



first quarter 2003 report

1 SUMMARY DATA AND GENERAL INFORMATION >>	2 CORPORATE BOARDS
10 REPORT ON OPERATIONS	3 SELECTED ECO. FIN. DATA OF T.I. GROUP
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A.	4 KEY DATA OF THE B.U./O.A. OF T.I. GROUP
55 OTHER INFORMATION	6 OPERATING HIGHLIGHTS OF T.I. GROUP
	7 SHAREHOLDER INFORMATION
	9 ORGANIZATION STRUCTURE OF T.I. GROUP

■ CONTENTS

Summary data and general information	Corporate boards	2
	Selected economic and financial data of Telecom Italia Group	3
	Key data of the Business Units/Operating Activities of Telecom Italia Group	4
	Operating highlights of Telecom Italia Group	6
	Shareholder information	7
	Organization structure of Telecom Italia Group at March 31, 2003	9
Report on operations	Economic and financial performance - Telecom Italia Group	10
	Economic and financial performance - Telecom Italia S.p.A.	18
	Subsequent events	25
	Business outlook	27
	Related party transactions	28
Economic and financial performance - Telecom Italia Business Units/ Operating Activities	Domestic Wireline	30
	Mobile	34
	South America	38
	Internet and Media	41
	Information Technology Market	44
	Information Technology Group	47
	Other activities	50
Other information	The regulatory framework	55
	Pending litigation	57

The "First quarter 2003 report" was approved by the Board of Directors on May 5, 2003.

1 SUMMARY DATA AND GENERAL INFORMATION >>	2 CORPORATE BOARDS
10 REPORT ON OPERATIONS	3 SELECTED ECO. FIN. DATA OF T.I. GROUP
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A.	4 KEY DATA OF THE B.U./O.A. OF T.I. GROUP
55 OTHER INFORMATION	6 OPERATING HIGHLIGHTS OF T.I. GROUP
	7 SHAREHOLDER INFORMATION
	9 ORGANIZATION STRUCTURE OF T.I. GROUP

■ CORPORATE BOARDS

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

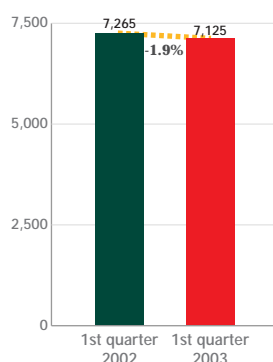
1 SUMMARY DATA AND GENERAL INFORMATION >>	2 CORPORATE BOARDS
10 REPORT ON OPERATIONS	3 SELECTED ECO. FIN. DATA OF T.I. GROUP
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A.	4 KEY DATA OF THE B.U./O.A. OF T.I. GROUP
55 OTHER INFORMATION	6 OPERATING HIGHLIGHTS OF T.I. GROUP
	7 SHAREHOLDER INFORMATION
	9 ORGANIZATION STRUCTURE OF T.I. GROUP

SELECTED ECONOMIC AND FINANCIAL DATA - TELECOM ITALIA GROUP

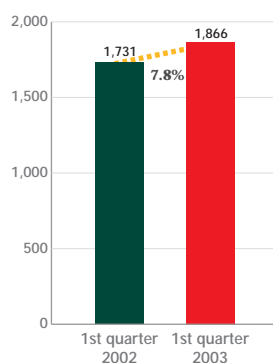
The accounting policies and the principles of consolidation adopted for the preparation of the interim financial statements at March 31, 2003, taking into account the adjustments required in preparing interim statements, are consistent with those applied in the 2002 consolidated financial statements. The statements themselves have been changed for purposes of permitting a more meaningful understanding the statement of income and balance sheet figures and the new statement of cash flows which shows the composition of free cash flows. The quarterly statements are unaudited.

Compared to the year 2002, there were no significant changes in the scope of consolidation in the first quarter of 2003. Moreover, during 2002 and subsequent to the first quarter, the following companies are no longer included in consolidation: the 9Telecom group, the Telespazio group and the companies Sogei S.p.A., Consiel S.p.A., DataHouse S.p.A., Emsa S.p.A., Immsi S.p.A. and Telimm S.p.A. while Blu S.p.A., the Webegg group and other minor companies were added to the scope of consolidation. The effects of such changes were described in the comments on the key economic data, for purposes of comparison between the periods.

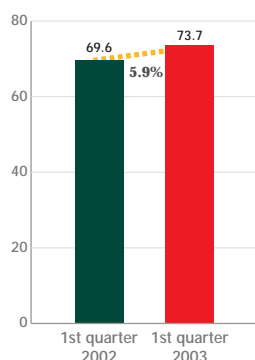
Revenues (euro/millions)



Operating income (euro/millions)



Revenues/Employees (euro/thousands)



	1 st Quarter 2003	1 st Quarter 2002	Year 2002
Results of operations (millions of euro)			
Sales and services revenues	7,125	7,265	30,400
Gross operating profit	3,303	3,274	13,964
Operating income	1,866	1,731	7,381
Income (loss) before income taxes	1,448	1,764	(419)
Income (loss) before minority interest	745	1,140	297
Net income (loss)	503	721	(322)
Free cash flows from operations	2,413	1,608	8,610
Investments:	860	1,227	6,919
- Industrial	697	812	4,842
- Differences on consolidation	21	10	369
- Financial	142	405	1,708

Financial condition (millions of euro)			
Total assets	51,400	62,361	52,786
Net invested capital	29,570	41,542	30,945
Shareholders' equity	13,491	20,924	12,827
- Parent company's interest	9,518	14,519	9,049
- Minority interest	3,973	6,405	3,778
Net debt	16,079	20,618	18,118

Profit and financial indexes			
Gross operating profit/Revenues	46.4%	45.1%	45.9%
Operating income/Revenues (ROS)	26.2%	23.8%	24.3%
Free cash flows/Revenues	33.9%	22.1%	28.3%
(Debt ratio) Net debt/ Net invested capital	54.4%	49.6%	58.5%

Employees			
Employees (number in Group at period-end)	100,765	108,831	101,713
Employees (average number in Group)	96,638	104,331	101,789
Revenues/Employees (Group average), euro/thousands	73.7	69.6	298.7

1 SUMMARY DATA AND GENERAL INFORMATION >>	2 CORPORATE BOARDS
10 REPORT ON OPERATIONS	3 SELECTED ECO. FIN. DATA OF T.I. GROUP
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A.	4 KEY DATA OF THE B.U./O.A. OF T.I. GROUP
55 OTHER INFORMATION	6 OPERATING HIGHLIGHTS OF T.I. GROUP
	7 SHAREHOLDER INFORMATION
	9 ORGANIZATION STRUCTURE OF T.I. GROUP

■ KEY DATA - TELECOM ITALIA BUSINESS UNITS / OPERATING ACTIVITIES

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

		Domestic Wireline	Mobile	South America	Internet and Media	IT Market	IT Group	Sub-total	Other activities and eliminations (3)	Consolidated total
(millions of euro)				(1)		(2)	(2)			
Sales and services revenues	1 st quarter 2003	4,235	2,616	292	345	156	229	7,873	(748)	7,125
	1 st quarter 2002	4,175	2,498	370	333	278	168	7,822	(557)	7,265
	Year 2002	17,035	10,867	1,409	1,991	994	996	33,292	(2,892)	30,400
Gross operating profit	1 st quarter 2003	1,973	1,262	102	47	10	11	3,405	(102)	3,303
	1 st quarter 2002	1,941	1,221	127	27	33	11	3,360	(86)	3,274
	Year 2002	7,966	5,039	450	593	111	98	14,257	(293)	13,964
Operating income	1 st quarter 2003	1,233	897	37	(35)		(23)	2,109	(243)	1,866
	1 st quarter 2002	1,198	831	46	(69)	25	(12)	2,019	(288)	1,731
	Year 2002	4,698	3,358	146	232	61	(40)	8,455	(1,074)	7,381
Investments:										
- Industrial	1 st quarter 2003	433	171	30	20	6	12	672	25	697
	1 st quarter 2002	433	264	70	14	5	7	793	19	812
	Year 2002	2,465	1,715	216	81	38	149	4,664	178	4,842
- Differences on consolidation	1 st quarter 2003				21			21		21
	1 st quarter 2002								10	10
	Year 2002		196		40		24	260	109	369
Number of employees at	3/31/2003	53,177	18,913	5,412	7,559	5,478	5,059	95,598	5,167	100,765
	3/31/2002	57,140	17,124	5,793	8,740	6,689	5,141	100,627	8,204	108,831
	12/31/2002	53,857	18,702	5,461	7,715	5,506	5,039	96,280	5,433	101,713

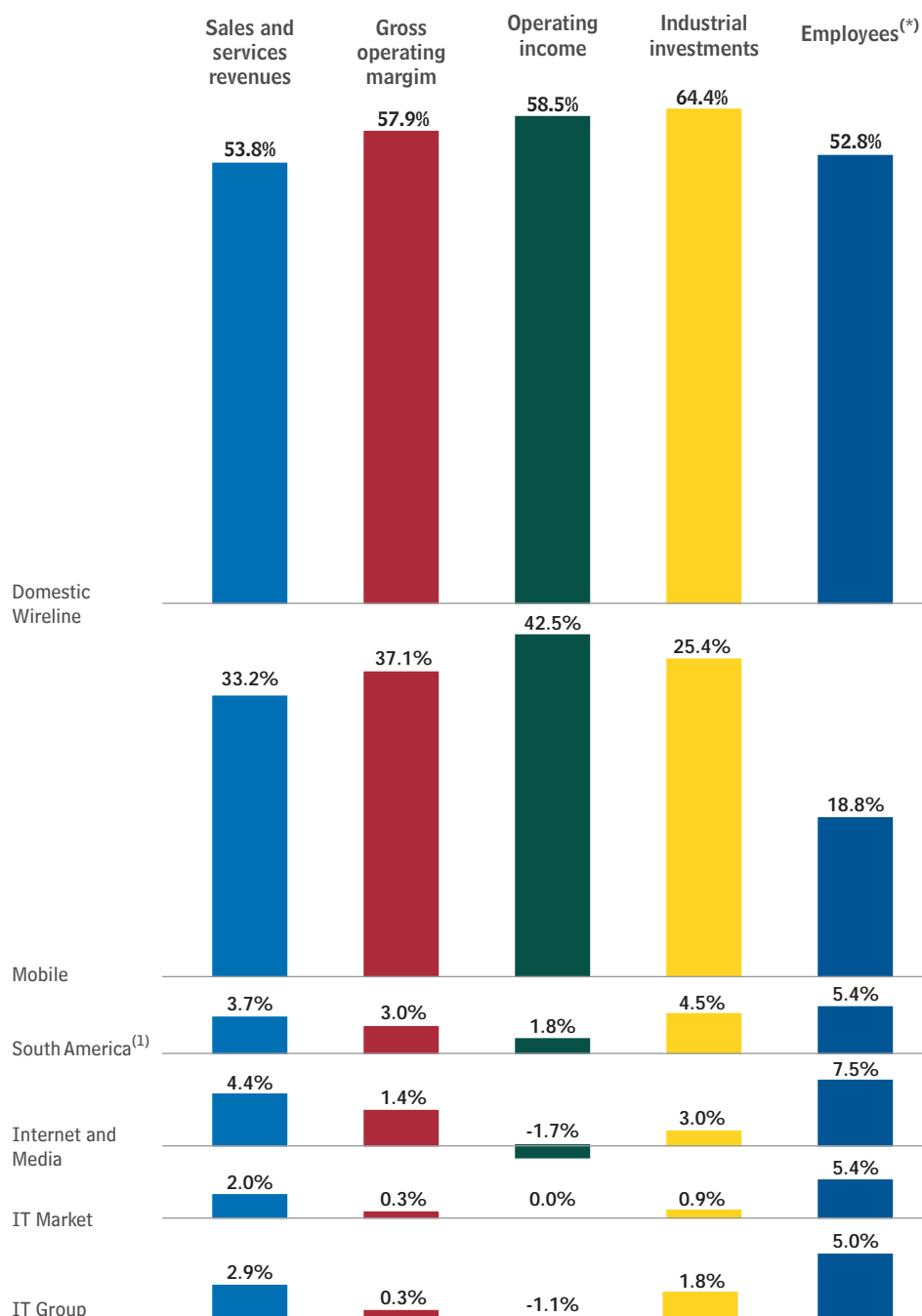
(1) The data relates to the Entel Chile group, the Entel Bolivia group, the companies Telecom Italia America Latina and the South American business segment of Telecom Italia.

(2) Beginning January 1, 2003, the Netikos group, the Webegg group, the TI Lab group, Loquendo and Eustema are no longer consolidated by the IT Group business unit. The TI Lab group became part of Other Activities, Loquendo is now in Domestic Wireline, whereas the other companies became part of the IT Market business unit. The 2002 data has been restated for purposes of comparison.

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

1 SUMMARY DATA AND GENERAL INFORMATION >>	2 CORPORATE BOARDS
10 REPORT ON OPERATIONS	3 SELECTED ECO. FIN. DATA OF T.I. GROUP
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A.	4 KEY DATA OF THE B.U./O.A. OF T.I. GROUP
55 OTHER INFORMATION	6 OPERATING HIGHLIGHTS OF T.I. GROUP
	7 SHAREHOLDER INFORMATION
	9 ORGANIZATION STRUCTURE OF T.I. GROUP

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



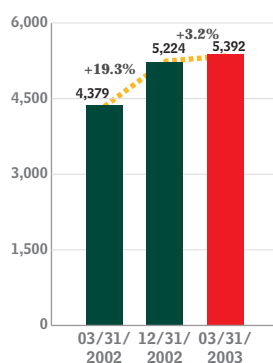
(*) 5.1% of employees work in Other Activities of the Telecom Italia Group

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

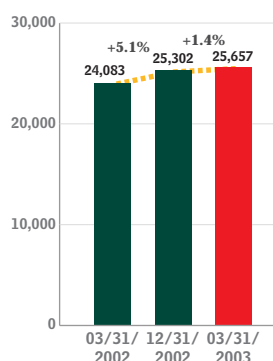
1 SUMMARY DATA AND GENERAL INFORMATION >>	2 CORPORATE BOARDS
10 REPORT ON OPERATIONS	3 SELECTED ECO. FIN. DATA OF T.I. GROUP
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A.	4 KEY DATA OF THE B.U./O.A. OF T.I. GROUP
55 OTHER INFORMATION	6 OPERATING HIGHLIGHTS OF T.I. GROUP
	7 SHAREHOLDER INFORMATION
	9 ORGANIZATION STRUCTURE OF T.I. GROUP

■ OPERATING HIGHLIGHTS - TELECOM ITALIA GROUP

Voice flat rate plans (thousands)



TIM lines in Italy (thousands)



	1 st Quarter 2003	1 st Quarter 2002	Year 2002
DOMESTIC WIRELINE			
Fixed network connections in Italy (thousands)	27,107	27,344	27,142
- of which digital (equivalent ISDN channels)	5,888	5,545	5,756
Voice flat rate plans (thousands)	5,392	4,379	5,224
Network infrastructure in Italy			
- access network in copper (millions of km - pair)	104.3	104.3	104.3
- access network and transport in fiber optics (millions of km of fiber optics)	3.6	3.3	3.6
Network infrastructure abroad			
- European backbone (km of fiber optics)	36,600	36,600	36,600
MOBILE			
TIM lines in Italy (at period-end, thousands)	25,657	24,083	25,302
TIM group foreign lines (at period-end, thousands) ⁽¹⁾	14,514	11,599	13,809
TIM group lines total (Italy + foreign in thousands) ⁽¹⁾	40,171	35,682	39,111
GSM penetration in Italy (% of population)	99.8	99.8	99.8
E-TACS penetration in Italy (% of population)	97.9	98.0	98.0
INTERNET AND MEDIA			
Directories:			
- published by Seat Pagine Gialle (units)	38	38	304
- published by Thomson (TDL Infomedia Ltd.) (units)	24	26	173
Internet:			
Page views Virgilio (millions)	1,641	1,359	5,267
Active users ISP (at period-end, thousands)	2,377	1,930	2,226

(1) The foreign lines at March 31, 2002 have been rendered comparable to those at December 31, 2002 and March 31, 2003, except for the lines of the Mobilkom Austria group which was sold in the first half of 2002. The foreign lines include those of the affiliate Aria - IS TIM Turchia and the subsidiary Radiomobil.

