



first half 2003 report »

1 SUMMARY DATA AND GENERAL INFORMATION >>	2 CORPORATE BOARDS
19 REPORT ON OPERATIONS	5 NOTE ON METHODOLOGY
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	6 HIGHLIGHTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	7 SELECTED ECO. AND FINANCIAL DATA T.I. GROUP
219 IND. AUDITOR'S REPORT OTHER INFORMATION	8 KEY DATA TELECOM ITALIA GROUP B.U./O.A.
	10 OPERATING HIGHLIGHTS TELECOM ITALIA GROUP
	11 SHAREHOLDERS INFORMATION
	17 MACRO-ORGANIZATION CHART OF T.I. GROUP
	18 INTERNATIONAL PRESENCE

■ CONTENTS

Summary data and general information	Summary	1
	Corporate boards	2
	Note on methodology	5
	Highlights	6
	Selected economic and financial data - Telecom Italia Group	7
	Key data - Telecom Italia Group Business Units/Operating Activities	8
	Operating highlights - Telecom Italia Group	10
	Shareholder information	11
	Macro-organization chart - Telecom Italia Group	17
	International presence	18
Report on operations	Economic and financial performance - Telecom Italia Group	19
	Economic and financial performance - Telecom Italia S.p.A.	32
	Subsequent events	42
	Business outlook	45
	Related party transactions	46
	Economic and financial performance - Telecom Italia Business Units/Operating Activities	48
	Wireline	48
	Mobile	58
	South America	65
	Internet and Media	69
	Information Technology Mercato	73
	Information Technology Group	78
	Olivetti Tecnost	82
	Other activities	85
	Sustainability section	92
	Customers	92
	Suppliers	94
	Competitors and regulatory framework	94
	The State and institutions	97
	Future generations	98
	The community	100
	Human resources	101
	Shareholders: Corporate Governance	106
	Research & Development	113
	Pending litigation	114
Telecom Italia Group - Consolidated financial statements at June 30, 2003	Consolidated balance sheets	126
	Consolidated statements of income	128
	Notes to the consolidated financial statements	130
Telecom Italia S.p.A. Financial statements at June 30, 2003	Balance sheets	176
	Statements of income	178
	Notes to the financial statements	180
Independent auditor's report and other information	Independent auditor's report	219
	Useful information	221

1 SUMMARY DATA AND GENERAL INFORMATION >>	2 CORPORATE BOARDS
19 REPORT ON OPERATIONS	5 NOTE ON METHODOLOGY
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	6 HIGHLIGHTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	7 SELECTED ECO. AND FINANCIAL DATA T.I. GROUP
219 IND. AUDITOR'S REPORT OTHER INFORMATION	8 KEY DATA TELECOM ITALIA GROUP S.U./O.A.
	10 OPERATING HIGHLIGHTS TELECOM ITALIA GROUP
	11 SHAREHOLDERS INFORMATION
	17 MACRO-ORGANIZATION CHART OF T.I. GROUP
	18 INTERNATIONAL PRESENCE

■ CORPORATE BOARDS

The composition of the corporate boards of the company resulting from the Olivetti - Telecom Italia merger is presented below. In accordance with the resolution passed by the Olivetti Shareholders' Meeting on May 26, 2003, the Board of Directors, nominated as from the date the merger became effective, will remain in office until the approval of the financial statements for the year 2003. The Board of Statutory Auditors and the independent auditors that had already been nominated by Olivetti prior to the merger will continue their appointments until the natural expiration date.

TELECOM ITALIA S.p.A. (company resulting from the merger)

Board of Directors ⁽¹⁾	Chairman ⁽²⁾	Marco Tronchetti Provera (E)	<p>♦ (1) Appointed by the Olivetti Shareholders' Meeting on May 26, 2003.</p> <p>♦ (2) Appointed by the Board of Directors on August 4, 2003.</p> <p>♦ (E) Executive director.</p> <p>♦ (I) Independent director.</p>
	Deputy Chairman ⁽²⁾	Gilberto Benetton	
	Managing Directors ⁽²⁾	Carlo Orazio Buora (E) Riccardo Ruggiero (E)	
	Directors	Umberto Colombo (I) Giovanni Consorte 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	
	Secretary to the Board ⁽²⁾	Francesco Chiappetta	
Directors' Compensation Committee	Members	Umberto Colombo Luigi Fausti Pier Francesco Saviotti	
Audit and Corporate Governance Committee	Members	Luigi Fausti Guido Ferrarini Natalino Irti	
General Managers ⁽²⁾		Riccardo Ruggiero Giuseppe Sala	
Board of ⁽³⁾ Statutory Auditors ⁽³⁾	Chairman	Ferdinando Superti Furga	<p>♦ (3) Appointed by the Olivetti Shareholders' Meeting on May 26, 2003.</p>
	Acting auditors	Rosalba Casiraghi Paolo Golia Salvatore Spiniello Gianfranco Zanda	
	Alternate auditors	Enrico Bignami Enrico Laghi	
Independent auditors ⁽⁴⁾		Reconta Ernst & Young S.p.A.	<p>♦ (4) Appointment conferred by the Olivetti Shareholders' Meeting on July 4, 2000.</p>

1 SUMMARY DATA AND GENERAL INFORMATION >>	2 CORPORATE BOARDS
19 REPORT ON OPERATIONS	5 NOTE ON METHODOLOGY
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	6 HIGHLIGHTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	7 SELECTED ECO. AND FINANCIAL DATA T.I. GROUP
219 IND. AUDITOR'S REPORT OTHER INFORMATION	8 KEY DATA TELECOM ITALIA GROUP B.U./O.A.
	10 OPERATING HIGHLIGHTS TELECOM ITALIA GROUP
	11 SHAREHOLDERS INFORMATION
	17 MACRO-ORGANIZATION CHART OF T.I. GROUP
	18 INTERNATIONAL PRESENCE

The composition of the corporate boards of Olivetti S.p.A. and Telecom Italia S.p.A. at June 30, 2003 are presented below.

OLIVETTI S.p.A. (pre-merger)

Board of Directors ⁽¹⁾	Chairman	Antonio Tesone (I)	♦ (I) Independent director.
	Deputy Chairman and Managing Director	Marco Tronchetti Provera (E)	♦ (1) Appointed by the ordinary Shareholders' Meeting on October 13, 2001 with the exception of Gian Carlo Rocco di Torrepadula and Paola Pierri who were appointed by the ordinary Shareholders' Meeting on May 26, 2003.
	Deputy Chairman	Gilberto Benetton	
	Managing Director	Carlo Orazio Buora (E)	♦ (E) Executive director.
	Directors	Lorenzo Caprio (I) Giorgio Cirila (I) Pier Luigi Fabrizi (I) Cesare Geronzi (I) Gianni Mion Giampietro Nattino Paola Pierri Alberto Pirelli Carlo Alessandro Puri Negri Gian Carlo Rocco di Torrepadula Alberto Varisco	
	Secretary to the Board	Piera Rosiello	
Directors' Compensation Committee	Chairman	Antonio Tesone	
	Members	Lorenzo Caprio Paola Pierri	
Audit Committee	Chairman	Antonio Tesone	
	Members	Lorenzo Caprio Alberto Varisco	
Board of Statutory Auditors ⁽²⁾	Chairman	Ferdinando Superti Furga	
	Acting auditors	Rosalba Casiraghi Paolo Golia Salvatore Spiniello Gianfranco Zanda	♦ (2) Appointed by the Shareholders' Meeting on May 26, 2003.
	Alternate auditors	Enrico Bignami Enrico Laghi	
Independent auditors ⁽³⁾		Reconta Ernst & Young S.p.A.	♦ (3) Appointment conferred by the Shareholders' Meeting on July 4, 2000.

1 SUMMARY DATA AND GENERAL INFORMATION >>	2 CORPORATE BOARDS
19 REPORT ON OPERATIONS	5 NOTE ON METHODOLOGY
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	6 HIGHLIGHTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	7 SELECTED ECO. AND FINANCIAL DATA T.I. GROUP
219 IND. AUDITOR'S REPORT OTHER INFORMATION	8 KEY DATA TELECOM ITALIA GROUP S.U./O.A.
	10 OPERATING HIGHLIGHTS TELECOM ITALIA GROUP
	11 SHAREHOLDERS INFORMATION
	17 MACRO-ORGANIZATION CHART OF T.I. GROUP
	18 INTERNATIONAL PRESENCE

TELECOM ITALIA S.p.A. (pre-merger)

Board of Directors ⁽¹⁾	Chairman	Marco Tronchetti Provera (E)	♦ (E) Executive director.
	Deputy Chairman	Gilberto Benetton	♦ (1) Appointed by the Shareholders' Meeting on November 7, 2001.
	Managing Directors	Carlo Orazio Buora (E) Riccardo Ruggiero (E) ⁽³⁾	♦ (3) Appointed by the Shareholders' Meeting on December 12, 2002 and holding the positions of General Manager since May 7, 2002 and Managing Director since September 5, 2002.
	Directors	Umberto Colombo (I) Francesco Denozza (I) Luigi Fausti (I) Guido Ferrarini (I) Natalino Irti (I) Gianni Mion Pietro Modiano ⁽²⁾ Massimo Moratti Carlo Alessandro Puri Negri Pier Francesco Saviotti Roberto Ulissi (I)	♦ (I) Independent director. ♦ (2) Appointed by the Shareholders' Meeting on December 12, 2002.
	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	
General Managers		Riccardo Ruggiero ⁽³⁾ Giuseppe Sala ⁽⁴⁾	♦ (4) Appointed by the Board of Directors on June 16, 2003.
Board of Statutory Auditors ⁽⁵⁾	Chairman	Ferdinando Superti Furga	♦ (5) Appointed by the Shareholders' Meeting on May 24, 2003.
	Acting auditors	Rosalba Casiraghi Paolo Golia Salvatore Spiniello Gianfranco Zanda	
	Alternate auditors	Enrico Bignami Enrico Laghi	
		Reconta Ernst & Young S.p.A.	♦ (6) Appointment conferred by the Shareholders' Meeting on June 12, 2001.
Independent auditors ⁽⁶⁾			

1 SUMMARY DATA AND GENERAL INFORMATION >>	2 CORPORATE BOARDS
19 REPORT ON OPERATIONS	5 NOTE ON METHODOLOGY
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	6 HIGHLIGHTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	7 SELECTED ECO. AND FINANCIAL DATA T.I. GROUP
219 IND. AUDITOR'S REPORT OTHER INFORMATION	8 KEY DATA TELECOM ITALIA GROUP S.U./O.A.
	10 OPERATING HIGHLIGHTS TELECOM ITALIA GROUP
	11 SHAREHOLDERS INFORMATION
	17 MACRO-ORGANIZATION CHART OF T.I. GROUP
	18 INTERNATIONAL PRESENCE

■ NOTE ON METHODOLOGY

In order to guarantee the market a complete and exhaustive representation of the effects deriving from the merger of Olivetti and Telecom Italia (examined in depth in the section "Shareholder information"), the data for the first half of 2003 already takes into account the merger of Telecom Italia S.p.A. (the Merged Company) in Olivetti S.p.A. (the Merging Company, now called Telecom Italia S.p.A.), finalized on August 4, 2003, but effective as from January 1, 2003 for accounting and tax purposes, in addition to the following transactions related thereto:

- *the exercise of the right of withdrawal by Olivetti shareholders;*
- *the partial voluntary tender offer made by Olivetti for Telecom Italia ordinary and savings shares.*

Moreover, it should also be pointed out that the reclassified financial statements adopted by the company resulting from the merger are those already used by the Merged Company.

1 SUMMARY DATA AND GENERAL INFORMATION >>	2 CORPORATE BOARDS
19 REPORT ON OPERATIONS	5 NOTE ON METHODOLOGY
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	6 HIGHLIGHTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	7 SELECTED ECO. AND FINANCIAL DATA T.I. GROUP
219 IND. AUDITOR'S REPORT OTHER INFORMATION	8 KEY DATA TELECOM ITALIA GROUP S.U./O.A.
	10 OPERATING HIGHLIGHTS TELECOM ITALIA GROUP
	11 SHAREHOLDERS INFORMATION
	17 MACRO-ORGANIZATION CHART OF T.I. GROUP
	18 INTERNATIONAL PRESENCE

■ HIGHLIGHTS

■ FIRST HALF 2003

■ Improvement in economic results

Revenues: euro 15,149 million, – 2.5% compared to the first half of 2002; excluding the foreign exchange effect and the change in the scope of consolidation, the organic growth was equal to 5.4%.

Gross operating profit: euro 6,921 million, +1.1% compared to the first half of 2002; the organic growth was equal to 3.4%.

Operating income: euro 3,281 million, +9.8% compared to the first half of 2002; the organic growth was equal to 8.4%.

Net income - Parent Company interest: euro 1,056 million (a net loss of euro 32 million for the first half of 2002, when attributing, to the Parent Company, the minority interest in the result of the Merged Company, acquired following the merger).

■ Debt

Net debt: euro 37,444 million, increased by euro 4,045 million compared to December 31, 2002, due to the effects of funding the withdrawal and the tender offer (for a total of euro 5,285 million), the distribution of reserves and the payment of dividends (for a total of euro 1,049 million), partly compensated by operating free cash flows which financed cash requirements for euro 4,850 million.

In the second half of 2003, indebtedness is expected to decrease as a result of the sale of Nuova SEAT – net of the advance payment of the put option to JP Morgan – and for the sale of other non-strategic investments, as well as cash flows provided by operations.

■ Rating

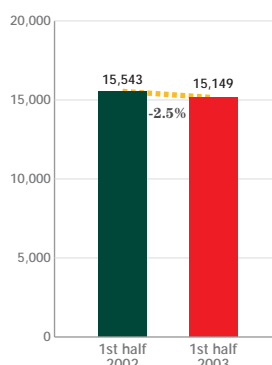
S&P recently confirmed the rating of BBB+, with a stable outlook, to the company resulting from the merger. This is the rating previously attributed to Telecom Italia (Merged Company). Fitch also gave the new entity the rating previously assigned to Telecom Italia of A– with a stable outlook. Moody's assigned the new company the rating previously given to Olivetti of Baa2, with a stable outlook; Telecom Italia immediately expressed its disagreement.

1 SUMMARY DATA AND GENERAL INFORMATION >>	2 CORPORATE BOARDS
19 REPORT ON OPERATIONS	5 NOTE ON METHODOLOGY
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	6 HIGHLIGHTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	7 SELECTED ECO. AND FINANCIAL DATA T.I. GROUP
219 IND. AUDITOR'S REPORT OTHER INFORMATION	8 KEY DATA TELECOM ITALIA GROUP S.U./O.A.
	10 OPERATING HIGHLIGHTS TELECOM ITALIA GROUP
	11 SHAREHOLDERS INFORMATION
	17 MACRO-ORGANIZATION CHART OF T.I. GROUP
	18 INTERNATIONAL PRESENCE

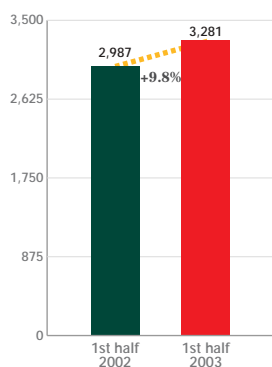
SELECTED ECONOMIC AND FINANCIAL DATA - TELECOM ITALIA GROUP

In the first half of 2003, compared to the year 2002, there were no significant changes in the scope of consolidation, whereas, in 2002 and subsequent to the first half, 9Telecom group, the Telespazio group, Sogei S.p.A. and other minor companies were no longer consolidated. The effects of the changes in the scope of consolidation are shown in the selected results of operations for purposes of comparison.

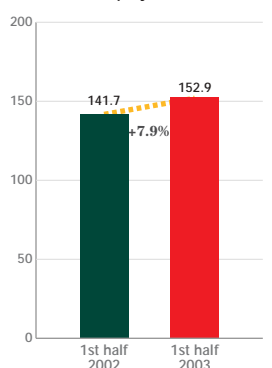
Sales and services revenues (euro/millions)



Operating income (euro/millions)



Revenues/Employees (euro/thousands)



	1st Half 2003	1st Half 2002	Year 2002
Economic and Financial Data (millions of euro)			
Sales and services revenues	15,149	15,543	31,408
Gross operating profit	6,921	6,847	14,015
Operating income pre-amortization of differences on consolidation	4,263	4,065	8,200
Operating income	3,281	2,987	6,058
Income (loss) before income taxes	1,304	1,435	(2,516)
Income (loss) before minority interest	1,592	589	(306)
Net income (loss)	1,056	(511)	(773)
Free cash flows from operations	4,850	4,180	8,680
Investments:			
- Industrial	1,723	1,891	4,901
- Consolidation differences	4,583	76	346
- Financial	1,159	632	1,777
Balance Sheet Data (millions of euro)			
Total assets	89,101	87,769	83,384
Net invested capital	57,560	60,390	54,023
Shareholders' equity	20,116	23,296	20,624
- Parent company's interest	16,018	11,927	11,640
- Minority interest	4,098	11,369	8,984
Net debt	37,444	37,094	33,399
Profit and Financial Indexes			
Gross operating profit/Revenues	45.7%	44.1%	44.6%
Operating income pre-amortization of differences on consolidation/Revenues (ROS)	28.1%	26.2%	26.1%
Operating income post-amortization of differences on consolidation/Revenues (ROS)	21.7%	19.2%	19.3%
Free cash flows/Revenues	32.0%	26.9%	27.6%
(Debt ratio) Net debt/ Net invested capital	65.1%	61.4%	61.8%
Employees			
Employees (number in Group at period-end)	102,541	114,065	106,620
Employees (average number in Group)	99,091	109,718	107,079
Revenues/Employees (Group average), euro/thousands	152.9	141.7	293.3

1 SUMMARY DATA AND GENERAL INFORMATION >>	2 CORPORATE BOARDS
19 REPORT ON OPERATIONS	5 NOTE ON METHODOLOGY
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	6 HIGHLIGHTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	7 SELECTED ECO. AND FINANCIAL DATA T.I. GROUP
219 IND. AUDITOR'S REPORT OTHER INFORMATION	8 KEY DATA TELECOM ITALIA GROUP B.U./O.A.
	10 OPERATING HIGHLIGHTS TELECOM ITALIA GROUP
	11 SHAREHOLDERS INFORMATION
	17 MACRO-ORGANIZATION CHART OF T.I. GROUP
	18 INTERNATIONAL PRESENCE

■ KEY DATA - TELECOM ITALIA GROUP BUSINESS UNITS / OPERATING ACTIVITIES

Telecom Italia Group operated with the following Business Unit/Operating Activity structure.

		Wireline	Mobile	South America	Internet and Media	IT Market	IT Group	Olivetti- Tecnost	Sub- total	Other activities and eliminations (2) (4)	Conso- lidated total
(millions of euro)		(1) (2)		(3)		(2)	(2)				
Sales and services revenues	1st half 2003	8,552	5,534	564	863	358	465	332	16,668	(1,519)	15,149
	1st half 2002	8,406	5,185	731	871	572	408	486	16,659	(1,116)	15,543
	Year 2002	17,035	10,867	1,409	1,991	994	996	914	34,206	(2,798)	31,408
Gross operating profit	1st half 2003	3,982	2,624	190	246	30	24	17	7,113	(192)	6,921
	1st half 2002	3,901	2,488	246	209	59	46	42	6,991	(144)	6,847
	Year 2002	7,966	5,039	450	593	111	98	59	14,316	(301)	14,015
Operating income	1st half 2003	2,441	1,826	61	80	9	(41)	(3)	4,373	(1,092)	3,281
	1st half 2002	2,396	1,684	85	19	42	(7)	9	4,228	(1,241)	2,987
	Year 2002	4,698	3,358	146	232	61	(40)	4	8,459	(2,401)	6,058
Industrial investments	1st half 2003	1,071	406	61	39	15	60	10	1,662	61	1,723
	1st half 2002	1,001	583	129	30	16	40	18	1,817	74	1,891
	Year 2002	2,465	1,715	216	81	38	149	35	4,699	202	4,901
Number of employees at	6/30/2003	52,582	18,963	5,317	7,505	5,457	4,443	3,036	97,303	5,238	102,541
	6/30/2002	56,872	17,173	5,774	8,300	7,351	5,072	4,971	105,513	8,552	114,065
	12/31/2002	53,857	18,702	5,461	7,715	5,506	5,039	4,527	100,807	5,813	106,620

(1) Beginning June 16, 2003, the Domestic Wireline Business Unit took the name of Wireline.

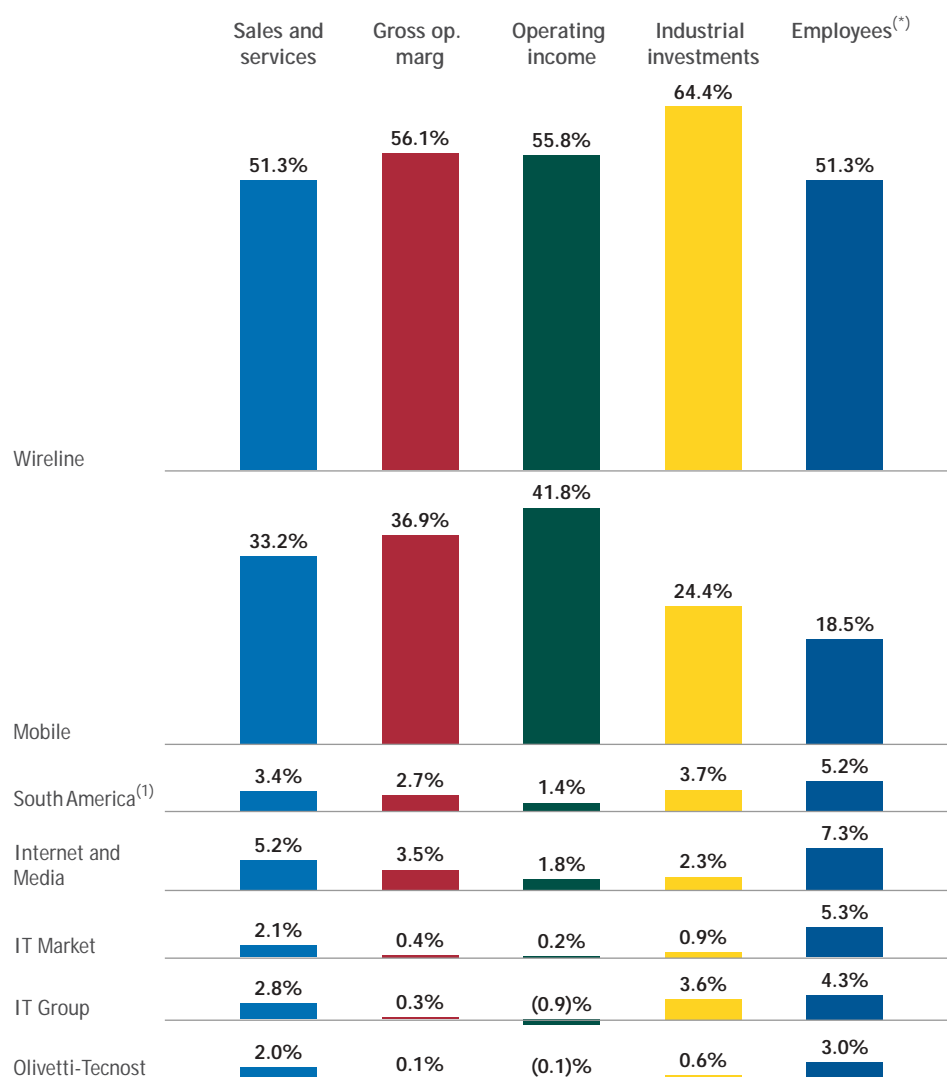
(2) As from January 1, 2003, the Netikos group, the Webegg group, the TILab group, Loquendo and Eustema are no longer consolidated by the IT Group operating activity. The TILab group moved to Other activities and Loquendo to Wireline, whereas the other companies moved to the IT Market Business Unit. The 2002 data was restated for purposes of comparison.

(3) 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.

(4) The data presented above includes the International Affairs activities, TILab, the Telespazio Business Unit, sold in the last quarter of 2002 and for which only the statement of income data was consolidated for the first nine months of 2002, the 9Telecom group, sold in the third quarter of 2002 and for which only the statement of income data was consolidated for the first six months of 2002, as well as the financial companies, the centralized group services and the staff functions.

1 SUMMARY DATA AND GENERAL INFORMATION >>	2 CORPORATE BOARDS
19 REPORT ON OPERATIONS	5 NOTE ON METHODOLOGY
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	6 HIGHLIGHTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	7 SELECTED ECO. AND FINANCIAL DATA T.I. GROUP
219 IND. AUDITOR'S REPORT OTHER INFORMATION	8 KEY DATA TELECOM ITALIA GROUP B.U./O.A.
	10 OPERATING HIGHLIGHTS TELECOM ITALIA GROUP
	11 SHAREHOLDERS INFORMATION
	17 MACRO-ORGANIZATION CHART OF T.I. GROUP
	18 INTERNATIONAL PRESENCE

Major economic and operating indicators in the first half of 2003 by Business Unit / Operating Activity



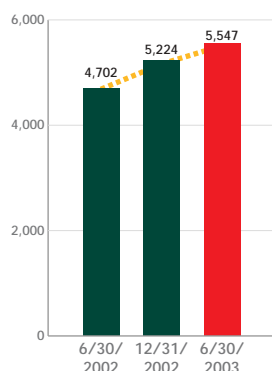
(*) 5.1% of employees work in Other Activities of the Telecom Italia Group.

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

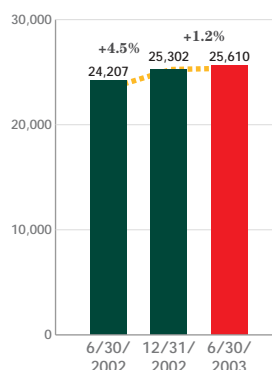
1 SUMMARY DATA AND GENERAL INFORMATION >>	2 CORPORATE BOARDS
19 REPORT ON OPERATIONS	5 NOTE ON METHODOLOGY
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	6 HIGHLIGHTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	7 SELECTED ECO. AND FINANCIAL DATA T.I. GROUP
219 IND. AUDITOR'S REPORT OTHER INFORMATION	8 KEY DATA TELECOM ITALIA GROUP S.U./O.A.
	10 OPERATING HIGHLIGHTS TELECOM ITALIA GROUP
	11 SHAREHOLDERS INFORMATION
	17 MACRO-ORGANIZATION CHART OF T.I. GROUP
	18 INTERNATIONAL PRESENCE

■ OPERATING HIGHLIGHTS - TELECOM ITALIA GROUP

Voice flat rate plans (thousands)



TIM lines in Italy (thousands)



	1st Half 2003	1st Half 2002	Year 2002
WIRELINE			
Fixed network connections in Italy (thousands)	27,079	27,326	27,142
- of which digital (equivalent ISDN channels)	6,000	5,662	5,756
Voice flat rate plans (thousands)	5,547	4,702	5,224
Network infrastructure in Italy			
- access network in copper (millions of km - pair)	104.7	104.7	104.3
- access network and transport in fiber optics (millions of km of fiber optics)	3.6	3.3	3.6
Network infrastructure abroad			
- European backbone (km of fiber optics)	39,500	36,600	36,600
MOBILE			
TIM lines in Italy (at period-end, thousands)	25,610	24,207	25,302
TIM group foreign lines (at period-end, thousands) ⁽¹⁾	15,717	12,208	13,809
TIM group lines total (Italy + foreign in thousands) ⁽¹⁾	41,327	36,415	39,111
GSM penetration in Italy (% of population)	99.8	99.8	99.8
E-TACS penetration in Italy (% of population)	97.9	98.0	98.0
INTERNET AND MEDIA			
Directories:			
- published by Seat Pagine Gialle (units)	103	102	304
- published by Thomson (TDL Infomedia Ltd.) (units)	67	67	173
Internet:			
Page views Virgilio (millions)	3,605	2,861	5,267
Active users ISP (at period-end, thousands)	2,360	1,980	2,226

(1) The foreign lines include those of the affiliate Aria - IS TIM Turchia and the subsidiary Radiomobil.

1 SUMMARY DATA AND GENERAL INFORMATION >>	2 CORPORATE BOARDS
19 REPORT ON OPERATIONS	5 NOTE ON METHODOLOGY
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	6 HIGHLIGHTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	7 SELECTED ECO. AND FINANCIAL DATA T.I. GROUP
219 IND. AUDITOR'S REPORT OTHER INFORMATION	8 KEY DATA TELECOM ITALIA GROUP S.U./O.A.
	10 OPERATING HIGHLIGHTS TELECOM ITALIA GROUP
	11 SHAREHOLDERS INFORMATION
	17 MACRO-ORGANIZATION CHART OF T.I. GROUP
	18 INTERNATIONAL PRESENCE

■ SHAREHOLDERS INFORMATION

■ Telecom Italia S.p.A. share capital (at the effective date of the merger, August 4, 2003)

Share capital	euro 8,845,640,599.40
Ordinary shares (par value euro 0.55 each)	No. 10,287,061,839
Savings shares (par value euro 0.55 each)	No. 5,795,921,069

■ Olivetti S.p.A. share capital at June 30, 2003

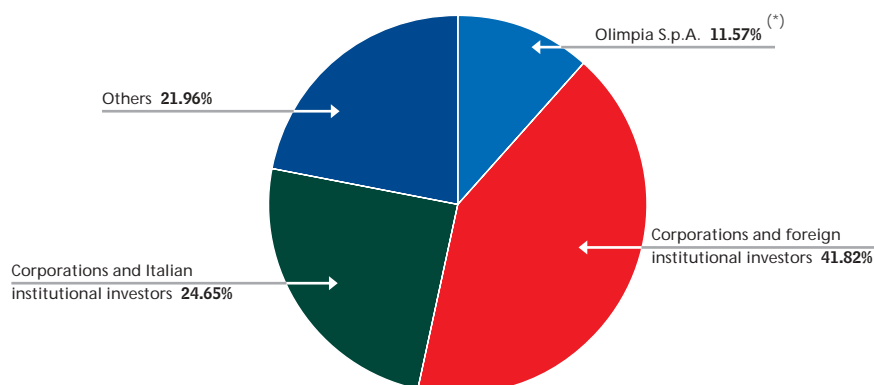
Share capital	euro 8,851,162,824.00
Ordinary shares (par value euro 1 each)	No. 8,851,162,824

■ Telecom Italia S.p.A. share capital at June 30, 2003

Share capital	euro 4,023,833,058.30
Ordinary shares (par value euro 0.55 each)	No. 5,262,938,081
Savings shares (par value euro 0.55 each)	No. 2,053,122,025

■ Shareholders

Approximate composition of Telecom Italia S.p.A. shareholders post-merger



(*) Prior to the merger, Olimpia owned 28.54% of Olivetti S.p.A. ordinary capital stock.

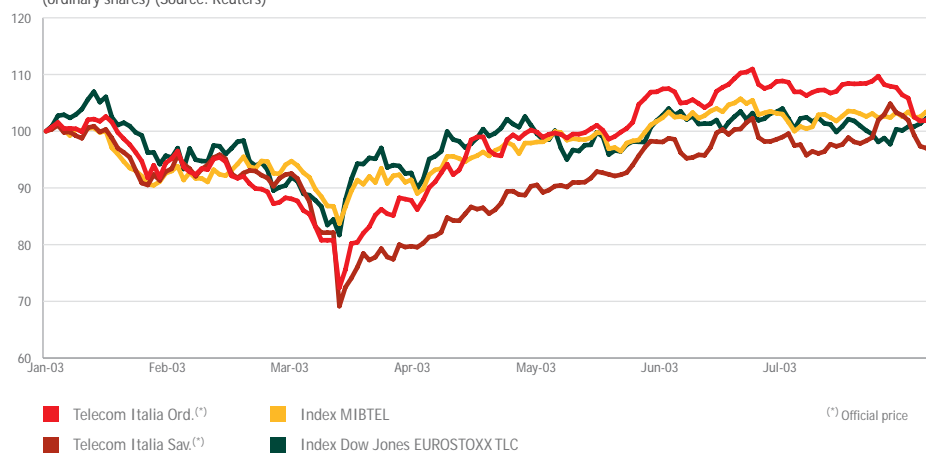
1 SUMMARY DATA AND GENERAL INFORMATION >>	2 CORPORATE BOARDS
19 REPORT ON OPERATIONS	5 NOTE ON METHODOLOGY
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	6 HIGHLIGHTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	7 SELECTED ECO. AND FINANCIAL DATA T.I. GROUP
219 IND. AUDITOR'S REPORT OTHER INFORMATION	8 KEY DATA TELECOM ITALIA GROUP S.U./O.A.
	10 OPERATING HIGHLIGHTS TELECOM ITALIA GROUP
	11 SHAREHOLDERS INFORMATION
	17 MACRO-ORGANIZATION CHART OF T.I. GROUP
	18 INTERNATIONAL PRESENCE

■ PERFORMANCE OF THE MAIN STOCKS OF THE TELECOM ITALIA GROUP

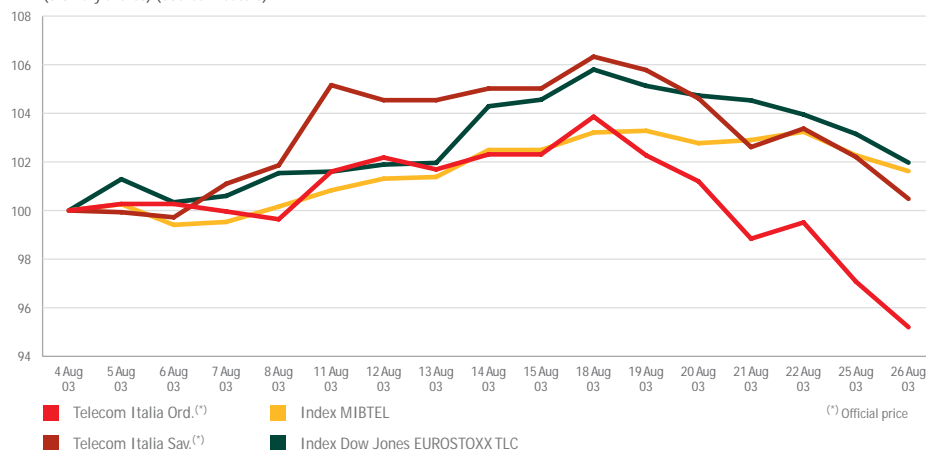
Relative performance OLIVETTI S.p.A. January 1, 2003-July 31, 2003 vs. MIBTEL and DJ Eurostoxx TLC index (ordinary shares) (Source: Reuters)



Relative performance TELECOM ITALIA S.p.A. January 1, 2003-July 31, 2003 vs. MIBTEL and DJ Eurostoxx TLC index (ordinary shares) (Source: Reuters)

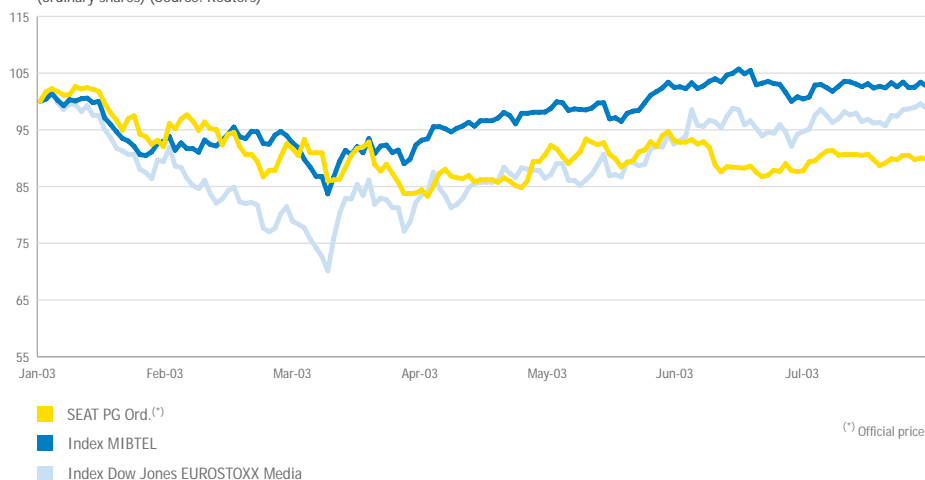


Relative performance TELECOM ITALIA S.p.A. post-spin-off August 4, 2003-August 26, 2003 vs. MIBTEL and DJ Eurostoxx TLC Index (ordinary shares) (Source: Reuters)

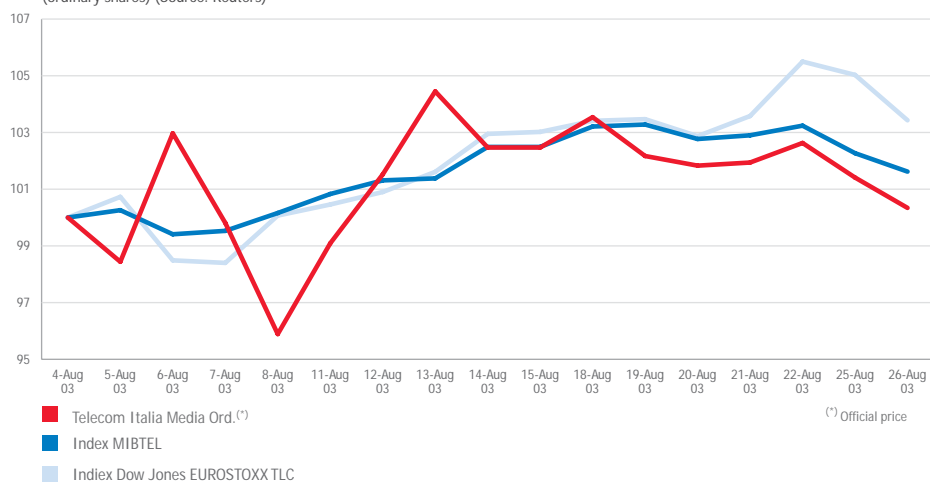


1 SUMMARY DATA AND GENERAL INFORMATION >>	2 CORPORATE BOARDS
19 REPORT ON OPERATIONS	5 NOTE ON METHODOLOGY
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	6 HIGHLIGHTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	7 SELECTED ECO. AND FINANCIAL DATA T.I. GROUP
219 IND. AUDITOR'S REPORT OTHER INFORMATION	8 KEY DATA TELECOM ITALIA GROUP S.U./O.A.
	10 OPERATING HIGHLIGHTS TELECOM ITALIA GROUP
	11 SHAREHOLDERS INFORMATION
	17 MACRO-ORGANIZATION CHART OF T.I. GROUP
	18 INTERNATIONAL PRESENCE

Relative performance SEAT PAGINE GIALLE S.p.A. January 1, 2003-July 31, 2003 vs. MIBTEL and DJ Eurostoxx TLC index (ordinary shares) (Source: Reuters)



Relative performance TELECOM ITALIA MEDIA S.p.A. post-spin-off August 4, 2003-August 26, 2003 vs. MIBTEL and DJ Eurostoxx (ordinary shares) (Source: Reuters)



Relative performance TIM S.p.A. January 1, 2003-August 26, 2003 vs. MIBTEL and DJ Eurostoxx TLC index (ordinary shares) (Source: Reuters)



1 SUMMARY DATA AND GENERAL INFORMATION >>	2 CORPORATE BOARDS
19 REPORT ON OPERATIONS	5 NOTE ON METHODOLOGY
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	6 HIGHLIGHTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	7 SELECTED ECO. AND FINANCIAL DATA T.I. GROUP
219 IND. AUDITOR'S REPORT OTHER INFORMATION	8 KEY DATA TELECOM ITALIA GROUP S.U./O.A.
	10 OPERATING HIGHLIGHTS TELECOM ITALIA GROUP
	11 SHAREHOLDERS INFORMATION
	17 MACRO-ORGANIZATION CHART OF T.I. GROUP
	18 INTERNATIONAL PRESENCE

■ OLIVETTI S.P.A./TELECOM ITALIA S.P.A. MERGER

On April 15, 2003, the Boards of Directors of Olivetti ("Merging Company") and Telecom Italia ("Merged Company") approved the Plan of Merger ("Merger") for the incorporation of Telecom Italia with and into Olivetti, previously announced on March 12, 2003.

The plan established the following exchange ratio:

- 7 Olivetti ordinary shares, of par value euro 1 each for every ordinary share of the Merged Company of par value euro 0.55 each;
- 7 Olivetti savings shares, of par value euro 1 each for every savings share of the Merged Company of par value euro 0.55 each.

The Plan of Merger was approved on May 24, 2003 by the Extraordinary Shareholders' Meeting of the Merged Company and on May 26, 2003 by the Extraordinary Shareholders' Meeting of Olivetti.

The Merger is part of the strategic plan pursued by the Olivetti-Telecom Italia Group with the aim of focusing on core businesses, optimizing the corporate structure and reducing debt. The Merger particularly falls under the reorganization plan aimed at creating value, begun in July 2001, and achieved through industrial and financial restructuring, notwithstanding the slump in the stock markets and telecommunications sector.

Under the complex plan to merge Olivetti /Telecom Italia, a tender offer was envisaged on the part of Olivetti for the ordinary and savings shares of Telecom Italia. The tender offer, besides forming part of an investment rationale, also had the purpose of ensuring the shareholders of the Merged Company that did not wish to retain their investment in Olivetti after the Merger a means of cashing-out, at least in part, such investment similarly to what occurred for the Olivetti shareholders thanks to the withdrawal rights to which they were entitled by law.

For purposes of the Merger, the balance sheets of the draft financial statements of Olivetti and the Merged Company as at December 31, 2002 were used, pursuant to art. 2501-ter of the Italian Civil Code.

On August 4, 2003 ("Date the Merger became effective"), the Merging Company adopted by-laws that generally corresponded to those of the Merged Company and took the name of "Telecom Italia S.p.A." ("Telecom Italia"). From a juridical standpoint, the Merger led the Merging Company to become the universal successor to the Merged Company, the result being that the Merging Company assumed all the assets and liabilities, the rights and obligations of the Merged Company, and thus, as an example and not completely inclusive, all the relative fixed assets and intangible assets, receivables and payables due or becoming due and, more generally, the entire patrimony of the Merged Company without any exclusions or limitations. In particular, the Merging Company succeeded to the Merged Company in all the licenses and administrative authorizations granted to the latter, according to the manner established by existing laws.

The aforementioned exchange ratio was met by redistributing the capital of the Merging Company resulting at the time the Merger was completed, after changing the par value of the ordinary and savings shares of the Merging Company to euro 0.55 (equal to the par value of the shares of the Merged Company), in lieu of the original par value of euro 1. Consequently, starting on August 4, 2003, the shares already issued by the Merging Company and Merged Company began to be withdrawn and substituted with the shares of the Company resulting from the merger according to the following ratio:

1 SUMMARY DATA AND GENERAL INFORMATION >>	2 CORPORATE BOARDS
19 REPORT ON OPERATIONS	5 NOTE ON METHODOLOGY
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	6 HIGHLIGHTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	7 SELECTED ECO. AND FINANCIAL DATA T.I. GROUP
219 IND. AUDITOR'S REPORT OTHER INFORMATION	8 KEY DATA TELECOM ITALIA GROUP S.U./O.A.
	10 OPERATING HIGHLIGHTS TELECOM ITALIA GROUP
	11 SHAREHOLDERS INFORMATION
	17 MACRO-ORGANIZATION CHART OF T.I. GROUP
	18 INTERNATIONAL PRESENCE

- 0.471553 Telecom Italia ordinary shares of par value euro 0.55 for each Olivetti ordinary share of par value euro 1;
- 3.300871 Telecom Italia ordinary shares of par value euro 0.55 for every ordinary share of the Merged Company of par value euro 0.55;
- 3.300871 Telecom Italia savings shares of par value euro 0.55 for every savings share of the Merged Company of par value euro 0.55.

In accordance with the combined provisions of articles 2504-bis, paragraph 3, and 2501-bis, paragraph 1, point 6, of the Italian Civil Code, the transactions of the Merged Company were accounted for by Olivetti beginning January 1, 2003, the date also considered for tax purposes, pursuant to art. 123, paragraph 7, of D.P.R. No. 917 dated December 22, 1986.

The admission and listing of the new ordinary and savings shares of the Company resulting from the merger on the New York Stock Exchange in the form of American Depositary Shares ("ADS") was requested and obtained on August 4, 2003.

As a result of the change in the corporate business purpose, the Olivetti shareholders that were absent or dissented to the resolution passed on the approval of the Merger had the right to withdraw from the company as set forth in art. 2437 of the Italian Civil Code.

By the deadline date to exercise the withdrawal right, requests had been presented for 10,958,057 Olivetti shares which, at the conclusion of the Merger, were cashed out for a total amount of euro 10,940,524.

In order to meet the needs deriving from the cash-out of the withdrawals, and have an amount remaining for the tender offer, Olivetti could draw from lines of credit made available by a pool of banks for an amount equal to euro 9,000 million. 512,280,322 ordinary shares, at a price of euro 8.010 each, and 242,936,252 savings shares, at a price of euro 4.820 each, of the Merged Company were tendered to the offer for a total equivalent amount of euro 5,274 million paid by the partial funding from the above lines of credit.

Share capital and number of shares of Telecom Italia

Following the above transactions, the share capital of the Company resulting from the merger (Telecom Italia) was equal to euro 8,845,640,559.40 divided into 10,287,061,839 ordinary shares and 5,795,921,069 savings shares, all for a par value of euro 0.55 each.

Accounting treatment of the Merger

The Merger was accounted for at the historical values taken from the financial statements of the companies that were merged. The relative merger differences (cancellation deficit and exchange surplus) were accounted for as follows:

- **Cancellation deficit:** arising from the difference between the carrying value of the cancelled shares of the Merged Company and the underlying share of net equity.

Telecom Italia S.p.A.

This deficit, euro 22,980 million, in accordance with accounting principles, was allocated to the carrying value of TIM shares recorded in *long-term investments*.

Telecom Italia Group

On consolidation, the portion of the deficit arising from the outcome of the tender offer and the consolidation – preliminary to the Merger – of the shares of the Merged Company held by the Merging Company and recorded in current assets, equal to a total of euro 4,801 million (net of accumulated amortization of euro 120 million) was recorded in the caption *Differences on consolidation* since it represented the goodwill paid for the acquisition of an additional stake in a company already consolidated. This difference is being amortized over 20 years.

1 SUMMARY DATA AND GENERAL INFORMATION >>	2 CORPORATE BOARDS
19 REPORT ON OPERATIONS	5 NOTE ON METHODOLOGY
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	6 HIGHLIGHTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	7 SELECTED ECO. AND FINANCIAL DATA T.I. GROUP
219 IND. AUDITOR'S REPORT OTHER INFORMATION	8 KEY DATA TELECOM ITALIA GROUP S.U./O.A.
	10 OPERATING HIGHLIGHTS TELECOM ITALIA GROUP
	11 SHAREHOLDERS INFORMATION
	17 MACRO-ORGANIZATION CHART OF T.I. GROUP
	18 INTERNATIONAL PRESENCE

- **Exchange surplus:** arising from the application of the mechanism for the redistribution of the shares described above.

Telecom Italia S.p.A.

The exchange surplus was recorded in a specific caption of the *Shareholders' equity* of Telecom Italia for euro 4,634 million. This amount will be used to replenish the reserves in the equity accounts to meet the legal obligations of the Merged Company.

Telecom Italia Group

On consolidation, the Merger gave rise to an increase in Telecom Italia's interest in shareholders' equity of euro 3,433 million compared to a reduction, of the same amount, in the Minority interest.

■ RATING OF TELECOM ITALIA POST-MERGER AT JUNE 30, 2003

When Telecom Italia and Olivetti were merged, the principal rating agencies announced their ratings of the new company.

On July 31, 2003, S&P gave a BBB+ rating, with a stable outlook, to the company resulting from the merger. This was the rating previously attributed to Telecom Italia,. On that occasion, S&P stressed out, in spite of the temporary increment in the total debt due to the cash-out offer and the tender offer, that the merger between Olivetti and Telecom Italia brought a considerable improvement to the debt structure of the Group.

On August 5, 2003, Fitch also gave the new company the A- rating given to Telecom Italia, with a stable outlook, commenting on the robustness of the new financial structure of the group and the established capacity of management to reduce debt.

Lastly, on August 12, 2003, Moody's assigned the new company the Baa2 rating previously attributed to Olivetti, with a stable outlook.

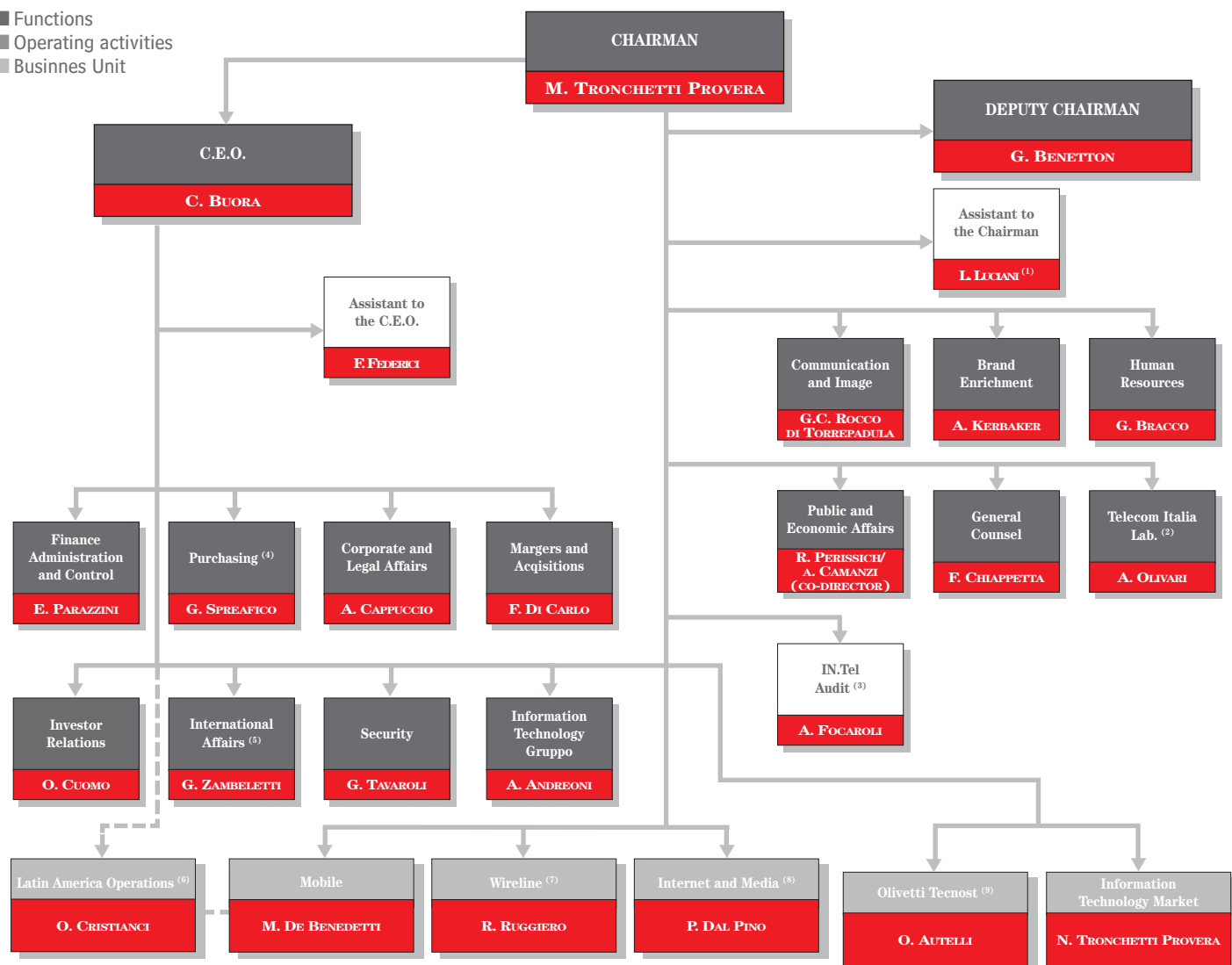
In its analysis, Moody's took into account both the higher debt as a result of the merger and the debt situation at Olimpia, the mayor shareholder of Telecom Italia.

Telecom immediately expressed its disagreement with Moody's rating in a press relase in which it stated that the rating agency's opinion did not take into account the results achieved by Olivetti's and Telecom Italia's management on the question of the net financial debt and which did not justify a unitary consideration of Olimpia's and Telecom Italia's debt situation, given that the former only holds 11.57% of the ordinary share capital of Telecom Italia.

1 SUMMARY DATA AND GENERAL INFORMATION >>	2 CORPORATE BOARDS
19 REPORT ON OPERATIONS	5 NOTE ON METHODOLOGY
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	6 HIGHLIGHTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	7 SELECTED ECO. AND FINANCIAL DATA T.I. GROUP
219 IND. AUDITOR'S REPORT OTHER INFORMATION	8 KEY DATA TELECOM ITALIA GROUP S.U./O.A.
	10 OPERATING HIGHLIGHTS TELECOM ITALIA GROUP
	11 SHAREHOLDERS INFORMATION
	17 MACRO-ORGANIZATION CHART OF T.I. GROUP
	18 INTERNATIONAL PRESENCE

■ MACRO-ORGANIZATION CHART TELECOM ITALIA GROUP AT JUNE 30, 2003

■ Functions
■ Operating activities
■ Business Unit

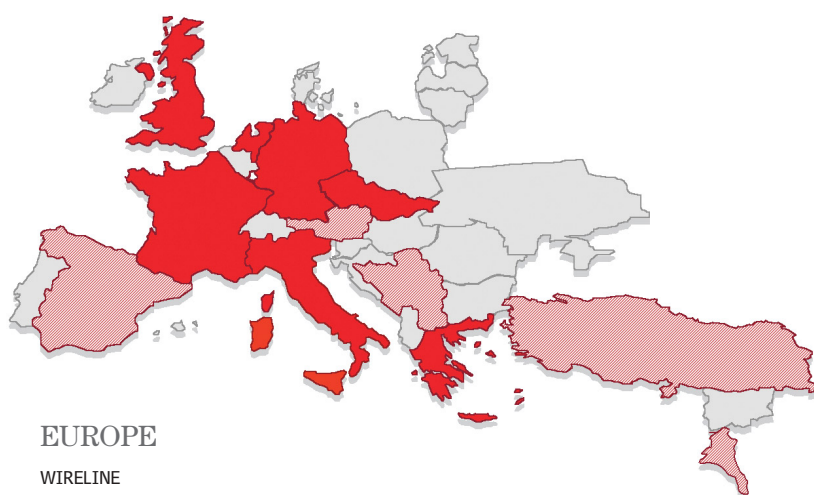


- (1) Effective July 1, 2003, Luca Luciani was appointed Assistant to the Chairman.
- (2) On April 1, 2003, the company Telecom Italia LAB, which was previously the Research & Development function, was moved to Telecom Italia S.p.A.; at the same time, this function took the name of Telecom Italia LAB.
Effective August 1, 2003, Aldo Olivari was appointed Chief Executive Officer of Telecom Italia LAB, assuming the relative responsibility. As from the same date, Telecom Italia LAB reports directly to the Chairman.
- (3) Consortium company which carries out the Internal Auditing activities of the Group.
- (4) After the disbanding of the Real Estate and General Services function, the operating activities were moved to the Purchasing function.
- (5) The function, set up on June 18, 2003, includes the Foreign Holdings function.
- (6) This function coordinates the activities of the Telecom Italia Group in Latin America. It reports directly to the person in charge of the Mobile Business Unit for all the activities relating to Mobile Telecommunications conducted in Latin America; it also reports directly to the CEO Carlo Buora for the management of the operations inherent to wireline TLC and for the overall coordination of the activities of the Group in Latin America.
- (7) Effective June 16, 2003, the Domestic Wireline Business Unit took the new name of Wireline.
- (8) Effective August 1, 2003, the Internet and Media Business Unit was entrusted to Enrico Parazzini, who retains responsibility for Finance, Administration and Control. On August 1, 2003, following the partial proportional spin-off of Seat Pagine Gialle S.p.A. to Nuova SEAT Pagine Gialle, the beneficiary company of the spin-off, the entire corporate complex was transferred, consisting of the Directories, Directory Assistance and Business Information business areas. The spun-off company, which took the name of Telecom Italia Media S.p.A., comprises the following businesses: TV, Internet and Office Products & Services.
- (9) Effective August 4, 2003 – following the Olivetti-Telecom Italia merger – the Olivetti Tecnost Business Unit, entrusted to Ottaviano Autelli, reports to the CEO Carlo Buora.

1 SUMMARY DATA AND GENERAL INFORMATION >>	2 CORPORATE BOARDS
19 REPORT ON OPERATIONS	5 NOTE ON METHODOLOGY
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	6 HIGHLIGHTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	7 SELECTED ECO. AND FINANCIAL DATA T.I. GROUP
219 IND. AUDITOR'S REPORT OTHER INFORMATION	8 KEY DATA TELECOM ITALIA GROUP S.U./O.A.
	10 OPERATING HIGHLIGHTS TELECOM ITALIA GROUP
	11 SHAREHOLDERS INFORMATION
	17 MACRO-ORGANIZATION CHART OF T.I. GROUP
	18 INTERNATIONAL PRESENCE

INTERNATIONAL PRESENCE OF THE TELECOM ITALIA GROUP AT JUNE 30, 2003

MAJOR SUBSIDIARIES



- Presence through subsidiaries
- Presence through affiliates or other companies

ITALY

WIRELINE

- Atesia S.p.A. *
- Path.Net S.p.A. *
- Loquendo 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

- Finsiel Group *
- Netikos Group *
- Webegg Group *

OLIVETTI TECNOST

- Olivetti Tecnost S.p.A.
- Olivetti I_Jet S.p.A.
- Tecnost Sistemi S.p.A.
- Techno Produzioni S.p.A.

IT GROUP

- I.T. Telecom S.p.A.

EUROPE

WIRELINE

- Intelcom San Marino (San Marino) *
- Telecom Italia Sparkle Group *

INTERNET AND MEDIA

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

INTERNATIONAL AFFAIRS

- BBNet (Holland)
- Telecom Italia International (Holland)

OTHER ACTIVITIES

- T.I.Finance (Luxembourg)
- Olivetti Finance (Holland)
- Olivetti International (Luxembourg)

MEDITERRANEAN BASIN

WIRELINE

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

MOBILE

- Stet Hellas Group (Greece) *

SOUTH AMERICA

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



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

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. S.U./O.A.
	92 SUSTAINABILITY SECTION

■ ECONOMIC AND FINANCIAL PERFORMANCE TELECOM ITALIA GROUP

In the "Note on Methodology", discussed earlier, the data for the first half of 2003 takes into account the effects (as from January 1, 2003 for accounting and tax purposes) of the merger by incorporation of Telecom Italia with and into Olivetti (subsequently renamed Telecom Italia), and of the following related transactions:

- the exercise by the Olivetti shareholders of the right of withdrawal;
- the voluntary partial tender offer by Olivetti for the ordinary and savings shares of the Merged Company.

Following these transactions, it should however be pointed out that the data for the first half of 2003 is nevertheless comparable to the data for the previous periods under comparison since the Merged Company was already consolidated on a line-by-line basis.

In particular, as a result of the merger by incorporation, the Parent Company's share of earnings and shareholders' equity increased (with a corresponding decrease in that of the minority interest) and subsequent to the tender offer the differences on consolidation increased, with consequent higher amortization expense and net financial indebtedness.

The amortization of the differences on consolidation arising as a result of the tender offer was calculated over a period of 20 years and this same period is now also being used for the amortization of the original difference on consolidation which arose in the 1999 Olivetti consolidation. The positive effect of this dilution made it possible to almost completely cancel the negative effect of the new higher amortization expense.

Deferred tax assets were also posted, in addition to those recorded in the 2002 financial statements by Olivetti following the writedown, solely for tax purposes, of the shares of the Merged Company, and which became recoverable thanks to the merger of the two Companies.

For purposes of a more meaningful reading of the economic, equity and financial data of the new company resulting from the merger for the first half of 2003, the following table presents separately the data for the two companies involved in the merger as well as the effects deriving from the above-described merger.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. S.U./O.A.
	92 SUSTAINABILITY SECTION

	GRUPPO TELECOM ITALIA pre-merger		GRUPPO OLIVETTI pre-merger		Effect of withdrawals, merger and tender offer	NEW TELECOM ITALIA GROUP	
(in millions of euro)	1st half 2003	1st half 2002	1st half 2003	1st half 2002	1st half 2003	1st half 2003	1st half 2002
Economic and financial data							
Sales and service revenues	14,817	14,989	15,149	15,543		15,149	15,543
Gross operating profit (loss)	6,926	6,808	6,921	6,847		6,921	6,847
Operating income - pre-amortization of differences on consolidation	4,285	4,093	4,263	4,065		4,263	4,065
Operating income (loss)	3,950	3,662	3,282	2,987	(1)	3,281	2,987
Income (loss) before extraordinary items and income taxes	3,175	2,371	2,056	1,197	(48)	2,008	1,197
Income (loss) before income taxes	2,510	2,477	1,462	1,435	(158)	1,304	1,435
Income taxes	(1,056)	(1,085)	(1,051)	(846)	1,339	288	(846)
Net income (loss) for the period - pre-amortization of differences on consolidation	1,790	1,823	1,392	1,667	1,182	2,574	1,667
- Parent Company interest	1,228	1,169	62	291	1,949	2,011	291
- Minority interest	562	654	1,330	1,376	(767)	563	1,376
Net income (loss) for the period	1,454	1,392	411	589	1,181	1,592	589
- Parent Company interest	922	770	(706)	(511)	1,762	1,056	(511)
- Minority interest	532	622	1,117	1,100	(581)	536	1,100
Investments:							
- Industrial	1,711	1,863	1,723	1,891	4,551	1,723	1,891
- Differences on consolidation	32	76	32	76	723	4,583	76
- Financial	418	609	436	632	5,274	1,159	632
		Year 2002		Year 2002			Year 2002
Balance sheet data							
Total assets	50,997	52,786	83,546	83,384	5,555	89,101	83,384
Net invested capital	29,313	30,945	52,115	54,023	5,445	57,560	54,023
Shareholders' equity	12,776	12,827	20,003	20,624	113	20,116	20,624
- Parent Company interest	8,624	9,049	10,922	11,640	5,096	16,018	11,640
- Minority interest	4,152	3,778	9,081	8,984	(4,983)	4,098	8,984
Net debt	16,537	18,118	32,112	33,399	5,332	37,444	33,399
Profit and financial indexes							
Gross operating profit (loss)/Revenues	46.7%	45.4%	45.7%	44.1%	-	45.7%	44.1%
Operating income (loss)/Revenues (ROS)	26.7%	24.4%	21.7%	19.2%	-	21.7%	19.2%
Debt Ratio (Net debt/Net invested capital)	56.4%	58.5%	61.6%	61.8%	-	65.1%	61.8%
Employees							
Employees (number at period-end)	99,397	108,642	102,541	114,065	-	102,541	114,065

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. S.U./O.A.
	92 SUSTAINABILITY SECTION

RESULTS OF OPERATIONS

The **consolidated net income of the Group** for the first half of 2003 was euro 1,056 million (euro 1,592 million before minority interest). The consolidated net result of the Group for the first half of 2002 was a loss of euro 511 million (a net income of euro 589 million before minority interest).

The consolidated net result of the Group for the first half of 2002 would have been a loss of euro 32 million, when attributing to the Parent Company the minority interest in the result of the Merged Company, acquired following the merger.

The increase in the consolidated net result of the Group (+ euro 1,567 million) was due to the following factors:

- increase in *operating income* (+ euro 294 million);
- improvement in *net financial income (expenses) and net investment income (expenses)* (+ euro 517 million);
- deterioration in *net extraordinary income (expenses)* (– euro 942 million), due mainly to the fact that the first half of 2002 benefited from gains realized on the sale of investments, as well as the provisions made to cover the expenses connected with the sale of Nuova SEAT and the expenses connected with the merger;
- improvement in *income taxes* of euro 1,134 million, due mainly to deferred tax assets which became recoverable thanks to the aforementioned merger (euro 1,286 million);
- lower minority interest in earnings (euro 564 million), of which euro 479 million related to the acquisition, following the merger, of the portion attributable to the minority interest.

Sales and service revenues for the first half of 2003 amounted to euro 15,149 million, with a decrease of 2.5% compared to euro 15,543 million for the same period of 2002. Excluding the negative effects of the variation in exchange rates (euro 627 million) and the change in the scope of consolidation (euro 544 million), organic growth was equal to 5.4% (euro 777 million).

A particularly incisive effect on the change in the scope of consolidation was brought about by the exit of the 9Telecom group, Sogei and the Telespazio group.

Contributing to organic growth were:

- the significant increase in the revenues of the Mobile Business Unit, which grew as a consequence of the positive performance of voice traffic, the development of value-added services and the increase in the sales of mobile phones;
- the increase in the revenues of the Wireline Business Unit, which were especially affected by the growth in income from basic subscription charges and from sales, which more than compensated the slight drop in traffic which, besides, decreased in the retail segment and increased in the wholesale area;
- the above increases, which were partly offset by the reduction in the sales of the Olivetti Tecnost Business Unit.

Sales and service revenues can be analyzed as follows:

Geographical area (millions of euro)	1st half 2003		1st half 2002	
Italy	12,233	80.8%	12,692	81.7%
Rest of Europe	1,006	6.6%	1,010	6.5%
North America	308	2.0%	189	1.2%
Central and South America	1,155	7.6%	1,483	9.5%
Australia, Africa and Asia	447	3.0%	169	1.1%
Total	15,149	100.0%	15,543	100.0%

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. S.U./O.A.
	92 SUSTAINABILITY SECTION

Gross operating profit, equal to euro 6,921 million, grew in comparison to the first half of 2002 by euro 74 million (+1.1%). As a percentage of revenues, the gross operating profit was 45.7% (44.1% for the first half of 2002). Excluding the foreign exchange effect (– euro 123 million) and the effect of the change in the scope of consolidation (– euro 33 million), organic growth was 3.4% (+ euro 230 million).

In particular, as a percentage of revenues, the Wireline Business Unit increased from 46.4% for the first half of 2002 to 46.6% for the first half of 2003 whereas the Mobile Business Unit remained at levels of over 46%.

In greater detail, gross operating profit was impacted by:

- **raw materials and outside services**, equal to euro 6,371 million, down by 2.1% compared to the first half of 2002 due to measures taken to improve the level of efficiency. The percentage of raw materials and outside services to revenues was 42.1%, an increase compared to the first half of 2002 (41.9%).
- **labor costs**, equal to euro 2,227 million, were euro 217 million lower than in the first half of 2002 (–8.9%). Besides the change in the scope of consolidation, the decrease was due to a reduction in the workforce of the Merged Company and the Olivetti Tecnost Business Unit. As a percentage of revenues, labor costs were 14.7% and 15.7% in the first half of 2002.

Employees at June 30, 2003 numbered 102,541 (106,620 at December 31, 2002). A breakdown is presented below:

(millions of euro)	6/30/2003 (a)	12/31/2002 (b)	6/30/2002	Change (a)-(b)
Italy	83,362	86,286	92,564	(2,924)
Abroad	19,179	20,334	21,501	(1,155)
Total employees	102,541	106,620	114,065	(4,079)

Compared to December 31, 2002, the reduction was caused by the change in the scope of consolidation, with a net decrease of – 3,081, mainly on account of the sale of Tess (– 404), the exit of Messico Industriale (– 1,266), the spin-offs of the Logistics business by Telecom Italia's Wireline (– 337), the Facility business by Olivetti Multiservices (– 208) and the Desktop Management business by IT Telecom (– 582).

Operating income, equal to euro 3,281 million, increased by euro 294 million (+9.8%) compared to the first half of 2002. As a percentage of revenues, operating income rose from 19.2% in the first half of 2002 to 21.7% in the first half of 2003. Excluding the foreign exchange effect and the impact of the change in the scope of consolidation, the gain was 8.4%. The increase in the amount itself reflects a higher gross operating profit and a reduction in amortization and depreciation expenses.

In particular:

- **the amortization of the differences on consolidation**, equal to euro 982 million (euro 1,078 million for the first half of 2002), showed a reduction of euro 96 million. The reduction is mainly due to the writedown of the difference on consolidation relating to Seat Pagine Gialle made in the 2002 financial statements (euro 86 million) and the extension of the estimated period of benefit for the original difference on consolidation on the Merged Company (euro 113 million), offset by higher amortization of the differences on consolidation deriving from Olivetti's tender offer for the Merged Company (euro 114 million) and the reclassification of the shares of the Merged Company previously recorded in current assets (euro 6 million);

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. S.U./O.A.
	92 SUSTAINABILITY SECTION

- **the amortization of other intangibles and the depreciation of fixed assets**, equal to euro 2,375 million (euro 2,483 million for the first half of 2002), showed a reduction of euro 108 million, of which some euro 40 million was due to perfecting the calculation method used for the amortization of certain categories of intangibles that came into use during the year. The breakdown is as follows:

	1st Half 2003 (a)	1st Half 2002 (b)	Change (a)-(b)
(millions of euro)			
Fixed assets	1,803	1,947	(144)
Other intangibles	572	536	36
Total	2,375	2,483	(108)

The percentage of the amortization of other intangibles and the depreciation of fixed assets to revenues was 15.7%, down from 16% in the first half of 2002.

- **Other valuation adjustments**, equal to euro 202 million (euro 235 million for the first half of 2002), decreased by euro 33 million compared to the corresponding period of the prior year and principally referred to writedowns to reduce receivables from customers to their estimated realizable value.
- **Provisions to reserves for risks and charges**, amounting to euro 71 million (euro 119 million for the first half of 2002), registered a reduction of euro 48 million.
- **Net other income (expenses)** showed an expense balance of euro 10 million (an income balance of euro 55 million for the first half of 2002).

Net other financial income (expenses) showed an expense balance of euro 1,196 million, an improvement of euro 300 million compared to the first half of 2002. Details are as follows:

	1st Half 2003 (a)	1st Half 2002 (b)	Change (a)-(b)
(millions of euro)			
Net financial income (expenses)	(1,197)	(1,365)	168
Value adjustments to financial assets, other than equity investments	1	(131)	132
Total	(1,196)	(1,496)	300

The reduction in debt exposure led to a considerable decrease in net financial expenses, which were nevertheless affected by the provision of euro 143 for the put/call with JP Morgan exercised earlier, and finalized in August 2003, for Seat Pagine Gialle shares, as well as the expenses and commissions connected with the merger (euro 47 million).

