TELECOM ITALIA

Third quarter **2003** report »

CONTENTS

CORPORATE BOARDS

Board of Directors (1)	**Chairman** (2)	Marco Tronchetti Provera (E)
	Deputy Chairman (2)	Gilberto Benetton
	Managing Directors (2)	Carlo Orazio Buora (E) Riccardo Ruggiero (E)
	Directors	Umberto Colombo (I) Giovanni Consorte Francesco Denozza (I) Luigi Fausti (I) Guido Ferrarini (I) Natalino Irti (I) Gianni Mion Pietro Modiano Massimo Moratti Carlo Alessandro Puri Negri Pier Francesco Saviotti
	Secretary to the Board (2)	Francesco Chiappetta
Compensation Committee	**Members**	Umberto Colombo Luigi Fausti Pier Francesco Saviotti
Audit and Corporate Governance Committee	**Chairman**	Guido Ferrarini
	Members	Luigi Fausti Natalino Irti
General Managers (2)		Riccardo Ruggiero Giuseppe Sala
Board of Statutory Auditors (1)	**Chairman**	Ferdinando Superti Furga
	Acting auditors	Rosalba Casiraghi Paolo Golia Salvatore Spiniello Gianfranco Zanda
	Alternate auditors	Enrico Bignami Enrico Laghi
Independent auditors (3)		Reconta Ernst & Young S.p.A.

(1) Appointed by the Olivetti Shareholders' Meeting held on May 26, 2003.
(2) Appointed by the Board of Directors' Meeting held on August 4, 2003.
(E) Executive director.
(I) Independent director.
(3) Appointment conferred by the Olivetti Shareholders' Meeting held on July 4, 2000.

HIGHLIGHTS

The figures for the first nine months of 2003 take into account, as did those for the first half of 2003, the effects of the merger of Telecom Italia with and into Olivetti (now renamed Telecom Italia), as well as the related transactions.

FIRST NINE MONTHS 2003

Improvement in economic results

Revenues: euro 22,682 million, -2.2% compared to the first nine months of 2002; excluding the foreign exchange effect and the change in the scope of consolidation, underlying growth was equal to 4.6%.

Gross operating profit: euro 10,648 million, +1.6% compared to the first nine months of 2002; underlying growth was equal to 4.8%.

Operating income before amortization of differences on consolidation: euro 6,639 million, +4.8% compared to the first nine months of 2002.

Operating income: euro 5,214 million, +10.3% compared to the first nine months of 2002; underlying growth was equal to 11.7%.

Net income – Parent Company interest before amortization of differences on consolidation: euro 3,273 million (euro 1,511 million in the first nine months of 2002, attributing to the Parent Company, the share of the minority interest in the result of the Merged Company, acquired following the merger.

Net income – Parent Company interest: euro 1,881 million (net loss of 55 million in the first nine months of 2002, attributing, to the Parent Company, the minority interest in the result of the Merged Company, acquired following the merger).

Indebtedness

Net financial indebtedness: euro 34,253 million, an increase of euro 854 million compared to December 31, 2002. It includes the effects of funding the withdrawal rights and the tender offer (euro 5,285 million), the distribution of profits and reserves (euro 1,049 million) and the payment for the early exercise of the JP Morgan put option on Seat shares (euro 2,272 million). Such effects were partly compensated by operating cash flows and the spin-off and sale of Nuova Seat (euro 3,681 million).

Olivetti / Telecom Italia merger

The **Olivetti and Telecom Italia merger** was finalized on August 4. The accounting effects of the merger were already included in the interim financial statements ending June 30, 2003 and described in depth in the Report on Operations for the first half of 2003. Therefore, the results for the first nine months of 2003 take into account the effects of the aforegoing merger, and the following related transactions:

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

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

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

The project for the spin-off of Seat Pagine Gialle S.p.A. was completed in the third quarter.
Specifically:

- effective August 1, 2003, the beneficiary company, "Nuova Seat Pagine Gialle", received the corporate complex principally composed of the following business segments: Directories (consisting of the Italian operations in telephone publishing and the stakes held in TDL Infomedia and Thomson), Directory Assistance (89.24.24 Pronto Pagine Gialle and Telegate) and Business Information (Consodata group). The spun-off company took the new name of Telecom Italia Media and includes the following businesses: TV, Internet and Office Products & Services;
- again on August 1, 2003, Telecom Italia purchased, for a total payment of euro 2,272 million, including euro 17 million to hedge interest rate exposure, the Seat Pagine Gialle shares relating to the JP Morgan put option;
- on August 4, 2003, trading began of the new Seat Pagine Gialle shares;
- on August 8, 2003, a 61.5% stake in Nuova Seat Pagine Gialle was sold to the consortium composed of BC Partners, CVC Capital Partner, Permira and Investitori Associati. The sale price was euro 3,033 million. Taking into account the deconsolidation of the estimated debt of the Nuova Seat Pagine Gialle group at the date of the finalization of the sale (euro 648 million), the transaction made it possible for Telecom Italia Group to reduce its consolidated net indebtedness by euro 3,681 million.

TLC license fee

After the ruling handed down by the Court of Justice of the European Community stating that the TLC license fee established by Italian Law 448/1998, art. 20, is contrary to Community law, the Group reversed the license fee posted in the first half of 2003 (euro 143 million, of which euro 79 million refers to the Parent Company) and the financial charges accrued in the first half of 2003 on the payable for the license fees recorded in previous years (euro 19 million, of which euro 13 million refers to the Parent Company). Moreover, an entry was made to credit the statement of income for non-existent liabilities (payables and reserves for risks and charges) of euro 1,465 million, of which euro 922 million refers to the Parent Company, for the years 2000, 2001 and 2002. Such amount, net of the tax effect of 562 million (euro 353 million refers to the Parent Company), contributed to the improvement in the Parent Company interest and the minority interest in the net income for the period of euro 903 million.
Moreover, in anticipation of the final ruling by the administrative judge and the subsequent executive order, income has not been credited for the TLC license fee paid for the year 1999 of euro 546 million (euro 362 million by Telecom Italia and euro 184 million by TIM).

Had no ruling been issued by the Court of Justice, the TLC license fee cost for the first nine months of 2003 would have amounted to euro 214 million, of which euro 116 million refers to the Parent Company, and the financial charges accrued up to December 31, 2002 on the liabilities would have amounted to euro 28 million, of which euro 19 refers to the Parent Company.

SELECTED ECONOMIC AND FINANCIAL DATA – TELECOM ITALIA GROUP

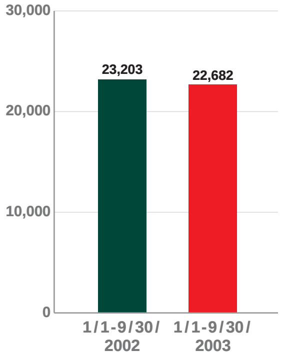
In the third quarter of 2003, owing to its divestiture, Nuova Seat Pagine Gialle was deconsolidated and was therefore only included in the scope of consolidation of the Telecom Italia Group for the first seven months of 2003. During the same period, the company HanseNet entered the scope of consolidation of the Telecom Italia Group and exited the scope of consolidation of the Netikos group.

During 2002, the 9Telecom group, the Telespazio group, the company Sogei S.p.A. and other minor companies had exited the scope of consolidation.

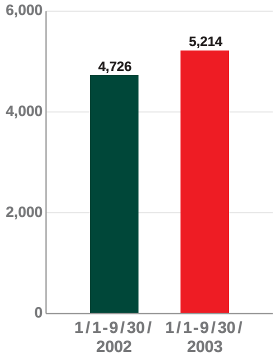
The effects of the changes in the scope of consolidation are shown in the section on the economic and financial performance of the Telecom Italia Group in the consolidated results of operations, financial condition and cash flows for purposes of a uniform comparison.

The reclassified financial statements adopted by the company resulting from the merger are the same as those already in use by the Merged Company. The accounting policies and principles of consolidation adopted in the preparation of the quarterly financial statements, taking into account the adjustments required for interim financial reporting, are substantially in agreement with those used in the annual financial statements, to which reference should be made. The quarterly report is unaudited.

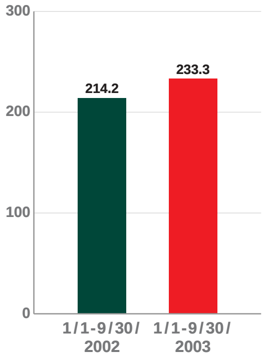
Revenues (euro/mln)



Operating income (euro/mln)



Revenues/Employees (euro/thousands)



	3rd Quarter 2003	3rd Quarter 2002	9 months to 9/30/2003	9 months to 9/30/2002	Year 2002
Economic and Financial Data (millions of euro)					
Sales and services revenues	7,533	7,660	22,682	23,203	31,408
Gross operating profit	3,727	3,632	10,648	10,479	14,015
Operating income pre-amortization of differences on consolidation	*2,376*	*2,271*	*6,639*	*6,336*	*8,200*
Operating income	1,933	1,739	5,214	4,726	6,058
Income (loss) before income taxes	2,554	174	3,858	1,609	(2,516)
Net income – Parent Company interest and minority interest before amortization of differences on consolidation	*1,740*	*495*	*4,314*	*2,162*	*1,836*
Net income – Parent Company interest before amortization of differences on consolidation	*1,262*	*60*	*3,273*	*351*	*838*
Income (loss) before minority interest	1,297	(37)	2,889	552	(306)
Net income (loss)	825	(349)	1,881	(860)	(773)
Free cash flows from operations	2,510	2,510	7,360	6,690	8,680
Investments:					
- Industrial	1,148	993	2,871	2,884	4,901
- Differences on consolidation	503	118	5,086	194	346
- Financial	206	372	1,365	1,004	1,777
Balance Sheet Data (millions of euro)					
Total assets			81,683	84,049	83,384
Net invested capital			55,430	56,764	54,023
Shareholders' equity			21,177	22,805	20,624
- Parent company interest			16,814	11,529	11,640
- Minority interest			4,363	11,276	8,984
Net financial indebtedness			34,253	33,959	33,399
Profit and Financial Indexes					
Gross operating profit/Revenues	49.5%	47.4%	46.9%	45.2%	44.6%
Operating income before amortization of differences on consolidation/Revenues (ROS)	31.5%	29.6%	29.3%	27.3%	26.1%
Operating income/Revenues (ROS)	25.7%	22.7%	23.0%	20.4%	19.3%
Free cash flows/Revenues	33.3%	32.8%	32.4%	28.8%	27.6%
Debt ratio (Net financial indebtedness/ Net invested capital)			61.8%	59.8%	61.8%
Employees					
Employees (number in Group at period-end)			95,447	109,942	106,620
Employees (average number in Group)			97,222	108,338	107,079
Revenues/Employees (Group average), euro/thousands			233.3	214.2	293.3

KEY DATA - TELECOM ITALIA GROUP BUSINESS UNITS/OPERATING ACTIVITIES

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

(millions of euro)		Wireline (1) (2)	Mobile	South America (3)	Internet and Media (4)	IT Market (2)	IT di Group (2)	Olivetti Tecnost	Sub-total	Other activities and eliminations (2) (5)	Consolidated Total
Sales and services revenues	1/1-9/30/2003	12,687	8,635	844	1,121	521	703	460	24,971	(2,289)	22,682
	1/1-9/30/2002	12,537	8,010	1,036	1,379	741	590	681	24,974	(1,771)	23,203
	Year 2002	17,047	10,867	1,409	1,991	994	996	914	34,218	(2,810)	31,408
Gross operating profit	1/1-9/30/2003	6,047	4,157	293	311	45	40	19	10,912	(264)	10,648
	1/1-9/30/2002	5,822	3,903	346	401	71	61	48	10,652	(173)	10,479
	Year 2002	7,951	5,039	450	593	111	98	59	14,301	(286)	14,015
Operating income	1/1-9/30/2003	3,724	2,944	101	90	15	(60)	(5)	6,809	(1,595)	5,214
	1/1-9/30/2002	3,517	2,713	116	127	44	(29)	7	6,495	(1,769)	4,726
	Year 2002	4,677	3,358	146	232	61	(40)	4	8,438	(2,380)	6,058
Industrial investments	1/1-9/30/2003	1,636	829	85	65	20	126	12	2,773	98	2,871
	1/1-9/30/2002	1,588	847	170	45	21	92	23	2,786	98	2,884
	Year 2002	2,475	1,715	216	81	38	149	35	4,709	192	4,901
Number of employees at	9/30/2003	52,318	18,866	5,223	2,095	5,217	3,991	2,618	90,328	5,119	95,447
	9/30/2002	55,702	17,532	5,536	8,070	5,790	5,107	4,906	102,643	7,299	109,942
	12/31/2002	53,935	18,702	5,461	7,715	5,506	5,039	4,527	100,885	5,735	106,620

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

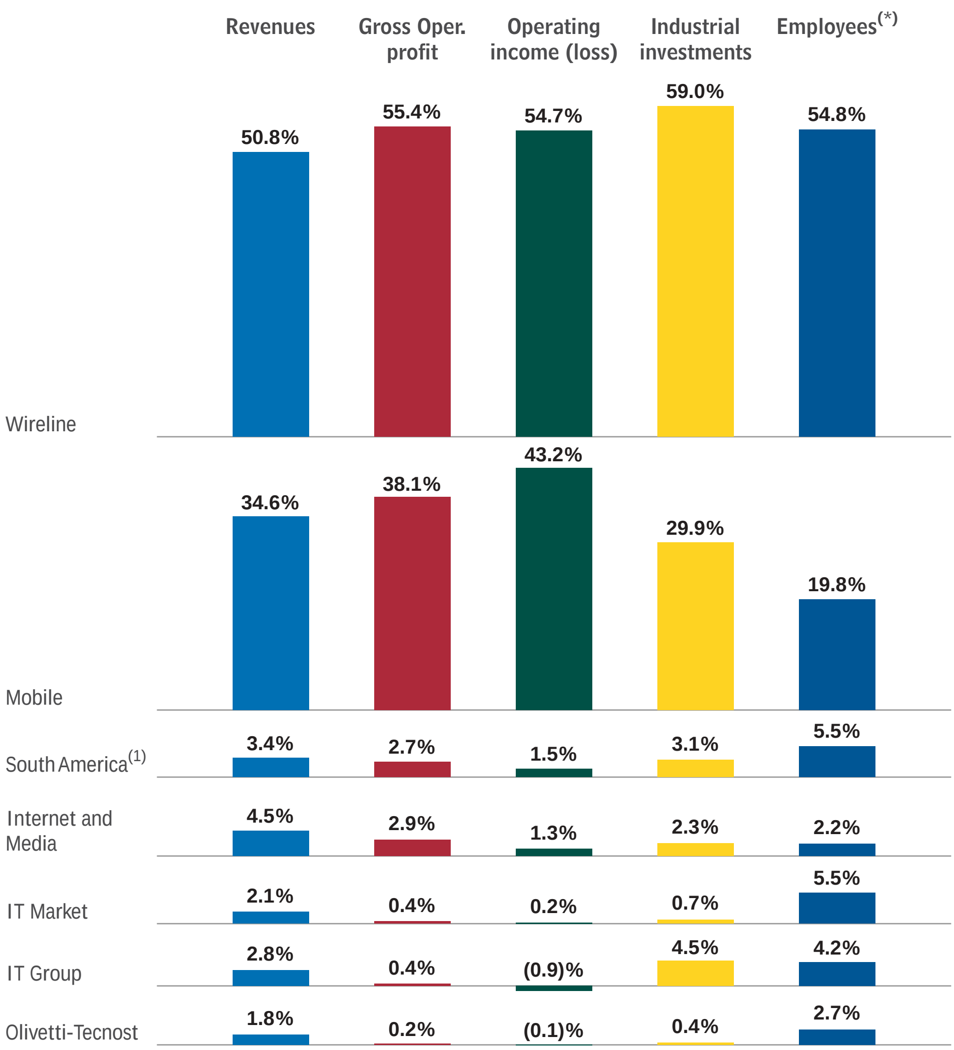
(2) As from January 1, 2003, the Netikos group, the Webegg group, the TILab group, Loquendo and Eustema are no longer consolidated by the IT Group operating activity. BBNed is no longer consolidated by Other Activities. The TILab group moved to Other activities and Loquendo and BB Ned became part of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

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

(4) As from August 8, 2003, Nuova Seat Pagine Gialle, the beneficiary company of the spin-off from Seat Pagine Gialle which took place in July 2003, was sold. The figures for the first nine months of 2003 include the results of operations for the first seven months of the Nuova SEAT Group, later sold, and the Telecom Italia Media Group for the first nine months.

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

Major economic and operating indicators for the first nine months of 2003 by Business Unit/Operating Activity is presented as follows:

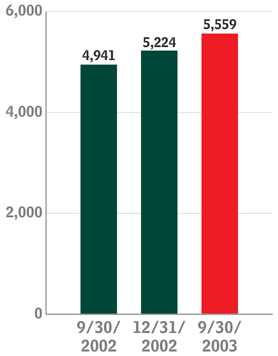


(*) 5.4% of employees work in Other Activities of the Telecom Italia Group.

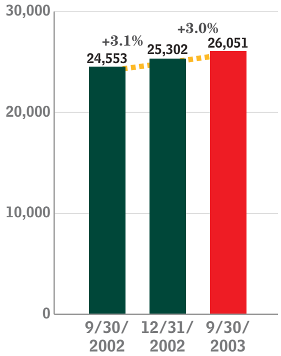
(1) The data relates to the Entel Chile group, the Entel Bolivia group, the companies Telecom Italia America Latina and the South American business segment of Telecom Italia.

OPERATING HIGHLIGHTS - TELECOM ITALIA GROUP

Voice Flat (thousands)



TIM lines in Italy (thousands)



	9/30/2003	12/31/2002	9/30/2002
WIRELINE			
Fixed network connections in Italy (thousands)	27,022	27,142	27,194
- of which digital (equivalent ISDN channels)	6,067	5,756	5,695
Voice flat-rate plans (thousands)	5,559	5,224	4,941
Network infrastructure in Italy			
- access network in copper (millions of km - pair)	105.5	104.3	104.3
- access network and transport in fiber optics (millions of km of fiber optics)	3.64	3.60	3.45
Network infrastructure abroad			
- European backbone (km of fiber optics)	39,500	36,600	36,600
MOBILE			
TIM lines in Italy (at period-end, thousands)	26,051	25,302	24,553
TIM group foreign lines (at period-end, thousands) (1)	17,115	13,809	12,735
TIM group lines total (Italy + foreign in thousands) (1)	43,166	39,111	37,288
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			
Internet:			
Page Views Virgilio (millions)	4,833	5,267	3,872
Active users ISP (at period-end, thousands)	2,392	2,226	2,029
La7 average audience (thousands)	193	165	150
La7 audience share	2.23%	1.80%	1.70%

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

SHAREHOLDER INFORMATION

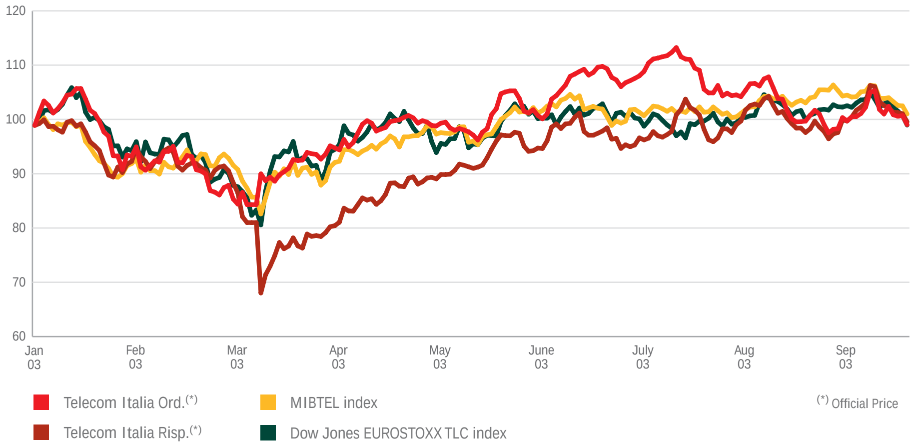
TELECOM ITALIA S.P.A. SHARE CAPITAL AT SEPTEMBER 30, 2003 (*)

Share capital	euro 8,845,892,099.55
Ordinary shares (par value euro 0.55 each)	No. 10,287,519,112
Savings shares (par value euro 0.55 each)	No. 5,795,921,069
Market capitalization (on average prices of September 2003)	euro 31,030 million

(*) The amounts indicated take into account 31,251 ordinary shares issued but not yet recorded in the Companies Register at September 30, 2003.