1 SUMMARY DATA AND GENERAL INFORMATION >>	2 CORPORATE BOARDS
10 REPORT ON OPERATIONS	3 SELECTED ECO. FIN. DATA OF T.I. GROUP
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A.	4 KEY DATA OF THE B.U./O.A. OF T.I. GROUP
55 OTHER INFORMATION	6 OPERATING HIGHLIGHTS OF T.I. GROUP
	7 SHAREHOLDER INFORMATION
	9 ORGANIZATION STRUCTURE OF T.I. GROUP

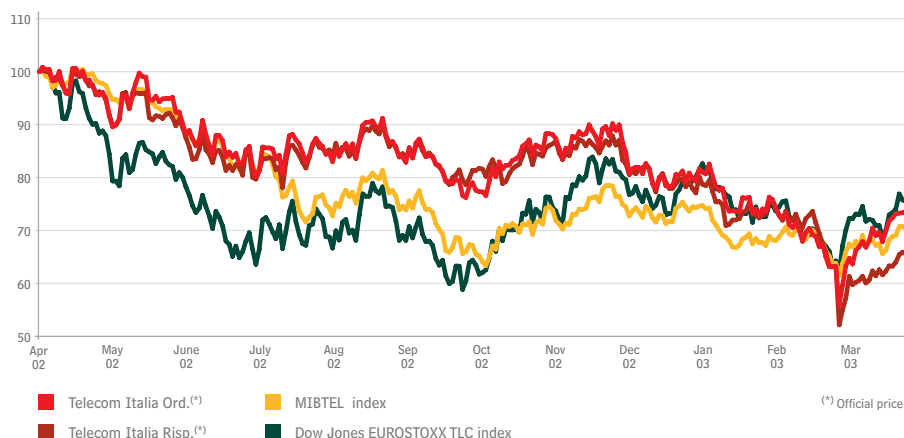
■ SHAREHOLDER INFORMATION

■ TELECOM ITALIA S.p.A. SHARES

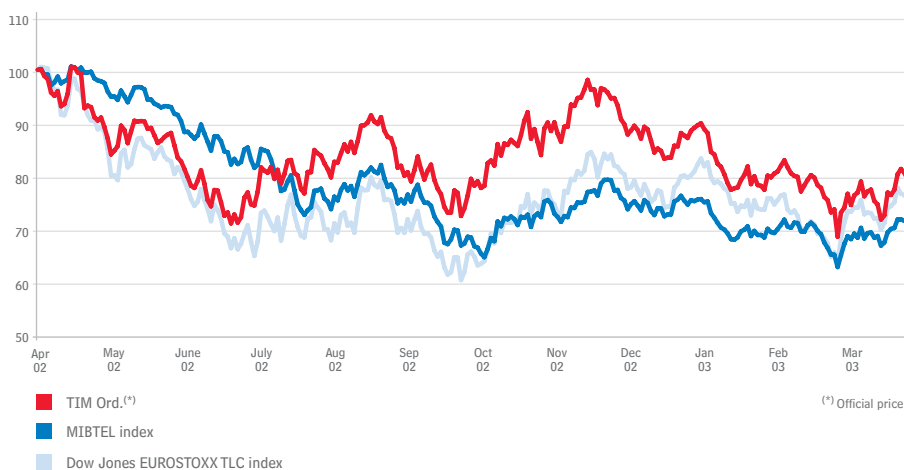
Share capital	euro 4,023,816,860.80
Ordinary shares (par value euro 0.55 each)	No. 5,262,908,631
Savings shares (par value euro 0.55 each)	No. 2,053,122,025
Market capitalization (based on average March 2003 prices)	euro 40,126 million

■ PERFORMANCE OF THE MAIN STOCKS OF THE TELECOM ITALIA GROUP

Relative performance Telecom Italia S.p.A. April 1, 2002-March 31, 2003 vs. MIBTEL and DJ Eurostoxx TLC index (ordinary shares) (Source: Reuters)



Relative performance TIM S.p.A. April 1, 2002-March 31, 2003 vs. MIBTEL and DJ Eurostoxx TLC index (ordinary shares) (Source: Reuters)



1 SUMMARY DATA AND GENERAL INFORMATION >>	2 CORPORATE BOARDS
10 REPORT ON OPERATIONS	3 SELECTED ECO. FIN. DATA OF T.I. GROUP
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A.	4 KEY DATA OF THE B.U./O.A. OF T.I. GROUP
55 OTHER INFORMATION	6 OPERATING HIGHLIGHTS OF T.I. GROUP
	7 SHAREHOLDER INFORMATION
	9 ORGANIZATION STRUCTURE OF T.I. GROUP

Relative performance Seat Pagine Gialle S.p.A. April 1, 2002-March 31, 2003 vs. MIBTEL and DJ Eurostoxx TLC index (ordinary shares) (Source: Reuters)



■ RATINGS AT MARCH 31, 2003

Following the announcement of the merger by incorporation of Telecom Italia in Olivetti to the financial community on March 12, 2003, the agencies have provided perspective ratings in this regard.

Standard & Poor's confirmed the current *rating* of BBB+ for Telecom Italia, anticipating it to be the *rating* for the company resulting from the merger on the basis of the plan of merger presented to the financial community, with a *stable outlook*.

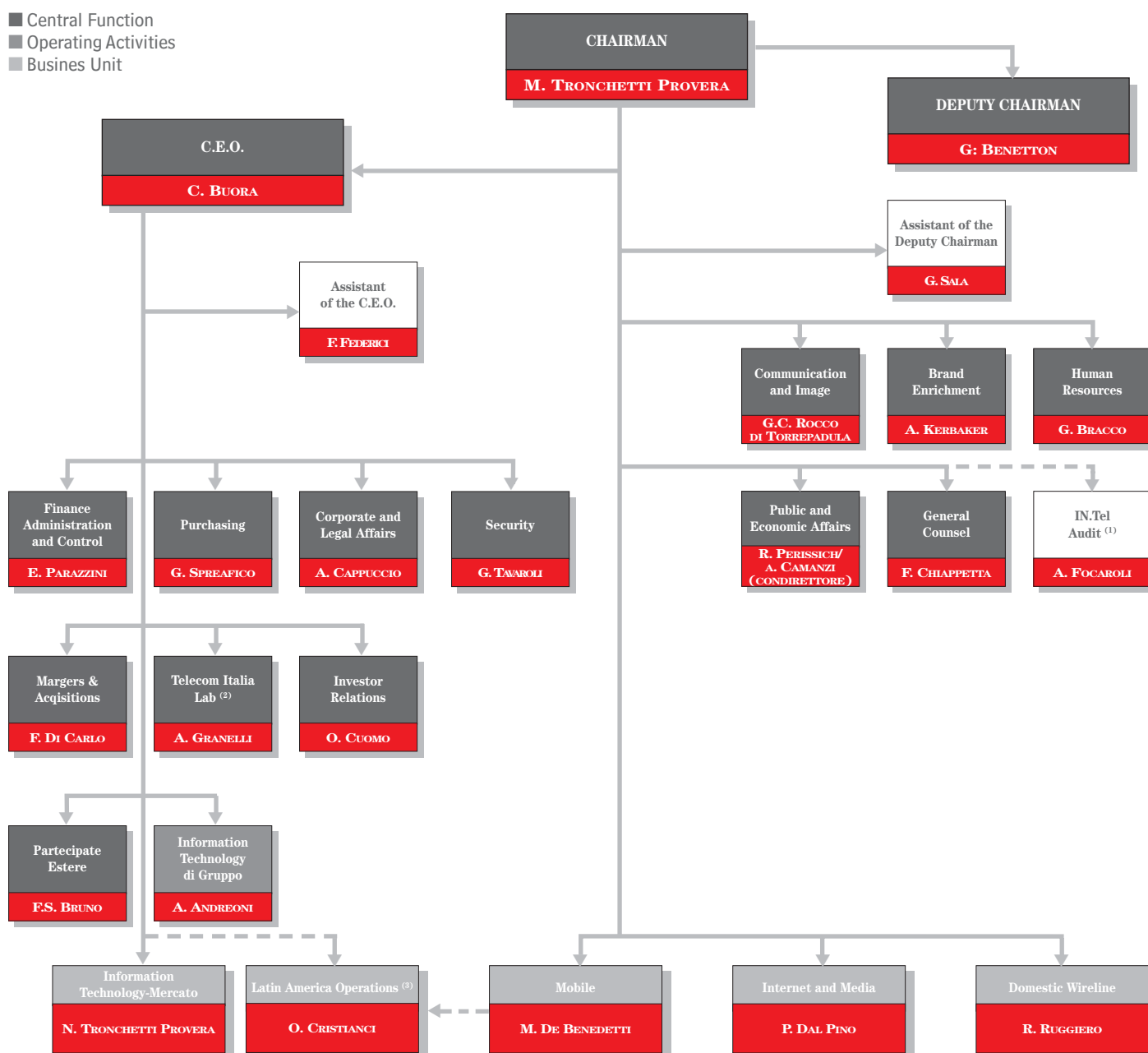
Moody's is still evaluating the transactions and has placed Telecom Italia's current *rating* of Baa1 *positive outlook* under a "review" status.

Fitch confirmed the current rating for Telecom Italia at A- *stable outlook*.

1 SUMMARY DATA AND GENERAL INFORMATION >>	2 CORPORATE BOARDS
10 REPORT ON OPERATIONS	3 SELECTED ECO. FIN. DATA OF T.I. GROUP
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A.	4 KEY DATA OF THE B.U./O.A. OF T.I. GROUP
55 OTHER INFORMATION	6 OPERATING HIGHLIGHTS OF T.I. GROUP
	7 SHAREHOLDER INFORMATION
	9 ORGANIZATION STRUCTURE OF T.I. GROUP

MACRO-ORGANIZATION CHART OF TELECOM ITALIA GROUP AT MARCH 31, 2003

■ Central Function
 ■ Operating Activities
 ■ Business Unit



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

(2) Beginning April 1, 2003, the company Telecom Italia Lab, which was the Research & Development function, was merged by incorporation in Telecom Italia S.p.A.. At the same time, this function took the name of Telecom Italia Lab.

(3) The function coordinates the activities of the Telecom Italia Group in Latin America. Beginning February 2003, Latin America Operations report directly to the CEO Carlo Buora for wireline TLC and to the head of the Mobile Business Unit Mobile for Mobile TLC.

1 SUMMARY DATA AND GENERAL INFORMATION	10 ECO. AND FIN. PERFORMANCE T.I. GROUP
10 REPORT ON OPERATIONS >>	18 ECO. AND FIN. PERFORMANCE T.I. S.P.A.
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A.	25 SUBSEQUENT EVENTS
55 OTHER INFORMATION	27 BUSINESS OUTLOOK
	28 RELATED PARTY TRANSACTIONS

■ ECONOMIC AND FINANCIAL PERFORMANCE - TELECOM ITALIA GROUP

RESULTS OF OPERATIONS

The **consolidated net income of the Group** in the first quarter of 2003 was euro 503 million (euro 745 million *before minority interest*). The consolidated net income of the Group for the same period of 2002 was euro 721 million (euro 1,140 million *before minority interest*) and included net gains of euro 339 million on the sale of the investments in Bouygues Decaux Telecom and Lottomatica. Excluding such effects, the net income of the Group in the first quarter of 2003 grew by euro 121 million compared to the corresponding period of the prior year.

Income before extraordinary items and income taxes was euro 1,450 million, an increase of euro 229 million compared to the first quarter of 2002, due to the improvement in *operating income* (+euro 135 million, +7.8%) and *net financial income* (expenses) (+euro 178 million, 37.4%) which was offset by a worsening of *net other income* (expenses) (–euro 84 million).

Sales and service revenue in the first quarter of 2003 amounted to euro 7,125 million, with a decrease of 1.9% compared to the same period of 2002 (–euro 140 million). Excluding the negative foreign exchange effect (euro 348 million) and the change in the scope of consolidation (euro 218 million), organic growth was 6.4% (+euro 426 million). A particularly incisive effect on the change in the scope of consolidation was brought about by the exit of the 9Telecom group, Sogei (consolidated for the first six months of 2002) and the Telespazio group (consolidated up to September 30, 2002) and the addition of the Webegg group.

Contributing to organic growth were:

- the significant increase in the revenues of the Mobile business unit which grew as a consequence of the positive performance of voice traffic (+5%), the development of value-added services (+39%) and sales of mobile phones boosted by the expansion of MMS services (+55%);
- the increase in the revenues of wireline/integrated companies in South America and Domestic Wireline (+1.4% compared to the first quarter of 2002) were especially affected by the growth in income from basic subscription charges and from sales. It more than compensated the slight drop in traffic (–euro 7.2 million compared to the first quarter of 2002) which decreased in the retail segment and increased in the wholesale area;
- the positive addition of the Internet and Media business unit.

Gross operating profit, equal to euro 3,303 million, grew in comparison to the first quarter of 2002 by euro 29 million (+0.9%); excluding the foreign exchange effect and the change in scope of consolidation (euro 96 million), organic growth was 3.9% (euro 125 million). As a percentage of revenues, the gross operating profit was 46.4% (45.1% in the same period of 2002).

In greater detail, gross operating profit was impacted in the first quarter of 2003 by:

- **raw materials and outside services**, equal to euro 2,903 million, down by 0.7% compared to the first quarter of 2002. The percentage of raw materials and outside services to revenues was 40.7% (40.2% in the corresponding period of 2002).
- **labor costs**, equal to euro 1,079 million, were euro 91 million lower than the first quarter of 2002 (–7.8%), due to the change in the scope of consolidation and the reduction in the work force. As a percentage of revenues, labor costs were 15.1% (16.1% in the first quarter of 2002).

1 SUMMARY DATA AND GENERAL INFORMATION	10 ECO. AND FIN. PERFORMANCE T.I. GROUP
10 REPORT ON OPERATIONS >>	18 ECO. AND FIN. PERFORMANCE T.I. S.P.A.
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A.	25 SUBSEQUENT EVENTS
55 OTHER INFORMATION	27 BUSINESS OUTLOOK
	28 RELATED PARTY TRANSACTIONS

Employees at March 31, 2003 numbered 100,765 (101,713 at December 31, 2002).

A breakdown is presented below:

	3/31/2003 (a)	12/31/2002 (b)	3/31/2002	Change (a)-(b)
Italy	82,361	83,541	89,231	(1,180)
Outside Italy	18,404	18,172	19,600	232
Total employees	100,765	101,713	108,831	(948)

Compared to December 31, 2002, the reduction was caused by the change in the scope of consolidation, with a net decrease of -819, related to the sale of Tess (-404), the spin-off of the Logistics business from Telecom Italia's Domestic Wireline (-337) and the sale of minor companies in the Internet and Media business unit (-78).

Operating income, equal to euro 1,866 million, increased by euro 135 million (+7.8%) compared to the first quarter of 2002 and as a percentage of revenues rose from 23.8% in the first quarter of 2002 to 26.2% in the first quarter of 2003. Excluding the foreign exchange effect and the impact of the change in the scope of consolidation, the gain was 6.4%. The increase in the amount itself reflects a higher gross operating profit and a reduction in amortization and depreciation charges.

In particular:

- the **amortization of the differences on consolidation**, of euro 167 million (euro 216 million in the first quarter of 2002), showed a reduction of euro 49 million, mainly as a result of the writedown of the difference on consolidation relating to Seat Pagine Gialle in the 2002 financial statements.
- **Depreciation of fixed assets and amortization of other intangibles**, equal to euro 1,152 million (euro 1,205 million in the first quarter of 2002), recorded a reduction of euro 53 million. Details are as follows:

(millions of euro)	1 st Quarter 2003 (a)	1 st Quarter 2002 (b)	Change (a)-(b)
Fixed assets	875	957	(82)
Other intangibles	277	248	29
Total	1,152	1,205	(53)

The percentage of amortization of other intangibles and depreciation of fixed assets to revenues was 16.2% (16.6% in the first quarter of 2002).

- **Other valuation adjustments** equal to euro 75 million (euro 89 million in the first quarter of 2002), decreased by euro 14 million compared to the prior year. Such adjustments were principally for writedowns to reduce receivables from customers to their estimated realizable value.
- **Provisions to reserves for risks and charges**, amounting to euro 33 million, have remained more or less the same as in the first quarter of 2002 (euro 30 million)
- **Net other income (expenses)** showed an expense balance of euro 10 million (an expense balance of euro 3 million in the first quarter of 2002).

1 SUMMARY DATA AND GENERAL INFORMATION	10 ECO. AND FIN. PERFORMANCE T.I. GROUP
10 REPORT ON OPERATIONS >>	18 ECO. AND FIN. PERFORMANCE T.I. S.P.A.
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A.	25 SUBSEQUENT EVENTS
55 OTHER INFORMATION	27 BUSINESS OUTLOOK
	28 RELATED PARTY TRANSACTIONS

Net financial income (expenses), was an expense balance of 298 million which shows an improvement of euro 178 million compared to the first quarter of 2002. Details are as follows:

(millions of euro)	1 st Quarter 2003 (a)	1 st Quarter 2002 (b)	Change (a)-(b)
Net financial income (expenses)	(296)	(450)	154
Value adjustments to financial assets, other than equity investments	(2)	(26)	24
Total	(298)	(476)	178

The improvement in the net balance of financial income (expenses) was due to lower financial charges as a result of the reduction in the Group's average debt exposure and better exchange rates in certain South American countries (Brazil and Venezuela).

Net investment income (expenses) was an expense balance of euro 118 million (an expense balance of euro 34 million in the first quarter of 2002). with higher net expenses of euro 84 million compared to the first quarter of 2002. Details are as follows:

(millions of euro)	1 st Quarter 2003 (a)	1 st Quarter 2002 (b)	Change (a)-(b)
Net revaluations (writedowns) of equity investments	(115)	(4)	(111)
Amortization of differences on consolidation	(3)	(30)	27
Total	(118)	(34)	(84)

Net revaluations (writedowns) in the first quarter of 2003 included the Group's share of equity in the losses of Stream (euro 64 million; euro 43 million in the first quarter of 2002) and other companies (euro 15 million) as well as writedowns of equity investments in current assets (euro 35 million).

Net extraordinary income (expenses) showed an expense balance of euro 2 million (an income balance of euro 543 million in the first quarter of 2002). The higher net expenses of euro 545 million compared to the corresponding period of the prior year are due to the following:

(millions of euro)	1 st Quarter 2003 (a)	1 st Quarter 2002 (b)	Change (a)-(b)
Gains from divestiture plan	–	617	(617)
Other extraordinary income	69	59	10
Extraordinary expenses	(71)	(133)	62
Total	(2)	543	(545)

The gains on the disposal of investments in the first quarter of 2002 particularly referred to the sale of Bouygues Decaux Telecom (euro 484 million) and Lottomatica (euro 133 million).

Income taxes amounted to euro 703 million, with an increase of euro 79 million compared to the first quarter of 2002. The first quarter of 2002 benefited from the non-taxable gain on the sale of Bouygues Decaux Telecom.

1 SUMMARY DATA AND GENERAL INFORMATION	10 ECO. AND FIN. PERFORMANCE T.I. GROUP
10 REPORT ON OPERATIONS >>	18 ECO. AND FIN. PERFORMANCE T.I. S.P.A.
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A.	25 SUBSEQUENT EVENTS
55 OTHER INFORMATION	27 BUSINESS OUTLOOK
	28 RELATED PARTY TRANSACTIONS

FINANCIAL CONDITION

Intangibles, fixed assets and long-term investments, amounting to euro 34,043 million, decreased by euro 1,543 million from the end of 2002.

The reduction in the differences on consolidation, intangible and fixed assets can be ascribed to the decrease in amortization and depreciation charges that was partly compensated by investments during the period. The decrease in long-term investments was principally due to the reclassification of the remaining stake held in Telekom Austria to working capital since it is expected to be sold within twelve months.

