to suppliers	648,064	(462,826)	(28,129)	(18,206)		138,903
Other intangibles (*)		37,508	(2)		(23,520)	13,986
Total	648,064	-	(112,042)	(18,206)	(566,495)	(48,679)
(*) including:						
Leasehold improvements	-	37,508	(2)	-	(23,520)	13,986

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(a) Broken down as follows:

	Cost	Upward adjustments	Writedowns	Amortization	Net value
Start-up and expansion costs	(2,635)			2,635	-
Industrial patents and intellectual property rights	(105,546)			71,902	(33,644)
- of which sales of business segments	(84,416)			52,767	(31,649)
Concessions, licenses, trademarks and similar rights	(80,712)			30,445	(50,267)
- of which contribution of business segment	(80,583)			30,320	(50,263)
Work in progress and advance to suppliers	(46,335)		18,206		(28,129)
- of which sale and contribution of business segment	(46,263)		18,206		(28,057)
Other intangibles	(90)			88	(2)
- of which leasehold improvements	(84)			82	(2)
TOTAL	(235,318)		18,206	105,070	(112,042)
- of which sale and contribution of business segment	(211,262)		18,206	83,087	(109,969)

12/31/2002

(in thousands of euro)	Cost	Upward adjustments	Writedowns	Amortization	Total
Start-up and expansion costs	-			-	-
Industrial patents and intellectual property rights	3,166,323			(2,640,799)	525,524
Concessions, licenses, trademarks and similar rights	92,150			(81,358)	10,792
Difference on consolidation	20			(4)	16
Work in progress and advances to suppliers	637,070			0	637,070
Other intangibles (*)	412,521			(298,474)	114,047
Total	4,308,084	-	-	(3,020,635)	1,287,449
(*) of which					
Leasehold improvements	412,120			(298,073)	114,047

In particular:

"Industrial patents and intellectual property rights" consisted almost entirely of applications software. Eliminations referred mostly to software projects contributed to Telecom Italia Sparkle (at the time of the contribution of the "International Wholesale Service" business) and sold to Telecom Italia Learning Services (at the time of the sale of Telecom Italia's "Training" business).

"Concessions, licenses, trademarks and similar rights" referred to satellite utilization rights. Eliminations refer almost entirely to the rights of way (DDP) and indefeasible rights of use (IRU) that guarantee the extension of the Company's transmission capacity over a foreign territory. Such rights were contributed to Telecom Italia Sparkle upon the contribution of the "International Wholesale Services" business segment. Amortization also included the amortization charge on the above rights of way (DDP) and indefeasible rights of use (IRU) calculated over the period of the contracts.

"Work in progress and advances to suppliers" mainly referred to software projects for network and operating program applications. All acquisitions of intangibles are managed through specific work orders and recorded in this caption. Reclassifications refer to intangible assets that went into operation during the year.

"Other intangibles" almost completely comprised leasehold improvements made to properties owned by third parties and included the costs incurred to meet the operating requirements of the Company in the rented premises.

In particular, the acquisitions of intangibles from subsidiaries, affiliated companies and parent companies amounted to euro 522,728 thousand and principally referred to software projects from I.T. Telecom (euro 405,216 thousand), Italtel (euro 60,681 thousand), Siemens Informatica (euro 18,756 thousand) and TILAB (euro 18,000 thousand).

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■ FIXED ASSETS

euro 12,678,035 thousand

(euro 14,091,384 thousand at December 31, 2001)

A summary of the changes in fixed assets during the year is presented as follows:

(in thousands of euro)	2002
– additions	1,674,275
– disposals	(57,780)
– sales and contributions of business segments	(556,103)
– provisions to reserve for writedowns	(21,101)
– utilization of the reserve for writedowns	1,235
– depreciation	(2,453,875)
Total	(1,413,349)

An analysis of the composition and the changes in fixed assets during the period is shown below:

12/31/2001					
(in thousands of euro)	Cost	Upward adjustments	Writedowns	Accumulated depreciation	Total
Land and buildings					
- non-industrial buildings	34,371	1,290		(2,377)	33,284
- industrial buildings	2,212,760	464,248	(1,856)	(1,210,965)	1,464,187
	2,247,131	465,538	(1,856)	(1,213,342)	1,497,471
Plant and machinery	46,349,627	785,054	(711,165)	(34,622,928)	11,800,588
Manufacturing and distribution equipment	859,082	0		(831,129)	27,953
Other fixed assets	642,942	4,312		(544,419)	102,835
Construction in progress and advances to suppliers	662,537	0		0	662,537
Total	50,761,319	1,254,904	(713,021)	(37,211,818)	14,091,384

CHANGES DURING THE YEAR

(in thousands of euro)	Additions	Reclassifications	Sales/ Retirements/ Other changes (a)	Writedowns/ Reinstatements	Depreciation	Total
Land and buildings						
- non-industrial buildings		13	(12,084)		(181)	(12,252)
- industrial buildings		26,438	(242,866)	(3,499)	(86,686)	(306,613)
		26,451	(254,950)	(3,499)	(86,867)	(318,865)
Plant and machinery		1,505,584	(300,376)	(17,602)	(2,295,904)	(1,108,298)
Manufacturing and distribution equipment		2,613	(2,626)		(16,002)	(16,015)
Other fixed assets		19,450	(3,472)		(55,102)	(39,124)
Construction in progress and advances to suppliers	1,674,275	(1,554,098)	(51,224)			68,953
Total	1,674,275		(612,648)	(21,101)	(2,453,875)	(1,413,349)

(a) Broken down as follows:

	Cost	Upward adjustments	Writedowns	Accumulated depreciation	Net value
Land and buildings					
- non-industrial buildings	(13,133)	(479)		1,528	(12,084)
- industrial buildings	(341,874)	(70,332)	198	169,142	(242,866)
	(355,007)	(70,811)	198	170,670	(254,950)
- of which contributions of business segments	(337,032)	(68,508)		165,594	(239,946)
- of which non-industrial buildings	(555)	(304)		150	(709)
- of which industrial	(336,477)	(68,204)		165,444	(239,237)
Plant and machinery	(1,763,662)	(40,690)	1,037	1,502,939	(300,376)
- of which contributions of business segments	(753,517)	(1)		498,373	(255,145)
Manufacturing and distribution equipment	(26,455)			23,829	(2,626)
- of which sales and contributions of business segments	(22,087)			19,157	(2,930)
Other fixed assets	(83,695)	(18)		80,241	(3,472)
- of which sales and contributions of business segments	(25,474)			17,848	(7,626)
Construction in progress and advances to suppliers	(51,224)				(51,224)
- of which contributions of business segments	(50,456)				(50,456)
Total	(2,280,043)	(111,519)	1,235	1,777,679	(612,648)
- of which sales and contributions of business segments	(1,188,566)	(68,509)		700,972	(556,103)

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(in thousands of euro)	Cost	Upward adjustments	Writedowns	Accumulated depreciation	Total
Land and buildings					
- non-industrial buildings	21,251	811		(1,030)	21,032
- industrial buildings	1,897,324	393,916	(5,157)	(1,128,509)	1,157,574
	1,918,575	394,727	(5,157)	(1,129,539)	1,178,606
Plant and machinery	46,091,549	744,364	(727,730)	(35,415,893)	10,692,290
Manufacturing and distribution equipment	835,240			(823,302)	11,938
Other fixed assets	578,697	4,294		(519,280)	63,711
Construction in progress and advances to suppliers	731,490				731,490
Total	50,155,551	1,143,385	(732,887)	(37,888,014)	12,678,035

Acquisitions of fixed assets are managed using specific work orders, recorded in "construction in progress and advances to suppliers". The reclassifications refer to fixed assets that went into use during the year. *In 2002, the acquisitions of fixed assets from subsidiaries, affiliated companies and parent companies amounted to euro 371,995 thousand and referred almost entirely to the acquisition of telephone exchanges from Italtel (euro 341,428 thousand).*

Furthermore, transactions with other related parties totaled euro 32,152 thousand and referred to the purchases of network cables from Pirelli.

The reduction in the gross value of fixed assets due to transactions for the contribution and sale of business segments totaled euro 1,257,075 thousand (of which euro 791,415 thousand related to the contribution of the "International Wholesale Service" business segment to Telecom Italia Sparkle and euro 431,703 thousand in connection with the contribution of the "Asset Management" business segment to Tiglio II). The relative accumulated depreciation amounted to euro 700,972 thousand (of which euro 486,311 thousand was for the contribution to Telecom Italia Sparkle and euro 186,634 thousand for the contribution to Tiglio II).

Accumulated depreciation at December 31, 2002, as a whole, was considered sufficient in relation to the remaining period of utilization of the assets, determined on the basis of the estimated useful lives of the installations making up the domestic telecommunications network. Depreciation is calculated by the rates used in the previous year. Accumulated depreciation, net of writedowns, covered 74.9% of fixed assets at December 31, 2002, compared to 72.5% at December 31, 2001.

At December 31, 2002, the upward adjustments made to fixed assets in 1952, 1975, 1983 and 1991 as well as those made under Law No. 823/1973 have been depreciated by an average of 80%.

The Company has fixed assets purchased through lease contracts stipulated at market terms with its affiliate Teleleasing and with Intesa BCI, as disclosed in the memorandum accounts and related notes. Had these contracts been accounted for using the financial method, entries would have been made in the statement of income for the interest on the financed principal and for the depreciation charge attributable to the leased assets and assets would have been recorded in fixed assets and the residual debt under liabilities. The use of this method, however, would have had no material economic effect on the financial statements.

In January 2003, the Company proceeded to purchase the buildings leased from Teleleasing under financial leasing contracts before the expiration date.

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■ LONG-TERM INVESTMENTS

euro 15,597,488 thousand

(euro 18,370,044 thousand at December 31, 2001)

Long-term investments decreased by euro 2,772,556 thousand compared to December 31, 2001. They comprise the following:

(in thousands of euro)	12/31/2002	12/31/2001
Equity investments in:		
• subsidiaries	14,399,646	17,659,160
• affiliated companies	388,273	386,923
• other companies	55,233	24,327
	14,843,152	18,070,410
Advances on future capital contributions	166,184	78,896
Accounts receivable:		
• subsidiaries	60,000	60,000
• affiliated companies	117,406	-
• other receivables	123,533	160,738
	300,939	220,738
Treasury stock	287,213	-
Total	15,597,488	18,370,044

■ Equity investments

euro 14,843,152 thousand

Annex 1 presents the changes in each investment during the period together with the corresponding amount at the beginning of the year and at December 31, 2002. Overall, investments in subsidiaries, affiliates and other companies decreased by euro 3,227,258 thousand compared to December 31, 2001, as shown below:

INCREASES:	(in thousands of euro)
• Subscription to capital increases, recapitalizations and loss coverage of: Tiglio I (185,985), TILAB (5,600), IN.TEL.AUDIT (1,500), Emsa Servizi (7,001), Nordcom (2,062), Stream (233,541), TI Sparkle (92,696), Edotel (8,436), Telegono (413), Sistemi Formativi Confindustria (12), I.T. Telecom (376), EPIClink (60,254), Netesi (29,182), TI Austria (650), TI United Kingdom (602), Telecom Italia of North America (9,730), Telecom Italia America Latina (11,100), Consorzio Energia Gruppo Telecom Italia (5), Telecom Italia Capital (6,826), TE.SS (1,368), Telenergia (40), IMSER 60 (60), Consorzio TOPIX (100) and Mediocredito Centrale (36,018).	693,557
• Subscription to shares of I.T. Telecom following the contribution in kind, to the same company, of the investments in Netsiel, Telesoft, Saritel and Sodalìa.	142,906
• Subscription to shares of TI Sparkle (ex TMI - Telemedia International Italia) following the contribution, to the same company, of the "International Wholesale Services" business segment.	697,768
• Final share capital purchase from payments against future capital increases in investments relating to Telecom Italia International (78,896) and Tiglio I (26).	78,922
• Subscription to quotas of Tiglio II following the contribution, to the same company, of the "Asset Management" business segment.	74,281
• Subscription to shares of Softe following the merger of T.I. Media.	51,005
• Subscription to shares of TI Finance (ex TI Web) following the merger of Softe.	8,050
• Acquisition of investment in EMSA following the partial non-proportional spin-off of IM.SER	126,118
Total increases	(A) 1,872,607
DECREASES:	
• Sale/reduction of shares/quotas in: IMMSI (18,228), Emsa (155,494), Telespazio (80,444), Telemaco Immobiliare (75,798), Consorzio Stet Italia 90 Group (41), Telimm (18), Sistemi Formativi Confindustria (12), IMSER 60 (1).	330,036
• Writedown for losses of value charged to the statement of income to the following investments: Seat Pagine Gialle (2,690,503), Telecom Italia International (1,101,893), Stream (246,355), Finsiel (115,000), Netesi (31,227), Nordcom (26,902), Nortel Inversora (19,114), Latin American Nautilus (15,054), I.T. Telecom (26,959), Telecom Italia of North America (1,337), TILAB (38,468), Telecom Italia America Latina (695), TI Finance (ex TI Web) (16,413), Telecom Italia Learning Services (884) and Cartesia (516).	4,331,320
• Writedown for losses of value covered by the reserve for losses of subsidiaries and affiliated to the following investments: Fratelli Alinari (2,400), TI Sparkle (ex TMI - Telemedia International Italia) (5,698), Emsa Servizi (2,001), Eurescom (9), Telecom Italia America Latina (6,941), Telecom Italia Capital (4,438), Softe (42,955), Consorzio RES (155) and Ertico (1).	64,598
• Investments contributed to I.T. Telecom: Netsiel (108,486), Telesoft (12,550), Saritel (17,783) and Sodalìa (4,087).	142,906
• Investments contributed to TI Sparkle: TI Austria (1,835), TI Belgium (3,000), TI France (10,308), TI Germany (9,325), TI Netherlands (3,518), TI Spain (703), TI Switzerland (2,631), TI United Kingdom (4,305) and Telecom Italia of North America (10,207).	45,832
• Partial non-proportional spin-off of IM.SER to EMSA and IMSER 60.	126,118
• Merger of the investment in TI Media to Softe	51,005
• Merger of the investment in Softe to TI Finance (ex TI Web)	8,050
Total decreases	(B) 5,099,865
Net change for the year	(A-B) (3,227,258)

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In particular:

- writedowns were made to the investment held in Telecom Italia International by euro 1,101,893 thousand mainly for the expenses connected with the sale of 9Telecom to LDCOM (euro 388,328 thousand), for the loss on the sale of Telekom Austria (euro 187,951 thousand), for the writedown of Netco Redes (euro 102,727 thousand) and for the writeoff of the carrying value of the investment in Nortel Inversora (euro 37,000 thousand);
- writedowns were made to the investment held in Seat Pagine Gialle by euro 2,690,503 thousand following the adjustment of the shares of this company to market value as a result of the decision, taken in conjunction with the re-definition of Telecom Italia Group's strategy, of no longer considering the "Directories" business of Seat Pagine Gialle to be of strategic interest to the Group. The adjustment of the aforementioned shares (recorded in the financial statements at a carrying value of euro 1.11 per shares) was made on the basis of the average market price of the shares over the last six months of 2002 (euro 0.668);
- writedown of the investment in Finsiel by euro 115,000 thousand. Since the company realized gains on the sale of Lottomatica and Sogei in 2002, the Board of Directors of Finsiel submitted a motion to the Shareholders' Meeting for the payment of dividends including the aforementioned gains. Since Telecom Italia, as usual, recorded the dividends from subsidiaries on the maturity principle in 2002, effect was given to the writedown;
- under the project for the reorganization of the Information Technology Group BU, Telecom Italia, in June, subscribed to 14,370,600 I.T. Telecom shares of par value euro 5 each and the share premium capital of euro 4.944 by contributing – at book value – the investments held in Netsiel (68.65%), Saritel (100%), Sodalìa (100%) and Telesoft (60%). The total amount of the contribution was euro 142,906 thousand;
- on August 1, 2002, Telecom Italia proceeded to sell the 40% investment held in Telemaco Immobiliare to Mirtus, a company indirectly controlled by the American real estate fund Whitehall, promoted by the Goldman Sachs Group;
- on December 18, 2002, Telecom Italia subscribed to the capital increase of 2,269,774 shares of TI Sparkle (ex TMI – Telemedia International Italia) at the par value of euro 50 each for a total of euro 697,768 thousand (of which euro 584,279 thousand was for the share premium), by contributing, to the same company, the "International Wholesale Services" business segment in the Domestic Wireline BU. This contribution also included the investments held by Telecom Italia in: TI Austria, TI Belgium, TI France, TI Germany, TI Netherlands, TI Spain, TI Switzerland, TI United Kingdom and Telecom Italia of North America;
- under the "Progetto Tiglio", details of which are provided in the report on operations, the following corporate transactions took place:
 - on October 24, 2002, the partial non-proportional spin-off of IM.SER to EMSA and IMSER 60. As a result of this transactions, EMSA, a 100%-owned subsidiary of Telecom Italia, received 40% of the shareholders' equity at December 31, 2001 of IM.SER and IMSER 60 received the remaining 60%. After this transaction, Telecom Italia's investment in EMSA was equal to euro 155,494 thousand;
 - on October 29, 2002, the sale of the investments in EMSA to OMS 2 at a price of euro 219,665 thousand, with a gain of euro 69,524 thousand, and in TELIMM to MSMC Immobiliare;
 - on October 29, 2002, the subscription to quotas amounting to a 36.74% interest in the share capital of Tiglio I for a total of euro 185,985 thousand, of which euro 184,074 thousand is a share premium, and advances on future capital contributions of euro 26 thousand. This advance was converted into share capital in December, raising the total ownership to 36.85% of share capital;
 - on October 29, 2002, the subscription to quotas amounting to 49.47% of the share capital of Tiglio II by contribution of the "Asset Management" business segment at market value, with a gain of euro 126,355 thousand;
- on November 22, 2002, the sale of the investment in IMMSI to Omnipartecipazioni at a price of euro 68,310 thousand, with a gain of euro 50,206 thousand;
- on November 29, 2002, the sale of the investment in Telespazio to Finmeccanica at a price of euro 127,210 thousand, with a gain of euro 46,767 thousand;
- on December 16, 2002, the merger of TI Media and Softe. Following this operation Softe issued n. 36,936,740 shares of par value euro 4.07 by the latter company to Telecom Italia, shareholder of TI Media. Subsequent merger of the "new" Softe and TI Web against the issue of 3,193,533 shares of par value US \$10 by the latter company to Telecom Italia, shareholder of Softe. The new company thus formed took the name of Telecom Italia Finance;
- at December 31, 2002, the Seat Pagine Gialle shares loaned to Morgan Stanley numbered 58,000,000. In February and March, all the Seat Pagine Gialle shares on loan to Morgan Stanley were returned;
- certain investments in subsidiaries and affiliated companies are recorded at an amount in excess of the corresponding share of the underlying shareholders' equity, net of dividends and after consolidation adjustments. These investments are maintained at their carrying values since they are expected to show future earnings and their assets are worth more than their respective book values.

A comparison between the market price of listed shares at December 31, 2002 and their carrying value shows an unrealized gain of euro 15,888 million. Further details are given in Annex 3.

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■ **Advances on future capital contributions** **euro 166,184 thousand**

Advances on future capital contributions increased by euro 87,288 thousand compared to December 31, 2001, following payments made to I.T. Telecom for the acquisitions, from Finsiel, of the interests in the companies Netsiel, Telesoft and Netikos (euro 83,401 thousand) and, from Olivetti, of the interest in Webegg (euro 57,500 thousand). Furthermore, euro 78,896 thousand was converted into capital and referred to advances made in previous years to Telecom Italia International for the acquisition of foreign investment holdings.

■ **Accounts receivable** **euro 300,939 thousand**

Accounts receivable increased by euro 80,201 thousand compared to December 31, 2001, and are analyzed as follows:

(in thousands of euro)	12/31/2001	Changes during the year				12/31/2002
		Disburse- ments	Reimburse- ments	Reclass. / Other	Total	
Subsidiaries	60,000	-	-	-	-	60,000
Affiliated companies	-	117,406	-	-	117,406	117,406
Other receivables	160,738	21,690	(56,029)	(2,866)	(37,205)	123,533
Total	220,738	139,096	(56,029)	(2,866)	80,201	300,939

Subsidiaries **euro 60,000 thousand**

Accounts receivables from subsidiaries refer to a loan made in 2001 to *Stet Hellas for the acquisition of UMTS licenses*.

Affiliated companies **euro 117,406 thousand**

Accounts receivable from affiliated companies refer mainly to loans made to the companies *Tiglio I*, *Tiglio II*, *Telegono* and *Mirror International Holding*.

Other receivables **euro 123,533 thousand**

These mainly refer to:

- the remaining loans receivable from employees (euro 45,306 thousand);
- the prepayment of the tax on the reserve for employee termination indemnities (euro 71,350 thousand), required under Law No. 662 of December 23, 1996 and subsequent amendments, revalued as required by law.

As regards accounts receivable included in long-term investments, the portion due within and beyond five years is presented in the attached Annex 4, as required by art. 2427, point 6, of the Italian Civil Code.

Treasury stock **euro 287,213 thousand**

"Treasury stock" purchased up to December 31, 2002 totaled 5,280,500 ordinary shares and 45,647,000 savings shares, for an equivalent amount of euro 287,213 thousand. Moreover, the Telecom Italia Ordinary Shareholders' Meeting on November 7, 2001, in authorizing the Board of Directors of the Company to buy-back ordinary and/or savings shares for a maximum amount of euro 1,500,000,000, within the limits established by law, also authorized the directors to dispose of, for an unspecified period of time, the shares purchased for any stock option plans.

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As required by Article 10 of Law No. 72/1983 the table below sets forth a breakdown of upward adjustments by type of asset held at December 31, 2002.

Description	Fixed assets					Investments		
	Land and buildings	Plant and machinery	Manufacturing and distribution equipment	Other assets	Construction in progress and advances to suppliers	Total	Subsidiaries	Affiliates
(in thousands of euro)								
Historical cost of additions to 12/31/2001:								
- Upward adjustments under special laws	690,902	2,002,718	-	7,865	-	2,701,485	768,400	2,417
- Not adjusted	1,227,673	44,047,415	835,240	570,832	731,490	47,412,650	20,274,670	654,872
Total	1,918,575	46,050,133	835,240	578,697	731,490	50,114,135	21,043,070	657,289
Upward adjustments:								
- under Law No. 74 of 2/11/1952	212	-	-	-	-	212	374	-
- under Law No. 823 of 12/19/1973	1,084	-	-	-	-	1,084	546	-
- under Law No. 576 of 12/2/1975	20,605	27,650	-	475	-	48,730	12,653	-
- under Law No. 72 of 3/219/19783	161,800	716,714	-	3,819	-	882,333	84,820	1,424
- under Law No. 413 of 12/30/1991	211,026	-	-	-	-	211,026	-	-
- voluntary adjustment made in 1981	-	-	-	-	-	-	38,012	-
Total	394,727	744,364	-	4,294	-	1,143,385	136,405	1,424
Grand total	2,313,302	46,794,497	835,240	582,991	731,490	51,257,520	21,179,475	658,713

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CURRENT ASSETS

■ INVENTORIES

euro 69,572 thousand

(euro 76,894 thousand at December 31, 2001)

Inventories, which decreased by euro 7,322 thousand compared to December 31, 2001, consist of "contract work in process" (euro 16,868 thousand) and "merchandise" (euro 52,704 thousand).

■ ACCOUNTS RECEIVABLE

euro 9,632,258 thousand

(euro 9,220,393 thousand at December 31, 2001)

Accounts receivable increased by euro 411,865 thousand compared to December 31, 2001. A breakdown and the changes that occurred during the year are given in the table below:

(in thousands of euro)	12/31/2001	Changes during the year				12/31/2002
		Utilizations	Provisions	Other	Change	
Trade accounts receivable	4,548,154				(446,824)	4,101,330
- allowance for doubtful accounts	(306,500)	225,682	(299,642)	32,598	(41,362)	(347,862)
Total trade accounts receivable	4,241,654				(488,186)	3,753,468
Accounts receivable from subsidiaries	2,214,020				617,103	2,831,123
- allowance for doubtful accounts of subsidiaries	(17,100)		(17,400)		(17,400)	(34,500)
Total accounts receivable from subsidiaries	2,196,920				599,703	2,796,623
- of which financial receivables	496,989				1,403,610	1,900,599
Accounts receivable from affiliated companies	324,870				(171,560)	153,310
- allowance for doubtful accounts of affiliated companies	(13,300)	13,300	(61,790)		(48,490)	(61,790)
Accounts receivable from affiliated companies	311,570				(220,050)	91,520
- of which financial receivables	122,490				(121,769)	721
Accounts receivable from parent companies	1,090				153	1,243
Other receivables	2,469,159				520,245	2,989,404
- Government and other public entities for grants and subsidies	1,265				-	1,265
- deferred tax assets	509,094				1,079,945	1,589,039
- other receivables	1,958,800				(559,700)	1,399,100
Total	9,220,393				411,865	9,632,258

■ Trade accounts receivable

euro 3,753,468 thousand

Trade accounts receivable are shown net of the relative allowance accounts (euro 347,862 thousand, of which euro 299,642 thousand were provided in the year) and decreased by euro 488,186 thousand. They included euro 685,732 thousand of receivables from other wireline and mobile telecommunications carriers.

Following the contribution of Telecom Italia's "International Wholesale Services" business segment to Telecom Italia Sparkle on December 31, 2002, on that date, receivables from foreign correspondents were transferred to the latter company totaling euro 579,188 thousand, net of the related allowance for doubtful accounts of euro 32,598 thousand.

The securitization and factoring of receivables led to a reduction in trade accounts receivable at December 31, 2002 of euro 1,031,309 thousand.

■ Accounts receivable from subsidiaries

euro 2,796,623 thousand

Accounts receivable from subsidiaries increased by euro 599,703 thousand, compared to December 31, 2001, and include trade, financial and other receivables.

The financial receivables, equal to euro 1,900,599 thousand, reflect current account transactions carried out at market rates for cash management purposes and short-term loans granted principally to *TIM* (euro 1,252,321 thousand), *TILAB* (euro 174,460 thousand) and *I.T. Telecom* (euro 329,033 thousand).

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Trade accounts receivables (euro 453,164 thousand) related to TLC services rendered mainly to *TIM* (euro 201,657 thousand), *Seat Pagine Gialle* (euro 29,667 thousand), *Path.Net* (euro 50,684 thousand) and management fees from *Telecom Italia International* (euro 48,899 thousand net of the relative allowance for doubtful accounts of euro 34,500 thousand, set aside for uncollectible receivables by *Telecom Italia International* from *Telekom Srbija*). Other receivables (euro 442,860 thousand) represent accrued dividends from *subsidiaries* (euro 333,536 thousand, the details of which are shown in the note on "income from equity investments" in the statement of income, and other receivables connected with the Group's VAT settlement system (euro 87,863 thousand).

■ Accounts receivable from affiliated companies euro 91,520 thousand

Accounts receivable from affiliated companies decreased by euro 220,050 thousand compared to December 31, 2001, and mainly refer to financial and trade accounts receivable.

Financial receivables, equal to euro 721 thousand, consisted almost entirely of the loan receivable from *Stream* (euro 27,887 thousand) that is nearly completely covered by the allowance for doubtful accounts of euro 27,166 thousand that was set aside purposely. Trade accounts receivable (euro 83,239 thousand) refer to TLC services rendered principally to *Stream* (euro 33,768 thousand) and TLC products sold to *Teleleasing* (euro 37,703 thousand). Other receivables (euro 7,560 thousand) mainly refer to *Stream* (euro 34,689 thousand) – following the enforcement of the guarantee provided by Telecom Italia, at the time of the sale of *Italtel*, on receivables of the latter from *Stream* – almost entirely covered by the relative allowance for doubtful accounts, and receivables from *Tiglio I* (euro 5,707 thousand).

■ Accounts receivable from parent companies euro 1,243 thousand

These accounts receivable are trade in nature and are receivable from the parent company *Olivetti*.

■ Other receivables euro 2,989,404 thousand

Government and other public entities for grants and subsidies euro 1,265 thousand

These consist of the receivable from the Ministry of Industry, Commerce and Handicrafts for grants to defray the costs incurred for the realization of the telecommunications installations in Southern Italy.

Deferred tax assets euro 1,589,039 thousand

These are shown net of the reserve for deferred taxes (euro 215,680 thousand). The main items which gave rise to deferred tax assets are tax credits on dividends accrued but not yet received and provisions to the reserves for risks and charges.

Deferred tax assets include the effects of applying Legislative Decree No. 209/2002, as well as the amendments made upon its conversion into Law No. 265/2002.

At December 31, 2002, about euro 305 million of deferred tax assets have not been recorded since their future recovery is not assured. The balance of deferred tax assets and liabilities was made up as follows:

	12/31/2002 Amount due				12/31/2001 Amount due			
	Within 1 year	From 2 to 5 years	Beyond 5 years	Total	Within 1 year	From 2 to 5 years	Beyond 5 years	Total
(in thousands of euro)								
Deferred tax assets	932,309	872,410	-	1,804,719	988,499	108,831	-	1,097,330
Reserve for deferred taxes	(193,998)	(21,682)	-	(215,680)	(573,895)	(14,341)	-	(588,236)
Net balance	738,311	850,728	-	1,589,039	414,604	94,490	-	509,094

Other receivables euro 1,399,100 thousand

Other receivables decreased by euro 559,700 thousand compared to December 31, 2001 and can be analyzed as follows:

	12/31/2002	12/31/2001
(in thousands of euro)		
- receivables from the Tax Administration	390,167	986,212
- receivables relating to personnel	145,559	114,335
- transaction for the loan of securities	175,872	235,552
- customer payments in transit with the banking and postal banking system	94,281	89,670
- receivable from TISV for the "Deferred Purchasing Price"	369,958	308,049
- other items	223,263	224,982
Total	1,399,100	1,958,800

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In particular, the receivables from the Tax Administration fell by euro 596,045 thousand, mainly due to lower receivables for direct income taxes and the VAT receivable positions that were transferred to the parent company Olivetti.

The contra-entry to transactions for the loan of securities, described under "Investments" in the accounting policies, is in "Other liabilities". As previously pointed out, in February and March 2003, all the Seat Pagine Gialle shares loaned to Morgan Stanley were returned. Therefore, as of March 7, 2003, there are no Seat Pagine Gialle shares surrendered under contracts for the loan of securities.