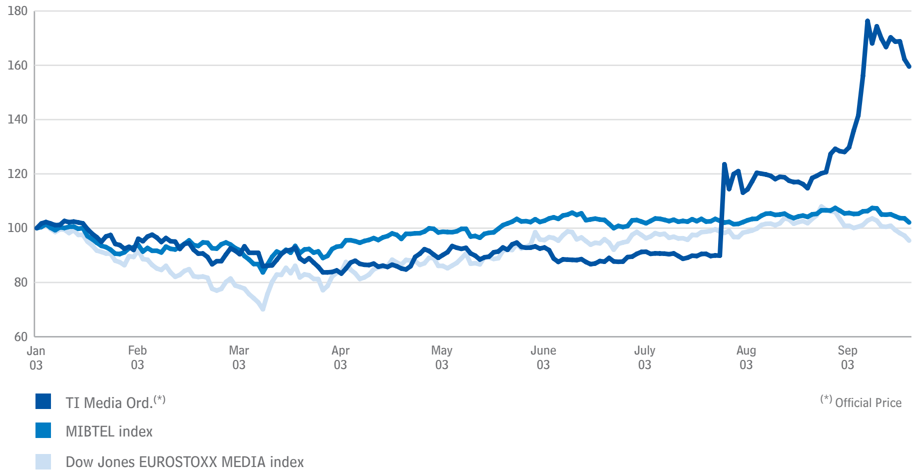
PERFORMANCE OF THE MAIN STOCKS OF THE TELECOM ITALIA GROUP

Relative performance Telecom Italia S.p.A. post-merger 1/1/2003-9/30/2003 vs. MIBTEL and DJ Eurostoxx TLC index (1/1/2003-8/4/2003 restated) (Source: Reuters)



Relative performance TIM S.p.A. 1/1/2003-9/30/2003 vs. MIBTEL and DJ Eurostoxx TLC index (ordinary shares) (Source: Reuters)

Relative performance Telecom Italia Media S.p.A. post scissione 1/1/2003-9/30/2003 vs. MIBTEL e DJ Eurostoxx Media index
(1/1/2003-8/1/2003 restated) (ordinary shares) (Source: Reuters)

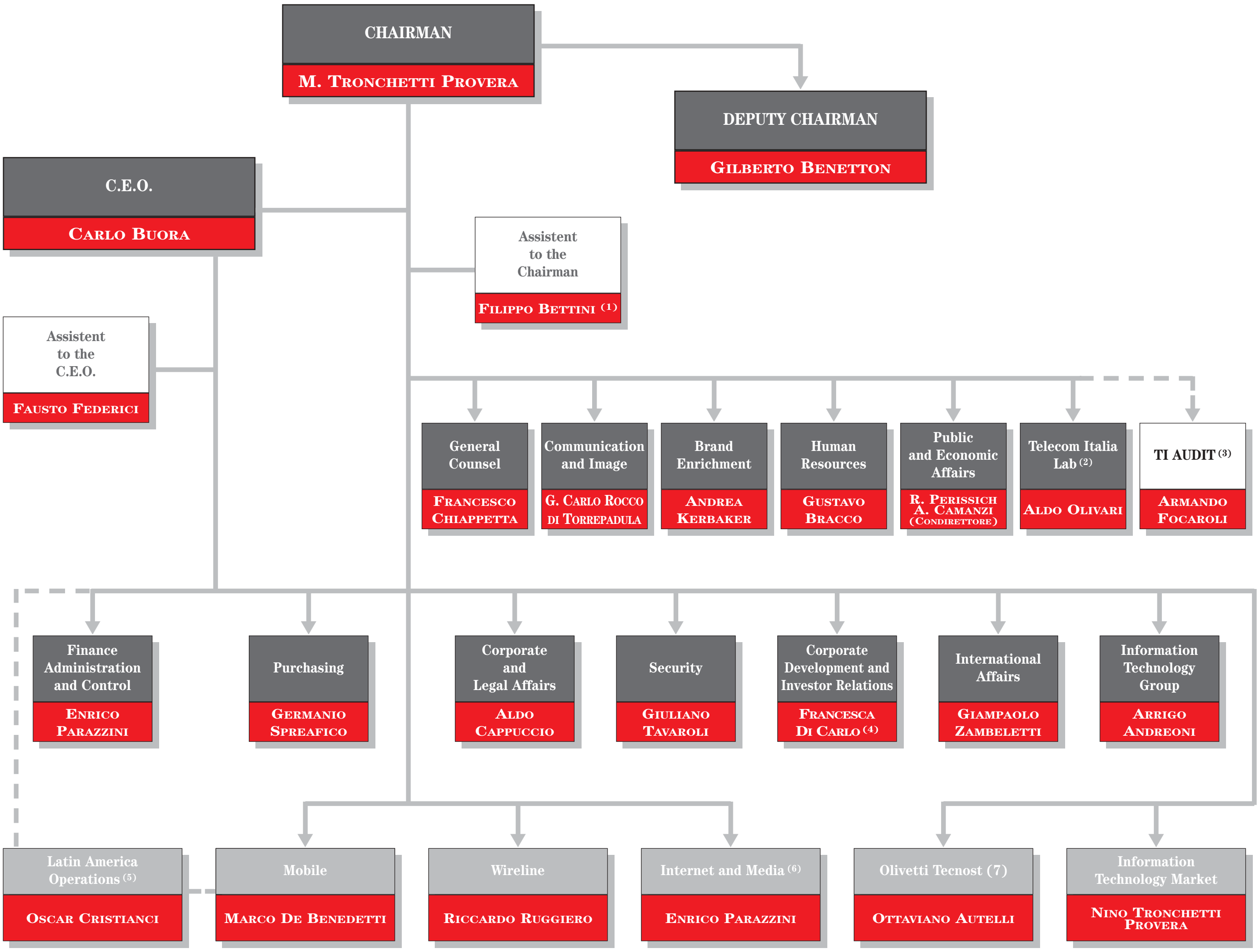


RATINGS AT SEPTEMBER 30, 2003

STANDARD & POOR'S	BBB+	Stable
MOODY'S	Baa2	Stable
FITCH	A-	Stable

S&P recently confirmed the BBB+ rating, with a stable outlook, to the company resulting from the merger. This was the rating previously attributed to Telecom Italia (the Merged Company). Fitch also confirmed the new company's A- rating, with a stable outlook, previously given to Telecom Italia. Moody's assigned the new company the Baa2 rating previously given to Olivetti, with a stable outlook.

MACRO-ORGANIZATION CHART – TELECOM ITALIA GROUP



(1) Effective October 28, 2003, Filippo Bettini was appointed Assistant to the Chairman.
(2) Effective August 1, 2003, Aldo Olivari was appointed Chief Executive Officer of Telecom Italia LAB, assuming the relative responsibility. As from the same date, Telecom Italia LAB reports directly to the Chairman..
(3) Consortium company which carries out the Internal Auditing activities of the Group. The name of the consortium was changed to Telecom Italia Audit as from October 27, 2003.
(4) Effective October 3, 2003, the Corporate Development and Investor Relations function was created and entrusted to Francesca Di Carlo. This Function, which reported to the CEO, Carlo Buora, now includes the Mergers & Acquisitions function and Investor Relations activities. The persons in charge of the Investor Relations functions of the Group report to this corporate function.
(5) This function coordinates the activities of the Telecom Italia Group in Latin America. It reports directly to the person in charge of the Mobile Business Unit for all the activities relating to Mobile Telecommunications conducted in Latin America; it also reports directly to the CEO, Carlo Buora for the management of the operations inherent to wireline TLC and for the overall coordination of the activities of the Group in Latin America.
(6) Effective August 1, 2003, the Internet and Media Business Unit was entrusted to Enrico Parazzini, who retains responsibility for the corporate Finance, Administration and Control function. On August 1, 2003, following the partial proportional spin-off of Seat Pagine Gialle S.p.A. to Nuova Seat Pagine Gialle, the beneficiary company of the spin-off, the entire corporate complex was transferred, consisting of the Directories, Directory Assistance and Business Information business areas, and was subsequently sold to third parties on August 4, 203. The spun-off company, which took the name of Telecom Italia Media S.p.A., comprises the following businesses: TV, Internet and Office Products & Services.
(7) Effective August 4, 2003 – following the Olivetti-Telecom Italia merger – the Olivetti Tecnost Business Unit, entrusted to Ottaviano Autelli, reports to the CEO, Carlo Buora.

ECONOMIC AND FINANCIAL PERFORMANCE - TELECOM ITALIA GROUP

As a result of the merger by incorporation, the Parent Company's interest in profits and shareholders' equity increased (with a corresponding decrease in that of the minority interest) and subsequent to the tender offer, the differences on consolidation increased, with consequent higher amortization and net financial indebtedness.
The amortization of the differences on consolidation arising as a result of the tender offer was calculated over a period of 20 years and this same period is now also being used for the amortization of the original difference on consolidation which arose in the 1999 Olivetti consolidation. The positive effect of this dilution made it possible to almost completely cancel the negative effect of the new higher amortization.
Deferred tax assets were also posted as early as the second quarter, in addition to those recorded in the 2002 financial statements by Olivetti following the writedown, solely for tax purposes, of the shares of the Merged Company, and which became recoverable thanks to the merger of the two Companies.

RESULTS OF OPERATIONS

The **consolidated net income of the Group** for the first nine months of 2003 was euro 1,881 million (euro 2,889 million before minority interest). The consolidated net result of the Group for the first nine months of 2002 was a loss of euro 860 million (a net income of euro 552 million before minority interest).

The consolidated net result of the Group for the first nine months of 2002 would have been a loss of euro 55 million, attributing to the Parent Company the minority interest in the result of the Merged Company, acquired following the merger.

The improvement in the consolidated net result of the Group (+euro 2,741 million) was due to the following factors:

- increase in *operating income* (+euro 488 million);
- improvement in *net financial income (expenses) and net investment income (expenses)* (+euro 755 million);
- improvement in *net extraordinary income (expenses)* (+euro 1,006 million), mainly due to non-existent liabilities and reserves for the TLC licensee fee (euro 1,465 million), following the ruling handed down by the Court of Justice of the European Community on September 18, 2003;
- lower *income taxes* (euro 88 million);
- lower minority *interest in earnings* (euro 404 million).

In the ***third quarter of 2003****, the consolidated net income of the Group was euro 825 million (euro 1,297 million before minority interest), up euro 1,174 million compared to the loss of euro 349 million in the third quarter of 2002 (-euro 37 million before minority interest).*

Sales and service revenues for the first nine months of 2003 amounted to euro 22,682 million, with a reduction of 2.2% compared to euro 23,203 million for the same period of 2002. Excluding the negative effects of the variation in exchange rates (euro 684 million) and the change in the scope of consolidation (euro 841 million), underlying growth was 4.6% (euro 1,004 million).

A particularly incisive effect on the change in the scope of consolidation was brought about by the sale, effective August 1, 2003, of Nuova Seat Pagine Gialle and the exit, in the second part of 2002, of the 9Telecom group, Sogei and the Telespazio group.
Contributing to underlying growth were:

- a significant increase in the revenues of the Mobile Business Unit, which were driven by the domestic market (voice traffic and value-added services) and by the Brazilian market;
- the increase in the revenues of the Wireline Business Unit, which were especially affected by the growth in income from basic subscription charges, especially for ADSL, and from the sales of equipment, which more than compensated the drop in traffic which, besides, decreased in the retail segment and increased in the wholesale area;
- a reduction in the sales of the Olivetti Tecnost and IT Market Business Units.

Sales and service revenues can be analyzed as follows:

Geographical area (millions of euro)	**1/1-9/30/2003**		**1/1-9/30/2002**	
Italy	18,212	80.3%	19,058	82.1%
Rest of Europe	1,567	6.9%	1,442	6.2%
North America	450	2.0%	252	1.1%
Central and South America	1,788	7.9%	2,001	8.6%
Australia, Africa and Asia	665	2.9%	450	2.0%
Total	**22,682**	**100.0%**	**23,203**	**100.0%**

*In the **third quarter of 2003**, revenues amounted to euro 7,533 million (euro 7,660 million in the third quarter of 2002), with a decrease of 1.7%. Excluding the foreign exchange effect and the change in the scope of consolidation, underlying growth was 3.0%.*

Gross operating profit, equal to euro 10,648 million, grew compared to the first nine months of 2002 by euro 169 million (+1.6%). As a percentage of revenues, the gross operating profit was 46.9% (45.2% compared to the first nine months of 2002). Excluding the foreign exchange effect (-euro 136 million) and the effect due to the change in the scope of consolidation (-euro 183 million), underlying growth was 4.8% (+euro 488 million). Such growth included the negative effect of the start-up of GSM services in Brazil (euro 169 million) and the positive impact of the cancellation of the government TLC license fee (euro 262 million for the first nine months of 2002). As a percentage of revenues, the gross operating profit of the Wireline Business Unit increased from 46.4% for the first nine months of 2002 to 47.7% for the first nine months of 2003, whereas that of the Mobile Business Unit remained at levels of over 48%.

In greater detail, gross operating profit was impacted by:

- **raw materials and outside services**, equal to euro 9,377 million, down by 2.3% compared to the first nine months of 2002, due principally to measures taken to improve the level of efficiency. The percentage of raw materials and outside services to revenues remained at the same levels as the corresponding period of 2002 (41.3%).

  *In the **third quarter of 2003**, raw materials and outside services amounted to euro 3,006 million (euro 3,084 million in the third quarter of 2002).*

- **labor costs**, equal to euro 3,217 million, were euro 325 million lower than the first nine months of 2002 (-9.2%). Besides the change in the scope of consolidation, the decrease was due to a reduction in the workforce of the Merged Company and the Olivetti Tecnost Business Unit. As a percentage of revenues, labor costs were 14.2% and 15.3% in the first nine months of 2002.

Employees at September 30, 2003 numbered 95,447 (106,620 at December 31, 2002). A breakdown is presented below:

(millions of euro)	9/30/2003 (a)	12/31/2002 (b)	9/30/2002	Change (a - b)
Italy	80,046	86,286	89,502	(6,240)
Outside Italy	15,401	20,334	20,440	(4,933)
Total employees	**95,447**	**106,620**	**109,942**	**(11,173)**

Compared to December 31, 2002, the reduction of 11,173 employees was due to operating turnover for -2,347 (-2,160 in Italy and -187 outside Italy) and the change in the scope of consolidation for -8,826. The latter decrease was due to the sale of companies in the Internet and Media Business Unit (-5,642, of which -5,402 regards the sale of Nuova Seat Pagine Gialle), the sale of Tess (-404), the sale of the Olivetti Tecnost de Mexico business segment (-1,266), the spin-offs of the Logistics business by the Wireline division (-337), the Facility Management business by Olivetti Multiservices (-208) and the Desktop Management (-582) and Corporate Solutions businesses (-380) by IT Telecom, the sale of the Netikos group (-207) and other minor companies and activities (-181) and the addition of hansenet (+381).

*In the **third quarter of 2003**, the gross operating profit amounted to euro 3,727 million (euro 3,632 million in the third quarter of 2002). As a percentage of revenues, the gross operating profit was 49.5% (47.4% in the third quarter of 2002). Excluding the benefits deriving from the cancellation of the TLC license fee for the first half of 2003 (euro 119 million), the gross operating profit as a percentage of revenues was 47.9%.*

Operating income before amortization of the differences on consolidation, equal to euro 6,639 million, increased, compared to the first nine months of 2002, by euro 303 million (+4.8%).

Operating income, equal to euro 5,214 million, increased, compared to the first nine months of 2002, by euro 488 million (+10.3%). As a percentage of revenues, operating income rose from 20.4% for the first nine months of 2002 to 23.0% for the first nine months of 2003. Excluding the foreign exchange effect and the impact of the change in the scope of consolidation, the growth was 11.7%. Such growth included the negative effect of the start-up of GSM services in Brazil (euro 279 million) and the positive impact of the cancellation of the government TLC license fee (euro 293 million for the first nine months of 2002).
The increase in the amount itself reflects a higher gross operating profit and a reduction in amortization and depreciation charges.

The following factors specifically had a decisive impact on the operating result:

- the **amortization of the differences on consolidation**, equal to euro 1,425 million (euro 1,610 million for the first nine months of 2002), showed a reduction of euro 185 million. The reduction is mainly due to the writedown of the difference on consolidation relating to Seat Pagine Gialle made in the 2002 financial statements and the sale of Nuova Seat Pagine Gialle (for a total of euro 167 million), the extension of the estimated period of benefit for the original difference on consolidation on the Merged Company (euro 170 million), offset by higher amortization of the differences on consolidation deriving from Olivetti's tender offer for the Merged Company (euro 171 million) and the reclassification of the shares of the Merged Company recorded previously in current assets (euro 9 million);
- the **amortization of other intangibles and the depreciation of fixed assets**, equal to euro 3,587 million (euro 3,690 million for the first nine months of 2002), showed a reduction of euro 103 million, of which some euro 100 million was due to perfecting the calculation method used

for the amortization of certain categories of intangibles that came into use during the year. The breakdown is as follows:

(millions of euro)	1/1-9/30/2003 (a)	1/1-9/30/2002 (b)	Change (a - b)
Fixed assets	2,692	2,865	(173)
Other intangibles	895	825	70
Total	**3,587**	**3,690**	**(103)**

The percentage of the amortization of other intangibles and the depreciation of fixed assets to revenues was 15.8% (15.9% for the first nine months of 2002).

*In the **third quarter of 2003,** operating income was euro 1,933 million (euro 1,739 million in the third quarter of 2002). As a percentage of revenues, operating income was 25.7% (22.7% in the third quarter of 2002). Excluding the benefit deriving from the cancellation of the TLC license fee for the first half of 2003 (euro 143 million), operating income as a percentage of revenues was 23.8%.*

Net other financial income (expenses) showed an expense balance of euro 1,690 million, an improvement of euro 414 million compared to the first nine months of 2002. Details are as follows:

(millions of euro)	1/1-9/30/2003 (a)	1/1-9/30/2002 (b)	Change (a - b)
Net financial income (expenses)	(1,686)	(1,915)	229
Value adjustments to financial assets, other than equity investments	(4)	(189)	185
Total	**(1,690)**	**(2,104)**	**414**

The reduction in debt exposure led to a considerable decrease in net financial expenses, which were nevertheless affected by the provision of euro 161 million for the early exercise of the JP Morgan put option on Seat Pagine Gialle shares finalized in August 2003, as well as the expenses connected with the credit lines granted to the merging company Olivetti to fund the rights of withdrawal and the tender offer (euro 92 million). Compared to the first nine months of 2002, the exchange rate effect of the companies in South America exerted a positive impact.

*In the **third quarter of 2003**, net other financial income (expenses) showed an expense balance of euro 494 million (an expense balance of 608 million in the third quarter of 2002).*

Net investment income (expenses) showed an expense balance of euro 121 million (an expense balance of euro 462 million for the first nine months of 2002), with an improvement of euro 341 million compared to the first nine months of 2002. Details are as follows:

(millions of euro)	1/1-9/30/2003 (a)	1/1-9/30/2002 (b)	Change (a - b)
Net investment income (expenses)	9	35	(26)
Net revaluations (writedowns) of equity investments	(120)	(422)	302
Amortization of differences on consolidation, regarding investments accounted for using the equity method	(10)	(75)	65
Total	**(121)**	**(462)**	**341**

Net revaluations (writedowns) of equity investments for the first nine months of 2003 included the Group's share of equity in the losses of Sky Italia (former Stream) for euro 64 million and the results of other companies (euro 8 million), as well as writedowns of equity investments in current assets relating to Telekom Austria (euro 35 million) and to TIM (euro 13 million; euro 91 million for the first nine months of 2002). The reduction compared to the first nine months of 2002 can principally be ascribed to Sky Italia (former Stream) (euro 215 million) and Aria IS Tim (euro 154 million).

*In the **third quarter of 2003**, net investment income (expenses) showed an expense balance of euro 44 million (an expense balance of euro 168 million in the third quarter of 2002).*

Net extraordinary income (expenses) showed an income balance of euro 455 million (an expense balance of euro 551 million for the first nine months of 2002), with an improvement of euro 1,006 million due to the following:

(millions of euro)	1/1-9/30/2003 (a)	1/1-9/30/2002 (b)	Change (a - b)
Gains from divestitures of long-term investments and business segments	59	2,221	(2,162)
Non-existent liabilities and reserves for the TLC license fee	1,465	–	1,465
Other extraordinary income	177	366	(189)
Total extraordinary income	**1,701**	**2,587**	**(886)**
Extraordinary expenses	(1,246)	(3,138)	(1,892)
Total	**455**	**(551)**	**1,006**

Extraordinary income of euro 1,701 million comprised:

- euro 59 million of gains on the sale of equity investments, fixed assets and business segments. Gains for the first nine months of 2002 totaled euro 2,221 million and related mainly to the disposal of the investments in Auna, Bouygues Decaux Telecom, Lottomatica, Mobilkom Austria and other minor companies;
- euro 1,465 million of non-existent liabilities and reserves regarding the TLC license fee;
- euro 177 million of prior period income and other extraordinary income (euro 366 million for the first nine months of 2002, of which 131 million was for prior period income realized on the recovery of pre-amortization interest relating to expenses under Law No. 58/1992).

Extraordinary expenses of euro 1,246 million comprised:

- euro 195 million of losses on the sale of the entire stake held in Nuova SEAT after the spin-off;
- euro 104 million of an additional writedown of the difference on consolidation relating to Digitel Venezuela, in view of the persisting difficult macroeconomic scenario in which the company operates; euro 45 million for the writedown of goodwill on Epiclink in respect of the start of the process to strategically reposition the company within the Group and euro 3 million for the writedown of the residual difference on consolidation regarding the company Loquendo. In the first nine months of 2002, extraordinary writedowns of differences on consolidation and accruals relating to the subsidiaries and affiliates were made for euro 2,176 million;
- euro 55 million on the settlement with Pagine Italia after the agreement fell short for the purchase of the Pagine Utili business segment;
- euro 110 million of expenses connected with the cited merger principally in respect of fees for advisors, legal and tax consultants, technical experts and expenses for banking charges;
- euro 89 million of expenses connected with extraordinary equity investment transactions, of which euro 83 million refers to the spin-off and sale of Nuova Seat Pagine Gialle;

- euro 117 million (euro 424 million for the first nine months of 2002) of expenses and provisions for employee cutbacks and layoffs (of which euro 76 million was borne by the Parent Company; euro 355 million for the first nine months of 2002);
- euro 43 million of expenses under ex Law 58/1992 to cover employees under the former "Telephone Employees Pension Fund" (FPT);
- euro 31 million of indirect taxes and prior period taxes for the portion of the cost of the tax amnesty not covered by the reserve for income taxes;
- euro 183 million for the elimination of prior period receivable balances;
- euro 56 million of the additional adjustment made by the Parent Company to the estimated value of unused prepaid telephone cards following the start of technical data collection procedures;
- euro 76 million for the provisions and writedowns of intangibles and fixed assets made by the Olivetti Tecnost group (euro 40 million), Epiclink (euro 15 million), Telecom Italia Learning Service (euro 17 million) and other minor companies (euro 4 million) as part of the reorganization transactions;
- euro 119 million for prior period expenses and other extraordinary expenses and euro 20 million for losses on the sale of intangibles, fixed assets and long-term investments.

