



**TELECOM ITALIA GROUP
THIRD QUARTER 2002 REPORT**

The “Third Quarter 2002 Report” was approved by the Board of Directors on November 7, 2002.

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■ CORPORATE BOARDS

Board of Directors¹	Chairman	Marco Tronchetti Provera (E)	
	Deputy Chairman	Gilberto Benetton	
	Managing Directors	Carlo Orazio Buora (E) Riccardo Ruggiero (E) **	
	Directors	Umberto Colombo (I) Francesco Denozza (I) Luigi Fausti (I) Guido Ferrarini (I) Natalino Irti (I) Gianni Mion Pietro Modiano* Massimo Moratti Carlo Alessandro Puri Negri Pier Francesco Saviotti Roberto Ulissi (I)	
		Secretary to the Board	Francesco Chiappetta
Directors' Remuneration Committee		Chairman	Luigi Fausti
		Members	Umberto Colombo Pier Francesco Saviotti
Audit and Corporate Governance Committee		Chairman	Roberto Ulissi
		Members	Guido Ferrarini Natalino Irti
Board of Statutory Auditors²		Chairman	Paolo Germani
		Acting auditors	Mario Boidi Paolo Golia Fabrizio Quarta Gianfranco Zanda
		Alternate auditors	Enrico Bignami Leonida Liuni
Common representative of savings shareholders³			Carlo Pasteris
Independent auditors⁴			Reconta Ernst & Young S.p.A.

(E) Executive director.

(I) Independent director.

¹ Appointed by the Shareholders' Meeting on November 7, 2001.

² Appointed by the Shareholders' Meeting on July 3, 2000.

³ Appointed by the special Savings Shareholders' Meeting on October 31, 2001.

⁴ Appointed by the Shareholders' Meeting on June 12, 2001.

* Co-opted on July 25, 2002.

** Co-opted on September 5, 2002. Appointed General Manager on May 7, 2002.

■ HIGHLIGHTS

■ FIRST NINE MONTHS OF 2002

Improvement in economic results and margins

Revenues: Euro 22,440 million, +0.8% compared to the first nine months of 2001; excluding the negative exchange effect of foreign currencies due to a fall in the exchange rates, growth would have been equal to 3%; also taking into account the change in the scope of consolidation, the change would have been equal to 3.7%.

Gross operating profit: Euro 10,414 million, +3.7% compared to the first nine months of 2001; excluding the negative exchange effect of foreign currencies due to a fall in the exchange rates, growth would have been equal to 5.1%. Compared to the third quarter of 2001, the third quarter of 2002 posted an increase of 4.6%.

Operating income: Euro 5,706 million, +11.1% compared to the first nine months of 2001; excluding the negative exchange effect of foreign currencies due to a fall in the exchange rates, growth would have been equal to 11.6%. Compared to the third quarter of 2001, the third quarter of 2002 posted an increase of 12.5%.

Net income: Euro 1,246 million, or Euro 1,574 million higher than the net income for the first nine months of 2001.

Reduction in indebtedness

Net debt: Euro 17,664 million, a decrease of Euro 4,278 million compared to December 31, 2001, after dividend payments of Euro 3,247 million, and Euro 3,436 million lower than at June 30, 2002. Net debt benefited from the continuation of the divestiture plan (Lottomatica, Bouygues Decaux Telecom, Mobilkom Austria, Auna, Sogei, Telemaco Immobiliare) and the policy to reduce costs and investment expenditures.

Goal of the divestiture plan reached ahead of schedule

Launch of new services and products

Domestic Wireline: launch of new services such as Alice and Alice Flash, which were favorably received by the market. Introduction of rate reductions for broadband with new rate plans.

Mobile: launch of the new MMS service (Multimedia Messaging Service), the extended-memory SIM Card (64 K/byte) and the "4888 Pay For Me" service, with the possibility of charging the cost of the call to any TIM user and Telecom Italia fixed-line numbers.

Internet and Media: relaunch of the Tin.it brand, enhanced by new services, especially ADSL, and extension of the capacity of Virgilio, confirmed as the number one Italian portal.

■ SIGNIFICANT EVENTS SUBSEQUENT TO SEPTEMBER 30, 2002

Rate plans

- ✓ on October 2, 2002, Telecom Italia completed the range of Alice rate packages by launching **Alice Time, Alice 640 and Alice Mega**. These are innovative ADSL plans aimed at satisfying families and the most demanding surfers alike.
- ✓ on October 18, 2002, TIM launched the rate plan for **GSM in Brazil** with the opening of one thousand points of sale in over 80 cities. The start of this service will make it possible to establish the first GSM Pan-South American network.

Final agreement for the purchase of 100% of Blu S.p.A. shares

On October 7, 2002, TIM finalized the preliminary contract signed on August 7, 2002 with Blu S.p.A. shareholders for the purchase of 100% of the company, which will be merged with TIM S.p.A.. The

authorizations for this transaction had been previously issued by the Antitrust Authority in view of the approval by the Telecommunications Regulatory Authority. The provisional price of the shares, which TIM paid to the shareholders of Blu S.p.A., was Euro 18 million. The definitive price, and thus the balance to be paid, will be decided later on the basis of the certified balance sheet at the date the contract becomes effective.

Telecom Italia – News Corporation agreement

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

The finalization of the contract is subject to the approval of the competent authorities.

Pagine Utili

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

The transaction involves the payment of consideration to Pagine Italia equal to 214 million Seat Pagine Gialle ordinary shares held by the Telecom Italia Group, corresponding to 1.9% of ordinary share capital. The business segment, which is expected to generate revenues of Euro 57 million in 2002 with a gross operating profit of about Euro 9 million, was transferred without liabilities and zero working capital, with around 150 staff.

The finalization of this transaction is subject to the authorization of the Italian Antitrust Authority.

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

Tiglio Project

On October 29, 2002, the transaction envisaged by the framework agreement between the Pirelli, Olivetti-Telecom Italia Groups and The Morgan Stanley Real Estate Funds was finalized and integration was thus achieved for the real estate properties of the companies involved as well as the entities that provide real estate services to the same companies or to their subsidiaries.

The agreement also calls for leveraging, during 2003, the assets of Tiglio I and Tiglio II through a market transaction within the framework of a strategy that could contribute to the development of the real estate financial market, with consequent significant opportunities for the Telecom Italia Group to leverage the investments currently held in the two companies.

In particular, Telecom Italia Group transferred assets worth Euro 1,360 million to Tiglio I and Tiglio II, in various corporate forms. Some Euro 50 million of the total relate to Seat Pagine Gialle, about Euro 840 million to real estate that was contributed to Emsa Immobiliare after the non-proportional spin-off of IM.SER and Euro 470 million to other assets. The transaction has a gross impact on the statement of income (gross gain and extraordinary dividends) of about Euro 220 million for Telecom Italia S.p.A., while the gross gain for Seat Pagine Gialle is about Euro 5 million. The financial impact on the Telecom Italia Group is Euro 330 million.

Telekom Austria

On November 4, 2002, Telecom Italia International N.V. closed, on the same day it opened, the private placement of 65 million Telekom Austria AG shares (equal to 13% of share capital), with a greenshoe option, fully exercised on November 5, 2002, for the sale of a further 10 million shares (equal to an additional 2%). The placement price was set at Euro 7.45 per share, at the higher end of the range of prices indicated to investors during the day. Gross proceeds from the sale of the 75 million shares were Euro 559 million.

After this transaction, Telecom Italia Group's stake in Telekom Austria decreased from 29.78% to 14.78%.

■ SELECTED ECONOMIC AND FINANCIAL DATA OF TELECOM ITALIA GROUP

The financial statements, the accounting principles and the principles of consolidation adopted for the preparation of the interim financial statements at September 30, 2002, taking into account the adjustments required in preparing interim statements, are consistent with those applied in the 2001 consolidated financial statements. The quarterly statements are unaudited.

During the third quarter of 2002, the following are no longer included in the scope of consolidation: the 9Telecom group and the companies Sogei S.p.A., Consiel S.p.A. and Datahouse S.p.A.. The following have been added to the scope of consolidation: the Webegg group and the companies EPIClink S.p.A. and Netesi S.p.A.. Such changes, however, did not have a significant impact on the year-to-date economic and financial data at September 2002.

	3 rd quarter 2002	3 rd quarter 2001 (*)	1/1–9/30 2002	1/1– 9/30 2001 (*)	1/1–9/30 2001	Year 2001
Revenues (euro/million)						
Results of operations (in millions of euro)						
Sales and services revenues	7,451	7,517	22,440	22,251	23,550	30,818
Gross operating profit	3,606	3,448	10,414	10,039	10,748	13,619
Operating income	2,044	1,817	5,706	5,138	5,389	6,674
Income (loss) before income taxes	672	(690)	3,149	1,307	1,405	(733)
Income (loss) before minority interest	463	(650)	1,855	187	208	(1,658)
Net income (loss)	476	(811)	1,246	(328)	(328)	(2,068)
Free cash flow (1)	2,438	951	6,588	3,593	3,833	5,990
Investments:						
- Industrial	986	1,114	2,849	4,754	4,957	6,990
- Goodwill	142	38	218	1,038	1,038	1,174
- Financial	372	406	981	2,794	2,808	3,093
Gross operating profit (euro/million)						
Financial condition (in millions of euro)						
Total assets			53,626	63,968	67,326	62,670
Net invested capital			33,775	42,923	45,655	41,250
Shareholders' equity			16,111	20,292	21,148	19,308
- Parent company's interest			11,567	14,910	14,908	13,522
- Minority interest			4,544	5,382	6,240	5,786
Net debt			17,664	22,631	24,507	21,942
Profit and financial indexes						
Gross operating profit/Revenues	48.4	45.9	46.4	45.1	45.6	44.2
Operating income/Revenues (ROS)	27.4	24.2	25.4	23.1	22.9	21.7
Free cash flow/Revenues	32.7	12.7	29.4	16.1	16.3	19.4
Debt ration (Net debt/ Net invested capital)			52.3	52.7	53.7	53.2
Employees						
Employees (No. in Group at period-end)			104.586	112.974	120.288	109.956
Employees (Average No. in Group)			103.027	108.004	115.427	107.491
Revenues/Employees (Group average – in thousands of euro)			217.8	206.-	204.-	286.7

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

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

■ KEY DATA OF THE BUSINESS UNITS/OPERATING ACTIVITIES OF TELECOM ITALIA GROUP

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

Telecom Italia Group operated with the following structure of Business Units/Operating Activities:

		Domestic Wireline	Mobile	South America	Internet and Media	IT Market	IT Group	Tele-spazio	Subtotal	Other activities and eliminations	Consolidated total
		(1)		(1) (2)		(3)	(3)			(4)	
(in millions of euro)											
Sales and services revenues	1/1-9/30/2002	12,524	8,010	1,036	1,379	699	730	208	24,586	(2,146)	22,440
	1/1-9/30/2001(*)	12,660	7,532	1,171	1,344	821	775	204	24,507	(2,256)	22,251
	1/1-9/30/2001									(957)	23,550
	Year 2001	17,168	10,250	1,534	1,957	1,198	1,198	648	33,953	(3,135)	30,818
Gross operating profit	1/1-9/30/2002	5,842	3,903	346	401	71	74	13	10,650	(236)	10,414
	1/1-9/30/2001(*)	5,671	3,633	403	301	116	126	28	10,278	(239)	10,039
	1/1-9/30/2001									470	10,748
	Year 2001	7,750	4,760	527	444	166	188	159	13,994	(375)	13,619
Operating income	1/1-9/30/2002	3,543	2,713	116	127	47	(35)	(7)	6,504	(798)	5,706
	1/1-9/30/2001(*)	3,253	2,521	156	10	91	12	10	6,053	(915)	5,138
	1/1-9/30/2001									(664)	5,389
	Year 2001	4,361	3,136	187	31	123	22	60	7,920	(1,246)	6,674
Industrial investments	1/1-9/30/2002	1,577	847	170	45	19	99	16	2,773	76	2,849
	1/1-9/30/2001(*)	2,035	2,034	256	116	21	97	17	4,576	178	4,754
	1/1-9/30/2001									381	4,957
	Year 2001	2,801	3,151	406	175	30	162	29	6,754	236	6,990
Goodwill investments	1/1-9/30/2002		66		19		28		113	105	218
	1/1-9/30/2001(*)		9		178	1			188	850	1,038
	1/1-9/30/2001			850			1,038				
	Year 2001		31		203	1	6		241	933	1,174
Number of employees at:	1/1-9/30/2002	55,454	17,532	5,536	8,070	4,751	7,467	1,168	99,978	4,608	104,586
	1/1-9/30/2001(*)	60,452	16,355	5,811	9,489	6,635	6,968	1,190	106,900	6,074	112,974
	1/1-9/30/2001									13,388	120,288
	Year 2001	57,895	16,721	5,746	9,264	6,441	6,844	1,196	104,107	5,849	109,956

(*) Restated by consolidating the Nortel Inversora group (Telecom Argentina) using the equity method instead of the proportional consolidation method.

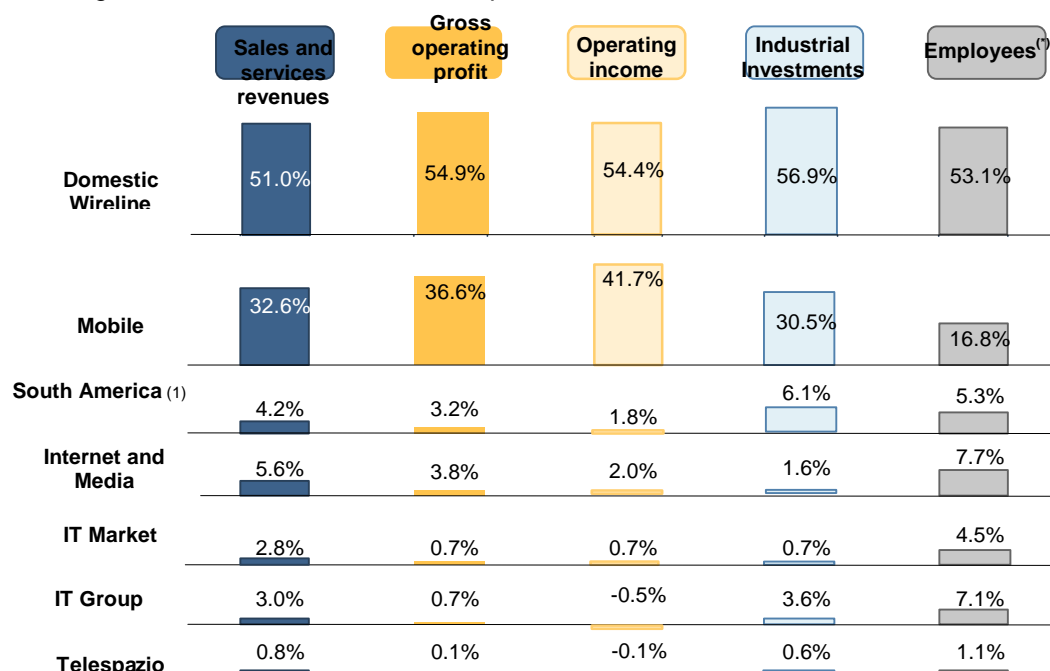
(1) The data relating to 2001 has been restated for purposes of comparison.

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

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

(4) The data presented includes the operations of the Foreign Holdings Corporate Function.

The contribution by the individual Business Units / Operating Activities to key economic and operating components during the first nine months of 2002 is presented as follows:



(*) 4.4% of employees work in Other Activities of the Telecom Italia Group.