■ SHORT-TERM FINANCIAL ASSETS

euro 165,283 thousand

(euro 240,457 thousand at December 31, 2001)

The composition and changes during the year are shown in the following table:

(in thousands of euro)	12/31/2001	Changes during the year				12/31/2002
		Acquisitions	Sales/ Reimbur- sements	Writedowns/ Reimbur- sements	Total	
Equity investments in subsidiaries	240,457	10,739	(10,711)	(75,202)	(75,174)	165,283
Total	240,457	10,739	(10,711)	(75,202)	(75,174)	165,283

"Equity investments in subsidiaries" refer to the value of *TIM* and *Seat Pagine Gialle* ordinary shares, purchased for later trading. Further details are provided in Annex 3.

■ LIQUID ASSETS

euro 235,538 thousand

(euro 80,613 thousand at December 31, 2001)

Liquid assets increased by euro 154,925 thousand compared to December 31, 2001 mainly for on account (euro 198,382 thousand) for a guarantee provided by Royal Bank of Scotland on behalf of Mediobanca in the interest of IS Tim.

(in thousands of euro)	12/31/2002	12/31/2001
Bank and postal accounts	235,045	80,220
Checks	15	9
Cash and valuables on hand	478	384
Total	235,538	80,613

ACCRUED INCOME AND PREPAID EXPENSES

euro 479,926 thousand

(euro 695,039 thousand at December 31, 2001)

These decreased by euro 215,113 thousand compared to December 31, 2001 and include the following:

(in thousands of euro)	12/31/2002	12/31/2001
Issue discounts and similar charges	40,952	25,097
Accrued income		
- financial income	9,669	11,944
	9,669	11,944
Other prepaid expenses		
- production costs	44,147	54,652
- financial expense	4,227	4,715
- other	380,931	598,631
	429,305	657,998
Accrued income and other prepaid expenses	438,974	669,942
Total	479,926	695,039

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■ Issue discounts and similar charges euro 40,952 thousand

"Issue discounts and similar charges" increased by euro 15,855 thousand compared to December 31, 2001 owing to the issue, at below face value, of a new note on the market. See also the comment on "Debentures" in the liabilities. They also include consulting expenses incurred to connection with the transaction.

■ Accrued income and other prepaid expenses euro 438,974 thousand

Accrued income mainly includes the interest (euro 3,864 thousand) subsidized until 1991 by the government under Law No. 67/1988, equivalent to three percentage points of the cost of the loans which replaced those assigned to the Company, through Cassa Depositi e Prestiti, under Law No. 887/1984, interest income from subsidiaries and affiliated companies (euro 2,424 thousand) and income on derivative financial instruments (euro 1,384 thousand).

Prepaid expenses mainly pertain to building rents (euro 32,806 thousand) and financial expenses (*euro 380,919 thousand*) relating to *Telecom Italia International* for the deferral of the put option on Seat Pagine Gialle shares. See also "Purchases and sales commitments" in the memorandum accounts.

* * *

A breakdown of receivables and accrued income by maturity and type is given in Annex 4.

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■ LIABILITIES AND SHAREHOLDERS' EQUITY

SHAREHOLDERS' EQUITY

euro 10,955,270 thousand

(euro 15,870,654 thousand at December 31, 2001)

Shareholders' equity decreased by euro 4,915,384 thousand, compared to December 31, 2001; the table below shows the changes that occurred during the year:

(in thousands of euro)	12/31/2001	Changes during the year				12/31/2002
		Appropriation of 2001 net income	Other changes	Net loss for the loan	Total	
Share capital	4,023,061	-	756	-	756	4,023,817
Additional paid-in capital	1,812,283	-	1,226,091	-	1,226,091	3,038,374
Reserves for inflation adjustments under						
- Law No. 72 of 3/19/1983	2,294,720	-	-	-	-	2,294,720
- Law No. 413 of 12/30/1991	468,944	-	-	-	-	468,944
Legal reserve	652,026	7,633	160,341	-	167,974	820,000
Reserve for treasury stock in portfolio	-	-	287,213	-	287,213	287,213
Other reserves:						
- reserve Law No. 488/92	118,678	-	-	-	-	118,678
- reserve Law No. 342 of 11/21/2000, art. 14	716,378	-	-	-	-	716,378
- special reserve	1,369,062	-	(1,369,062)	-	(1,369,062)	-
- reserve for capital grants	471,947	-	13,756	-	13,756	485,703
- reserve, Leg. Decree No. 124/93, ex art. 13	169	-	-	-	-	169
- miscellaneous reserves	2,324,722	-	(2,324,722)	-	(2,324,722)	-
- miscellaneous income reserves	1,467,854	-	(1,122,351)	-	(1,122,351)	345,503
Retained earnings	-	1,147	-	-	1,147	1,147
Net income (loss)	150,810	(8,780)	(142,030)	(1,645,376)	(1,796,186)	(1,645,376)
Total shareholders' equity	15,870,654	-	(3,270,008)	(1,645,376)	(4,915,384)	10,955,270

■ SHARE CAPITAL

Share capital amounted to euro 4,023,817 thousand and increased by euro 756 thousand compared to December 31, 2001 as a result of the subscription against payment, by executives of the Group, of 1,375,150 ordinary shares of par value euro 0.55 each, under the stock option plan.

■ ADDITIONAL PAID-IN CAPITAL

Additional paid-in capital of euro 3,038,374 thousand increased by euro 1,226,091 thousand, compared to December 31, 2001, as a result of the following transactions:

- reclassifications of euro 2,159,995 thousand from "miscellaneous reserves" of euro 820,000 thousand to the "legal reserve" as voted by the Ordinary Shareholders' Meeting on December 12, 2002;
- increase of euro 8,582 thousand to service the aforementioned stock option plan;
- reclassification to the "reserve for treasury stock in portfolio" of euro 122,486 thousand for the purchases, made between October 1, and December 31, 2002, of 833,500 ordinary shares of treasury stock at the average price of euro 7.69 and 22,607,000 savings shares of treasury stock at the average price of euro 5.20 under the buy-back program authorized by the Ordinary Shareholders' Meeting on November 7, 2001.

■ LEGAL RESERVE

The legal reserve amounted to euro 820,000 thousand and increased by euro 167,974 thousand as a result of the following changes:

- reclassification of euro 820,000 thousand from "additional paid-in-capital" as described above;
- reclassification of euro 659,659 thousand to "miscellaneous reserves" – which, at the same time, were renamed "miscellaneous income reserves" – as voted by the Ordinary Shareholders' Meeting on December 12, 2002;
- appropriation of 5.1% of 2001 profits as voted by the Ordinary Shareholders' Meeting of May 7, 2002.

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■ RESERVE FOR TREASURY STOCK IN PORTFOLIO

This reserve totaled euro 287,213 thousand. The amount referred to the following:

- reclassification of euro 164,727 thousand from "miscellaneous reserves" and purchases, between January 1 and September 30, 2002, of 4,447,000 ordinary shares of treasury stock at an average price of euro 8.30 and 23,040,000 savings shares of treasury stock at an average price of euro 5.55 under the buy-back program authorized by the Ordinary Shareholders' Meeting on November 7, 2001;
- reclassification of euro 122,486 thousand from the "reserve for treasury stock in portfolio" for the aforementioned purchases of treasury stock during the period October 1, to December 31, 2002.

■ SPECIAL RESERVE

The special reserve showed a nil balance after the distribution of the entire reserve to shareholders as voted by the Ordinary Shareholders' Meeting on May 7, 2002.

Reserve for capital grants

The reserve for capital grants totaled euro 485,703 thousand and increased by euro 13,756 thousand as a result of the transfer, from the "reserves for risks and charges", of the portion of grants received up to December 31, 1992 that became available during the year, in relation to the depreciation of the assets to which such grants refer.

■ MISCELLANEOUS RESERVES

Miscellaneous reserves showed a nil balance after the aforementioned reclassifications of euro 2,159,995 thousand to the "reserve for additional paid-in-capital" and euro 164,727 thousand to the "reserve for treasury stock in portfolio".

■ MISCELLANEOUS INCOME RESERVES

The reserve came about by renaming "miscellaneous reserves", voted by the Ordinary Shareholders' Meeting on December 12, 2002, and was entirely formed by income reserves.

The reserves have been reduced by euro 1,122,351 thousand as a result of the following changes:

- euro 795,431 thousand drawn for the distribution to shareholders as voted by the Ordinary Shareholders' Meeting on May 7, 2002;
- euro 986,579 thousand drawn for the distribution to shareholders as voted by the Ordinary Shareholders' Meeting on December 12, 2002;
- reclassification of euro 659,659 thousand from the "legal reserve" shareholders as voted by the same shareholders' meeting.

RESERVES FOR RISKS AND CHARGES

euro 3,144,986 thousand

(euro 1,612,737 thousand at December 31, 2001)

These increased by euro 1,532,249 thousand, compared to December 31, 2001. The composition and changes in these reserves are described as follows:

(in thousands of euro)	12/31/2001	Change during the year					12/31/2002
		Provisions	Utilizations	Released to income	Reclassif./ Other	Total	
Reserve for taxes	116,648	178,729	(584,280)	(528)	424,113	18,034	134,682
For taxes	116,648	-	(548)	(528)	19,110	18,034	134,682
For deferred taxes	-	178,729	(583,732)	-	405,003	-	-
Other reserves	1,496,089	2,356,792	(731,314)	(64,827)	(46,436)	1,514,215	3,010,304
Reserve for litigation	140,625	5,902	(10,938)	-	(5,751)	(10,787)	129,838
Reserve for capital grants	115,513	-	-	-	(13,756)	(13,756)	101,757
Reserve for losses of subsidiaries and affiliates	80,932	71,433	(64,598)	-	-	6,835	87,767
Reserve for corporate restructuring	-	194,614	-	-	(717)	193,897	193,897
Reserve for purchase commitments	568,622	1,941,843	(568,622)	-	-	1,373,221	1,941,843
Reserve for contractual risks and other risks	590,397	143,000	(87,156)	(64,827)	(26,212)	(35,195)	555,202
Total	1,612,737	2,535,521	(1,315,594)	(65,355)	377,677	1,532,249	3,144,986

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■ Reserve for taxes

euro 134,682 thousand

The reserve for taxes increased by euro 18,034 thousand compared to December 31, 2001 and refers entirely to income taxes and other duties and taxes. The reserve for deferred taxes shows a nil balance attributable to the set-off with deferred tax assets.

■ Other reserves

euro 3,010,304 thousand

These include the following reserves:

- reserve for litigation (euro 129,838 thousand): this included prudent provisions – charged to various items of the statement of income – for probable expenses in connection with personnel disputes and litigation with third parties which had not yet been settled at the end of the year;
- reserve for capital grants (euro 101,757 thousand): this included the unavailable portion of capital grants received up to December 31, 1992. Utilizations during the year (euro 13,756 thousand) stem from the transfer to shareholders' equity of the portion of the capital grants which became available;
- reserve for losses of subsidiaries and affiliates (euro 87,767 thousand): this included the provisions to account for the losses in excess of the carrying value of certain investments, in particular Telecom Italia Finance (euro 66,902 thousand);
- reserve for corporate restructuring (euro 193,897 thousand): this included the provision (euro 194,614 thousand) for the framework agreement with the labor unions concerning the layoffs for the month of May 2002;
- reserve for purchase commitments (euro 1,941,843 thousand): the amount provided in 2002 related to the forward commitment to purchase Seat Pagine Gialle shares.

The amount set aside in 2001 for this purpose (euro 568,622 thousand) was completely utilized following the renegotiation of the put and call option exercise price on February 25, 2002, reclassifying the amount to "due to other lenders" under liabilities. In November, this liability was extinguished before the expiration date by paying JP Morgan Chase consideration equal to euro 499,822 thousand, corresponding to the present value of the liability. The transaction had no impact on the statement of income;

- reserve for contractual risks and other risks (euro 555,202 thousand): this included provisions mainly to cover potential regulatory disputes (euro 40,189 thousand), expenses connected with the sale of Italtel (euro 15,000 thousand) and Telespazio (euro 38,200 thousand) and guarantees relating to the reorganization of real estate assets under Progetto Tiglio (euro 29,500 thousand); utilizations referred mainly to guarantees provided by Telecom Italia for the sale of Sirti (euro 21,781 thousand) and Italtel (euro 36,152 thousand); amounts released to income almost entirely referred to the failure to execute the agreement for the sale of Stream to News Corporation and Vivendi Universal/Canal+ (euro 59,360 thousand); reclassifications regarded mainly the transfer to the "allowance for doubtful accounts of affiliated companies" of euro 25,823 thousand to adjust to estimated realizable value, the receivable from Stream arising from the extinguishment of Stream's debt payable to Italtel, guaranteed by Telecom Italia.

RESERVE FOR EMPLOYEE TERMINATION INDEMNITIES

euro 968,553 thousand

(euro 1,025,349 thousand at December 31, 2001)

This reserve decreased by euro 56,796 thousand, compared to December 31, 2001. The following changes took place during the year:

(in thousands of euro)

Balance at December 31, 2001	1,025,349
Changes during the year:	
- Provisions charged to income for amounts to fund employee termination indemnities accrued in favor of employees during the year plus the fixed and variable cost-of-living adjustments required under Law No. 297/1982	138,991
- Utilizations for:	
• Indemnities paid to employees who took retirement or resigned during the year	(135,638)
• Advances	(14,566)
• Supplementary benefits (Telemaco)	(17,488)
• Substitute tax on the revaluation of the reserve	(3,572)
- Amounts transferred to/from subsidiaries	(24,523)
Balance at December 31, 2002	968,553

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LIABILITIES

euro 23,972,750 thousand

(euro 24,898,003 thousand at December 31, 2001)

Liabilities, which decreased by euro 925,253 thousand compared to December 31, 2001, included the following:

(in thousands of euro)	12/31/2002			12/31/2001		
	Financial accounts payable	Trade accounts payable and other payables	Total	Financial accounts payable	Trade accounts payable and other payables	Total
Debentures	10,941,662	-	10,941,662	8,250,000	-	8,250,000
Due to banks	3,447,500	-	3,447,500	7,308,420	-	7,308,420
Due to other lenders	502,545	-	502,545	657,777	-	657,777
Advances	-	9,967	9,967	-	2,447	2,447
Trade accounts payable	-	1,855,721	1,855,721	-	2,240,654	2,240,654
Notes payable	20,000	-	20,000	-	-	-
Accounts payable to subsidiaries	2,169,195	1,012,742	3,181,937	1,218,043	1,132,687	2,350,730
Accounts payable to affiliated companies	5,125	150,898	156,023	29,205	215,539	244,744
Accounts payable to parent companies	-	213,969	213,969	-	11	11
Taxes payable	31,920	189,341	221,261	50,162	410,390	460,552
Contributions to pension and social security institutions	-	691,021	691,021	-	767,412	767,412
Other liabilities	181,498	2,549,646	2,731,144	395,266	2,219,990	2,615,256
Total	17,299,445	6,673,305	23,972,750	17,908,873	6,989,130	24,898,003

■ Debentures

euro 10,941,662 thousand

Debentures included euro 10,750,000 thousand of notes issued under the "Global Note Program" and euro 191,662 thousand for the issue of notes 2002 - 2022 reserved for subscription by employees, in service and retired, of companies, directly and indirectly, controlled by Telecom Italia with headquarters in Italy. The 20-year notes, with a face value of euro 50 each, issued at the same price, are not listed and can only be negotiated with Telecom Italia. The semi-annual deferred interest is payable on January 1 and July 1 of every year and is indexed at the 6-month Euribor.

Under the "Global Note Program", in February, Telecom Italia issued a new note on the market listed on the Luxembourg stock exchange for euro 2,500,000 thousand in two tranches of euro 1,250,000 thousand each, maturing February 1, 2007 and February 1, 2012.

■ Due to banks

euro 3,447,500 thousand

These decreased by euro 3,860,920 thousand compared to December 31, 2001. They comprised medium/long-term debt totaling euro 1,801,152 thousand - of which euro 24,790 thousand is secured by collateral - and short-term borrowings totaling euro 1,646,348 thousand. Of the latter amount, euro 1,035,000 thousand refers to loans taken out to cover temporary liquidity requirements and euro 611,348 thousand to bank overdrafts.

■ Due to other lenders

euro 502,545 thousand

These decreased by euro 155,232 thousand compared to December 31, 2001. They consisted of medium/long-term financing (euro 337,927 thousand), referring principally to loans made by the Cassa Depositi e Prestiti (euro 284,268 thousand), and short-term loans payable to TI Securitisation Vehicle S.r.l. for financing funded by the excess liquidity generated by the securitization of receivables (euro 164,618 thousand).

■ Trade accounts payable

euro 1,855,721 thousand

These decreased by euro 384,933 thousand compared to December 31, 2001. At December 31, 2002, trade accounts payable due to foreign correspondents (euro 336,542 thousand) were transferred to Telecom Italia Sparkle following the contribution of Telecom Italia's "International Wholesale Services" business segment to the latter company on December 31, 2002.

The balance included euro 259,455 thousand due to other wireline and mobile operators.

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- **Notes payable** **euro 20,000 thousand**
- There referred to 3-month notes issued by Telecom Italia on October 25, 2002 and subscribed by RAS S.p.A. (euro 10,000 thousand), RAS Asset Management SGR S.p.A. Ras Obbligazionario (euro 2,000 thousand), RAS Asset Management SGR S.p.A. Ras Cedola (euro 2,000 thousand) and RAS Asset Management SGR S.p.A. Ras Monetario (euro 6,000 thousand). The interest rate is equal to 3.52% plus a spread of 0.27% over the Euribor rate. Placement of the notes was carried out by RASFIN SIM S.p.A..
- **Accounts payable to subsidiaries** **euro 3,181,937 thousand**
- These increased by euro 831,207 thousand compared to December 31, 2001. They consisted of financial payables, trade accounts payable and other payables. Financial payables (euro 2,169,195 thousand), refer to current account transactions negotiated at market rates for cash management purposes and mainly include accounts payable to *Telecom Italia International* (euro 1,200,000 thousand), *Seat Pagine Gialle* (euro 529,198 thousand) and *Finsiel* (euro 215,273 thousand). Trade accounts payable (euro 943,205 thousand) mainly consisted of accounts payable to *TIM* (euro 256,975 thousand) and *Seat Pagine Gialle* (euro 37,962 thousand) for the portion of TLC services invoiced by Telecom Italia to customers, and *I.T. Telecom* (euro 462,467 thousand) and *TILAB* (euro 83,398 thousand) for supply transactions. Other payables (euro 69,537 thousand) primarily referred to *capital contributions paid to the company PathNet* (euro 18,074 thousand) and *sundry payables to Telecom Italia Sparkle* (euro 43,164 thousand).
- **Accounts payable to affiliated companies** **euro 156,023 thousand**
- These decreased by euro 88,721 thousand, thousand, compared to December 31, 2001. They referred to financial payables, trade accounts payable and other payables. Financial payables (euro 5,125 thousand), referred to current account transactions negotiated at market rates for cash management purposes and mainly refer to accounts payable to *Teleleasing* (euro 4,830 thousand). Trade accounts payable (euro 148,908 thousand) mainly referred to payables to *Italtel* (euro 112,257 thousand) and *Siemens Informatica* (euro 20,612 thousand). Other payables (euro 1,990 thousand) almost entirely regarded amounts due to *Tiglio II*.
- **Accounts payable to parent companies** **euro 213,969 thousand**
- Accounts payable to parent companies referred almost entirely to the payable to Olivetti for Group VAT.
- **Taxes payable** **euro 221,261 thousand**
- These decreased by euro 239,291 thousand, compared to December 31, 2001, and mainly referred to:
- the payable to the Italian Treasury for withholding taxes of euro 79,750 thousand;
 - the VAT liability totaling euro 57,459 thousand;
 - medium/long-term taxes payable (euro 31,920 thousand) relative to the agreement reached with the Financial Administration over the assessments received in 2001.
- **Contributions to pension and social security institutions** **euro 691,021 thousand**
- These decreased by euro 76,391 thousand compared to December 31, 2001. They included amounts owed to social security and health institutions with regard to personnel. These specifically included euro 590,084 thousand payable to INPS for the remaining balance of the estimated charges assessed for employees of the former ASST pursuant to Law No. 58/1992, described under the accounting policies.
- **Other liabilities** **euro 2,731,144 thousand**
- These increased by euro 115,888 thousand compared to December 31, 2001. They included, in particular, liabilities for the:
- payable to customers totaling euro 1,151,549 thousand, including deposits by subscribers against telephone conversations and basic charges;
 - employee-related items amounting to euro 405,485 thousand;
 - payable for the TLC license fee totaling euro 849,077 thousand. Telecom Italia contested the Ministerial Decree dated March 21, 2000 that introduced Law No. 448/1998, which set forth a new license fee as from January 1, 1999 in lieu of the previous concession fee. Consequently, it did not pay the license fee for the years 2000, 2001 and 2002;
 - loan of Seat Pagine Gialle ordinary shares to Morgan Stanley (euro 175,872 thousand); the contra-entry is to "Other receivables".

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ACCRUED EXPENSES AND DEFERRED INCOME

euro 1,103,990 thousand

(euro 704,209 thousand at December 31, 2001)

These increased by euro 399,781 thousand, compared to December 31, 2001, and included the following:

(in thousands of euro)	12/31/2002	12/31/2001
Accrued expenses		
- production costs	119	3,109
- financial expense	578,929	265,069
	579,048	268,178
Deferred income		
- capital grants (unavailable portion)	132,854	134,975
- production value	389,403	297,368
- financial income	2,685	3,688
	524,942	436,031
Total	1,103,990	704,209

Accrued financial expenses mainly relate to interest accrued on notes (euro 552,592 thousand). Deferred income mainly includes basic charges and rentals of telephone equipment (euro 298,468 thousand), the unavailable portion of capital grants received after December 31, 1992, and financial items mainly connected to loans to employees.

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An analysis of liabilities and accrued expenses by maturity and type is provided in Annex 5.

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■ MEMORANDUM ACCOUNTS

Memorandum accounts totaled euro 13,613,376 thousand at December 31, 2002 and can be analyzed as follows:

■ GUARANTEES PROVIDED

euro 10,804,761 thousand

Guarantees provided consisted of sureties (net of counter-guarantees received totaling euro 1,299,953 thousand), of which euro 10,504,478 thousand were on behalf of subsidiaries, euro 157,028 thousand on behalf of affiliated companies and euro 143,255 thousand on behalf of third parties. The guarantees were given mainly in respect of the notes issued by Sogerim (merged with Telecom Italia Finance) for a total of euro 7,964,500 thousand (part of the Global Note Program which is completely guaranteed by Telecom Italia), other medium/long-term financial transactions, supply contracts and guarantees on bids to acquire licenses abroad.

■ PURCHASES AND SALES COMMITMENTS

euro 2,802,362 thousand

Purchases commitments totaling euro 2,785,119 thousand mainly consisted of commitments for the purchase of Seat Pagine Gialle shares (euro 2,416,642 thousand) relating to the put option on these same shares, described below, the commitment of euro 263,639 thousand for the early purchase of two building complexes under financial leases held by Teleleasing, located in Rome (Parco dei Medici) and Lecce, future lease obligations plus the related purchase options (euro 72,195 thousand), Telecom Italia's five-year commitment with the "Interaction Design Institute" Association of Ivrea (euro 18,889 thousand), the commitment for the purchase, from Pirelli, Camozzi, Evoluzione and Intesa, of the entire interests held by each in EPIClink for euro 9,800 thousand.

Sales commitments of euro 17,243 thousand mainly referred to the agreement with Accenture for the sale of TESS (euro 10,043 thousand) and the agreement with the other shareholders of SITEBA to sell the stake held by Telecom Italia (euro 7,200 thousand).

Put option on Seat Pagine Gialle shares

Under the contract stipulated on March 15, 2000 (as subsequently amended and integrated), Telecom Italia gave Huit II a put option on No. 710,777,200 Seat Pagine Gialle shares at a strike price of euro 4.2 per share. The contract provided for the exercise of such option after the deed of merger between Seat Pagine Gialle and Tin.it was recorded in the Companies Register. Huit II later transferred the put option to JPMorgan Chase Equity Limited (JPCEL, at that time called Chase Equity Limited), together with the ownership of the corresponding Seat Pagine Gialle shares. On December 4, 2000, JPCEL renegotiated the contract with Telecom Italia, extending the period to five years, with the possibility of exercising the option at an earlier date in April and May 2003, 2004 and 2005. The time extension made it possible to defer the financial impact.

Telecom Italia International (at that time called Stet International Netherlands, a wholly-owned subsidiary of Telecom Italia) then purchased from JPCEL, through the Liberator Ltd. trust, a call option on 660,777,200 Seat Pagine Gialle ordinary shares with the same expiry date and strike price as the put option, paying a total premium of euro 747,016,226. Moreover, for the purpose of transferring the effects of this latter transaction to Telecom Italia, a call option was stipulated, with the same features, between the same Telecom Italia and Telecom Italia International.

On February 25, 2002, Telecom Italia concluded the renegotiation of the December 4, 2000 put and call options with the JPMorgan Chase group.

In particular, it was agreed to reduce the price to exercise the aforementioned options from euro 4.2 to euro 3.4 per share; in view of the reduction, Telecom Italia agreed to pay JPMorgan Chase an amount of euro 568,622 thousand at the original expiration date of December 2005, unless Telecom Italia's elected to pay the consideration earlier, in which case the consideration would be discounted to its present value at the time of payment.

It was also agreed to eliminate the right of either party to exercise the options at an earlier date, which therefore expire on December 6, 2005, except for Telecom Italia's right to exercise part of the call options beforehand; the early exercise of the option per tranche, beginning from December 2004, covers 355 million Seat Pagine Gialle shares.

As a result of this renegotiation, the aforementioned expense connected with the revision of the strike price of the options (euro 568,622 thousand) was recorded in the caption "due to other lenders" and had no effect on the statement of income for the period following the utilization of the reserve for risks and charges set aside, for the same amount, at the end of 2001 for the estimated nonrecoverability of the original price of the put option. In November, this liability was extinguished by Telecom Italia at an earlier date by paying JP Morgan Chase consideration equal to euro 499,822 thousand, corresponding to the present value of the liability.

Furthermore, the valuation of the forward commitment to purchase Seat Pagine Gialle shares at the end of 2002 led to a provision in the reserves for risks and charges (other reserves) of euro 1,941,843 thousand. This was to account for the estimated nonrecoverability of the option exercise price as a result of the decision, taken in conjunction with the redefinition of the strategy of the Telecom Italia Group, of no longer considering the "Directories" business of Seat Pagine Gialle to be of strategic interest.

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■ OTHER MEMORANDUM ACCOUNTS

euro 6,253 thousand

These mainly referred to assets of third parties on loan, on deposit for safekeeping or for similar purposes (euro 5,289 thousand).

* * *

Moreover:

- the Company issued weak letters of patronage totaling euro 1,154,651 thousand, chiefly on behalf of subsidiaries and affiliated companies to guarantee insurance policies, lines of credit and overdraft arrangements;
- assets held by third parties on loan, on deposit for safekeeping or for similar purposes amounted to euro 253,808 thousand and consisted of equipment leased to customers (euro 238,386 thousand), assets given on loan to the Telcal consortium (euro 50 thousand) and telephone cards owned by the company and held by third parties (euro 15,372 thousand);
- guarantees provided by others for Company obligations totaled euro 2,297,431 thousand and consisted of a guarantee provided by Telecom Italia Finance, in the form of a Direct Participation Letter of Credit (euro 1,940,000 thousand) to JPMorgan Chase Equity Limited to guarantee the performance of the obligations relating to the put option on Seat Pagine Gialle shares, sureties provided to guarantee the proper performance of non-financial contractual obligations (euro 349,931 thousand) and a banking surety (euro 7,500 thousand) provided in order to take part in a bid set up by the Lombardy Region for the Regional Service Card-Health Care Information System;
- the shares of employees and private shareholders deposited at December 31, 2002 with Telecom Italia, and therefore subdeposited with Monte Titoli S.p.A., were equal to euro 67,569 thousand, whereas those awaiting assignment or in the process of being replaced totaled euro 31,168 thousand;
- at December 31, 2002, the expense fund to safeguard the holders of savings shares, set up by resolution of the Shareholders' Meeting on June 21, 1999, amounted to euro 2,176 thousand; the compensation to the common Representative of said shareholders will be paid out of this fund, as voted by the Meeting of the Savings Shareholders on October 31, 2001;
- the total amount of commitments at December 31, 2002 for building rental obligations to be paid to IMSER 60, Tiglio I and Tiglio II, under 21-year contracts was euro 3,817,762 thousand. The amount for each single year is euro 209,218 thousand. Furthermore, Telecom Italia provided guarantees to IMSER 60 for contractual risks on previously sold buildings for a maximum amount of euro 450,000 thousand.

■ DERIVATIVE FINANCIAL INSTRUMENTS

In 2002, transactions in derivatives mainly regarded the management of debt exposure through the use of instruments to hedge interest rate and exchange rate risks. The following table gives a description of the derivative financial contracts outstanding at December 31, 2002 used to hedge medium/long-term debt positions, compared to those at December 31, 2001.

(in millions of euro)	Notional amount/ Capital exchanged at December 31, 2002	Notional amount/ Capital exchanged at December 31, 2001
Interest rate swap	1,097	1,437
Cross currency and interest rate swap	313	390

The following table indicates the notional amount and the average interest rate to be paid/received for interest rate swaps by maturity date.

(in millions of euro)	Maturity			
	2003	2004	2005	2006
Interest rate swap:				
Fixed pay rate, variable receive rate:				
• notional amount	568	2	18	=
• weighted average pay rate	3.89%	4.25%	4.71%	=
• received parameter	3 mo. Libor	3 mo. Libor	3 mo. Libor	=
	euro	euro	euro	
Variable pay rate, variable receive rate:				
• notional amount	=	152	182	175
• paid parameter	=	6 mo. Euribor	6 mo. Euribor	6 mo. Euribor
• received parameter	=	Rolint	Rendint	Rendint
		Robot	Rendibot	Rendibot
			Rolint	Rolint
			Robot	Robot

Currency forward agreements hedging exchange rate risks on short-term cash management transactions totaled euro 212 million (euro 311 million at December 31, 2001, of which euro 300 million related to forward rate agreements and euro 11 to currency forward agreements).

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■ STATEMENTS OF INCOME

PRODUCTION VALUE

(euro 17,537,266 thousand in 2001)

euro 17,292,712 thousand

Production value, which decreased by euro 244,554 thousand compared to 2001, included the captions below.

■ Sales and service revenues

euro 17,055,185 thousand

Sales and service revenues decreased by euro 253,881 thousand compared to 2001 and are shown gross of the amount due to other carriers (euro 3,646,360 thousand), which are recorded, for the same amount, in production cost.