*In the **third quarter of 2003**, net extraordinary income (expenses) showed an income balance of euro 1,159 million (an expense balance of euro 789 million in the third quarter of 2002).*

Income taxes for the first nine months of 2003 amounted to euro 969 million (euro 1,057 million for the first nine months of 2002) and, as described in the Report on the first half of 2003, included euro 1,286 million posted for deferred tax assets originating from the writedown, for tax purposes only, made in 2002 by Olivetti and relating to the shares of the Merged Company, and which became recoverable thanks to the merger of the two companies.

*In the **third quarter of 2003**, income taxes amounted to -euro 1,257 million (-euro 211 million in the third quarter of 2002).*

FINANCIAL CONDITION

Intangibles, fixed assets and long-term investments, amounting to euro 55,892 million, decreased by euro 1,969 million compared to the end of 2002.
In particular:

- **fixed assets** decreased from euro 19,449 million at the end of 2002 to euro 18,311 million at September 30, 2003; the reduction was mainly due to the difference between the investments and the depreciation charge for the period.
- **intangibles** increased from euro 34,412 million at the end of 2002 to euro 34,689 million at September 30, 2003. The increase was basically due to the differences on consolidation recorded following the tender offer by Olivetti for the shares of the Merged Company (euro 4,551 million) and the reclassification of the shares of the Merged Company from working capital to intangibles made by Olivetti prior to the merger (euro 250 million), offset by the reduction in the difference on consolidation relating to Nuova Seat Pagine Gialle and its subsidiaries following its sale (a total of euro 3,506 million), as well as the amortization and the writedowns during the period as detailed above.
- **long-term investments** decreased from euro 4,000 million at the end of 2002 to euro 2,892 million al September 30, 2003. The reduction was principally due to the reclassification to working capital of the investment in Telekom Srbija (euro 187 million), since it was sold in July 2003, and the remaining stake held in Telekom Austria (euro 708 million), since it is destined to be sold within 12 months.

Investments made in the first nine months of 2003 totaled euro 9,322 million (compared to euro 4,082 million in the first nine months of 2002). Details are as follows:

(millions of euro)	1/1-9/30/2003 (a)	1/1-9/30/2002 (b)	Change (a - b)
Industrial investments	2,871	2,884	(13)
Differences on consolidation	5,086	194	4,892
Financial investments	1,365	1,004	361
Total investments	**9,322**	**4,082**	**5,240**

Differences on consolidation essentially referred to the difference (euro 4,551 million) between the payment made for the tender offer on the shares of the Merged Company (euro 5,285 million) and the share of net equity acquired (euro 723 million) and the exercise of the JP Morgan put option on Seat Pagine Gialle shares (euro 428 million).

Financial investments for the first nine months of 2003 were in reference to the share of the net equity of the Merged Company acquired through the tender offer (euro 723 million), the purchase of the equity stake in Lisit Informatica (euro 54 million), increases in the share capital of Sky Italia (euro 324 million), the purchase of treasury stock by the Merged Company, later cancelled, (euro 47 million) and other financial investments (euro 217 million).

Shareholders' equity, including the effects of the merger by incorporation of Telecom Italia with and into Olivetti, amounted to euro 21,177 million (euro 20,624 million at the end of 2002) of which the interest of the Parent Company, Telecom Italia, was 16,814 million (euro 11,640 million at December 31, 2002), and the minority interest was euro 4,363 million (euro 8,984 million at December 31, 2002).
Compared to December 31, 2002, the significant increase in the Parent Company's interest and the reduction in the minority interest was due to the effects of the merger for euro 3,424 million.

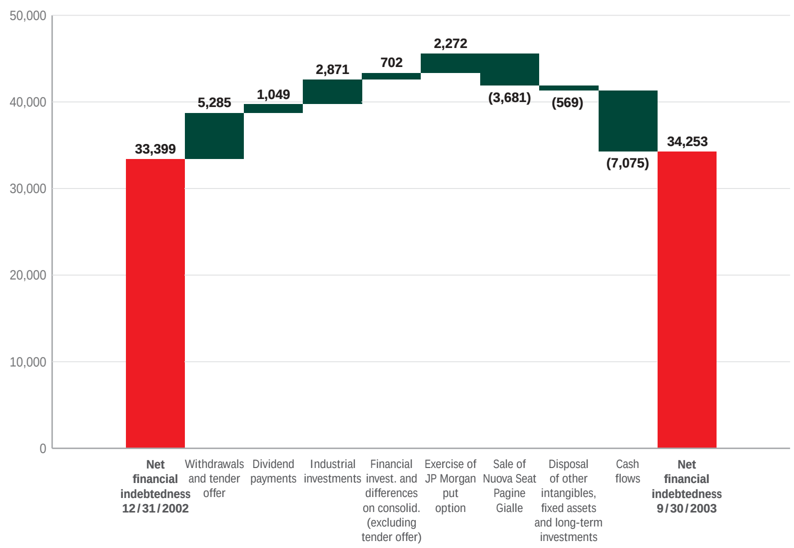
The increase in shareholders' equity of euro 553 million can be analyzed as follows:

(millions of euro)	1/1-9/30/ 2003	Year 2002
At beginning of period	**20,624**	**26,353**
Capital stock increase	12	36
Net income (loss) of the Parent Company and minority interest	2,889	(306)
Dividends and reserves to third parties paid by:	(1,049)	(3,668)
- Merged company	*(794)*	*(2,016)*
- TIM S.p.A.	*(185)*	*(1,606)*
- Other Group companies	*(70)*	*(46)*
Effects of the share withdrawals, the tender offer, the cancellation of treasury stock bought back by the Merged Company and the Telecom Italia shares held by Olivetti and reclassified from working capital to long-term investments	(1,117)	
Deconsolidation of Nuova Seat Pagine Gialle	(126)	
Translation adjustments and other changes	(56)	(1,791)
At end of period	**21,177**	**20,624**

Net financial indebtedness amounted to euro 34,253 million at September 30, 2003, with an increase of euro 854 million compared to euro 33,399 million at the end of 2002. It included the effects of the share withdrawals and the tender offer (euro 5,285 million), the cancellation of 41,041,250 shares of the Merged Company previously classified by the acquiring company in current assets (euro 299 million), the distribution of profits and reserves (euro 1,049 million) and the payment for the early exercise of the JP Morgan put option on Seat shares (euro 2,272 million, including euro 17 million to hedge interest rate exposure). Such requirements were partly financed by operations, the spin-off and sale of the investment in Nuova Seat (euro 3,681 million) and the disposal of other investments (euro 569 million).

Furthermore, the securitization and factoring of trade accounts receivable led to an improvement in net financial indebtedness of euro 840 million at September 30, 2003 (euro 1,046 million at the end of 2002).

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



The portion of debt due beyond one year of euro 29,280 million (without considering the net asset balance of medium/long-term accruals and deferrals of euro 474 million) went from 83% at December 31, 2002 to 69% at September 30, 2003. At September 30, 2003, short-term borrowings included the current portion of medium/long-term debt for euro 12,199 million (euro 3,450 million at December 31, 2002), of which euro 3,800 million related to financing for the tender offer. Such financing was repaid in advance, for euro 2,000 million on October 14, 2003 and fir the remaining amount of euro 1,800 million on November 4, 2003 after notes were issued by TI Capital for a total of U.S. $4 billion, finalized on October 29, 2003.

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

Gross financial debt is detailed in the following table:

	At 9/30/2003						At 12/31/2002	
(millions of euro)	**Euro**	**%**	**Foreign currency**	**%**	**Total**	**%**	**Total**	**%**
Medium/long-term debt	27,677	68	1,603	82	29,280	69	33,804	83
Short-term borrowings	13,086	32	361	18	13,447	31	6,827	17
Total	**40,763**	**100**	**1,964**	**100**	**42,727**	**100**	**40,631**	**100**

In order to better understand the evolution in financial indebtedness, the following table summarizes the changes in the Group's debt from December 31, 2002 to September 30, 2003:

(millions of euro)	**12/31/2002**	**9/30/2003**
Telecom Italia Group	18,118	30,946
Olivetti Group	15,281	
Effect of tender offer	–	5,285
Sale of Nuova Seat and other disposals	–	(4,250)
JP Morgan put option	–	2,272
Total financial statements	**33,399**	
JP Morgan put option	2,417	–
Total	**35,816**	**34,253**

SELECTED QUARTERLY ECONOMIC AND FINANCIAL DATA - TELECOM ITALIA GROUP

	2003				2002 (*)			
(millions of euro)	1st Quarter	2nd Quarter	3rd Quarter	9 months	1st Quarter	2nd Quarter	3rd Quarter	9 months
Sales and service revenues	7,291	7,858	7,533	22,682	7,533	8,010	7,660	23,203
Change 3rd Quarter/ 2nd Quarter		*7.8%*	*–4.1%*			*6.3%*	*–4.4%*	
Gross operating profit	3,308	3,613	3,727	10,648	3,291	3,556	3,632	10,479
Change 3rd Quarter/ 2nd Quarter		*9.2%*	*3.2%*			*8.1%*	*2.1%*	
% Gross operating profit to Revenues	*45.4%*	*46.0%*	*49.5%*	*46.9%*	*43.7%*	*44.4%*	*47.4%*	*45.2%*
Operating income	1,527	1,754	1,933	5,214	1,401	1,586	1,739	4,726
Change 3rd Quarter/ 2nd Quarter		*14.9%*	*10.2%*			*13.2%*	*9.6%*	
% Operating income to Revenues	*20.9%*	*22.3%*	*25.7%*	*23.0%*	*18.6%*	*19.8%*	*22.7%*	*20.4%*

(*) Historical figures of the Olivetti Group.

The third quarter of 2003 benefited from the cancellation of the TLC license fee which had been posted in the first two quarters of 2003. On the same comparative basis, in the first three quarters of 2003, the ratios of Gross operating profit to Revenues and Operating income to Revenues would have been the following:

	2003		
	1st Quarter	2nd Quarter	3rd Quarter
% Gross operating profit to Revenues	46.3%	46.7%	47.9%
% Operating income to Revenues	22.0%	23.2%	23.8%

TELECOM ITALIA GROUP

CONSOLIDATED STATEMENTS OF INCOME

(in millions of euro)	3rd Quarter 2003	3rd Quarter 2002 (*)	1/1-9/30 2003 (a)	1/1-9/30 2002 (b) (*)	Year 2002 (*)	Change (a) - (b) amount	%
A. Sales and service revenues	**7,533**	**7,660**	**22,682**	**23,203**	**31,408**	**(521)**	**(2.2)**
Changes in inventories of work in progress, semifinished and finished goods	7	(6)	14	(10)	(8)	24	
Changes in inventory of contract work in process	28	46	53	55	(42)	(2)	(3.6)
Increases in capitalized internal construction costs	152	109	482	356	675	126	35.4
Operating grants	3	5	11	10	20	1	10.0
B. Standard production value	**7,723**	**7,814**	**23,242**	**23,614**	**32,053**	**(372)**	**(1.6)**
Raw materials and outside services (1)	(3,006)	(3,084)	(9,377)	(9,593)	(13,311)	216	(2.3)
C. Value added	**4,717**	**4,730**	**13,865**	**14,021**	**18,742**	**(156)**	**(1.1)**
Labor costs (1)	(990)	(1,098)	(3,217)	(3,542)	(4,727)	325	(9.2)
D. Gross operating profit	**3,727**	**3,632**	**10,648**	**10,479**	**14,015**	**169**	**1.6**
Amortization of other intangibles and depreciation of fixed assets	(1,212)	(1,207)	(3,587)	(3,690)	(5,085)	103	(2.8)
Other valuation adjustments	(86)	(96)	(288)	(331)	(604)	43	(13.0)
Provisions to reserves for risks and charges	6	(45)	(65)	(164)	(171)	99	(60.4)
Net other income (expense)	(59)	(13)	(69)	42	45	(111)	–
E. Operating income before amortization of differences on consolidation	**2,376**	**2,271**	**6,639**	**6,336**	**8,200**	**303**	**4.8**
Amortization of differences on consolidation	(443)	(532)	(1,425)	(1,610)	(2,142)	185	(11.5)
F. Operating income	**1,933**	**1,739**	**5,214**	**4,726**	**6,058**	**488**	**10.3**
Net financial income (expenses) (2)	(494)	(608)	(1,690)	(2,104)	(2,565)	414	(19.7)
Net investment income (expenses)	(44)	(168)	(121)	(462)	(513)	341	(73.8)
G. Income before extraordinary items and taxes	**1,395**	**963**	**3,403**	**2,160**	**2,980**	**1,243**	**57.5**
Net extraordinary income (expenses)	1,159	(789)	455	(551)	(5,496)	1,006	–
H. Income (loss) before taxes	**2,554**	**174**	**3,858**	**1,609**	**(2,516)**	**2,249**	**–**
Income taxes	(1,257)	(211)	(969)	(1,057)	2,210	88	(8.3)
I. Net income (loss) for the period before minority interest	**1,297**	**(37)**	**2,889**	**552**	**(306)**	**2,337**	**–**
Minority interest - Net (income) loss	(472)	(312)	(1,008)	(1,412)	(467)	404	(28.6)
L. Net income (loss) for the period parent company interest	**825**	**(349)**	**1,881**	**(860)**	**(773)**	**2,741**	**–**

(1) Reduced by related cost recoveries
(2) Includes value adjustments to financial assets, other than equity investments
(*) Historical data of the Olivetti Group

CONSOLIDATED BALANCE SHEETS

(in millions of euro)	At 9/30/2003 (a)	At 6/30/2003 (*)	At 12/31/2002 (b) (*)	Change (a)-(b)
A. Intangibles, fixed assets and long-term investments				
Intangible assets:				
• differences on consolidation	28,130	31,651	27,877	253
• other intangible assets	6,559	6,526	6,535	24
Fixed assets	18,311	18,737	19,449	(1,138)
Long-term investments:				
• equity investments and advances on future capital contributions	1,638	1,696	2,576	(938)
• other	1,254	1,168	1,424	(170)
	55,892	**59,778**	**57,861**	**(1,969)**
B. Working capital				
Inventories	645	636	584	61
Trade accounts receivable, net	7,384	8,586	8,418	(1,034)
Other assets	3,115	4,511	3,943	(828)
Trade accounts payable	(5,128)	(5,438)	(5,899)	771
Other liabilities	(5,970)	(8,172)	(7,559)	1,589
Reserves for employee termination indemnities and pensions and similar obligations	(1,387)	(1,435)	(1,431)	44
Capital and/or investment grants	(275)	(293)	(325)	50
Deferred tax assets net of reserve for income taxes	4,050	4,818	3,806	244
Other reserves for risks and charges	(2,896)	(5,431)	(5,375)	2,479
	(462)	**(2,218)**	**(3,838)**	**3,376**
C. Net invested capital (A+B)	**55,430**	**57,560**	**54,023**	**1,407**
Financed by:				
D. Shareholders' equity				
Parent Company interest	16,814	16,018	11,640	5,174
Minority interest	4,363	4,098	8,984	(4,621)
	21,177	**20,116**	**20,624**	**553**
E. Medium/long-term debt	**28,806**	**33,464**	**33,292**	**(4,486)**
F. Net short-term financial borrowings (liquidity)				
Short-term borrowings	13,447	7,347	6,827	6,620
Liquid assets and short-term financial receivables	(8,604)	(9,060)	(7,347)	(1,257)
Financial accrued expenses (income) and deferred expenses (income), net	604	408	627	(23)
	5,447	**(1,305)**	**107**	**5,340**
G. Financial debt for tender offer and withdrawals		**5,285**		
H. Total net financial indebtedness (E+F+G)	**34,253**	**37,444**	**33,399**	**854**
I. Total net financing (D+H)	**55,430**	**57,560**	**54,023**	**1,407**

(*) Historical data of the Olivetti Group

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions of euro)		1/1-9/30/ 2003	1/1-9/30/ 2002 (*)	Year 2002 (*)
A. Net debt, at beginning of year		**(33,399)**	**(38,362)**	**(38,362)**
Operating income		5,214	4,726	6,058
Depreciation of fixed assets and amortization of intangible assets		5,012	5,300	7,227
Investments in fixed assets and intangible assets (1)		(2,871)	(2,884)	(4,901)
Proceeds from disposal of intangible assets and fixed assets		29	112	145
Change in operating working capital and other changes		(24)	(564)	151
B. Free cash flows from operations		**7,360**	**6,690**	**8,680**
Investments in long-term investments and differences on consolidation (1)		(6,451)	(1,198)	(2,123)
Proceeds from sale/redemption value of other intangible assets, fixed assets and long-term investments		569	4,389	5,823
Spin-off and sale of Nuova Seat Pagine Gialle		3,681		
Change in non-operating working capital and other changes		(4,965)	(3,205)	(3,843)
C.		**(7,166)**	**(14)**	**(143)**
D. Net cash flows before distribution of income/reserves and contributions by shareholders	(B+C)	**194**	**6,676**	**8,537**
E. Distribution of income/reserves		**(1,049)**	**(2,342)**	**(3,668)**
F. Contributions by shareholders/withdrawals		**1**	**69**	**94**
G. Net change in debt	(D+E+F)	**(854)**	**4,403**	**4,963**
H. Net debt, at end of period	(A+G)	**(34,253)**	**(33,959)**	**(33,399)**

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

(in millions of euro)			
Increase (decrease) in medium/long-term debt	(4,486)	(1,464)	(3,733)
Increase (decrease) in short-term borrowings	5,340	(2,939)	(1,230)
Total	**854**	**(4,403)**	**(4,963)**

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

(in millions of euro)			
Industrial investments:	2,871	2,884	4,901
- *other intangible assets*	*961*	*813*	*1,610*
- *fixed assets*	*1,910*	*2,071*	*3,291*
Differences on consolidation	5,086	194	346
Investment in long-term investments	1,365	1,004	1,777
Cash used for investments	**9,322**	**4,082**	**7,024**

(*) Historical data of the Olivetti Group

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

TELECOM ITALIA

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

- contribution of the "International Wholesale Services" business segment of the Merged Company Telecom Italia S.p.A. to Telecom Italia Sparkle on December 31, 2002;
- merger by incorporation of the subsidiary Telecom Italia Lab, signed on March 18, 2003, effective for accounting and tax purposes as from January 1, 2003;
- merger by incorporation of Telecom Italia S.p.A. with and into Olivetti S.p.A. (subsequently renamed Telecom Italia S.p.A.) finalized August 4, 2003, effective for accounting and tax purposes as from January 1, 2003, and of the following related transactions:
  - the exercise by the Olivetti shareholders of the right of withdrawal;
  - the voluntary partial tender offer by Olivetti for the ordinary and savings shares of the Merged Company.

The financial statements show the results for the first nine months of 2003 compared to those for the corresponding period of 2002 and the year 2002 that have been "restated" to give effect to the merger of Telecom Italia with and into Olivetti as from January 1, 2002.

Furthermore, in order to ensure the same comparative basis, the following statement presents the economic results for the first nine months of 2003 compared to those for the corresponding period of 2002 that give effect to the cited transactions for the contribution of the business segment to Telecom Italia Sparkle, the merger by incorporation of TILAB and the Olivetti/Telecom merger as from January 1, 2002.

(millions of euro)	1/1-9/30/ 2003 (a)	1/1-9/30/ 2002 restated (b) (*)	Adjustments TILAB merger (c)	Adjustments SWI spin-off (d)	1/1-9/30/ 2002 adjusted (e) = (b+c+d)	Change (a - e) amount	Change (a - e) %
A. Sales and service revenues	**11,872**	**12,561**	**39**	**(820)**	**11,780**	**92**	**0.8**
Changes in inventory of contract work in process	6	(4)	(2)		(6)	12	–
Increases in capitalized internal construction costs	40	9	9		18	22	°
Operating grants	8	–	5		5	3	60.0
B. Standard production value	**11,926**	**12,566**	**51**	**(820)**	**11,797**	**129**	**1.1**
Raw materials and outside services (1)	(4,584)	(5,085)	16	571	(4,498)	(86)	1.9
C. Value added	**7,342**	**7,481**	**67**	**(249)**	**7,299**	**43**	**0.6**
Labor costs (1)	(1,832)	(1,917)	(53)	40	(1,930)	98	(5.1)
D. Gross operating profit (loss)	**5,510**	**5,564**	**14**	**(209)**	**5,369**	**141**	**2.6**
Depreciation and amortization	(2,109)	(2,232)	(11)	67	(2,176)	67	(3.1)
Other valuation adjustments	(115)	(157)		45	(112)	(3)	2.7
Provisions to reserves for risks and charges	(13)	(78)		1	(77)	64	(83.1)
Net other income (expense)	(104)	(45)	(2)		(47)	(57)	°
E. Operating income (loss)	**3,169**	**3,052**	**1**	**(96)**	**2,957**	**212**	**7.2**

(1) Reduced by related cost recoveries
(*) Data restated by giving effect to the Olivetti / Telecom Italia merger only as of January 1, 2002.