Investments made in the first quarter of 2003 amounted to euro 860 million (euro 1,227 million in the first quarter of 2002). The breakdown was as follows:

(millions of euro)	1 st Quarter 2003 (a)	1 st Quarter 2002 (b)	Change (a)-(b)
Industrial investments	697	812	(115)
Differences on consolidation	21	10	11
Financial investments	142	405	(263)
Total investments	860	1,227	(367)

The reduction in industrial investments (euro 115 million) was principally on account of lower capital expenditures by the Mobile BU (euro 93 million) and by wireline and integrated companies in South America (euro 40 million), partly compensated by the net increase in investments by other companies (euro 18 million).

Financial investments in the first quarter of 2003 included the acquisition of the equity investment in Lisit Informatica (euro 54 million), the buy-back of treasury stock and the purchase of other long-term securities (euro 48 million) and loans made to subsidiaries and affiliated companies (euro 40 million). In the first quarter of 2002, financial investments included payments made to Auna (euro 192 million, repaid on August 1, 2002) and Stream (euro 113 million), in addition to the buy-back of treasury stock and the purchase of other financial investments (euro 100 million).

Working capital was a negative balance of euro 4,473 million (a negative balance of euro 4,641 million at December 31, 2002), with a change of euro 168 million.

Shareholders' equity amounted to euro 13,491 million (euro 12,827 million at the end of 2002), of which euro 9,518 million was the Parent Company's interest, Telecom Italia, (euro 9,049 million at December 31, 2002), and euro 3,973 million was the minority interest (euro 3,778 million at December 31, 2002).

The increase of euro 664 million was essentially due to the net income for the period (euro 745 million), net of dividends due to minority shareholders declared during the first quarter (euro 18 million) and translation adjustments and other changes (euro 63 million).

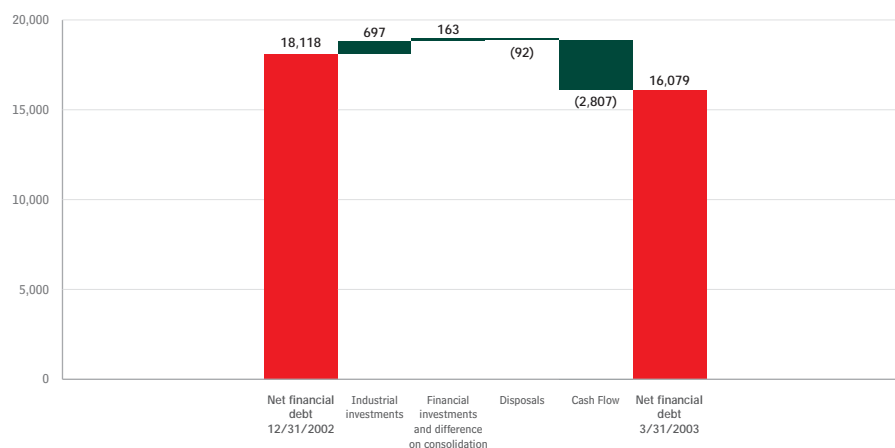
In particular, translation adjustments principally reflected the deterioration of the exchange rates in certain South American countries such as Chile and Bolivia.

Net debt, of euro 16,079 million fell by euro 2,039 million compared to euro 18,118 million at the end of 2002. The decrease was achieved as a result of the positive contribution of free cash flows from operations during the period (euro 2,413 million) and the receipt of the two installments on the sale of Telekom Srbija (euro 60 million).

Furthermore, securitization transactions brought an improvement in the net indebtedness position at March 31, 2003 of euro 839 million (euro 826 million at the end of 2002).

1 SUMMARY DATA AND GENERAL INFORMATION	10 ECO. AND FIN. PERFORMANCE T.I. GROUP
10 REPORT ON OPERATIONS >>	18 ECO. AND FIN. PERFORMANCE T.I. S.P.A.
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A.	25 SUBSEQUENT EVENTS
55 OTHER INFORMATION	27 BUSINESS OUTLOOK
	28 RELATED PARTY TRANSACTIONS

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



The portion of debt due beyond one year rose from 75% at December 31, 2002 to 81% at March 31, 2003: when also considering the current portion due next year (euro 2,273 million) as medium/long-term, the percentage rises to 93% (88% at December 31, 2002).

Gross debt is detailed in the following table:

(millions of euro)	At 3/31/2003					At 12/31/2002		
	euro	%	Foreign currency	%	Total	%	Total	%
Medium/long-term debt	13,607	83	1,282	63	14,889	81	15,018	75
Short-term borrowings	2,852	17	747	37	3,599	19	5,089	25
Total	16,459	100	2,029	100	18,488	100	20,107	100

1 SUMMARY DATA AND GENERAL INFORMATION	10 ECO. AND FIN. PERFORMANCE T.I. GROUP
10 REPORT ON OPERATIONS >>	18 ECO. AND FIN. PERFORMANCE T.I. S.P.A.
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A.	25 SUBSEQUENT EVENTS
55 OTHER INFORMATION	27 BUSINESS OUTLOOK
	28 RELATED PARTY TRANSACTIONS

TELECOM ITALIA GROUP

CONSOLIDATED STATEMENTS OF INCOME

	1 st Quarter 2003 (a)	1 st Quarter 2002 (b)	Year 2002 (a)	Change (a) - (b) amount	%
(millions of euro)					
A. Sales and service revenues	7,125	7,265	30,400	(140)	(1.9)
Changes in inventories of work in progress, semifinished and finished goods	1		2	1	
Changes in inventory of contract work in process	11	26	(42)	(15)	(57.7)
Increases in capitalized internal construction costs	145	73	675	72	98.6
Operating grants	3	2	19	1	50.0
B. Standard production value	7,285	7,366	31,054	(81)	(1.1)
Raw materials and outside services ⁽¹⁾	(2,903)	(2,922)	(12,558)	19	0.7
C. Value added	4,382	4,444	18,496	(62)	(1.4)
Labor costs ⁽¹⁾	(1,079)	(1,170)	(4,532)	91	7.8
D. Gross operating profit	3,303	3,274	13,964	29	0.9
Amortization of differences on consolidation	(167)	(216)	(844)	49	22.7
Amortization of other intangibles and depreciation of fixed assets	(1,152)	(1,205)	(5,033)	53	4.4
Other valuation adjustments	(75)	(89)	(599)	14	15.7
Provisions to reserves for risks and charges	(33)	(30)	(153)	(3)	(10.0)
Net other income (expense)	(10)	(3)	46	(7)	(233.3)
E. Operating income	1,866	1,731	7,381	135	7.8
Net financial income (expenses) ⁽²⁾	(298)	(476)	(1,634)	178	37.4
Net investment income (expenses)	(118)	(34)	(529)	(84)	(247.1)
F. Income before extraordinary items and taxes	1,450	1,221	5,218	229	18.8
Net extraordinary income (expenses)	(2)	543	(5,637)	(545)	-
G. Income before taxes	1,448	1,764	(419)	(316)	(17.9)
Income taxes	(703)	(624)	716	(79)	(12.7)
H. Net income (loss) for the period before minority interest	745	1,140	297	(395)	(34.6)
Minority interest - Net (income) loss	(242)	(419)	(619)	177	42.2
I. Net income (loss)	503	721	(322)	(218)	(30.2)

(1) Reduced by related cost recoveries

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

1 SUMMARY DATA AND GENERAL INFORMATION	10 ECO. AND FIN. PERFORMANCE T.I. GROUP
10 REPORT ON OPERATIONS >>	18 ECO. AND FIN. PERFORMANCE T.I. S.P.A.
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A.	25 SUBSEQUENT EVENTS
55 OTHER INFORMATION	27 BUSINESS OUTLOOK
	28 RELATED PARTY TRANSACTIONS

CONSOLIDATED BALANCE SHEETS

(millions of euro)	3/31/2003 (a)	12/31/2002 (b)	3/31/2002	Change (a)-(b)
A. Intangibles, fixed assets and long-term investments				
Intangible assets:				
• differences on consolidation	6,411	6,597	8,901	(186)
• other intangible assets	6,381	6,455	7,057	(74)
Fixed assets	18,748	19,291	21,323	(543)
Long-term investments:				
• equity investments and advances on future capital contributions	1,497	2,286	6,908	(789)
• other	1,006	957	352	49
(A)	34,043	35,586	44,541	(1,543)
B. Working capital				
Inventories	447	411	653	36
Trade accounts receivable, net	8,069	8,201	9,219	(132)
Other assets	2,714	2,822	3,229	(108)
Trade accounts payable	(5,210)	(5,704)	(5,702)	494
Other liabilities	(7,030)	(6,863)	(7,357)	(167)
Reserves for employee termination indemnities and pensions and similar obligations	(1,367)	(1,356)	(1,433)	(11)
Capital and/or investment grants	(307)	(325)	(332)	18
Deferred tax assets net of reserve for income taxes	3,045	3,104	783	(59)
Other reserves for risks and charges	(4,834)	(4,931)	(2,059)	97
(B)	(4,473)	(4,641)	(2,999)	168
C. Net invested capital (A + B)	29,570	30,945	41,542	(1,375)
Financed by:				
D. Shareholders' equity				
Parent Company interest	9,518	9,049	14,519	469
Minority interest	3,973	3,778	6,405	195
	13,491	12,827	20,924	664
E. Medium/long-term debt	14,889	15,018	18,834	(129)
F. Net short-term financial debt (liquidity)				
Short-term borrowings	3,599	5,089	4,817	(1,490)
Liquid assets and short-term financial receivables	(2,694)	(2,271)	(3,312)	(423)
Financial accrued expenses (income) and deferred expenses (income), net	285	282	279	3
	1,190	3,100	1,784	(1,910)
Net financial debt (E + F)	16,079	18,118	20,618	(2,039)
G. Total financing (D + E + F = C)	29,570	30,945	41,542	(1,375)

1 SUMMARY DATA AND GENERAL INFORMATION	10 ECO. AND FIN. PERFORMANCE T.I. GROUP
10 REPORT ON OPERATIONS >>	18 ECO. AND FIN. PERFORMANCE T.I. S.P.A.
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A.	25 SUBSEQUENT EVENTS
55 OTHER INFORMATION	27 BUSINESS OUTLOOK
	28 RELATED PARTY TRANSACTIONS

CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of euro)	1 st Quarter 2003	1 st Quarter 2002	Year 2002
A. Net debt, at beginning of year	(18,118)	(21,942)	(21,942)
Operating income	1,866	1,731	7,381
Depreciation of fixed assets and amortization of intangible assets	1,319	1,421	5,877
Investments in fixed assets and intangible assets ⁽¹⁾	(697)	(812)	(4,842)
Receipt of capital and/or operating grants		3	42
Proceeds from disposal of intangible assets and fixed assets	4	62	135
Change in operating working capital and other changes	(79)	(797)	17
B. Free cash flows from operations	2,413	1,608	8,610
Investments in long-term investments and differences on consolidation ⁽¹⁾	(163)	(415)	(2,077)
Proceeds from sale/redemption value of other intangible assets, fixed assets and long-term investments	88	1,014	5,563
Change in non-operating working capital and other changes	(281)	(897)	(3,385)
C.	(356)	(298)	101
D. Net cash flows before distribution of income/reserves and Contributions by shareholders (C + B)	2,057	1,310	8,711
E. Distribution of income/reserves	(18)	(17)	(4,945)
F. Contributions by shareholders		31	58
G. Net change in debt (D + E + F)	2,039	1,324	3,824
H. Net debt, at end of year (A + G)	(16,079)	(20,618)	(18,118)

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

(millions of euro)			
Increase (decrease) in medium/long-term debt	(129)	2,751	(1,065)
Increase (decrease) in short-term borrowings		(1,910)	(4,075)
Net change in debt		(2,039)	(1,324)
			(3,824)

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

(millions of euro)			
Industrial investments:			
- differences on consolidation	21	10	369
- other intangible assets	239	212	1,584
- fixed assets	458	600	3,258
Investment in long-term investments	142	405	1,708
Cash used for investments	860	1,227	6,919

1 SUMMARY DATA AND GENERAL INFORMATION	10 ECO. AND FIN. PERFORMANCE T.I. GROUP
10 REPORT ON OPERATIONS >>	18 ECO. AND FIN. PERFORMANCE T.I. S.P.A.
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A.	25 SUBSEQUENT EVENTS
55 OTHER INFORMATION	27 BUSINESS OUTLOOK
	28 RELATED PARTY TRANSACTIONS

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

The results of operations in the first quarter of 2003 and the financial condition at March 31, 2003 of the Parent Company, Telecom Italia, reflect the situation after the contribution of the "International Wholesale Services" business segment to Telecom Italia Sparkle on December 31, 2002 and after the merger by incorporation of the subsidiary Telecom Italia Lab, agreed on March 18, 2003 and effective for accounting and tax purposes on January 1, 2003.

The following table presents the results for the first quarter of 2003, compared to the pro-forma results for the first quarter of 2002, which take into account the changes ensuing from the above-mentioned corporate transactions, shown in the column "adjustments".

	1 st Quarter 2003	1 st Quarter 2002	Adjustments	1 st Quarter 2002 pro-forma	Change %	
(millions of euro)	(a)	(b)		(c)	(a / b)	(a / c)
A. Sales and service revenues	3,959	4,190	(240)	3,950	(5.5)	0.2
Changes in inventory of contract work in process	–	(4)	(1)	(5)	–	–
Increases in capitalized internal construction costs	2	–	3	3	–	(33.3)
Operating grants	4	–	1	1	–	°
B. Standard production value	3,965	4,186	(237)	3,949	(5.3)	0.4
Raw materials and outside services ⁽¹⁾	(1,528)	(1,655)	199	(1,456)	7.7	(4.9)
C. Value added	2,437	2,531	(38)	2,493	(3.7)	(2.2)
Labor costs ⁽¹⁾	(639)	(656)	(6)	(662)	2.6	3.5
D. Gross operating profit	1,798	1,875	(44)	1,831	(4.1)	(1.8)
Depreciation and amortization	(686)	(726)	14	(712)	5.5	3.7
Other valuation adjustments	(24)	(23)		(23)	(4.3)	(4.3)
Provisions to reserves for risks and charges	(17)	(13)	1	(12)	(30.8)	(41.7)
Net other income (expenses)	(19)	(16)		(16)	(18.8)	(18.8)
E. Operating income	1,052	1,097	(29)	1,068	(4.1)	(1.5)

(1) Reduced by related cost recoveries

1 SUMMARY DATA AND GENERAL INFORMATION	10 ECO. AND FIN. PERFORMANCE T.I. GROUP
10 REPORT ON OPERATIONS >>	18 ECO. AND FIN. PERFORMANCE T.I. S.P.A.
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A.	25 SUBSEQUENT EVENTS
55 OTHER INFORMATION	27 BUSINESS OUTLOOK
	28 RELATED PARTY TRANSACTIONS

The Parent Company, **Telecom Italia S.p.A.** reported a net income of euro 356 million in the first quarter of 2003, an increase of euro 76 million compared to the first quarter of 2002.

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

The improvement in earnings, compared to first quarter of 2002, can be ascribed to *net financial income (expenses)* (+ euro 41 million), *net investment income (expenses)* (+ euro 96 million) and *net extraordinary income (expenses)* (+ euro 57 million) offset by lower *net operating income (expenses)* (–euro 45 million) and higher *income taxes* (+ euro 73 million).

Sales and service revenues, equal to euro 3,959 million, decreased by euro 231 million, –5.5%, compared to the first quarter of 2002 (an increase of euro 9 million, +0.2% on a comparable basis).

The reduction was attributable to traffic, the equivalent amount of which decreased by euro 300 million, –14.5%, mainly on account of the effect of the contribution of the "International Wholesale Services" business to Telecom Italia Sparkle and the resultant allocation to the latter of revenues from international traffic (euro 238 million in the first quarter of 2002).

On a comparable basis, the reduction in traffic was euro 62 million, –3.4%. This result was partly compensated by the increase in income from basic subscription charges which benefited from the growth in commercial rate plans (principally Teleconomy and Alice) offering rate discounts on traffic aimed at retaining customer "loyalty".

Gross operating profit, equal to euro 1,798 million, decreased by euro 77 million compared to the first quarter of 2002 (–4.1%). As a percentage of revenues, the gross operating profit was 45.4% (44.7% in the same period of the prior year). On a comparable basis, the reduction was euro 33 million, –1.8%.

The decrease is due to the aforementioned fall in revenues that was partly compensated by the reduction in the consumption of raw materials and outside services (–euro 127 million) and labor costs (–euro 17 million).

The reduction in the consumption of raw materials and outside services can mainly be ascribed to the contraction in the costs of providing service and a decrease in the amounts payable to foreign correspondents as a result of the cited contribution to Telecom Italia Sparkle.

Operating income, equal to euro 1,052 million, decreased by euro 45 million compared to the first quarter of 2002 (–4.1%) and as a percentage of revenues was 26.6% compared to 26.2% in the corresponding period of the prior year. On a comparable basis, the reduction was euro 16 million, –1.5%.

Net financial income (expenses), was an expense balance of euro 246 million (–euro 287 million in the first quarter of 2002). This is an improvement of euro 41 million mainly as a result of the contraction in average debt exposure.

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

(millions of euro)	1 st Quarter 2003 (a)	1 st Quarter 2002 (b)	Change (a)-(b)
Value adjustments to financial assets	(136)	(258)	122
Income from investments, net	–	26	(26)
Total	(136)	(232)	96

Specifically:

- value adjustments to financial assets principal refer to the writedowns of the investments in Stream (euro 64 million), I.T. Telecom (euro 20 million), Telecom Italia Learning Services

1 SUMMARY DATA AND GENERAL INFORMATION	10 ECO. AND FIN. PERFORMANCE T.I. GROUP
10 REPORT ON OPERATIONS >>	18 ECO. AND FIN. PERFORMANCE T.I. S.P.A.
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A.	25 SUBSEQUENT EVENTS
55 OTHER INFORMATION	27 BUSINESS OUTLOOK
	28 RELATED PARTY TRANSACTIONS

(euro 6 million), Latin American Nautilus (euro 7 million), Edotel (euro 7 million) and the writedown of TIM shares held in current assets (euro 21 million). The reduction (–euro 122 million) compared to the first quarter of 2002, is due to the fact that in 2002 writedowns had primarily been made to the investments in Stet International Netherlands (now Telecom Italia International), euro 95 million, Nortel Inversora (euro 19 million), Softe (now Telecom Italia Finance), euro 26 million and TMI – Telemedia International Italia (euro 24 million).