Compared to the corresponding period of 2002, the exchange rate effect of the companies in South America exerted a positive impact.

Net investment income (expenses) showed an expense balance of euro 77 million (an expense balance of euro 294 million for the first half of 2002), with an improvement of euro 217 million compared to the first half of 2002. Details are as follows:

	1st Half 2003 (a)	1st Half 2002 (b)	Change (a)-(b)
(millions of euro)			
Net investment income (expenses)	7	34	(27)
Net revaluations (writedowns) of equity investments	(77)	(270)	193
Amortization of differences on consolidation, regarding investments accounted for using the equity method	(7)	(58)	51
Total	(77)	(294)	217

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. S.U./O.A.
	92 SUSTAINABILITY SECTION

Net revaluations (writedowns) of equity investments for the first half of 2003, in particular, included the Group's share of equity in the losses of Sky Italia (former Stream) for euro 64 million (euro 119 million in the first half of 2002) and other companies (euro 12 million), as well as writedowns of equity investments in current assets relating to TIM for euro 1 million (euro 94 million for the first half of 2002, including euro 88 million for TIM shares).

Net extraordinary income (expenses) showed an expense balance of euro 704 million (an income balance of euro 238 million for the first half of 2002). The deterioration of euro 942 million compared to the first half of 2002 is due to the following:

	1st Half 2003 (a)	1st Half 2002 (b)	Change (a)-(b)
(millions of euro)			
Gains from divestitures	46	860	(814)
Other extraordinary income	134	344	(210)
Total extraordinary income	180	1,204	(1,024)
Extraordinary expenses	(884)	(966)	82
Total	(704)	238	(942)

Extraordinary income of euro 180 million comprised:

- gains of euro 46 million on the sale of equity investments, fixed assets and business segments. Gains for the first half of 2002 totaled euro 860 million and related to the disposal of investments in Bouygues Decaux Telecom, Lottomatica, Mobilkom Austria and other minor companies;
- prior period income and other extraordinary income of euro 134 million (euro 344 million in the first half of 2002, of which euro 131 million was for prior period income realized on the recovery of pre-amortization interest relating to expenses under Law No. 58/1992).

Extraordinary expenses of euro 884 million comprised:

- euro 195 million for provisions in connection with the sale of Nuova SEAT subsequent to the spin-off;
- euro 47 million for the writedown of the goodwill of Epiclink in respect of the start of the process to strategically reposition the company within the Group and the provision for the commitment to purchase the remaining 14% of the company's share capital, in addition to euro 11 million for the provisions relating to the sale of Netikos and other minor equity investments;
- euro 55 million for the provision relating to the settlement with Pagine Italia after the agreement fell short for the purchase of the Pagine Utili business segment;
- euro 110 million relating to expenses connected with the cited merger principally in respect of fees for advisors, legal and tax consultants, technical experts and expenses for banking charges;
- euro 69 million for expenses connected with extraordinary equity investment transactions, including euro 57 million relating to the sale of Nuova SEAT;
- euro 86 million (euro 355 million for the first half of 2002) of expenses and provisions for employee cutbacks and layoffs (of which euro 58 million was borne by the Parent Company, euro 261 million for the first half of 2002);
- euro 43 million of expenses under ex Law 58/1992 to cover employees under the former "Telephone Employees Pension Fund" (FPT);
- euro 30 million for indirect taxes and prior period taxes for the portion of the cost of the tax amnesty not covered by the reserve for income taxes;
- euro 93 million for the elimination of prior period receivable balances;

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. S.U./O.A.
	92 SUSTAINABILITY SECTION

- euro 56 million relating to the additional adjustment made by the Parent Company to the estimated value of unused prepaid telephone cards following the start of technical data collection procedures;
- euro 83 million for prior period expense and other extraordinary expenses and euro 6 million for losses on the sale of intangibles, fixed assets and long-term investments.

Income taxes had a positive effect on the result for the year of euro 288 million (– euro 846 million for the first half of 2002) due to the posting of euro 1,286 million of deferred tax assets originating from the writedown, for tax purposes only, made in 2002 by Olivetti and relating to the shares of the Merged Company, and which became recoverable thanks to the merger of the two companies.

FINANCIAL CONDITION

Intangibles, fixed assets and long-term investments, amounting to euro 59,778 million, increased by euro 1,917 million compared to the end of 2002.

In particular:

- **fixed assets** decreased from euro 19,449 million at the end of 2002 to euro 18,737 million at June 30, 2003. The reduction was mainly due to the difference between the investments and the depreciation charge for the period.
- **intangibles** increased from euro 34,412 million at the end of 2002 to euro 38,177 million at June 30, 2003. The increase was basically due to the differences on consolidation recorded following the tender offer by Olivetti for the shares of the Merged Company (euro 4,551 million) and the reclassification of the shares of the Merged Company from working capital to intangibles made by Olivetti prior to the merger (euro 250 million) net of the relative accumulated amortization (euro 120 million).
- **long-term investments** decreased from euro 4,000 million at the end of 2002 to euro 2,864 million at June 30, 2003. The reduction was principally due to the reclassification to working capital of the investment in Telekom Srbija (euro 187 million), since it was sold in July 2003, and the remaining stake held in Telekom Austria (euro 708 million), since it is destined to be sold within 12 months.

Investments made in the first half of 2003 totaled euro 7,465 million (compared to euro 2,599 million for the first half of 2002). Details are as follows:

	1st Half 2003 (a)	1st Half 2002 (b)	Change (a)-(b)
(millions of euro)			
Industrial investments	1,723	1,891	(168)
Differences on consolidation	4,583	76	4,507
Financial investments	1,159	632	527
Total investments	7,465	2,599	4,866

The euro 168 million reduction in industrial investments was principally on account of lower capital expenditures by the Mobile Business Unit for euro 177 million, partly compensated by higher investments by the Wireline Business Unit for euro 70 million.

The differences on consolidation essentially referred to the difference between the payment made for the tender offer on the shares of the Merged Company and the share of net equity acquired (euro 4,551 million).

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

Financial investments for the first half of 2003 were in reference to the share of the net equity of the Merged Company acquired through the tender offer (euro 723 million), the purchase of the equity stake in Lisit Informatica (euro 54 million), increases in the share capital of Sky Italia (euro 269 million), the purchase of treasury stock by the Merged Company, later cancelled (euro 47 million) and other financial investments (euro 66 million).

Shareholders' equity, including the effects of the merger by incorporation of Telecom Italia with and into Olivetti, amounted to euro 20,116 million (euro 20,624 million at the end of 2002), of which the interest of the Parent Company, Telecom Italia, was euro 16,018 million (euro 11,640 million at December 31, 2002), and the minority interest was euro 4,098 million (euro 8,984 million at December 31, 2002).

Compared to December 31, 2002, the significant increase in the Parent Company's interest and the reduction in the minority interest was due to the effects of the merger for euro 3,424 million.

The reduction in shareholders' equity of euro 508 million can be analyzed as follows:

(millions of euro)	1st Half 2003	Year 2002
At beginning of period	20,624	26,353
Capital stock increase	12	36
Net income (loss) of the Parent Company and minority interest	1,592	(306)
Dividends to third parties paid by:	(1,049)	(3,668)
- Merged company	(794)	(2,016)
- TIM S.p.A.	(185)	(1,606)
- Other Group companies	(70)	(46)
Effects of the share withdrawals, the tender offer, the cancellation of treasury stock bought back by the Merged Company and the Telecom Italia shares held by Olivetti and reclassified from working capital to long-term investments	(1,117)	
Translation adjustments and other changes	54	(1,791)
At end of period	20,116	20,624

Net debt amounted to euro 37,444 million at June 30, 2003, with an increase of euro 4,045 million compared to euro 33,399 million at the end of 2002.

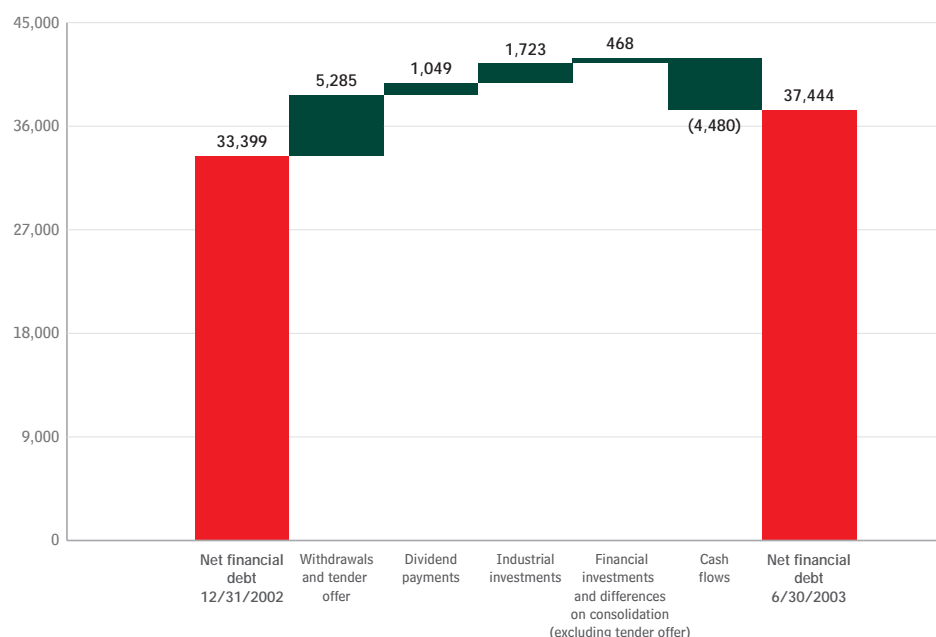
It included the effects of the share withdrawals and the tender offer (euro 5,285 million), the cancellation of 41,041,250 shares of the Merged Company previously classified by the acquiring company in current assets (euro 299 million) and the distribution of dividends and reserves (euro 1,049 million).

Such requirements were partly financed by operations and the sale of non-strategic equity investments, mainly Telekom Srbija (euro 120 million, for the first two advances already collected on the sale).

Furthermore, the securitization and factoring of trade accounts receivable led to an improvement in net debt of euro 896 million at June 30, 2003 (euro 1,046 million at the end of 2002).

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. S.U./O.A.
	92 SUSTAINABILITY SECTION

The following chart summarizes the major items which had an impact on the change in net indebtedness during the course of the first half of 2003.



The portion of debt due beyond one year of euro 33,868 million (without considering the net positive effect of medium/long-term accruals and deferrals of euro 403 million and the effects of the tender offer) went from 83% at December 31, 2002 to 82% at June 30, 2003.

In January 2003, under the Euro Medium Term Note Program a benchmark note issue was concluded on the part of Olivetti Finance N.V. for a total of euro 3,400 million in three tranches (euro 1,750 million at 5 years, euro 850 million at 10 years and euro 800 million at 30 years).

Gross debt is detailed in the following table:

	At 6/30/2003				At 12/31/2002			
	Euro	%	Foreign currency	%	Total	%	Total	%
(millions of euro)								
Medium/long-term debt	32,541	82	1,327	75	33,868	82	33,804	83
Short-term borrowings	6,906	18	441	25	7,347	18	6,827	17
Total	39,447	100	1,768	100	41,215	100	40,631	100
Financial debt funding the tender offer and share withdrawals	5,285				5,285			
Total	44,732				46,500			

As regards the financing to fund the tender offer, euro 5,274 million were used out of the original lines of credit of euro 9,000 million.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. S.U./O.A.
	92 SUSTAINABILITY SECTION

In order to better understand the change in financial debt, the following table presents details of the transactions, including the put option exercised earlier with JP Morgan and the sale of Nuova SEAT, although they took place after the finalization of the merger and tender offer.

	12/31/2002	6/30/2003 Including the sale of Nuova SEAT and properties
(millions of euro)		
Telecom Italia Group	18,118	16,537
Olivetti Group	15,281	15,575
Effect of withdrawals, merger and tender offer	-	5,332
Total financial statements	33,399	37,444
JP Morgan put option	2,417	2,255
Total	35,816	39,699
Sale of Nuova SEAT	-	(3,700)
Sale of properties to Lastra	-	(355)
Total	35,816	35,644

As it can be seen in the above table, the debt of the Telecom Italia Group, after the merger transactions and also considering the sale of Nuova SEAT and of properties to Lastra, finalized in July and August 2003, is lower than the debt at December 31, 2002, taking into account the JP Morgan put option.

SELECTED QUARTERLY ECONOMIC AND FINANCIAL DATA - TELECOM ITALIA GROUP

	2003 (*)			2002 (**)			% Change 2003/2002	
(millions of euro)	1st Quarter	2nd Quarter	1st Half	1st Quarter	2nd Quarter	1st Half	1st Quarter	2nd Quarter
Sales and service revenues	7,291	7,858	15,149	7,533	8,010	15,543	(3.2)	(1.9)
<i>Change 2nd Qtr./ 1st Qtr.</i>								
Gross operating profit	3,308	3,613	6,921	3,291	3,556	6,847	0.5	1.6
<i>Change 2nd Qtr./ 1st Qtr.</i>								
% Gross operating profit to revenues	45.4%	46.0%	45.7%	43.7%	44.4%	44.1%		
Operating income	1,527	1,754	3,281	1,401	1,586	2,987	9.0	10.6
<i>Change 2nd Qtr./ 1st Qtr.</i>								
% Operating income to revenues	20.9%	22.3%	21.7%	18.6%	19.8%	19.2%		

(*) The figures take into account the merger of Telecom Italia with and into Olivetti, the share withdrawals and the tender offer.

(**) Historical figures of the Olivetti Group.

Compared to the first quarter of 2003, the second quarter of 2003 shows an accelerated growth in revenues (+7.8%), in gross operating profit (+9.2%) and in operating income (+14.9%).

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

TELECOM ITALIA GROUP

CONSOLIDATED STATEMENTS OF INCOME

	1st Half 2003	1st Half 2002	Year 2002	Change (a) - (b)	
(in millions of euro)	(a) (*)	(b) (**)	(c)	amount	%
A. Sales and service revenues	15,149	15,543	31,408	(394)	(2.5)
Changes in inventories of work in progress, semifinished and finished goods	7	(4)	(8)	11	
Changes in inventory of contract work in process	25	9	(42)	16	177.8
Increases in capitalized internal construction costs	330	247	675	83	33.6
Operating grants	8	5	20	3	60.0
B. Standard production value	15,519	15,800	32,053	(281)	(1.8)
Raw materials and outside services ⁽¹⁾	(6,371)	(6,509)	(13,311)	138	2.1
C. Value added	9,148	9,291	18,742	(143)	(1.5)
Labor costs ⁽¹⁾	(2,227)	(2,444)	(4,727)	217	8.9
D. Gross operating profit	6,921	6,847	14,015	74	1.1
Amortization of differences on consolidation	(982)	(1,078)	(2,142)	96	8.9
Amortization of other intangibles and depreciation of fixed assets	(2,375)	(2,483)	(5,085)	108	4.3
Other valuation adjustments	(202)	(235)	(604)	33	14.0
Provisions to reserves for risks and charges	(71)	(119)	(171)	48	40.3
Net other income (expense)	(10)	55	45	(65)	-
E. Operating income	3,281	2,987	6,058	294	9.8
Net financial income (expenses) ⁽²⁾	(1,196)	(1,496)	(2,565)	300	20.1
Net investment income (expenses)	(77)	(294)	(513)	217	73.8
F. Income before extraordinary items and taxes	2,008	1,197	2,980	811	67.8
Net extraordinary income (expenses)	(704)	238	(5,496)	(942)	-
G. Income before taxes	1,304	1,435	(2,516)	(131)	(9.1)
Income taxes	288	(846)	2,210	1,134	-
H. Net income (loss) for the period before minority interest	1,592	589	(306)	1,003	170.3
Minority interest - Net (income) loss	(536)	(1,100)	(467)	564	51.3
I. Net income (loss) for the period parent company interest	1,056	(511)	(773)	1,567	-

(1) Reduced by related cost recoveries

(2) Includes value adjustments to financial assets, other than investments

(*) The data takes into account the merger of Telecom Italia with and into Olivetti, as well as the withdrawals and the tender offer

(**) Historical data of the Olivetti Group

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. S.U./O.A.
	92 SUSTAINABILITY SECTION

CONSOLIDATED BALANCE SHEETS

	At 6/30/2003 (a) (*)	At 12/31/2002 (b) (**)	At 6/30/2002 (**)	Change (a)-(b)
(in millions of euro)				
A. Intangibles, fixed assets and long-term investments				
Intangible assets:				
• differences on consolidation	31,651	27,877	30,657	3,774
• other intangible assets	6,526	6,535	6,659	(9)
Fixed assets	18,737	19,449	20,628	(712)
Long-term investments:				
• equity investments and advances on future capital contributions	1,696	2,576	5,747	(880)
• other	1,168	1,424	865	(256)
(A)	59,778	57,861	64,556	1,917
B. Working capital				
Inventories	636	584	839	52
Trade accounts receivable, net	8,586	8,418	8,905	168
Other assets	4,511	3,943	4,381	568
Trade accounts payable	(5,438)	(5,899)	(5,380)	461
Other liabilities	(8,172)	(7,559)	(8,480)	(613)
Reserves for employee termination indemnities and pensions and similar obligations	(1,435)	(1,431)	(1,524)	(4)
Capital and/or investment grants	(293)	(325)	(324)	32
Deferred tax assets net of reserve for income taxes	4,818	3,806	502	1,012
Other reserves for risks and charges	(5,431)	(5,375)	(3,085)	(56)
(B)	(2,218)	(3,838)	(4,166)	1,620
C. Net invested capital (A + B)	57,560	54,023	60,390	3,537
Financed by:				
D. Shareholders' equity				
Parent Company interest	16,018	11,640	11,927	4,378
Minority interest	4,098	8,984	11,369	(4,886)
	20,116	20,624	23,296	(508)
E. Medium/long-term debt	33,464	33,292	34,810	172
F. Net short-term financial debt (liquidity)				
Short-term borrowings	7,347	6,827	8,277	520
Liquid assets and short-term financial receivables	(9,060)	(7,347)	(6,334)	(1,713)
Financial accrued expenses (income) and deferred (expenses) income, net	408	627	341	(219)
	(1,305)	107	2,284	(1,412)
G. Financial debt for tender offer and withdrawals	5,285			5,285
H. Total net financial debt (E + F + G)	37,444	33,399	37,094	4,045
I. Total net financing (D + H)	57,560	54,023	60,390	3,537

(*) The data takes into account the merger of Telecom Italia with and into Olivetti, as well as the withdrawals and the tender offer

(**) Historical data of the Olivetti Group

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. S.U./O.A.
	92 SUSTAINABILITY SECTION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions of euro)	1st Half 2003 (*)	1st Half 2002 (**)	Year 2002 (**)
A. Net debt, at beginning of year	(33,399)	(38,362)	(38,362)
Operating income	3,281	2,987	6,058
Depreciation of fixed assets and amortization of intangible assets	3,357	3,561	7,227
Investments in fixed assets and intangible assets ⁽¹⁾	(1,723)	(1,891)	(4,901)
Proceeds from disposal of intangible assets and fixed assets	28	104	145
Change in operating working capital and other changes	(93)	(581)	151
B. Free cash flows from operations	4,850	4,180	8,680
Investments in long-term investments and differences on consolidation ⁽¹⁾	(5,742)	(708)	(2,123)
Proceeds from sale/redemption value of other intangible assets, fixed assets and long-term investments	138	2,008	5,823
Change in non-operating working capital and other changes	(2,243)	(1,933)	(3,843)
C.	(7,847)	(633)	(143)
D. Net cash flows before distribution of income / reserves and contributions by shareholders (B + C)	(2,997)	3,547	8,537
E. Distribution of income/reserves	(1,049)	(2,342)	(3,668)
F. Contributions by shareholders	1	63	94
G. Net change in debt (D + E + F)	(4,045)	1,268	4,963
H. Net debt, at end of year (A + G)	(37,444)	(37,094)	(33,399)

The net change in debt is the result of the following:

(in millions of euro)			
Increase (decrease) in medium/long-term debt	172	(2,232)	(3,733)
Increase (decrease) in short-term borrowings	(1,412)	964	(1,230)
Increase in debt for tender offer and withdrawals	5,285		
Total	4,045	(1,268)	(4,963)

(1) Total cash used for investments can be analyzed as follows:

(in millions of euro)			
Industrial investments:	6,306	1,967	5,247
- consolidation difference	4,583	76	346
- other intangible assets	542	532	1,610
- fixed assets	1,181	1,359	3,291
Investment in long-term investments	1,159	632	1,777
Cash used for investments	7,465	2,599	7,024

(*) The data takes into account the merger of Telecom Italia with and into Olivetti, as well as the withdrawals and the tender offer

(**) Historical data of the Olivetti Group

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.p.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

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

TELECOM ITALIA

The economic, equity and financial data of Telecom Italia S.p.A. for the first half of 2003 showed results emerging after the following transactions:

- contribution of the "International Wholesale Services" business segment of the Merged Company Telecom Italia S.p.A. to Telecom Italia Sparkle on December 31, 2002;
- merger by incorporation of the subsidiary Telecom Italia Lab, agreed on March 18, 2003, effective for accounting and tax purposes as from January 1, 2003;
- merger by incorporation of Telecom Italia S.p.A. with and into Olivetti S.p.A. (subsequently renamed Telecom Italia S.p.A.), effective for accounting and tax purposes as from January 1, 2003, and of the following related transactions:
 - the exercise by the Olivetti shareholders of the right of withdrawal;
 - the voluntary partial tender offer by Olivetti for the ordinary and savings shares of the Merged Company.

Such transactions were finalized on August 4, 2003, but are already included in the actual figures for the six months ended June 30, 2003, as previously stated in the "Note on Methodology".

The financial statements at the end of the section on Telecom Italia S.p.A. show the results for the first half of 2003 compared to those for the first half of 2002 and the year 2002 that have been "restated" to give effect to the merger as from January 1, 2002.

For purposes of a more meaningful reading of the economic, equity and financial data of the new company resulting from the merger, the following table separately presents the data for the two companies in the merger as well as the effects deriving from the merger itself.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. S.U./O.A.
	92 SUSTAINABILITY SECTION

	Telecom Italia S.p.A. pre-merger		Olivetti S.p.A. pre-merger		Effect of merger withdrawals, and tender offer		Telecom Italia S.p.A. post-merger	
	1st half 2003	1st half 2002	1st half 2003	1st half 2002	1st half 2003	1st half 2002	1st half 2003	1st half 2002 restated
(in millions of euro)								
Economic and financial data								
Sales and service revenues	8,035	8,430					8,035	8,430
Gross operating profit (loss)	3,651	3,746	(14)	(21)			3,637	3,725
Operating income (loss)	2,112	2,088	(28)	(34)			2,084	2,054
Income (loss) before extraordinary items and income taxes	1,304	944	109	872	(47)		1,366	1,816
Income (loss) before income taxes	402	712	106	1,036	(157)		351	1,748
Income taxes	(110)	(323)		(187)	1,339		1,229	(510)
Net income for the period	292	389	106	849	1,182		1,580	1,238
Investments:								
- Industrial	1,360	918					1,360	918
- Financial	364	486	30	15	5,274		5,668	501
		Year 2002		Year 2002		Year 2002		Year 2002 restated
Balance sheet data								
Total assets	39,204	40,146	26,479	26,376	830	(5,399)	66,513	61,123
Net invested capital	25,329	26,084	24,570	24,226	1,486	(4,884)	51,385	45,426
Shareholders' equity	9,932	10,956	9,166	9,031	(3,846)	(5,183)	15,252	14,804
Net debt	15,380	15,128	15,421	15,195	5,332	299	36,133	30,622
Profit and financial indexes								
Gross operating profit (loss)/Revenues	45.4%	44.4%					45.3%	44.2%
(ROS)	26.3%	24.8%					25.9%	24.4%
Debt Ratio (Net debt/Net invested capital)	60.7%	58.0%	62.8%	62.7%			70.3%	67.4%
Employees								
Employees (number at period-end)	54,609	54,705	70	70			54,679	54,775

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. S.U./O.A.
	92 SUSTAINABILITY SECTION

The following statement, in order to ensure a homogeneous comparison, also presents the economic results for the first half of 2003 compared to those for the first half of 2002 that give effect to the cited contribution of the business segment to Telecom Italia Sparkle and the merger by incorporation of TILAB as from January 1, 2002.

	1st half 2003	1st half 2002 restated	Adjustments		1st half 2002 pro-forma (e) = (b + c + d)	Change %	
(in millions of euro)	(a)	(b)	TILAB merger (c)	IWS spin-off (d)		(a/b)	(a/e)
A. Sales and service revenues	8,035	8,430	27	(503)	7,954	(4.7)	1.0
Changes in inventory of contract work in process	2	(4)	(1)		(5)		
Increases in capitalized internal construction costs	26	7	7		14	°	85.7
Operating grants	6		1		1		°
B. Standard production value	8,069	8,433	34	(503)	7,964	(4.3)	1.3
Raw materials and outside services ⁽¹⁾	(3,170)	(3,407)	10	355	(3,042)	7.0	(4.2)
C. Value added	4,899	5,026	44	(148)	4,922	(2.5)	(0.5)
Labor costs ⁽¹⁾	(1,262)	(1,301)	(37)	26	(1,312)	3.0	3.8
D. Gross operating profit (loss)	3,637	3,725	7	(122)	3,610	(2.4)	0.7
Depreciation and amortization	(1,396)	(1,503)	(7)	45	(1,465)	7.1	4.7
Other valuation adjustments	(89)	(99)			(99)	10.1	10.1
Provisions to reserves for risks and charges	(32)	(34)		3	(31)	5.9	(3.2)
Net other income (expenses)	(36)	(35)	(1)	(1)	(37)	(2.9)	2.7
E. Operating income (loss)	2,084	2,054	(1)	(75)	1,978	1.5	5.4

(1) Reduced by related cost recoveries

RESULTS OF OPERATIONS

The Parent Company, **Telecom Italia S.p.A.**, reported a net income of euro 1,580 million for the first half of 2003, an increase of euro 342 million compared to the first half of 2002 restated.

As usual, dividends from subsidiaries arising from the current year's earnings are not included in the result for the first half of 2003 but are recorded at the end of the year in accordance with the accrual principle.

The improvement in earnings can be ascribed to a higher gross operating profit (+ euro 30 million) and the positive effect of income taxes (+ euro 1,739 million) which benefited from the deferred tax assets which became recoverable thanks to the cited merger transaction (euro 1,286 million), partly offset by a higher net expense balance of *net financial income (expenses)* (–euro 277 million), *net investment income (expenses)* (–euro 203 million) and *net extraordinary income (expenses)* (–euro 947 million).

Sales and service revenues, equal to euro 8,035 million, decreased by euro 395 million, -4.7%, compared to the first half of 2002 (*instead, taking into account the effects of the merger with*

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. S.U./O.A.
	92 SUSTAINABILITY SECTION

TILAB and the contribution to Telecom Italia Sparkle, revenues showed an organic growth of euro 81 million, +1.0%).

The reduction was attributable to traffic revenues which fell by euro 618 million, -14.8%, mainly on account of the contribution to Telecom Italia Sparkle, with the consequent allocation of revenues from international traffic to the latter (euro 472 million for the first half of 2002). On a comparable basis, the reduction in traffic was euro 146 million, -4.0%. This trend was partly compensated by the increase in income from basic subscription charges which benefited from the growth in commercial rate plans (principally Teleconomy and Alice) offering rate discounts on traffic aimed at retaining customer "loyalty".

Gross operating profit, equal to euro 3,637 million, decreased by euro 88 million compared to the first half of 2002 restated, -2.4%.

As a percentage of revenues, gross operating profit was 45.3% (44.2% in the first half of the prior year restated).

The decrease in gross operating profit is due to the aforementioned fall in revenues that was partly compensated by the reduction in the consumption of raw materials and outside services (-euro 237 million) and by the decrease in labor costs which fell by euro 39 million compared to the first half of 2002 restated.

When taking into account the effects of the merger with TILAB and the contribution to Telecom Italia Sparkle, the gross operating profit increased by euro 27 million, +0.7%. Such growth was due to the increase in revenues (+euro 81 million), capitalized internal construction costs and grants (for a total of euro 21 million), partly offset by the increase in operating costs for euro 78 million (+euro 128 million for the consumption of raw materials and outside services and -euro 50 million for labor costs).

The reduction in labor costs was mainly due to the effects of the change in the average workforce (-4,615 compared to the first half of 2002 restated, -7.9%).

Operating income, equal to euro 2,084 million, increased by euro 30 million compared to the first half of 2002 restated (+1.5%), and as a percentage of revenues was 25.9%, compared to 24.4% for the first half of 2002 restated.

The increase was mainly due to lower amortization and depreciation of intangibles and fixed assets (-euro 107 million) and lower valuation adjustments (-euro 10 million), which fully compensated the reduction in gross operating profit.

When taking into account the effects of the merger with TILAB and the contribution to Telecom Italia Sparkle, operating income showed an organic growth of euro 106 million, +5.4%.

Net financial income (expenses) showed an expense balance of euro 1,202 million (-euro 925 million for the first half of 2002 restated), a negative change of euro 277 million.

The net balance, although benefiting from a reduction in debt exposure, was worsened by the provision of euro 143 million relating to the put/call option with JP Morgan on Seat Pagine Gialle shares exercised in advance (August 2003) and the loss of euro 101 million on the repurchase of notes subscribed by Telecom Italia Finance for euro 1,600 million.

The notes were repurchased in order to bring the ratio of net equity and notes issued into equilibrium following the distribution of reserves in June 2003. At Group level, the loss of euro 101 million realized by Telecom Italia was offset by a gain of the same amount posted in the financial statements of Telecom Italia Finance.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. S.U./O.A.
	92 SUSTAINABILITY SECTION

Net investment income (expenses) is composed of the following::

	1st Half 2003	1st Half 2002 restated	Change
(millions of euro)	(a)	(b)	(a)-(b)
Value adjustments to financial assets	(196)	(945)	749
Income from investments, net	680	1,632	(952)
Total	484	687	(203)

Specifically:

- value adjustments to financial assets mainly referred to the writedowns of the investments in Sky Italia (former Stream) (euro 64 million), I.T. Telecom (euro 47 million), Olivetti International (euro 33 million), Telecom Italia Learning Services (euro 17 million), Latin American Nautilus (euro 10 million) and Edotel (euro 7 million). The reduction (–euro 749 million) compared to the first half of 2002 restated, was due principally to the writedowns made in 2002 to the equity investments in Stet International Netherlands (now Telecom Italia International, euro 517 million) and in TMI - Telemedia International Italia (now Telecom Italia Sparkle, euro 80 million) and the TIM shares in current assets (euro 86 million);
- income from investments, net, referred mainly to the distribution of dividends by the Merged Company Telecom Italia to Olivetti (euro 511 million) and by the subsidiary TIM (euro 81 million).

Net extraordinary income (expenses) showed an expense balance of euro 1,015 million (–euro 68 million for the first half of 2002 restated), with a negative change of euro 947 million.

Specifically:

extraordinary income of euro 64 million comprised:

- the gains realized on the sales of the investments in Siteba (euro 6 million) and Tele Pay Roll Services (euro 4 million), and the contribution, by Olivetti, of the facility management business to Pirelli & C. Real Estate (euro 4 million);
- the gains realized on the sale, to FMP Italy 1 S.r.l., (former Ireos S.p.A.), of certain buildings purchased in advance in January 2003 from Teleleasing (euro 13 million), and the sale of Telecom Italia's "Logistics" business to TNT Logistics Italia, finalized in March 2003 (euro 4 million);
- other prior period income for euro 33 million.

extraordinary expenses of euro 1,079 million comprised:

- the provision aligning the carrying value of Seat Pagine Gialle shares in portfolio (euro 311 million) and that of the shares deriving from the early exercise of the put option (euro 37 million) to the sales value of the shares of Nuova SEAT;
- the provisions in respect of the investment in EPIClink (euro 86 million) for the start of the process to strategically reposition the company within the Group and the commitment to purchase the residual 14% stake in the share capital of the company;
- the provision relating to the settlement with Pagine Italia (euro 55 million) following the agreement which fell short with the latter for the purchase of the Pagine Utili business segment;
- expenses connected with the Olivetti - Telecom Italia merger (euro 110 million) principally in respect of fees for advisors, legal and tax consultants, technical experts and expenses for banking charges, and with the sale of Nuova SEAT (euro 57 million);
- the losses (euro 40 million) on the sale, to FMP Italy 1 S.r.l., (former Ireos S.p.A.), of certain buildings purchased in advance in January 2003 from Teleleasing;
- expenses and provisions (euro 58 million) for corporate restructuring measures relating to employee cutbacks and layoffs;

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. S.U./O.A.
	92 SUSTAINABILITY SECTION

- expenses under ex Law 58/1992 (euro 122 million) to cover employees under the former "Telephone Employees Pension Fund" (FPT), which became part of the "Employees Pension Fund", in accordance with the 2000 Finance Bill;
- prior period expenses (euro 93 million) relating to the elimination of previous years' receivable balances;
- prior period expenses (euro 56 million) relating to the additional adjustment made to the estimated value of unused prepaid telephone cards following the start of technical data collection procedures;
- other prior period expenses (euro 55 million).

Employees at June 30, 2003 numbered 54,679, with a decrease of 96 compared to December 31, 2002 restated. Such change is primarily due to the termination (1,075) and exit of employees as a result of the sale of the "Logistics" business segment (337), partly compensated by the addition of TILAB employees which moved to Telecom Italia in March 2003 (1,169), new recruits (79) and intergroup transfers (68).

FINANCIAL CONDITION

Intangibles, fixed assets and long-term investments at June 30, 2003 amounted to euro 52,777 million and increased by euro 5,075 million compared to December 31, 2002 restated. Specifically:

- intangibles, equal to euro 1,355 million, increased by euro 15 million compared to December 31, 2002 restated due mainly to investments of euro 291 million and amortization of euro 268 million;
- fixed assets amounted to euro 12,330 million, with a reduction of euro 349 million compared to December 31, 2002 restated, being the balance between investments of euro 1,069 million, depreciation of euro 1,128 million and disposals of euro 348 million;
- long-term investments, equal to euro 39,092 million, increased by euro 5,409 million compared to December 31, 2002 restated, representing the balance between investments of euro 5,668 million, writedowns of euro 234 million and disposals of euro 19 million.

In particular, the cancellation deficit arising from the merger of euro 22,980 million was allocated to the carrying value of TIM shares, recorded in long-term investments.

Consequently, the average unit carrying value of TIM shares went from euro 0.913 to euro 5.806 per share.

Investments made during the first half of 2003 amounted to euro 7,028 million (euro 1,420 million during the first half of 2002 restated). The breakdown was as follows:

	1st Half 2003	1st Half 2002 restated	Change
(millions of euro)	(a)	(b)	(a)-(b)
Industrial investments	1,360	918	442
Financial investments	5,668	502	5,166
- of which tender offer	5,274	-	5,274
Total investments	7,028	1,420	5,608

Shareholders' equity at June 30, 2003 of euro 15,252 million consisted of share capital of euro 8,846 million, composed of 10,287,061,839 ordinary shares and 5,795,921,069 savings shares, of par value euro 0.55 each, reserves of euro 192 million, net income of

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.p.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. S.p.A./O.A.
	92 SUSTAINABILITY SECTION

euro 1,580 million, and the merger surplus of euro 4,634 million deriving from the Olivetti - Telecom Italia merger.

Additional details on the merger and on the movements in shareholders' equity during the six months under examination are disclosed in the Telecom Italia S.p.A. Notes to the financial statements and in comments on the Balance Sheet.

Net debt (euro 36,133 million) increased by euro 5,511 million compared to December 31, 2002 restated (euro 30,622 million) and principally rose on account of the effects of the share withdrawals and the tender offer for a total of euro 5,285 million. Furthermore, dividends of euro 794 million were paid out against dividend receipts of euro 428 million, leased properties of euro 376 million were purchased at an earlier date and the net debt of the Merged Company TILAB was assumed (euro 169 million). Such effects, combined with other financial flows during the period, fully absorbed the cash flows provided by operations.

Net debt benefited from the effects of the securitization and sale of receivables to factoring companies for a total amount of euro 888 million at June 30, 2003, of which euro 881 million related to securitization (euro 1,008 million at December 31, 2002 restated, of which euro 826 million related to securitization).

Gross financial debt at June 30, 2003 (without considering the net positive effect of the medium/long-term accruals and deferrals of euro 296 million and the effects of the tender offer) amounted to euro 31,379 million (euro 32,480 million at December 31, 2002 restated), euro 36,664 million when taking into account the effects of the tender offer.

Details of gross debt are provided as follows:

	At 6/30/2003						At 12/31/2002 restated	
	Euro	%	Foreign currency	%	Total	%	Total	%
(millions of euro)								
Medium/long-term debt	20,251	65	81	99	20,332	65	23,731	73
Short-term borrowings	11,046	35	1	1	11,047	35	8,749	27
Total	31,297	100	82	100	31,379	100	32,480	100
Financial debt funding the tender offer and share withdrawals	5,285				5,285			
Total	36,582				36,664			

In particular, the portion of medium/long-term debt went from 73% at December 31, 2002 restated to 65% at June 30, 2003.

As regards the financing to fund the tender offer, euro 5,274 million were used out of the original lines of credit of euro 9,000 million.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

TELECOM ITALIA

STATEMENTS OF INCOME

	1st half 2003	1st half 2002 restated	Year 2002 restated	Change (a) - (b)	
(in millions of euro)	(a) (*)	(b) (**)	(**)	amount	%
A. Sales and service revenues	8,035	8,430	17,055	(395)	(4.7)
Changes in inventory of contract work in process	2	(4)	-	6	-
Increases in capitalized internal construction costs	26	7	11	19	°
Operating grants	6	-	-	6	-
B. Standard production value	8,069	8,433	17,066	(364)	(4.3)
Raw materials and outside services ⁽¹⁾	(3,170)	(3,407)	(6,992)	237	7.0
C. Value added	4,899	5,026	10,074	(127)	(2.5)
Labor costs ⁽¹⁾	(1,262)	(1,301)	(2,565)	39	3.0
D. Gross operating profit	3,637	3,725	7,509	(88)	(2.4)
Depreciation and amortization	(1,396)	(1,503)	(3,053)	107	7.1
Other valuation adjustments	(89)	(99)	(357)	10	10.1
Provisions to reserves for risks and charges	(32)	(34)	(44)	2	5.9
Net other income (expenses)	(36)	(35)	(74)	(1)	(2.9)
E. Operating income	2,084	2,054	3,981	30	1.5
Net financial income (expenses)	(1,202)	(925)	(1,897)	(277)	(29.9)
Net investment income (expenses)	484	687	3,093	(203)	(29.5)
F. Income before extraordinary items and income taxes	1,366	1,816	5,177	(450)	(24.8)
Net extraordinary income (expenses)	(1,015)	(68)	(5,929)	(947)	°
G. Income (loss) before income taxes	351	1,748	(752)	(1,397)	(79.9)
Income taxes	1,229	(510)	918	1,739	-
H. Net income	1,580	1,238	166	342	27.6

(1) Reduced by related cost recoveries

(*) The data takes into account the merger of Telecom Italia with and into Olivetti, as well as the withdrawals and the tender offer

(**) Data restated by giving effect to the merger as of January 1, 2002

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. S.U./O.A.
	92 SUSTAINABILITY SECTION

BALANCE SHEETS

	6/30/2003	12/31/2002 restated	12/31/2002	Change
(in millions of euro)	(a) (*)	(b) (**)	(***)	(a)-(b)
A. Intangibles, fixed assets and long-term investments				
Intangible assets	1,355	1,340	53	15
Fixed assets	12,330	12,679	1	(349)
Long-term investments:				
• equity investments and advances on future capital contributions	38,736	33,301	22,888	5,435
• other	356	357	56	(1)
(A)	52,777	47,677	22,998	5,100
B. Operating working capital				
Inventories	95	69		26
Trade accounts receivable, net	4,805	4,391	6	414
Other assets	3,306	2,841	1,269	465
Trade accounts payable	(3,183)	(2,966)	(18)	(217)
Other liabilities	(4,973)	(4,203)	(304)	(770)
Reserves for employee termination indemnities and pensions and similar obligations	(1,016)	(971)	(3)	(45)
Capital and/or investment grants	(216)	(235)		19
Deferred tax assets net of reserve for income taxes	3,318	2,068	614	1,250
Other reserves for risks and charges	(3,528)	(3,245)	(336)	(283)
(B)	(1,392)	(2,251)	1,228	859
C. Net invested capital (A + B)	51,385	45,426	24,226	5,959
Financed by:				
D. Shareholders' equity				
Share capital	8,846	8,845	8,845	1
Retained earnings and reserves	4,826	5,793	6,426	(967)
Net income (loss)	1,580	166	(6,240)	1,414
	15,252	14,804	9,031	448
E. Medium/long-term debt	20,036	23,706	11,857	(3,670)
F. Net short-term financial debt (liquidity):				
Short-term borrowings	11,047	8,749	3,298	2,298
Liquid assets and short-term financial receivables	(1,618)	(3,452)	(1,053)	1,834
Financial accrued expenses (income) and deferred (expenses) income, net	1,383	1,619	1,093	(236)
	10,812	6,916	3,338	3,896
G. Financial debt for tender offer and withdrawals	5,285			5,285
H. Net financial debt (E + F + G)	36,133	30,622	15,195	5,511
I. Total financing (D + H)	51,385	45,426	24,226	5,959

(*) The data takes into account the merger of Telecom Italia with and into Olivetti, as well as the withdrawals and the tender offer

(**) Restated data post-merger, excluding the effects of the withdrawals and the tender offer, taking into account the share capital of Olivetti and the shares held by Olivetti in the Merged Company at December 31, 2002

(***) Historical data of the Merging Company Olivetti Group

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. S.U./O.A.
	92 SUSTAINABILITY SECTION

STATEMENTS OF CASH FLOWS

(in millions of euro)	1st half 2003 (*)
A. Net debt, at beginning of year	(30,622)
Net debt of the merged company TILAB at the beginning of the year	(169)
B. Adjusted net debt, at beginning of year	(30,791)
Operating income	2,084
Depreciation of fixed assets and amortization of intangible assets	1,396
Investments in fixed assets and intangible assets ⁽¹⁾	(1,360)
Receipts of capital and/or operating grants	3
Proceeds from disposal of intangible assets and fixed assets	315
Change in operating working capital and other changes	(164)
C. Free cash flow from operations	2,274
Investments in long-term investments ⁽¹⁾	(5,668)
Proceeds from sale/redemption value of other intangibles	75
Change in non-operating working capital and other changes	(1,229)
D.	(6,822)
E. Net cash flows before distribution of income/reserves and contributions by shareholders	(4,548)
(C + D)	
F. Distribution of income/reserves	(794)
G. Contributions by shareholders/withdrawals	-
H. Net change in debt	(5,342)
(E + F + G)	
I. Net debt, at end of year	(36,133)
(B + H)	

The net change in debt is the result of the following:

(in millions of euro)	1st half 2003
Increase (decrease) in medium/long-term debt	(3,670)
Increase (decrease) in short-term borrowings	3,896
Increase in debt for tender offer and withdrawals	5,285
Total	5,511

(1) Total cash used for investments can be analyzed as follows

(in millions of euro)	1st half 2003
Industrial investments:	1,360
- intangible assets	1,070
- fixed assets	290
Investment in long-term investments	5,668
Cash used for investments	7,028

(*) The data takes into account the merger of Telecom Italia with and into Olivetti, as well as the withdrawals and the tender offer

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.p.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. S.U./O.A.
	92 SUSTAINABILITY SECTION

■ SUBSEQUENT EVENTS

There follows a description of the significant events subsequent to June 30, 2003:

Sale of Netikos

On July 2, 2003, IT Telecom S.p.A., the 100% shareholder of Netikos S.p.A., signed an agreement with MyQube S.A. for the sale of NETikos. The closing of the contract took place on July 23, 2003 and effective July 1, 2003 both NETikos S.p.A. and NETikos Finland were excluded from the scope of consolidation of the IT Market Business Unit. The selling price was euro 2 million.

The transaction fell under the divestiture program for the non-strategic businesses of the Telecom Italia Group.

According to agreements that were signed, NETikos is expected to continue to render its services as a supplier of the Telecom Italia Group.

Sale of Telekom Srbija

On July 7, 2003, the sale of Telekom Srbija was closed with the consequent transfer of the shares of the entire 29% stake held in the company for a total price of euro 195 million. The transaction had been announced on February 20, 2003, following acceptance of the offer received by Telecom Italia International at the end of December 2002 from PTT Serbia. The first part of the price, equal to euro 120 million, was paid in the first half of 2003. As established by the sales agreements, the certificate of the shares sold will remain deposited with the escrow agent to guarantee the complete payment of the residual euro 75 million constituting the second part of the agreed purchase price.

Sale of properties to Lastra (FMP Group)

On June 20, 2003, Telecom Italia reached an agreement with Lastra Holding B.V., a company in the Five Mounts Properties group (FMP), for the sale of certain real estate assets of the Telecom Italia Group.

On July 21, 2003, the transaction was concluded.

The value of the sale is worth about euro 355 million and will allow the Telecom Italia Group to reduce consolidated net debt by the same amount.

Seat Pagine Gialle: spin-off and sale of Nuova Seat Pagine Gialle

On April 1, 2003, the Board of Directors of Seat Pagine Gialle S.p.A. approved the plan for the proportional partial spin-off of Seat Pagine Gialle S.p.A. ("Spun-off Company") to a newly formed company ("Nuova SEAT") based upon the balance sheet of the spun-off company at December 31, 2002. The Extraordinary Shareholders' Meeting of Seat Pagine Gialle S.p.A. approved the spin-off plan on May 9, 2003. On July 25, 2003, Nuova SEAT received the corporate complex principally composed of the following business segments: Directories (consisting of the Italian operations in telephone publishing and the stakes held in TDL Infomedia and Thomson), Directory Assistance (89.24.24 Pronto Pagine Gialle and Telegate) and Business Information (Consodata group).

The spun-off company took the new name of Telecom Italia Media whereas the newly formed beneficiary company took the name of **Seat Pagine Gialle S.p.A.** The spin-off became effective on August 1, 2003 and the shareholders were assigned, for every 40 ordinary (savings) shares held:

- 29 new ordinary (savings) shares of the beneficiary company, Seat Pagine Gialle
- 11 new ordinary (savings) shares of the spun-off company, Telecom Italia Media

After the above-described transaction, effective August 4, 2003, trading of the ordinary and savings shares of Nuova SEAT began; consequently, starting from the same date, the shares of the spun-off company (Telecom Italia Media) were listed ex spin-off.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. S.U./O.A.
	92 SUSTAINABILITY SECTION

In the second quarter of 2003, Telecom Italia started the procedures for the divestiture, using a competitive process, aimed at the sale of the controlling investment held in the beneficiary company Nuova SEAT. Prior to this transaction, 710,770,200 Seat Pagine Gialle shares relating to the put/call with JP Morgan were purchased in advance on August 1, 2003, for a total outlay of euro 2,255 million.

On August 8, 2003, a 61.5% stake in Nuova SEAT was sold to the consortium composed of BC Partners, CVC Capital Partner, Permira and Investitori Associati.

The sale price was euro 0.598 per share, after taking into account the total valuation of Nuova SEAT's enterprise capital equal to approximately euro 5.65 billion. The equivalent value of this investment was thus equal to euro 3,033 million. Taking into account the estimated debt of Nuova SEAT at the finalization of the sale, equal to euro 700 million, the transaction made it possible for Telecom Italia Group to reduce its consolidated net debt by about euro 3,700 million.

* * *

Furthermore, under the agreements for the sale of the investment in Nuova SEAT Pagine Gialle, Telecom Italia is committed to providing Telecom Italia Media (the spun-off company) with the resources necessary for it to regularly meet its existing debt and other commitments at the date the spin-off became effective in order to avert any joint and several responsibility to Nuova SEAT that may arise, ex art. 2504-decies of the Italian Civil Code.

Interconnection Price List

On July 25, 2003, the National Regulatory Agency approved the interconnection price list for 2003 proposed by Telecom Italia last April. The list presents a reduction in the interconnecting prices in line with that programmed by the network cap system. Also in regard to the two types of unbundling services, (disaggregated access services) "voice only" and "voice + data", the Agency approved the proposed monthly subscription charge equal to euro 8.3 per month.

Shared Service Center Project

On July 28, under the SSC (Shared Service Center) project, the contribution of the "Corporate Solution" business of IT Telecom S.p.A. was finalized with Pirelli Informatica S.p.A. which will be transformed into a limited liability consortium company in which IT Telecom S.p.A. will have a 45% stake, Olivetti Tecnost S.p.A. a 5% stake and the related party Pirelli S.p.A. a 50% stake.

Purchase of 100% of HanseNet

On July 29, 2003, Telecom Italia reached an agreement with e.Biscom for the purchase of 100% of the German company HanseNet Telekommunikation GmbH, as part of Wireline's project to expand its broadband business in certain European cities exhibiting a higher growth potential.

The finalization of the agreement is subject to the scrutiny of the pertinent authorities and calls for an outlay of approximately 250 million.

HanseNet is a broadband operator, equipped with its own infrastructure, which operates in the area of Hamburg and, with some 80,000 customers, represents the second largest telecommunications operator in this area after Deutsche Telekom. The company offers broadband access and value-added services channeled through its high-speed network using IP protocol and develops customer access mainly through local loop unbundling.

Estimated sales for 2003 are approximately euro 100 million and HanseNet posted a gross operating profit in the last three quarters.

Agreement with Pagine Italia

The mentioned sale of Nuova SEAT caused the Telecom Italia group to lose interest in the purchase of the Pagine Utili business from Pagine Italia. Among other things, the purchase and sale contract of Nuova SEAT calls for a non-competition commitment on the part of Telecom Italia. On July 31, 2003, Telecom Italia and Pagine Italia agreed to forsake the understandings reached in September 2002 regarding the purchase and sale of this business.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.p.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. S.U./O.A.
	92 SUSTAINABILITY SECTION

The settlement, on the part of Telecom Italia, involved the payment of consideration of euro 55 million which had already been provided for in the financial statements at June 30, 2003.

Purchase 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.

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 at 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.

On August 7, 2003, the Antitrust Authority authorized the purchase of the company Megabeam which operates in the Wi-Fi networking services business. The go-ahead on the transaction is however subject to precise conditions which the Company is evaluating:

- the relinquishment of all exclusive rights relating to the distribution of Wi-Fi services and the installation and use of R-lan infrastructures;
- the corporate separation of all activities inherent to Wi-Fi services;
- the obligation to negotiate fair, non-discriminatory roaming contracts with other operators.

Alliance with Telefónica Móviles and T-Mobile International

On August 1, 2003, a cooperation agreement was signed as part of the alliance among TIM, Orange S.A., T-Mobile and Telefonica Moviles. The agreement established the context for the development of broad cooperation and sets forth the common commitment to supply experience "without borders" to all customers in the geographical areas in which the companies operate. The new alliance, which initially will operate in Europe, within the area in which the four mobile companies do business, will be directed to more than 170 million customers in 15 countries. The purpose of the alliance is to extend the project to incorporate all the business activities of the companies at a global level, creating one of the largest communities of mobile telephone services in the world, capable of interacting at any time and at any place.

The first products and services provided will allow customers that have prepaid cards to use their cell phones in a greater number of countries than is now available, taking advantage of routine services such as voicemail and assistance, also during trips abroad. The recharging of prepaid cards will gradually be made available abroad. GPRS roaming and MMS roaming will thus be made available in a greater number of Western European countries. The objectives of the four operators are also directed to improving the services dedicated to corporate customers. Such cooperation is destined to be extended to all areas of business such as those connected to the development of infrastructures and cell phones, expanding the range of products offered.

Cancellation of Intercompany notes and Granting of financing

Telecom Italia, in July, in order to bring the ratio of net equity to notes issued into equilibrium following the merger, repurchased and simultaneously canceled the notes subscribed by the subsidiary Telecom Italia Finance for euro 3,500 million. This gave rise to a loss for Telecom Italia S.p.A. of euro 279 million, offset, at Group level, by a gain of the same amount posted in the financial statements of Telecom Italia Finance. At the same time the notes were repurchased, Telecom Italia Finance granted a loan to the Parent Company.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

■ BUSINESS OUTLOOK

Telecom Italia Group's operating income for 2003 is forecast to be at least in line with that of the prior year while net income is expected to show an improvement.

The indebtedness of the group, which already included the effects of the share withdrawals and the tender offer at June 30, 2003 and was equal to euro 37,444 million, is expected to decrease at year-end owing to the sale of Nuova SEAT, net of the payment to JP Morgan for the put option, the disposals of other non-strategic investments and the cash flows generated by operations.

The net result of the Parent Company, partly as a result of the effects of the merger, should show a profit. This will enable dividends to be paid such as to ensure the shareholders the receipt of a total amount at least in line with that received up to now by the shareholders of the Merged Company.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.p.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. S.p.A./O.A.
	92 SUSTAINABILITY SECTION

■ RELATED PARTY TRANSACTIONS

With reference to related party transactions, the effects of such transactions on the balance sheet and statement of income of the consolidated financial statements of the Telecom Italia Group at June 30, 2003 are reported in the following table.

The effects of transactions between Telecom Italia S.p.A. and the relative 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 first six-month 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. Such transactions are governed by market terms or on the basis of specific laws; also, there are no atypical or unusual transactions.

Major statement of income and balance sheet components

(millions of euro)	unconsolidated subsidiaries and affiliates	Nature of transaction
Sales and services revenues	108	These comprise revenues from Teleleasing (euro 71 million), Sky Italia (euro 8 million), Telecom Argentina (euro 6 million) and Telekom Srbija (euro 4 million)
Raw materials and outside services	175	These mainly comprise rent payable to Tiglio I (euro 41 million) and Tiglio II (euro 11 million) as well as TLC service costs from EtecSA Cuba (euro 53 million) and maintenance and assistance contracts from Italtel (euro 13 million) and Siemens Informatica (euro 20 million)
Net other (income) expense	2	These mainly relate to cost recoveries for personnel on loan to certain foreign subsidiaries and affiliates
Net financial (income) expense	(6)	These include accrued interest income on loans made to certain subsidiaries and affiliates (euro 12 million) and interest expense payable to Teleleasing for financial leasing transactions (euro 10 million), to Sky Italia (euro 7 million) and other, euro 1 million
Loans in long-term investments	457	These comprise medium/long-term loans made to Is Tim (euro 305 million), Tiglio I (euro 71 million), Tiglio II (euro 30 million) and Telegono (euro 24 million)
Financial receivables	30	These comprise short-term loans made to TMI group companies (euro 19 million)
Financial payables	51	These refer mainly to payables to Teleleasing (euro 31 million)
Trade and other accounts receivable	135	They mainly regard receivables from Sky Italia (euro 63 million) devaluated by euro 55 million, Telekom Srbija (euro 23 million) and Teleleasing (euro 39 million)
Trade and other accounts payable	285	They include supply transactions connected with investment and operational activities: Italtel group (euro 95 million), Siemens Informatica (euro 31 million), EtecSA Cuba (euro 18 million), and advances from Consorzio Telcal (euro 103 million)
Contract work in process	110	These refer to activities on behalf of Consorzio Telcal under the Telematico Calabria Plan
Guarantees and collateral provided	902	These comprise sureties provided on behalf of Is Tim (euro 573 million), Consorzio Csa (euro 85 million), Sky Italia (euro 30 million) as well as collateral provided on behalf of Is Tim (euro 115 million)
Purchases and sales commitments	23	They refer to commitments with Teleleasing under operating leases
Investments in fixed assets and intangibles	134	These mainly consist of acquisitions of telephone exchanges from the Italtel group (euro 124 million) and computer projects from Siemens Informatica (euro 7 million)

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.p.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. S.p.A./O.A.
	92 SUSTAINABILITY SECTION

In the first half of 2003, the buildings leased from Teleleasing under financial leasing contracts, recorded in long-term investments, were redeemed.

As stated above, the transactions with related party, even indirectly through individuals in the persons of the Directors of Telecom Italia (such as the Pirelli group, the Edizioni Holding group, the Banca Intesa group and the Unicredito group), are governed by market terms.

Related party transactions, excluding transactions among Group companies, also comprise those carried out by the Telecom Italia Group with the Pirelli group and the Edizione Holding group in the first half of 2003 are as follows.

	1st Half 2003	
(millions of euro)		
Sales and services revenues	21	These mainly refer to computer services and the supply of energy services to the Pirelli group (euro 18 million) and telephone services to the Pirelli group (euro 2 million) and the Edizione Holding group (euro 1 million)
Raw materials and outside services	24	These essentially refer to R&D expenditures, computer and tax and intellectual property consulting services rendered to the Pirelli group (euro 23 million) and relating to the commissions paid to the Edizione Holding group (euro 1 million) for the sale of prepaid telephone cards
Trade and other accounts receivable	11	These mainly refer to the above-mentioned telephone services rendered to the Pirelli group (euro 10 million) and to the Edizione Holding group (euro 1 million)
Trade and other accounts payable	33	They mainly include supply transactions connected with investment and operational activities with the Pirelli group
Investments in fixed assets and intangibles	16	These mainly refer to purchases of telecommunications cables (euro 13 million) and leasehold improvements (euro 3 million) from the Pirelli group
Disposal of business segments	4	These refer to the gain on the sale of the facility management businesses to Pirelli Real Estate by Olivetti. The matter is reported in the section "Other activities - Centralized Group Services".

Furthermore:

- in the first half of 2003, TIM and Telecom Italia sold telephone cards to Autogrill S.p.A. (Edizione Holding group) for sale to the general public for an equivalent amount of euro 10 million;
- Telecom Italia has a commitment to purchase a further 5% stake in Epiclink from Pirelli S.p.A. for euro 3 million;
- as reported in the "Subsequent events", on July 28, under the SSC (Shared Service Center) project, the contribution of the "Corporate Solution" business of IT Telecom S.p.A. was finalized with Pirelli Informatica S.p.A. which will be transformed into a limited liability consortium company in which IT Telecom S.p.A. will have a 45% stake, Olivetti Tecnost S.p.A. a 5% stake and Pirelli S.p.A. a 50% stake;
- on July 21, 2003 the spin-off of Tiglio I and Tiglio II to Ortensia was formalized, with effect from July 25, 2003. The matter is reported in the section "Other activities - Centralized Group Services".

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.p.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

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

WIRELINE

- ▶ Significant improvement in industrial operations and economic results
- ▶ Ongoing development of broadband markets and innovative data services
- ▶ Growth of investments

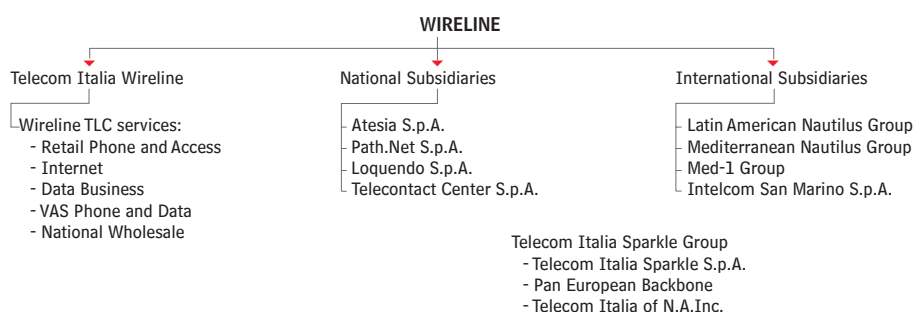
■ THE BUSINESS UNIT

The 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) providers. On an international level, Wireline develops fiber optic networks for wholesale customers, mainly in Europe and South America.

During the period, 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 OF THE BUSINESS UNIT

The Business Unit is organized as follows:



■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

In the first half of 2003, the scope of consolidation changed as a result of the transfer of Loquendo S.p.A. (previously consolidated in the IT Group operating activity) to Wireline. The data relating to 2002 has been duly restated.

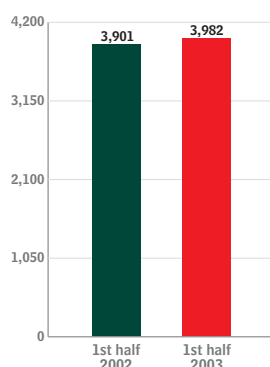
In addition, during the first half of 2003, Telecom Italia Wireline acquired a minority stake in LISIT S.p.A., following the bid that was awarded, jointly with Finsiel S.p.A., for the Health Care Information System and the Regional Service Card of the Lombardy Region.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

■ ECONOMIC AND FINANCIAL DATA

The following table shows the key results for the first half of 2003 compared to the first half of 2002 and the year 2002, restated for purposes of comparison.

Gross operating profit



	1st half 2003 (a)	1st half 2002 (b)	Year 2002	Change (a) - (b) amount	%
(millions of euro)					
Sales and service revenues	8,552	8,406	17,035	146	1.7
Gross operating profit	3,982	3,901	7,966	81	2.1
% of revenues	46.6%	46.4%	46.8%		
Operating income	2,441	2,396	4,698	45	1.9
% of revenues	28.5%	28.5%	27.6%		
Investments:					
- industrial	1,071	1,001	2,465	70	7.0
- differences on consolidation	-	-	-	-	-
Employees at period-end ⁽¹⁾ (number)	52,582	56,872	53,857	(1,275)	(2.4)

◀ (1) The change in employees has been calculated in reference to the data at the end of 2002.

Sales and service revenues showed a growth of 1.7% (+euro 146 million), generated mainly by TI Wireline and TI Sparkle.

This increase was achieved thanks to the effectual management of the core telephone market, where flat-rate voice services exceeded 5.5 million lines and the market share of traffic remained stable throughout the first half of 2003. Furthermore, there was significant and ongoing growth in the broadband and innovative data services markets. The number of broadband lines reached 1,375,000 and, during the first half of 2003, representing an increase of 525,000 units, double the figure recorded in the second half of 2002. The growth of data services for business customers also continued, led by the development of innovative data services (+46% compared to the first half of 2002), thus more than compensating the reduction recorded in traditional data services and leased lines. There was also a significant rise (+37%) in revenues from value-added services (VAS) compared to the first half of 2002.

Factors particularly influencing the growth in revenues included higher revenues from basic subscription charges (+euro 137 million) and sales (+euro 81 million) which more than compensated the reduction in traffic (–euro 57 million, of which –euro 26 million came from wholesale traffic) and grants (–euro 35 million); other revenues increased (+euro 31 million).

In particular:

- The growth in revenues from basic subscription charges was mainly generated in the retail sphere from Access (+euro 75 million) and the significant increase of Adsl (+euro 61 million compared to +euro 27 million during the first quarter of the year). Basic subscription charges from VAS and Data services were fairly stable (a total of +euro 5 million), whereas wholesale subscription charges declined (a total of –euro 5 million).
- Compared to the same period of the prior year, retail traffic (approximately –euro 31 million, equal to –1.0%) continued to generate sustained growth in revenues from VAS traffic (+euro 144 million) and also from Data and Adsl traffic (+euro 38 million) making it possible to contain the effects of the erosion of revenues from Voice and On-Line Dial-Up traffic (–euro 213 million). In particular, the reduction in revenues from Voice and On-Line Dial-Up traffic continues to be affected by a combination of different factors, for example:
 - Wireline's marketing strategy of giving preference to flat rate plans, which, in terms of economic results, lowers the average yield on traffic and increases revenues from basic subscription charges;
 - rate adjustments lowering average prices and revising access charges.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

- Revenues from national and international wholesale traffic (a total of –euro 26 million, equal to –2.7%) were marked by growth of international traffic (a total of approximately +15% including retail traffic) as a result of higher volumes, which only partly compensated the reduction in national traffic generated mainly by the reduction of interconnection charges for 2002 and 2003 and by lower transit traffic towards mobile networks.

The increase in *gross operating profit* and in *operating income* (equal to 2.1% and 1.9% respectively) was the result of both the growth of sales and service revenues and improvements in efficiency compared to the first half of 2002. This was achieved by continuing to implement cost-cutting policies and employing the utmost attention to the selection of investments.

Industrial investments in the first half of 2003 registered an increase of +euro 70 million (+7.0%) compared to those of the same period of the prior year. This increase can be attributed to greater investments in the Network (approximately +euro 200 million), which was offset by lower expenditures on Computer Applications and Equipment, following a more careful rationalization of expenditures and a reduction in the investments made by subsidiaries.

The number of *employees* fell by 1,275 compared to December 31, 2002, as a result of policies aimed at optimizing resources. The reduction is due to 1,062 employees who terminated employment with the company, 218 new employees hired (of which 138 referred to seafaring personnel of Elettra), mobility among Telecom Italia Business Units (–94 persons) and the outsourcing of Logistics activities (–337 persons), acquired from the TNT Traco group.

■ INFORMATION ON OPERATIONS

The following table shows the main operating highlights for the first half of 2003, compared to the first half of 2002 and the year 2002:

Operating data	6/30/2003	6/30/2002	12/31/2002
Fixed network connections (in thousands)	27,079	27,326	27,142
- of which ISDN	6,000	5,662	5,756
Annual increase in minutes of traffic on the fixed network (%)	5.1	5.8	2.4
• national traffic	4.7	5.3	1.8
• international traffic	15.2	18.9	17.9

■ Retail Phone and Access, Internet and VAS Phone services

During the six-month period, new commercial rate plans were launched for Residential and Business Phone services, including:

Residential telephone services	Alice Adsl (Internet)	Addition of two new profiles to the ADSL rate plan: Alice Ricaricabile and Alice Sat . Alice Ricaricabile enables subscribers to connect to the Internet using ADSL technology, using a prepaid, re-chargeable format, while Alice Sat permits connection to the Internet via satellite even in areas not yet served by broadband connections.
	Services 3 and 4* (Value-added phone services)	The new 3 and 4* services have been introduced. The 3 service records voice messages if the number being called is engaged, as an alternative to the 5 service. The 4* service is a voice portal which makes it possible to access Telecom Italia services and content from any telephone in a very simple way.
Business phone services	Pricing (Retail Phone Services)	The new rate plan launched for the SOHO clientele called " Opzione Internazionale " offers two profiles: Folk and Tribe. The former is directed at callers who frequently phone Europe and North America, the second at callers who phone Asia, Africa and South America.
	Smart Adsl (Internet Services)	After the launch in the first quarter of the rate plan based on consumption, Smart One Time, since April it has become possible to move from one profile to another of the Smart rate plan without any technical intervention.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

Within reference to the installation of Public Telephone Services, at June 30, 2003 terminals using ISDN technology totaled 116,734 (+11.6% compared to December 31, 2002 and +24.9% compared to June 30, 2002).

■ Data Business services and Data VAS

During the first half of 2003, the main features in terms of innovations to the product range involved data transmission and Web Services. Among other innovations, the following need to be mentioned:

Data Services (Business Data)	Launch of the <i>Broadband Everywhere</i> plan, which aims to extend broadband coverage for companies, thus making it possible for 91% of all Italian companies to benefit from the advantages of the service.
	Marketing of " <i>Wi-Fi Area</i> " public Wi-Fi services, after a period of technical testing involving approximately 1,000 test users. These services are based on Wi-Fi (Wireless Fidelity) technology and make it possible to provide wireless broadband Internet access from places with a high concentration of people, such as airports, train stations, universities, football stadiums, and so on, which Telecom Italia is gradually acquiring.
	Launch of the " <i>Evidence</i> " remote video surveillance service which, through connection to a broadband network, makes it possible to remotely monitor places such as commercial premises, professional offices etc. with a remotely controlled video-camera.
	The extremely reliable <i>Hyperway</i> service offering IP VPN solutions which are completely receptive not only in terms of connection and Internet access but also in terms of backbone, ensuring 99.99% service availability and able to meet the most sophisticated business continuity requirements of customers (especially in the finance segment).
	Launch of the Lambda Metro services which offer very high-speed fiber-optic connections (2.5 - 100 Gb/s) for connections in the metropolitan areas, ensuring continuing technological leadership in the sector of point-to-point connections.
Web services (Data VAS)	Enhancement of the range of services for the SAM plan for Full Business Company (corporate messaging services) geared towards small-/medium-size businesses, with the introduction of automatic configuration and the SMS list for administrators, import/export of items in the SMS directory and sending SMSs from an @mail address for all users.
	Review of the WebStudios product range through the creation of new profiles. The service offers Content Providers the possibility of transmitting multimedia content on the Web and employs streaming technology which permits the Internet surfer to take advantage of films on the Net in real time.
	Launch of the My Server product range, to complete the housing and collocation products of the Full Business Management service (FullSpace/OpenSpace). The service enables customers to acquire and configure their own server at Telecom Italia's IDCs and includes a portal which enables customers to configure servers according to their requirements.
	Review of the SMS Engine offer, with the introduction of new features which allow customization of the sender, deferred delivery, automatic notification of Mobile Originated messages to the customer's application and access to the SMS Engine from Front End (on the Internet) for applications at the customer's premises.
	Update of the All Voice On service with the creation of a vocal application in the form of an automatic dialogue, which can be accessed by phone through a vocal interface that uses natural speech.

■ National wholesale

During the first half of 2003, facts affecting the National Wholesale market can be summed up as follows:

- by the end of the first half of 2003, approximately 281,000 lines were directly connected to the networks of other operators through Local Loop Unbundling;
- testing began of a new method of distributing Shared Access, with the installation of the splitter by Telecom Italia;
- approximately 400,000 ADSL Wholesale lines were sold to other operators.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.p.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

From a commercial point of view, during the first half of 2003, Telecom Italia expanded the product range of its national wholesale market by introducing the following services:

Access to broadband technology	<i>ADSL Wholesale:</i> The product range already available in the batch version was enhanced by the introduction of economic incentives. In May, the new single access service was introduced enabling operators to acquire single ADSL access lines with different line-speeds (256 kbit/s, 640 kbit/s, 1.28 Mbit/s and 2 Mbit/s).
Dedicated carrier services	<i>Giganet:</i> the data carrier service on fiber optic cables, which is already available at the speeds of 2.5 Gbit/s and 10 Gbit/s, is now also available in urban areas in the form of the "Metrogiganet" service. <i>Soluzione Backbone:</i> The service supplies direct point-to-point digital long-distance connections to OLOs/ISPs at the higher speed of 2 Mbit/s on a set of predefined routes. The service is available on the 231 routes connecting 22 large Italian cities which have access to the service nationwide.