RESULTS OF OPERATIONS

The Parent Company, **Telecom Italia S.p.A.**, reported a net income of euro 2,012 million for the first nine months of 2003. In the first nine months of 2002 restated, the net income was euro 730 million.
As usual, dividends from subsidiaries arising from the current year's earnings are not included in the result for the first nine months of 2003 but are recorded at the end of the year in accordance with the accrual principle.
The growth in earnings can be ascribed to a higher operating income (+euro 117 million) and an improvement in *net extraordinary income (expenses)* (+euro 898 million) as a result of the credit to extraordinary income for non-existent liabilities regarding the TLC license fee. Furthermore, earnings reflect the positive impact of income taxes (+euro 1,418 million) which benefited from deferred tax assets which became recoverable thanks to the aforementioned merger (euro 1,286 million). Such positive effects were partly compensated by the worsening of *net financial income (expenses)* (-euro 548 million) and *net investment income (expenses)* (-euro 603 million).

*In the **third quarter of 2003**, the net income was euro 432 million; in the third quarter of 2002 restated, the result was a net loss of euro 508 million.*

Sales and service revenues, equal to euro 11,872 million, decreased by euro 689 million, -5.5%, compared to the first nine months of 2002 restated *(instead, taking into account the effects of the merger with TILAB and the contribution to Telecom Italia Sparkle, revenues showed an underlying growth of euro 92 million, +0.8%).*
The reduction was attributable to traffic revenues which fell by euro 1,004 million, -16.3%, mainly on account of the contribution to Telecom Italia Sparkle, with the consequent allocation of revenues from international traffic to the latter (euro 808 million for the first nine months of 2002). This trend was partly compensated by the increase in income from basic subscription charges which benefited from the growth in commercial rate plans (principally Teleconomy and Alice) offering rate discounts on traffic aimed at retaining customer "loyalty".

*In the **third quarter of 2003**, revenues amounted to euro 3,837 million (euro 4,131 million in the third quarter of 2002 restated), with a reduction of 7.1% mainly due to international traffic following the cited contribution to Telecom Italia Sparkle.*

Gross operating profit, equal to euro 5,510 million, decreased by euro 54 million compared to the first nine months of 2002 restated, -1.0%.
As a percentage of revenues, gross operating profit was 46.4% (44.3% for the first nine months of 2002 restated).
The decrease in gross operating profit was due to the aforementioned fall in revenues that was partly compensated by the reduction in the consumption of raw materials and outside services (-euro 501 million, of which euro 150 million referred to the cancellation of the TLC license fee for the first nine months of 2002) and the decrease in labor costs which fell by euro 85 million compared to the corresponding period of 2002 restated.

When taking into account the effects of the merger with TILAB and the contribution to Telecom Italia Sparkle, the gross operating profit presented underlying growth of euro 141 million, +2.6%. Such growth was due to the increase in standard production value (+euro 129 million, of which euro 92 million relates to revenues) and the decrease in operating costs for a total of euro 12 million (+euro 86 million for the consumption of raw materials and outside services and -euro 98 million for labor costs).

*In the **third quarter of 2003**, the gross operating profit was euro 1,873 million (euro 1,839 million in the third quarter of 2002 restated) with an increase of 1.8%. As a percentage of revenues, gross operating profit was 48.8% (44.5% in the third quarter of 2002 restated). Excluding the benefit deriving from the cancellation of the TLC license fee for the first half of 2003 (euro 59 million), the gross operating profit, as a percentage of revenues, was 47.3%.*

Operating income, equal to euro 3,169 million, increased by euro 117 million compared to the first nine months of 2002 restated (+3.8%). As a percentage of revenues, operating income was 26.7%, compared to 24.3% for the first nine months of 2002 restated. The increase was mainly due to lower amortization and depreciation of intangibles and fixed assets (-euro 123 million), lower valuation adjustments (-euro 42 million) and lower provisions to reserves for risks and charges (-euro 65 million, of which euro 31 million refers to the cancellation of the TLC license fee), which fully compensated the aforegoing reduction in gross operating profit and the increase in expenses connected principally with adjustments on invoicing to other wireline telephone carriers.

When taking into account the effects of the merger with TILAB and the contribution to Telecom Italia Sparkle, operating income showed an underlying growth of euro 212 million, +7.2%.

*In the **third quarter of 2003**, operating income was euro 1,085 million (euro 998 million in the third quarter of 2002 restated), with an increase of 8.7%. As a percentage of revenues, operating income was 28.3% (24.2% in the third quarter of 2002 restated). Excluding the benefit deriving from the cancellation of the TLC license fee for the first half of 2003 (euro 79 million), the operating income as a percentage of revenues was 26.2%.*

Net financial income (expenses) showed an expense balance of euro 1,959 million (-euro 1,411 million for the first nine months of 2002 restated), a negative change of euro 548 million. The net balance, although benefiting from a reduction in debt exposure, increased compared to the first nine months of 2002 restated, principally due to the expense of euro 161 million relating to the JP Morgan put option on Seat Pagine Gialle shares exercised in August, the expenses connected with the credit lines granted to the acquiring company Olivetti for the rights of withdrawal and the tender offer (euro 92 million) and the expense of euro 394 million relating to the repurchase of notes subscribed by Telecom Italia Finance for euro 5,100 million. The notes were repurchased in order to bring the ratio of net equity and notes issued into equilibrium following both the distribution of reserves in June 2003 and the merger transaction. At Group level, the expense of euro 394 million realized by Telecom Italia was offset by a gain of the same amount posted in the financial statements of Telecom Italia Finance.

*In the **third quarter of 2003**, net financial income (expenses) showed an expense balance of euro 757 million (-euro 486 million in the third quarter of 2002 restated), with a negative change of euro 271 million.*

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

(millions of euro)	1/1-9/30/ 2003 (a)	1/1-9/30/ 2002 restated (b)	Change (a - b)
Value adjustments to financial assets	(237)	(604)	367
Income from investments, net	680	1.650	(970)
Total	**443**	**1.046**	**(603)**

Specifically:

- value adjustments to financial assets mainly referred to writedowns of investments (euro 304 million) and the reinstatement of value regarding the investment in Telecom Italia Finance (euro 67 million).

  Writedowns referred primarily to investments in I.T. Telecom (euro 101 million), Sky Italia (euro 64 million), Telecom Italia Learning Services (euro 33 million), Olivetti International (euro 33 million) and Olivetti Tecnost (euro 16 million) and the writedown of TIM shares in current assets (euro 12 million). The decrease (-euro 300 million) compared to the first nine months of 2002 restated, was principally due to higher writedowns made in 2002 to the investments in Stream (now Sky Italia, +euro 151 million), in TMI – Telemedia International Italia (now Telecom Italia Sparkle, +euro 85 million), and TIM shares in current assets (+euro 77 million);
- net investment income (expenses) mainly referred to the distribution of dividends by the Merged Company Telecom Italia to Olivetti prior to the merger (euro 511 million) and by the subsidiary TIM (euro 81 million).

*In the **third quarter of 2003**, net investment income (expenses) showed an expense balance of euro 41 million. In the third quarter of 2002 restated, net investment income (expenses) presented an income balance of euro 359 million.*

Net extraordinary income (expenses) showed an expense balance of euro 275 million (-euro 1,173 million for the first nine months of 2002 restated), with an improvement of euro 898 million. Specifically:

extraordinary income of euro 990 million comprised:

- non-existent liabilities and reserves for risks and charges (euro 922 million) relating to the TLC license fee;
- gains realized on the sales of the investments in Siteba (euro 6 million) and Tele Pay Roll Services (euro 4 million), and the contribution, by Olivetti, of the Facility Management business to Pirelli & C. Real Estate (euro 4 million);
- gains realized on the sale, to FMP Italy 1 S.r.l., (former Ireos S.p.A.), of certain buildings purchased in advance in January 2003 from Teleleasing (euro 13 million), and the sale of Telecom Italia's "Logistics" business to TNT Logistics Italia, finalized in March 2003 (euro 4 million);
- other prior period income for euro 37 million.

extraordinary expenses of euro 1,264 million comprised:

- the loss on the sale of Nuova SEAT shares (euro 348 million);
- the provisions in respect of the investment in EPIClink (euro 106 million) for the start of the process to strategically reposition the company within the Group;
- the expense relating to the settlement with Pagine Italia (euro 55 million) following the agreement which fell short with the latter for the purchase of the Pagine Utili business segment;
- the writedown of the investment in Loquendo (euro 10 million) and the provisions totaling euro 36 million for the guarantees provided at the time of the disposals of the satellite consortia (euro 30 million), of Tele Pay Roll Services (euro 2 million) and the Tiglio transaction (euro 4 million);
- expenses connected with the Olivetti – Telecom Italia merger (euro 110 million) principally in respect of fees for advisors, legal and tax consultants, technical experts and expenses for banking charges, in addition to the sale of Nuova SEAT (euro 63 million);

- the losses (euro 40 million) on the sale, to FMP Italy 1 S.r.l., (former Ireos S.p.A.), of certain buildings purchased in advance in January 2003 from Teleleasing;
- expenses and provisions (euro 76 million) for corporate restructuring measures relating to employee cutbacks and layoffs;
- expenses under ex Law 58/1992 (euro 122 million) to cover employees under the former "Telephone Employees Pension Fund" (FPT), which became part of the "Employees Pension Fund", in accordance with the 2000 Finance Bill;
- prior period expenses (euro 183 million) relating to the elimination of previous years' receivable balances;
- prior period expenses (euro 56 million) relating to the additional adjustment made to the estimated value of unused prepaid telephone cards following the start of technical data collection procedures;
- other prior period expenses (euro 59 million).

*In the **third quarter of 2003**, net extraordinary income (expenses) showed an income balance of euro 740 million. In the third quarter of 2002 restated, net extraordinary income (expenses) presented an expense balance of euro 1,105 million.*

Income taxes showed a credit balance of euro 634 million (a debit balance of euro 784 million for the first nine months of 2002 restated) and benefit from deferred tax assets which became recoverable thanks to the merger transaction (euro 1,286 million).

Employees at September 30, 2003 numbered 54,003, with a reduction of 772 units compared to December 31, 2002 restated. This change is primarily due to the termination (1,916) and exit of employees as a result of the sale of the Logistics business segment (337), partly compensated by the addition of TILAB employees who moved to Telecom Italia in March 2003 (1,169), new recruits (221) and intergroup transfers (91).

Investments amounted to euro 8,383 million (euro 2,217 million for the first nine months of 2002 restated). The breakdown was as follows:

(millions of euro)	1/1-9/30/ 2003 (a)	1/1-9/30/ 2002 restated (b)	Change (a - b)
Industrial investments	1,891	1,494	397
Financial investments	6,492	723	5,769
- of which tender offer	5,274	–	5,274
Total investments	**8,383**	**2,217**	**6,166**

Net financial indebtedness (euro 35,233 million) increased by euro 4,611 million compared to December 31, 2002 restated (euro 30,622 million) and principally rose on account of the effects of the share withdrawals and the tender offer for a total of euro 5,285 million. Furthermore, dividends of euro 794 million were paid out against dividend receipts of euro 428 million, the JP Morgan put option was exercised at an earlier date for euro 2,272 million, including euro 17 million to hedge interest rate exposure, financial investments were made for euro 604 million (mainly HanseNet for euro 243 million, and Sky Italia) and proceeds were collected on the sale of Nuova SEAT for euro 2,932 million.
The effects of such transactions, combined with other financial flows during the period, were partly absorbed by free cash flows provided by operations (euro 3,669 million).

Net financial indebtedness benefited from the effects of the securitization of receivables for an amount of euro 834 million at September 30, 2003 (euro 1,008 million at December 31, 2002 restated, of which euro 826 million related to securitization).

Gross financial debt at September 30, 2003 amounted to euro 35,216 million (euro 32,480 million at December 31, 2002 restated) and its composition is presented in the following table, which does not take into account net asset balance of medium/long-term accruals and deferrals of euro 294 million:

	At 9/30/2003						At 12/31/2002 restated	
(millions of euro)	**Euro**	%	**Foreign currency**	%	**Total**	%	**Total**	%
Medium/long-term debt	22,015	63	313	73	22,328	63	23,731	73
Short-term borrowings	12,774	37	114	27	12,888	37	8,749	27
Total	**34,789**	**100**	**427**	**100**	**35,216**	**100**	**32,480**	**100**

Short-term borrowings at September 30, 2003 included the current portion of medium/long-term debt for euro 8,548 (euro 1,319 million at December 31, 2002), of which euro 3,800 million relates to financing for the tender offer that will be paid in advance of the original expiry dates (October 2004 for euro 2,000 million, already repaid on October 14, 2003, and April 2005 for euro 1,800 million, repaid on November 4, 2003).

TELECOM ITALIA

STATEMENTS OF INCOME

(in millions of euro)	3rd Quarter 2003	3rd Quarter 2002 restated (*)	1/1-9/30/ 2003 (a)	1/1-9/30/ 2002 restated (b) (*)	Year 2002 restated (*)	Change (a) - (b) amount	Change (a) - (b) %
A. Sales and service revenues	**3,837**	**4,131**	**11,872**	**12,561**	**17,055**	**(689)**	**(5.5)**
Changes in inventory of contract work in process	4	–	6	(4)	–	10	–
Increases in capitalized internal construction costs	14	2	40	9	11	31	°
Operating grants	2	–	8	–	–	8	–
B. Standard production value	**3,857**	**4,133**	**11,926**	**12,566**	**17,066**	**(640)**	**(5.1)**
Raw materials and outside services (1)	(1,414)	(1,678)	(4,584)	(5,085)	(6,992)	501	(9.9)
C. Value added	**2,443**	**2,455**	**7,342**	**7,481**	**10,074**	**(139)**	**(1.9)**
Labor costs (1)	(570)	(616)	(1,832)	(1,917)	(2,565)	85	(4.4)
D. Gross operating profit	**1,873**	**1,839**	**5,510**	**5,564**	**7,509**	**(54)**	**(1.0)**
Depreciation and amortization	(713)	(729)	(2,109)	(2,232)	(3,053)	123	(5.5)
Other valuation adjustments	(26)	(58)	(115)	(157)	(357)	42	(26.8)
Provisions to reserves for risks and charges	19	(44)	(13)	(78)	(44)	65	(83.3)
Net other income (expense)	(68)	(10)	(104)	(45)	(74)	(59)	°
E. Operating income	**1,085**	**998**	**3,169**	**3,052**	**3,981**	**117**	**3.8**
Net financial income (expenses) (2)	(757)	(486)	(1,959)	(1,411)	(1,897)	(548)	38.8
Net investment income (expenses)	(41)	359	443	1,046	3,093	(603)	(57.6)
F. Income before extraordinary items and taxes	**287**	**871**	**1,653**	**2,687**	**5,177**	**(1,034)**	**(38.5)**
Net extraordinary income (expenses)	740	(1,105)	(275)	(1,173)	(5,929)	898	(76.6)
G. Income (loss) before taxes	**1,027**	**(234)**	**1,378**	**1,514**	**(752)**	**(136)**	**(9.0)**
Income taxes	(595)	(274)	634	(784)	918	1,418	–
H. Net income (loss) for the period	**432**	**(508)**	**2,012**	**730**	**166**	**1,282**	°

(1) Reduced by related cost recoveries
(*) Data restated by giving effect to the Olivetti / Telecom Italia merger only as of January 1, 2002
(2) Includes value adjustments to financial assets, other than equity investments

BALANCE SHEETS

(in millions of euro)	At 9/30/2003 (a)	At 6/30/2003	At 12/31/2002 restated (b) (*)	At 12/31/2002 (**)	Change (a - b)
A. Intangibles, fixed assets and long-term investments					
Intangible assets	1,351	1,355	1,340	53	11
Fixed assets	12,148	12,330	12,679	1	(531)
Long-term investments:					
• equity investments and advances on future capital contributions	36,004	38,736	33,301	22,888	2,703
• other	355	356	357	56	(2)
	49,858	**52,777**	**47,677**	**22,998**	**2,181**
B. Working capital					
Inventories	105	95	69		36
Trade accounts receivable, net	4,520	4,805	4,391	6	129
Other assets	1,738	3,306	2,841	1,269	(1,103)
Trade accounts payable	(2,903)	(3,183)	(2,966)	(18)	63
Other liabilities	(3,729)	(4,973)	(4,203)	(304)	474
Reserves for employee termination indemnities and pensions and similar obligations	(1,023)	(1,016)	(971)	(3)	(52)
Capital and/or investment grants	(205)	(216)	(235)		30
Deferred tax assets net of reserve for income taxes	3,319	3,318	2,068	614	1,251
Other reserves for risks and charges	(759)	(3,528)	(3,245)	(336)	2,486
	1,063	**(1,392)**	**(2,251)**	**1,228**	**3,314**
C. Net invested capital (A+B)	**50,921**	**51,385**	**45,426**	**24,226**	**5,495**
Financed by:					
D. Shareholders' equity					
Share capital	8,846	8,846	8,845	8,845	1
Retained earnings and reserves	4,830	4,826	5,793	6,426	(963)
Net income (loss) for the period	2,012	1,580	166	(6,240)	1,846
	15,688	**15,252**	**14,804**	**9,031**	**884**
E. Medium/long-term debt	**22,034**	**20,036**	**23,706**	**11,857**	**(1,672)**
F. Net short-term financial borrowings (liquidity)					
Short-term borrowings	12,888	11,047	8,749	3,298	4,139
Liquid assets and short-term financial receivables	(1,268)	(1,618)	(3,452)	(1,053)	2,184
Financial accrued expenses (income) and deferred expenses (income), net	1,579	1,383	1,619	1,093	(40)
	13,199	**10,812**	**6,916**	**3,338**	**6,283**
G. Financial debt for tender offer and withdrawals		**5,285**			
H. Total net financial indebtedness (E+F+G)	**35,233**	**36,133**	**30,622**	**15,195**	**4,611**
I. Total net financing (D+H)	**50,921**	**51,385**	**45,426**	**24,226**	**5,495**

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

(**) Historical data of the Merging Company Olivetti S.p.A.

STATEMENTS OF CASH FLOWS

(in millions of euro)		1/1-9/30/ 2003
A. Net debt, at beginning of year		**(30,622)**
Net debt of the merged company TILAB at the beginning of the year		(169)
B. Adjusted net debt, at beginning of year		**(30,791)**
Operating income		3,169
Depreciation of fixed assets and amortization of intangible assets		2,109
Investments in fixed assets and intangible assets (1)		(1,891)
Proceeds from disposal of intangible assets and fixed assets		315
Change in operating working capital and other changes		(33)
C. Free cash flow from operations		**3,669**
Investments in long-term investments (1)		(6,492)
Proceeds from sale/redemption value of other intangibles		3,016
Change in non-operating working capital and other changes		(3,842)
D.		**(7,318)**
E. Net cash flows before distribution of income/reserves and contributions by shareholders	(C + D)	**(3,649)**
F. Distribution of income/reserves		**(794)**
G. Contributions by shareholders/withdrawals		**1**
H. Net change in debt	(E + F + G)	**(4,442)**
I. Net debt, at end of period	(B + H)	**(35,233)**

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

(in millions of euro)	1/1-9/30/ 2003
Increase (decrease) in medium/long-term debt	(1,672)
Increase (decrease) in short-term borrowings	6,283
Total	**4,611**

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

(in millions of euro)	1/1-9/30/ 2003
Industrial investments:	1,891
- *fixed assets*	*1,455*
- *intangible assets*	*436*
Investment in long-term investments	6,492
Cash used for investments	**8,383**

SUBSEQUENT EVENTS

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

TELECOM ITALIA INTERNATIONAL

In October 2003, Telecom Italia International sold 7.75% of the share capital of Euskaltel for an equivalent amount of euro 34 million, received at the closing, retaining a 6.1% stake.
In the same month, Telecom Italia International signed an agreement to set up an integrated fixed-mobile telecommunications operator through Etec S.A.'s absorption of the two cell phone operators currently operating in Cuba (C-Com and Cubacell). As a result of the merger, Telecom Italia International's investment was reduced from 29.9% to 27% of the share capital of the new integrated operator while substantially maintaining the same governance rights stated in the agreements currently in force.
On October 29, 2003, the 40% sale to Forthnet of the investment held by Telecom Italia International in the Greek subsidiary Mediterranean Broadband Access S.A. was concluded for an amount of euro 7.04 million. At the same time – as established by the shareholders agreements in force – a share capital increase in Forthnet reserved for Telecom Italia International was subscribed to and paid for the same amount. Telecom Italia International will therefore receive 1,278,274 new shares that, after completing the necessary formalities, will be listed on the Athens Stock Exchange. The stake acquired is equal to 7.81% of the ordinary share capital of Forthnet.

SALE OF THE STAKE HELD IN CIRSA

On October 17, 2003, Olivetti Rap S.A. (a wholly-controlled company of the Telecom Italia Group), concluded an agreement with Leisure&Gaming Corp. to sell the minority interest, equal to 4.98% of share capital, held in Cirsa Business Corporation S.A.. On the same date, the sale was concluded for the first 2.46% tranche of Cirsa's capital for euro 40 million. The remaining 2.52% investment will be the subject of successive purchase and sale commitments by the contracting parties.
The transaction falls under the Telecom Italia Group's divestiture plan for non-core businesses.

SALE OF SOGEI IT

On October 9, 2003, after authorization was received from the Antitrust Authority, Finsiel sold its investment in SOGEI IT, consisting of 25,480 ordinary shares, equal to 49% of share capital, at the price of euro 1.6 million.

