



TELECOM ITALIA GROUP
ANNUAL REPORT **2000**

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RESULTS OF OPERATIONS

	2000	1999	1998
(in billions of lire)			
Sales and services revenues	55,979	52,481	48,507
Gross operating profit	25,400	23,673	22,888
Operating income	13,179	12,456	9,186
Income before income taxes	9,621	9,711	9,217
Net income	5,709	4,665	5,252
Net income, after minority interest	3,927	3,364	3,830
Cash flow	16,642	15,003	15,732
Capital investments	38,742	13,077	18,883
of which:			
• Capital expenditures	32,932	10,560	11,659
• Financial investments	5,810	2,517	7,224

PROFIT AND FINANCIAL INDEXES

	2000	1999	1998
(percentage)			
Gross operating profit / Revenues	45.4	45.1	47.2
Operating income / Revenues (ROS)	23.5	23.7	18.9
Return on equity (ROE) (1)	13.0	12.6	15.3
Return on investments (ROI)	18.8	23.6	18.5
Net borrowings/Invested capital (debt ratio)	42.7	29.1	30.7

FINANCIAL CONDITION

	12/31/2000	12/31/1999	12/31/1998
(miliardi di lire)			
Total assets	126,854	89,181	86,880
Net invested capital	86,273	54,069	51,506
Stockholders' equity (2)	49,428	38,311	35,680
of which:			
• Parent company	36,443	33,004	31,651
• Minority interest	12,985	5,307	4,029
Net borrowings	36,845	15,758	15,826

OPERATING DATA

	12/31/2000	12/31/1999	12/31/1998
Telecom Italia			
Fixed network access lines (in thousands)	27,153	26,502	25,986
Annual increase in minutes in fixed network traffic (%)	27.3	11.6	3.4
- of which domestic	28.1	11.4	3.0
- of which international	11.5	15.4	12.9
Internet customers (in thousands)	3,997	1,990	400
TIM			
Lines (in thousands)	21,601	18,527	14,299
Annual increase in minutes in mobile radio traffic (%)	24.6	35.1	44.8
GSM coverage (% population)	99.6	99.0	98.0
E-TACS coverage (% population)	98.0	98.0	98.0
Number of employees of Group	114,669	122,662	123,966

(1) Net of "Receivables from stockholders for capital contributions".

(2) Net Income / Average stockholders' equity.

DEAR SHAREHOLDERS,

The year 2000 was a year full of new achievements and successes. During the year we completed a demanding organizational transformation and undertook important business development initiatives aimed to enhance growth prospects. At the same time, the Group implemented immediate efficiency measures that led to solid financial results.

The business configuration was radically changed, with the divestment of many non-core activities and the constitution of seven business units. Each of the business units was endowed with strategic and operational autonomy. An integral part of the business reconfiguration was the reorganization of the Group's international holding structure, which more clearly delineated the ownership control of the fixed/integrated telephony activities and the pure mobile telephony activities outside Italy.

Today, the Telecom Italia Group is streamlined and concentrating on its core businesses. Moreover, the Group now operates with heightened dynamism and focused competitive skills, which are brought to bear on an international scale.

In 2000 the results of this transformation are already evident, as the Group became

- more competitive, having dismantled the old, bureaucratic top-heavy structures and orienting personnel and resources to focus on innovative business segments, thereby ready to challenge the competition;
- more international, expanding in markets of strategic importance. Sales of telecommunications activities abroad grew by approximately 25.5% with respect to 1999, equal to roughly 14% of total Group revenues. At the end of 2000, the Group's international activities numbered 18.7 million fixed telephony customers and 23.4 million mobile telephony customers.



IN 2000 THE KEY FIGURES DEMONSTRATE THE RENEWED DYNAMISM OF THE GROUP. GROUP REVENUES TOTALLED LIRE 55,979 BILLION, INCREASING BY 6.7% COMPARED TO 1999. EBITDA, OR GROSS OPERATING MARGIN, INCREASED BY 7.3% TO LIRE 25,400 BILLION. GROUP CONSOLIDATED NET INCOME ROSE TO 3,927 BILLION, AN INCREASE OF 16.7% COMPARED TO 1999.

The Group achieved these results while at the same time maintaining its commitments to shareholders and the financial markets in terms of profitability.

In 2000 the key figures demonstrate the renewed dynamism of the Group. Group revenues totalled Lire 55,979 billion, increasing by 6.7% compared to 1999. EBITDA, or gross operating margin, increased by 7.3% to Lire 25,400 billion. Group consolidated net income rose to 3,927 billion, an increase of 16.7% compared to 1999.

The divestments of non-core activities carried out in 2000, most importantly those of Italtel and Sirti, generated approximately Lire 8,300 billion in cash and Lire 1,500 billion in terms of capital gains.

During the year, the workforce of Telecom Italia S.p.A., following the agreement with the labor unions, was gradually reduced. In terms of Group employment, a further 17,000 reduction was achieved through the sale of non-core activities. As a result, the Group shed a total of 27,000 employees during 2000. As a result of the entry into the Telecom Italia Group of several companies, including Seat and several foreign companies, the net reduction of employees for the Group was some 8,000.

The Group kept its net financial indebtedness within the planned limits thanks to a strict policy of financial management and ended the year at Lire 36,845 billion. This reflects the commitment to financial discipline and to maintain the strength of the Group, while continuing to pursue growth through the acquisitions of Seat Pagine Gialle, new foreign participations and the UMTS license in Italy.

The financial and operating results exceeded budget objectives set at the beginning of the year. More particularly, they demonstrate how we stack up against our main European competitors in creating value for our shareholders. The Group boasts high profitability, as demonstrated by its return on invested capital equal to 18.8%, and an EBITDA margin of 45.4%, while its debt/EBITDA ratio is relatively low (1.5 times).

In 2000 Telecom Italia S.p.A. recorded revenues of Lire 33,723 billion (-5.9% compared to 1999) and a net income of Lire 4,954 billion (-1.9% compared to 1999). This last figure reflects the effective action taken to curb external costs and labor costs, which were reduced by 9.1% and 3% respectively, compared to 1999.

Telecom Italia maintained a total market share of 89%, confirming its ability to face effectively increased competition in spite of the growing pressure on prices. Although volumes increased significantly (+27.3% compared to 1999), revenues from traffic declined. This decline, in turn, was partially offset by the growth in revenues from data transmission, wholesale business and Web services (+26% compared to 1999).

Therefore the dividend proposed to the Shareholders' Meeting will be Lire 605 for ordinary shares (Lire 603 in 1999) and Lire 627 for savings shares (Lire 623 in 1999), with a pay-out equal to 90% of the net income, in line with that of 1999.

I would like to emphasize that we achieved these results in a scenario characterized by significant change and fierce competition, where the dynamics of technological and market evolution often clash with the slow regulatory procedures.

The expansion of international business is a key element of our strategic plan. The Group aims to become a global operator in the wireline, wireless and Internet sectors, in particular in Latin America, Southern Europe and the Mediterranean Basin.

The series of acquisitions made in 2000 has led our Group to assume a size which I regard as ideal for ensuring the best development prospects in our activities. Now we can continue to build our future, starting in 2001, with a fundamental objective: the creation of value.

To create shareholder value is our main objective for the future. Therefore, Telecom Italia, Tim and Seat will be committed to further improve their productivity levels and competitiveness, also through a re-organization of their international structures, and to exploit opportunities for operational synergies.

In 2000, Tim laid the foundations to become a truly multi-national group for mobile services, thanks to the creation of the first pan-American GSM network and the awarding of the GSM licences in Spain, Austria and Turkey. A leader in text-messaging and in offering interactive services based on technologies such as WAP or high-tech networks such as GPRS, Tim is preparing to launch a new generation of products and services based on UMTS technology.

Telecom Italia, in keeping with its strategic plans to re-position its business, will develop initiatives to collect the flows of data and Internet traffic. Two such projects will become operational in 2001 (the Nautilus projects) to take advantage of the expected future growth in the Mediterranean and in North and South America.

Seat is acting as market organizer for traditional and new media, able to supervise the whole value chain. In particular, Seat aims to become leader, both in Italy and abroad, in those sectors which are intended to promote integration between the traditional economy and the new economy, such as professional publishing, directories and business information, business and consumer portals. The resolution of the purchase of the television broadcaster Telemontecarlo, which we hope to be positive, will guarantee Seat the control of significant content targeted to an audience mainly composed of young people and the most demanding and highly-evolved consumers.

For 2001 we have set ambitious although achievable financial targets, which require strict financial management to be met.

We will therefore undertake the following actions: generalized cost containment; a selective investment policy geared to sustaining innovation; tight control of indebtedness; and a diversification of financing sources including a recourse to long-term bond issues to improve the Group's financial flexibility and capability.

I believe that this brief overview highlights the great industrial dynamism which has characterized the activities of the Telecom Italia Group in 2000. Once again, I wish to underline that we succeeded in achieving a dual objective: we strengthened the growth prospects for our business both in Italy and abroad and, in an unfavourable stock-exchange environment, recorded the best share performance of the major European telecommunications operators, to the benefit of the investors who support our company.



Roberto Colaninno
Telecom Italia Chairman and CEO

CORPORATE BODIES

BOARD OF DIRECTORS

Chairman and Chief Executive Officer

Roberto Colaninno

Honorary President

Antonio Tesone

Deputy Chairman

Sergio Erede ⁽¹⁾

Directors

Angelo Benessia ^{(2) (3)}

Peter A. Cohen ⁽¹⁾

Salvatore Donato

Paolo Ferro-Luzzi

Emilio Gnutti

Jeffrey E. Livingston ⁽²⁾

Ettore Lonati

Domenico Giovanni Siniscalco ⁽¹⁾

Joseph M. Tucci

Gérard Worms ⁽²⁾

SECRETARY TO THE BOARD

Pierpaolo Cotone

(1) Member of Directors' remuneration committee.

(2) Member of internal audit and corporate governance committee.

(3) Resigned on April 5, 2001.

BOARD OF STATUTORY AUDITORS

Chairman

Paolo Germani

Acting auditors

Mario Boidi

Paolo Golia

Fabrizio Quarta

Gianfranco Zanda

Alternate auditors

Enrico Bignami

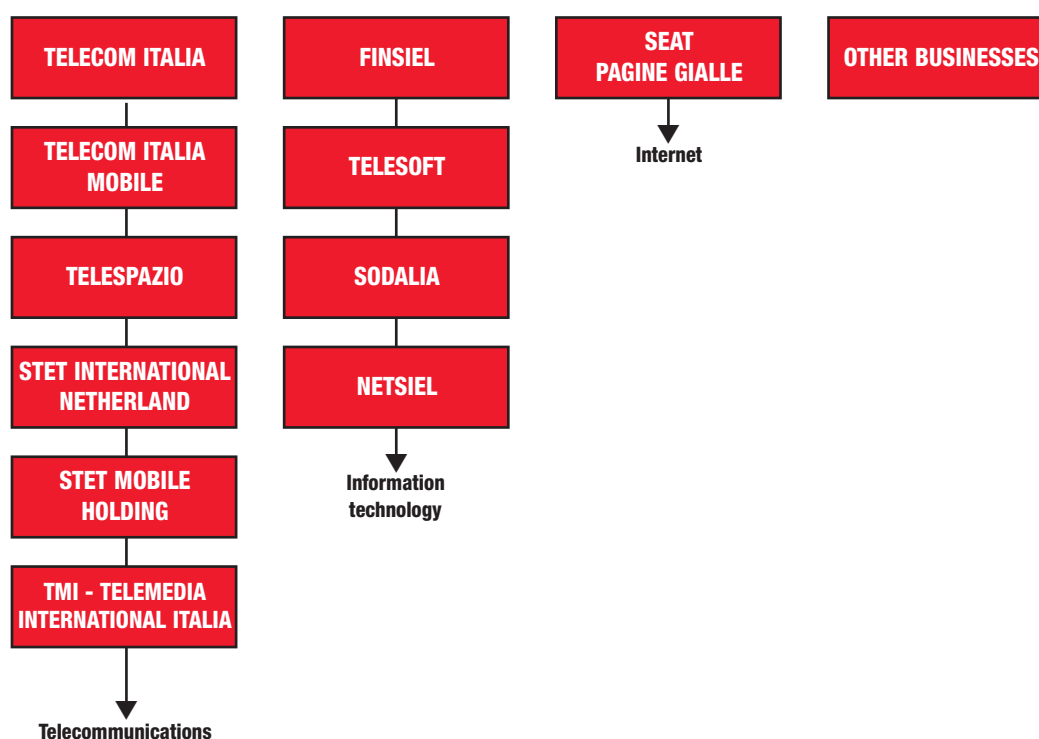
Leonida Liuni

INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers S.p.A.

Corporate Governance is reported in the "appendix to the annual report".

TELECOM ITALIA GROUP BUSINESSES AT DECEMBER 31, 2000



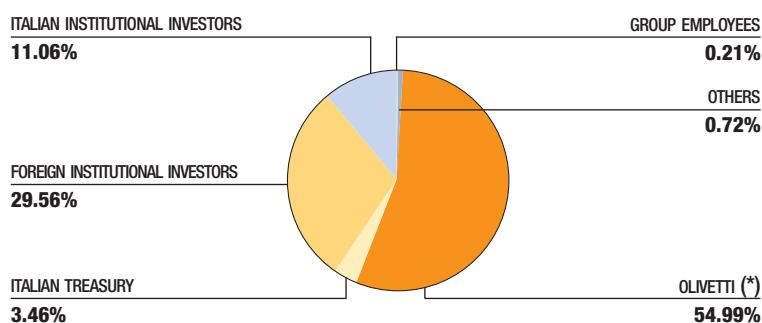
STOCKHOLDER INFORMATION

The stockholders of record of Telecom Italia ordinary shares and other information available as of the date of February 28, 2001 are as follows:

Stockholders (Ordinary shares)

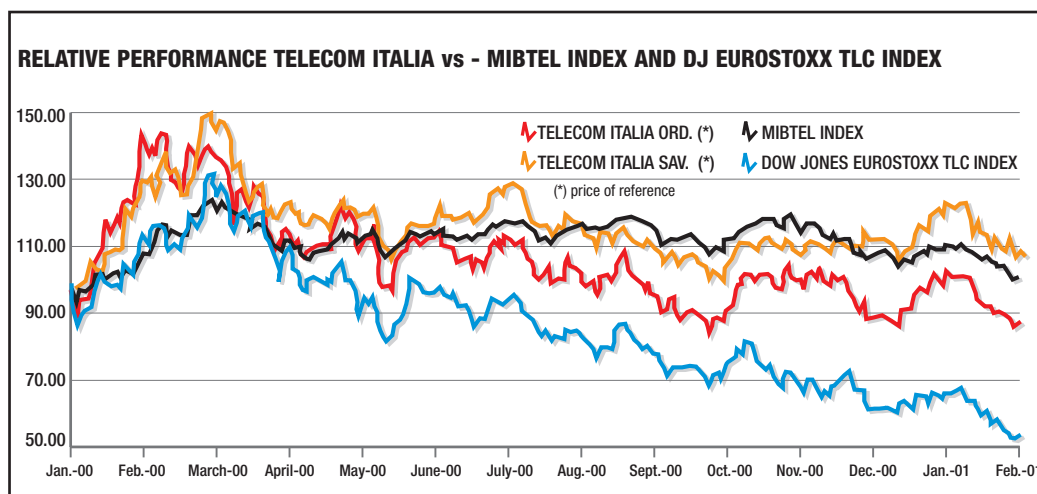
Olivetti S.p.A. (*)	54.99%
Italian Treasury	3.46%
Foreign institutional stockholders	29.56%
Italian institutional stockholders	11.06%
Dipendenti del Gruppo	0.21%
Others	0.72%

(*) of which 0.81% is held through Olivetti Finance N.V.