■ International wholesale

TI Sparkle, the wholly-owned subsidiary of Telecom Italia S.p.A., has been operational since January 1, 2003, after the International Wholesale Services Division was spun-off to the former TMI Italia S.p.A. on December 31, 2002. The company carries the Voice, Data and Internet protocol services of international traffic, using both its own and third-party lines.

During the first half of 2003, IP and Data transmission services focused on the sale of innovative international connectivity services, in line with the growth trend of the market, both in the wholesale segment and in terms of the offering for Italian multinational companies.

During the first half of 2003, the Voice services business showed steady growth in volumes, equal to approximately +18% (excluding traffic from TI customers that come under TIW) compared to June 2002. This was achieved thanks to interconnection with new international carriers, more business from Italian OLOs on the domestic market and the competitiveness of the offering on the international market.

■ National network

The national network in statistics at June 30, 2003 was as follows:

Exchange areas	about 10,340
Switching areas	615, served by 628 line Urban Group Stages (SGU)
Gateway Areas	33
Copper access network	104.7 million of kilometers-pair
Fiber optic access network	424,909 kilometers-line
Fiber optic carrier network	3.2 million of kilometers-line
Direct dialing circuits	3.6 million
Network for direct digital circuits (PARD)	488,872 access points with speed up to 2 Mbit/s
Network for direct analog circuits (PARD)	93,912 access points
Frame Relay Accesses	about 80,500 gates at 2Mbit/s
PoP main data networks	32

As far as the national network is concerned, the following took place in the first half of 2003:

Arianna Network	23 more SDH rings were set up for the network structure called Arianna, involving links between regional and international networks.
Gigabit Ethernet Access	Work continued to create a network to support the marketing of services based on Gigabit Ethernet technology (Ethernity and Hyperway MPLS services based on GBE access). In the first half of 2003, 178 GBE optical access lines were installed. In addition, a new urban network using GBE technology was completed in Sassari and in part of the city of Reggio Emilia.
National BB	Migration of long-distance phone traffic has begun from a backbone based on circuit technologies to the innovative one based on IP technologies. The project is scheduled to last for approximately a year.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

■ International network

The international network in statistics at June 30, 2003 is as follows:

Countries connected	237
- by direct dialing	220 (more than 9 satellite destinations)
- by ISDN	53
Switching exchanges	9 (5 in Milan, 3 in Rome and 1 in Palermo)
Extent of European backbone	39,500 kilometers-line
Bands	2 rings of 60,000 Mbit/s and 1 ring of 20,000 Mbit/s

As far as the international network is concerned, during the first half of 2003, work continued to develop regional cross-border networks in Europe, the Mediterranean and Latin America.

In particular, the European backbone was extended to Spain and the first phase of building the fiber-optic metropolitan links (city ring) in Paris and London was completed. This will make it possible to extend the range of IP and data transmission services through a more widespread presence in the main telehouses.

Another factor favoring the development of the range of IP and data transmission services was the increase of transmission capacity on the EU-USA trans-Atlantic route, with the activation of a 10 Gbit/s lambda fiber-optic cable. At the same time, new front and back office systems (CRM) were implemented to ensure ever-higher quality for technical and commercial activities relating to international wholesale services.

■ EVENTS SUBSEQUENT TO JUNE 30, 2003

The following events, also described in the section "Subsequent events", are worthy of note:

- On July 25, 2003, the National Regulatory Agency approved the Interconnection Price List for 2003, proposed by Telecom Italia last April. The new price list offers a reduction on interconnection prices that is in line with the criteria of the network cap mechanism. With regard to the two different types of local loop unbundling ("voice only" and "voice+data"), the National Regulatory Agency approved the basic subscription rate proposed by Telecom Italia of euro 8.3 per month.
- On July 29, 2003, an agreement was signed with e.Biscom to acquire the entire share capital of the German company HanseNet Telekommunikation GmbH, as part of TI Wireline's plan to expand its range of broadband services to some of the European cities with the highest growth potential. The deal will be finalized provided the decision of the competent authorities currently examining it is favorable, and involves an cash disbursement of about euro 250 million.
- In March 2003, Telecom Italia concluded a deal to acquire the entire share capital of Megabeam Italia S.p.A., the first Italian wireless Internet service provider, for the sum of euro 11.5 million.
The acquisition of Megabeam falls under Telecom Italia's strategy in broadband in the sphere of broadband services, in which wireless technology like Wi-Fi plays a fundamental role in solutions for both residential and business customers since it enhances the range and flexibility of the innovative range of connectivity services on the fixed network. Megabeam offers Wi-Fi networking services at private locations and is currently carrying out tests of the same Wi-Fi service in the public sphere (in the main Italian airports and in a leading hotel chain) through Wireless-Lan which operates in the 2400-2483.5 frequency band.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.p.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

On August 7, 2003, the Antitrust Authority authorized the acquisition of Megabeam which operates in the sphere of Wi-Fi networking services. The go-ahead for the transaction depends on Telecom Italia and Megabeam respecting precise conditions, namely:

- the relinquishment of all exclusive rights relating to the distribution of Wi-Fi services and the installation and use of R-lan infrastructures;
- the corporate separation of all activities associated with Wi-Fi services;
- each party is obliged to stipulate fair, non-discriminatory roaming contracts with other operators.

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)	1st half 2003	1st half 2002	Change (%)
Sales and service revenues	44	42	4.8
Gross operating profit	14	19	(26.3)
Operating income	8	16	(50.0)

Activities during the first half of 2003:

- Strengthening of the infrastructures and systems supporting the management of the commercial range of services.



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)	1st half 2003	1st half 2002	Change (%)
Sales and service revenues	49	42	16.7
Gross operating profit	3	2	50.0
Operating income	2	1	100.0

Activities during the first half of 2003:

- Acquisition of new orders worth euro 23.3 million.
- Renewal of the framework contract until August 2005 for XDSL services and Internet access.

Telecom Italia Sparkle S.p.A.

Held by: Telecom Italia 100.0%

The company operates in the transport services phases of Voice, Data and Internet Protocol services.

The table shows the key economic highlights:

(millions of euro)	1st half 2003	1st half 2002 (*)	Change (%)
Sales and service revenues	814	5	°
Gross operating profit	129	0	°
Operating income	65	0	°

(*) The data at June 30, 2002 refers to TMI Italia S.p.A., prior to the merger by incorporation of Telecom Italia's International Wholesale Services business segment and the subsequent change of its name to Telecom Italia Sparkle S.p.A., which took place on December 31, 2002.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

Activities during the first half of 2003:

- Focusing of IP and Data transmission operations on the sale of innovative international connectivity services.
- Increase in the volumes of Business Voice traffic, thanks to interconnection with new international carriers, greater traffic from Italian OLOs on the domestic market and the competitiveness of the offering on the international market.

Telecom Italia of North America Inc.

Held by: Telecom Italia Sparkle 100%

The company operates TLC services and is involved in agency representative activities.

The table shows the key economic highlights:

	1st half 2003 (millions of euro)	1st half 2002 (millions of euro)	1st half 2003 (millions of U.S.\$)	1st half 2002 (millions of U.S.\$)	Change in U.S.\$ (%)
Sales and service revenues	50	24	56	22	°
Gross operating profit	2	0	3	0	°
Operating income	0	0	0	0	°

Activities during the first half of 2003:

- Increase in the volumes of traffic collected and delivered, thanks to the activation of switching junctions in New York and Miami in the second half of 2002.

Pan European Backbone

Held by: Telecom Italia Sparkle 100%

A group of companies which ensures the transport of traffic and the supply of transmission capacity to wholesale customers in Europe.

The table shows the key economic highlights:

(millions of euro)	1st half 2003	1st half 2002	Change (%)
Sales and service revenues	16	12	33.3
Gross operating profit	9	8	12.5
Operating income	3	3	-

Activities during the first half of 2003:

- Extension of the European Backbone to Spain and the completion of the first phase of building fiber-optic urban rings (city ring) in Paris and London.

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:

	1st half 2003 (millions of euro)	1st half 2002 (millions of euro)	1st half 2003 (millions of U.S.\$)	1st half 2002 (millions of U.S.\$)	Change in U.S.\$ (%)
Sales and service revenues	27	10	30	9	°
Gross operating profit	1	(1)	2	(1)	°
Operating income	(7)	(9)	(8)	(8)	-

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

Activities during the first half of 2003:

- Rationalization of operating costs by renegotiating contracts for the maintenance and running of the network.
- Strengthening of commercial activity in the U.S.A. and Brazil.
- Extension of the network to Colombia and Puerto Rico.

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 to wholesale customers in the Eastern Mediterranean.

The group includes the following companies: Mediterranean Nautilus S.A., Elettra Tlc S.p.A., the Mediterranean Nautilus group Ltd.

The table shows the key economic highlights:

	1st half 2003 (millions of euro)	1st half 2002 (millions of euro)	1st half 2003 (millions of U.S.\$)	1st half 2002 (millions of U.S.\$)	Change in U.S.\$ (%)
Sales and service revenues	30	30	33	27	22.2
Gross operating profit	10	8	11	7	57.1
Operating income (loss)	(16)	58	(17)	52	°

Activities during the first half of 2003:

- Preparation of the Landing Station in Istanbul for landing the cable in Turkey and completion of the Crete-Athens section.
- Presentation of the offer to Turk Telekom for the bid to supply the system connecting Turkey to Western Europe.
- The new cable-laying vessel "Pertinacia" entered service.

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:

	1st half 2003 (millions of euro)	1st half 2002 (millions of euro)	1st half 2003 (millions of U.S.\$)	1st half 2002 (millions of U.S.\$)	Change in U.S.\$ (%)
Sales and service revenues	10	11	11	10	10.0
Gross operating prof	6	7	7	6	16.7
Operating income	3	3	3	2	50.0

Activities during the first half of 2003:

- Integration of maintenance and restoration services for the customers of the Lev-1 cable.
- Integration of the Israeli land-based network.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

Intelcom San Marino S.p.A.

Held by: Telecom Italia International 70.0%

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)	1st half 2003	1st half 2002	Change (%)
Sales and service revenues	6	15	(60.0)
Gross operating profit (loss)	(1)	0	°
Operating loss	(1)	(6)	83.3
Volume of traffic handled (millions of minutes)	37	125	(70.4)
Internet customers at period-end (thousand)	6	5	20.0

Activities during the first half of 2003:

- A restructuring plan was created with a view to reorganizing and repositioning the company from a commercial point of view. To this end, on August 4, 2003, Telecom Italia International acquired the remaining 30% stake of the company for euro 4.25 million.

Loquendo S.p.A.

Held by: Telecom Italia 99.98%

The company is involved in the research, development and marketing of technologies, equipment and services for voice synthesis, voice recognition and/or voice interaction.

The table shows the key economic highlights:

(millions of euro)	1st half 2003	1st half 2002	Change (%)
Sales and service revenues	5	4	25.0
Gross operating loss	(3)	(4)	25.0
Operating loss	(4)	(5)	20.0

Activities during the first half of 2003:

- Sales and support activities continued with companies in the Group (Telecom Italia, TIM, IT Group, IT Market) and third party companies (in Italy, Spain, Greece, France, the U.S.A. and South America). New languages (Chinese and Portuguese) and voices (there are now 27) were developed.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.p.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

MOBILE

- ▶ Increased revenues in line with expectations
- ▶ Marked growth of the customer base in Brazil
- ▶ Alliance between TIM, Telefonica Moviles, T-Mobile International and Orange
- ▶ Agreement for the integration of Is TIM and the mobile operator Aycell

■ 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.

■ THE STRUCTURE OF THE BUSINESS UNIT

The Business Unit is organized as follows:



■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

On March 28, 2003, Stet Hellas acquired the entire stake in Telesoft Hellas S.A., a company that develops software for telecommunications, from IT Telecom S.p.A. (a Telecom Italia Group company), for euro 60,000. This transaction did not have any significant economic or financial impact.

On May 13, 2003, TIM International signed a Memorandum of Understanding with Turk Telekom for the integration of Is TIM (ARIA) – a mobile operator in Turkey, owned by TIM (49%) and the leading Turkish bank Is Bank (51%) – with Aycell, a GSM operator wholly-owned by the Turkish operator of wireline phone services, Turk Telekom.

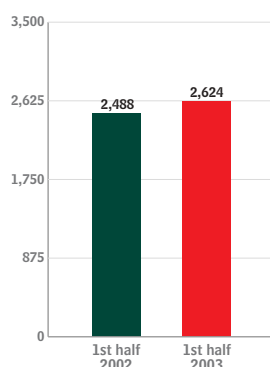
The aim of the agreement is to create significant operational and financial synergies from the merging of the two companies. As an integrated operator, the two operators of telecommunications services TIM and Turk Telekom will each hold a stake of 40%, while Is Bank will hold the remaining 20%.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

■ ECONOMIC AND FINANCIAL DATA

The following table shows the key results for the first half of 2003, compared to the first half of 2002 and the year 2002.

Gross operating profit



	1st half 2003 (a)	1st half 2002 (b)	Year 2002	Change (a) - (b) amount	%
(millions of euro)					
Sales and service revenues	5,534	5,185	10,867	349	6.7
Gross operating profit	2,624	2,488	5,039	136	5.5
% of revenues	47.4%	48.0%	46.4%		
Operating income	1,826	1,684	3,358	142	8.4
% of revenues	33.0%	32.5%	30.9%		
Investments:					
- industrial	406	583	1,715	(177)	(30.4)
- differences on consolidation			196		
Employees at period-end (number) ⁽¹⁾	18,963	17,137	18,702	261	1.4

◀ (1) The change in the number of employees has been calculated in reference to the data at the end of 2002.

Sales and service revenues amounted to euro 5,534 million, with an increase of 6.7% compared to the first half of 2002. Excluding the negative foreign exchange effect, revenues increased by 15.3%.

The *gross operating profit* was euro 2,624 million and showed an increase of 5.5% compared to the first half of 2002 (euro 2,488 million). Excluding the foreign exchange effect, the gross operating profit increased by 7.8%. The improvement can be attributed to the positive performance of already-existing activities, which offset both the higher costs of GSM start-up in Brazil and the negative foreign exchange effect in the South American region. During the first half of 2003, the gross operating profit represented 47.4% of total revenues.

The *operating income* was euro 1,826 million and showed an increase of 8.4% compared to the first half of 2002 (euro 1,684 million). The operating income represented 33.0% of total revenues (32.5% in the first half of 2002).

Industrial investments amounted to euro 406 million, of which euro 140 million referred to intangible assets and euro 266 million to fixed assets. Investments were mainly devoted to the technical sphere and expanding the network.

The number of *employees* increased by 261, compared to December 31, 2002. This increase can be attributed to the expansion reported by Brazilian companies in the start-up phase, and was partly offset by the reduction of resources in the parent company TIM S.p.A..

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

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION



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

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

The table shows the key economic highlights:

(millions of euro)	1st half 2003	1st half 2002	Change (%)
Sales and service revenues	4,499	4,190	7.4
Gross operating profit	2,388	2,182	9.4
Operating income	1,824	1,613	13.1

The increase in *sales and service revenues* (+ euro 309 million) was driven by the positive trend of voice traffic (+ 5.3% compared to the same period of the prior year) and VAS, which, during the first half of 2003, amounted to euro 471 million (+ 41.4% compared to the first half of 2002). During the first half of 2003, revenues from VAS represented 10.9% of total revenues from services, compared to 8.3% in the first half of 2002.

The *gross operating profit* showed an increase of 9.4%, compared to the first half of 2002, and represented 53.1% of total revenues (52.1% in the first half of 2002).

The *operating income* increased by 13.1%. The improvement of the operating income compared to the increase in the gross operating profit was mainly due to lower provisions and amortization and depreciation. In particular, amortization included euro 60 million for the UMTS license, compared to euro 81 million in the first half of 2002, when the license had not yet been extended by the Ministry of Communications; the period of UMTS licenses was extended from 15 to 20 years.

The following table shows the key operating highlights for the first half of 2003, compared to the first half of 2002, and the main activities carried out by each sector:

TIM - operating highlights	June 30, 2003	June 30, 2002
TIM lines in Italy (thousands)	25,610	24,207
Mobile traffic (millions of minutes)	18,508	17,842
ARPU (euro/ line/month)	27.6	27.0

During the first half of 2003, TIM continued to develop innovative services with the aim of building customer loyalty and offering users greater incentives for using cell phones. The most important initiatives can be summed up as follows:

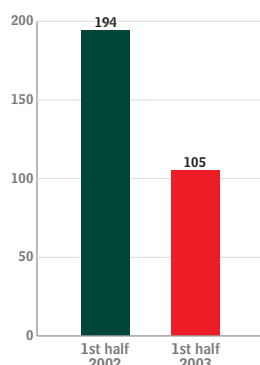
Launch of "ChiamaOra"	A service which, if a TIM number is switched off or cannot be reached, will inform the caller by SMS when the line becomes available.
Launch of "TIMClick"	A service which prints the photographs taken with an MMS mobile phone or converts them to postcards and sends them anywhere in the world.
Launch of "Non rimanere senza parole"	This service advises users with an SMS if the remaining credit is less than euro 2.58. If the phone is recharged within 48 hours, users receive 48 SMSs free of charge.
Launch of "Sunday TIM"	The service awards users a bonus of 10 minutes of national calls on net for every 10 minutes of national calls, which must be used on Sunday of the same week, with a maximum of 30 minutes of free calls per week.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

■ 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



	1st half 2003 (a)	1st half 2002 (b)	Year 2002	Change (a) - (b)	
(millions of euro)				amount	%
Sales and service revenues	674	706	1,298	(32)	(4.5)
Gross operating profit	105	194	274	(89)	(45.9)
% of revenues	15.6%	27.5%	21.1%		
Operating loss	(80)	(14)	(98)	(66)	°
% of revenues	°	°	°		
Investments:					
- industrial	143	300	541	(157)	(52.3)
- differences on consolidation					
Employees at period-end (number) ⁽¹⁾	7,451	6,133	7,050	401	5.7

◀ (1) The change in the number of employees has been calculated in reference to the data at the end of 2002.

During the first half of 2003, the activities of the Latin America Mobile Business Unit generated *revenues* of euro 674 million, with a reduction of 4.5% compared to the first half of 2002. This is exclusively attributable to the foreign exchange effect. In fact, excluding the foreign exchange effect, revenues increased by approximately euro 355 million.

The *gross operating profit* amounted to euro 105 million. In this case, excluding the foreign exchange effect, the reduction in the gross operating profit would have been approximately euro 35 million. This result is attributable to the positive performance of the established companies and the expenses deriving from the start-up of the GSM service in Brazil in October 2002.

The *operating result* was a negative figure of euro 80 million.

Industrial investments in the first half of 2003 amounted to euro 143 million, of which euro 16 million referred to intangible assets and euro 127 million to fixed assets.

At June 30, 2003, the number of *employees* increased by 401 compared to December 31, 2002 following expansion of activities reported by Brazilian companies in the start-up phase.

■ MAJOR SUBSIDIARIES

■ EUROPE



Stet Hellas Group

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:

	1st half 2003	1st half 2002	Change (%)
(millions of euro)			
Sales and service revenues	379	304	24.7
Gross operating profit	134	109	22.9
Operating income	75	53	41.5
Number of lines at period-end (thousands)	2,672	2,284	17.0

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

Activities during the first half of 2003:

- Launch of new rates in the form of six competitive plans covering the requirements of the entire clientele of the business segment;
- Extension of the "Telestet score" service, enhanced by new content, to all customers;
- Launch of the new rate plan for the "Telestet for All" prepaid segment; the rate plan combines competitive uniform charges (regardless of the termination of the call), automatic activation with the first call and access to all VAS services;
- Exclusive collaboration with the Greek Business Channel with the aim of enabling users to read the news on their mobile phone;
- Stet Hellas group was the only Greek company to be ranked in the "Info-Tech 100" Business Week featuring leading companies in the technological sector.

■ LATIN AMERICA

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. 22.61%

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

The table shows the main economic and operating data:

	1st half 2003 (millions of euro)	1st half 2002 (millions of euro)	1st half 2003 (millions of reais)	1st half 2002 (millions of reais)	Change in reais (%)
Sales and service revenues	148	214	528	469	12.6
Gross operating profit	68	113	245	247	(0.8)
Operating income	35	55	124	121	2.5
Number of lines at period-end (thousands)			2,030	1,842	10.2

Activities during the first half of 2003:

- Intensive commercial campaigns during the spring holidays;
- Increase in revenues thanks to the growth of the customer base and customer retention programs, in a context of fiercer competition, partly as a result of the arrival of the new GSM operator "OI" in the second quarter of 2002;
- Continuation of the network roll-out for the imminent launch of the GSM service.

Tele Celular Sul Participações Group

Held by: Bitel Participações S.A. 22.21%

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

The table shows the main economic and operating data:

	1st half 2003 (millions of euro)	1st half 2002 (millions of euro)	1st half 2003 (millions of reais)	1st half 2002 (millions of reais)	Change in reais (%)
Sales and service revenues	160	213	573	466	23.0
Gross operating profit	64	99	231	216	6.9
Operating income	33	43	119	94	26.6
Number of lines at period-end (thousands)			1,812	1,635	10.8

Activities during the first half of 2003:

- Increase in revenues thanks to growth of the customer base and customer retention programs, in a context of fierce competition;
- Intensive commercial campaigns during the spring holidays;
- Continuation of the network roll-out for the imminent launch of the GSM service.



1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION



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 operates mobile telephone services in Brazil in the states of Minas Gerais, Bahia and Sergipe.

The table shows the main economic and operating data:

	1st half 2003 (millions of euro)	1st half 2002 (millions of euro)	1st half 2003 (millions of reais)	1st half 2002 (millions of reais)	Change in reais (%)
Sales and service revenues	123	163	440	357	23.2
Gross operating profit	47	62	168	136	23.5
Operating income	20	12	72	25	188.0
Number of lines at period-end (thousands)			1,461	1,274	14.7

Activities during the first half of 2003:

- Intensive commercial campaigns during the spring holidays;
- Increase in revenues thanks to the growth of the customer base, in a context of fiercer competition, partly as a result of the arrival of the new GSM operator "OI" in the second quarter of 2002;
- Continuation of the network roll-out for the imminent launch of the GSM service.

TIM Celular S.A.

Held by: TIM Brasil S.A. 100.0%

The company operates mobile network services using GSM technology in the north, center and south (Rio Grande do Sul) of Brazil and in the states of São Paulo, Rio de Janeiro and Espírito Santo.

As part of the corporate reorganization process, Portale Rio Norte and TIM Celular Centro Sul were absorbed by Portale São Paulo, which subsequently changed its name to Tim Celular.

The table shows the main economic and operating data:

	1st half 2003 (millions of euro)	1st half 2002 (millions of euro)	1st half 2003 (millions of reais)	1st half 2002 (millions of reais)	Change in reais (%)
Sales and service revenues	114	0	409	-	°
Gross operating profit	(100)	(42)	(359)	(92)	(290.2)
Operating income	(144)	(45)	(514)	(98)	(424.5)
Number of lines at period-end (thousands)			976	-	°

Activities during the first half of 2003:

- Marked growth of the customer base thanks partly to intensive commercial campaigns during the spring holidays;
- Expansion of the sales network;
- Extension of network coverage.



TIM Perú S.A.C.

Held by: TIM International N.V. 100.0%

The company operates mobile telephone services in Peru.

The table shows the main economic and operating data:

	1st half 2003 (millions of euro)	1st half 2002 (millions of euro)	1st half 2003 (millions of nuevo soles)	1st half 2002 (millions of nuevo soles)	Change in nuevo soles (%)
Sales and service revenues	58	36	223	112	99.1
Gross operating loss	(4)	(22)	(15)	(70)	78.6
Operating loss	(23)	(39)	(87)	(122)	28.7
Number of lines at period-end (thousands)			484	259	86.9

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

Activities during the first half of 2003:

- Launch of marketing campaigns oriented towards building up the high-profile clientele;
- Securing of a medium/long-term loan of U.S. \$70 million from International Finance Corporation (World Bank);
- Agreement reached with Nokia to supply GPRS infrastructures.



Corporacion Digitel C.A.

Held by: TIM International N.V. 67.12%

The company operates mobile telephone services in Venezuela.

The table shows the main economic and operating data:

	1st half 2003 (millions of euro)	1st half 2002 (millions of euro)	1st half 2003 (millions of bolivares)	1st half 2002 (millions of bolivares)	Change in bolivares (%)
Sales and service revenues	72	83	131,367	111,486	17.8
Gross operating profit	23	17	42,574	22,433	89.8
Operating income (loss)	(1)	2	(1,992)	2,590	(176.9)
Number of lines at period-end (thousands)			1,003	799	25.5

Activities during the first half of 2003:

- At June 30, 2003, the company had accumulated 1 million customers;
- Despite the slowdown of the economy, owing to the difficult political situation affecting the country, during the six-month period the company reported an increase in results compared to the same period of the prior year.

■ AFFILIATED COMPANIES

■ MEDITERRANEAN BASIN

IS TIM T.H. A.S.

Held by: TIM International N.V. 49.0%

The company operates mobile telephone services in Turkey.

The table shows the main economic and operating data:

	1st half 2003 (millions of euro)	1st half 2002 (millions of euro)	1st half 2003 (billions of Turkish lire)	1st half 2002 (billions of Turkish lire)	Change in Turkish lire (%)
Sales and service revenues	57	33	92,031	51,674	78.1
Gross operating profit	(55)	(57)	(89,863)	(89,331)	(0.6)
Operating income	(235)	(196)	(381,691)	(306,558)	(24.5)
Number of lines at period-end (thousands)			1,672	964	73.4

Activities during the first half of 2003:

- Marketing campaigns initiated with the aim of building customer loyalty through the reduction of charges for on net traffic and discounts based on the level of traffic;
- Increase of the market share from 5.1% at year-end 2002 to 6.5%;
- International roaming agreements involving 104 countries for the GSM service and 13 countries for the GPRS service.



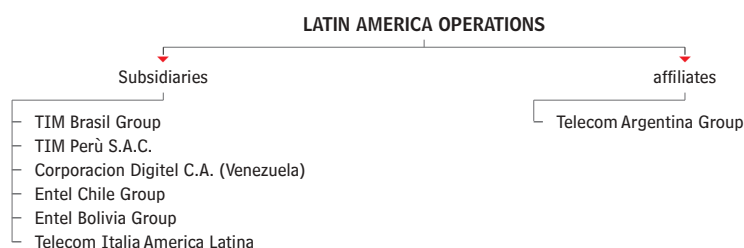
1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

SOUTH AMERICA

■ THE BUSINESS UNIT

The Latin America Operations Business Unit coordinates the activities of the Group in Latin America. In particular, since February 2003, Latin America Operations reports directly to the head of the Mobile Business Unit for Mobile TLC and to the Managing Director Carlo Buora for Wireline TLC.

LAO's structure is organized as follows:



The following commentary provides the main information and presents 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.

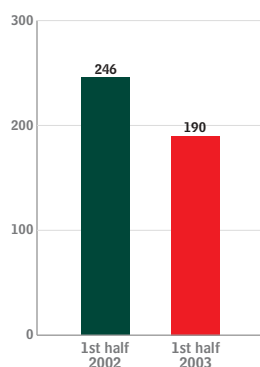
■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

There were no significant changes in the scope of consolidation in the first half of 2003; in January 2003, the Telecom Italia Group sold its 28.57% interest in GLB Servicios Interativos (Globocom) to TV Globo LTDA.

■ ECONOMIC AND FINANCIAL DATA

The following table shows the key results of the Entel Chile group, the Entel Bolivia group, the company Telecom Italia America Latina and the South America BU of Telecom Italia, for the first half of 2003, compared to the first half of 2002 and the year 2002.

Gross operating profit



	1st half 2003 (a)	1st half 2002 (b)	Year 2002	Change (a) - (b)	
(millions of euro)				amount	%
Sales and service revenues	564	731	1,409	(167)	(22.8)
Gross operating profit	190	246	450	(56)	(22.8)
% of revenues	33.7%	33.7%	31.9%		
Operating income	61	85	146	(24)	(28.2)
% of revenues	10.8%	11.6%	10.4%		
Investments:					
- industrial	61	129	216	(68)	(52.7)
- differences on consolidation					
Employees at period-end (number) ⁽¹⁾	5,317	5,774	5,461	(144)	(2.6)

(1) The change in the number of employees has been calculated in reference to the data at the end of 2002.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

Sales and service revenues amounted to euro 564 million, with a reduction of 22.8% (–euro 167 million) compared to the same period of 2002. This was mainly attributable to exchange rate fluctuations, which had an overall impact of –euro 192 million (euro 164 million in the case of the Chilean peso, euro 25 million for the Bolivian boliviano, and euro 3 million for the Brazilian reais). Excluding the foreign exchange effect, consolidated revenues reported an increase of 3.4%, in line with the growth of the Entel Chile group (+2.9% in local currency) and the Entel Bolivia group (approximately +1.3% in local currency).

The above mentioned exchange rate fluctuations affected profit performances. In particular, the gross operating profit decreased by euro 56 million (–22.8%) compared to June 30, 2002, of which approximately –euro 63 million can be attributed to the currency exchange effect (euro 55 million in the case of the Chilean peso, euro 11 million for the Bolivian boliviano, less the positive exchange effect of euro 3 million for the Brazilian reais). Excluding the currency exchange effect, compared to the same period in 2002, the gross operating profit increased by 2.8%, in the presence of a slight increase in external costs (+3.8%) and labor costs (1.4%). The gross operating profit represented 33.7% of total revenues, in line with the figure recorded in the same period of the prior year.

The *operating income* was euro 61 million, a reduction of 28.2% (–euro 24 million) with a currency exchange effect of –euro 21 million. Without the currency exchange effect, the reduction in the operating income compared to the same period in 2002 would have been 3.5%, mainly as a result of the absence in 2003 of the contribution under the management fee contract with Telecom Argentina. The operating income represented 10.8% of total revenues in the first half of 2003 (compared to 11.6% in the same period of the prior year).

Industrial investments showed a decreasing trend compared to June 30, 2002, with a reduction of 52.7%.

At June 30, 2003 *employees* numbered 5,317, with a reduction of 144 (–2.6%) compared to December 31, 2002. This can mainly be attributed to rationalization measures adopted by the Entel Chile group (–151).



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 in the first half of 2003, compared to the first half of 2002:

	1st half 2003 (millions of euro)	1st half 2002 (millions of euro)	1st half 2003 (millions of pesos)	1st half 2002 (millions of pesos)	Change in pesos (%)
Sales and service revenues	486	632	388,199	377,177	2.9
Gross operating profit	163	204	130,269	121,672	7.1
Operating income	65	82	52,053	48,615	7.1
No. of fixed lines at period-end (thousands)			98	99	(1.0)
No. of mobile customers at period-end (thousands)			2,456	2,089	17.6
Internet customers at period-end (thousands) (*)			253	463	(45.4)

(*) In 2003 a different method was used to calculate the number of Internet customers. If the same criteria had been applied to the 2002 customer portfolio, the negative gap would have been reduced from 45% to 2%.

Activities during the first half of 2003:

- Despite the unfavorable trend of the Long Distance market (which particularly affected Americatel), and the serious loss of value of the local currency, the Entel Chile group considerably improved all the indicators of operational profitability, consolidating its leadership position as a mobile telephone services operator with a market share of 41% and successfully implementing a fast Internet-access service using WLL technology in Chile and long distance services in Peru and Venezuela.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION



Entel Bolivia Group

Held by: Telecom Italia International through ICH/ETI 50.0%

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 key economic and operating highlights:

	1st half 2003 (millions of euro)	1st half 2002 (millions of euro)	1st half 2003 (millions of bolivianos)	1st half 2002 (millions of bolivianos)	Change in bolivianos (%)
Sales and service revenues	74	97	619	611	1.3
Gross operating profit	34	39	285	244	16.8
Operating income	4	2	30	9	233.3
No. of fixed lines at period-end (thousands)			60	54	11.1
No. of mobile customers at period-end (thousands)			583	441	32.2
Internet customers at period-end (thousands)			15	15	

Activities during the first half of 2003:

- Overall, the Entel group succeeded in maintaining the levels of sales recorded in the first half of 2002 in local currency amid market conditions indicating a general decline, due to the well-known economic and political factors affecting the country in the first half of the year. There was aggressive price repositioning on the part of competitors, which mainly affected fixed telephone services. Entel, however, confirmed its leadership in the mobile sector (market share 57%). In order to deal with the impact of the above-mentioned phenomena on economic performance, Entel set in motion a process to optimize operating costs. This led to a marked improvement in profitability, bringing the gross operating profit to 46% (compared to 40% in the same period of 2002).

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:

	1st half 2003 (millions of euro)	1st half 2002 (millions of euro)	1st half 2003 (millions of pesos)	1st half 2002 (millions of pesos)	Change in pesos (%)
Sales and service revenues	525	630	1,747	1,500	16.5
Gross operating profit	320	384	1,064	915	16.3
Operating income	27	143	90	340	(73.5)
No. of fixed lines at period-end (thousands)			3,287	3,331	(1.3)
No. of mobile customers at period-end (thousands)			2,770	2,661	4.1
Internet customers at period-end (thousands)			187	182	2.7

Activities during the first half of 2003:

- The group implemented strict procedures to control costs and capital budgets which enabled the gross operating profit to reach 61% and generated significant cash flows. Currently, the group is continuing to work on restructuring its debt. In this context, the offer to redeem the

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

company's debt, which ended on June 2, 2003, made it possible to reduce the debt by U.S. \$292 million, using funds equal to U.S. \$161 million. 44% of debt holders responded to the offer and the company repurchased 55% of its debt at the historical value. In addition, interest expense was paid up to June 24, 2002, whereas, for the remainder of 2002, interest was paid up to 30% of the original value.

- On the operating front, the group maintained its leadership position in the mobile telephone services sector, while there are signs of a recovery in domestic demand in the broadband Internet market (ADSL).

* * *

In order to present an overall picture 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 the first half of 2003, compared to the first half of 2002 and the year 2002, restated for purposes of comparison.

	1st half 2003 (a)	1st half 2002 (b)	Year 2002	Change (a) - (b) amount	%
(millions of euro)					
Sales and service revenues	1,237	1,437	2,706	(200)	(13.9)
Gross operating profit	295	440	724	(145)	(33.0)
% of revenues	23.8%	30.6%	26.8%		
Operating income	(19)	71	48	(90)	°
% of revenues		4.9%	1.8%		
Investments:					
- industrial	203	428	757	(225)	(52.6)
- differences on consolidation	-	-	-		
Employees at period-end (number) ⁽¹⁾	12,768	11,907	12,511	257	2.1

◀ (1) The change in the number of employees has been calculated in reference to the data at the end of 2002.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.p.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

INTERNET AND MEDIA

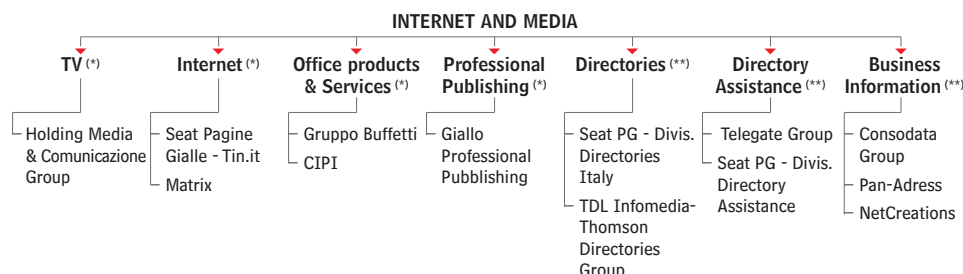
- ▶ Revenues rose by 5.2% on a comparative basis
- ▶ Operating income for the six-month period quadrupled to euro 80 million
- ▶ Project approved to separate the Directories business and form a new company

■ THE BUSINESS UNIT

The Internet and Media Business Unit leads the field in telephone publishing in Italy and is the second largest telephone publishing group in the United Kingdom with a market share of 14%. In Directory Assistance, the group operates the 89.24.24 Pronto Pagine Gialle 24-hour service in Italy and has a market share of more than 30% in Germany. At the same time, Seat Pagine Gialle also operates in the Internet sector (where it promotes the development of all Internet services for residential customers and small and medium-size companies: access, portals and web services), in the marketing of office products and services (through the Buffetti group) and in the television sector with La7 and MTV Italia. On August 1, 2003, the partial proportional spin-off of the corporate complex consisting of the telephone publishing, Directory Assistance and Business Information businesses to a newly formed company, voted at the Extraordinary Shareholders' Meeting of Seat Pagine Gialle on May 9, 2003, became effective.

■ THE STRUCTURE OF THE BUSINESS UNIT

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



(*) Areas of business which, following the spin-off transaction described below, will be transferred to the spun-off company Telecom Italia Media.

(**) Areas of business which, following the spin-off transaction described below, will be transferred to the beneficiary company Nuova Seat Pagine Gialle.

■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

On April 1, 2003, the Board of Directors of Seat Pagine Gialle S.p.A. approved the plan for the proportional partial spin-off of Seat Pagine Gialle S.p.A. ("Spun-off Company") to a newly formed company ("Nuova SEAT") based upon the balance sheet of the spun-off company at December 31, 2002. The Extraordinary Shareholders' Meeting of Seat Pagine Gialle S.p.A. approved the spin-off plan on May 9, 2003. On July 25, 2003, Nuova SEAT received the corporate complex principally composed of the following business segments: Directories (consisting of the Italian operations in telephone publishing and the stakes held in TDL Infomedia and Thomson), Directory Assistance (89.24.24 Pronto Pagine Gialle and Telegate) and Business Information (Consodata group). The spun-off company took the new name of Telecom Italia Media whereas the beneficiary

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

company took the name of Seat Pagine Gialle S.p.A.. The spin-off became effective on August 1, 2003 and the shareholders were assigned, for every 40 ordinary (savings) shares held:

- 29 new ordinary (savings) shares of the beneficiary company, Seat Pagine Gialle;
- 11 new ordinary (savings) shares of the spun-off company, Telecom Italia Media.

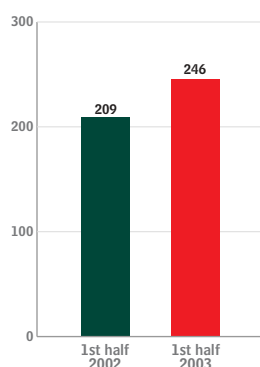
In the second quarter of 2003, Telecom Italia started the procedures for the divestiture, using a competitive process, aimed at the sale of the controlling investment held in the beneficiary company Nuova Seat Pagine Gialle, concluded on August 8, 2003.

After the above-described spin-off transaction, effective August 4, 2003, trading of the ordinary and savings shares of Nuova Seat Pagine Gialle S.p.A. began; consequently, starting from the same date, the shares of the spun-off company (Telecom Italia Media) were listed ex spin-off.

■ ECONOMIC AND FINANCIAL DATA

The following table shows the key results for the first half of 2003, compared to the first half of 2002 and the year 2002.

Gross operating profit



	1st half 2003 (a)	1st half 2002 (b)	Year 2002	Change (a) - (b) amount	%
(millions of euro)					
Sales and service revenues	863	871	1,991	(8)	(0.9)
Gross operating profit	246	209	593	37	17.7
% of revenues	28.5%	24.0%	29.8%		
Operating income	80	19	232	61	°
% of revenues	9.3%	2.2%	11.7%		
Investments:					
- industrial	39	30	81	9	30.0
- differences on consolidation	32	7	40	25	°
Employees at period-end (number) ⁽¹⁾	7,505	8,300	7,715	(210)	(2.7)

◄ (1) The change in the number of employees has been calculated in reference to the data at the end of 2002.

Consolidated *revenues* for the first half of 2003 amounted to euro 863 million and showed a reduction of 0.9% compared to the same period in 2002. This is mainly attributable to the divestitures made during the prior year (including Datahouse and the office supplies products area of the Buffetti group). With a comparable scope of consolidation and net of the loss of value of the British pound (which, during the first half of 2003 had a negative impact on the conversion of Thomson's revenues to euro), revenues increased by 5.2%. In an advertising market that was still seriously depressed, the Directories area reported steady revenues, and significant growth was reported in Directory Assistance, Television and Internet activities. In particular, revenues from the Internet area increased to euro 118 million, up 79% compared to the first half of 2002. This was partly due to a greater flow of revenues from Internet dial-up traffic deriving from the new revenue share method introduced at the beginning of 2003.

Thanks to the performance of almost all the business areas, the consolidated *gross operating profit* for the first half of 2003 was euro 246 million, an increase of 17.7% compared to euro 209 million in the first half of the prior year. In greater detail: the result of the Directories area was fairly stable, in line with that of the first half of the prior year and equal to euro 233 million; the result of the Internet area increased to euro 21 million (euro 1 million in the first half of 2002), the Television area, thanks to growth in revenues, the use of an external advertising agency and a further rationalization of costs, reduced its losses in terms of gross operating profit to euro 17 million (–euro 24 million in the first half of 2002).

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

The more efficient investment policy introduced at the beginning of 2002 and the reduction of the adjusting provisions (due to the positive effects of the measures taken to reorganize credit management) made it possible to significantly improve the *operating income* which was euro 80 million compared to euro 19 million in the same period of 2002.

Industrial investments made between January and June amounted to euro 39 million, euro 9 million more than in the first half of the prior year. The increase was mainly due to growth of Internet activities.

At June 30, 2003 the number of *employees* was 7,505, compared to 7,715 at December 31, 2002. The reduction of 210 employees is attributable to rationalization and efficiency measures begun in 2002.

■ INFORMATION ON OPERATIONS

- During the first half, in addition to continuing to improve efficiency, Seat Pagine Gialle strengthened its presence on the markets in which it operates thanks to a dynamic sales strategy and to its portfolio of highly acclaimed trademarks. In particular, it continued to publish the new editions of PagineGialle® and PagineBianche®, which began last year in October with the Rome editions and which is scheduled for completion in October of the current year. In parallel, efforts continued to optimize credit management and a series of measures were implemented with the aim of building customer loyalty.
- In the area of the Internet, work continued to reposition the Virgilio portal, including the development of a new outgoing priority product on its search engine directed at businesses.
- In the area of Directory Assistance, operations in Spain were strengthened after the deregulation of telephone assistance services, while, in the United Kingdom, preparations continued in view of the deregulation which will take place next August.
- In the area of Television, the agreement to market the advertising space of La7 through an external agency became operational.
- In the area of products and services for the office, the activity portfolio was rationalized with the sale of the Buffetti group's business segment dealing with office supply products.

■ SPIN OFF

The extraordinary transaction for the partial proportional spin-off of Seat Pagine Gialle S.p.A. ("Spun-off" company) to a newly formed company ("Beneficiary Company") became effective on August 1, 2003.

The proforma consolidated data, referring to the "Beneficiary Company" and the "Spun-off Company", was arrived at by restating the data in the consolidated financial statements of Seat Pagine Gialle S.p.A. pre-spin-off, separating both the economic components and the balance sheet components of the two companies, through the identification and later allocation of the individual elements.

The proforma consolidated data was obtained by making appropriate adjustments to retroactively reflect the significant effects of the spin-off as if it had taken place from January 1 of each year of reference.

For purposes of correctly interpreting the information provided in the proforma consolidated data, the following aspects should be taken into account:

- since these are representations based upon assumptions, had the Spin-off actually taken place at

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

- the dates taken as reference for the preparation of the proforma data, instead of at the effective date, the historical data would not necessarily have been the same as the proforma data;
- ii) the proforma consolidated data does not provide forward-looking data since it has been prepared for the purpose of representing only the effects of the Spin-off that can be isolated and measured objectively, without taking into account the potential effects due to the changes in the management policies and the operating decisions consequent to the transaction itself.

SPUN-OFF COMPANY

	1st half 2003 Proforma (a)	1st half 2002 Proforma (b)	Year 2002 Proforma	Change (a) - (b) amount	%
(millions of euro)					
Sales and service revenues	300	292	577	8	2.7
Gross operating profit	4	(18)	(28)	22	122.2
% of revenues	1.4%	°	°		
Operating income	(48)	(76)	(153)	28	36.8
% of revenues	°	°	°		
Investments:					
- industrial	28	16	47	12	75.0
- differences on consolidation	5	3	15	2	66.7
Employees at period-end (number) ⁽¹⁾	2,156	2,436	2,265	(109)	(4.8)

◀ (1) The change in the number of employees has been calculated in reference to the data at the end of 2002

BENEFICIARY COMPANY

	1st half 2003 Proforma (a)	1st half 2002 Proforma (b)	Year 2002 Proforma	Change (a) - (b) amount	%
(millions of euro)					
Sales and service revenues	572	587	1,445	(15)	(2.6)
Gross operating profit	240	226	620	14	6.2
% of revenues	41.9%	38.5%	42.9%		
Operating income	126	94	383	32	34.0
% of revenues	21.9%	16.0%	26.5%		
Investments:					
- industrial	11	14	34	(3)	°
- differences on consolidation	27	4	26	23	°
Employees at period-end (number) ⁽¹⁾	5,349	5,864	5,450	(101)	(1.9)

◀ (1) The change in the number of employees has been calculated in reference to the data at the end of 2002

* * *

Finally, on September 1, 2003, the Board of Directors voted the acquisition of 100% of the share capital of e.BisNews, a publishing company of the APBiscom press agency, which is still in the start-up phase.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.p.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

INFORMATION TECHNOLOGY MARKET

- ▶ Continuation of measures to improve overall efficiency and reduce costs
- ▶ BU wins important new bids

■ INTRODUCTION

The Information Technology Market Business Unit is responsible for the IT activities and companies of the Group which provide information technology solutions and services for the external market.

In line with its main competitors and the evolution of the market, the BU is organized into three main areas of business – Government, Finance and Enterprises – with separate departments to deal with commercial matters on one hand, and the development and delivery of solutions on the other.

The product range of the ITM BU is organized as a matrix: vertical markets and cross-market components. Its product range covers the whole ICT chain of value and is based upon a knowledge of the markets, organizations and their processes, and the integration of market platforms.

The main technological and commercial partnerships of the BU are the top platform producers worldwide: Microsoft, SAP, Oracle, FileNET and TIBCO.

Due to the macro-economic situation, as in the first half 2002, the first half of 2003 was marked by a stagnation of the IT services market and drastic price adjustments with regard to top customers, as well as by the acquisition of new orders and new customers at lower prices than in the past. Meanwhile, action continued to improve overall efficiency and to reduce costs, particularly with reference to Finsiel S.p.A. and the major subsidiaries.

■ THE STRUCTURE OF THE BUSINESS UNIT

With effect from January 1, 2003, the BU is organized as follows (mentioning the main consolidated companies):

Information Technology Market

- Finsiel Group:
 - Finsiel S.p.A.
 - Banksiel S.p.A.
 - Insiel S.p.A.
 - Tele Sistemi Ferroviari S.p.A.
- Webegg Group:
 - Webegg S.p.A.
 - Software Factory S.p.A.
 - Teleap S.p.A.
- Netikos Group:
 - Netikos S.p.A.
 - Eustema S.p.A.

■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

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

- beginning January 1, 2003, the Netikos group (including Netikos S.p.A. and Netikos Finland Oy), the Webegg group (including Webegg S.p.A., Domus Academy S.p.A., @Live S.p.A., Winner Project B.V., Software Factory S.p.A. and Telemedia Applicazioni S.p.A.), and Eustema S.p.A.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.p.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

moved to the IT Market Business Unit; these companies had previously been consolidated in the IT Group operating activity;

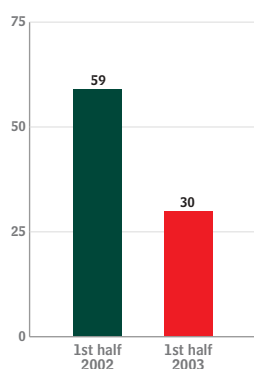
- in 2002, Sogei S.p.A. (consolidated for the first six months of 2002) and Consiel S.p.A. (consolidated for the first eight months of 2002) had also been excluded from the scope of consolidated since they were sold.

■ ECONOMIC AND FINANCIAL DATA

The table shows the key highlights for the first half of 2003, compared to the first half of 2002 and the year 2002, restated for purposes of comparison. In particular, for purposes of a more meaningful analysis, the following should be noted:

- **1st half 2003 (Column 1)** refers to the current scope of consolidation of the IT Market BU.
- **1st half 2002 (Column 2)** includes data for Sogei S.p.A. and Consiel S.p.A., as well as data for the Netikos group and Eustema; only the balance sheet of the Webegg group is consolidated, since the Telecom Italia Group acquired the investment in June 2002;
- **1st half 2002 (Column 3)** has been restated excluding data relating to Sogei S.p.A. and Consiel S.p.A.; it includes both the balance sheet and the statement of income for the Webegg group, the Netikos group and Eustema.
- **Year 2002 (Column 4)** includes the Finsiel group, the economic data of Sogei for the first six months of the year and the economic data for Consiel for the first eight months of the year, the Netikos group, the Webegg group (for the last six months of 2002, since the Telecom Italia Group acquired the investment in the company at the end of June 2002) and Eustema S.p.A..

Gross operating profit



	1st half 2003 (1) (a)	1st half 2002 (2)	1st half 2002 (3) (b)	Year 2002 (4)	Change (a) - (b)	
(millions of euro)					amount	%
Sales and service revenues	358	572	375	994	(17)	(4.5)
Gross operating profit	30	59	38	111	(8)	(21.1)
% of revenues	8.4%	10.3%	10.1%	11.2%		
Operating income	9	42	21	61	(12)	(57.1)
% of revenues	2.5%	7.3%	5.6%	6.1%		
Investments:						
- industrial	15	16	17	38	(2)	(11.8)
- differences on consolidation						
Employees at period-end (number) (*)	5,457	7,351	5,802	5,506	(49)	(0.9)

(*) The change in the number of employees has been calculated in reference to the data at the end of 2002

Sales and service revenues decreased by euro 17 million compared to the same period of the prior year, restated for purposes of comparison. The change can mainly be attributed to the decrease in the revenues of Finsiel, resulting from lower volumes and the reduction of prices in the areas of Government and Enterprise, to a contraction in sales of the Webegg group and, to a lesser extent, of Banksiel and Eis. This contraction was offset by an increase resulting both from the rise in the activities of Tele Sistemi Ferroviari and Eustema, and the effect of the contributions made by Agrisian.

The *gross operating profit* and the *operating income* decreased as a result of the above-mentioned reduction in prices with regard to the main customers, and can principally be attributed to Finsiel.

Industrial investments, which can mainly be ascribed to Tele Sistemi Ferroviari, Finsiel and Insiel, amounted to euro 15 million (–euro 2 million compared to the first half of 2002).

At June 30, 2003 *employees* numbered 5,457, with a decrease of 49 compared to December 31, 2002.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

■ INFORMATION ON OPERATIONS

During the early months of 2003, the range of services of the BU was rationalized through an organizational structure focusing on the vertical markets (government, finance and enterprises). Numerous contracts were acquired, including the following:

by Finsiel:

- **Finsiel** won the bid to develop and manage the new **Information System for the Ministry of Education** in full outsourcing for five years. The consortium of companies to which Finsiel belongs will design 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;
- Finsiel also won the bid for the **Health Care Information System and the Regional Service Card of 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 that users can access through a Regional Health Care Card. Following the award of the bid, in February, Finsiel acquired a minority stake in LISIT S.p.A.;
- 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 for the whole project to create the **portal for Italy's six-month Presidency of the European Union** was won by Finsiel as the head of a consortium of companies which brings together the top expertise in the sphere of portals for the public;
- Finsiel won the bid announced by the Emilia Romagna Regional Authority to create **applications software for a doctors' network** of general practitioners and pediatricians operating under the socialized health care scheme;
- in a consortium with the company Engineering, Finsiel won the Consip bid for the development and maintenance of the Personnel Treasury Service;
- Finsiel, in a consortium of companies with Tele Sistemi Ferroviari, won the European bid announced by SEA S.p.A. **to supply and operate the new information system for the Milan Airports**;
- in June 2003, agreement was reached between **Finsiel and Microsoft Business Solutions (Navision)** to jointly develop solutions adapted to the requirements of specific sectors of medium-size industrial companies and services, which can be rapidly implemented and at costs which are highly competitive compared to other market players, with the advantage of complete integration with Microsoft applications.

by other companies:

- on January 30, 2003 Tele Sistemi Ferroviari, signed new outsourcing contracts with Ferrovie dello Stato S.p.A., Trenitalia S.p.A., Rete Ferroviaria Italiana S.p.A. and Metropolis S.p.A., to replace the previous outsourcing contract with the Ferrovie dello Stato companies;
- also in January 2003, Tele Sistemi Ferroviari won the bid announced by the Autonomous Province of Trento to supply an **electronic ticketing system** for local transport, along with an information system about local transport for public consultation;
- in January 2003, the **"BILTEC" project** being conducted by Banksiel and Finsiel continued successfully in the Economics Area for Banca d'Italia. An application has been created which makes it possible to determine the provisions for termination indemnities payable to the employees of Banca d'Italia and UIC;
- in April, Banksiel and Finmatica signed an agreement to improve and streamline the control activities for the Internal Auditing of financial institutions.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.p.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

In addition, on June 27, 2003 Finsiel S.p.A. paid an advance deposit on the acquisition of the 7.44% stake held by SIMEST- Società Italiana per le imprese all'estero - in Finsiel Romania S.r.l.. The acquisition of the stake, which will be finalized during the next few months, will bring Finsiel's investment in Finsiel Romania S.r.l. to 97.97%.

■ EVENTS SUBSEQUENT TO JUNE 30, 2003

In particular:

- on July 2, 2003, IT Telecom S.p.A., the 100% shareholder of Netikos S.p.A., signed an agreement with MyQube S.A. for the sale of Netikos. The closing took place on July 23, 2003. Consequently, beginning July 1, 2003, both Netikos S.p.A. and Netikos Finland are excluded from the scope of consolidation of the IT Market Business Unit. The selling price was euro 2 million;
- on July 31, 2003, the 67.33% stake in Domus Academy was sold by Webegg to Telecom Italia S.p.A.. The selling price was euro 2.4 million;
- on July 31, 2003, an agreement was signed between Finsiel and Sogei S.p.A. for the sale of the 49% stake held by Finsiel S.p.A. in Sogei IT S.p.A.. The effects of the contract are subject to the condition precedent of the receipt of communication, from the Antitrust Authority, declaring the compatibility of the transaction with fair trade laws.

■ MAJOR SUBSIDIARIES



Finsiel Group

Held by: Telecom Italia 79.50%

The Finsiel group, which covers the whole chain of value of ICT services, is the second-largest Italian supplier of IT solutions and services, and leads the ICT market in the Public Administration sector, with customers in the most important state administrations and in more than 1,000 local organizations and health agencies.

Its knowledge of processes, gained over the years working alongside its customers, is the common denominator behind all its solutions, expertise and technological partnership, enabling the Finsiel group to position itself on the market as a Business Solution Provider.

The table show the key economic and operating highlights:

(millions of euro)	1st half 2003	1st half 2002 (*)	Change (%)
Sales and service revenues	293	316	(7.3)
Gross operating profit	25	32	(21.9)
Operating income	8	19	(57.9)

◀ (*) The first half of 2002 has been restated, for purposes of comparison, by excluding Sogei and Consiel.

Activities during the first half of 2003:

During the first half of 2003, the companies in the Finsiel group acquired new orders and new customers by winning important bids and continued efforts to improve overall efficiency and reduce costs in order to counter the stagnation of the IT services market. This meant reducing the prices applied to its main customers and reducing prices and profitability margins compared to the past on all new operations. Restructuring measures are being implemented which will involve some of the business segments of Finsiel in particular.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.p.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

Webegg Group

Held by: Finsiel 30.20% IT Telecom 69.80%

The Webegg group is a multi-functional group with a network of international partners, the corporate purpose of which is to position companies on-line.

It operates mainly through the company Telemedia Applicazioni S.p.A., which supplies CRM systems, particularly for Telecom Italia Mobile and for third-party customers, while Software Factory S.p.A. concentrates on developing software exclusively for the banking and insurance sector.

The table shows the key economic and operating highlights:

(millions of euro)	1st half 2003	1st half 2002	Change (%)
Sales and service revenues	39	41	(4.9)
Gross operating profit	4	5	(20.0)
Operating income	2	3	(33.3)

Activities during the first half of 2003:

During the first half of 2003, the operations of the Webegg group focused on all the project development phases: from the definition of an e-Business strategy to the identification of corporate processes, from the graphic design and creation of content to usability studies, the architecture and the development and integration of software solutions.

NETikos Group

Held by: IT Telecom 100%

The NETikos group endeavors to meet the growing demand for Internet and wireless solutions, satisfy the requirements of Mobile Internet and enable companies, institutions and final users to be constantly on-line and to obtain better results using wireless applications.

(millions of euro)	1st half 2003	1st half 2002	Change (%)
Sales and service revenues	9	9	0
Gross operating profit	(1)	0	(100.0)
Operating loss	(2)	(1)	(100.0)

Activities during the first half of 2003:

During the first half of 2003, the Netikos group, consisting of Netikos S.p.A. and the subsidiary Netikos Finland, continued in its efforts to make the group innovative and competitive on the market. The strategic objective of the group is to be a technologically credible partner on an international scale with in-house products and solutions that have been conceived and developed to favor entry to the sphere of Mobile Internet.

As already described in the subsequent events, beginning July 1, 2003, the Netikos group will no longer be included in the scope of consolidation of the ITM BU since the contract will be finalized for its sale to MyQube S.A..

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.p.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

INFORMATION TECHNOLOGY GROUP

► Start-up of operations of the new IT Telecom S.p.A.

■ THE OPERATING ACTIVITY

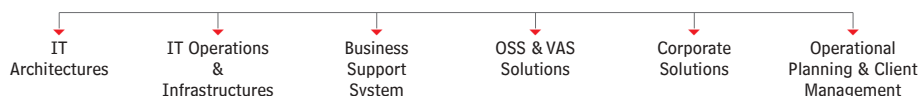
The Information Technology Group Operating Activity is responsible for organizing technological innovation and service information technology activities within the Telecom Italia Group. This new operating activity, which came about as the result of merging five previous corporate structures, operates with a greater focus on the core business of TLC, pursuing objectives that will augment efficiency, improve quality and stimulate innovation. The consequent reduction of the disparate nature of architectural and infrastructure solutions, which was achieved through a process of rationalization and standardization, aims at implementing economies of scale and improve performance. At the same time, the move is meant to strengthen the operational tools and make the best possible use of existing professional skills.

■ 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 six production divisions:

IT Architectures - design and creation of applications and infrastructure architectures, ensuring rationalization and standardization;

IT Operations & Infrastructures - design and management of the IT infrastructures required for the functioning of Group systems and applications and the delivery of investment-based services for the market; the running of IT systems and solutions;

Business Support System - design and development, for the business segment, of the IT systems, solutions and applications for the BUs of the Group;

OSS & VAS Solutions - design, development and maintenance, for the network segment, of the IT systems, solutions and applications for the BUs of the Group; development and system integration of hi-tech IT solutions with high added value, supplying technological support to the BUs of the Group in the development of innovative services;

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.p.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

Corporate Solutions - design and development of the IT systems, solutions and applications required for supervising the transversal processes of the Business Units;

Operational Planning & Client Management - coordination and support for the operative functions responsible for planning, staffing, operational control and the monitoring of the main projects; preparation of the systems plan.

MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

On January 1, 2003, the new operating activity IT Telecom S.p.A. became operational.

The company was the result of the merger by incorporation of Netsiel S.p.A., Saritel S.p.A., Sodalía S.p.A. and Telesoft S.p.A..

The following major corporate events and changes in the scope of consolidation took place during the first six months of 2003:

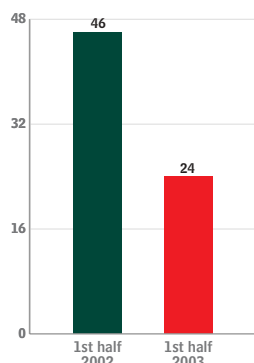
- with effect from January 1, 2003, the Netikos group, the Webegg group, the TI Lab group, Loquendo and Eustema have been no longer included in the scope of consolidation of the Group's IT operational activities. The TILab group became part of Other Activities, Loquendo is now in Wireline, while the other companies moved to the IT Market business unit. Again with effect from January 1, 2003, Epiclink S.p.A. was included in the scope of consolidation; although still controlled by Telecom Italia S.p.A., it is managed by the IT Group. The 2002 figures have been restated for purposes of comparison;
- in February 2003, Telecom Italia and Hewlett-Packard reached an agreement in the area of Management Services & Outsourcing for a total value of euro 225 million. Under the terms of this agreement, HP will supply asset management, help desk, maintenance and workstation management, while IT Telecom will manage HP Italia's operational activities in the SAP environment, housing the systems in its Data Centers. On April 16, 2003, the agreement became operational and, on the same date, the contract was finalized for the sale of IT Telecom's Desktop Management services business segment to HP DCS (Distributed Computing Services);
- on March 28, 2003, the subsidiary Telesoft Hellas was sold to STET Hellas, with effect from January 1, 2003;
- Sodalía Inc. was sold on June 11, with effect from June 1, 2003;

Finally, it should be noted that the data for the first half of 2003 also includes the results of TecoSoft España (formerly a wholly-owned subsidiary of Telesoft S.p.A.), which was sold on July 31, 2002.

ECONOMIC AND FINANCIAL DATA

The following table shows the key results for the first half of 2003, compared to the first half of 2002 and the year 2002, restated for purposes of comparison. The figures refer almost exclusively to the group holding company IT Telecom:

Gross operating profit



	1st half 2003 (a)	1st half 2002 (b)	Year 2002	Change (a) - (b) amount	%
(millions of euro)					
Sales and service revenues	465	408	996	57	14.0
Gross operating profit	24	46	98	(22)	(47.8)
% of revenues	5.2%	11.3%	9.8%		
Operating income	(41)	(7)	(40)	(34)	°
% of revenues	°	°	°		
Investments:					
- industrial	60	40	149	20	50.0
- differences on consolidation	0	24	24	(24)	°
Employees at period-end (number) ⁽¹⁾	4,443	5,072	5,039	(596)	(11.8)

⁽¹⁾ The change in the number of employees has been calculated in reference to the data at the end of 2002.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

Consolidated *revenues* showed an increase of euro 57 million compared to the first half of 2002, as a result of higher volumes of work on institutional projects for Corporate, and the conclusion of some projects which were still in progress at December 31, 2002, namely projects for the Wireline segment of Telecom Italia on Broadband, UNICA TD and Order Manager.

The *gross operating profit*, which reflects the fall in prices which took place in the second half of 2002, showed a reduction of euro 22 million. This was the result of increased external costs (+ euro 79 million) associated with a higher level of activities.

The *operating income* was affected by higher amortization and depreciation (+ euro 13 million) associated with investments made mainly in the second half of 2002.

Industrial investments amounted to euro 60 million and reflected the continuation of the rationalization of architecture and infrastructure projects.

At June 30, 2003, *employees* numbered 4,443 (5,039 at December 31, 2002); the reduction is due to sale of the business segment to HP and the exclusion of Telesoft Hellas from the scope of consolidation.

■ INFORMATION ON OPERATIONS

During the first half of 2003, attention was focused on rationalizing and standardizing the architectures and infrastructures of the parent company. This process, which will continue throughout the year, will make it possible to achieve economies of scale and improvements in performance. In particular:

- completion of the work begun in 2002 to define technological reference standards for the areas in which the highest volumes of investment are made, with the aim of supporting the development of the business and ensure that services are available for final customers;
- migration continued towards the new operating platforms (CRM - Customer Relation Manager) of the relative processes by business and residential customers, while the migration of residential clientele towards the new platform for credit management was completed;
- within the framework of Usage Collection (phone, data and services traffic management) a new platform was created which will become operational in October 2003;
- in the area of Business Intelligence a project is being devised to restructure data warehouses so that they can be used by Wireline;
- work continued on the operational management of the operating systems, in which the Control Room has gradually extended its area of coverage;
- within the framework of the SAP/VP development project, work continued to consolidate and control IT Group activities in the area of institutional systems and business support and to strengthen the standards of the Group. Furthermore, during the first half of 2003, activities associated with the New Group Portal received a strong boost, with the aim of making a first release at the end of July;
- operations with TIM continued, particularly in the area of CRM and Provisioning projects, thus strengthening collaboration in the field of new value-added services;
- In the field of the Central Public Administration, an important contract was acquired for the supply of Corporate Mail and Public Key Infrastructure systems for the Certification Authority of the Ministry of the Interior.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.p.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

■ EVENTS SUBSEQUENT TO JUNE 30, 2003

There follows a reference to events already described in the section "Subsequent events":

- On July 2, 2003, the contract was signed by IT Telecom for the sale of 100% of the subsidiary Netikos S.p.A. to MyQube S.A.;
- On July 28, 2003, within the framework of the SSC (Shared Service Center), IT Telecom S.p.A. contributed the "Corporate Solution" business segment to Pirelli Informatica S.p.A. which will become a limited liability consortium in which IT Telecom S.p.A. will hold a 45% stake, Olivetti Tecnost S.p.A. a 5% stake and Pirelli S.p.A. a 50% stake.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.p.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

OLIVETTI TECNOST

■ INTRODUCTION

The Olivetti Tecnost group Business Unit operates mainly in the sector of digital printing systems and ink-jet products for the office (Office Products Division), in specialized applications for the banking field, commerce, information systems for the management of gaming and lotteries (System Division). In addition, the group operates with the Industrial Operations Division in the development and production of silicon technology (ink-jet print-heads and MEMS), in document management services and cell phone repairs.

The reference market of the BU is focused mainly in Europe, Asia, South America, Mexico and North America through the subsidiary Royal Consumer Information Product Inc. in the consumer sector.

■ THE STRUCTURE OF THE BUSINESS UNIT

With effect from January 1, 2003, the BU is organized as follows (mentioning the main consolidated companies):



1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.p.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

- on May 12, 2003, the Plans of Merger were voted for the incorporation of the companies Tecnost Sistemi S.p.A., Techoproduzioni S.p.A. and Oliweb S.p.A. with and into Olivetti Tecnost S.p.A.;
- in keeping with the objective of divesting businesses no longer considered synergic with the core business, Domustech S.p.A. sold:
 - on May 29, to ABB Sace S.p.A. (ABB group), the activities relating to domotics (security and home automation);
 - on June 10, to the URMET group, the investment in the Aprimatic group operating in the automation of openings sector.

■ ECONOMIC AND FINANCIAL DATA

The following table shows the key results for the first half of 2003, compared to the first half of 2002 and the year 2002.

	1st half 2003 (a)	1st half 2002 (b)	Year 2002	Change (a) - (b) amount	%
(millions of euro)					
Sales and service revenues	332	486	914	(154)	(31.7)
Gross operating profit	17	42	59	(25)	(59.5)
% of revenues	5.1%	8.6%	6.5%		
Operating income (loss)	(3)	9	4	(12)	(133.3)
% of revenues		1.9%	0.4%		
Investments:					
- industrial	10	18	35	(8)	(44.4)
- differences on consolidation	-	-	-		
Employees at period-end (number) ⁽¹⁾	3,036	4,971	4,527	(1,491)	(32.9)

◀ (1) The change in the number of employees has been calculated in reference to the data at the end of 2002.

During the first half of 2003, *sales and service revenues* amounted to euro 332 million. Revenues were distributed as follows: euro 204 million referred to hardware products, euro 69 million to accessories, euro 59 million to services and other revenues.

Compared to the first half of 2002, revenues showed a reduction of euro 154 million, (-31.7%). The decrease was generated by the Office business as a result of the decision to curb the sales of products with low margins and by the specialized printers area on account of the temporary slowdown of sales in China. However, sales on the Chinese market are expected to recover in the second half of the year.

The *gross operating profit* and the *operating income* reflect this trend. The gross operating profit was euro 17 million (compared to euro 42 million in the first half of 2002). The operating result was a negative figure of euro 3 million (in the first half of 2002, it was a positive figure of euro 9 million).

The operating income was affected by higher amortization and depreciation.

Industrial investments amounted to euro 10 million (compared to euro 18 million in the first half of 2002).

At June 30, 2003 *employees* numbered 3,036 of whom 2,293 were employed in Italy and 743 abroad. Compared to December 31, 2002, this shows a reduction of 1,491 persons, of whom 1,266 are in reference to the sale of the Tlaxcala factory in Mexico.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

■ INFORMATION ON OPERATIONS

Commentary on the activities of the first half of 2003.

Office Products - The main activity in commercial terms was associated with the repositioning of the product range in two main product areas: Printing and FAX. In the fax area, in particular, a new product road-map was defined involving a complete re-styling of the products in the range and the development of a completely new model known as Low Entry.

Industrial Operations - The task of industrial re-conversion continued with the launch of the company Cell Tell which operates in the sphere of cell phone repairs. The company thus works alongside the company Innovis which is already operational in the back-office sector. With reference to Olivetti I-JET, development activities continued on MEMS applications, generating interesting prospects in the sector of pressure sensors for automotive applications, and also in the sector of optical components, where Olivetti I-Jet acts mainly as a silicon foundry.

Systems Division - The strong move to achieve geographical diversification became effective with the acquisition of new orders on foreign markets, particularly in the field of gaming. In fact, contracts have been signed with two lotteries in India, in Tunisia (a pilot test for a game similar to the football pools) and in Peru (football pools) for a total supply of more than 20,000 terminals. In Italy, relations with Lottomatica have remained stationary in terms of service and supplies.

In the *banking* sector, there was a generalized recession in the markets of Western countries which slowed down sales and reduced volumes. These are expected to recover in the second half of the year with the resumption of the sales originally budgeted. In the markets of Eastern countries (China and the Far East), two specific events, namely the U.S.\$/euro exchange rate and the outbreak of the disease known as SARS led to a drastic reduction in margins and, to a lesser, although equally significant, decrease in volumes. There is also expected to be a recovery in this area starting from the last quarter of the year.

In the international retail sector, sales (volumes and margins) of the range of PR4 products are in line with forecasts. In Italy, during the first half of 2003, in the Shop Automation business, the trend of the volumes of fiscal Cash Registers was in line with expectations, with a significant increase in margins. As far as products in the "Explor@" category are concerned, during the six-month period, the level of volumes was positive thanks to goal-oriented commercial investments made with the aim of developing demand.