SALE OF BUSINESS SEGMENTS

- On October 16, 2003, the Board of Directors of IT Telecom approved the spin-off of the Facility Management business segment to EMSA Servizi consisting of 43 human resources.

- On October 20, 2003, under the plan to reorganize and rationalize back-office operations and administrative area services, the Sales Back End business segment of Olivetti Tecnost S.p.A. (consisting of 24 resources) was sold to the Accenture group, with which an outsourcing contract was signed.

NOTES ISSUE

On October 10, 2003, as part of the plan to refinance short and long-term borrowings falling due, the Board of Directors of Telecom Italia voted to set up a Euro Medium Term Note Program for a maximum amount of euro 10 billion. These notes will be issued, when market conditions permit, by Telecom Italia and/or its subsidiary Telecom Italia Finance, with a guarantee by Telecom Italia. On the same date, the Board of Directors also approved the issue of notes to be placed with qualified investors principally in the United States of America pursuant to Rule 144A of the U.S. Securities Act of 1933, for a maximum amount of U.S. $4 billion. As a consequence of this resolution, on October 29, Telecom Italia Capital S.A. (a wholly-controlled company of Telecom Italia) finalized the issue of fixed-rate multi-tranch notes in U.S. dollars, with a full and unconditional guarantee by Telecom Italia. Details are as follows:

- Series A notes for U.S. $1 billion, 4% annual coupon, issue price of 99.953, expiring November 15, 2008;
- Series B notes for U.S. $2 billion, 5.25% coupon, issue price of 99.742, expiring November 15, 2013;
- Series C notes for U.S. $1 billion, 6.375% coupon, issue price of 99.558, expiring November 15, 2033.

BUSINESS OUTLOOK FOR THE CURRENT YEAR

For 2003, the operating income and the net income are expected to show an improvement over the prior year.
The Group's financial indebtedness at the end of the year is forecast to show a reduction thanks to cash flows provided by operations.
The net result of the Parent Company should show a profit. This will enable dividends to be paid such as to ensure the shareholders the receipt of a total amount at least in line with that received until now by the shareholders of the Merged Company.

RELATED PARTY TRANSACTIONS

With reference to related party transactions, the effects of such transactions on the balance sheet and statement of income of the consolidated financial statements of the Telecom Italia Group at September 30, 2003 are reported in the following table.
In the first nine-months 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)	unconsolidated subsidiaries and affiliates	Nature of transaction
Sales and services revenues	170	These comprise revenues from Teleleasing (euro 106 million), Sky Italia (euro 15 million), Telecom Argentina (euro 9 million), Shared Service Center (euro 12 million), Telekom Srbija (euro 4 million)
Raw materials and outside services	279	These mainly comprise rent payable to Tiglio I (euro 60 million) and Tiglio II (euro 16 million) as well as TLC service costs from Etecsa Cuba (euro 84 million) and maintenance and assistance contracts from Italtel (euro 17 million), Siemens Informatica (euro 29 million) and Shared Service Center (euro 23 million)
Net other (income) expense	5	These mainly relate to cost recoveries for personnel on loan to certain subsidiaries and affiliates
Net financial (income) expense	2	These include accrued interest income on loans made to certain subsidiaries and affiliates (euro 19 million) and interest expense payable to Teleleasing for financial leasing transactions (euro 10 million) and Sky Italia (euro 7 million)
Loans in long-term investments	479	These comprise medium/long-term loans made to IS TIM (euro 335 million), Tiglio I (euro 77 million), Tiglio II (euro 31 million) and Telegono (euro 15 million)
Financial receivables	28	These comprise short-term loans made to TMI Telemedia International Luxembourg S.A. group companies (euro 19 million)
Financial payables	31	These refer mainly to payables to Teleleasing (euro 27 million)
Trade and other accounts receivable	128	They mainly regard receivables from Sky Italia (euro 43 million), written down by euro 12 million, and Teleleasing (euro 24 million)
Trade and other accounts payable	293	They include supply transactions connected with investment and operational activities: Italtel group (euro 86 million), Siemens Informatica (euro 25 million), EtecSA Cuba (euro 19 million), Shared Service Center (euro 24 million), as well as advances from Consorzio Telcal (euro 103 million)
Contract work in process	110	These refer to activities on behalf of Consorzio Telcal under the Telematico Calabria Plan for euro 103 million
Guarantees and collateral provided	959	These comprise sureties provided on behalf of Is Tim (euro 630 million), Consorzio Csia (euro 85 million), Sky Italia (euro 30 million) as well as collateral provided on behalf of Is Tim (euro 119 million)
Purchases and sales commitments	17	They refer to commitments with Teleleasing under operating leases
Investments in fixed assets and intangibles	258	These mainly consist of acquisitions of telephone exchanges from the Italtel group (euro 244 million) and computer projects from Siemens Informatica (euro 9 million)

In the first nine months of 2003, the buildings leased from teleleasing under financial leasing contracts, recorded in long-term investments, were purchased.

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

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

(millions of euro)	1/1-9/30/ 2003	
Sales and service revenues	31	These mainly refer to computer services and the supply of energy services to the Pirelli group (euro 23 million) and telephone services to the Pirelli group (euro 3 million) and the Edizione Holding group (euro 5 million)
Raw materials and outside services	41	These essentially refer to R&D expenditures and computer and tax consulting services and matters regarding intellectual property rendered to the Pirelli group (euro 40 million) and relating to the commissions paid to the Edizione Holding group (euro 1 million) for the sale of prepaid telephone cards
Trade and other accounts receivable	16	These mainly refer to the above-mentioned telephone services rendered to the Pirelli group (euro 14 million) and to the Edizione Holding group (euro 2 million)
Trade and other accounts payable	26	They mainly include supply transactions connected with services rendered and investment activities with the Pirelli group (euro 25 million) and the Edizione Holding group (euro 1 million)
Investments in fixed assets and intangibles	18	These mainly refer to purchases of telecommunications cables (euro 16 million) and leasehold improvements (euro 2 million) from the Pirelli group
Purchases of investments	2	Purchase by Telecom Italia S.p.A. of a 5% stake in Epiclink S.p.A. from Pirelli S.p.A.
Disposal of business segments	4	Gain on the contribution, by Olivetti, of the Facility Management business segment to Pirelli & C. Real Estate. The transaction is described in the section "Other activities – centralized services of the Group".

Details are as follows:

- Furthermore, in the first nine months of 2003, TIM and Telecom Italia sold telephone cards to Autogrill S.p.A. (Edizione Holding group) for subsequent sale to the general public for an equivalent amount of euro 17 million.

WIRELINE

- **Significant improvement in industrial operations and economic results**
- **Ongoing development of broadband markets and innovative data services**
- **Efficiency in costs and investments**

THE BUSINESS UNIT

The Wireline Business Unit operates on a national level as the consolidated market leader in wireline telephone and data services and call centers, for final (retail) customers and other (wholesale) providers. On an international level, Wireline develops fiber optic networks for wholesale customers, mainly in Europe and South America. Aggressive competition in the market continued during the third quarter of 2003. 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:

WIRELINE

Telecom Italia Wireline
- Wireline TLC services:
  - Retail Phone and Access
  - Internet
  - Data Business
  - Phone and Data VAS
  - Nazional Wholesale

National Subsidiaries
- Atesia S.p.A.
- Path.Net S.p.A
- Loquendo S.p.A.
- Telecontact Center S.p.A.

International Subsidiaries
- Latin American Nautilus Group
- Mediterranean Nautilus Group
- Med-1 Group
- Intelcom San Marino S.p.A.
- Telecom Italia Deutschland GmbH
- HanseNet Telekommunikation GmbH
- BBNED Group

Telecom Italia Sparkle Group
- Telecom Italia Sparkle S.p.A.
- Pan European Backbone
- Telecom Italia of N.A.Inc.

MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

- on September 25, 2003, after having received authorizations from the appropriate authorities, the acquisition of the 100% stake in the company HanseNet Telekommunikation GmbH, a broadband operator in the Hamburg area, was finalized by the Wireline BU with e.Biscom for a total investment of euro 243 million. To this end, Telecom Italia previously acquired the company Telecom Italia Deutschland GmbH, which at this date holds the entire investment in HanseNet.

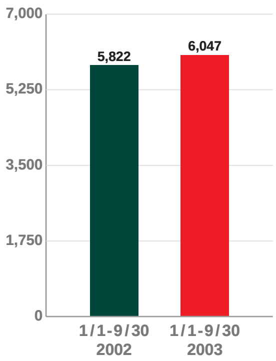
- in September, the BBNed group (previously part of International Affairs) moved to the Wireline BU.

- lastly, Telecom Italia, in view of the conditions laid down by the Antitrust Authority on August 7 to approve the concentration, on September 18 annulled the preliminary contract for the acquisition of Megabeam signed on March 10, 2003. The company will nevertheless continue to avail itself of the cooperation of Megabeam, with which a commercial agreement exists covering 19 locations.

ECONOMIC AND FINANCIAL DATA

The following table shows the key results for the third quarter of 2003 and for the first nine months of 2003, compared to the same periods in 2002, restated for purposes of comparison.

GOP



(millions of euro)	3rd Quarter 2003 (a)	3rd Quarter 2002 (b) (*)	1/1-9/30/ 2003 (c)	1/1-9/30/ 2002 (d) (*)	Change % (a/b)	Change % (c/d)
Sales and service revenues	4,119	4,128	12,687	12,537	(0.2)	1.2
Gross operating profit	2,068	1,931	6,047	5,822	7.1	3.9
% of revenues	*50.2%*	*46.8%*	*47.7%*	*46.4%*		
Operating income	1,291	1,134	3,724	3,517	13.8	5.9
% of revenues	*31.3%*	*27.5%*	*29.4%*	*28.1%*		
Investments:						
- industrial	562	581	1,636	1,588	(3.3)	3.0
- differences on consolidation	39		39			
Employees at period-end (number) (1)			52,318	55,702		(3.0)

(1) The change in employees has been calculated in reference to the data at the end of 2002.
(*) Restated to take into account the entry of the companies Loquendo and BBNed in the scope of consolidation.

During the first nine months of 2003, *sales and service revenues* increased by euro 150 million (+1.2%) compared to the same period of the prior year, generated principally by TI Wireline and TI Sparkle. In the third quarter of 2003, revenues amounted to euro 4,119 million, a contraction of 0.2%.

This increase was achieved thanks to the effectual management of the core telephone market, where flat-rate voice plans exceeded 5.6 million lines, with a 21%-penetration of the customer base, and market share remained steady during the first nine months of 2003. Furthermore, there was significant and ongoing growth in the broadband and innovative data services markets.
The number of broadband lines reached 1,510,000 at September 30, 2003, showing growth of 660,000 units, +78%, compared to the figure recorded at the end of 2002. The growth of data services for business customers also continued, led by the development of innovative data services (+41% compared to the first nine months of 2002), thus more than compensating the reduction in traditional data services and leased lines, which were affected by a regulated price regime and migration towards innovative solutions. Finally, there was an increase in VAS (valued added-service) revenues from telephone VAS and data VAS services of 22% compared to the same period of the prior year.

Factors particularly influencing the growth in revenues included higher revenues from basic subscription charges (+euro 190 million), due principally to the marked growth of ADSL Retail, and sales (+euro 109 million), which more than compensated the reduction in traffic (-euro 165 million, of which -euro 125 million was on retail traffic and -euro 40 million on domestic and international wholesale traffic) and grants (-euro 55 million).

There was an increase in the *gross operating profit* of 3.9% compared to the first nine months of 2002. In the third quarter of 2003, growth was equal to 7.1%.
This was the result of the positive trend in revenues already mentioned, and lower consumption of raw materials and outside services and the cancellation, in the case of TI Wireline, of the TLC license fee (euro 150 million in the first nine months of 2002).

Operating income, which increased by 5.9% compared to the first nine months of 2002 (+13.8% in the third quarter of 2003), was also influenced by the above-mentioned phenomena (including the cancellation of the TLC license fee, for a total of euro 181 million during the first nine months of 2002) and improvements in efficiency with regard to personnel costs.

Industrial investments in the first nine months of 2003 registered an increase of +euro 48 million (+3.0%) compared to those of the same period of the prior year.

The number of *employees* fell by 1,617 from December 31, 2002 as a result of policies aimed at optimizing resources. The reduction was due to 1,960 employees who terminated employment with the company, 389 new employees hired (of which 137 referred to seafaring personnel of Elettra), mobility among Telecom Italia Business Units (-90 persons), the outsourcing of Logistics activities (-337 persons), acquired from the TNT Traco group, and the acquisition of HanseNet (381 persons).

INFORMATION ON OPERATIONS

The following table shows the main operating highlights at September 30, 2003 compared to the first nine months and the whole of 2002:

Operating data	9/30/2003	9/30/2002	12/31/2002
Fixed network connections (in thousands)	27,022	27,194	27,142
- *of which ISDN*	*6,067*	*5,695*	*5,756*
Annual increase in minutes of traffic on the fixed network (%)	5.0	4.3	2.4
• national traffic	4.6	3.8	1.8
• international traffic	13.0	16.3	17.9

Retail Phone and Access, Internet and Phone VAS services

During the third quarter 2003, the following rate plans were launched:

Residential	Adsl Alice (Internet)	Addition of three new profiles to the ADSL rate plan: *Alice Time+Alinari, Alice Flat+Alinari* and *Alice SAT 300*. The first two profiles make it possible to access the photographic archive of the Alinari Educational website in addition to the advantages of *Alice Time* and *Alice Flat*. The third profile makes it possible to connect to Internet via satellite in areas not yet served by ADSL connections, with a downloading speed of up to 300 Kbps and an uploading speed of up to 33.6/128 Kbps.
	Service 405 (Phone VAS)	Introduction of the new "*405*" service, which enables subscribers to ascertain the numbers of the last 5 unanswered calls received. The new service also includes the dispatch of an SMS to the customer's mobile phone giving the number of the caller.
	Access (ISDN)	The launch of the Hellò Family rate plan which, using an ISDN line, makes it possible to customize domestic telephone lines by assigning a number, a telephone and an answering machine service to every member of the family.
	Generalized pricing	With the introduction of the "*generalized pricing*" policy, the price difference between local calls according to the duration of the call and the first bracket of long-distance calls has been eliminated and the price per minute at peak times has been reduced.
	Products	5 new products are being marketed: *Wave* and *Aladino* for cordless phones, *Compact* and *Petit blu lucido* for corded phones and *Tiziano* for fax machines.
Business	Smart Adsl (Internet)	The introduction of two new *ADSL Smart options: Smart Wi-Fi* and *Smart Twin*. The first extends broadband to the public sphere in the form of two profiles: *Lite* and *Pro*. The second is directed at customers who need to connect to Internet from home or from other company offices and comes in two formats, *Base* and *Avanzato*.
	Pricing (Retail Phone Services)	Launch of the "*Teleconomy Professional*" rate plan, for small and medium-size companies with 4 formats available: *Nazionale, Locale, Aziendale* and *Internazionale*.
	Generalized pricing	With the introduction of the "*generalized pricing*" policy, the price difference between local calls according to the duration of the call and the first bracket of long-distance calls has been eliminated and the price per minute at peak times has been reduced. However, basic subscriber charges and fees for PSTN access have increased.

with reference to the installation of public telephone services, at september 30, 2003, terminals using isdn technology totaled 121,721 (+20.9% compared to september 30, 2002 and +16.3% compared to december 31, 2002).

Data Business services and Data VAS

During the third quarter of 2003, the main features in terms of new plans involved the following:

Data Business	Private Wi-Fi	Introduction of a new wireless option in the private sphere using the connection profiles of the *Hyperway* and *Interbusiness* plans to enhance the more traditional modes of mobile access.
	Public Wi-Fi	Launch of the new *Wi-Fi Area* rate plan, with profiles based on flat rates and consumption. Furthermore, 18 new public hot spots have been activated in Italy and approximately 1,500 abroad, thanks to the collaboration agreement signed with Boingo.
	Dedicated circuits	Rates have been adjusted so as to reduce the cost of leased digital circuits, especially high-speed digital circuits.
	Hyperway and Datawan	With regard to broadband rate plans for putting companies on the Web, flat pricing has been introduced to favor companies with high HDSL consumption, together with Team profiles designed for peripheral offices and companies with a large number of peripheral offices.
	Full Business Company	Enhancement of the range of services for small-/medium-size businesses allowing optimum use of Internet potential with the introduction of *Intraway* (the structure of the intranet service is based on a ".net" platform and integrated with FBC messaging services) and *iBasket* which enables businesses to use a personal virtual folder which can be accessed via the Web, in which they can memorize corporate data securely.
	Full Business Management	The range of services of Colocation, Housing and Dedicated Hosting, based on broadband connectivity and hardware and software platforms has been technologically updated and repositioned in terms of pricing. Furthermore, the "*Enabling Software*" service has introduced a CRM online offer which will enable businesses to use automated solutions for Sales, Marketing and Service & Support systems directly via the Web, without any need to acquire, install and maintain hardware and software.

National wholesale

In the third quarter of 2003, the National Wholesale market can be summed up as follows:

– the "single line" ADSL Wholesale plan was highly successful with operators to the extent that, at September 30, 2003, about 160,000 customers were using the service;

– growth of Local Loop Unbundling continued; compared to June 2003, the number of lines connected directly to the networks of other networks increased by approximately 90,000, reaching a total of approximately 370,000 lines.

From a commercial point of view, during the same period of 2003, Telecom Italia expanded the offers for its national wholesale market by introducing the following services:

Access to broadband technology	The ADSL lite plan based on consumption was updated with the aim of enabling operators to market rate plans to their customers with no basic subscription charge.
Dedicated carrier services	The new plan for CDN Wholesale was made available with the aim of rationalizing and improving the technical and economic conditions associated with the supply of leased lines to OLOs.

International wholesale

With regard to international wholesale services, in the third quarter of 2003, IP and data transmission services focused on the sale of innovative international connectivity services, in line with the growth trend of the market, both in the wholesale segment and in terms of the plans for Italian multinational companies.
The voice service business, on the other hand, showed good growth in volumes, equal to approximately +15% (excluding traffic from TI customers that come under TIW) compared to September 2002. This was achieved thanks to interconnection with new international carriers, more business from Italian OLOs on the domestic market and the competitiveness of the range of services on the international market.

National network

During the third quarter of 2003, the first ODXC (*Optical Digital Cross Connect*) ring in the national network was completed.

International network

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

Countries connected	237
- of which by direct dialing	220 (in addition to 9 satellite destinations)
- of which by ISDN	53
Switching exchanges	9 (5 in Milan, 3 in Rome and 1 in Palermo)
Extent of European backbone	39,500 kilometers of optic fibers
Bands	2 rings of 80,000 Mbit/s and 1 ring of 20,000 Mbit/s

As far as the international network is concerned, during the third quarter of 2003, highlights were as follows:

- completion of the fiber-optic city rings in London, Paris, Frankfürt and Amsterdam, and activation of points of presence within the main European telehouses to support the extension of the range of IP and data transmission services;
- creation and activation of a POP for collecting IP and data transmission traffic in Madrid and a transmission POP in Barcelona with the aim of extending the reach network for IP and data transmission services;
- extension of the transmission capacity of the PEB (pan-European backbone) network from 60 Gb/s to 80 Gb/s on each of the two North and South rings, based on the expected growth of traffic volumes.

MOBILE

- **Increased revenues in line with expectations**
- **Improvement in profitability margins**
- **Further growth of the customer base in Brazil**

THE BUSINESS UNIT

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

THE STRUCTURE OF THE BUSINESS UNIT

The Business Unit is organized as follows:

MOBILE

- National Subsidiaries
  - TIM - Telecom Italia Mobile S.p.A.
- International Subsidiaries
  - TIM International N.V.
    - Mobile South America
      - Gruppo TIM Brasil
        - Tele Nordeste Celular Group Participaçoes (Brazil)
        - Tele Celular Sul Group Participaçoes (Brazil)
        - Maxitel S.A. (Brazil)
        - TIM Celular S.A. (Brazil)
        - Blah! S.A. (former TIMNet.com S.A. Brazil)
        - Starcel Ltda (Brazil)
      - TIM Perù S.A.C.
      - Corporacion Digitel C.A. (Venezuela)
    - Other subsidiaries
      - Stet Hellas Telecommunications S.A. (Greece)
      - Telesoft Hellas S.A. (Greece)
- Affiliated companies
  - IS TIM T.H.A.S. (Turkey)

MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

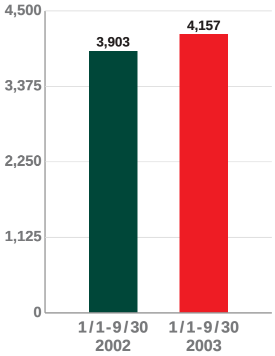
The third quarter of 2003 was marked by:

- on September 26, 2003, TIMNet.com S.A. changed its name to Blah! S.A., thus completely identifying the name of the company with its commercial trademark;
- on September 30, 2003, the merger of TIM Brasil S.A. and Bitel Participaçoes S.A. became effective. The acquiring company took the name of TIM Brasil Serviços e Participaçoes S.A. (in shortened form, TIM Brasil). The transaction is part of the process currently underway to simplify the Group structure.

ECONOMIC AND FINANCIAL DATA

The following table shows the key results for the third quarter of 2003 and for the first nine months of 2003, compared to the same periods in 2002.