A breakdown of sales and service revenues by type of business and geographical area, as required under Article 2427, paragraph 10 of the Italian Civil Code, is provided below:

Breakdown by type of business

(in thousands of euro)	2002	2001	Change
Sales:			
- telephone products	251,549	260,207	(8,658)
- other goods	344	3,751	(3,407)
	251,893	263,958	(12,065)
Services:			
- Traffic	8,280,672	8,813,352	(532,680)
- Basic charges	7,740,044	7,270,113	469,931
- Activation fees	323,679	259,871	63,808
- Other	458,897	701,772	(242,875)
	16,803,292	17,045,108	(241,816)
Total	17,055,185	17,309,066	(253,881)

Breakdown by geographical area

(in thousands of euro)	2002	2001	Change
Italy	15,834,630	15,823,442	11,188
Rest of Europe	691,625	810,590	(118,965)
North America	230,833	231,612	(779)
Central and South America	100,626	215,307	(114,681)
Australia, Africa and Asia	197,471	228,115	(30,644)
Total	17,055,185	17,309,066	(253,881)

Traffic revenues, in particular, were composed of the following:

(in thousands of euro)	2002	2001	Change
• Traffic by Telecom Italia customers:			
- domestic	5,234,151	6,005,914	(771,763)
- outgoing non-domestic	419,355	482,584	(63,229)
- special services and other	580,947	480,553	100,394
	6,234,453	6,969,051	(734,598)
• Traffic by other operators:			
- domestic	1,220,164	1,042,499	177,665
- foreign correspondents	826,055	801,802	24,253
	2,046,219	1,844,301	201,918
Total	8,280,672	8,813,352	(532,680)

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Revenues for pre-billed basic charges were composed of the following:

(in thousands of euro)	2002	2001	Change
• Network access	4,390,525	4,073,343	317,182
• TLC operator interconnections	1,043,749	924,581	119,168
- mobile operators	554,581	563,147	(8,566)
- wireline carriers	489,168	361,434	127,734
• Transmission and outsourcing	610,197	675,207	(65,010)
• Subscriptions to services	639,103	581,659	57,444
• Maintenance and rental	780,437	822,633	(42,196)
• Discount packages	276,033	192,690	83,343
Total	7,740,044	7,270,113	469,931

As regards the geographical breakdown of revenues from sales and services, the "Rest of Europe", "North America", "Central and South America" and "Australia, Africa and Asia" referred almost entirely to revenues from traffic to and from these geographical areas.

Transactions for revenues from sales and services with subsidiaries, affiliated companies and parent companies totaled euro 1,308,364 thousand. In particular they refer to:

- TIM (euro 723,280 thousand) - revenues for mobile-fixed interconnections and lines leased;
- Telespazio (euro 87,582 thousand) - sale of satellite capabilities;
- Path.Net (euro 82,774 thousand) - TLC services and infrastructures dedicated to the Public Administration;
- Seat Pagine Gialle (euro 57,894 thousand) - telecommunications services;
- Teleleasing (euro 105,222 thousand) - sales of products;
- I.T. Telecom (euro 36,313 thousand) - telecommunications services.

Transactions for revenues from sales and services with other related parties totaled euro 20,445 thousand and refer to . In particular they refer to telecommunications services provided to Pirelli group (euro 5,448 thousand) and to Edizione Holding group (euro 14,997 thousand).

■ Changes in inventory of contract work in process euro 275 thousand

Changes in inventory of contract work in process represented the difference between the increase in work in progress and the decrease as a result of completed contracts.

■ Increases in capitalized internal construction costs euro 10,583 thousand

These consisted entirely of capitalized labor costs. The item increased by euro 4,968 thousand compared to 2001.

■ Other revenues and income euro 226,669 thousand

Other revenues and income included the following:

(in thousands of euro)	2002	2001	Change
Operating grants	-	278	(278)
Gains on disposal of production assets	1,761	2,532	(771)
Reimbursements for costs of employees on loan at Group companies	31,485	28,734	2,751
Capital grants recorded in income	24,897	29,941	(5,044)
Late payment fees	91,042	95,658	(4,616)
Indemnification, reimbursements and recoveries and other miscellaneous income	77,484	84,760	(7,276)
Total	226,669	241,903	(15,234)

Transactions involving other revenues and income with subsidiaries, affiliated companies and parent companies totaled euro 50,328 thousand. They referred to the recovery of costs for personnel on loan and sundry services, mainly in respect of:

- TIM (euro 19,922 thousand);
- Seat Pagine Gialle (euro 5,356 thousand);
- TILAB (euro 4,331 thousand);
- I.T. Telecom (euro 4,089 thousand);
- Finsiel (euro 2,746 thousand).

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PRODUCTION COST

(euro 13,553,981 thousand in 2001)

euro 13,247,421 thousand

Production cost, which decreased by euro 306,560 thousand compared to 2001, included the following captions:

■ Raw materials, supplies and merchandise

euro 244,546 thousand

These decreased by euro 56,901 thousand, compared to 2001, mainly due to lower purchases of inventory items.

This item included euro 25,214 thousand of costs incurred on behalf of subsidiaries, affiliated companies and parent companies mainly in reference to Teleleasing (euro 11,423 thousand) per TLC products and Italtel (euro 7,223 thousand) for the maintenance costs of telephone exchanges.

■ Services

euro 5,906,772 thousand

Service costs, which decreased by euro 39,189 thousand compared to 2001, included the following:

(in thousands of euro)	2002	2001	Change
Direct service costs	493,645	702,824	(209,179)
Operating costs	1,102,412	1,172,237	(69,825)
Marketing costs	522,738	574,541	(51,803)
Know-how development costs	141,617	81,484	60,133
Amounts due to other carriers	3,646,360	3,414,875	231,485
Total	5,906,772	5,945,961	(39,189)

An analysis of the composition of such costs shows the following:

- "direct service costs" included the operating and maintenance costs of the TLC network (euro 184,782 thousand), operating and maintenance costs of customer installations (euro 80,193 thousand), public telephone installations (euro 61,867 thousand), the satellite systems (euro 49,164 thousand) and rented products (euro 49,200 thousand);
- "operating costs" referred to the operating and maintenance costs of buildings, motor vehicles, information systems as well as general expenses. In particular, operating costs included euro 276,919 thousand for information systems, euro 80,024 thousand for the operating and maintenance of buildings and technological plant, euro 143,215 thousand for electricity for buildings and installations; euro 121,811 thousand for indirect personnel costs, euro 32,502 thousand for motor vehicle costs and euro 51,743 thousand for miscellaneous professional services;
- "marketing costs" included selling expenses, after-sales assistance, customer relations, advertising and promotion. In particular, such costs included euro 148,304 thousand for advertising and promotions, euro 91,198 thousand for outsourcing costs from Postel for printing telephone bills and transportation costs for telephone books, euro 60,411 thousand for trade agreements with Internet Service Providers, euro 170,711 thousand for compensation to dealers and other commercial costs and euro 27,992 thousand for product sales costs;
- "know-how development costs" consisted mainly of expenditures for studies and research (euro 61,401 thousand) and consulting fees (euro 60,337 thousand);
- "amounts due to other carriers" mainly comprised euro 2,047,673 thousand due to Italian mobile operators, euro 808,814 thousand to domestic fixed carriers and euro 744,857 thousand to foreign correspondents.

The costs for services included euro 2,131,465 thousand regarding transactions with subsidiaries, affiliated companies and parent companies. They referred, in particular, to:

- TIM (euro 1,292,480 thousand) - amounts due for telecommunications services;
- I.T. Telecom (euro 324,078 thousand) - operating information systems;
- Seat Pagine Gialle (euro 86,851 thousand), Etec S.A. (euro 39,291 thousand), Entel Chile (euro 37,089 thousand) - TLC services;
- TILAB (euro 52,145 thousand) - studies and research costs;
- Telespazio (euro 37,277 thousand) - use of satellite circuits;
- TESS (euro 25,819 thousand) - outsourcing of administration requirements for personnel.

■ Use of property not owned

euro 599,807 thousand

Use of property not owned, which decreased by euro 19,692 thousand, compared to 2001, included mainly "service costs" of euro 187,879 thousand (for the lease of TLC lines and satellite systems), and "operating costs" of euro 411,928 thousand (for building rentals, building and vehicle leases and equipment rentals). As regards lease installments, principal and interest totaled, respectively, euro 19,123 thousand and euro 19,393 thousand.

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This item comprised euro 250,392 thousand of costs for the use of property not owned relating to subsidiaries, affiliated companies and parent companies. They regarded, in particular:

- IM.SER (euro 152,553 thousand), Telemaco Immobiliare (euro 36,776 thousand) and Tiglio I (euro 16,682 thousand) - building rentals;
- Teleleasing (euro 34,795 thousand) - mainly building leases.

■ Personnel

euro 2,582,956 thousand

Personnel costs decreased by euro 61,284 thousand. They comprised "wages and salaries" (euro 1,823,410 thousand), "social security contributions" (euro 577,147 thousand), "termination indemnities" (euro 138,991 thousand) and "other costs" (euro 43,408 thousand). Personnel costs include the costs of employees on loan to other Group companies (euro 31,485 thousand) and recovered from the same Group companies and the income from the recovery of such costs is recorded in "Other revenues and income".

A comparative breakdown of the average number of employees by professional category is given below:

	2002	2001	Change
Executives	948	1,005	(57)
Middle management	1,688	1,655	33
Clerical staff	47,223	49,953	(2,730)
Technicians	7,519	8,846	(1,327)
Total	57,378	61,459	(4,081)

■ Amortization, depreciation and writedowns

euro 3,359,117 thousand

Amortization, depreciation and writedowns, which decreased by euro 120,664 thousand compared to 2001, included the following:

Amortization of intangible assets

euro 566,495 thousand

Amortization of intangible assets decreased by euro 51,070 thousand and referred to the following assets:

(in thousands of euro)	2002	2001	Change
Industrial patents and intellectual property rights	528,084	578,542	(50,458)
Concessions, licenses, trademarks and similar rights	14,887	37	14,850
Goodwill	4	-	4
Other intangibles	23,520	38,986	(15,466)
Total	566,495	617,565	(51,070)

Depreciation of fixed assets

euro 2,453,875 thousand

Depreciation of fixed assets decreased by euro 249,799 thousand compared to 2001 on account of the reduction in depreciable assets and the change in the mix of depreciable assets.

The average depreciation rate, calculated by taking into account the above depreciation charge and the assets being depreciated, is equal to 8.0% (8.4% in 2001).

The following table shows the depreciation charge for each asset category and the related depreciation rate:

(in thousands of euro)	2002	2001	Change
Land and building	3.3% 86,867	3.3% 89,888	(3,021)
Plant and machinery	8.3% 2,295,904	8.8% 2,548,024	(252,120)
Manufacturing and distribution equipment	19.4% 16,002	23.9% 18,806	(2,804)
Other fixed assets	22.7% 55,102	19.0% 46,956	8,146
Total	2,453,875	2,703,674	(249,799)

Other writedowns of intangibles and fixed assets

euro 39,307 thousand

Other writedowns of intangibles and fixed assets included euro 18,206 thousand for the writedoff of the Indefeasible Rights of Use - IRUs, transferred on December 31, 2002 to Telecom Italia Sparkle as part of the contribution of the "International Wholesale Services" business segment, euro 3,499 thousand for the writedown of industrial buildings and euro 17,206 thousand for the writedown of telephone exchanges.

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Writedowns of receivables included in current assets and liquid assets **euro 317,042 thousand**

This item comprises provisions to the allowance for doubtful accounts and includes euro 299,642 thousand in respect of trade accounts receivables from customers and euro 17,400 thousand in respect of trade accounts receivable from subsidiaries set aside in respect of the risk of uncollectibility of receivables from *Telecom Italia International verso Telekom Srbija*.

■ Changes in inventories of raw materials, supplies and merchandise **euro 7,597 thousand**

The change is due to lower purchases in respect of supplies destined for sale and maintenance following the optimization of inventory levels and also takes into account writedowns for obsolete materials and materials with diminished utilization.

■ Provisions for risks **euro 44,119 thousand**

These refer to provisions made to the *"reserve for litigation"* to cover expenses connected with the probable outcome of disputes with third parties of euro 3,150 thousand and to the *"reserve for contractual risks and other risks"* to cover risks stemming from the settlement of trade and regulatory questions of euro 40,969 thousand.

■ Miscellaneous operating costs **euro 484,905 thousand**

Miscellaneous operating costs, which increased by euro 3,008 thousand compared to 2001, included the following:

Losses on disposal of assets **euro 31,386 thousand**

These losses mainly refer to the disposal of fixed assets relating to public telephone installations.

License fee **euro 224,769 thousand**

The TLC license fee decreased by euro 64,813 thousand compared to 2001, owing to a reduction in the revenue base and a reduction in the rate which decreased from 2.5% in 2001 to 2% in 2002; this item mainly includes the fee on amounts invoiced under Law No. 448/1998 (euro 203,826 thousand), the fee for the assignment of available numbers (euro 7,800 thousand) and the fee for the use of radio frequencies (euro 8,746 thousand) established by the Ministerial Decree of February 5, 1998, in addition to the contribution for the operation of the regulatory body (euro 3,895 thousand).

Other miscellaneous costs **euro 228,750 thousand**

Other miscellaneous costs, which increased by euro 61,182 thousand, include the following:

(in thousands of euro)	2002	2001	Change
• Other indirect duties and annual taxes, relating mainly to the local property tax, local duties, stamp and register tax, vehicle tax, Technical and Finance Office taxes and permits, license tax on mobile equipment	84,991	87,857	(2,866)
• contributions and membership fees	15,842	14,601	1,241
• losses due to settlements	45,305	10,381	34,924
• losses on the sale of receivables	59,099	36,769	22,330
• other costs, essentially relating to compensation due to customers under service regulations for delays in hookups or line transfers, damages paid to third parties for line installations and maintenance	23,513	17,960	5,553
Total	228,750	167,568	61,182

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FINANCIAL INCOME AND EXPENSE

euro 1,031,244 thousand

(euro 397,336 thousand in 2001)

The income balance, net, of financial income and expense, which increased by euro 633,908 thousand, compared to 2001, included the following:

(in thousands of euro)		2002	2001	Change
Income from equity investments	(A)	2,117,757	2,022,090	95,667
Other financial income	(B)	205,114	188,052	17,062
Interest and other financial expense	(C)	1,291,627	1,812,806	(521,179)
Total	(A + B - C)	1,031,244	397,336	633,908

Income from equity investments referred to the following:

(in thousands of euro)		2002	2001	Change
Dividends from subsidiaries, affiliates and other companies		1,413,709	1,304,634	109,075
Other income from equity investments:				
• tax credits on dividends		702,440	717,456	(15,016)
• gains on sales of investments		1,608	-	1,608
		704,048	717,456	(13,408)
Total		2,117,757	2,022,090	95,667

Dividends can be analyzed as follows:

(in thousands of euro)	2002			2001			Change		
Dividends from subsidiaries	Accrued	Received	Total	Accrued	Received	Total	Accrued	Received	Total
- TIM	143,225	1,051,511	1,194,736	940,117	7,398	947,515	(796,892)	1,044,113	247,221
- Finsiel	152,989	-	152,989	26,682	280	26,962	126,307	(280)	126,027
- Atesia	14,236	-	14,236	19,625	-	19,625	(5,389)	-	(5,389)
- Saiat	22,984	-	22,984	6,792	249,059	255,851	16,192	(249,059)	(232,867)
- Saritel	-	-	-	6,445	-	6,445	(6,445)	-	(6,445)
- Emsa	-	11,140	11,140	2,795	-	2,795	(2,795)	11,140	8,345
- Tecnoservizi Mobili	102	-	102	-	-	-	102	-	102
- Telecom Italia Gmbh	-	180	180	-	-	-	-	180	180
- TELIMM	-	107	107	-	-	-	-	107	107
	333,536	1,062,938	1,396,474	1,002,456	256,737	1,259,193	(668,920)	806,201	137,281
Dividends from affiliated companies	Received		Total	Received		Total	Received		Total
- Eutelsat	-		-	32,265		32,265	(32,265)		(32,265)
- Nortel Argentina	-		-	4,372		4,372	(4,372)		(4,372)
- Siemens Informatica	-		-	4,186		4,186	(4,186)		(4,186)
- Siteba	316		316	233		233	83		83
- Telemaco Immobiliare	16,456		16,456	-		-	16,456		16,456
	16,772		16,772	41,056		41,056	(24,284)		(24,284)
Dividends from other companies	Received		Total	Received		Total	Received		Total
- Intelsat	-		-	3,044		3,044	(3,044)		(3,044)
- Accel	-		-	990		990	(990)		(990)
- SIA	307		307	279		279	28		28
- Emittenti Titoli	156		156	72		72	84		84
	463		463	4,385		4,385	(3,922)		(3,922)
Total	333,536	1,080,173	1,413,709	1,002,456	302,178	1,304,634	(668,920)	777,995	109,075

Tax credits on dividends related to dividends from subsidiaries accrued in 2002 (euro 187,614 thousand) and received in 2002 (euro 514,826 thousand).

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Other financial income included the following:

(in thousands of euro)	2002			2001	
	Included in long-term investments	Included in current assets	Total		Change
Interest and fees on:					
• accounts receivable					
- from subsidiaries	3,420	35,859	39,279	59,629	(20,350)
- from affiliated companies	1,265	2,551	3,816	8,336	(4,520)
- from others	12,458	-	12,458	11,918	540
• banks and the Postal Administration	7,990	-	7,990	3,966	4,024
• securities	-	638	638	-	638
	25,133	39,048	64,181	83,849	(19,668)
Foreign exchange gains			38,619	38,971	(352)
Income on derivative financial instruments			22,812	50,398	(27,586)
Other income			79,502	14,834	64,668
Total			205,114	188,052	17,062

Other financial income included euro 43,095 thousand of interest and fees on receivables from subsidiaries, affiliated companies and parent companies almost all of which refer to interest on current accounts for cash management purposes, mainly with:

- I.T. Telecom (euro 9,568 thousand);
- TIM (euro 6,772 thousand);
- TILAB (euro 4,583 thousand);
- Telespazio (euro 2,404 thousand);
- Stream (euro 2,166 thousand);
- Sogei (euro 2,029 thousand);
- Stet Hellas (euro 3,420 thousand) - income on long-term receivables in long-term investments.

Interest and other financial expense can be analyzed as follows:

(in thousands of euro)	2002			2001	
	Medium/long-term debt	Short-term borrowings	Total		Change
Interest and fees:					
• subsidiaries	-	217,345	217,345	257,800	(40,455)
• affiliated companies	-	915	915	1,455	(540)
• banks	84,505	58,209	142,714	563,347	(420,633)
• other lenders	41,927	5,291	47,218	48,346	(1,128)
• suppliers	-	174	174	858	(684)
• others	20,987	1,515	22,502	13,878	8,624
	147,419	283,449	430,868	885,684	(454,816)
Interest, premiums and other similar charges on notes	645,366	-	645,366	215,328	430,038
Accrued portion of issue discounts and similar charges on loans	-	7,508	7,508	2,197	5,311
Forward commitment to purchase Seat Pagine Gialle shares	-	-	-	568,622	(568,622)
Provision to allowance for doubtful financial accounts receivable from affiliated companies	-	27,167	27,167	-	27,167
Provision to the allowance for doubtful receivable for the "Deferred Purchasing Price"	-	12,520	12,520	29,400	(16,880)
Expenses on derivative financial instruments	20,807	-	20,807	29,234	(8,427)
Foreign exchange losses	-	53,640	53,640	34,255	19,385
Other financial expense	-	93,751	93,751	48,086	45,665
Total	813,592	478,035	1,291,627	1,812,806	(521,179)

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Interest and other financial expense included euro 218,260 thousand of interest and fees on payables to subsidiaries, affiliated companies and parent companies principally with regard to:

- Telecom Italia International (euro 159,358 thousand) - financial expenses on the call option on Seat Pagine Gialle shares as part of the put option on the same shares;
- TIM (euro 17,652 thousand) and Seat Pagine Gialle (euro 16,570 thousand) - interest expenses accrued on current accounts for cash management purposes.

VALUE ADJUSTMENTS TO FINANCIAL ASSETS

-euro 654,333 thousand

(-euro 774,881 thousand in 2001)

This item refers to the writedowns of investments in the following companies:

(in thousands of euro)	Writedowns to the carrying values	Writedowns recorded in the reserve for losses of subsidiaries and affiliates	Total
Recorded in long-term investments			
- Stream	246,354	-	246,354
- Finsiel	115,000	-	115,000
- Telecom Italia Finance	16,414	66,903	83,317
- Latin American Nautilus	15,054	-	15,054
- TILAB	38,469	-	38,469
- IT Telecom	26,959	-	26,959
- Nordcom	26,902	-	26,902
- Nortel Inversora	19,114	-	19,114
- Trainet	-	2,425	2,425
- Telecom Italia of North America	1,337	-	1,337
- Other companies	2,095	2,105	4,200
Total	507,698	71,433	579,131
Recorded in short-term financial assets			
- TIM	75,200	-	75,200
- Seat Pagine Gialle	2	-	2
Total	75,202	-	75,202

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EXTRAORDINARY INCOME AND EXPENSE

-euro 6,093,178 thousand

(-euro 2,892,922 thousand in 2001)

Extraordinary income and expense showed a net expense balance, with an increase of euro 3,200,256 thousand compared to 2001. Details are as follows:

(in thousands of euro)	2002	2001	Change
Income			
- gains on disposals	451,942	264,388	187,554
- interest on pre-amortization interest Law 58/1992	131,188	-	131,188
- release of sundry reserves to income	59,360	120,478	(61,118)
- recovery of centralized expenses	191,997	-	191,997
- other	48,942	110,346	(61,404)
(A)	883,429	495,212	388,217
Expense			
- Purchase commitment on Seat Pagine Gialle	1,941,843	-	1,941,843
- provisions and writedowns of investments	3,823,623	2,526,768	1,296,855
- restructuring costs (employee reduction plans, territorial and other layoffs)	378,806	202,556	176,250
- expenses under ex Law 58/1992	153,615	155,245	(1,630)
- INPS extraordinary contribution to abolish FPT	71,234	71,431	(197)
- charges for centralized expenses	191,997	-	191,997
- prior period expense for telephone cards	157,963	-	157,963
- expenses for the sale of Stream	21,562	247,373	(225,811)
- provision for other sales of investments	89,126	55,877	33,249
- other	146,838	128,884	17,954
(B)	6,976,607	3,388,134	3,588,473
Total	(A-B)	(2,892,922)	(3,200,256)

In particular:

Extraordinary income related to the following:

- gains realized on the sales of investments in *Telemaco Immobiliare* (euro 134,420 thousand), *Telespazio* (euro 46,767 thousand), *IMMSI* (euro 50,627 thousand), *EMSA* (euro 69,524 thousand), the contribution of the "Asset Management " business segment to Tiglio II, (euro 126,355 thousand), the sale of the "non-facility" business segment (property, project e agency) to the Pirelli & C. Real Estate Group (euro 15,163 thousand), the sale of the "Training" business segment to *Telecom Italia Learning Services* (euro 1,900 thousand) and the disposal of buildings (euro 6,782 thousand);
- prior period income arising from the recovery of accrued pre-amortization interest (euro 131,188 thousand) on the expenses for employee benefit obligations under Law 58/1992 that were paid, with reserve, to INPS up to 1999 following the termination of litigation after the courts ruled in Telecom Italia's favor;
- recovery, from subsidiaries (mainly *Telecom Italia International* and *TIM International*), of expenses connected with extraordinary transactions (euro 191,997 thousand) incurred by Telecom Italia on their behalf;
- release to income (euro 59,360 thousand) of a part of the reserve for risks and charges, set up in 2001 to cover the expenses connected with the agreement for the sale of *Stream* to News Corporation and Vivendi Universal/Canal+, after the parties did not go through with the agreement;
- other prior period income of euro 48,942 thousand.

Extraordinary expenses comprised the following:

- writedown of the investment in *Seat Pagine Gialle* (euro 2,690,503 thousand) and the provision for the forward commitment to purchase Seat Pagine Gialle shares (euro 1,941,843 thousand);
- extraordinary provisions regarding the investments in *Netesi* (euro 31,227 thousand) and *Telecom Italia International* (euro 1,101,893 thousand), the latter mainly in conjunction with the expenses on the sale of the investment in 9Telecom to LDCOM (euro 388,328 thousand), the loss on the sale of Telekom Austria (euro 187,951 thousand), the writedown of Netco Redes (euro 102,727 thousand), and the writeoff of the carrying value of the investment in Nortel Inversora (euro 37,000 thousand);

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- expenses and provisions (euro 378,806 thousand) for corporate restructuring relating to employees cutbacks and layoffs;
- expenses under Law 58/1992 (euro 153,615 thousand) to cover employees under the former fund "Telephone Employees Pension Fund" (FPT), which became part of the general "Employees Pension Fund", in accordance with the 2000 Finance Bill ;
- expenses incurred on behalf of Group companies and recovered from the same companies (euro 191,997 thousand);
- extraordinary contribution to INPS, euro 71,234 thousand, (established by the 2000 Finance Bill for the three years 2000 - 2002);
- provisions following the guarantees provided upon the disposals of Italtel (euro 15,000 thousand) and Telespazio (euro 38,200 thousand) and at the time of the reorganization of real estate assets (Progetto Tiglio) euro 29,500 thousand, as well as other matters, euro 28,780 thousand, of which euro 21,562 thousand refers to relations with Stream;
- prior period expenses (euro 157,963 thousand) relating to the adjustment of the estimated value of unused prepaid telephone cards as a result of the introduction of technical data collection procedures;
- other prior period expenses of euro 146,838 thousand relating mainly to expenses connected with extraordinary transactions, damage compensation to third parties and sundry charges.

INCOME TAXES

-euro 25,600 thousand

(euro 562,022 thousand in 2001)

Income taxes showed a credit balance of euro 25,600 thousand and comprised current income tax expense of euro 919,471 thousand and deferred tax credits of euro 945,071 thousand.

The total reduction of euro 587,622 thousand compared to 2001 is the result of the loss for the year, which was mainly caused by the aforementioned writedowns of investments which contributed to the increase in deferred tax credits.

Income taxes can be broken down into a credit for taxes on income (IRPEG) of euro 325,049 thousand and the expense for the Regional Tax on Production Activities (IRAP) of euro 299,449 thousand.

Details used in the determination of income taxes in 2002 are as follows:

(in thousands of euro)		IRPEG	IRAP	Total
Theoretical taxes	(A)	(601,551)	297,549	(304,002)
• Temporary differences taxed and deductible in future years				
- dividends accrued		(187,614)	-	(187,614)
- writedowns of receivables		135,103	-	135,103
- provision to the reserves for risks and charges		149,382	-	149,382
- writedowns of investments		1,155,060	-	1,155,060
- net change relating to installation writedowns and other items		86,154	3,193	89,347
• Reversal of prior years' temporary differences				
- prior years' dividends received		563,881	-	563,881
- writedowns of receivables		(83,995)	-	(83,995)
- provision to the reserves for risks and charges		(70,780)	(46)	(70,826)
- writedowns of investments		(31,876)	-	(31,876)
- net change relating to installation writedowns and other items		(73,056)	(4,701)	(77,757)
• Permanent differences		202,925	1,900	204,825
• Differences arising from tax benefits		(81,621)	-	(81,621)
• Tax credits		(576,881)	-	(576,881)
• Substitute tax and foreign taxes		43,177	-	43,177
Current income taxes		628,308	297,895	926,203
Deferred income taxes, net		(953,357)	1,554	(951,803)
Taxes booked to statement of income	(B)	(325,049)	299,449	(25,600)

* * *

The following Annexes numbered 1 to 5 are an integral part of these notes.

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OTHER INFORMATION

■ COMPENSATION TO DIRECTORS, STATUTORY AUDITORS AND GENERAL MANAGER

In compliance with the art. 78 giving effect to Legislative Decree 58 dated February 24, 1998, that was adopted by Consob under resolution No. 11971 of May 14, 1999 and subsequent changes and integrations, the compensation to which the Directors, Statutory Auditors and General Manager are entitled for fiscal 2002 are presented in the following table.

The column "Fees for the post held in the company preparing the financial statements" includes the pertinent fees voted by the Telecom Italia S.p.A. Shareholders' Meeting and the compensation pursuant to ex art. 2389, paragraph 2, of the Italian Civil Code.

The column "Non-cash benefits" refer to fringe benefits subject to taxes based on current tax laws.

The column "Bonuses and other incentives" include one-off compensation.

The column "Other compensation" includes: (i) fees due for posts held in listed and unlisted subsidiaries; (ii) employee compensation (gross of the employees' portion of social security charges and taxes, excluding the employers' portion of obligatory social security contributions and expenses for employee termination indemnities).