■ EVENTS SUBSEQUENT TO JUNE 30, 2003

- On July 3, 2003, an agreement was signed at the Ministry of Labor and Social Policy to extend unemployment compensation programs for one year;
- On July 10, 2003, agreement was reached with the labor unions to layoff 264 employees by June 30, 2004;
- On July 11, 2003, the investment in Gotoweb S.p.A., a company operating in Internet services using ASP technology for small and medium-size companies, was sold to Comdata S.p.A..

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.p.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

OTHER ACTIVITIES

The "Other Activities" of the Telecom Italia Group are principally constituted by the TI Lab Operating Activity, the companies managed by the International Affairs Function, by companies which provide centralized services to the Group and by Staff Functions.

TELECOM ITALIA LAB

► Creation of an Operating Activity oriented towards Group innovation

■ THE OPERATING ACTIVITY

The Telecom Italia Lab Operating Activity was conceived in the first months of 2003 as a result of the rationalization of activities which formerly came under the Information Technology Group Business Unit.

The Operating Activity is responsible for supervising the technological innovation of the Telecom Italia Group, in the sector of networks and innovative services.

Today, in keeping with this focus, the activity of Telecom Italia Lab is chiefly oriented towards providing support to the BUs of the Group by offering a competitive edge, and, at the same time, pursuing the objective of improving quality and efficiency and promoting innovation.

■ THE STRUCTURE OF THE OPERATING ACTIVITY

The Operating Activity is organized as follows:



The Operating Activity operates with the following organization:



Innovation Delivery is for short-term, goal-oriented research activities geared essentially to the Business Units of the Telecom Italia Group.

Service Innovation and *Network Innovation* are devoted to medium- and long-term research projects with a focus on infrastructures and on the creation of services and the testing of prototypes through innovative platforms, partly in synergy with Pirelli Labs.

■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

The following major corporate events took place during the first half of 2003:

- merger by incorporation of TI Lab S.p.A. with and into Telecom Italia S.p.A., voted by the respective Extraordinary Shareholders' Meetings on December 12, and December 13, 2002, effective for civil and tax purposes on January 1, 2003;

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

- functional repositioning of the company Loquendo S.p.A., formerly part of the Tilab group, in Wireline;
- transfer of the Venture Capital business and, consequently, the portfolio of equity investments held in TI LAB S.A., TI LAB B.V. and TI LAB GPL, to the Mergers & Acquisitions Function of Telecom Italia.

■ ECONOMIC AND FINANCIAL DATA

The following table shows the key results in the first half of 2003, compared to the first half of 2002 and the year 2002, restated for purposes of comparison.

	1st half 2003 (a)	1st half 2002 (b)	Year 2002	Change (a) - (b) amount	%
(millions of euro)					
Operating costs	64	67	134	(3)	(4.5)
Amortization and depreciation	8	10	22	(2)	(20.0)
Operating grants	(6)	(2)	(12)	4	200.0
Total Net Costs TI LAB	66	75	144	(9)	(12.0)
Costs recharged to TI BUs	61	64	131	(3)	(4.7)
Revenues from third parties	6	10	25	(4)	(40.0)
Change in contract work in process	0	(1)	(3)	1	100.0
Total	67	73	153	(6)	(8.2)
Operating income	1	(2)	9	3	150.0
Investments::					
- industrial	2	4	13	(2)	(50.0)
- differences on consolidation	-	-	-	-	-
Employees at period-end (number) ⁽¹⁾	1,177	1,240	1,224	(47)	(3.8)

◀ (1) The change in the number of employees has been calculated in reference to the data at the end of 2002.

During the first half of 2003, the overall operating costs, equal to euro 66 million net of related grants, showed a marked reduction compared to the same figure in the prior year (euro 75 million). This was mainly attributable to both lower consumption of materials and outside services, partly due to the policy to contain costs pursued in 2003, and also, for the same period, to the increase in research grants offered by national and international organizations.

The above-mentioned reduction in operating costs led to an improvement in the operating income compared to the first half of 2002, despite the presence of a reduction in revenues and costs recharged which is attributable to the contraction of activities commissioned by the Group companies and by third parties.

Industrial investments show a slight contraction, but remain substantially in line with the prior year.

At June 30, 2003, *employees* numbered 47 less than at December 31, 2002.

■ INFORMATION ON OPERATIONS

The previously-described merger of TI Lab in Telecom Italia was directed to a broader reorganization of TI Lab's activities, mainly carried out with a view to orienting them even more to serving the needs of the Business Units and companies in the Telecom Italia Group, with which a technological partnership relationship is gradually being built.

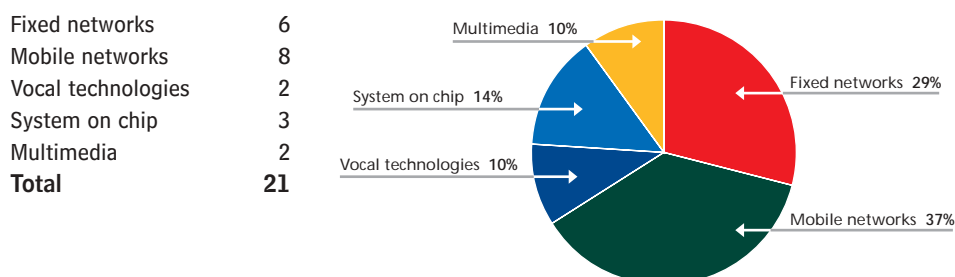
1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

In this context, TILAB continued its role as a driver of innovation for the Group, partly in cooperation with Pirelli Labs, activating approximately 40 medium- and long-term research projects (lasting between one and three years) and more than 100 short- and medium-term projects and activities, commissioned directly by the BUs.

The results involved the following main reference contexts/environments:

- Use environment and terminals
- Services and applications
- Control of network protocols and equipment
- Network: access, metro and core
- Management and operating processes of the BUs

Increasing attention to the opportunity of generating competitive advantages and creating value for the Telecom Italia Group was also pursued through the strategic management of the relations between research, IPR and business with the aim of developing the number of registered patents. In this context, during the first half of 2003, 21 new patents were deposited, distributed by sector of activity as follows:



In the same context, during the first half of 2003, TILAB launched a training initiative, organized by the Group's International Property Rights Function, with contributions and testimonials from researchers working at TILAB. The initiative involved more than 250 people in charge of structures and projects.

In such contexts, the research projects and those destined for the BUs of the Group are based on three main research programs:

- Network innovation
- Mobile services
- Broadband services

During the first half of 2003, among the most significant results the following research projects should be mentioned:

- the testing of a video-communication service between fixed and mobile terminals which is of direct relevance to services for Wireline and TIM;
- analysis of the applicability of solutions for IP optical networks with automatic routing. Researchers are investigating to what extent these innovative techniques can be applied to the Telecom Italia network;
- the development of a SW development kit for video-communication using ADSL technology;
- the development of the first experimental version of an environment for the production and WebCasting of live and recorded audio/video material, that can be used on the public portal <http://personal.tv>;
- the development of new models of radio dimensioning which, amongst other things, will make it possible to refine the planning techniques of the networks of the new generation;
- the punctual completion of version 9.0 of the planning tool 3G GUITAR (which includes the optimization of the choice of sites and the estimate of traffic cleared indoors);

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

- the conclusion of the technical and economic analysis of the OFDM access technique for mobile systems beyond the third generation;
- the first phase of the technical trials of broadband services for residential users (130 test users) to evaluate hi-tech end-to-end solutions (user equipment, home networking solutions, applications and services platforms).

During the first half of 2003, cooperation with Pirelli Labs was increased considerably compared to 2002, taking the form of 11 projects involving about one hundred TILAB person-years.

The main achievements during the first half of 2003 were as follows:

- testing of the functionality of the Access Gateway (in view of its commercial launch, currently scheduled for September): trials in the field of the base module with paying clientele (ADSL access and Smart Card functionality) and testing in the laboratory of the supplementary modules (Wi-Fi and 4-door Switch Ethernet) and of tele-management performance (via Regman);
- testing of the first ROF module and study of integration configurations with the equipment included in the road-map of the constructors;
- development and testing of the functionality of NextBox with regard to video-communication in view of integrating them in the hw platform now being developed by Pirelli and Telsy and also field trials, confirmed for the second half of July;
- definition of the architecture of Packet and Optical Routing Equipment;
- evaluation of the performance of solutions based on cryogenic technologies for third-generation mobile systems.

In addition, with reference to Vendor Management, progress was also made with regard to the following projects:

- the continuation of contact with the leading manufacturers of mobile systems with a view to jointly developing the ROF (Radio Over Fiber) systems designed by TILAB and Pirelli Labs;
- contact and a blueprint agreement with some leading manufacturers of networking equipment, for the joint development of an optical router. Future cooperation will involve the integration of optical components with hi-tech routers of the new generation developed by Pirelli Labs (tunable laser). The integration configuration and the control functions were proposed and developed by TILAB.

■ INTERNATIONAL AFFAIRS

The following companies report to the central International Affairs Function, under the same corporate control structure: Telecom Italia International, BBNet group, and the affiliated companies Telekom Austria, Telekom Srbija, Etec S.A. and Netco Redes. The function ensures the coordination, leveraging and rationalization of the foreign subsidiaries under its control.

During the first half of 2003, the main corporate events were as follows:

- on January 20, 2003 Telecom Italia International did not subscribe to the share capital increase voted on December 16, 2002 by the Shareholders' Meeting of the subsidiary Euskaltel, thus reducing its stake in the company from 15.26% to 13.85%.
On June 12, 2003, together with BBK (the major shareholder in Euskaltel), Telecom Italia International signed an agreement for the sale of 7.75% of the company. The sale is subject to the condition precedent that the purchaser obtains all the necessary administrative and legal authorizations and subject to the resolute condition that the other shareholders of Euskaltel do not exercise their pre-emptive rights;
- on February 20, 2003, following Telecom Italia International's acceptance of the offer made at the end of December 2002, a Share Purchase Agreement was subscribed between Telecom Italia International and PTT Serbia for the sale of the entire stake held in Telekom Srbija, corresponding to 29% of the share capital of the latter company, for an overall payment of euro 195 million.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

The payment of the first installment, equal to euro 120 million, was made in June 2003, and the closing of the transaction was held with the transfer of the ownership of the investment on July 7, 2003. The share certificate representing the shares sold was deposited, under the terms of the sale, with an Escrow Agent to guarantee the completion of the payment of the remaining euro 75 million, which represents the second installment of the overall sum agreed;

- On July 8, 2003, Telecom Italia International exercised its put rights with Forthnet relating to the sale of the entire investment in Mediterranean BroadBand Access for an equivalent amount of euro 7.04 million. At the same time, Telecom Italia International agreed to subscribe to the capital increase reserved for it as voted by the Forthnet Shareholders' Meeting on June 30, 2003 for a sum of euros 7.04 million;
- on June 30, 2003, Telecom Italia International received a notice to exercise a put option from Submarine Cable International B.V. and Aurec Ltd., Yamcom Holdings B.V., Azur B.V. and Clalcom Ltd., Mountcom B.V. for a total of 24,500 shares in the company Mediterranean Nautilus Limited ("Med Ltd.") and, at the same time, an invitation to initiate negotiations to determine the fair market value of these shares. It should be said that Telecom Italia International feels no obligation to purchase these shares, having transferred its stake in Med Ltd. to Mediterranean Nautilus S.A.;
- on the same date, Telecom Italia International received a notice to exercise the put option from Aurec Ltd., Clalcom Ltd., Kama Ltd. and Globescom Ltd. for 24,500 shares in the company Med-One Submarine Cable Ltd. and, at the same time, an invitation to determine the fair market value of these shares.

■ CENTRALIZED GROUP SERVICES

This component includes the operating activities, at virtually a nil profit margin, of the centralized services for the Business Units/Operating Activities/Companies in the Group.

The following table shows the operating costs incurred during the first half of 2003, compared to the first half of 2002 and the year 2002, restated, for purposes of comparison, to take into account the different scope of consolidation.

The figures consider the internal exchanges among the functions of Telecom Italia S.p.A..

OPERATING COSTS

	1st half 2003	1st half 2002	Change (a) - (b)	
(millions of euro)	(a)	(b)	amount	%
Real estate activities and services	333	319	14	4.4
TI Central Administrative Services (CSA)	25	28	(3)	(10.7)
Security	18	15	3	20.0
Other ⁽¹⁾	52	55	(3)	(5.5)
Centralized services total	428	417	11	2.6

◀ (1) Includes INTELAUDIT, TILS, TI FINANCE, Olivetti Multiservices and others

During the first half of 2003, Centralized Group Services showed an increase in costs of euro 11 million compared to the same period of 2002, mainly attributable to the Real Estate Activities and Services Function.

The increase in the costs of the Real Estate Activities and Services Function of euro 14 million is substantially linked to the passage from depreciation charges to lease costs resulting from the sale of real estate properties, within the framework of the policy of leveraging the real estate assets of the Group (Tiglio Project).

Overall, as a result of costs of euro 428 million for activities related to services, the BUs/Operating Activities /Companies in the Group received charges for euro 423 million.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

In particular, as far as Real Estate Activities and Services are concerned, with effect from February 2003, the real estate activities and services previously managed by the Real Estate and General Services Operating Activity became part of the Central Purchasing Function, ensuring continuity in the role of interface among the various Functions/Business Units of the company.

In particular, the above-mentioned activities and services concern 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, both through internal structures – essentially for the activities conducted on behalf of the Business Units and Functions of the Telecom Italia Group – 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 addition, during the first half of 2003, activities continued in relation to the following projects:

Ortensia project

In March, 2003 Telecom Italia and the other shareholders of Tiglio I and Tiglio II formalized a binding agreement with the company Marzotto and Pirelli Real Estate relating to the development of the company known as Ortensia, within the framework of the project "Tiglio Aree".

This project involves the transfer (through a spin-off) of the land owned by Tiglio I and Tiglio II to a vehicle company, Ortensia S.r.l., which is already the owner – following the contribution of a business segment – of land from the Marzotto group, according to the terms of the preliminary agreement formalized in December 2002.

As a result of the transactions described above, Telecom Italia will own 31.66% of the share capital of Ortensia (of which 4.1% refers to the stake owned by Olivetti and 27.56% to the stake owned by the Merged Company Telecom Italia) and Telecom Italia Media will hold 0.97%. The size of the investment is commensurate with the value of the real estate assets transferred to Ortensia, based on estimates prepared by primary operators, according to the criteria and procedures agreed by the parties in December 2002.

During the first half of 2003, the procedure to approve the spin-off by the companies involved in the initiative was concluded.

On July 21, 2003 the documents relating to the spin-off of Tiglio I and Tiglio II to Ortensia were finalized, with effect from July 25, 2003.

Integration of the Facility Management Business owned by the merging Company Olivetti and by Pirelli & C. Real Estate

In accordance with the agreements regarding Progetto Tiglio, the activities of the facility management business owned by Olivetti Multiservices and by Pirelli & C. RE Facility Management were integrated in the first half of 2003. The deal involved the transfer of 809,946 Pirelli & C. Real Estate treasury shares (just under 2% of share capital) to Olivetti which contributed the above activities concentrated in a specific company known as OMS Facility.

The transaction also calls for a possible differential to be determined on December 31, 2005 based upon the price performance of Pirelli & C. Real Estate shares.

Dedalo Project

In keeping with the reorganization of the real asset portfolio of the Group, at the end of January 2003, the procedures were completed for the early purchase from Teleleasing S.p.A. of a real estate portfolio of approximately 300,000 m², used by Telecom Italia S.p.A. and other companies in the Group under financial leasing contracts. The transaction involved a purchase price of approximately euro 263 million in the case of the property relating to Telecom Italia S.p.A. and approximately euro 369 million relating to the Group.

Following a binding offer presented on June 4, 2003 by the "Beny Steinmetz" group, through its subsidiary "Five Mounts Property" (FMP), on June 20, Telecom Italia reached an agreement with "Lastra Holding B.V.", which belongs to the FMP group, for the sale of part of the real estate portfolio purchased, together with a real estate unit already owned (seven building complexes of which five belong to Telecom Italia, one to TIM and one to Atesia), at an overall selling price of

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.p.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

approximately euro 355 million. In addition, at the same time, Telecom Italia, like the other companies involved, signed to the relative lease contracts to ensure the continued use of the actual buildings.

With the aim of optimizing the structure of the transaction, on June 30, the real estate properties involved were transferred to a single corporate entity, "FMP Italy 1 S.r.l.", (former "Ireos S.p.A."), which is entirely controlled by Telecom Italia.

The plan involves the subsequent sale of the entire stake in FMP Italy 1 S.r.l. from Telecom Italia to Lastra. The said transfer took place on July 21, 2003 for an equivalent amount of approximately euro 45,000.

On the same date, Telecom Italia, TIM and Atesia received payment for the sale of the properties to FMP Italy 1 S.r.l..

■ CORPORATE

This component includes the Staff Functions of Telecom Italia Group S.p.A. (Human Resources, Finance Administration and Control, Purchasing, Corporate and Legal Affairs, Public and Economic Affairs, Mergers and Acquisitions, Investor Relations, International Affairs, General Counsel), Group Communication, which includes the Brand Enrichment and Communication and Image Functions (to which the costs of Progetto Italia refer) and the costs of corporate information systems.

The following table shows the operating costs incurred during the first half of 2003, compared to the first half of 2002 and the year 2002 restated for purposes of comparison to take into account the different scope of consolidation.

The figures include costs recharged and received for the activities conducted by Centralized Group Services.

OPERATING COSTS

	1st half 2003 (a)	1st half 2002 (b)	Change (a) - (b) amount	%
(milioni di euro)				
Staff Functions	149	165	(16)	(9.7)
Information System	30	5	25	°
Group Communication	14	9	5	55.6
Corporate	193	179	14	7.8

Corporate costs show an increase of euro 14 million due to an increase of euro 25 million for the development of information systems and euro 5 million for communication activities relating to the new "Progetto Italia" initiative. This was partially compensated by savings of euro 16 million made in other staff functions. In particular, the increase in costs for the development of information systems is connected both to new institutional projects (rationalization and standardization of architecture and infrastructure solutions, dedicated functional systems), and, in particular, to the continuation of activities begun in the second half of 2002 (SAP, Group Portal, etc.).

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

■ SUSTAINABILITY SECTION

The actions taken and the aims achieved in the first half of 2003 are summarized in the following list:

- The 2002 Sustainability Report was distributed at the Shareholders' Meeting on May 24, 2003 together with the 2002 Annual Report.
- Twenty Group Sustainability Function Leaders were nominated in the Corporate Functions and Business Units.
- Currently underway is the fine-tuning of the quantity and quality indicators, introduced during the prior year to assess Sustainability, which measure the satisfaction of stakeholders, both inside and outside the company.
- The "CRSA" (Control & Risk Self Assessment) project has been started with the aim of disseminating a tool at Group level for identifying, evaluating and systematically managing operating risks, integrated with the planning and control process.
- The Crisis Management process has been improved with the "I.C.S." (International Contact System) project which led to the definition of a procedure, managed by a specific software, which makes it possible to keep the situation of employees working abroad constantly up-to-date. In the event of a natural disaster, terrorist attack or other event of this nature, it will immediately be possible to contact employees to establish how they are and, if necessary, gather requests for support and assistance.

CUSTOMERS

■ INNOVATIVE SERVICES

In the **Wireline** Business Unit, the Technical Assurance service was activated to ensure round-the-clock on-line assistance. By calling the free 187 service, the customer is connected to an operator who, by taking advantage of special remote diagnosis devices, can conduct tests to establish where the fault lies and what kind of malfunction is involved. In many cases, the problem can be solved by the actual operator, who can take direct action from the remote workstation, thus saving precious time for all concerned.

The surveys conducted on the merits of the Technical Assistance service reveal a very high level of customer satisfaction.

Efforts continued to improve efficiency and optimize processes in the sphere of CRM (Customer Relationship Management) partly through the search for new services to offer the clientele.

In the **Mobile** Business Unit, TIM's service for its business clientele, "Mobile office - Blackberry", has been improved in the integrated management of attached files, remote synchronization of canceled messages and surfing the Internet, also offering to the "Web Clients" the possibility to use mobile telephone services without having to install a server.

Message management has been built up by adding projects based on specific customer requirements and, in general, messages managed through the Internet using the latest functionalities, such as the new available status report and the possibility of sending several connected messages even to users who do not feature in a distribution list.

For the Consumer clientele, the automatic recharging service "TIMautomatica" has been upgraded for all prepaid customers and the following services were launched: "PayforMe SMS" which allows the cost of the SMS to be charged to the receiver of the message, "Office Network 1-3"

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

which enables prepaid GSM customers with a VAT number to create a virtual network of rechargeable lines, without changing the charge profile and without losing the autonomy of individual telephone lines; "ChiamaOra" which makes it possible for callers to be informed when it is possible to phone a TIM customer who is temporarily unavailable; "Carta GPRS Web Night&Day" which introduces a new charging system for GPRS and "Opzione 2in1" that, with effect from July 2003, enables customers to have two different numbers on the same SIM card for making and receiving calls.

In the **Internet and Media** Business Unit, Seat released the new system for sending customers any information about advertising material acquired, introducing color graphic reproduction of the advertising spaces being supplied, with the possibility of sending documents by e-mail.

Tin.it introduced testing of the public Wi-Fi service, which allows wireless surfing of the net at access points in public places. It completed the ADSL range for the consumer/microbusiness range of the clientele; it also created an on-line interactive area from which customers can perform all the main operations relating to their subscription in self-care modality; the hi-tech messaging system and the "mobile office" were finalized, providing users with an archive, an address book and messaging services that can be accessed from any PC connected to the Internet.

Databank released the Internet version of the Superlinker, a more friendly way for customers to consult corporate reports.

Telegate introduced new information services such as the emergency pharmacy.

Euredit added eight new languages to Europages on the Internet (Bulgarian, Chinese, Czech, Estonian, Latvian, Lithuanian, Norwegian and Romanian), improved visibility on the Internet for people consulting it and introduced an on-line order form.

Matrix created Virgilio+, Virgilio Mobile/sms, the "Search Listing", which constitutes an improvement in research software, and extended and remodeled Virgilio Viaggi.

Thomson introduced alternative methods and conditions of payment to make it possible to customize payments according to customers' needs.

■ CONSUMERS' RIGHTS

The task undertaken by the Telecom Italia Group of collaborating with the main consumer associations continued through working table discussions and meetings with the aim of monitoring and improving the *Subscription Conditions* and the Charter of Services.

In March 2003, Telecom Italia organized a debate at the Future Center in Venice, between top management and the national heads of consumer associations, the aim of which was to verify/confirm the General Framework Agreement, the technological evolution of TLC and future services, and the evaluation of the main problems encountered by the Associations (187 service, time taken to repair faults and transparency of the new commercial rates).

The Group's commitment to the area of consumers' rights concentrated on the development of active collaboration with the National Regulating Agency regarding services that must be provided as part of the Universal Service and to encourage the National Regulatory Agency to adopt a special procedure for settling disputes and arbitration when controversies arise between operating companies and users of communications services.

Work continued to disseminate information about the possibility of benefiting from special contractual conditions destined for the categories of weaker customers.

Over 400 disputes were settled together with customers, out-of-court and free of charge.

Telecom Italia developed a procedure to safeguard users from potential hoaxes played on the Internet using services such as 709, including the free permanent disconnection of these services and the freezing of the amounts involved in disputes.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

SUPPLIERS

In the new qualification process for suppliers, the parameters used to evaluate the candidate companies who apply to be registered in the Telecom Italia Group Register of Vendors have been updated, with the introduction of the criterion of ethical suitability. This move safeguards all the stakeholders to a higher degree and improves relations with the actual suppliers in the medium/long-term.

In particular, suppliers are asked to respect the principles in the sphere of human rights, labor and the environment contained in the "Global Compact", promoted by the United Nations Organization, to which the Ethical Code of the Telecom Italia Group specifically refers.

In the Group's dealings with suppliers, on-line bidding is particularly favored, since it offers a better guarantee that the bidding takes place in full respect of the criteria of absolute objectivity and transparency, ensuring that all vendors are given equal opportunities.

COMPETITORS AND REGULATORY FRAMEWORK

■ COMPETITORS

Telecom Italia continued to participate with its own representatives in the organization of conferences, seminars, study days and round tables on the main technical, economic and legal topics of the sector, especially with regard to innovative services.

In cooperation with other fixed network operators, Telecom Italia organized and participated in numerous meetings with the aim of reaching a framework agreement on the subject of constituting and operating a single Database containing all the numbers and other information necessary for identifying the subscribers to the services provided by all the operators of fixed networks nationwide.

At a European level, dealings with the institutions of the sector were further intensified. Among the various initiatives, Telecom Italia supports a market and investment strategy for an e-Europe. Along with the CEOs of the traditional main European telecommunications organizations, such as British Telecom, Deutsche Telekom, France Telecom, Telefonica de Espana and other operators, Telecom Italia organized a round table which acts as an interface with the European Commission for the development of the regulatory framework and which meets regularly every three or four months to discuss the legal aspects which are of major impact for the TLC sector.

■ THE REGULATORY FRAMEWORK

The new regulatory framework will be governed by new standards which will be introduced to the national regulations by incorporating the EC directives referred to in the "99 Review" relating to electronic communications networks and services (directives on "Access", "Authorizations", "Framework", "Universal Service", "Data Protection" and "Competition"). The new standards, which are in the final phase of awaiting approval by the competent bodies, will be issued according to Law No. 166 of August 1, 2002 which 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 the Recommendation on relevant product and service 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 in the first half of 2003.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

■ X-DSL SERVICES

In Resolution 06/03/CIR of April 15, 2003, the National Regulatory Agency approved the new prices of Telecom Italia's range of wholesale x-DSL services, that is, the intermediate services which operators must acquire from Telecom Italia in order to supply ADSL to the public, unless they have their own infrastructures or do not use unbundling. The new range of services includes price reductions for ADSL access, the introduction of longer time-scales for starting to market new wholesale services, the specification of the factors used to define the price of wholesale services based on the retail-minus principle, and the integration of an operators' Service Level Agreement with regard to the disconnection of services.

■ INTERCONNECTION AND LOCAL LOOP UNBUNDLING

On February 27, 2003, in Resolution 02/03/CIR, the National Regulatory Agency approved the rates for the Interconnection Reference Rate Plan (OIR) for 2002 which Telecom Italia will apply to competing operators for the use of its network, together with criteria for changing the charges of the OIR starting in 2003 over the next four years (the so-called network cap).

■ MAXIMUM COSTS OF FIXED-MOBILE CALLS

In Resolution 47/03/CONS of February 5, 2003, the National Regulatory Agency approved the new maximum costs, with effect from June 1, 2003, for calls from a wireline phone to a mobile phone. The new prices include a reduction of rates for termination and retention. With regard to the latter component, the National Regulatory Agency has also ordered that it should be included in the new basket of final services subjected to the price-cap mechanism, which is currently being worked out.

■ NATIONAL FREQUENCY PLAN FOR DIGITAL TV

In Resolution 15/03/CONS of January 29, 2003, the National Regulatory Agency approved the new national Plan to assign frequencies for television broadcasting using digital technology, in a way similar to that established for frequencies using analog technology. According to the Plan, frequencies will be assigned for national and local networks on a regional basis. The decision to keep similar structures for the analog and digital Plans will simplify the transition from analog to digital technology for the holders of the licenses that have been issued.

■ WI-FI SERVICES

In the decree passed on February 20, 2003, the Ministry of Communications approved changes to the national Plan for assigning frequencies for digital TV, extending the use of the frequencies for Radio-Lan and Hiperlan systems to the public. In the decree of May 28, 2003, the Ministry also issued rules governing the conditions for issuing general authorizations for the supply of Radio-LAN access to telecommunications networks and services to the public. In Resolution 183/03/CONS of May 28, 2003, the National Regulatory Agency approved the measures relating to the public range of services using Radio-LAN (Local Area Networks), using Wi-Fi (wireless fidelity) technology, implementing the change to the national Plan for the assignment of frequencies issued in February 2003.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

■ GRANT FOR THE ACQUISITION OF TOP BOX SETS AND ADSL MODEMS

In the Resolution of March 14, 2003, the Ministry of Communications implemented the measures contained in Article 89 of Law No. 289 (the 2003 Finance Bill) of December 27, 2002 and established the operational procedures for receiving grants for the purchase of receivers for digital, land-based television (euro 150) and broadband access to Internet (euro 75).

■ CODE OF MEASURES TO PROTECT PERSONAL DATA

In the session on June 27, 2003, the Government finally approved the decree law which incorporates in a code the measures for protecting personal data, also incorporating, amongst other things, EC Directive 2002/58/CE on the treatment of personal data and the safeguarding of privacy. The measures incorporated in the code will have effect from January 1, 2004.

■ CARRIER PRE-SELECTION (CPS)

On April 18, 2003 the National Regulatory Agency sent notice to Telecom Italia about Resolution No. 4/03/CIR concerning the "Integration of measures with regard to CPS: standards relating to the disconnection of the service".

The resolution, adopted at the end of the preliminary proceedings which began on November 28, 2002 defines common measures relating to the disconnection of the CPS service, describing in detail the modes and time-scales involved in the disconnection of CPS services, to safeguard users, and stating precise obligations with regard to transparency for operators of the services.

■ SUBSCRIBER INFORMATION SERVICE "12"

On May 6, 2003 the National Regulatory Agency sent notice to Telecom Italia about Resolution No. 103/03/CONS concerning "Changes to the prices of the subscriber information service "12" for calls made by the T.I. S.p.A. clientele", acknowledging an increase in the price of the service of approximately 3% (equal to the percentage change in consumer prices for the period May 2000-October 2002). However, the increase will not be applied to the service disseminated from public telephones.

■ NATIONAL NUMBERING PLAN

On July 3, 2003 the National Regulatory Agency approved Resolution No. 9/03/CIR concerning the "Numbering Plan for the telecommunications sector and regulations for implementation". The main new features include: (1) numbering for services with a surcharge, classified into three categories (social and informational, assistance and mass calls); (2) numbering for socially useful services; (3) numbering for subscriber information services (the number 12xxx will be attributed to those interested in supplying services of this kind).

■ PRICE-CAP

On July 23, 2003 the National Regulatory Agency approved the resolution on the mechanism for controlling the maximum prices of Telecom Italia's voice telephone services, through the price-cap mechanism, for the 3-year period 2004-2006. The new system involves three baskets, each with different price-caps (**access basket**: includes basic subscriber charges and various fees with a IPC-0 cap; in addition, for the residential clientele, a sub-cap has been set for basic subscription charges equal to IPC-IPC; **traffic basket**: includes local and out-of-district calls with a cap equal to IPC-IPC; **fixed-mobile basket**: includes the amount to be paid by Telecom Italia for fixed-mobile traffic with a cap equal to IPC-6).

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

THE STATE AND INSTITUTIONS

■ NATIONAL INSTITUTIONS

With regard to the central national institutions (Parliament and Government) the Telecom Italia Group has on-going profitable and transparent relations with the aim of representing the Group's position on a range of issues of interest and ensuring that it is taken into account in the process of approval of the principal Parliament- and Government-led regulatory proceedings of corporate interest. In particular, Group action concentrated on the following measures:

- the decree law concerning the Code of Electronic Communications which, in compliance with the mandate under Law No. 166/2002, establishes the reorganization of current measures in the sphere of telecommunications and incorporates the EC directives in the national regulations, bringing the Italian regulatory framework in line with its European counterpart. This measure is of particular importance for the Group and for the sector as a whole, since, until now, the regulatory framework was based on the code dating from 1973 and the numerous standards which have been added since then. With the new code of electronic communications, operators have a firm regulatory framework to refer to and a framework which is extremely simple compared to the existing ones;
- bill for the reorganization of the radio and television system, which interests the Telecom Italia Group since it owns the broadcasting channels La7 and MTV, and because of the anti-trust regulations contained therein;
- Decree Law No. 70/2003 which implements the EC Directive 2000/31/CE with regard to electronic commerce.

With reference to Parliamentary interrogations/interpolations about the Group there has been a constant number, compared to the prior six months, the main object of which were the dis-services to users associated with the 709 service and the processes connected with the externalization of these functions from the Group.

■ LOCAL ORGANIZATIONS

The standards activities of the Regions and local organizations – regional laws, resolutions, orders – and of the regulatory activities of the local authorities are constantly monitored and supervised by the Group on such issues as works for the implementation of network structures, electromagnetic pollution, and local finance. Relations are also continuing with local self-government institutions and associations along with presentation of Group recommendations.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

FUTURE GENERATIONS

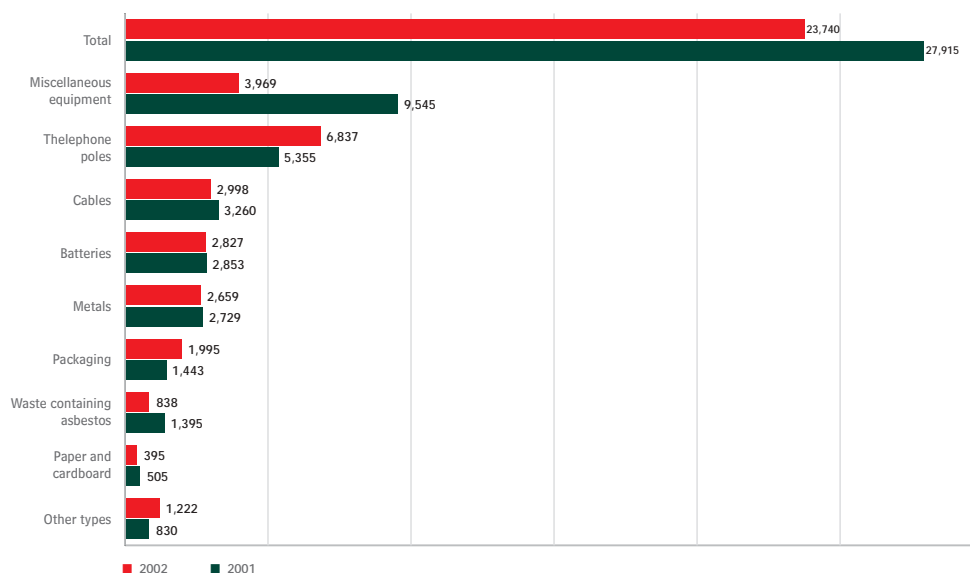
■ WASTE MANAGEMENT

Updated data on waste generated in 2002 is available, as included in the Single Environmental Declaration Form compiled by Telecom Italia S.p.A..

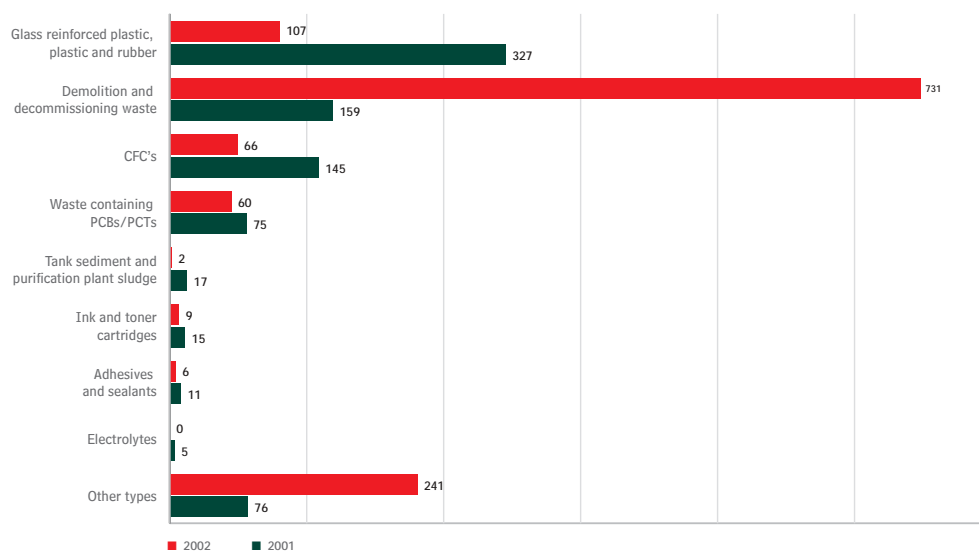
Overall, 23,740 tons of waste of various kinds was generated, with a reduction of approximately 15% compared to 2001. In fact, there was a significant decrease of 5,576 tons, equal to more than 58%, in the elimination of equipment compared to 2001.

The percentage of dangerous waste was 43.9%, equal to approximately 10,422 tons, whereas in 2001 it was 29.7%, equal to 8,291 tons. The percentage increase can be explained by the higher percentage of this kind of waste over total waste generated, the quantity of which, in absolute terms, increased by approximately 26%. Approximately 90% of the total waste generated was recovered/recycled. In 2001, the relative percentage was 83%.

Waste produced by Telecom Italia S.p.A. (2001-2002) (tons)

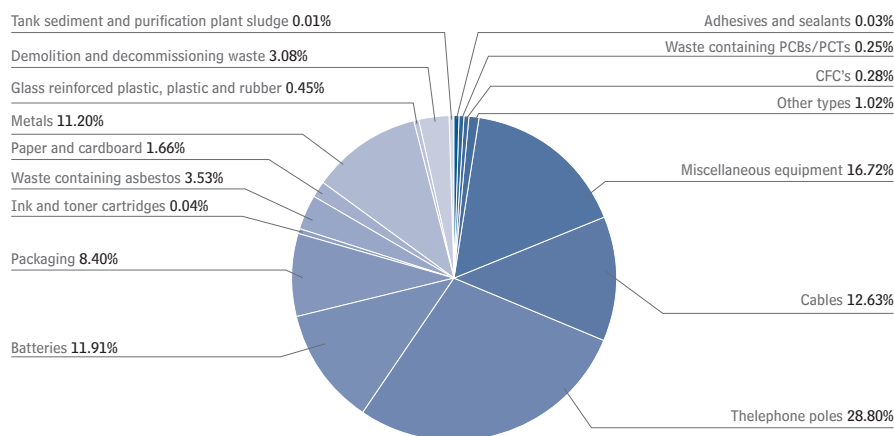


Other types of waste produced by Telecom Italia S.p.A. (2001-2002) (tons)



1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.p.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

Typhes of waste produced by Telecom Italia S.p.A. in 2002



■ PLAN FOR WOODEN TELEPHONE POLES

During the six-month period, an agreement was signed between Telecom Italia, institutional representatives (the Ministry for the Safeguarding of the Environment and Protection of the Territory, the Ministry for Production Activities, and Regional authorities) and operators in the sector regarding the fate of the wooden telephone poles which are in the process of being phased out. The agreement, which aims to reduce the environmental impact deriving from the disposal of the poles, recommends a verification of the wooden poles still *in situ*, the replacement of those which are no longer suitable and criteria for re-using the poles for other purposes, in full respect of national and EC environmental standards.

■ ENVIRONMENTAL MANAGEMENT

On June 19, 2003 the latest verification of the ISO 14001 quality certification was concluded by the **IMQ-CSQ** organization, at the Network Function of the **Wireline** Business Unit. With regard to the positive results recorded during the verification, the **Network Function** was awarded the **ISO 14001** certification for the Environmental Management System that has been implemented throughout the organizational structure, both centrally and nationwide.

The final report of the Certification Authority emphasizes that "the evidence gathered during the verification reveals an Environmental Management System that is well-structured, in compliance with the legal requirements and being almost perfectly implemented, both from the point of view of the central government of the System and from the point of view of its implementation on a territorial and operational level. This is also confirmed by the satisfactory level and completeness of the environmental data that is collected and available for consultation within the System".

In the **Mobile** Business Unit, work continued to extend the **ISO 14001** international quality certification to Network organizations in Campania, Basilicata and Apulia.

■ ELECTROMAGNETIC EMISSIONS

The Telecom Italia Group gave high priority to the problem of electromagnetic emissions.

Within the sphere of the **Wireline** Business Unit, to assist monitoring activities, a procedure has been developed, with the support of Sagra Radio-VICREM and Hermes computer systems, making

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

it possible to evaluate the levels of the electromagnetic fields emitted by fixed stations and see all the interventions on screen.

Within the sphere of the **Mobile** Business Unit, the development of Guardian software has been completed, in relation to the operation and optimization of electromagnetic systems, paying special attention to the evaluation of the levels of the electromagnetic field being emitted and the possibility of installing several transmitters on the same site.

■ VIDEOCONFERENCING DEVELOPMENT

The Telecom Italia Group's commitment to the development of video-conferencing as an internal communication tool continued, with the aim of reducing the number of movements of corporate staff between the various offices of the Group. The benefits can be evaluated in terms of reducing energy consumption, and the relative atmospheric emissions, less time wasted for employees, a reduction in traveling expenses and an improvement in the corporate decision-making processes.

THE COMMUNITY

"**Progetto Italia**" (www.progettoitalia.it), a wide-ranging aggregate of initiatives has been launched by the Telecom Italia Group as a testimonial of corporate social and civic commitment. The project, for which the Group has allocated a budget of euro 30 million for 2003, focuses on support for scientific research, culture, social and sporting events, and, geographically speaking, encompasses the entire national territory.

■ CULTURAL ACTIVITIES

To promote culture, explore and fully exploit our traditions, rediscover Italy's artistic heritage which is envied worldwide: these are the aims of the cultural activities encompassed by Progetto Italia. Telecom Italia has organized initiatives that have never before been undertaken, such as the concert by Paul McCartney at the Colosseum, viewed by 500,000 spectators, and the concert conducted by Conductor Riccardo Muti in Cairo before the famous Pyramids.

Other initiatives were geared to the dissemination of culture, such as Dante's "Inferno", commented and read by Vittorio Sermoni, and the Conversations on art history conducted by leading experts in the sector.

The Telecom Italia Group makes the technological infrastructures and the latest results of its research and innovation available to the institutions and its partners.

■ SOCIAL ACTIVITIES

The Group's social responsibility is made effective through the collection of funds on behalf of associations recognized at national level, and by the substantial contribution to training, teaching and improving the living conditions of the weaker sections of society by making its know-how available.

In March 2003, testing began of the **114** service, the new **infancy emergency** number, conceived in cooperation with the Ministry of the Interior, the Ministry for Equal Opportunities and the Ministry of Communications and operated with "Telefono Azzurro", the organization which, for years, has provided help for children who suffer abuse.

The system is based on ISDN technology and uses the functions of the Telecom Italia Intelligent Network to receive calls. At the Milan headquarters, there are plans for a Phones Infomaster

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

Contact Center, which, during the experimental phase, will have 90 telephone channels, specially developed by Telecom Italia and with the precise aim of ensuring round-the-clock continuity of service. The calls are channeled through to the welcome center by various Urban Exchanges (SGU) to ensure that the service functions even if one of the Public Exchanges is not available. Technical and systemic assistance is ensured by Telecom Italia. During the initial phase, the service will involve three Italian cities (Milan, Treviso and Palermo), which are considered to have a higher-than-average risk, and will subsequently be extended nationwide.

■ SPORTING ACTIVITIES

Telecom Italia and sport: a link that has become ever more consolidated over the years. The Telecom Italia Group believes firmly in the values which lie behind sports activities. The capacity to face new challenges, studying players' moves, respect for rules, discipline, constant training: all of these can be learned by practicing sport. Because of this, in addition to its partnership with some of the leading Italian sports federations, Telecom Italia is also promoting an educational initiative, "Telecom, let's train for life", which was conceived with the aim of encouraging the social and individual development of young people through the values of sport, and involves more than 4,500 schools nationwide.

HUMAN RESOURCES

■ STRUCTURE OF AND CHANGES TO THE TELECOM ITALIA GROUP

Employees at Dec. 31, 2002	Change during the period				Employees at June 30, 2003
	Hired	Left	Change in scope of consolidation	Total	
106,620	2,744	(3,742)	(3,081)	(4,079)	102,541

At June 30, 2003, the Telecom Italia Group employed 102,541 people. Compared to December 31, 2002 there was an overall reduction of 4,079, of which 3,081 referred to the change in the scope of consolidation and 998 to employee turnover. The most significant changes in the scope of consolidation are: the exclusion of the Olivetti - Tecnost companies (1,348 people) linked mainly to the exclusion of Messico Industriale (1,266 people), the sale of Tess (404 people) as well as the spin-off of the facility business of Olivetti Multiservices (208 people), the logistics operations of Wireline (337 people) and the desktop management activities of IT Telecom (582 people).

■ STRUCTURE OF AND CHANGES TO TELECOM ITALIA S.P.A.

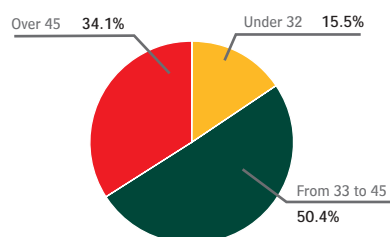
Employees at Dec. 31, 2002		Change during the period					Employees at June 30, 2003
Olivetti S.p.A.	Merged Company	Hired	Left	Movements among Group companies	Sale of logistics business segment	Total	
70	54,705	80	(1,078)	1,239	(337)	(96)	54,679

In particular, with regard to the movements among Group companies, 1,169 refer to the merger by incorporation of TI LAB S.p.A. with and into Telecom Italia, and 70 refer to other companies in the Group.

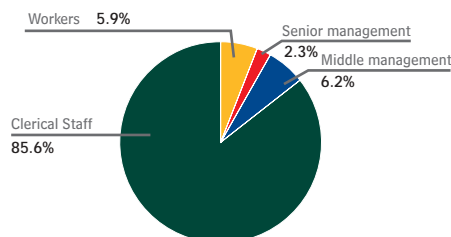
1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

The number of people employed by the Group in Italy is 81% of the overall workforce.

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



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



■ DEVELOPMENT

During the first half of 2003, Development, Training and Internal Communication activities were geared to sustaining the cultural reorientation process begun in 2002.

Development policies continued to disseminate behaviors in keeping with the system of values adopted by the Telecom Italia Group, through suitable initiatives and projects, namely Customer Focus, Assuming Responsibility, Innovation, Proactivity, Speed, Integration, Transparency and Professional Excellence.

The assimilation of a Group managerial style, exemplified in the Managerial Model, which can be broken down into Customer Focus, Creation of Value, Person Development, Change management, Networking and integration, continues to be pursued through a detailed system of Development Centers.

■ TRAINING

During the first half of 2003, training activities in the Telecom Italia Group prior to the merger totaled around 990,000 hours (classroom, on-line learning and on-the-job training for employees in Italy) and to more than euro 11 million in actual costs (excluding labor costs and logistics expenses). These activities were largely delivered by Telecom Italia Learning Services and primarily addressed:

- development of customer focus and training for front-end personnel, with the aim of developing the technical/professional skills and behaviors necessary for successfully relationships with customers: for example, Progetto Fish, Progetto Unisono, Progetto Coaching, Progetto Empowerment gestionale Info 12;
- training for Sales staff, with the aim of achieving levels of excellence both in competence with regard to products, services and the Telecom Italia range of services, and the approach to the customer (for example, Progetto High Sales, Progetto Real TV);
- 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;
- learning packages for professional groups, to integrate and develop activity-specific knowledge and skills (Human Resources and Finance, Administration and Control and Investor Relations).

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.p.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

In June 2003, the first pilot edition of the "Obiettivo Immagine" seminar was launched, directed at the whole of the Group's management, with the aim of disseminating an organizational culture focusing on the safeguarding and enhancement of the corporate image, and developing an awareness among management of the contribution that each person can make towards the overall improvement of the Telecom Italia Group.

In the six-month period, training activities conducted by Olivetti Tecnost S.p.A., equal to a total of 34,500 hours, mainly involved employees who will be introduced to the new industrial activities launched in relation to the restructuring plan and the sales drive.

The total number of hours devoted to training in the Group, including Olivetti Tecnost, is therefore equal to 1,024,500.

■ EMPLOYEE SATISFACTION

In 2003, the initiative known as "Group Photo", which involved more than 77,000 employees of the Group in Italy, also involved the participation of employees of subsidiaries in Brazil. More than 58% of employees in Italy and approximately 74% of the employees in Brazil participated. General satisfaction increased to a value of 6.01 (on a scale from 1 to 10) in Italy and 3.75 (on a scale from 1 to 5) in Brazil.

The results were disseminated to all the employees in the Group.

■ INTERNAL COMMUNICATION

During the first half of 2003, Internal Communication conducted a series of initiatives directed at Telecom Italia Group employees, including:

- The 2003 Group Convention, which took place on April 2, 2003 and involved approximately 6,000 executives and middle management employees of the Telecom Italia Group. The event was hosted in 5 different locations in Italy.
- The start-up of the Convention system for the professional groups within the Group.
- Issue zero of the new Group magazine, *noi.magazine*, published in May 2003, and a questionnaire which was sent to a statistically meaningful sample of technicians, clerical staff, middle management and executives throughout the Telecom Italia Group.
- The launch, in June 2003, of the new version of the Group Intranet portal Open, which all employees of the Group can access through a computer linked to the Internet.
- The consolidation of the *Sono* Project in the Wireline Business Unit.

■ EQUAL OPPORTUNITIES

Progetto Donna was launched: a working group is identifying a series of initiatives to promote the professional growth of women and to disseminate the equal opportunities culture within the Telecom Italia Group.

■ INDUSTRIAL RELATIONS

During the six-month period, negotiations in the Group mainly covered the following areas:

■ Employment

On June 25, 2003 an agreement was signed with the labor unions to layoff 2,500 Telecom Italia S.p.A. employees, in application of the Group agreements to guarantee the correct size of the workforce in relation to the 2002-2004 Industrial Plan (signed on May 27, 2002 and June 10, 2003).

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.p.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

Furthermore, on June 16, 2003, the Olivetti Tecnost S.p.A. Group signed an agreement with the labor unions on the status of the restructuring plan, which was confirmed by an agreement signed on July 3, 2003 at the Ministry of Labor. According to the agreement, the workforce will be reduced by a further 250 employees and resort will be made to government unemployment compensation programs, with the aim of re-training the employees concerned, until July 14, 2004.

■ Corporate reorganization

The procedure was carried out for the merger of Telecom Italia S.p.A. and Olivetti S.p.A..

Within the framework of the Group's focus on the core business of telecommunications, agreements were reached for the sale of the business segments:

- Logistics Domestic Wireline, from Telecom Italia S.p.A. to TNT Logistics Italia S.p.A.
- I.T.User Support (desktop management), from I.T. Telecom S.p.A. to Hewlett Packard Distributed Computing Services S.r.l.

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

■ Performance bonus

On June 10, 2003, Telecom Italia S.p.A. and the labor unions reached agreement over the Performance Bonus for 2003-2006 which will be paid in relation to the Gross Operating Profit and a Customer Loyalty rating.

■ TRANSFERS WITHIN THE GROUP

During the first half of 2003, the transfer of professional resources among the various Business Units continued with a view towards reinforcing the sense of belonging to the Group, creating new opportunities for professional development and stabilizing recourse to outside recruitment. Around 400 resources were transferred at Group level.

■ STOCK OPTION PLANS

During the course of the first half, the Board of Directors of Telecom Italia S.p.A. ascertained the forfeiture of stock options that were still standing from the second lot of the Telecom Italia 2001 stock option plan (residual number of 30,855,000), as a result of not having reached the relative performance parameter, calculated on the basis of the prices of Telecom Italia ordinary shares in the months of March 2002 and March 2003 and the corresponding prices of the Dow Jones Eurostoxx TLC Index.

It should also be pointed out that the exercise of Telecom Italia stock options was suspended beginning May 12, 2003, the tenth trading day of the stock market prior to the date of the first call of the Shareholders' Meeting, up to August 4, 2003, the effective date of the merger.

With reference to the merger by incorporation of Telecom Italia S.p.A. with and into Olivetti S.p.A., the Company resulting from the merger took over all the stock option plans previously in force in Telecom Italia and Olivetti.

The holders of the corresponding stock options will retain the right to subscribe, at the strike price already determined, not the original number of shares stated in the respective regulations (and corresponding to one ordinary share for every option), but the number of shares of the new Company corresponding to the ratio established for the shareholders of the two companies, equal to 0.471553 ordinary shares for each ex-Olivetti option and 3.300871 shares for each ex-Telecom Italia option.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

A summary of the basic elements of the Telecom Italia and Olivetti stock option plans in force in the first half of 2003 is presented in the following table.

Plans in force at the Merged Company Telecom Italia

	No.options	Options existing at 1/1/2003	New options granted during the first half	Options exercised during the first half	Options expired and not exercised or forfeited during the first half	Options extinguished during the first half due to termination of service	Options existing at 6/30/2003	of which exercisable at 6/30/2003
(Amount in euro)								
1999	No.options	8,471,500	-	29,450	-	-	8,442,050	8,442,050
Plan	Exercise price	6.79	-	6.79	-	-	6.79	6.79
	Market price	7.202	-	7.297 (*)	-	-	7.968	-
2000	No.options	20,600,000	-	-	-	-	20,600,000	10,699,996
Plan	Exercise price	13.815	-	-	-	-	13.815	13.815
	Market price	7.202	-	-	-	-	7.968	-
2001	No.options	63,507,500	-	-	30,855,000	232,500	32,420,000	32,420,000
Plan	Exercise price	10.488	-	-	10.488	10.488	10.488	10.488
	Market price	7.202	-	-	6.444	6.537 (*)	7.968	-
2002	No.options	28,076,000	-	-	-	610,800	27,465,200	8,288,700
Plan	Exercise price	9.600	-	-	-	9.665	9.598	9.599
	Market price	7.202	-	-	-	7.039 (*)	7.968	-
2002	No.options	11,800,000	-	-	-	-	11,800,000	3,540,000
TOP Plan	Exercise price	9.203	-	-	-	-	9.203	9.203
	Market price	7.202	-	-	-	-	7.968	-

(*) weighted average price

Plan	Exercise price (in euro)	Number of options granted at 6/30/2003 and exercisable from						Maximum period of options
		2001	2002	2003	2004	2005	Total	
1999	6.79	3,738,300	4,703,750	-	-	-	8,442,050	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	-	32,420,000	-	-	-	32,420,000	5 years beginning from each year
2002	9.665	-	-	7,976,700	7,906,500	10,542,000	26,425,200	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

(*) The Board of Directors of Telecom Italia S.p.A. ascertained the forfeiture, with effect on July 1, 2003, of the stock options that were still standing from the third lot of the 2000 stock option plan (residual number of 9,900,004), as a result of not having reached the relative performance parameter, calculated on the basis of the prices of Telecom Italia ordinary shares in the months of June 2002 and June 2003 and the corresponding prices on the Dow Jones Eurostoxx TLC Index.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

Plans in force at Olivetti S.p.A.

	No.options	Options existing at 1/1/2003	New options granted during the first half	Options exercised during the first half	Options expired and not exercised or forfeited during the first half	Options extinguished during the first half due to termination of service	Options existing at 6/30/2003	of which exercisable at 6/30/2003
(Amount in euro)								
Plan	No.options (*)	800,000	-	-	-	-	800,000	266,666
2002	Exercise price	3.308					3.308	
2004	Market price	0.9783					1.111	
Plan	No. options (**)	7,030,000	-	-	-	124,998	6,905,002	2,343,339
Feb. 2002	Exercise price	2.515					2.515	
Dec. 2004	Market price	0.9783					1.111	

(*) referring to 1,330,000 warrants granted.

(**) referring to 29,000,000 warrants voted, of which 26,475,000 granted.

Plan	Exercise price (in euro)	Number of options granted at 6/30/2003 and exercisable from					Total	Maximum period of options
		2001	2002	2003	2004	2005		
2002-2004	3.308			533,332 ⁽¹⁾	266,668	-	800,000	December 15, 2004
Feb. 2002-Dec. 2004	2.515			4,686,678 ⁽²⁾	2,218,324	-	6,905,002	December 31, 2004

(1) Exercisable during the period November 1 to December 15 of which: 266,666 relating to the year 2002; 266,666 relating to the year 2003.

(2) Exercisable during the period December 1 to December 31 of which: 2,343,339 relating to the year 2002; 2,343,339 relating to the year 2003.

SHAREHOLDERS: CORPORATE GOVERNANCE

On August 4, 2003 (the effective date of the merger by incorporation of Telecom Italia S.p.A. with and into Olivetti S.p.A.) the Board of Directors of Telecom Italia (the name assumed by the Merging Company) adopted the entire corporate governance system which the "former" Telecom Italia had in place previous to the merger. Furthermore, the aforementioned Board of Directors adopted a Code of Self-discipline which substitutes the previous Code of the "former" Telecom Italia and which takes into account the corporate governance regulations that the Company has adopted, in conformity with the best international business practices.

In this section the corporate governance system of Telecom Italia, which is intended to mean the Company resulting from the merger, is illustrated.

■ CODE OF ETHICS

The Code of Ethics adopted by Telecom Italia is ideally placed at the top of the entire system of corporate governance and represents the "charter of values" of the Telecom Italia 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, 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.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.p.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

■ BOARD OF DIRECTORS

In accordance with paragraph 3 of the Code of Self-discipline, the Board of Directors has the power and duty to direct the Company, pursuing the primary objective of the creation of shareholder value; to that end it takes all the decisions necessary or conducive to the achievement of the corporate object.

■ Composition

The Board of Directors of Telecom Italia nominated by the Shareholders' Meeting of the Merging Company on May 26, 2003, in office from August 4, 2003 (effective date of the merger) until the approval of the current year's financial statements, comprises the Directors of the Merged Company, with the exception of Giovanni Consorte who replaces Roberto Ulissi, a member of the Board of Directors of the "former" Telecom Italia nominated under the so-called Golden Share, which no longer applies.

Set out below are the offices held by the Directors in other listed companies, in financial, banking or insurance companies or in companies that are significant in size:

Marco Tronchetti Provera	Chairman of Olimpia S.p.A., Pirelli & C. S.p.A., Pirelli & C. Real Estate S.p.A. and Camfin S.p.A., Deputy Chairman of Confindustria, Director of the Fondazione Teatro della Scala and of Università Commerciale Luigi Bocconi, Italian Chairman of the Council for Relations between Italy and the U.S.A. and member of the Executive Council of Assonime, of the European Round Table of Industrialists, of the Italian Group of the Trilateral Commission, of the International Advisory Board of Allianz, of the International Council of J. P. Morgan and of the New York Stock Exchange European Advisory Committee.
Gilberto Benetton	Chairman of Edizione Holding S.p.A., Autogrill S.p.A., Ragione S.p.A. of G. Benetton & C. and Verde Sport S.p.A., Deputy Chairman of Fondazione Benetton and Olimpia S.p.A., Sole Director of Regia S.r.l. and Immobiliare Marca S.r.l., Director of Benetton Group S.p.A., Director of Area Nord Concessionaria di Pubblicità, Autostrade S.p.A., Banca Antoniana Popolare Veneta, Impresa Tipografica Veneta, Beni Stabili S.p.A., HMS Host Corp., Lloyd Adriatico S.p.A., Pirelli & C. S.p.A., Mediobanca S.p.A., Schemaventotto S.p.A., Sep S.p.A., Autostrade S.p.A., Abertis Infraestructuras s.a., Centro Stampa Veneto S.p.A., Editoriale Il Gazzettino, PIM Pubblicità italiana Multimedia S.r.l., and Chairman of Asolo Golf Club (Sports Association) and Asolo Golf Club S.r.l..
Carlo Buora	Director of Pirelli & C. Real Estate S.p.A. and Olimpia S.p.A., Managing Director of Pirelli & C. S.p.A., Chairman of Tim S.p.A., and Director of Ras S.p.A., Mediobanca S.p.A. (and member of its Executive Committee), RCS Mediagroup S.p.A. and F.C. Internazionale S.p.A..
Riccardo Ruggiero	Managing Director for fixed line telephone services of Telecom Italia S.p.A., and Director of Telecom Italia America Latina.
Umberto Colombo	Chairman of Novamont S.p.A., Alcantara S.p.A., and Kemyx S.p.A., and Member of the Boards of Directors of ACEA S.p.A., FB Ambiente S.p.A., Impregilo S.p.A., Saes Getters S.p.A., Snia S.p.A. and Energy Conversion Devices Inc. (USA).
Giovanni Consorte	Chairman and Managing Director of Unipol S.p.A. and Finsoe, Unipol Merchant and Finec Holding, Deputy Chairman and Managing Director of Unipol Banca and Noricum Vita, Chairman of Meieaurora, Deputy Chairman of Hopa, Director of Carisbo, Snia, Euresa Holding and Fondazione Europea Ramazzini, Member of the A.N.I.A. Council, of the Management and the Board of Lega Nazionale Cooperative e Mutue and of the Scientific Committee of Nomisma, and Member of the General Board of Assonime.
Francesco Denozza	Ordinary professor of Commercial Law at the Università degli Studi di Milano (Law Faculty).
Luigi Fausti	Chairman of Patrimonio Immobiliare dello Stato S.p.A., and Director of MONRIF S.p.A. and Poligrafici Editoriale S.p.A..
Guido Ferrarini	Ordinary professor of Financial Market Law in the Law Faculty of the Università di Genova, Director of the Centro di Diritto e Finanza, Director of Autostrade S.p.A., Member of the Board of Trustees of the International Accounting Standard Committee (IASC) Foundation, London, Deputy Chairman of the European Corporate Governance Institute, Brussels, Editor of ECGI Working Papers in Law, Associate Editor of Rivista delle Società, Consultant to the Corporate Governance Committee of Borsa Italiana S.p.A., and Honorary Professor at University College, London.
Natalino Irti	Ordinary professor of Civil Law at the Università di Roma "La Sapienza", member of Accademia dei Lincei, Deputy Chairman of Assonime, Chairman of the Istituto Italiano di Studi Storici, Director of RCS Mediagroup S.p.A..

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.p.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

Pietro Modiano	Managing Director of Unicredito Banca Mobiliare and Unicredit Banca d'Impresa, Director of Borsa Italiana S.p.A., Euro Capital Structures Ltd., Locat S.p.A. and Unicredit Private Banking S.p.A..
Gianni Mion	Managing Director of Edizione Holding S.p.A., Deputy Chairman of Telecom Italia Mobile S.p.A., and 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., Telecom Italia Media S.p.A., Interbanca S.p.A. and Bancantonveneta S.p.A..
Massimo Moratti	Managing Partner of Angelo Moratti di GianMarco e Massimo Moratti & C. S.a.p.a., Managing Director of Saras S.p.A. Raffinerie Sarde, Director of Pirelli & C. S.p.A. and Interbanca S.p.A., and Chairman of F.C. Internazionale Milano S.p.A. and Sarint SA.
Carlo Alessandro Puri Negri	Deputy Chairman and Managing Director of Pirelli & C. Real Estate S.p.A., Deputy Chairman of Camfin S.p.A., Pirelli & C. S.p.A. and Pirelli & C. Ambiente S.p.A., and Director of Pirelli S.p.A., Olimpia S.p.A. and Parmasteelisa S.p.A..
Pier Francesco Saviotti	General Manager of Credito di Banca Intesa S.p.A., and Director of Stefanel S.p.A., TOD'S S.p.A., Danieli S.p.A., Linificio e Canapificio Nazionale S.p.A. and Istituto Europeo di Oncologia.

■ Independent Directors

Members of the Board of Directors that are considered independent, in accordance with the guidelines set down by the Corporate Governance Committee (encompassed in the "Preda Code") and with paragraph 5.3 of the Code of Self-discipline, 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 judgement 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 (paragraph 5.3(b) of the Code of Self-discipline).

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

■ Executive Directors

On August 4, 2003, Telecom Italia's Board of Directors, upholding the choices of the Merged Company, nominated Marco Tronchetti Provera as Chairman of the Company, Gilberto Benetton as Deputy Chairman, Carlo Buora and Riccardo Ruggiero as Managing Directors, and Riccardo Ruggiero and Giuseppe Sala as General Managers.

The Company adopted, in accordance with paragraph 8.3 of the Code of Self-discipline, a procedure to formalize the rules for the collection and communication to the Board of Statutory Auditors and the Board of Directors of the most extensive 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 one hand, on the activities carried out by the Executive Directors – also through the structures of the Company and its subsidiaries – in exercising the mandates conferred upon them, including the initiatives adopted and projects launched; and on the other hand, on the Executive activities and on the developments of transactions already approved by the Board of Directors.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

■ Roles and Activities of the Board of Directors

In accordance with Article 12 of 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 or the by-laws, expressly reserved for the general Shareholders' Meeting. The Board of Directors – in accordance with paragraph 3 of the Code of Self-discipline – has the general power to direct and control the activities of the Company and the running of the business. In particular, the Board of Directors is exclusively responsible for (i) the examination and approval of the strategic, operational and financial plans of the Company and the Group; (ii) the analysis and approval of the annual budgets of the Company and the Group; (iii) the examination and approval of transactions – including investments and divestitures – that, owing to their nature, strategic importance, size or the obligations they may carry, have a significant impact on the activities of the Company; (iv) the verification of the adequacy of the general organizational and administrative structure of the Company and the Group; (v) the preparation and adoption of the rules of corporate governance of the Company and the definition of the guidelines for the governance of the Group; (vi) the establishment of a supervisory body in accordance with Legislative Decree no. 231 of June 8, 2001; (vii) the granting and revoking of the mandates of the Managing Director and the Executive Committee, where established, defining the limits thereto, the manner of exercising them and the 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; (viii) the determination of the duties and powers of the General Managers, if appointed; (ix) the appointments for the offices of Chairman and Managing Director of subsidiaries of strategic importance, with the exception of subsidiaries of listed subsidiaries; (x) the determination, after examining the proposals of the specific Committee and consulting 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; (xi) the supervision of the general operational performance, with particular attention to situations of conflict of interest, taking into consideration information received from the Managing Directors and the Audit and Corporate Governance Committee, and periodically comparing the results achieved with those planned; (xii) the evaluation and approval of the periodic accounting documentation as provided by existing regulations; (xiii) the exercise of the other powers assigned to it by the law and the by-laws.

As provided by paragraph 7.1 of the Code of Self-discipline, the Board of Directors meets periodically, at least every three months, and whenever the Chairman deems it necessary in the interest of the Company; the Board may also meet at the initiative of the Directors and the Statutory Auditors, as provided for by the law and the by-laws.

As provided by the Code of Self-discipline of the Company, in preparation for Board meetings, Directors are sent, sufficiently in advance, taking into consideration the specific circumstances, the documentation necessary to permit them to effectively participate in the Board's business.

■ 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 occur through a ballot based on lists of candidates. That system 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 the individual candidates available to 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.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

■ Directors' Compensation Committee

The Board of Directors of Telecom Italia has a Compensation Committee with investigative and advisory functions. In particular, the Committee has 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. As provided by paragraph 10.1 of the Code of Self-discipline, the Committee is composed exclusively of non-Executive Directors (Luigi Fausti, Umberto Colombo and Pier Francesco Saviotti), the majority of which are independent. 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 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 stock option plans is contained in the "Human Resources" paragraph, above.

■ INTERNAL CONTROL SYSTEM

The system of internal controls – briefly outlined in the Company's Code of Self-discipline – is a process aimed towards ensuring the efficiency of the management of corporate affairs and operations, its measurability and verifiability, the reliability of accounting and management data, compliance with all applicable laws and regulations and the safeguarding of the Company's assets, and even to prevent fraud that may damage the Company and the financial markets. The Telecom Italia Group has adopted the organizational decision to concentrate the internal audit activities in a specific consortium company, with the formation of In.Tel.Audit - S.c.a r.l.. Having taken into consideration the approach that is now common in international doctrine and practice by which the functions of the persons responsible for 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., the entity responsible for internal control, was chosen to be responsible for internal audit.

This organizational solution permits the maximization of the independence of those responsible for 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 responsible for 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, has identified an "individual responsible for execution" of those interventions.

Moreover, the Company has completed the project of "mapping" the risks and verification of the adequacy of the stringent organizational and control systems already existing with respect to the current regulatory requirements and, in particular, the requirements of Legislative Decree 231/2001 regarding administrative responsibility of public institutions for criminal offences committed by their employees and collaborators.

In this context, Telecom Italia has adopted an organization, management and control model (the "231 Organizational Model") which, in particular, breaks down into specific internal control schemes, formulated in light of the Code of Ethics, the general principles of internal control and the specific principles for relations with the Public Administration that were formalized for this purpose. Responsibility for monitoring the operation and observance of the model and to provide for its updating has been given to a body (a Supervisory Body) comprised of an Independent Director who is a member of the Audit Committee (Guido Ferrarini), a representative of those responsible for internal control (the Chairman of In.Tel.Audit - S.c.a r.l., Armando Focaroli) and the Chairman of the Board of Statutory Auditors (Ferdinando Superti Furga).

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

■ Audit and Corporate Governance Committee

The Board of Directors of Telecom Italia has established an Audit and Corporate Governance Committee to provide advice and make proposals. Based on the provisions of the Code of Self-discipline of Telecom Italia, the Committee carries out the following activities: (i) assesses the adequacy of the system of internal controls; (ii) assesses the work program prepared by those responsible for internal control and receives their periodic reports; (iii) assesses, together with the Company's managers responsible for administration and the external auditors, the adequacy of the accounting principles adopted and their uniformity in the preparation of the consolidated financial statements; (iv) assesses proposals of external audit firms to obtain the audit engagement, the work plan for the audit and the results set out in their letter of recommendations; (v) reports to the Board on its activities and on the adequacy of the system of internal control at least every six months, at the time the annual and semi-annual financial statements are approved; (vi) performs the other duties entrusted to it by the Board of Directors, particularly as regards relations with the external auditors and (vii) monitors the compliance with and periodic updating of the corporate governance regulations.

As provided by paragraph 12 of the Code of Self-discipline, the Committee is composed exclusively of independent Directors (Guido Ferrarini, Luigi Fausti and Natalino Irti).

■ TRANSACTIONS WITH RELATED PARTIES

In implementing that provided by paragraph 13 of the Code of Self-discipline, the Company has adopted a series of principles of conduct concerning the method of execution of transactions with related parties, including intra-group transactions. Those principles of conduct are aimed at guaranteeing the fairness and transparency, both procedurally and in substance, of these transactions, ensuring full joint liability of the entire Board of Directors in the related decisions. On the basis of those principles the Board of Directors approves in advance transactions with related parties, including intra-group transactions, except for typical or usual transactions to be completed at standard conditions. To that 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, including economic conditions, for its realization, the valuation technique followed, the interest 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, express an opinion on the economic conditions, and/or the legality, and/or the technical aspects of the transaction.

■ INSIDER DEALING AND HANDLING OF CONFIDENTIAL INFORMATION

In accordance with that provided by paragraph 9.2 of the Code of Self-discipline and in compliance with the Rules of the Markets Organized and Managed by Borsa Italiana, the Company has adopted a Code of Conduct for Insider Dealing, which regulates the disclosure and conduct obligations with respect to transactions of listed securities of the Group carried out by "significant persons" who operate within the Company. The criteria adopted in its formulation are consistent with Telecom Italia's fundamental decisions in matters of governance: stringency, transparency, and alignment with the best international practices. The Code of Self-discipline provides for both an obligation to communicate transactions carried out and a limitation in the period of free negotiability of the securities of the Group by "significant persons".