GOP



(millions of euro)	3rd Quarter 2003 (a)	3rd Quarter 2002 (b)	1/1-9/30/ 2003 (c)	1/1-9/30/ 2002 (d)	Change % (a/b)	Change % (c/d)
Sales and service revenues	3,101	2,825	8,635	8,010	9.8	7.8
Gross operating profit	1,533	1,415	4,157	3,903	8.3	6.5
% of revenues	*49.4%*	*50.1%*	*48.1%*	*48.7%*		
Operating income	1,118	1,029	2,944	2,713	8.6	8.5
% of revenues	*36.1%*	*36.4%*	*34.1%*	*33.9%*		
Investments:						
- industrial	423	264	829	847	60.2	(2.1)
- differences on consolidation	–	66	–	66	ooo	ooo
Employees at period-end (number) (1)			18,866	17,532		0.9

(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 during the first nine months of 2003 amounted to euro 8,635 million, with an increase of 7.8% compared to the same period of 2002. Excluding the foreign exchange effect, revenues increased by 13.5%. Revenues in the third quarter of 2003 increased by 9.8%.

Gross operating profit of the first nine months of 2003 was euro 4,157 million and showed an increase of 6.5% compared to the same period of 2002 (euro 3,903 million). Excluding the foreign exchange effect, the gross operating profit increased by 7.8%. The improvement in the gross operating profit can be attributed to the positive performance of already-existing activities, which offset both the higher costs of GSM start-up in Brazil and the foreign exchange effect in the South American region. Furthermore, the increase in the gross operating profit was influenced by the fact that TIM S.p.A. no longer had to accrue the TLC license fee, following the verdict of the European Court of Justice which declared the institutional law establishing the fees as unlawful. In the first nine months of 2002, the TLC license fee amounted to euro 112 million. The gross operating profit represented 48.1% of total revenues during the first nine months of 2003.
The gross operating profit in the third quarter of 2003 was euro 1,533 million (euro 1,415 million in the third quarter of 2002) and was impacted by the positive effect of the cancellation of the TLC license fee accrued for the first six months of 2003, which was equal to euro 59 million.

Operating income was euro 2,944 million and showed an increase of 8.5% compared to the first nine months of 2002 (euro 2,713 million). The operating income represented 34.1% of revenues (33.9% in the same period of 2002). During the third quarter of 2003, the operating income was euro 1,118 million (euro 1,029 million in the third quarter of 2002).

Industrial investments amounted to euro 829 million, of which euro 322 million referred to intangible assets and euro 507 million to fixed assets. Investments were mainly devoted to the technological sphere and expansion of the network.

The number of *employees* increased by 164, compared to December 31, 2002. This increase can be attributed to the expansion reported by Brazilian companies in the start-up phase, and was partly offset by the reduction of resources in the parent company TIM S.p.A.

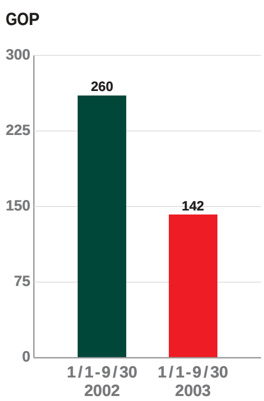
INFORMATION ON OPERATIONS

During the third quarter of 2003, TIM continued to develop innovative services with the aim of building customer loyalty and providing incentives to encourage people to use cell phones.
The most significant initiatives include:

Launch of the "TIM Giramondo" card	This rate plan awards customers a bonus of 10 minutes of phone calls in Italy for every 10 minutes of phone calls made abroad before September 7, 2003. .
Agreement with Costa Crociere	The agreement, which becomes operational in November 2003, will allow passengers on ships of the Costa Crociere fleet to use the GSM service during cruises, without using satellite equipment. The service will be available to all customers of TIM and to foreign customers of TIM's Roaming Partners, or can be accessed by buying a TIM card on board a Costa cruise ship.
Launch of "MOBILE TV": TV on your cell phon	TIM has made TV mobile by being the first operator in the world to launch the MOBILE TV eservice. During the first phase of testing it will be possible to access four TV channels: LA7, MTV, CFN/CNBC and Coming Soon Television. The service is free until the end of 2003..

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.



(millions of euro)	3rd Quarter 2003 (a)	3rd Quarter 2002 (b)	1/1-9/30/ 2003 (c)	1/1-9/30/ 2002 (d)	Change % (a/b)	(c/d)
Sales and service revenues	406	283	1,080	989	43.5	9.2
Gross operating profit	37	66	142	260	(43.9)	(45.4)
% of revenues	*9.1%*	*23.3%*	*13.1%*	*26.3%*		
Operating income	(80)	(5)	(160)	(19)	ooo	ooo
% of revenues						
Investments:						
- industrial	164	49	307	349	ooo	(12.0)
- differences on consolidation						
Employees at period-end (number) (1)			7,453	6,546		5.7

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

During the first nine months of 2003, the Mobile Business Unit in South America generated *revenues* of euro 1,080 million, showing an increase of 9.2% compared to the first nine months of 2002, despite the negative foreign exchange effect. Excluding the negative exchange effect, revenues increased by approximately euro 495 million. *Gross operating profit* amounted to euro 142 million, showing a contraction of euro 118 million. Excluding the negative exchange effect, the decrease in the gross operating profit would be reduced to approximately euro 71 million. This result can be attributed to the positive performance of on-going companies and higher expenses deriving from the start-up of the GSM service in Brazil, launched in October 2002. *Operating income* was a negative figure of euro 160 million. Industrial investments amounted to euro 307 million, of which euro 68 million referred to intangible assets and euro 239 million to fixed assets.
The number of *employees* rose by 403 compared to December 31, 2002 following increases associated with start-up operations in Brazil.

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.

LAO's structure can be summarized as follows:

LATIN AMERICA OPERATIONS

Subsidiaries
- TIM Brasil Group
- TIM Perù S.A.C.
- Corporacion Digitel C.A. (Venezuela)
- Entel Chile Group
- Entel Bolivia Group
- Telecom Italia America Latina

Affiliates
- Telecom Argentina Group

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

In September, the Telecom Italia Group and the France Telecom group set up a mutually owned Argentine holding company, Sofora Telecomunicaciones S.A.. The formation of this company falls under the contractual agreements signed on September 9 by the Telecom Italia Group with the France Telecom group and the Argentine Werthein group. The transaction is described in detail in "Other Activities – International Affairs".

ECONOMIC AND FINANCIAL DATA

The following table shows the key results of the Entel Chile group, the Entel Bolivia group, the company Telecom Italia America Latina and the South America business segment of Telecom Italia for the third quarter of 2003 and for the first nine months of 2003, compared to the same periods in 2002.

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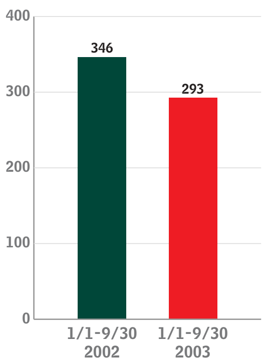

(millions of euro)	3rd Quarter 2003 (a)	3rd Quarter 2002 (b)	1/1-9/30/ 2003 (c)	1/1-9/30/ 2002 (d)	Change % (a/b)	Change % (c/d)
Sales and service revenues	280	305	844	1,036	(8.2)	(18.5)
Gross operating profit	103	100	293	346	3.0	(15.3)
% of revenues	*36.8%*	*32.8%*	*34.7%*	*33.4%*		
Operating income	40	31	101	116	29.0	(12.9)
% of revenues	*14.3%*	*10.2%*	*12.0%*	*11.2%*		
Investments:						
- industrial	24	41	85	170	(41.5)	(50.0)
- differences on consolidation						
Employees at period-end (number) (1)			5,223	5,536		(4.4)

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

Sales and service revenues amounted to euro 844 million, with a reduction of 18.5% (-euro 192 million) compared to the same period of 2002. This was mainly attributable to exchange rate fluctuations, which had an overall impact of -euro 221 million (euro 184 million in the case of the Chilean peso, euro 34 million for the Bolivian boliviano, euro 3 million for the Brazilian reais). Excluding the foreign exchange effect, consolidated revenues reported an increase of 2.8%, in line with the growth of the Entel Chile group (+1.6% in local currency).

The dynamics described also influenced the performance of profits. In particular, *gross operating profit* decreased by euro 53 million (-15.3%) compared to the nine months ending September 30, 2002, of which about euro 79 million can be attributed to the foreign exchange effect. Excluding the foreign exchange effect, the gross operating profit increased by 7.5% compared to the same period in the prior year. This can be attributed to the Entel Chile group (+7.2% in local currency). Gross operating profit represented 34.7% of total revenues for the period, showing an increase compared to the same period of the prior year (+33.4%).

Operating income, equal to euro 101 million, decreased by 12.9% (-euro 15 million) as a result of a foreign exchange effect equal to -euro 25 million. Excluding the foreign exchange effect, there would have been an increase of 8.6% compared to the same period of 2002, attributable to the Entel Chile group (+10.7% in local currency).
Operating income represented 12.0% of total revenues in the first nine months of 2003 (compared to 11.2% in the same period of the prior year).

Industrial investments showed a decreasing trend compared to September 30, 2002, with a reduction of 50.0%.

At September 30, 2003, *employees* numbered 5,223, with a reduction of 238 (-4.4%) compared to December 31, 2002. This is mainly due to rationalization measures adopted by the Entel Chile group (-241).

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, for the third quarter of 2003 and for the first nine months of 2003, compared to the same periods in 2002, restated for purposes of comparison.

(millions of euro)	3rd Quarter 2003 (a)	3rd Quarter 2002 (b)	1/1-9/30/ 2003 (c)	1/1-9/30/ 2002 (d)	Change % (a/b)	Change % (c/d)
Sales and service revenues	685	588	1,922	2,025	16.5	(5.1)
Gross operating profit	141	166	436	606	(15.1)	(28.1)
% of revenues	*20.6%*	*28.2%*	*22.7%*	*29.9%*		
Operating income	(40)	26	(59)	97	(253.8)	(160.8)
% of revenues	–	*4.4%*	–	*4.8%*		
Investments:						
- industrial	189	90	392	518	110.0	(24.3)
- differences on consolidation						
Employees at period-end (number) (1)			12,676	12,082		1.3

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

INTERNET AND MEDIA

- **Spin-off of Seat Pagine Gialle S.p.A. on August 1, 2003**
- **Internet business: revenues increase and profit margins improve**

THE BUSINESS UNIT

The Internet and Media Business Unit operates in the following segments:

– the Internet, in the management of access services (ISP), the management and development of portals and in web services, where it occupies a leadership position in the Italian market;
– Television, with MTV and La7, both in the sectors of production and broadcasting of editorial content through the television transmission networks entrusted under concession and of the marketing of advertising space in TV programming;
– Office Products and Services in the sector of the distribution of products, services and solutions for the office through the Buffetti retail network and in the sector of promotional articles with Cipi S.p.A.;
– Professional Publishing in the sector of specialized technical publishing.

THE STRUCTURE OF THE BUSINESS UNIT

The Business Unit is organized as follows (the table shows the main companies/consolidated activities):

INTERNET AND MEDIA

- **Internet**
  - Tin.it
  - Matrix
- **TV**
  - Holding Media e Comunicazione Group
- **News**
  - TM News (*)
- **Office products**
  - Buffetti Group
  - CIPI
- **Professional Publishing**
  - Giallo Professional Publishing

(*) Purchased on September 30, 2003

MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

On April 1, 2003, the Board of Directors of Seat Pagine Gialle S.p.A. approved the plan for the proportional partial spin-off of Seat Pagine Gialle S.p.A. ("Spun-off Company") to a newly formed company ("Nuova SEAT") based upon the balance sheet of the spun-off company at December 31, 2002. The Extraordinary Shareholders' Meeting of Seat Pagine Gialle S.p.A. approved the spin-off plan on May 9, 2003. Under deed of spin-off dated July 25, 2003, Nuova SEAT received the corporate complex principally composed of the following business segments: Directories (consisting of the Italian operations in telephone publishing and the stakes held in TDL Infomedia and Thomson), Directory Assistance (89.24.24 Pronto Pagine Gialle and Telegate) and Business Information (Consodata group). The spun-off company took the new name of Telecom Italia Media whereas the newly formed beneficiary company took the name of "Seat Pagine Gialle S.p.A.".
The spin-off became effective on August 1, 2003 and the shareholders of the Spun-off company were assigned, for every 40 ordinary (savings) shares held:
– 29 new ordinary (savings) shares of the beneficiary company, Seat Pagine Gialle;
– 11 new ordinary (savings) shares of the spun-off company, Telecom Italia Media.
After the above-described spin-off transaction, effective August 4, 2003, trading of the ordinary and savings shares of Nuova Seat Pagine Gialle S.p.A. began; consequently, starting from the same date, the shares of the spun-off company (Telecom Italia Media) were listed ex spin-off.

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

Such change in the scope of consolidation, which took effect for accounting purposes on August 1, 2003, had a considerable impact on the comparability of the information and the economic results in periods subsequent to that date.
The historical data of the report for the third quarter ending September 30, 2003 of the Telecom Italia Media group, in particular, comprises:
– January 1, – September 30, 2003: nine months of operations of the spun-off company (Telecom Italia Media) and the relative subsidiaries and seven months of operations of the beneficiary company (Nuova Seat Pagine Gialle) and the relative subsidiaries;
– January 1, – September 30, 2002: nine months of operations of the Seat Pagine Gialle Group pre-spin-off.

ECONOMIC AND FINANCIAL DATA

The following table shows the key results for the third quarter of 2003 and for the first nine months of 2003, compared to the same periods in 2002.

(millions of euro)	3rd Quarter 2003 (a)	3rd Quarter 2002 (b)	1/1-9/30/ 2003 (c)	1/1-9/30/ 2002 (d)	Change % (a/b)	Change % (c/d)
Sales and service revenues	258	509	1,121	1,379	(49.3)	(18.8)
Gross operating profit	65	191	311	401	(65.8)	(22.4)
% of revenues	*25.4%*	*37.6%*	*27.8%*	*29.0%*		
Operating income	10	108	90	127	(90.8)	(29.0)
% of revenues	*3.8%*	*21.2%*	*8.0%*	*9.2%*		
Investments:						
- industrial	26	15	65	45	73.3	44.4
- differences on consolidation	25	12	57	19	108.3	200.0
Employees at period-end (number) (1)			2,095	8,070		(72.8)

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

During the first nine months of 2003, *sales and service revenues* amounted to euro 1,121 million, with a contraction of euro 258 million (-18.8%) compared to the same period of 2002). Excluding the change in the scope of consolidation (-euro 324 million), due mainly to the deconsolidation on August 1 of Seat Pagine Gialle (-euro 255 million) and the sale of Is Products S.p.A. and Incas Production S.r.l., underlying growth was equal to euro 65 million (+6.2%) compared to the same period of 2002.

During the first nine months of 2003, *gross operating profit* was euro 311 million and showed a decrease of euro 90 million (-22.4%) compared to the first nine months of 2002. Excluding the change in the scope of consolidation (-euro 140 million), underlying growth, sustained mainly by Internet services, reached euro 50 million (+19.2%).

Operating income in the first nine months of 2003 was euro 90 million, with a reduction of euro 37 million compared to the first nine months of 2002 (-29.0%). Excluding the change in the scope of consolidation (-euro 114 million), underlying growth reached euro 77 million.

Industrial investments made in the first nine months of 2003 amounted to euro 65 million (+euro 20 million compared to the first nine months of 2002) and refer mainly to the acquisition of television rights, the strengthening of the systems that will be used to broadcast television signals and the acquisition of equipment and software to develop portals.

Investments in differences on consolidation amounted to euro 57 million and refer mainly to the acquisition of further stakes in TDL Infomedia (euro 43 million).

At September 30, 2003 the number of *employees* was 2,095 (7,715 at December 31, 2002).
The overall contraction of 5,620 compared to December 31, 2002 can be attributed to companies that were sold (5,642 persons, of which 5,402 refer to the sale of Seat Pagine Gialle).

The following table shows the key results for the third quarter of 2003 and for the first nine months of 2003, compared to the same periods in 2002, relating only to the businesses that were not sold:

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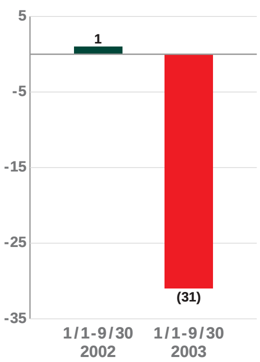

TI MEDIA GROUP – RESTATED

(millions of euro)	3rd Quarter 2003 (a)	3rd Quarter 2002 (b)	1/1-9/30/ 2003 (c)	1/1-9/30/ 2002 (d)	Change % (a/b)	Change % (c/d)
Sales and service revenues	118	114	418	406	3.2	3.0
Gross operating profit	(3)	(14)	1	(31)	75.2	103.0
% of revenues	–	–	*0.2%*	–		
Operating income	(29)	(42)	(77)	(117)	29.3	34.1
% of revenues	–	–	–	–		
Employees at period-end (number) (1)			2,095	2,586		(12.5)

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

During the first nine months of 2003, *sales and service revenues* amounted to euro 418 million, showing an increase of 12 million (+3.0%) compared to the same period of the prior year. Excluding the change in the scope of consolidation (-euro 69 million), due mainly to the sale of Is Products S.p.A. and Incas Production S.r.l., underlying growth was equal to euro 81 million (+24.0%) compared to the same period of 2002.

In particular:

- Revenues from *Internet* business during the period were euro 177 million compared to euro 97 million in the first nine months of 2002, showing an increase of 81.7%. This was affected by the new revenue share methods for calculating Internet dial-up traffic (Decade 7) introduced in 2003. Excluding this effect, growth, on a comparable consolidation basis, would be equal to 23%;
- revenues from *Television* amounted to euro 71 million and showed an increase of euro 14 million (equal to 24%) confirming the editorial success of the program schedule of the two stations;
- revenues from the *Office Products & Services* business area decreased by euro 63 million compared to the first nine months of 2002 to euro 140 million. Excluding the sale of Is Products S.p.A. and Incas Production S.r.l. underlying growth was a negative figure of euro 9 million (-6%);
- revenues from the area of *Professional Publishing* amounted to euro 18 million, showing a decrease of euro 4 million (-17.8%) compared to the first nine months of 2002. This was largely due (euro 2 million) to the deconsolidation of TTG Italia, which was sold at the beginning of 2003.

During the third quarter of 2003, the Business Unit generated revenues of euro 118 million, showing an increase of 3.2%.

During the first nine months of 2003, *gross operating profit* was euro 1 million, showing an improvement of euro 32 million (+103.0%) compared to the same period of 2002, thanks particularly to the positive performance of Internet and TV.
During the third quarter of 2003, the gross operating loss was euro 3 million, an improvement of euro 11 million compared to 2002 (+75.2%).

The *operating loss* was -euro 77 million in the first nine months of 2003 and showed an improvement of euro 40 million (+34.1%). During the third quarter of 2003, the operating loss was euro 29 million (-euro 42 million in the same period of the prior year).

INFORMATION ON OPERATIONS

- In the Internet area, for the Tin.it Division, growth continued for the products ADSLTin.it and Alice. At September 30, 2003, the number of activated lines had increased by 87% and 53%, respectively, compared to the same period of the prior year.
- The trend in growth continues to rise for Virgilio's users (+29% compared to September 2002) and Page Views (+25% compared to September 2002).
- In the area of Television, the La7 station consolidated its editorial image, trademark awareness and its programs. Its market share was stable at more than 2%, compared to 1.7% in September 2002.
- In the Office Products and Services area, in addition to rationalizing its portfolio of activities by selling the business segment of consumer office products, the publishing sector was reorganized and the marketing of new product lines was postponed.

INFORMATION TECHNOLOGY MARKET

- **Better profit margins in the third quarter of 2003**
- **Continuation of measures to improve overall efficiency and reduce costs**

INTRODUCTION

The Information Technology Market Business Unit is responsible for the IT activities and companies of the Group which provide information technology solutions and services for the external market.
In line with its main competitors and the evolution of the market, the BU is organized into three main areas of business - Government, Finance and Enterprises – with separate departments to deal with commercial matters on 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.

The third quarter of 2003, as in part of 2002, was marked by a stagnation of the IT services market and drastic price revisions with customers, as well as by the acquisition of new orders and new customers at lower prices than in the past. Meanwhile, action continued to improve overall efficiency and to reduce costs, particularly with reference to Finsiel S.p.A. and the major subsidiaries.

THE STRUCTURE OF THE BUSINESS UNIT

The Business Unit is organized as follows (the main consolidated companies are mentioned):

Information Technology market

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

MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

The following major corporate events and changes in the scope of consolidation took place during the third quarter of 2003:
- following the sale of the Netikos group on July 23, 2003 (as described in the comments on the IT Group Business Unit, since the Netikos group is held by IT Telecom), the companies in the Netikos group were deconsolidated effective July 1, 2003. Therefore, the consolidated financial statements of the IT Market Business Unit includes the statements of income of the above group up to June 30, 2003;
- on July 31, 2003, the contract was signed for the sale of the investment held by Webegg in Domus Academy S.p.A. to Telecom Italia S.p.A.. Effective July 1, the company was deconsolidated and therefore the consolidated financial statements of the IT Market Business Unit includes the statements of income of the company up to June 30, 2003.