Net extraordinary income (expenses) showed an expense balance of euro 26 (and expense balance of –euro 83 million in the first quarter of 2002), with an improvement of euro 57 million. Specifically:

extraordinary income of euro 23 million comprised:

- gains (euro 15 million) realized on the sales of the investments in Siteba and Tele Pay Roll Services (euro 11 million) and the sale of the Logistics business to TNT (euro 4 million);
- other prior period income for a total of euro 8 million.

extraordinary expenses of euro 49 million comprised:

- expenses for corporate restructuring relating to employee cutbacks and layoffs (euro 23 million);
- expenses relating to corporate transactions (euro 9 million);
- other expenses and provisions (euro 17 million).

Income taxes, equal to euro 288 million, rose by euro 73 million compared to the first quarter of 2002, mainly on account of a higher taxable base.

Employees at March 31, 2003 numbered 55,308, with an increase of 603 compared to December 31, 2002, principally due to the addition of the employees of TI Lab (+1,169) after the merger and the reduction in number following the sale of the Logistics business (337).

Investments totaled euro 827 million (euro 521 million in the first quarter of 2002).

The breakdown was as follows:

(millions of euro)	1 st Quarter 2003 (a)	1 st Quarter 2002 (b)	Change (a)-(b)
Industrial investments	743	379	364
Financial investments	84	142	(58)
Total investments	827	521	306

Industrial investments, in particular, included the early purchase of buildings under financial lease contracts with Teleleasing for euro 312 million.

Net debt of euro 14,887 million decreased by euro 241 million compared to December 31, 2002 (euro 15,128 million). The improvement was the result of cash flows from operations (euro 768 million) which more than compensated cash flows used for financing and extraordinary activities (euro 358 million), plus the addition of the beginning net debt of the merged company TI Lab (euro 169 million).

Net debt also benefited from the effect of the securitization transaction for an amount of euro 839 million at March 31, 2003 (euro 826 million at December 31, 2002).

1 SUMMARY DATA AND GENERAL INFORMATION	10 ECO. AND FIN. PERFORMANCE T.I. GROUP
10 REPORT ON OPERATIONS >>	18 ECO. AND FIN. PERFORMANCE T.I. S.P.A.
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A.	25 SUBSEQUENT EVENTS
55 OTHER INFORMATION	27 BUSINESS OUTLOOK
	28 RELATED PARTY TRANSACTIONS

Gross debt at March 31, 2003 was euro 15,856 million (euro 17,299 million at December 31, 2002). Details are as follows:

(millions of euro)	At 3/31/2003				At 12/31/2002			
	euro	%	Foreign currency	%	Total	%	Total	%
Medium/long-term debt	11,725	75	81	26	11,806	74	11,848	68
Short-term borrowings	3,815	25	235	74	4,050	26	5,451	32
Total	15,540	100	316	100	15,856	100	17,299	100

The portion of medium/long-term debt rose from 68% at December 31, 2002 to 74% at March 31, 2003.

Furthermore, on March 11, 2003, the Board of Directors of Telecom Italia passed a resolution to call, at market price, and subsequently cancel, for a maximum amount of euro 2 billion, a portion of the notes underwritten by the subsidiary Telecom Italia Finance. This transaction was necessary in order to bring the ratio of debentures and financial notes to net equity into equilibrium in view of the proposed distribution of reserves up to a maximum of euro 1,333 million.

1 SUMMARY DATA AND GENERAL INFORMATION	10 ECO. AND FIN. PERFORMANCE T.I. GROUP
10 REPORT ON OPERATIONS >>	18 ECO. AND FIN. PERFORMANCE T.I. S.P.A.
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A.	25 SUBSEQUENT EVENTS
55 OTHER INFORMATION	27 BUSINESS OUTLOOK
	28 RELATED PARTY TRANSACTIONS

TELECOM ITALIA

STATEMENTS OF INCOME

	1 st Quarter 2003 (a)	1 st Quarter 2002 (b)	Year 2002 (a)	Change (a) - (b)	
(millions of euro)				amount	%
A. Sales and service revenues	3,959	4,190	17,055	(231)	(5.5)
Changes in inventory of contract work in process	–	(4)	–	4	–
Increases in capitalized internal construction costs	2	–	11	2	–
Operating grants	4	–	–	4	–
B. Standard production value	3,965	4,186	17,066	(221)	(5.3)
Raw materials and outside services ⁽¹⁾	(1,528)	(1,655)	(6,966)	127	7.7
C. Value added	2,437	2,531	10,100	(94)	(3.7)
Labor costs ⁽¹⁾	(639)	(656)	(2,551)	17	2.6
D. Gross operating profit	1,798	1,875	7,549	(77)	(4.1)
Depreciation and amortization	(686)	(726)	(3,020)	40	5.5
Other valuation adjustments	(24)	(23)	(357)	(1)	(4.3)
Provisions to reserves for risks and charges	(17)	(13)	(44)	(4)	(30.8)
Net other income (expenses)	(19)	(16)	(83)	(3)	(18.8)
E. Operating income	1,052	1,097	4,045	(45)	(4.1)
Net financial income (expenses)	(246)	(287)	(1,087)	41	14.3
Net investment income (expenses)	(136)	(232)	1,464	96	41.4
F. Income before extraordinary items and income taxes	670	578	4,422	92	15.9
Net extraordinary income (expenses)	(26)	(83)	(6,093)	57	68.7
G. Income (loss) before income taxes	644	495	(1,671)	149	30.1
Income taxes	(288)	(215)	26	(73)	(34.0)
H. Net income (loss)	356	280	(1,645)	76	27.1

(1) Reduced by related cost recoveries

1 SUMMARY DATA AND GENERAL INFORMATION	10 ECO. AND FIN. PERFORMANCE T.I. GROUP
10 REPORT ON OPERATIONS >>	18 ECO. AND FIN. PERFORMANCE T.I. S.P.A.
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A.	25 SUBSEQUENT EVENTS
55 OTHER INFORMATION	27 BUSINESS OUTLOOK
	28 RELATED PARTY TRANSACTIONS

BALANCE SHEETS

	3/31/2003 (a)	12/31/2002 (b)	Change (a-b)
(millions of euro)			
A. Intangibles, fixed assets and long-term investments			
Intangible assets	1,300	1,287	13
Fixed assets	12,770	12,678	92
Long-term investments:			
• equity investments and advances on future capital contributions	15,007	15,010	(3)
• other	620	588	32
(A)	29,697	29,563	134
B. Operating working capital			
Inventories	80	70	10
Trade accounts receivable, net	4,820	4,385	435
Other assets	1,512	1,786	(274)
Trade accounts payable	(2,752)	(2,948)	196
Other liabilities	(4,458)	(4,115)	(343)
Reserves for employee termination indemnities and pensions and similar obligations	(1,009)	(968)	(41)
Capital and/or investment grants	(225)	(235)	10
Deferred tax assets net of reserve for income taxes	1,454	1,454	
Other reserves for risks and charges	(2,918)	(2,908)	(10)
(B)	(3,496)	(3,479)	(17)
C. Net invested capital (A + B)	26,201	26,084	117
Financed by:			
D. Shareholders' equity			
Share capital	4,024	4,024	
Retained earnings and reserves	6,934	8,577	(1,643)
Net income (loss)	356	(1,645)	2,001
	11,314	10,956	358
E. Medium/long-term debt	11,806	11,848	(42)
F. Net short-term financial debt (liquidity):			
Short-term borrowings	4,050	5,451	(1,401)
Liquid assets and short-term financial receivables	(1,059)	(2,698)	1,639
Financial accrued expenses (income) and deferred expenses (income), net	90	527	(437)
	3,081	3,280	(199)
Net financial debt (E + F)	14,887	15,128	(241)
G. Total financing (D + E + F = C)	26,201	26,084	117

1 SUMMARY DATA AND GENERAL INFORMATION	10 ECO. AND FIN. PERFORMANCE T.I. GROUP
10 REPORT ON OPERATIONS >>	18 ECO. AND FIN. PERFORMANCE T.I. S.P.A.
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A.	25 SUBSEQUENT EVENTS
55 OTHER INFORMATION	27 BUSINESS OUTLOOK
	28 RELATED PARTY TRANSACTIONS

STATEMENTS OF CASH FLOWS

(millions of euro)	1 st Quarter 2003	1 st Quarter 2002	Year 2002
A. Net debt, at beginning of year	(15,128)	(16,913)	(16,913)
Net debt, at beginning of year, ti lab (169)	–	–	
B. Adjusted net debt, at beginning of year	(15,297)	(16,913)	(16,913)
Operating income	1,052	1,097	4,045
Depreciation of fixed assets and amortization of intangible assets	686	726	3,020
Investments in fixed assets and intangible assets ⁽¹⁾	(743)	(379)	(2,322)
Receipts of capital and/or operating grants	1	–	23
Proceeds from disposal of intangible assets and fixed assets	1	9	54
Change in operating working capital and other changes	(229)	(290)	471
C. Free cash flow from operations	768	1,163	5,291
Investments in long-term investments ⁽¹⁾	(84)	(142)	(1,286)
Proceeds from sale/redemption value of other intangibles	41	31	694
Change in non-operating working capital and other changes	(315)	(797)	370
D.	(358)	(908)	(222)
E. Net cash flows before distribution of income/reserves and contributions by shareholders (C + D)	410	255	5,069
F. Distribution of income/reserves	–	–	(3,293)
G. Contributions by shareholders	–	7	9
H. Net change in debt (E + F + G)	410	262	1,785
I. Net debt, at end of year (B + H)	(14,887)	(16,651)	(15,128)

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

(millions of euro)	1 st Quarter 2003	1 st Quarter 2002	Year 2002
Increase (decrease) in medium/long-term debt	(45)	3,185	1,477
Increase (decrease) in short-term borrowings	(365)	(3,447)	(3,262)
Net change in debt	(410)	(262)	(1,785)

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

(millions of euro)	1 st Quarter 2003	1 st Quarter 2002	Year 2002
Industrial investments:			
- fixed assets	597	294	1,674
- intangible assets	146	85	648
Investment in long-term investments	84	142	1,286
Cash used for investments	827	521	3,608

1 SUMMARY DATA AND GENERAL INFORMATION	10 ECO. AND FIN. PERFORMANCE T.I. GROUP
10 REPORT ON OPERATIONS >>	18 ECO. AND FIN. PERFORMANCE T.I. S.P.A.
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A.	25 SUBSEQUENT EVENTS
55 OTHER INFORMATION	27 BUSINESS OUTLOOK
	28 RELATED PARTY TRANSACTIONS

■ SUBSEQUENT EVENTS

There follows a description of the significant events subsequent to March 31, 2003.

■ MERGER OF TELECOM ITALIA IN OLIVETTI

On April 15, 2003, the Board of Directors approved the plan of merger of Telecom Italia in Olivetti, with the following exchange ratio:

- 7 Olivetti ordinary shares, of par value euro 1 each, for every Telecom Italia ordinary share of par value euro 0.55 each
- 7 Olivetti savings shares, of par value euro 1 each, for every 1 Telecom Italia savings share of par value euro 0.55 each

As a result of the merger, the controlling investment in Telecom Italia held by Olivetti will be cancelled, whereas the investment held by Olimpia in Olivetti will be significantly diluted.

The exchange ratio will principally be covered by the redistribution of Olivetti capital as it stands when the merger is finalized, after the par values of the ordinary and savings shares post-Olivetti merger have been adjusted to euro 0.55 (equal to the par value of Telecom shares), in place of the current par value of euro 1.

The company resulting from the merger will take the name and corporate business purpose of Telecom Italia. The registered office of the company will be in Milan, where Telecom Italia currently has its registered office.

More in general, Olivetti will adopt new by-laws that are very similar to Telecom Italia's by-laws. Since the business purpose has been changed, Olivetti shareholders are entitled to exercise withdrawal rights. To meet the requirements that might arise as a result of any withdrawals, Olivetti has secured euro 9 billion in financing. Any portion of the financing not used for the withdrawal rights will be set aside by Olivetti for a partial voluntary tender offer to purchase Telecom Italia ordinary and savings shares. The purchase price of the tender offer will be equal to the average price of the shares during the period between March 12 and the date of the Olivetti Shareholders' meeting called to approve the merger, plus a premium of 20%, with a minimum and maximum amount of euro 7.0 and euro 8.4 per ordinary share and euro 4.7 and euro 5.65 per savings share. The withdrawal rights and the tender offer are both subject to the execution of the merger.

The merger will be effective from the date of the final registrations of the plan of merger of the companies involved at the registry offices, or eventually at the later date established in the deed of merger for early August 2003.

For accounting purposes, Telecom Italia's transactions will be taken up in Olivetti's financial statements starting January 1, 2003, which is also the effective date of the merger for tax purposes.

The ordinary and savings shares issued by Olivetti in exchange for Telecom Italia shares, which will be cancelled as a result of the merger, will have normal dividend rights. The merger will come into effect when the savings shares issued by Olivetti to service the exchange ratio have been admitted for listing on the Mercato Telematico Italiana market of Borsa Italiana S.p.A..

Listing on the New York Stock Exchange will be requested for the new ordinary and savings shares of the company resulting from the merger.

1 SUMMARY DATA AND GENERAL INFORMATION	10 ECO. AND FIN. PERFORMANCE T.I. GROUP
10 REPORT ON OPERATIONS >>	18 ECO. AND FIN. PERFORMANCE T.I. S.P.A.
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A.	25 SUBSEQUENT EVENTS
55 OTHER INFORMATION	27 BUSINESS OUTLOOK
	28 RELATED PARTY TRANSACTIONS

■ SEAT PAGINE GIALLE SPIN-OFF

On April 1, 2003, the Board of Directors of Seat Pagine Gialle approved the plan for the partial proportional spin-off of Seat Pagine Gialle S.p.A. (the "spun-off" company) to a newly formed company (the "beneficiary" company), on the basis of the balance sheet data of the spun-off company at December 31, 2002. If the plan is approved by the shareholders of Seat Pagine Gialle, the beneficiary company will receive the corporate complex principally composed of the following business segments: Directories (consisting of the Italian operations in telephone publishing and the stakes held in TDL Infomedia and Thomson), Directory Assistance (89.24.24 Pronto Pagine Gialle and Telegate) and Business Information (Consodata group). The spun-off company will take the new name of Telecom Italia Media whereas the beneficiary company will take the name of Seat Pagine Gialle. On the basis of the plan of spin-off, when the transaction becomes effective, the shareholders of Seat Pagine Gialle will be assigned, for every 40 ordinary (savings) held:

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

Moreover, Telecom Italia has started the procedures for the divestiture, using a competitive process, aimed at the sale of the controlling investment held in the aforementioned beneficiary company that will take place after the spin-off.

■ SALE OF EQUITY INVESTMENT IN STREAM

On April 30, 2003, after authorization was received from the relevant authorities, the agreement, announced October 1, 2002, was concluded with News Corporation for the creation of a single Italian pay-TV company.

The new company, resulting from the integration of Steam and Tele+, will be called SKY ITALIA. Telecom Italia will hold a 19.9% stake and News Corporation an 80.1% stake.

■ STRATEGIC OUTSOURCING AGREEMENT BETWEEN TELECOM ITALIA AND HEWLETT-PACKARD

The Management Services & Outsourcing agreement between Telecom Italia and Hewlett-Packard announced on February 21, 2003 became operational following the completion of the procedures established by existing laws.

The agreement calls for the following operations outsourcing contracts: HP will supply asset management, help desk, maintenance and workstation management, while IT Telecom will manage Hewlett-Packard Italiana's operational activities in the SAP environment and house the systems in its Data Centers.

The agreement was also executed for the sale of the Desktop Management Services business, IT Telecom (100%-owned by Telecom Italia), to the new Hewlett-Packard entity HP DCS (Hewlett-Packard Distributed Computing Services).

1 SUMMARY DATA AND GENERAL INFORMATION	10 ECO. AND FIN. PERFORMANCE T.I. GROUP
10 REPORT ON OPERATIONS >>	18 ECO. AND FIN. PERFORMANCE T.I. S.P.A.
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A.	25 SUBSEQUENT EVENTS
55 OTHER INFORMATION	27 BUSINESS OUTLOOK
	28 RELATED PARTY TRANSACTIONS

■ BUSINESS OUTLOOK

The outlook for the Telecom Italia Group for the year 2003 is a substantially stable operating profitability and a further reduction in net indebtedness.

Assuming the execution of the merger of Telecom Italia in Olivetti described above:

- consolidated net indebtedness will be represented by that of the Olivetti Group which already includes that of Telecom Italia. Such indebtedness could be higher at the end of 2003 as a result of transactions related to the merger (withdrawal of a part of Olivetti's shareholders and the voluntary partial tender offer of purchase for Telecom Italia ordinary and savings shares) which will be partly financed by cash flows provided by both operations and the disposal of non-strategic investments;
- operating profitability of the Group for the year 2003 before amortization of differences on consolidation is expected remain stable.

The company resulting from the merger is also expected to report net earnings in the 2003 financial statements. This will make it possible to offer the same dividend policy to the current Telecom Italia shareholders with total dividends that will at least be in line with those from 2002 earnings.

1 SUMMARY DATA AND GENERAL INFORMATION	10 ECO. AND FIN. PERFORMANCE T.I. GROUP
10 REPORT ON OPERATIONS >>	18 ECO. AND FIN. PERFORMANCE T.I. S.P.A.
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A.	25 SUBSEQUENT EVENTS
55 OTHER INFORMATION	27 BUSINESS OUTLOOK
	28 RELATED PARTY TRANSACTIONS

■ RELATED PARTY TRANSACTIONS

With reference to related party transactions, the effects of such transactions on the balance sheet and statement of income in the consolidated financial statements of the Telecom Italia Group at March 31, 2003 are reported in the following table.