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

OPERATING HIGHLIGHTS OF TELECOM ITALIA GROUP

	1/1-9/30 2002	1/1-9/30 2001	Year 2001
DOMESTIC WIRELINE			
Telephony customers (excluding ADSL, in thousands)			
Fixed network connections in Italy (at end of period, thousands)	27,194	27,303	27,353
- of which digital (equivalent ISDN channels, at end of period)	5,695	5,241	5,403
Telephony customers (excluding ADSL, at end of period, thousands)	4,447	3,624	4,080
Network infrastructure in Italy			
- access network in copper (at end of period, millions of km- pair)	104.3	104.2	104.3
- access network and transport in fiber optics (at end of period, millions of km of fiber optics)	3.4	3.1	3.2
Network infrastructure abroad			
- European backbone (at end of period, km of fiber optics)	36,600	36,600	36,600
MOBILE			
TIM lines in Italy (at end of period, thousands)	24,553	23,266	23,946
TIM group lines abroad (at end of period, thousands) ⁽¹⁾	12,735	9,725	10,923
TIM group lines total (Italy + abroad in thousands) ⁽¹⁾	37,288	32,991	34,869
GSM penetration in Italy (% of population)	99.8	99.7	99.7
E-TACS penetration in Italy (% of population)	98.0	98.1	98.0
INTERNET AND MEDIA			
Directories:			
- published by Seat Pagine Gialle (units)	202	202	304
- published by Thomson (TDL Infomedia Ltd.) (units)	118	122	173
Internet:			
Page views Virgilio (millions)	3,872	2,806	3,945
Active users ISP (at end of period, thousands)	2,029	1,708	1,804

(1) The lines abroad at September 30, 2001 and December 31, 2001 have been rendered comparable to those at September 30, 2002 by excluding the lines of Bouygues Decaux Telecom, Amena (mobile operator controlled by Auna) and the Mobilkom Austria group. The lines abroad include those of the affiliate IS TIM Turchia.

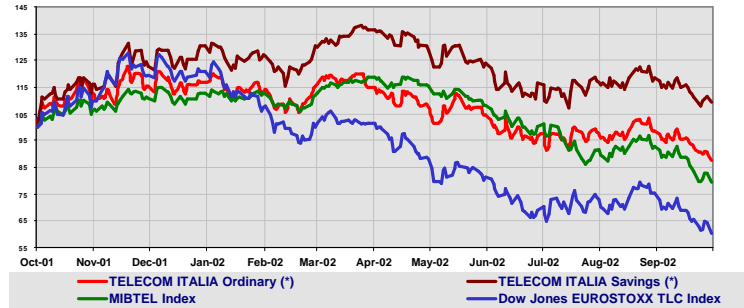
■ SHAREHOLDER INFORMATION

■ TELECOM ITALIA S.P.A. SHARES

Share capital
 Ordinary shares (par value Euro 0.55 each)
 Savings shares (par value Euro 0.55 each)
 Market capitalization (on average prices of September 2002)

Euro 4,023,716,540.80
 No. 5,262,726,231
 No. 2,053,122,025
 Euro 51,513 million

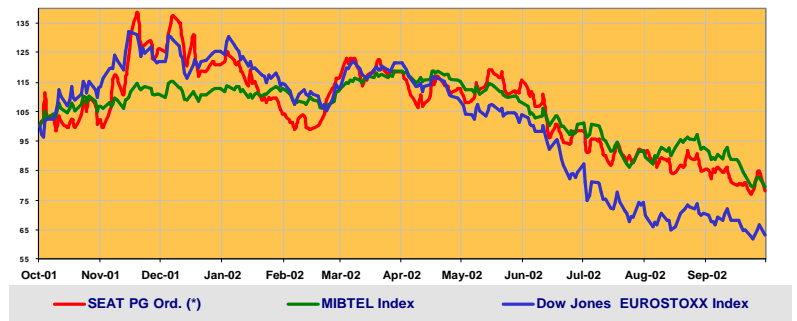
Relative performance Telecom Italia S.p.A.
 October 1, 2001 – September 30, 2002 vs.
 MIBTEL Index and DJ eurostoxx TLC Index
 (ordinary shares)
 (Source: Reuters)



Relative performance TIM S.p.A. October 1,
 2001 – September 30, 2002 vs. MIBTEL Index
 and DJ eurostoxx TLC Index (ordinary shares)
 (Source: Reuters)



Relative performance Seat Pagine Gialle S.p.A.
 October 1, 2001 – September 30, 2002 vs.
 MIBTEL Index and DJ eurostoxx TLC Index
 (ordinary shares)
 (Source: Reuters)



Ratings at September 30, 2002

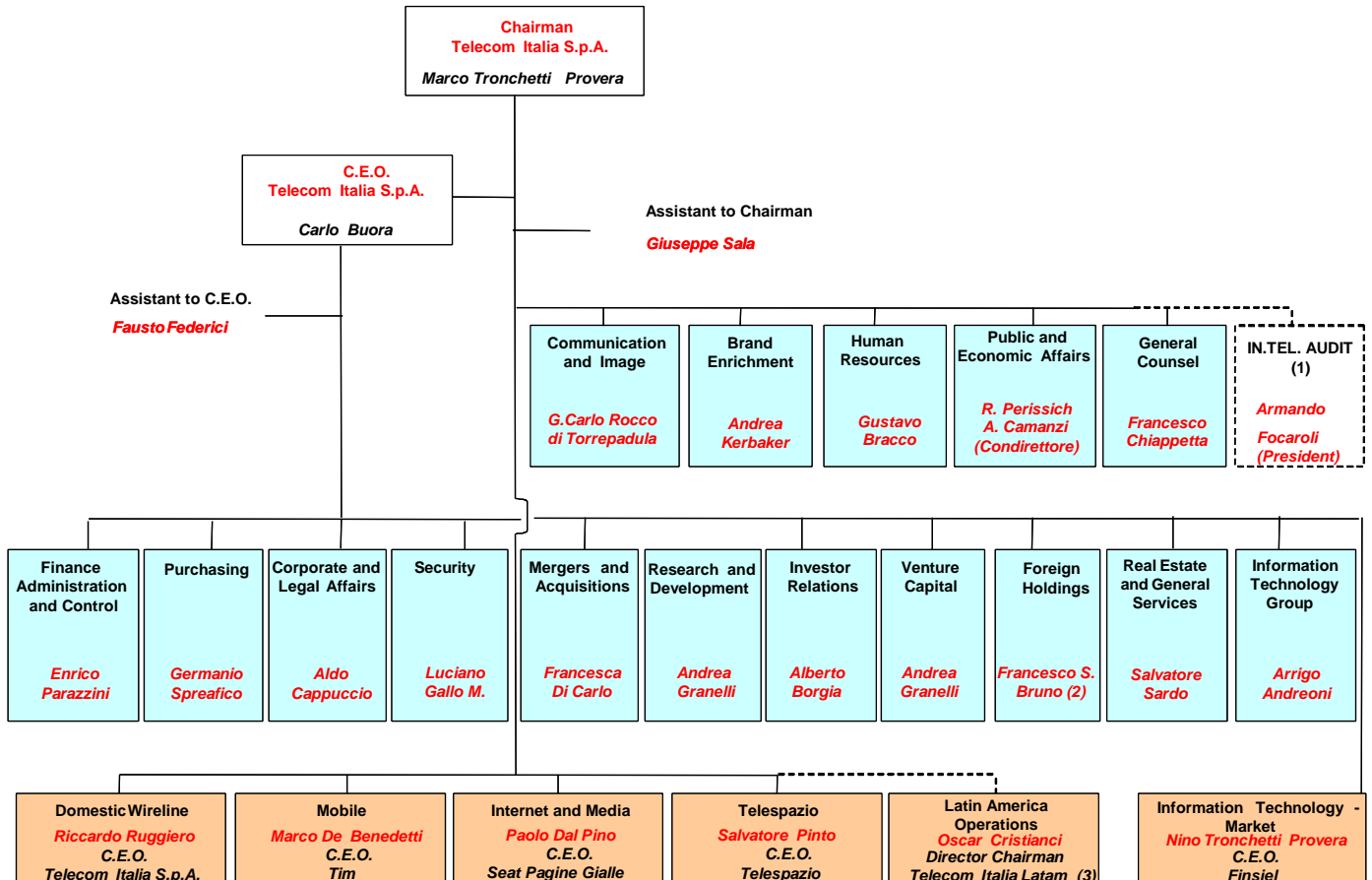
STANDARD & POOR'S
 MOODY'S
 FITCH IBCA

BBB+
 Baa1
 A-

Outlook

Positive
 Positive
 Stable

■ ORGANIZATIONAL STRUCTURE OF TELECOM ITALIA GROUP



(1) The consortium company responsible for internal auditing.

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

(3) Coordinates the activities of the Telecom Italia Group in Latin America, to be developed in accordance with the strategic plan. It reports to the International Steering Committee, composed of the Chairman and the CEO, Carlo Buora. Permanent invitations to the Steering Committee meetings are extended to those in charge of the Domestic Wireline and Mobile Business Units.

■ ECONOMIC AND FINANCIAL REVIEW OF TELECOM ITALIA GROUP AND TELECOM ITALIA S.P.A. ⁽¹⁾

RESULTS OF OPERATIONS

The **consolidated result of the Group** for the first nine months of 2002 was a net income of Euro 1,246 million (Euro 1,855 million *before minority interest*). The net income was Euro 1,574 million higher than the net loss of Euro 328 million reported for the first nine months of 2001 (net income of Euro 187 million *before minority interest*).

Pretax earnings were Euro 3,149 million, an increase of Euro 1,842 million compared to the first nine months of the prior year.

This improvement is the result of an increase in the *operating income* (+Euro 568 million), the balance of *net investment and financial income and expense* (+Euro 299 million) and the balance of *net extraordinary income and expense* (+Euro 975 million). The latter, as detailed on pages 11 and 12, also includes gains from the disposals of investments for Euro 2,093 million (Euro 94 million in the first nine months of 2001) following the sales of Auna, Bouygues Decaux Telecom (BDT), Mobilkom Austria, Lottomatica and Telemaco Immobiliare, as well as the writedowns of investments and goodwill for Euro 1,799 million (Euro 1,607 million in the first nine months of 2001) in respect of Is Tim Turchia, Telekom Austria, Netco Redes, Matrix and Corporacion Digitel.

In the third quarter of 2002, the consolidated net result of the Group was a net income of Euro 476 million (Euro 463 million *before minority interest*). The net income was Euro 1,287 million higher than the net loss of Euro 811 million reported for the third quarter of 2001 (net loss of Euro 650 million *before minority interest*).

Sales and service revenues amounted to Euro 22,440 million for the first nine months of 2002, with a growth of 0.8% over the first nine months of 2001. Excluding the effect of the changes in the exchange rates, the increase was equal to 3% (Euro 673 million) while the effect of the change in the scope of consolidation was 0.7% (Euro 131 million), for a total of +3.7%.

The increase in revenues reflected the positive contribution made by the Mobile BU and higher revenues from the Internet and Media BU, contrasting a reduction in the revenues contributed by the Domestic Wireline BU where traffic revenues, despite a 4.3% increase in terms of minutes, fell 9.9% as a result of a lower average return on traffic.

In the third quarter of 2002, revenues amounted to Euro 7,451 million (Euro 7,517 million in the third quarter of 2001), with a reduction of 0.9%; taking into account the effect of the change in the scope of consolidation, the increase was 1.3%.

The **gross operating profit**, equal to Euro 10,414 million, rose in comparison to the first nine months of 2001 by Euro 375 million (+3.7%), representing 46.4% of revenues (45.1% in the first nine months of 2001). Excluding the effect of exchange rates, the increase was equal to 5.1%, while the effect of the change in the scope of consolidation was minimal (-Euro 10 million).

In particular, the percentage of the Domestic Wireline BU's gross operating profit to revenues rose from 44.8% in the first nine months of 2001 to 46.6% in the first nine months of 2002 while the Mobile BU confirms its position at over 48%.

In the third quarter of 2002, gross operating profit was Euro 3,606 million (Euro 3,448 million in the third quarter of 2001); as a percentage of sales, gross operating profit was 48.4% (45.9% in the third quarter of 2001).

Gross operating profit was especially impacted in the first nine months of 2002 by the following:

- **raw materials and outside services**, equal to Euro 9,060 million, were down by 3.4% compared to the first nine months of 2001. The reduction was principally due to continuing action taken to improve efficiency, although higher costs were incurred particularly by the Brazilian companies in the Mobile BU that are in the start-up stage. The percentage of raw materials and outside services to revenues was 40.4%, down from the first nine months of 2001 (42.2%).

⁽¹⁾ For purposes of comparison, the data for the first nine months of 2002 and the third quarter of 2002 is commented in relation to the data for the same period of the prior year, which is restated to give effect to the consolidation of the Nortel Inversora group (Telecom Argentina) using the equity method instead of the proportional consolidation method.

In the **third quarter of 2002**, raw materials and outside services amounted to Euro 2,948 million (Euro 3,198 million in the third quarter of 2001).

- **Labor costs**, equal to Euro 3,391 million, were substantially in line with those of the first nine months of 2001 (Euro 3,412 million). As a percentage of revenues, labor costs went from 15.3% in the first nine months of 2001 to 15.1%. Employees at September 30, 2002 number 104,586 (109,956 at December 31, 2001). A breakdown is presented below:

	9/30/2002 (a)	12/31/2001 (b)	9/30/2001 (*)	Change (a - b)
Italy	86,658	90,628	93,759	(3,970)
Outside Italy	17,928	19,328	19,215	(1,400)
Total employees	104,586	109,956	112,974	(5,370)

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

The decrease of more than 3,130 employees of the Parent Company, Telecom Italia, can be attributed to the change in the scope of consolidation, with a net headcount reduction of 2,155 (+904 due mainly to the addition of the Webegg group and the companies EPIClink and Netesi in the scope of the consolidation and -3,059 owing to the deconsolidation, in particular, of the 9Telecom group and the companies Sogei and Consiel).

Operating income, equal to Euro 5,706 million, increased by Euro 568 million compared to the first nine months of 2001 (+11.1%, excluding the effect of exchange rates the increase was 11.6%) and as a percentage of revenues rose to 25.4% for the first nine months of 2002 from 23.1% for the first nine months of 2001. The increase in absolute amount reflects both higher gross operating profit and lower depreciation and amortization charges.

In particular:

- **Depreciation and amortization**, equal to Euro 4,288 million (Euro 4,537 million in the first nine months of 2001), showed a reduction of Euro 249 million. Details are as follows:

(in millions of euro)	1/1-9/30 2002 (a)	1/1-9/30 2001(*) (b)	1/1-9/30 2001	Change (a - b)
Fixed assets	2,844	2,996	3,305	(152)
Intangibles	1,444	1,541	1,591	(97)
of which goodwill	639	755	765	(116)
Total depreciation and amortization	4,288	4,537	4,896	(249)

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

The reduction in the *amortization of goodwill* (-Euro 116 million) was primarily due to the goodwill writeoffs taken in 2001.

As a percentage of revenues, depreciation and amortization charges were 19.1%, down from 20.4% in the first nine months of 2001.

In the **third quarter of 2002**, the operating income was Euro 2,044 million (Euro 1,817 million in the third quarter of 2001); the percentage of operating income to revenues was 27.4% (24.2% in the third quarter of 2001).