Stock markets

Telecom Italia ordinary shares and savings shares are listed on the screen trading market, organized and operated by Borsa Italiana S.p.A., and on the New York Stock Exchange in the form of ADS (American Depositary Shares). Each ordinary or savings ADS represents 10 Telecom Italia shares of the respective class of stock.



Conversion of share capital into euros

The Board of Directors of Telecom Italia has put forth a proposal to the extraordinary stockholders' meeting called for April 18, 2001 and May 3, 2001 (respectively, in first call and second call) for the conversion of share capital into euros by rounding off the par value of the shares, currently equal to Lire 1,000, to Euro 0.55.

Market capitalization of Telecom Italia

On the basis of the closing prices at December 31, 2000, Telecom Italia is one the largest companies of the Italian stock market with a capitalization about Euros 76 billion.

Financial Indicators

(in lire)	2000	1999	1998
Dividends			
• ordinary share	605	603	280
• savings share	627	623	300
Consolidated earnings (1)			
• ordinary share	530	447	510
• savings share	552	467	530
Consolidated cash flow per share	2,241	2,020	2,120
Consolidated equity per share	4,907	4,444	4,265

(1) Consolidated earnings per share of the Parent Company have been calculated on the basis of the consolidated net income attributable to the Parent Company and the number of ordinary and savings shares outstanding at year-end (respectively, No. 5,260,037,131 and No. 2,061,142,025; the latter figure is net of No. 104,978,070 shares of treasury stock in portfolio). For purposes of this calculation, savings shares were assigned a dividend of Lire 2% higher than the par value of the shares at December 31, 2000.



4
**SOCIAL AND
ENVIRONMENTAL
AWARENESS**

3
**THE TELECOM
ITALIA GROUP**

1
THE MARKET

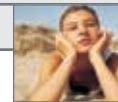
2
**THE REGULATORY
FRAMEWORK**

REPORT ON OPERATIONS

chapter **1**

THE MARKET





1.1

DIMENSIONS AND DYNAMICS OF THE GLOBAL MARKET FOR TELECOMMUNICATIONS SERVICES

The global market for telecommunications is experiencing an unprecedented growth rate; in 2000 it grew by 14% compared to 12% in 1999, reaching an overall value of Lire 1,650,000 billion (1).

The main factor behind the increase in revenues was again the mobile sector (+33% in 2000; +36.7% in 1999) which, at the end of 2000, represented 33% of the whole market. The data segment also grew at a pace that was considerably above average (+22%), reaching 12% of the market.

Wireline telephone services, on the other hand, despite the fact that they still constitute the largest slice of the market (56% at the end of 2000), only grew by 4% during the year. The dynamics of this growth are due to fierce competitive pressure, the consequent lowering of prices and the substitution of wireline with mobile, which, however, was more than compensated by the growth in traffic, especially the *dial-up* type.

In Western Europe, at the end of 2000, the value of the market was equivalent to Lire 461,000 billion, with a growth of 17% mainly attributable to the wireless sector.

In fact, the number of mobile subscribers increased by 62%, reaching 250 million at the end of the year, equivalent to a level of penetration of 64% (compared to 40% at the end of 1999). The increase well exceeded forecasts thanks to the increase in the prepaid market, which, at the end of 2000, constituted 62% of subscribers, compared to 49% at the end of 1999 (2). As a result, at the end of 2000, wireless connections accounted for 53% of the total. The latest estimates point to an annual average increase in the number of mobile subscribers in Europe of 10.4% between 2000 and 2003, with a level of penetration of 86% by the end of the period.

The *Internet* market reached 119 million users (3) (+46.2% compared to the end of 1999), equal to 30.6% penetration (21% at the end of 1999), though with broad differences within Europe. Various factors contributed to the increase, both on the side of the offering ("free access", "fast *Internet*"), and the demand (greater flexibility in the use of advanced telecommunications systems, greater attention from the media, an increased presence of companies on the network, greater use of the Web for work-related activities and increased activity to promote awareness on the part of governments).

1.2

DIMENSIONS AND DYNAMICS OF THE ITALIAN MARKET FOR TELECOMMUNICATIONS SERVICES

In 2000, the Italian telecommunications market grew by 13.4%, resulting in overall revenues of more than Lire 61,000 billion (4), of which 47% can be attributed to wireline telephone services, 40.6% to wireless services and 12.4% to the *Internet* and data segment. Wireless telephone services provided the greatest contribution to growth, with an increase in the number of subscribers of 38.4% and a rise in value of 25.4%; the Italian market, which had about 42 million subscribers at the end of 2000, is the second largest in Europe

(1) Source: Dataquest; preliminary 2000 figures (based on currency /US dollar exchange rates); final 1999 figures.

(2) Source: Dataquest.

(3) A user is defined as someone who has used Internet in the last three months, excluding those who only use e-mail. Source: IDC.

(4) Source: Dataquest and Lehman Research.

after Germany (47 million subscribers) but it shares first place with Finland in terms of market penetration. Mobile lines represent 60.3% of total connections and correspond to 73% of the population, compared to 57% in Germany, 66% in the United Kingdom and 49% in France (respectively the first, third and fourth largest markets in Europe).

At the end of 2000, the number of *Internet* users had risen from 8.2 million at the end of 1999 to 14.1 million (+72%). Despite the considerable increase fostered by “free access” and by commercial offerings such as “E vai” promoted by Tin.it, the level of penetration (25%) is still below the European average, highlighting the scope for further growth. In fact, the average annual growth rate for the next three years has been estimated at 27%, compared to the Western European average of 22%.

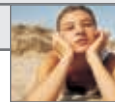
At the moment, the Italian telecommunications market in Europe is one of the markets where competitive pressure is greatest. The following main factors affected its development in 2000:

- the marked growth in the number of public operator licenses issued, which, by the end of 2000, had reached 151 compared to 89 at the beginning of the year;
- the issue of *UMTS* licenses (October 2000);
- the launch of local *carrier selection* phone services on the part of many operators and the start of international, national and long distance (from January 2000) and local (from May 2000) *carrier preselection*;
- the proliferation of *CLECs* (Competitive Local Exchange Carriers) operators, conceived with a mix of public and private capital, generally contributed by municipal companies operating in the services area, venture capital funds and other private partners. The fact that the territories in which they operate are limited means that the close relations established with the clientele (mainly small and medium-size private companies, but, in many cases, also selected businesses) constitute a fundamental competitive advantage. Generally the offering includes basic, added value and broadband services;
- the introduction of new data services (*ADSL* fiber access on fixed networks, *WAP* on mobile networks) and innovative tariff plans (such as the flat rate for phone services);
- communication policies, with considerable investments being geared to trademark awareness, the launch of new products and services and specific price campaigns.

1.3 COMPETITIVE DYNAMICS AND STRUCTURAL CHANGES IN THE TELECOMMUNICATIONS SECTOR

In 2000, the telecommunications sector was characterized by the following factors:

- the increase in competitive pressure on national fixed phone services markets, resulting in further losses of market shares by the main operators;
- the continuation of the consolidating trend of mobile operators (Vodafone/Mannesmann, France Telecom/Orange, Deutsche Telekom/Voicestream); currently, the European mobile market is dominated (66%) by 6 large operators;
- the start of radical restructuring on the part of the former monopoly operators, geared to rationalizing activities by creating business units and then listing them on the stock exchange;

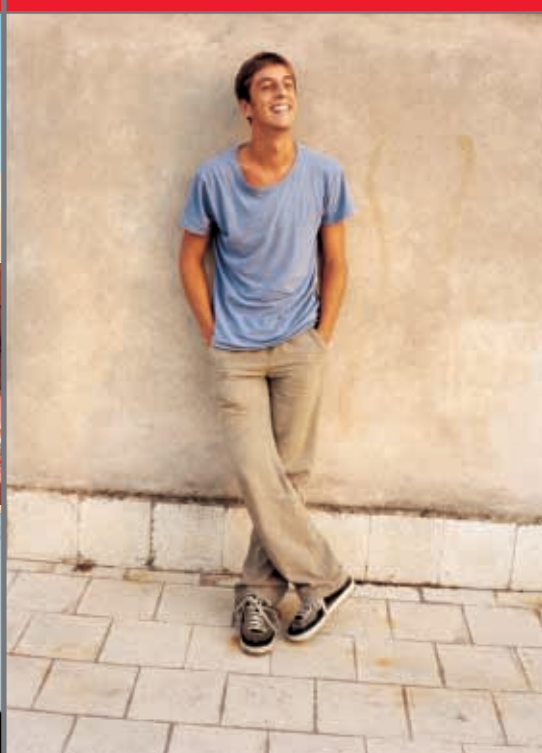


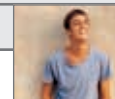
- the resumption of investments to develop broadband infrastructures, the migration towards networks of the new generation, the acquisition of *UMTS* licenses and network development with the aim of seizing the opportunities offered by the growth of *Internet* and data traffic;
- the acceleration of broadband access network offerings, particularly using *ADSL* technology;
- the development of value-added services offerings on the part of mobile operators and the start of wireless portals (*WAP*);
- the large number of new operators of the *Internet*/Application Service Provider type, and new portals.



chapter 2

THE REGULATORY FRAMEWORK





As set forth by Italian Law No. 249/1997, which instituted the Regulatory Body of the Communications Authority, and by Presidential Decree No. 318/1997, which implemented directives at Community level, the process of deregulation can now be regarded as complete, since all segments of the market have been opened up to competition. There follows a summary of the main decisions adopted during the year by the Regulator.

2.1 CONVERSION OF CONCESSIONS AND AGREEMENTS TO LICENSES AND PERMITS

With the aim of bringing concessions issued to Telecom Italia in the past into line with current laws, by eliminating the obligations and special rights which conflict with the new regulations, at the end of 2000, three individual licenses were awarded to the Company (Resolution No. 737/00/CONS of November 15, 2000: “Installation and operation of radio-electrical stations for use on board ship and the supply of mobile maritime satellite services using Inmarsat terminals”; Resolution No. 738/00/CONS of November 15, 2000: “Installation and operation of a network of coastal stations with the aim of providing mobile maritime service and mobile satellite service through Inmarsat”; Resolution No. 820/00/CONS of November 22, 2000: “Installation and supply of public networks for providing the public with the vocal telephone service”) and a general authorization (Resolution No. 821/00/CONS of November 22, 2000: “The supply of satellite network and communication services”).

2.2 RATE REBALANCING

With reference to the “*price cap*”, the Regulator has approved the proposals submitted by Telecom Italia to increase the basic monthly residential subscription charge (from Lire 18,000 to Lire 18,700) with effect from August 1 and to reduce the tariffs applied to international traffic, as well as lower the price of long-distance inter-district calls with effect from December 28, 2000.

Following the suggestions about rate rebalancing formulated by the European Commission for the Italian government, with Resolution No. 847/00/CONS of December 11, 2000 the Regulator modified the “sub price cap” applied to the basic monthly subscription charges. This made it possible to apply an average increase of 4% to the basic monthly subscription fees, with effect from February 1, 2001 and to reduce the prices of local and inter-district calls. The completion of the rate rebalancing plan is scheduled for July 10, 2002.

Furthermore, with Resolution No. 310/00/CONS of May 24, the Regulator approved another variation – divided into two stages: July 1 and October 1, 2000 – to change the structure and rates of the telephone services provided by public telephones, while leaving overall expenditures on the part of customers virtually unchanged.

2.3 FINANCING THE UNIVERSAL SERVICE

As the former monopoly holder, Telecom Italia still has the obligation to supply phone services at uneconomic terms; these services, provided in areas and to unprofitable customers, constitute the so-called “universal service”. With Resolution No. 8/00/CIR of August 1, 2000, the Regulator established that, in the light of the competitive and market conditions which

existed in the telephony sector in Italy in 1999, the pre-requisites existed to justify the application of a sharing mechanism for the net cost of this service, the overall expenditure of which has been estimated at Lire 120.8 billion. A special fund has been created by the Ministry of Communications to which the following companies are bound to contribute in the percentages indicated: Telecom Italia (with a contribution of 57.1%), TIM (28.1%), Omnitel (13.8%) and Infostrada (1%).

2.4 INTERCONNECTION

Following a public hearing and having received the opinions of the European Commission and the Antitrust Authority, in Resolution No. 10/00/CIR of October 18, 2000, the Regulator approved the 2000 offering of the reference interconnection rates of reference, making certain changes and some technical and economic alterations to the proposal submitted by Telecom Italia.

2.5 FIXED-TO-MOBILE CALLS

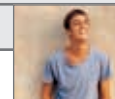
In Resolution No. 4/00/CONS of January 12, 2000 the Regulator approved the proposal submitted by Telecom Italia to vary the rates of fixed-to-mobile calls which became effective on February 17, 2000.

2.6 NUMBERING

In order to bring the regulatory framework into line with the evolution of market requirements and with the availability and the efficient allocation of numbering resources, the Regulator, under Resolution No. 6/00/CIR of June 8, 2000, approved the new numbering system, which updates the previous rules on the subject, particularly with reference to the way of assigning numbering for the *Internet*, for which part of the "7th decade" of numbers has been reserved. Under Resolution No. 11/00/CIR of November 14, 2000 the Regulator subsequently amended Resolution No. 6/00/CIR, with the result that, as from December 29, 2000, 11-digit numbers will be assigned.

2.7 LOCAL LOOP UNBUNDLING

Under Resolution No. 2/00/CIR of March 16, 2000 the Regulator approved the measure for unbundled access services at the local network level (local loop unbundling), thus implementing the principles sanctioned by Community Directives Nos. 97/13/CE and 98/10/CE. On May 12, 2000 Telecom Italia presented its offering. Later, in Resolutions Nos. 13 and 14/00/CIR of December 6 and 21, 2000 the Regulator stipulated the technical and procedural conditions for requests by the other operators involving the co-location sites, and approved the economic terms incorporated in the offering of reference with certain changes.



2.8 NEW LICENSE FEE

Pursuant to Italian Law No. 448 of December 23, 1998, a new fee was instituted from January 1, 1999 to take the place of the previous license fee, the rate of which will gradually decrease until 2003. In implementing the above-mentioned law, the Ministerial Decree issued on March 21, 2000 established that the fee must be applied exclusively to the revenues from the activity of installing and supplying public telecommunications networks, supplying the public with vocal-telephone services, and supplying the public with mobile and personal communications services. The Company has contested the above Ministerial Decree to the regional administrative court of Lazio (TAR), questioning the legitimacy of certain parts.