Individual		Description of Post		Compensation (in thousands of euro)			
First and last name	Post held	Term of office	Expiration date of term of office	Fees for the post held in the company preparing the financial statements	Non-cash benefits	Bonuses and other incentives	Other compensation
BOARD OF DIRECTORS							
Marco TRONCHETTI PROVERA	Chairman	1/1-12/31/2002	12/31/2003	1,756 ⁽¹⁾		1,200 ⁽²⁾	
Gilberto BENETTON	Deputy Chairman	1/1-12/31/2002	12/31/2003	103			13 ⁽³⁾
Carlo Orazio BUORA	Managing Director	1/1-12/31/2002	12/31/003	2,066 ⁽¹⁾		1,200 ⁽²⁾	80 ⁽⁴⁾
Riccardo RUGGIERO	Managing Director	9/5-12/31/2002	12/31/2003	71 ⁽¹⁾	178	1,201	5 ⁽⁵⁾
	General Manager	5/7-12/31/2002		646 ⁽⁶⁾			
Enrico BONDI	Managing Director	1/1-9/5/2002	12/31/2003	1,406 ⁽¹⁾		650	118 ⁽⁷⁾
Umberto COLOMBO	Director	1/1-12/31/2002	12/31/2003	155 ⁽⁸⁾			
Francesco DENOZZA	Director	1/1-12/31/2002	12/31/2003	103			
Luigi FAUSTI	Director	1/1-12/31/2002	12/31/2003	155 ⁽⁸⁾			
Guido FERRARINI	Director	1/1-12/31/2002	12/31/2003	155 ⁽⁹⁾			
Paolo GRANDI	Director	1/1-25/7/2002	12/31/2003	60 ⁽¹⁰⁾			
Natale IRTI	Director	1/1-12/31/2002	12/31/2003	155 ⁽⁹⁾			
Gianni MION	Director	1/1-12/31/2002	12/31/2003	103 ⁽¹¹⁾			183 ⁽¹²⁾
Pietro MODIANO	Director	7/26-12/31/2002	12/31/2003	34 ⁽¹³⁾			
Massimo MORATTI	Director	1/1-12/31/2002	12/31/2003	103			
Carlo Alessandro PURI NEGRI	Director	1/1-12/31/2002	12/31/2003	103			
Pier Francesco SAVIOTTI	Director	1/1-12/31/2002	12/31/2003	155 ⁽⁸⁾			
Roberto ULISSI	Director	1/1-12/31/2002	12/31/2003	155 ⁽¹⁴⁾			

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Individual	Description of Post			Compensation (in thousands of euro)			
First and last name	Post held	Term of office	Expiration date of term of office	Fees for the post held in the company preparing the financial statements	Non-cash benefits	Bonuses and other incentives	Other compensation
BOARD OF STATUTORY AUDITORS							
Paolo GERMANI	Chairman	1/1-12/31/2002	2003	155 ⁽¹⁵⁾			
Mario BOIDI	Acting Auditor	1/1-12/31/2002	2003	116			
Paolo GOLIA	Acting Auditor	1/1-12/31/2002	2003	116			
Fabrizio QUARTA	Acting Auditor	1/1-12/31/2002	2003	116			
Gianfranco ZANDA	Acting Auditor	1/1-12/31/2002	2003	116			129 ⁽¹⁶⁾

- (1) The amount includes the compensation ex art. 2389, section 2, of the Italian Civil Code.
- (2) The amount refers to year 2002, was voted by the Board of Directors on March 11, 2003 and will be paid in the current year.
- (3) Compensation for the post of Director in the subsidiary Seat Pagine Gialle.
- (4) Compensation for the post of Chairman and Deputy Chairman in the subsidiary Telecom Italia Mobile not received but paid over to Telecom Italia.
- (5) Compensation for the post of Director in the subsidiary Holding Banca della Rete not received but paid over to Telecom Italia.
- (6) Employee income.
- (7) Compensation for the post of Chairman of the subsidiaries Telecom Italia Mobile, Telespazio, Seat Pagine Gialle and Stream not received but paid over to Telecom Italia.
- (8) The amount includes the compensation paid as a member of the Compensation Committee.
- (9) The amount includes the compensation paid as a member of the Audit and Corporate Governance Committee.
- (10) Compensation not received but paid over to Banca Intesa BCI.
- (11) Compensation not received but paid over to Edizione Holding;
- (12) Compensation for the posts of Director and Committee member in Seat Pagine Gialle and Director and Deputy Chairman in Telecom Italia Mobile not received but paid over to Edizione Holding.
- (13) Compensation not received but paid over to Unicredit.
- (14) The amount includes the compensation paid as a member of the Audit and Corporate Governance Committee paid over by the person to the Administration Fund of the entity for which he works.
- (15) Compensation for the post not received by the person but paid over to the Administration Fund of the entity for which he works.
- (16) Compensation for the post of Chairman of the Board of Statutory Auditors in the subsidiary IT Telecom and Acting Statutory Auditor in the subsidiaries Finsiel, Immsi, Telespazio and Telecom Italia Mobile. Immsi and Telespazio were sold on November 2002.

The following table is presented in compliance with the Legislative Decree dated February 24, 1998, that was adopted by Consob under resolution No. 11971 of May 14, 1999 and subsequent changes and integrations, relating to the stock option granted to the Directors and General Manager.

		Options existing at 1/1/2002			New options granted during the year			Options exercised during the year			Options expired during the year	Options existing at 12/31/2002		
(A)	(B)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11) = 1+4-7-10	(12)	(13)
First and last name	Post held	No. options	Exercise average price	Average expiration date	No. options	Exercise average price	Average expiration date	No. options	Exercise average price	Market average price at exercise	No. options	No. options	Exercise average price	Average expiration date
Riccardo Ruggiero	M.D./G.M.	750,000	10.488	2007	=	=	=	=	=	=	=	750,000	10.488	2007
		750,000	10.488	2008	=	=	=	=	=	=	=	750,000	10.488	2008
		=	=	=	150,000	9.203	2008	=	=	=	=	150,000	9.203	2008
		=	=	=	150,000	9.203	2009	=	=	=	=	150,000	9.203	2009
		=	=	=	200,000	9.203	2010	=	=	=	=	200,000	9.203	2010

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■ ANNEX 1

LONG-TERM INVESTMENTS AND ADVANCES ON FUTURE CAPITAL CONTRIBUTIONS OF SUBSIDIARIES AND AFFILIATED COMPANIES

	12/31/2001				Changes during the year						12/31/2002			
	Cost	Upward adjust-ments	Write-downs	Carrying value	Purchases/ Subscrip-tions	Reclasi-fications	Disposals (1)	Writedowns(-)/ Reinstatements of value(+)	Capital Replenish-ments	Total	Cost	Upward adjust-ments	Write-downs	Carrying value
(in thousands of euro)														
Equity investments in subsidiaries														
ATESIA	3,707	-	-	3,707	-	-	-	-	-	-	3,707	-	-	3,707
EDOTEL	620	-	(116)	504	8,436	-	-	-	-	8,436	9,056	-	(116)	8,940
EMSA	29,136	240	-	29,376	-	126,118	(155,494)	-	-	(29,376)	-	-	-	-
EMSA SERVIZI	1,340	-	(1,340)	-	2,001	(2,001)	-	-	5,000	5,000	5,000	-	-	5,000
EPIClink	-	-	-	-	60,254	-	-	-	-	60,254	60,254	-	-	60,254
FINSIEL	364,251	-	-	364,251	-	-	-	(115,000)	-	(115,000)	364,251	-	(115,000)	249,251
IMMSI	4,428	13,800	-	18,228	-	-	(18,228)	-	-	(18,228)	-	-	-	-
IN.TEL.AUDIT	-	-	-	-	1,500	-	-	-	-	1,500	1,500	-	-	1,500
IREOS (in liquidation)	103	-	(103)	-	-	-	-	-	-	-	103	-	(103)	-
IRIDIUM ITALIA (in liquidation)	775	-	(775)	-	-	-	-	-	-	-	775	-	(775)	-
I.T. TELECOM	25,823	-	(1,085)	24,738	376	142,906	-	(26,959)	-	116,323	169,156	-	(28,095)	141,061
LATIN AMERICAN NAUTILUS S.A.	47,863	-	(28,566)	19,297	-	-	-	(15,054)	-	(15,054)	47,863	-	(43,620)	4,243
MED-1 Submarine Cables	5	-	-	5	-	-	-	-	-	-	5	-	-	5
MEDITERRANEAN NAUTILUS S.A.	14,352	-	-	14,352	-	-	-	-	-	-	14,352	-	-	14,352
NETESI	-	-	-	-	18,150	13,893	-	(31,227)	-	816	14,744	-	(13,928)	816
NETSIEL	108,486	-	-	108,486	-	(108,486)	-	-	-	(108,486)	-	-	-	-
PATH.NET	25,820	-	-	25,820	-	-	-	-	-	-	25,820	-	-	25,820
SAIAT	34,743	11,617	-	46,360	-	-	-	-	-	-	34,743	11,617	-	46,360
SARITEL	17,783	-	-	17,783	-	(17,783)	-	-	-	(17,783)	-	-	-	-
TELECOM ITALIA LEARNING SERVICES (EX SCUOLA SUPERIORE GUGLIELMO REISS ROMOLI)	1,549	-	-	1,549	-	-	-	(884)	-	(884)	1,549	-	(884)	665
SEAT PAGINE GIALLE	6,732,912	-	-	6,732,912	-	-	-	(2,690,503)	-	(2,690,503)	6,732,912	-	(2,690,503)	4,042,409
SODALIA	4,138	-	(51)	4,087	-	(4,087)	-	-	-	(4,087)	-	-	-	-
SOFFE	5,882	38,056	(43,938)	-	-	-	-	-	-	-	-	-	-	-
TECNO SERVIZI MOBILI	53	-	-	53	-	-	-	-	-	-	53	-	-	53
TELECOM ITALIA AMERICA LATINA (ex TELECOM ITALIA DO BRASIL)	2,120	-	(2,120)	-	11,100	(6,941)	-	(695)	-	3,464	13,220	-	(9,756)	3,464
TELECOM ITALIA CAPITAL	1,069	-	(1,069)	-	6,826	(4,438)	-	-	-	2,388	2,388	-	-	2,388
TELECOM ITALIA GMBH (in liquidation)	43	-	-	43	-	-	-	-	-	-	43	-	-	43
TELECOM ITALIA INTERNATIONAL (ex Stet International Netherlands)	7,772,567	-	(2,040,842)	5,731,725	-	78,896	-	(1,101,893)	-	(1,022,997)	7,851,463	-	(3,142,735)	4,708,728
TELECOM ITALIA MOBILE	4,202,226	84,144	-	4,286,370	-	-	-	-	-	-	4,202,226	84,144	-	4,286,370
TELECOM ITALIA of NORTH AMERICA	3,585	-	(1,771)	1,814	9,730	(10,207)	-	(1,337)	-	(1,814)	-	-	-	-
TELECONTACTCENTER	110	-	-	110	-	-	-	-	-	-	110	-	-	110
TELENERGIA	-	-	-	-	40	-	-	-	-	40	40	-	-	40
TELE PAY ROLL SERVICE	3,391	-	(731)	2,660	-	-	-	-	1,368	1,368	4,028	-	-	4,028
TELESOFT	12,550	-	-	12,550	-	(12,550)	-	-	-	(12,550)	-	-	-	-
TELESPAZIO	86,260	-	(5,816)	80,444	-	-	(80,444)	-	-	(80,444)	-	-	-	-
TELIMM	18	-	-	18	-	-	(18)	-	-	(18)	-	-	-	-
TI AUSTRIA	1,185	-	-	1,185	650	(1,835)	-	-	-	(1,185)	-	-	-	-
TI BELGIUM	3,000	-	-	3,000	-	(3,000)	-	-	-	(3,000)	-	-	-	-
TI FRANCE	10,308	-	-	10,308	-	(10,308)	-	-	-	(10,308)	-	-	-	-
TI GERMANY	9,325	-	-	9,325	-	(9,325)	-	-	-	(9,325)	-	-	-	-
TI IRELAND (in liquidation)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TI LAB	85,157	2,588	(49,609)	38,136	5,600	-	-	(38,468)	-	(32,868)	90,757	2,588	(88,077)	5,268

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Equity investments in subsidiaries

(in thousands of euro)	12/31/2001				Changes during the year						12/31/2002			
	Cost	Upward adjust-ments	Write-downs	Carrying value	Purchases/ Subscrip-tions	Reclassi-fications	Disposals (1)	Writedowns(-)/ Reinstatements of value(+)	Capital Replenish-ments	Total	Cost	Upward adjust-ments	Write-downs	Carrying value
TI MEDIA	51,005	-	-	51,005	-	(51,005)	-	-	-	(51,005)	-	-	-	-
TI NETHERLANDS	3,518	-	-	3,518	-	(3,518)	-	-	-	(3,518)	-	-	-	-
TI SPAIN	703	-	-	703	-	(703)	-	-	-	(703)	-	-	-	-
TI SWITZERLAND	2,631	-	-	2,631	-	(2,631)	-	-	-	(2,631)	-	-	-	-
TI UNITED KINGDOM	3,703	-	-	3,703	602	(4,305)	-	-	-	(3,703)	-	-	-	-
TI FINANCE (ex TI WEB)	550,620	-	(542,257)	8,363	-	8,050	-	(16,413)	-	(8,363)	607,507	38,056	(645,563)	-
TI SPARKLE (ex TMI - TELEMEDIA INTERNATIONAL ITALIA)	86,521	-	(86,521)	-	6,184	692,070	-	-	86,512	784,766	784,766	-	-	784,766
TRAINET (in liquidation)	674	-	(674)	-	-	-	-	-	-	-	674	-	(674)	-
Consorzio Energia Gruppo Telecom Italia	-	-	-	-	5	-	-	-	-	5	5	-	-	5
Consorzio GRUPPO STET PER ITALIA 90 (in liquidation)	41	-	-	41	-	-	(41)	-	-	(41)	-	-	-	-
	20,316,099	150,445	(2,807,384)	17,659,160	131,454	808,810	(254,225)	(4,038,433)	92,880	(3,259,514)	21,043,070	136,405	(6,779,829)	14,399,646
(1)	TI SPARKLE (ex TMI)	EMSA SERVIZI	IMMSI	TE.SS	EMSA	TELIIM	Cons. Stet Italia 90	TELE-SPAZIO	NETESI	TI CAPITAL				
Cost	92,219	3,341	18,228	730	155,494	18	41	86,260	25,064	5,508				
Writedowns	(92,219)	(3,341)	-	(730)	-	-	-	(5,816)	(25,064)	(5,508)				
	-	-	18,228	-	155,494	18	41	80,444	-	-				

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	12/31/2001				Changes during the year						12/31/2002			
(in thousands of euro)	Cost	Upward adjust- ments	Write- downs	Carrying value	Purchases/ Subscrip- tions	Reclassi- fications	Disposals (1)	Writedowns(-)/ Reinstatements of value(+)	Capital Replenish- ments	Total	Cost	Upward adjust- ments	Write- downs	Carrying value
Equity investments in affiliated companies														
ASTELIT	1	-	(1)	-	-	-	-	-	-	-	-	-	-	-
CARTESIA	516	-	-	516	-	-	-	(516)	-	(516)	516	-	(516)	-
CZECH TELESPAZIO (in liquidation)	17	-	(17)	-	-	-	-	-	-	-	-	-	-	-
IM.SER	127,277	-	-	127,277	-	(126,118)	-	-	-	(126,118)	1,159	-	-	1,159
MIRROR INTERNATIONAL HOLDING	100,351	-	-	100,351	-	-	-	-	-	-	100,351	-	-	100,351
NORDCOM	26,983	-	-	26,983	2,062	-	-	(26,902)	-	(24,840)	29,045	-	(26,902)	2,143
NORTEL INVERSORA	19,114	-	-	19,114	-	-	-	(19,114)	-	(19,114)	19,114	-	(19,114)	-
SIEMENS INFORMATICA	2,417	1,424	-	3,841	-	-	-	-	-	-	2,417	1,424	-	3,841
SITEBA	751	-	-	751	-	-	-	-	-	-	751	-	-	751
STREAM	247,940	-	(216,024)	31,916	50,750	-	-	(246,355)	182,791	(12,814)	239,209	-	(220,107)	19,102
TELEGONO	-	-	-	-	413	-	-	-	-	413	413	-	-	413
TELEMACO IMMOBILIARE	75,798	-	-	75,798	-	-	(75,798)	-	-	(75,798)	-	-	-	-
TIGLIO I	-	-	-	-	185,985	26	-	-	-	186,011	186,011	-	-	186,011
TIGLIO II	-	-	-	-	-	74,281	-	-	-	74,281	74,281	-	-	74,281
VOICE MAIL INTERNATIONAL (in liquidation)	3,801	-	(3,801)	-	-	-	-	-	-	-	3,801	-	(3,801)	-
Consorzio R.E.S.	155	-	-	155	-	(155)	-	-	-	(155)	-	-	-	-
Consorzio TELCAL	211	-	-	211	-	-	-	-	-	-	211	-	-	211
Consorzio TELEMED (in liquidation)	10	-	-	10	-	-	-	-	-	-	10	-	-	10
	605,342	1,424	(219,843)	386,923	239,210	(51,966)	(75,798)	(292,887)	182,791	1,350	657,289	1,424	(270,440)	388,273
(1)														
	STREAM		ASTELIT		TELEMACO IMMOBILIARE		CZECH TELESPAZIO		Consorzio R.E.S.					
Cost	242,271		1		75,798		17		155					
Writedowns	(242,271)		(1)		-		(17)		(155)					
	-		-		75,798		-		-					

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	Cost	Upward adjust-ments	Write-downs	Carrying value	Purchases/ Subscrip-tions	Reclassi-fications	Disposals (1)	Writedowns(-)/ Reinstatements of value(+)	Capital Replenish-ments	Total	Cost	Upward adjust-ments	Write-downs	Carrying value
Equity investments in other companies														
ANCITEL	93	-	-	93	-	-	-	-	-	-	93	-	-	93
CAF ITALIA	1	-	-	1	-	-	-	-	-	-	1	-	-	1
EDINDUSTRIA	44	-	(6)	38	-	-	-	-	-	-	44	-	(6)	38
EMITTENTI TITOLI	423	-	-	423	-	-	-	-	-	-	423	-	-	423
ERTICO	1	-	-	1	-	(1)	-	-	-	(1)	-	-	-	-
EURESCOM (in liquidation)	9	-	-	9	-	(9)	-	-	-	(9)	-	-	-	-
FRATELLI ALINARI	3,101	-	-	3,101	-	(2,400)	-	-	-	(2,400)	2,974	-	(2,273)	701
IDROENERGIA	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IMSER 60	-	-	-	-	60	-	(1)	-	-	59	59	-	-	59
INSULA	248	-	-	248	-	-	-	-	-	-	248	-	-	248
ISTITUTO DELLA ENCICLOPEDIA ITALIANA FONDATA DA GIOVANNI TRECCANI	5,255	-	(1,424)	3,831	-	-	-	-	-	-	5,255	-	(1,424)	3,831
MEDIOCREREDITO CENTRALE	-	-	-	-	36,018	-	-	-	-	36,018	36,018	-	-	36,018
MIX	10	-	-	10	-	-	-	-	-	-	10	-	-	10
NETESI	10,625	-	(7,764)	2,861	11,033	(13,894)	-	-	-	(2,861)	-	-	-	-
SIA	11,278	-	-	11,278	-	-	-	-	-	-	11,278	-	-	11,278
SISTEMI FORMATIVI CONFINDUSTRIA	-	-	-	-	12	-	(12)	-	-	-	-	-	-	-
SODETEL	4	-	-	4	-	-	-	-	-	-	4	-	-	4
TELEPORTO ADRIATICO	124	-	-	124	-	-	-	-	-	-	124	-	-	124
UBAE	1,897	-	-	1,897	-	-	-	-	-	-	1,897	-	-	1,897
Consorzio C.I. MARK	3	-	-	3	-	-	-	-	-	-	3	-	-	3
Consorzio CAISI (in liquidation)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Consorzio CEFRIEL	36	-	-	36	-	-	-	-	-	-	36	-	-	36
Consorzio CIES	26	-	-	26	-	-	-	-	-	-	26	-	-	26
Consorzio CO.TIM (in liquidation)	4	-	(2)	2	-	-	-	-	-	-	4	-	(2)	2
Consorzio DI BIOINGEGNERIA ED INFORMATICA MEDICA	15	-	-	15	-	-	-	-	-	-	15	-	-	15
Consorzio Nazionale Imballaggi (CONAI)	1	-	-	1	-	-	-	-	-	-	1	-	-	1
Consorzio ELIS	3	-	-	3	-	-	-	-	-	-	3	-	-	3
Consorzio ENERGIA FIERA DISTRICT	2	-	-	2	-	-	-	-	-	-	2	-	-	2
Consorzio GE.SE.CE.DI	72	-	-	72	-	-	-	-	-	-	72	-	-	72
Consorzio NETTUNO	41	-	-	41	-	-	-	-	-	-	41	-	-	41
Consorzio QUALITAL	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Consorzio TECHNAPOLI	207	-	-	207	-	-	-	-	-	-	207	-	-	207
Consorzio TOPIX	-	-	-	-	100	-	-	-	-	100	100	-	-	100
	33,523	-	(9,196)	24,327	47,223	(16,304)	(13)	-	-	30,906	58,938	-	(3,705)	55,233
Total long-term equity investments (A)	20,954,964	151,869	(3,036,423)	18,070,410	417,887	740,540	(330,036)	(4,331,320)	275,671	(3,227,258)	21,759,297	137,829	(7,053,974)	14,843,152
(1) EURESCOM														
IMSER 60														
SFC														
FRATELLI ALINARI														
ERTICO														
Cost	9		1		13		127		1					
Writedowns	(9)		-		-		(127)		(1)					
	-		1		13		-		-					

(in thousands of euro)	12/31/2001				Changes during the year						12/31/2002			
	Cost	Upward adjust-ments	Write-downs	Carrying value	Purchases/ Subscrip-tions	Reclassi-fications	Disposals (1)	Writedowns(-)/ Reinstatements of value(+)	Capital Replenish-ments	Total	Cost	Upward adjust-ments	Write-downs	Carrying value
Advances on future capital contributions of subsidiaries and affiliated companies														
EPIClink	-	-	-	-	12,000	-	-	-	-	12,000	12,000	-	-	12,000
I.T. TELECOM	-	-	-	-	140,901	-	-	-	-	140,901	140,901	-	-	140,901
NETESI	-	-	-	-	1,650	-	-	-	-	1,650	1,650	-	-	1,650
TIGLIO I	-	-	-	-	26	(26)	-	-	-	-	-	-	-	-
TELECOM ITALIA LEARNING SERVICES	-	-	-	-	10,000	-	-	-	-	10,000	10,000	-	-	10,000
TELECOM ITALIA INTERNATIONAL	78,896	-	-	78,896	-	(78,896)	-	-	-	(78,896)	-	-	-	-
TELE PAY ROLL SERVICE	-	-	-	-	1,633	-	-	-	-	1,633	1,633	-	-	1,633
Total (B)	78,896	-	-	78,896	166,210	(78,922)	-	-	-	87,288	166,184	-	-	166,184
Total (A+B)	21,033,860	151,869	(3,036,423)	18,149,306	584,097	661,618	(330,036)	(4,331,320)	275,671	(3,139,970)	21,925,481	137,829	(7,053,974)	15,009,336

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■ ANNEX 2

LIST OF EQUITY INVESTMENTS IN SUBSIDIARIES AND AFFILIATED COMPANIES AT 12/31/2002

(in thousands of euro)			Registered office	Share Capital (1)	Shareholders' equity (1) (2)	Net income / (loss) (1)	Percentage ownership (%)	Share of shareholders' equity (A) (3)	Carrying value (B) (4)	Differenc (B-A)
Equity investments in subsidiaries										
ATESIA			Rome	3,150	38,474	15,818	100,00%	24,238	3,707	(20,531)
EDOTEL			Turin	15,081	14,870	(30)	60,00%	8,922	(5) 8,940	18
EMSA SERVIZI			Rome	5,000	5,068	68	100,00%	5,068	5,000	(68)
EPIClink			Cesano Maderno (MI)	12,500	13,005	(29,995)	86,00%	11,184	(9) 72,254	61,070
FINSIEL			Rome	59,982	382,888	210,629	77,92%	143,307	(6) 249,251	105,944
IN.TEL.AUDIT			Milan	2,750	2,750	-	54,55%	1,500	1,500	-
IREOS (in liquidation)			Rome	100	(1,483)	(144)	100,00%	(1,483)	(5) -	1,483
IRIDIUM ITALIA (in liquidation)			Rome	2,575	(3,767)	-	30,00%	(1,130)	(5) -	1,130
I.T. TELECOM			Rome	96,853	281,961	(69,172)	100,00%	288,425	(6) 281,961	(6,464)
LATIN AMERICAN NAUTILUS S.A.			Luxembourg	US\$ (,000) 60,000	6,312	(17,983)				
				57,214	6,019	17,147	70,00%	4,243	(6) 4,243	-
MED-1 Submarine Cables			Tel Aviv (Israel)	NIS (,000) 100	(94,572)	6,238				
				20	(19,038)	1,256	23,17%	(4,411)	(6) 5	4,416
MEDITERRANEAN NAUTILUS S.A.			Luxembourg	US\$ (,000) 326,480	328,930	3,797				
				311,318	313,654	3,621	62,51%	196,062	14,352	(181,710)
NETESI			Milan	14,745	2,467	(24,004)	100,00%	2,467	2,467	-
PATH.NET			Rome	25,800	28,040	1,859	99,99%	28,039	25,820	(2,219)
SAIAT			Turin	35,745	66,140	23,011	100,00%	43,156	46,360	3,204
SEAT PAGINE GIALLE (7)			Milan	341,184	1,488,906	(151,946)	53,21%	832,484	(6) 4,042,409	3,209,922
TECNO SERVIZI MOBILI (ex HITECO)			Rome	26	589	477	51,00%	198	53	(145)
TELECOM ITALIA LEARNING SERVICES (ex SSGRR)			L'Aquila	1,560	8,734	(4,515)	100,00%	8,734	(5) 10,666	1,932
TELECOM ITALIA INTERNATIONAL (ex STET INTERNATIONAL NETHERLANDS)			Amsterdam (Holland)	2,399,483	4,686,728	(281,236)	100,00%	4,686,727	4,708,728	22,001
TELECONTACTCENTER			Naples	110	1,002	744	100,00%	1,002	110	(892)
TELECOM ITALIA CAPITAL			Luxembourg	2,336	2,661	(268)	99,99%	2,661	2,388	(273)
TELECOM ITALIA GMBH (in liquidation)			Vienna (Austria)	36	99	(113)	100,00%	99	43	(56)
TELECOM ITALIA AMERICA LATINA			Rio de Janeiro (Brazil)	R\$ (,000) 43,614	12,835	(25,616)				
				11,771	3,464	(6,913)	99,99%	3,464	3,464	-
TELECOM ITALIA MOBILE (7)			Turin	513,964	7,044,790	264,154	54,82%	2,822,026	(6) 4,286,370	1,464,344
TELENERGIA			Rome	50	48	(2)	80,00%	38	40	2
TELE PAY ROLL SERVICE			Rome	2,840	5,019	(641)	100,00%	5,019	5,660	641
TI IRELAND			Dublin (Ireland)	-	(12)	(5)	100,00%	(12)	(5) -	12
TELECOM ITALIA FINANCE (ex TIWEB)			Luxembourg	869,163	(77,155)	(108,041)	100,00%	(66,902)	(5) (11) -	66,902
TI LAB			Turin	27,455	5,268	(38,468)	100,00%	5,268	5,268	-
TELECOM ITALIA SPARKLE (ex TMI Italia)			Rome	200,000	857,698	73,419	100,00%	873,078	(6) 784,766	(88,312)
TRAINET (in liquidation)			Rome	674	(11,381)	(2,734)	100,00%	(11,381)	(5) -	11,381
Consorzio ENERGIA GRUPPO TELECOM ITALIA			Rome	10	10	-	50,00%	5	5	-
									14,565,830	4,651,800

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(in thousands of euro)	Registered office		Share Capital (1)	Shareholders' equity (1) (2)	Net income / (loss) (1)	Percentage ownership (%)	Share of shareholders' equity (A) (3)		Carrying value (B) (4)	Differenc (B-A)
Equity investments in affiliated companies										
CARTESIA	Rome		1,033	(726)	(840)	50,00%	(363)	(5)	-	363
IM.SER	Turin		1,316	895	(1,897)	40,00%	357		1,159	802
MIRROR INTERNATIONAL HOLDING	Luxembourg		250	324,116	(10,388)	30,00%	97,235		100,351	3,116
NORDCOM	Milan		5,000	5,398	400	42,00%	2,267		2,143	(124)
NORTEL INVERSORA	Buenos Aires (Argentina)	Pesos Arg, (,000)	78,633	445,000	(2,385,000)		-		-	-
			22,250	125,915	(674,850)	16,58%	(22,562)	(8)	-	22,562
SIEMENS INFORMATICA	Milan		6,192	48,574	(1,062)	49,00%	25,383	(6)	3,841	(21,542)
SITEBA	Milan		2,600	13,320	3,504	30,00%	3,996		751	(3,245)
STREAM	Rome		302,399	47,350	(432,377)	50,00%	23,675	(10)	19,102	(4,573)
TELEGONO	Rome		1,000	14,934	13,910	40,00%	5,974		413	(5,561)
TIGLIO I	Milan		5,256	497,445	(7,289)	36,85%	183,331		186,011	2,680
TIGLIO II	Milan		14,185	149,040	(1,112)	49,47%	73,730		74,281	551
VOICE MAIL INTERNATIONAL (in liquidation)	Santa Clara (USA)	US\$ (,000)	49	49	-					
			46	46	-	37,07%	17		-	(17)
Consorzio TELCAL	Catanzaro		878	878	-	24,00%	211		211	-
Consorzio TELEMED (in liquidation)	Rome		103	21	(7)	33,33%	7	(5)	10	3
									388,273	(4,984)

- (1) Data taken from the latest financial statements.
- (2) Includes net income (loss).
- (3) Net of dividends paid.
- (4) Includes advances on future capital contributions of subsidiaries and affiliated companies.
- (5) Covered by reserve for losses of subsidiaries and affiliated companies
- (6) Data taken from the consolidated financial statements.
- (7) Does not include stock included in short-term financial assets.
- (8) At December 31, 2001, the percentage of the ordinary share capital is 32.50%, while the percentage of total shareholders' equity, taking into account the redemption of the Class A preferred shares, is 16,58%. Consolidated data conformed to the Principles of Telecom Italia Group.
- (9) Includes the advance on future contributions (euro 12 million) only effected by Telecom Italia.
- (10) Data taken from the financial statements at November 30, 2002.
- (11) Adjusted data showing Telsi accounted for using the equity method.