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

All related party transactions, including intercompany transactions, fall within the normal business operations of the Group, are governed by market terms or on the basis of specific laws; also, there are no atypical or unusual transactions.

Major statement of income and balance sheet components (millions of euro)	Transactions with:		Nature of transaction
	unconsolidated subsidiaries and affiliates	parent companies, subsidiaries and affiliates of parent companies	
Sales and services revenues	33	3	These comprise revenues from Teleleasing (euro 16 million), Stream (euro 3 million), Telecom Argentina (euro 3 million), Telekom Srbija (euro 2 million)
Raw materials and outside services	100	3	These mainly comprise rent payable to Tiglio 1 (euro 20 million) and Tiglio 2 (euro 6 million) as well as TLC service costs from Etecsa Cuba (euro 36 million) and maintenance and servicing costs from Italtel (euro 12 million).
Net other (income) expenses	1	–	These mainly relate to cost recoveries for personnel on loan to certain subsidiaries and affiliates
Net financial (income) expenses	1	–	These include accrued interest income on loans made to certain subsidiaries and affiliates (euro 6 million) and interest expense payable to Teleleasing for financial leasing transactions (euro 5 million)
Loans under long-term investments	428	–	These comprise medium/long-term loans made to IS TIM (euro 302 million), Tiglio 1 (euro 54 million), Telegono (euro 24 million) and Tiglio 2 (euro 30 million)
Financial receivables	35	2	These comprise short-term loans made to Tmi group companies (euro 14 million) and Golden Lines (euro 8 million net of provisions)
Financial payables	45	–	These refer mainly to payables for finance leases to Teleleasing (euro 29 million)
Trade and other accounts receivable	196	4	They mainly regard receivables from Stream (euro 66 million), Telekom Srbija (euro 22 million net of provisions), Teleleasing (euro 23 million) and Consorzio Telcal (euro 11 million)
Trade and other accounts payable	320	583	These refer to payables to Olivetti for the settlement of Group VAT and receivables from the tax authorities transferred (euro 571 million) and supply contracts connected with operating and investment activities: they include payables to the Italtel group (euro 84 million), Siemens Informatica (euro 40 million), Teleleasing (euro 13 million) and advances from Consorzio Telcal (euro 103 million)
Contract work in process	110	–	These refer mainly to activities on behalf of Consorzio Telcal for the Telematico Calabria Plan
Guarantees and collateral provided	947	–	These comprise sureties provided on behalf of Is Tim (euro 617 million), Consorzio Csia (euro 85 million), Stream (euro 49 million) as well as collateral on behalf of Is Tim (euro 102 million)
Purchases and sales commitments	12	–	They refer to commitments with Teleleasing under operating leases
Investments in fixed assets and intangibles	46	–	These mainly consist of acquisitions of telephone exchanges from the Italtel group (euro 30 million) and computer projects from Siemens Informatica (euro 4 million)

1 SUMMARY DATA AND GENERAL INFORMATION	10 ECO. AND FIN. PERFORMANCE T.I. GROUP
10 REPORT ON OPERATIONS >>	18 ECO. AND FIN. PERFORMANCE T.I. S.P.A.
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A.	25 SUBSEQUENT EVENTS
55 OTHER INFORMATION	27 BUSINESS OUTLOOK
	28 RELATED PARTY TRANSACTIONS

In the first quarter 2003, the buildings leased from Teleleasing under financial leasing contracts, recorded in the consolidated fixed assets, were purchased.

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

1st Quarter 2003		
(millions of euro)		
Sales and service revenues	9	These mainly refer to computer services and the supply of energy services to the Pirelli group (euro 7 million) and telephone services to the Pirelli group and the Edizione Holding group (euro 1 million)
Raw materials and outside services	12	These refer to planning and servicing expenditures to the Pirelli group
Trade and other accounts receivable	9	These mainly refer to the above-mentioned telephone services rendered to the Pirelli group (euro 8 million) and the Edizione Holding group (euro 1 million)
Trade and other accounts payable	24	These mainly refer to supply contracts connected with investment activities from the Pirelli group (euro 23 million) and the Edizione Holding group (euro 1 million)
Investments in fixed assets and intangibles	6	These mainly refer to purchases of telecommunications cables from the Pirelli group

Additionally:

- in the first quarter of 2003, TIM sold telephone cards for resale to the public to Autogrill S.p.A. (Edizione Holding Group), for an equivalent amount of about euro 7 million;
- Telecom Italia has a commitment to acquire a further 5% interest in Epiclink from Pirelli S.p.A. for a total of euro 3 million.

1 SUMMARY DATA AND GENERAL INFORMATION	30 DOMESTIC WIRELINE
10 REPORT ON OPERATIONS	34 MOBILE
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A. >>	38 SOUTH AMERICA
55 OTHER INFORMATION	41 INTERNET AND MEDIA
	44 INFORMATION TECHNOLOGY MARKET
	47 INFORMATION TECHNOLOGY GROUP
	50 OTHER ACTIVITIES

■ DOMESTIC WIRELINE

- ▶ Confirmation of the positive trend in profit margins
- ▶ Innovation of products and service and development of broadband
- ▶ Efficiency in 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) providers. On an international level, Domestic Wireline develops fiber optic networks for wholesale customers, mainly in Europe and South America. During the period, strong competition in the market continued.

It was more accentuated in the case of national traffic and was countered with new rate plans offered as part of the action to win back and retain customers.

■ THE STRUCTURE OF THE BUSINESS UNIT

The Business Unit is organized as follows:



■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

In the first quarter of 2003, the scope of consolidation changed as a result of the transfer of the Loquendo S.p.A. (previously consolidated in the IT Group BU) to Domestic Wireline. The figures relating to 2002 have been duly restated.

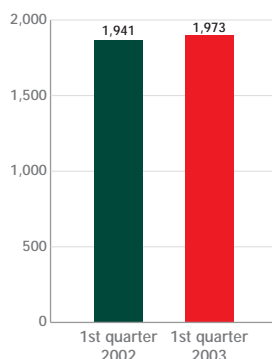
In addition, during the first quarter of 2003, Telecom Italia DW, together with Finsiel, won the bid for the creation of an Information System for Health Care and Social Services and a Regional Services Card for the Lombardy Region. This is a seven-year contract which involves the design of a network incorporating all the facilities and operators of health care and social services, as well as new services which the public can access through a Regional Health Care Card. Following the award of the bid, in February, Telecom Italia DW acquired a minority stake in LISIT S.p.A..

1 SUMMARY DATA AND GENERAL INFORMATION	30 DOMESTIC WIRELINE
10 REPORT ON OPERATIONS	34 MOBILE
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A. >>	38 SOUTH AMERICA
55 OTHER INFORMATION	41 INTERNET AND MEDIA
	44 INFORMATION TECHNOLOGY MARKET
	47 INFORMATION TECHNOLOGY GROUP
	50 OTHER ACTIVITIES

■ ECONOMIC AND FINANCIAL DATA

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

Gross operating profit



	1st Quarter 2003 (a)	1st Quarter 2002 (b)	Year 2002	Change (a) - (b)	
(in millions of euro)				amount	%
Sales and service revenues	4,235	4,175	17,035	60	1.4
Gross operating profit	1,973	1,941	7,966	32	1.6
% of revenues	46.6%	46.5%	46.8%		
Operating income	1,233	1,198	4,698	35	2.9
% of revenues	29.1%	28.7%	27.6%		
Investments:					
- industrial	433	433	2,465	-	-
- differences on consolidation	-	-	-		
Employees at period-end (number) ⁽¹⁾	53,177	57,140	53,857	(680)	(1.3)

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

Sales and service revenues show growth of 1.4% (euro 60 million), generated mainly by DW and TI Sparkle.

Factors particularly influencing the growth in revenues include higher revenues from basic subscription charges and sales which more than compensated the slight fall in traffic (–euro 7.2 million compared to the first quarter of 2002) caused, among other things, by a reduction in the retail sector and an increase in the wholesale sector.

In particular:

- The slight reduction in retail traffic (approximately –euro 13.3 million, equal to –0.8%) was offset by the growth of VAS and data traffic (a total of +euro 108.8 million compared to the first quarter of 2002) which almost completely compensated the erosion of revenues from Voice and On Line Dial Up traffic. In particular, the erosion of revenues from Voice and On Line Dial Up traffic continues to be affected by a number of different factors, such as:
 - DW's marketing strategy of giving preference to flat rate plans, which, in terms of economic results, lower the average yield on traffic and increase revenues from basic subscription charges;
 - rate adjustments which lowered average prices and access charges.
- Revenues from national and international wholesale traffic (a total of +euro 6.1 million, equal to +1.3% compared to the first quarter of 2002), were marked by the growth of international traffic as a result of higher volumes of in transit traffic, which compensated the reduction in national traffic generated mainly by an average reduction in the yield equal to 30%, compared to the first quarter of 2002.
- Revenues from basic subscription charges and sales increased by approximately euro 110 million compared to the first quarter of 2002. Revenues from basic subscription charges rose by approximately euro 80 million, reflecting an increase in the retail segment of approximately euro 87 million, for access (approx. +euro 54 million) and ADSL (approx. +euro 27 million), and a reduction in the wholesale segment.

The increase in the *gross operating profit* and the *operating income* were the result of both the growth of *sales and service revenues* and improvements in efficiency compared to the first quarter of 2002. This was achieved by continuing to implement cost control policies and employing the utmost attention to the selection of investments.

1 SUMMARY DATA AND GENERAL INFORMATION	30 DOMESTIC WIRELINE
10 REPORT ON OPERATIONS	34 MOBILE
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A. >>	38 SOUTH AMERICA
55 OTHER INFORMATION	41 INTERNET AND MEDIA
	44 INFORMATION TECHNOLOGY MARKET
	47 INFORMATION TECHNOLOGY GROUP
	50 OTHER ACTIVITIES

Investments in the first quarter of 2003 were in line with those of the same period of the prior year.

The number of *employees* fell by 680 compared to December 31, 2002. The reduction is due to 362 employees who terminated employment with the company, 119 new employees hired (of which 68 refer to seafaring personnel of Elettra), mobility among Telecom Italia Business Units –100 persons (relating mainly to the transfer of resources from DW to the "Prevention, Protection and Environment Services" Function operating in the sphere of HR Operating Services) and the outsourcing of logistics activities involving –337 persons.

■ INFORMATION ON OPERATIONS

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

Operating data	3/31/2003	3/31/2002	12/31/2002
Fixed network connections (in thousands)	27,107	27,344	27,142
– of which ISDN	5,888	5,545	5,756
Annual increase in minutes of traffic on the fixed network (%)	3.5	8.7	2.4
• national traffic	2.9	8.0	1.8
• international traffic	17.6	29.9	17.9

■ Traffic and access

During the first quarter of 2003, three new cordless products were marketed targeting the residential clientele. In addition, the new ADSL Smart 1 Time rate plan was launched, based on consumption and directed at the *SOHO (Small Office Home Office)* clientele. Another new feature of broadband services was the production and marketing of small transmitters that are capable of doubling the radio coverage of *Smart Wireless (Access Point)*.

With regard to services, the 400 service was enhanced by the introduction of a new option that provides the name, surname and address of the caller and a vocal acknowledgement of any unanswered calls. Furthermore the SMS service was introduced through e-mails that can be sent in the form of a text message (SMS) .

■ Data business

During the first quarter of 2003, the main features in terms of innovations to the product range involved data transmission networks for companies and Internet access.

The main novelties in the range of web services include:

- launch of the *My Server* rate plan with regard to the marketing of hardware configurations on which to apply co-location, housing and hosting services, within Telecom Italia IDCs (Internet Data Centers);
- enhancement of the dedicated range of hosting services, through a technological upgrade of the configurations involved;
- the extension of the hosting and housing product range that can also be applied to project solutions;
- enhancement of the range of services for Full Business Company SAM (*Corporate Messaging Services*).

The new range of data transmission services includes:

- launch of the *Broadband Everywhere* project, which aims to extend broadband coverage for companies;
- stipulation of a collaboration agreement with CISCO System;
- definition of special product-range profiles for the Public Administration which led to the award of the bid for the Consip agreement.

1 SUMMARY DATA AND GENERAL INFORMATION	30 DOMESTIC WIRELINE
10 REPORT ON OPERATIONS	34 MOBILE
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A. >>	38 SOUTH AMERICA
55 OTHER INFORMATION	41 INTERNET AND MEDIA
	44 INFORMATION TECHNOLOGY MARKET
	47 INFORMATION TECHNOLOGY GROUP
	50 OTHER ACTIVITIES

■ National wholesale

The development of Local Loop Unbundling continued. By the end of the first quarter of 2003, other operators had connected more than 210,000 lines directly to their networks whereas, in the case of ADSL Wholesale, approximately 290,000 lines had been acquired.

From the commercial point of view, new rate plans were introduced to the market, including:

- *metroGiganet*, which enhances and completes the wholesale rate plan for carrier services on lambda fiber optic cables. The metropolitan version of the service makes it possible to extend the advantages of economy, flexibility and reliability, already offered by Giganet for long distance, to urban areas.
- *Single Access ADSL Wholesale flat* is a service directed at operators who want to develop fast access services to data networks and the Internet to be supplied to their customers by using the Telecom Italia access network and ADSL technology.

■ International wholesale

With regard to international wholesale services, the first quarter of 2003 shows steady growth in volumes of Telephony services, equal to +18% compared to the first quarter of 2002. This was achieved thanks to interconnection with new international carriers, to greater traffic by Italian OLOs (Other Licensed Operators) on the domestic market and to the competitiveness of the Telecom Italia product range.

With regard to IP and Data transmission services, activity focused on the sales of innovative international connectivity services, in line with the trend of development of the market, both in the wholesale and retail segments, with reference to Italian multinational companies.

■ National network

With regard to the national network, the first quarter of 2003 was marked by the installation of the first six ODXC junctions of the Fiber Optic Backbone (two in Rome and one each in Florence, Pisa, Bologna and Piacenza)

■ International network

As far as the international network is concerned, during the first quarter of 2003, work continued to develop regional cross-border networks in Europe, the Mediterranean and Latin America. In particular, in Europe, the first phase of building the fiber-optic metropolitan links (city rings) was completed in Paris and London. This will make it possible to extend the range of IP and data transmission services through a more widespread presence in the main telehouses.

■ EVENTS SUBSEQUENT TO MARCH 31, 2003

In April, Telecom Italia announced that it had further boosted the development of its broadband network by activating 1,600 new HDSL exchanges which, in addition to the 2,100 already in operation, will allow 91% of the companies operating nationwide to benefit from the advantages of connection to a broadband network, including the new "E-vidence" service for "remote surveillance".

1 SUMMARY DATA AND GENERAL INFORMATION	30 DOMESTIC WIRELINE
10 REPORT ON OPERATIONS	34 MOBILE
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A. >>	38 SOUTH AMERICA
55 OTHER INFORMATION	41 INTERNET AND MEDIA
	44 INFORMATION TECHNOLOGY MARKET
	47 INFORMATION TECHNOLOGY GROUP
	50 OTHER ACTIVITIES

■ MOBILE

- ▶ Growth of revenues and improvement in profitability margins
- ▶ Confirmation of leadership on the domestic market
- ▶ Significant reduction in net financial indebtedness
- ▶ April 7, 2003: alliance between TIM, Telefonica Moviles and T-Mobile International

■ 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 organized as follows:



■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

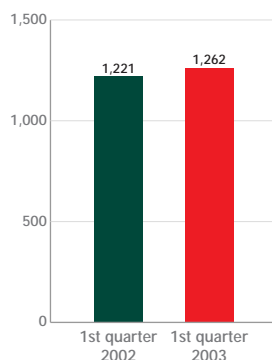
On March 28, 2003, Stet Hellas acquired the entire stake in Telesoft Hellas S.A., a company that develops software for telecommunications, from IT Telecom S.p.A. (a Telecom Italia Group company), for euro 60,000. This transaction did not have any significant economic or financial impact.

1 SUMMARY DATA AND GENERAL INFORMATION	30 DOMESTIC WIRELINE
10 REPORT ON OPERATIONS	34 MOBILE
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A. >>	38 SOUTH AMERICA
55 OTHER INFORMATION	41 INTERNET AND MEDIA
	44 INFORMATION TECHNOLOGY MARKET
	47 INFORMATION TECHNOLOGY GROUP
	50 OTHER ACTIVITIES

■ ECONOMIC AND FINANCIAL DATA

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

Gross operating profit



(in millions of euro)	1st Quarter 2003 (a)	1st Quarter 2002 (b)	Year 2002	Change (a) - (b)	
				amount	%
Sales and service revenues	2,616	2,498	10,867	118	4.7
Gross operating profit	1,262	1,221	5,039	41	3.4
% on Revenues	48.2%	48.9%	46.4%		
Operating income	897	831	3,358	66	7.9
% on Revenues	34.3%	33.3%	30.9%		
Investments:					
- industrial	171	264	1,715	(93)	(35.2)
- differences on consolidation	-	-	196		
Employees at period-end (number) ⁽¹⁾	18,913	17,124	18,702	211	1.1

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

Sales and service revenues amounted to euro 2,616 million, with an increase of 4.7% compared to the first quarter of 2002. Excluding the foreign exchange effect, revenues increased by 15.4%.

The *gross operating profit* was euro 1,262 million and shows an increase of 3.4% compared to the first quarter of 2002 (euro 1,221 million); excluding the foreign exchange effect, the gross operating margin increased by 8.1%. The increase in the gross operating margin can be attributed to the positive performance of already-existing activities (in Italy, Greece, and Brazilian companies operating in the field of TDMA technology), which offset the higher costs of GSM start-up in Brazil. During the first quarter of 2003, the gross operating margin represented 48.2% of total revenues.

The *operating income* was euro 897 million and shows an increase of 7.9% compared to the first quarter of 2002 (euro 831 million). The impact of the foreign exchange effect is virtually nil at the level of operating income.

Industrial investments amounted to euro 171 million, of which euro 60 million refers to intangible assets and euro 111 million to fixed assets. Investments were mainly devoted to safeguarding the environment and building up the network.