2.9 EVOLUTION OF EUROPEAN UNION REGULATIONS

Within the framework of the “1999 Communications Review”, the European Commission began to review Community legislation regarding telecommunications, aimed principally at promoting and developing a competitive European market for communications services, consolidating the convergence process, and gradually eliminating certain legislative obstacles in relation to the degree of competition. In this connection, on July 12, 2000 the Commission submitted to the European Parliament and the European Council the proposals for directives on “Framework”, “Universal Service”, “Authorization”, “Access and interconnection” and “Data Protection”.

2.10 MOBILE TELECOMMUNICATIONS

In Resolution No. 6/00/CIR, the Regulator defined the new structure of the National Numbering Plan which, as far as mobile numbering is concerned, involves the gradual elimination of the initial “0” and the “portability” of the number among various operators. Because of some technical difficulties which are in the process of being resolved, the Regulator has decided that the new structure will come into force on June 30, 2001.

Following official requests made by TIM both to the Ministry of Communications and the Regulator, in Resolution No. 895/00/CONS, the Regulator brought forward the liberation (with effect from January 1, 2001) of another 15 MHz for mobile systems operating in the GSM 1800 frequency bands, originally scheduled for January 1, 2002. Thanks to this measure and on the basis of roaming agreements made with other operators, 5 MHz of band have already been awarded to TIM, and, during 2000, another 5 MHz will be assigned to TIM which is to share the frequencies with Blu.



chapter 3

THE TELECOM ITALIA GROUP





In Italy, Telecom Italia Group operates in the following business sectors: wireline telephone services operated by Telecom Italia, mobile telephone services supplied by TIM and satellite telecommunications provided by Telespazio. In fiscal 2000, the revenues of Telecom Italia and TIM account for 52.6% and 26.3%, respectively, of consolidated revenues.

Outside Italy, the Group's telecommunications business is conducted by its subsidiaries and affiliated companies, mainly, in Europe and Latin America. Some of these companies are held directly by Telecom Italia while others are owned through the subsidiaries TMI - Telemedia International Italia, Stet International Netherlands and Stet Mobile Holding, the latter company being entirely held by TIM.

The other sectors in which the Group operated in 2000 are: information technology which is currently composed of the companies Finsiel, Telesoft, Netsiel and Sodalia; manufacturing operations conducted by Italtel; installation operations supplied by Sirti. At December 31, 2000, the Group held a minority investment in Italtel (19.9%) following the sale of an 80.1% stake to a group of foreign investors. The Group no longer operates in the manufacturing sector after its acceptance of the take-over bid for all of Sirti S.p.A.'s operations. These two transactions were finalized in the last quarter of the year. On November 15, on the other hand, the merger of Seat Pagine Gialle and Tin.it was finalized and, consequently, control of the Seat group was acquired, giving rise to the *Internet* sector of the Telecom Italia Group.

With reference to the consolidated book value at december 31, 2000, investments in affiliated companies is concentrated in Europe for about 69%, in Latin America for about 30% and the remainder in the rest of the world.

The Group's workforce at December 31, 2000 numbered 114,669 (122,662 at December 31, 1999). The reduction by 7,993 is due to personnel turnover, variations in the consolidation area and acquisitions and sales of companies effected during the year. As far as turnover is concerned, the main component refers to the termination of employment at the Parent Company Telecom Italia, partly as a result of employee cutbacks under Law No. 223/1991 following the agreements with the labor unions in March and July 2000. As a result of transactions involving corporate entities, 17,978 units are no longer in the Group, mainly on account of the sale of the operating companies in the manufacturing and installations sectors (-17,857), offset by an increase of 17,567 units principally in reference to the Nortel Inversora group (7,498 units), Maxitel (1,229 units) and the Seat group (7,515 units).

The following table presents the Group's results by business segment. Beginning in 2000, the Nortel Inversora group was consolidated proportionally, since it is controlled on a 50-50 basis with France Telecom.

As regards the Seat group and the foreign companies acquired in the last part of the year, only their balance sheets have been consolidated.

Following the sale of investment holdings towards the end of the year, only the statements of income for the nine-month period were consolidated for the manufacturing sector (Italtel group) and the installations sector (Sirti group).

In 2000, the reorganization of the Group was begun which led to the creation of autonomous Business Units, coordinated by a Corporate function with the responsibility for strategy and control. The new organizational structure will become fully operative during 2001. Additional details are provided in the section “Management’s discussion and analysis of financial condition and results of operations of Telecom Italia Group”.

(in billions of lire)	(1)	Wireline telecommunications in Italy	Mobile telecommunications in Italy	Satellite telecommunications	International telecommunications	Information technology activities	Manufacturing activities (2)	Installation activities	Subtotal	Other activities and eliminations	Consolidated total
Sales and service revenues (*)	2000	33,723	15,352	659	7,615	3,137	1,221	1,165	62,872	(6,893)	55,979
	1999	35,856	14,425	619	3,253	3,074	1,776	1,501	60,504	(8,023)	52,481
Gross operating profit	2000	14,552	7,445	98	2,741	388	38	107	25,369	31	25,400
	1999	15,434	6,734	91	635	405	23	123	23,445	228	23,673
Operating income	2000	6,961	5,542	(100)	579	251	(26)	20	13,227	(48)	13,179
	1999	7,096	5,126	(19)	(204)	237	(5)	76	12,307	149	12,456
Capital expenditures (3)	2000	4,974	6,955	59	5,977	303	39	29	18,336	14,596	32,932
	1999	5,926	1,992	67	1,856	129	87	81	10,138	422	10,560
Number of employees at end of period	2000	66,541	9,634	1,194	15,943	11,280	-	-	104,592	10,077	114,669
	1999	76,113	9,375	1,287	5,714	10,206	5,153	12,704	120,552	2,110	122,662
(*) Of which, to sectors of the Group	2000	4,304	651	150	180	973	836	393	7,487	(7,487)	=
	1999	4,903	703	176	184	947	817	664	8,394	(8,394)	=

(1) The figures for 1999 have been reclassified for purposes of comparison with 2000.

(2) For 1999, these refer to 50% of the consolidated figures of Italtel group from January 1 to October 31 and 100% from November 1 to December 31.

(3) Investments in fixed assets and intangible assets, including goodwill on the acquisition of consolidated companies, total Lire 17,637 billion.

3.1 WIRELINE TELECOMMUNICATIONS IN ITALY

The wireline telecommunications sector is operated directly by the Parent Company, **Telecom Italia**. A comparison of the highlights between 2000 and 1999 is shown in the following table:

(in billions of lire)	2000	1999	Change	
			amount	percentage
Sales and service revenues	33,723	35,856	(2,133)	(5.9)
Gross operating profit	14,552	15,434	(882)	(5.7)
Operating income	6,961	7,096	(135)	(1.9)
Capital expenditures	4,974	5,926	(952)	(16.1)
Number of employees at end of period	66,541	76,113	(9,572)	(12.6)

Although there was a marked increase in traffic volumes (+27.3% in terms of minutes), results fell compared to 1999 due to the intensification of competition and to the price-reduction and discount policies adopted by the Company. The increase in minutes during the year was affected by the substitution of totally “operated” traffic with traffic that was only “carried” on behalf of other operators and of non-local traffic with the less remunerative “online” (local) traffic, in addition to the “flat” rate that was introduced as



part of the “Teleconomy” offerings. The result, compared to the prior year, was a fall in the average yield per minute of almost 36%.

The fall in revenues was, however, largely compensated by a significant reduction in external costs, labor costs, amortization and depreciation and other operating items. In the second half of the year, labor costs were also affected by cutbacks and layoffs as defined in the agreement drawn up with the labor unions on March 28, 2000 and in the agreements signed at the end of July, the effects of which will be felt more particularly from 2001 onwards.

■ THE OFFERING

In 2000, the phenomena which had characterized the prior year intensified. In particular, the growth of the *Internet*, the entry of new operators following deregulation and the growth of the data segment counterbalanced the voice market, which has for some time now assumed a nature status. The obligation – established during the year by the Regulator – to supply other operators with unbundled access to the local Telecom Italia network (*Local Loop Unbundling* - LLU) effectively completed the opening up to competition of all areas of the market.

In response to these pressures, the first action taken was to concentrate all of the *Internet* activities in the new company Tin.it, which was subsequently merged with Seat Pagine Gialle; the latter company then reached an agreement to acquire the third largest Italian television operating company, confirming the ever more rapid convergence which is characterizing the Information & Communications Technology (ICT) sector. Innovative flat rate plans were introduced, which are particularly advantageous to residential customers having high traffic consumption. Finally, the LLU offering was presented to the Regulator. The reorganization of Telecom Italia became effective through the first disinvestments of non-core activities (including the “Grandi Immobili” business segment), and through the setting up of operative units capable of responding effectively to the requirements of specific market segments; in this context, the business segment “Information Systems Operations” was contributed to Netsiel.

Mass Market

The growth in phone traffic compared to 1999 (+12.5%) can be mainly attributed to the *Internet* factor and to the commercial offerings launched during the year, in particular the “Teleconomy” offerings. These led to a decline in revenues, which were also negatively affected by the new measures aimed at rate rebalancing for mobile, inter-district and international traffic.

In fact, 2000 marked a turning-point in the pricing strategy in the market of residential and small business customers. During the first quarter, with the “160/89” offering (maximum and minimum prices per minute for long-distance calls of the 3rd level), Telecom Italia ranked among the price leaders in some clientele segments. This trend was further reinforced from June onwards with the “Teleconomy” offerings (“24”, “No Stop” and “24 Aziende”), which overturned the traditional concepts of distance, time-band (with “24” and “24 Aziende” all local and long-distance calls have one price) and duration (with “No Stop” it is possible to make unlimited local and long-distance calls, subject to the payment of a flat rate). In November, the “Teleconomy *ADSL*” offerings were conceived, which combine a fast *Internet* connection with the advantage of a pre-established price,

regardless of the connection time. The increase in pricing offerings recorded in 2000 was more than double that of 1999.

A growing level of customer satisfaction and the creation of a continuous, privileged rapport with customers were confirmed as fundamental points of Telecom Italia's loyalty policy. In February and March, with the aim of securing the loyalty of the most valuable clientele, the "Comunico" club (reserved for the best customers, for whom there are special offers and previews) and "Minuti Preziosi" (a program with prizes based on the amount on the phone bill) were launched, the success of which is demonstrated by the number of applications received from interested customers.

Telecom Italia is the first wireline network operator in the world to offer the SMS (Short Message Service) to its customers. The service, activated on December 1, 2000 makes it possible to send and receive SMSs on special fixed handsets, like the new Sirio 187, with which the Company soon hopes to replace the telephones in Italian households. In 2000, the product range was radically enhanced partly through the introduction of 11 new cordless phones and the creation of the new "products for *Internet*" segment, with the launch of the Web-phone.

In December, the "400" return call service was activated which informs customers about the last unanswered call received, by means of a vocal message giving the telephone number, date and time of the call. The service also makes it possible to call the recorded number automatically by pressing the "1" button. The customer pays Lire 100 (+VAT) for each consultation; the service is free if no new information has been received since the previous inquiry.

In 2000, there was a further growth in network services which, in addition to augmenting customer satisfaction, distinguish the Telecom Italia offerings from those of its competitors and constitute an effective tool for building customer loyalty. Compared to 1999, applications increased by more than 60%. In particular, the "Memotel" services (centralized answering service) and "Chi è" (which displays the number of the call) both acquired about 1,400,000 new customers, demonstrating a strong response to the needs of the market. The number of subscribers to "Chi è" increased by 210% compared to 1999, while the new "prepaid" and "pay per use" offerings also contributed to the growth of "Memotel".

The ISDN superline again confirmed its strong growth trend; in fact, at December 31, the number of basic access lines had grown by 81.5% since the beginning of the year.

The purchase of Call IT cards increased by 23% compared to 1999, thanks partly to the success of the offering of the card to members of the "Comunico" club.

As regards public telephone services, efforts continued to diversify the offering of prepaid cards, which, in particular, involved the launch of contests with prizes linked to the purchase of cards and the issue of cards to commemorate special events. With collectors in mind, and in partnership with specialized publishing companies, some series of limited-issue cards were circulated to mark special events, and a contest was launched which helped to raise the average expenditure per customer. For outgoing international traffic, in December, the pricing of the "Welcome" card was re-positioned.



During the year, “Internet Corner” terminals were successfully tested. The terminals make it possible to surf the *Internet* using a phone card, and plans are now going ahead to extend the service. The optimization process continued, with the retirement of 68,000 telephone sets and the replacement of traditional public telephones with more highly evolved equipment which can take advantage of the potential offered by the *intelligent network*. This innovation, based on *ISDN* technology, will make it possible to extend the offering further, improve the quality of the service and reduce operating and maintenance costs. By the end of the year, 294,000 telephones had been installed; 45,000 of the 100,000 on the *intelligent network* use *ISDN* technology.

During the year, the company began to renovate the information services. For the “12” directory information service, a voice-recognition system was put into place, allowing customers to obtain the information they require automatically by following the spoken instructions provided by the system. The new “ZeroeVia” service was also launched, giving customers the option of being directly connected to the number requested from the “12” information service by pressing the zero button. In December, in Bologna, experimental access to a vocal portal was opened, enabling customers to obtain information about drugstores, films being shown in theaters, the weather, the state of the roads and the stock exchange by interacting with an automatic voice system. Finally, the website www.info12.it was activated to supply, from an online list, all the Telecom Italia information services via *Internet*, based on the “search-find-communicate” concept. In addition, the duties of the “187” customer service were extended and the service can now be consulted round-the-clock from Monday to Sunday.

Finally, with reference to sales channels, points of sale were given a new logo, “Punto 187”, which now applies to 84 direct shops and 1,481 indirect partners; the “187” telephone channel was developed, specializing in the commercial component; a special *e-commerce* channel was made accessible through the www.187buy.it website.

Small and Medium-size companies

In 2000, Telecom Italia further improved its offering of telecommunications services for the segment of small and medium-size companies, which are a particularly important component of the manufacturing cycle in Italy. As far as general phone connectivity is concerned, the following features are significant:

- the net increase in *ISDN* connections, with 161,000 new *BRA* access lines and 1,000 new *PRA* access lines (respectively, +39% and +145% compared to the numbers on January 1; by the end of the year the level of penetration was 37% of the total number of phone access lines (54% in terms of equivalent lines);
- the significant increase in the number of *intelligent numbers* (toll-free numbers and numbers with intelligent charges), with 2,200 new codes.

In addition to the basic proposal, in order to interpret the needs of small and medium-size companies, special value-added solutions were introduced for the voice, data and *Internet* segments. As far as the voice segment is concerned the new solutions include:

- the launch of the “Teleconomy 24 Aziende” offering, which introduced an extremely innovative pricing system in terms of transparency, simplicity and economy (all local and long-distance calls are charged at a single price, regardless of the distance and time-band involved); this offering led to the achievement significant results in terms of customer retention, as attested by 156,000 subscriptions reached by the end of the year;

- the “Easy Start” offering, devoted to start – up companies, under which a single company supplies the whole telecommunications system, from the design consultancy to services and the Information & Communications Technology products; financial assistance is also provided with this offering.