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■ ANNEX 3

COMPARISON OF BOOK VALUE OF LISTED SHARES WITH MARKET PRICES

COMPARISON OF BOOK VALUE OF LISTED FINANCIAL ASSETS WITH MARKET VALUES							
	Share hrld	Market value		Carrying value		Difference	
		Unit price (in euro)	Total (thousands of euro)	Unit price (in euro)	Total (thousands of euro)	Unit price (in euro)	Total (thousands of euro)
		(A)		(B)		(A-B)	
Long-term equity investments							
TELECOM ITALIA MOBILE							
- ordinary shares	4,695,889,519	4.33	20,319,114	0.91	4,286,371	3.41	16,032,743
SEAT PAGINE GIALLE							
- ordinary shares	6,051,510,901	0.64	3,897,173	0.67	4,042,409	(0.03)	(145,236)
Short-term financial assets							
TELECOM ITALIA MOBILE							
- ordinary shares	38,192,000	4.33	165,257	4.33	165,257	-	-
SEAT PAGINE GIALLE							
- ordinary shares	50,000	0.52	26	0.52	26	-	-

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■ ANNEX 4

ACCOUNTS RECEIVABLE AND ACCRUED INCOME BY MATURITY AND TYPE

	12/31/2002 Amounts due				12/31/2001 Amounts due			
	within one year	from two to five years	after five years	Total	after one year	within two to five years	after five years	Total
(in thousands of euro)								
Accounts receivable in long-term investments								
Subsidiaries	-	60,000	-	60,000	-	60,000	-	60,000
Affiliated companies	-	117,406	-	117,406	-	-	-	-
Others								
- customers	666	166	-	832	709	177	-	886
- employees	5,887	28,395	11,024	45,306	8,887	24,390	16,108	49,385
- security deposits	1,521	3,668	253	5,442	1,347	3,792	787	5,926
- miscellaneous	26,721	45,232	-	71,953	49,581	54,960	-	104,541
	34,795	254,867	11,277	300,939	60,524	143,319	16,895	220,738
Accounts receivable in current assets								
Other loans from								
Subsidiaries	1,900,599	-	-	1,900,599	496,989	-	-	496,989
Affiliated companies	721	-	-	721	122,490	-	-	122,490
Others	561,055	-	-	561,055	547,878	-	-	547,878
	2,462,375	-	-	2,462,375	1,167,357	-	-	1,167,357
Trade receivables								
Customers	3,753,468	-	-	3,753,468	4,241,654	-	-	4,241,654
Subsidiaries	453,164	-	-	453,164	671,132	-	-	671,132
Affiliated companies	83,239	-	-	83,239	188,847	-	-	188,847
Parent companies	1,243	-	-	1,243	1,090	-	-	1,090
Other receivables due from								
- Government and other public entities for grants and subsidies	1,265	-	-	1,265	1,265	-	-	1,265
	4,292,379	-	-	4,292,379	5,103,988	-	-	5,103,988
Other receivables								
Subsidiaries	442,860	-	-	442,860	1,028,799	-	-	1,028,799
Affiliated companies	7,560	-	-	7,560	233	-	-	233
Miscellaneous receivables								
- deferred tax assets	738,311	850,728	-	1,589,039	414,604	94,490	-	509,094
- other	838,045	-	-	838,045	1,410,922	-	-	1,410,922
	2,026,776	850,728	-	2,877,504	2,854,558	94,490	-	2,949,048
Total accounts receivable	8,781,530	850,728	-	9,632,258	9,125,903	94,490	-	9,220,393
Accrued income	9,670	-	-	9,670	11,944	-	-	11,944

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■ ANNEX 5

LIABILITIES AND ACCRUED EXPENSES BY MATURITY AND TYPE

	12/31/2002 Amounts due				12/31/2001 Amounts due			
	within one year	from two to five years	after five years	Total	after one year	within two to five years	after five years	Total
(in thousands of euro)								
Medium/long-term debt								
Debentures	-	7,550,000	3,391,662	10,941,662	-	6,300,000	1,950,000	8,250,000
Due to banks	1,143,704	657,010	438	1,801,152	810,364	1,767,875	3,126	2,581,365
Due to other lenders	102,653	215,330	19,944	337,927	172,330	273,300	44,358	489,988
Taxes payable	18,240	13,680	-	31,920	18,241	31,921	-	50,162
	1,264,597	8,436,020	3,412,044	13,112,661	1,000,935	8,373,096	1,997,484	11,371,515
Short-term borrowings								
Due to banks	1,646,348	-	-	1,646,348	4,727,055	-	-	4,727,055
Due to other lenders	164,618	-	-	164,618	167,789	-	-	167,789
Liabilities represented by credit instruments	20,000	-	-	20,000	-	-	-	-
Subsidiaries	2,169,195	-	-	2,169,195	1,218,043	-	-	1,218,043
Affiliated companies	5,125	-	-	5,125	29,205	-	-	29,205
Other liabilities	181,498	-	-	181,498	395,266	-	-	395,266
	4,186,784	-	-	4,186,784	6,537,358	-	-	6,537,358
Trade payables ⁽¹⁾								
Suppliers	1,854,831	-	-	1,854,831	2,240,654	-	-	2,240,654
Subsidiaries	943,205	-	-	943,205	1,090,902	-	-	1,090,902
Affiliated companies	149,798	-	-	149,798	215,446	-	-	215,446
Parent companies	52	-	-	52	11	-	-	11
	2,947,886	-	-	2,947,886	3,547,013	-	-	3,547,013
Other payables								
Subsidiaries	69,537	-	-	69,537	41,785	-	-	41,785
Affiliated companies	1,990	-	-	1,990	93	-	-	93
Parent companies	213,917	-	-	213,917	-	-	-	-
Taxes payable	184,958	4,383	-	189,341	398,336	12,054	-	410,390
Contributions to pension and social security institutions	161,122	280,562	249,337	691,021	174,051	267,822	325,539	767,412
Other liabilities	2,548,626	1,020	-	2,549,646	2,218,030	1,907	53	2,219,990
	3,180,150	285,965	249,337	3,715,452	2,832,295	281,783	325,592	3,439,670
Total liabilities ⁽¹⁾	11,579,417	8,721,985	3,661,381	23,962,783	13,917,601	8,654,879	2,323,076	24,895,556
Accrued expenses	579,048	-	-	579,048	268,178	-	-	268,178

(1) Does not include advances

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■ INDEPENDENT AUDITORS' REPORT



■ **Reconta Ernst & Young S.p.A.**
Via ...
20121 Milano

■ **Reconta Ernst & Young S.p.A.**
Via ...
20121 Milano

AUDITORS' REPORT pursuant to article 156 of Legislative Decree of February 24, 1998, n. 58 (Translation from the original Italian text)

To the Shareholders
of Telecom Italia S.p.A.

1. We have audited the financial statements of Telecom Italia S.p.A. as of and for the year ended December 31, 2002. These financial statements are the responsibility of the Telecom Italia S.p.A.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. Our audit was made in accordance with auditing standards and procedures recommended by CONSOB. In accordance with such standards and procedures we planned and performed our audit to obtain the information necessary in order to determine whether the financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness of the accounting principles applied and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the financial statements of the prior year, which are presented for comparative purposes as required by the law, reference should be made to our auditors' report dated April 15, 2002.

3. In our opinion, the financial statements of Telecom Italia S.p.A. comply with the Italian regulations governing financial statements; accordingly, they clearly present and give a true and fair view of the financial position of Telecom Italia S.p.A. as of December 31, 2002, and the results of its operations for the year then ended.
4. We draw your attention to the information presented in the explanatory notes, "Summary of significant accounting policies", regarding the accounting criteria utilized for the employee benefit obligations as required by Law no. 58/1992.

■ **Reconta Ernst & Young S.p.A.**
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5. On March 11, 2003, the Board of Directors of Telecom Italia S.p.A., approved the proposal for a project aimed to shorten the corporate structure through the merger of Telecom Italia S.p.A. into Olivetti S.p.A. and subsequently, on April 15, 2003 it approved the related plan for the merger, prepared in accordance with art. 2501 *bis* of the Italian Civil Code.

Turin, April 18, 2003

Reconta Ernst & Young S.p.A.

signed by: Felice Persico (Partner)

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■ REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING OF TELECOM ITALIA S.P.A. PURSUANT TO ART 153 OF LEGISLATIVE DECREE 58/1998 AND ART. 2429, PARAGRAPH 3, OF THE ITALIAN CIVIL CODE

Dear Shareholders,

During the year ended December 31, 2002, the Board of Statutory Auditors of Telecom Italia S.p.A. (the "Company") carried out the oversight and supervisory work required by law, also taking into account the code of ethics recommended by the National Boards of Dottori Commercialisti and Ragionieri. In preparing this report, the Board also took into consideration Consob's instructions concerning the tests and activities of the Board of Statutory Auditors.

The obligations of disclosure to the Board of Statutory Auditors under art. 150, paragraph 1, of Legislative Decree No. 58 of 1998 ("TUF") and art. 13 of the corporate by-laws are complied with by the directors through periodic information and data provided at the Board of Directors' meetings, which have always been attended by the Board of Statutory Auditors. Beginning in the third quarter of 2002, compliance with this obligation has also been achieved through a specific internal procedure which guarantees a direct constant and systematic flow of information both to the Board of Statutory Auditors and to the directors, in particular to the non-executive directors. In keeping with this procedure, the Board of Directors, through the Chairman, by virtue of the powers delegated to him for this purpose, discloses to the Board of Statutory Auditors, quarterly, by means of a written report on the activities carried out, the most important economic, financial and equity transactions, the transactions with a potential conflict of interest (meaning intercompany transactions and related party transactions other than intercompany transactions), as well as any atypical or unusual transactions and every other activity or transaction which should be brought to the attention of the Board of Statutory Auditors.

The Board of Statutory Auditors, also taking into account the size and the structure of the Company and the Telecom Italia Group, has expressed a positive opinion on the aforementioned procedure, also in view of its actual application in the last two quarters of 2002.

- On the basis of the information received and the specific analyses conducted by the Board of Statutory Auditors, the most important economic, financial and equity transactions entered into by the Company, also through directly and indirectly owned Group companies, are basically represented by the following:
 - in February 2002, the Information Technology Market Business Unit (Finsiel Group) tendered its shares to the tender offer to purchase Lottomatica shares;
 - in March 2002, the Telecom Italia Group sold the investment held by Tim International in BDT-Bouygues Decaux Telecom (19.61%), the group holding company of the French provider Bouygues Telecom;
 - in May 2002, Finsiel S.p.A. (49%) and Sogei S.p.A. (51%) set up Sogei.it S.p.A. which was entrusted with operations not connected to the Fiscal Records activities previously carried out by Sogei S.p.A., and in July, Finsiel S.p.A. finalized the sale of the investment in Sogei S.p.A. to the Ministry of Economy and Finance – Department for Fiscal Policy;
 - in August 2002, the Telecom Italia Group, after authorization was received from the Antitrust Authorities, purchased a 69.10% stake in the share capital of Netesi, in which Telecom Italia already held a 17.98% stake;
 - in August 2002, the closing was held for the sale by the Telecom Italia Group of the investment in Auna to Endesa, Union Fenosa and Banco Santander Central Hispano, initially scheduled for the month of December 2002;
 - in August 2002, the company finalized the sale of Telemaco Immobiliare to Mirtus, a company indirectly controlled by the American real estate fund, Whitehall, promoted by the Goldman Sachs group;
 - in August 2002, the transaction was concluded for the sale of the investment in 9Telecom and the concurrent purchase of 7% of LDCom;
 - in August 2002, TIM International NV (a wholly-owned subsidiary of TIM S.p.A.) purchased from the Verizon Europe Holding Group a 17.45% stake in the share capital of Stet Hellas, in which it already held a 63.95% stake;
 - in September 2002, Telecom Italia concluded an agreement with Pagine Italia S.p.A. for the purchase of the Pagine Utili directories business;
 - in October 2002, contracts were signed with the News Corporation Group, a partner with Telecom Italia and Stream, and with Vivendi Universal, the majority shareholder of Telepiù, for the acquisition of the latter company and consequent creation of a single platform for pay TV in Italy;
 - in November 2002, Telecom Italia finalized the agreement with Finmeccanica for the sale of Telespazio based upon the August 2002 agreement;

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- in November 2002, Telecom Italia International NV placed 75 million Telekom Austria A.G. shares on the market, equal to 15% of share capital. Following the transaction, Telecom Italia's stake was reduced from 29.78% to 14.78%;
- in November 2002, Telecom Italia S.p.A. sold its share of the investment held in IMMSI S.p.A. to Società Omnipartecipazioni S.p.A.;
- in December 2002, the Shareholders' Meetings of the Company and of TIM S.p.A. voted to distribute reserves to the shareholders up to a maximum, respectively, of euro 1,000 million and euro 1,600 million;
- in January 2003, under the Telecom Italia's securitization program of telephone bills, the company, TI Securitisation Vehicle, renewed the first tranche of euro 100 million of asset backed securities issued on January 29, 2001;
- in February 2003, the agreement signed on December 28, 2002 was finalized for the sale of the 29% stake held by the Telecom Italia Group in Telekom Srbija, to PTT Srbija. The closing is scheduled for June 2003;
- on March 11, 2003, as part of the transaction for the buy-back of treasury stock authorized by the Ordinary Shareholders' Meeting of Telecom Italia on November 7, 2001, a total of 54,309,500 savings shares were purchased at an average price of euro 5.24 per share and 6,195,500 ordinary shares at the average price of euro 8.00 per share.

The above transactions were described in the directors' report on operations and/or in the notes to the statutory financial statements of Telecom Italia S.p.A. and the consolidated financial statements at December 31, 2002.

The Board of Statutory Auditors has ascertained that the above transactions have been carried out in accordance with the law, the by-laws and general principles of economic rationale, ensuring that such transactions were not patently imprudent, risky, with potential conflicts of interest, in contrast with the resolutions passed by the Shareholders' Meeting or such as to compromise the whole of the assets of the Company Telecom Italia.

- The Board of Statutory Auditors has not noted any unusual and/or atypical transactions entered into with third parties, related parties or intercompanies during the course of 2002 or subsequent to the end of the year.

The directors, in the section of report dealing with related party transactions and in the comments on the individual captions of the financial statements of Telecom Italia S.p.A., disclose and describe the main intercompany transactions and the transactions with related parties, to which reference should be made, also with regard to the characteristics of the transactions and their economic effects.

The Board of Statutory Auditors has verified, with the assistance of the Internal Auditing function (In.Tel.Audit limited liability consortium) and the audit firm of Reconta Ernst & Young, that Telecom Italia S.p.A. adopts specific practices aimed at ensuring that the above transactions concluded in the interests of the Company and/or Group are conducted at arms' length or according to specific regulatory provisions.

- The disclosure provided in the report on operations and in the statutory and consolidated financial statements concerning transactions entered into by the Company with related parties or intercompanies, is sufficient, taking into account the size and structure of the Company and the Group.

- The audit firm, Reconta Ernst & Young S.p.A., on April 18, 2003, has issued its audit reports in accordance with art. 156 of TUF, stating that the statutory financial statements and the consolidated financial statements at December 31, 2002 give a true and fair view of the financial position and results of operations of the Company.

The reports make reference to the usual comments concerning the pension costs regulated by Law No. 58 of 1992. The same audit firm of Reconta Ernst & Young S.p.A. issued its report dated April 18, 2003, which contained no exceptions, on the sustainability report of the Telecom Italia Group for the year ended December 31, 2002.

- In 2002, the Board of Statutory Auditors received seven complaints under art. 2408 of the Italian Civil Code, concerning: a) alleged "improper and prejudicial conduct" towards a shareholder on the part of some executives of the Company; b) the right to inspect the company books on the part of shareholders; c) the interpretation of art. 10 of the by-laws; d) the transaction to distribute "miscellaneous income reserves" voted by the Shareholders' Meeting of the company on December 12, 2002; e) the verification, in terms of the fairness and assured realization in the case of the divestiture, of the entry in the financial statements under long-term investments of the investment held by the Company in Seat Pagine Gialle S.p.A.; f) the fairness of the price and the manner of the sale of the investment held by the Company in Immsi S.p.A.; g) the absence of certain directors at the Shareholders' Meeting held on December 12, 2002, the reasons for such absence and the relative effects on the quantification of the compensation due to the directors.

The Board of Statutory Auditors, in all cases, carried out the appropriate inquiries and ascertained that there were no omissions, censurable facts or irregularities that needed to be brought to the attention of the Shareholders' Meeting.

- In 2002, the Board of Statutory Auditors received three briefs concerning: a) disconnection of a telephone line; b) alleged disservice on a wireline telephone line of Telecom Italia S.p.A.; c) failure to activate a commercial promotion on a telephone line.

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The Board of Statutory Auditors, in these cases, carried out the appropriate inquiries and ascertained that there were no irregularities that needed to be brought to the attention of the Shareholders' Meeting.

In 2003, the Board of Statutory Auditors received a briefs in which it was asked to give an in-depth account, in this report, on the terms and the basis for the charges relating to the decree dated February 4, 2003 with which the Ministry of Economy and Finance levied a pecuniary administrative sanction on all members of the Board of Statutory Auditors of the Company in office from June 1997 to June 2000 and all those currently in office, with an injunction to the same Company to pay the sanction with the obligation of recourse against the same persons.

The event originated with the formal notice presented by Consob on August 21, 2001 to the Board of Statutory Auditors over three violations of art. 149, paragraph 3, of TUF.

Specifically, two violations, both of the same nature, contested to the Statutory Auditors currently in office, regard the transaction for the purchase of TIM shares (March and April 2000) and the Telegate transaction (May 4, 2000) relative to which – according to Consob – the Managing Director pro tempore did not fulfil the disclosure requirements within the allotted time under ex art. 150, TUF. The failure to disclose the information ex art. 150 within the three months established by the provision – according to Consob – falls under the irregularities which the Board of Statutory Auditors is obliged to communicate to Consob pursuant to art. 149, paragraph 3, TUF. This communication – again according to Consob – should have been reported without delay, as soon as the Statutory Auditors became aware of the late disclosure of the information.

These transactions were disclosed by the Board of Statutory Auditors in the memorandum read on June 12, 2001 during the Shareholders' Meeting called to approve the 2000 financial statements.

As far as the violation contested to the Statutory Auditors in office previously, the question regards the late notification to the Board of Directors and the Board of Statutory Auditors, on the part of the Managing Directors pro tempore and a director, of the existence of a potential conflict of interest in the transaction regarding the merger of Seat-Tin.it. According to Consob, the Statutory Auditors should have informed Consob without delay about this late notification.

These above-cited formal notices were opposed by the Statutory Auditors of Telecom Italia, in office and previously in office, on the basis of an interpretation of the provision different from that of Consob, and the Statutory Auditors unanimously agreed not to take recourse in the possibility of paying the sanction, but filed their counter-actions. The proceedings continued from October 2001 without any further notices to the persons concerned, until the imposition of the sanction de quo. The notice of sanction nevertheless states that there was no malicious intent.

All the members of the Board of Statutory Auditors and Telecom Italia itself have contested the action in the relevant jurisdictional seats.

7. In 2002, Telecom Italia S.p.A. appointed Reconta Ernst & Young S.p.A. to perform certain work other than the legal audit of the financial statements. The fees for this work, excluding out-of-pocket expenses and VAT, are summarized below:

	(euro)
Analysis of accounting problems connected with the realization of extraordinary transactions on the Group's structure	120,000.00
Test procedures agreed on certain accounts included in the accounting situation at September 31, 2002 of the International Wholesale Services business of Telecom Italia	35,000.00
Test procedures for compliance and analysis of the Sustainability Report of Telecom Italia for the three-years 2001/2003	30,000.00
Additional fee covered by the contract for the testing of the Sustainability Report for the year 2001	2,500.00
Assistance services regarding Form 20 - F for the year 2001, in order to ascertain compliance with the rules issued by the Securities and Exchange Commission (SEC)	275,000.00
Procedures agreed in connection with the issue, by Telecom Italia, of the euro 2,500,000,000 notes under the Global Medium-Term Note Program	50,000.00
Assistance services connected with the review of the Form 20 - F for the year 2002	580,000.00
Total at December 31, 2002	1,092,500.00

The above fees appear adequate in relation to the complexity, the magnitude and the type of work performed.

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8. In 2002, the Company conferred the following appointments to parties connected by continuous working relationships with companies in the Ernst & Young Global international network (EYG):

Company	Description of service	Contractual amount (in euro)
Ernst & Young Financial - Business Advisors S.p.A. (*)	Professional services relating to activities requested by Telecom Italia aimed at identifying facts and information regarding the transaction to purchase the investment in Netesi S.p.A.	25,000.00
Ernst & Young Financial - Business Advisors S.p.A. (*)	Professional services relating to activities requested by Telecom Italia aimed at identifying facts and information regarding the transaction to purchase the investment in EPIClink S.p.A.	50,000.00
Ernst & Young Financial - Business Advisors S.p.A. (*)	Professional services relating to activities requested by Telecom Italia aimed at identifying facts and information regarding the transaction to repurchase the irrevocable right of use of the capacity of the Mediterranean Nautilus network.	20,000.00
Ernst & Young Financial - Business Advisors S.p.A. (*)	Assistance services requested by Telecom Italia in order to define and apply the methodology, according to U.S. G.A.A.P., for allocating the purchase price of the assets and liabilities within the individual business segments of the Entel Chile Group.	90,000.00
Legal/Tax Office	Assistance provided to Telecom Italia with regard to the tax dispute connected with the assessments received for TOSAP	13,557.43

(*) The contracts signed by Telecom Italia are in the name of "Ernst & Young Financial Advisor S.r.l.". On June 26, 2002, this Company changed its name and legal form to "Ernst & Young Financial - Business Advisor S.p.A." although the address, tax code and Milan Companies Registry number remained the same.

9. In 2002, the Board of Statutory Auditors issued a specific opinion to the Board of Directors, pursuant to ex art. 2389, paragraph 2, of the Italian Civil Code, concerning the compensation attributed to the Chairman and Managing Directors. In the same period, the Board approved, ex art. 2386, paragraph 1, of the Italian Civil Code, the nomination by co-option of the directors Pietro Modiano and Riccardo Ruggiero, which took place during the Board of Directors' Meetings on July 25, 2002 and September 5, 2002.

10. In 2002, the meetings of the Board of Directors numbered nine; those of the Audit Committee for internal control and corporate governance numbered eight; those of the Compensation Committee met six times. The Board of Statutory Auditors, in 2002, met 24 times. The Board also attended the Shareholders' Meetings and all the Board of Directors' Meetings and, through its Chairman, took part, in the meetings of the Audit Committee for internal control and corporate governance.

Over its three-year term of office, the Board of Statutory Auditors, to date, met 73 times.

11. The Board of Statutory Auditors has acquired information and monitored, as far as its responsibilities are concerned, the proper keeping of administration, through direct observation, the gathering of information from those in charge of the organizational functions (pursuant to art. 151, paragraph 1, TUF), meetings with the Audit Committee for internal control and corporate governance, with the head of the Internal Auditing function (the company In.Tel.Audit) and with the audit firm of Reconta Ernst & Young S.p.A., for purposes of a reciprocal exchange of important information and data, ex art. 150, paragraph 2, TUF.

Specifically, as far as process of passing resolutions by the Board of Directors is concerned, the Board of Statutory Auditors has verified – also on the basis of information received from the procedure briefly described at the beginning of this report – if the decisions conform to the law and the by-laws and if the resolutions were supported by analyses and opinions – produced internally or, where necessary, by external professionals – regarding, above all, the congruity of economic-financial transactions and whether they are in the interests of the Company

Other tests for compliance of the principles of correct administration, also in the operating practices, are constituted by:

- the principles of conduct for effecting transactions with related parties, approved by the Board of Directors in its meeting of July 25, 2002. Such principles provide, among other things, that the Board of Directors approve transactions with related parties, beforehand, including intercompany transactions, except those transactions that are typical or usual or those that are entered into at standard conditions and which, on the basis of the nature, the amount or the features of the transaction, the Board of Directors, for purposes of avoiding that the transaction is effected at incongruous conditions, is assisted by one or more experts who express an opinion, depending on the case, as regards the economic terms and/or legitimacy and/or the technical aspects of the transaction;
- the Code of Ethics of the Group, approved by the Board of Directors in its meeting of November 7, 2002 and on which the Board of Statutory Auditors, in principle, expressed a positive opinion; the principles contained in this Code will be gradually introduced and applied in the various business contexts of the Group;
- the "231 organizational model", approved by the Board of Directors in its meeting of May 5, 2003 and on which the Board of Statutory Auditors, in principle, expressed a positive opinion. This model, in particular, is directed towards ensuring that the internal control system

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is operating effectively, with reference to the specific requirements established by Legislative Decree No. 231 of 2001 with regard to the administrative responsibility of entities for specific offenses committed by directors, employees or collaborators. It defines the guidelines of conduct to be followed so that situations can be avoided that may give rise to the committing of an offense under ex Legislative Decree 231/2001 (subsequent changes or additions) and institutes a supervisory board (pursuant to art. 6 of the above-cited Legislative Decree 231/2001) which has been specifically assigned the "task of overseeing the functioning and compliance of the organizational model and of supervising its relative updating".

12. The Board of Statutory Auditors, in the same manner, has acquired information and monitored, as far as its responsibilities are concerned, the adequacy of the organizational structure of the Company.

The organizational structure has undergone, during the course of the year, significant changes aimed at adapting it to corporate strategies and at improving the distribution of tasks as well as decisional and operational coordination.

At the macro-organizational level, the Telecom Italia Group is organized in Business Units, Operating Activities and Central Functions. Their coordination is assigned to the Chairman and the two Managing Directors of Telecom Italia, according to a complex structure that can be summarized as follows:

- the Business Units (internal structure of the same Telecom Italia or configured as autonomous companies) are responsible for the development of business and the coordination of activities for the market;
- the Operating Units (also represented by internal structures of the same Telecom Italia or configured as autonomous companies) are responsible for the development of synergies and the supply of common services within the Group;
- the Central Functions, lastly, are responsible for directing the functioning of the Group.

Particular relevance from the standpoint of the internal control of the Group is assumed by the Central Functions which have responsibility for guaranteeing the definition of the policies and the governing of questions transversal to the organizational structure, according to a model based on "professional families" which, while it being understood that the Business Units are responsible for the economic and business results, group operating resources based on functional homogeneous environments found at the different organizational levels. For every Professional Family, the corresponding Central Function ensures, moreover, the realization of the policies, the coordination of the processes and the overall quality of the results, with specific responsibility for their monitoring.

Operating within the Professional Family are also "service centers" for carrying out common activities, such as, for example, the Administrative Services Centers, which have the task of guaranteeing that administrative and accounting work is carried out with regard to the sales cycle, the purchases cycle, fixed asset management, all the way up to preparing trial balance for Telecom Italia as well as – progressively – for all the Business Units/Operating Activities.

At the same time, there are bodies and times established for gathering, coordinating and programming at the Group level in the form of committees of an operating nature in which the executive directors and managerial resources heading the interested Business Units, Operating Activities and Central Functions participate as regards the issues in question. Such gathering bodies are:

- the Investment Committee, for the approval and oversight of the investments/disposals of more than a pre-established limit;
- the Purchases Committee, which aims to support the coordination of the purchase processes of the Group, monitoring the trend and maximizing the synergies among the various situations existing within the Group;
- the Steering Committee, which defines the guidelines and strategies for the management of the foreign holdings of the Group;
- the Business Review system inside each Business Unit, geared towards analyzing results and operating progress, deciding on the consequent plans of action.

Changes in the organizational structure of the Group in 2002 particularly regarded the reorganization of the companies of the Telecom Italia Group in Luxembourg, the creation of the Latin America Operations structure, the merger by incorporation of Telecom Italia Lab in the Company, the reorganization of the Information Technology area; the reorganization of the International Wholesale Services business (by setting up of the company Telecom Italia Sparkle S.p.A.), the sale of the Satellite Services Business Unit (through the sale of Telespazio S.p.A.) and the sale of the Real Estate General Services Central Function (through the sale of Immsi S.p.A. and the realization of Progetto Tiglio).

Following the resignation tendered by the Managing Director, Enrico Bondi, and the nomination as a Director and then as Managing Director (with reference to the Domestic Wireline Business Unit), of the General Manager, Riccardo Ruggiero, the Board of Directors reviewed the architecture of the Group and redefined the powers delegated to the executive directors of the Company (Chairman and Managing Directors).

Specifically, as regards the responsibilities that had been Mr. Bondi's, these were redistributed based upon a structure of responsibilities and reporting flows in terms of the following:

- reporting to the Chairman, in reference to coordination: the Domestic Wireline, Mobile and Internet & Media Business Units as well as the General Counsel and Central Functions of Communication and Image, Brand Enrichment, Human Resources and Public and Economic Affairs;

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– reporting to the Managing Director, Carlo Orazio Buora: the Information Technology Market Business Unit and all the other Central Functions.

Consistent with the organizational solutions described, the new system of delegation of operating powers is characterized by a less rigid power structure in order to ensure that the Managing Directors have the necessary flexibility and operating agility, also through the possibility of conferring powers of attorney to various persons responsible in the structure.

Always with reference to the organizational structure, lastly, the Company is about to formalize a procedure, which has already been adopted in practice, relating to the nomination of the corporate boards and committees of the Group companies.

13. The Board of Statutory Auditors has evaluated and monitored the adequacy of the internal control system. In particular, it regularly gathered information about the work carried out, by meetings with those in charge of the Internal Auditing function and by obtaining specific documentation on a periodical basis. The internal controls in place did not reveal any significant critical areas.

With regard to internal auditing activities, the Company adopted the solution of concentrating internal auditing activities, the resources and the professionals of the sector that were already existing separately in Telecom Italia, Tim and Seat (as well as Olivetti) in a limited liability consortium company named In.Tel.Audit. In.Tel.Audit's business purpose is to carry out, independently and objectively, the stages of work pertinent to or functional to internal auditing aimed and directed to the testing of the proper functioning of the internal control system as well as take steps for its improvement. The consortium company operates both on the basis of planned annual audits and reviews and also through unplanned tests and checks based on its own initiative or the initiative of each shareholder. The internal control system is also subject to continual supervision for purposes of periodic evaluations and constant updates.

Within the internal control systems, certain transversal projects of the Group should be mentioned as they hold particular importance:

- CUSA Project (Check-Up of Administrative Systems): this has already been introduced in concert with the audit firm (Reconta Ernst & Young) and the objective is to improve the information systems for the financial statements and the periodic operating reports;
- CRSA Project (Control Risk Self Assessment): begun in 2003, it consists of the assessment of risk with the objective of investigating specific risks which accompany the realization of operating objectives and then map them and perform cost/benefit evaluations to verify the utility of adopting instruments and mechanisms for protection.

Art. 150, last paragraph, TUF, calls for the figure of "persons in charge of internal control", who "also report to the Board of Statutory Auditors of their own initiative or upon the request of even just one statutory auditor". The company conducted an in-depth study to better identify the figure of the "person in charge" that would be valid for the entire Group. The organizational proposal that arose therefrom, approved by the Board of Directors of the Company in the meeting of November 7, 2002, and discussed beforehand by the Audit Committee for internal control and corporate governance and by the Board of Statutory Auditors, establishes that the "person in charge" should be the person responsible for internal auditing, also in light of the approach according to which the functions of the person in charge of internal control should be those of testing the adequacy and effectiveness (i.e., the correct functioning) of the internal control system and – where there are anomalies - to suggest the necessary corrective solutions. In concrete, in the case of Telecom Italia, the consortium company, In.Tel.Audit, which performance internal auditing for the companies in the consortium according to the by-laws and consortium regulations, was identified as the "person in charge" of internal control.

The function of the person in charge of the internal control of the individual interested companies is carried out by In.Tel.Audit in the person of a director designated by the same interested company. The implementation of any "maintenance" work on the internal control system indicated by the person in charge is, each time, the competence and responsibility of the various corporate sectors of the individual companies, on the basis of the indications formulated by each Board of Directors.

14. The Board of Statutory Auditors has evaluated and monitored the adequacy of the administrative and accounting system, as well as its reliability to correctly represent operating events, by obtaining information from those in charge of the respective corporate functions, examining corporate documentation and reviewing the results of the work carried out by the audit firm.

With reference to the procedures followed by management for the evaluation and verification of the congruity of the carrying values of the investment portfolio of the Group, the Board of Statutory Auditors examined the results of the work performed by the audit firm of Reconta Ernst & Young and followed the work of the Audit Committee for internal control and corporate governance of the Company as regards the adequacy of the accounting principles adopted and their consistency for purposes of the preparation of the consolidated financial statements.