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

(in millions of euro)	1/1-9/30 2002 (a)	1/1-9/30 2001(*) (b)	1/1-9/30 2001	Change (a - b)
Net investment income	9	37	37	(28)
Net financial expense	(1,240)	(1,112)	(1,246)	(128)
Value adjustments to financial assets	(598)	(1,053)	(1,051)	455
Total	(1,829)	(2,128)	(2,260)	299

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

Details are as follows:

- the increase in net financial expense was mainly caused by higher exchange losses in reference mainly to Corporacion Digital Venezuela (Euro 160 million);
- the value adjustments to financial assets, equal to Euro 598 million, refer to:
 - amortization of goodwill arising at the time of the purchase of the investments in companies accounted for using the equity method, equal to Euro 75 million (Euro 235 million in the first nine months of 2001), with a reduction of Euro 160 million compared to the first nine months of 2001 as a result of the writeoff of goodwill taken in the 2001 financial statements;
 - writedowns of securities and investments included in current assets of Euro 167 million (Euro 243 million in the first nine months of 2001) and long-term securities of Euro 40 million, with a total reduction of Euro 89 million from the first nine months of 2001;
 - value adjustments to financial assets for the Group's share of the equity in the earnings and losses of the unconsolidated companies accounted for using the equity method of -Euro 316 million (-Euro 562 million in the first nine months of 2001). The value adjustments refer to the losses of Stream, Euro 215 million (Euro 176 million in the first nine months of 2001), of Is Tim Turchia, Euro 154 million (Euro 299 million in the first nine months of 2001) and the earnings balance of Euro 53 million relating to the earnings (losses) of the other unconsolidated companies.

There was no effect on this caption for the results of the investments in Nortel Inversora (Telecom Argentina) and the Auna group which in the first nine months of 2001 had been equal to a total of Euro 140 million. The investment in Nortel Inversora, the carrying value of which was prudently written off in the consolidated financial statements at December 31, 2001, has remained unchanged. As for the Auna group, there was no change in the carrying value recorded in the consolidated financial statements at December 31, 2001 since the investment was sold on August 1, 2002.

*In the **third quarter of 2002**, the balance of net investment and financial income and expense was an expense balance of Euro 538 million (an expense balance of Euro 691 million in the third quarter of 2001).*

Net extraordinary income (expense) showed an expense balance of Euro 728 million (an expense balance of Euro 1,703 million in the first nine months of 2001), with an improvement of Euro 975 million over the same period of 2001. In particular:

Extraordinary income of Euro 2,437 million included:

- Euro 2,093 million of gains on the disposal of the following investments relating to:
 - sale of the entire 26.89% interest held by the Telecom Italia Group in Auna, realizing a gross gain of Euro 1,245 million, which contributed – net of the expenses on the sale - Euro 1,033 million to the consolidated net income of the Telecom Italia Group;
 - sale of the entire 19.61% interest held by the Mobile BU in Bouygues Decaux Telecom (BDT), realizing a gross gain of Euro 484 million, which contributed Euro 266 million to the consolidated net income of the Telecom Italia Group;
 - acceptance of the tender offer for Lottomatica shares by the Information Technology Market BU (Finsiel group), realizing a gross gain of Euro 133 million (Euro 93 million net of income taxes), which contributed Euro 73 million to the consolidated net income of the Telecom Italia Group;
 - sale to Telekom Austria (a company in which Telecom Italia International has a 29.8% interest) of the entire 25% interest held by the Mobile BU in the Mobilkom Austria group, realizing a gross gain of Euro 115 million, which contributed 64 million to the consolidated net income of the Telecom Italia Group;
 - sale of the entire 40% interest held in Telemaco Immobiliare, realizing a gross gain of Euro 116 million, which contributed Euro 68 million to the consolidated net income of the Telecom Italia Group;
- Euro 30 million relating to the disposal of other investments, intangible assets and business segments;
- Euro 131 million for the income arising from the recovery of accrued pre-amortization interest - on the expenses for employee benefit obligations under Law 58/1992 that were paid, with reserve, to INPS up to 1999 - following the termination of litigation after the courts ruled in Telecom Italia's favor;

- Euro 175 million, of which Euro 75 million refer to the release of reserves, primarily to absorb a portion of the reserve for risks and charges set up in 2001 by Telecom Italia to cover the expenses connected with the agreement to sell Stream to New Corporation and Vivendi Universal/Canal+ after the parties did not go through with the agreement, Euro 9 million of grants and Euro 99 million of other income.

Extraordinary expenses of Euro 3,165 million included:

- writedowns, for the permanent diminution in value, of subsidiaries and affiliated companies for a total of Euro 1,799 million (Euro 1,607 million in the same period of 2001), relating to investment held in Is Tim Turchia (Euro 1,258 million), as a result of the changed conditions of the macroeconomic scenario and the difficulties involved in providing the service independent of the company, in addition to goodwill relating to the companies Telekom Austria (Euro 265 million), Matrix (Euro 120 million), Netco Redes (Euro 81 million) and Corporacion Digital (Euro 75 million). The writedown of Euro 1607 million in 2001 referred to 9Telecom, Entel Bolivia, Solpart-Brasil Telecom and GLB Servicios Interativos (Globo.com).
- Euro 393 million of expenses and provisions for employee cutbacks and layoffs (of which Euro 355 million refer to Telecom Italia);
- Euro 367 million relating to the provisions made in conjunction with the disposal of the investment in the 9Telecom group. In particular, in view of the loss reported prior to sale, the French group 9Telecom had a negative effect on the nine-months 2002 statement of income of the Telecom Italia Group for a total of Euro 440 million (Euro 282 million net of income taxes);
- Euro 138 million of expenses connected with the disposal of foreign investments;
- Euro 122 million of expenses under Law 58/1992 to cover employees under the former fund "Telephone Employees Pension Fund" (FPT) and Euro 54 million for the extraordinary contribution to INPS to meet the higher financial requirements covered by the rules of the former fund "Telephone Employees Pension Fund" (FPT) which became part of the general "Employees Pension Fund";
- Euro 51 million for the writedown of the deferred tax assets of the company Corporacion Digital;
- Euro 57 million for writedowns and losses relating to fixed assets, intangibles and long term investments, Euro 73 million for provisions to reserves and Euro 111 million for other expenses;

*In the **third quarter of 2002**, the balance of extraordinary income and expense was a net expense balance of Euro 834 million (-Euro 1,816 million in the third quarter of 2001).*

Income taxes for the period totaling Euro 1,294 million rose by Euro 174 million compared to the first nine months of 2001. Income taxes are calculated by the individual consolidated companies at the estimated tax rate and taking into account the effects of applying Legislative Decree No. 209 dated September 24, 2002, as well as the amendments passed by the Chamber of Deputies on October 23, 2002. In particular, as a result of this Decree, income taxes increased by Euro 293 million.

*In the **third quarter of 2002**, the income taxes amounted to 209 million (a credit balance of Euro 40 million in the third quarter of 2001).*

FINANCIAL CONDITION

Investments amounted to Euro 4,048 million (compared to Euro 8,586 million in the first nine months of 2001). Details are as follows:

(in millions of euro)	1/1-9/30 2002	1/1-9/30 2001 (*)	1/1-9/30 2001	Change
	(a)	(b)		(a-b)
Industrial investments	2,849	4,754	4,957	(1,905)
Goodwill	218	1,038	1,038	(820)
Financial investments	981	2,794	2,808	(1,813)
Total investments	4,048	8,586	8,803	(4,538)

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

The reduction of investments by Euro 4,538 million was mainly due to:

- for industrial investments, both to the significant investments made in 2001 for the new mobile phone licenses in Brazil and Greece totaling about Euro 936 million and the implementation of the program for the selective investment plan;
- for goodwill, the acquisitions, which took place during the first nine months of 2001, of Entel Chile (Euro 731 million), Holding Media e Comunicazione (Euro 66 million) and NetCreations (Euro 93 million), compared to investments during the first nine months of 2002 which principally referred to the increase in the investment in Stet Hellas (Euro 66 million) and the purchase of EPIClink (Euro 49 million);

- for financial investments, the capital injections made during the first nine months of 2001 in the Turkish company Is Tim Turchia (Euro 1,817 million) and in Auna (Euro 276 million).

Financial investments effected during the first nine months of 2002 mainly regarded Stream (Euro 183 million) and Auna (Euro 193 million, repaid on August 1, 2002), the purchase of LDCom (Euro 172 million) and treasury stock (Euro 165 million).

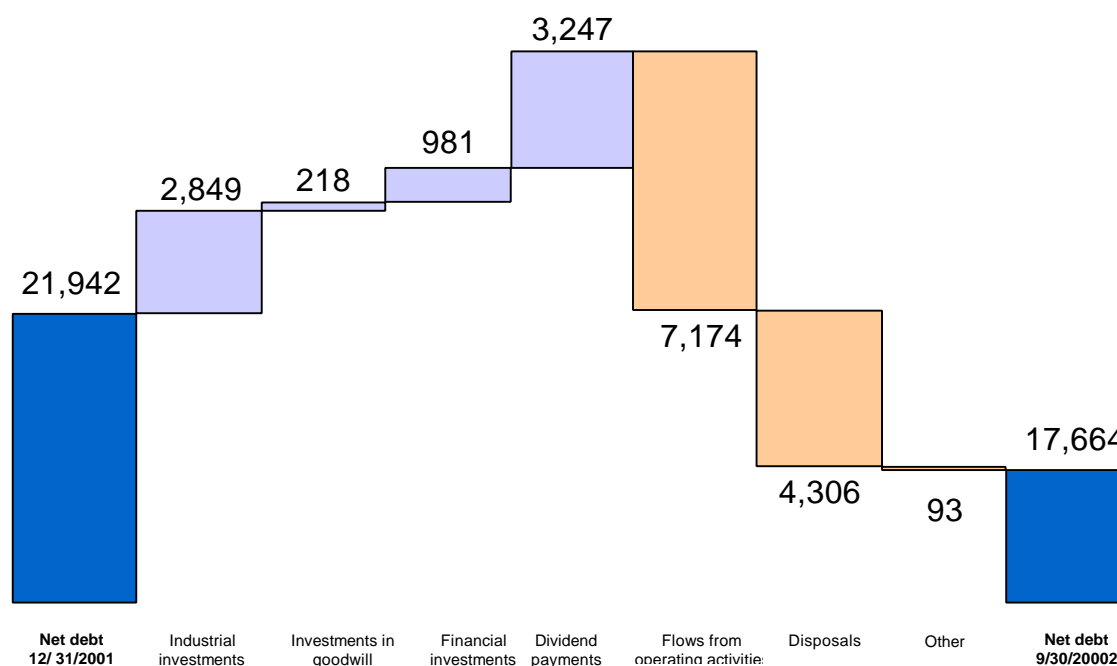
Shareholders' equity amounted to Euro 16,111 million (Euro 19,308 million at the end of 2001), of which Euro 11,567 million was the Parent Company, Telecom Italia, interest (Euro 13,522 million at December 31, 2001) and Euro 4,544 million was the minority interest (Euro 5,786 million at December 31, 2001). The reduction of Euro 3,197 million is analyzed below:

(in millions of euro)	1/1-9/30 2002	Year 2001
At beginning of period	19,308	24,690
Net income (loss) of the Parent Company and minority interest	1,855	(1,658)
Dividends to third parties paid by:	(3,247)	(3,097)
- Telecom Italia S.p.A.	(2,306)	(2,309)
- TIM S.p.A.	(895)	(743)
- Other Group companies	(46)	(45)
Cancellation of Telecom Italia S.p.A. treasury stock	-	(711)
Change in scope of consolidation	38	358
Exchange differences and other changes	(1,843)	(274)
At end of period	16,111	19,308

Net debt, equal to Euro 17,664 million, fell by Euro 4,278 million compared to the end of 2001, after the payment of dividends of Euro 3,247 million. The reduction in net debt from June 30, 2002 is Euro 3,436 million.

In particular, net debt at September 30, 2002 benefited from the disposals during the first nine months of the year, net of the related expenses, for a total of Euro 3,609 million, mainly in connection with the sale of Auna (Euro 1,998 million), Bouygues Decaux Telecom (Euro 750 million), Mobilkom Austria (Euro 756 million), Lottomatica (Euro 212 million), Sogei (Euro 176 million), Telemaco Immobiliare (Euro 226 million), 9Telecom (-Euro 529 million) and other minor investments (Euro 20 million).

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



The portion of debt due beyond one year rose from 64% at December 31, 2001 to 83% at September 30, 2002 after the issue of fixed-rate notes by Telecom Italia S.p.A. for Euro 2,500 million on February 1, 2002, divided into two tranches of Euro 1,250 million each, due, respectively, on February 1, 2007 and February 1, 2012. This issue falls under the "Global Note Program".

Gross debt is detailed in the following table:

	At 9/30/2002						At 12/31/2001	
	<i>Euro</i>	%	<i>Foreign currency</i>	%	Total	%	Total	%
(in millions of euro)								
Medium/long-term debt	15,404	86	1,569	63	16,973	83	16,083	64
Short-term borrowings	2,591	14	908	37	3,499	17	9,114	36
Total	17,995	100	2,477	100	20,472	100	25,197	100

THE PARENT COMPANY, TELECOM ITALIA

The Parent company, **Telecom Italia S.p.A.**, registered a net income of Euro 94 million for the first nine months of 2002; in the first nine months of 2001 a net loss was reported for Euro 308 million.

As usual, dividends from subsidiaries arising from the current year's earnings are not included in the result for the first nine months of 2002 but are recorded at the end of the year in accordance with the accrual principle. The improvement in earnings, compared to the first nine months of 2001, can be ascribed to operating income (+Euro 95 million, +3.2%), the balance of *net investment and financial income and expense* (+Euro 99 million) and the balance of *net extraordinary income and expense* (+Euro 797 million) offset by *higher income taxes* (+Euro 589 million).

In the third quarter of 2002, the result was a net loss of Euro 294 million; in the third quarter of 2001, the loss was Euro 962 million.

Sales and service revenues, totaling Euro 12,561 million, decreased by Euro 194 million (-1.5%) compared to the first nine months of 2001.

The reduction is mainly attributable to traffic, the equivalent amount of which, despite an increase of 4.3% in terms of minutes, declined by 6.0% as a result of a lower average return on traffic of 9.9% (from Euro 4.3 cents to Euro 3.8 cents).

The decrease was partly compensated by rate rebalancing adjustments, higher interconnecting fees with other TLC operators and a greater number of subscribers to the various rate plans offered by the Company.

In the third quarter of 2002, sales revenues and services were Euro 4,131 million (Euro 4,202 million in the third quarter of 2001), with a reduction of 1.7%.

Gross operating profit, equal to Euro 5,585 million, increased by Euro 30 million compared to first nine months of 2001 (+0.5%), and as a percentage of sales and service revenues was 44.5% (43.6% in the same period of the prior year).

The improvement is due to the reduction in raw materials and outside services (Euro 181 million) and the decrease in labor costs, which fell by Euro 26 million compared to the same period of the prior year, which offset the aforementioned reduction in revenues.

The decline in raw materials and outside services was due to an overall reduction in the various types of expenses, except for the amounts paid to other operators, which rose as a result of the increase in interconnecting traffic.

In the third quarter of 2002, the gross operating profit was Euro 1,840 million (Euro 1,852 million in the third quarter of 2001), down by 0.6%. As a percentage of sales and service revenues, gross operating profit was 44.5% (44.1% in the third quarter of 2001).