In the data and *Internet* segment, the following offerings were launched:

- the “Teleconomy *ADSL*” offering, which combines particularly advantageous phone pricing with the benefit of a fast *Internet* connection charged at a flat rate, regardless of the connection time;
- the “Neteconomy *ADSL*” offering (“Group” and “Multigroup”), intended to facilitate the introduction of small and medium-size companies into the world of *Internet*; the service allows high-speed connection for groups of LAN users and always-on connection at a flat rate; about 1,800 contracts were stipulated after the launch of the offering (at the end of September);
- the “Full Business Company” offering, which introduces companies to the world of the new economy, offering network services, security services, *Internet* data center services, hosting and basic applications;
- the “Easy Cabling” offering, which creates integrated phone and data cabling solutions in flexible versions.

Experimental services have also been started in the form of direct Application Server Providers for companies wishing to concentrate on their core business, and delegate the technical and operative responsibility for their information system. Partnership agreements were stipulated with leading companies in the field of applications software to manage small and medium-size companies.

Finally, in 2000, the company’s commercial organization was strengthened, both in terms of internal resources, with the setting up of specialized centers for telephone selling, and by recruiting more external resources, bringing the indirect network, launched in 1999, to number 900 agents. The result was a significant increase in contacts with customers, partly through goal-oriented selling campaigns, with positive repercussions both on the marketing of services, and on the retention of market shares of traffic.

Business Market

Within the framework of extending the offering portfolio, in 2000, the following offerings were introduced: “Business One”, which aims to give support to customers in managing their telecommunications systems and in defining the development of related infrastructures; “Full Business Company”, which assists companies to evolve towards e-company models; “Full Business Security”, which supplies customers with network security services in *IP* applications; “Dataw@n”, which, for data services, makes connectivity possible at the corporate level for companies with a number of offices.

The *ADSL wholesale* offering is geared to operators who wish to market *Internet* access services using this technology. Within the framework of *IP* services, the “Videonet” service was introduced (videocommunication on *IP*). The offering of “Net Manager” services was extended, geared to the control, management and analysis of telecommunications consumption, through the introduction of “*Internet SecurP@y*”, for the payment of invoices



through the *Internet* by credit card, and “*Internet Billing*” services, for the acquisition of invoices in electronic format which are legally valid. As far as phone services are concerned, the “Full Business Card” offering was extended with new profiles and applications. Finally the InterBusiness offering was extended with new ways of subscribing.

With reference to the individual services offered, the results were as follows:

- 83,000 connections to *ADSL wholesale* since the beginning of the year;
- 22,000 *retail* contracts on broadband, through the “Full Business Company” and “Ring” offerings;
- 1,300 subscriptions to “Full Business Security” since the beginning of the year;
- Business Frame/ATM/Dataw@n, which generated about 8,800 accesses during the year, with revenues far exceeding forecasts;
- increase in connections to the *ISDN* network, with more than 300,000 equivalent lines installed in 2000 and an increase of 22% compared to the end of 1999;
- results obtained from “Intelligent Numbers”: (Numero Verde (toll-free numbers), Addebito Ripartito (numbers with intelligent charges), Numero Unico (Single Number), Numero Universale (Universal Number), and by InterBusiness with revenues exceeding forecasts.

International traffic

2000 was devoted largely to the evolution of the architecture of the international network, from the traditional “bilateral” model, in which operators in different countries share transmission media to transport the flows of incoming and outgoing traffic, towards the “cross border” model, which consists of multi-lateral *backbones* with regional extensions, incorporated into voice and data services and interconnected between them.

This evolution affected Europe, where the creation of the pan-European Backbone is in progress; the Mediterranean, with the Mediterranean Nautilus project; and Latin America, with the Latin American Nautilus project.

The new architecture, which, to begin with, will function alongside the already-existing one, is destined to support the new business models which are establishing themselves in an ever more competitive scenario, heavily influenced by the gradual deregulation of the markets and the emergence of continuous technological innovations which make it possible to collect, route and terminate international traffic in alternative ways to those used under the bilateral agreements made between the various countries involved.

Great efforts have also been devoted to developing the transmission capacity across the Atlantic in order to accommodate the increasing demand for *Internet* access services, and the rationalization of the corporate network, with a view to curbing the per unit costs of products and services, while keeping an ever-watchful eye on parameters of quality. Compared to 1999, in fact, the average cost of band unit used has fallen by about 30%.

The development of the international network has led to the launch of new services which, by further broadening the offering for *wholesale* customers and improving competitive capacity, have made it possible to preserve the market share, and to generate an increase in volumes. The characteristics of reliability and quality of service have also continued to differentiate the offering of the Company from that of its competitors.

In 2000, despite the fact that fierce competitive pressure led to a fall in terminal incoming traffic, compared to 1999, there was a significant increase in overall traffic volumes, as shown in the following table:

Total international traffic	+11.5%
• incoming Italy	-0.1%
• outgoing Italy	+13.2%
• in transit	+52.9%

A considerable increase was also recorded in *IP* services for access to the Big *Internet* through the SEA-BONE *backbone*; in fact, the band capacity marketed by the end of 2000 had more than tripled (+205.5%) compared to the amount sold at the end of 1999.

During the year, cashless services were further developed, by increasing the operational system of international phone cards (the capacity of which reached 30 million cards), and new services were introduced for foreign markets.

■ THE NETWORK

The national network

During the year, the aim of keeping up to date the range of services offered to the clientele, for which the demand for connection to data networks was increasing, partly as a result of the rapid growth of the *Internet*, led, on the one hand, to the continuous upgrading of the network infrastructures and, on the other, to the need to upgrade the hardware and software of operating systems and apparatus. To this end, special attention was given to finding innovative technological solutions capable of proposing competitive solutions while maintaining the quality standards offered.

The national network in statistics at December 31, 2000 is as follows:

Exchange areas:	about 10,000 served by 11,449 Line Stages (SL)
Switching areas:	615 served by 653 Local Group Stages (SGU)
Gateway areas:	33 served by 66 Transit Group Stages (SGT)
POTS accesses:	24.7 million
ISDN PRA accesses:	44,650
ISDN BRA accesses:	2,163,300
Copper network accesses:	104 million of kilometers-pair
Optic fiber access network:	454,000 kilometers-line
Optic fiber carrier network:	2.6 kilometers-line
Tele-selective circuits:	3.7 million
Network for direct number circuits:	641,000 access points with speeds up to 2 Mbit/s
Network for direct analogic circuits:	166,200 access points
Frame Relay accesses:	26,000 gates a 2 Mbit/s
ATM accesses:	2,800 gates at 34-155 Mbit/s and 2,700 gates at 2 Mbit/s

The national territory is subdivided into “exchange areas”, served by “line stages” to which users are connected; “switching areas”, served by “local group stages” which collect the



telephone traffic of the exchange areas connected to them; and “gateway areas”, served by “transit group stages” which collect the inter-district and international traffic of the switching areas. National switching has reached a level of numbering of 99.7%, compared to 98.7% at the end of 1999.

In 2000, the necessary technical preparations were made for the launch of the SMS service; for the activation of the “400” call return service in about 75% of the country; for the services available with the “Carta Unica” prepaid card, which can be used from public and private terminals on the fixed network, in Italy and abroad; for the NetCard/Business, the evolution of the virtual private network service, to which the phone card service has been added with charges being made to a single account; for the personal number service with access through TIM; and, finally, to make new games available through the telephone, such as LottoTel and Totobingol.

Work continued to bring the network in line with the telephone numbering plan by releasing more numbering “groups”; in fact, once the “National Numbering Plan” is fully functioning, customers will be assigned numbers starting with “1”, currently reserved for public services.

The industrialization process of the national multi-service *backbone* has begun, with the creation of a test network; traffic tests are currently in progress to verify the efficiency and reliability of the decisions made hitherto, and to assess possible alternatives in terms of implementation.

The need to house other operators’ equipment for *local loop unbundling* or interconnection in Telecom Italia exchanges has led to the creation of a modular prototype that can be installed, without the need of any wall space or air conditioning. This solution provides the answer to the need to equip hundreds of sites all over Italy in a short time following recent decisions made by the Regulatory Authority.

As far as the *intelligent network* is concerned, the network structure was further strengthened, partly to support the new services offered to Telecom Italia customers. In particular, a virtual *call center* platform was created, which can function with operators distributed on a nationwide scale. Telecom Italia uses this platform for the new customer care services (“177”, “181”, “187”, “188”, “191”) and directory information services (“12” and “1412”); as regards the “12” directory information service, the voice-recognition system has also been completed. The testing of the new public telephone platform has been completed. The new platform will improve the operations of terminals and make it possible to offer new services thanks to the use of *ISDN* technology. Following the growth in the number of users of the virtual private network, the dedicated network structures were extended.

Action was taken to augment the capacity of the existing carrier network.

Work on the development of the new national transit network, “Arianna” continued. Thanks to the use of the latest generation of *SDH* technologies and the new DWDM (Dense Wavelength Division Multiplexing) technology, the new network will form the basis for a new optic fiber carrier network with a high transmission capacity, able to provide national coverage and carry flows with high requirements in terms of quality and availability. In 2000, work was completed on the first stage of the 7 *backbone* rings which connect the 16 national transit junctions; 10 rings linking the *backbone* level with the

regional level; and 8 rings linking up with the international network. Transmission installations were also built to transfer flows between junctions.

During the second half of the year, testing was also completed on a high capacity optic fiber carrier network, which functions with DWDM and OADM (Optical Add Drop Multiplexer) apparatus, and is able to carry various signals and to carry out operations such as routing and protecting flows entirely within the optic fiber domain.

Within the framework of the “Reseau” project, experiments have begun involving a high-performance *IP* network, based on an architecture involving a carrier infrastructure relying on DWDM connections nationwide and optical ring networks in cities on a local level realized on OADM apparatus. The cities involved in the project are Milan, Rome and Turin. In the *SDH* network, testing was started on new apparatus which offers the option of extending the functionality of the synchronous network onto copper lines up to the customers’ premises. During the year, the number of connections made on the network (about 180,000) almost tripled.

In the second half of 2000, a project was also drawn up to create an optic fiber ring between Milan and Palermo (I-Bone), which will involve the installation of approximately 4,200 km of cable with 96 optic fibers on two backbones and the laying of two submarine links under the Strait of Messina.

Finally, in radio link systems, a plan is underway to install new equipment with a higher capacity starting in the first quarter of 2001, in anticipation of an increase in the demand for capacity from radiomobile operators.

Access network lines numbered more than 27 million at the end of 2000, thanks to the growth in *ISDN* connections. The following table shows the trend.

((in thousands)	2000	1999	1998
Fixed connections			
Total	27,153	26,502	25,986
- general telephone network	22,569	23,453	24,251
- <i>ISDN</i> (equivalent connections)	4,584	3,049	1,735

Experiments with the “new network termination” which, by replacing the current 3-pin socket, will also make it possible to take advantage of new telecommunications and multimedia services, has been postponed to 2001 and will take place in Florence and Milan. During the year, however, testing proceeded on an “in-house” cabling system for apartments to facilitate the supply of high-speed telecommunications services by integrating all the existing cabling systems (including telephone and TV) and allowing immediate use of *ISDN* access and *ADSL* technology. This policy is also being supported by Telecom Italia at the level of national legislation.

Other achievements during the period under examination include:

- in broadband, the development of the network in Siena, where the city council intends to transmit all the television channels via cable, and the stipulation of a contract with TELE+ for seven cities (Turin, Milan, Bologna, Florence, Rome, Naples and Bari) where the network is already available for use, for a total of 604,000 potential customers;



- the success of four tests involving optic fiber broadband access on the GigaBit Ethernet platform in Bologna, Padua, Rome and Milan, the city where, in November, the commercial phase was initiated;
- the installation of *ADSL* systems in 117 urban areas, for a total of 80,000 access lines;
- the preparation of support infrastructures for *ADSL* services for the Mass Market (“Teleconomy *ADSL*”) and for the business clientele (“Neteconomy group” and “Multigroup”);
- the evaluation of the possible participation of Telecom Italia in the bid for the allocation of radio frequencies for WLL (Wireless Local Loop) systems, and the testing of LAN wireless systems with limited extension combined with *xDSL* access systems;
- the development of the access network for Tin.it and the design and introduction to the network of new services in response to customers’ requests;
- the expansion of the infrastructures of the Itapac network, for about 7,000 new access lines, and the updating of the tax rates to the volumes of traffic offered by the network;
- the consolidation of the offering of data services for the Public Administration according to the contract with the Single Public Administration Network (RUPA); in 2000, the transmission capacity of the network was also increased;
- the extension and updating of the *IP* Interbusiness network, resulting in an increase in transmission capacity and the availability of 26,000 new access lines for customer services; the pilot network in GigaBit Ethernet technology is connected to this;
- the development and consolidation of the *ATM / Frame Relay* network, partly to support the launch of the new “RING” and “Full Business Company” services, for which a system has also been introduced to invoice traffic volume.

On the subject of interconnection with other operators, the main achievements of 2000 were the availability of the functional prerequisites for *carrier preselection* and *number portability* and the creation of automated solutions for requests and provisioning of both the local loop unbundling of copper networks and for housing (co-location) in the local Telecom Italia exchanges.

Still on the subject of interconnection, during 2000, with the start of local loop unbundling on the local network, the Italian telecommunications market completed its deregulation process. In this connection, the following developments should be emphasized:

- the signing of 25 new interconnection agreements, bringing the total to 65 contracts signed since deregulation first initiated;
- the signing of 28 “reverse” agreements (termination of calls on the network of other operators) and 13 renewals, for a total of 44 contracts;
- the signing of 20 agreements to supply direct connections into the network switches belonging to other operators, for a total of 30 contracts;
- interconnection with the networks of 30 other operators, for a total of 53 interconnected operators;
- the signing of 8 wholesale agreements to supply high-speed access services using *ADSL* technology;

- the signing of 40 *carrier preselection* contracts, 40 district *carrier selection* agreements, 19 *number portability* agreements and 9 co-location housing framework agreements for interconnection;
- the signing of 16 contracts for testing the local loop unbundling service on the local network and two contracts to supply the local loop unbundling service to the local network;
- the signing of an agreement with TELE+ to carry signals relating to multimedia broadcasting services, similar to the one already signed with Stream.

In 2000, interconnection traffic totaled 66.6 billion minutes, including traffic from and to other wireline and wireless network operators.

Finally, the technical quality of the network can be summarized by its “rate of effectiveness”, based on the number of phone calls actually reaching the number called, the trend of which is shown in the following table.

	2000	1999	1998
Local calls	99.6%	99.7%	99.5%
Long-distance calls	99.1%	99.1%	99.2%

International network

At December 31, 2000, there were 197,000 international circuits (+62.4% compared to the end of 1999), of which 160,000 between Italy and foreign countries and 37,000 among foreign countries and, of these, about 4,000 are by satellite. More than 37% of resources are devoted to phone services but, during the year, there was a sharp increase (+240%) in the resources used for *Internet*, which represented 32% of the total. The remaining capacity is mainly dedicated to “rigid” transits and private circuits. The overall number of countries connected is 235, of which 53 also in *ISDN*. The numbering process on the international network has exceeded 98%.