ECONOMIC AND FINANCIAL DATA

The following table shows the key results for the third quarter of 2003 and for the first nine months of 2003, compared to the same periods in 2002, restated for purposes of comparison. In particular, for purposes of a more meaningful analysis, the following should be noted:

– **3rd quarter 2003 (Column 1)** refers to the current scope of consolidation of the IT Market BU;
– **3rd quarter 2002 (Column 2)** refers to the current scope of consolidation of the IT Market BU;
– **the period 1/1-9/30/2003 (Column 3)** refers to the current scope of consolidation of the IT Market BU;
– **the period 1/1-9/30/2002 (Column 4)** includes Sogei S.p.A., Consiel S.p.A., the Netikos group and Domus Academy;
– **the period 1/1-9/30/2002 (Column 5)** has been restated excluding Sogei S.p.A., Consiel S.p.A., the Netikos group and Domus Academy.

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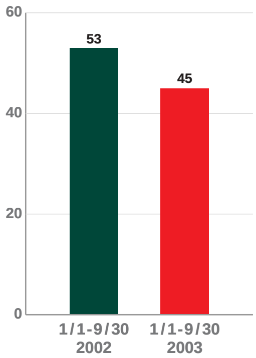


(millions of euro)	3rd Quarter 2003 (1) (a)	3rd Quarter 2002 (2) (b)	1/1-9/30/ 2003 (3) (c)	1/1-9/30/ 2002 (4)	1/1-9/30/ 2002 (5) (d)	Change % (a/b)	Change % (c/d)
Sales and service revenues	163	168	521	741	543	(3.0)	(4.1)
Gross operating profit	15	15	45	71	53	–	(15.1)
% of revenues	*9.2%*	*8.9%*	*8.6%*	*9.6%*	*9.8%*		
Operating income	6	4	15	44	25	50.0	(40.0)
% of revenues	*3.7%*	*2.4%*	*2.9%*	*5.9%*	*4.6%*		
Investments:							
- industrial	5	6	20	21	23	(16.7)	(13.1)
- differences on consolidation							
Employees at period-end (number) (1)			5,217	5,790	5,564		(5.2)

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

During the first nine months of 2003, *sales and service revenues* decreased by euro 22 million compared to the same period of the prior year, restated for purposes of comparison. This change was mainly attributable to the lower revenues of Finsiel on account of lower volumes and a reduction of prices, particularly in the areas of Government and Enterprises, and to lower revenues of Banksiel, Eis and the Webegg Group. The reduction was partly offset by higher revenues generated by Tele Sistemi Ferroviari and Eustema, and by the contribution of Agrisian. When compared with the results of the prior year, the revenues of the third quarter 2003 show a smaller decrease since the phenomena described refer mainly to the first half of 2003.

Gross operating profit and *operating income* for the first nine months of 2003, in terms of profit margins, reflect the above-mentioned decrease in revenues. However, a comparison of the third quarters of 2003 and 2002 show an improvement in both profit margins due partly to action to improve overall efficiency and cost reductions implemented mainly in Finsiel from the end of 2002.

Industrial investments amounted to euro 20 million, showing a decrease of approximately euro 3 million compared to the prior year and can mainly be attributed to Tele Sistemi Ferroviari, Finsiel and Insiel.

At september 30, 2003 *employees* numbered 5,217, with a decrease of 289 compared to december 31, 2002.

INFORMATION ON OPERATIONS

In the third 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 bid won by Finsiel for remote personnel training for staff based in foreign departments of the Ministry for Foreign Affairs.

EVENTS SUBSEQUENT TO SEPTEMBER 30, 2003

On October 9, 2003, in agreement with what was established in the contract signed on July 31, 2003 between Sogei S.p.A. (buyer) and Finsiel S.p.A. (seller), the transaction was concluded for the sale of the 49% interest held in Sogei IT by Finsiel.

Moreover, the following corporate transactions were also decided:

- the sale of the "Enterprise" business segment (computer services for the private market) to IT Telecom by Finsiel, effective October 1, 2003.
- the sale of the Central Administrative Services business segment to Telecom Italia by Finsiel, effective October 1, 2003.
- the sale of the "Desk Top Management" business segment (operating services, technical support and hardware maintenance of distributed working stations) to H.P. by Finsiel and Banksiel, both effective October 1, 2003.
- the sale of the "Pal Bologna" business segment (operator of the CUP – Centro Unificato Prenotazioni service – of the metropolitan Bologna area) to Webred by Finsiel, effective November 1, 2003.
- the merger of Eis S.p.A. with and into Finsiel S.p.A. which will take place on December 31, 2003, effective for accounting purposes of January 1, 2003.

INFORMATION TECHNOLOGY GROUP

Operations under the new framework of 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.

Information Technology Group

- IT Telecom Group
  - IT Telecom S.p.A.
  - Teco Soft Argentina SA
  - Telesoft Russia ZAO
- Epiclink S.p.A.

The Operating Activity is organized as follows:

- IT Architectures
- IT Operations & Infrastructures
- Business Support System
- OSS & VAS Solutions
- Operational Planning & Client Management

MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

The third quarter of 2003 was marked by the following corporate events:

- the sale, on July 23, 2003, of the entire stake held by IT Telecom in Netikos S.p.A. to the Belgian company My Qube SA at the price of euro 2 million. The Netikos group had been consolidated by IT Market, since it reported functionally to the IT Market Business Unit.
  At the same time as the sale transaction was concluded, a long-term commercial agreement (2004/2007) was formalized between Telecom Italia, Netikos and My Qube for professional services to be rendered by Netikos to the Telecom Italia Group;
- the finalization, on July 28, 2003 under the SSC (Shared Service Center) project, of the deed for the conferral of the "Corporate Solution" business segment of IT Telecom S.p.A. in exchange for share capital of Pirelli Informatica S.p.A. which became a consortium company and changed its name to "Shared Service Center Scrl". The share capital is held by IT Telecom S.p.A. for 45%, by Olivetti Tecnost S.p.A. for 5% and by Pirelli S.p.A. for 50%.

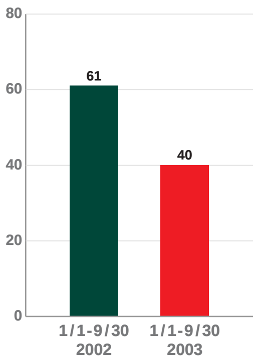
ECONOMIC AND FINANCIAL DATA

The following table shows the key results for the third quarter of 2003 and for the first nine months of 2003, compared to the same periods in 2002, restated for purposes of comparison.

(millions of euro)	3rd Quarter 2003 (a)	3rd Quarter 2002 (b)	1/1-9/30/ 2003 (c)	1/1-9/30/ 2002 (d)	Change % (a/b)	(c/d)
Sales and service revenues	238	182	703	590	30.8	19.2
Gross operating profit	16	15	40	61	13.3	(34.4)
% of revenues	6.7%	8.2%	5.7%	10.3%		
Operating income	(19)	(22)	(60)	(29)	13.6	°
% of revenues						
Investments:						
- industrial	66	52	126	92	24.5	35.5
- differences on consolidation				24		
Employees at period-end (number) (1)			3,991	5,107		(20.8)

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

GOP



Consolidated *revenues* showed an increase of euro 113 million compared to the first nine months of 2002 as a result of higher volumes of work on institutional projects for Corporate, such as the SAP Value Program and the development of the Group Portal, projects for the Wireline segment of Telecom Italia on Broadband, UNICA TD, Order Manager and CRM. In the third quarter of 2003, in particular, in addition to continuing work on projects already in the portfolio, a new project was started, known as "CRM Francia", which generated further revenues of euro 3 million.

Gross operating profit, which reflects the fall in prices which took place in the second half of 2002, compared to the first nine months of 2002, showed a decrease of euro 21 million. This was due to an increase in external costs (+euro 114 million) following the higher level of business activities. In the third quarter of 2003, the gross operating profit improved compared to the prior period as a result of lower personnel costs deriving from the start of the restructuring process.

Operating income was affected not only by the trend of the gross operating profit but also by higher amortization and depreciation (+euro 16 million) associated with investments made mainly in the second half of 2002.

Industrial investments amounted to euro 126 million and reflected the continuation of infrastructure projects begun at the end of 2002, and new projects begun in 2003 associated, in particular, with Business Continuity (euro 22 million), Group Security (euro 4 million) and the implementation of the SAP information system (euro 4 million).

At September 30, 2003, *employees* numbered 3,991; the reduction compared to the end of the same period in 2002 (-1,048 persons) was partly the result of the sale of the business segments to Hewlett Packard and the Shared Service Center consortium.

INFORMATION ON OPERATIONS

In the third quarter of 2003, activities continued for the management of the systems in operation together with the rationalization and standardization of the architectures and infrastructures of the Parent Company. In particular, migration continued towards the new operating platforms (CRM – Customer Relation Manager) of the Business and Residential clientele and, in the sphere of the development plan for SAP/VP, work continued in the area of the Group's institutional and business support systems.

Within the framework of Usage Collection (phone, data and services traffic management) the creation of a new platform continued and, in the area of Business Intelligence, work went forward on the project for reconstructing the data warehouses used by Wireline.

Other highlights during the period include:

– conclusion, in the area of broadband services, of a platform enabling Wireline to design and configure 95% of its broadband services completely automatically;

– consolidation, in the area of customer support services for Wireline customers, of commercial telephone assistance on 191 and wholesale support for the Customer Profile System (CPS).

Finally, in the third quarter of 2003 the following new activities were started:

– the CRM France project of which phase 1 has been completed;

– within the framework of developing new TIM services, the "2 in 1" service was activated and has been a resounding success with TIM customers. Similarly, the "Live TV" service was activated by TIM in a worldwide preview.

EVENTS SUBSEQUENT TO SEPTEMBER 30, 2003

• On October 16, 2003, the Board of Directors of IT Telecom approved the spin-off of the Facility Management business segment to EMSA Servizi S.p.A..

• Effective October 1, 2003, IT Telecom purchased the business segment Enterprise (information and computer services for the private market) from Finsiel S.p.A.. The agreement calls for the transfer of 253 resources.

OLIVETTI TECNOST

INTRODUCTION

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

THE STRUCTURE OF THE BUSINESS UNIT

The Business Unit comprises the following (the main companies are indicated below):

Olivetti Tecnost Group

- Olivetti Tecnost S.p.A.
- Olivetti I-Jet S.p.A.
- Innovis S.p.A.
- CellTel S.p.A.
- Wirelab S.p.A.
- Olivetti Tecnost International B.V. (foreign sales companies)

The company operates with the following organizational structure:

Olivetti Tecnost Group

Office Products	System Division	South America	North and Central America	Industrial Operations
Office Products	Gaming Banking Retail	Office Products ICT	Consumer & Office Products	Ink-jet Technology Document MGMT Mobile Repair

MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

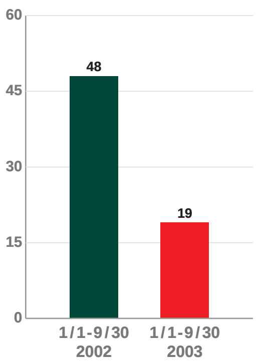
The major corporate events which marked the third quarter of 2003 are:

- finalization, effective August 1, 2003, of the merger of the companies Tecnost Sistemi S.p.A., Technoproduzioni S.p.A. and Oliweb S.p.A. with and into Olivetti Tecnost S.p.A.;
- sale, to Comdata S.p.A., of the investment in Gotoweb S.p.A., a company operating in ASP Internet services for small- and medium-sized companies;
- formation of the company Wirelab S.p.A. (70% Olivetti Tecnost, 30% Tellus S.r.l. – Urmet group) destined to carry out repairs of wireline telecommunications equipment in the Canavese area.

ECONOMIC AND FINANCIAL DATA

The following table shows the key results for the third quarter of 2003 and for the first nine months of 2003, compared to the same periods in 2002.

GOP



(millions of euro)	3rd Quarter 2003 (a)	3rd Quarter 2002 (b)	1/1-9/30/ 2003 (c)	1/1-9/30/ 2002 (d)	Change % (a/b)	Change % (c/d)
Sales and service revenues	128	195	460	681	(34,4)	(32,5)
Gross operating profit	2	6	19	48	(66,7)	(60,4)
% of revenues	*1,6%*	*3,1%*	*4,1%*	*7,0%*		
Operating income	(2)	(2)	(5)	7	0	(171,4)
% of revenues						
Investments:						
- industrial	2	5	12	23	(60,0)	(47,8)
- differences on consolidation						
Employees at period-end (number) (1)			2.618	4.906		(42,2)

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

At September 30, 2003, *sales and service revenues* amounted to euro 460 million (of which euro 128 million was generated in the third quarter). Revenues were distributed as follows: euro 279 million referred to hardware products, euro 101 million to accessories, euro 80 million to services and other revenues.
Compared to September 30, 2002, revenues showed a reduction of euro 221 million (-32.5%; -29.0% excluding the foreign exchange effect). The decrease was generated by the decision to reduce the sales of low-margin products in the Office area, by the drastic slowdown of sales in China in the System Division area and by the decision to close down operations in Latin America.

Gross operating profit and *operating income* reflected this performance.
In the nine months ending September 30, 2003, the gross operating profit was euro 19 million (euro 48 million in the corresponding period of 2003); the figure in the third quarter of 2003 was euro 2 million (euro 6 million in the third quarter of 2002).
The operating loss was euro 5 million (for the nine months ending September 30, 2002, the operating income was euro 7 million); the operating loss in the third quarter of 2003 was euro 2 million (unchanged compared to the third quarter of 2002).

Industrial investments amounted to euro 12 million (euro 23 million for the nine months ending September 30, 2002) of which euro 2 million was generated in the third quarter of 2003 (euro 5 million in the third quarter of 2002).

At September 30, 2003 *employees* numbered 2,618 of whom 2,126 were employed in Italy and 492 abroad. Compared to December 31, 2002, this shows a reduction of 1,909 persons, including 1,588 as a result of the sale of the business segment Olivetti Tecnost de Mexico, and the closing of operations in Latin America.

INFORMATION ON OPERATIONS

The main activities carried out during the third quarter of 2003 are the following:

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

Industrial Operations - Industrial reconversion of the company Cell Tell which operates in the area of cell phone repairs continued alongside the company Innovis which is already operational in the back-office sector. Furthermore, at the end of July, Wirelab was set up. Starting in the third quarter of 2003, the company will operate in the sphere of repairing and regenerating fixed telecommunications equipment.
With reference to Olivetti I-JET, development activities continued on MEMS applications in the sector of pressure sensors for automotive applications, and also in the sector of optical components, where Olivetti I-Jet acts mainly as a silicon foundry. Full-scale production also continued for Olivetti I-JET ink-jet print-heads.

System Division - In the *Gaming* sector, during the month of August, the Lottomatica network was successfully started for the new Totocalcio system (football pools) which involved Olivetti Tecnost in the supply of terminals, software and services to adapt the pre-existing collection system. Pursuing the aim of geographical diversification, the Best&Co. network was started in India for the local lottery. This was a turnkey project supplied together with the software for the central and peripheral systems.
In the *banking* sector during the period there were interesting signs of a recovery compared to the first half of 2003 which was marked by a generalized recessive scenario. A significant order was acquired from Abbey-National Bank (UK) to renew its printing equipment (approximately 9,000 printing stations).
Stagnation continued in China, where sales were very low and there was a loss of profit margins as a result of the foreign exchange effect and falling prices. Conversely, there was a significant recovery in other parts of the Asia-Pacific region with increasing volumes.
In the national *Retail* sector, the Shop Automation business of fiscal Cash Registers confirmed the improvement in margins achieved in the first half of 2003. However, announcements about changes to the regulatory framework (the law on the agreement for shop owners) drastically reduced demand in the last part of the quarter; once the initial uncertainty has passed, there is expected to be a recovery.

EVENTS SUBSEQUENT TO SEPTEMBER 30, 2003

- On October 20, 2003, under the plan to reorganize and rationalize back-office operations and administrative area services, the Sales Back End business segment of Olivetti Tecnost S.p.A. (consisting of 24 resources) was sold to the Accenture group, with which an outsourcing contract was signed.
- The process began for the wind-up of the companies in the South America Area. The situation at September 30, 2003 takes into account the economic effects of the result of such process.

OTHER ACTIVITIES

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

TELECOM ITALIA LAB

Creation of a new Operating Activity oriented towards Group innovation

THE OPERATING ACTIVITY

The Telecom Italia Lab Operating Activity coincides with the R&D Function of the Group and is also responsible for supervising technological innovation within the Telecom Italia Group, in the sector of networks and innovative services.
Today, in keeping with this focus, the activity of Telecom Italia Lab is chiefly oriented towards providing support to the BUs of the Group by offering a competitive edge, and, at the same time, pursuing the objective of improving quality and efficiency and promoting innovation.

THE STRUCTURE OF THE OPERATING ACTIVITY

The Operating Activity is organized as follows:

TILAB

- Telecom Italia - TILab segment
- Telsy S.p.A.

The Operating Activity operates with the following organization:

- Innovation Delivery
- Service Innovation
- Network Innovation
- Telsy (Security)

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.

MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

In the third quarter of 2003, there were no major corporate events or changes in the scope of consolidation.

ECONOMIC AND FINANCIAL DATA

The following table shows the key results for the third quarter of 2003 and for the first nine months of 2003, compared to the same periods in 2002.

(millions of euro)	3rd Quarter 2003 (a)	3rd Quarter 2002 (b)	1/1-9/30/ 2003 (c)	1/1-9/30/ 2002 (d)	Change % (a/b)	Change % (c/d)
Operating costs	28	30	92	97	(6.7)	(5.2)
Amortization and depreciation	3	5	11	15	(40.0)	(26.7)
Operating grants	(2)	(3)	(8)	(5)	(33.3)	60.0
Total Net Costs TILAB	**29**	**32**	**95**	**107**	**(9.4)**	**(11.2)**
Costs recharged to TI BUs	29	31	90	95	(6.4)	(5.3)
Revenues from third parties	4	4	10	14		(28.6)
Change in contract work in process	2	(1)	2	(2)		
Total	**35**	**34**	**102**	**107**	**2.9**	**(4.7)**
Operating income	**6**	**2**	**7**	**0**	°	
Investments:						
- industrial	3	3	5	7		(28.6)
- differences on consolidation	–	–	–	–		
Employees at period-end (number) (1)			1,161	1,254		(5.1)

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

During the first nine months of 2003, the overall *operating costs*, equal to euro 95 million, net of related grants, showed a marked reduction compared to the same figure in the prior year (euro 107 million). This was mainly attributable to both lower consumption of materials and outside services, and partly due to the cost-cutting policy pursued in 2003, and also, for the same period, to the increase in research grants offered by national and international organizations.
The above-mentioned reduction in operating costs led to an improvement in the operating income compared to the corresponding period of 2002, despite the presence of a reduction in revenues and costs recharged which is attributable to the contraction of activities commissioned by the Group companies and by third parties.

Industrial investments remained substantially in line with the same period of the prior year.

At September 30, 2003 *employees* numbered 63 less than at December 30, 2002.

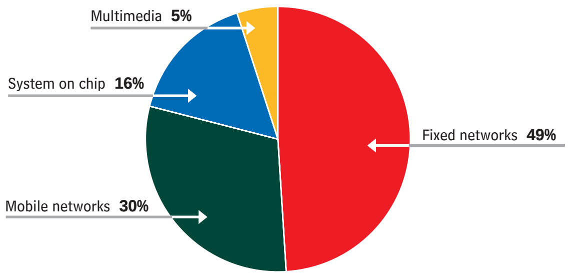
INFORMATION ON OPERATIONS

During the third quarter of 2003, TILAB continued its role as a driver of innovation for the Group, partly in cooperation with Pirelli Labs. The main results involved the following areas:

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

Increasing attention to the opportunity of generating competitive advantages and creating value for the Telecom Italia Group was also pursued through the strategic management of the relations between research, Intellectual Property Rights (IPR) and business with the aim of increasing the number of registered patents. In this context, during the third quarter of 2003, 16 new patents were filed – of which 4 are jointly owned with Pirelli – in addition to the 21 patents already filed in the first half of 2003, bringing the total number of patents filed since the beginning of the year to 37. The patents were distributed by sector of activity as follows:

Fixed networks	18
Mobile networks	11
System on chip	6
Multimedia	2
TOTAL	**37**



Within the framework of the above-mentioned research contexts, the research projects and those destined for the BUs of the Group are based on three main research programs: Broadband services, Mobile services and Network innovation.
Some of the most significant results achieved in the third quarter of 2003 included the following research projects:

Broadband services:

- the release, for trials with ADSL users, of an environment for the production and WebCasting of live and recorded audio/video material that can be used on the public portal http://personal.tv;
- the start of the second phase of the technical trials of broadband services for residential users (involving 130 test users) to evaluate hi-tech end-to-end solutions;
- the first prototype of the interactive Virtual Biking service for Internet PSTN/ADSL users, including a real three-dimensional environment of the actual territory, multi-user servers and customers that can be activated by a biking trainer.

Mobile Services

- the creation of the first mobile terminal demonstrator which uses Loquendo's voice synthesis with a compressed database on Multimedia cards authenticated by SIM;
- the completion of the creation of a SIP Presence Server and relative SIP customers for a evolved hi-tech mobile terminal (pJava) in synergy with activities aimed at TIM VAS which will lead the way to pro-2004 adoption;
- the analysis and identification of strategic development guidelines for the new generation of SIM/USIM, and the identification of strategic partners (chip/card makers) to create Enhanced USIM and the start of partnership activities.

Network innovation:

- the first joint releases with Italtel for Wireline, in the sphere of developing an innovative service platform based on SIP technology, in association with a 3-way Videoconferencing service with FastWeb including network support for IP Voice Over calls to Customer Care 187 made by Alice users;
- completion of FC (Fiber Channel)/WDM field trials, which showed that it is possible to create storage networking and disaster recovery applications on a WDM metropolitan network shared by various services and users;
- the release of the Instant Messaging service, which aims to supply innovative experimental services based on IPv6 with a broad base of experimental users;

Also worthy of mention is the signing of the cooperation agreement with Guard-IT, which led to the completion of the acquisition of the Racket assets.