Operating income, amounting to Euro 3,101 million, increased by Euro 95 million compared to the first nine months of 2001 (+3.2%), and represents 24.7% of revenues, compared to 23.6% in 2001. The increase is essentially attributable to lower amortization and depreciation charges (Euro 220 million) that were partly offset by higher provisions and expenses to cover losses on receivables

In the third quarter of 2002, the operating income was Euro 1,013 million (Euro 988 million in the third quarter of 2001), up by 2.5%. As a percentage of sales and service revenues, operating income was 24.5% (23.5% in the third quarter of 2001).

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

(in millions of euro)	1/1 - 9/30 2002 (a)	1/1 - 9/30 2001 (b)	Change (a-b)
Net investment income	308	60	248
Net financial expense	(807)	(770)	(37)
Value adjustments to financial assets	(533)	(421)	(112)
Total	(1,032)	(1,131)	99

Specifically:

- the increase in net investment income (+Euro 248 million) is essentially due to dividends from the

distribution of reserves by TIM;

- the higher value adjustments to financial assets (+Euro 112 million) are the result of the writedown of the investment in Softe (Euro 79 million), following the value adjustments to securities in portfolio carried in current assets by the subsidiary, and the writedown of other investments for a total of Euro 33 million.

In the third quarter of 2002, the balance of net investment and financial income and expense was an income balance of Euro 113 million (an expense balance of Euro 373 million in the third quarter of 2001).

Net extraordinary income (expense) showed an expense balance of Euro 1,336 million (an expense balance of Euro 2,133 million in the first nine months of 2001), with an improvement of Euro 797 million. In particular:

Extraordinary income of Euro 528 million mainly included:

- Euro 131 million for the recovery of accrued pre-amortization interest - on the expenses for employee benefit obligations under Law 58/1992 that were paid, with reserve, to INPS up to 1999- following the termination of litigation after the courts ruled in Telecom Italia's favor;
- the gain (Euro 133 million) realized on the sale of the entire investment in Telemaco Immobiliare;
- the recovery of expenses connected with extraordinary transactions (Euro 183 million), incurred by Telecom Italia, on behalf of Group companies;
- the release to income (Euro 59 million) of a part of the reserve for risks and expenses, set up in 2001 to cover the legal expenses connected with the agreement for the sale of Stream to News Corporation and Vivendi Universal/Canal+, after the parties did not go through with the agreement.

Extraordinary expenses of Euro 1,864 million mainly included:

- the extraordinary provisions regarding the investments in Telecom Italia International (Euro 1,052 million) mainly in conjunction with the expenses connected to the sale of the investment held in 9Telecom to LDCom (Euro 440 million), the writedowns of the investments in Telekom Austria (Euro 298 million) and Netco Redes (Euro 88 million) and the writeoff of the carrying value in the investment in Nortel Inversora (Euro 37 million);
- expenses and accruals (Euro 355 million) for corporate restructuring expenses connected with layoffs and employee reduction plans;
- expenses under law 58/1992 (Euro 121 million) to cover employees under the former fund "Telephone Employees Pension Fund" (FPT), which became part of the general "Employees Pension Fund", in accordance with the 2000 Finance Bill;
- the aforementioned expenses incurred on behalf of Group companies and recovered from the same companies (Euro 183 million);
- the extraordinary contribution to INPS, Euro 54 million (established by the 2000 Finance Bill for the three years 2000 – 2002).

In the third quarter of 2002, the balance of extraordinary income and expense was an expense balance of Euro 1,105 million (-Euro 2,049 million in the third quarter of 2001).

Income taxes for the period rose by Euro 589 million compared to the first nine months of 2001 as a consequence of the increase in the income before taxes (loss for the first nine months of 2001). Income taxes take into account the effects of applying Legislative Decree No. 209 dated September 24, 2002, as well as the amendments passed by the Chamber of Deputies on October 23, 2002, amounting to approximately Euro 153 million.

Employees at September 30, 2002 number 57,951, with a headcount reduction of 3,130 compared to December 31, 2001. The decrease is mainly due to employee reduction plans, cutbacks under Law 223/1991 and employees no longer with the company on account of the sale of the business segment "Fleet Management".

Investments amounted in total to Euro 2,202 million (compared to Euro 3,233 million in the first nine months of 2001). Details are as follows:

(in millions of euro)	1/1– 9/30 2002 (a)	1/1– 9/30 2001 (b)	Change (a-b)
Industrial investments	1,494	1,721	(227)
Financial investments	708	1,512	(804)
Total investments	2,202	3,233	(1,031)

Net debt, equal to Euro 15,849 million, fell by Euro 1,064 million compared to December 31, 2001 (Euro 16,913 million) and Euro 967 million compared to June 30, 2002 (Euro 16,816 million). The improvement since the end of 2001 is due to cash flows from operating activities (Euro 5,264 million) which more than offset the cash flows used for investing activities (Euro 1,921 million) and the payment of 2001 dividends (Euro 2,306 million). Net debt includes the liability payable to JPMorgan Chase (Euro 497 million) as a result of the reduction in the exercise price of the options on Seat Pagine Gialle shares from Euro 4.2 to Euro 3.4 per share.

Net debt benefited from securitization transactions for an amount of Euro 845 million at September 30, 2002 (Euro 848 million at December 31, 2001).

Gross debt at September 30, 2002 totaled Euro 17,117 million (Euro 17,909 million at December 31, 2001 and Euro 18,121 million at June 30, 2002). Details are as follows:

(in millions of euro)	At 9/30/2002						At 12/31/2001	
	<i>Euro</i>	%	<i>Foreign currency</i>	%	Total	%	Total	%
Medium/long-term debt	12,871	77	81	25	12,952	76	10,371	58
Short-term borrowings	3,920	23	245	75	4,165	24	7,538	42
Total	16,791	100	326	100	17,117	100	17,909	100

The portion of medium/long-term debt went from 58% at December 31, 2001 to 76% at September 30, 2002 following the issue of Telecom Italia fixed-rate bonds under the "Global Note Program" for a total of Euro 2,500 million.

Quarterly highlights of the Telecom Italia Group

(in millions of euro)	2002				2001 (*)			
	1 st Quarter	2 nd Quarter	3 rd Quarter		1 st Quarter	2 nd Quarter	3 rd Quarter	1/1- 9/30
Sales and service revenues	7,265	7,724	7,451	22,440	7,129	7,605	7,517	22,251
Gross operating profit	3,274	3,534	3,606	10,414	3,287	3,304	3,448	10,039
% Gross operating margin / Revenues	45.1%	45.8%	48.4%	46.4%	46.1%	43.4%	45.9%	45.1%
Operating income	1,731	1,931	2,044	5,706	1,721	1,600	1,817	5,138
% Operating income / Revenues	23.8%	25.0%	27.4%	25.4%	24.1%	21.0%	24.2%	23.1%
Net income / (loss) for period Parent company's interest	721	49	476	1,246	386	97	(811)	(328)

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

Revenues, after taking into account the previously described exchange effects and changes in the scope of consolidation, the gross operating profit and the operating income show, in the three quarters of 2002, a growth in performance, confirming the improvement over 2001. Profitability expressed as a percentage of revenues also displays an increase.

Telecom Italia Group

Consolidated Statements of Income

	3 rd quarter	3 rd quarter	1/1 – 9/30	1/1 – 9/30	1/1 – 9/30	Year	Change	
	2002	2001 (*)	2002	2001 (*)	2001	2001	(a-b)	
(in millions of euro)			(a)	(b)			amount	%
A. SALES AND SERVICE REVENUES	7,451	7,517	22,440	22,251	23,550	30,818	189	0.8
Changes in inventories of work in progress, semifinished and finished goods	4	4	5	5	5	-		
Changes in inventory of contract work in process	46	39	55	229	229	(115)	(174)	(76.0)
Increases in capitalized internal construction costs	108	167	356	335	375	581	21	6.3
Operating grants	5	2	9	12	12	24	(3)	(25.0)
B. STANDARD PRODUCTION VALUE	7,614	7,729	22,865	22,832	24,171	31,308	33	0.1
Raw materials and outside services (1)	(2,948)	(3,198)	(9,060)	(9,381)	(9,783)	(13,042)	321	(3.4)
C. VALUE ADDED	4,666	4,531	13,805	13,451	14,388	18,266	354	2.6
Labor costs (1)	(1,060)	(1,083)	(3,391)	(3,412)	(3,640)	(4,647)	21	(0.6)
D. GROSS OPERATING PROFIT	3,606	3,448	10,414	10,039	10,748	13,619	375	3.7
Depreciation and amortization	(1,402)	(1,509)	(4,288)	(4,537)	(4,896)	(6,275)	249	(5.5)
<i>Of which goodwill</i>	(208)	(239)	(639)	(755)	(765)	(1,022)	116	(15.4)
Other valuation adjustments	(96)	(84)	(329)	(273)	(358)	(455)	(56)	20.5
Provisions to reserves for risks and charges	(67)	(55)	(149)	(151)	(159)	(278)	2	(1.3)
Net other income (expense)	3	17	58	60	54	63	(2)	(3.3)
E. OPERATING INCOME	2,044	1,817	5,706	5,138	5,389	6,674	568	11.1
Net investment and financial income (expense)	(538)	(691)	(1,829)	(2,128)	(2,260)	(3,955)	299	(14.1)
<i>Of which value adjustments</i>	(195)	(279)	(598)	(1,053)	(1,051)	(1,956)	455	(43.2)
F. INCOME BEFORE EXTRAORDINARY ITEMS AND TAXES	1,506	1,126	3,877	3,010	3,129	2,719	867	28.8
Net extraordinary income (expense)	(834)	(1,816)	(728)	(1,703)	(1,724)	(3,452)	975	°
G. INCOME BEFORE TAXES	672	(690)	3,149	1,307	1,405	(733)	1,842	140.9
Income taxes	(209)	40	(1,294)	(1,120)	(1,197)	(925)	(174)	15.5
H. NET INCOME (LOSS) BEFORE MINORITY INTEREST	463	(650)	1,855	187	208	(1,658)	1,668	892.0
Minority interest	13	(161)	(609)	(515)	(536)	(410)	(94)	18.3
I. NET INCOME (LOSS)	476	(811)	1,246	(328)	(328)	(2,068)	1,574	°

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

(1) Reduced by related cost recoveries

Consolidated Balance Sheets

(in millions of euro)	9/30/2002 (a)	6/30/2002	12/31/2002 (b)	Change (a-b)
A. INTANGIBLES, FIXED ASSETS AND LONG-TERM INVESTMENTS				
Intangible assets	14,440	15,142	16,197	(1,757)
Fixed assets	19,786	20,302	21,757	(1,971)
Long-term investments				
• equity investments and advances on future capital contributions	3,004	5,496	6,586	(3,582)
• other	413	391	478	(65)
	37,643	41,331	45,018	(7,375)
B. WORKING CAPITAL				
Inventories	612	633	636	(24)
Trade accounts receivable	8,406	8,538	8,346	60
Other assets	3,817	4,249	5,047	(1,230)
Trade accounts payable	(5,419)	(5,410)	(6,793)	1,374
Reserves for risks and charges	(2,632)	(3,348)	(3,053)	421
Other liabilities	(7,287)	(7,357)	(6,601)	(686)
	(2,503)	(2,695)	(2,418)	(85)
C. INVESTED CAPITAL, net of operating liabilities (A+B)	35,140	38,636	42,600	(7,460)
D. RESERVE FOR EMPLOYEE TERMINATION INDEMNITIES	(1,365)	(1,391)	(1,350)	(15)
E. INVESTED CAPITAL, net of operating liabilities and the reserve for employee termination indemnities (C+D)	33,775	37,245	41,250	(7,475)
Financed by:				
F. SHAREHOLDERS' EQUITY (*)				
Parent Company interest	11,567	11,265	13,522	(1,955)
Minority interest	4,544	4,880	5,786	(1,242)
	16,111	16,145	19,308	(3,197)
G. MEDIUM/LONG-TERM DEBT	16,973	17,067	16,083	890
H. NET SHORT-TERM BORROWINGS				
Short-term borrowings	3,499	6,388	9,114	(5,615)
Liquid assets and short-term financial assets	(2,999)	(2,414)	(3,505)	506
Financial accrued expense (income) and deferred expense (income), net	191	59	250	(59)
	691	4,033	5,859	(5,168)
	(G+H)	17,664	21,100	(4,278)
I. TOTAL (F+G+H)	33,775	37,245	41,250	(7,475)

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

Consolidated Statements of Cash Flows

(in millions of euro)	1/1 – 9/30 2002	1/1 – 9/30 2001 (*)	1/1 – 9/30 2001	Year 2001
A. NET DEBT, AT BEGINNING OF YEAR	(21,942)	(17,233)	(19,029)	(17,233)
B. CHANGE IN SCOPE OF CONSOLIDATION		(839)	(839)	(839)
C. CASH FLOWS - OPERATING ACTIVITIES				
Net income (loss)	1,855	187	208	(1,658)
Depreciation and amortization	4,288	4,537	4,896	6,275
(Gains) losses on sales of intangibles, fixed assets and long-term investments	(2,097)	(130)	(130)	(330)
(Upward adjustments) writedowns of intangibles, fixed assets and long-term investments	2,370	2,346	2,344	4,039
Net change in reserve for employee termination indemnities	15	64	64	31
Foreign exchange gains (losses) and other changes	649	465	263	136
	7,080	7,469	7,645	8,493
D. CASH FLOWS - INVESTING ACTIVITIES				
Long-term investments:	(4,048)	(8,586)	(8,803)	(11,257)
. <i>intangible assets</i> :				
- <i>goodwill</i>	(218)	(1,038)	(1,038)	(1,174)
- <i>other investments</i>	(800)	(1,991)	(2,007)	(2,736)
. <i>fixed assets</i>	(2,049)	(2,763)	(2,950)	(4,254)
. <i>long-term investments</i>	(981)	(2,794)	(2,808)	(3,093)
Proceeds from sale, or redemption value, of intangible assets, fixed assets and long-term investments	4,306	578	591	1,439
	258	(8,008)	(8,212)	(9,818)
E. CASH FLOWS - FINANCING ACTIVITIES				
Capital contributions	58	247	247	240
Capital grants	35	22	22	22
	93	269	269	262
F. DIVIDENDS	(3,247)	(3,097)	(3,116)	(3,097)
G. CHANGE IN NET DEBT (B+C+D+E+F)	4,184	(4,206)	(4,253)	(4,999)
H. NET DEBT, AT END OF YEAR (A+G)	(17,758)	(21,439)	(23,282)	(22,232)

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

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

The change in net debt was due to the following:

(in millions of euro)	1/1 – 9/30 2002	1/1 – 9/30 2001 (*)	1/1 – 9/30 2001	Year 2001
Increases (decreases) in medium/long-term debt	(4,725)	4,862	4,945	9,350
Increases (decreases) in short-term borrowings	447	536	533	(4,641)
Total	(4,278)	5,398	5,478	4,709

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

Telecom Italia S.p.A.