In the 2002 consolidated financial statements, extraordinary expenses include certain impairment losses regarding subsidiaries and affiliated companies for a total of euro 6,237 million, relating principally to:

- the investment in Is Tim (euro 1,491 million), as a result of the change in macroeconomic conditions and the difficulties of providing service that are not dependent on the company, and provisions (euro 850 million) connected to the loans made and to the guarantees provided in favor of the company;

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– the goodwill relating to Seat Pagine Gialle S.p.A. (euro 1,544 million) and the provision relative to the forward commitment to purchase Seat shares (euro 1,942 million) for a total of euro 3,486 million following the decision - taken within the framework of the redefinition of Telecom Italia Group's strategies - of no longer considering the "Directories" business of Seat Pagine Gialle to be of strategic interest. The Board recommends – also on the basis of the same recommendation by the Board of Statutory Auditors of TIM S.p.A. – to carefully monitor the economic, financial and accounting situation of the company IS TIM.

15. The instructions given by the Company to its subsidiaries, pursuant to art. 114, paragraph 2, of TUF, appear adequate for purposes of fulfilling the obligation regarding communication as required by law.

The Company also adopts a procedure in practice which controls a flow of information, which is directed to top management, concerning the activities conducted by the corporate boards of the companies the Group.

Furthermore, as part of the procedure for disclosure of price sensitive information to the market (see following point 17), the Company has established specific flows of information which the subsidiaries must follow in reporting to the Company so that the obligations relating to corporate information can be satisfied correctly. The companies Tim and Seat, moreover, have adopted a procedure for disclosing information to the market that is similar to that adopted by the Company.

16. The Board of Statutory Auditors has ascertained, through direct verification and information obtained from the audit firm, that the laws have been respected with regard to the preparation and formation of the statutory financial statements of Telecom Italia S.p.A. and the consolidated financial statements of the Group as well as the directors' report accompanying said statements.

In particular, the Group's performance by business sector and by geographical area has been presented by taking into account Consob Instruction No. 98084143 dated October 27, 1998.

Beginning this year, the Annual Report contains the "Sustainability Section" which expresses the Group's attention to the various stakeholders. The section contains the same information, organized in relation to the pertinent stakeholder and then analyzed in depth in the attached "Sustainability Report" presented last year in the section "Other relevant information about Telecom Italia Group".

17. The Company, through its own code, follows the Code of Self-discipline of the Corporate Governance Committee of listed companies (the Preda Code). To this end, the following have been instituted and are functioning: the Audit Committee for internal control and corporate governance and the Compensation Committee for the remuneration of the directors, whereas the Company has not constituted – as established by the Preda Code as only an eventuality – the Nominating Committee since voting by lists for the election of the Directors of the Company has been in force since 1997. Furthermore, the Code of Self-discipline of the Company is currently being totally revised also to take into account the changes introduced in July 2002 to the cited Preda Code.

The Company, in keeping to the provisions recently introduced by the Regulation of markets organized and operated by Borsa Italiana, has adopted a Code of Conduct for insider dealing aimed at disciplining the disclosure required and the conduct inherent to transactions on listed securities of the Group carried out on behalf of persons who, by virtue of the positions they hold in the Company, have access to price sensitive information. The Board of Statutory Auditors has expressed, in principle, a positive opinion on the cited Code of Conduct on insider dealing.

Lastly, Telecom Italia, at the beginning of 2003, formalized the practice followed for disclosing price sensitive information to the market in a specific Procedure. In particular, this Procedure, on which the Board of Statutory Auditors has also expressed a positive opinion, established the manner in this information should be disclosed to the market, identifying Corporate Functions and Structures involved in the process, overseeing the process to be followed in the event of rumors or requests for information by parties responsible for supervision and market operations. The Procedure also covers the rules to be followed in meetings with the financial community and the Press so that corporate information is not used in a selective manner.

18. During the course of the oversight, monitoring and control activities, there were no significant facts that came to our attention such that would need to be reported to the controlling bodies or mentioned in this report.

The examination of the reports issued as set forth by art. 153 and art. 156 TUF, respectively by the Boards of Statutory Auditors and by the audit firms of the subsidiaries of Telecom Italia S.p.A. with stocks listed on regulated markets and operated by Borsa Italiana S.p.A. (Tim S.p.A. and Seat Pagine Gialle S.p.A.), or organized as business units (Finsiel S.p.A.), show no significant matters for attention.

19. The Board of Statutory Auditors, at the Shareholders' Meeting of Telecom Italia S.p.A. for the 2000 financial statements held on June 12, 2001, discussed, as to its knowledge, the events regarding the acquisition, in June 1997, of a 29% stake in Telekom Srbija by Stet International Netherlands N.V. The question has always had the Board's attention and it followed the matter also by interviewing the persons in charge of the relevant corporate functions: based on the activities carried out, to date, no significant variations have emerged since the situation was described at the aforementioned Shareholders' Meeting and at the time of preparing the "Comments by the Board

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of Statutory Auditors on the report for the six months ending June 30, 2001" and in the report by the Board of Statutory Auditors ex art. 153 TUF to the Shareholders' Meeting on the financial statements of the Company held on May 7, 2002.

Furthermore, on April 14, 2002, the Chairman of the Board of Statutory Auditors of the Company received a letter from the President of the Parliamentary Commission investigating the Telekom Serbia matter referring to: "a notice of asset impairment following serious irregularities pursuant to article 2392 and subsequent articles of the Italian Civil Code and article 100 of the Constitution".

The aforementioned letter was also sent to the District Attorney of the Republic of the Rome Courts, the District Attorney of the Republic of the Turin Courts, the Chairman of the Board of Directors of Telecom Italia S.p.A., and for information, to the President of the Rome Courts and the President of the Turin Courts.

The letter leaves the evaluation of the facts exposed in said letter to the addressees.

The Board of Statutory Auditors, in taking note of the contents of the letter sent by the Parliamentary Commission, initiated a further investigation in order to obtain possible new elements of information.

In the meantime, the Chairman of the Board of Directors of the Company notified the Chairman of the Board of Statutory Auditors that competent corporate functions had been charged to carry out an adequate investigation concerning the contents of the cited letter from the Parliamentary Commission investigating the Telekom Serbia question.

20. On April 15, 2003, the Boards of Directors of Olivetti and Telecom Italia approved the plan of merger by incorporation of Telecom Italia in Olivetti. The Board of Statutory Auditors carried out tests ascertaining that the Company fulfilled the obligations in compliance with corporate disclosures with regard to the calling of the Shareholders' Meeting and the filing of documentation relating to the merger. The Board of Statutory Auditors also verified that the contents of the documents prepared for purposes of the merger in discussion comply with the dispositions of the law and regulations.
21. The Board of Statutory Auditors, having taken note of the statutory financial statements for the year ended December 31, 2002, has no objections to the motion presented by the Board of Directors to appropriate the net loss of euro 1,645,375,511.87 – the absorption of which is to take place through the use of the Revaluation reserve ex Law 72/1983 for a corresponding amount – and to distribute dividends drawn partly from the net income of 2001 in retained earnings and partly from reserves.

Dear Shareholders,

Our term of office expires with this Shareholders' Meeting, so we ask you to proceed to nominate the Board of Statutory Auditors.

Rome, May 6, 2003

The Board of Statutory Auditors
The Chairman

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■ PROPOSED RESOLUTIONS

AMENDMENT OF ARTICLE 7 PARAGRAPH 5 OF THE COMPANY'S BYLAWS

Dear shareholders,

In this extraordinary part of the meeting you are called upon to consider, before addressing the matters related to the annual accounts, an amendment to Article 7 of the Company's bylaws aimed at ensuring greater flexibility in satisfying the special property rights attaching to savings shares and thus, more generally, in formulating the policy for distributing the value created and accumulated by the Company in carrying on its business.

In determining the substance of the preference accorded to savings shares, as required by Article 145.2 of Legislative Decree 58/1998, the bylaw in question basically reproduces what is already established in Article 15 of Legislative Decree 216/1974 by providing for a higher claim on the net profit for the year and better treatment than ordinary shares in the distribution of such profit. In particular, where the Company has recorded a net profit for the year, each savings share is entitled to receive a dividend up to 5% of its par value, and in any case larger by 2 per cent of its face value than any dividend paid to the ordinary shares. As it stands Article 7 also establishes that if, owing to the absence or insufficient amount of the profit for the year, a dividend is paid to the savings shares that is less than the minimum to which they are entitled, the difference goes to increase the preferred dividend in the two following financial years.

The proposal we submit for your approval would authorize the shareholders' meeting called to approve the annual accounts, if the net profit for the year is nil or insufficient, to satisfy both rights by drawing on the reserves, without carryover to the following financial years.

In accordance with Consob Regulation 11971/1999 as amended, the comparative presentation of the article of the bylaws whose amendment is recommended is shown below in the text of the proposed resolution.

In the light of what has been set out above, we submit the following proposal for your approval:

The shareholders' meeting of Telecom Italia S.p.A.

- having considered the explanatory report on the proposal;
- whereas the Company has an interest in having as much flexibility as possible in its policy for the distribution of dividends, within the limits established by law;

resolves

1. to amend Article 7 paragraph 5 of the bylaws with immediate effect as follows:

Existing text	Proposed text
Savings shares shall have the preferential rights set forth in this article.	Unchanged
The net profit shown in the duly approved annual accounts, less the amount allocated to the legal reserve, must be distributed to the savings shares up to five per cent of their par value.	Unchanged
The net profit that remains after the allocation to the savings shares of the preferred dividend provided for in the second paragraph, payment of which must be approved by the Share-holders' Meeting, shall be divided among all the shares in such a way that the dividend per savings shares in such a way that the dividend per savings shares is higher by two per cent of its par value than the dividend per ordinary share.	Unchanged
When the dividend paid on the savings shares in a fiscal year is less than that indicated in the second paragraph, the difference shall go to increase the preferred dividend in the next two fiscal years.	Unchanged

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In the event of a distribution of reserves, the savings shares have the same rights as the other shares.

In the event of a distribution of reserves, the savings shares have the same rights as the other shares. **However, if the net profit for the year is nil or insufficient to satisfy the property rights referred to in the preceding paragraphs, the Shareholders' Meeting called to approve the annual accounts may resolve to satisfy the right referred to in the second paragraph and/or the right to the premium referred to in the third paragraph by drawing on the reserves. Payment made by drawing on the reserves shall exclude application of the mechanism for carrying over, to the two following financial years, the right to preferred dividends not received through the distribution of profits referred to in the fourth paragraph.**

A reduction of the share capital due to losses shall not entail a reduction of the par value of the savings shares except for the amount of the loss that exceeds the total par value of the other shares.

Unchanged

Upon dissolution of the Company, the savings shares shall have priority in the repayment of the capital up to their entire par value.

Unchanged

If the Company's ordinary or savings shares are delisted, holders of savings shares may apply to the Company for their conversion into ordinary shares, in the manner approved by an Extraordinary Shareholders' Meeting called ad hoc within two months for the delisting.

Unchanged

2. to grant the Chairman and the Deputy Chairman, jointly and severally, the powers needed for them to perform all the formalities necessary for the entry of the resolutions adopted in the Company Register and to accept and make any non-substantial amendments thereto that the competent authorities may require.

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FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2002 - DISTRIBUTION OF THE PROFIT FOR 2001 CARRIED FORWARD AND OF RESERVES. RELATED AND CONSEQUENT RESOLUTIONS

Dear shareholders,

The report on operations accompanying the Company's annual accounts and the Group consolidated accounts clearly describes the factors that contributed to the loss recorded for the year. Very briefly, while revenues were basically unchanged compared with the previous year (-1.5%) and despite the efficiency gains achieved, the exceptional level of non-recurring expense resulted in a net loss of euro 1,645,375,511.87, as against a net profit of euro 150,809,706.79 in 2001.

The solidity of the Company's balance sheet means that the loss can be immediately covered by drawing on the reserves, specifically the revaluation reserve created under Law 72/1983.

This balance sheet solidity – together with the good performance of operations and the promising outlook for business – has also led the Board of Directors to recommend meeting the expectations of the market in terms of maintaining the policy for dividends, by keeping them basically in line with the plans announced in the shareholders' meeting of 12 December 2002. To this end, it is proposed the payment of a special dividend, which, together with the dividend already paid in December 2002, will permit shareholders to receive total amounts per share analogous to the dividends distributed to the holders of ordinary shares and savings shares on the basis of the resolutions adopted by the shareholders' meeting of 7 May 2002. In accordance with the amendment to the bylaws already passed by this extraordinary shareholder's meeting, it is also recommended that the supplement for savings shares provided for in the bylaws, equal to 2% of their face value, also be paid by drawing on the reserves.

The amounts thus established, equal to euro 0.1768 per ordinary share and euro 0.1878 per savings share, will be divided pro rata into two parts subject to different tax treatments:

- 25.97% will be withdrawn from the profit for 2001 carried forward and – for the part not so covered – from sundry reserves created out of profits, up to a maximum of euro 346,152,775.38 (of which euro 1,146,812.02 will be 2001 profits), with the assignment of a tax credit of 56.25% with no restrictions on its use;
- 74.03% will be withdrawn, instead, from the share premium account, up to a maximum of euro 986,826,642.33, without the assignment of a tax credit.

The total value of the dividend distributed will vary with the number of shares having entitlement on the day the dividend is paid, taking into account the own shares held by the Company and the number of shares eligible for subscription, as per the increases in capital provided for in Article 6 of the bylaws, and effectively issued by that date.

In the light of what has been set out above, we submit the following proposal for your approval:

The shareholders' meeting of Telecom Italia S.p.A.

- having considered the Company's accounts for the year ended 31 December 2002, which show a loss for the year of euro 1,645,375,511.87;
- having considered the report on operations;
- on the basis of the power attributed to it by Article 7.5 of the Company's bylaws, as amended in this extraordinary shareholder's meeting;
- whereas the increases in capital referred to in Article 6 of the Company's bylaws, for the part that can be subscribed by the dividend payment day, may increase the total number of shares with regular entitlement up to a maximum of 7,411,736,852;
- having regard to the resolution authorizing the purchase and subsequent disposals of own shares adopted by the ordinary shareholder's meeting of 7 November 2001;
- taking into account the quantity of the Company's bonds and commercial paper in issue;
- having taken note of the reports of the Board of Auditors and the external auditors, Reconta Ernst & Young;

resolves

1. to approve the Board of Directors' report on operations, the balance sheet, the income statement and the notes to the accounts of Telecom Italia S.p.A. for the year ended on 31 December 2002, which show a loss for the year of euro 1,645,375,511.87;
2. to cover the loss for the year of euro 1,645,375,511.87 by withdrawing an equal amount from the revaluation reserve created under Law 72/1983;

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3. to declare a dividend calculated on the basis of the following amounts, which will be applied to the number of ordinary shares and savings shares owned by shareholders (thus excluding the own shares held by the Company) on the dividend payment day:
 - euro 0.1768 for each ordinary share or savings share, of which:
 - euro 0.0459 per share withdrawn first from the profit for 2001 carried forward (euro 1,146,812.02) and then, for the remaining part, from sundry reserves created out of profits, up to a maximum of euro 339,051,909.49, with the assignment of a tax credit of 56.25% with no restrictions on its use pursuant to Article 14 of Presidential Decree 917/22 December 1986 as amended;
 - euro 0.1309 per share withdrawn from the share premium account up to a maximum of euro 970,196,353.93, without the assignment of a tax credit pursuant to Article 44 of Presidential Decree 917/22 December 1986 as amended;
 - euro 0.011 for each savings share, of which:
 - euro 0.0029 per share withdrawn from sundry reserves created out of profits, up to a maximum of euro 5,954,053.87, with the assignment of a tax credit of 56.25% with no restrictions on its use pursuant to Article 14 of Presidential Decree 917/22 December 1986 as amended;
 - euro 0.0081 per share withdrawn from the share premium account up to a maximum of euro 16,630,288.40, without the assignment of a tax credit pursuant to Article 44 of Presidential Decree 917/22 December 1986 as amended;
4. to confer a mandate on the Board of Directors – and on behalf of the Board on its Chairman and the Chief Executive Officer, Mr. Buora – to ascertain in due course, in relation to the exact number of shares to be remunerated:
 - the total amount of the dividend distributed;
 - the amounts actually withdrawn from sundry reserves created out of profits and the share premium account to pay the dividend;
5. to pay the above dividend starting on 26 June 2003, with coupon detachment on 23 June 2003.

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REDUCTION OF THE REVALUATION RESERVE UNDER LAW 72/1983 BY THE AMOUNT USED TO COVER THE LOSS SHOWN IN THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2002

Dear shareholders,

In the ordinary part of the meeting you were asked to consider using the revaluation reserve created under Law 72/1983 to cover the loss for the year ended 31 December 2002, as provided for by specific legislation.

This would lead, however, to a ban on the distribution of profits until the reserve had been restored to its original value. Alternatively, the law provides for a definitive reduction in the reserve by an amount equal to that used, subject to approval by the extraordinary shareholder's meeting.

Since it is not desirable to impose constraints on the accounts of the company resulting from the merger this meeting is called upon to consider, it is proposed that the reserve should be reduced definitively and its subsequent replenishment excluded.

In the light of what has been set out above, we submit the following proposal for your approval:

The shareholders' meeting of Telecom Italia S.p.A.

- whereas part of the revaluation reserve created under Law 72/1983 has been used to cover the loss recorded in the Company's accounts for the year ended 31 December 2002;
- having regard to the special legislation applicable;

resolves

to reduce the revaluation reserve created under Law 72/1983 by an amount equal to that used to cover the loss for the 2002 financial year, and thus by euro 1,645,375,511.87, from euro 2,294,719,877.62 to euro 649,344,365.75.

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PLAN FOR THE MERGER OF TELECOM ITALIA S.P.A. INTO OLIVETTI S.P.A.

(under Article 2501-bis of the Civil Code)

The following is an English translation of the official version in Italian language. In case of conflict, the Italian language version will prevail.

Except as provided below, any offer to purchase or sell securities described herein is not being made, directly or indirectly, in or into, or by the use of the mails of, or by any means or instrumentality (including, without limitation by mail, telephonically or electronically by way of internet or otherwise) of interstate or foreign commerce, or any facility of any securities exchange, of the United States of America and any such offer will not be capable of acceptance by any such use, means, instrumentality or facility.

The information contained herein does not constitute an offer of securities for sale in the United States or offer to acquire securities in the United States.

The Olivetti securities referred to herein have not been, and are not intended to be, registered under the U.S. Securities Act of 1933 (the "Securities Act") and may not be offered or sold, directly or indirectly, into the United States except pursuant to an applicable exemption. The Olivetti ordinary shares and Olivetti savings shares are intended to be made available within the United States in connection with the merger pursuant to an exemption from the registration requirements of the Securities Act.

The proposed cash tender offer for a portion of the Telecom Italia ordinary shares described herein is intended to be made available in or into the United States pursuant to an exemption from the tender offer rules available pursuant to the Securities Exchange act of 1934.

The proposed cash tender offer for a portion of the Telecom Italia savings shares described herein is not being made and will not be made, directly or indirectly, in or into the United States

* * *

The merger described herein relates to the securities of two foreign companies. The merger in which Telecom Italia ordinary shares will be converted into Olivetti ordinary shares is subject to disclosure and procedural requirements of a foreign country that are different from those of the United States. Financial statements included in the document, if any, will be prepared in accordance with foreign accounting standards that may not be comparable to the financial statements of United States companies.

It may be difficult for you to enforce your rights and any claim you may have arising under the federal securities laws, since Olivetti and Telecom Italia are located in Italy, and some or all of their officers and directors may be residents of Italy or other foreign countries. You may not be able to sue a foreign company or its officers or directors in a foreign court for violations of the U.S. securities laws. It may be difficult to compel a foreign company and its affiliates to subject themselves to a U.S. court's judgment.

You should be aware that Olivetti may purchase securities of Telecom Italia otherwise than under the merger offer, such as in open market or privately negotiated purchases.

■ 1. COMPANIES PARTICIPATING IN THE MERGER

■ Absorbing Company

OLIVETTI S.p.A.

Olivetti S.p.A. ("Olivetti" or the "Absorbing Company"), with registered office at 77 Via Jervis, Ivrea, fully paid-up share capital of Euro 8,845,537,520 divided into 8,845,537,520 ordinary shares with a par value of Euro 1 each, tax code and registration number in the Turin Company Register: 00488410010.

■ Company to be Absorbed

TELECOM ITALIA S.p.A.

Telecom Italia S.p.A. ("Telecom Italia" or the "Company to be Absorbed"), with registered office at 2 Piazza degli Affari, Milan, and headquarters and secondary office at 41 Corso d'Italia, Rome, fully paid-up share capital of Euro 4,023,816,860.80 divided into 5,262,908,631 ordinary shares with a par value of Euro 0.55 each and 2,053,122,025 savings shares with a par value of Euro 0.55 each, tax code and registration number in the Milan Company Register: 00471850016.

■ 2. BYLAWS OF THE ABSORBING COMPANY AND AMENDMENTS THERETO DERIVING FROM THE MERGER

As a consequence of the Merger, Olivetti will basically adopt the current bylaws of Telecom Italia.

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In particular:

- (i) the Absorbing Company will change its name to "Telecom Italia S.p.A.";
- (ii) the Absorbing Company will take over the corporate purpose of Telecom Italia in its entirety, so as to be able to continue to perform the activities that Telecom Italia is authorized to perform under administrative measures. The amendment to the corporate purpose will give the right of withdrawal to Olivetti shareholders who are absent or contrary to the Merger, pursuant to Article 2437 of the Civil Code;
- (iii) the bylaws of the Absorbing Company will be amended to take account of the changes that will be made to the number and par value (which will be fixed at Euro 0.55) of the ordinary and savings shares at the end of the Merger and hence following the application of the share exchange ratio and assignment procedure described in Sections 3 and 4. As a further consequence of the Merger the bylaws will also be amended to take account of (a) the updating of the amount of the increases in capital already approved by Olivetti for the purposes of the "Piano triennale di Stock Option 2002-2004" stock-option plan, the "Piano triennale di Stock Option febbraio 2002-dicembre 2004" stock-option plan, the "Warrant Azioni Olivetti ex Tecnost 1999-2004" warrants, and the convertible bond issues "Prestito Olivetti 1,5% 2001-2004 convertibile con premio al rimborso" and "Prestito Olivetti 1,5% 2001-2010 convertibile con premio al rimborso", and (b) the increases in capital that the Olivetti shareholders' meeting will be called to approve for the purposes of the stock-option plans of the Company to be Absorbed (Piano 1999, Piano 2000, Piano 2001, Piano Top 2002 and Piano 2002), for the part still applicable;
- (iv) the bylaws of the Absorbing Company will contain an article concerning the savings shares that will be assigned in exchange to the holders of Telecom Italia savings shares on the basis of the exchange ratio and assignment procedure described in Sections 3 and 4. In accordance with Article 145 of Legislative Decree 58/1998, this article will specify the substance of the preferential rights attaching to the savings shares issued for the purpose of the exchange, the related conditions, limits and procedures for the exercise thereof and describe the legal treatment of this class of shares in the event of the delisting of the ordinary or savings shares of the Absorbing Company. The preferential rights of the savings shares to be issued in exchange will be the same as those of the Telecom Italia savings shares, including the possibility of satisfying the rights attaching to them by distributing reserves, whose introduction in the Telecom Italia bylaws will be proposed at the shareholders' meeting called to consider the Merger Plan;
- (v) the Minister for the Economy and Finance has notified Telecom Italia that he does not consider there are grounds for vetoing the adoption of the merger resolution by the Telecom Italia shareholders. With regard to the inclusion in the bylaws of the clauses providing for special powers, the Minister for the Economy and Finance has communicated that he considers it necessary to maintain the power of approval of the acquisition of major equity interests in the company and the veto powers, in the text currently contained in the Telecom Italia bylaws. The Minister for the Economy and Finance has also communicated that he has reached the agreement on these decisions with the Minister for Productive Activities. This premised, pending the formalization of the measure most appropriate to these decisions and the opinion, if any, that the competent European Union authorities may see fit to express on the matter, the Minister for the Economy and Finance has requested that the bylaws to be submitted to the shareholders meetings of the Companies Participating in the Merger contain the provisions specified above.
- (vi) It is also pointed out the shareholders' meeting of the Absorbing Company called to approve the Merger Plan will also be requested to grant a delegation under Article 2443 of the Civil Code to increase the share capital following the Merger by means of the issue of up to a maximum of 88,445,000 ordinary shares with a par value of Euro 0.55 each (and thus for a maximum of Euro 48,644,750), to be offered for subscription to employees of the Absorbing Company or its subsidiaries, with the exclusion of the right of pre-emption under the combined effects of Article 2441, last paragraph, of the Civil Code and Articles 134(2) and 134(3) of Legislative Decree 58/1998.
- (vii) Lastly, it is pointed out that the shareholders' meeting of the Absorbing Company called to approved the Merger Plan will first be requested to approve the replacement of Article 20 (Board of Auditors) and the amendment of Article 13 (Board of Directors) of Olivetti's bylaws.

The complete text of the Absorbing Company's bylaws incorporating all the amendments deriving from the Merger, including what is provided for at points (v) and (vi), is annexed to this Merger Plan. The numbers contained in such bylaws will be specified in the merger instrument, on the basis of the principles and methods described in Sections 3 and 4.

■ 3. EXCHANGE RATIO

The draft financial statements for the year ended 31 December 2002 of Olivetti and Telecom Italia were taken as showing their assets and liabilities in accordance with and for the purposes of Article 2501-ter of the Civil Code.

The exchange ratio has been fixed as follows:

- 7 Olivetti ordinary shares with a par value of Euro 1 (one) each for every Telecom Italia ordinary share with a par value of Euro 0.55;
- 7 Olivetti savings shares with a par value of Euro 1 (one) each for every Telecom Italia savings share with a par value of Euro 0.55;

No cash consideration is envisaged.

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■ 4. PROCEDURE FOR ASSIGNING THE SHARES OF THE ABSORBING COMPANY

The exchange ratio between the economic values underlying the shares will be satisfied principally by redistributing Olivetti's capital at the time of the Merger's implementation, net of the Olivetti shares with a par value of Euro 1 (one) for which the right of withdrawal referred to in Section 2(ii) has been exercised. This redistribution, subsequent to the change of the par value of the shares of the Absorbing Company from Euro 1 to Euro 0.55, will be made to the shareholders of Olivetti and the shareholders of Telecom Italia other than Olivetti at the time of the implementation of the Merger on the basis of the exchange ratio specified above and will thus give rise to the following assignment ratios:

- for every Olivetti share (with a par value of Euro 1) withdrawn and cancelled, "x" newly-issued ordinary shares of the Absorbing Company (with a par value of Euro 0.55) will be assigned;
- for every Telecom Italia ordinary share (with a par value of Euro 0.55) withdrawn and cancelled, "7x" newly-issued ordinary shares of the Absorbing Company (with a par value of Euro 0.55) will be assigned;
- for every Telecom Italia savings share (with a par value of Euro 0.55) withdrawn and cancelled, "7x" newly-issued savings shares of the Absorbing Company (with a par value of Euro 0.55) will be assigned;

where "x" is the ratio between

- the total number of shares of the Absorbing Company with a par value of Euro 0.55 to be redistributed
- the sum of (i) the total number of Olivetti shares with a par value of Euro 1 outstanding (for which the right of withdrawal has not been exercised) at the time of the Merger's implementation and (ii) 7 times the total number of Telecom Italia shares to be exchanged at the time of the Merger's implementation.

Moreover, if the capital to be redistributed is less than Euro 8,845,537,520, the redistribution will be accompanied by the assignment to all the holders of the Absorbing Company's ordinary and savings shares, in proportion to their respective holdings following the redistribution and therefore on the basis of the above-mentioned exchange ratio, of up to a maximum of 11,103,237,961 new ordinary or savings shares with a par value of Euro 0.55 each (and hence up to a total maximum of Euro 6,106,780,879.1) until the share capital of the Absorbing Company reaches a total of Euro 8,845,537,520 (more precisely: Euro 8,845,537,520.05, taking account of the change of the par value of the Absorbing Company's shares to Euro 0.55), without prejudice to any rounding deriving from the exchange operations.

A service will be provided to the shareholders of both Olivetti and Telecom Italia through authorized intermediaries to handle any fractions of shares, at market prices and at no cost in terms of expenses, stamp duty or commissions, which will permit the number of newly-issued shares due to be rounded down or up to the nearest whole number.

In the event that the Olivetti shares held do not entitle the holder to receive, in accordance with the assignment mechanism, even one newly-issued Olivetti share at the end of the Operation, maintenance of the position of shareholder can be ensured by the assignment free of charge to such persons of one share of the Absorbing Company made available by Olivetti International S.A.

The ordinary and savings shares assigned in exchange as specified above will be listed in the same way as the Olivetti ordinary shares currently outstanding.

Upon completion of the assignment procedure described above, the share capital of the Absorbing Company will be fixed in an amount between a minimum of Euro 8,845,537,520 (more precisely: Euro 8,845,537,520.05, taking account of the change of the par value of the Absorbing Company's shares to Euro 0.55) corresponding to Olivetti's paid-up share capital and certified as per Article 2444 of the Civil Code at the date of this Merger Plan, and a maximum of Euro 11,926,697,278 (more precisely: Euro 11,926,697,277.55, taking account of the change of the par value of the Absorbing Company's shares to Euro 0.55) corresponding to the Absorbing Company's share capital assuming that the conversion and subscription rights attaching respectively to the bonds and to the warrants and stock options issued by Olivetti are exercised in full, without prejudice to any rounding deriving from the exchange operations.

■ 5. DATE FROM WHICH THE ORDINARY AND SAVINGS SHARES ASSIGNED IN EXCHANGE WILL BE ENTITLED TO A SHARE OF PROFITS

The ordinary and savings shares issued by the Absorbing Company in exchange for the shares of the Company to be Absorbed that are cancelled as a result of the Merger will have regular dividend rights.

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■ 6. DATE OF EFFECTIVENESS OF THE MERGER. RECORDING OF TELECOM ITALIA TRANSACTIONS IN THE ACCOUNTS OF OLIVETTI. START OF THE TAX EFFECTS OF THE MERGER

In accordance with Article 2504-*bis* of the Civil Code, the effects of the Merger shall start on the date of the last filing of the merger instrument, or from such later date as may be specified in that instrument.

The effectiveness of the Merger is subject to the admission to listing on the MTA electronic share market operated by Borsa Italiana S.p.A. of the savings shares assigned by the Absorbing Company for the purpose of the exchange.

With reference to point 6 of Article 2501-bis of the Civil Code, the transactions carried out by the Company to be Absorbed will be recorded in the accounts of the Absorbing Company from 1 January of the year in which the Merger will become effective in respect of third parties. The tax effects of the Merger will also start on that date.