In Europe, work continued to create the pan-European Backbone which, with two pairs of optical fibers, will connect nine European countries through points of presence located in Europe’s main cities (Milan, Zurich, Paris, Barcelona, London, Brussels, Amsterdam, Frankfurt and Vienna). The network, designed according to a ring architecture, which will guarantee the self-protection of traffic should a fault occur on any given section, will be about 11,500 km long. The first part was completed in July (Italy - Switzerland - Germany - France - United Kingdom). The structure is scheduled for completion by 2001.

In the Eastern Mediterranean, where the Group is present with its subsidiary (51%) Mediterranean Nautilus, Telecom Italia has won the order to supply the “Med Nautilus” system, a submarine optical fiber ring network linking Italy, Israel, Greece, Turkey and Egypt. The first section of the network (Italy- Greece-Israel) will be available at the end of 2001.



Finally, as regards South America, where Telecom Italia is present through various companies of the 70%-owned subsidiary Latin American Nautilus (Telecom Argentina, Entel Chile and Entel Bolivia equally hold the remaining 30% stake), work continued on the "Latin American Nautilus", a network connecting New York and Miami with important cities in Latin America. In December the connection was completed between Buenos Aires and St. Croix (Virgin Islands), with transit in Brazil. The connection with Florida is provisionally assured by leased circuits, until the new system, scheduled to open at the end of 2001, comes into service. Through Telecom trans-Atlantic connections, the network will be linked to the European backbone, the domestic network of the Parent Company and the Med Nautilus system. The project will offer multi-national operators and customers international connectivity for *Internet* web-hosting services.

As regards the traditional network components, consisting of submarine cable connections in co-participation with other operators, specific action was taken to expand the capacity in the areas of Latin America and North Atlantic. In order to meet the growing demand for band wide for new services, action was also taken to expand the transmission capacity of the trans-Atlantic submarine systems. In addition, the creation of the SAT 3 system was started, which will make it possible to open up connections between Italy and some African countries. As regards the satellite network, in 2000, the process of optimizing connections and land-based installations was completed; in this regard, steps were taken to activate *Internet* connections via satellite with India.

In 2000, the quality of the international network, measured by the ABR (Answer Bid Ratio - the ratio between the calls which obtain a reply and the overall number of attempts at calling) produced the following results:

	2000	1999
ABR outgoing	54.5 %	55.1 %
ABR incoming	64.0 %	62.6 %

The outgoing ABR deteriorated slightly again because of the greater amount of traffic directed towards low-quality national networks, despite further technical work carried out during the year.

HUMAN RESOURCES

Employees of Telecom Italia at December 31, 2000, including the 2,144 resources laid off under government sponsored unemployment compensation plans ("Cassa Integrazione Guadagni Straordinaria - CIGS"), numbered 66,541, compared to 76,113 at the end of 1999; the net reduction of 9,572 is in line with the objectives set in the strategic plan.

36.3% of the 10,071 employers terminated under revisiament employment contracts in 2000 did so as a result of the application of Italian Law No. 223/1991, 30.6% due to incentive

packages according to criteria defined in the same plan, 18.5% due to corporate spin-offs (including the 1,051 resources transferred to Netsiel at December 31, 2000), 2.4% due to transfers to other companies in the Group and the remaining 12.2% due to other reasons.

At the same time, 384 new permanent employees were recruited, including university graduates or persons with high school diplomas in subjects of corporate interest, 83 were transferred from other companies in the Group, 30 were acquired from Stet International, which was absorbed following the reorganization of the international sector. At December 31, 2000, there were also two resources under temporary employment contracts (none at the end of 1999).

In 2000, training activities were characterized by a particularly selective approach, in strict correlation to the strategic requirements of the Company and the professional assets required. In this connection, the main activities were as follows:

- support for the restructuring processes consisting of a professional re-training of the resources involved (the “Jobnet” project for personnel laid off under unemployment programs);
- strengthening knowledge and skills in “critical” areas for the development of corporate business focusing mainly on technological and commercial content.

Overall, about 1.6 million hours were devoted to training activities, of which 15,000 were geared to executives (600 in attendance), 35,000 to middle management (1,640 in attendance) and more than 1,500,000 to operational staff (36,600 in attendance).

During the year, increasing use was made of multi-media teaching methodologies, which are more effective in terms of the learning process. Furthermore, with the integration of online, off-line and classroom training, it proved possible to optimize the time and resources involved for projects geared to particularly large groups (SAP, Office Automation, language training).

On March 28, 2000, at the Ministry of Labor, an agreement was reached with the labor unions regarding the “Development and Reorganization Plan for the three-year period 2000-2002”. The talks, which kept the various parties busy for months in intensive negotiations, made it possible to pinpoint a balanced range of operational tools – early retirement incentives, cutbacks under Law No. 223/1991, transfers between companies, new flexible modes of part-time work, and professional re-training initiatives aimed at re-employment, with recourse to unemployment compensation (CIGS) benefit plans – which will create the necessary re-equilibrium of employees during the period covered by the Plan, on the basis of a declared excess number of 13,500.

Layoffs under unemployment compensation plans (CIGS), used for the first time by Telecom Italia, were articulated into two stages and involved a total of 2,200 resources (678 in the first and 1,522 in the second stage; at December 31, 2000, as the result of a few resignations, the number of resources receiving unemployment compensation numbered 2,144). According to the above mentioned agreement, employee cutbacks under Law No. 223/1991 will involve 5,300 resources over the three-year period 2000/2002; 3,656 had left at December 31.

On October 1, 2000, the new Collective National Labor Contract (CCNL) for companies operating in telecommunications services, signed at the Confindustria (the national federation of industrialist) the previous June 28, became effective. The economic part of the contract will remain in force until December 31, 2002, whereas the part regarding the

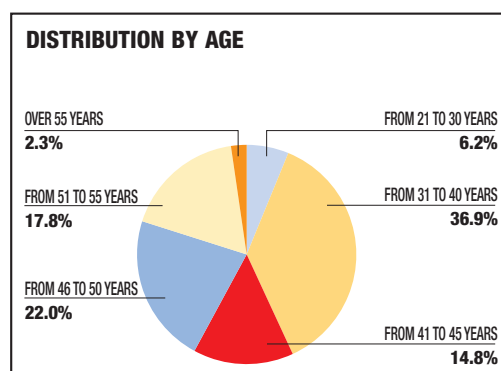
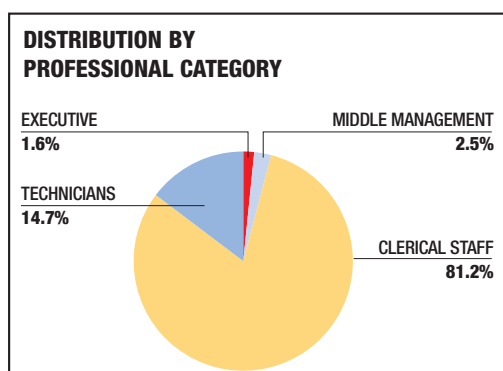
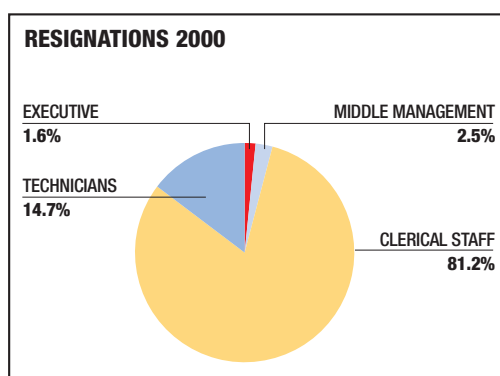


other clauses of the contract will remain in force until December 31, 2004. At the same time, the Company applied the transitory CCNL for the interim period as established in the draft signed on July 19, ensuring substantial continuity with regard to previous agreements, for all personnel already in service.

In 2000, in line with the strategy established in the “Development and Reorganization Plan” to focus activity on the core business of telecommunications, the Company contributed some business segments not strictly connected to the corporate mission to: Tin.it (*Internet services*), which was subsequently incorporated into Seat Pagine Gialle, TE.SS. (personnel administration), Netsiel (Information Systems Operations) and IM.SER. (Grandi Immobili). As part of the restructuring of the international sector, on the other hand, Stet International was absorbed. As a result of these operations, there was a net decrease in employers of 1,838.

On October 27, 2000 the Commission in charge of supervising pension funds authorized the operations of TELEMACO, the supplementary national pension fund for workers in telecommunications companies, the legal status of which was recognized by the Ministerial Decree issued on November 22, 2000. The collection of contributions to the fund began in November.

The following charts depict the breakdown of employee resignations in 2000 and the breakdown of employees by professional category and by age as at December 31, 2000.



■ RESEARCH AND DEVELOPMENT

In 2000, Telecom Italia again relied mainly on CSELT for its R&D activities, thus confirming the importance of its role in defining the strategies of technological innovation on behalf of all the companies in the Group. The main subjects tackled during the year were as follows:

- the development of services for companies and for the residential clientele (“Business Net”, telephone cards, the new public telephone platform on *ISDN*);
- the development of an offering of integrated intranet-extranet access for the transmission of voice and data on *IP* networks and the definition of innovative services for *Internet Service Provider* customers;
- the creation of a virtual *call center* for the “12” directory information service through the application of voice recognition and synthesis technologies;
- the creation of tools to support operations in providing *ADSL* services, in testing and managing of products and procedures, and in monitoring operative processes on a nationwide scale;
- the definition of the architecture and the bidding requisites and the testing of the Telecom Italia pan-European *backbone* network, created with high-capacity *DWDM* systems;
- the “observatory” activity of the evolution of technologies and services in which the Parent Company is interested;
- evaluations of investment opportunities in expanding companies in support of venture capital initiatives and the creation of environments (“incubators”) in which new initiatives can develop effectively as companies.

In 2000, Telecom Italia devoted Lire 170 billion to R&D, of which Lire 164 billion refer to the work conducted by CSELT.

Interaction Design Institute

In 2000, Telecom Italia and Olivetti set up the Interaction Design Institute Association of Ivrea, ensuring financial backing for the initiative. The Institute, based in Ivrea, will be a post-university school where it will be possible to develop technical and cultural know-how in the sector of communications services, and receive training in management and business initiatives. An integral part of the project will be the creation of a research laboratory for young talent with different academic backgrounds, with the aim of creating the right mix between design and technologies.

3.2

MOBILE TELECOMMUNICATIONS IN ITALY

The Telecom Italia Group operates in the mobile telecommunications sector through the **TIM** (Telecom Italia Mobile) group. The new corporate framework of international operations, in fact, as approved by the extraordinary stockholders’ meetings of Telecom Italia and TIM held between October 20 and 24, has been in place since December. The reorganization led to the total non-proportional spin-off of Stet International to Telecom Italia (88%) and TIM (12%); as a result, TIM was attributed 55.04% of Stet Mobile Holding (SMH) and control of all the foreign subsidiaries operating in the mobile telecommunications business; Telecom Italia was attributed the remaining shares in SMH and all the shares in Stet International Netherlands



(SIN), the holding company for all the foreign wireline and integrated fixed-mobile network companies. Telecom Italia subsequently contributed all the shares still held in SMH to TIM in exchange for the subscription to a share capital increase by TIM reserved entirely for Telecom Italia.

This transaction led to a significant simplification of the Group structure, eliminating the intermediate level constituted by Stet International and, in particular, ensuring greater focus on the business and a clearer identification of management responsibility.

For the purposes of the actual figures, the results of the mobile sector are still shown separately for Italy (where the parent company TIM operates) and for foreign operations. The following table therefore presents the highlights of 2000 for TIM alone, compared to those of 1999:

	2000	1999	Change	
			amount	percentage
(in billions of lire)				
Sales and service revenues	15,352	14,425	927	6.4
Gross operating profit	7,445	6,734	711	10.6
Operating income	5,542	5,126	416	8.1
Capital expenditures	6,955	1,992	4,963	°
Number of employees at end of period	9,634	9,375	259	2.8

At the end of 2000, the level of penetration of the domestic mobile market exceeded 73%. Competition increased markedly due in part to the entry, in May, of the fourth operator Blutel. Despite this, TIM improved its economic results. Revenues increased by 6.4% compared to 1999, thanks partly to the increase in revenues value-added services, which more than doubled compared to 1999. The gross operating profit increased by 10.6%, representing 48.5% of revenues (46.7% in the prior year). The significant increase in operating income caused the percentage on revenues to rise to 36.1% (35.5% in 1999).

The improvement in the results can be mainly attributed to the increase in traffic volumes, which grew by 24.6% in terms of minutes and 9.8% in terms of revenues, where the net increase in lines (+16.6% compared to 1999) was partially offset by the fall in average revenues per line and per minute, owing to growing pressure on prices.

The process of simplifying the capital structure, approved by the extraordinary stockholders' meeting of October 10, 2000, led to the conversion of 91.56% of savings shares into ordinary shares, with a premium of Euros 3.7 per share paid by those who converted. The inflow of new capital was used in part to finance the acquisition of the UMTS license (Lire 4,680 billion), the value of which is included in capital expenditures.

■ THE OFFERING

The Italian mobile market, which is the second-largest in Europe in terms of the number of customers, comprises 42.3 million lines compared to 30.3 million at the end of 1999 (+40%), with TIM's share being equal to 51% and corresponding to 21.6 million lines, of which 89% were GSM lines. Since the beginning of the year, TIM activated 3.1 million new lines, most of them (86.2%) on a prepaid basis.

At December 31, 2000, the overall number of customers of the TIM group, in Italy and throughout the world, numbered 27.3 million on an equity basis (compared to 21.8 million at the end of 1999); the number increases to 28.3 million if we consider the other mobile telecommunications companies that belong to the Telecom Italia Group (22.3 million at the end of 1999). The increases, compared to the end of 1999, are partly due to the exceptionally good results of the Spanish operator, Retevisión Movil, where the number of customers jumped from 1 million to 3.7 million, and to the buoyant performance of other European and Latin American operators. These results confirm the important position that TIM now occupies among international operators. The success is also partly due to TIM's "plug & play" approach, which involves the export of successful rate offerings, innovative services and "turnkey" operating processes, in order to achieve immediate economies of scale and develop start-up quickly.

On the domestic market, in the consumer segment, TIM promoted alternative ways of recharging prepaid cards during the year, especially using ATMS (Bancomat) including free SMS or traffic incentives; it also offered tariff plans to encourage customers to join without activation charges or with free traffic offers. For the prepaid market, the "Duetto" formula was launched, with the option of combining it with other tariffs, enabling users to call a TIM number at Lire 90 (+VAT) per minute. The Short Message Service (SMS) was also extended to TACS, while users who had subscribed for at least four years were rewarded with discounts on traffic and the Long TIM rate was extended to all users to further develop the service.

After the success of the summer initiatives "Carta vacanze" (based on a call tariff of Lire 100 + VAT per minute towards TIM customers and 100 free SMSs) and "TIM raddoppia l'estate" (bonus of Lire 50,000-worth of traffic at the first re-charge, which could be increased by a further Lire 50,000) the new family of "Flash" rates was launched (with no set-up charge, Lire 400 per minute applied to the effective time of conversation and the option of accumulating discounts on traffic). For the Christmas campaign, the "Cartauguri" was launched which, at a cost of Lire 10,000, offered 60 minutes of traffic at Lire 90 per minute and 100 SMSs over the holiday season (the same tariff was also retained for WAP i-TIM in *Internet*).