Statements of Income

	3 rd quarter	3 rd quarter	1/1 – 9/30	1/1 – 9/30	Year	Change	
	2002	2001	2002	2001		(a-b)	
(in millions of euro)			(a)	(b)	2001	amount	%
A. SALES AND SERVICE REVENUES	4,131	4,202	12,561	12,755	17,309	(194)	(1.5)
Changes in inventory of contract work in process		(2)	(4)	(16)	(19)	12	(75.0)
Increases in capitalized internal construction costs	3	-	10	4	6	6	°
Operating grants		-		1	-		
B. STANDARD PRODUCTION VALUE	4,134	4,200	12,567	12,744	17,296	(177)	(1.4)
Raw materials and outside services (1)	(1,680)	(1,756)	(5,073)	(5,254)	(7,109)	181	(3.4)
C. VALUE ADDED	2,454	2,444	7,494	7,490	10,187	4	0.1
Labor costs (1)	(614)	(592)	(1,909)	(1,935)	(2,616)	26	(1.3)
D. GROSS OPERATING PROFIT	1,840	1,852	5,585	5,555	7,571	30	0.5
Depreciation and amortization	(721)	(806)	(2,208)	(2,428)	(3,321)	220	(9.1)
Other valuation adjustments	(59)	(42)	(157)	(98)	(159)	(59)	60.2
Provisions to reserves for risks and charges	(44)	(6)	(78)	(43)	(100)	(35)	81.4
Net other income (expense)	(3)	(10)	(41)	20	(8)	(61)	°
E. OPERATING INCOME	1,013	988	3,101	3,006	3,983	95	3.2
Net investment and financial income (expense)	113	(373)	(1,032)	(1,131)	(377)	99	(8.8)
<i>Of which value adjustments</i>	<i>(369)</i>	<i>(102)</i>	<i>(533)</i>	<i>(421)</i>	<i>(775)</i>	<i>(112)</i>	<i>°</i>
F. INCOME BEFORE EXTRAORDINARY ITEMS AND TAXES	1,126	615	2,069	1,875	3,606	194	10.3
Net extraordinary income (expense)	(1,105)	(2,049)	(1,336)	(2,133)	(2,893)	797	(37.4)
G. INCOME BEFORE TAXES	21	(1,434)	733	(258)	713	991	°
Income taxes	(315)	472	(639)	(50)	(562)	(589)	°
H. NET INCOME	(294)	(962)	94	(308)	151	402	°

(1) Reduced by related cost recoveries

Balance Sheets

(in millions of euro)	9/30/2002	6/30/2002	12/31/2002	Change
	(a)		(b)	(a-b)
A. INTANGIBLES, FIXED ASSETS AND LONG-TERM INVESTMENTS				
Intangible assets	1,331	1,340	1,318	13
Fixed assets	13,353	13,493	14,109	(756)
Long-term investments				
• equity investments and advances on future capital contributions	17,166	17,741	18,149	(983)
• other	358	297	221	137
	32,208	32,871	33,797	(1,589)
B. WORKING CAPITAL				
Inventories	76	76	77	(1)
Trade accounts receivable	4,974	5,082	5,104	(130)
Other assets	2,429	2,812	3,868	(1,439)
Trade accounts payable	(3,165)	(3,163)	(3,549)	384
Reserves for risks and charges	(1,273)	(1,298)	(1,613)	340
Other liabilities	(4,686)	(4,550)	(3,875)	(811)
	(1,645)	(1,041)	12	(1,657)
C. INVESTED CAPITAL, net of operating liabilities (A+B)	30,563	31,830	33,809	(3,246)
D. RESERVE FOR EMPLOYEE TERMINATION INDEMNITIES	(1,036)	(1,046)	(1,025)	(11)
E. INVESTED CAPITAL, net of operating liabilities and the reserve for employee termination indemnities (C+D)	29,527	30,784	32,784	(3,257)
Financed by:				
F. SHAREHOLDERS' EQUITY				
Share capital paid-in	4,024	4,024	4,023	1
Reserves and retained earnings	9,560	9,555	11,697	(2,137)
Net income	94	389	151	(57)
	13,678	13,968	15,871	(2,193)
G. MEDIUM/LONG-TERM DEBT	12,951	13,053	10,371	2,580
H. NET SHORT-TERM BORROWINGS				
Short-term borrowings	4,166	5,068	7,538	(3,372)
Liquid assets and short-term financial assets	(1,604)	(1,509)	(1,248)	(356)
Financial accrued expense (income) and deferred expense (income), net	336	204	252	84
	2,898	3,763	6,542	(3,644)
	(G+H)	15,849	16,913	(1,064)
I. TOTAL (F+G+H)	29,527	30,784	32,784	(3,257)

Statements of Cash Flows

(in millions of euro)	1/1 – 9/30 2002	1/1 – 9/30 2001	Year 2001
A. NET DEBT, AT BEGINNING OF YEAR	(16,913)	(16,839)	(16,839)
B. CASH FLOWS - OPERATING ACTIVITIES			
Net income (loss)	94	(308)	151
Depreciation and amortization	2,208	2,428	3,321
(Gains) losses on sales of intangibles, fixed assets and long-term investments	(129)	(9)	(241)
(Upward adjustments) writedowns of intangibles, fixed assets and long-term investments	1,417	2,163	3,148
Change in working capital (**)	1,663	(251)	(514)
Net change in reserve for employee termination indemnities	11	28	(6)
	5,264	4,051	5,859
C. CASH FLOWS - OPERATING ACTIVITIES			
Long-term investments:	(2,202)	(3,233)	(4,495)
<i>. intangible assets:</i>	(381)	(437)	(727)
<i>. fixed assets</i>	(1,113)	(1,284)	(1,739)
<i>. long-term investments</i>	(708)	(1,512)	(2,029)
Intangibles, fixed assets and long-term investments purchased as a result of corporate transactions	(143)	(45)	(413)
Proceeds from sale, or redemption value, of intangibles, fixed assets and long-term investments	281	158	975
Intangibles, fixed assets and long-term investments sold as a result of corporate transactions	143	50	280
	(1,921)	(3,070)	(3,653)
D. CASH FLOWS - FINANCING ACTIVITIES			
Capital contributions	9	9	10
Capital grants	18	18	19
	27	27	29
E. DIVIDENDS	(2,306)	(2,309)	(2,309)
F. CHANGE IN NET DEBT (B+C+D+E)	1,064	(1,301)	(74)
G. NET DEBT, AT END OF YEAR (A+F)	(15,849)	(18,140)	(16,913)

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

The change in net debt was due to the following:

(in millions of euro)	1/1 – 9/30 2002	1/1 – 9/30 2001	Year 2001
Increases (decreases) in medium/long-term debt	2,580	5,512	7,183
Increases (decreases) in short-term borrowings	(3,644)	(4,211)	(7,109)
Total	(1,064)	1,301	74

■ SIGNIFICANT EVENTS SUBSEQUENT TO SEPTEMBER 30, 2002

Significant events subsequent to September 30, 2002 are listed below.

Telecom Italia – News Corporation agreement

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

Telecom Italia, at the closing, will pay a price equal to Euro 31.84 million for the 19.9% stake in Tele+ and will waive the trade accounts receivable due at the end of 2002 by the Group companies from Stream for about Euro 147 million (the amount was entirely accrued in the 2001 financial statements). In the meantime, News Corporation will waive trade accounts receivable and shareholder loans from Stream for the same amount.

The effect of the transaction on Telecom Italia's statement of income will involve a total gross expense of about Euro 276 million that was almost entirely set aside at September 2002.

The finalization of the contract is subject to the approval of the competent authorities.

Rate plans

- ✓ On October 2, 2002, Telecom Italia launched the innovative ADSL rate plan for families called "Alice Time". This plan makes it possible to surf the Internet at less than the cost of a local phone call, drastically cutting access costs. Telecom Italia also completed the range of Alice packages by launching two new solutions destined for the most demanding surfers "Alice 640" and "Alice Mega". The first plan offers all the advantages of an "always on" broadband link at a fixed price; the second package allows high quality multimedia contents to be received in real time and is the perfect connection for videoconferences and Video on demand;
- ✓ on October 18, 2002, TIM launched a rate plan for GSM service in Brazil with the opening of one thousand points of sale in over 80 cities. The start of this service will make it possible to set up the first GSM Pan-South American network.

Final agreement for the purchase of 100% of Blu S.p.A. shares

On October 7, 2002, TIM finalized the preliminary contract signed on August 7, 2002 with Blu S.p.A. shareholders for the purchase of 100% of the company, which will be merged with TIM S.p.A.. The authorizations for this transaction had been previously issued by the Antitrust Authority in view of the approval by the Telecommunications Regulatory Authority. The provisional price of the shares, which TIM paid to the shareholders of Blu S.p.A., was Euro 18 million. The definitive price, and thus the balance to be paid, will be decided later on the basis of the certified balance sheet at the date the contract becomes effective.

Tiglio project

On October 29, 2002, the transaction envisaged by the framework agreement between the Pirelli, Olivetti Telecom Italia Groups and The Morgan Stanley Real Estate Funds was finalized and integration was thus achieved for the real estate properties of the companies involved as well as the entities that provide real estate services to the same companies or to their subsidiaries.

The agreement also calls for leveraging, during 2003, the assets of Tiglio I and Tiglio II through a market transaction within the framework of a strategy that could contribute to the development of the real estate financial market, with consequent significant opportunities for the Telecom Italia Group to leverage the investments currently held in the two companies.

In particular, Telecom Italia Group transferred assets worth Euro 1,360 million to Tiglio I and Tiglio II, in various corporate forms. Some Euro 50 million of the total relate to Seat Pagine Gialle, about Euro 840 million to real estate that was contributed to Emsa Immobiliare after the non-proportional spin-off of IM.SER and Euro 470 million to other assets. The transaction has a gross impact on the statement of income (gross gain and extraordinary dividends) of about Euro 220 million for Telecom Italia S.p.A., while the gross gain for Seat Pagine Gialle is about Euro 5 million. The financial impact on the Telecom Italia Group is Euro 330 million.

Pagine Utili

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

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

The business segment, which is expected to generate revenues of Euro 57 million in 2002 with a gross operating profit of about Euro 9 million, was transferred without liabilities and zero working capital, with around 150 staff. The finalization of this transaction is subject to the authorization of the Italian Antitrust Authority. After finalization of the transaction, a decision will be made as to how the purchased business segment will be integrated in Seat Pagine Gialle.

Telekom Austria

On November 4, 2002, Telecom Italia International N.V. closed, on the same day it opened, the private placement of 65 million Telekom Austria AG shares (equal to 13% of share capital), with a greenshoe option, fully exercised on November 5, 2002, for the sale of a further 10 million shares (equal to an additional 2%). The placement price was set at Euro 7.45 per share, at the higher end of the range of prices indicated to investors during the day. Gross proceeds from the sale of the 75 million shares were Euro 559 million. After this transaction, Telecom Italia Group's stake in Telekom Austria decreased from 29.78% to 14.78%.

Buy-back of treasury stock by Telecom Italia

Under the transaction for the buy-back of treasury stock authorized by the ordinary shareholders' meeting of Telecom Italia shareholders on November 7, 2001, during the period October 1, 2002 to November 7, 2002, 4,448,000 savings shares were purchased at an average price of Euro 5.10 per share, for an investment of Euro 23 million, and 301,000 ordinary shares at an average price of Euro 7.32 per share, for an investment of Euro 2 million. The total treasury stock purchased since January 1, 2002 amounts to 27,488,000 savings shares at an average price of Euro 5.47 for an equivalent amount of Euro 150 million and 4,748,000 ordinary shares at an average price of Euro 8.24 for an equivalent amount of Euro 40 million. Since the beginning of the year, the investment for the buy-back of treasury stock has totaled Euro 190 million.

■ OUTLOOK

Telecom Italia Group confirms the forecast for growth in operating income for the current year that will match or exceed that of 2001. It also affirms its commitment to reduce net financial debt by the continuation of the divestiture program, a careful management of costs and a selective investment program.

■ RELATED PARTY TRANSACTIONS

With reference to related party transactions, the effects of such transactions on the balance sheet and statement of income in the consolidated financial statements at September 30, 2002 are reported in the following table.

All related party transactions, including intercompany transactions, fall within the normal business operations of the group, are governed by market terms or on the basis of specific laws.

Major statement of income and balance sheet components	Transactions with:		Nature of transaction
	unconsolidated subsidiaries and affiliates	parent companies, subsidiaries and affiliates of parent companies	
<i>(in millions of euro)</i>			
Sales and services revenues	235	2	These comprise revenues from Brasil Telecom (Euro 53 million), Teleleasing (Euro 61 million), Stream (Euro 37 million), Auna Group (Euro 18 million), Telecom Argentina (Euro 16 million)
Raw materials and outside services	299	15	These mainly comprise rent payable to IMSEER (Euro 110 million) and Telemaco Immobiliare (Euro 37 million) and TLC service costs from Etecsa Cuba (Euro 44 million)
Net other (income) expense	9	-	These mainly relate to cost recoveries for personnel on loan to some foreign subsidiaries and affiliates
Net financial (income) expense	(10)	(11)	These include accrued interest income on loans made to certain foreign subsidiaries and affiliates (Euro 7 million), interest expense payable to Teleleasing for financial leasing transactions (Euro 17 million) and interest on the payable by Softe to Olivetti Finance NV (Euro 11 million)
Loans in long-term investments	4	-	These refer mainly to medium/long-term loans made to subsidiaries and affiliates
Financial receivables	220	-	These comprise short-term loans made to Is Tim (Euro 144 million) and Stream (Euro 26 million net of provisions)
Financial payables	441	-	These refer mainly to payables for finance leases to Teleleasing for financial leasing (Euro 422 million)
Trade and other accounts receivable	244	2	They mainly regard receivables from Stream (Euro 77 million), Telekom Srbija (Euro 21 million net of provisions) and Teleleasing (Euro 22 million)
Trade and other accounts payable	448	775	These refer to the payables to Olivetti for the payment of Group VAT (Euro 763 million) and supply contracts connected with operating and investment activities: they include payables to the Italtel group (Euro 201 million), Siemens Informatica (Euro 35 million), Teleleasing (Euro 21 million) and advances from Consorzio Telcal (Euro 97 million)
Contract work in process	117	-	These refer mainly to activities on behalf of Consorzio Telcal for the Telematico Calabria Plan (Euro 110 million)
Investments in fixed assets and intangibles	320	-	These mainly consist of acquisitions of telephone exchanges from the Italtel group (Euro 288 million) and information projects from Webegg (Euro 14 million) and Siemens Informatica (Euro 12 million)
Acquisition of investments	-	58	50% of Webegg from Olivetti
Disposal of investments	690	-	25% of Mobilkom Austria, through the disposal of the Autel holding to Telekom Austria

Related party transactions during the first nine months of 2002 also include those by the Telecom Italia Group with the Pirelli group and the Edizione Holding group as follows:

<i>(in millions of euro)</i>	1/1-9/30 2002	
Sales and services revenues	10	These mainly refer to telephone services
Raw materials and outside services	10	These essentially refer to R & D expenditures
Trade and other accounts receivable	2	These mainly refer to the above-mentioned telephone services
Trade and other accounts payable	26	These mainly refer to the supply contracts connected with investment activities
Investments in fixed assets and intangibles	32	These mainly refer to purchases of telecommunications cables
Acquisition of investments	18	Purchase of 25.3% stake in EPIClink by Telecom Italia S.p.A. from Pirelli S.p.A.
Purchase of business segments	3	Purchase of a business segment by EPIClink S.p.A. from Pirelli Informatica

Moreover, telephone cards were sold, mostly for mobile phones, to Autogrill S.p.A. (Edizione Holding Group) for about Euro 16 million.

ECONOMIC AND FINANCIAL REVIEW OF THE BUSINESS UNITS/OPERATING ACTIVITIES OF TELECOM ITALIA GROUP

DOMESTIC WIRELINE

- Growth of operating income
- Policies controlling costs and investments

■ THE BUSINESS UNIT

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

The third quarter of 2002 again brought strong competition on the market. It was more accentuated in the case of national traffic and was countered with new rate plans launched as part of the action to win back and retain customers.