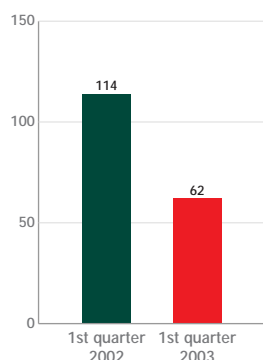
The number of *employees* increased by 211. The number was influenced by the expansion reported by companies in South America which are in the start-up phase.

1 SUMMARY DATA AND GENERAL INFORMATION	30 DOMESTIC WIRELINE
10 REPORT ON OPERATIONS	34 MOBILE
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A. >>	38 SOUTH AMERICA
55 OTHER INFORMATION	41 INTERNET AND MEDIA
	44 INFORMATION TECHNOLOGY MARKET
	47 INFORMATION TECHNOLOGY GROUP
	50 OTHER ACTIVITIES

■ ECONOMIC AND FINANCIAL DATA FOR MOBILE OPERATIONS IN SOUTH AMERICA

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

Gross operating profit



	1st Quarter 2003 (a)	1st Quarter 2002 (b)	Year 2002	Change (a) - (b)	
(millions of euro)				amount	%
Sales and service revenues	292	389	1,298	(97)	(24.9)
Gross operating profit	62	114	274	(52)	(45.6)
% on Revenues	21.2%	29.3%	21.1%		
Operating loss	(23)	(2)	(98)	(21)	∞
% on Revenues	∞	∞	∞		
Investments:					
- industrial	76	186	541	(110)	(59.1)
- differences on consolidation					
Employees at period-end (number) ⁽¹⁾	7,382	6,184	7,050	332	4.7

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

During the first quarter of 2003, the operations of the Mobile Business Unit in Latin America generated *revenues* of euro 292 million, with a reduction of 24.9% compared to the first quarter of 2002. This can be attributed exclusively to the decline in value of the local currencies. Excluding the foreign exchange effect, revenues would be approximately 135 million higher. The gross operating profit amounted to euro 62 million.

Excluding the foreign exchange effect, *gross operating profit* would be approximately euro 2 million higher; this increase reflects the positive performance of *on-going* companies which succeeded in offsetting the higher expenses deriving from the start-up of GSM service in Brazil launched last October. The gross operating result was a loss of euro 23 million.

Excluding the foreign exchange effect, the *operating loss* would show a reduction of euro 31 million.

Industrial investments amounted to euro 76 million, of which euro 11 million refers to intangible assets and euro 65 million to fixed assets.

The number of *employees* increased by 332 compared to December 31, 2002 following increases connected with start-up activities.

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

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

The following table shows the key economic highlights for the first quarter of 2003, compared to the first quarter of 2002 and the year of 2002.

	1st Quarter 2003 (a)	1st Quarter 2002 (b)	Year 2002	Change (a) - (b)	
(millions of euro)				amount	%
Sales and service revenues	2,149	1,972	9,022	177	9,0
Gross operating profit	1,136	1,056	4,404	80	7,6
Operating income	880	794	3,153	86	10,8

The increase in *sales and service revenues* was given a boost by the positive performance of voice traffic (+ 5.3% compared to the same period of the prior year) and value-added services (VAS),

1 SUMMARY DATA AND GENERAL INFORMATION	30 DOMESTIC WIRELINE
10 REPORT ON OPERATIONS	34 MOBILE
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A. >>	38 SOUTH AMERICA
55 OTHER INFORMATION	41 INTERNET AND MEDIA
	44 INFORMATION TECHNOLOGY MARKET
	47 INFORMATION TECHNOLOGY GROUP
	50 OTHER ACTIVITIES

which, in the first quarter of 2003, amounted to euro 233 million (+38.7% compared to the first quarter of 2002).

During the first quarter of 2003, VAS revenues represented 11.1% of total revenues from services, compared to 8.6% in the first quarter of 2002.

Revenues from sales of phones, fostered by a range of services that requires hi-tech phones (for example, MMS), reported growth of more than 55%.

The *gross operating profit* shows an increase of 7.6%, compared to the same quarter of the prior year, representing 52.9% of revenues.

The *operating income* rose by 10.8%; the improvement compared to the increase in the gross operating profit is mainly due to lower provisions and depreciation and amortization. In particular, the latter includes euro 30 million for the amortization of the UMTS licenses, compared to euro 42 million in the first quarter of 2002, when the period of the license had not yet been reviewed by the Ministry of Communications. As a result of the review, the period of UMTS licenses was extended from 15 to 20 years.

Activities in the first quarter of 2003:

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

TIM - operating highlights	3/31/2003	3/31/2002	12/31/2002
TIM lines in Italy (thousands)	25,657	24,083	25,302
Mobile traffic (millions of minutes)	8,943	8,766	36,432
GSM penetration in Italy (% of population)	99.8	99.8	99.8
E-TACS penetration in Italy (% of population)	97.9	98.0	98.0

During the first quarter of 2003, TIM continued to develop innovative services with the aim of building customer loyalty and offering users greater incentives for using mobile phones. The most important initiatives are commented as follows:

- the launch of ChiamaOra, a service which, if a TIM number is switched off or cannot be reached, will inform the caller by SMS when the line is available;
- the launch of TIMClick, a service which prints the photographs taken with an MMS mobile phone or converts them to postcards and sends them anywhere in the world.

■ EVENTS SUBSEQUENT TO MARCH 31, 2003

TIM, Telefonica Moviles and T-Mobile International join forces to create an alliance

On April 7, 2003, TIM signed an agreement with Telefónica Móviles and T-Mobile International to supply their customers with a single high-quality range of products and services in the countries where the three companies operate, in order to strengthen their competitive capabilities on international markets.

One of the first results of the alliance, thanks to roaming agreements, is that the partners will be able to develop new joint services for voice, data transmission and mobile Internet, with the aim of acquiring new customers, including private individuals, companies and multinational companies interested in keeping the level of quality of services constant, regardless of the country or operator involved.

The partnership, which will develop joint solutions, will unite the technological and commercial forces of the three companies, thus potentially creating the broadest customer base in the world, with approximately 162 million customers in 25 countries in three continents.

The three companies are in contact with the relevant national and Community authorities at this initial stage of the alliance.

1 SUMMARY DATA AND GENERAL INFORMATION	30 DOMESTIC WIRELINE
10 REPORT ON OPERATIONS	34 MOBILE
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A.	38 SOUTH AMERICA
55 OTHER INFORMATION	41 INTERNET AND MEDIA
	44 INFORMATION TECHNOLOGY MARKET
	47 INFORMATION TECHNOLOGY GROUP
	50 OTHER ACTIVITIES

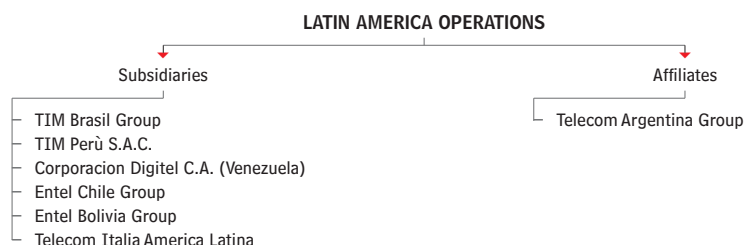
■ SOUTH AMERICA

■ THE BUSINESS UNIT

The Latin America Operations Business Unit coordinates the activities of the Group in Latin America.

In particular, since February 2003, Latin America Operations reports directly to the head of the Mobile Business Unit for Mobile TLC and to the Managing Director Carlo Buora for Wireless TLC.

LAO's structure is organized as follows:



The following commentary provides the main information and presents the key consolidated economic and financial highlights of the Entel Chile group, the Entel Bolivia group, the company Telecom Italia America Latina and the South America business segment of Telecom Italia. The economic and financial highlights of the companies in the Tim Brasil group, Tim Perù and Corporacion Digitel are described in the section pertaining to the Mobile BU.

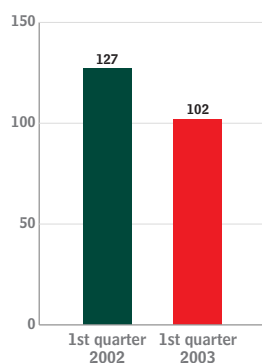
■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

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

■ ECONOMIC AND FINANCIAL DATA

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

Gross operating profit



	1st Quarter 2003 (a)	1st Quarter 2002 (b)	Year 2002	Change (a) - (b)	
(millions of euro)				amount	%
Sales and service revenues	292	370	1,409	(78)	(21.1)
Gross operating profit	102	127	450	(25)	(19.7)
% on Revenues	34.9%	34.3%	31.9%		
Operating income	37	46	146	(9)	(19.6)
% on Revenues	12.7%	12.4%	10.4%		
Investments:					
- industrial	30	70	216	(40)	(57.1)
- differences on consolidation	-	-	-		
Employees at period-end (number) ⁽¹⁾	5,412	5,793	5,461	(49)	(0.9)

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

1 SUMMARY DATA AND GENERAL INFORMATION	30 DOMESTIC WIRELINE
10 REPORT ON OPERATIONS	34 MOBILE
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A. >>	38 SOUTH AMERICA
55 OTHER INFORMATION	41 INTERNET AND MEDIA
	44 INFORMATION TECHNOLOGY MARKET
	47 INFORMATION TECHNOLOGY GROUP
	50 OTHER ACTIVITIES

Sales and service revenues amounted to euro 292 million, a reduction of 21.1% compared to the same period in 2002 (–euro 78 million). The decrease can be attributed mainly to exchange rate fluctuations, which generated a total impact of –euro 101 million (–euro 88 million for the Chilean peso and –euro 13 million for the Bolivian boliviano). Excluding the foreign exchange effect, growth would be euro 23 million, correlated to the increased revenues of the Entel Chile group (+8.1% in local currency), offset by a slight reduction of revenues in Bolivia (–0.8%) and the suspension, with effect from April 1, 2002, of the contribution relative to the management fee contract with Telecom Argentina.

The reduction of consolidated revenues was accompanied by a reduction in the consumption of raw materials and outside services (–21.4%) and in labor costs (–23.5%).

The *gross operating profit* shows a reduction of euro 25 million (–19.7%) compared to the first quarter of 2002, excluding the foreign exchange effect of euro 9 million. As a percentage of revenues, the gross operating profit improved from 34.3% in the first quarter of 2002 to 34.9% in the first quarter of 2003.

The *operating income* was affected by the above-mentioned phenomena and shows a reduction of euro 9 million (–19.6%, with an exchange effect equal to –euro 12 million). In terms of operating income, the ROS was equal to 12.7%, showing a slight increase compared to the first quarter of 2002 (12.4%).

Industrial investments showed a decreasing trend compared to the same period in 2002, with a contraction of 57.1% which can be attributed to the plans to rationalize expenditures in the main subsidiaries.

At March 31, 2003, the number of *employees*, equal to 5,412, showed a reduction of 49 (–0.9%) compared to the number at December 31, 2002. This was mainly due to the continuation of the measures to rationalize internal resources begun in 2002 by the Entel Chile and Entel Bolivia groups (a reduction, respectively, of –63 and –14 compared to the figure at December 31, 2002) and the increase of 30 employees reported by Telecom Italia America Latina.

■ EVENTS SUBSEQUENT TO MARCH 31, 2003

Having obtained the necessary authorizations, on April 14, 2003, Telecom Argentina, the company in which Telecom Italia and Telecom Italia International hold a 13.97% stake through Nortel Inversora, and its subsidiary, Telecom Personal, officially announced the intention to launch an offer to purchase a portion of its financial debt for cash and to effect a partial payment of the interest due.

The transactions described above constitute the beginning of the restructuring of the financial debt of the Telecom Argentina Group.

* * *

1 SUMMARY DATA AND GENERAL INFORMATION	30 DOMESTIC WIRELINE
10 REPORT ON OPERATIONS	34 MOBILE
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A. >>	38 SOUTH AMERICA
55 OTHER INFORMATION	41 INTERNET AND MEDIA
	44 INFORMATION TECHNOLOGY MARKET
	47 INFORMATION TECHNOLOGY GROUP
	50 OTHER ACTIVITIES

In order to present an overall picture of **Latin America Operations (LAO)**, the following table shows the key economic and financial highlights of all the companies operating in wireline and mobile telephone services in South America in the first quarter of 2003, compared to the first quarter of 2002 and the year of 2002, restated for purposes of comparison.

	1st Quarter 2003 (a)	1st Quarter 2002 (b)	Year 2002	Change (a) - (b)	
(millions of euro)				amount	%
Sales and service revenues	584	758	2,706	(174)	(23.0)
Gross operating profit	165	241	724	(76)	(31.5)
% on Revenues	28.3%	31.8%	26.8%		
Operating income	14	44	48	(30)	(68.2)
% on Revenues	2.4%	5.8%	1.8%		
Investments:					
- industrial	106	257	757	(151)	(58.8)
- differences on consolidation					
Employees at period-end (number) ⁽¹⁾	12,794	11,977	12,511	283	2.3

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

1 SUMMARY DATA AND GENERAL INFORMATION	30 DOMESTIC WIRELINE
10 REPORT ON OPERATIONS	34 MOBILE
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A.	38 SOUTH AMERICA
55 OTHER INFORMATION	41 INTERNET AND MEDIA
	44 INFORMATION TECHNOLOGY MARKET
	47 INFORMATION TECHNOLOGY GROUP
	50 OTHER ACTIVITIES

■ INTERNET AND MEDIA

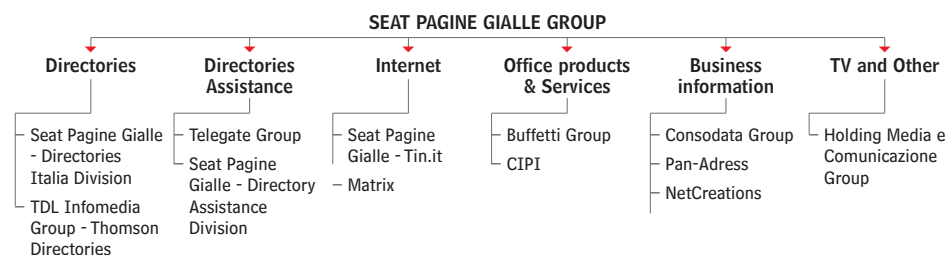
- ▶ **Sharp increase in profitability: gross operating profit reaches 13.6% (8.1% in the first quarter of 2002)**
- ▶ **Start of the spin-off of the Directories, Directory Assistance and Business Information businesses directed to their subsequent divestiture**

■ LA BUSINESS UNIT

The Internet and Media Business Unit leads the field in telephone publishing in Italy and is the second largest telephone publishing group in the United Kingdom with a market share of 14%. In Directory Assistance, the group operates the 89.24.24 Pronto Pagine Gialle 24-hour service in Italy and has a market share of more than 30% in Germany. At the same time, Seat Pagine Gialle also operates in the Internet sector (where it promotes the development of all Internet services for residential customers and small and medium-size companies: access, portals and web services), in the marketing of office products and services (through the Buffetti Group) and in the television sector with La7 and MTV Italia. During the meeting held on April 1, 2003, the Board of Directors of Seat Pagine Gialle approved the plan for the partial proportional spin-off of the corporate complex consisting of the telephone publishing, Directory Assistance and Business Information businesses to a newly formed company. These activities are no longer regarded by Telecom Italia as being strategic to the core business of the Group.

■ THE STRUCTURE OF THE BUSINESS UNIT

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



■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

As described above, on April 1, 2003, the Board of Directors of Seat Pagine Gialle approved the plan for the partial proportional spin-off of Seat Pagine Gialle S.p.A. (the "spun-off" company) to a newly formed company (the "beneficiary" company), on the basis of the balance sheet data of the spun-off company at December 31, 2002. If the plan is approved by the shareholders of Seat Pagine Gialle, the beneficiary company will receive the corporate complex principally composed of the following business segments: Directories (consisting of the Italian operations in telephone publishing and the stakes held in TDL Infomedia and Thomson), Directory Assistance (89.24.24 Pronto Pagine Gialle and Telegate) and Business Information (Consodata group).

The spun-off company will take the new name of Telecom Italia Media whereas the beneficiary

1 SUMMARY DATA AND GENERAL INFORMATION	30 DOMESTIC WIRELINE
10 REPORT ON OPERATIONS	34 MOBILE
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A. >>	38 SOUTH AMERICA
55 OTHER INFORMATION	41 INTERNET AND MEDIA
	44 INFORMATION TECHNOLOGY MARKET
	47 INFORMATION TECHNOLOGY GROUP
	50 OTHER ACTIVITIES

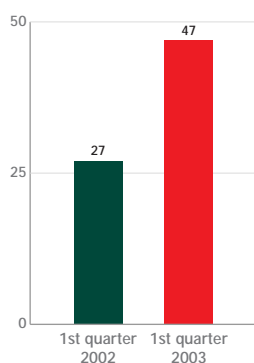
company will take the name of Seat Pagine Gialle. On the basis of the plan of spin-off, when the transaction becomes effective, the shareholders of Seat Pagine Gialle will be assigned, for every 40 ordinary (savings) held:

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

ECONOMIC AND FINANCIAL DATA

The following table shows the key highlights of the first quarter of 2003, compared to the first quarter of 2002 and the year 2002.

Gross operating profit



	1st Quarter 2003 (a)	1st Quarter 2002 (b)	Year 2002	Change (a) - (b)	
(millions of euro)				amount	%
Sales and services revenues	345	333	1,991	12	3.6
Gross operating profit	47	27	593	20	74.1
% of revenues	13.6%	8.1%	29.8%		
Operating income (loss)	(35)	(69)	232	34	
% of revenues	-	-	11.7%		
Investments:					
- industrial	20	14	81	6	42.9
- differences on consolidation	21	-	40	21	°
Employees at period-end (number) ⁽¹⁾	7,559	8,740	7,715	(156)	(2.0)

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

In an economic context that was still extremely difficult, the consolidated *revenues* of the first quarter of 2003 of the Seat Group increased by 3.6% compared to the same period of the prior year, thanks, in particular, to the positive performance of Internet services and revenue growth of 2.1% from the Directories business.