During the third quarter of 2003, cooperation with Pirelli Labs led to the following results:

- availability of the final version of Access Gateway equipment for the commercial launch at the end of October;
- definition of the functional requirements and specifications of the smart tag/reader system according to relevant applications for the BUs.

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

- contact was made with technology suppliers such as Powerwave and Katrhein with the aim of opening up to alternative business areas;
- finalizing of a co-development agreement for packet and optical routing equipment (POE) with Cisco Systems, while also keeping open the option of an agreement with Juniper / Siemens as a second source.

INTERNATIONAL AFFAIRS

The centralized International Affairs function comprises, with no change in the structure of corporate control, Telecom Italia International and some affiliated companies including the operators Etec S.A. (Cuba) and Telekom Austria. The function ensures the coordination, the leveraging and the rationalization of the relative foreign subsidiaries and affiliates under its control.

As far as the major corporate transactions which took place in the third quarter of 2003 are concerned, the following should be mentioned:

– July 2003
  - Telecom Italia International finalized the sale of the investment held in Telekom Srbija, corresponding to 29% of the share capital of the company, for consideration of euro 195 million.

– August 2003
  - Telecom Italia International – on the basis of an irrevocable offer, received by Telecom Italia Sparkle, for the purchase of the 100% stake of Intelcom San Marino – proceeded to purchase the remaining 30% of the share capital of the subsidiary from third parties for consideration of euro 4.25 million. Later, Telecom Italia International, as the sole shareholder of the subsidiary, paid euro 9.1 million to Intelcom to absorb the losses and recapitalize share capital.

– Semptember 2003
  - The Telecom Italia Group and the France Telecom group set up a mutually owned company, Sofora Telecomunicaciones S.A.. The formation of the new Argentine-registered holding company falls under the contractual agreements signed on September 9 by the Telecom Italia Group with the France Telecom group and the Argentine Werthein group.

    In short, the agreements signed call for:

    (i) the formation of a mutually owned Argentine-registered company named Sofora (share capital of AR Pesos 12,000, owned 32.5% by Telecom Italia and 17.5% by Telecom Italia International) to which the Telecom Italia Group and the France Telecom group will contribute, after approval is received from the pertinent Argentine authorities, the entire investments currently held by them in Nortel through a share capital increase;

    (ii) following the contribution of its investment in Nortel, France Telecom will sell a 48% stake in Sofora's capital to the Werthein group, to which it will also grant a call option on the remaining 2% of the shares which can be exercised between December 31, 2008 and December 31, 2013;

(iii) the purchase of a call option by Telecom Italia International on the investment that the Werthein group will in turn purchase from France Telecom (Telecom Italia International was specifically granted a call option for the purchase of 48% of Sofora which can be exercised within 15 days beginning December 31, 2008, plus an additional call option on 2% of Sofora's capital held by Werthein for a price equal to U.S. $6,637 million which can be exercised between December 31, 2008 and December 31, 2013). Telecom Italia International will pay the sum of U.S. $60 million for the call options granted by the Werthein group when Werthein purchases the 48% stake from France Telecom;

(iv) at the same time, a shareholders agreement was signed between the Telecom Italia Group and the Werthein group for the joint management of the Nortel-Telecom Argentina group which will commit the parties as soon as the Werthein group becomes a shareholder of Sofora.

EVENTS SUBSEQUENT TO SEPTEMBER 30, 2003

- In October 2003, Telecom Italia International sold 7.75% of the share capital of Euskaltel for an equivalent amount of euro 34 million, received at the closing, retaining a 6.1% stake.
- In the same month, Telecom Italia International signed an agreement to set up an integrated fixed-mobile telecommunications operator through Etec S.A.'s absorption of the two cell phone operators currently operating in Cuba (C-Com and Cubacell). As a result of the merger, Telecom Italia International will hold 27% of the share capital of the new integrated operator which will keep the name of Etec S.A.
- On October 29, the 40% sale to Forthnet of the investment held by Telecom Italia International in the Greek subsidiary Mediterranean Broadband Access S.A. was concluded for an amount of euro 7.04 million. At the same time – as established by the shareholders agreements in force – a share capital increase in Forthnet reserved for Telecom Italia International was subscribed to and paid for the same amount. Telecom Italia International will therefore receive 1,278,274 new shares that, after completing the necessary formalities, will be listed on the Athens Stock Exchange. The stake acquired is equal to 7.81% of the ordinary share capital of Forthnet.

THE REGULATORY FRAMEWORK

With effect from September 16, 2003, the new regulatory framework is governed by Decree Law No. 259 dated August 1, 2003 entitled "*Code for Electronic Communications*" which, amongst other things, incorporates the EC directives referred to in the "99 Review" relating to electronic communications networks and services (directives on "Access", "Authorizations", "Framework", "Universal Service" and "Competition"). The new standard is based on Law No. 166 of August 1, 2002 which gave the Government a mandate to implement the new directives, and to adopt a code of legal and regulatory measures in the TLC field. Furthermore, the European Commission published the Recommendation on relevant product and service markets in electronic communications, as well as Guidelines for market analysis and the evaluation of significant market power.
There follows a brief description of the standards adopted in the third quarter of 2003.

INTERCONNECTION AND LOCAL LOOP UNBUNDLING

In Resolution 11/03/CIR of July 25, 2003, the National Regulatory Agency approved Telecom Italia's rate plan for interconnection for the year 2003, published on April 11, 2003.
The resolution includes additions and changes, in particular, for the application of the network cap mechanism, for the offering of some interconnection circuits, and for co-sharing, local loop unbundling, partial circuits, and permanent virtual circuit services.

NATIONAL NUMBERING PLAN

On July 3, 2003 the National Regulatory Agency approved Resolution 9/03/CIR concerning the "Numbering Plan for the telecommunications sector and regulations for implementation".
The main new features include: (1) numbering for services with a surcharge, classified into three categories (social and informational, assistance and mass calls); (2) numbering for socially useful services; (3) numbering for subscriber information services (the number 12xxx will be attributed to those interested in supplying services of this kind).

PRICE-CAP

In Resolution 289/03/CONS of July 23, 2003 the National Regulatory Agency approved the mechanism for controlling the maximum prices of Telecom Italia's voice telephone services, through the price-cap mechanism, for the 3-year period 2004-2006. The new system involves three baskets, each with different price-caps (**access basket**: includes basic subscriber charges and various fees for general telephone and ISDN networks with a IPC–0 cap; in addition, for the residential clientele, a sub-cap has been set for basic subscription charges equal to IPC–IPC; **traffic basket**: includes local and long-distance calls with a cap equal to IPC–IPC; **fixed-mobile basket**: includes Telecom Italia's portion of fixed-mobile traffic with a cap equal to IPC–6).

TLC QUALITY AND SERVICE CARDS

In Resolution 179/03/CSP of July 24, 2003, the National Regulatory Agency issued a general directive on the subject of TLC quality and service cards, according to Law No. 249/97. The resolution contains minimum provisions of reference for the adoption, by TLC service suppliers, of TLC service cards available to the public and, in addition, establishes the general criteria relating to the quality of these services.

RETAIL AND WHOLESALE LEASED LINES

In Resolution 304/03/CONS of August 5, 2003, the National Regulatory Agency approved the criteria for designing new rate plans for retail and wholesale leased lines. In particular, the resolution calls for the reformulation of Telecom Italia's retail offers with a reduction in expenses of at least 5.25% for direct national circuits and 7% for 2 Mbit/s digital circuits. As far as the wholesale rate plan is concerned, terminations co-shared with Telecom Italia exchanges must be included in addition to all the supplementary services, including RPV-D, different kinds of routing and protected access connection. Furthermore, cost items must be at least 12% less than the prices of the retail offer. Finally, the resolution calls for the reformulation of some of the supply conditions of the retail and wholesale offer in the Service Level Agreements.

PENDING LITIGATION

There follows an updated situation of the main disputes, litigation and arbitration proceedings in which the Telecom Italia Group is involved compared to what was reported in the report for the first half of 2003. Except where specifically mentioned, the Telecom Italia Group did not make any provision to the risk reserves because of the absence of definite and certain elements and/or because a negative outcome to the litigation is not considered probable.

DISPUTE CONCERNING RESOLUTIONS PASSED AT THE TELECOM ITALIA SHAREHOLDERS' MEETING

The court of first instance ruled in the claim for damages brought against Olivetti - Telecom Italia and the *pro-tempore* legal representatives for the alleged non-fulfillment of the commitments contained in the "Offer Document" relating to the takeover and exchange bid by Olivetti and Tecnost for Telecom Italia in 1999, and also for the resolution passed by the Telecom Italia's Shareholders' Meeting of January 14, 2000 for the buy-back of savings treasury stock
The Court of Turin ruled all the claims by the counterparty inadmissible.

DE AGOSTINI

The arbitration proceedings initiated by De Agostini against Seat (now Telecom Italia Media), Finanziaria Web, Matrix and the Buffetti Group for the alleged breach of the September 20, 2000 agreement continue in regards to: (i) the formation of joint ventures, (ii) the sale of 40% of Finanziaria Web by De Agostini to Seat for consideration of euro 700 million, (iii) the assignment of a warrant for the subscription of Seat shares to De Agostini; (iv) the authorization for the stipulation of an agreement between Seat and NV Vertico SA for the purchase by Seat of the other stake in Matrix not held by Finanziaria Web.
De Agostini has basically asked that Seat be ordered to execute the uncompleted purchase contract (with rejection of the counterclaim to cancel the agreement because of excessive onerousness which arose) and to fulfill the obligations connected with the formation of joint ventures, besides compensation for damages and reimbursement of the expenses incurred to cover the losses and recapitalize Finanziaria Web subsequent to July 2001. Conditionally, De Agostini later requested that the contract should be reduced to fair value, indicating the sum of euro 630 million as being fair consideration for the purchase of 40% of Finanziaria Web, or – as a further condition – the sum that shall be decided by the Arbitration Board.
At the end of September 2003, by unanimous agreement, the parties asked the Arbitration Board to seek technical advice for the purpose of ascertaining the current value of Matrix. For its part, the Board obtained permission to ask the Arbitration Court of Milan for a further extension of the deadline for filing the arbitration award, which was scheduled to take place by the end of the year.

CECCHI GORI

On October 1, 2003, the Arbitration Board announced the award in the proceedings initiated in August 2001 by Cecchi Gori Group Fin.Ma.Vi. S.p.A. (Fin.Ma.Vi) and Cecchi Gori Group Media Holding S.r.l. (Cecchi Gori Media Holding) against Seat Pagine Gialle – at this date against Telecom Italia Media - to find for the rescission or the invalidity of the August 7, 2000 contract for the acquisition of 75% of the share capital of Cecchi Gori Communications S.p.A. (now Holding Media Comunicazioni, parent company of the companies owning La7 and MTV), and obtain compensation for damages suffered, quantified in euro 387 million. The Board denied all the claims, stating – substantially – the legitimacy of the acts which led Seat to become the sole shareholder of Cecchi Gori Communications, subscribing to 100% of the share capital at the time of its recapitalization as a result of losses.

There follows a summary of litigation pending with the Cecchi Gori group:

- before the Rome Court of Appeals: appeal against the sentence which rejected the request to find the August 11, 2000 resolution of the Extraordinary Shareholders' Meeting of Cecchi Gori Communications null and void. The resolution approved various amendments to the by-laws, including one relating to the voting quorum;
- before the Rome Court of Appeals: appeal against the sentence which rejected the request to find the financial statements and related balance sheet at December 31, 2000 null and void. In view of the losses resulting in the balance sheet at that date, the Shareholders' Meeting held April 26, 2001 wrote off and then recapitalized the share capital of Cecchi Gori Communications. The plaintiffs have contested the legitimacy of Seat's vote in relation to the shares owned by Cecchi Gori Group Media Holding pledged to the same Seat, as well as the alleged excess and abuse of power;
- before the Milan Courts: case pending to find null and void or cancel the deed under which Cecchi Gori Communications shares belonging to Cecchi Gori Group Media Holding were pledged to Seat. Under precautionary findings, the claim has already been denied;
- before the Milan Courts: action pending for compensation against illegal actions conducted outside the contract in respect of the bias caused to Fin.Ma.Vi., Cecchi Gori Group Media Holding and Vittorio Cecchi Gori as a result of the alleged illegal conduct by Seat and the directors which it designated in Cecchi Gori Communications. Such conduct was presumably designed to oust Cecchi Gori Group Media Holding as the majority shareholder.

With the arbitration reward, substantially all the facts claimed by the plaintiffs received the scrutiny of an authoritative arbitration board (composed of the professors Trimarchi, De Nova and Carbone), which – after a careful examination of the legal profiles connected with the case – excluded that the complaints raised were susceptible of invalidating the purchase of the full control of Cecchi Gori Communications (now Holding Media Comunicazioni) by Seat, and now Telecom Italia Media.

FASTWEB

On October 1, 2003, Telecom Italia and FastWeb definitively settled the respective rights and claims with regard to establishing the consideration due from FastWeb for the access and the utilization of the civil infrastructures owned by the Company, as stated in the July 11, 2001 contract. At the time the act was signed, the parties dropped the charges in the case begun in August 2002, with payment of the litigation expenses.

VODAFONE OMNITEL

In July 2003, Telecom Italia initiated arbitration proceedings against Vodafone Omnitel to obtain compensation for damages connected with the decision by the mobile operator to bar its customers from access to the information services offered by the 12 numbering system. In particular, Omnitel shut off access to these services from August 2002 until about mid-April 2003.

Telecom Italia requested compensation for damages quantified in some euro 38.7 million. Vodafone Omnitel replied to the Arbitration Board in August, confirming the validity of its conduct and proceeding to file a counterclaim for a corresponding sum.

FINSIEL DISPUTE

In April 2003, the temporary association of companies under Electronics Data System Italia S.p.A. filed an appeal with the Regional Administrative Court (TAR) of Lazio against the Ministry of Instruction, University and Research and against Finsiel in a temporary association of companies with IBM Italia (agent), Pirelli & C. Real Estate Facility Management S.p.A. and others for the cancellation – after suspension – of the decision to assign the service contract for the development and operation of the Instruction Information System, and every other assumed act, connected to and as a result thereof. The value of the contract is euro 231 million.

With the ruling filed on October 8, 2003, the TAR upheld the appeal, sentencing the resisting Administration and the other counter-interested companies in the case to reimburse the plaintiffs for the expenses of the case. The temporary association of companies and the State Bar filed an appeal with the Council of State.

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An arbitration proceeding is underway between the subsidiary Finsiel Agrisian S.p.A. and AGEA to obtain payment of services for an equivalent amount of euro 25 million.

FEE CONCERNING ARTICLE 20, PARAGRAPH LAW NO. 448/1998

Telecom Italia, Tim, Wind and Omnitel (before the TAR of Lazio) and Infostrada and Albacom (through an extraordinary appeal to the Head of State) have contested the Ministerial Decree dated March 21, 2000 introducing Law 448 dated December 23, 1998, which, beginning January 1, 1999 established a fee to be borne by telecommunications operators, based upon a declining percentage from 1999 to 2003 (from 3% to 1.5%) on revenues generated in the period prior to payment. The appeals contested the compatibility of art. 20 of the cited law with the sector system at the Community level, and, in particular, the principle by which the telecommunications companies cannot be charged to provide additional services other than those stated in the same Community law (inquiry expenses, utilization of so-called "scarce resources" and financing of the universal service).
Both the Council of State in expressing its opinion on the extraordinary appeal by Infostrada and Albacom and the TAR of Lazio raised the preliminary question before the Court of Justice of the European Community, which, on September 18, 2003, in announcing its decision on the appeals presented by Albacom and Infostrada, stated that the fee is incompatible with Community law with regards to the measure introduced in national law in the aforegoing art. 20 of Law 448/1998. Following this ruling, as already described in detail, the Telecom Italia Group posted non-existent liabilities (payables and reserves for risks and charges) to the statement of income for euro 1,465 million in relation to the liabilities for the year 2000, 2001 and 2002.
However, in anticipation of the final ruling by the administrative judge, the TLC license fee paid by the Telecom Italia Group for the year 1999 of euro 546 million has not been credited to income.

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Furthermore, in March 2003, Telecom Italia and TIM brought action before the TAR of Lazio to obtain the restitution of the concession fee for the year 1998 totaling euro 529 million.
The request was based upon the illegitimacy of the dispositions of art. 21 of D.P.R. 318/97, which kept the fee in existence even after the EU Directive 97/13 came into force and the expiration of the deadline for its introduction into Italian law.

ALLEGED ABUSE OF A DOMINANT POSITION IN WIRELINE NETWORK SERVICES TO THE BUSINESS SEGMENT

On June 13, 2003, the Antitrust Authority began proceedings against Telecom Italia for the alleged abuse of a dominant position to find on the illegality of certain commercial agreements relating to the public and private business clientele segment. The abusive conduct by Telecom Italia specifically refers to having established telecommunication service prices for the wireline network, used by business customers, with the intent to exclude: competitors would not be able to replicate such prices owing to the interconnection costs with the network of the same Telecom Italia.

In September, the Company contested the proceedings before the TAR of Lazio, for the part which disputes the legality of the offer made in the public bid announced by CONSIP in 2002. Telecom Italia is of the opinion, in fact, that the matter is the exclusive competence of the contracting station, in accordance with the laws for public contracts.

ALLEGED APPLICATION OF ILLEGAL ECONOMIC CONDITIONS IN THE WIRELINE NETWORK OFFER

On October 1, 2003, Telecom Italia asked the TAR of Lazio to cancel, after suspension, the order by the National Regulatory Agency dated June 12, 2003, which charges the Company with having made, in the public bid announced by CONSIP in 2002, a wireline phone service offer that was at variance with what was allowed by the individual license.

At the same time, the company contested the minutes in which the same National Regulatory Agency found the mentioned facts violated art. 7, paragraph 1 of D.P.R. 318/97 ("Economic conditions of the offer") which calls for a pecuniary administrative fine of between about euro 5,000 and euro 52,000.

REQUEST FOR INFORMATION BY THE EUROPEAN COMMISSION

Following charges filed by some competing operators, at the beginning of October the European Commission asked Telecom Italia to furnish information and comments on the Alice offer and the bundling offer between broadband internet access and multimedia contents.

Those filing charges specifically contested Telecom Italia's abusive conduct which took the form of having marketed rate plans to the final customer that cannot be replicated by competitors and having taken advantage of its dominant position on the broadband access market to alter the competitive dynamics of the contiguous multimedia contents distribution market.

APPEAL BY TIM AGAINST THE NATIONAL REGULATORY AGENCY RESOLUTION 160/03/CONS

In the National Regulatory Agency's measure of May 2003, the "telecommunications bodies having considerable market power for the year 2001" were identified as Telecom Italia, TIM and Vodafone. The Agency, in order to determine which operators should "be notified" in the interconnection market, separated the wireline interconnection market from the mobile interconnection market, according to a criteria which is believed has no basis in the law governing the sector nor does it conform to the segmentation established by the new Community regulatory framework (2002/21/EC Directive and recommendation dated February 11, 2003), which identifies as significant markets those relating to the termination on the individual mobile network.

TIM therefore filed an appeal before the TAR of Lazio against the resolution in question, in the part in which it did not also include Wind in the aforegoing group, which, as a result of being absent from the "notice" gains a competitive advantage.

DIGITEL DISPUTE

With reference to the action brought by the minority shareholders of Digitel (a Venezuelan company in which 67.12% of the share capital is owned by Tim International) to prevent the company's losses from being absorbed (in 2002, Digitel reported an operating loss of some 120% of share capital), it should be pointed out that between May and June 2003, the Venezuelan courts denied some of the appeals filed and revoked the precautionary measures previously issued.

On June 6, 2003, the Digitel shareholders' meeting therefore approved – with a nay note by the minority shareholders attending the meeting – the financial statements for the year 2002 and the absorption of the loss. On the same date, TIM International contributed to the absorption of the loss by waiving a financial receivable due from Digitel of some U.S. $45 million. On the other hand, at the deadline set for payment, the shareholders that had initiated legal action against Digitel did not pay their share to cover the loss.

Between July and August 2003, these minority shareholders brought various suits and obtained some precautionary measures which prevented the transactions to cover the loss to be completed. Digitel appealed such measures.

MED NAUTILUS ARBITRATION

On October 23, 2003, FTT Investments (the Israeli minority shareholder of Med Nautilus S.A.) notified Telecom Italia, Telecom Italia International and Med Nautilus S.A. of a request for international arbitration at the International Court of Arbitration of the International Chamber of Commerce of Paris.
The arbitration request is aimed at obtaining the cancellation of the Stock Purchase Agreement signed with Telecom Italia International, Telecom Italia and Med Nautilus S.A. in March 2001 for the transfer of 30% of the share capital of Med Nautilus S.A. from Telecom Italia International to FTT Investments. FTT Investments maintains that it was misled to purchase the investment on the basis of false representation (specifically, information omitted about the existence of a put option by Med Nautilus S.A. on the Med Nautilus Ltd. shares held by minority shareholders). Accordingly, FTT invokes invalid consent as a result of fraudulent intent on the part of the Telecom Italia Group, or, in any case, invokes that it would have been led into error over the subject of the contract, asking for the restitution of the price paid (about U.S. $98 million), in addition to interest and save the right to advance additional claims.