■ THE STRUCTURE OF THE BUSINESS UNIT

The Business Unit is organized as follows

Telecom Italia DW	National consolidated subsidiaries	International consolidated
Wireline telecommunications services: <ul style="list-style-type: none"> . Traffic and access . Data Business . National wholesale . International wholesale . Public telephone services 	Atesia SpA Path.Net SpA TMI Group	Latin American Nautilus Group Mediterranean Nautilus Group Med-1 Group Pan European Backbone Intelcom San Marino SpA

■ MAJOR EVENTS/SCOPE OF CONSOLIDATION

In the third quarter of 2002, the scope of consolidation changed as a result of the inclusion of Intelcom San Marino (which previously reported to the International Operations Operating Activity) following the reorganization of the international activities of the Telecom Italia Group. The data for 2001 has been restated for purposes of comparison.

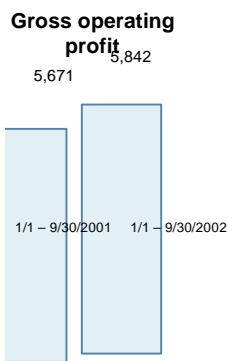
■ ECONOMIC AND FINANCIAL DATA

The following table shows the key results in the third quarter and the first nine months of 2002, compared to the same periods in 2001, restated for purposes of comparison.

(in millions of euro)	3 rd quarter 2002	3 rd quarter 2001	1/1 - 9/30 2002	1/1 - 9/30 2001	Change %	
	(a)	(1) (b)	(c)	(1) (d)	(a/b)	(c/d)
Sales and services revenues	4,121	4,175	12,524	12,660	(1.3)	(1.1)
Gross operating profit	1,937	1,890	5,842	5,671	2.5	3.0
% of revenues	47.0%	45.3%	46.6%	44.8%		
Operating income	1,142	1,053	3,543	3,253	8.5	8.9
% of revenues	27.7%	25.2%	28.3%	25.7%		
Investments:						
• industrial	579	681	1,577	2,035	(15.0)	(22.5)
• goodwill	-	-	-	-	-	-
Employees at period-end (2) (number)			55,454	60,452		(4.2)

(1) Restated to exclude Saritel S.p.A. which is now in the Information Technology Group BU and to include Intelcom San Marino S.p.A..

(2) The change in the number of employees has been calculated in reference to the data at the end of 2001.



The economic results refer almost entirely to the Domestic Wireline function of Telecom Italia. In particular, the reduction in *revenues* can mainly be attributed to traffic, the equivalent amount of which fell by 6% despite an increase of 4.3% in terms of minutes. The decline in the average return on traffic continues following the policy of granting discounts in order to build customer retention and the development of the traffic “carried” on behalf of other operators.

The significant increase in *gross operating profit* (+3% compared to the first nine months of 2001), which was amply confirmed by the operating income (+8.9% compared to the same period of the prior year), is due to efforts to contain costs and improve the level of efficiency of invested capital.

Investments were down by 22.5% compared to the same period of the prior year as a result of a selective investment policy.

The number of *employees* fell by 2,441 during the first nine months of 2002.

■ INFORMATION ON OPERATIONS

The following table shows the main operating highlights for the first nine months of 2002, compared to those of the first nine months and the year 2001:

Operating data	9/30/2002	12/31/2001	9/30/2001
Fixed network connections (in thousands)	27,194	27,353	27,303
- of which ISDN	5,695	5,403	5,241
Annual increase in minutes of traffic on the fixed network (%)	4.3	22.5	25.6
	3.8	22.8	26.2
• national traffic	16.3	16.9	13.3
• international traffic	13.7	11.4	10.2
- outgoing	4.4	12.6	7.0
- incoming	46.5	39.3	37.2
- in transit			

■ Telephony

As regards Public Telephone Services, the Best Way rate plan (prepaid for phone centers) activated in June, was extremely successful in the third quarter.

■ Data transmission

The main achievements during the third quarter include:

- introduction of wireless services both for Internet access services (Interbusiness) and for corporate network services (Hyperway);
- new rates based on use for Hyperway and for the top range of Internet access (Interbusiness Netcruise, Netsite);
- extension of the range of Web services and customized messaging services for businesses

■ National wholesale

In the third quarter of 2002, the Wholesale market was particularly involved in the of Local Loop Unbundling – LLU service: at September 30 more than 76,000 lines had been connected to networks of other TLC operators.

■ International wholesale

With regard to international wholesale, in the third quarter of 2002, there was steady growth both in phone services and in IP and data transmission services. In particular, in the area of IP and data transmission, there was an increase in the sales of innovative international connection services, in line with the growth trend of the market.

■ National network

With regard to the national network, the ADSL network was further extended to include 2,060 exchanges and more than 73% of the Internet population. In addition, during the third quarter, the migration of long-distance phone traffic from a backbone based on circuit technologies to the innovative one based on package technologies continued.

MOBILE

- **Growth of revenues and improvement in profitability margins**

■ 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 South America and in the Mediterranean Basin.

■ THE STRUCTURE OF THE BUSINESS UNIT

The Business Unit is structured as follows

Mobile			
National subsidiaries	International subsidiaries		Affiliates
TIM – Telecom Italia Mobile SpA	Mobile South America	Other subsidiaries	IS TIM T.H.A.S. (Turkey)
	TIM International		
	<ul style="list-style-type: none"> . TIM Brasil Group . Bitel Participacoes . Group Tele Nordeste Celular Participacoes (Brazil) . Group Tele Celular Sul Participacoes (Brazil) . Group Maxitel (Brazil) . TIM Celular Centro Sul (Brazil) . Portale Rio Norte (Brazil) . Portale Sao Paulo (Brazil) . TIMNet.com (Brazil) . TIM Peru S.A.C. . Corporacion Digitel C.A. (Venezuela) 	<ul style="list-style-type: none"> . Stet Hellas Group (Greece) 	

■ MAJOR EVENTS/SCOPE OF CONSOLIDATION

Key events in the third quarter of 2002 include:

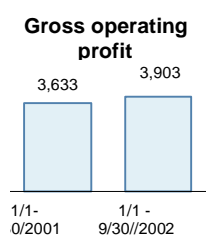
- the sale, on August 1, of the stake held by TIM International in the Spanish company Auna;
- the purchase, on August 2, of a 17.45% stake in the ordinary share capital of Stet Hellas by TIM International, for the sum of Euro 108 million, thus increasing its investment in the company to 81.40%.

■ ECONOMIC AND FINANCIAL DATA

The following table shows the key results in the third quarter and the first nine months of 2002, compared to the same periods in 2001.

(in millions of euro)	3 rd quarter 2002	3 rd quarter 2001	1/1 - 9/30 2002	1/1 - 9/30 2001	Change %	
	(a)	(b)	(c)	(d)	(a/b)	(c/d)
Sales and services revenues	2,825	2,602	8,010	7,532	8.6	6.3
Gross operating profit	1,415	1,257	3,903	3,633	12.6	7.4
% of revenues	50.1%	48.3%	48.7%	48.2%		
Operating income	1,029	904	2,713	2,521	13.8	7.6
% of revenues	36.4%	34.7%	33.9%	33.5%		
Investments:						
• industrial	264	252	847	2,034	4.8	(58.4)
• goodwill	66	-	66	9		
Employees at period-end (number) (1)			17,532	16,355		4.9

(1) The change in the number of employees has been calculated in reference to the data at the end of 2001.



In the first nine months of 2002, *sales and services revenues* amounted to Euro 8,010 million, with an increase of Euro 478 million (+6.3% compared to the first nine months of 2001). The growth in the revenues of the Group can mainly be attributed to TIM S.p.A. (+Euro 380 million), Stet Hellas (+Euro 107 million), TIM Perù (+Euro 42 million) and Maxitel (+Euro 17 million). The increase in revenues would have been even higher had it not been for the effects of the contraction of the exchange rates suffered by the Brazilian and Venezuelan currencies. Excluding such effect, revenues would have increased by 11.2% compared to the same period of the prior year.

In the third quarter of 2002, revenues amounted to Euro 2,825 million, with an increase of 8.6% compared to the third quarter of 2001.

In the first nine months of 2002, the *gross operating profit* was Euro 3,903 million, with an increase of Euro 270 million (+7.4% compared to the first nine months of 2001). As a percentage of revenues, it was 48.7% (compared to 48.2% for the first nine months of 2001). The growth of the gross operating profit can mainly be attributed to the positive performance of TIM S.p.A. (+Euro 246 million), Stet Hellas (+Euro 46 million) and Maxitel (+Euro 33 million).

In the third quarter of 2002, the gross operating profit amounted to Euro 1,415 million, with a growth of 12.6% compared to the third quarter of 2001.

In the first nine months of 2002, the *operating income* amounted to Euro 2,713 million, with an increase of Euro 192 million (+7.6% compared to the first nine months of 2001). As a percentage of revenues it was 33.9% (33.5% in the first nine months of 2001). The growth of the operating income can mainly be attributed to the positive results of TIM S.p.A. (+Euro 172 million), Maxitel (+Euro 38 million) and Stet Hellas (+Euro 26 million).

For purposes of consolidation, the financial statements of TIM S.p.A. were adjusted to eliminate tax driven entries mostly relating to the amortization taken on UMTS licenses.

In the third quarter of 2002, the gross operating profit amounted to Euro 1,029 million, with an increase of 13.8% compared to the third quarter of 2001.

In the first nine months of 2002, industrial investments totaled Euro 847 million. Compared to the first nine months of 2001, this constituted a decrease of Euro 1,187 million. The decrease can be attributed to the acquisition of telecommunications licenses and the start-up of foreign subsidiaries. In 2002, investments focused mainly on the technological field and on the extension of the network.

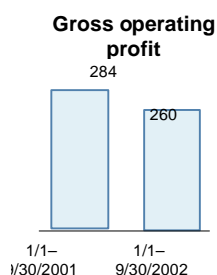
At September 30, 2002, *employees* numbered 17,532 (compared to 16,355 at September 30, 2001). The change from December 31, 2001 (16,721) represents an increase of 811.

■ 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).

(in millions of euro)	3 rd quarter 2002	3 rd quarter 2001	1/1 - 9/30 2002	1/1 - 9/30 2001	Change %	
	(a)	(b)	(c)	(d)	(a/b)	(c/d)
Sales and services revenues	283	315	989	997	(10.2)	(0.8)
Gross operating profit	66	81	260	284	(18.5)	(8.5)
% of revenues	23.3%	25.7%	26.3%	28.5%		
Operating income	(5)	5	(19)	(10)	°	°
% of revenues		1.6%				
Investments:						
• industrial	49	°	349	1,109	°	°
• goodwill	-	-	-	-	-	-
Employees at period-end (number) (1)				6,546	5,370	15.3

(1) The change in the number of employees has been calculated in reference to the data at the end of 2001.



In the first nine months of 2002, the operations of the Mobile Business Unit in Latin America generated *revenues* of Euro 989 million, with a decrease of 0.8% compared to the first nine months of 2001. This was due to the exchange effect resulting from the weakening of the Brazilian and Venezuelan currencies. In the third quarter of 2002, revenues amounted to Euro 283 million, with a decrease of 10.2% compared to the third quarter of 2001, again due to the above-mentioned exchange effect.

The *gross operating profit* for the first nine months of 2002 amounted to Euro 260 million, with a decrease of 8.5% compared to the first nine months of 2001. This was due mainly to expenses incurred for start-up activities. In the third quarter of 2002, the gross operating profit was Euro 66 million, with a decrease of 18.5% compared to the third quarter of 2001.

The *operating loss* for the first nine months of 2002 was Euro 19 million. In the third quarter of 2002, the operating loss was Euro 5 million.

In the first nine months of 2002, *industrial investments* totaled Euro 349 million, with a decrease of Euro 760 million compared to the first nine months of 2001. The decrease can be correlated to the aforementioned investments made in 2001 to acquire PCS telecommunications licenses in Brazil and the start-up and development of foreign subsidiaries

At September 30, 2002, *employees* working in mobile operations in Latin America numbered 6,546 (5,370 at September 30, 2001). The change from December 31, 2001 (when employees numbered 5,678) represents an increase of 868.

On October 18, following the authorization granted by ANATEL, the Brazilian regulatory authority for telecommunications, the rate package for the mobile phone service using GSM technology throughout Brazil was launched by the TIM group.

SOUTH AMERICA

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

LAO's structure is organized as follows:



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

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

■ MAJOR EVENTS/SCOPE OF CONSOLIDATION

The third quarter of 2002 was marked by the following transactions:

- in the third quarter, the Telecom Italia Group sold part of its stake in Solpart Participacoes S.A. (indirect parent company of Brasil Telecom) to other shareholders for a price of US \$47,000, which takes into account the limited value of the ordinary shares compared to the preferred shares based on the economic value of Solpart. Following this transaction, the Group's stake in ordinary share capital fell from 37.29% to 19.0%. As a result, the regulatory obstacle preventing the TIM Group from launching a mobile telephone service based on GSM technology throughout Brazil was removed.
- on August 19, as a result of the transformation of the subsidiary Telecom Italia do Brasil Ltda, the company Telecom Italia America Latina S.A. was set up. Subsequently, on September 26, Telecom Italia S.p.A. subscribed to the share capital increase of Euro 11.1 million voted by the subsidiary.

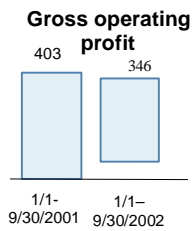
■ ECONOMIC AND FINANCIAL DATA

The following table shows the key 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 in the third quarter and the first nine months of 2002, compared to the same periods of 2001.

(in millions of euro)	3 rd quarter 2002	3 rd quarter 2001	1/1 - 9/30 2002	1/1 - 9/30 2001	Change %	
	(a)	(1) (b)	(1) (c)	(1) (d)	(a/b)	(c/d)
Sales and services revenues	305	401	1,036	1,171	(23.9)	(11.5)
Gross operating profit	100	129	346	403	(22.5)	(14.1)
% of revenues	32.8%	32.2%	33.4%	34.4%		
Operating income	31	51	116	156	(39.2)	(25.6)
% of revenues	10.2%	12.7%	11.2%	13.3%		
Investments:						
• industrial	42	54	170	256	(24.1)	(33.6)
• goodwill	-	-	-	-		
Employees at period-end (number) (2)			5,536	5,811		(3.7)

(1) Figures restated for the purposes of comparison.

(2) The change in the number of employees has been calculated in reference to the data at the end of 2001.



In the first nine months of 2002, the *revenues* generated by the Entel Chile group and the Entel Bolivia group totaled Euro 1,036 million, with a decrease of 11.5% (equal to -Euro 135 million) compared to the same period of 2001. The decrease can be attributed to exchange rate fluctuations (which generated a total impact of -Euro 153 million, of which Euro 134 million refer to the Chilean peso and Euro 19 million to the Bolivian boliviano). Had this effect not been considered, revenues would have increased by 1.5%, as a result of the increase in the revenues of the Entel Chile group (+8.3% in local currency). This was offset by the effects of the deregulation of the Bolivian market (Entel Bolivia reported a reduction of approximately 6.2% in local currency), and the suspension with effect from April 1, 2002 of the contribution of the management fee under the terms of the contract with Telecom Argentina.