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

Furthermore, the Company has formalized, in a specific Procedure, the procedures followed for the communication to the market of price sensitive information. The Procedure establishes 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 persons 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 the Merging Company on May 26, 2003, is composed of five Acting Auditors (Ferdinando Superti Furga - Chairman, Rosalba Casiraghi, Paolo Golia, Salvatore Spiniello and Gianfranco Zanda), of which two (Rosalba Casiraghi and Paolo Golia) were elected from the list presented by the minority shareholders.

As previously highlighted, the Board of Directors 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 di Finanza – of information on the activities and most significant transactions carried out by the Company and its subsidiaries and on the 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 on the Group's activities that they carry;
- 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 terms of execution of the transactions (including the terms and conditions, also economic, of their realization) with particular regard to the valuation methods followed;
- on 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' AGREEMENTS

At the outcome of the process of integration between Telecom Italia S.p.A. and Olivetti S.p.A., Olimpia S.p.A. has become the major shareholder of the company resulting from the merger by

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.p.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

incorporation of Telecom Italia with and into Olivetti, with 11.575% of the ordinary capital of the "new" Telecom Italia.

The Shareholders of Olimpia S.p.A. have entered into certain shareholders' agreements.

In particular, on September 22, 2001 notices were published in the national newspapers reporting extracts of the following agreements:

- agreement between Pirelli S.p.A. and Edizione Holding S.p.A. - Edizione Finance International S.A., entered into on August 7, 2001 and subsequently modified;
- agreement between Pirelli S.p.A., Unicredit Italiano S.p.A. and IntesaBCI S.p.A., entered into on September 14, 2001 and subsequently modified.

On March 1, 2003, an extract was also published related to the agreement signed on February 21, 2003 between Pirelli S.p.A., Edizione Finance International S.A./Edizione Holding S.p.A., Banca Intesa S.p.A., Unicredit Italiano S.p.A., Olimpia S.p.A. and Hopa S.p.A.. That agreement is directed, amongst other things, to the addition of Hopa among the shareholders of Olimpia S.p.A., which is comprised as follows: Pirelli S.p.A. (50.4%), Edizione Holding S.p.A. (16.8%), Unicredit Italiano S.p.A. (8.4%), Banca Intesa S.p.A. (8.4%) and Hopa S.p.A. (16%).

RESEARCH & DEVELOPMENT

During the first half of 2003, the R&D activities of the Telecom Italia Group were largely conducted by TILAB, also in collaboration with Pirelli Labs, involving 1,074 employees. The activities focused on research and testing in the field of network innovation, mobile services and broadband services.

In particular, these activities included:

- the testing of a video-communication service between fixed and mobile terminals which is of direct relevance to services for Wireline and TIM;
- analysis of the applicability of solutions for IP optical networks with automatic routing;
- the development of a SW development kit for video-communication using ADSL technology;
- the development of new models of radio dimensioning which, amongst other things, will make it possible to refine the planning techniques of the networks of the new generation;
- the punctual completion of version 9.0 of the planning tool 3G GUITAR (which includes the optimization of the choice of sites and the estimate of traffic cleared indoors);
- the conclusion of the technical and economic analysis of the OFDM access technique for mobile systems beyond the third generation.

In addition, cooperation agreements with Pirelli Labs have led to the start of 11 new projects.

During the first half of 2003, research activities led to the filing of 21 new patents.

The overall costs incurred during the six-month period under examination amounted to approximately euro 60 million. The total of grants and low-interest loans to support research and development costs, received or to be received, by Telecom Italia, amounted to approximately euro 6 million.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.p.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

PENDING LITIGATION

There follows a description of the main disputes, litigation and arbitration proceedings in which the Telecom Italia Group is involved. 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.

■ INVESTIGATION OF FORMER REPRESENTATIVES AND FORMER EMPLOYEES OF OLIVETTI

Pending are the criminal charges of corruption and peculation brought by the Rome State Prosecutor against former representatives and former employees of Olivetti (and Poste Italiane S.p.A.) regarding products and services supplied by Olivetti to the Poste Italiane in the early 1990s. The Rome magistrates recently acquitted all the Olivetti people involved in the investigation of the charge of peculation, since the fact did not amount to a crime. The sentence became final after the State Prosecutor's appeal was declared inadmissible by the Court of Appeals.

The Rome magistrates also fully acquitted all the former Olivetti managers involved in the investigation of charges of corruption. The ruling was challenged by the State Prosecutor.

■ OLIVETTI / POSTE ITALIANE DISPUTE

With regard to the dispute before the Rome Courts between Olivetti and Poste Italiane S.p.A. for non-payment by Poste Italiane S.p.A. of the supply of products and/or technical assistance, all of the decisions handed down to date have been won by Olivetti and have been appealed by Poste Italiane S.p.A..

■ SALE OF PERSONAL COMPUTERS BUSINESS

In relation to the disposal of the personal computers business in April 1997, lawsuits have been brought before the Ivrea Courts against Olivetti and its subsidiary Olivetti Finanziaria Industriale S.r.l. (former Olivetti Finanziaria Industriale S.p.A.), which had merged Sy.F.A. S.p.A., which had in turn merged Olivetti Personal Computers S.p.A. by:

- Centenary Corporation and Centenary International, for damages (euro 129.1 million claimed, but lacking evidence) which the plaintiffs allege they suffered as a consequence of the acquisition of the Olivetti Group's personal computers business (through acquisition of the specific business unit, which was spun off to OP Computers S.p.A., established for that purpose);
- ex-employees of OP Computers S.p.A., to find that the contracts relating to the aforementioned disposal of the personal computers business are null and void, to obtain reinstatement as employees of Olivetti, with payment of salary differences and damages (calculated at euro 212 million, and lacking evidence);
- the receiver of OP Computers S.p.A., in bankruptcy, to find that the contract of sale of the personal computers business by Olivetti Personal Computers to OP Computers is either null and void, or to be annulled or revoked, claiming damages (again, lacking evidence and calculated at euro 81.6 million);

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.p.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

- a group of ex-employees of OP Computers S.p.A., who have filed complaints against former legal representatives of the company; the Ivrea State Prosecutor has opened an investigation into the former legal representatives for the crimes of false communications and illegal division of profits or interim dividends, overstated valuations of the contributions and the acquisitions of the company, infractions of the ban to subscribe to treasury shares or shares or quotas of parent companies, fraud and aggravated fraud, false appraisals and fraudulent bankruptcy.

On the contrary, Olivetti and its subsidiary Olivetti Finanziaria Industriale S.p.A., have brought suit before the Milan Courts against Piedmont International S.A. (a company in the Centenary group) to recover the receivables due from the latter for euro 51.6 million or for a higher amount to be established during the case. The first degree Milan Court has sentenced Piedmont to pay Olivetti and OFI the total sum of around euro 46 million.

On May 22, 2003, ICS S.p.A. brought suit against OPComputers S.p.A., in bankruptcy, before the Ivrea Courts to find the 1999 company sales contract between them null and void, as well as to sue Olivetti S.p.A. and its subsidiary Olivetti Finanziaria Industriale S.p.A. jointly and severally for damages of approx. 16 million.

■ DISPUTE CONCERNING RESOLUTIONS PASSED AT THE TELECOM ITALIA SHAREHOLDERS' MEETING

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.

■ GALACTICA DISPUTE

In 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 then 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 combined the two cases.

On October 16, 2002, the company Servinternet S.p.A. (former Galactica S.p.A.) in liquidation, presented a third summons in action against Telecom Italia to appear before the Milan Courts. This case has also been combined with the other two cases pending before the same magistrate. The sum requested by Galactica totals approx. euro 90 million.

■ SEAT PAGINE GIALLE/DE AGOSTINI

On September 20, 2000, Seat, De Agostini, Finanziaria Web, Matrix and other subsidiaries of Seat and De Agostini signed a detailed agreement which called for: (i) the setting up of joint ventures, (ii) the sale of the 40% stake in Finanziaria Web to Seat by De Agostini, (iii) the granting of a warrant to De Agostini for the subscription of Seat shares; (iv) the authorization to sign an agreement between Seat and NV Vertico SA for Seat to purchase the additional stake in Matrix not

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.p.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

held by Finanziaria Web. The sale of the 40% stake in Finanziaria Web, for a price of euro 700 million, was subjected to a series of conditions. In particular, the transfer was subject to a resolution increasing Seat's share capital to service the warrant and the setting up of joint ventures. The price should have been paid by June 20, 2003.

Arbitration proceedings initiated by De Agostini are currently pending against Seat, Finanziaria Web, Matrix and the Buffetti group for the alleged breach of the agreement with the aim of obtaining the execution of the specific contract for the purchase and sale of the shares. On its part, Seat intends to advance the argument relative to the serious alteration in the economic equilibrium of the services consequent to the unforeseeable loss of value of the companies operating the Internet sector which occurred subsequent to the signing of the agreement. The arbitration opinion is expected to be issued by the end of the year.

Finally, it should be pointed out that such dispute, since it is inherent to the corporate complex that was not transferred following the Seat Pagine Gialle spin-off, remains the responsibility of the spun-off company Telecom Italia Media.

■ SEAT PAGINE GIALLE/CECCHI GORI

By summons dated April 12, 2001, Cecchi Gori Group Fin.Ma.Vi. S.p.A. ("FinMaVi") and Cecchi Gori Group Media Holding S.r.l. ("Media") (hereinafter also "Cecchi Gori group") filed suit in the Rome Courts asking to find the August 11, 2000 resolution of the Extraordinary Shareholders' Meeting of Cecchi Gori Communications S.p.A. (hereinafter "CGC") null and void.

The Shareholders' Meeting had amended the by-laws of the company specifically with regard to the articles concerning, among other things, the division of ordinary shares into two categories, the introduction of the voting list for the nomination of directors and the determination of quorums for constituting and voting in Shareholders' Meetings.

Under the ruling handed down April 11, - May 14, 2003, The Rome Courts denied the complaint and condemned the plaintiff to pay the costs.

On June 13, 2002, the Rome Courts 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 declare 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 the case for the annulment of the pledge of CGC shares to guarantee the proper fulfillment of all the obligations established by the contract under which, on August 7, 2000, Seat Pagine Gialle acquired control of CGC.

The Court fixed the hearing to state its conclusions in September 2003.

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.

In August 2003, Fin.Ma.Vi. S.p.A., Media Holding S.p.A. and Vittorio Cecchi Gori himself brought action against the old Seat Pagine Gialle S.p.A. for compensation of damages for breach of contract, always in relation to the well-known facts relating to the acquisition of Cecchi Gori Communications S.p.A., for an amount of euro 387 million in addition to interest, revaluation and additional damages.

Finally, it should be pointed out that the entire dispute, since it is inherent to the corporate complex that was not transferred following the Seat Pagine Gialle spin-off, remains the responsibility of the spun-off company Telecom Italia Media.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

■ 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 the courts in action brought by Fastweb so that the judge could decide and state the precise amount of consideration due for the access and the utilization of said 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 above said contract.

■ 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, brought suit against Telecom Italia before the Rome Court of Appeals 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.

■ APPEAL BY WIND EX ART. 700 C.P.C.

In June 2003, Wind S.p.A. filed an emergency appeal ex art. 700 c.p.c. before the Rome Courts asking it to prevent Telecom Italia from reactivating – without the requisites established by resolution 04/03/CIR of the National Regulatory Agency concerning carrier preselection – the lines of those customers that, after having cancelled the Carrier Preselection (CPS) contracts with alternative operators, once again chose to use Telecom Italia.

Wind specifically demands that the reactivation of service by Telecom Italia for such customers should only take place in cases in which: i) the notice of cancellation by the customer has been transmitted by Telecom Italia to Wind at least 15 days prior to the date of the cancellation of service indicated on the request of the customer; ii) the same notice should contain the information stated by art. 3, paragraph 2 of the aforementioned resolution, such as the name, telephone number, indication of the preselected operator, the date of CPS subscription and the requested cancellation date.

At the same time, Wind asks to be awarded compensation for damages equal to approx. euro 37 million in addition to compensation for damages to its image, to be quantified on an equitable basis.

In the outcome of the first hearing, the Court reserved any decision regarding the appeal.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

■ 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. Omnitel therefore filed an appeal with the Council of State. 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.

On June 20, 2003, Vodafone Omnitel also filed an appeal to the TAR of Lazio to annul the resolution by the National Regulatory Agency under which the Agency, in executing the sentence by the TAR of Lazio in January 2002 to revise the procedure relating to the applicability of the formula for sharing the net cost of the universal service for the year 1999, recalculated the same amount due from Vodafone Omnitel for its share.

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".

With reference to the appeal presented by Omnitel, the hearing, initially scheduled for May 14, 2003, was postponed until the Council of State issues a decision on the above-mentioned appeal. 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.

On May 20, 2003, before the TAR of Lazio, Vodafone Omnitel also contested the note dated April 29, 2003 in which the Ministry of Communications ordered it to pay, for the year 2000, the amount of the contribution to finance the universal service (equal to approx. euro 11 million), as calculated by the National Regulatory Agency.

■ 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 Authority 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 view of 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 alleged abuse of a dominant position on the part of Telecom Italia for the same conduct contested by the Antitrust Authority.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

In January 2003, the Court of Appeals of Rome sentenced Telecom Italia to pay a total of about euro 2 million as compensatory damages to Albacom, Wind (former Infostrada), Cable & Wireless (former Unidata) and Data Service.

Similar actions are pending for claims brought by other operators for some euro 120 million.

Their probable outcome, given the notable similarity to the previous actions and the identity of the judging body, is considered to be analogous to that of the first cases. Based on this evaluation, Telecom Italia has provided a total of approx. 4.2 million in the reserve for risks.

■ 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, the National Regulatory Agency took exception to the violations committed by the Company in resolution No. 179/01/CONS and proceeded to commence the relative proceedings for sanctions through separate and specific resolutions.

A counter-action is pending before the TAR of Lazio for both the presumed proceeding and the successive resolutions.

In the meantime, the National Regulatory Agency notified Telecom Italia of two proceedings relating to the payment of administrative sanctions which were contested by Telecom Italia before the TAR of Lazio.

■ ALLEGED ABUSE OF A DOMINANT POSITION BY TELECOM ITALIA

On June 13, 2003, the Antitrust Authority began proceedings against Telecom Italia for the alleged abuse of a dominant position to decide on the illegality of certain commercial agreements relating to the public and private business clientele segment regarding the provisions established by art. 3 of Law 287/90. The abusive conduct by Telecom Italia specifically refers to having established telecommunication service prices on the wireline network, used by business customers, with the intent to exclude. It alleges that the competitors cannot replicate such prices owing to the interconnection costs with the Telecom Italia network applied by the same Telecom Italia.

■ FEE CONCERNING EX 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 the 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 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.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

Moreover, in March 2003, Telecom Italia and TIM brought suit, always before the TAR of Lazio, to obtain the restitution of the concession fee relating to the year 1998 (paid in 1999) and equal to a total of euro 529 million, of which euro 386 million relates to the Parent Company and euro 143 million to TIM. The request is founded upon the illegitimacy of the provisions of article 21 of D.P.R. 318/97, which kept the fee in force even after the EU Directive 97/13 came into effect and the term expired for its introduction into Italian Law.

■ DISPUTE CONCERNING RESOLUTION 399/02

On March 3, 2003, the National Regulatory Agency and Wind were notified of the appeal presented to the TAR against Resolution 399/02/CONS regarding the "Current cost accounting guidelines for notified operations of wireline and wireless networks" which constitutes the presupposition for establishing the prices to be applied to operators which ask to use the network.

Telecom Italia has contested the part of the resolution in which the National Regulatory Agency establishes that the current cost method, adopted to replace the historical cost method, should not be applied equally to the copper network, that is, the so-called "access network", for which the National Regulatory Agency has reserved the right to make future judgement and with reference to which it should continue, therefore, to apply the historical cost method.

■ DISPUTE CONCERNING THE NATIONAL REGULATORY AGENCY RESOLUTIONS 02/03/CIR AND 03/03/CIR

On April 14, 2003, Telecom Italia challenged the National Regulatory Agency Resolution 02/03/CIR ("Valuation and request to change the rates of reference for 2002 by Telecom Italia") and Resolution 03/03/CIR ("Criteria for the preparation of the rates of reference for 2003 by introducing a programmed system to adjust the maximum applicable rates").

In particular, the dispute concerns (i) the improper reduction of the prices for interconnection service proposed by Telecom Italia for the year 2002, which would derive from the application – with retroactive effect – of a new criteria for the distribution of costs, considered to be unjustifiable from an economic standpoint, and (ii) the obligation to present the rates of reference for 2003 in a very short time-frame (30 days) on the basis of criteria that were never discussed during the preliminary discussions.

■ EXPENSE COMPENSATION TO THE MINISTRY OF DEFENSE FOR THE LIBERATION OF THE 900 MHZ BAND FREQUENCY

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 in approx. euro 52 million for the four-year period 1998-2001, charging such expenses 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. In the meantime, the amounts corresponding to the contested expenses have been provided in the financial statements.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

■ 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 find on 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 thus 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's revenues from incoming traffic; later in November 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 compensation for damages of some euro 140 million on the part of Mobitel and some euro 890 million on the part of Stet Hellas and Telecom Italia.

■ 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. Such damages would have resulted from, (i) in the case of the SMP auction, the impossibility of Brasil Telecom being able to take part in the auction itself owing to the alleged restrictions placed by the directors nominated by Telecom Italia International, under the supposition of favoring the subsidiaries of TIM to be awarded the licenses, and, (ii) in the case of CRT, the alleged abuse by Telecom Italia and Telecom Italia International, responsible – as stated by the counterparty – for having interfered with the negotiation for the purchase of the company by Brasil Telecom and in the determination of the relative price.

As of today's date, no action has as yet been taken on the determination of the value of the suit on the part of the judge, after the conclusion of the incidental appeal proposed by Telecom Italia International. The first hearing was held on August 6, 2002 and the case is currently in the preliminary stage.

■ CHASE MANHATTAN BANK DISPUTE

On April 5, 2002, the magistrate 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 to exclude Telecom Italia by the magistrate was appealed by Chase, which also sued Iridium Italia S.p.A., in liquidation, a 30%-owned affiliate of Telecom Italia (with the remaining stake divided equally between TIM and Telespazio), and direct shareholder of Iridium LLC.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

■ TIM PCS 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 approx. 18.3% of the capital of Solpart by Telecom Italia International to Techold and Timepart, as well as the administrative order connected thereto, BCP brought – before the Brazilian Federal Court – ordinary action against ANATEL, the Brazilian regulatory agency for telecommunications, to obtain the nullification of the awarding of the PCS frequencies to the Brazilian subsidiaries of TIM. The relative judgement is still pending as of today's date.

During the first quarter of 2003, Maxitel S.A., a Brazilian subsidiary of TIM Brasil, obtained the revocation of a preliminary order issued by the Pernambuco Court (Recife, Brazil). Such order was obtained through a so-called *ação popular* aimed at protesting the validity of certain permits granted by ANATEL. As for the merits of the proceedings, currently, in order to proceed at least one of parties must taken action.

■ IS TIM

On March 31, 2003, a request for arbitration was filed with the International Chamber of Commerce of Paris by the Turkish subsidiary IS Tim against the local telecommunications regulatory agency in order to find on the violation of the concession granted in October 2000 wherein it is stated that the agency has the obligation to create and maintain market conditions such as to permit effective competition among the providers.

IS TIM has asked for compensation of damages from the agency that are provisionally quantifiable in U.S. \$2.5 billion and to be decided during the course of the case. Moreover, the company has expressly stated that it will ask, at some future date, for the resolution of the concession contract and the consequent restitution of the price that was once paid. The arbitration, governed by Turkish legislation, will be conducted in Istanbul.

■ ARGENTINA

On April 24, 2003, Telecom Italia filed a notice with the relevant Argentine authorities for the formal start of proceedings to resolve the disputes which arose between the foreign investor (Telecom Italia, in this case) and the Argentine State, pursuant to the "Bilateral agreement between Italy and Argentina concerning the promotion and protection of investments". The proceedings are aimed at receiving compensation for the damages deriving from the emanation, on the part of the local government, of measures considered to be detrimental to the investment made in Telecom Argentina.

In particular, the notice is required in order to start the six-month period in which to effect an attempt at an amicable settlement. If no decision is reached during this period, Telecom Italia will have the right to start specific arbitration proceedings.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

■ TELEKOM SRBIJA

At the end of May 2003, OTE, a Greek telecommunications company, presented Telecom Italia with two arbitration requests relating, respectively, to the shareholder agreement signed June 9, 1997 and the bilateral agreement reached between Telecom Italia and OTE on June 4, 1997, inferring the violation of such agreements, owing to the sale of the 29% stake held in Telekom Srbija to PTT Serbia by Telecom Italia. OTE specifically protests that, as a result of this sale, Telecom Italia (i) would have violated the preemptive right to which it was entitled according to the aforementioned agreement of June 4, 1997 (a right, however, that was subject to the consent of the Serbian government which, in this case, was denied), (ii) would not have proceeded to fully pay the percentage of management fees to which it was entitled and which was referred to in the technical assistance contract mentioned in the above June 4, 1997 agreement and (iii) would have violated the shareholder agreement in that, according to the same OTE, Telecom Italia would not have been able to sell its investment without the consent of the other shareholders. OTE also presented two requests for arbitration to PTT Serbia, although for different reasons. OTE has not yet proceeded to appoint its arbitrator and has asked the consent of the other parties involved in the action to proceed to appoint just one competent arbitration board to judge all the various disputes.

Under the sale agreements, PTT Serbia assented to relieve Telecom Italia of every responsibility with regard to OTE resulting from the shareholder agreement of June 9, 1997, the technical assistance agreement and any other contract related thereto.

■ DIGITEL DISPUTE

In 2002, Digitel, whose share capital is 67.12% held by Tim International, posted an operating loss equal to around 120% of its share capital as result of the decline in value of the Venezuelan currency against the U.S. dollar. According to Venezuelan legislation, the resulting balance sheet would require the wind-up of the company whenever – once the loss is ascertained and the balance sheet is approved – the shareholders decide not to cover the losses. According to the same law, the losses can be covered by contributions from the shareholders without touching the share capital. The shareholders that do not contribute pro-rata to the absorption of the losses would be forced to withdraw by way of the reimbursement of their investment in proportion to the percentage of shareholders' equity resulting from the most recent approved financial statements. In the case of Digitel, since shareholders' equity shows a negative balance, the dissenting shareholders would lose their investment.

During the period between March and June 2003, in order to avoid participating in the coverage of the losses and at the same time not lose their investment, the minority shareholders IBMS LLC, Togewa Swissnet Holding A.G., Triangle Investment C.V. and Norconsult Telematics LTD brought certain legal action before the Venezuelan Jurisdictional Authorities against Digitel and TIM International so as to obtain the annulment of the resolutions approving the 2002 financial statements and the issue of emergency measures aimed at preventing the coverage of the losses. The minority shareholder Togewa, on the basis of the losses resulting from such financial statements, also requested that the company be put into a wind-up.

Between May and June 2003, the Venezuelan Courts denied certain of the appeals presented by the minority shareholders and revoked the precautionary procedures previously issued.

1 SUMMARY DATA AND GENERAL INFORMATION	19 ECONOMIC AND FINANCIAL PERFORMANCE GROUP
19 REPORT ON OPERATIONS >>	32 ECONOMIC AND FINANCIAL PERFORMANCE T.I. S.P.A.
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	42 SUBSEQUENT EVENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	45 BUSINESS OUTLOOK
219 IND. AUDITOR'S REPORT OTHER INFORMATION	46 RELATED PARTY TRANSACTIONS
	48 ECO. AND FIN. PERFORMANCE T.I. B.U./O.A.
	92 SUSTAINABILITY SECTION

On June 6, 2003, the annual Shareholders' Meeting approved – with a nay vote by the minority shareholders attending the meeting – the financial statements relating to the year 2002 and the absorption of the losses. On the same date, TIM International paid its share to cover the losses by contributing a financial receivable from Digitel of some U.S. dollars 45 million.

Moreover, there is a arbitration proceeding before the International Chamber of Commerce (ICC) since May 2003 between TIM International and the shareholder Digitel Venconsul in which the two parties have reciprocally inferred certain breaches in the shareholder agreements currently in force regarding Digitel.

On May 26, 2003 the Venezuelan Jurisdictional Authorities banned Venconsul from proceeding with the share transfer and banned Digitel from recording a similar transaction on its corporate books. On July 9, 2003, the precautionary measure was revoked and on July 10, 2003 TIM International filed an appeal.



consolidated financial statements at June 30, 2003

Telecom Italia Group



1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

■ CONSOLIDATED BALANCE SHEETS

ASSETS

(in millions of euro)

	6/30/2003 ⁽¹⁾		12/31/2002 ⁽²⁾		6/30/2002 ⁽²⁾	
RECEIVABLES FROM SHAREHOLDERS FOR CAPITAL CONTRIBUTIONS						
- PORTION CALLED IN						
- PORTION NOT CALLED IN		4		3		1
TOTAL RECEIVABLES FROM SHAREHOLDERS FOR CAPITAL CONTRIBUTIONS		4		3		1
INTANGIBLES, FIXED ASSETS AND LONG-TERM INVESTMENTS						
- INTANGIBLE ASSETS						
Start-up and expansion costs		62		83		102
Industrial patents and intellectual property rights		1,437		1,269		1,163
Concession, licenses, trademarks and similar rights		4,012		3,995		4,302
Goodwill		15		17		38
Differences on consolidation		31,651		27,877		30,657
Work in progress and advances to suppliers		697		832		672
Other intangibles		303		339		382
TOTAL INTANGIBLE ASSETS		38,177		34,412		37,316
- FIXED ASSETS						
Land and buildings		2,208		2,245		3,005
Plant and machinery		13,994		14,958		15,764
Manufacturing and distribution equipment		61		60		70
Other fixed assets		642		691		620
Construction in progress and advances to suppliers		1,832		1,495		1,169
TOTAL FIXED ASSETS		18,737		19,449		20,628
- LONG-TERM INVESTMENTS						
Equity investments in:						
unconsolidated subsidiaries		7		19		31
affiliated companies		1,099		2,101		3,844
other companies		590		456		386
Total equity investments		1,696		2,576		4,261
Advances on future capital contributions						1,486
Accounts receivable:	(*)		(*)		(*)	
unconsolidated subsidiaries	14	14	5	5		
affiliated companies	10	443	2	451	10	12
other receivables	94	303	71	317	80	325
Total accounts receivable	118	760	78	773	90	337
Other securities		15		304		154
Treasury stock (total par value of euro 56 million at 6/30/2003)		393		393		393
TOTAL LONG-TERM INVESTMENTS		2,864		4,046		6,631
TOTAL INTANGIBLES, FIXED ASSETS AND LONG-TERM INVESTMENTS		59,778		57,907		64,575
CURRENT ASSETS						
- INVENTORIES						
Raw materials and supplies		38		30		37
Work in progress and semifinished goods		25		27		32
Contract work in process		216		179		373
Finished goods and merchandise:						
finished goods		26		25		20
merchandise		329		321		374
Advances to suppliers		2		2		3
TOTAL INVENTORIES		636		584		839
- ACCOUNTS RECEIVABLE	(* *)		(* *)		(* *)	
Trade accounts receivable	12	8,349	1	8,120	4	8,462
Accounts receivable from unconsolidated subsidiaries		41		41		68
Accounts receivable from affiliated companies		124		214		376
Other receivables	2,248	8,891	2,065	8,360	630	5,621
TOTAL ACCOUNTS RECEIVABLE	2,260	17,405	2,066	16,735	634	14,527
- SHORT-TERM FINANCIAL ASSETS						
Equity investments in unconsolidated subsidiaries		169		169		163
Equity investments in affiliated companies		895				
Other equity investments		1		4		5
Other securities		2,296		1,927		2,707
Receivables for sales of securities		69		56		45
TOTAL SHORT-TERM FINANCIAL ASSETS		3,430		2,156		2,920
- LIQUID ASSETS						
Bank and postal accounts		5,940		4,363		2,613
Cash and valuables on hand		17		7		23
TOTAL LIQUID ASSETS		5,957		4,370		2,636
TOTAL CURRENT ASSETS		27,428		23,845		20,922
ACCRUED INCOME AND PREPAID EXPENSES						
Issue discounts and similar charges		268		299		313
Accrued income and other prepaid expenses		1,623		1,330		1,958
TOTAL ACCRUED INCOME AND PREPAID EXPENSES		1,891		1,629		2,271
TOTAL ASSETS		89,101		83,384		87,769

(1) Data takes into account the merger of Telecom Italia with and into Olivetti, withdrawals and the tender offer
(2) Historical data of the Olivetti Group

(*) Amounts due within one year
(**) Amounts due beyond one year

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

LIABILITIES AND SHAREHOLDERS' EQUITY

(in millions of euro)

	6/30/2003 ⁽¹⁾		12/31/2002 ⁽²⁾		6/30/2002 ⁽²⁾	
SHAREHOLDERS' EQUITY						
PARENT COMPANY INTEREST IN:						
- SHARE CAPITAL	8,846		8,845		8,796	
- SHARE CAPITAL INCREASES AWAITING REGISTRATION IN COMPANIES REGISTER UNDER ART. 2444 CIV. CODE					2	
- RESERVES FOR TREASURY STOCK IN PORTFOLIO OF THE PARENT COMPANY AND UNCONSOLIDATED SUBSIDIARIES	393		393		393	
- RESERVES AND RETAINED EARNINGS	5,723		3,175		3,247	
- NET INCOME (LOSS) FOR THE PERIOD	1,056		(773)		(511)	
TOTAL PARENT COMPANY INTEREST	16,018		11,640		11,927	
MINORITY INTEREST IN:						
- SHARE CAPITAL, RESERVES AND RETAINED EARNINGS	3,562		8,517		10,269	
- NET INCOME FOR THE PERIOD	536		467		1,100	
TOTAL MINORITY INTEREST	4,098		8,984		11,369	
TOTAL SHAREHOLDERS' EQUITY	20,116		20,624		23,296	
RESERVES FOR RISKS AND CHARGES						
Reserve for pensions and similar obligations	59		67		74	
Reserve for taxes						
for taxes	447		344		790	
for deferred taxes	160		40		204	
Total reserve for taxes	607		384		994	
Other reserves	5,431		5,375		3,085	
TOTAL RESERVES FOR RISKS AND CHARGES	6,097		5,826		4,153	
RESERVE FOR EMPLOYEE TERMINATION INDEMNITIES	1,376		1,364		1,450	
LIABILITIES						
Debentures	(* *)	25,970	(* *)	23,591	(* *)	22,368
Convertible debentures	5,677	7,394	7,401	7,401	8,448	8,461
Due to banks	1,572	4,782	1,850	5,776	2,492	7,767
Due to other lenders	569	1,205	866	1,970	1,479	2,513
Advances		454		270		273
Trade accounts payable	12	5,289	13	5,670	22	5,220
Notes payable				241		220
Accounts payable to unconsolidated subsidiaries		20		16		22
Accounts payable to affiliated companies	18	205	24	649	441	688
Taxes payables	9	1,416	29	927	35	1,732
Contributions to pension and social security institutions	1,020	1,204	1,102	1,359	1,238	1,478
Other liabilities	52	10,103	49	4,560	170	4,806
TOTAL LIABILITIES	34,899	59,168	34,925	53,243	36,693	56,654
ACCRUED EXPENSES AND DEFERRED INCOME						
Issue premiums	42		37			
Accrued expenses and deferred income	2,302		2,290		2,216	
TOTAL ACCRUED EXPENSES AND DEFERRED INCOME	2,344		2,327		2,216	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	89,101		83,384		87,769	

(1) Data takes into account the merger of Telecom Italia with and into Olivetti, withdrawals and the tender offer

(2) Historical data of the Olivetti Group
(**) Amounts due beyond one year

MEMORANDUM ACCOUNTS

(in millions of euro)

	6/30/2003 ⁽¹⁾	12/31/2002 ⁽²⁾	6/30/2002 ⁽²⁾
GUARANTEES PROVIDED			
Sureties:			
on behalf of unconsolidated subsidiaries	7	82	96
on behalf of affiliated companies	779	784	1,070
on behalf of others	241	267	324
Total sureties	1,027	1,133	1,490
Endorsements:			
on behalf of others	0	0	-
Other guarantees:			
on behalf of unconsolidated subsidiaries	1	0	0
on behalf of affiliated companies	0	10	30
on behalf of others	90	84	26
Total other guarantees	91	94	56
TOTAL GUARANTEES PROVIDED	1,118	1,227	1,546
COLLATERAL PROVIDED			
For obligations of others, of affiliated companies	115	110	150
For own obligations, not including liabilities	2	1	2
TOTAL COLLATERAL PROVIDED	117	111	152
PURCHASES AND SALES COMMITMENTS	2,796	3,124	5,070
OTHER MEMORANDUM ACCOUNTS	101	93	290
TOTAL MEMORANDUM ACCOUNTS	4,132	4,555	7,058

(1) Data takes into account the merger of Telecom Italia with and into Olivetti, withdrawals and the tender offer

(2) Historical data of the Olivetti Group

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

■ CONSOLIDATED STATEMENTS OF INCOME

(in millions of euro)

	1st Half 2003 ⁽¹⁾	1st Half 2002 ⁽²⁾	Year 2002 ⁽²⁾
PRODUCTION VALUE			
Sales and service revenues	15,149	15,543	31,408
Changes in inventories of work in progress, semifinished and finished goods	7	(4)	(8)
Changes in inventory of contract work in process	25	9	(42)
Increases in capitalized internal construction costs	330	247	675
Other revenue and income:			
operating grants	8	5	20
other	162	269	484
Total other revenue and income	170	274	504
TOTAL PRODUCTION VALUE	15,681	16,069	32,537
PRODUCTION COST			
Raw materials, supplies and merchandise	878	983	2,115
Semifinished and finished goods	78	114	200
Services	4,715	4,653	9,407
Use of property not owned	577	557	1,166
Personnel:			
wages and salaries	1,598	1,764	3,410
social security contributions	478	517	1,008
termination indemnities	105	118	218
other costs	48	50	101
Total personnel cost	2,229	2,449	4,737
Amortization, depreciation and writedowns:			
amortization of intangible assets	1,554	1,614	3,419
depreciation of fixed assets	1,803	1,947	3,808
other writedowns of intangibles and fixed assets	2	2	58
writedowns of receivables included in current assets and liquid assets	200	233	546
Total amortization, depreciation and writedowns	3,559	3,796	7,831
Changes in inventory of raw materials, supplies and merchandise	(24)	(4)	12
Provisions for risks	61	85	114
Other provisions	10	34	57
Miscellaneous operating costs	317	415	840
TOTAL PRODUCTION COST	12,400	13,082	26,479
OPERATING INCOME	3,281	2,987	6,058
FINANCIAL INCOME AND EXPENSE			
Income from equity investments:			
dividends from unconsolidated subsidiaries	2	29	46
dividends from other companies	3	2	0
other income from equity investments	2	3	11
Total income from equity investments	7	34	57
other financial income			
from accounts receivable included in long-term investments:			
affiliated companies	10	0	1
other	8	7	16
Total from accounts receivable included in long-term investments	18	7	17
from securities, other than equity investments, included in long-term investments	0	4	4
from securities, other than equity investments, included in current assets	77	90	234
other income:			
interest and fees from unconsolidated subsidiaries	0	1	1
interest and fees from affiliated companies	2	5	12
interest and fees from others and miscellaneous income	349	534	1,244
Total other income	351	540	1,257
Total other financial income	446	641	1,512
Interest and other financial expense:			
interest and fees paid to affiliated companies	(18)	(14)	(24)
interest and fees paid to others and miscellaneous expense	(1,625)	(1,992)	(3,838)
Total interest and other financial expense	(1,643)	(2,006)	(3,862)
TOTAL FINANCIAL INCOME AND EXPENSE	(1,190)	(1,331)	(2,293)

(1) Data takes into account the merger of Telecom Italia with and into Olivetti, withdrawals and the tender offer

(2) Historical data of the Olivetti Group

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

(in millions of euro)

	1st Half 2003 ⁽¹⁾	1st Half 2002 ⁽²⁾	Year 2002 ⁽²⁾
VALUE ADJUSTMENTS TO FINANCIAL ASSETS			
Upward adjustments:			
of equity investments	30	82	121
of securities, other than equity investments, recorded in current assets	3	0	0
Total upward adjustments	33	82	121
Writedowns:			
of equity investments	(114)	(410)	(690)
of long-term investments, other than equity investments	0	(20)	(40)
of securities, other than equity investments, included in current assets	(2)	(111)	(176)
Total writedowns	(116)	(541)	(906)
TOTAL VALUE ADJUSTMENTS	(83)	(459)	(785)
EXTRAORDINARY INCOME AND EXPENSE			
Income:			
gains on disposals	46	860	2,553
miscellaneous	134	344	437
Total income	180	1,204	2,990
Expense:			
losses on disposals	(6)	(18)	(236)
prior years' taxes	(30)	(2)	(8)
provisions and writedowns of equity investments	(253)	(367)	(6,584)
miscellaneous	(595)	(579)	(1,658)
Total expense	(884)	(966)	(8,486)
TOTAL EXTRAORDINARY ITEMS	(704)	238	(5,496)
INCOME (LOSS) BEFORE TAXES	1,304	1,435	(2,516)
Income taxes:			
current taxes	(961)	(1,456)	(1,585)
deferred taxes	1,249	610	3,795
Total income taxes	288	(846)	2,210
NET INCOME (LOSS) BEFORE MINORITY INTEREST	1,592	589	(306)
Minority interest	(536)	(1,100)	(467)
NET INCOME (LOSS) FOR THE PERIOD	1,056	(511)	(773)

- (1) Data takes into account the merger of Telecom Italia with and into Olivetti, withdrawals and the tender offer
(2) Historical data of the Olivetti Group

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

■ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

INTRODUCTION

The consolidated financial statements for the six months ended June 30, 2003 have been prepared in accordance with art. 81 and Annex 3C-bis of Consob Resolution No. 11971 dated May 14, 1999, and subsequent amendments, and the provisions of the Italian Civil Code relating to consolidated financial statements.

The consolidated statement of cash flows, although presented in the Report on Operations, constitutes an integral part of the consolidated financial statements and these Notes to the consolidated financial statements.

Reclassifications made to certain captions of the consolidated data have also been made, for comparative purposes, to the data for the first half of 2002 and at December 31, 2002.

As stated in the Report on Operations, the figures for the first half of 2003 presented in the consolidated financial statements and in the related Notes take into account the effects – as from January 1, 2003 for accounting and tax purposes – of the merger by incorporation of Telecom Italia S.p.A. with and into Olivetti S.p.A. (subsequently renamed Telecom Italia S.p.A.), and of the following related transactions:

- the exercise by the Olivetti shareholders of the right of withdrawal;
- the voluntary partial tender offer by Olivetti for the ordinary and savings shares of the Merged Company.

Following these transactions, it should however be pointed out that the data for the first half of 2003 is nevertheless comparable to the data for the previous periods under comparison since the Merged Company was already consolidated on a line-by-line basis.

The Notes to the consolidated financial statements also disclose the impact on consolidated net equity at December 31, 2002, in terms of the difference in the split between the Parent company interest and Minority interest, had effect been given to the merger as from that date, excluding, however, the effects of the tender offer and the exercise of the right of withdrawal.

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 June 30, 2003 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.

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 the Parent company exercises a significant influence, have been accounted for using the equity method. The following changes have taken place in the scope of consolidation:

Since June 30, 2002:

- added to the scope of consolidation: Agrisian S.c.p.a, Blu S.p.A., Epiclink S.p.A., Fmp Italy 1 S.r.l. (former Ireos, in liquidation), Latin American Nautilus Bolivia S.r.l., Latin American Nautilus Colombia Ltda, Latin American Nautilus Mexico S.A. and Netesi S.p.A., Telenergia S.p.A.;
- eliminated from the scope of consolidation:
 - for *Internet and Media*: Data House Group, Is Products S.p.A., Incas Production S.r.l. and other minor companies;
 - for *South America*: Industrias Telepuertos Nicaraguenses S.A.;
 - for *IT Market*: Consiel S.p.a, Sogei S.p.A. and Sogei Servizi Innovativi e Tecnologici S.p.A.;
 - for *IT Group*: Sodalía North America Inc. and Teco Soft Espana S.A.;
 - for *"Other Activities"*: 9 Telecom Group, Telespazio Group, Emsa S.p.A., Immsi S.p.A., Telimm S.p.A., Est Erogazione Servizi e Tecnologie S.p.A., Global Gaming Investments S.p.A., Emmegiesse S.p.A. and Tele Pay Roll Services S.p.A..

Since December 31, 2002:

- added to the scope of consolidation: Fmp Italy1 S.r.l. (former Ireos, in liquidation), Latin American Nautilus Mexico S.A. and Telenergia S.p.A.;
- eliminated from the scope of consolidation:
 - for *Internet and Media*: Is Products S.p.A. and Incas Production S.r.l.;
 - for *IT Group*: Sodalía North America Inc.;
 - for *"Other Activities"*: Est Erogazione Servizi e Tecnologie S.p.A., Global Gaming Investments S.p.A., Emmegiesse S.p.A. and Tele Pay Roll Services S.p.A..

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

At June 30, 2003, 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	89	179	268				268
- valued by the equity method	2	7	9	33	36	69	78
- valued at cost	23	24	47	33	11	44	91
Total companies	114	210	324	66	47	113	437

■ SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the financial statements for the first six months of 2003 are consistent – with the exception of certain adjustments and adaptations required by the nature of the half-year disclosures, as illustrated below – with those used in the preparation of the annual consolidated financial statements.

In particular :

- beginning from the first half of 2003, the method of calculating the amortization charge of certain intangible assets has been changed by aligning the amortization starting date to the date the asset actually came into use. That change, which improves the comprehensibility and comparability of the figures, has resulted in a decrease in the amortization charge for intangible assets of approximately euro 40 million;
- during the first half of 2003, the residual period of benefit of the unamortized difference on consolidation which resulted from the acquisition of the controlling interest in Telecom Italia by Olivetti in 1999 was revisited. Specifically, the residual period of benefit of this difference on consolidation was extended from 16.5 years to 20 years beginning from January 1, 2003. This extension aligns the residual period of benefit of the difference on consolidation to the period of benefit (20 years) determined on the additional difference on consolidation that emerged following both the tender offer launched by Olivetti for the ordinary and savings shares of Telecom Italia (which ended in July 2003), and the reclassification, from current to long-term, of the shares held by Olivetti in the former Telecom Italia which were subsequently cancelled as a result of the merger.

This change in the period of benefit of the residual difference on consolidation resulted in a decrease in the amortization charge of euro 113 million;

- in the six-month consolidated financial statements, the current income taxes of individual consolidated companies, along with deferred taxes, are recorded under the "Reserve for taxes" in "Reserves for risks and charges". Income taxes of individual consolidated companies for the six-month period are calculated on the basis of the estimated tax rate for 2003;
- in the six-month consolidated financial statements of the Parent company, Telecom Italia, the employee benefit obligations, as required by Law No. 58/1992, are accounted for on a cash basis, except for those related to the former ASST employees, whereas in the consolidated financial statements of the Telecom Italia Group they were recorded as liabilities for contributions to pension and social security institutions when the difference on consolidation was determined at the time of the acquisition – by Olivetti – of the controlling interest in Telecom Italia in 1999.

Furthermore, for subsidiaries and affiliates which use inflation accounting to eliminate distorting effects on the results for the period, the statements of Income have been translated at the period-end exchange rates instead of at the average rates. The companies in the Group which apply inflation accounting principles are Corporacion Digital C.A. (Venezuela), Finsiel Romania S.r.l. (Romania), Mediterranean Nautilus Telekomunikasyon Hizmetleri Ticaret A.S. (Turkey), and the affiliate IS Tim Telekomunikasyon Hizmetleri A.S. (Turkey).

The exchange rates used are those presented in "Other information".

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

■ CONSOLIDATED BALANCE SHEETS - ASSETS

INTANGIBLES, FIXED ASSETS AND LONG-TERM INVESTMENTS

■ INTANGIBLE ASSETS

euro 38,177 million

(euro 34,412 million at December 31, 2002)

Intangible assets increased by euro 3,765 million compared to December 31, 2002. A breakdown of the composition and the changes in this account are provided below:

(in millions of euro)	12/31/2002	Additions	Amortization	Other changes	6/30/2003
Start-up and expansion costs	83	2	(21)	(2)	62
Industrial patents and intellectual property rights	1,269	136	(446)	478	1,437
Concessions, licenses, trademarks and similar rights	3,995	32	(57)	42	4,012
Goodwill	17		(3)	1	15
Consolidation difference	27,877	4,583	(982)	173	31,651
Work in progress and advances to suppliers	832	357		(492)	697
Other intangibles	339	15	(45)	(6)	303
Total	34,412	5,125	(1,554)	194	38,177

■ Start-up and expansion costs

Start-up and expansion costs referred primarily to underwriting fees in connection with the transactions for the increase in share capital of the Merging Company, Olivetti.

■ 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 increased by euro 17 million. They referred to the Mobile BU for euro 3,489 million, principally for the residual unamortized cost of UMTS and PCS licenses (of which euro 2,432 million related to TIM), and to other Telecom Italia Group companies for euro 523 million, mainly for Indefeasible Rights Of Use - IRU.

■ Differences on consolidation

Differences on consolidation increased by euro 3,774 million compared to December 31, 2002 (net of amortization and writedowns) mainly due to investments of euro 4,583 million, of which euro 4,551 million related to the effect of the tender offer launched by Olivetti for the shares of the Merged Company, euro 21 million to the increase of the stake in TDL Infomedia by Seat Pagine Gialle and euro 11 million to investments in other minor companies.

Other changes included euro 250 million for the consolidation, preliminary to the above-mentioned merger, of the shares of the Merged Company recorded in current assets.

The remaining amount of euro 31,651 million referred to the difference on consolidation of euro 25,499 million related to the Merged Company, mainly to:

(in millions of euro)	6/30/2003
Seat Pagine Gialle	3,583
TIM	718
Entel Chile	710
Corporacion Digitel	256
TDL Infomedia	271
Holding Media e Comunicazione	155
Other companies	459
Total	6,152

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

■ Work in progress and advances to suppliers

Work in progress and advances to suppliers decreased by euro 135 million, compared to December 31, 2002, 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 period.

■ Other intangibles

Other intangibles, totaling euro 303 million (euro 339 million at December 31, 2002), referred mainly to leasehold improvements.

■ FIXED ASSETS

euro 18,737 million

(euro 19,449 million at December 31, 2002)

Fixed assets decreased by euro 712 million compared to the end of 2002. They are shown net of accumulated depreciation and writedowns. An analysis of fixed assets is provided in the following table:

(in millions of euro)	Owned assets			Leased assets			6/30/2003	12/31/2002
	Gross value	Accumulated depreciation	Net value	Gross value	Accumulated depreciation	Net value	Net book value	Net book value
Land and buildings	3,558	1,489	2,069	158	19	139	2,208	2,245
Plant and machinery	57,245	43,257	13,988	23	17	6	13,994	14,958
Manufacturing and distribution equipment	1,101	1,040	61				61	60
Other fixed assets	2,001	1,407	594	82	34	48	642	691
Construction in progress and advances to suppliers	1,832		1,832				1,832	1,495
Total	65,737	47,193	18,544	263	70	193	18,737	19,449

The gross value of fixed assets included euro 1,140 million of monetary revaluations made by the Italian companies.

The decrease in leased assets from euro 537 million at December 31, 2002 to euro 193 million is due to the early purchase of certain fixed assets from Teleleasing, during January 2003, by Telecom Italia and other Group companies.

A summary of the changes in fixed assets during the period is shown in the following table:

(in millions of euro)	1st half 2003	Year 2002
Opening balance	19,449	22,097
- Additions	1,181	3,291
- Disposals and contributions	(39)	(541)
- Depreciation for the period	(1,803)	(3,808)
- Change in the scope of consolidation	(3)	(313)
- Translation adjustment and other	(48)	(1,277)
Closing balance	18,737	19,449

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

Additions for the period amounting to euro 1,181 million (euro 1,359 million for the first half of 2002) decreased by euro 178 million compared to the first half of 2002. Details by Business Unit are as follows:

(in millions of euro)	1st half 2003	Year 2002
Wireline	774	747
Mobile	266	429
South America	54	119
Internet and Media	10	12
Information Technology Mercato	7	7
Information Technology Group	38	23
Olivetti-Tecnost	7	14
Other operations and intra-Group eliminations	25	8
Total	1,181	1,359

■ LONG-TERM INVESTMENTS

(euro 4,046 million at December 31, 2002)

euro 2,864 million

Long-term investments, which decreased by euro 1,182 million from December 31, 2002, comprised the following:

(in millions of euro)	6/30/2003	12/31/2002	Change
Equity investments in:			
- unconsolidated subsidiaries	7	19	(12)
- affiliated companies	1,099	2,101	(1,002)
- other companies	590	456	134
	1,696	2,576	(880)
Accounts receivable:			
- unconsolidated subsidiaries	14	5	9
- affiliated companies	443	451	(8)
- other receivables	303	317	(14)
	760	773	(13)
Other securities	15	304	(289)
Treasury stock	393	393	-
Total	2,864	4,046	(1,182)

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

■ Equity investments in affiliated companies

Equity investments in affiliated companies, amounting to euro 1,099 million, decreased by euro 1,002 million compared to December 31, 2002 chiefly due to the reclassification to short-term financial assets of the residual stake held in Telekom Austria and in Telekom Srbija, since they are earmarked for sale within twelve months.

Equity investments in affiliated companies refer to the following:

(in millions of euro)	12/31/2002	Additions	Disposals	Valuation using equity method (*)	Reclassifications	6/30/2003
Etec S.A.	467			(75)		392
GLB Serviços Interativos	13		(13)			-
IM.SER	12					12
IS Tim	-					-
Italtel Holding	43			(10)		33
LI.SIT - Lombardia Integrata		54				54
Mirror International Holding	94					94
Netco Redes	22			1		23
Solpart Participações	142				(142)	-
Sky Italia (ex Stream)	19	269		(179)		109
Telekom Austria	708				(708)	-
Telekom Srbija	187				(187)	-
Tiglio I	242			(4)		238
Tiglio II	74					74
Other	78	7	(5)	(10)		70
Total	2,101	330	(18)	(277)	(1,037)	1,099

(*) Includes the share of earnings or losses for the period, amortization of goodwill and adjustments on the translation of foreign currency financial statements.

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.

■ Accounts receivable from affiliated companies

Accounts receivable from affiliated companies mainly referred to loans made to IS Tim (euro 305 million), Tiglio I (euro 71 million), Tiglio II (euro 30 million), Telegono (euro 24 million) and other minor companies (euro 13 million). A specific reserve for risks was recorded in relation to the loans made to IS Tim to cover the risk of uncollectibility.

■ Other receivables

Other receivables included the revalued amount of the tax receivable from the prepayment of taxes on the reserve for employee severance indemnities (euro 84 million), loans to employees (euro 80 million), loans to other companies and security deposits (euro 139 million).

■ Other securities

Other securities decreased by euro 289 million from December 31, 2002, essentially due to the cancellation, upon the merger, of the ordinary and savings treasury stock held by the Merged Company (euro 287 million).

■ Treasury stock

Treasury stock referred to originally 214,628,828 Olivetti shares (now 101,208,867 Telecom Italia ordinary shares after the redistribution of the share capital), comprising 2,697,500 Olivetti shares (now 1,272,014 Telecom Italia shares) held by the Parent company, which had been purchased in previous years, and originally 211,931,328 Olivetti shares (now 99,936,853 Telecom Italia shares) held by Olivetti International S.A., which had been received in exchange for the shares of Tecnost S.p.A. following the merger by incorporation of Tecnost S.p.A. with and into Olivetti in 2000.

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

CURRENT ASSETS

■ INVENTORIES

euro 636 million

(euro 584 million at December 31, 2002)

Inventories included the following:

(in millions of euro)	6/30/2003	12/31/2002	Change
Raw materials and supplies	38	30	8
Merchandise	329	321	8
	367	351	16
Work in progress and semifinished goods	25	27	(2)
Finished goods	26	25	1
	51	52	(1)
Contract work in process	216	179	37
Advances to suppliers	2	2	
	218	181	37
Total	636	584	52

Inventories were held by companies providing telecommunications services for euro 225 million (euro 193 million at December 31, 2002), companies in the information systems sector for euro 197 million (euro 167 million at December 31, 2002), the Olivetti Tecnost group for euro 138 million and the Seat Pagine Gialle group and other minor companies for euro 76 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" inventories are in line with current costs.

■ ACCOUNTS RECEIVABLE

euro 17,405 million

(euro 16,735 million at December 31, 2002)

A breakdown of accounts receivable, which increased by euro 670 million, is provided below:

(in millions of euro)	6/30/2003	12/31/2002	Change
Trade accounts receivable	9,231	8,967	264
- allowance for doubtful accounts	(882)	(847)	(35)
Total trade accounts receivable	8,349	8,120	229
Accounts receivable from unconsolidated subsidiaries	41	41	
Accounts receivable from affiliated companies	124	214	(90)
Other receivables	8,891	8,360	531
Total	17,405	16,735	670

■ Trade accounts receivable

Gross trade accounts receivable totaled euro 9,231 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 4,298 million), TIM (euro 1,364 million) and the Seat Pagine Gialle Group (euro 1,019 million). The increase compared to December 31, 2002 is fundamentally attributable to the Parent Company (euro 194 million).

This caption also includes euro 492 million of receivables from other telecommunications carriers and euro 221 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 the second half of 2003.

Furthermore the following accounts receivable discounting and securitization transactions were carried out:

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

Securitization

The program for the securitization of trade accounts receivable generated by the services rendered to the clientele of Telecom Italia Wireline initiated during 2001 has continued into the first half of 2003.

During the first six months of 2003, the total amount of trade accounts receivable sold under the securitization program was equal to euro 4.6 billion and referred to Telecom Italia's receivables from residential customers. At June 30, 2003, receivables sold amounted to euro 913 million (of which euro 771 million was not yet due).

The securitization transaction led to a reduction in net financial debt of euro 881 million at June 30, 2003.

Furthermore, at June 30, 2003, Telecom Italia recorded financial payables of euro 210 million due to TI Securitisation Vehicle following the investment of excess temporary liquid resources by the latter in Telecom Italia.

Factoring

In the first half of 2003, Telecom Italia, TIM and Olivetti Tecnost sold trade accounts receivables without recourse for a total of euro 1,552 million.

These factoring transactions led to a reduction in net financial debt at June 30, 2003 of euro 15 million.

■ Accounts receivable from unconsolidated subsidiaries

Accounts receivable from unconsolidated subsidiaries included loans of euro 30 million and trade accounts receivables and other receivables from subsidiaries of euro 11 million.

■ Accounts receivable from affiliated companies

Accounts receivable from affiliated companies of euro 124 million decreased by euro 90 million and referred to trade and other receivables. The most significant amounts related to Sky Italia (former Stream) (euro 63 million, written down by euro 55 million), Telekom Srbija (euro 23 million) and Teleleasing (euro 39 million).

■ Other receivables

Other receivables of euro 8,891 million (euro 8,360 million at December 31, 2002) included the following:

- financial receivables of euro 708 million (euro 960 million at December 31, 2002), mainly by Telecom Italia for the deferred portions on the accounts receivable discounting transactions (euro 362 million) and Olivetti Finance for the "loan of securities" made on the company's own notes (euro 300 million)
- other receivables totaling euro 8,183 million (euro 7,400 million at December 31, 2002), which referred to the following:

(in millions of euro)	6/30/2003	12/31/2002
Customer payments in transit	102	98
Due from the Tax Administration	1,719	2,092
Deferred tax assets	5,425	4,190
Employees	78	95
Other receivables (from the Government, other public entities and items) in transit	859	925
Total	8,183	7,400

The increase in deferred tax assets was mainly due to the posting of additional deferred tax assets, compared to those already recorded by Olivetti in the 2002 financial statements as a result of the writedown, solely for tax purposes, of the shares of the Merged Company which became recoverable thanks to the merger of the two companies.

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

■ SHORT-TERM FINANCIAL ASSETS

euro 3,430 million

(euro 2,156 million at December 31, 2002)

This item, which increased by euro 1,274 million compared to December 31, 2002, included the following:

(in millions of euro)	6/30/2003	12/31/2002	Change
Equity investments in unconsolidated subsidiaries	169	169	-
Equity investments in affiliated companies	895	-	895
Other equity investments	1	4	(3)
Other securities	2,296	1,927	369
Receivables for sales of securities	69	56	13
Total	3,430	2,156	1,274

Equity investments in unconsolidated subsidiaries mainly referred to listed shares purchased for trading.

Equity investments in affiliated companies referred to the equity investments held in Telekom Austria (euro 708 million) and Telekom Srbija (euro 187 million) which were sold in July 2003.

Other securities consisted mainly of own notes held by Olivetti Finance and Olivetti International (euro 1,518 million), of other securities held by Olivetti International (euro 406 million), Telecom Italia Finance (euro 98 million), Olivetti Finance (euro 75 million), the Parent company (euro 37 million) and other companies (euro 25 million) and of bank certificates of deposit held by the Tele Nordeste Celular group (euro 137 million).

The carrying values of both equity investments and other securities approximate market value at year end.

An analysis of accounts receivable and accrued income by maturity and type is provided in Annex 1.

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

■ CONSOLIDATED BALANCE SHEETS LIABILITIES AND SHAREHOLDERS' EQUITY

SHAREHOLDERS' EQUITY

euro 20,116 million

(euro 20,624 million at December 31, 2002)

A breakdown of shareholders' equity is presented below:

(in millions of euro)	6/30/2003	12/31/2002	Change
Parent company interest	16,018	11,640	4,378
Minority interest	4,098	8,984	(4,886)
Total	20,116	20,624	(508)

Telecom Italia's interest in shareholders' equity increased by euro 4,378 million compared to December 31, 2002. The increase was mainly due to the merger by incorporation of Telecom Italia with and into Olivetti (euro 3,424 million) with a consequent reduction in the Minority interest, and to the income for the period (euro 1,056 million compared to losses of euro 773 million in 2002).

■ Share capital

The *share capital* of Telecom Italia amounted to euro 8,846 million (euro 8,845 million at December 31, 2002) and consisted of 10,287,061,839 ordinary shares and 5,795,921,069 savings shares, both with a par value of euro 0.55 each. The increase compared to the previous year is due to the conversion of convertible notes and the exercise of the Olivetti warrants (euro 12 million) net of withdrawals (euro 11 million).

The merger transaction did not have an impact on the share capital of the Merging Company as a result of the adoption of the mechanism for redistribution of the shares.

■ Reserve for treasury stock in the portfolio of the Parent company and unconsolidated subsidiaries

The *Reserve for treasury stock in the portfolio of the Parent company and unconsolidated subsidiaries* amounted to euro 393 million, which was unchanged from December 31, 2002. This item referred to 101,208,867 Telecom Italia ordinary shares of which 1,272,014 shares are held by the Parent company, having been purchased in previous years, and 99,936,853 shares belonging to Olivetti International S.A., having been received in exchange for the shares of Tecnost S.p.A. following the merger by incorporation of Tecnost S.p.A. with and into Olivetti in 2000.

■ Parent Company interest in reserves and retained earnings

The *Parent company interest in reserves and retained earnings* of euro 5,723 million increased by euro 2,548 million, due to the effect of the merger transaction, offset by the reduction for the absorption of losses for the year 2002.

This item includes the Parent company's own retained earnings and reserves, as well as the consolidated companies' retained earnings, inflation adjustment reserves and tax-suspended 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 the shareholders' equity and the net result for the period, and the changes in the components of consolidated shareholders' equity, are provided in Annexes 3 and 4.

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

RESERVES FOR RISKS AND CHARGES

euro 6,097 million

(euro 5,826 million at December 31, 2002)

These reserves increased by euro 271 million from December 31, 2002 and referred to the following:

■ Reserve for pensions and similar obligations

The *reserve for pensions and similar obligations*, amounting to euro 59 million (euro 67 million at December 31, 2002), included the reserve for agents' leaving indemnities and reserves for potential liabilities related to pension funds set up for the employees of certain foreign subsidiaries.

■ Reserve for taxes

The *reserve for taxes*, amounting to euro 607 million (euro 384 million at December 31, 2002), consisted of estimated tax liabilities on positions still to be agreed or in dispute and the taxes set aside in the period.

■ Other reserves

Other reserves, amounting to euro 5,431 million, increased by euro 56 million compared to December 31, 2002.

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 reserve for financial expenses related to the early exercise of put and call options with JP Morgan on Seat Pagine Gialle shares of euro 143 million in August;
- the reserve for the provisions related to the sale of Nuova Seat Pagine Gialle of euro 195 million;
- TIM's reserves totaling euro 850 million, set aside in 2002 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 1,122 million, of which euro 551 million derived from operating activities and euro 571 million were inherent to extraordinary accruals for contractual risks, in previous years and in the current year;
- the reserves for corporate restructuring of euro 260 million mainly related to employee cutbacks and layoffs, of which euro 222 million related to Telecom Italia;
- the reserves for the risks of technological revisions and future risks inherent to the regulatory framework of TIM for euro 441 million;
- the reserve of euro 158 million, relating to the financial expenses for the premium on the redemption of notes issued by Telecom Italia Finance;
- the reserve for the losses of subsidiaries and affiliates of euro 320 million.

RESERVE FOR EMPLOYEE TERMINATION INDEMNITIES

euro 1,376 million

(euro 1,364 million at December 31, 2002)

The *reserve for employee termination indemnities* increased by euro 12 million compared to December 31, 2002 and relates only to Italian Group companies.

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

LIABILITIES

(euro 53,243 million at December 31, 2002)

euro 59,168 million

A breakdown of liabilities, which increased by euro 5,925 million from December 31, 2002, is as follows:

(in millions of euro)	6/30/2003		12/31/2002	
	Financial payables	Trade accounts payable and other payables	Financial payables	Trade accounts payable and other payables
Debentures	27,096		24,404	
Convertible debentures	7,394		7,401	
Due to banks	4,782		5,776	
Due to other lenders	1,205		1,970	
Advances		454		270
Trade accounts payable	18	5,271	21	5,649
Notes payable			241	
Accounts payable to unconsolidated subsidiaries	14	6	8	8
Accounts payable to affiliated companies	37	168	398	251
Taxes payable	143	1,273	40	887
Contributions to pensions and social security institutions		1,204		1,359
Other liabilities	5,810	4,293	372	4,188
Total	46,499	12,669	40,631	12,612

■ Debentures

Notes totaled euro 27,096 million and increased by euro 2,692 million compared to December 31, 2002. Details are as follows

- notes issued by Telecom Italia Finance S.A. (originally Sogerim) 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 the Merged Company, Telecom Italia S.p.A. (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 end of 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 122 million;
- notes maturing between 2007 and 2023 issued by Entel Chile for a total of euro 197 million;
- notes maturing in 2004 issued by the TDL Infomedia Ltd group for a total of euro 108 million;
- notes issued by the Merged Company, Telecom Italia S.p.A., on February 1, 2002 for euro 2,500 million, divided into two tranches of euro 1,250 million each, at fixed interest rates, maturing on February 1, 2007 and February 1, 2012, respectively. 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 the Merged Company, Telecom Italia S.p.A., with headquarters in Italy, for euro 209 million;
- notes 1999-2009 issued by Olivetti International N.V. for euro 1,500 million with an annual fixed-rate coupon of 5% + a 0.15% step-up, maturing in February 2009;
- notes in Swiss Francs 1986-2046 issued by Olivetti International N.V. for CHF 100 million (euro 64 million) with an annual fixed-rate coupon of 5.625%, maturing in June 2046;
- notes 1999-2004 issued by Olivetti Finance N.V. (originally Olivetti International Finance N.V.) for euro 4,200 million with an annual fixed-rate coupon of 5 3/8% + a 0.45% step-up, maturing in July 2004;
- notes 2002-2005 issued by Olivetti Finance N.V. for euro 200 million with an annual floating rate coupon indexed to EONIA plus 1.45%, maturing in February 2005;

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

- notes 2002-2005 issued by Olivetti Finance N.V. for euro 500 million with a quarterly coupon indexed to the Euribor 3-month rate + 130 basis points. The noteholder has the option to extend the maturity for successive periods of 21 months, up to a total maximum of 10 years;
- notes 2002-2006 issued by Olivetti Finance N.V. for euro 1,100 million with a quarterly floating rate coupon plus a spread of 1.25%, maturing in January 2006;
- notes 2002-2007 issued by Olivetti Finance N.V. for euro 1,750 million with an annual fixed-rate coupon of 6.5%, maturing in April 2007;
- notes 2003-2008 issued by Olivetti Finance N.V. for euro 1,750 million with an annual fixed-rate coupon of 5.875%, maturing in January 2008;
- notes 1999-2009 issued by Olivetti Finance N.V. (originally Olivetti International Finance N.V.) for euro 2,350 million with an annual fixed-rate coupon of 6 1/8% + a 0.45% step up, maturing in July 2009;
- notes 2002-2012 issued by Olivetti Finance N.V. for euro 1,000 million with an annual fixed-rate coupon of 7.25%, maturing in April 2012;
- notes 2002-2032 issued by Olivetti Finance N.V. for Yen 20 billion (euro 146 million) with a six-month fixed-rate coupon of 3.55%, maturing in May 2032 (callable by the issuer annually beginning from the tenth year);
- notes 2002-2032 issued by Olivetti Finance N.V. for euro 250 million with an annual fixed-rate coupon of 7.77%, maturing in August 2032;
- notes 2003-2013 issued by Olivetti Finance N.V. for euro 850 million with an annual fixed-rate coupon of 6.875%, maturing in January 2013;
- notes 2003-2033 issued by Olivetti Finance N.V. for euro 800 million with an annual fixed-rate coupon of 7.75%, maturing in January 2033.

All of the above Olivetti Finance N.V. notes were issued under the Euro Medium Term Note (EMTN) program.

■ Convertible debentures

Convertible debentures totaled euro 7,394 million and decreased by euro 7 million compared to December 31, 2002. Details are as follows:

- notes issued in March 2001 by Telecom Italia Finance S.A. (originally Sogerim), 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. The spin-off transaction and the consequent disposal of the equity investment in the beneficiary company, Seat Pagine Gialle, did not result in any changes in the terms of the notes since their conditions allowed ample flexibility in the method of settlement. These are five-year notes and can be redeemed by the noteholders before maturity at the end of the third year after issue. The notes decreased by euro 536 million due to the purchase of own notes by Telecom Italia Finance which were subsequently cancelled;
- notes 2000-2005 issued by Olivetti Finance N.V. for euro 765 million, redeemable in new Telecom Italia ordinary shares, with the right of the issuer to pay off the amount due in cash, an annual fixed-rate coupon of 1% and a premium on redemption of 113.41% of the issue price, maturing in November 2005. Those notes, which, accordingly, result in a total liability of euro 868 million, are convertible into 165,871,787 shares (exercise price of approximately euro 4.61 per share). The annual yield upon maturity is 3.5% and the conversion will be at a rate of 216.825865 newly issued Telecom Italia shares for each euro 1,000 note held;
- notes 2001-2004 issued by Telecom Italia S.p.A. (originally Olivetti) for a face value of euro 1,267 million convertible into new Telecom Italia (originally Olivetti) shares, with an annual fixed-rate coupon of 1.5% and a premium on redemption of 105.07759% of the issue price (euro 2.6 per note), maturing in January 2004. Those debentures result in a total liability of euro 1,331 million. The annual yield upon maturity is 3.25% and the conversion will be at a rate of 0.471553 newly issued Telecom Italia shares for each note held;
- zero-coupon notes 2002-2004 issued by Olivetti Finance N.V. for euro 385 million maturing in March 2004. The debentures are convertible into 136,656,060 newly issued Telecom Italia ordinary shares (exercise price of euro 2.8174 per share), with the right of the issuer to pay off the amount due in cash;
- notes 2001-2010 issued by Telecom Italia S.p.A. (originally Olivetti) for a face value of euro 2.404 million convertible into Telecom Italia (originally Olivetti) shares, with an annual fixed-rate coupon of 1.5% and a premium on redemption of 118.37825% of the issue price, maturing in January 2010. Those debentures result in a total liability of euro 2,846 million. The annual yield upon maturity is 3.5% and the conversion will be at a rate of 0.471553 new Telecom Italia shares for each note held.

■ Due to banks

Due to banks, totaling euro 4,782 million (euro 5,776 million at December 31, 2002), were secured by collateral of euro 200 million, mainly referring to Maxitel. It should be pointed out that TIM pledged Digitel shares to guarantee a credit facility granted to Digitel.

■ Due to other lenders

Due to other lenders, totaling euro 1,205 million, decreased by euro 765 million compared to December 31, 2002. This caption refers mainly to payables for:

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

- a loan received by Seat Pagine Gialle (euro 300 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 210 million) and loans received by Telecom Italia from the Cassa Depositi e Prestiti (euro 284 million) ;
- a loan contract received by Olivetti International Finance N.V. from a Japanese investor, maturing on October 29, 2029, and originally set up in the form of notes (euro 174 million).

■ Advances

Advances, which totaled euro 454 million, increased by euro 184 million compared to December 31, 2002 mainly for the advances received for the sale of the investment in Telekom Srbija (euro 120 million). The balance includes euro 103 million of advances received from Consorzio Telcal.

■ Trade accounts payable

Trade accounts payable amounted to euro 5,289 million, and decreased by euro 381 million from December 31, 2002, mainly as a result of the reduction in payables by the Mobile BU (– euro 515 million).

This item also included euro 192 million of amounts due to other telecommunications operators. Furthermore, the Tim group pledged the Maxitel shares to guarantee the supply contract between Maxitel and Ericsson.

■ Notes payable

Notes payable at December 31, 2002 were nil following the reimbursement by Seat Pagine Gialle on June 30, 2003 of investment certificates underwritten by Seat Pagine Gialle Finance S.r.l. under Law 130/99 on securitization.

■ Accounts payable to affiliated companies

Accounts payable to affiliated companies, totaling euro 205 million, decreased by euro 444 million compared to December 31, 2002 mainly due to the early redemption, in January 2003, of certain financial lease contracts with Teleleasing.