The *gross operating profit* increased significantly, from euro 27 million in the first quarter of 2002 to euro 47 million in the first quarter of 2003, thanks to improvements in almost all areas of business and, in particular, in the areas of the Internet, Directories and Television.

The *operating result* improved considerably, from the loss of euro 69 million in the first quarter of 2002 to a loss of euro 35 million in the first quarter of 2003, thanks partly to the reduction of adjusting provisions resulting from a more effective management of credit.

Industrial investments made in the first quarter of 2003 amounted to a total of euro 20 million, with an increase of euro 6 million compared to the same period of the prior year.

At March 31, 2003, the number of *employees* was 7,559 (7,715 at December 31, 2002).

INFORMATION ON OPERATIONS

During the first quarter, in addition to continuing to improve efficiency, Seat Pagine Gialle strengthened its presence on the markets in which it operates thanks to a dynamic sales strategy and to its portfolio of highly acclaimed trademarks. In particular, it continued to publish the new editions of PagineGialle® and PagineBianche®, which began last year in October with the Rome editions and which is scheduled for completion in October of the current year.

1 SUMMARY DATA AND GENERAL INFORMATION	30 DOMESTIC WIRELINE
10 REPORT ON OPERATIONS	34 MOBILE
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A. >>	38 SOUTH AMERICA
55 OTHER INFORMATION	41 INTERNET AND MEDIA
	44 INFORMATION TECHNOLOGY MARKET
	47 INFORMATION TECHNOLOGY GROUP
	50 OTHER ACTIVITIES

■ SEAT PAGINE GIALLE S.P.A.

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

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

The table shows the economic highlights for the first quarter of 2003, compared to the first quarter of 2002 and the year 2002:

	1st Quarter 2003 (a)	1st Quarter 2002 (b)	Year 2002	Change (a) - (b)	
(millions of euro)				amount	%
Sales and service revenues	175	141	1,152	34	24.1
Gross operating profit	50	39	545	11	28.2
Operating income (loss)	4	(17)	348	21	°

During the first quarter of 2003, Seat Pagine Gialle S.p.A. reported an increase in *revenues* of 24.1%, from euro 141 million in the first quarter of 2002 to euro 175 million in the first quarter of 2003.

Despite the fact that the recession in the Italian advertising market continued during the early months of 2003, revenues from the Italian Directories business increased by 2.8% (on a comparable consolidation basis) reaching euro 117 million, thanks to product innovations recently introduced, the efforts of the commercial network and measures implemented to encourage customer loyalty and counter the negative economic situation.

The considerable increase in the revenues of Tin.it, due to the increase in access revenues, the introduction of Decade 7 (full title to the phone charges), and the series of measures to rationalize activities gave a significant boost both to the *gross operating profit* which, during the first quarter of 2003, reached euro 50 million, compared to euro 39 million in the first quarter of 2002, and the *operating income* of euro 4 million, compared to an operating loss of euro 17 million in the first quarter of 2002.

1 SUMMARY DATA AND GENERAL INFORMATION	30 DOMESTIC WIRELINE
10 REPORT ON OPERATIONS	34 MOBILE
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A. >>	38 SOUTH AMERICA
55 OTHER INFORMATION	41 INTERNET AND MEDIA
	44 INFORMATION TECHNOLOGY MARKET
	47 INFORMATION TECHNOLOGY GROUP
	50 OTHER ACTIVITIES

■ INFORMATION TECHNOLOGY MARKET

- ▶ Acquisition of important new bids
- ▶ Continuation of measures to improve efficiency and reduce costs

■ INTRODUCTION

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

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

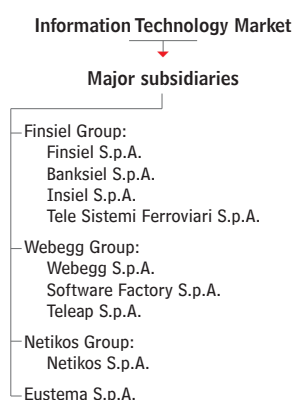
The product range of the ITM BU is organized as a matrix: vertical markets and cross-market components. Its product range covers the whole ICT chain of value and is based upon a knowledge of the markets, organizations and their processes, and the integration of market platforms.

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

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

■ THE STRUCTURE OF THE BUSINESS UNIT

With effect from January 1, 2003, the Business Unit is organized as follows:



■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

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

- beginning January 1, 2003, the Netikos group (including Netikos S.p.A. and Netikos Finland Oy), the Webegg group (including Webegg S.p.A., Domus Academy S.p.A., @Live S.p.A., Winner Project B.V., Software Factory S.p.A. and Telemedia Applicazioni S.p.A.), and Eustema S.p.A., previously consolidated by the IT Group, became part of the IT Market business unit.

1 SUMMARY DATA AND GENERAL INFORMATION	30 DOMESTIC WIRELINE
10 REPORT ON OPERATIONS	34 MOBILE
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A. >>	38 SOUTH AMERICA
55 OTHER INFORMATION	41 INTERNET AND MEDIA
	44 INFORMATION TECHNOLOGY MARKET
	47 INFORMATION TECHNOLOGY GROUP
	50 OTHER ACTIVITIES

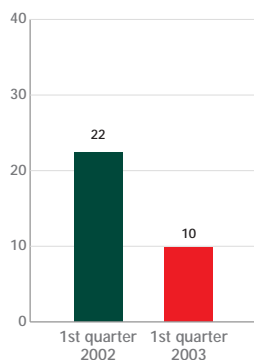
- in 2002, moreover, companies that exited the scope of consolidation, because of their sale, included Sogei S.p.A. (consolidated for the first six months of 2002) and Consiel S.p.A. (consolidated for the first eight months of 2002).

■ ECONOMIC AND FINANCIAL DATA

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

- **1st Quarter 2003 (Column 1)** refers to the current scope of consolidation of the IT Market BU.
- **1st Quarter 2002 (Column 2)** includes data for Sogei S.p.A. and Consiel S.p.A., as well as data for the Netikos group and Eustema; the Webegg group is not included in the scope of consolidation since the Telecom Italia Group acquired the stake in the company after the first quarter of 2002.
- **1st Quarter 2002 (Column 3)** has been restated by excluding data relating to Sogei S.p.A. and Consiel S.p.A.; the figures include the Webegg group, the Netikos group and Eustema.
- **2002 (Column 4)** includes the Finsiel group, economic data of Sogei for the first six months of the year and economic figures for Consiel for the first eight months of the year, the Netikos group, the Webegg group (for the last six months of 2002, since Telecom Italia acquired the stake in the company at the end of June 2002) and Eustema S.p.A..

Gross operating profit



	1st Quarter 2003 (1) (a)	1st Quarter 2002 (2)	1st Quarter 2002 (3) (b)	Year 2002 (4)	Change (a - b)	
(millions of euro)					amount	%
Sales and service revenues	156	278	188	994	(32)	(17.0)
Gross operating profit	10	33	22	111	(12)	(54.5)
% on Revenues	6.4%	11.9%	11.7%	11.2%		
Operating income	0	25	14	61	(14)	
% on Revenues		9.0%	7.4%	6.1%		
Investments:						
- industrial	6	5	5	38	1	20.0
- differences on consolidation						
Employees at period-end (number) (*)	5,478	6,689	5,819	5,506	(28)	(0.5)

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

Sales and service revenues decreased by euro 32 million compared to the same period of the prior year on a comparable consolidation basis. This can mainly be attributed to the reduction in the revenues of Finsiel, resulting from lower volumes and the generalized reduction in prices charged to the main customers, and to a contraction in the revenues of the Webegg group and, to a lesser extent, of Banksiel. This contraction was offset by an increase from the rise in the activities of Eustema and Eis, and the effect of the contributions made by Agrisiel.

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

Industrial investments, which can mainly be ascribed to Tele Sistemi Ferroviari, Finsiel and Insiel, showed an increase of euro 1 million.

At March 31, 2003, the number of *employees* presented a reduction of 28 compared to the number at December 31, 2002.

1 SUMMARY DATA AND GENERAL INFORMATION	30 DOMESTIC WIRELINE
10 REPORT ON OPERATIONS	34 MOBILE
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A. >>	38 SOUTH AMERICA
55 OTHER INFORMATION	41 INTERNET AND MEDIA
	44 INFORMATION TECHNOLOGY MARKET
	47 INFORMATION TECHNOLOGY GROUP
	50 OTHER ACTIVITIES

■ INFORMATION ON OPERATIONS

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

Finsiel:

- **Finsiel** won the bid to develop and manage the new **Information System for the Ministry of Education** in full outsourcing for five years. The consortium of companies to which Finsiel belongs will design an information system which will be disseminated to teachers, families and students who will be able to interact with the system wherever they are, at school or at home;
- Finsiel also won the bid for an **Information System for Health Care and Social Services** and a **Regional Services Card for the Lombardy Region** under a seven-year contract, which involves the design of a network incorporating all the facilities and operators of health care and social services, as well as new services which the public can access through a Regional Health Care Card. Following the award of the bid, in February, Finsiel acquired a minority stake in LISIT S.p.A.;
- the Ministry of Health has entrusted Finsiel with the operation of the information system of the **National Transplant Center**, which Finsiel has been involved in developing over the last three years;
- the bid for the whole project to create the **portal for Italy's six-month Presidency of the European Union** was won by Finsiel as the head of a consortium of companies which brings together the top expertise in the sphere of portals for the public;
- Finsiel won the bid launched by the Emilia Romagna Regional Authority to create **applications software for a doctors' network** of general practitioners and pediatricians operating under the socialized health care scheme;
- in a consortium with the company Engineering, Finsiel won the Consip bid for the development and maintenance of the Personnel Treasure Service;
- within the sphere of the Enterprise area, Finsiel acquired the customer SEA with a contract to **manage accounting systems** on the SAP platform.

Other companies:

- on January 30, 2003, along with Ferrovie dello Stato S.p.A., Trenitalia S.p.A., Rete Ferroviaria Italiana S.p.A. and Metropolis S.p.A., Tele Sistemi Ferroviari signed the new outsourcing contracts which replace the prior outsourcing contract with the companies of Italian State railways;
- in January 2003, Tele Sistemi Ferroviari won the bid announced by the Autonomous Province of Trento to supply an **electronic ticketing system** for local transport, along with an information system about local transport for public consultation;
- in January 2003, the **"BILTEC" project** being conducted by Banksiel and Finsiel is continuing successfully in the area of Economy for Banca d'Italia. An application has been created which makes it possible to determine the accruals in respect of termination pay for the employees of Banca d'Italia and UIC.

1 SUMMARY DATA AND GENERAL INFORMATION	30 DOMESTIC WIRELINE
10 REPORT ON OPERATIONS	34 MOBILE
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A. >>	38 SOUTH AMERICA
55 OTHER INFORMATION	41 INTERNET AND MEDIA
	44 INFORMATION TECHNOLOGY MARKET
	47 INFORMATION TECHNOLOGY GROUP
	50 OTHER ACTIVITIES

■ INFORMATION TECHNOLOGY GROUP

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

■ THE OPERATING ACTIVITY

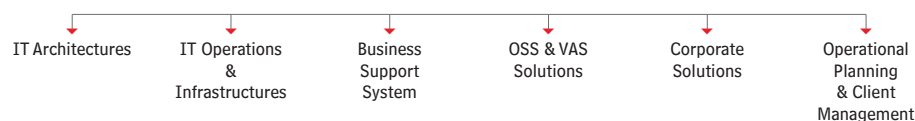
The Information Technology Group Operating Activity is responsible for organizing technological innovation and service information technology activities within the Telecom Italia Group. This new operating activity, which came about as the result of merging five previous corporate structures, operates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

■ THE STRUCTURE OF THE OPERATING ACTIVITY

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



The Operating Activity is organized as follows:



The new operating activity is organized into six production divisions:

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

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

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

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

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

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

1 SUMMARY DATA AND GENERAL INFORMATION	30 DOMESTIC WIRELINE
10 REPORT ON OPERATIONS	34 MOBILE
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A. >>	38 SOUTH AMERICA
55 OTHER INFORMATION	41 INTERNET AND MEDIA
	44 INFORMATION TECHNOLOGY MARKET
	47 INFORMATION TECHNOLOGY GROUP
	50 OTHER ACTIVITIES

■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

On January 1, 2003 the new operating activity IT Telecom S.p.A. became operational. The company was the result of the merger by incorporation of Netsiel S.p.A., Saritel S.p.A., Sodalìa S.p.A. and Telesoft S.p.A., the accounting activities of which have been transferred to the Administrative Services Center of the Group.

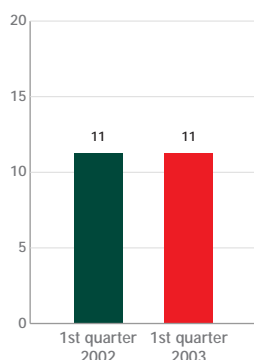
The following major corporate events and changes in the scope of consolidation took place during the first quarter of 2003:

- with effect from January 1, 2003, the Netikos group, the Webegg group, the TI Lab group, Loquendo and Eustema are no longer included in the scope of consolidation of the Group's IT operational activities. The TILab group became part of Other Activities, Loquendo is now in Domestic Wireline, while the other companies were taken into the IT Market business unit. The 2002 figures have been restated for purposes of comparison;
- in February 2003, Telecom Italia and Hewlett-Packard reached an agreement in the area of Management Services & Outsourcing for a total value of euro 225 million. Under the terms of this agreement, HP will supply asset management, help desk, maintenance and workstation management, while IT Telecom will manage HP Italia's operational activities in the SAP environment, housing the systems in its Data Centers. On April 16, 2003, the agreement became operational and, on the same date, the contract was finalized for the sale of IT Telecom's Desktop Management services business segment to HP DCS (Distributed Computing Services);
- on March 28, 2003, the subsidiary Telesoft Hellas was sold to STET Hellas;
- TecoSoft España (formerly a wholly-owned subsidiary of Telesoft S.p.A.) was sold on July 31, 2002; the figures for the first quarter of 2002 also include the results of this company;
- on January 1, 2003, Epiclink S.p.A. was included in the scope of consolidation although still controlled by Telecom Italia S.p.A., it is managed by the IT Group BU.

■ ECONOMIC AND FINANCIAL DATA

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

Gross operating profit



	1st Quarter 2003 (a)	1st Quarter 2002 (b)	Year 2002	Change (a) - (b) amount	%
(millions of euro)					
Sales and service revenues	229	168	996	61	36.3%
Gross operating profit	11	11	98	–	
% on Revenues	4.8%	6.5%	9.8%		
Operating loss	(23)	(12)	(40)	(11)	(91.7%)
% on Revenues	°	°	°		
Investments:					
- industrial	12	7	149	5	71.4%
- differences on consolidation					
Employees at period-end (number) ⁽¹⁾	5,059	5,141	5,039	20	0.4%

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

Consolidated revenues showed an increase of euro 61 million compared to the first quarter of 2002, associated with higher volumes of work on business systems, operational systems and institutional projects, as well as the conclusion of some projects which were still in progress at December 31, 2002, namely projects for the Domestic Wireline segment of Telecom Italia on Broadband, UNICA TD and Order Manager.

1 SUMMARY DATA AND GENERAL INFORMATION	30 DOMESTIC WIRELINE
10 REPORT ON OPERATIONS	34 MOBILE
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A. >>	38 SOUTH AMERICA
55 OTHER INFORMATION	41 INTERNET AND MEDIA
	44 INFORMATION TECHNOLOGY MARKET
	47 INFORMATION TECHNOLOGY GROUP
	50 OTHER ACTIVITIES

The *gross operating profit*, which remained unchanged in absolute terms, and the *operating loss* reflect the fall in prices which took place in the second half of 2002 and the increase in depreciation as a result of higher investments in infrastructure activities, mainly in the second half of 2002.

Investments were higher than in the same period of the prior year on account of the continuation of infrastructure projects begun in 2002.

■ INFORMATION ON OPERATIONS

During the first quarter of 2003, attention was focused on the development and design of systems. In particular, work continued on the **CRM** - Customer Relation Manager - of residential and business customers, (management of sales channels, marketing of service plans and invoicing), **USAGE Collection** (data traffic management), **DWH** - Data WareHouse - Market (supplying a univocal view, certified by the size of data on traffic and an analysis of the behavior of Telecom Italia's clientele), **Service Assurance** of business customers and **Order Management** (management of the Alice range of services for residential customers and the range of services for the business clientele).

Other activities included the **Centralized Control Room** which, since it became operational in December 2002, has undertaken the monitoring of external systems and CRM Residential and Business solutions, and **Data Center Consolidation** for which the consolidation of the main frame environments has been completed. Furthermore, the operating plan for implementing **business continuity** is nearing completion.

The task of renovating or replacing local networks and geographical connections on Group premises has begun, with the implementation of solutions which ensure the necessary level of security with regard to communications.

1 SUMMARY DATA AND GENERAL INFORMATION	30 DOMESTIC WIRELINE
10 REPORT ON OPERATIONS	34 MOBILE
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A. >>	38 SOUTH AMERICA
55 OTHER INFORMATION	41 INTERNET AND MEDIA
	44 INFORMATION TECHNOLOGY MARKET
	47 INFORMATION TECHNOLOGY GROUP
	50 OTHER ACTIVITIES

■ OTHER ACTIVITIES

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

TELECOM ITALIA LAB

► Creation of a new Operating Activity to promote Group innovation

■ THE OPERATING ACTIVITY

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

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

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

■ THE STRUCTURE OF THE OPERATING ACTIVITY

The Operating Activity is organized as follows:



The Operating Activity operates with the following organization:



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

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

■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

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

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

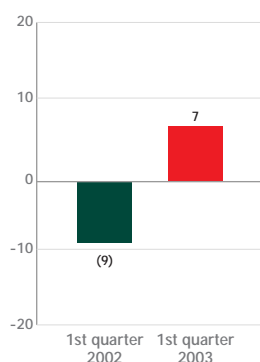
1 SUMMARY DATA AND GENERAL INFORMATION	30 DOMESTIC WIRELINE
10 REPORT ON OPERATIONS	34 MOBILE
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A. >>	38 SOUTH AMERICA
55 OTHER INFORMATION	41 INTERNET AND MEDIA
	44 INFORMATION TECHNOLOGY MARKET
	47 INFORMATION TECHNOLOGY GROUP
	50 OTHER ACTIVITIES

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

ECONOMIC AND FINANCIAL DATA

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

Gross operating profit



	1st Quarter 2003 (a)	1st Quarter 2002 (b)	Year 2002	Change (a) - (b)	
(millions of euro)				amount	%
Sales and service revenues	34	23	155	11	47.8
Gross operating profit (loss)	7	(9)	31	16	
% on Revenues	20.6 %	°	20.0%		
Operating income (loss)	2	(14)	9	16	
% on Revenues	5.9 %	°	5.8%		
Investments:					
- industrial	1	1	13	-	
- differences on consolidation	-	-	-	-	
Employees at period-end (number) ⁽¹⁾	1,201	1,250	1,224	(23)	(1,9)

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

Revenues increased by approximately euro 11 million, already in the first quarter of 2003, both as a result of revenues from subscription fees charged for access to technological resources, which support the Group's medium- and long-term research, and higher sales and service revenues from DW, TIM and IT Telecom.