The fluctuations described affected profitability performance. In particular, the *gross operating profit* decreased by Euro 56.5 million (-14.1%) compared to the same period in 2001, of which approximately Euro 50 million can be attributed to the exchange effect of Entel Chile and Entel Bolivia. Excluding the exchange effect, the reduction in the gross operating profit would have been 2% and can be ascribed to the suspension of the payment of the management fee by Telecom Argentina and lower profit margins in Bolivia that were offset by a recovery in profit margins in Chile in the mobile sector. As a percentage of revenues, the gross operating profit was 33.4% in the first nine months of 2002 (34.4% in the same period of the prior year).

The *operating income* confirms the trends already described with regard to the gross operating profit. As a percentage of revenues, in the first nine months of 2002 the operating income was 11.2% (compared to 13.3% in the same period of the prior year).

Industrial investments show a declining trend compared to September 30, 2001, with a reduction of 33.6%.

At September 30, 2002, *employees* numbered 5,536, with a decrease of 3.7% compared to December 31, 2001. This can mainly be attributed to rationalization measures adopted by the Entel Chile group (a reduction of 128 compared to December 31, 2001).

In order to give an overall view of **Latin America Operations (LAO)**, the following table shows the economic and financial highlights of all the companies operating in South America, providing both wireline and mobile phone services, in the third quarter and the first nine months of 2002, compared to those in the same periods of the prior year, restated for purposes of comparison

(in millions of euro)	3 rd quarter 2002	3 rd quarter 2001	1/1 - 9/30 2002	1/1 - 9/30 2001	Change %	
	(a)	(b)	(c)	(d)	(a/b)	(c/d)
Sales and services revenues	588	715	2,025	2,168	(17.8)	(6.6)
Gross operating profit	166	211	606	687	(21.3)	(11.8)
% of revenues	28.2%	29.5%	29.9%	31.7%		
Operating income	26	56	97	146	(53.6)	(33.6)
% of revenues	4.4%	7.8%	4.8%	6.7%		
Investments:						
• industrial	90	-	518	1,365		(62.1)
• goodwill	-	-	-	-		
Employees at period-end (number) (1)			12,082	11,181		5.8

(1) The change in the number of employees has been calculated in reference to the data at the end of 2001.

INTERNET AND MEDIA

- **Marked increase in profitability thanks to improvements in efficiency**
- **Further improvement in profitability margins for Internet services**

■ THE BUSINESS UNIT

The Internet and Media Business Unit is responsible for the whole chain of value in the media sector. Its operations run from directories to telephone publishing and television and the BU is the national leader in the marketing of products and services for the office. Seat Pagine Gialle promotes the development of all Internet services for residential customers and for small and medium-size companies: access, portals and web services.

■ THE STRUCTURE OF THE BUSINESS UNIT

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

Seat Pagine Gialle Group					
Directories	Directories Assistance	Internet	Office products and services	Business information	TV and other
Seat PG - DDI TDL Infomedia Group	Telegate Group Seat PG - DDA	Seat PG - Tin.it Matrix	Buffetti Group CIPI	Consodata Group Pan-Adress NetCreations	Holding Media e Communication Group

■ MAJOR EVENTS/SCOPE OF CONSOLIDATION

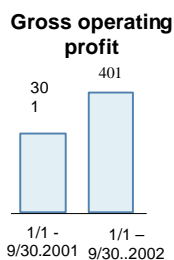
In the third quarter of 2002, the rationalization of operations continued and this also led to the sale of the investment held in the Datahouse group, a group active in the Business Information sector.

■ ECONOMIC AND FINANCIAL DATA

The table shows the key highlights for the third quarter and the first nine months of 2002, compared to those for the same periods of 2001.

(in millions of euro)	3 rd quarter 2002	3 rd quarter 2001	1/1 - 9/30 2002	1/1 - 9/30 2001	Change %	
	(a)	(b)	(c)	(d)	(a/b)	(c/d)
Sales and services revenues	509	519	1,379	1,344	(1.9)	2.6
Gross operating profit	191	157	401	301	21.7	33.2
% of revenues	37.5%	30.3%	29.1%	22.4%		
Operating income	108	52	127	10	107.4	°
% of revenues	21.2%	10.0%	9.2%	0.7%		
Investments:						
• industrial	15	36	45	116	(58.)	(61.2)
• goodwill	12	45	19	178	(73.3)	(89.3)
Employees at period-end (number) (1)			8,070	9,489		(12.9)

(1) The change in the number of employees has been calculated in reference to the data at the end of 2001.



Consolidated *revenues* of the Seat Pagine Gialle group for the first nine months of 2002 showed an increase of 2.6% to Euro 1,379 million, in a particularly difficult economic context marked by the crisis in the advertising market.

In the third quarter of 2002, revenues amounted to Euro 509 million, with a decrease of 1.9%. However, if we ignore the effect of the change in the scope of consolidation, revenues for the third quarter of 2002 were more or less in line with those of the same period of 2001.

The implementation of far-reaching rationalization measures and the improvements achieved in efficiency (especially in the Internet and Directories Assistance areas) have made it possible to appreciably improve the *gross operating profit* (from Euro 301 million in the first nine months of 2001 to Euro 401 million in the first nine months of 2002). As a percentage of revenues, the gross operating profit increased from 22.4% to 29.1%.

In particular, in the third quarter, the gross operating profit reached the level of Euro 191 million compared to Euro 157 million in the same period of 2001, with an increase of 21.7%. In the third quarter of 2002, there was a considerable improvement in the profitability of Internet services, with a gross operating profit of Euro 2 million compared to a gross operating loss of Euro 20 million in the third quarter of the prior year. In general, (with the sole exception of television) all the business areas made a positive contribution to the consolidated gross operating profit.

The sharp increase in profits was also reflected in the *operating income* which, in the first nine months of 2002, amounted to Euro 127 million, compared to Euro 10 million in the same period of 2001.

Industrial investments in the period totaled Euro 45 million (Euro 15 million invested in the third quarter), compared to Euro 116 million in the first nine months of 2001.

Between December 31, 2001 and September 30 2002 the number of employees fell by 1,194 and now stands at 8,070. This is partly the result of the rationalization measures implemented in the Internet and Directories Assistance areas.

INFORMATION TECHNOLOGY MARKET

- **Changes in volumes and levels of profitability partly resulting from the sale of Sogei**

■ INTRODUCTION

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

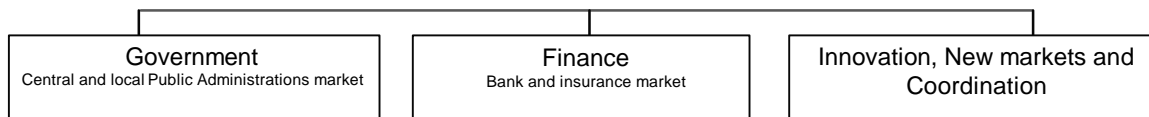
The BU is responsible for organizing the information technology activities of the Group oriented towards the external market, in particular, central and local administrations moving towards decentralization and e-government, as well as banks and businesses. Its product range covers the whole chain of value of information services. The IT Market BU creates solutions and services around platforms and products of the main market vendors. Customers' problems are solved in one of three possible ways: by acquiring existing solutions on the market, developing special solutions, or by integrating components offered by Finsiel with typical market platforms (SAP and Oracle). The applications may be used with ASP mode through the Internet Data Centers of Telecom Italia – Saritel.

■ THE STRUCTURE OF THE BUSINESS UNIT

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



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



■ MAJOR EVENTS /SCOPE OF CONSOLIDATION

In the third quarter of 2002, the following events and changes to the scope of consolidation took place:

- in July, an agreement was signed between Finsiel and the Ministry of Economy and Finance – Department of Fiscal Policy for the sale of 100% of the share capital of Sogei S.p.A.. The transfer of the shares took place on July 31, 2002. Sogei S.p.A.'s economic results are therefore only included in the scope of consolidation for the first six months of 2002
- A resolution was passed on July 25, 2002 to increase the share capital of Sogei I.T. partly in cash and partly in kind. The capital increase in kind was concluded by Sogei through the contribution of the business segment "ETI", while the capital increase in cash was effected by Finsiel which, as a result of this transaction, owns 49% of Sogei I.T..
- In July 2002, Finsiel sold the affiliated company Informatica Trentina S.p.A. (40.41%) to the Deltadator–Sequenza Group. The "Provincia Autonoma di Trento" gave its approval to the transaction on October 22, 2002.

- In July 2002, Consiel sold the affiliated company Jmac Consiel S.p.A. (45.00%) to Jmac-JMA Consultants Inc. which is already a shareholder of the company.
- August 2, 2002 saw the formation of the company AGRISIAN - Consulenza e Servizi per l'Agricoltura S.C.p.A., in which stakes are held by Finsiel for 50.86%, Auselda for 25.00% and minority stakes by IBM, Sofiter, Telespazio and smaller agriculture partners. The purpose of the company, which is included in the scope of consolidation with effect from the month of August 2002, is to manage the five-year contract recently stipulated with the Ministry for Agricultural and Forestry Policies also on behalf of AGEA ("Agenzia per le Erogazioni in Agricoltura").
- On August 2, 2002, Finsiel signed a contract to sell 100% of the share capital of Consiel S.p.A. to World Investment Partners S.A.. The company was deconsolidated with effect from September 1, 2002, whereas the actual transfer of the shares took place on October 3, 2002.

■ ECONOMIC AND FINANCIAL DATA

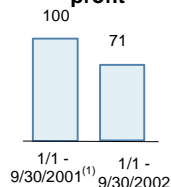
The table shows the key highlights of the third quarter and the first nine months of 2002, compared to the same periods of 2001.

(in millions of euro)	3 rd quarter 2002	3 rd quarter 2001	3 rd quarter 2001	1/1 - 9/30 2002	1/1 - 9/30 2001	1/1 - 9/30 2001	Change %	
	(a)	(b) (1)		(c)	(d)(1)		(a/b)	(c/d)
Sales and services revenues	146	172	248	699	745	821	(15.1)	(6.2)
Gross operating profit	13	23	40	71	100	116	(43.5)	(29.0)
% of revenues	8.9%	13.4%	16.1%	10.2%	13.4%	14.1%		
Operating income	4	16	30	47	77	91	(75.0)	(39.0)
% of revenues	2.7%	9.3%	12.1%	6.7%	10.3%	11.0%		
Investments:								
• Industrial	5	6	6	19	21	21	(16.7)	(9.5)
• Goodwill			-		1	1		(100.0)
Employees at period-end (number) (2)				4,751	4,866	6,635		(1.2)

(1) Restated for the purposes of comparison, note that Sogei is included within the scope of consolidation for only the first six months of 2001.

(2) The change in the number of employees has been calculated in reference to the data at the end of 2001.

Gross operating profit



In the first nine months of 2002, on a comparable consolidation basis, *sales and services revenues* decreased by Euro 46 million compared to the same period of the prior year. A contributory factor to the decrease was a contraction in the revenues of Finsiel, Consiel and Banksiel, resulting from both lower volumes and a reduction in prices paid by important customers. This was offset by an increase in the operations of Intersiel, Tele Sistemi Ferroviari and Webred which can be attributed to the invoicing of work in progress tested in the current period, and of Insiel, Centrosiel and Sogei for the acquisition of new orders and new customers.

The profitability of the IT Market BU, both in terms of the *gross operating profit* and the *operating income*, decreased as a result of the already mentioned reduction of prices on some contracts which were renewed during the year, and the new bids won with lower contract prices, that were only partly offset by cost cuts and improved levels of efficiency.

In the first nine months of 2002, *industrial investments* were slightly lower than in the same period of the prior year.

The number of *employees* fell by 59 compared to the end of 2001, restated for the purposes of comparison, which already excludes the changes due particularly to the deconsolidation of Sogei (1,452 employees).

The third quarter of 2002, compared to the same period of the prior year, restated for the purposes of comparison, shows a reduction in sales and services revenues of Euro 26 million, due to the same phenomena which dominated the first nine months of 2002.

The profitability for the third quarter of 2002, both in terms of gross operating profit and operating income, was lower than in the same period of the prior year, leading to a significant reduction in profitability indexes which can mainly be attributed to the renewal of some contracts with lower contract prices.

In the third quarter of 2002, industrial investments were largely in line with those in the same period of the prior year.

INFORMATION TECHNOLOGY GROUP

- **Creation of a new Operating Activity directed towards Group services**

■ THE OPERATING ACTIVITY

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

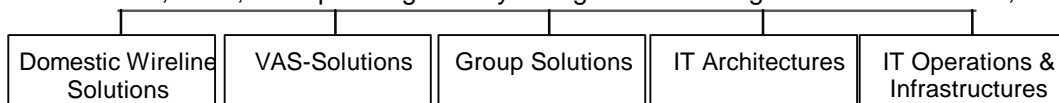
The Operating Activity is responsible for organizing technological innovation and service information technology activities within the Telecom Italia Group, pursuing objectives that will augment efficiency, improve quality and stimulate innovation.

■ THE STRUCTURE OF THE OPERATING ACTIVITY

The Operating Activity encompasses the companies dedicated to the Group's information systems within the framework of the plan to integrate the various situations. The Operating Activity is organized as follows:



On October 10, 2002, the Operating Activity was given a new organizational structure, as follows



■ MAJOR EVENTS/SCOPE OF CONSOLIDATION

In the third quarter of 2002, the following events and changes to the scope of consolidation took place:

- the Webegg group, which was acquired at the end of June, was consolidated line-by-line with effect from July 1, 2002 in terms of economic and financial data;
- Teco Soft España (owned 100% by Telesoft S.p.A.) was sold on July 31, 2002, after the Telecom Italia Group withdrew from Spain following the sale of Auna. The company was consolidated line-by-line for the first six months of 2002.

On October 9, 2002, the Shareholders' Meetings of the companies IT Telecom, Netsiel, Saritel, Sodalìa and Telesoft approved the merger plan for the incorporation of the companies in IT Telecom S.p.A., with effect for accounting and tax purposes from January 1, 2002.

■ ECONOMIC AND FINANCIAL DATA

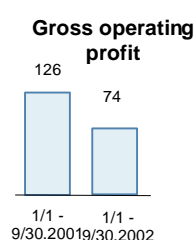
The table shows the key highlights for the third quarter and the first nine months of 2002, compared to those of the same periods of 2001, restated for the purposes of comparison.

⁽¹⁾ Beginning October 2002, the TILab group reports directly to the Managing Director of Telecom Italia, Carlo Buora.

(in millions of euro)	3 rd quarter 2002	3 rd quarter 2001	1/1 - 9/30 2002	1/1 - 9/30 2001	Change %	
	(a)	(1) (b)	(c)	(1) (d)	(a/b)	(c/d)
Sales and services revenues	235	324	730	775	(27.5)	(5.8)
Gross operating profit	24	47	74	126	(48.9)	(41.3)
% of revenues	10.2%	14.5%	10.1%	16.3%		
Operating income	(19)	6	(35)	12	°	°
% of revenues		1.9%		1.5%		
Investments:						
• industrial	50	26	99	97	85.1	2.1
• goodwill			28			
Employees at period-end (number) (2)			7,467	6,968		9.1

(1) Restated for purposes of comparison on the same consolidation basis as 2002, with the exception of the economic data of the Webegg group which is only included for the period July to September 2002.

(2) The change in the number of employees has been calculated in reference to the data at the end of 2001.



The decrease in *revenues* reflects the revision in the prices charged to the Domestic Wireline Business Unit and refers mainly to operating and applied management activities.