They included financial payables for euro 37 million (euro 31 million due to Teleleasing) and trade accounts payable and other payables for euro 168 million including payables due to the Italtel group (euro 95 million), Siemens Informatica (euro 31 million) and Etec S.A. (euro 18 million).

■ Taxes payable

Taxes payable amounted to euro 1,416 million and increased by euro 452 million compared to December 31, 2002 mainly due to the VAT payable. Taxes payable included euro 132 million of income taxes payable, euro 1,141 million for indirect taxes and withholdings made by the companies as substitute taxpayers, euro 23 million for medium/long-term financial debt relating to the agreement reached with the Tax Administration over the assessments received in 2002 by Telecom Italia and euro 120 million for the residual liability deriving from the tax amnesty requested under Law No. 289 dated December 27, 2002.

■ Contributions to pensions and social security institutions

Contributions to pensions and social security institutions totaled euro 1,204 million and decreased by euro 155 million compared to December 31, 2002; they included amounts owed to social security and health institutions. This item includes euro 1,081 million payable to INPS for the remaining balance of the charges estimated pursuant to Law No. 58/1992, of which euro 593 million was assessed for employees of the former ASST and euro 488 million for the other employees of the Telecom Italia Group.

■ Other liabilities

Other liabilities, of euro 10,103 million, increased by euro 5,543 million compared to December 31, 2002. A breakdown is provided below:

- financial items payable totaled euro 5,810 million (euro 372 million at December 31, 2002), of which euro 5,285 million related to financing to cover the financial needs connected with the withdrawal and the tender offer, euro 300 million related to the transaction for the loan on securities carried out by Olivetti Finance and euro 161 million was for the residual liabilities of the Mobile BU on the UMTS licenses acquired in Italy and Greece.

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

- other liabilities, of euro 4,293 million (euro 4,188 million at December 31, 2002), were as follows:

(in millions of euro)	6/30/2003	12/31/2002
Customer-related items	1,443	1,604
Employee-related items	733	720
Telecommunications license fee	1,543	1,394
Other recurring and miscellaneous items (contra-entries for accrued costs, accrued interest expense at June 30 and payable the following period, sundry payables, etc.)	574	470
Total	4,293	4,188

In particular, customer-related items consisted of deposits paid by customers and pre-billed basic subscriber charges (mainly for July and August), as well as prepaid traffic. The item also included other liabilities for services to be performed by Seat Pagine Gialle (euro 221 million).

An analysis of liabilities and accrued expenses by maturity and type is provided in Annex 2.

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

■ MEMORANDUM ACCOUNTS

Memorandum accounts at June 30, 2003 totaled euro 4,132 million and decreased, compared to December 31, 2002, by euro 423 million.

Memorandum accounts are detailed as follows:

(in millions of euro)	6/30/2003	12/31/2002
Guarantees provided	1,118	1,227
Collateral provided	117	111
Purchases and sales commitments	2,796	3,124
Other	101	93
Total	4,132	4,555

■ GUARANTEES PROVIDED

Guarantees provided, net of counter-guarantees received of euro 508 million, totaled euro 1,118 million and mainly consisted of sureties provided by Telecom Italia and TIM on behalf of affiliated companies (of which euro 573 million was in the interests of IS Tim, provided for 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 117 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 period, respectively, of euro 2,553 million and euro 243 million, 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) on a total of 710,777,200 Seat Pagine Gialle shares. To guarantee the performance of the obligations relating to the put option on Seat Pagine Gialle shares, Telecom Italia Finance provided a guarantee (euro 2,102 million) in the form of a Direct Participation Letter of Credit to JPMorgan Chase Equity Limited. The put and call options on the sale of Seat Pagine Gialle shares were closed in advance on August 1, 2003;
- commitment by Seat Pagine Gialle (euro 34 million) to purchase 7,450,231 Seat Pagine Gialle shares and the remaining 0.27% stake in TDL Infomedia Ltd from the manager shareholders of TDL Infomedia Ltd;
- commitment by the Seat group (euro 5 million) to purchase the remaining 34% stake in OPS (which took place in July 2003) and the remaining 6.535% stake in Databank;
- commitment by Telecom Italia (euro 7 million) to purchase the remaining 14% stake in Epiclink from Pirelli and other shareholders;
- future operating lease obligations including the purchase option price (euro 50 million, of which euro 23 million refers to Teleleasing).

Sales commitments mainly included the Group's commitments for the sale of the investment in Telekom Srbija to PTT Serbia (euro 195 million) and for the sale of part of the investment in Euskaltel to BBK (euro 34 million), as well as the commitment of Giallo Voice Holding for the sale of 100% of OPS (the first 55% was sold during July).

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

Purchases and sales commitments included commitments by Telecom Italia International, for the same amount (euro 7 million), on the basis of which on July 8, 2003 the put option with Forthnet was exercised for the sale of the investment in Mediterranean Broadband Access against a capital increase by Forthnet reserved for Telecom Italia International.

Furthermore, there are commitments to purchase 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, described in the Report on Operations.

■ OTHER MEMORANDUM ACCOUNTS

Other memorandum accounts of euro 101 million referred mainly to third-party assets held by the individual consolidated companies, principally those in the information technology sector.

Furthermore:

- the consolidated companies of the Group issued weak letters of patronage totaling euro 222 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 223 million and consisted mainly of equipment leased to customers;
- collateral received amounted to euro 2 million;
- guarantees received amounted to euro 21 million;
- guarantees provided by others for obligations of Group companies, which consisted primarily of sureties to guarantee the proper performance of non-financial contractual obligations, totaled euro 711 million, of which euro 395 million referred to the Parent company and euro 98 million to Finsiel. They also comprised euro 207 million related to the surety policy issued by Fondiaria Assicurazioni S.p.A. in the interest of Agrisian on behalf of the guaranteed agency (MIPAF - Ministry of Agriculture and Forest Policies);
- the value of the shares of employees and private shareholders deposited on June 30, 2003 at the companies of the Group amounted to approximately euro 151 million;
- the total amount of Telecom Italia commitments at June 30, 2003 for lease obligations on buildings to be paid to IMSER 60, Tiglio I and Tiglio II on contracts of a duration of 9 to 21 years, was euro 4,103 million.

■ DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are used by the Telecom Italia Group to hedge exposure to interest rate and exchange rate risks.

Derivative contracts existing at June 30, 2003 are principally related to the management of debt positions, such as *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 into the functional currencies of the various subsidiaries of the Group.

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.

The same also applies to CIRSs which may 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.

■ Hedging exchange rate risks

At June 30, 2003, the companies of the Telecom Italia Group had exchange rate forward contracts and options for the purchase or sale of foreign currencies at pre-set exchange rates for an equivalent amount of euro 1,475 million, of which:

European Companies	Latin American Companies
euro 990 million	euro 485 million

Since the Latin American foreign exchange market is not a liquid market, hedging transactions are often carried out at earlier maturity dates which are then, from time to time, renewed for subsequent maturity dates.

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

For contracts to hedge exchange rate risks, the cost (or financial component, calculated as the difference between the spot exchange rate at the date stipulated by the contract and the forward exchange rate) is recorded in the statement of income, as "financial income/expense", on an accrued basis.

■ Hedging interest rate risks

At June 30, 2003, Group companies had contracts hedging financial liabilities recorded in the financial statements for a total principal equivalent amount of euro 16,730 million. The following table breaks this amount down between European companies and Latin American companies:

European Companies	Latin American Companies
euro 16,546 million	euro 184 million

At June 30, 2003, there were IRS and IRO transactions carried out by Seat Pagine Gialle, with a notional amount of euro 1.4 billion, which matured on July 1, 2003.

At June 30, 2003, there were CIRS transactions carried out by Telecom Italia (former Olivetti) with a notional amount of euro 174 million and IRS contracts carried out by Olivetti Finance N.V. for euro 145 million, contingent upon maintaining the loans "in bonis" of Telecom Italia (former Olivetti)

For derivative financial instruments hedging interest rate risk, the interest differential is recorded in the statement of income, as "financial income/expense", on an accrued basis.

■ Other hedging transactions

In addition to the derivative contracts for the management of debt exposure, at June 30, 2003 IRSs and CIRSs were in place at the subsidiaries Telecom Italia Finance, in Luxembourg, Tim Celular Sul, in Brazil, and Olivetti Finance, in The Netherlands, to hedge financial assets of approximately euro 1,846 million.

Telecom Italia (former Olivetti) had, at June 30, 2003, a contract hedging exchange rate risk on a term deposit in U.S. dollars, of approximately euro 35 million.

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

■ CONSOLIDATED STATEMENTS OF INCOME

■ SALES AND SERVICE REVENUES

euro 15,149 million

(euro 15,543 million in the first half of 2002)

Sales and service revenues amounted to euro 15,149 million and decreased by euro 394 million compared to the first half of 2002 (– 2.5 % compared to the first half of 2002). This decrease resulted from the fall in sales of Olivetti Tecnost and the elimination from the scope of consolidation, from July 1, 2002, of the 9Telecom group and Sogei, and, from October 1, 2002, of the Telespazio group, which were offset by the positive performance of the mobile and wireline telephone services. A breakdown by Business Unit is presented below:

(in millions of euro)	1st half 2003	1st half 2002	Change	
			Amount	%
Wireline	8,552	8,406	146	1.7
Mobile	5,534	5,185	349	6.7
South America	564	731	(167)	(22.8)
Internet and Media	863	871	(8)	(0.9)
IT Market	358	572	(214)	(37.4)
IT Group	465	408	57	14.0
Olivetti-Tecnost	332	486	(154)	(31.7)
	16,668	16,659	9	0.05
Other activities and Intra-Group eliminations	(1,519)	(1,116)	(403)	(36.1)
Consolidated Group revenues	15,149	15,543	(394)	(2.5)

Revenues from telecommunications services are shown gross of the amount due to other carriers of euro 2,268 million (euro 1,996 million for the first half of 2002).

FINANCIAL INCOME AND EXPENSE

– euro 1,190 million

(– euro 1,331 million in the first half of 2002)

Financial income and expense refers to the following items:

(in millions of euro)	1st half 2003	1st half 2002	Change
Income from equity investments	7	34	(27)
Other financial income	446	641	(195)
Interest and other financial expense	(1,643)	(2,006)	363
Total	(1,190)	(1,331)	141

■ Income from equity investments

Income from equity investments mainly included dividends from unconsolidated companies.

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

■ Other financial income

Other financial income of euro 446 million (euro 641 million for the first half of 2002), included the following:

(in millions of euro)	1st half 2003	1st half 2002	Change
Interest and capital gains on fixed-income securities	77	94	(17)
Interest and fees from:			
- unconsolidated subsidiaries		1	(1)
- affiliated companies	2	5	(3)
- banks	99	99	-
Foreign exchange gains	128	237	(109)
Other financial income	140	205	(65)
Total	446	641	(195)

■ Interest and other financial expense

Interest and other financial expense of euro 1,643 million (euro 2,006 million for the first half of 2002), included the following:

(in millions of euro)	1st half 2003	1st half 2002	Change
Interest and fees paid to:			
- affiliated companies	8	24	(16)
- banks	81	183	(102)
- suppliers and other lenders	55	84	(29)
Interest and other charges on note issues	871	887	(16)
Foreign exchange losses	151	513	(362)
Other financial expense	477	315	162
Total	1,643	2,006	(363)

The decrease in financial expense can mainly be ascribed to the decrease in financial indebtedness, even considering the provision of euro 143 million for the commitment to purchase put/call options on Seat Pagine Gialle shares.

EXTRAORDINARY INCOME AND EXPENSE

– euro 704 million

(euro 238 million in the first half of 2002)

Extraordinary income and expense showed a net expense balance of euro 704 million (a net income balance of euro 238 million for the first half of 2002), which included euro 180 million of income and euro 884 million of expense.

Extraordinary income of euro 180 million comprised:

- euro 46 million related to gains on the disposals of investments, fixed assets and business segments; in the first half of 2002 the gains totaled euro 860 million and derived from the disposals of the investments in Bouygues Decaux Telecom, Lottomatica, Mobilkom Austria and other minor companies;
- euro 134 million for prior period income and other extraordinary income (euro 344 million in the first half of 2002, of which euro 131 million was for prior period income arising from the recovery of accrued pre-amortization interest on expenses subject to Law 58/1992).

Extraordinary expense of euro 884 million comprised:

- euro 253 million for provisions and writedowns on investments (euro 367 million for the first half of 2002 related to the provisions recorded for the disposal of 9 Telecom), including :
 - euro 195 million for provisions related to the disposal of the Nuova Seat Pagine Gialle after the spin-off;
 - euro 47 million related to Epiclink both for the writedown of the difference on consolidation and for the commitment to purchase the remaining 14% of the share capital of the company following the start of the process to strategically reposition the company within the group, as well as euro 11 million for provisions related to the disposal of Netikos and other minor unconsolidated companies;

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

- euro 55 million for the provision related to the transaction with Pagine Italia after the agreement fell short for the purchase of the Pagine Utili business segment;
- euro 110 million for expenses connected with the merger of Telecom Italia with and into Olivetti mainly in relation to fees for the advisors, the legal and tax consultants and the experts and to bank charges;
- euro 69 million for expenses connected with the extraordinary investment transactions of which euro 57 million related to the sale of the Nuova Seat Pagine Gialle;
- euro 86 million (euro 355 million for the first half of 2002) of expenses and provisions for employee cutbacks and layoffs (of which euro 58 million was borne by the Parent company compared to euro 261 million for the first half of 2002);
- euro 43 million of expenses under Law 58/1992 to cover employees under the former fund "Telephone Employees Pension Fund" (FPT);
- euro 30 million of indirect duties and taxes of previous years for the portion of the cost of the tax amnesty not covered by the reserve for taxes;
- euro 93 million for the elimination of previous years' receivable balances;
- euro 56 million for the additional adjustment by the Parent Company for the estimated value of unused prepaid telephone cards following the start of technical data collection procedures;
- euro 83 million for prior period expenses and other extraordinary expenses and euro 6 million for losses on the sales of intangibles, fixed assets and long-term investments.

■ INCOME TAXES

euro 288 million

(– euro 846 million in 2002)

Current taxes were determined based on the best estimate possible in relation to the available information and on the reasonable projection of annual performance to the end of the tax period.

Income taxes showed a credit balance due to the effect of posting additional deferred tax assets of euro 1,286 million compared to those already recorded by Olivetti in the 2002 financial statements as a result of the writedown, solely for tax purposes, of the shares of the Merged Company which became recoverable thanks to the merger of the two companies.

OTHER INFORMATION

■ EMPLOYEES

At June 30, 2003, employees of the Group numbered 102,541 (106,620 at December 31, 2002). A breakdown of employees by Business Unit/Operating Activity is presented as follows:

	6/30/2003	12/31/2002	Change
Wireline	52,582	53,857	(1,275)
Mobile	18,963	18,702	261
Sud America	5,317	5,461	(144)
Internet and Media	7,505	7,715	(210)
IT Market	5,457	5,506	(49)
IT Group	4,443	5,039	(596)
Olivetti-Tecnost	3,036	4,527	(1,491)
Other activities	5,238	5,813	(575)
Total	102,541	106,620	(4,079)

The equivalent average number of salaried employees was 99,091 in the first half of 2003 (109,718 in the first half of 2002).

A breakdown by category follows:

	1st half 2003	1st half 2002
Executives	2,237	2,471
Middle management	6,429	7,366
Clerical staff	84,160	89,311
Technicians	6,265	10,570
Total	99,091	109,718

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

■ EXCHANGE RATES USED TO TRANSLATE FOREIGN CURRENCY FINANCIAL STATEMENTS

(currency/euro)	Period-end exchange rates (balance sheet items)			Average exchange rate for the period (statement of income items)		
	6/30/2003	12/31/2002	% Change	1st half 2003	1st half 2002	% Change
Europe						
Romanian leu	0.000026553	0.000028462	(6.7)	0.000026553	0.000029933	(11.3)
Pound sterling	1.442585113	1.537279016	(6.2)	1.458555155	1.608622215	(9.3)
Turkish lira	0.000000616	0.000000587	4.9	0.000000616	0.000000641	(3.9)
Hungarian forint	0.003750797	0.004232088	(11.4)	0.004044543	0.004107077	(1.5)
Russian rouble	0.028836178	0.029864127	(3.4)	0.028836178	0.035845891	(19.6)
Polish zloty	0.223338917	0.248694355	(10.2)	0.234086233	0.272672738	(14.2)
North America						
USA dollar	0.875120329	0.953561552	(8.2)	0.904977376	1.113709767	(18.7)
South America						
Venezuelan bolivar	0.000546950	0.000679659	(19.5)	0.000546950	0.000741088	(26.2)
Bolivian boliviano	0.114409800	0.127251881	(10.1)	0.119336014	0.158973161	(24.9)
Costa Rican colon	0.002197966	0.002520449	(12.8)	0.002330435	0.003181124	(26.7)
Peruvian nuevo sol	0.251797203	0.272368242	(7.6)	0.260071936	0.321931590	(19.2)
Argentinean peso	0.312540000	0.282955870	10.5	0.312540000	0.419792371	(25.5)
Chilean peso	0.001252857	0.001324391	(5.4)	0.001252107	0.001676591	(25.3)
Colombian peso	0.000310878	0.000334056	(6.9)	0.000311882	0.000485031	(35.7)
Brazilian real	0.304708044	0.269878582	12.9	0.279470906	0.456291808	(38.8)
Asia						
Hong Kong dollar	0.112220851	0.122277791	(8.2)	0.116038088	0.142673705	(18.7)
Israeli shekel	0.202433657	0.199782237	1.3	0.194453789	0.234621719	(17.1)

The following Annexes numbered 1 to 8 are an integral part of these notes.

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

■ ANNEX 1

ACCOUNTS RECEIVABLE AND ACCRUED INCOME BY MATURITY AND TYPE

	6/30/2003 Amount due				12/31/2002 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	14			14	5			5
Affiliated companies	10	415	18	443	2	449		451
Others	94	183	26	303	71	214	32	317
	118	598	44	760	78	663	32	773
Accounts receivable in current assets								
Other financial receivables from:								
Unconsolidated subsidiaries	30			30	23			23
Affiliated companies					12			12
Others	708			708	958	2		960
	738			738	993	2		995
Trade accounts receivables from:								
Customers	8,337	12		8,349	8,119	1		8,120
Unconsolidated subsidiaries	10			10	16			16
Affiliated companies	106			106	185			185
Others	122			122	88	2	8	98
	8,575	12		8,587	8,408	3	8	8,419
Other receivables from:								
Unconsolidated subsidiaries	1			1	2			2
Affiliated companies	18			18	17			17
Others	5,813	1,972	276	8,061	5,249	1,903	150	7,302
	5,832	1,972	276	8,080	5,268	1,903	150	7,321
Total accounts receivable	15,145	1,984	276	17,405	14,669	1,908	158	16,735
Accrued income	553			553	367			367

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

■ ANNEX 2

LIABILITIES AND ACCRUED EXPENSES BY MATURITY AND TYPE

	6/30/2003 Amount due				12/31/2002 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)								
Medium and long-term financial debt								
Debentures	1,126	14,773	11,197	27,096	813	14,035	9,556	24,404
Convertible debentures	1,717	2,832	2,845	7,394		4,549	2,852	7,401
Due to banks	971	1,527	45	2,543	1,290	1,846	4	3,140
Due to other lenders	410	317	252	979	615	596	270	1,481
Trade accounts payable		10		10	3	13		16
Notes payable					221			221
Accounts payable to affiliated companies	8	11	7	26	371	18	6	395
Taxes payable	32	5		37	18	14		32
Other liabilities	114	46		160	119	30	15	164
	4,378	19,521	14,346	38,245	3,450	21,101	12,703	37,254
Short-term financial debt								
Due to banks	2,239			2,239	2,636			2,636
Due to other lenders	226			226	489			489
Trade accounts payable	8			8	5			5
Notes payable					20			20
Accounts payable to unconsolidated subsidiaries	14			14	8			8
Accounts payable to affiliated companies	11			11	3			3
Taxes payable	106			106	8			8
Other liabilities	365			365	208			208
	2,969			2,969	3,377			3,377
Trade accounts payable								
Accounts payable to suppliers	5,269	2		5,271	5,649			5,649
Accounts payable to unconsolidated subsidiaries					2			2
Accounts payable to affiliated companies	167			167	249			249
	5,436	2		5,438	5,900			5,900
Other payables ⁽¹⁾								
Accounts payable to unconsolidated subsidiaries	6			6	6			6
Accounts payable to affiliated companies	1			1	2			2
Taxes payable	1,269	4		1,273	872	15		887
Contributions to pension and social security institutions	184	771	249	1,204	257	853	249	1,359
Other liabilities	4,287	6		4,293	4,184	4		4,188
	5,747	781	249	6,777	5,321	872	249	6,442
Total liabilities ⁽¹⁾	18,530	20,304	14,595	53,429	18,048	21,973	12,952	52,973
Other financial debt (withdrawals and tender offer)				5,285				
Accrued expenses	1,093	14		1,107	1,168			1,168

(1) not including advances

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

■ ANNEX 3

RECONCILIATION OF THE SHAREHOLDERS' EQUITY AND NET INCOME OF TELECOM ITALIA AND THE CONSOLIDATED FIGURES IN THE FINANCIAL STATEMENTS AT JUNE 30, 2003

	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)								
Financial statements of Telecom Italia at June 30, 2003	8,846	4,826	1,580	15,252				15,252
Net income of consolidated companies for the period			567	567		516	516	1,083
Share capital and reserves of consolidated companies		26,833		26,833	3,292		3,292	30,125
- carrying value of investments in consolidated companies		(61,383)		(61,383)				(61,383)
Consolidation adjustments:								
- elimination of tax-related entries		(60)	17	(43)				(43)
- valuation of investments using the equity method		(227)	(17)	(244)	2		2	(242)
- positive differences on purchase of investments		32,131	(955)	31,176	502	(27)	475	31,651
- intra-Group dividends		605	(605)		2	(2)		
- losses of subsidiaries included in the results of parent companies and extraordinary writedowns of investments		4,450	394	4,844	(58)	4	(54)	4,790
- gains on sales of investments		(202)	12	(190)	(12)	(2)	(14)	(204)
- elimination of intra-Group profits included in fixed assets and intangibles		(150)	25	(125)	(10)	2	(8)	(133)
- elimination of intra-Group profits on investments		(401)		(401)	(253)		(253)	(654)
- other		(306)	38	(268)	97	45	142	(126)
Consolidated financial statements at June 30, 2003	8,846	6,116	1,056	16,018	3,562	536	4,098	20,116

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

■ ANNEX 4

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY FOR THE FIRST HALF OF 2003

	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, 2002	8,845	3,568	(773)	11,640	8,517	467	8,984	20,624
Appropriation of 2002 net income:								
<i>Dividends distributed</i>					(582)	(467)	(1,049)	(1,049)
<i>Transfer to reserves</i>		(773)	773					
Contribution by shareholders	12			12				12
Merger effect		3,424		3,424	(3,424)		(3,424)	
Effect of withdrawals, the tender offer and the cancellation of treasury stock and shares in current assets	(11)	(168)		(179)	(938)		(938)	(1,117)
Net translation adjustments on the conversion of financial statements in foreign currencies and other		65		65	(11)		(11)	54
Net income (loss) for the period			1,056	1,056		536	536	1,592
Consolidated financial statements at June 30, 2003	8,846	6,116	1,056	16,018	3,562	536	4,098	20,116

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

■ ANNEX 5

LIST OF COMPANIES CONSOLIDATED ON A LINE-BY-LINE BASIS

Name (type of business)	Head office	Share capital	% ownership	% of voting rights	Held by
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
- 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 Ltda (installation and maintenance of submarine cable systems)	Bogotá (Colombia)	COP	28,430,000	100.00 (*)	LATIN AMERICAN NAUTILUS S.A.
- LATIN AMERICAN NAUTILUS MEXICO S.A. (installation and maintenance of submarine cable systems)	Mexico (Mexico)	MXN	100,000	99.99 0.01	LATIN AMERICAN NAUTILUS S.A. LATIN AMERICAN NAUTILUS USA
- 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.
LOQUENDO - SOCIETA' PER AZIONI (research, development and marketing of technologies and equipment regarding voice recognition and interaction)	Turin (Italy)	EUR	3,573,741	99.98	TELECOM ITALIA
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.

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

List of companies consolidated on a line-by-line basis

Name (type of business)	Head office	Share capital	% ownership	% of voting rights	Held by
- MEDITERRANEAN NAUTILUS B.V. (holding company)	Amsterdam (Holland)	EUR	18,003	100.00	MEDITERRANEAN NAUTILUS Ltd
- MEDITERRANEAN NAUTILUS GREECE Ltd. (installation and maintenance of submarine cable systems)	Athens (Greece)	EUR	111,600	100.00	MEDITERRANEAN NAUTILUS B.V.
- 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)	Istambul (Turkey)	TRL	350,000,000,000	99.9988 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	770,000	100.00	TELECOM ITALIA
TELECOM ITALIA SPARKLE S.p.A. (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 and 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) TELEKOMMUNIKATIONS DIENSTE 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	82,150,675	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	119,022,890	100.00	TMI TELEMEDIA INTERN. Ltd

Mobile

TELECOM ITALIA MOBILE S.p.A. (mobile telecommunications)	Turin (Italy)	EUR	513,964,433	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 network services operator)	Athens (Greece)	EUR	126,453,694	81.40 0.13		TIM INTERNATIONAL TELECOM ITALIA FINANCE
- TELESOFT HELLAS S.A. (telecommunications software)	Athens (Greece)	EUR	489,000	100.00		STET HELLAS
- TIM BRASIL S.A. (holding company)	São Paulo (Brazil)	BRL	5,792,258,802	100.00 (*)		TIM INTERNATIONAL

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

List of companies consolidated on a line-by-line basis

Name (type of business)	Head office	Share capital	% ownership	% of voting rights	Held by
- 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	369,163,348	22.21 (*)	52.51 BITEL PARTICIPACOES
- TIM SUL S.A. (ex Telepar Celular SA) (mobile telephony operator)	Curitiba (Brazil)	BRL	944,367,527	81.32 (*)	90.44 TELE CELULAR SUL
- CTMR CELULAR S.A. (mobile telephony operator)	Pelotas (Brazil)	BRL	17,749,826	100.00 (*)	TIM SUL
- TELESC CELULAR S.A. (mobile telephony operator)	Florianopolis (Brazil)	BRL	285,306,209	100.00 (*)	TIM SUL
- TELE NORDESTE CELULAR PARTICIPACOES S.A. (holding company for operating companies providing mobile network services)	Recife (Brazil)	BRL	313,623,177	22.61 (*)	52.69 BITEL PARTICIPACOES
- TELASA CELULAR S.A. (mobile telephony operator)	Maceiô (Brazil)	BRL	58,207,916	79.50 (*)	97.40 TELE NORDESTE CELULAR
- TELECEARA' CELULAR S.A. (mobile telephony operator)	Fortaleza (Brazil)	BRL	153,787,175	80.43 (*)	86.30 TELE NORDESTE CELULAR
- TELEPISA CELULAR S.A. (mobile telephony operator)	Teresina (Brazil)	BRL	40,986,989	80.01 (*)	97.66 TELE NORDESTE CELULAR
- TELERN CELULAR S.A. (mobile telephony operator)	Natal (Brazil)	BRL	47,199,890	76.94 (*)	93.10 TELE NORDESTE CELULAR
- TELPA CELULAR S.A. (mobile telephony operator)	Joao Pessoa (Brazil)	BRL	45,150,981	72.69 (*)	95.03 TELE NORDESTE CELULAR
- TELPE CELULAR S.A. (mobile telephony operator)	Recife (Brazil)	BRL	137,392,672	79.83 (*)	95.42 TELE NORDESTE CELULAR
- STARCEL Ltda (call center services)	São Paulo (Brazil)	BRL	30,000	100.00 (*)	TIM BRASIL
- TIM CELULAR S.A. (mobile telephony operator)	São 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	67.12	TIM INTERNATIONAL
Sud 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	85.00 15.00	AMERICATEL CENTROAMERICA ENTEL CHILE
- 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

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

List of companies consolidated on a line-by-line basis

Name (type of business)	Head office	Share capital	% ownership	% of voting rights	Held by
- 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	62,372,553	80.00	ENTEL INTERNATIONAL B.V.I.
- 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	38,959,741	54.31 45.69	ENTEL INVERSIONES 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	94.64 5.36	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	2,318,518,357	100.00 (*)	ENTEL TELEFONIA PERSONAL
- ENTEL PCS TELECOMUNICACIONES S.A. (mobile telephony services)	Santiago (Chile)	CLP	98,369,022,334	99.90 0.10	ENTEL TELEFONIA PERSONAL ENTEL CHILE
- ENTEL TELEFONIA MOVIL S.A. (mobile telephony services)	Santiago (Chile)	CLP	1,883,969,582	99.92 0.08	ENTEL TELEFONIA PERSONAL ENTEL CHILE
- 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. (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)	São 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	341,432,710	59.42 2.03 0.02	60.4132 2.0670 0.0171	TELECOM ITALIA TELECOM ITALIA FINANCE IT TELECOM
- ANNUARI ITALIANI S.p.A (publishing of annuals and sale of telematic products)	Turin (Italy)	EUR	1,610,905	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)	Paris (France)	EUR	4,748,160	98.60		SEAT PAGINE GIALLE
- BCA FINANCES S.A. (analysis, management and marketing of data banks)	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	83.00 17.00		BCA FINANCES CONSODATA S.A.
- CAL - CONSUMER ACCESS Ltd (management and supply of data banks)	Kingston (UK)	GBP	200,000	100.00		CONSODATA S.A.

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

List of companies consolidated on a line-by-line basis

Name (type of business)	Head office	Share capital	ownership	% of voting rights	Held by
- CONSODATA UK Ltd (business information)	Kingston (UK)	GBP	2	100.00	CAL - CONSUMER ACCESS
- CONSOBELGIUM S.A. (business information)	Brussels (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 banks)	Rome (Italy)	EUR	7,529,625	100.00	CONSODATA S.A.
- CONSODATA MARKETING INTELLIGENCE S.r.l. (data processing geomarketing sector)	Milan (Italy)	EUR	69,002	100.00	CONSODATA S.p.A.
- PUBBLIBABY S.p.A. (design, management and marketing of neonatal 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)	Paris (France)	EUR	251,520	92.04 7.93	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
- CONSODATA GERMANY VERWALTUNG GmbH (ex PAN-ADRESS DIREKTMARKETING VERWALTUNG GmbH) (direct marketing)	Munich (Germany)	EUR	25,000	100.00	CONSODATA GROUP
- CONSODATA GERMANY GmbH & Co. KG (ex PAN-ADRESS DIREKTMARKETING & Co. KG) (direct marketing)	Munich (Germany)	EUR	204,000	100.00	CONSODATA GROUP
- CONSODATA MARKETING INTELLIGENCE GmbH (direct marketing)	Munich (Germany)	EUR	25,000	100.00	CONSODATA GERMANY
- DATABANK S.p.A. (marketing)	Milan (Italy)	EUR	937,300	93.47	SEAT PAGINE GIALLE
- DBK S.A. (marketing)	Madrid (Spain)	EUR	99,000	99.99	DATABANK S.p.A.
- EUREEDIT S.A. (realization, promotion and marketing of European "Europages" product annual)	Paris (France)	EUR	2,800,000	93.56	SEAT PAGINE GIALLE
- FINANZIARIA WEB S.p.A. (financing)	Turin (Italy)	EUR	9,606,074	60.00	SEAT PAGINE GIALLE
- MATRIX S.p.A. (Internet services)	Milan (Italy)	EUR	1,100,000	66.00 33.30 0.70	FINANZIARIA WEB N.V. VERTICO SEAT PAGINE GIALLE
- GPP S.p.A. (ex 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	GPP S.p.A.
- FAENZA EDITRICE IBERICA S.L. (publishing house also on behalf of third parties)	Castellon de La Plana (Spain)	EUR	3,006	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	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, Italy)	EUR	10,320	100.00	GRUPPO EDITORIALE FAENZA EDITRICE

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

List of companies consolidated on a line-by-line basis

Name (type of business)	Head office	Share capital	ownership	% of voting rights	Held by
- GRUPPO EDITORIALE JCE S.p.A. (publishing house)	Cinisello Balsamo (Milan, Italy)	EUR	1,032,800	100.00	GPP S.p.A.
- QUASAR E ASSOCIATI S.r.l. (multimedia publishers)	Milan (Italy)	EUR	20,408	99.00	GPP S.p.A.
- EDITORIALE QUASAR S.r.l. (publishing house and advertising agency)	Milan (Italy)	EUR	10,000	100.00	QUASAR E ASSOCIATI
- GIALLO VOICE S.p.A. (teleselling, telemarketing, call centers and marketing)	Turin (Italy)	EUR	1,000,000	100.00	SEAT PAGINE GIALLE
- OPS S.r.l. (call center services)	Milan (Italy)	EUR	10,200	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	100.00	GRUPPO BUFFETTI
- 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	1,570,507	58.36 41.64	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
- 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
- IMR S.r.l. (call center services)	Turin (Italy)	EUR	10,500	100.00	SEAT PAGINE GIALLE
- TDL INFOMEDIA Ltd (holding)	Hampshire (UK)	GBP	139,525	99.86	SEAT PAGINE GIALLE
- TDL INFOMEDIA FINANCE Ltd (holding)	Hampshire (UK)	GBP	9,734	100.00	TDL INFOMEDIA
- TDL INFOMEDIA HOLDINGS Plc (holding)	Hampshire (UK)	GBP	397,126	100.00	TDL INFOMEDIA FINANCE
- TDL INFOMEDIA GROUP Plc (holding)	Hampshire (UK)	GBP	624,577	100.00	TDL INFOMEDIA HOLDINGS
- TDL GROUP Ltd (holding)	Hampshire (UK)	GBP	89,864	100.00	TDL INFOMEDIA GROUP
- THOMSON DIRECTORIES Ltd (directories publishing and marketing)	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
- TELEGATE HOLDING GmbH (holding)	Martinsried (Munich, Germany)	EUR	26,100	100.00	SEAT PAGINE GIALLE
- TELEGATE A.G. (call center services)	Martinsried (Munich, Germany)	EUR	20,954,355	61.95 16.45	TELEGATE HOLDING SEAT PAGINE GIALLE

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

List of companies consolidated on a line-by-line basis

Name (type of business)	Head office	Share capital	% ownership	% of voting rights	Held by
- 118866 Ltd (ex- TELEGATE Ltd) (call center services)	London (UK)	GBP	1	100.00	TELEGATE A.G.
- DATAGATE GmbH (call center services)	Martinsried (Munich, Germany)	EUR	25,000	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 (Munich, Germany)	EUR	25,000	100.00	TELEGATE ANKLAM
- TELEGATE ESPANA S.A. (call center services)	Las Matas Madrid (Spain)	EUR	222,000	100.00	TELEGATE A.G.
- TELEGATE GmbH (call center services)	Vienna (Austria)	EUR	35,000	100.00	TELEGATE A.G.
- TELEGATE Inc. (call center services)	Delaware (USA)	USD	10,000,010	100.00	TELEGATE A.G.
- TELEGATE ITALIA S.r.l. (call center services)	Turin (Italy)	EUR	129,000	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	59,982,385	79.50 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 Creditizio e Finanziario S.p.A. (electronic information systems for banking and financial industry)	Rende (Cosenza, Italy)	EUR	769,585	98.00 2.00	BANKSIEL FINSIEL
- 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)	Bucarest (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	30.60 20.40	INSIEL FINSIEL
- INTERSIEL - Società Interregionale Sistemi Informativi Elettronici S.p.A. (design, installation, operation and maintenance of information systems)	Rende (Cosenza, Italy)	EUR	480,400	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	77,003,670	61.00	FINSIEL
- WEBRED S.p.A. (computer services)	Perugia (Italy)	EUR	1,560,000	51.00	FINSIEL
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

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

List of companies consolidated on a line-by-line basis

Name (type of business)	Head office	Share capital	ownership	% of voting rights	% Held by
EUSTEMA S.p.A. (design, research, development and marketing of software, information and online systems)	Rome (Italy)	EUR	312,000	67.33	IT TELECOM
WEBEGG S.p.A. (e-business solution)	Milan (Italy)	EUR	33,107,160	69.80 30.20	IT TELECOM FINSIEL
- @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
- TELEAP S.p.A. (software applications. architecture)	Ivrea (Turin, Italy)	EUR	1,560,000	100.00	WEBEGG

Information Technology Group

EPICLINCK S.p.A. (telecommunications services)	Cesano Maderno (Milan, Italy)	EUR	12,500,000	86.00	TELECOM ITALIA
IT TELECOM S.p.A. (information and communication technology)	Rome (Italy)	EUR	96,853,000	100.00	TELECOM ITALIA
- TECO SOFT ARGENTINA S.A. (design, realization and sale of software)	Buenos Aires (Argentina)	ARS	12,000	100.00 (*)	IT TELECOM
- TELESOF RUSSIA ZAO (telecommunications software)	Moscow (Russia)	RUB	1,592,000	75.00	IT TELECOM

Olivetti Tecnost Group

OLIVETTI TECNOST S.p.A. (construction and sale of products and accessories for office equipment)	Ivrea (Turin, Italy)	EUR	273,000,000	100.00	TELECOM ITALIA
- ALLADIUM S.p.A. (in liquidazione) (production of photocopiers, accessories and office equipment)	Ivrea (Turin, Italy)	EUR	1,500,000	100.00	OLIVETTI TECNOST S.p.A.
- DOMUSTECH S.p.A. (products and services of systems and electromechanical and electronic devices)	Ivrea (Turin, Italy)	EUR	100,000	99.96	OLIVETTI TECNOST S.p.A.
- GOTOWEB S.p.A. (network software solutions)	Ivrea (Turin, Italy)	EUR	3,750,000	100.00	OLIVETTI TECNOST S.p.A.
- INNOVIS S.p.A. (network software solutions)	Ivrea (Turin, Italy)	EUR	1,000,000	80.00	OLIVETTI TECNOST S.p.A.
- CELL-TEL S.p.A. (ex JETECH S.p.A.) (network software solutions)	Ivrea (Turin, Italy)	EUR	2,500,000	80.00	OLIVETTI TECNOST S.p.A.
- OLIVETTI TECNOST INTERNATIONAL B.V. (holding company)	Amsterdam (Holland)	EUR	5,027,142	100.00	OLIVETTI TECNOST S.p.A.
- OLIVETTI ARGENTINA S.A.C.è.l. (sale and maintenance of office products)	Buenos Aires (Argentina)	ARS	7,590,000	100.00	OLIVETTI TECNOST INTERNATIONAL B.V.
- OLIVETTI CHILE S.A. (sale and maintenance of office products, accessories and software)	Santiago de Chile (Chile)	CLP	2,341,370,200	100.00	OLIVETTI TECNOST INTERNATIONAL B.V.
- OLIVETTI COLOMBIANA S.A. (sale of office products and industrial equipment)	Bogotá (Colombia)	COP	6,245,014,700	90.43 0.11 9.46	OLIVETTI TECNOST INTERNATIONAL B.V. OLIVETTI COLOMBIANA S.A. OLIVETTI TECNOST S.p.A.
- OLIVETTI DE PUERTO RICO. Inc. (production and sale of office products)	San Juan (Puerto Rico)	USD	1,000	100.00	OLIVETTI TECNOST INTERNATIONAL B.V.
- OLIVETTI DE VENEZUELA C.A. (sale of office products)	Caracas (Venezuela)	VEB	150,000,000	100.00	OLIVETTI TECNOST INTERNATIONAL B.V.
- OLIVETTI DO BRASIL S.A. (production and sale of typewriters)	Sao Paulo (Brazil)	BRL	111,660,625	96.65 3.36	OLIVETTI TECNOST INTERNATIONAL B.V. OLIVETTI MEXICANA S.A.

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

List of companies consolidated on a line-by-line basis

Name (type of business)	Head office	Share capital	ownership	% of voting rights	Held by
- DIASPRON DO BRASIL S.A. (production and export of typewriters and printers)	São Paulo (Brazil)	BRL	5,135,417	100.00	OLIVETTI DO BRASIL S.A.
- MULTIDATA S/A ELETRONICA INDUSTRIA E COMERCIO (production and export of typewriters and printers)	Manaus (Brazil)	BRL	5,583,350	100.00	OLIVETTI DO BRASIL S.A.
- OLIVETTI DA AMAZONIA IND. E COM. (production and sale of electronic and computer products)	Manaus (Brazil)	BRL	361,000	99.72 0.28	OLIVETTI DO BRASIL S.A. OLIVETTI SISTEMA E SERVICOS LIMITADAS
- OLIVETTI SISTEMA E SERVIÇOS (sale of office equipment and accessories)	São Paulo (Brazil)	BRL	410,000	99.98 0.02	OLIVETTI DO BRASIL S.A. OLIVETTI DA AMAZONIA IND. E COM.
- OLIVETTI LEXIKON BENELUX S.A. (sale of accessories and office products)	Zaventem (Belgium)	EUR	7,932,592	100.00	OLIVETTI TECNOST INTERNATIONAL B.V.
- OLIVETTI TECNOST NEDERLAND B.V. (sale of accessories and office products)	Leiden (Holland)	EUR	18,151	100.00	OLIVETTI LEXIKON BENELUX S.A.
- OLIVETTI LEXIKON NORDIC AB (in liquidation) (sale of accessories and office products)	Stockholm (Sweden)	SEK	10,100,000	100.00	OLIVETTI TECNOST INTERNATIONAL B.V.
- OLIVETTI MEXICANA S.A. (production and sale of typewriters, accessories and spare parts)	Mexico D.F. (Mexico)	MXN	153,538,636	100.00	OLIVETTI TECNOST INTERNATIONAL B.V.
- OLIVETTI TECNOST de MEXICO S.A. de C.V. (production and sale of office products)	Tetla (Mexico)	MXN	193,243,310	100.00	OLIVETTI MEXICANA S.A.
- OLIVETTI PERUANA S.A. (sale and assistance of office equipment and office products)	Lima (Perù)	PEN	4,654,920	100.00	OLIVETTI TECNOST INTERNATIONAL B.V.
- OLIVETTI SERVICIOS Y SOLUCIONES INTEGRALES S.A. de C.V. (maintenance of hardware and other and integration of engineering plans)	Azcapotzalco (Mexico)	MXN	7,025,226	100.00	OLIVETTI TECNOST INTERNATIONAL B.V.
- OLIVETTI TECNOST (H.K.) Ltd. (sale of products and systems)	Hong Kong (China)	HKD	100,000	99.00 1.00	OLIVETTI TECNOST INTERNATIONAL B.V. OLIVETTI TECNOST S.p.A.
- OLIVETTI TECNOST AFRICA (Pty) Ltd (information systems and networks)	Sandton (South Africa)	ZAR	601	100.00	OLIVETTI TECNOST INTERNATIONAL B.V.
- OLIVETTI TECNOST AUSTRIA Ges.m.b.H (sale of accessories and office products)	Vienna (Austria)	EUR	36,336	100.00	OLIVETTI TECNOST INTERNATIONAL B.V.
- OLIVETTI TECNOST DEUTSCHLAND GmbH (sale of office products and investment management)	Nuremberg (Germany)	EUR	25,600,000	100.00	OLIVETTI TECNOST INTERNATIONAL B.V.
- OLIVETTI TECNOST ESPANA S.A. (sale of office products)	Barcellona (Spain)	EUR	1,229,309	99.99	OLIVETTI TECNOST INTERNATIONAL B.V.
- OLIVETTI TECNOST FRANCE S.A.S. (sale of office products and computer systems)	Puteaux (France)	EUR	2,200,000	100.00	OLIVETTI TECNOST INTERNATIONAL B.V.
- OLIVETTI TECNOST PORTUGAL S.A. (sale of office products)	Lisbon (Portugal)	EUR	275,000	99.99	OLIVETTI TECNOST INTERNATIONAL B.V.
- OLIVETTI TECNOST UK Ltd (sale of office products)	Wolverton Mill (UK)	GBP	6,295,712	100.00	OLIVETTI TECNOST INTERNATIONAL B.V.
- ROYAL CONSUMER INFORMATION PRODUCTS Inc. (sale of office products)	Wilmington (USA)	USD	1,176	100.00	OLIVETTI TECNOST INTERNATIONAL B.V.
- OLIVETTI I-JET S.p.A. (production and sale of products and accessories for office equipment)	Arnad (Aosta, Italy)	EUR	15,000,000	100.00	OLIVETTI TECNOST S.p.A.
- OLIWEB S.p.A. (network software solutions)	Ivrea (Turin, Italy)	EUR	1,000,000	100.00	OLIVETTI TECNOST S.p.A.
- TECNOST SISTEMI S.p.A. (production, study, realization and sale of electronic equipment for the computer and automation sectors)	Ivrea (Turin, Italy)	EUR	145,000,000	100.00	OLIVETTI TECNOST S.p.A.
- CONSORZIO MAEL (consortium services)	Rome (Italy)	EUR	52,000	60.00 40.00	TECNOST SISTEMI S.p.A. TIEMME SISTEMI S.r.l.
- TECHNOPRODUZIONI S.p.A. (production and sale of office products, for computers and telecommunications)	Ivrea (Turin, Italy)	EUR	25,000,000	100.00	TECNOST SISTEMI S.p.A.

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

List of companies consolidated on a line-by-line basis

Name (type of business)	Head office	Share capital	ownership	% of voting rights	Held by
- TIEMME SISTEMI S.r.l. (electronic, electromechanical, electrical equipment and relative systems)	Carsoli (l'Aquila, Italy)	EUR	1,040,000	100.00	TECHNOPRODUZIONI S.p.A.
- TIESSE S.c.p.A. (electronic, computer systems, telematic and telecommunications equipment and relative systems)	Rome (Italy)	EUR	103,292	42.00 19.00	TECNOST SISTEMI S.p.A. TIEMME SISTEMI S.r.l.
- TOP SERVICE S.p.A. (electronic diagnostics and repairs of computer system products)	Modugno (Bari, Italy)	EUR	1,055,220	50.37	OLIVETTI TECNOST 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
FMP ITALY 1 S.r.l. (ex IREOS S.p.A. in liquidation) (promotion and management of remote home assistance)	Rome (Italy)	EUR	50,000	100.00	TELECOM ITALIA
IN.TEL.AUDIT S.c.a r.l. (internal auditing for the Telecom Italia Group)	Milan (Italy)	EUR	2,750,000	63.64 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
OFI CONSULTING S.r.l. (financing)	Ivrea (Turin, Italy)	EUR	35,000,000	100.00	TELECOM ITALIA
OLIVETTI FINANCE N.V. (financing)	Amsterdam (Holland)	EUR	46,905,660	100.00	TELECOM ITALIA
OLIVETTI GESTIONI IVREA S.p.A. (ex Thema S.p.A.) (real estate services)	Ivrea (Turin, Italy)	EUR	1,300,000	100.00	TELECOM ITALIA
- OLIVETTI INTERNATIONAL FINANCE N.V. (financing)	Curacao (Dutch Antille)	EUR	3,000,000	100.00	OLIVETTI FINANCE N.V.
OLIVETTI INTERNATIONAL S.A. (holding company)	Luxembourg	EUR	500,000,000	100.00	TELECOM ITALIA
- OLIVETTI HOLDING B.V. (holding company)	Amsterdam (Holland)	EUR	15,882,770	100.00	OLIVETTI INTERNATIONAL S.A.
- OLIVETTI RAP S.A. (diversified activities)	Barcellona (Spain)	EUR	63,613,800	90.00 10.00	OLIVETTI HOLDING B.V. OLIVETTI INTERNATIONAL S.A.
- OLIVETTI SYSTEMS & SERVICES UK Ltd. (in liquidation) (information technology services)	London (UK)	GBP	47,180,759	100.00	OLIVETTI HOLDING B.V.
- OLIVETTI TELEMEDIA INVESTMENTS B.V. (management of equity investments)	Amsterdam (Holland)	EUR	24,957,920	100.00	OLIVETTI HOLDING B.V.
- OLIVETTI INTERNATIONAL (SERVICE) S.A. (accounting services)	Lugano (Switzerland)	CHF	50,000	100.00	OLIVETTI INTERNATIONAL S.A.
- OLIVETTI INTERNATIONAL N.V. (financing)	Curacao (Dutch Antilles)	EUR	3,000,000	100.00	OLIVETTI INTERNATIONAL S.A.
- OLIVETTI SYSTEMS TECHNOLOGY CORPORATION (real estate management)	Yokohama (Japan)	JPY	100,000,000	100.00	OLIVETTI INTERNATIONAL S.A.
OLIVETTI MULTISERVICES S.p.A. (construction and management services of real estate property)	Ivrea (Turin, Italy)	EUR	20,337,161	100.00	TELECOM ITALIA
- O & B COSTRUZIONI GENERALI S.r.l. (real estate services and renovations)	Ivrea (Turin, Italy)	EUR	100,000	50.10	OLIVETTI MULTISERVICE
- OMS HOLDING B.V. (financial holding company)	Amsterdam (Holland)	EUR	20,000	100.00	OLIVETTI MULTISERVICE
- RUF GESTION S.A.S. (real estate management)	Puteaux (France)	EUR	266,300	100.00	OMS HOLDING B.V.
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. (professional training)	L'Aquila (Italy)	EUR	1,560,000	100.00	TELECOM ITALIA

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

List of companies consolidated on a line-by-line basis

Name (type of business)	Head office	Share capital	% ownership	% of voting rights	Held by
- TELECOM ITALIA LEARNING SERVICES DO BRASIL Ltda (consulting and information services)	São 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. (financial holding company)	Amsterdam (Holland)	EUR	2,399,483,000	100.00	TELECOM ITALIA
- BBNET N.V. (telecommunications services)	Amsterdam (Holland)	EUR	82,425,000	97.56	TELECOM ITALIA INTERNATIONAL N.V.
- BBeyond B.V. (telecommunications services)	Amsterdam (Holland)	EUR	18,000	100.00	BBNET
- ICH - International Communication Holding N.V. (financial holding company)	Amsterdam (Holland)	EUR	50,000	100.00	TELECOM ITALIA INTERNATIONAL N.V.
- ETI - Euro Telecom International N.V. (financial holding company)	Amsterdam (Holland)	EUR	50,050	100.00	ICH
TELECOM ITALIA FINANCE S.A. (financial 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
- VERTICO S.p.A. (holding company)	Rome (Italy)	EUR	100,000	100.00	ISM
- TELSI (holding company)	London (UK)	EUR	603,565,000	100.00 (*)	TELECOM ITALIA FINANCE
- TELECOM ITALIA LAB GENERAL PARTNER S.A. (holding company)	Luxembourg	USD	30,000	99.97 0.03	TELECOM ITALIA TELECOM ITALIA FINANCE
TELECOM ITALIA LAB S.A. (holding company)	Luxembourg	USD	25,894,360	99.99 0.01	TELECOM ITALIA TELECOM ITALIA FINANCE
- TELECOM ITALIA LAB B.V. (holding company)	Amsterdam (Holland)	EUR	18,655	100.00	TELECOM ITALIA LAB S.A.
TELSY Elettronica e Telecomunicazioni S.p.A. (production and sale of crypto telecommunications equipment and electronic systems)	Turin (Italy)	EUR	390,000	100.00	TELECOM ITALIA
TELENERGIA S.r.l. (import, export, purchase, sale and exchange of electrical power)	Rome (Italy)	EUR	50,000	80.00 20.00	TELECOM ITALIA TELECOM ITALIA MOBILE

(#) The percentages of ownership and voting rights take into account the purchase of the 710,777,200 from the put option with JP Morgan.

[*] The percentage of ownership includes ordinary shares/quotas held by members of the Board of Directors/Managers, as required by local laws in order to hold the post of Director /Manager, or held by trustees.

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

■ ANNEX 6

LIST OF COMPANIES CONSOLIDATED BY THE EQUITY METHOD

Name (type of business)	Head office	Share capital	% ownership	% of voting rights	Held by
Subsidiaries					
EDOTEL S.p.A. (holding company)	Turin (Italy)	EUR	15,080,542	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. (Internet site management)	Amsterdam (Holland)	EUR	100,000	55.00	MATRIX
TELECOM ITALIA CAPITAL S.A. (financing)	Luxembourg	EUR	2,336,000	99.99 0.01	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 e 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
Affiliated companies					
ASCAI SERVIZI S.r.l. (promotion of communications strategies and process)	Rome (Italy)	EUR	73,337	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 SKY ITALIA
BUENAVENTURA S.A. (telecommunications services)	Santiago (Chile)	CLP	1,841,258,210	50.00	ENTEL TELEFONIA PERSONAL
CARTESIA-CARTOGRAFIA DIGITALE S.p.A. (design, realization, marketing of numeric cartography)	Rome (Italy)	EUR	100,000	50.00	TELECOM ITALIA
CYGENT Inc. (in liquidazione) (development and sale of software)	California (USA)	USD	52,437,893	25.21	TELECOM ITALIA LAB S.A.
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	2,048,520	24.98	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
GOLDEN LINES INTERNATIONAL COMMUNICATIONS SERVICES Ltd (long-distance telephony services)	Ramat Gan (Israel)	ILS	3,000,000	26.40	TELECOM ITALIA INTERNATIONAL
ICOM Inc. (development of data bank and Internet market place)	Toronto (Canada)	CAD	203	40.00	NETCREATIONS
IM.SER S.p.A. (real estate management)	Rome (Italy)	EUR	889,950	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 Europe S.A. (investment holding company)	Luxembourg	EUR	4,334,400	25.00	SEAT PAGINE GIALLE

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

List of companies consolidated by the equity method

Name (type of business)	Head office	Share capital	% ownership	% of voting rights	Held by
ISTITUTO R.T.M. S.p.A. (study and search of mechanical and automation technologies)	Vico Canavese (Turin, Italy)	EUR	2,107,320	31.46	OLIVETTI TECNOST S.p.A.
ITALCOM S.p.A. (multimedia equipment and systems)	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
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)	Parigi (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. (in liquidation) (sale of books and office supplies)	Florence (Italy)	EUR	10,400	15.00 15.00	GRUPPO BUFFETTI IL CENTRO CONTABILE
LOCALPORT S.p.A. (study, search, development and commercialization of informatic systems)	Ivrea (Turin, Italy)	EUR	922,365	12.14 37.67	TELECOM ITALIA OLIVETTI TECNOST S.p.A.
MARCAM ITALY S.r.l. (services for automatic data management)	Milan (Italy)	EUR	92,962	99.00	PRAXIS CALCOLO
MESNIL HOLDING S.A. (investment holding company)	Luxembourg	EUR	78,000	99.99	ISCE
MIA ECONOMIA S.r.l. (development of publishing projects in the field of personal finance)	Rome (Italy)	EUR	1,000,000	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 S.A.
NETCO REDES S.A. (provider of telecommunications infrastructures)	Madrid (Spain)	EUR	6,038,248	30.00	TELECOM ITALIA INTERNATIONAL
NORDCOM S.p.A. (application service provider)	Milan (Italy)	EUR	5,000,000	42.00	TELECOM ITALIA

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

List of companies consolidated by the equity method

Name (type of business)	Head office	Share capital	% ownership	% of voting rights	Held by
NORTEL INVERSORA S.A. (holding company)	Buenos Aires (Argentina)	ARS	78,633,050	22.03 11.86	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 supply 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
SELITAL S.p.A. (production)	Bologna (Italy)	EUR	1,000,000	51.00	ITALTEL S.p.A.
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
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
SITECNICA S.p.A. (IT multivendor services)	Milan (Italy)	EUR	143,000	100.00	SIEMENS INFORMATICA
SITEKNE S.p.A. (supply of resources in the field of ITC-Information Technology Communication solutions)	Rome (Italy)	EUR	103,200	100.00	SIEMENS INFORMATICA
SOGEL 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
SKY ITALIA S.r.l. (ex STREAM S.p.A.) (multimedia services)	Rome (Italy)	EUR	552,399,080	19.90	TELECOM ITALIA
TELBIO S.p.A. (technological services to support the sanitary sector)	Milan (Italy)	EUR	2,948,332	31.03	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	219,973	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	45.70 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	25.00	TELECOM ITALIA LAB S.A.
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 S.A.

(#) At June 30, 2003, the percentage of ownership of ordinary share capital is 50%, while the percentage of ownership of net equity, taking into account the rights of the preferred shares, is 25.52%.

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

■ ANNEX 7

LIST OF OTHER SUBSIDIARIES AND AFFILIATED COMPANIES VALUED AT COST

Name (type of business)	Head office	Share capital	% ownership	% of voting rights	Held by
Subsidiaries					
ARSMOVENDI.COM A.G. (in liquidation) (Internet services)	Martinsried (Munich, Germany)	EUR	150,000	100.00	TELEGATE A.G.
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 DEUTSCHLAND GmbH (in liquidation) (direct marketing)	Munich (Germany)	DEM	50,000	100.00	CONSODATA GERMANY GmbH & Co. KG
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 services)	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	153,388	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
ENSAMBLADORA TLAXCALTECA S.A. (production and sale of office products and equipment)	Apizaco Tlaxcala (Mexico)	MXN	2,000	0.02 99.98	OLIVETTI MEXICANA S.A. OLIVETTI TECNOST DE MEXICO S.A. DE C.V.
FINSATEL S.r.l. (in liquidation) (financial holding company)	Turin (Italy)	EUR	10,000	100.00	SEAT PAGINE GIALLE
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, design development, production of computer and telematic products for tourism)	Milan (Italy)	EUR	10,000	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	100.00	HOLDING MEDIA E COMUNICAZIONE H.M.C
HOLDING MEDIA E COMUNICAZIONE PUBBLICITA' 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.
KIMTRAVEL CONSULTING A.G. (in liquidation) (Internet services)	Martinsried (Munich, Germany)	EUR	69,493	100.00	TELEGATE A.G.
IL CENTRO CONTABILE S.p.A. (in liquidation) (sale of books and office supplies)	Rome (Italy)	EUR	2,233,507	89.70	GRUPPO BUFFETTI
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 Internet sites)	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.
MEDIPLAN GmbH (in liquidation) (direct marketing)	Munich (Germany)	EUR	26,000	100.00	CONSODATA GERMANY GmbH & Co. KG
MYBLUECAT.COM Ltd (in liquidation) (supply of services)	Hampshire (UK)	GBP	2	100.00	TDL INFOMEDIA Ltd
MOBILSAFE A.G. (in liquidation) (Internet services)	Martinsried (Munich, Germany)	EUR	150,000	100.00	TELEGATE ANKLAM GmbH
NEW WORLD TELECOM S.A. (telecommunication services)	Santiago (Chile)	CLP	14,000,000	99.90 (*)	LATIN AMERICAN NAUTILUS CHILE
OLIVETTI LATIN AMERICA TRADING ASSOCIATES S.A. (in liquidation) (sales business)	Panama	USD	10,000	100.00	OLIVETTI TECNOST INTERNATIONAL B.V.

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

List of other subsidiaries and affiliated companies valued at cost

Name (type of business)	Head office	Share capital	ownership	% of voting rights	Held by
OR.MA INFORMATICA S.r.l. (wholesale of computer products)	Rome (Italy)	EUR	15,000	100.00	GRUPPO BUFFETTI
RFM DATA Ltd (in liquidation) (list brokering)	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
TELECOM ITALIA GmbH (in liquidation) (holding company)	Vienna (Austria)	EUR	36,336	100.00	TELECOM ITALIA
TELECOM ITALIA IRELAND Ltd (in liquidation) (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.
TDL INVESTMENTS B.V. (in liquidation) (supply of services)	Rotterdam (Holland)	EUR	20,000	100.00	TDL INFOMEDIA LTD
TIMNET.COM PERU' S.A.C. (services for mobile networks)	Lima (Perù)	PEN	1,000	100.00 (*)	TIM PERU'
TIN WEB S.r.l. (in liquidation) (consulting for the creation of Internet sites)	Milan (Italy)	EUR	10,000	100.00	SEAT PAGINE GIALLE
TRAINET S.p.A. (in liquidation) (development, operation and sales of remote teaching systems)	Rome (Italy)	EUR	674,446	100.00	TELECOM ITALIA
TRAVELGATE BUSINESS GmbH (in liquidation) (business tour operator)	Martinsried (Munich, Germany)	EUR	25,000	100.00	ARSMOVENDI.COM
TRIUNPH-ADLER WOHNUNGSBAU GmbH (inattiva) (real estate activity)	Nurnberg (Germany)	EUR	25,565	100.00	OLIVETTI TECNOST DEUTSCHLAND GmbH
UNDERWOOD Ltd (in liquidation) (production and sale of office equipment)	Toronto (Canada)	CAD	3	100.00	OLIVETTI HOLDING B.V.
WEBNEXT S.r.l. (in liquidation) (development and management of virtual communities)	Milan (Italy)	EUR	100,000	100.00	MATRIX
ZD TECH ITALIA S.p.A. (in liquidation) (ex ZDNET ITALIA S.p.A.) (creation and management of Internet sites)	Milan (Italy)	EUR	100,000	51.00	MATRIX
Affiliated companies					
ARCHEO S.p.A. (in liquidation) (services)	Bari (Italy)	EUR	464,400	25.00	OFI CONSULTING S.r.l.
BALTEA S.r.l. (production and sales of office products and computer/telecommunications services)	Ivrea (Turin, Italy)	EUR	2,220,000	49.00	OLIVETTI TECNOST S.p.A.
CABLE INSIGNIA S.A. (in liquidation) (telecommunications services)	Asuncion (Paraguay)	PYG	1,000,000,000	75.00	TELECOM PERSONAL
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 databases)	Rueil Mailmaison (France)	EUR	266,980	50.00	CONSODATA S.A.
E-UTILE S.p.A. (ICT solutions and services for public utility companies)	Milan (Italy)	EUR	482,000	51.00	SIEMENS INFORMATICA
INDIRECT S.P.R.L. (in liquidation) (supply of services)	Brussels (Belgium)	BEF	6,000,000	19.17 7.83	TDL INVESTMENTS TDL INFOMEDIA Ltd
INTERNATIONAL INFORMATION SERVICES (sales of information systems and software products)	Moscow (Russia)	RUB	1,000,000	50.00	OLIVETTI HOLDING B.V.
IN.VA. S.p.A. (computer-related activities)	Aosta (Italy)	EUR	520,000	40.00	TELECOM ITALIA
LI.SIT- LOMBARDIA INTEGRATA SERVIZI INFORMATICI PER IL TERRITORIO S.p.A. (computer and telecommunications products and services for the public administration)	Milan (Italy)	EUR	6,500,000	22.00 13.20	TELECOM ITALIA FINSIEL
MEDITERRANEAN BROAD BAND ACCESS S.A. (telecommunications services)	Heraklion Creta (Greece)	EUR	17,580,000	60.00 40.00	FORTHNET TELECOM ITALIA INTERNATIONAL
MONTECO S.r.l. (lottery and telephonic/telematic games)	Milan (Italy)	EUR	13,760	25.00	TECNOST SISTEMI

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

List of other subsidiaries and affiliated companies valued at cost

Name (type of business)	Head office	Share capital	ownership	% of voting rights	Held by
NETEX S.r.l.(in liquidation) (management of the activities relating to the Netex Ltd software license contract)	Milan (Italy)	EUR	10,000	50.00	MATRIX
OCN TRADING S.r.l. (in liquidation) (sales business)	Ivrea (Turin, Italy)	EUR	41,317	40.00	TELECOM ITALIA
OLI GULF FZCO (sales of office and computer products)	Jebel Ali (Dubai)	GRD	500,000	40.00	OLIVETTI TECNOST INTERNATIONAL B.V.
OLITECNO S.A. DE C.V. (production and sale of telecommunications products)	Azcapotzalco (Mexico)	MXN	1,000,000	50.00	OLIVETTI MEXICANA S.A.
PARCO DORA BALTEA S.p.A. (sundry real estate sector-related services)	Ivrea (Turin, Italy)	EUR	300,000	33.33	OLIVETTI MULTISERVICES
SINOPIA INFORMATICA S.p.A. (bankrupt) (management, computer and telecommunications services)	Bologna (Italy)	EUR	157,155	21.31	TELECOM ITALIA
TDL BELGIUM S.A. (in liquidation) (publishing and sale of directories)	Brussels (Belgium)	BEF	750,087,200	49.60	TDL INVESTMENTS
UBA - NET S.A. (teleteaching 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
YMINDS S.A. (research and development)	Yverdon (Switzerland)	CHF	100,000	27.20 11.40	OLIVETTI I-JET OLIVETTI TECNOST INTERNATIONAL B.V.
Consortium subsidiaries					
CONSORZIO ENERGIA GRUPPO TELECOM ITALIA (power coordination for the fixed and mobile network of the consortium companies)	Rome (Italy)	EUR	10,000	50.00 50.00	TELECOM ITALIA TELECOM ITALIA MOBILE
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 SEGISIEL (in liquidation) (realization of operating systems in the field of Justice for Consorzio Telcal)	Rende (Cosenza, Italy)	EUR	103,291	85.00 15.00	INTERSIEL FINSIEL
CONSORZIO SER (in liquidation) (realization of the Piano Telematico Calabria for Consorzio Telcal)	Catanzaro (Italy)	EUR	103,291	46.00 5.00	INTERSIEL INSIEL
CONSORZIO SESIT (realization of the integrated information system for the Ministry of Transport and Navigation)	Rome (Italy)	EUR	51,646	70.00	FINSIEL
CONSORZIO TURISTEL (information systems for tourism)	Rome (Italy)	EUR	77,460	33.33 33.33	IT TELECOM FINSIEL
Consortium affiliates					
A R S CONSORZIO ANTICHITA' RICERCA E SVILUPPO (in liquidation) (project to appreciate and restore cultural works)	Rome (Italy)	EUR	51,646	25.00	TELECOM ITALIA
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 Po Valley-Adriatic basin and professional training)	Bologna (Italy)	EUR	180,760	20.00	FINSIEL
CONSORZIO CSIA (information systems for the State Agency for the Agricultural Market)	Rome (Italy)	EUR	206,583	44.00	FINSIEL
CONSORZIO DREAMFACTORY (promotion and development of the new economy in the weak areas of the country)	Rome (Italy)	EUR	20,000	20.00	TELECOM ITALIA
CONSORZIO E-TELEVISION (professional training)	Rome (Italy)	EUR	10,000	50.00	TELECOM ITALIA LEARNING SERVICES
CONSORZIO FORMAZIONE FINANZE (promotion and realization of activity in the fiscal field)	Rome (Italy)	EUR	5,200	15.00	TELECOM ITALIA LEARNING SERVICES
CONSORZIO ITALTEL TELESIS (in liquidation) (integrated computer 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 TELECOM ITALIA LEARNING SERVICES

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

List of other subsidiaries and affiliated companies valued at cost

Name (type of business)	Head office	Share capital	ownership	% of voting rights	Held by
CONSORZIO LA CARTA DI VENEZIA (in liquidation) (integrated services for the metropolitan area of Venice)	Venice (Italy)	EUR	10,500	50.00	VENIS
CONSORZIO NAUTILUS (professional training)	Rome (Italy)	EUR	30,000	31.00 20.00	TELECOM ITALIA LEARNING SERVICES MEDITERRANEAN NAUTILUS Ltd
CONSORZIO OMNIA (in liquidation) (hardware maintenance)	Perugia (Italy)	EUR	2,582	50.00	WEBRED
CONSORZIO PAOLA (in liquidation) (applied research for the development of information systems for clinics and medical structures)	Udine (Italy)	EUR	8,144	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 S.I.A.R.C. (in liquidation) (supply of products and computer services)	Naples (Italy)	EUR	25,823	30.00	TELECOM ITALIA
CONSORZIO SIMT (information systems for the General Management of the Civil Traffic and Transport Control Authority)	Rome (Italy)	EUR	51,646	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) (social and sanitary assistance via computer)	Rome (Italy)	EUR	103,291	33.33	TELECOM ITALIA
E O CONSORZIO (in liquidation) (professional training)	Rome (Italy)	EUR	30,987	50.00	TELECOM ITALIA

[*] The percentage of ownership includes ordinary shares/quotas held by members of the Board of Directors/Managers, as required by local laws in order to hold the post of Director /Manager, or held by trustees.

1 SUMMARY DATA AND GENERAL INFORMATION	126 CONSOLIDATED BALANCE SHEETS
19 REPORT ON OPERATIONS	128 CONSOLIDATED STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES >>	130 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

■ ANNEX 8

OTHER SIGNIFICANT INVESTMENTS ACCORDING TO CONSOB RESOLUTION N. 11971 DATED MAY 14, 1999

Name (type of business)	Head office	Share capital	% ownership	% of voting rights	Held by
ANCITEL S.p.A. (telecommunications services)	Rome (Italy)	EUR	1,087,232	8.55 7.13	TELECOM ITALIA INSIEL
BEMAR SERVEIS OFIMATICS (marketing of office products)	Barcelona (Spain)	EUR	12,000	15.00	OLIVETTI TECNOST ESPANA S.A.
CIFRA S.c.a.r.l. (advanced information technology training and research)	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. (bankrupt) (software production)	Milan (Italy)	EUR	127,420	14.70	SEAT PAGINE GIALLE
EUROFLY SERVICE S.p.A. (aircraft services)	Turin (Italy)	EUR	4,275,000	16.33	OLIVETTI S.p.A.
EUSKALTEL S.A. (telecommunications services)	Zamudio Bizkaia (Spain)	EUR	325,200,000	13.85	TELECOM ITALIA INTERNATIONAL
FIN.PRIV. S.r.l. (financing)	Milan (Italy)	EUR	20,000	14.29	OLIVETTI S.p.A.
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 S.A.
INSULA S.p.A. (telecommunications services)	Mestre (Venice, Italy)	EUR	2,064,000	12.00	TELECOM ITALIA
IPV LTD (Internet services)	Cambridge (UK)	GBP	265,837	12.54	OLIVETTI TELEMEDIA INV. B.V.
ITALBIZ.COM Inc. (Internet site management)	California (USA)	USD	4,720	19.50	SEAT PAGINE GIALLE
LOCATIONET SYSTEM Ltd. (development of middle-ware platform for supply of localization services)	Netanya (Israel)	ILS	-	12.97	TELECOM ITALIA LAB S.A.
PAS GROUP - Professional Application Software S.r.l. (software production)	Milan (Italy)	EUR	91,800	16.67	EUSTEMA
PIEDMONT INTERNATIONAL S.A. (financing)	Luxembourg	USD	9,192,500	11.92	OLIVETTI INTERNATIONAL S.A.
POLCESCA S.r.l. (in liquidation) (computer services management)	Bologna (Italy)	EUR	89,000	16.67	EIS
RETAIL NETWORK SERVICES B.V. (holding company)	Amsterdam (Holland)	EUR	15,129,484	13.65	TECNOST SISTEMI S.p.A.
SOLPART PARTECIPACOES S.A. (holding company for investment in Brasil Telecom Participações S.A.)	Rio de Janeiro (Brazil)	BRL	2,011,250,000	31.59	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	6,450,000	18.64	SEAT PAGINE GIALLE
VIRTUALAND PARK S.p.A. (in liquidation) (computer services)	Castiglione del Lago (Perugia, Italy)	EUR	103,280	12.50	WEBRED



financial statements at June 30, 2003
Telecom Italia S.p.A.