Finally, agreements were stipulated with leading banks for mobile banking and for online trading and, in order to augment the information potential of services, an agreement was signed with ANSA (the Associated Press National Agency) to provide free information (on economics, sport, and so on) directly to the customer's cell phone.

In order to provide the best possible response to the needs of business customers (a segment in which TIM leads the market with a share of 65%), a special trademark and customer care service were launched on a dedicated website. In the segment of small and medium-size companies, which TIM intends to develop, offerings were introduced such as the "2-4" plan (for companies which hold from 2 to 4 TACS or GSM subscriptions, with a particularly advantageous basic rate and the possibility of customized services) and the "Mix" plan (the same tariff for traffic towards TIM and the Telecom Italia fixed networks). In the segment of medium-large companies, in which the Company intends to maintain an effective presence, the basic "Soluzione Azienda Mobile" rate plan was changed and services were added. The new TIMDuo option enables companies to charge employees for personal traffic, but to benefit from discounts on the total traffic. The "Business Easy" offering, destined for companies which hold between 2 and 30 GSM subscriptions, and the launch of the TIMCard Aziendale completed the offering to the business segment, with the aim of augmenting the level of penetration of the market by reaching all the professional figures who are not yet



covered by a corporate mobile service. The “Numero Verde Mobile” (Mobile Toll-free Number), lastly, has been proposed to companies as a tool for augmenting business opportunities.

In 2000, TIM enhanced its range of value-added services, combining it under the new *i-TIM* trademark. This includes, in an integrated solution, WAP, SIM ToolKit technology, voice information and UNI.TIM applications (a universal number which makes it possible to operate voice, fax, e-mail and surfing the *Internet* in an integrated manner) in their most highly evolved form. The *i-TIM* services also make it possible to access the *Internet* directly in a fast, simple way; the content of the services will be developed also thanks to agreements stipulated with Seat-Tin.it and Yahoo! Europe.

Lastly, as far as applications designed for specific markets are concerned, TIM was the first Italian operator to allow its clientele to use cell phones for banking transactions, based on an architecture which provides high levels of security in terms of the authentication and coding of communications. In parallel, activities continued for the standardization of this architecture among international organizations.

In October, TIM launched the *GPRS* (General Pocket Radio Service) in the areas of Rome and Milan, thus enabling a pioneering group of customers to use the new technology; initially, the service will be extended to business customers, and later to consumers.

At December 31, 2000, TIM products and services were being marketed in more than 100,000 points of sale, composed of: 1,752 dealers in 4,837 shops; 18 large-scale retailers with 326 commercial outlets; 100,000 points of sale in the distribution channel (tobacconists, newsagents, motorway service stations, and Autogrill restaurants) and 93 “Il telefonino”, shops, managed both directly and indirectly. Considerable investments were also made during the year to develop e-commerce, in which TIM, through the UNI.TIM website, aims to become one of the largest European operators.

In terms of quality, the overall level of customer satisfaction increased (about 82.3% compared to 79.6% at the end of 1999); in particular, there was an increase in the satisfaction of network quality (87%) and the use of the number customer care “119” (up 85.3%).

■ THE NETWORK

Industrial investments during 2000 responded to the dual need to maintain the company’s position on the forefront in the implementation of new technologies and to improve the quality of the services which constitute TIM’s core business. The transition to new mobile systems is gradually happening through the spread of technologies (*WAP*, *GPRS*) which use the existing network to introduce multi-media in mobile telecommunications.

80% of capital expenditure was devoted to strengthening the *GSM* network, to augment its capacity both in terms of access and traffic. In fact, in the access network more than 127,000 incremental channels have been installed, of which about 35,000 at 1800 MHz, and more than 1,900 new base transceiver stations have been built, of which 656 at 1800 MHz; in the *backbone* area, the activation of 14 new exchanges has made it possible to further improve the network’s performance, coverage and capacity to handle traffic. In addition, the platform of the centralized answering service was upgraded with the building of 27 new installations.

In 2000, through the activation of a dedicated platform, it also proved possible to provide SMS service to customers on the *TACS* network; in 2001, further developments of the same system will make it possible for customers of Telecom Italia's fixed network to send and receive SMSs. 20% of capital expenditure was spent on developing new services, particularly *WAP* and *GPRS*, and strengthening operating systems and the quality of the network. Regarding *GPRS* specifically, the installation of network components was completed, which made it possible to activate the service on a national scale at the beginning of 2001.

The figures for coverage of the population reached at December 31, 2000 are 99.6% for *GSM* and 98% for *TACS*; coverage of the territory was equivalent to 92.4% for *GSM* and 83.2% for *TACS*.

UMTS

On November 7, as a result of the *UMTS* license auction held in October, TIM was awarded one of the five available licenses, against a bid of Lire 4,680 billion, together with Andala, Ipse2000, Omnitel and Wind. Furthermore, having obtained the experimental concession from the Ministry of Communications, in 2001, TIM will install a pilot system in the city of Padua, taking advantage of industrial co-operation with Siemens and NEC.

■ HUMAN RESOURCES

At December 31, 2000, there were 9,634 employees in the TIM workforce, an increase of 2.8% compared to 9,375 at the end of 1999, due to 1,023 employees hired (of whom 22% came from other companies in the Telecom Italia Group) and 764 who left the company during the year. 44% of the workforce is female, and operates mainly in the Customer Service structures. 19% of the workforce are university graduates and 80% have high school diplomas. The average age of the workforce is 31, with an average of 3.5 years' service.

During the year, 1,700 temporary staff and 350 part-time staff were employed in Customer Service on a nationwide scale, in an effort to improve and render more flexible the structures covering the "peak" periods of customer demand.

Training programs aimed at developing corporate business and improving the professional skills of corporate personnel, with special attention to making effective use of "critical" resources, focused on developing expertise with regard to the new economy, business mobile services, the international context and customer requirements.

■ RESEARCH AND DEVELOPMENT

The activities carried out by TIM in collaboration with CSELT focused on maintaining and extending its competitive advantage by defining strategies of evolution for the *GSM* system and experimenting with the *UMTS* system.

Work continued on integrating hi-tech intelligent network solutions, which made it possible to supply new services (including the "916", "915", "920", UNI.TIM, SMS for *TACS*, TIM Card Azienda, Wireless Office, Wireless *Internet* and international prepaid services).

New value-added mobile services were developed and implemented and, in particular, the "TIMPLAN 3G" planning tool for mobile telecommunications networks, used as a support feature in the *UMTS* auctions in Europe. Finally a precision system was created for positioning *GSM* terminals.

Research and development costs incurred by TIM in 2000 totaled about Lire 50 billion.



3.3

SATELLITE TELECOMMUNICATIONS

The Telecom Italia Group operates in the satellite telecommunications sector through **Telespazio** and its subsidiaries. The key figures of fiscal year 2000, compared to those of 1999 (excluding those relating to Viasat, the participation in which was transferred to Seat Pagine Gialle as part of the Seat-Tin.it deal) are as follows:

(in billions of lire)	2000	1999	Change	
			amount	percentage
Sales and service revenues	659	619	40	6.5
Gross operating profit	98	91	7	7.7
Operating loss	(100)	(19)	(81)	°
Capital expenditures	59	67	(8)	(11.9)
Number of employees at end of period	1,194	1,287	(93)	(7.2)

In a scenario featuring increasing competitive pressure, the Telespazio group reported a production value of Lire 728 billion, a figure substantially in line with that of 1999. The group achieved interesting results in the “Space System” and “Media & Communications” segments partly due to the first positive effects of the actions begun in respect of its strategic positioning, commercial offering, organizational restructuring and productivity initiatives. Nevertheless, operations were affected by the negative performance, Lire 45 billion (Lire 43 billion in 1999), of the satellite telephony company Iridium Italia which was put into a wind-up in March 2001. The operating result was also impacted by nonrecurring expenses borne by the Telespazio group, including those following the settlement of commercial dealings with a foreign customer which were severed in 1999 (Lire 59 billion), writedowns and provisions made following the difficulties encountered by the Orbcomm satellite system, of which certain companies of the Group are licensees (Lire 34 billion) and the writedown of other assets to take into account their recovery value (Lire 18 billion).

The net consolidated result of Telespazio group was Lire 24 billion (Lire 1 billion in 1999), notwithstanding the aforementioned nonrecurring expenses and other extraordinary expenses incurred during the year which were partly compensated by the gains on the sale of stock in listed companies of the Telecom Italia Group.

■ THE OFFERING

The rapid transformation process taking place in the telecommunications sector also had an increasing influence on the satellite segment. This occurred as a result of the specific economic developments, particularly in the television sector where privatization of the satellite consortiums will lead to the definition of a new competitive framework, and also on account of interesting development prospects: in fact, until 2003, rates of growth of 10% and 29% are predicted for the “Space System” and “Media & Communications” segments.

As a result, in 2000, the activities of Telespazio focused on the strategic positioning of the offering, the review of internal processes and the productivity increases, so as to create the structural conditions for managing the changeover and taking timely action in the market.

In this context during the year the satellite activities were integrated with those of Telecom Italia that relate to the management of investments in the satellite consortiums Eutelsat, Intelsat and Inmarsat.

The growth of the “Media & Communications” segment was limited for traditional business areas and rose significantly in the case of multimedia and broadband services, especially for the development of *IP* infrastructures. The satellite systems, which are more costly than cable systems, are, however, a viable proposition in areas lacking in infrastructures and for applications requiring very rapid time-to-market. In any case, the current scenario will be radically modified both by the transformation of the satellite consortiums into joint-stock companies, with the definition of new distribution and price policies, and by the growing competition in the television segment, in which global operators and local service providers operate. However, the use of digital technology and interactivity are capable of revolutionizing the concept of television, through new criteria of product exploitation due to the implementation of technological platforms and the use of standards which permit returns from new integrated services (web-tv, *Internet*). This is therefore a growing market, which requires hi-tech services and space capacity to which it can have flexible access, but, at the same time, one which is characterized by a gradual eroding of margins.

In this sphere, there was a generalized growth in the services offered by the Company, including space capacity oriented on non standard orbiting positions, no longer available, and services characterized by flexibility and value added services (portable transmitters, business TV events). The clientele still consists mainly of major broadcasting networks (83%), although services provided to other operators for digital platform or random services increased. The clientele portfolio includes some of the leading national and international networks; in addition, during the year, some new long-term contracts were acquired. Business with foreign customers, which accounted for 29% of the total revenues of the segment, increased.

In 2000, Telespazio ensured the television coverage of such important events as the Jubilee Celebrations, the Olympic Games, the Italian and European soccer and volleyball championships, the world motor-cycle championship and the international film festival in Venice.

In the “Telecommunications” segment, and in particular, in the user systems segment, VSAT services were re-launched, by strengthening the offering portfolio and setting up a commercial network that is complementary to that of Telecom Italia, aimed at protecting the average customer. In 2000, an important network was started on behalf of the World Food Program, linking 15 African countries with the headquarters of the organization in Rome. The network was so effective that Telespazio was also mandated to create a similar network for Central and South America.

The company’s foreign presence was strengthened with the aim of supporting specific commercial initiatives and safeguarding the Group interests in satellite services, mainly in Argentina, Bolivia and Romania. During the year, some projects were undertaken in Latin America and Eastern Europe and the foundations were laid for developing engineering services in various Asian countries.

Telespazio attained a position of excellence on a European scale in the design, development and marketing of “Mobile satellite services” (voice, data and messaging), through international agreements and by developing innovative solutions based on the most advanced satellite technologies; in this sphere the company lends its services to international systems such as Emsat and Euteltracs.



The market of “Space systems and services” continued the growth trend of the last few years, thanks partly to international programs (Astrolink, InfoTerra, EuroStar, SkyBridge) associated with broadband communications and earth observation activities, which made it possible to overcome the problems encountered by mobile satellite telecommunications initiatives such as Iridium and Orbcomm.

In the medium term, the company foresees a significant growth in the development and management of the earth segment (telemetry stations and control centers), while other activities will be stable. Recognition of the role played by Telespazio in the sector is confirmed by the services supplied to customers such as Astrolink, Eutelsat, the European Space Agency (ESA) and NASA and the company's participation in such projects as CosmoSkymed, Artemis and Galileo.

In 2000, relations with national and international space agencies were consolidated. On a national level, the design phase of CosmoSkymed was completed. This is the main initiative of the Italian Space Agency (ASI), which aims to develop the first Italian earth-observation system for civilian and military applications. Telespazio will be responsible for the creation of the earth segment of the system, which is based on a constellation of satellites capable of supplying continuous high-resolution remote observation data, regardless of the amount of sunlight, with a very short distribution time.

The collaboration with the Italian Space Agency in the development of earth observation systems has led to the creation of a company called E-Geos, controlled by Telespazio, which will become operative in 2001 following the contribution of earth-observation operations. Thanks partly to the CosmoSkymed program, the new company will lead the market in Europe and will thus assume strategic value for the Telespazio group in a field of particularly important applications.

On a European level, Telespazio collaborated with the European Space Agency on the Artemis project and the completion of the preliminary study of the satellite civilian navigation and radio-locating system, Galileo, which constitutes the most interesting project to be tackled in Europe over the next few years. Telespazio will be responsible for defining the project, the services, the commercial applications, the telecommunications requirements and the earth segment.

On behalf of the Ministry of Defense, the pre-operative phase of the “Sicral” project was completed which, on February 8, 2001 made it possible to launch the first satellite successfully. The project also involves the launch of a second satellite. With “Sicral”, Telespazio will be carrying out the first launch and transfer into orbit ever to be performed in Italy, thus confirming its position as the only European operator capable of performing all the stages of operative satellite management: release from the carrier, transfer into the final orbit, and control and management of the satellite while in orbit.

During the year, activities also continued in building the earth segment and control stations for the Astrolink system, a global satellite telecommunications system capable of supplying “on demand” interactive broadband services, to be offered to customers worldwide. In particular, the executive project phase of the system was completed.

In 2000, the commercial service and operational activities of the Iridium system were permanently halted and, in the United States, the Orbcomm system was forced into a receivership, following the financial problems encountered by the initiative.

■ THE NETWORK

During the year, investments were directed to updating and extending corporate installations. In the “Media & Communications” business area, there was a reduction, particularly in the field of telecommunications services, where the new climate of competition prompted reflection on the role of the company and the consequent level of investments given current financial resources.

There was also a reduction in the television segment, in which capital expenditures focused on expanding the digital platforms at the center in Fucino, the modernization of the installations devoted to special television services, the installation of infrastructures for the supply of services and the acquisition of portable transmitters for customers.

Infrastructures were also built for the supply of transmission services to the Army and, in general, to expand broadband transmitters.

Investments linked to the expansion of remote medical services by satellite have made it possible for the start-up of collaboration between hospitals in Italy and abroad.

The “Space services and systems” segment recorded an increase in capital expenditures due to the development of various space programs, although the amounts are lower. Capital expenditures mainly concerned the building of a telemetry station and a control center for the “Sicral” satellite at the center at Fucino, the acquisition of systems for the management in orbit of the new MITA satellite, and the upgrading of transmitters devoted to monitoring the Intelsat satellites.

Finally, small investments were made to strengthen the service center of the “Earth Observation” segment.