The gross operating profit and the *operating income* improved as a result of the growth in revenues, the increase in grants for research distributed by national and international organizations, and a lower consumption of raw materials and outside services due to the policy to reduce costs pursued in 2003.

Industrial investments remained in line with those of the prior year.

At March 31, 2003, the number of *employees* was 23 lower than the number at December 31, 2002.

INFORMATION ON OPERATIONS

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

In this context, TI Lab's role as a driver of innovation for the Group produced significant results even in the first quarter of 2003, during which R&D activities, conducted in cooperation with Pirelli Labs, involved the following main reference contexts/environments:

- Use environment and terminals;
- Services and applications

1 SUMMARY DATA AND GENERAL INFORMATION	30 DOMESTIC WIRELINE
10 REPORT ON OPERATIONS	34 MOBILE
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A. >>	38 SOUTH AMERICA
55 OTHER INFORMATION	41 INTERNET AND MEDIA
	44 INFORMATION TECHNOLOGY MARKET
	47 INFORMATION TECHNOLOGY GROUP
	50 OTHER ACTIVITIES

- Control of network protocols and equipment
- Network: access, metro and core
- Management and operating processes of the BUs

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

- Network innovation
- Mobile services
- Broadband services

Within this framework, about 40 medium- and long-term projects have been agreed with the BUs of the Telecom Italia Group (lasting between one and three years) as well as more than 100 short- and medium-term projects and activities. The latter include activities relating to VAS, SMS, MMS and TELCO capabilities in the sphere of mobile and access services and Broadband services (in terms of modes of access, content and ways of protecting content, testing proposals for DTT), as well as intelligent networks in the wireline environment.

The most significant activities started in the sphere of research include the following projects: StarSip, Multi Access-Mobile Networking, MultiService IP Control, New Telephony, MultiServices IP Access&Metro, NextBox, Access Gateway, GUITAR, Management of QoS radio resources in mobile networks, Next Generation IP Optical Network, Models of multi-service traffic and the development of mobile design methodologies, Radio Over Fiber and Enhanced USIM. During the first quarter of 2003, significant results were achieved as follows:

- in testing, at two TI LAB sites of data-recovery services using fiber-optic connections with a storage services center;
- in the launch, with 130 voluntary users, of trials for services and equipment for Home Networking in order to assess hi-tech solutions for user environments (terminals, domestic cabling and applications platforms).

It is worth emphasizing that, compared to 2002, there was an increase in the number of research activities conducted in collaboration with Pirelli Labs. Now, in 2003, there are 14 joint projects in progress involving more than 100 TI LAB employees. During the first months of 2003, these joint projects generated the following important achievements:

- launch of testing of the Access Gateway
- testing of the first ROF module
- updating of 3G planning tools for the study of the applications of cryogenic receivers and the size of the network

The following projects also deserve a mention:

- the start of Vendor Management activities which, during the course of the year, will lead to the creation of a common database within the Group providing information about the main vendors and alternatives for the various sectors of the network;
- the definition (still being completed) of a development program with ITALTEL and DW of the StarSip platform for the delivery of integrated voice and data services on the network.

REAL ESTATE AND GENERAL SERVICES

With effect from February 2003, the real estate activities and general services previously managed by the Real Estate and General Services Operating Activity, became part of the Central Functions, ensuring continuity in the role of interface among the various corporate Functions/Business Units in order to meet the requirements of real estate and general services. In particular, the above-mentioned activities and services concern the planning of the sites and locations of the Group, the design and construction of civil works, the maintenance of the

1 SUMMARY DATA AND GENERAL INFORMATION	30 DOMESTIC WIRELINE
10 REPORT ON OPERATIONS	34 MOBILE
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A. >>	38 SOUTH AMERICA
55 OTHER INFORMATION	41 INTERNET AND MEDIA
	44 INFORMATION TECHNOLOGY MARKET
	47 INFORMATION TECHNOLOGY GROUP
	50 OTHER ACTIVITIES

properties and technological plant, in addition to providing real estate and general services, both through internal structures – essentially for the activities conducted on behalf of the Business Units and Functions of the Telecom Italia Group – and through the subsidiary Emsa Servizi S.p.A., which, for the most part, gears its activities towards the other companies in the Group.

The following table shows the key highlights for the first quarter of 2003, compared to the first quarter of 2002 and the year 2002. The figures take into account the exchanges among the functions of Telecom Italia S.p.A..

	1st Quarter 2003 (a)	1st Quarter 2002 (b)	Year 2002	Change (a) - (b)	
(millions of euro)				amount	%
Sales and service revenues	166	204	846	(38)	(18.6)
Operating costs	(163)	(188)	(758)	(25)	(13.3)
Gross operating profit	3	16	88	(13)	(81.3)
% on Revenues	1.8%	7.8%	10.4%		
Operating loss	(38)	(34)	(92)	(4)	(11.8)

Compared to the first quarter of 2002, *revenues* decreased by euro 38 million. This can be attributed mainly to the continuation of rationalization activities involving the premises occupied by customers and the change in pricing policies for some of the services supplied.

Operating costs were euro 163 million during the first quarter of 2003 and benefited from a contraction of euro 25 million compared to the same period of the prior year thanks to far-reaching measures to contain the costs of materials and services and labor costs, which were partly offset by the higher cost of rent expenses resulting from the sale of real estate properties associated with Progetto Tiglio, within the framework of the policy of leveraging the real estate assets of the Group.

Consequently, the *gross operating profit*, equal to euro 3 million, decreased by euro 13 million compared to the first quarter of 2002.

The *operating loss* was euro 38 million (an operating loss of euro 34 million in the same period of 2002).

Furthermore, during the first quarter of 2003, work continued on the projects mentioned below:

■ PROGETTO ORTENSIA

On March 4, 2003 Telecom Italia and the other shareholders of Tiglio I (MSMC Italy Holding BV, Olivetti, Seat Pagine Gialle and Pirelli) and Tiglio II (POPOY Holding B.V.), formalized a binding agreement with the company Marzotto and Pirelli & C. Real Estate relating to the development of the company known as Ortensia within the framework of the project Tiglio Aree.

This project involves the transfer (through a spin-off) of the land owned by Tiglio I and Tiglio II to a vehicle company, Ortensia S.r.l., which owns land (following the contribution of a business segment), from the Marzotto Group, according to the terms of the preliminary agreement formalized on December 23, 2002.

As a result of the transactions described above, which must be completed by June 30 of the current year, Telecom Italia will own 27.6% of the share capital of Ortensia, in addition, at Group level, to the 1% stake that will be held by Seat Pagine Gialle: the size of the investment is commensurate with the value of the real estate assets transferred to Ortensia.

1 SUMMARY DATA AND GENERAL INFORMATION	30 DOMESTIC WIRELINE
10 REPORT ON OPERATIONS	34 MOBILE
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A. >>	38 SOUTH AMERICA
55 OTHER INFORMATION	41 INTERNET AND MEDIA
	44 INFORMATION TECHNOLOGY MARKET
	47 INFORMATION TECHNOLOGY GROUP
	50 OTHER ACTIVITIES

■ PROGETTO DEDALO

At the end of January 2003, the procedures were completed for the early purchase of 12 property units under financial leasing contracts (for about 300,000 m³) from Teleleasing S.p.A. that are used by Telecom Italia S.p.A. and other Group companies. The deal, as far as the property belonging to Telecom Italia S.p.A. is concerned, involved a total payment of some euro 263 million (some euro 369 million for the entire Group).

Negotiations are being held with operators in the sector with the aim of selling these properties.

FOREIGN HOLDINGS

The central function Foreign Holdings, operating under the corporate control structure, heads up the companies Telecom Italia International, the BBNed group, and the affiliated companies Telekom Austria, Telekom Srbija, Etec S.A. and Netco Redes. The function ensures the coordination, leveraging and rationalization of the foreign holdings held by Telecom Italia operating in the fixed and integrated fixed-mobile TLC business.

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

	1st Quarter 2003 (a)	1st Quarter 2002 (b)	Year 2002	Change (a) - (b) amount	%
(millions of euro)					
Sales and service revenues	9	98	214	(89)	(90.8)
Gross operating loss	(4)	(25)	(49)	21	(84.0)

The above data refers to the BBNed group and Telecom Italia International. The first quarter of 2002 and the year of 2002 included, respectively, three months and six months of the line-by-line consolidation of the 9Telecom group, which was sold in August 2002. The periods are therefore not comparable.

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

- On January 20, 2003, Telecom Italia International did not subscribe to the share capital increase decided on December 16, 2002 by the Shareholders' Meeting of the subsidiary Euskaltel, thus reducing its stake in the company from 15.26% to 13.85%.
- Following the acceptance by Telecom Italia International of the Bona Fide Offer made on December 28, 2002, a Share Purchase Agreement was signed on February 20, 2003 by Telecom Italia International and PE PTT Srbija for the sale of the entire stake held by Telecom Italia International in Telekom Srbija, corresponding to 29% of the share capital of the latter company, for a total price of euro 195 million. The closing is scheduled to take place by the end of June 2003, subsequent to the payment of a first installment of euro 120 million. The share certificate – which represents all the shares and corresponds to 29% of the share capital of Telekom Srbija held by Telecom Italia International – was deposited with an escrow agent in order to guarantee the payment by PE PTT Srbija of the whole sum agreed by the two parties.

1 SUMMARY DATA AND GENERAL INFORMATION	55 THE REGULATORY FRAMEWORK
10 REPORT ON OPERATIONS	57 PENDING LITIGATION
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A.	
55 OTHER INFORMATION	>>

■ THE REGULATORY FRAMEWORK

The new regulatory framework will be governed by new standards which will be introduced to the national regulations by incorporating the EC directives referred to in the "99 Review" relating to electronic communications networks and services (directives on "Access", "Authorizations", "Framework", "Universal Service", "Data Protection" and "Competition"). The new standards will be included in the national regulatory framework by July 24, 2003. In this connection, Law No. 166 of August 1, 2002 gave the Government a mandate to implement the new directives and to adopt a code of legal and regulatory measures in the field of TLC. Furthermore, the European Commission published the Recommendation on relevant product and service markets in electronic communications, as well as Guidelines for market analysis and the evaluation of significant market power.

There follows a brief description of the main standards adopted during the first quarter of 2003.

■ X-DSL SERVICES

In Resolution 06/03/CIR of April 15, 2003, the National Regulatory Agency approved the new prices of Telecom Italia's range of wholesale x-DSL services, that is, the intermediate services which operators must acquire from Telecom Italia in order to supply ADSL to the public, unless they have their own infrastructures or use unbundling. The new range of services includes price reductions for ADSL access, the introduction of longer time-scales for starting to market new wholesale services, the specification of the factors used to define the price of wholesale services based on the retail-minus principle, and the integration of an operators' Service Level Agreement with regard to the disactivation of services.

■ INTERCONNECTION AND LOCAL LOOP UNBUNDLING

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

■ MAXIMUM COSTS OF FIXED-MOBILE CALLS

In Resolution 47/03/CONS of February 5, 2003, the National Regulatory Agency approved the new maximum costs, with effect from June 1, 2003, for calls from a wireline phone to a mobile phone. The new prices include a reduction of rates for termination and retention.

With regard to the latter component, the National Regulatory Agency has also ordered that it should be included in the new basket of final services subjected to the price-cap mechanism, which is currently being worked out.

1 SUMMARY DATA AND GENERAL INFORMATION	55 THE REGULATORY FRAMEWORK
10 REPORT ON OPERATIONS	57 PENDING LITIGATION
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A.	
55 OTHER INFORMATION	>>

■ NATIONAL FREQUENCY PLAN FOR DIGITAL TV

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

■ NATIONAL PLAN FOR SHARING FREQUENCIES

In the Ministerial Decree approved on February 20, 2003, the Minister of Communications approved changes to the previous plan by extending the use of frequencies for Radio-Lan and Hiperlan systems to the public. Use of such systems by the public will be regulated by a special set of regulations which are currently being drawn up by the Ministry concerned.

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

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

■ EVOLUTION OF THE EC REGULATORY FRAMEWORK

New directives have been published that are referred to in the "99 Review":

- Directive 2002/19/CE concerning access to electronic communications networks and related resources, and interconnection of the said networks (known as the "Access" directive);
- Directive 2002/20/CE concerning authorizations for electronic communications networks and services (known as the "Authorizations" directive);
- Directive 2002/21/CE which establishes a common regulatory framework for electronic communications networks and services (known as the "Framework" directive);
- Directive 2002/22/CE concerning the universal service and the rights of users with regard to electronic communications networks and services (known as the "Universal Service" directive).
- Directive 2002/58/CE on the treatment of personal information and on the safeguarding of privacy (known as the "Data Protection" directive)
- Directive 2002/77/CE on competition in the markets of electronic communications networks and services (known as the "Competition" directive).

1 SUMMARY DATA AND GENERAL INFORMATION	55 THE REGULATORY FRAMEWORK
10 REPORT ON OPERATIONS	57 PENDING LITIGATION
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A.	
55 OTHER INFORMATION >>	

■ PENDING LITIGATION

The following comments update the information disclosed in the Annual Report 2002 on major pending litigation in which the Telecom Italia Group is involved.

■ IS-TIM

On March 31, 2003, a request for arbitration was filed with the International Chamber of Commerce of Paris by the subsidiary IS Tim against the local telecommunications regulatory agency in order to ascertain the violation of the concession granted in October 2000 wherein it is stated that the agency has the obligation to create and maintain market conditions such as to permit effective competition among the providers.

IS TIM has asked for compensation of damages from the agency that are provisionally quantifiable in U.S. \$2.5 billion and to be ascertained during the course of the case. Moreover, the company has expressly stated that it will ask, at some future date, for the resolution of the concession contract and the consequent restitution of the price that was once paid.

The arbitration, governed by Turkish legislation, will be conducted in Istanbul.

■ DISPUTE CONCERNING THE NATIONAL REGULATORY AGENCY RESOLUTIONS 02/03/CIR AND 03/03/CIR

On April 14, 2003, Telecom Italia challenged the National Regulatory Agency Resolution 02/03/CIR ("Valuation and request to change the rates of reference for 2002 by Telecom Italia") and Resolution 03/03/CIR ("Criteria for the preparation of the rates of reference for 2003 by introducing a programmed system to adjust the maximum applicable rates").

In particular, the dispute concerns (i) the improper reduction of the prices for interconnection service proposed by Telecom Italia for the year 2002, which would derive from the application – with retroactive effect – of a new criteria for the distribution of costs, considered to be unjustifiable from an economic standpoint, and (ii) the obligation to present the rates of reference for 2003 in a very short time-frame (30 days) on the basis of criteria that were never discussed during the preliminary discussions.

■ ARGENTINA

On April 24, 2003, Telecom Italia filed a notice with the relevant Argentine authorities for the formal start of proceedings to resolve the dispute which arose between the foreign investor (Telecom Italia, in this case) and the Argentine State, pursuant to the "Bilateral agreement between Italy and Argentina concerning the promotion and protection of investments".

The proceedings are aimed at receiving compensation for the damages deriving from the emanation, on the part of the local government, of measures considered to be detrimental to the investment made in Telecom Argentina.

In particular, the notice is required in order to start the six-month period in which to effect an attempt at an amicable settlement. If no decision is reached during this period, Telecom Italia will have the right to start specific arbitration proceedings.

1 SUMMARY DATA AND GENERAL INFORMATION	55 THE REGULATORY FRAMEWORK
10 REPORT ON OPERATIONS	57 PENDING LITIGATION
30 ECO. FIN. PERFORMANCE OF T.I. B.U./O.A.	
55 OTHER INFORMATION	>>

■ FEE CONCERNING ARTICLE 20, PARAGRAPH 2 OF LAW NO. 448 OF DECEMBER 23 1998

The Ministerial Decree of March 21, 2000 introducing Italian Law No. 448 of December 23, 1998, which, on January 1, 1999, established a new license fee in place of the concession fee was contested by Telecom Italia, Tim, Wind and Omnitel, before the TAR of Lazio and extraordinary appeals were presented by Infostrada and Albacom to the Head of State. Furthermore, with regard to the extraordinary appeals presented to the Head of State, asking for the annulment of the above-mentioned decree, the Council of State brought the case before the European Court of Justice, raising the preliminary question of the compatibility of the fee with Community regulations relating to telecommunications.

Following the dispute, Telecom Italia and Tim did not proceed to pay the fee for 2000, 2001 and 2002, although the corresponding costs, included interest, were recorded in the financial statements in the pertinent years.

Moreover, in March 2003, Telecom Italia and TIM brought suit, always before the TAR of Lazio, to obtain the restitution of the concession fee relating to the year 1998 (paid in 1999) and equal to a total of euro 529 million, of which euro 386 million relates to the Parent Company and euro 143 million to TIM. The request is founded upon the illegitimacy of the provisions of article 21 of D.P.R. 318/97, which kept the fee in force even after the EU Directive 97/113 came into effect and the term expired for its introduction into Italian Law.