1 SUMMARY DATA AND GENERAL INFORMATION	176 BALANCE SHEETS
19 REPORT ON OPERATIONS	178 STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	180 NOTES TO THE FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	>>
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

BALANCE SHEETS

ASSETS

(in thousands of euro)

	6/30/2003	12/31/2002 ^(*)	6/30/2002 ^(*)
RECEIVABLES FROM SHAREHOLDERS FOR CAPITAL CONTRIBUTIONS		-	-
INTANGIBLES, FIXED ASSETS AND LONG-TERM INVESTMENTS			
- INTANGIBLE ASSETS			
Start-up and expansion costs	36,752	50,496	65,796
Industrial patents and intellectual property rights	693,384	-	-
Concessions, licenses, trademarks and similar rights	5,821	-	-
Goodwill	947	-	-
Work in progress and advances to suppliers	517,489	-	-
Other intangibles	100,363	2,363	2,586
TOTAL INTANGIBLE ASSETS	1,354,756	52,859	68,382
- FIXED ASSETS			
Land and buildings	1,144,485	-	-
Plant and machinery	9,984,557	277	698
Manufacturing and distribution equipment	11,940	-	2
Other fixed assets	61,407	767	885
Construction in progress and advances to suppliers	1,127,379	34	33
TOTAL FIXED ASSETS	12,329,768	1,078	1,618
- LONG-TERM INVESTMENTS			
Equity investments in subsidiaries	37,828,039	22,693,511	31,212,243
affiliated companies	562,733	44,935	296
other companies	220,210	149,090	148,844
Total equity investments	38,610,982	22,887,536	31,361,383
Advances on future capital contributions	125,360	-	-
Accounts receivable	(*)	(*)	(*)
subsidiaries	60,558	-	18
affiliated	125,165	15,880	61
other receivables	31,049	9,024	9,808
Total accounts receivable	31,049	9,024	9,887
Treasury stock (total par value euro 700 thousand at 6/30/2003)	2,298	2,298	2,298
TOTAL LONG-TERM INVESTMENTS	39,092,772	22,968,919	31,434,934
TOTAL INTANGIBLES, FIXED ASSETS AND LONG-TERM INVESTMENTS	52,777,296	23,022,856	31,504,934
CURRENT ASSETS			
- INVENTORIES			
Contract work in process	18,934	-	-
Finished goods and merchandise			
merchandise	75,929	-	-
TOTAL INVENTORIES	94,863	-	-
- ACCOUNTS RECEIVABLE	(*)	(*)	(*)
Trade accounts receivable	3,959,431	998	419
Accounts receivable from subsidiaries	2,100,324	497,122	900,558
Accounts receivable from affiliated companies	55,895	143	138
Other receivables due from			1,129,011
Government and other public entities for grants and subsidies	34,626	-	-
deferred tax assets	2,617,728	3,488,669	609,000
other receivables		2,181,945	830,708
Total other receivables	2,617,728	609,000	1,444,625
TOTAL ACCOUNTS RECEIVABLE	11,820,890	1,942,888	2,030,126
- SHORT-TERM FINANCIAL ASSETS			
Equity investments in subsidiaries	164,911	299,331	326,325
Other equity investments	1,115	2,756	3,204
Other securities	37,177	48,502	47,541
Receivables for the sale of securities	970	-	945
TOTAL SHORT-TERM FINANCIAL ASSETS	204,173	350,589	378,015
- LIQUID ASSETS			
Bank and postal accounts	577,048	518,640	24,907
Checks	234	-	-
Cash and valuables on hand	532	3	5
TOTAL LIQUID ASSETS	577,814	518,643	24,912
TOTAL CURRENT ASSETS	12,697,740	2,812,120	2,433,053
ACCRUED INCOME AND PREPARED EXPENSES			
Issue discounts and similar charges	140,808	126,510	145,969
Accrued income and other prepaid expenses	897,226	414,078	476,970
TOTAL ACCRUED INCOME AND PREPARED EXPENSES	1,038,034	540,588	622,939
TOTAL ASSETS	66,513,070	26,375,564	34,560,926

(^(*)) Amounts refer to the company Olivetti S.p.A.

(*) Amounts due within one year

(**) Amounts due beyond one year

1 SUMMARY DATA AND GENERAL INFORMATION	176 BALANCE SHEETS
19 REPORT ON OPERATIONS	178 STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	180 NOTES TO THE FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	>>
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

LIABILITIES AND SHAREHOLDERS' EQUITY

(in thousands of euro)

	6/30/2003	12/31/2002 ^(*)	6/30/2002 ^(*)
SHAREHOLDERS' EQUITY			
- SHARE CAPITAL	8,845,641	8,845,240	8,796,447
- SHARE CAPITAL INCREASES AWAITING REGISTRATION IN COMPANIES REGISTER UNDER ART. 2444 CIV. CODE	-	200	1,113
- PAYMENT AGAINST CAPITAL INCREASE ON SHARES TO BE ISSUED	-	-	638
- RESERVE FOR TREASURY STOCK	64,683	3,765,365	3,765,315
- ADDITIONAL PAID-IN CAPITAL ON SHARE CAPITAL INCREASES AWAITING REGISTRATION IN COMPANIES REGISTER AND ON SHARES TO BE ISSUED	-	127	25
- RESERVES FOR INFLATION ADJUSTMENTS	-	1,129	1,129
- LEGAL RESERVE	20	920,810	920,810
- RESERVE FOR TREASURY STOCK IN PORTFOLIO	2,298	2,298	2,298
- MISCELLANEOUS RESERVES	4,759,134	2,036,089	2,058,687
- RETAINED EARNINGS (ACCUMULATED DEFICIT)	-	(299,930)	(299,930)
- NET INCOME (LOSS) FOR THE PERIOD	1,579,842	(6,239,963)	849,320
TOTAL SHAREHOLDERS' EQUITY	15,251,618	9,031,365	16,095,852
RESERVES FOR RISK AND CHARGES			
Reserves for taxes	170,426	-	161,627
Other reserves	3,624,118	336,310	419,218
TOTAL RESERVES FOR RISK AND CHARGES	3,794,544	336,310	580,845
RESERVE FOR EMPLOYEE TERMINATION INDEMNITIES	1,015,555	2,587	3,232
LIABILITIES	(*)	(*)	(*)
Debentures	13,259,187	3,900,000	2,900,000
Convertible debentures	2,845,536	4,184,128	4,184,378
Due to banks	503,715	20,270	33,022
Due to other lenders	300,113	34,490	17,776
Advances	52,807	3,772	3,772
Trade accounts payable	2,035,140	8,989	10,728
Accounts payable to subsidiaries	3,418,566	3,743,568	4,943,409
Accounts payable to affiliated companies	116,619	586	-
Taxes payables	4,630	282,587	1,229,962
Contributions to pension and social security institutions	529,899	640,920	712
Other liabilities	1,020	7,889,819	15,996
TOTAL LIABILITIES	20,862,666	11,882,456	11,678,585
ACCRUED EXPENSES AND DEFERRED INCOME	2,235,212	1,505,346	1,272,914
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	66,513,070	26,375,564	34,560,926

(*) Amounts due within one year

(* *) Amounts due beyond one year

MEMORANDUM ACCOUNTS

(in thousands of euro)

	6/30/2003	12/31/2002 ^(*)	6/30/2002 ^(*)
GUARANTEES PROVIDED			
Sureties			
on behalf of subsidiaries	28,202,223	15,044,402	14,347,800
on behalf of affiliated companies	119,038	4,690	-
on behalf others	167,706	47,811	47,883
TOTAL GUARANTEES PROVIDED	28,488,967	15,096,903	14,395,683
COLLATERAL PROVIDED	-	-	-
PURCHASES AND SALES COMMITMENTS	2,517,448	7,960	7,970
OTHER MEMORANDUM ACCOUNTS	16,496	3,810	3,810
TOTAL MEMORANDUM ACCOUNTS	31,022,911	15,108,673	14,407,463

(*) Amounts refer to the company Olivetti S.p.A.

1 SUMMARY DATA AND GENERAL INFORMATION	176 BALANCE SHEETS
19 REPORT ON OPERATIONS	178 STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	180 NOTES TO THE FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	>>
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

STATEMENTS OF INCOME

(in thousands of euro)

	1st Half 2003	1st Half 2002 ^(*)	Year 2002 ^(*)
PRODUCTION VALUE			
Sales and service revenues	8,034,732	-	-
Changes in inventory of contract work in process	2,025	-	-
Increases in capitalized internal construction costs	26,566	-	-
Other revenue and income			
operating grants	6,119	-	-
other	117,414	3,571	13,598
Total other revenue and income	123,533	3,571	13,598
TOTAL PRODUCTION VALUE	8,186,856	3,571	13,598
PRODUCTION COSTS			
Raw materials, supplies and merchandise	172,482	145	232
Services	2,615,016	13,424	26,361
Use of property not owned	353,038	1,168	2,383
Personnel			
wages and salaries	899,080	2,875	4,899
social security contributions	285,746	3,045	1,410
termination indemnities	69,989	-	24
other costs	21,577	-	7,425
Total personnel cost	1,276,392	5,920	13,758
Amortization, depreciation and writedowns:			
amortization of intangible assets	268,496	15,671	31,608
amortization of fixed assets	1,127,693	600	1,195
other writedowns of intangibles and fixed assets	-	241	-
writedowns of receivables included in current assets and liquid assets	88,682	-	-
Total amortization, depreciation and writedowns	1,484,871	16,512	32,803
Changes in inventory of raw materials, supplies and merchandise	(23,133)	-	-
Provisions for risks	32,217	-	-
Other provisions	-	-	-
Miscellaneous operating costs			
losses on disposals of assets	7,614	-	-
license fee	69,633	-	-
other miscellaneous costs	114,733	460	2,731
Total miscellaneous operating costs	191,980	460	2,731
TOTAL PRODUCTION COSTS	(6,102,863)	(37,629)	(78,268)
OPERATING INCOME	2,083,993	(34,058)	(64,670)
FINANCIAL INCOME AND EXPENSE			
Income from equity investments			
dividends from subsidiaries	597,929	1,340,193	1,973,535
dividends from affiliated companies	-	-	-
dividends from other companies	2,821	1,241	3,724
other income from equity investments	78,735	-	2,095
Total income from equity investments	679,485	1,341,434	1,979,354
Other financial income from			
accounts receivable included in long-term investments:			
subsidiaries	1,696	-	1
affiliated companies	3,166	1	1
other	7,145	1	1
Total from accounts receivable included in long-term investments	12,007	2	3
securities, other than equity investments, included in long-term investments	-	-	-
securities, other than equity investments, included in current assets	1,213	1,642	3,063
other income:			
interest and fees from subsidiaries	16,981	3,712	7,469
interest and fees from affiliated companies	535	2	152
interest and fees from others and miscellaneous income	40,092	14,601	30,709
Total other income	57,608	18,315	38,330
Total other financial income	70,828	19,959	41,396
Interest and other financial expense			
interest and fees paid to subsidiaries	293,921	295,471	607,164
interest and fees paid to affiliated companies	174	-	-
interest and fees paid to others and miscellaneous expense	978,703	117,044	244,843
Total interest and other financial expense	(1,272,798)	(412,515)	(852,007)
TOTAL FINANCIAL INCOME AND EXPENSE	(522,485)	948,878	1,168,743

(*) Amounts refer to the company Olivetti S.p.A.

1 SUMMARY DATA AND GENERAL INFORMATION	176 BALANCE SHEETS
19 REPORT ON OPERATIONS	178 STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	180 NOTES TO THE FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A. >>	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

(in thousands of euro)

	1st Half 2003	1st Half 2002 ^(*)	Year 2002 ^(*)
VALUE ADJUSTMENTS TO FINANCIAL ASSETS			
Upward adjustments of:			
equity investments	-	-	-
Total upward adjustments	-	-	-
Writedowns of:			
equity investments	195,586	43,021	8,400,396
Total writedowns	(195,586)	(43,021)	(8,400,396)
TOTAL VALUE ADJUSTMENTS TO FINANCIAL ASSETS	(195,586)	(43,021)	(8,400,396)
EXTRAORDINARY INCOME AND EXPENSE			
Income:			
gains on disposals	32,533	166,970	238,850
miscellaneous	31,225	1,006	1,448
Total income	63,758	167,976	240,298
Expense:			
losses on disposals	40,127	8	70,548
prior years' taxes	4,522	-	1,213
provisions and writedowns of equity investments	433,502	-	-
miscellaneous	600,248	4,173	4,274
Total expense	(1,078,399)	(4,181)	(76,035)
TOTAL EXTRAORDINARY ITEMS	(1,014,641)	163,795	164,263
INCOME (LOSS) BEFORE TAXES	351,281	1,035,594	(7,132,060)
Income taxes:			
current taxes	57,439	186,274	61,340
deferred taxes	(1,286,000)	-	(953,437)
Total income taxes	1,228,561	(186,274)	892,097
NET INCOME (LOSS) FOR THE PERIOD	1,579,842	849,320	(6,239,963)

(*) Amounts refer to the company Olivetti S.p.A.

1 SUMMARY DATA AND GENERAL INFORMATION	176 BALANCE SHEETS
19 REPORT ON OPERATIONS	178 STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	180 NOTES TO THE FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A. >>	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

■ NOTES TO THE FINANCIAL STATEMENTS

■ INTRODUCTION

The statutory financial statements for the six months ended June 30, 2003 have been prepared in accordance with art. 81 and Annex 3C-bis of Consob Resolution No. 11971 dated May 14, 1999, and subsequent amendments, and the provisions of the Italian Civil Code relating to statutory financial statements.

As a result of the merger by incorporation of Telecom Italia S.p.A. with and into Olivetti S.p.A., Olivetti changed its corporate business purpose to include that of Telecom Italia which, among other things, comprises telecommunications services, and wherein it is also contemplated that the activity of an industrial holding company is not a predominant activity, which, up to the date of the merger, had been the principal business of Olivetti. As a result, the reclassified statement of income, required by Consob under Communication No. 94001437 dated February 27, 1994, in lieu of that required by art. 2425 of the Italian Civil Code, is no longer obliged to be prepared as part of the financial statements.

The statement of cash flows, although presented in the Report on Operations, constitutes an integral part of these financial statements and these Notes to the financial statements.

Reclassifications made to certain captions of the data have also been made, for comparative purposes, to the data for the first half of 2002 and at December 31, 2002.

As stated in the comments on the reclassified statements of income, balance sheets and statements of cash flows included in the Report on Operations, the figures for the first half of 2003, presented in the financial statements and in the related Notes, take into account the effects – as from January 1, 2003 for accounting and tax purposes – of the merger by incorporation of the Merged Company Telecom Italia S.p.A. with and into Olivetti S.p.A. (subsequently renamed Telecom Italia S.p.A.) and of the following related transactions: the exercise, by dissenting Olivetti shareholders, of the right of withdrawal as a result of the resolution passed by the Shareholders' Meeting which approved the plan of merger and the adoption of new by-laws, as well as the voluntary partial tender offer by Olivetti for the ordinary and savings shares issued by Telecom Italia. These financial statements show the balance sheet effects resulting from the withdrawal, the tender offer and the merger, transactions which were finalized on August 4, 2003, in order to provide the market with a complete and exhaustive representation of the impact of the Olivetti and Telecom Italia merger.

The Notes to the financial statements provide evidence of the effects inherent to the Olivetti and Telecom Italia merger by presenting in the balance sheet the contributions from the Merged Company (also including those from Telecom Italia LAB, a company merged in turn by incorporation with and into Telecom Italia S.p.A., effective as from January 1, 2003 for accounting and tax purposes). Furthermore, for purposes of ensuring suitable comparisons, the comments to the statements of income and the balance sheets include, respectively, the comparative figures for the first half of 2002 and at December 31, 2002 that have been restated to give effect to the merger alone as of January 1, 2002. Such figures are presented in a condensed format in the report on operations.

Lastly, consolidated financial statements and the relative Notes have been prepared and are presented together with the statutory financial statements of Telecom Italia S.p.A. as required by the aforementioned art. 81 of Consob Resolution No. 11971 dated May 14, 1999, as amended.

All amounts are stated in thousands of euro, unless otherwise indicated.

■ SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

■ 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.

The original recorded value will be reinstated in subsequent years if the underlying assumptions are no longer correct.

Beginning from the first half of 2003, the method of calculating the amortization charge of certain intangible assets has been changed by aligning the amortization starting date to the date the asset actually came into use. That change, which improves the comprehensibility and comparability of the figures, has resulted in a lower amortization charge for intangible assets of euro 27,908 thousand.

1 SUMMARY DATA AND GENERAL INFORMATION	176 BALANCE SHEETS
19 REPORT ON OPERATIONS	178 STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	180 NOTES TO THE FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A. >>	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

Intangible assets specifically refer to the following:

"Start-up and formation costs" are amortized over a period of five years starting from the time the asset produces an economic benefit.

"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 time the asset produces an economic benefit.

"Concessions, licenses, trademarks and similar rights" refer mainly to satellite utilization rights and are amortized over the contract period.

"Goodwill" relates to the acquisition of the "administrative services" business segment from Holding Media e Comunicazioni and TIM; it is amortized over five years;

"Others" refer almost entirely to leasehold improvements. Amortization is calculated on the basis of the lower of the period of future economic benefit or the residual lease period, starting from the time the expenses are incurred or from the time the asset produces an economic benefit.

"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. The original recorded value will be reinstated in subsequent years if the underlying assumptions are no longer correct.

Construction in progress is stated at the amount of direct costs incurred (materials used for or intended for installations, third-party services, miscellaneous expenses, internal design costs, 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.

Total accumulated depreciation for fixed assets was upwardly adjusted where called for by the previously mentioned special laws.

The elimination or sale of fixed assets is recorded in the financial statement by removing the cost and related accumulated depreciation from the financial statements and posting the relative 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.

Starting from the first half of 2003, long-term equity investments are valued at acquisition or subscription cost – determined according to the continuous LIFO method – already adopted by the Merged Company (former Telecom Italia S.p.A.) in view of the predominance and significance of the equity investment transactions by that company. The Merging Company (former Olivetti S.p.A.), in prior years, adopted the annual LIFO method for long-term equity investments which, however, was never in fact applied because equity investment transactions were not significant.

The acquisition cost is increased by statutory inflation adjustments, as well as the voluntary one made to several investments during the preparation of the financial statements at December 31, 1981, as well as the cancellation deficit, attributed to Tim shares and which arose from the merger by incorporation of Telecom Italia S.p.A. with and into Olivetti S.p.A., being the difference between the carrying value of the cancelled shares of the Merged Company and the underlying share of net equity.

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 in *"reserves for risks and charges"*.

Equity investments included under current assets 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.

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.

1 SUMMARY DATA AND GENERAL INFORMATION	176 BALANCE SHEETS
19 REPORT ON OPERATIONS	178 STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	180 NOTES TO THE FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A. >>	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

■ Other securities (other than equity investments) recorded in short-term financial assets

Securities recorded in current assets are valued at the lower of cost of acquisition and realizable value based on market prices; if the underlying assumptions for the writedowns are no longer correct, the carrying value will be adjusted to the market value up to the original cost.

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.

Income or expenses relating to these transactions are calculated considering both the difference between the sales price and the purchase price and the interest thereon on the basis of the accrual principle.

■ 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.

For obsolete materials, the carrying value of goods in stock is reduced, through appropriate writedowns.

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. They include – as far as telecommunications services are concerned – the amount of services already rendered to customers, 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 the year-end date are recorded in the statement of income, respectively, in “financial income” and “financial expense”.

■ Securitization

The total amount of receivables sold under securitization transactions 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* by the Merged Company.

■ 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 provisions for estimated tax charges (including any surtaxes and late payment interest) on positions not yet agreed or in dispute, as well as provisions for current and deferred income taxes calculated for the six-month period on the basis of the estimated tax rate for the year 2003.

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 taxes on reserves and tax-suspended reserves are recorded when it is expected that such reserves will be distributed or used and the distribution or utilization will give rise to tax charges.

“*Other reserves*”: these 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.

1 SUMMARY DATA AND GENERAL INFORMATION	176 BALANCE SHEETS
19 REPORT ON OPERATIONS	178 STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	180 NOTES TO THE FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A. >>	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

■ 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 under 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 Legislative Decree 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.

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 June 30, 2003, 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 the exclusion from the estimates under Law No. 58/1992 of all employees (except for employees of the former Iritel) who had already filed an application to join pursuant to Law No. 29/1979 before February 20, 1992, even though 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.

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 489 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 June 30, 2003 and the interpretation of said requests, amounts to euro 1,104 million, divided as follows:

- euro 779 million for the principal amount (except for the portion attributable to former Iritel employees);
- euro 325 million in accrued interest.

The expenses recorded in the statement of income under "extraordinary expense" for the first half of 2003 amount to euro 123 million, including accrued interest.

In the first half of 2003, Telecom Italia paid INPS the above-mentioned expenses also on behalf of other Group companies to which those employees were 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;

1 SUMMARY DATA AND GENERAL INFORMATION	176 BALANCE SHEETS
19 REPORT ON OPERATIONS	178 STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	180 NOTES TO THE FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A. >>	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

- 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.

As usual, dividends from subsidiaries arising from the current year's earnings are not included in the result for the first half of 2003 but are recorded at the end of the year in accordance with the maturity principle.

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.

■ 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

• Exchange rate transactions

For forward currency purchase or sale contracts at pre-fixed exchange rates hedging specific receivables and payables expressed in foreign currency or a net exposure in foreign currency, the difference arising between a comparison of the current exchange rate at the date of inception of the contract and the forward pre-fixed exchange rate is booked to the statement of income over the period of the contract; moreover, gains or losses resulting from a comparison of the current exchange rate at the date of inception of the contract and the current exchange rate at the closing date are recorded in the statement of income if, for the corresponding underlying assets and liabilities expressed in foreign currency, the gains and losses from the change in the exchange rates are also recorded in the statement of income.

For other forward currency purchase or sale transactions in foreign currency at pre-fixed exchange rates, the gains and losses resulting from a comparison of the contracted forward exchange rate and the quotations of the corresponding forward exchange rate at the closing date are recorded in the statement of income.

• Interest rate transactions

The interest differentials on interest rate swaps and similar transactions, earned or payable at the closing date, are recorded in the statement of income in financial income and expenses based on the accrual principle.

Derivative financial contracts which cannot be classified as hedges are valued by comparing the contract value at the date of inception and the current value of the contract at the end of the year. If losses arise from this comparison then they are recorded in the statement of income; vice versa, no gains are recorded because they have not been realized.

1 SUMMARY DATA AND GENERAL INFORMATION	176 BALANCE SHEETS
19 REPORT ON OPERATIONS	178 STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	180 NOTES TO THE FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A. >>	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

BALANCE SHEETS - ASSETS

As described in the introduction to the notes, for purposes of ensuring suitable comparisons, the comparative figures at December 31, 2002, restated to give effect to the merger alone as of January 1, 2002, have been included, as well as the comments on the related changes.

INTANGIBLES, FIXED ASSETS AND LONG-TERM INVESTMENTS

INTANGIBLE ASSETS

euro 1,354,756 thousand

(euro 52,859 thousand at December 31, 2002 - data of the Merging Company)

(euro 1,340,307 thousand at December 31, 2002 restated)

A summary of the changes in intangible assets during the period is presented as follows:

(in thousands of euro)	1st half 2003
- merger with TILAB	6,841
- additions	290,705
- reclassifications	(14,602)
- amortization	(268,495)
Total	14,449

An analysis of the composition and the changes in intangible assets during the period is shown below:

12/31/2002 - Restated					
(in thousands of euro)	Cost	Revaluations	Writedowns	Amortization	Total
Start-up and expansion costs	152,755			(102,259)	50,496
- Olivetti	152,755			(102,259)	50,496
- Merged company					
Industrial patents and intellectual property rights	3,166,333			(2,640,809)	525,524
- Olivetti	10			(10)	-
- Merged company	3,166,323			(2,640,799)	525,524
Concessions, licenses, trademarks and similar rights	92,150			(81,359)	10,791
- Olivetti					
- Merged company	92,150			(81,359)	10,791
Goodwill	20			(4)	16
- Olivetti					
- Merged company	20			(4)	16
Work in progress and advances to suppliers	637,070			-	637,070
- Olivetti					
- Merged company	637,070				637,070
Other intangibles (*)	416,715			(300,305)	116,410
- Olivetti	4,194			(1,831)	2,363
- Merged company	412,521			(298,474)	114,047
Total	4,465,043	-	-	(3,124,736)	1,340,307
- Olivetti	156,959	-	-	(104,100)	52,859
- Merged company	4,308,084	-	-	(3,020,636)	1,287,448
(*) of which:					
Leasehold improvements	416,314			(299,904)	116,410
- Olivetti	4,194			(1,831)	2,363
- Merged company	412,120			(298,073)	114,047

1 SUMMARY DATA AND GENERAL INFORMATION	176 BALANCE SHEETS
19 REPORT ON OPERATIONS	178 STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	180 NOTES TO THE FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	>>
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

CHANGES DURING THE PERIOD

(in thousands of euro)	Additions	Reclassi- fications	TILAB merger	Writedowns / Reinstatements	Amorti- zation	Total
Start-up and expansion costs					(13,744)	(13,744)
Industrial patents and intellectual property rights		405,644	2,350		(240,134)	167,860
Concessions, licenses, trademarks and similar rights			17		(4,987)	(4,970)
Goodwill		1,000			(69)	931
Work in progress and advances to suppliers	290,705	(411,000)	714			(119,581)
Other intangibles (*)		(10,246)	3,760		(9,561)	(16,047)
Total	290,705	(14,602)	6,841	-	(268,495)	14,449
(*) of which:						
Leasehold improvements	-	(6,487)		-	(9,561)	(16,048)

6/30/2003

(in thousands of euro)	Cost	Revaluations	Writedowns	Amortization	Total
Start-up and expansion costs	152,755			(116,003)	36,752
Industrial patents and intellectual property rights	3,596,023			(2,902,639)	693,384
Concessions, licenses, trademarks and similar rights	92,506			(86,685)	5,821
Goodwill	1,020			(73)	947
Work in progress and advances to suppliers	517,489			-	517,489
Other intangibles (*)	419,556			(319,193)	100,363
Total	4,779,349	-	-	(3,424,593)	1,354,756
(*) of which:					
Leasehold improvements	409,827			(309,465)	100,362

In particular:

"Start-up and expansion costs" consisted of underwriting commissions connected with the share capital increases of the Merging Company Olivetti.

"Industrial patents and intellectual property rights" consisted almost entirely of applications software relating to the Merged Company Telecom Italia.

"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 referred to intangible assets that came into use during the year. Furthermore, upon the early purchase of the buildings under finance leases with Teleleasing, the relative leasehold improvements were reclassified to fixed assets.

In the first half of 2003, the purchases of intangibles from subsidiaries and affiliated companies amounted to euro 262,692 thousand and mainly referred to software projects from I.T. Telecom (euro 217,103 thousand), Italtel (euro 36,050 thousand) and Siemens Informatica (euro 3,946 thousand).

Furthermore, transactions with other related parties totaled euro 3,427 thousand and regarded leasehold improvements carried out by Pirelli Real Estate.

1 SUMMARY DATA AND GENERAL INFORMATION	176 BALANCE SHEETS
19 REPORT ON OPERATIONS	178 STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	180 NOTES TO THE FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A. >>	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

■ FIXED ASSETS

euro 12,329,768 thousand

(euro 1,078 thousand at December 31, 2002 - data of the Merging Company)

(euro 12,679,113 thousand at December 31, 2002 restated)

A summary of the changes in fixed assets during the period is presented as follows:

(in thousands of euro)	1st half 2003
- additions	1,069,645
- merger with TILAB	41,797
- disposals	(347,695)
- reclassifications	14,602
- accumulated depreciation	(1,127,694)
Total	(349,345)

An analysis of the composition and the changes in fixed assets during the period is shown as follows:

12/31/2002 - restated

(in thousands of euro)	Cost	Revaluations	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	46,103,102	744,364	(727,730)	(35,427,169)	10,692,567
- Olivetti	11,553			(11,276)	277
- Merged company	46,091,549	744,364	(727,730)	(35,415,893)	10,692,290
Manufacturing and distribution equipment	845,507			(833,569)	11,938
- Olivetti	10,267			(10,267)	-
- Merged company	835,240			(823,302)	11,938
Other fixed assets	581,971	4,294		(521,786)	64,479
- Olivetti	3,274			(2,506)	768
- Merged company	578,697	4,294		(519,280)	63,711
Construction in progress and advances to suppliers	731,523				731,523
- Olivetti	33				33
- Merged company	731,490				731,490
Total	50,180,678	1,143,385	(732,887)	(37,912,063)	12,679,113
- Olivetti	25,127			(24,049)	1,078
- Merged company	50,155,551	1,143,385	(732,887)	(37,888,014)	12,678,035

CHANGES DURING THE PERIOD

(in thousands of euro)	Additions	Reclassifications	TILAB merger	Sales/ Retirements/ Other changes (a)	Writedowns/ Reinstatements	Depreciation	Total
Land and buildings							
- non-industrial buildings				(36)		(80)	(116)
- industrial buildings		327,203	17,305	(337,277)		(41,236)	(34,005)
	-	327,203	17,305	(337,313)	-	(41,316)	(34,121)
Plant and machinery		345,052	14,246	(10,218)		(1,057,090)	(708,010)
Manufacturing and distribution equipment		866	5,845	(11)		(6,698)	2
Other fixed assets		15,270	4,401	(153)		(22,590)	(3,072)
Construction in progress and advances to suppliers	1,069,645	(673,789)					395,856
Total	1,069,645	14,602	41,797	(347,695)	-	(1,127,694)	(349,345)

1 SUMMARY DATA AND GENERAL INFORMATION	176 BALANCE SHEETS
19 REPORT ON OPERATIONS	178 STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	180 NOTES TO THE FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	>>
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

(a) Broken down as follows

	Cost	Revaluations	Writedowns	Accumulated depreciation	Net value
<i>Land and buildings</i>					
- non-industrial buildings	(18)	(18)			(36)
- industrial buildings	(356,606)	(254)		19,583	(337,277)
	(356,624)	(272)	-	19,583	(337,313)
<i>Plant and machinery</i>	(80,174)	(4,144)		74,100	(10,218)
<i>Manufacturing and distribution equipment</i>	(6,545)			6,534	(11)
- of which sales of business segments	(5,860)			5,852	(8)
<i>Other fixed assets</i>	(63,335)	(45)		63,227	(153)
- of which sales of business segments	(9,143)			9,115	(28)
Total	(506,678)	(4,461)	-	163,444	(347,695)
- of which sales of business segments	(15,003)	-	-	14,967	(36)

6/30/2003

(in thousands of euro)	Cost	Revaluations	Writedowns	Accumulated depreciation	Total
<i>Land and buildings</i>					
- non-industrial buildings	21,233	793		(1,110)	20,916
- industrial buildings	1,908,003	393,662	(5,157)	(1,172,939)	1,123,569
	1,929,236	394,455	(5,157)	(1,174,049)	1,144,485
<i>Plant and machinery</i>	46,401,724	740,220	(727,730)	(36,429,657)	9,984,557
<i>Manufacturing and distribution equipment</i>	900,988			(889,048)	11,940
<i>Other fixed assets</i>	568,902	4,249		(511,744)	61,407
<i>Construction in progress and advances to suppliers</i>	1,127,379				1,127,379
Total	50,928,229	1,138,924	(732,887)	(39,004,498)	12,329,768

During the first half of 2003, the acquisitions of fixed assets from subsidiaries and affiliated companies amounted to euro 398,941 thousand and referred almost entirely to the acquisition of telephone exchanges from Italtel (euro 84,933 thousand) and buildings under finance leases purchased in advance from Teleleasing (euro 308,500 thousand).

Furthermore, transactions with other related parties totaled euro 12,569 thousand and referred to the purchases of network cables from Pirelli.

Accumulated depreciation at June 30, 2003, 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 applying the rates used in the previous year. At June 30, 2003, accumulated depreciation included accelerated accumulated depreciation of euro 6,653 thousand relating to prior years.

Accumulated depreciation, net of writedowns, covered 74.9% of fixed assets at June 30, 2003, compared to 73.9% at December 31, 2002.

1 SUMMARY DATA AND GENERAL INFORMATION	176 BALANCE SHEETS
19 REPORT ON OPERATIONS	178 STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	180 NOTES TO THE FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A. >>	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

■ LONG-TERM INVESTMENTS

euro 39,092,772 thousand

(euro 22,968,919 thousand at December 31, 2002 - data of the Merging Company)

(euro 33,682,800 thousand at December 31, 2002 restated)

Long-term investments increased by euro 5,409,973 thousand compared to December 31, 2002 restated. They comprise the following:

(in thousands of euro)	12/31/2002 Olivetti	12/31/2002 Merged company	Merger effect	Total 12/31/2002 restated	6/30/2003
Equity investments in:					
• subsidiaries	22,693,511	14,399,646	(4,596,395)	32,496,762	37,828,039
• affiliated companies	44,935	388,273	-	433,208	562,733
• other companies	149,090	55,233	-	204,323	220,210
	22,887,536	14,843,152	(4,596,395)	33,134,293	38,610,982
Advances on future capital contributions	-	166,184	-	166,184	125,360
Accounts receivable:					
• subsidiaries	-	60,000	-	60,000	60,558
• affiliated companies	15,880	117,406	-	133,286	125,165
• other companies	63,205	123,533	-	186,738	168,409
	79,085	300,939	-	380,024	354,132
Treasury stock	2,298	287,213	(287,213)	2,298	2,298
Total	22,968,919	15,597,488	(4,883,608)	33,682,799	39,092,772

Annex 1 presents the changes in each asset during the period together with the corresponding amount at the beginning of the year and at June 30, 2003.

The merger effect mainly included the cancellation of the shares of the Merged Company held by Olivetti S.p.A. (for a book value, respectively, of euro 22,388,810 thousand at December 31, 2002 restated and euro 27,663,129 thousand at June 30, 2003) and the allocation of the cancellation deficit to the investment in TIM (respectively, euro 17,493,084 thousand at December 31, 2002 restated and euro 22,980,460 thousand at June 30, 2003). After this allocation, the investment in TIM presented a per unit carrying value (euro 5.806 at June 30, 2003) that was higher than the underlying net equity and the stock market price. However, taking into account the current strategic positioning of the business as well as its potential for further growth, it is believed, consistent with a recent valuation conducted by external consultants, that the carrying value is aligned to the effective value of the investment.

In summary, investments in subsidiaries, affiliates and other companies increased by euro 5,476,689 compared to December 31, 2002 restated, as shown below:

INCREASES:	(in thousands of euro)
• Acquisition, following the merger with TILAB, of: Loquendo (7,820), TILAB SA (2,939), Consorzio Laboratorio della conoscenza (12), Cerm l'Aquila (266), Italtel CERM Palermo (193), Italtel CERM S.Maria Capua Vetere (192), Localport (114), Telsy (14,513), Siosistemi (3,305).	29,354
• Subscription to capital increases, recapitalizations and loss coverage of: FMP ITALY 1 (former Ireos) (1,736), Cartesia (229), Lisit (34,000), Sky Italia (former Stream) (269,070), Telbios (3,375), Olivetti Multiservices (15,000), Pirelli Real Estate (15,149).	338,559
• Definitive capital increase from advances on future capital contributions relating to I.T. Telecom	30,461
• Tender offer to purchase the shares of the Merged Company Telecom Italia	5,274,319
• Higher cancellation deficit compared to December 31, 2002 restated, allocated to the investment in TIM	5,487,376
Total increases	(A) 11,160,069

1 SUMMARY DATA AND GENERAL INFORMATION	176 BALANCE SHEETS
19 REPORT ON OPERATIONS	178 STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	180 NOTES TO THE FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A. >>	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

DECREASES:

(migliaia di euro)

• Sales/reductions of shares/quotas in:	
Tele Pay Roll Services (4,028), Siteba (751), OMS Facility (11,479), Aholding (1,300).	17,558
• Writedowns for losses of value charged to the statement of income of:	
Olivetti International (33,200), Edotel (6,752), EPIClink (60,254), I.T. Telecom (47,335), Latin American Nautilus (4,243), Netesi (816), Telecom Italia America Latina (1,575), Telecom Italia Learning Services (666), TILAB SA (2,939), Sky Italia (64,248), Consorzio Laboratorio della conoscenza (2), Localport (27), Astar (1).	222,058
• Writedowns for losses of value covered by the reserve for losses of subsidiaries and affiliates of:	
FMP Italy 1 (former Ireos) (1,686), Cartesia (178), IM.SER (760), Olivetti International (47,026).	49,650
• Writedowns for losses of value covered by the reserve for contractual and other risks of Sky Italia (former Stream)	114,527
• Cancellation of the investment in TILAB following the merger by incorporation of the same company	5,268
• Cancellation, following the merger, of the shares of the Merged Company Telecom Italia purchased in the tender offer	5,274,319
Total decreases	(B) 5,683,380
Net change for the period	(A-B) 5,476,689

In particular:

- the higher cancellation deficit allocated to the investment in TIM compared to December 31, 2002 restated was principally connected with the balance sheet effects of the tender offer by the Merging Company Olivetti for the ordinary and savings shares of the Merged Company Telecom Italia;
- on April 30, 2003, the agreement announced on October 1, 2002 was finalized between Telecom Italia and News Corporation for the creation of Sky Italia, a company that came into being as a result of the merger between Stream and Tele+. Following this transaction, Telecom sold a total 30.1% stake in Stream: 25% to the company News Publishing Australia Limited and 5.1% to the company SGH STREAM SUB, Inc. After this transaction, Telecom Italia holds 19.9% of the new company Sky Italia; the remaining 80.1% is held by News Corporation;
- some investments in subsidiaries and affiliated companies are recorded at a amount in excess of the corresponding share of the underlying shareholders' equity, net of dividends and after consolidation adjustments (see Annex 2). 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.

Advances on future capital contributions, equal to euro 125,360 thousand, net of the reserve for losses of subsidiaries and affiliates of euro 12,000 thousand referring to the advances paid to EPIClink, decreased by euro 40,824 thousand, compared to December 31, 2002 restated. The reduction was mainly due to the conversion to share capital of euro 30,461 thousand in advances paid to I.T. Telecom and the above posting of euro 12,000 thousand to the reserve for losses of subsidiaries and affiliates.

Accounts receivable, equal to euro 354,132 thousand, decreased by euro 25,892 thousand compared to December 31, 2002, and can be analyzed as follows:

(in thousands of euro)	12/31/2002 Olivetti	12/31/2002 Merged company	Merger effect	Total 12/31/2002 restated	Changes during the period				6/30/2003
					Disbur- sements	Reimbur- sements	TILAB merger	Total	
Subsidiaries	-	60,000	-	60,000	558	-	-	558	60,558
Affiliated companies	15,880	117,406	-	133,286	1,079	(9,200)	-	(8,121)	125,165
Other receivables	63,205	123,533	-	186,738	6,294	(29,818)	5,195	(18,329)	168,409
Total	79,085	300,939	-	380,024	7,931	(39,018)	5,195	(25,892)	354,132

Subsidiaries

euro 60,558 thousand

Accounts receivable from subsidiaries included a loan made in 2001 to *Stet Hellas for the acquisition of UMTS licenses and a loan to Mediterranean Nautilus for euro 558 thousand*.

Affiliated companies

euro 125,165 thousand

Accounts receivable from affiliated companies referred to loans made to the companies *Tiglio I, Tiglio II, Telegono and Mirror International Holding*.

Other receivables

euro 168,409 thousand

These mainly referred to:

- the remaining loans receivable from employees (euro 43,910 thousand);
- the prepayment of the tax on the reserve for employee termination indemnities (euro 65,456 thousand), required under Law No. 662 of December 23, 1996, revalued as set forth by law;

1 SUMMARY DATA AND GENERAL INFORMATION	176 BALANCE SHEETS
19 REPORT ON OPERATIONS	178 STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	180 NOTES TO THE FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	>>
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

- an interest-earning time-deposit (euro 34,615 thousand) lodged with a leading banking institution to guarantee any remaining obligations for compensation due to Getronics (former Wang Laboratories Inc.);
- security deposits of euro 16,115 thousand.

As regards accounts receivable included in long-term investments, the portion due within and beyond five years, as required by art. 2427, point 6, of the Italian Civil Code, is presented in the attached Annex 4.

Treasury stock

euro 2,298 thousand

Treasury stock referred to the original 2,697,500 shares of the Merging Company Olivetti (now 1,272,014 new shares). The shares of the Merged Company Telecom Italia were cancelled following the merger.

CURRENT ASSETS

■ INVENTORIES

euro 94,863 thousand

(euro 69,572 thousand at December 31, 2002 restated)

Inventories, which increased by euro 25,291 thousand compared to December 31, 2002 restated, consisted of "contract work in process" (euro 18,934 thousand) and "merchandise" (euro 75,929 thousand).

■ ACCOUNTS RECEIVABLE

euro 11,820,890 thousand

(euro 1,942,888 thousand at December 31, 2002 - data of the Merging Company)

(euro 11,359,933 thousand at December 31, 2002 restated)

Accounts receivable increased by euro 460,957 thousand compared to December 31, 2002 restated. A breakdown and the changes that occurred during the period are presented in the table below:

	12/31/2002 Olivetti	12/31/2002 Merged company	Merger effect	Total 12/31/2002 restated	Changes during the period					6/30/2003
					Utili- zations	Provisions	TILAB merger	Other	Total	
(in thousands of euro)										
Trade accounts receivable	2,411	4,101,330	-	4,103,741			9,676	184,237	193,913	4,297,654
- allowance for doubtful accounts	(1,413)	(347,862)	-	(349,275)	93,121	(88,682)	(282)	6,895	11,052	(338,223)
Total trade accounts receivable	998	3,753,468	-	3,754,466	93,121	(88,682)	9,394	191,132	204,965	3,959,431
Accounts receivable from subsidiaries	497,122	2,831,123	(213,970)	3,114,275			(137,106)	(873,392)	(1,010,498)	2,103,777
- allowance for doubtful accounts of subsidiaries	-	(34,500)	-	(34,500)	34,500	-	(3,453)	-	31,047	(3,453)
Total accounts receivable from subsidiaries	497,122	2,796,623	(213,970)	3,079,775	34,500	-	(140,559)	(873,392)	(979,451)	2,100,324
- of which financial receivables	183,724	1,900,599	-	2,084,323			9,128	(1,459,589)	(1,450,461)	633,862
Accounts receivable from affiliated companies	143	153,310	-	153,453			1,098	(43,816)	(42,718)	110,735
- allowance for doubtful accounts of affiliated companies	-	(61,790)	-	(61,790)	-	-	-	6,950	6,950	(54,840)
Accounts receivable from affiliated companies	143	91,520	-	91,663	-	-	1,098	(36,866)	(35,768)	55,895
- of which financial receivables	89	721	-	810			-	(697)	(697)	113
Accounts receivable from parent companies	-	1,243	(1,243)	-	-	-	-	-	-	-
Other receivables	1,444,625	2,989,404	-	4,434,029	-	-	35,985	1,235,226	1,271,211	5,705,240
- Government and other public entities for grants and subsidies	-	1,265	-	1,265	-	-	30,194	3,167	33,361	34,626
- deferred tax assets	613,917	1,589,039	-	2,202,956	-	-	-	1,285,713	1,285,713	3,488,669
- other receivables	830,708	1,399,100	-	2,229,808	-	-	5,791	(53,654)	(47,863)	2,181,945
Total	1,942,888	9,632,258	(215,213)	11,359,933	127,621	(88,682)	(94,082)	516,100	460,957	11,820,890

1 SUMMARY DATA AND GENERAL INFORMATION	176 BALANCE SHEETS
19 REPORT ON OPERATIONS	178 STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	180 NOTES TO THE FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A. >>	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

■ Trade accounts receivable

Trade accounts receivable amounted to euro 3,959,431 thousand and are shown net of the relative allowance accounts (euro 338,223 thousand, of which euro 88,682 thousand was provided in the period). They included euro 507,970 thousand of receivables from other wireline and mobile telecommunications carriers.

Furthermore the following accounts receivable discounting and securitization transactions were carried out:

• Securitization

The program for the securitization of trade accounts receivable generated by the services rendered to the clientele of Telecom Italia Wireline initiated during 2001 by the Merged Company Telecom Italia has continued into the first half of 2003.

During the first six months of 2003, the total amount of trade accounts receivable sold under the securitization program was equal to euro 4.6 billion and referred to Telecom Italia's receivables from residential customers. At June 30, 2003, receivables sold amounted to euro 913,132 thousand (of which euro 771,000 thousand was not yet due).

The securitization transaction led to a reduction in net financial debt of euro 881,103 thousand at June 30, 2003 (euro 825,776 thousand at December 31, 2002).

Furthermore, at June 30, 2003, Telecom Italia posted a short-term financial payable of euro 210,229 thousand relating to the loans made by TI Securitisation Vehicle S.r.l. taken from the excess liquid resources generated by securitization transactions.

• Factoring

In the first half of 2003, trade accounts receivable without recourse were sold to leading factoring companies for a total amount of euro 22,000 thousand. These factoring transactions led to a reduction in net financial debt at June 30, 2003 of euro 7,200 thousand (euro 181,933 thousand at December 31, 2002).

■ Accounts receivable from subsidiaries

Accounts receivable from subsidiaries amounted to euro 2,100,324 thousand and included trade, financial and other receivables; they decreased by euro 979,451 thousand compared to December 31, 2002 restated.

The financial receivables, equal to euro 633,863 thousand, regarded current account transactions carried out at market rates for cash management purposes and short-term loans. They principally included receivables from *I.T. Telecom* (euro 212,088 thousand), *Olivetti Tecnost* (euro 174,818 thousand), *Epiclink* (euro 38,735 thousand), *Seat Pagine Gialle* (euro 32,670 thousand), *Telecom Italia Learning Services* (euro 27,974 thousand) and *Atesia* (euro 27,206 thousand). Trade accounts receivables (euro 685,504 thousand) related to TLC services rendered mainly to *Telecom Italia Sparkle* (euro 198,770 thousand), *TIM* (euro 195,983 thousand), *I.T. Telecom* (euro 75,650 thousand), *Seat Pagine Gialle* (euro 58,863 thousand), *Path.Net* (euro 51,349 thousand) and management fees due from *Telecom Italia International* (euro 38,645 thousand). Other receivables (euro 780,957 thousand) included amounts due from *FMP Italy 1* (former *Ireos*, euro 374,040 thousand) for the sale of fixed assets redeemed under the *Dedalo* project, from *Finsiel* (euro 39,900 thousand) for excess *IRPEG* receivables and other receivables connected with the Group's VAT settlement system, specifically from *TIM* (euro 314,500 thousand) and *Seat Pagine Gialle* (euro 21,307 thousand).

■ Accounts receivable from affiliated companies

Accounts receivable from affiliated companies amounted to euro 55,895 thousand and decreased by euro 35,768 thousand compared to December 31, 2002 restated and referred to financial and trade accounts receivable.

Financial receivables, equal to euro 113 thousand, regarded current account transactions carried out at market rates for cash management purposes. Trade accounts receivable (euro 55,782 thousand) referred to TLC services rendered principally to *Teleleasing* (euro 39,209 thousand) and *Sky Italia* (former *Stream*) (euro 3,703 thousand, net of the related allowance for doubtful accounts of euro 11,800 thousand).

Movements during the period in the allowance for doubtful accounts included the reclassification to the reserve for losses of subsidiaries and affiliates (euro 61,790 thousand) for the receivables due from *Sky Italia* waived by Telecom Italia (such receivables were used to increase the value of the investment in *Sky Italia* by Telecom Italia) and the reclassification from the reserve for risks and charges (euro 54,840 thousand) for the planned waiver of the receivables due from *Sky Italia* by Telecom Italia, based upon the agreement for the sale of the 30.1% stake in the investment held by Telecom Italia in the former company *Stream*.

■ Other receivables

Other receivables amounted to euro 5,705,240 thousand and mainly included deferred tax assets (euro 3,488,669 thousand, of which euro 1,286,000 thousand came from the merger), items relating to personnel administration (euro 93,849 thousand), receivables from the Tax Administration (euro 1,160,708 thousand), customer payments in transit with the banking and postal banking system (euro 104,200 thousand) and receivables from TI Securitisation Vehicle S.r.l. for the deferred portion of trade receivables discounting and securitization transactions (euro 362,692 thousand).

1 SUMMARY DATA AND GENERAL INFORMATION	176 BALANCE SHEETS
19 REPORT ON OPERATIONS	178 STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	180 NOTES TO THE FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	>>
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

■ SHORT-TERM FINANCIAL ASSETS

euro 204,173 thousand

(euro 350,589 thousand at December 31, 2002 - data of the Merging Company)

(euro 216,541 thousand at December 31, 2002 restated)

The composition and changes during the period are shown in the following table:

	12/31/2002 Olivetti	12/31/2002 Merged company	Merger effect	Total 12/31/2002 restated	Changes during the period				6/30/2003
					Acqui- sition	Sales/ Reimbur- sements	Writed./ Reinsta- tements	Other move- ments	
(in thousands of euro)									
Equity investments in subsidiaries	-	165,283	-	165,283		(372)			164,911
Equity investments in other companies	2,756	-	-	2,756		(1,516)	(125)	-	1,115
Other securities									
- other securities	346,872	-	(299,331)	47,541				(10,364)	37,177
- receivables for sales of securities	961	-	-	961	9				970
Total	350,589	165,283	(299,331)	216,541	9	(1,888)	(125)	(10,364)	204,173

Short-term financial assets totaled euro 204,173 thousand and mainly included the following:

- euro 164,608 thousand of TIM ordinary shares and euro 303 thousand of Seat Pagine Gialle ordinary shares purchased for trading;
- euro 37,177 thousand of C.C.T and B.T.P. government treasury bills.

Further details are provided in Annex 2.

A breakdown of receivables and accrued income by maturity and type is presented in Annex 3.

1 SUMMARY DATA AND GENERAL INFORMATION	176 BALANCE SHEETS
19 REPORT ON OPERATIONS	178 STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	180 NOTES TO THE FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	>>
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

■ LIABILITIES AND SHAREHOLDERS' EQUITY

SHAREHOLDERS' EQUITY

euro 15,251,618 thousand

(euro 9,031,365 thousand at December 31, 2002 - data of the Merging Company)

The change in shareholders' equity during the first six months of 2003, taking into account the effects of Olivetti - Telecom Italia merger, was as follows:

	12/31/2002 Olivetti	12/31/2002 Merged company	Changes during the period				Merger effect		Other move- ments	Total at 6/30/2003 post- merger
(in thousands of euro)			TILAB merger	Absorption of loss	Distribution of reserves	Other move- ments	With drawals	Other		
Share capital	8,845,240	4,023,817				5,939	(10,958)	(4,018,397)		8,845,641
Capital increases in anticipation of registration on Companies Register	200					(49)		(151)		-
Additional paid-in capital	3,765,365	3,038,374	(5,884)	(3,700,749)	(965,942)	(47,131)		(2,019,350)		64,683
Additional paid-in capital on capital increases in anticipation of registration on Companies' Register	127			(127)		10		(10)		-
Reserves for inflation adjustments	1,129	2,763,664		(1,646,505)				(1,118,288)		-
Legal reserve	920,810	820,000		(920,810)			17	(819,997)		20
Reserve for treasury stock in portfolio	2,298	287,213				47,190		(334,403)		2,298
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)		-
- Reserve, L.D. No. 124/93, ex art. 13	-	169	16					(185)		-
- Reserve D.P.R. No. 917/86 ex art. 74			5,750					(5,750)		-
- Special reserve	1,888,261	-		(1,888,261)						-
- Reserve for capital grants		485,703	118					(485,821)	6,493	6,493
- Miscellaneous income reserves		345,503			(337,679)			(7,824)		-
- Miscellaneous reserves	147,828	-		(28,817)			-			119,011
- Merger surplus reserve						-		4,633,630		4,633,630
Retained earnings (accumulated deficit)	(299,930)	1,147		299,930	(1,147)					-
Net income (loss) for the period	(6,239,963)	(1,645,376)		7,885,339		1,579,842				1,579,842
Total shareholders' equity	9,031,365	10,955,270	-	-	(1,304,768)	1,585,801	(10,941)	(5,011,602)	6,493	15,251,618

1 SUMMARY DATA AND GENERAL INFORMATION	176 BALANCE SHEETS
19 REPORT ON OPERATIONS	178 STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	180 NOTES TO THE FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A. >>	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

■ SHARE CAPITAL

The share capital of Telecom Italia S.p.A. (former Olivetti S.p.A.) at June 30, 2003 (and taking into account the effects of the merger which came into force – as stated earlier – on August 4, 2003) amounted to euro 8,845,641 thousand and consisted of 10,287,061,839 ordinary shares and 5,795,921,069 savings shares, all with a par value of euro 0.55 each.

At December 31, 2002, the share capital amounted to euro 8,845,440 thousand (including euro 200 thousand for capital increases that were awaiting registration in the Companies Register) and consisted of 8,845,439,830 ordinary shares of par value euro 1 each.

Contributing to the net increase in the first half of 2003 (including the effects of the merger) of euro 201 thousand were:

- increases, for a total of euro 4,034,995 thousand:
 - share capital of the Merged Company at December 31, 2002 of euro 4,023,817 thousand, which subsequently showed a nil balance after merger adjustments;
 - capital increases of par value euro 81 thousand following the conversion of 80,421 "Telecom Italia 1.5% 2001 - 2004 convertible notes with a premium on redemption", as renamed after the merger; such increase included euro 38 thousand from the conversion of 37,613 notes after the end of the first half, which was taken into account in arriving at the shareholders' equity of reference used for the merger;
 - capital increases of par value euro 11,081 thousand following the conversion of 11,081,121 "Telecom Italia 1.5% 2001 - 2010 convertible notes with a premium on redemption", as renamed after the merger; this increase included euro 5,250 thousand from the conversion of 5,249,479 notes after the end of the first half, which was taken into account in arriving at the shareholders' equity of reference used for the merger;
 - capital increase of par value euro 16 thousand following the warrants exercised for the stock option plans reserved for the employees of the Merged Company, which subsequently showed a nil balance after merger adjustments;
- decreases, for a total of euro 4,034,794 thousand:
 - reduction in the capital of the Merging Company Olivetti by euro 10,958 thousand following the exercise of the withdrawal rights by shareholders of the company;
 - merger adjustments writing off the share capital of the Merged Company for a total of euro 4,023,833 thousand, of which euro 4,023,817 thousand related to the amount of share capital at December 31, 2002 and euro 16 thousand related to the share capital increases following the warrants for the stock option plans reserved for the employees of the merged company that were exercised during the first half of 2003;
 - reduction in share capital of euro 3 thousand with a credit to the legal reserve for the roundings necessary for the redistribution of the shares upon the issue of new ordinary and savings shares of par value euro 0.55 each.

With regard to the potential future changes in share capital, note should be taken of the fact that at the date the merger came into effect (August 4, 2003), the following were still outstanding:

- 137,355,625 "Olivetti warrants ex-Tecnost 1999-2004" valid for the subscription of original 153,838,300 Olivetti ordinary shares (in a ratio therefore of 1.12 Olivetti shares for each warrant exercised) at the price per share originally set at euro 2.80 plus 15% per year, for the period between August 20, 1999 and the date the respective requests became effective and thus comprised (after the adjustments for the capital increases in 2001) between euro 4.121 for warrants exercised in August 2003 and euro 4.626 for warrants that will be exercised in June 2004.

After the redistribution of the shares and on the basis of the exchange ratio of 0.471553 new ordinary shares of Telecom Italia S.p.A. (former Olivetti S.p.A.) for each Olivetti ordinary share, 72,542,911 new shares at par value euro 0.55 each could thus be subscribed to for a total par value of euro 39,899 thousand. Consequently, should all the outstanding warrants be exercised at the effective date of the merger, the total value of the capital increase, including additional paid-in capital, would vary from a minimum of euro 633,968 thousand (August 2003) and a maximum of euro 711,656 thousand (June 2004), added to the euro 4,429 thousand deriving from the use of reserves previously set up for bonus capital increases.

- 487,331,455 "Telecom Italia 1.5% 2001-2004 convertible notes with a premium on redemption", for which 487,331,455 Olivetti shares could be issued at a total par value of euro 487,331,455. Moreover, as a result of the redistribution of shares and on the basis of the exchange ratio indicated above, 229,802,609 new shares could be issued for a total par value of euro 126,391 thousand, as well as additional paid-in share capital of euro 1,140,671 thousand.

1 SUMMARY DATA AND GENERAL INFORMATION	176 BALANCE SHEETS
19 REPORT ON OPERATIONS	178 STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	180 NOTES TO THE FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	>>
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

- 2,398,596,151 “Telecom Italia 1.5% 2001-2010 convertible notes with a premium on redemption”, for which the same number of 2,398,596,151 Olivetti shares could be issued for a total par value of euro 2,398,596,151. Moreover, as a result of the redistribution of shares and on the basis of the exchange ratio indicated above, 1,131,065,210 new shares could be issued for a total par value of euro 622,086 thousand, plus additional paid-in capital of euro 1,776,510 thousand.
- 8,442,050 warrants for the ex-Telecom Italia Stock Option Plan 1999, valid for the subscription of the same number of ordinary shares of the Merged Company Telecom Italia for a price per share of euro 6.79. As a result of the redistribution of shares and on the basis of the exchange ratio of 3.300871 new Telecom Italia shares for each old ex-Telecom Italia share, a maximum 27,866,118 new Telecom Italia shares could be issued (at the exercise price of approximately euro 2.057 per each share) for a total par value of euro 15,326 thousand, plus additional paid-in capital of euro 41,995 thousand.
- 10,699,996 warrants for the ex-Telecom Italia Stock Option Plan 2000, valid for the subscription of the same number of ordinary shares of the Merged Company Telecom Italia at the price per share of euro 13.815. As a result of the redistribution of shares and on the basis of the exchange ratio of 3.300871 new Telecom Italia shares for each old ex-Telecom Italia share, a maximum 35,319,306 new Telecom Italia shares could be issued (at the new exercise price of approximately euro 4.185 per share) for a total par value of euro 19,425 thousand, plus additional paid-in capital of euro 128,395 thousand.
- 32,420,000 warrants for the ex-Telecom Italia Stock Option Plan 2001, valid for the subscription of the same number of ordinary shares of ex-Telecom Italia at the price per share of euro 10.488. As a result of the redistribution of shares and on the basis of the exchange ratio of 3.300871 new Telecom Italia for each old ex-Telecom Italia share, a maximum 107,014,237 new Telecom Italia shares could be issued (at the exercise price of approximately euro 3.177 per share) for a total par value of euro 58,858 thousand, plus additional paid-in capital of euro 281,163 thousand.
- 27,465,200 warrants for the ex-Telecom Italia Stock Option Plan 2002, of which 26,425,200 are valid for the subscription of the same number of ex-Telecom Italia ordinary shares at the price per share of euro 9,665 per share, 840,000 at the price per share of euro 7,952 and 200,000 at the price per share of euro 7,721. As a result of the redistribution of shares and on the basis of the exchange ratio of 3.300871 new Telecom Italia shares for each old ex-Telecom Italia share, a maximum 90,659,081 new Telecom Italia shares could be issued (at the new exercise prices of approximately euro 2.928, approximately euro 2.409 and approximately euro 2.339 per share) for a total par value of euro 49,862 thousand, plus additional paid-in capital of euro 213,761 thousand.
- 11,800,000 warrants for the ex-Telecom Italia Stock Option Plan 2002 TOP valid for the subscription of the same number of ordinary shares of ex-Telecom Italia at the price per share of euro 9,203. As a result of the redistribution of shares and on the basis of the exchange ratio of 3.300871 new Telecom Italia shares for each old ex-Telecom Italia share, a maximum 38,950,277 new Telecom Italia shares could be issued (at the exercise price of approximately euro 2.788 per share) for a total par value of euro 21,422 thousand, plus additional paid-in capital of euro 87,173 thousand.

The Board of the Directors of Telecom Italia S.p.A. (former Olivetti S.p.A.) held on February 24, 2000, by the power vested in it by the Extraordinary Shareholders' Meeting held April 7, 1999 under the mandate of ex art. 2443 of the Italian Civil Code, had voted to introduce a Three-year Stock Option Plan beginning January 1, 2002 and ending on December 31, 2004, reserved for about one hundred managers of the Group holding company and its subsidiaries, for the purpose of assigning 29,500,000 free non-benefit warrants, which gave the right to subscribe to the same number of Olivetti ordinary shares at the price of euro 3.308 each (after the adjustment for the 2001 capital increases) corresponding to the par value of the Olivetti ordinary shares at the date of Board of Directors' Meeting.

The warrants could have been exercised in three lots during the period between November 2 and November 15 in each of the years 2002, 2003 and 2004, with the possibility of accumulating the warrants until the end of the entire Plan. Successively, the Board of Directors' Meeting of February 9, 2001 voted to revoke the previous resolution passed at the February 24, 2000 meeting and increase share capital for a total of euro 29 million through the issue of 29 million shares at a subscription price of euro 2.515 each (after the adjustment for the 2001 capital increases) reserved for the managers of the Company and its subsidiaries and placed at the service of subscription rights (warrants) to be assigned to the same under the “Three-year Stock Option Plan February 2002 - December 2004” and with no change to the stock options already granted to the managers in service on the date of February 24, 2000 and later no longer part of the Group (equal to 1,330,000 with 800,000 now remaining), for which the conditions, terms and procedures agreed at that time have remained unchanged. Therefore, with reference to the above-mentioned ex-Olivetti Stock Option Plans that were in force at the effective date of the merger, the following were outstanding:

- 6,888,336 warrants for the ex-Olivetti “Three-year Stock Option Plan February 2002 - December 2004” valid for the subscription of 6,888,336 ex-Olivetti shares at the price of euro 2.515 per share. As a result of the redistribution of shares and on the basis of the exchange ratio of 0.471553 new Telecom Italia shares for each ex-Olivetti share, 3,248,215 new Telecom Italia shares could be issued (at the exercise price of approximately euro 5.333 per share) for a total par value of euro 1,786 thousand, plus additional paid-in capital of euro 15,538 thousand;

1 SUMMARY DATA AND GENERAL INFORMATION	176 BALANCE SHEETS
19 REPORT ON OPERATIONS	178 STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	180 NOTES TO THE FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A. >>	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

- 800,000 warrants for the ex-Olivetti "Stock Option Plan 2002-2004 valid for the subscription of 800,000 ex-Olivetti shares at the price of euro 3.308 per share. As a result of the redistribution of shares and on the basis of the exchange ratio of 0.471553 new Telecom Italia shares for each ex-Olivetti share, 377,242 new Telecom Italia shares could be issued (at the exercise price of approximately euro 7.015 per share) for a total par value of euro 207 thousand, plus additional paid-in capital of euro 2,439 thousand.

Furthermore, the Shareholders' Meeting of Olivetti held May 8, 2002, based on the motion presented in the Board of Directors' Meeting held October 13, 2001, voted to assign the directors, pursuant to art. 2420 ter of the Italian Civil Code, the right to issue, in one or more instances, for a maximum period of five years from the date of the above resolution, notes, also in foreign currency, eventually convertible into shares of other companies, with or without warrants which give the right to purchase shares of other companies, for the maximum amount of euro 9 billion, within the limits set, each time, as allowed by law, establishing the procedures, terms, conditions and relative regulations. At the date the merger became effective, the unused portion amounted to euro 5.1 billion.

■ ADDITIONAL PAID-IN CAPITAL

Additional paid-in capital at June 30, 2003 (taking into account the effects of the merger) amounted to euro 64,683 thousand, with a net decrease compared to December 31, 2002 (euro 3,765,492 thousand, including euro 127 thousand relating to capital increases awaiting registration in the Companies Register), of euro 3,700,809 thousand. The following movements contributed to the change in additional paid-in capital:

- increases, for a total of euro 3,038,443 thousand:
 - euro 3,038,374 thousand for the reserve of the Merged Company at December 31, 2002, later partly used and partly eliminated in the merger;
 - euro 69 thousand for the additional paid-in capital relating to the capital increases subscribed to during the period as a result of the conversion of 68,493 "Telecom Italia 1.5% 2001 - 2004 convertible notes with a premium on redemption", as renamed after the merger;
- decreases, for euro 6,739,250 thousand:
 - euro 3,400,946 thousand for the absorption of the 2002 loss of Telecom Italia S.p.A. (former Olivetti S.p.A.) as voted by the Shareholders' Meeting of May 26, 2003;
 - euro 299,930 thousand for the absorption of the accumulated deficit of Telecom Italia S.p.A. (former Olivetti S.p.A.) as voted by the Shareholders' Meeting of May 26, 2003;
 - euro 965,942 thousand for distribution to the shareholders of the Merged Company;
 - euro 47,190 thousand for transfer to the Reserve for treasury shares in portfolio as a result of the purchase of treasury shares by the Merged Company up to February 28, 2003;
 - euro 5,884 thousand for utilization to replenish the reserves of the Merged Company TILAB;
 - euro 2,019,358 thousand for merger adjustments to the remaining reserves of the Merged Company, bringing the balance to zero.

■ RESERVES FOR INFLATION ADJUSTMENTS

The reserves for inflation adjustments at June 30, 2003 (taking into account the post-merger effects) showed a nil balance with a net reduction of euro 1,129 thousand compared to December 31, 2002 due to the following:

- increases, for euro 2,763,664 thousand for the reserves of the Merged Company at December 31, 2002 (which subsequently showed a nil balance after merger adjustments);
- decreases, for euro 2,764,793 thousand:
 - euro 1,129 thousand for the absorption of the 2002 loss of Telecom Italia S.p.A. (former Olivetti S.p.A.) as voted by the Shareholders' Meeting of May 26, 2003;
 - euro 1,645,376 thousand for the absorption of the 2002 loss of the Merged Company, as voted by the Shareholders' Meeting of May 24, 2003;
 - euro 1,118,288 thousand for merger adjustments to the remaining reserves of the Merged Company, bringing the balance to zero.

1 SUMMARY DATA AND GENERAL INFORMATION	176 BALANCE SHEETS
19 REPORT ON OPERATIONS	178 STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	180 NOTES TO THE FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A. >>	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

■ LEGAL RESERVE

The legal reserve at June 30, 2003 (taking into account the effects of the merger) amounted to euro 20 thousand, with a reduction of euro 920,790 thousand compared to December 31, 2002 (euro 920,810 thousand) due to the following:

- increases, for euro 820,020 thousand:
 - euro 820,000 thousand for the reserve of the Merged Company, which subsequently showed a nil balance after merger adjustments;
 - euro 3 thousand for the aforementioned transfer of share capital;
 - euro 17 thousand for the positive difference arising from the withdrawal rights exercised by the Olivetti shareholders.
- decreases, for euro 1,740,810 thousand:
 - euro 920,810 thousand, for the absorption of the 2002 loss of Telecom Italia S.p.A. (former Olivetti S.p.A.), as voted by the Shareholders' Meeting of May 26, 2003;
 - euro 820,000 thousand, for merger adjustments to the remaining reserve of the Merged Company, bringing the balance to zero.

■ RESERVE FOR TREASURY STOCK IN PORTFOLIO

This reserve at June 30, 2003 (taking into account the effects of the merger) amounted to euro 2,298 thousand, unchanged from December 31, 2002.

However, movements in this reserve during the period were as follows:

- increases, for a total of euro 334,403 thousand:
 - euro 287,213 thousand for the reserve of the Merged Company at December 31, 2002, which subsequently showed a nil balance after merger adjustments;
 - euro 47,190 thousand for the transfer from the Additional paid-in capital of the Merged Company for the buy-back of treasury shares at the end of February 28, 2003.
- decreases for a total of euro 334,403 thousand due to merger adjustments to the reserve of the Merged Company, bringing the balance to zero.

■ OTHER RESERVES

Other reserves (taking into account the effects of the merger) of Telecom Italia S.p.A. (former Olivetti S.p.A.) at June 30, 2003 amounted in total to euro 125,504 thousand, with a net decrease compared to December 31, 2002 (euro 2,036,089 thousand) of euro 1,910,585 thousand. The following movements contributed to the change.

Reserve Law No. 488/1992: an increase of euro 118,678 thousand (the reserve in the financial statements of the Merged Company at December 31, 2002), subsequently reversed by merger adjustments. At June 30, 2003 and December 31, 2002, such reserve had a nil balance.

Reserve Law No. 342/2000, art. 14: an increase of euro 716,378 thousand (the reserve of the Merged Company at December 31, 2002), subsequently reversed by merger adjustments. At June 30, 2003 and December 31, 2002, such reserve had a nil balance.

Reserve, L.D. No. 124/1993 ex art. 13: an increase of euro 185 thousand (the reserve of the Merged Company at December 31, 2002 for euro 169 thousand and the reserve of TILAB for euro 16 thousand after the merger of the latter in the Merged Company) subsequently reversed by merger adjustments. At June 30, 2003 and December 31, 2002, such reserve had a nil balance.

Reserve DPR No. 917/1986 ex art. 74: an increase of euro 5,750 thousand, (the reserve of TILAB after its merger in the Merged Company), subsequently reversed by merger adjustments. At June 30, 2003 and December 31, 2002, such reserve had a nil balance.