■ HUMAN RESOURCES

At December 31, 2000, employees operating in the sector numbered 1,194, compared to 1,287 at the end of 1999. On the same date, employees of the parent company Telespazio numbered 1,009 compared to 1,041 at the end of 1999; during the year, 64 new staff were recruited and 96 people left the company.

The company takes pride in the high level of education of its personnel, 34% of whom are university graduates and 57% of whom have high school diplomas. Training activities during the year concentrated mainly on specialist courses in technical subjects, languages, information and management. Overall, 24,773 hours were devoted to training activities, equal to 25 hours per capita.

■ RESEARCH AND DEVELOPMENT

In 2000, research activities were stepped up in fields characterized by a high level of innovation, in order to stay abreast of technological evolution and broaden the scope of the offering. Important alliances were established, such as the one with the ASI (Italian Space Agency), in specific segments of activity. The same activities were partly sustained by internal investments and partly financed by organizations interested in space activities and by the European Community.



In the “Telecommunications” segment, which is increasingly oriented towards broadband technologies, made necessary by the explosion of the *Internet* and by the growing demand for data transmission on networks, the company concentrated on developing applications and services which can immediately be offered to customers, using technologies that are already available. The analysis of new platforms for distributing multimedia services and the participation in activities promoted by Astrolink geared to creating a base of services representative of the potential of this system fits into this context. Equally important is the development of the *UMTS* system through participation in programs co-financed by the European Community. Activities were geared both to defining the system, with particular emphasis on the integration between satellite and earth components, and the development of specific applications, such as infomobility.

In the segment of “Earth Observation”, activities concentrated on developing new systems, for remote satellite observation, for the performance of high-definition services and the technological platform for the supply, partly by computer, of terrestrial information services. The latter include the monitoring of areas liable to landslide and the measuring of shifts of land in centimeters, performed using particularly precise innovative technologies.

Considerable resources were devoted to consolidating the role of Telespazio in the “Galileo” system, by means of integration between navigation systems and new applications in the field of specific development programs partly financed by the European Community.

In the “Space systems and services” segment, activities continued both in the sphere of ASI programs for new standard platforms and in the study of complete systems for innovative activities, such as the locating of fires and emergency calls. These also include research into satellite systems for digital audio broadcasting, which was started recently.

3.4 INTERNATIONAL TELECOMMUNICATIONS

The Telecom Italia Group is present internationally through several non-Italian companies, of which the majority are owned directly by **SIN (Stet International Netherlands)**, a holding company for integrated fixed-mobile companies and by **SMH (Stet Mobile Holding)**, a holding company for mobile telecommunications companies. During the period, the management and development of the international portfolio of the Group was aimed at strengthening the Group’s presence in strategic markets, mainly in Europe and Latin America.

In this context, the strategy adopted had the following objectives:

- to step up the investment in companies operating in areas of greatest strategic importance, by developing a presence in business segments characterized by high growth potential (mobile telecommunications, *Internet* and data segments);
- to develop the presence of the Group in the Mediterranean Basin;
- to divest investments with little strategic value.

At the end of 2000, work proceeded on the reorganization of the Group’s international holdings, already discussed in the section entitled “Mobile telecommunications in Italy”, whereby Telecom Italia took over the investments held by SIN and TIM those of SMH.

Other transactions entered into during the year are described below.

Europe

Austria. In November, the state stockholder, OIAG, floated 25.8% of Telekom Austria (128.8 million shares) on the Vienna and New York stock exchanges. The offer closed at a price of Euros 9 per share and a total placement equal to 22.4% of capital (112 million shares).

In fact, the agreement between the Telecom Italia Group and OIAG established that – if the placement price was less than 75% of the price paid per share when they were originally purchased – SIN would have the right to receive shares in Telekom Austria to compensate for the difference at no charge. In this way, SIN received an additional 4.78% stake, bringing its holding in the company from 25% + 1 share to 29.78%. The new stockholder composition of the company after the float is as follows: OIAG 47.8%, SIN 29.8% and traded on the market 22.4%.

With the aim of repositioning itself on the market, in which the company has lost market share in the segment of wireline telephone services, Telekom Austria began to concentrate on the *Internet* sector during the year, acquiring 100% of Czech on Line, the Czech Republic's leading *Internet* Service Provider, for the sum of Euros 235 million, and setting up the company Jet2Web *Internet* Services in Austria, which will offer integrated broadband access and *Internet* services (portal, services and content).

In November, Mobilkom Austria was awarded one of the six *UMTS* licenses auctioned by the Austrian government; the cost of the license was Euros 172 million.

France. In November, the Telecom Italia Group acquired Jet Multimedia, a leading company in the supply of value-added services for business clientele and in the development of online applications using *Internet*, Audiotel and Minitel platforms. The acquisition, resulting from a take-over bid launched by 9Telecom, was aimed at acquiring a 100% holding of the company (comprising shares and warrants) at the price of Euros 83 per share and Euros 71.7 per warrant. At the end of the offer, 95.5% of the shares and 97% of the warrants had been tendered, with a total outlay of Euros 810.6 million. The transaction was entirely financed by SIN.

The acquisition fits into the framework of the 9Telecom strategy aimed at entering business segments which are more profitable and under less pressure from the competition. In addition to data/voice/*IP* connectivity, these include integrated solutions for value-added services, hosting and the development of *Internet* sites.

Within the scope of this transaction, 9Telecom has also acquired indirect control of Europe Explorer (90%-controlled by Jet Multimedia), a French *Internet* Service Provider operating in the segment of the residential clientele. On December 30, 2000 as part of a far-reaching program of reorganizing its *Internet* activities, Jet Multimedia sold Europe Explorer to 9Telecom for Euros 15 million, concentrating its activities on the business segment.

In order to strengthen its presence on the territory, in November, 9Telecom also concluded an alliance with Pinault-Printemps-Redoute (PPR), a French industrial group which is a leader in the distribution sector, particularly in the media and “new media” sector.

The partnership, which is of a commercial nature, can be summarized as follows:

- an exclusive distribution agreement (for 3 years, renewable for up to 5 years) of 9Telecom products by PPR, valued, for the first 3 years, at Euros 70 million (of which Euros 25 million in services offered by 9Telecom and Euros 45 million in shares in the same company);



- the acquisition, valued at Euros 40 million, of 100% of Mageos, PPR's *Internet Service Provider*, with a customer base of about 500,000 subscribers.

The acquisition will give 9Telecom the opportunity of cooperating with one of the largest industrial groups in the country, opening the way to other forms of collaboration between the partners.

Greece. In 2000, Telecom Italia evaluated whether to enter the Greek fixed telecommunications market, deregulated in January 2001, through solutions based on the Med Nautilus business model involving Application/*Internet Service Provider* initiatives in Mediterranean countries and also on the presence of Stet Hellas, with the aim of activating operative synergies and creating new value for the Telecom Italia Group.

In this context, on December 4, through Mediterranean Nautilus S.A., the Parent Company concluded a strategic partnership with the operator Forthnet, acquiring a 5% stake at the cost of approximately Euros 9 million; the investment may be increased to 38% by 2002. On December 5, through the subsidiary Mediterranean Broadband Access, Telecom Italia and Forthnet were awarded a "Fixed Wireless Access" license for the sum of Euros 8.5 million.

Spain. With the aim of maximizing the value of investments in the local telecommunications market, Telecom Italia, Endesa and Union Fenosa set up the holding company AUNA. The transaction, begun in April 2000 with the signing of the agreement between the partners, was concluded at the end of December.

AUNA is an offspring of the former Retevision following the spin-off of the "operational" business segment which, having been approved by the stockholders meeting held on June 21, sanctioned the formation of the new company Retevision I; the former Retevision, which still holds the investments, then changed its name to AUNA.

In December, the three main partners and the minority stockholders supporting the initiative contributed the stakes held in the Spanish companies operating in the telecommunications sector to the holding company. At the end of this process, the structure of the main investments of AUNA is as follows:

- Retevision I: 100% (company set up on July 1, to which all the telecommunications and audio-visual business segments of Retevision have been contributed);
- Retevision Movil (Amena): 97.9%;
- Cable i Televisio de Catalunya (Menta): 100%;
- Madritel: 100%;
- Supercable Andalucia: 96.36%;
- Supercable Almeria: 100%;
- Supercable Sevilla: 98.16%;
- EresMas Interactiva: 99.32%;
- Quiero TV: 49%;
- Hispasat: 30.32%;
- Aragon del Cable: 100%;
- Cable Telca: 100%.

The holding in AUNA held by the Telecom Italia Group through SIN and SMH is 30% (22.76% SIN and 7.24% SMH; however, a stock option equal to 3.43% was exercised), to which an interest (0.71%) owned through Multimedia Cable, of which SIN owns 44%, must be added.

Euskaltel and Netco Redes (18% and 30%, respectively, held by SIN) were not contributed to AUNA.

Other significant activities in Spain in 2000 were as follows:

- the award, in March, through Retevisión Movil, of one of the four *UMTS* licenses sold by the government in the first *UMTS* auction in Europe;
- the launch, on May 5, of Quiero TV, 49%-owned by AUNA through Retevisión I, which, on November 1999, was awarded the only Spanish land-based digital pay-TV license. The offering platform includes the broadcasting of 14 channels, 3 of which will be “pay per view” and the possibility of accessing the *Internet* through television. At the end of 2000, approximately 70,000 customers had been activated.

Turkey. In line with its expansion strategy in the Mediterranean Basin, in April, the Telecom Italia Group was awarded a mobile *GSM* 1800 license.

The bid involved the issue of two new licenses to private operators through an auction, and the award of one license reserved for the fixed network operator. A special consortium was created to compete, 49% of which was owned by the Telecom Italia Group and 51% by Is Bank (the leading private bank in Turkey) in compliance with the restrictions imposed by local laws about foreign investment.

The consortium was awarded the license at the price of USD 2,525 million; the license was awarded to the fixed operator at the same time. The third license was not awarded because the bids were not raised.

In September, TIM and Is Bank formed the company Is TIM, which launched the activities for the start-up of mobile telecommunications services. According to the agreements with its local partner, TIM will be responsible for the technical and commercial operation of the enterprise. The project is of great significance because of the high growth potential of the Turkish market which, until 1999, had recorded a mobile phone service penetration of 11%, considerably lower than the European average (40%), and that of emerging countries (20%).

Latin America

Brazil. On July 31, the subsidiaries Brasil Telecom Participacoes (formerly Tele Centro Sul Participacoes) and Brasil Telecom (formerly Telepar) acquired, respectively, 1.17% and 98.83% (in total, now 100%) of the holding company Tele Brasil Sul (TBS), for the sum of USD 800 million. TBS holds 85.19% of the stock with voting rights and 1.27% of the preferred shares (31.56% of total capital) of CRT (Companhia Riograndense de Telecomunicacoes), a company offering local and long-distance fixed services in the state of Rio Grande do Sul. Since Brasil Telecom Participacoes already owned 8.01% of the ordinary shares and 0.07% of the preferred shares (2.94% of the total) of CRT, its total ownership in CRT is now 93.2% of the ordinary shares and 1.34% of the preferred shares (equal to 34.6% of the total). The acquisition is strategically important because the state in which CRT operates is potentially a very interesting market, with one of the highest levels of GDP per capita in Brazil (Reais 6,272, compared to Reais 5,240 in the region where Brasil Telecom operated previously and Reais 5,861 for the country as a whole), on account of the geographical proximity between the area covered by Brasil Telecom and the region covered by CRT, and, finally, because it enabled Brasil Telecom to increase to a size equal to that of the fixed network operators resulting from the spin-off of Telebras.



In November, TIM, through Bitel Participacoes, acquired from UGB and Vicunha, respectively, 19.43% and 18.53% of the ordinary and preferred shares of Maxitel, the Brazilian mobile telephony operator in which it already held a 58.7% interest (43.15% of ordinary share capital). The transaction involved a total investment of approximately USD 240 million.

In the *Internet* sector, in June, the Group (through the subsidiary Softe, which was taken over by the other subsidiary TI Web) acquired 30% of GLB Servicos Interativos, an *Internet* company in the Globo group for the sum of USD 810 million. The deal is of great strategic importance; in fact, at the beginning of the year, GLB launched “Globo.com”, a portal destined for the Portuguese-speaking community worldwide, using exclusively multimedia contents produced by Globo, a leader in the “media” sector in Latin America. The portal has already reached a position of primary importance in the Brazilian *Internet* market, which is fiercely competitive and expanding rapidly. The Telecom Italia Group will be responsible mainly for the technological aspects.

Chile. On December 18, the Telecom Italia Group signed an agreement to increase its investment holding in Entel Chile to 54.76% by acquiring the shares held by the Chilquinta group (25.63%) and the Matte group (3.5%, of which 0.52% had already been acquired by December 31), for an overall cost of USD 905 million. Previously, Entel had been jointly controlled by Chilquinta and SIN.

The acquisition of the control of the Entel group was concluded on March 12, 2001 following a special authorization from the US Antitrust Authority; in fact, the subsidiary Americatel operates on the American market on the basis of a license issued by the American authorities. The deal will enable the Group to consolidate and strengthen its presence in Latin America; in fact, the company, which is developing as a global telecommunications operator, is growing rapidly and, in some segments of the market, has already overtaken CTC, the dominant operator, controlled by the Spanish group Telefonica.

Peru. In March, TIM Perú, a 100%-controlled company by SMH, was awarded the third mobile PCS (Personal Communication System) license in the country at a cost of USD 180 million. The license has a duration of 20 years, is renewable, and involves the supply of mobile telecommunications service on the 1900 MHz frequency band; furthermore, it offers the possibility of requesting other licenses for supplementary services, including basic and long-distance telephone services.

The terms of the bidding allow the operator the freedom to choose the technology; in light of the positive experience of other countries in the area, the Group has decided to use *GSM* technology, which constitutes a competitive advantage, both in terms of the quality and scope of the services offered, and on account of the potential deriving from *GSM* roaming worldwide.

Venezuela. On November 17, through TIM, the Group acquired control (56.56% of share capital) of the mobile operator Digitel, by acquiring stock worth USD 256 million and simultaneously subscribing to a capital increase of USD 107 million. Digitel owns a mobile *GSM* 900 license in the central region of Venezuela, which includes the capital, Caracas, and many other important cities. The region, which is the largest in the country, with 50% of the population, contributes more than 60% to the GDP. At the end of 2000, the level of penetration of mobile services in Venezuela had reached 28.4%, highlighting a high potential for growth, particularly following the deregulation of telecommunications which took place in November.

The company, which launched the service at the end of 1999, is proving highly successful; at the end of 2000, in fact, it had more than 253,000 customers. This deal, too, is of high strategic content, since it allows the expansion of *GSM* coverage by TIM in Latin America.

Other areas

India. In September, Telecom Italia sold all its investments in companies belonging to the Bharti group: 20% in the holding company Bharti Tele-Ventures, 30.2% in Bharti Telenet (a fixed network operator in the region of Madhya Pradesh) and 2% in Bharti Cellular (a mobile *GSM* operator in Delhi).

The investment holdings in Bharti Cellular and Bharti Telenet were first sold to Bharti Tele-Ventures, which, in turn, were transferred to the Singapore Telecom group, which is establishing strategic alliance with Bharti. The deal was concluded for an overall amount of USD 121 million.