■ 7. TREATMENT RESERVED TO PARTICULAR CATEGORIES OF SHAREHOLDERS OR HOLDERS OF SECURITIES OTHER THAN SHARES. SPECIAL ADVANTAGES FOR DIRECTORS

No special treatment is envisaged in connection with the Merger for any categories of shareholders or for holders of financial instruments other than the shares of the Absorbing Company or the shares of the Company to be Absorbed, although:

- the number of shares obtainable by exercising warrants (Olivetti) and stock options (Olivetti and Telecom Italia) and the conversion ratios for the convertible bonds issued by Olivetti will be adjusted to take account of the exchange ratio and assignment procedure described in Sections 3 and 4, with ensuing amendment to all the respective rules;
- the savings shares issued by the Absorbing Company in exchange for the savings shares of the Company to be Absorbed will have the same rights and features as the latter, as specified in Section 2(iv).

The Absorbing Company will assume the bonds already issued by Telecom Italia and adopt the rules thereof.

No special advantages are envisaged in favour of the directors of the Companies Participating in the Merger.

All numerical and other changes, additions and updates to this Merger Plan or the bylaws of the Absorbing Company annexed hereto shall be made that may be required by the administrative authorities, *inter alia* with reference to the powers referred to in Section 2(v), or on the occasion of filing with the Company Register or in connection with and/or attendant upon the operations envisaged in this Plan.

Milan, 15 April 2003.

TELECOM ITALIA S.p.A.

OLIVETTI S.p.A.

(in original signed by the respective Legal Representatives)

Annexes:

Bylaws of the Absorbing Company after the Merger

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ANNEXED TO THE PLAN FOR THE MERGER OF TELECOM ITALIA S.P.A. INTO OLIVETTI S.P.A.

■ POST-MERGER BYLAWS OF THE ABSORBING COMPANY

■ Name - Registered office - Purpose and duration of the company

Article 1

The name of the Company shall be "TELECOM ITALIA S.p.A."

Article 2

The registered office of the Company shall be at 2 Piazza degli Affari, Milan, and the headquarters and secondary office at 41 Corso d'Italia, Rome.

Article 3

The Company's purpose shall be:

- the installation and operation, using any technique, method or system, of fixed and mobile equipment and installations, including space systems which use artificial satellites, radio stations, including shipboard stations, links for maritime wireless communications, and dedicated and/or integrated networks, for the purpose of providing and operating, without territorial restrictions, licensed telecommunications services for public use and telecommunications services in a free-market environment, including those resulting from technological progress, and the performance of activities directly or indirectly related thereto, including the design, construction, operation, maintenance and distribution of telecommunications, remote-computing, online and electronic products, services and systems;
- the performance of activities related to or otherwise serving the pursuit of the corporate purpose, including publishing, advertising, information technology, online and multimedia activities and, in general, all commercial, financial, property, research, training and consulting activities;
- the acquisition, provided it is not the Company's principal activity, of equity interests in other companies and undertakings falling within the scope of the corporate purpose or related, complementary or similar thereto, including companies involved in manufacturing electronic products and insurance;
- the control and the strategic, technical and administrative and financial coordination of subsidiary companies and undertakings, and the financial planning and management thereof, with the implementation of all related transactions.

Activities reserved to persons entered in a professional register, activities involving dealings with the public covered by Article 106 of Legislative Decree 385/1993, and those which are otherwise prohibited by applicable legislation shall be expressly excluded.

Article 4

The duration of the Company shall be until 31 December 2100.

■ Share capital - Shares - Bonds

Article 5

The share capital shall be Euro [–], divided into [–] ordinary shares with a par value of Euro 0.55 each and [–] savings shares with a par value of Euro 0.55 each.

The Extraordinary Shareholders' Meeting of 4 October 2000 approved the increase, in one or more steps, of the share capital by up to a maximum amount now remaining, partly as a consequence of the resolution adopted by the Extraordinary Shareholders' Meeting of [–], of Euro 56,992,575.20, which is reserved exclusively for the exercise of the Warrant Tecnost 1999-2004 (now Warrant Azioni Olivetti ex Tecnost 1999-2004) warrants, by means of the issue of up to a maximum of 103,622,864 ordinary shares with a par value of Euro 0.55 each.

The Shareholders' Meeting of [–], reiterating, updating and, where necessary, renewing earlier resolutions of the Shareholders' Meeting and the Board of Directors resolved to increase the share capital by the following divisible amounts:

1. up to a maximum of Euro 492,726.30, by means of the issue of up to a maximum of 895,866 shares with a par value of Euro 0.55 each for the exercise of the "Piano triennale Stock Option 2002-2004" stock options, increase to be implemented by 15 December 2004;
2. up to a maximum of Euro 10,743,649.40, by means of the issue of up to a maximum of 19,533,908 shares with a par value of Euro 0.55 each for the exercise of the "Piano triennale Stock Option febbraio 2002-dicembre 2004" stock options, increase to be implemented by 31 December 2004;
3. up to a maximum of Euro 180,568,488.10, by means of the issue of up to a maximum of 328,306,342 shares with a par value of Euro 0.55 each to be reserved irrevocably and exclusively for the conversion of the "Olivetti 1,5% 2001-2004 convertibile con premio al rimborso"

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convertible bonds, on the basis of a conversion ratio equal to the assignment ratio established for the shareholders of Olivetti S.p.A. in the context of the merger of Telecom Italia S.p.A. into Olivetti S.p.A.;

- up to a maximum of Euro 892,681,820.80, by means of the issue of up to a maximum of 1,623,057,856 shares with a par value of Euro 0.55 each to be reserved irrevocably and exclusively for the conversion of the "Olivetti 1,5% 2001-2010 convertibile con premio al rimborso" convertible bonds, on the basis of a conversion ratio equal to the assignment ratio established for the shareholders of Olivetti S.p.A. in the context of the merger of Telecom Italia S.p.A. into Olivetti S.p.A.

The Shareholders' Meeting of [-] also resolved to increase the share capital by up to a maximum of Euro 261,956,575.10, by means of the issue of up to a maximum of 476,284,682 shares with a par value of Euro 0.55 each, divided into the following divisible tranches:

- a tranche of up to a maximum of Euro 21,969,104.30 for the exercise of the "Piano di Stock Option 1999" stock options, increase to be implemented by 31 January 2005 by means of the issue of up to a maximum of 39,943,826 shares with a par value of Euro 0.55 each, to be subscribed for at a total price of Euro 6.79 per option held;
- a tranche of up to a maximum of Euro 53,421,890.50 for the exercise of the "Piano di Stock Option 2000" stock options, increase to be implemented by 30 July 2008 by means of the issue of up to a maximum of 97,130,710 shares with a par value of Euro 0.55 each, to be subscribed for at a total price of Euro 13.815 per option held;
- a tranche of up to a maximum of Euro 84,158,927.60 for the exercise of the "Piano di Stock Option 2001" stock options, increase to be implemented by 30 April 2008 by means of the issue of up to a maximum of 153,016,232 shares with a par value of Euro 0.55 each, to be subscribed for at a total price of Euro 10.488 per option held;
- a tranche of up to a maximum of Euro 30,600,889.00 for the exercise of the "Piano di Stock Option Top 2002" stock options, increase to be implemented by 28 February 2010 by means of the issue of up to a maximum of 55,637,980 shares with a par value of Euro 0.55 each, to be subscribed for at a total price of Euro 9.203 per option held;
- a tranche of up to a maximum of Euro 71,805,763.70 for the exercise of the "Piano di Stock Option 2002" stock options, increase to be implemented by 31 March 2008 for the first lot, by 31 March 2009 for the second lot and by 31 March 2010 for the third lot by means of the issue of up to a maximum of 130,555,934 ordinary shares with a par value of Euro 0.55 each, to be subscribed for at a total price for the different options of respectively Euro 9.665, Euro 7.952 and Euro 7.721 per option held.

The Extraordinary Shareholders' Meeting of 8 May 2002 authorized the directors, under Article 2420-ter of the Civil Code, to issue, in one or more steps, for up to a maximum of five years from the date of the resolution referred to above, bonds, in euros or other currencies, possibly convertible into the shares of other companies, with or without warrants giving the right to acquire shares of other companies, up to a maximum amount of Euro 9 billion, within the limits permitted from time to time by law, and to establish the procedures, time limits, conditions and related rules of such issues.

The Shareholders' Meeting of [-] authorized the Board of Directors, under Article 2443 of the Civil Code and for a period of up to a maximum of five years from [-], to increase the share capital in one or more steps by means of the issue for cash of up to a maximum of 88,445,000 ordinary shares with a par value of Euro 0.55 each (and thus for up to a maximum of Euro [-]), to be offered for subscription to employees of Telecom Italia S.p.A. or its subsidiaries, with the exclusion of the right of pre-emption pursuant to the combined effects of Article 2441, last paragraph, of the Civil Code and Articles 134(2) and 134(3) of Legislative Decree 58/1998. The Board of Directors' resolutions shall establish a time limit for the subscription of the shares and provide that, in the event of the increase approved not being subscribed for within the time limit established from time to time for the purpose, the share capital be increased by an amount equal to the subscriptions collected by such time limit.

Article 6

The savings shares shall have the preferential rights set forth in this Article.

The net profit shown in the duly approved annual accounts, less the amount allocated to the legal reserve, must be distributed to the savings shares up to five per cent of their par value.

The net profit that remains after the allocation to the savings shares of the preferred dividend provided for in the second paragraph, payment of which must be approved by the Shareholders' Meeting, shall be divided among all the shares in such a way that the dividend per savings share is higher by two per cent of its par value than the dividend per ordinary share.

When the dividend paid on savings share in a fiscal year is less than that indicated in the second paragraph, the difference shall go to increase the preferred dividend in the next two fiscal years.

In the event of a distribution of reserves, the savings shares have the same rights as the other shares. If the net profit for the year is nil or insufficient to satisfy the property rights referred to in the preceding paragraphs, the Shareholders' Meeting called to approve the annual accounts may resolve to satisfy the right referred to in the second paragraph and/or the right to the premium referred to in the third paragraph by drawing on the reserves. Payment made by drawing on the reserves shall exclude application of the mechanism for carrying over, to the two following fiscal years, the right to preferred dividends not received through the distribution of profits referred to in the fourth paragraph.

A reduction of the share capital due to losses shall not entail a reduction of the par value of the savings shares, except for the amount of the loss that exceeds the total par value of the other shares.

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Upon dissolution of the Company, the savings shares shall have priority in the repayment of the capital up to their entire par value. If the Company's ordinary or savings shares are delisted, holders of saving shares may apply to the Company for their conversion into ordinary shares, in the manner approved by an Extraordinary Shareholders' Meeting called ad hoc within two months of the delisting.

Article 7

The shares shall be indivisible. In the event of joint ownership, the rights of the joint owners shall be exercised by a common representative. Fully paid-up shares may be bearer shares when the law permits. In such case, shareholders may apply for their shares to be converted, at their own expense, into registered shares or vice versa.

Vis-à-vis the Company, shareholders shall be deemed to elect domicile for all legal purposes at the domicile indicated in the Shareholders' Register.

Article 8

The Company may issue bonds and shall establish the terms and conditions of their placement.

■ Board of Directors

Article 9

The Company shall be managed by a Board of Directors consisting of not less than seven and not more than twenty-three members. The Shareholders' Meeting shall establish the number of members of the Board, which shall remain unchanged until the Meeting establishes a different number.

The Board of Directors shall be appointed on the basis of slates presented by the shareholders pursuant to the following paragraphs or by the outgoing Board of Directors, on which the candidates shall be listed by serial number.

When the Board of Directors presents its own slate, it shall be filed at the registered office of the Company and published in at least one Italian daily newspaper with national circulation, at least twenty days prior to the date set for the Shareholders' Meeting on the first call.

The slates presented by the shareholders shall be filed at the registered office of the Company and published at the expense of the shareholders in the manner indicated in the preceding paragraph at least ten days prior to the date set for the Shareholders' Meeting on the first call.

Each shareholder may present or participate in the presentation of only one slate and each candidate may appear on only one slate on pain of ineligibility.

Only shareholders who alone or together with other shareholders hold a total number of shares representing at least 1% of the share capital entitled to vote at the Ordinary Shareholders' Meeting may submit slates. To evidence ownership of the number of shares necessary to present slates, shareholders must present and/or deliver to the registered office of the Company, at least five days prior to the date set for the Shareholders' Meeting on the first call, a copy of the documentation attesting their right to attend the meeting.

Together with each slate, and within the respective time limits specified above, declarations must be filed in which the individual candidates agree to their candidacy and attest, on their own responsibility, that there are no grounds for ineligibility or incompatibility, and that they meet any requirements prescribed for the positions in question. Together with the declarations, a curriculum vitae shall be filed for each candidate setting out their main personal and professional data with an indication, where appropriate, of the grounds for their qualifying as independent.

Each person entitled to vote may vote for only one slate.

The Board of Directors shall be elected as specified below:

- four fifths of the directors to be elected shall be chosen from the slate that obtains the majority of the votes cast by the shareholders, in the order in which they are listed on the slate; in the event of a fractional number, it shall be rounded down to the nearest whole number;
- the remaining directors shall be taken from the other slates; to that end, the votes obtained by the various slates shall be divided first by one, then by two, then by three and then by four, up to the number of directors to be chosen. The quotients thus obtained shall be assigned to the candidates on each slate in the order specified thereon. On the basis of the quotients assigned, the candidates on the various slates shall be arranged in a single decreasing ranking. Those who have obtained the highest quotients shall be elected.

If more than one candidate obtains the same quotient, the candidate from the slate that has not yet elected any director or that has elected the smallest number of directors shall be elected.

If none of such slates has yet elected a director or all of them have elected the same number of directors, the candidate from the slate that obtained the largest number of votes shall be elected. If the different slates have received the same number of votes and their candidates have been assigned the same quotients, a new vote shall be held by the entire Shareholders' Meeting and the candidate obtaining the simple majority of the votes shall be elected.

In appointing directors who for any reason have not been appointed pursuant to the procedure specified above, the Shareholders' Meeting shall vote on the basis of the majorities required by law.

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If in the course of the fiscal year one or more vacancies occur on the Board, the procedure specified in Article 2386 of the Civil Code shall be followed. Should a majority of the seats on the Board of Directors become vacant for any cause or reason, the remaining directors shall be deemed to have resigned and they shall cease to hold office from the time the Board has been reconstituted by persons appointed by the Shareholders' Meeting.

Article 10

The Board of Directors shall elect a Chairman from among its member – if the Shareholders' Meeting has not already done so – and may also appoint a Deputy Chairman; both may be re-elected.

In the absence or disability to act of the Chairman, the Deputy Chairman, if one has been appointed, shall take his/her place or, if the Deputy Chairman is absent, the most senior director by age.

The Board of Directors may elect a Secretary who need not be a director.

Extracts from the register of the minutes of meetings of the Board of Directors signed by the Chairman or by two directors and countersigned by the Secretary shall be conclusive evidence.

Article 11

The Chairman or whoever takes his/her place shall call meetings of the Board of Directors at the Company's registered office or elsewhere, indicating the time and place, whenever he/she deems this appropriate in the interests of the Company or receives a written request to do so from at least one third of the directors holding office or from the members of the Board of Auditors.

In general, meetings shall be called at least five days prior to the date thereof, except in urgent cases, when it may be given by telegram, fax or e-mail with at least twenty-four hours' notice.

Notice shall be given to the Board of Auditors within the same time limits.

Meetings of the Board of Directors may be held – if the Chairman or the person acting in his/her place deems it necessary – by video-conference or audio-conference, provided that all those taking part can be identified by the Chairman and all the other participants, that they are able to follow the debate and intervene in real time in relation to the matters under discussion, that they are able to exchange documents pertaining to such matters and that all the above is fully recorded in the minutes. Once the above conditions have been verified, the Board meeting shall be considered to have taken place where the Chairman is located, where the Secretary to the meeting must also be.

Article 12

The Board of Directors shall have the broadest possible powers of ordinary and extraordinary administration of the Company, since all matters not expressly reserved to the General Shareholders' Meeting by law or these bylaws are within its jurisdiction.

The Board of Directors, through the Chairman or other directors delegated for the purpose, shall report to the Board of Auditors on the activities carried out and the transactions of greatest economic, financial or asset-related significance concluded by the Company or its subsidiaries; in particular, transactions involving a potential conflict of interest must be reported on. The report shall be made in good time, and at least once in each quarter, on the occasion of the meetings of the Board of Directors and the Executive Committee or in a written memorandum addressed to the Chairman of the Board of Auditors.

In accordance with the times and procedures for disclosing information to the market, the representative of the holders of savings shares must be informed by the Board of Directors or the persons delegated for the purpose of any corporate transactions that might affect the price of the shares of that class.

Article 13

To implement its own resolutions and manage the Company, the Board of Directors, subject to the limits provided for by law, may:

- create an Executive Committee, establishing its powers and the number of members;
- delegate suitable powers, establishing the limits thereof, to one or more directors, possibly with the title of Chief Executive Officer;
- appoint one or more General Managers, establishing their powers and duties;
- appoint attorneys, who may be members of the Board of Directors, for specific transactions and for a limited period of time.

Article 14

The company signature and the legal representation of the Company vis-à-vis third parties and in legal proceedings shall pertain to the Chairman and, in his absence or disability to act, the Deputy Chairman, if one is appointed; they shall also pertain to the directors with delegated powers.

Article 15

The directors shall be entitled to the reimbursement of expenses incurred in the performance of their duties. The Ordinary Shareholders' Meeting shall also decide the annual compensation payable to the Board. Once fixed, this compensation shall remain unchanged until the Meeting establishes a different amount.

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■ Board of Auditors

Article 16

The Board of Auditors shall consist of five or seven auditors. The Shareholders' Meeting shall establish the exact number, which shall remain unchanged until the Meeting establishes a different number. The Meeting shall also appoint two alternates.

The Board of Auditors shall elect a Chairman from among its members by majority vote. In the absence or disability to act of the Chairman, he/she shall be replaced by the most senior auditor by age.

Without prejudice to the situations of incompatibility established by law, persons who are members of the boards of auditors of more than five companies listed on Italian regulated markets may not be appointed auditors and shall forfeit the post if they are elected. TELECOM ITALIA S.p.A. and its subsidiaries shall not be included when computing the above limit.

For the purposes of Articles 1(2)(b) and 1(2)(c) of the regulation referred to in Justice Minister Decree 162/2000, the following sectors of activity and matters shall be considered closely linked to those of the Company: telecommunications, information technology, online systems, electronics and multimedia technology, and matters related to private and administrative law, economics and business administration.

The appointment of the Board of Auditors shall be based on the slates presented by shareholders who individually or together with other shareholders hold a total number of shares representing at least 1% of the share capital entitled to vote at the Ordinary Shareholders' Meeting. To evidence ownership of the number of shares necessary to present slates, shareholders must present and/or deliver to the registered office of the Company, at least five days prior to the date set for the Shareholders' Meeting on the first call, a copy of the documentation attesting their right to attend the meeting.

Each shareholder may present or participate in the presentation of only one slate and each candidate may appear on only one slate on pain of ineligibility.

The slates must be filed at the registered office of the Company and published at the expense of the shareholders who present them in at least one Italian daily newspaper with national circulation, at least ten days prior to the date set for the Shareholders' Meeting on the first call.

Together with each slate, declarations must be filed in which the individual candidates agree to their candidacy and attest, on their own responsibility, that there are no grounds for ineligibility or incompatibility, and that they meet the requirements prescribed by law and these bylaws. Together with the declarations, a curriculum vitae for each candidate shall be filed setting out their main personal and professional data.

The slates shall be divided into two sections: one for candidates to the position of auditor and the other for candidates to the position of alternate. The first candidate in each section must be selected from among persons entered in the register of auditors who have worked on statutory audits for a period of not less than three years.

Each person entitled to vote may vote for only one slate.

The Board of Auditors shall be elected as specified below:

- from the slate that obtains the majority of the votes cast by the shareholders (the Majority Slate) one alternate and all the auditors not chosen from the other slates (the Minority Slates) shall be chosen in the order in which they are listed on the slate;
- from the Minority Slates two auditors shall be chosen. One alternate shall be chosen from the Minority Slate that obtains the largest number of votes.

For the appointment of the auditors from the Minority Lists, the votes obtained by the various slates shall be divided first by one and then by two. The quotients thus obtained shall be assigned to the candidate auditors on each slate in the order specified thereon. On the basis of the quotients assigned, the candidates on the various slates shall be arranged in a single decreasing ranking and those who have obtained the highest quotients shall be elected.

If more than one candidate obtains the same quotient, the candidate from the slate that has not yet elected an auditor shall be elected or, subordinately, there shall be a tiebreaker vote by the entire Shareholders' Meeting and the slate that obtains the simple majority of the votes shall prevail.

In appointing auditors who for any reason have not been appointed pursuant to the procedure specified above, the Shareholders' Meeting shall vote on the basis of the majorities required by law.

In the event of the substitution of an auditor chosen from the Majority Slate or one of the Minority Slates, the alternate chosen respectively from the Majority List or the Minority Lists shall take his/her place. Appointments to fill vacancies on the Board of Auditors pursuant to Article 2401 of the Civil Code shall be made by the Shareholders' Meeting on the basis of the majorities required by law.

After notifying the Chairman of the Board of Directors, the Board of Auditors, or at least two auditors, may call, as provided for by law, a meeting of the shareholders, the Board of Directors or the Executive Committee.

Meetings of the Board of Auditors – if the Chairman deems it necessary – may be validly held by video-conference or by audio-conference, provided all those taking part can be identified by the Chairman and by all the other participants, that they are able to follow the debate and intervene in real time in dealing with the matters being discussed, that they are able to exchange documents pertaining to such matters and that all the above is fully recorded in the minutes. Once the above conditions have been verified, the meeting of the Board of Auditors shall be considered to have taken place where the Chairman is located.

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■ Shareholders' Meeting

Article 17

An Ordinary Shareholders' Meeting shall be called to approve the annual accounts every year within six months of the end of the fiscal year. Ordinary and Extraordinary Shareholders' Meetings may be held in a place other than the Registered Office, provided it is in Italy.

An Extraordinary Shareholders' Meeting shall be called whenever it is deemed advisable by the Board of Directors and when it is required by law.

Article 18

Every shareholder entitled to attend may be represented at the Shareholders' Meeting by giving a proxy to an individual or legal entity, subject to the restrictions established by law.

In order to facilitate the collection of proxies among employee shareholders of the Company and its subsidiaries who belong to shareholder associations satisfying the requirements established by law, special areas shall be made available in accordance with the procedures and time limits established by the Board of Directors either directly or through its agents where information can be provided and proxy forms collected.

Article 19

The Chairman of the Board of Directors or whoever takes his/her place or, in the absence thereof, the person appointed by those present, shall chair the Shareholders' Meeting and set the rules for the proceedings.

The Secretary shall be appointed by the Meeting, which may select a person who is not a shareholder.

The proceedings of shareholders' meetings shall be governed by law, these bylaws and the Meeting Rules approved by the Ordinary Shareholders' Meeting.

Article 20

Resolutions may be adopted by a show of hands. The Chairman shall establish the procedures for recording votes and may choose two or more tellers from among the persons present.

Each shareholder may exercise his/her right to vote by mail, in accordance with the applicable law.

■ Fiscal year - Dividends

Article 21

The fiscal year shall end on 31 December of each year.

From the net profit reported in the annual accounts, 5% shall be allocated to the legal reserve until this reaches an amount equal to one-fifth of the share capital.

The remainder shall be used to pay the dividend determined by the Shareholders' Meeting, and for such other purposes as the Meeting deems most appropriate or necessary.

During the course of the fiscal year, the Board of Directors may distribute interim dividends to the shareholders.

■ Special powers

Article 22

Pursuant to Article 2(1) of Decree Law 332/1994, ratified with amendments by Law 474/1994, the Minister for the Economy and Finance, in agreement with the Minister for Productive Activities, shall have the following special powers:

- approval, to be granted expressly upon the acquisition by parties subject to the limitations on share ownership referred to in Article 3 of Decree Law 332/1994, ratified with amendments by Law 474/1994, of major holdings, taken to mean holdings that, as specified by Treasury Minister Decree of 24 March 1997, are equal to at least 3% of the share capital represented by shares with a right to vote at the Ordinary Shareholders' Meeting. Approval must be granted within sixty days of the date of the communication that the Board of Directors must send at the time of the application for entry in the Shareholders' Register. Until approval has been granted and after expiration of the time limit without any action, the transferee may not exercise the voting rights or any rights other than the property rights attaching to the shares that represent the major holding. If approval is refused or the time limit expires without action, the transferee must sell the shares within one year. If this is not done, the Court, at the request of the Minister for the Economy and Finance, shall order the sale of the shares representing the major holding pursuant to the procedures established in Article 2359-ter of the Civil Code;
- veto of any resolution to dissolve the Company, transfer the business, merge or divide the Company, transfer the registered office outside Italy, change the corporate object, or amend these bylaws with a view to eliminating or modifying the powers specified in subparagraphs a) and b).

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In accordance with the provisions of the Prime Ministerial Decree issued on 21 March 1997 pursuant to Law 474/1994 and the Treasury Minister Decree issued pursuant to the same law on 21 March 1997, this article shall remain in the bylaws for three years and in any case until the liberalization of the telecommunications industry has reached a sufficiently advanced stage and the industry regulatory authority has become firmly established; the decision that these conditions have been met shall be adopted in an instrument issued in the form indicated in the above-mentioned Prime Ministerial Decree.

[illegible]

AUDITORS' REPORT
Relating to the exchange ratio of shares
pursuant to Art. 2501 quinquies of the Italian Civil Code.
(Translation from the original Italian text)

1. OBJECTIVE, SUBJECT AND SCOPE OF THE ENGAGEMENT

The plan for the merger will be subject to approval at the Extraordinary General Meeting of the shareholders of Telecom Italia to be held on May 24, 2003, first meeting, or on May 25, 2003, second meeting.

Similarly, the shareholders of Olivetti will be required to approve the plan for the merger at the Extraordinary General Meeting to be held on May 24, 2003, first meeting, or on May 25, second meeting or, on May 26, 2003, third meeting if required.

Deloitte & Touche Italia S.p.A. has been appointed by Olivetti to prepare a similar report on the exchange ratio.

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In order to provide the shareholders with adequate information regarding the exchange ratio, this report illustrates the methods adopted by the Directors in determining the exchange ratio and the difficulties encountered by them; in addition, this report also indicates whether, under the circumstances, such methods are reasonable and not arbitrary, whether the Directors have considered the respective importance of such methods and whether the methods have been correctly applied.

In our examination of the valuation methods adopted by the Directors, also based on indications from their Professional Advisors, we have not made a valuation of the Companies participating to the merger. This was done solely by the Directors and the Professional Advisors appointed by them.

2. SUMMARY OF THE TRANSACTION

The Boards of Directors of Telecom Italia and of Olivetti have developed a plan, the purpose of which is to simplify the corporate structure of the Olivetti and Telecom Italia Group.

As indicated in the report of the Board of Directors of Telecom Italia, the proposed transaction provides for the merger of Telecom Italia into Olivetti, pursuant to Articles 2501 and following of the Italian Civil Code. Such transaction, with respect to its scope and main characteristics, was approved by the Boards of Directors of the companies participating to the merger, held on March 11, 2003.

On April 15, 2003, the Board of Directors of Telecom Italia approved the plan for the merger of Telecom Italia into Olivetti, confirming the exchange ratio preliminarily indicated by the Board of Directors on March 11, 2003.

The merger will be effected on the basis of the draft financial statements of Telecom Italia and of Olivetti as of December 31, 2002, adopted by the Boards of Directors of the Companies as the balance sheets required by Article 2501 ter of the Italian Civil Code.

As a result of the merger, the absorbing company will take the name and the corporate scope of Telecom Italia and will adopt new by-laws, based on the current by-laws of Telecom Italia.

As a consequence of the change in the corporate scope, the shareholders of Olivetti who are absent or contrary to the resolutions approving the transaction, will have the right to withdraw pursuant to Article 2437 of the Italian Civil Code.

In the context of the transaction, Olivetti announced the intention to proceed with a voluntary and partial tender offer on Telecom Italia's ordinary and savings shares. In particular, Olivetti intends to offer a consideration based on the average of the stock-market prices of Telecom Italia's ordinary and savings shares in the period between March 12, 2003 and the date of the shareholders' meeting called to approve the merger project, increased by a premium of 20%. In any case, the consideration will not be (i) higher than Euro 8.40 for each ordinary share and Euro 5.65 for each

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savings share and (ii) lower than Euro 7 for each ordinary share and Euro 4.70 for each savings share.

Based on information already made public, the number of shares subject to the tender offer will be determined when the period to exercise the right of withdrawal pursuant to Article 2437 of the Italian Civil Code will expire and, accordingly, at the time Olivetti will have determined the total amount of disbursement to be incurred for such withdrawals. The maximum total amount for the tender offer will be Euro 9 billion, net of the amount of withdrawals. The financial resources allocated to the tender offer for each class of shares (ordinary and savings), if non totally utilized for a class will be assigned to the other class. If the acceptances of the tender offer by the holders of ordinary shares and savings shares were to exceed the quantity tendered for, they will be prorated with respect to each class.

The tender offer will start subsequent to the expiration of the term for the exercise of the right of withdrawal and will be completed prior to the execution of the merger deed. The offering will cease its effects in case the registration of the merger deed at the Companies' Register will not be completed.

The offering will be evaluated by the Board of Directors of Telecom Italia, pursuant to Article 39 of the Ruling for the Issuers on the Italian Stock Exchange

The merger will result with the cancellation of Olivetti's investment in Telecom Italia. Olivetti's share capital, as resulting on the date the merger will become effective, will be re-determined on the basis of the reduction of the par value of the shares (from Euro 1.00 to Euro 0.55), of its allocation to ordinary and savings shares (the latter category being introduced in the new by-laws of the absorbing company as a result of the merger) and of the necessity to maintain its current level in terms of absolute value. After the allocation, the capital of the company resulting from the merger will be distributed to the shareholders of Olivetti and those of Telecom Italia on the basis of a distribution ratio which will reflect the exchange ratio of Olivetti's shares with the ordinary and savings shares of Telecom Italia. In particular, with respect to the criteria for the allocation of Olivetti's shares, the Directors propose to proceed to the exchange by adopting principally the method of the re-distribution of Olivetti's capital and issuing new shares only within the limits eventually required to maintain the share capital at the current level. The re-distribution method consists in the allocation of the absorbing company's share capital among the shareholders of the absorbing company and those of the company to be absorbed, on the basis of the so called "natural" exchange ratio. The determination of the share capital and the exchange transaction will be made in accordance with the following principles:

- Olivetti will set the par value of its shares - to the amount resulting from the conversions of the convertible bonds, the exercise of the warrants and the exercise of the stock options on one hand, and the exercise of the right of withdrawal on the other hand - at Euro 0.55 each (equal to the par value of Telecom Italia's shares), in place of the current par value of Euro 1. Therefore, the share capital of Olivetti will be divided in a greater number of shares. These shares, will be divided into ordinary and savings shares;

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- the new shares, ordinary and savings, with a par value of Euro 0.55 each, representing the share capital of Olivetti at the time of the merger, will be distributed to Olivetti's ordinary shareholders and to ordinary and savings shareholders of Telecom Italia, respectively. This distribution will be made on the basis of the distribution ratios, which will reflect the so called "natural" exchange ratio, with reference to the actual number of shares to be distributed, not yet known as of to date. Paragraph 6.4 below indicates this ratio as 7 ordinary or savings shares of Olivetti for each of ordinary and savings shares of Telecom Italia.