Compared to the same period of 2001, the decrease in *profit margins* reflects the aforementioned reduction in prices, and was only partially offset by a fall in outside services, a phenomenon which can be attributed essentially to the measures to improve efficiency begun at the start of the year. In the third quarter, there was an increase in *industrial investments* of Euro 50 million, particularly in the companies Netsiel and Telesoft; the investment in *goodwill* refers mainly to the acquisition of Webegg.

The increase in the number of employees by 623 compared to December 31, 2001 is associated mainly with the inclusion of the Webegg group in the scope of consolidation (+720 employees) with effect from June 30, 2002.

■ RESEARCH & DEVELOPMENT

Among the most significant achievements in the third quarter of 2002 are those referring to the activities of TILAB:

- completion of the first phase of the "Network Development" project to support the Group in making strategic decisions about the evolution of the network
- testing in the field of the localization platform, in collaboration with TIM;
- completion of the economic evaluation of a business disaster recovery service through fiberoptic connections with a "storage" services center;
- definition of a new release of equipment for interconnecting GSM and the Internet operating with the UCP (Universal Communication Protocol) protocol, so that SMS text messages on mobile networks can be interchanged in a Web environment;
- creation of content protection functions within the framework of the platform relating to the flow of video data, based on multimedia techniques developed by TILAB for the mobile network;
- creation of the "Video Intervention" service based on video communication technologies on the Internet used for TV programming (for example, the program "Processo del lunedì");
- definition of new cost models for the broadband access network
- definition of the functional specifications for the design of a virtual ADSL platform;
- testing of a prototype of a cryogenic filter to increase the efficiency of the base stations of the mobile network, in collaboration with Pirelli Labs;
- creation of an updated version of the prototype of an emulator of the UMTS network in order to assess the impact of the quality of service on Internet multimedia applications;
- creation of the specification and prototype of some OSA-Parlay components for a network intelligence architecture with standard open interfaces for the introduction of new services;
- testing on the DW and TIM networks of the StarSip platform for the delivery of integrated voice – data services on the network;
- preparation and inauguration of the "Exhibition on the Future of Telecommunications" at the Future Centre in Venice.

TELESPAZIO ⁽¹⁾

■ THE BUSINESS UNIT

The Telespazio Business Unit (the Telespazio Group and the "Satellite Telecommunications" business segment of Telecom Italia) is responsible for developing satellite communication systems for phone and data, radio and television broadcasting and earth observation.

■ THE STRUCTURE OF THE BUSINESS UNIT

Telespazio S.p.A.	
National subsidiaries	International subsidiaries
e-GEOS S.p.A. Eurimage S.p.A. CTM S.C.p.A	Telespazio Brasil S.A. MCS Europe Group Telespazio Luxembourg S.A. Telespazio North America Inc.

■ MAJOR EVENTS/SCOPE OF CONSOLIDATION

There were no significant changes in the scope of consolidation compared to 2001.

■ ECONOMIC AND FINANCIAL DATA

The table shows the key results of the third quarter and the first nine months of 2002, compared to the same periods of 2001.

(in millions of euro)	3 rd quarter 2002	3 rd quarter 2001	1/1 - 9/30 2002	1/1 - 9/30 2001	Change %	
	(a)	(b)	(c)	(d)	(a/b)	(c/d)
Sales and services revenues	65	64	208	204	1.6	2.0
Gross operating profit	6	12	13	28	(50.0)	(53.6)
% of revenues	9.2%	18.7%	6.3%	13.7%		
Operating income	(2)	5	(7)	10		
% of revenues		7.8%		4.9%		
Investments:						
• industrial	9	6	16	17	50.0	(5.9)
• goodwill	-	-	-	-		
Employees at period-end (number) (*)			1,168	1,190		(2.3)

(*)The change in the number of employees has been calculated in reference to the data at the end of 2001.

At September 30, 2002, *revenues* were in line with the same period of the prior year, but the increasing importance of television services and the lower profitability of space programs had a considerable impact on the *gross operating profit* and the *operating income*, both in the nine-month period and in the third quarter.

There was no significant change in the number of *employees* or *investments*.

■ INFORMATION ON OPERATIONS

■ Media e Communication

In a scenario of increasing consolidation and greater competitive pressure, Telespazio confirmed overall volumes for television and telecommunications services. There was a significant shift in the mix highlighting a reduction in the activities of network management and outsourcing on behalf of Telecom to services rendered to the Ministry of Defense.

■ Space System

The space business area was penalized by the delay on the part of the European Commission and the Space Agencies in starting the new and long-awaited large-scale projects both in Europe (Galileo) and Italy (Cosmo Skymed).

⁽¹⁾ On August 2, 2002, Telecom Italia finalized an agreement with Finmeccanica for the sale of Telespazio.

OTHER ACTIVITIES

The "Other Activities" of the Telecom Italia Group consist mainly of the "Real Estate and General Services" business segment, the companies Saiat, Softe and Sogerim, the affiliated company Stream and companies which used to report to the former International Operations BU and which, following the reorganization of international activities, were transferred to the Foreign Holdings Function. There follows a description of the key highlights of the "Real Estate and General Services" business segment.

■ REAL ESTATE AND GENERAL SERVICES

The "Real Estate and General Services" operating activity provides asset and property management services and leverages the value of the real estate properties of the Group, carries out the project design and work on properties and provides project and facility management services.

The range of services offered by Real Estate and General Services is directed mainly towards other corporate Functions/Business Units and is organized on the basis of a structure which was introduced in March 2002.

Real Estate and General Services comprise the internal structures of Telecom Italia S.p.A., as well as some companies operating in the specific sector of business, of which four are subsidiaries (Emsa Immobiliare, Emsa Servizi, Telimm and Immsi) and two affiliated companies (Imser, and Telegono). In addition to these investments, on August 6, Telecom Italia acquired 2% of Imser 60 S.r.l., within the framework of the agreements formulated with Beni Stabili (which holds the remaining 98% of the company) for the non-proportional partial spin-off of Imser S.p.A. (of which Beni Stabili holds 60% and Telecom Italia 40%) to the respective beneficiaries Imser 60 S.r.l. and Emsa Immobiliare S.r.l..

After the entire share capital of Telemaco Immobiliare was sold to Mirtus, a transaction finalized on July 31, according to agreements signed between the parties concerned on September 30, 2002, a first adjustment was made to the selling price of the investment in favor of the sellers (Telecom Italia, Beni Stabili and Lehman Brothers). Following this price adjustment, which, from the point of view of Telecom Italia could be quantified in Euro 4.2 million, net of tax, the whole transaction generated a net gain of more than Euro 85 million for the Parent Company Telecom Italia S.p.A. and more than Euro 68 million for the Telecom Italia Group.

Furthermore, with effect from August 1, 2002 the "Facility Management and Personnel and Administration" business segment was sold by Emsa Immobiliare to Emsa Servizi S.p.A..

Finally, on September 30, 2002, Emsa Immobiliare and Telimm carried out an extraordinary distribution of income reserves, respectively, for Euro 11.1 million (to Telecom Italia S.p.A.) and for Euro 18.4 million (of which Euro 0.1 million to Telecom Italia S.p.A. and Euro 18.3 million to Saiat S.p.A., a company 100% owned by Telecom Italia S.p.A.).

The table shows the key results for the third quarter and the first nine months of 2002, compared to the third quarter and the first nine months of 2001. It should be noted that the figures take into account the exchanges between the Real Estate and General Services operating activity and the other functions of Telecom Italia S.p.A..

(in millions of euro)	3 rd quarter 2002	3 rd quarter 2001	1/1 - 9/30 2002	1/1 - 9/30 2001	Change %	
	(a)	(b)	(c)	(d)	(a/b)	(c/d)
Sales and services revenues	210	231	644	697	(9.1)	(7.6)
Operating costs	181	190	558	585	(4.7)	(4.6)
Gross operating profit	29	41	86	113	(29.3)	(23.9)
% of revenues	13.8%	17.7%	13.4%	16.2%		
Operating income	(17)	(10)	(56)	(35)	(70.0)	(60.0)

Compared to the first nine months of 2001, there was a reduction in *revenues* of approximately Euro 53 million, which can be attributed mainly to the adjustment of internal charges to other Group companies according to the best market conditions and the rationalization of premises occupied by clients.

The *gross operating profit*, which amounted to Euro 86 million, benefited from the firm action taken to contain operating costs (overheads: -Euro 21 million, labor costs: -Euro 6 million).

The *operating loss* was Euro 56 million compared to an operating loss of Euro 35 million reported for the same period of 2001.

Tiglio Project

On October 29, 2002, the transactions envisaged by the framework agreement signed last May between the Pirelli, Olivetti and Telecom Italia Groups and The Morgan Stanley Real Estate Funds was finalized and integration was thus achieved for the real estate properties of the companies involved as well as the entities that provide real estate services to the same companies or to their subsidiaries.

In particular, the transaction involved the concentration of real estate worth Euro 3.3 billion in Tiglio I and Tiglio II, including a part of the commercial real estate owned by subsidiaries of The Morgan Stanley Real Estate Funds and part of the buildings and areas owned by the Olivetti and Telecom Italia Groups, in addition to Pirelli S.p.A..

In particular, Telecom Italia Group transferred assets worth about Euro 1,360 million to Tiglio I and Tiglio II, in various corporate forms (contribution of the Asset Management business segment of Telecom Italia S.p.A. to Tiglio II and the sale of entire investments in real estate companies to Tiglio I). Some Euro 50 million of the total relate to assets of Seat Pagine Gialle, about Euro 840 million to real estate that was contributed to Emsa Immobiliare after the non-proportional spin-off of IM.SER and Euro 470 million to other real estate assets.

At the same time, the sales for the business segments Property Management, Project Management and Agency by Telecom Italia to the Pirelli & C. Real Estate Group were finalized, with the consequent transfer to this Group of about 110 persons, destined to be integrated in the relative specialized structures.

The transactions have a gross impact on the statement of income for the current year (gross gain and extraordinary dividends) of about Euro 220 million for Telecom Italia S.p.A., while the gross gain for Seat Pagine Gialle is about Euro 5 million. From the financial standpoint, the impact on the Telecom Italia Group for the year 2002 is about Euro 330 million.

The Telecom Italia Group will hold minority interests in Tiglio I e Tiglio II commensurate with the value of the assets contributed. In particular, in Tiglio I, Telecom Italia S.p.A. will maintain a 36.85% stake and Seat Pagine Gialle a 2.1% stake, since, of the remaining interest, 51.59% will be held by MSMC Italy Holding BV (75% owned by The Morgan Stanley Real Estate Funds and 25% by Pirelli & C. Real Estate), 8.84% by Olivetti S.p.A. and 0.61% by Pirelli S.p.A.. As regards Tiglio II, the company will be owned 49.47% by Telecom Italia S.p.A. and the remaining 50.53% by POPOY Holding B.V. (75% owned by The Morgan Stanley Real Estate Funds and 25% by Pirelli & C. Real Estate).

During 2003, the assets of Tiglio I and Tiglio II are expected to be leveraged through a market transaction within the framework of a strategy that could contribute to the development of the real estate financial market, with consequent significant opportunities for the Telecom Italia Group to leverage the investments currently held in the two companies.

■ FOREIGN HOLDINGS

The corporate function Foreign Holdings, assuming no changes in the corporate structure, heads up the companies Telecom Italia International, 9Telecom group (consolidated up to June 30, 2002), the BBNed group, the Telekom Austria group, Telekom Srbija, Etec S.A. and Netco Redes. The function ensures the coordination, leveraging and rationalization of the foreign holdings held by Telecom Italia operating in the fixed and integrated fixed-mobile TLC business.

The table shows the key highlights for the third quarter and the first nine months of 2002, compared to the third quarter and the first nine months of 2001.

(in millions of euro)	3 rd quarter 2002	3 rd quarter 2001	1/1 - 9/30 2002	1/1 - 9/30 2001	Change %	
	(a)	(b)	(c)	(d)	(a/b)	(c/d)
Revenues from sales and services	7	75	205	210	(90.7)	(2.4)
Gross operating profit	(5)	(34)	(48)	(103)	85.3	53.4

9Telecom group was consolidated line-by-line only for the first six months of 2002, in that the company was sold in the month of August 2002. Accordingly, the third quarter of 2002 data, as opposed to the same period of 2001, does not include the economic results of the 9Telecom group.

Revenues for the first nine months of 2002 are essentially in line with the same period of 2001, with the company BBNed increasingly accounting for a more significant amount.

The *gross operating profit* showed an improvement partly as a result of the divestiture of the French group.

finally, as part of the divestiture program undertaken by the Telecom Italia Group, the carrying values of Netco Redes (Spain) and Telekom Austria were adjusted to market value at September 30, 2002. The impact on the consolidated balance sheet was Euro 81 million and Euro 265 million, respectively.

Such adjustments were also effected as a result of agreements concluded with the shareholders of reference which established, for Netco Redes, the release from the Shareholder Agreement and, for Telekom Austria, the finalization of the procedure for the coordinated sale with OIAG.

■ OTHER INFORMATION ABOUT TELECOM ITALIA GROUP

THE REGULATORY FRAMEWORK

There were no particularly important legislative decisions during the third quarter of 2002 that had a significant impact on the Telecom Italia Group except for DPR No. 211 dated August 1, 2002 which – as described in the report on operations for the first half of 2002 in “Significant events subsequent to June 30, 2002” – extended the period of the individual licenses in the TLC sector from fifteen to twenty years (also extending those already issued).

PENDING LITIGATION

There follows a description of the main disputes and litigation in which the Telecom Italia Group was involved during the third quarter of 2002. Unless explicitly indicated, the Telecom Italia Group has not set aside any amounts in the reserves for risks in the absence of certain and objective elements and/or maintaining that a negative outcome of the litigation is not likely.

■ FASTWEB

On July 11, 2001, Telecom Italia and Fastweb signed the “Contract for access and utilization of civil infrastructures” in compliance with the ruling handed down by the Antitrust Authority, which obliged Telecom Italia to make its civil infrastructures available to competing operators for the supply of interactive and multimedia services, at non-discriminatory terms and prices aligned to costs.

Telecom Italia was subpoenaed on August 29, 2002 to appear before courts in action brought by Fastweb so that the judge could ascertain and state the precise amount of consideration due for the access and the utilization of said infrastructures, eliminating any doubts which arose concerning the interpretation of the clause governing the determination of price.

■ TIM PCS COMPANIES IN BRAZIL

Following the denial of the request for precautionary measures presented by the local operators Telesp Celular and BCP, to obtain suspension of the effect of the share transfer of about 18.3% of the capital of Solpart by Telecom Italia International to Techold and to Timepart, as well as the administrative measures related thereto, BCP brought ordinary action against Anatel, before the Brazilian Federal Court, to obtain the nullification of the assignment of PCS frequencies to the Brazilian subsidiaries of TIM.

■ BANCOMEXT / ETEC S.A. DISPUTE

By order of August 12, 2002, the Civil Court of Turin issued an injunction for the cautionary attachment of all the assets of Etec S.A. (Cuban affiliated company of Telecom Italia) and Telan (majority shareholder of Etec S.A., a subsidiary of the Cuban government), also including the receivables from third parties up to the amount of Euro 33 million.

This ruling follows an appeal presented by Banco Nacional de Comercio Exterior (“Bancomext”) which claims the nonfulfillment, on the part of Etec S.A. and Telan, of alleged obligations for the restitution and guarantee – to date, for an amount of about US \$300 million – established in a loan contract stipulated between Etec S.A., Telan, Bancuba (Central Bank of Cuba) and Bancomext.

Telecom Italia is expected to appear before the Milan Court, as the executory judge in this case, to make a statement as a third party pursuant to art. 547 of the civil code.