Special reserve: a nil balance (compared to euro 1,888,261 thousand at December 31, 2002) due to the utilization of the reserve for the absorption of the 2002 loss of Telecom Italia S.p.A. (former Olivetti S.p.A.), as voted by the Shareholders' Meeting of May 26, 2003;

1 SUMMARY DATA AND GENERAL INFORMATION	176 BALANCE SHEETS
19 REPORT ON OPERATIONS	178 STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	180 NOTES TO THE FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	>>
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

Reserve for capital grants: an increase of euro 6,493 thousand due to: increases of euro 485,703 thousand for the reserve of the Merged Company at December 31, 2002, of euro 118 thousand for the reserve of TILAB and of euro 6,493 thousand for the portion which became available during the period; decreases of euro 485,821 thousand for merger adjustments reversing the reserve of the Merged Company at December 31, 2002;

Miscellaneous income reserves: unchanged overall since the increase of euro 345,503 thousand for the reserve of the Merged Company at December 31, 2002 was offset by a decrease of the same amount: euro 337,679 thousand for the distribution of the reserve to the shareholders of the Merged Company (as voted by the Shareholders' Meeting of May 24, 2003) and merger adjustments for the residual amount of euro 7,824 thousand of the Merged Company, bringing the balance to zero.

Miscellaneous reserves: such reserves, which at December 31, 2002 amounted in total to euro 147,828 thousand, at June 30, 2003 amounted to euro 119,011 thousand, with a net decrease of euro 28,817 thousand, which can be explained as follows:

- euro 927 thousand for the utilization of the "Reserve for the conversion of Olivetti variable rate notes 1998 - 2002" (which thus showed a nil balance) to absorb the 2002 loss of Telecom Italia S.p.A. (former Olivetti S.p.A.), as voted by the Shareholders' Meeting of May 26, 2003;
- euro 163 thousand for the utilization of the "Reserve for warrants Olivetti shares 1998 - 2002" (which thus showed a nil balance), to absorb the 2002 loss of Telecom Italia S.p.A. (former Olivetti S.p.A.);
- euro 13,623 thousand for the utilization of the "Reserve for the exercise of the subscription rights (warrants or options) Olivetti 2002 - 2004 reserved for the managers of the group holding company and its subsidiaries" which went from euro 14,265 thousand to euro 642 thousand, following the absorption of the 2002 loss of Telecom Italia S.p.A. (former Olivetti S.p.A.); however, after the redistribution of capital and the change in the par value of the shares, such reserve is no longer restricted and thus completely available;
- euro 3,887 thousand for the utilization of the "Reserve for the exercise of the subscription rights (warrants or options) Olivetti 1999 - 2001 reserved for the managers of the group holding company and its subsidiaries", which thus showed a nil balance, following the absorption of the 2002 loss of Telecom Italia S.p.A. (former Olivetti S.p.A.);
- euro 10,217 thousand for the utilization of the tax-deferred reserves, which thus showed a nil balance, following the absorption of the 2002 loss of Telecom Italia S.p.A. (former Olivetti S.p.A.).

Such reserves had been posted by Tecnost S.p.A. and brought forth to the financial statements of Telecom Italia S.p.A. (former Olivetti S.p.A.) after the merger of Tecnost. The utilization of euro 10,217 thousand referred to the following:

- Reserve for research grants (Law No. 346/1988) for euro 8,741 thousand;
- Reserve for Technological Innovation grants (Law No. 46/1982) for euro 686 thousand;
- Reserve for investment grants (Law No. 64/1986) for euro 695 thousand;
- Reserve for VAT deductions on investments for euro 95 thousand.

No taxes have been set aside on tax-deferred reserves since no transactions are expected to be entered into at this time that would warrant taxation.

Euro 118,369 thousand are still recorded in the "Reserve restricted for the exercise of Olivetti warrants ex-Tecnost 1999 - 2004", unchanged compared to December 31, 2002, set up after the bonus capital increase by Tecnost S.p.A. and its redenomination in euro; however, after the redistribution of capital and the change in the par value of the shares, euro 113,940 thousand is no longer restricted and thus available.

■ MERGER SURPLUS RESERVE

The merger surplus reserve was formed by the surplus on the share exchange deriving from the merger. The reserve amounted to 4,633,630 thousand. This amount will be used to replenish the reserves in the equity accounts to meet the legal obligations of the Merged Company.

■ RETAINED EARNINGS (ACCUMULATED DEFICIT)

At June 30, 2003, this caption (after taking into account the effects of the merger), showed a nil balance compared to an accumulated deficit of euro 299,930 thousand at December 31, 2002. The net change is due to:

increases of euro 301,077 thousand:

- euro 1,147 thousand, for the amount of retained earnings at December 31, 2002 of the Merged Company, which showed a nil balance after merger adjustments;
- euro 299,930 thousand, for the absorption the loss of the Telecom Italia S.p.A. (former Olivetti S.p.A.);

a decrease of euro 1,147 thousand, for the merger adjustment to the above retained earnings, bringing the balance to zero.

1 SUMMARY DATA AND GENERAL INFORMATION	176 BALANCE SHEETS
19 REPORT ON OPERATIONS	178 STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	180 NOTES TO THE FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	>>
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

RESERVES FOR RISKS AND CHARGES

euro 3,794,544 thousand

(euro 336,310 thousand at December 31, 2002 - data of the Merging Company)

(euro 3,481,296 thousand at December 31, 2002 restated)

These increased by euro 313,248 thousand, compared to December 31, 2002 restated. The composition and changes in these reserves are described as follows:

	12/31/2002 Olivetti	12/31/2002 Merged company	Merger effect	Total 12/31/2002 restated	Changes during the period					6/30/2003
					TILAB merger	Provisions	Utili- zations	Released to income	Reclassi- fications/ Other	
(in thousands of euro)										
Reserve for taxes	-	134,682	-	134,682	250		(14,301)	(75)	49,870	170,426
For taxes	-	134,682	-	134,682	122		(14,301)	(75)	49,870	170,298
For deferred taxes	-	-	-	-	128		-	-	-	128
Other reserves	336,310	3,010,304	-	3,346,614	4,218	581,966	(196,186)	(5,233)	(107,261)	3,624,118
Reserve for litigation	-	129,838	-	129,838	-	12,096	(21,041)	-	-	120,893
Reserve for capital grants	-	101,757	-	101,757	-	-	(6,493)	-	-	95,264
Reserve for losses of subsidiaries and affiliates	122,092	87,767	-	209,859	50	39,045	(49,651)	-	-	199,303
Reserve for corporate restructuring	24,017	193,897	-	217,914	3,738	6,500	(86,532)	-	-	141,620
Reserve for purchase commitments	-	1,941,843	-	1,941,843	-	7,500	-	-	-	1,949,343
Reserve for contractual risks and other risks	190,201	555,202	-	745,403	430	516,825	(32,469)	(5,233)	(107,261)	1,117,695
Total	336,310	3,144,986	-	3,481,296	4,468	581,966	(210,487)	(5,308)	(57,391)	3,794,544

■ Reserve for taxes

The reserve for taxes amounted to euro 170,426 thousand and increased by euro 35,744 thousand compared to December 31, 2002 restated.

■ Other reserves

Other reserves amounted to euro 3,624,118 thousand and increased by euro 277,504 thousand compared to December 31, 2002 restated.

In particular:

- the movements in the reserve for contractual risks and other risks mainly regarded: provisions to adjust the carrying value of Seat Pagine Gialle shares in portfolio (euro 311,156 thousand) and that of the shares deriving from the early exercise of the put option (euro 36,547 thousand) to the sales price of Nuova SEAT shares;
- the provision relating to the expenses connected with the early exercise, in August, of the put and call option with JP Morgan on Seat Pagine Gialle shares (euro 143,000 thousand);
- the reclassification of the reserve for losses of subsidiaries and affiliates for the waiver of receivables due by Telecom Italia from the former company Stream. Telecom Italia allocated such receivables to increase the value of the investment in Sky Italia.

RESERVE FOR EMPLOYEE TERMINATION INDEMNITIES

euro 1,015,555 thousand

(euro 2,587 thousand at December 31, 2002 - data of the Merging Company)

(euro 971,140 thousand at December 31, 2002 restated)

This reserve increased by euro 44,415 thousand, compared to December 31, 2002 restated. The following changes took place during the period:

(in thousands of euro)	
Balance at December 31, 2002 - restated	971,140
Changes during the period:	
- TILAB merger	21,015
- Provisions charged to income for amounts to fund employee termination indemnities accrued in favor of employees during the period plus the fixed and variable cost-of-living adjustments required under Law No. 297/1982	69,988
- Utilizations for:	
• Indemnities paid to employees who took retirement or resigned during the period	(25,265)
• Advances	(7,450)
• Supplementary benefits (Telemaco)	(6,428)
• Substitute tax on the revaluation of the reserve	(84)
- Amounts transferred to/from subsidiaries	(7,361)
Balance at June 30, 2003	1,015,555

1 SUMMARY DATA AND GENERAL INFORMATION	176 BALANCE SHEETS
19 REPORT ON OPERATIONS	178 STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	180 NOTES TO THE FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	>>
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

LIABILITIES

euro 44,216,141 thousand

(euro 15,499,956 thousand at December 31, 2002 - data of the Merging Company)

(euro 39,258,600 thousand at December 31, 2002 restated)

A breakdown of liabilities and accrued expenses by due date, as set forth in point 6 of art. 2427 of the Italian Civil Code, is provided in Annex 4.

Liabilities, which increased by euro 4,957,541 thousand compared to December 31, 2002 restated, included the following:

	12/31/2002 Olivetti	12/31/2002 Merged company	Merger effect	Total 12/31/2002 restated	Changes during the period			6/30/2003
(in thousands of euro)					TILAB merger	Other changes	Total changes	
Debentures	3,900,000	10,941,662	-	14,841,662		(1,582,475)	(1,582,475)	13,259,187
Convertible debentures	4,184,128	-	-	4,184,128		(7,101)	(7,101)	4,177,027
Due to banks	690,729	3,447,500		4,138,229	4,128	(802,671)	(798,543)	3,339,686
Due to other lenders	37,333	502,545		539,878		65,743	65,743	605,621
Advances	3,772	9,967		13,739		39,068	39,068	52,807
Trade accounts payable	8,989	1,855,721		1,864,710	16,734	153,696	170,430	2,035,140
Notes payable	-	20,000		20,000		(20,000)	(20,000)	-
Accounts payable to subsidiaries	6,373,773	3,181,937	(137)	9,555,573	(82,060)	1,601,712	1,519,652	11,075,225
Accounts payable to affiliated companies	586	156,023		156,609		(39,990)	(39,990)	116,619
Accounts payable to parent companies		213,969	(213,969)	-				-
Taxes payable	282,587	221,261		503,848	3,132	517,110	520,242	1,024,090
Contributions to pension and social security institutions	373	691,021		691,394	6,140	(56,614)	(50,474)	640,920
Other liabilities	17,686	2,731,144		2,748,830	13,798	5,127,191	5,140,989	7,889,819
Total	15,499,956	23,972,750	(214,106)	39,258,600	(38,128)	4,995,669	4,957,541	44,216,141

■ Debentures

Debentures totaled to euro 13,259,187 thousand. Details are as follows:

- euro 9,150,000 thousand relating to notes issued under the "Global Note Program" after the repurchase and cancellation of the notes subscribed by Telecom Italia Finance for euro 1,600,000 thousand;
- euro 209,187 thousand relating to the 2002 - 2022 notes 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 to the 6-month Euribor;
- euro 3,900,000 thousand of notes subscribed to by the subsidiaries of the Merging Company Olivetti.

In accordance with what was approved by the Board of Directors of Telecom Italia on May 5, 2003, Telecom Italia, in order to bring the ratio of net equity to notes into equilibrium, in July, repurchased and cancelled the notes subscribed by Telecom Italia Finance for euro 3,500,000 thousand.

1 SUMMARY DATA AND GENERAL INFORMATION	176 BALANCE SHEETS
19 REPORT ON OPERATIONS	178 STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	180 NOTES TO THE FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	>>
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

■ Convertible debentures

Convertible debentures totaled euro 4,177,027 thousand and can be analyzed as follows:

(in thousands of euro)	12/31/2002 Olivetti	12/31/2002 Merged company	Total 12/31/2002 restated	Changes during the period	6/30/2003
Telecom Italia 1.5% 2001-2004 convertible notes with a premium on redemption					
- Face value	1,267,628	-	1,267,628	-	1,267,628
- Conversions to ordinary shares	(364)	-	(364)	(114)	(478)
- Residual face value	1,267,264	-	1,267,264	(114)	1,267,150
- Premium on redemption	64,347	-	64,347	(6)	64,341
Total	1,331,611	-	1,331,611	(120)	1,331,491
Telecom Italia 1.5% 2001-2010 convertible notes with a premium on redemption					
- Face value	2,412,963	-	2,412,963	-	2,412,963
- Conversions to ordinary shares	(3,300)	-	(3,300)	(5,897)	(9,197)
- Residual face value	2,409,663	-	2,409,663	(5,897)	2,403,766
- Premium on redemption	442,854	-	442,854	(1,084)	441,770
Total	2,852,517	-	2,852,517	(6,981)	2,845,536
TOTAL	4,184,128	-	4,184,128	(7,101)	4,177,027

■ Due to banks

Due to banks amounted to euro 3,339,686 thousand and decreased by euro 798,543 thousand compared to December 31, 2002 restated. The amount due comprised medium/long-term debt totaling euro 1,274,173 thousand and short-term borrowings totaling euro 2,065,513 thousand. Of the latter amount, euro 786,000 thousand referred to loans taken out to cover temporary liquidity requirements, euro 500,000 thousand to credit facilities and euro 779,513 thousand to bank overdrafts.

■ Due to other lenders

Due to other lenders amounted to euro 605,621 thousand and increased by euro 65,743 thousand compared to December 31, 2002 restated. They consisted of medium/long-term financing (euro 395,327 thousand) referring principally to loans made by the Cassa Depositi e Prestiti (euro 284,268 thousand), by the Fund for technological innovation (euro 35,216 thousand) and by short-term loans (210,293 thousand) relating almost entirely to loans made by TI Securitisation Vehicle S.r.l. funded by the excess liquidity generated by the securitization of receivables.

■ Trade accounts payable

Trade accounts payable amounted to euro 2,035,140 thousand and increased by euro 170,430 thousand compared to December 31, 2002 restated. The balance included euro 349,621 thousand due to other telecommunications operators.

■ Accounts payable to subsidiaries

Accounts payable to subsidiaries amounted to euro 11,075,225 thousand and increased by euro 1,519,652 thousand compared to December 31, 2002 restated. They consisted of financial payables, trade accounts payable and other payables. Financial payables (euro 9,896,105 thousand) referred to current account transactions negotiated at market rates for cash management purposes and loans, mainly due to *Olivetti Holding B.V.* (euro 2,097,000 thousand), *Olivetti Finance N.V.* (euro 4,151,926 thousand), *T.I. Finance* (euro 2,107,075 thousand), *Telecom Italia International* (euro 1,200,000 thousand) and *TIM* (euro 102,556 thousand). Trade accounts payable (euro 1,043,272 thousand) mainly consisted of accounts payable to *TIM* (euro 229,098 thousand), *Telecom Italia Sparkle* (euro 149,450 thousand) and *Seat Pagine Gialle* (euro 98,713 thousand) for the portion of TLC services invoiced by Telecom Italia to customers, and *I.T. Telecom* (euro 466,552 thousand), *Atesia* (euro 29,925 thousand) and *Telenergia* (euro 16,236 thousand) for supply transactions. Other payables (euro 135,848 thousand) referred to payable positions connected with the Group's VAT settlement system, specifically due to *FMP Italy 1* (former *Ireos*, euro 70,942 thousand), payables for capital contributions particularly to *Path.Net* (euro 18,074 thousand) and sundry payables to *Telecom Italia Sparkle* (euro 41,623 thousand).

1 SUMMARY DATA AND GENERAL INFORMATION	176 BALANCE SHEETS
19 REPORT ON OPERATIONS	178 STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	180 NOTES TO THE FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A. >>	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

■ Accounts payable to affiliated companies

Accounts payable to affiliated companies amounted to euro 116,619 thousand. These decreased by euro 39,990 thousand, compared to December 31, 2002 restated. They referred to financial payables, trade accounts payable and other payables. Financial payables (euro 11,260 thousand) referred to current account transactions negotiated at market rates for cash management purposes and mainly referred to amounts due to *Siemens Informatica (euro 6,192 thousand)* and *Teleleasing (euro 4,783 thousand)*. Trade accounts payable (euro 104,680 thousand) mainly referred to payables to *Italtel (euro 91,400 thousand)* and *Siemens Informatica (euro 11,115 thousand)*. Other payables (euro 679 thousand) almost entirely regarded amounts due to *Tiglio 1*.

■ Taxes payable

Taxes payable amounted to euro 1,024,090 thousand and increased by euro 520,242 thousand compared to December 31, 2002 restated, and mainly referred to:

- the payable to the Italian Treasury for withholding taxes of euro 74,889 thousand;
- the VAT liability totaling euro 825,718 thousand;
- the financial payables (euro 36,677 thousand), relating to both the agreement reached with the Financial Administration over the assessments received in 2001 (euro 22,801 thousand) and the Company's decision to take advantage of the so-called tax amnesty under the 2003 Finance Bill (euro 13,876 thousand).

■ Contributions to pension and social security institutions

Contributions to pension and social security institutions amounted to euro 640,920 thousand and decreased by euro 50,474 thousand compared to December 31, 2002 restated. 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

Other liabilities amounted to euro 7,889,819 thousand and increased by euro 5,140,989 thousand compared to December 31, 2002 restated. They included, in particular, liabilities for:

- payables to customers totaling euro 967,500 thousand, including deposits by subscribers against telephone conversations and pre-billed basic charges;
- employee-related items amounting to euro 432,428 thousand;
- payables for the TLC license fee totaling euro 933,512 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 has not paid the license fee since from 2000;
- financing (euro 5,285,259 thousand) to fund the withdrawals and the tender offer.

An analysis of liabilities and accrued expenses by maturity and type is provided in Annex 4.

1 SUMMARY DATA AND GENERAL INFORMATION	176 BALANCE SHEETS
19 REPORT ON OPERATIONS	178 STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	180 NOTES TO THE FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A. >>	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

■ MEMORANDUM ACCOUNTS

Memorandum accounts totaled euro 31,022,911 thousand at June 30, 2003 and can be analyzed as follows:

■ GUARANTEES PROVIDED

euro 28,488,967 thousand

Guarantees provided consisted of sureties (net of counter-guarantees received totaling euro 1,588,923 thousand), of which euro 28,202,223 thousand was on behalf of subsidiaries, euro 119,038 thousand on behalf of affiliated companies and euro 167,706 thousand on behalf of third parties. The guarantees were given mainly in respect of the notes issued by Olivetti Finance (under the Euro Medium Term Note program) for euro 16,148,230 thousand, by Sogerim (merged in Telecom Italia Finance) for euro 10,217,106 thousand (part of the Global Note Program which is completely guaranteed by Telecom Italia) and by Olivetti International Finance for euro 1,564,330 thousand, other medium/long-term financial transactions, supply contracts and guarantees on bids to acquire licenses abroad.

■ PURCHASES AND SALES COMMITMENTS

euro 2,517,448 thousand

This item mainly consists of commitments for the purchase of Seat Pagine Gialle shares (euro 2,416,642 thousand) relating to the put option on these same shares, future lease obligations plus the related purchase options (euro 67,520 thousand), Telecom Italia's five-year commitment with the "Interaction Design Institute" Association of Ivrea (euro 15,501 thousand) and the commitment for the purchase, from Pirelli, Camozzi, Evoluzione and Intesa, of all the interests held by each in EPIClink for euro 7,500 thousand.

With regard to the aforementioned put option, on August 1, 2003, the Company closed in advance the put and call options with JP Morgan on a total of 710,777,200 Seat Pagine Gialle shares.

■ OTHER MEMORANDUM ACCOUNTS

euro 16,496 thousand

These mainly referred to assets of third parties on loan, on deposit for safekeeping and guarantees (euro 15,532 thousand).

Moreover:

- the Company issued weak letters of patronage totaling euro 1,132,931 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 222,574 thousand, and mainly consisted of equipment leased to customers;
- guarantees provided by others for Company obligations totaled euro 2,406,890 thousand and consisted of a guarantee provided by Telecom Italia Finance, in the form of a Direct Participation Letter of Credit (euro 2,102,000 thousand) to JPMorgan Chase Equity Limited to guarantee the performance of the obligations relating to the put option on Seat Pagine Gialle shares and sureties provided to guarantee the proper performance of non-financial contractual obligations (euro 394,890 thousand);
- the shares of employees and private shareholders deposited at June 30, 2003 with Telecom Italia, and therefore subdeposited with Monte Titoli S.p.A., were equal to euro 71,627 thousand, whereas those awaiting assignment or in the process of being replaced totaled euro 34,093 thousand;
- at June 30, 2003, the expense fund to safeguard the holders of savings shares, set up by resolution of the Shareholders' Meeting of June 21, 1999, amounted to euro 2,140 thousand; this fund, as voted by the Savings Shareholders' Meeting of October 31, 2001, was used to pay the fee of euro 37 thousand to the common representative of the these shareholders;
- the total amount of commitments at June 30, 2003 for building lease obligations to be paid to Imser 60, Tiglio 1, Tiglio 2 and FMP Italy 1 on contracts for a duration of 9 to 21 years amounted to euro 4,102,897 thousand.

1 SUMMARY DATA AND GENERAL INFORMATION	176 BALANCE SHEETS
19 REPORT ON OPERATIONS	178 STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	180 NOTES TO THE FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A. >>	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

■ DERIVATIVE FINANCIAL INSTRUMENTS

Transactions in derivatives outstanding at June 30, 2003 included cross currency & interest rate swaps (to convert some British pound loan contracts to euro), interest rate swaps (to convert some loans originally negotiated at variable rates to fixed rates and to convert the indexing of debt linked to domestic parameters to the 6-month Euribor rate). The following table gives a description of the derivative financial contracts used to hedge medium/long-term debt positions outstanding at June 30, 2003.

(in millions of euros)	Notional amount/ Capital exchanged at June 30, 2003
Interest rate swap	834
Cross currency and interest rate swap	425

At June 30, 2003, hedging using CIRS with a notional amount of euro 346 million was contingent upon maintaining the loans "in bonis" of Telecom Italia S.p.A. (former Olivetti S.p.A.).

The following table indicates the notional amount and the average interest rate to be paid/received for interest rate swaps by maturity date.

	Maturity			
	2003	2004	2005	2006
<i>Interest rate swap:</i>				
Fixed pay rate, variable receive rate:				
• notional amount (in millions of euros)	413	0.8	12	=
• tax received	3 mo. Libor euro	3 mo. Libor euro	3 mo. Libor euro	=
Variable pay rate, variable receive rate:				
• notional amount (in millions of euros)	=	105	150	153
• paid parameter	=	6 mo. Euribor	6 mo. Euribor	6 mo. Euribor
• received parameter	=	Rolint, Robot	Rolint, Robot, Rendint, Rendibot	Rolint, Robot, Rendint, Rendibot

1 SUMMARY DATA AND GENERAL INFORMATION	176 BALANCE SHEETS
19 REPORT ON OPERATIONS	178 STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	180 NOTES TO THE FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A. >>	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

■ STATEMENTS OF INCOME

As described in the introduction to the notes, for purposes of ensuring suitable comparisons, the comparative figures for the first half of 2002, restated to give effect to the merger alone as of January 1, 2002, have been included, as well as the comments on the related changes.

■ SALES AND SERVICE REVENUES

euro 8,034,732 thousand

(euro 8,429,982 thousand in the first half of 2002 restated)

Breakdown by business segment

(in thousands of euro)	1st half 2003	1st half 2002 restated	1st half 2002
Sales:			
- telephone products	169,734	89,696	-
- other goods	131	136	-
	169,865	89,832	-
Services:			
- Traffic (*)	3,547,491	4,166,117	-
- Basic subscription charges (of which)	3,922,915	3,809,051	-
for lines leased to other TLC operators	564,660	528,700	-
- Grants	136,616	172,060	-
- Miscellaneous income	257,845	192,922	-
	7,864,867	8,340,150	-
Total	8,034,732	8,429,982	-

(*) of which:

(in thousands of euro)	1st half 2003	1st half 2002 restated	Change
Traffic by Telecom Italia customers:			
- domestic	2,714,999	2,588,994	126,005
- outgoing non-domestic	183,441	222,217	(38,776)
- special services and other	195,209	335,630	(140,421)
	3,093,649	3,146,841	(53,192)
Traffic by other operators:			
- domestic	453,704	642,836	(189,132)
- foreign correspondents	138	376,440	(376,302)
	453,842	1,019,276	(565,434)

Breakdown by geographical area

(in thousands of euro)	1st half 2003	1st half 2002 restated	Change
Italy	7,797,874	7,733,661	64,213
Rest of Europe	143,731	396,210	(252,479)
North America	9,426	112,069	(102,643)
Central and South America	28,359	72,544	(44,185)
Australia, Africa and Asia	55,342	115,498	(60,156)
Total	8,034,732	8,429,982	(395,250)

Sales and service revenues are shown gross of the amount due to other operators (euro 1,617,289 thousand), which are included in "service costs". The breakdown by geographical area differs considerably from the first half of 2002 due to the contribution of the "International Wholesale Services" business segment to Telecom Italia Sparkle.

1 SUMMARY DATA AND GENERAL INFORMATION	176 BALANCE SHEETS
19 REPORT ON OPERATIONS	178 STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	180 NOTES TO THE FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	>>
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

Transactions for revenues from sales and services with subsidiaries and affiliated companies totaled euro 602,539 thousand. In particular they referred to:

- TIM (euro 312,560 thousand) - revenues for mobile-fixed interconnections and lines leased;
- Teleleasing (euro 71,289 thousand) - sales of products and telecommunications services;
- Seat Pagine Gialle (euro 62,079 thousand) - telecommunications services;
- Telecom Italia Sparkle (euro 51,482 thousand) - telecommunications services;
- Path.Net (euro 43,583 thousand) - TLC services and infrastructures dedicated to the Public Administration;
- I.T. Telecom (euro 19,103 thousand) - telecommunications services.

■ RAW MATERIALS, SUPPLIES AND MERCHANDISE

euro 172,482 thousand

(euro 145 thousand in the first half of 2002 - data of the Merging Company)

(euro 106,360 thousand in the first half of 2002 restated)

These increased by euro 66,122 thousand compared to the first half of 2002 restated. They mainly included "costs for purchases of inventory materials", euro 57,350 thousand, "costs for purchases of materials for the management of corporate assets", euro 15,664 thousand, "costs for purchases of supply materials", euro 10,273 thousand, and "costs for purchases of telephone products to be resold to customers", euro 83,152 thousand.

Raw materials, supplies and merchandise costs included euro 17,278 thousand of transactions with subsidiaries and affiliated companies mainly in reference to Teleleasing (euro 3,572 thousand), I.T. Telecom (euro 2,926 thousand), Italtel (euro 1,745 thousand), Seat group (euro 1,216 thousand) and Siemens Informatica (euro 1,082 thousand). Moreover, transactions with other related parties totaled euro 4,575 thousand for purchases of cables from Pirelli.

■ SERVICES

euro 2,615,016 thousand

(euro 13,424 thousand in the first half of 2002 - data of the Merging Company)

(euro 2,906,759 in the first half of 2002 restated)

Service costs included the following:

(in thousands of euro)	1st half 2003	1st half 2002 restated	1st half 2002
Advertising and promotion	69,814	68,689	128
Selling expenses	124,200	83,580	-
Maintenance	106,046	140,513	26
Professional and consulting fees	74,059	63,885	2,703
Electricity and water	77,753	79,739	59
Telephone bill mailing expenses	21,596	22,830	-
Outsourcing costs	147,524	129,760	-
Interconnection costs	26,240	20,277	-
Insurance	12,275	16,334	2,300
Amounts due to other carriers	1,617,289	1,777,273	-
Other expenses	338,220	503,879	8,208
Total	2,615,016	2,906,759	13,424

Service costs included euro 1,019,481 thousand of transactions with subsidiaries and affiliated companies. They mainly regarded:

- TIM (euro 546,570 thousand) - amounts due for telecommunications services and interconnection costs;
- Telecom Italia Sparkle (euro 152,194 thousand) - amounts due for telecommunications services;
- I.T. Telecom (euro 132,772 thousand) - professional fees and maintenance;
- Seat Pagine Gialle (euro 92,789 thousand) - TLC services;
- Telenergia (euro 36,234 thousand) - electricity;
- Atesia (euro 20,928 thousand) - outsourcing costs for call center and assistance activities.

Moreover, transactions with other related parties totaled euro 13,513 thousand, specifically with the Pirelli group (euro 12,952 thousand) for consulting services and management fees.

1 SUMMARY DATA AND GENERAL INFORMATION	176 BALANCE SHEETS
19 REPORT ON OPERATIONS	178 STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	180 NOTES TO THE FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A. >>	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

■ USE OF PROPERTY NOT OWNED

euro 353,053 thousand

(euro 1,168 thousand in the first half of 2002 - data of the Merging Company)

(euro 299,979 thousand in the first half of 2002 restated)

These costs consisted of:

(in thousands of euro)	1st half 2003	1st half 2002 restated	1st half 2002
Rentals	219,359	210,687	1,044
Hires	49,199	5,650	-
Lease installments	82,766	83,642	124
Other	1,729	-	-
	353,053	299,979	1,168

This item comprised euro 116,853 thousand of costs for the use of property not owned relating to transactions with subsidiaries and affiliated companies, specifically with Tiglio 1 (euro 38,713 thousand) and Tiglio 2 (euro 11,292 thousand) for building rentals, Telecom Italia Sparkle (euro 36,251 thousand) for line leases and I.T.Telecom (euro 23,533 thousand) for hardware rentals.

FINANCIAL INCOME AND EXPENSE

- euro 522,485 thousand

(euro 948,878 thousand in the first half of 2002 - data of the Merging Company)

(euro 706,469 thousand in the first half of 2002 restated)

The expense balance, net, of euro 522,485 thousand (an income balance, net, of euro 706,469 thousand in the first half of 2002 restated), was composed of the following:

(in thousands of euro)		1st half 2003	1st half 2002 restated	1st half 2002
Income from equity investments	(A)	679,485	1,631,810	1,341,434
Other financial income	(B)	70,828	8,055	19,959
Interest and other financial expense	(C)	(1,272,798)	(997,044)	(412,515)
Total	(A + B - C)	(522,485)	706,469	948,878

Income from equity investments referred to the following:

(in thousands of euro)	1st half 2003	1st half 2002 restated	1st half 2002
Dividends from subsidiaries, affiliates and other companies	600,750	1,044,358	858,518
Other income from equity investments:			
- tax credits on dividends	78,735	587,452	482,916
Total	679,485	1,631,810	1,341,434

Income from equity investments consisted of dividends received during the year, in particular, from:

- Telecom Italia (euro 511,245 thousand), following the distribution of reserves by the Merged Company Telecom Italia S.p.A. to Olivetti S.p.A.;
- TIM (euro 82,591 thousand) following the distribution of reserves;
- Finsiel (euro 3,097 thousand).

The dividends received by Olivetti S.p.A., in the first half of 2003, following the distribution of additional paid-in capital and income reserves by Telecom Italia, both formed prior to the acquisition of the investment in the Merged Company, have been recorded in the statement of income instead of being recorded as a reduction to the value of the investment, in that this value had already been written down in prior years solely for tax purposes and, consequently, this writedown is considered to be reduced by an amount equal to the dividends received.

1 SUMMARY DATA AND GENERAL INFORMATION	176 BALANCE SHEETS
19 REPORT ON OPERATIONS	178 STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	180 NOTES TO THE FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A. >>	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

Other financial income included the following:

	1st half 2003			1st half 2002 restated	1st half 2002
(in thousands of euro)	Recorded in long-term investments	Recorded in current assets	Total		
Interest and fees on:					
• accounts receivable					
- from subsidiaries	1,696	16,981	18,677	20,248	3,712
- from affiliated companies	3,166	535	3,701	941	3
- from others	7,145	-	7,145	6,339	2
• securities	-	1,213	1,213	1,642	1,642
• banks and the Postal Administration	-	7,474	7,474	2,655	1,804
	12,007	26,203	38,210	31,825	7,163
Foreign exchange gains			12,801	16,681	8,057
Income on derivative financial instruments			7,973	13,465	-
Other income			11,844	9,731	4,739
			70,828	71,702	19,959

Other financial income included euro 22,378 thousand of interest and fees on receivables from subsidiaries and affiliated companies, almost all of which referred to interest on current accounts for cash management purposes, mainly with:

- TIM (euro 5,010 thousand);
- I.T. Telecom (euro 3,384 thousand);
- Olivetti Tecnost (euro 2,680 thousand);
- Telecom Italia Finance (euro 1,743 thousand);
- Stet Hellas (euro 1,696 thousand) and Tiglio 1 (euro 1,428 thousand) for income on long-term receivables in long-term investments.

Interest and other financial expense can be analyzed as follows:

	1st half 2003	1st half 2002 restated	1st half 2002
(in thousands of euro)			
Interest and fees to:			
• subsidiaries	293,921	392,358	295,471
• affiliated companies	174	579	-
• banks	49,701	98,615	10,699
• other lenders	17,241	25,636	-
• suppliers	-	174	-
• others	905	2,239	2,239
	361,942	519,601	308,409
Interest, premiums and other similar charges on notes	611,985	387,284	74,001
Foreign exchange losses	9,244	19,594	6
Accrued portion of issue discounts and similar charges on loans	26,655	23,011	19,459
Provision to allowance for doubtful financial accounts receivable from affiliated companies	6,538	-	-
Provision to the allowance for doubtful receivable for the "Deferred Purchasing Price"	14,705	98	-
Expenses on derivative financial instruments	27,139	18,210	5,541
Put/call commitment on Seat Pagine Gialle shares	143,000		
Other financial expense	71,590	29,246	5,099
Total	1,272,798	997,044	412,515

Interest and other financial expense included euro 294,095 thousand of interest and fees on payables to subsidiaries and affiliated companies principally with regard to:

1 SUMMARY DATA AND GENERAL INFORMATION	176 BALANCE SHEETS
19 REPORT ON OPERATIONS	178 STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	180 NOTES TO THE FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.p.A. >>	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

- Olivetti Finance (euro 132,276 thousand), Olivetti Holding B.V. (euro 42,030 thousand), Telecom Italia Finance (euro 13,988 thousand) and Seat Pagine Gialle (euro 8,949 thousand) - interest expenses accrued on current accounts for cash management purposes;
- Telecom Italia International (euro 87,116 thousand) - financial expenses on the call option on Seat Pagine Gialle shares as part of the put option on the same shares.

Moreover, interest and other similar charges on notes (euro 611,985 thousand) include interest to Telecom Italia Finance (euro 304,951 thousand) and Olivetti Finance (euro 137,424 thousand) for the notes subscribed to by these companies.

EXTRAORDINARY INCOME AND EXPENSE

- euro 1,014,641 thousand

(- euro 163,793 thousand in the first half of 2002 - data of the Merging Company)

(- euro 68,071 thousand in the first half of 2002 restated)

The expense balance, net, of euro 1,014,641 thousand consisted of the following:

(in thousands of euro)	1st half 2003	1st half 2002 restated	1st half 2002
Income			
- gains on disposals	32,533	172,305	166,970
- interest on pre-amortization interest Law 58/1992	-	131,188	-
- Stream sale reserve released to income	-	58,750	-
- other	31,225	12,839	1,004
(A)	63,758	375,082	167,974
Expense			
- losses on disposal	40,127	8	8
- restructuring costs (employee reduction plans and territorial layoffs)	51,967	78,667	-
- provision to the reserve for corporate restructuring for layoffs	6,500	261,000	-
- INPS extraordinary contribution	-	35,672	-
- expenses connected with the Olivetti - Telecom Italia merger	110,048	-	-
- expenses connected with the Seat Pagine Gialle spin-off	56,681	-	-
- expenses under ex Law 58/1992	122,490	-	-
- provisions and writedowns relating to the investment in EPIClink	85,799	-	-
- provision relating to the sale of Seat Pagine Gialle	347,703	36,429	-
- provisions relating to the Pagine Italia settlement	55,000	-	-
- elimination of receivable balances relating to prior years	92,566	-	-
- prior period expense for telephone cards	56,434	-	-
- other	53,084	31,377	4,173
(B)	1,078,399	443,153	4,181
Total	(A-B)	(1,014,641)	163,793

Extraordinary income, equal to euro 63,758 thousand, related to the following:

- gains realized on the sales of investments in Siteba (euro 6,449 thousand), Tele Pay Roll Services (euro 4,382 thousand), and the contribution of the facility business by Olivetti to Pirelli & C. Real Estate (euro 3,670 thousand);
- gains realized on the sale, to "FMP Italy 1 S.r.l." (former "Ireos S.p.A."), of certain buildings purchased in advance from Teleleasing in January 2003 (euro 12,770 thousand) and the sale of the "Logistics" business by Telecom Italia to TNT Logistics Italia that was finalized in March 2003, (euro 3,676 thousand);
- other prior period income of euro 31,225 thousand.

Extraordinary expenses, equal to euro 1,078,399 thousand, comprised the following:

- losses (euro 40,127 thousand) mainly on the sale, to "FMP Italy 1 S.r.l.", (former "Ireos S.p.A."), of certain buildings purchased in advance from Teleleasing in January 2003;
- expenses and provisions (euro 58,467 thousand) for corporate restructuring relating to employee cutbacks and layoffs;

1 SUMMARY DATA AND GENERAL INFORMATION	176 BALANCE SHEETS
19 REPORT ON OPERATIONS	178 STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	180 NOTES TO THE FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A. >>	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

- expenses connected with the Olivetti - Telecom merger (euro 110,048 thousand) and those relating to the sale of Nuova SEAT (euro 56,681 thousand);
- expenses under ex Law 58/1992 (euro 122,490 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"; there were no such expenses in the first half of 2002 as they were paid at the beginning of July;
- extraordinary provisions relating to the investment in EPIClink (euro 85,799 thousand) for the start of the process to strategically reposition the company within the Group and provisions to meet the commitment to purchase the remaining 14% of the capital of the company;
- provisions to adjust the carrying value of Seat Pagine Gialle shares in portfolio (euro 311,156 thousand) and that of the shares deriving from the early exercise of the put option (euro 36,547 thousand) to the sales value of Nuova SEAT shares;
- provisions relating to the Pagine Italia settlement (euro 55,000 thousand) after the agreement fell short for the purchase of the Pagine Utili directories business;
- prior period expenses of euro 92,566 thousand due to the elimination of receivables balances relating to prior years;
- prior period expenses (euro 56,434 thousand) relating to the additional adjustment in the estimated value of unused prepaid telephone cards following the start of technical data collection procedures (in 2002, the prior period expenses had totaled euro 157,963 thousand);
- other prior period expenses of euro 53,084 thousand.

INCOME TAXES

+ euro 1,228,261 thousand

(euro 186,274 thousand in the first half of 2002 - data of the Merging Company)

(– euro 509,520 thousand in the first half of 2002 restated)

Income taxes showed a credit balance of euro 1,228,261 thousand (expense of euro 509,520 thousand in the first half of 2002 restated). Income taxes benefited from the posting of additional deferred tax assets of euro 1,286,000 thousand compared to those already recorded by Olivetti in the 2002 financial statements as a result of the writedown, solely for tax purposes, of the shares of the Merged Company which became recoverable thanks to the merger of the two companies.

OTHER INFORMATION

■ EMPLOYEES

Employees at June 30, 2003 numbered 54,679 (including 70 persons from the Merging Company) compared to 54,775 at December 31, 2002 restated. A breakdown of the equivalent average number of personnel by professional category at the end of the period compared with the first half of 2002 restated and the year 2002 restated is presented as follows:

EQUIVALENT AVERAGE NUMBER OF EMPLOYEES	1st half 2003	1st half 2002 restated	1st half 2002
Executives	924	970	991
Middle management	1,865	1,699	1,707
Clerical staff	45,802	47,267	47,952
Technicians	5,214	7,519	7,770
Total	53,805	57,455	58,420

The following Annexes numbered 1 to 4 are an integral part of these notes.

1 SUMMARY DATA AND GENERAL INFORMATION	176 BALANCE SHEETS
19 REPORT ON OPERATIONS	178 STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	180 NOTES TO THE FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	>>
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

■ ANNEX 1

LONG-TERM INVESTMENTS AND ADVANCES ON FUTURE CAPITAL CONTRIBUTIONS OF SUBSIDIARIES AND AFFILIATED COMPANIES

	12/31/2002					Changes during the period					6/30/2003			
		Upward adjust- ments	Write- downs	Carrying value	Purchases/ Subscrip- tions	Reclassi- fications/ contributions by merged company	Disposals (1)	Write- downs(-)/ Reinstat- ements of value(+)	Capital Replenish- ments	Total	Cost	Upward adjust- ments	Write- downs	Carrying value
(in thousands of euro)	Cost													
Equity investments in subsidiaries														
OLIVETTI INTERNATIONAL	442,740	-	(21,813)	420,926		(47,026)		(33,200)		(80,226)	442,740	-	(102,040)	340,700
FINSIEL	429	-	-	429		249,251				249,251	364,680	-	(115,000)	249,680
AHOLDING (former GLOBAL G.INV.)	1,397	-	(97)	1,300			(1,300)			(1,300)	-	-	-	-
IN.TEL.AUDIT	250	-	-	250		1,500				1,500	1,750	-	-	1,750
OLIVETTI MULTISERVICES	37,809	-	(928)	36,882	15,000	(11,479)				3,521	41,042	-	(639)	40,403
OMS FACILITY	-	-	-	-		11,479	(11,479)			-	-	-	-	-
OLIVETTI FINANZIARIA INDUSTRIALE	78,940	-	(43,831)	35,109						-	78,940	-	(43,831)	35,109
OLIVETTI TECNOST	538,912	-	(437,293)	101,619						-	538,912	-	(437,293)	101,619
TELECOM ITALIA	32,206,376	-	(10,116,896)	22,089,480	5,274,319	(27,363,799)				(22,089,480)	-	-	-	-
OLIVETTI GESTIONI IVREA (former THEMA)	7,516	-	-	7,516						-	7,516	-	-	7,516
OLIVETTI FINANCE	183,620	-	(183,620)	-						-	183,620	-	(183,620)	-
ATESIA	-	-	-	-		3,707				3,707	3,707	-	-	3,707
EDOTEL	-	-	-	-		8,940		(6,752)		2,188	9,056	-	(6,868)	2,188
EMSA SERVIZI	-	-	-	-		5,000				5,000	5,000	-	-	5,000
EPIClink	-	-	-	-		60,254		(60,254)		-	60,254	-	(60,254)	-
I.T. TELECOM	-	-	-	-		171,521	-	(47,335)		124,186	171,521	-	(47,335)	124,186
FMP ITALY1 (former IREOS)	-	-	-	-	1,686	(1,686)	-		50	50	50	-	-	50
IRIDIUM ITALIA (in liquidation)	-	-	-	-		-				-	775	-	(775)	-
LATIN AMERICAN NAUTILUS S.A.	-	-	-	-		4,243		(4,243)		-	47,863	-	(47,863)	-
LOQUENDO	-	-	-	-		7,820				7,820	7,820	-	-	7,820
MED-1 Submarine Cables	-	-	-	-		5				5	5	-	-	5
MEDITERRANEAN NAUTILUS S.A.	-	-	-	-		14,352				14,352	14,352	-	-	14,352
NETESI	-	-	-	-		816		(816)		-	14,744	-	(14,744)	-
PATH.NET	-	-	-	-		25,820				25,820	25,820	-	-	25,820
SAIAT	-	-	-	-		46,359				46,359	34,743	11,617	-	46,359
SEAT PAGINE GIALLE	-	-	-	-		4,042,409				4,042,409	6,732,912	-	(2,690,503)	4,042,409
TECNO SERVIZI MOBILI	-	-	-	-		53				53	53	-	-	53
TELE PAY ROLL SERVICE	-	-	-	-		4,028	(4,028)			-	-	-	-	-
TELECOM ITALIA CAPITAL SA	-	-	-	-		2,387				2,387	2,387	-	-	2,387
TELECOM ITALIA AMERICA LATINA	-	-	-	-		3,464		(1,575)		1,889	13,220	-	(11,331)	1,889
TELECOM ITALIA GMBH (in liquidation)	-	-	-	-		43				43	43	-	-	43
TELECOM ITALIA INTERNATIONAL	-	-	-	-		4,708,728				4,708,728	7,851,462	-	(3,142,735)	4,708,728
TELECOM ITALIA LEARNING SERVICES	-	-	-	-		666		(666)		-	1,549	-	(1,549)	-
TELECOM ITALIA MOBILE	-	-	-	-		27,266,831				27,266,831	27,182,687	84,144	-	27,266,831
TELECONTACTCENTER	-	-	-	-		110				110	110	-	-	110
TELENERGIA	-	-	-	-		40				40	40	-	-	40
TELSY	-	-	-	-		14,513				14,513	14,513	-	-	14,513
TI IRELAND (in liquidation)	-	-	-	-		-				-	-	-	-	-
TI LAB	-	-	-	-		-				-	-	-	-	-
TI LAB GENERAL PARTNER	-	-	-	-		-				-	33	-	(33)	-
TI LAB SA	-	-	-	-		2,939		(2,939)		-	28,280	-	(28,280)	-
TI FINANCE	-	-	-	-		-				-	607,508	38,056	(645,564)	-
TI SPARKLE (INTERNATIONAL ITALIA)	-	-	-	-		784,765				784,765	784,765	-	-	784,765
TRAINET (in liquidation)	-	-	-	-		-				-	-	-	-	-
Consorzio Energia Gruppo Telecom Italia	-	-	-	-		5				5	5	-	-	5
	33,497,990	-	(10,804,479)	22,693,511	5,291,005	10,018,060	(16,807)	(157,780)	50	15,134,528	45,274,479	133,816	(7,580,256)	37,828,039
(1)	TE.SS	I.T. TELECOM		FMP ITALY1		OMS FACILITY		AHOLDING						
Cost	4,028	28,095		1,789		11,768		1,397						
Writedowns	-	(28,095)		(1,789)		(289)		(97)						
	4.028	-		-		11.479		1.300						

1 SUMMARY DATA AND GENERAL INFORMATION	176 BALANCE SHEETS
19 REPORT ON OPERATIONS	178 STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	180 NOTES TO THE FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	>>
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

	12/31/2002					Changes during the period					6/30/2003			
		Upward adjust- ments	Write- downs	Carrying value	Purchases/ Subscrip- tions	Reclassi- fications/ contributions by merged company	Disposals (1)	Write- downs(-)/ Reinstata- ments of value(+)	Capital Replenish- ments	Total	Cost	Upward adjust- ments	Write- downs	Carrying value
(in thousands of euro)	Cost													
Equity investments in affiliated companies														
IN.VA.	206	-	(45)	161						-	206	-	(45)	161
TIGLIO 1	44,640	-	-	44,640		186,011				186,011	230,651	-	-	230,651
OCN TRADING (in liquidation)	1	-	-	1						-	1	-	-	1
SINOPIA INFORMATICA	-	-	-	-						-	-	-	-	-
Consorzio ARS	-	-	-	-						-	-	-	-	-
Consorzio DISTRETTO TECNOLOGICO														
CANAVESE	118	-	-	118						-	118	-	-	118
Consorzio EO (in liquidation)	15	-	-	15						-	15	-	-	15
Consorzio S.I.A.R.C.	1	-	-	1						-	1	-	-	1
CARTESIA	-	-	-	-	179	(179)	-		50	50	50	-	-	50
IM.SER	-	-	-	-		399	-			399	399	-	-	399
LISIT	-	-	-	-	34,000					34,000	34,000	-	-	34,000
MIRROR INTERNATIONAL HOLDING	-	-	-	-		100,351				100,351	100,351	-	-	100,351
NORDCOM	-	-	-	-		2,143				2,143	29,045	-	(26,902)	2,143
NORTEL INVERSORA	-	-	-	-		-				-	19,114	-	(19,114)	-
SIEMENS INFORMATICA	-	-	-	-		3,841				3,841	2,417	1,424	-	3,841
SIOSISTEMI	-	-	-	-		3,305				3,305	3,305	-	-	3,305
SITEBA	-	-	-	-		751	(751)			-	-	-	-	-
SKY ITALIA (former Stream)	-	-	-	-	269,070	(95,426)	-	(64,248)		109,396	227,453	-	(118,056)	109,396
TELBIOS	-	-	-	-	3,375					3,375	3,375	-	-	3,375
TELEGONO	-	-	-	-		413				413	413	-	-	413
TIGLIO II	-	-	-	-		74,281				74,281	74,281	-	-	74,281
VOICE MAIL INTERNATIONAL (in liquidation)	-	-	-	-		-				-	3,801	-	(3,801)	-
Consorzio LABORATORIO DELLA														
CONOSCENZA	-	-	-	-		12		(2)		10	14	-	(4)	10
Consorzio TELCAL	-	-	-	-		211				211	211	-	-	211
Consorzio TELEMED (in liquidation)	-	-	-	-		10				10	10	-	-	10
	44,980	-	(45)	44,935	306,623	276,125	(751)	(64,250)	50	517,798	729,231	1,424	(167,923)	562,733
(1)	SITEBA		CARTESIA		SKY ITALIA (former Stream)		IM.SER							
Cost	751		695		280,826		760							
Writedowns	-		(695)		(280,826)		(760)							
	751		-		-		-							

1 SUMMARY DATA AND GENERAL INFORMATION	176 BALANCE SHEETS
19 REPORT ON OPERATIONS	178 STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	180 NOTES TO THE FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	>>
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

	12/31/2002					Changes during the period					6/30/2003				
	Cost	Upward adjust- ments	Write- downs	Carrying value	Purchases/ Subscrip- tions	Reclassi- fications/ contributions by merged company	Disposals (1)	Write- downs(-)/ Reinstatement of value(+)	Capital Replenish- ments	Total	Cost	Upward adjust- ments	Write- downs	Carrying value	
(in thousands of euro)															
Equity investments in other companies															
MEDIOBANCA	113,119	-	-	113,119						-	113,119	-	-	113,119	
X. OPEN COMPANY	-	-	-	-						-	-	-	-	-	
ASTAR	1	-	-	1				(1)		(1)	1	-	(1)	-	
AZIENDA ESERCIZIO GAS	1	-	-	1						-	1	-	-	1	
BIOINDUSTRY PARK DEL CANAVESE	52	-	-	52						-	52	-	-	52	
CONSORTIUM	19,527	-	-	19,527						-	19,527	-	-	19,527	
DIOMEDEA	6	-	-	6						-	6	-	-	6	
EUROFLY SERVICE	979	-	(277)	701						-	979	-	(277)	701	
FIN. - PRIV.	15,375	-	-	15,375						-	15,375	-	-	15,375	
MONTEROSA	20	-	-	20						-	20	-	-	20	
FUNIVIE DEL PICCOLO S. BERNARDO	-	-	-	-						-	-	-	-	-	
ISTUD	6	-	-	6						-	6	-	-	6	
PAR. FIN.	256	-	-	256						-	256	-	-	256	
PILA	6	-	-	6						-	6	-	-	6	
PIRELLI RE	-	-	-	-	15,149					15,149	15,149	-	-	15,149	
S.A.G.I.T.	1	-	-	1						-	1	-	-	1	
Consorzio ATLAS	-	-	-	-						-	-	-	-	-	
Consorzio CRATI	-	-	-	-						-	-	-	-	-	
Consorzio COREP	10	-	-	10						-	10	-	-	10	
Consorzio TECNEDIN	8	-	-	8						-	8	-	-	8	
Consorzio MULTIMEDIA	-	-	-	-						-	-	-	-	-	
Consorzio P.T.S.M.	-	-	-	-						-	-	-	-	-	
ANCITEL	-	-	-	-		93				93	93	-	-	93	
CAF ITALIA 2000	-	-	-	-		-				-	-	-	-	-	
CERM L'AQUILA	-	-	-	-		266				266	266	-	-	266	
EDINDUSTRIA	-	-	-	-		38				38	44	-	(6)	38	
EMITTENTI TITOLI	-	-	-	-		423				423	423	-	-	423	
Fratelli ALINARI	-	-	-	-		701				701	2,974	-	(2,273)	701	
IDROENERGIA	-	-	-	-		1				1	1	-	-	1	
IMSER 60	-	-	-	-		59				59	59	-	-	59	
INSULA	-	-	-	-		248				248	248	-	-	248	
IST. ENCICLOPEDIA ITALIANA															
G. TRECCANI	-	-	-	-		3,832				3,832	5,255	-	(1,424)	3,832	
ITALTEL CERM PALERMO	-	-	-	-		193				193	217	-	(24)	193	
ITALTEL CERM S. MARIA															
CAPUA VETERE	-	-	-	-		192				192	256	-	(63)	192	
LOCALPORT	-	-	-	-		114		(27)		87	145	-	(58)	87	
MCC	-	-	-	-		36,018				36,018	36,018	-	-	36,018	
MIX	-	-	-	-		10				10	10	-	-	10	
SIA	-	-	-	-		11,278				11,278	11,278	-	-	11,278	
SODETEL	-	-	-	-		4				4	4	-	-	4	
TELEPORTO ADRIATICO	-	-	-	-		124				124	124	-	-	124	
UBAE	-	-	-	-		1,898				1,898	1,898	-	-	1,898	
Consorzio C.I. MARK	-	-	-	-		3				3	3	-	-	3	
Consorzio CAISI (in liquidation)	-	-	-	-		-				-	-	-	-	-	
Consorzio CEFRIEL	-	-	-	-		36				36	36	-	-	36	
Consorzio CIES	-	-	-	-		26				26	26	-	-	26	

1 SUMMARY DATA AND GENERAL INFORMATION	176 BALANCE SHEETS
19 REPORT ON OPERATIONS	178 STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	180 NOTES TO THE FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	>>
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

Equity investments in other companies

	12/31/2002					Changes during the period					6/30/2003			
	Cost	Upward adjust- ments	Write- downs	Carrying value	Purchases/ Subscrip- tions	Reclassi- fications/ contributions by merged company	Disposals (1)	Write- downs(-)/ Reinstatement of value(+)	Capital Replenish- ments	Total	Cost	Upward adjust- ments	Write- downs	Carrying value
(in thousands of euro)														
Consorzio CO.TIM (in liquidation)	-	-	-	-		2				2	4	-	(2)	2
Consorzio DI BIOINGEGNERIA														
ED INFORMATICA MEDICA	-	-	-	-		15				15	15	-	-	15
Consorzio DREAM FACTORY	-	-	-	-		-				-	89	-	(89)	-
Consorzio ELIS	-	-	-	-		3				3	3	-	-	3
Consorzio ENERGIA FIERA DISTRICT	-	-	-	-		2				2	2	-	-	2
Consorzio GE.SE.CE.DI.	-	-	-	-		73				73	73	-	-	73
Consorzio Nazionale Imballaggi - CONAI	-	-	-	-		1				1	1	-	-	1
Consorzio NETTUNO	-	-	-	-		41				41	41	-	-	41
Consorzio QUALITAL	-	-	-	-		-				-	-	-	-	-
Consorzio TECHNAPOLI	-	-	-	-		207				207	207	-	-	207
Consorzio TOPIX	-	-	-	-		100				100	100	-	-	100
	149,367	-	(277)	149,090	15,149	55,999	-	(28)	-	71,120	224,427	-	(4,217)	220,210
Total equity investments	33,692,337	-	(10,804,801)	22,887,536	5,612,777	10,350,184	(17,558)	(222,057)	100	15,723,446	46,228,137	135,241	(7,752,396)	38,610,982

(1) Tele Pay Roll Services

Cost	1,632
Writedowns	-
	1,632

	12/31/2002					Changes during the period					6/30/2003			
	Cost	Upward adjust- ments	Write- downs	Carrying value	Purchases/ Subscrip- tions	Reclassi- fications/ contributions by merged company	Disposals (1)	Write- downs(-)/ Reinstatement of value(+)	Capital Replenish- ments	Total	Cost	Upward adjust- ments	Write- downs	Carrying value
(in thousands of euro)														
Advances on future capital contributions of subsidiaries and affiliated companies														
EPIClink	-			-		12,000		(12,000)		-	12,000	-	(12,000)	-
I.T. TELECOM	-			-		110,440				110,440	110,440	-	-	110,440
LOQUENDO	-			-		3,270				3,270	3,270	-	-	3,270
NETESI	-			-		1,650				1,650	1,650	-	-	1,650
TELECOM ITALIA LEARNING SERVICES	-			-		10,000				10,000	10,000	-	-	10,000
TELE PAY ROLL SERVICE	-			-		1,632	(1,632)			-	-	-	-	-
Total advances on future capital contributions of subsidiaries and affiliated companies	-	-	-	-	-	138,992	(1,632)	(12,000)	-	125,360	137,360	-	(12,000)	125,360

1 SUMMARY DATA AND GENERAL INFORMATION	176 BALANCE SHEETS
19 REPORT ON OPERATIONS	178 STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	180 NOTES TO THE FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A. >>	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

■ ANNEX 2

COMPARISON OF THE CARRYING VALUE OF LISTED SHARES WITH MARKET PRICES AT JUNE 30, 2003

SUMMARY OF THE CHANGING VALUE OF LISTED SHARES WITH MARKET VALUE AT 30.06.2008							
	Number of shares held	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 investments							
TELECOM ITALIA MOBILE							
- ordinary shares	4,695,889,519	4.31	20,239,284	5.81	27,266,831	(1.50)	(7,027,547)
SEAT PAGINE GIALLE							
- ordinary shares	6,051,510,901	0.59	3,594,597	0.62	3,731,253(*)	(0.03)	(136,656)
Short-term financial assets							
TELECOM ITALIA MOBILE							
- ordinary shares	38,192,000	4.31	164,608	4.31	164,608	-	-
SEAT PAGINE GIALLE							
- savings shares	600,000	0.51	303	0.51	303	-	-

(*) Net of the Reserve for losses of subsidiaries and affiliates of 311,156 thousand accrued at June 30, 2003

1 SUMMARY DATA AND GENERAL INFORMATION	176 BALANCE SHEETS
19 REPORT ON OPERATIONS	178 STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	180 NOTES TO THE FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A. >>	
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

■ ANNEX 3

ACCOUNTS RECEIVABLE AND ACCRUED INCOME BY MATURITY AND TYPE

(in thousands of euro)	6/30/2003 Amounts due				12/31//2002 restated Amounts 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
Accounts receivable in long-term investments								
Parent companies	-	-	-	-	-	-	-	-
Subsidiaries	-	60,558	-	60,558	-	60,000	-	60,000
Affiliated companies	-	109,381	15,784	125,165	-	133,286	-	133,286
Others								
customers	488	122	-	610	666	166	-	832
employees	5,155	28,360	10,395	43,910	5,887	28,395	11,024	45,306
security deposits	563	15,460	91	16,114	1,521	3,668	12,729	17,918
miscellaneous	24,843	82,932	-	107,775	35,745	46,392	40,545	122,682
	31,049	296,813	26,270	354,132	43,819	271,907	64,298	380,024
Accounts receivable in current assets								
Other financial receivables from								
Parent companies	-	-	-	-	-	-	-	-
Subsidiaries	633,863	-	-	633,863	2,084,323	-	-	2,084,323
Affiliated companies	113	-	-	113	810	-	-	810
Others	367,868	-	-	367,868	563,845	-	-	563,845
	1,001,844	-	-	1,001,844	2,648,978	-	-	2,648,978
Trade accounts receivable from								
Customers	3,959,431	-	-	3,959,431	3,754,466	-	-	3,754,466
Parent companies	-	-	-	-	-	-	-	-
Subsidiaries	685,504	-	-	685,504	458,450	-	-	458,450
Affiliated companies	55,782	-	-	55,782	83,240	-	-	83,240
Others	104,200	-	-	104,200	94,281	-	-	94,281
	4,804,917	-	-	4,804,917	4,390,437	-	-	4,390,437
Other receivables from								
Parent companies	-	-	-	-	-	-	-	-
Subsidiaries	780,957	-	-	780,957	537,002	-	-	537,002
Affiliated companies	-	-	-	-	7,613	-	-	7,613
Others								
Government and other public entities for grants and subsidies	34,626	-	-	34,626	1,265	-	-	1,265
deferred tax assets	870,941	2,617,728	-	3,488,669	743,228	1,459,728	-	2,202,956
miscellaneous	1,709,877	-	-	1,709,877	1,571,682	-	-	1,571,682
	3,396,401	2,617,728	-	6,014,129	2,860,790	1,459,728	-	4,320,518
Total accounts receivable in current assets	9,203,162	2,617,728	-	11,820,890	9,900,205	1,459,728	-	11,359,933
Accrued income	23,794	-	-	23,794	15,182	-	-	15,182

1 SUMMARY DATA AND GENERAL INFORMATION	176 BALANCE SHEETS
19 REPORT ON OPERATIONS	178 STATEMENTS OF INCOME
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	180 NOTES TO THE FINANCIAL STATEMENTS
175 FIN. STATEMENTS AND NOTES T.I. S.P.A.	>>
219 IND. AUDITOR'S REPORT OTHER INFORMATION	

■ ANNEX 4

LIABILITIES AND ACCRUED EXPENSES BY MATURITY AND TYPE

(in thousands of euro)	6/30/2003 Amounts due				12/31//2002 restated Amounts 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
Medium and long-term financial debt								
Debentures	-	5,950,000	7,309,187	13,259,187	-	7,550,000	7,291,662	14,841,662
Convertible debentures	1,331,491	-	2,845,536	4,177,027	-	1,331,610	2,852,518	4,184,128
Due to banks	770,458	502,954	761	1,274,173	1,195,232	677,280	438	1,872,950
Due to other lenders	95,215	223,420	76,693	395,328	105,432	223,070	46,694	375,196
Note payable	-	-	-	-	-	-	-	-
Accounts payable to subsidiaries	2,434,000	3,127,275	291,291	5,852,566	-	321,569	3,421,999	3,743,568
Taxes payable	32,047	4,630	-	36,677	18,240	13,680	-	31,920
	4,663,211	9,808,279	10,523,468	24,994,958	1,318,904	10,117,209	13,613,311	25,049,424
Short-term financial debt								
Due to banks	2,065,513	-	-	2,065,513	2,265,279	-	-	2,265,279
Due to other lenders	210,293	-	-	210,293	164,682	-	-	164,682
Note payable	-	-	-	-	20,000	-	-	20,000
Accounts payable to parent companies	-	-	-	-	-	-	-	-
Accounts payable to subsidiaries	4,043,539	-	-	4,043,539	4,786,257	-	-	4,786,257
Accounts payable to affiliated companies	11,260	-	-	11,260	5,125	-	-	5,125
Taxes payable	36,641	-	-	36,641	7,680	-	-	7,680
Other payables	16,566	-	-	16,566	181,498	-	-	181,498
	6,383,812	-	-	6,383,812	7,430,521	-	-	7,430,521
Trade accounts payable								
Accounts payable to suppliers	2,035,140	-	-	2,035,140	1,864,710	-	-	1,864,710
Accounts payable to parent companies	-	-	-	-	-	-	-	-
Accounts payable to subsidiaries	1,043,272	-	-	1,043,272	952,048	-	-	952,048
Accounts payable to affiliated companies	104,680	-	-	104,680	148,908	-	-	148,908
	3,183,092	-	-	3,183,092	2,965,666	-	-	2,965,666
Other payables ⁽¹⁾								
Accounts payable to parent companies	-	-	-	-	-	-	-	-
Accounts payable to subsidiaries	135,848	-	-	135,848	73,700	-	-	73,700
Accounts payable to affiliated companies	679	-	-	679	2,576	-	-	2,576
Taxes payable	950,772	-	-	950,772	459,865	4,383	-	464,248
Notes payable	-	-	-	-	-	-	-	-
Contributions to pension and social security institutions	111,021	280,562	249,337	640,920	161,495	280,562	249,337	691,394
Other liabilities	2,586,974	1,020	-	2,587,994	2,566,312	1,020	-	2,567,332
	3,785,294	281,582	249,337	4,316,213	3,263,948	285,965	249,337	3,799,250
Total liabilities ⁽¹⁾	18,015,409	10,089,861	10,772,805	38,878,075	14,979,039	10,403,174	13,862,648	39,244,861
Other financial debt (withdrawals and tender offer)								
				5,285,259				
Accrued expenses	1,456,402	58,212	-	1,514,614	1,072,297	1,010,217	-	2,082,514

(1) not including advances

1 SUMMARY DATA AND GENERAL INFORMATION	219 INDEPENDENT AUDITOR'S REPORT
19 REPORT ON OPERATIONS	221 USEFUL INFORMATION
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION >>	

■ INDEPENDENT AUDITOR'S REPORT



■ **Reconta Ernst & Young S.p.A.**
Cassa Vittorio Veneto di R. 33
10128 Torino

■ Tel. +39 011 561611
Fax +39 011 5612554
www.ey.com

**AUDITORS' REPORT ON THE REVIEW
OF THE MANAGEMENT REPORT
OF TELECOM ITALIA S.p.A.
(formerly Olivetti S.p.A.)
FOR THE SIX-MONTH PERIOD
ENDED 30 JUNE 2003
(Translation from the original Italian version)**

To the Shareholders of
Telecom Italia S.p.A.
(formerly Olivetti S.p.A.)

1. We have performed the review of the Management Report of Telecom Italia S.p.A. for the six-month period ended 30 June 2003, represented by the Balance Sheets and the Statements of Income and related Notes of Telecom Italia S.p.A., formerly Olivetti S.p.A., (Parent Company Statements) and the Telecom Italia Group (Consolidated Statements). We have also reviewed that part of the financial information presented by the Board of Directors in the Management Report with respect of their discussions and analyses of the operations, solely for the purpose of evaluating its consistency with the above mentioned statements and related Notes.
2. Our review was conducted in accordance with auditing standards governing review of interim financial statements recommended by CONSOB (the Italian Stock Exchange Regulatory Agency) in its resolution No. 10867 of July 31, 1997. The review of the data related to the six-month period ended 30 June 2003 of certain subsidiary companies, which represents approximately 4% of total consolidated assets and 6% of total consolidated revenues, was performed by other auditors who supplied us with their review reports. A review consists mainly of obtaining information with respect to the accounts included in the statements identified in paragraph 1 of this report and the consistency of the accounting principles applied through discussions with appropriate members of management, and analytical procedures applied to the financial data presented in such statements. A review does not include performing auditing procedures such as tests of compliance of internal controls and substantive procedures on assets and liabilities. Consequently, the scope of a review engagement provides significantly less assurance than a full scope audit performed in accordance with generally accepted auditing standards. Accordingly, we do not express an audit opinion on the statements and related Notes identified in paragraph 1 of this report of Telecom Italia S.p.A., as of end for the six-month period ended 30 June 2003 as we do in connection with reporting on our full scope audits of the annual Parent Company and Consolidated Statements of Telecom Italia S.p.A..

■ **Reconta Ernst & Young S.p.A.**
Sede Legale: 00196 Roma - Via C.D. Romagnolo - 135A
Capitale Sociale: € 7,11.000.000 - i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.A.A. di Roma
Codice fiscale e numero di iscrizione: 00440071004
P.I. 00691241004
Circ. Impiegato R.I. 6697/89 - numero R.I.A. 050964

1 SUMMARY DATA AND GENERAL INFORMATION	219 INDEPENDENT AUDITOR'S REPORT
19 REPORT ON OPERATIONS	221 USEFUL INFORMATION
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION >>	



■ Reconta Ernst & Young S.p.A.

3. As described in the Notes, the Parent Company has presented unaudited selected financial data for the year 2002 derived from the historical annual unconsolidated financial statements and the semi-annual unconsolidated Management Report of Olivetti S.p.A., adjusted to give retroactive effect to the merger, taking into account the shareholding interest at the respective dates. With respect to the prior year (pre-merger) historical annual consolidated and unconsolidated financial statements and semi-annual Management Report of Olivetti S.p.A. presented for comparative purposes, reference should be made to our audit and review reports issued on April 18, 2003 and on September 6, 2002, respectively.
4. Based on our review, we did not become aware of any significant modifications that should be made to the statements and related Notes identified in paragraph 1 of this report, in order for them to be in conformity with the criteria for the presentation of the semi-annual Management Report, stated by art. 81 of CONSOB regulations as approved in its resolution No. 11971 of May 14, 1999 and subsequent modifications.
5. We draw your attention to the following:
 - a) as described in the Notes, the 2003 semi-annual Management Report includes the effects of the merger of Telecom Italia S.p.A. into Olivetti S.p.A. (renamed Telecom Italia S.p.A.). The merger was approved by the extraordinary shareholders' meetings of the respective companies held on May 24, 2003 and May 26, 2003, and it became effective on August 4, 2003. The related effects, including the reassessment of remaining useful life of the consolidation difference, are described in the Management Report and in the Notes;
 - b) the Notes describe the accounting criteria utilized by Telecom Italia S.p.A. for the employee benefit obligations as required by Law no.58/1992. The Notes also describe the dispute in progress with INPS (the "Italian National Insurance Board") with respect to the determination of the liability for social security contributions.

Turin, 3 September 2003

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

1 SUMMARY DATA AND GENERAL INFORMATION	219 INDEPENDENT AUDITOR'S REPORT
19 REPORT ON OPERATIONS	221 USEFUL INFORMATION
125 CONSOLIDATED FIN. STATEMENTS AND NOTES	
175 FIN. STATEMENTS AND NOTES T.I. S.p.A.	
219 IND. AUDITOR'S REPORT OTHER INFORMATION >>	

■ USEFUL INFORMATION

A free copy of this report can be obtained by:

Writing to the following address

TELECOM ITALIA S.p.A.
Corporate Affairs
Corso d'Italia, 41
00198 Roma

Calling to

Numero Verde 800020220
Free number is to disposal for information and help to shareholders

E-mail

corporate.affairs@telecomitalia.it

Internet

User of the world wide web can access the
First half Report 2003 and obtain information
about TELECOM ITALIA and its products
and services at the following address:
<http://www.telecomitalia.it>

Investor relations

+ 39 - 0636882560/0285954120

olimpia.cuomo@telecomitalia.it
omar.albayaty@telecomitalia.it

TELECOM ITALIA S.p.A.

Registered office, Piazza degli Affari, 2 - 20123 Milan

Headquarters and secondary office in Corso d'Italia, 41 - 00198 Rome

Share capital euro 8,845,640,599.40

Tax code / Vat no. and Milan Companies register file no. 00488410010

Designed and produced by CRM S.r.l. - www.crm.it

Printed by Lucini, Milan
on ecological paper
in October 2003