Should the capital of the absorbing company at the time of the merger fall, as a result of the effect of the withdrawals in respect to those of the conversions, below the current amount of Euro 8,845,537,520, the distribution of the share capital will be accompanied by the issuance of new ordinary and savings shares of the company resulting from the merger, to service the exchange of shares, up to a maximum number of 11,103,237,962, with a par value of Euro 0.55 each, in respect to the assignment to capital of the portion of minority interests of the company to be absorbed. These additional shares will be allocated to the shareholders of the absorbing company as well as those of the company to be absorbed, in respect of their proportional ownership.

At the time of the exchange of shares, Olivetti will assign to the savings shareholders of Telecom Italia new savings shares with characteristics corresponding to those currently issued by Telecom Italia.

The transaction provides for the listing of savings shares that will be issued by the absorbing company to service the exchange of shares in favor of the savings shareholders of Telecom Italia. The new Olivetti savings shares will have a par value of Euro 0.55 each, corresponding to that of the current savings shares of Telecom Italia.

Pursuant to Articles 2504 bis, last paragraph and 2501 bis, first paragraph, n. 5 of the Italian Civil Code, the new shares of the company resulting from the merger will have regular dividend rights.

Pursuant to Article 2504 bis, last paragraph of the Italian Civil Code, the effects of the merger, except for those effects provided for by Article 2501 bis, numbers 5 and 6 of the Italian Civil Code, will start from the last of the registrations of the merger deed, or from such subsequent date provided for by the merger deed.

The operations of the company to be absorbed, including income taxes, will be imputed to the financial statements of the absorbing company, with effect from January 1 of the year in which the transaction will become effective.

3. DOCUMENTATION UTILIZED

In performing our work, we obtained from Telecom Italia and Olivetti, such documentation and information as was considered useful in the circumstances. We analyzed such documentation and, in particular:

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- a) the plan for the merger and the reports of the Boards of Directors of the two Companies addressed to the respective Extraordinary General Meetings which, on the basis of the Balance Sheet as at December 31, 2002, propose an exchange ratio as follows:

7 Olivetti ordinary shares, with a par value of Euro 1.00 (one) each for each Telecom Italia ordinary share, with a par value of Euro 0.55 each;

7 Olivetti savings shares, with a par value of Euro 1.00 (one) each for each Telecom Italia ordinary share, with a par value of Euro 0.55 each.

This exchange ratio, so called "natural", corresponds to the exchange ratio that would be applied, had the merger been realized without re-distribution, but issuing new shares to service the exchange ratio.

The ratio for the exchange of shares has been determined by the Directors also taking into account the valuation reports of the Professional Advisors indicated in points b) and c) below. The report of the Board of Directors sets out in detail the valuation criteria adopted, the reasons for their choice, the values resulting from their application and the related comments;

- b) the appraisal report of the exchange ratio prepared by Lazard, as Professional Advisor of the Directors; this report, dated May 11, 2003, and prepared at the request of Telecom Italia, sets out the valuation criteria adopted, the reason for which they were chosen and the results of their application;
- c) the fairness opinion issued by Goldman Sachs on March 11, 2003 at the request of Telecom Italia, with respect to the fairness of the exchange ratio;
- d) the following documentation, used by the Professional Advisors to prepare their appraisal reports and, subsequently, within the scope of our engagement, also utilized by us:
- the financial statements and the consolidated financial statements of Telecom Italia and Olivetti as at December 31, 2001 accompanied by the Report of the Board of Directors, the Report of the Board of Statutory Auditors and the Independent Auditors' Report;
 - draft financial statements and draft consolidated financial statements of Telecom Italia and of Olivetti as at December 31, 2002 accompanied by the Report of the Board of Directors;
 - Telecom Italia's consolidated Business Plan 2003 - 2005 (version dated January 16, 2003) and related updates;
 - Tecnost Group's condensed business plan;
 - historical market prices and trading volumes of ordinary and savings shares of Telecom Italia and Olivetti;
 - publicly available information about companies operating in the same sector;

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- financial research and analyses, published by specialized institutions and investment banks;
 - e) additional documentation, as follows, has been utilized by us:
 - data and information obtained from the Professional Advisors and used by them for the determination of the exchange ratio;
 - rulings of convertible bonds of Olivetti;
 - appraisal report of the exchange ratio dated March 11, 2003, issued by JP Morgan as Professional Advisor of Olivetti and the report prepared by Professor Angelo Provasoli, who reviewed and concurred with the valuation methodologies adopted by JP Morgan;
 - by-laws of the companies participating to the merger;
- accounting elements and other information as deemed necessary for this report.

Finally, we obtained representation from Telecom Italia that, as to the Directors' best knowledge, no significant changes occurred in the data and information considered during our analysis. The same representation has been obtained by Deloitte & Touche Italia S.p.A. from the Directors of Olivetti.

4. VALUATION METHODS ADOPTED BY THE BOARDS OF DIRECTORS FOR THE DETERMINATION OF THE EXCHANGE RATIO

The Directors, also supported by their Professional Advisors, considering the importance and complexity of the merger transaction, deemed it appropriate to identify the valuation methods which, in addition to be in accordance with current best practice, would enable the two companies to be valued on a homogeneous basis.

4.1. Selection of the methods and valuation criteria

The Board of Directors of Telecom Italia determined the exchange ratio by selecting, among a number of valuation methods, those deemed more appropriate to express the value of the entities involved in the merger, considering the activities carried-out by the absorbing company and by the company to be absorbed.

In addition, as suggested by corporate doctrine and professional practice, the Directors compared the values attributed to the companies participating in the merger process under the assumption that they will continue as a going concern. These values cannot be considered representative of a valuation in absolute terms of the two companies participating to the merger, nor can they be compared with any acquisition or sale prices (which normally reflect majority premiums or minority discounts).

The Directors of Telecom Italia, supported by their Professional Advisors, selected the valuation methods and principles to be adopted taking into account:

- a) the specific objectives attributed to the valuations with reference to the underlying transaction;

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- b) the nature of the activities carried-out by each company participating to the merger.

In connection with the first aspect, in the selection of the valuation principles the Directors referred to the purpose of the valuation and to the relevant factors that allow to estimate the value of the entities being valued. As the objective is to express comparable values in order to determine the exchange ratio, the Directors adopted, for both companies participating to the merger, valuation methods based on homogeneous criteria.

As to the second aspect, the Directors considered on one hand the various areas of operations of Telecom Italia and, on the other hand, the circumstances that the controlling investment of Olivetti in Telecom Italia represents a significant component of total assets of Olivetti.

On the basis of the above, the Directors, for the purpose of determining the values of Olivetti and Telecom Italia, have utilized, given the equal significance level in the valuation process, the method of stock-market prices as the principal method and the sum-of-parts method as the control method.

Stock-market prices method: when the companies involved in the merger have shares listed on regulated markets, doctrine and professional practice suggest to consider the results deriving from the stock prices of the respective shares, averaged over an adequate period of time. In this case, the Directors deemed the stock prices particularly significant and, on the basis of the stock-market prices at March 7, 2003 (last date of stock trading prior to the announcement of the transaction by the Boards of Directors), they note that both companies show high levels of volumes exchanged, high capitalization and a high liquidity of their respective shares.

Sum-of-parts method: according to this method, the value of a company is determined as the sum of the values of each of its businesses (intended as economic entities which can be individually evaluated), adjusted to take into account the financial position of the company, minority interests and, where significant, other effects such as those relating to off-balance sheet items, if any, and to potential tax benefits.

In the application of the valuation methods described, the Directors considered the expected distribution of reserves by Telecom Italia, approved by the Board of Directors on March 11, 2003.

4.1.1. Stock-market prices method

The stock-market prices method estimates the value of the equity on the basis of stock-market prices during a significant period, that expires on a date close to which the valuation is prepared. The Directors believe that the stock-market prices following the announcement of the transaction are not relevant.

In order to mitigate short-term fluctuations that typically characterize financial markets, the Directors extended the analysis of stock-market prices to the average prices expressed by the market over sufficiently long periods.

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Accordingly, in the application of the stock-market prices method, with reference to the date of March 7, 2003, the Directors proceeded to:

- a) analyze the historical simple averages over a period covering the preceding 12 months;
- b) analyze the historical averages weighted for volumes over a period covering the preceding 12 months;
- c) analyze the mobile averages for 1, 3, 6 and 12 months;
- d) adjust the value of Telecom Italia's shares, to take into account the expected distribution of reserves.

From the analysis of the historical trends, the Directors identified the averages for 1, 3, 6 and 12 months as those within a range of constant ratios of values.

4.1.2. Sum-of-Parts method

According to the sum-of-parts method, the value of Telecom Italia and Olivetti is determined as the sum of the values of the individual businesses of each company, considered as economic entities which can be individually evaluated. This sum, for each of the companies participating to the merger, is adjusted to reflect the financial position, minority interests and, where significant, other effects, such as off-balance sheet items, if any, and potential tax benefits.

On the basis of the significance of the investment in Telecom Italia in respect to Olivetti's total assets, the valuation process was concentrated on the estimated value of Telecom Italia, decisive element to identify Olivetti's value.

Taking into account the complexity of the company's structure and the various areas of the operations of the Telecom Italia Group, the individual businesses were evaluated on the basis of those methodologies, among those utilized by the practice, considered more suitable in the specific situation. In particular, the method of the discounted cash flow ("DCF") was utilized for the main businesses, such as for instance, the services connected to mobile and wire-line communications.

The remaining assets and liabilities of Telecom Italia have been valued principally on either book or market value basis, in consideration of their limited weight with respect to the entire value of Telecom Italia.

The DCF method has been applied by computing the present value of operating cash flows, gross of any component of financial nature ("Free Cash Flow" or "FCF"). According to this method, the economic value of an enterprise is equal to the sum of the following components:

- operating cash flows that the company will be able to generate in the future, discounted at a rate representing the weighted average cost of capital;

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- net financial position and minority interests, which, in this case, refer to December 31, 2002.

In applying the DCF method, the Directors made reference to the operating cash flows connected to the main activities, as resulting from the economic and financial forecasts made for Telecom Italia.

For Olivetti, which is a holding company, the main asset of which is represented by the investment in Telecom Italia, the sum-of-parts method has been applied by evaluating this investment according to the principles described above and by evaluating the remaining assets and liabilities at book or market value, in light of their limited weight in respect to the valuation of the company taken as a whole.

In the valuation of Telecom Italia and Olivetti, the Directors have also taken into consideration the tax assets, for the portion deemed utilizable by the companies participating to the merger, regardless if the merger transaction will become effective or not, on the basis of expected taxable income on a stand alone basis. The Directors have also considered, for Telecom Italia, the expected distribution of reserves and, for Olivetti, the pro-forma effect of the conversion of convertible bonds consistent with the fully-diluted methodology.

4.2. Treatment of saving shares

With respect to the category of savings shares, which, as of to date are not issued by Olivetti, the Directors supported by their Professional Advisors assumed that, also considering the economic benefits that will be granted to Olivetti's savings shares, the discount currently recognized by the market to Telecom Italia's savings shares, with respect to the ordinary shares, may be utilized in the determination of the exchange ratio applicable to Olivetti's savings shares to be issued. The Directors therefore deemed appropriate to adopt the same exchange ratio, as that adopted for ordinary shares.

The Directors believe that, on the basis of a generally accepted principle, different methods of allocation between ordinary and savings shares would imply discretionary factors in the valuation, not supported by objective factors.

5. VALUATION DIFFICULTIES ENCOUNTERED BY THE BOARD OF DIRECTORS

In carrying out the valuations for the purpose of determining the exchange ratio, the Board of Directors of Telecom Italia encountered the following main difficulties:

- asset disposals during 2003, if any: at present, it is not possible to precisely determine the outcome of the expected disposal of the new company that will be incorporated, as a result of the de-merger of Scat Pagine Gialle. In any case, the Directors, on the basis of the significance of the investment in Scat Pagine Gialle in respect of the total value of Telecom Italia, expect that the disposal should not have such effects that would require changes to the exchange ratio;

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- b) taxation: the valuation was made on the basis of current tax legislation; therefore, the Directors did not consider the tax reform currently in process, and not yet enacted, the effects of which are to date difficult to be quantified;
- c) valuation of savings shares: as of to date there are no Olivetti savings shares; in order not to include in the analysis discretionary factors, not supported by objective factors, lacking historical data of reference for Olivetti, the Directors took into account the price differentials of ordinary and savings shares of Telecom Italia only.

The Directors, supported by their Professional Advisors, made a thorough analysis of the argumentations raised by some institutional investors, in connection with the application of the NAV method to Olivetti as holding company owing as its main asset the investment in Telecom Italia, and in particular in respect to the opportunity to value such investment at stock-market prices. In light of the purposes of the valuation, the Directors, even though recognizing the complexity of the subject, deemed to adopt homogeneous criteria for both companies and therefore to utilize for Olivetti the same method as that utilized for Telecom Italia (Sum-of-Parts).

6. RESULT OF THE VALUATION PERFORMED BY THE BOARDS OF DIRECTORS

6.1. Stock-market prices method

The results obtained with the application of the principal method led the Directors supported by their Professional Advisors to identify the following values:

Values (Euro)

	Telecom Italia post dividend	Olivetti	Value Ratio
Stock market prices			
Weighted averages			
March 7, 2003	5.7	0.86	6.7
Average 1 month	6.3	0.91	7.0
Average 3 months	6.8	0.99	6.9
Average 6 months	7.2	1.02	7.1
Average 12 months	7.6	1.11	6.9
Arithmetic averages			
March 7, 2003	5.7	0.86	6.7
Average 1 month	6.4	0.91	7.0
Average 3 months	6.9	0.99	7.0
Average 6 months	7.2	1.01	7.1
Average 12 months	7.7	1.11	6.9
Maximum and minimum prices			
Maximum price last 12 months	9.5	1.47	6.5
Minimum price last 12 months	5.7	0.84	6.8

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The Directors noted that the above results are confirmed also when expanding the time range to 18 months.

6.2. Sum-of-Parts method

As to the sum-of-parts method, the Directors of Telecom Italia supported by their Professional Advisors identified the following values for each ordinary share:

	Telecom Italia	Olivetti	Value Ratio
Value per each ordinary share (Euro)	8.8	1.27	6.9

6.3. Determination of the exchange ratio

On the basis of the valuations performed with the support of the respective Professional Advisors and in accordance thereto, the Directors defined the relative values of the companies participating to the merger, for the purpose of the exchange ratio.

The value ratios resulting from the application of the methods adopted by the Board of Directors of Telecom Italia are summarized as follows:

Method	Value ratio
Stock-market prices method	
- March 7, 2003	6.7
Weighted averages:	
- Average 1 month	7.0
- Average 3 months	6.9
- Average 6 months	7.1
- Average 12 months	6.9
Sum-of-parts method	6.9

On the basis of the valuation methods applied to the companies participating to the merger described above, the Directors identified the following exchange ratio, so called "natural", corresponding to the exchange ratio that would result, had the merger been realized without re-distribution, but through the issuance of new shares to service the exchange:

7 ordinary shares of Olivetti, with a par value of Euro 1.00 (one) each, for each ordinary share of Telecom Italia with a par value of Euro 0.55 each;

7 savings shares of Olivetti, with a par value of Euro 1.00 (one) each, for each ordinary share of Telecom Italia with a par value of Euro 0.55 each.

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6.4. Procedures for assigning the shares and carrying out the share exchange

As previously described, the Directors considered advisable to leave the nominal capital of Olivetti basically unchanged at the completion of the transaction. Accordingly, they proposed that the share exchange be carried out primarily by redistributing Olivetti's capital, with recourse to the issue of new shares only insofar as this is required to maintain the share capital at the current level.

The redistribution technique consists of dividing the share capital of the absorbing company and hence the shares composing it among the shareholders of the absorbing company and those of the company to be absorbed, according to the so called "natural" exchange ratio between the shares.

The redistribution takes the share capital of the absorbing company at the time the merger is implemented as the baseline.

The amount of capital will be determined and the share exchange transaction will be carried out according to the following methodologies:

- a) Olivetti will set the nominal value of its shares — in the amount resulting after the conversions and withdrawals — at Euro 0.55 (equal to the par value of Telecom Italia shares), in place of the current par value of Euro 1.00. Accordingly, Olivetti's share capital will be divided into a larger number of shares. Such shares will be divided into ordinary shares and savings shares, the latter category with the same rights and features of the Telecom Italia savings shares;
- b) the new ordinary and savings shares with a par value of Euro 0.55 each constituting the share capital at the time of the merger of Olivetti will be redistributed, respectively, to the holders of Olivetti and Telecom Italia ordinary shares and the holders of Telecom Italia savings shares according to the assignment ratios reflecting, with reference to the actual number of shares to be redistributed, the so called "natural" exchange ratio of 7 Olivetti ordinary or savings shares for each Telecom Italia ordinary or savings share.

The variables represented by conversions, exercise of stock options, withdrawals and acceptances of the tender offer can only be quantified exactly at the time the merger is effective. Accordingly, the determination of the assignment ratio for the purpose of redistribution can be established precisely only at the time the merger becomes effective.

At the end of the merger transaction, the ratio between the shares assigned to the Olivetti shareholders and those assigned to the Telecom Italia shareholders will exactly reflect the "natural" exchange ratio between the shares of the two companies prior to the merger (1/7) determined above.

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7. WORK DONE

7.1. Work done on the "documentation utilized" as mentioned at point 3.

The valuation methods applied by the Directors, also on the basis of the indications of their Professional Advisors, take as a reference basis the draft financial statements of the Companies as at December 31, 2002, in accordance with art. 2501 ter of the Italian Civil Code. It should be noted that the statutory and consolidated financial statements of Telecom Italia and of Olivetti as at December 31, 2002, were audited by us.

In addition, we have performed the following activities:

- We have met with the Telecom Italia management to obtain information on the subsequent events with respect to the financial statements mentioned above that could have a significant effect on the amounts being examined here;
- With regard to the three-year plan 2003 – 2005 and cash flow forecasts of Telecom Italia, while considering the inherent uncertainty and limits of any type of forecast, we have discussed with the management of Telecom Italia the main characteristics of the forecasting process and the criteria used for their compilation.

The above activities have been performed to the extent necessary for the purpose of our engagement, indicated in paragraph 1 above.

7.2. Work done on the methods used to determine the exchange ratio

We have examined the methods followed by the Directors, also based on the indications given by their Professional Advisors, for the determination of the relative value of the Companies and, thus, of the exchange ratios, ascertaining their technical suitability under the circumstances.

We have also performed the following procedures:

- analysis of the Directors' report and of the Professional Advisors reports to verify the completeness and consistency of the processes followed by the Directors in the determination of the exchange ratio, as well as the homogeneity in the application of the valuation methods;
- sensitivity analyses within the valuation methods adopted, with the aim to verify to what extent the exchange ratio would be affected by changes in the assumptions and parameters, considered as significant, utilized in the reports of the Professional Advisors;
- verification of the consistency of data utilized, with respect to the reference sources and with the "Documentation used", described in paragraph 3 above;

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- verification of the mathematical correctness of the computation of the exchange ratio, by applying the valuation methods adopted by the Directors, also on the basis of the indications from their Professional Advisors;
- meetings with the Professional Advisors of Telecom Italia, to discuss the activities performed, the matters encountered and the solutions adopted.

We have also obtained representation that, to the management of Telecom Italia best knowledge, no significant changes occurred in the data and information considered in our analyses.

8. COMMENTS ON THE SUITABILITY OF THE METHODS USED AND THE ACCURACY OF THE ESTIMATES

With reference to this engagement we believe it is worth noting that the principal purpose of the decisional process used by the Directors was to make an estimate of relative values of the companies involved in the merger, by applying homogeneous criteria, in order to obtain comparable values. In fact, the main objective of valuations for mergers is to identify comparable values in order to determine the exchange ratio, rather than to determine absolute values of the companies involved. As such, valuations for merger transactions have a meaning solely in respect of their relative profile and cannot be regarded as estimates of the absolute values of the companies involved, for transactions different from the merger and for which they were not made.

In connection with the valuation methods adopted, we note that:

- they are widely spread in Italian and international practice, they have solid doctrinal bases and are based on parameters determined according to a rigorous methodology process;
- they appear adequate in the circumstances, in light of the characteristics of the companies involved in the merger;
- in conformity with the valuation context required for a merger, the methods have been developed on a stand alone basis;
- the methodology approach adopted by the Directors allowed to meet the criterion of homogeneity of valuation methods and thus that of comparability of values;
- the application of a principal method and of a control method allowed, in any case, to enlarge the valuation process and to verify the results obtained.

With reference to the development of the valuation methodologies made by the Directors, we note that:

- the stock-market prices method is particularly suitable in connection with companies with a high capitalization, an ample and spread floating and high

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volumes of exchange. In this case, the adoption of averages over a sufficiently long period of time allowed to mitigate the effect of shares fluctuations, connected to the general situation of the stock markets; the results are confirmed also by expanding the analysis over 18 months;

- the sum-of-parts method is generally applied by professional practice in the valuation of complex enterprises, characterized by various areas of business. In the specific case, the utilization of the DCF method allowed to appreciate the operational characteristics of the companies participating to the merger. The selection of the DCF method for the main business areas of Telecom Italia is justified by the activity carried on which turns both the balance sheet and the economic and financial aspects into relevant elements for the valuation process;
- the results obtained with the sum-of-parts method, utilized by the Directors for verification purposes, are supported by the analysis of the "consensus" expressed by financial analysts on target prices of Telecom Italia in the three months preceding the announcement of the transaction;
- lacking the historical data for Olivetti, the determination of the exchange ratio for the savings shares of Telecom Italia, provided for in the merger, even in consideration of the limits of the empirical process described in paragraph 4.2, is appropriate under the circumstances and in any case objective.

9. SPECIFIC LIMITATIONS ENCOUNTERED BY THE AUDITORS IN CARRYING OUT THE ENGAGEMENT

During our engagement we did not encounter limitations or difficulties that should be mentioned in this section of the report.

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10. CONCLUSION

Based on the documentation we have examined and on the procedures described above, and considering the nature and extent of our work as described in this report, we believe that the valuation methods adopted by the Directors, also based upon the advice of their Professional Advisors are, under the circumstances, reasonable and not arbitrary and they have been correctly applied by them in their determination of the following exchange ratio of shares:

7 Olivetti ordinary shares, with a par value of Euro 1.00 (one) each, for each ordinary share of Telecom Italia, with a par value of Euro 0.55 each,

7 Olivetti saving shares, with a par value of Euro 1.00 (one) each, for each savings share of Telecom Italia, with a par value of Euro 0.55 each,

indicated in the plan for the merger.

Milan, April 22, 2003

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Signed by Giovanni Aspes, partner

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PROPOSAL TO THE SHAREHOLDERS' MEETING

The meeting of ordinary shareholders of Telecom Italia S.p.A.,

- having seen the plan for the merger of Telecom Italia S.p.A. into Olivetti S.p.A., entered respectively in the Turin Company Register and the Milan Company Register on April 18 and 22, 2003 (the Merger Plan);
- having examined the Directors' report on the merger operation (the Merger);
- having taken note of the balance sheets of the companies participating in the Merger, as shown in their draft financial statements for the year ended 31 December 2002;
- having taken note of the reports on the congruousness of the merger exchange ratio prepared by the auditing firms Deloitte & Touche Italia S.p.A. for Olivetti and Reconta Ernst & Young S.p.A. for Telecom Italia;
- having taken note of the timely filing of the documentation required under the applicable law;

resolves

1. to approve the Merger Plan and consequently to proceed - with the accounting and tax effects starting on 1 January of the year in which the Merger becomes effective in respect of third parties, as provided for in the Merger Plan - with the merger of Telecom Italia S.p.A. into Olivetti S.p.A. (the Absorbing Company) on the basis of the following exchange ratio:
 - 7 Olivetti ordinary shares with a par value of Euro 1 (one) for every Telecom Italia ordinary share with a par value of Euro 0.55 each;
 - 7 Olivetti savings shares with a par value of Euro 1 (one) for every Telecom Italia savings share with a par value of Euro 0.55 each;
 with the effectiveness of the whole operation subject (i) to the adoption by the shareholders' meeting of Olivetti of a like resolution and (ii) to the admission to listing on the MTA electronic share market operated by Borsa Italiana S.p.A. of the savings shares to be issued by the Absorbing Company, taking note that the Olivetti shares with a par value of Euro 1 each (net of those for which the right of withdrawal has been exercised) will be withdrawn and that new ordinary and savings shares will be issued with a par value of Euro 0.55 each and regular dividend entitlement, in the number resulting from their assignment to Olivetti shareholders and Telecom Italia shareholders other than Olivetti in accordance with the following criteria:
 - A. satisfaction of the exchange ratio between the economic values underlying the Olivetti and Telecom Italia shares by redistributing Olivetti's capital at the time of the implementation of the Merger, net of the Olivetti shares with a par value of Euro 1 (one) for which the right of withdrawal has been exercised, subsequent to the change in the par value of the shares of the Absorbing Company from Euro 1 to Euro 0.55, and thus by applying the following assignment ratios:
 - for every Olivetti share (with a par value of Euro 1) withdrawn and cancelled, assignment of "x" newly-issued ordinary shares of the Absorbing Company (with a par value of Euro 0.55 each);
 - for every Telecom Italia ordinary share (with a par value of Euro 0.55) withdrawn and cancelled, assignment of "7x" newly-issued ordinary shares of the Absorbing Company (with a par value of Euro 0.55 each);
 - for every Telecom Italia savings share (with a par value of Euro 0.55) withdrawn and cancelled, assignment of "7x" newly-issued savings shares of the Absorbing Company (with a par value of Euro 0.55 each);
 where the number "x" is the ratio between
 - the total number of shares of the Absorbing Company with a par value of Euro 0.55 each to be redistributed and
 - the sum of (i) the total number of Olivetti shares with a par value of Euro 1 outstanding (for which the right of withdrawal has not been exercised) at the time of the implementation of the Merger and (ii) 7 times the total number of Telecom Italia shares to be exchanged at the time of the implementation of the Merger;
 - B. assignment, if necessary, to all the holders of the Absorbing Company's ordinary and savings shares, in proportion to their respective holdings following the redistribution and therefore on the basis of the above-mentioned exchange ratio, of up to a maximum of 11,103,237,961 new shares, of the same class as the shares already assigned under the redistribution, with a par value of Euro 0.55 each (and thus up to a total maximum amount of Euro 6,106,780,879.10) until the share capital of the Absorbing Company reaches a total of Euro 8,845,537,520.05.
 A service will be provided to shareholders to handle any fractions of shares, without prejudice to any rounding deriving from the aforesaid assignment operations;

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2. to grant severally to the Chairman, the Deputy Chairman and each of the Managing Directors the powers needed:

- (a) to complete all the formalities required for the resolutions adopted to obtain all the necessary authorizations, with the right to approve and introduce into such resolutions, the Merger Plan and the Bylaws of the Absorbing Company annexed thereto any amendments, additions or deletions that may be requested or suggested by administrative authorities and/or following the exercise of the special powers referred to in Article 5 of the bylaws of Telecom Italia S.p.A. or on the occasion of filings with the Company Register;
- (b) to draw up and sign, *inter alia* by having ad hoc recourse to attorneys or agents, in conformity with the resolution of point 1, the public merger instrument, defining every agreement, condition, clause, time limit and procedure thereof in conformity with and in implementation of the Merger Plan;
- (c) to do – *inter alia* by having ad hoc recourse to attorneys or agents – whatever else may be necessary for and conducive to the complete implementation of the foregoing resolutions, authorizing entries, transcriptions, annotations, amendments and corrections in public registers and every other competent seat.

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APPOINTMENT OF THE BOARD OF AUDITORS - RELATED AND CONSEQUENT RESOLUTIONS

Dear shareholders,

the mandate of the Company's Board of Auditors has expired. Accordingly, even though the merger of Telecom Italia into Olivetti (on the agenda of the extraordinary part of the meeting) will entail the termination of all the Company's governing bodies, it is necessary to appoint a new Board of Auditors on the basis of the bylaws currently in force.

The resolutions to be approved consequently concern:

- the number of members of the Board (from a minimum of five to a maximum of eight auditors);
- the establishment of their annual retribution; and
- the appointment of the auditors and the alternates.

As regards the selection mechanism, it should be noted that, following the termination of the agreements connected with the concession for the provision of the public tele-communications service, the designation rights previously pertaining to the Minister of the Treasury (now the Minister for the Economy and Finance) and the Minister for Communications and still referred to in the second paragraph of Article 17 of the bylaws no longer apply. The same provision also refers to the appointment rights pertaining to the Minister for the Economy and Finance under subparagraph d) of the first paragraph of Article 5 of the bylaws; in this case, the right (one of the special powers introduced in the bylaws in accordance with Article 2(1) of Decree Law 332/1994, ratified with amendments by Law 474/1994), remains effective until the Minister in question decides otherwise, and no such decision had been notified as of the date this report was approved.

With this premise, the Board of Auditors will be appointed in accordance with the procedure established in the bylaws for the appointment of the Board of Directors, on the basis of slates submitted by shareholders who, alone or together with other shareholders, hold a total number of shares representing at least 1% of the share capital entitled to vote at the Ordinary Shareholders' Meeting.

In the light of the foregoing, the Board of Directors,

- having regard to the applicable provisions of laws, regulations and these bylaws regarding the number, term of office, appointment and remuneration of the members of the Board of Auditors;
- having taken note of the expiry of the Board of Auditors appointed by the Shareholders' Meeting of 3 July 2000;
- having recommended that shareholders who intend to submit a slate for the selection of auditors and alternates should make a curriculum vitae available for each candidate setting out their main personal and professional data;

invites the meeting

1. to establish the number of auditors and their annual remuneration;
2. to choose a slate from among those submitted and publicized in the manner and within the time limits established in the bylaws in compliance with the rules and limits established therein.

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■ USEFUL INFORMATION

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Annual Report 2002 and obtain information
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