International backbones. 2000 saw the incorporation of the companies which will create and operate the *backbones*. In Europe, asset companies were created in the countries involved in the pan-European Backbone, completion of which is scheduled for 2001. In Latin America and in the Eastern Mediterranean, companies are being set up to handle the connections with the individual countries involved. Taking part in the latter project is the subsidiary Elettra – engaged in the laying of submarine cables – contributed to the holding company Mediterranean Nautilus.

At December 31, 2000, international wireline customers of the Telecom Italia Group had reached 18.7 million (6 million on an equity basis), an increase of 12% compared to the end of 1999; international mobile customers numbered 23.4 million (6.7 million on an equity basis), an increase of 70% compared to the end of 1999.

■ CONSOLIDATED SUBSIDIARIES

The following table shows highlights of the results, adjusted to conform with Group accounting principles, reported by the consolidated companies which make up the international sector. Nortel Inversora was consolidated using the proportional method for the entire year for statement of income and balance sheet purposes; other companies, acquired at the end of 2000, were only consolidated for balance sheet purposes.

	2000	2000 on a comparable consolidation basis (A)	1999 (B)	Change (A-B)	
				amount	percentage
(in billions of lire)					
Sales and service revenues	7,615	4,083	3,253	830	25.5
Gross operating profit	2,741	997	635	362	57.0
Operating income (loss)	579	(129)	(204)	75	36.8
Capital expenditures	5,977	2,321	1,856	465	25.1
Number of employees at end of period	15,943	6,173	5,714	459	8.0



The economic results of the sector, excluding the Nortel group, were affected by improvements in the operational management of the companies, some of which are emerging from the start-up phase, as well as the strengthening of the exchange rate of the Brazilian real against the Italian lira. The increase in the gross operating profit, based on the same exchange rate, would be 18%.

Capital expenditures, in addition to those of the Nortel Inversora group (Lire 1,014 billion), also take into account the goodwill of the new acquisitions of foreign holdings, such as the Jet Multimedia group, Digitel and Maxitel (Lire 2,727 billion). The number of employees at the end of the period also includes those of the new companies acquired (2,300) and of the Nortel group (7,498).

Europe

The TMI - Telemedia International Italia group is 100%-owned by Telecom Italia and operates in the global providers market. This market is passing through a period of sustained growth and fierce price competition. The company offers voice and data telecommunications services internationally for fixed networks and realizes projects with a high technological and professional content.

As regards the commercial policy, which focuses on developing international customers through offices in Italy and abroad, in 2000, TMI concentrated its efforts on corporate offerings of data-transmission on *Frame Relay* and *IP* platforms, while scaling down less profitable services such as voice, messaging and services offered to re-sellers.

In 2000, the group reported revenues of Lire 264 billion, a reduction of 12% compared to 1999 (Lire 300 billion), brought about by the launch of the new commercial strategy. Operating result, which showed loss of Lire 171 billion compared to -Lire 192 billion in 1999, improved thanks to lower network costs as a result of the rationalization program adopted during the year. There was a consolidated net loss of Lire 197 billion, compared to Lire 88 billion in 1999, which, however, had benefited from the gain of Lire 119 billion on the sale of the investment in Concentric Network Corporation to Softe.

9Telecom Reseau is a French wireline telephone carrier which offers indirect access to voice, data and *Internet* services for the residential, professional and small and medium-size business segments. The holding in the group (through the subsidiaries SIN and TMI Ltd.) rose during the year to 93.99%.

In the last quarter, the company concluded some important deals, aimed at a strategic and corporate reorganization of its operations: the acquisition of Jet Multimedia and the previously mentioned agreement with PPR.

From the commercial point of view, in 2000, 9Telecom acquired 520,000 new customers (reaching 750,000 customers compared to 230,000 at the end of 1999). In addition, it acquired about 70,000 new *Internet* customers (for a total of 130,000 or +117% compared to the end of 1999).

The company recorded revenues of French francs 628 million (Lire 185 billion), five times the figure of 1999 of French francs 120 million (Lire 35 billion). The deterioration of the operating result, which showed loss of French francs 1,153 million (-Lire 339 billion) compared to -French francs 1,024 million (-Lire 302 billion) in 1999 and the loss of French francs 1,165 million (-Lire 343 billion) compared to -French francs 1,018 million (-Lire 300 billion) in 1999 were again due to the start-up phase.

In 2000 the **Jet Multimedia** group, which operates in the sector of online services and is controlled through 9Telecom Reseau, reported revenues of French francs 585 million (Lire 173 billion); the operating result showed an operating loss of French francs 50 million (-Lire 15 billion); the net income for the parent company was French francs 10 million (Lire 2.8 billion).

Intelcom San Marino offers international telephone services, value-added services and data-transmission services. During the year, it began experiments with the *ADSL* offering. At December 31, the company had accumulated 3,500 *Internet* customers and 6,300 mobile customers through Telefonía Mobile Sammarinese (TMS), of which it owns 51%. In addition it has a 10% investment in Comunicare Via Satellite (a company operating in satellite services, business television and data-transmission) and a 20% investment in BBS (which supplies and develops interactive and broadcasting multimedia services).

The company reported revenues for the year of Lire 111 billion, an increase of 147% compared to 1999 (Lire 45 billion); the operating income was Lire 4 billion compared to Lire 2.5 billion in 1999 (+72.7%); the net income was Lire 4 billion, an increase of 32% compared to 1999 (Lire 3 billion).

Stet Hellas. In 2000, the Greek mobile telecommunications market grew by more than 52% compared to 1999, reaching a level of penetration of 55.7%. Despite the increase in the level of competition following the aggressive market policies adopted by other operators, Stet Hellas achieved a good performance in terms of overall lines (approximately 1.6 million, an increase of more than 33% compared to the end of 1999) thanks especially to the growth of the prepaid service, achieving a market share of 28%.

During the year Stet Hellas also concentrated on quality and innovation, introducing the first mobile portal for online services accessible via *WAP* in June.

The company reported revenues of Greek drachmas 177 billion (Lire 1,019 billion, +17% compared to 1999). The review of the interconnection agreements with the fixed network operators tripled the costs per *access charge*, thus partly canceling the benefits deriving from the commercial costs cutback policy costs adopted during the year. This affected the operating income, which almost totaled Greek drachmas 26 billion (Lire 148 billion, +2.2% compared to the end of 1999); the net income was Greek drachmas 9 billion (Lire 52 billion) and was significantly higher (+251%) than that of the prior year, which was heavily penalized by extraordinary expenses and financial expenses.

Latin America

Entel Bolivia. The regulatory context of the country dictates that, until November 2001, fixed, local and long-distance telecommunications services will be offered under a monopoly. Currently local telephone services are provided by cooperatives with territorial responsibility limited to specific areas of the country, while long-distance services are provided on a national scale by Entel Bolivia, controlled by SIN. In view of the imminent deregulation of the market, the company has consolidated its current leadership position in the various segments of activity, in which it is able to offer integrated services. By the end of 2000 it had accumulated 262,000 mobile customers, 18,500 *Internet* subscribers and 33,000 accesses through direct lines, with respective increases of 81%, 68% and 19% compared to 1999.



During the year, Entel reported revenues of Bolivian bolivianos 1,301 million (Lire 446 billion), which is in line with 1999; mobile telephone services contributed Bolivian bolivianos 234 million (Lire 80 billion). The stability of revenues reflects the economic crisis currently affecting the country, highlighted also by a slowdown in the growth of GDP and a reduction in per capita income. The operating income was Bolivian bolivianos 131 million (Lire 45 billion), a reduction of 22% compared to 1999 of Bolivian bolivianos 167 million (Lire 53 billion). The net income was Bolivian bolivianos 217 million (Lire 74 billion), a reduction of 3% compared to the prior year of Bolivian bolivianos 224 million (Lire 71 billion).

Nortel Inversora - Telecom Argentina. Nortel Inversora is the company which controls Telecom Argentina. 50% of the ordinary share capital is held by Telecom Italia and SIN. In April, Nortel's stake was reduced from 58.26% to 54.74% following the conversion of securities held by third parties (MEDS - Mandatory Exchangeable Debt Securities) into Telecom Argentina shares held by Nortel.

With the award of the PCS mobile licenses (in July 1999) and the deregulation of the wireline telephone market (in October 1999 for the long-distance telephone market and in November 2000 for the local telephone market), Telecom Argentina was transformed into an integrated operator capable of supplying telecommunications and value-added services nationwide. In this way, it has strengthened its strategic positioning, despite the fact that the results – in terms of lower revenues and higher operating and financial costs – were affected by the recession in the country and the changed competitive scenario.

During the year, the group effected the spin-off of Telecom Soluciones, originally set up to provide data and *Internet* services: the data segment passed to the parent company and the *Internet* segment to the new company Telecom *Internet*.

At the end of 2000, Telecom Argentina had accumulated 3.5 million fixed network subscribers corresponding to a market share of 45% (+12% compared to 1999). Through Telecom Personal, a leading company in its segment, it accumulated more than 2 million mobile customers (57% with prepaid cards), with a market share of 32%. In the *Internet* sector 250,000 subscribers were reported, with a market share of 20% and a growth of 146% compared to the end of 1999.

In 2000, the Nortel Inversora group, through Telecom Argentina, recorded consolidated revenues of Argentine pesos 3,362 million (Lire 7,068 billion), +2.5% compared to 1999. The increase can largely be attributed to the positive performance of mobile telephone services (+14% compared to 1999) and the data business (+28% compared to 1999). The operating income was Argentine pesos 691 million (Lire 1,454 billion); the net income attributable to Telecom Argentina was Argentine pesos 143 million (Lire 301 billion).

Bitel Participacoes, a wholly owned subsidiary of SMH, has two mobile operational holding companies Tele Celular Sul Participacoes and Tele Nordeste Celular Participacoes. In the market, the commitment of the Telecom Italia Group focused on strengthening its competitive position in relation to the other macro-regional operators, Telefonica and Bellsouth. In Brazil, in particular, a restructuring process is in progress, aimed at developing operational synergies through the creation of shared technological platforms. During the year, Bitel incurred financial expenses of Brazilian reais 70 million (Lire 75 billion) on its debt to the Brazilian government arising from the acquisition of subsidiaries. Moreover, in December, it acquired 37.96% of Maxitel.

Tele Nordeste Celular Participacoes supplies mobile telephone services in the regions of Alagoas, Ceará, Paraíba, Pernambuco, Piauí and Rio Grande do Norte. At the end of 2000, in a market characterized by a level of penetration of 9%, the company had more than 1.5 million customers (+27% compared to 1999), corresponding to a market share of 65%, thus confirming its leadership position in the sector.

During the year, Tele Nordeste considerably extended its range of services for the consumer and business segments, in preparation for the launch of the WAP service and its own virtual network.

The results for the year reflect the results from the new strategies adopted by the company; customer care, customer retention and the suspension of defaulting customers.

In 2000, the company reported revenues of Brazilian reais 890 million (Lire 1,024 billion), +26.2% compared to the end of 1999, thanks to the increase in traffic; the operating income of Brazilian reais 199 million (Lire 229 billion), + 64% compared to 1999 was also influenced by the policy to reduce costs. The consolidated net income for the year attributable to the parent company for the year was Brazilian reais 25 million (Lire 29 billion), an increase of 164.5% compared to 1999.

At the end of 2000, **Tele Celular Sul Participacoes**, a mobile telephone operator in the states of Paraná, Santa Catarina and in the city of Pelotas, thanks to an innovative marketing strategy, had accumulated 1.4 million lines (+37% compared to 1999), with an overall market share of 75% and an incremental market share of 57%. The prepaid service reached 47% of the customer base of 659,000.

The company reported revenues of Brazilian reais 750 million (Lire 863 billion), +4.7% compared to 1999. The increase can be attributed to higher revenues from traffic, which were partially compensated by a reduction in revenues from the sale of terminals deriving from the policy of outsourcing commercial activities; this is also reflected in a fall in costs, which had a positive influence on the operating income of Brazilian reais 125 million (Lire 144 billion), +13.4% compared to 1999; the net income attributable to the parent company was Brazilian reais 14 million (Lire 16 billion), 59.4% less than in 1999, owing to higher amortization and depreciation and financial expenses incurred by the company during the year.

June saw the formation of the company **TIMnet.com**, in which Tele Nordeste Celular and Tele Celular Sul each have a 50% stake, and which aims to become the largest ISP on Brazil's mobile telephone network and in Latin America as a whole.

Maxitel, the Brazilian mobile operator in which, in December, TIM acquired control, operates in the states of Bahia and Sergipe. During the year, it achieved significant results, totaling 953,000 lines, equivalent to a market share of 33%. In 2001 the company intends to present a competitive, segmented offering and to attain a leadership position in terms of technological innovation, partly through its close collaboration with TIMnet.com.

The company reported revenues of Brazilian reais 484 million (Lire 557 billion), a marked increase (+64.9%) compared to 1999, as a result of the increase in traffic and the sales of terminals. The operating result showed a loss of Brazilian reais 125 million (-Lire 144 billion), particularly because of higher amortization and depreciation charges. The net result, which showed a loss of Brazilian reais 641 million (-Lire 737 billion) compared to - Brazilian reais 295 million in 1999, was also affected by the charge to the statement of income for accumulated deferred taxes recorded up to the previous year in receivables which are no longer recoverable on the basis of the new corporate business plan.



TIM Perú, the holder, since March 2000, of the third mobile PCS 1900 license in the country, launched the service in January 2001 in the areas of Lima, Callao and Panama Highway. As the first *GSM* operator in Peru, the company is proving to be very successful with a broad, innovative offering in terms of services and distribution. 2000 was characterized by costs deriving from the technical and commercial start-up, which were reflected in a loss of Peruvian nuevo sols 61 million (Lire 36 billion).

Digitel has been a mobile telephone operator in Venezuela since the end of 1999. The ownership of a license which, in addition to the *GSM* 900 mobile service, also enables it to offer fixed national and long-distance services, public telephone services, value-added and broadband services and satellite communications, ranks it as a potential operator on a global scale. Thanks to the high quality of its services and a network coverage that is greater than that of its competitors, at the end of 2000, Digitel had accumulated 253,000 mobile customers (74% with pre-paid cards), and a market share of 8%.

The company reported revenues for the year of Venezuelan bolivars 57 billion (Lire 174 billion). Reflecting the effects of the start-up process, the operating result showed loss of Venezuelan bolivars 40 billion (-Lire 122 billion), and reported a loss of Venezuelan bolivars 25 billion (-Lire 77 billion).

■ AFFILIATED COMPANIES AND OTHER COMPANIES

Europe

Spain

As mentioned above, the holding company **AUNA** was created in 2000 as part of the reorganization of the Spanish companies of the Group. AUNA is the new name of the former Retevisión company, which, after de-merging the contribution of the operational business segment to the new company Retevisión I, is left with only the investment holdings.

Since the contributions from the three main partners only took place at the end of 2000, the consolidated economic figures of AUNA for 2000, in effect, are comparable to those of Retevisión's 1999 figures, which included the activities now managed by Retevisión I and EresMas Interactiva.

Retevisión I closed 2000 with more than 1,950,000 customers, corresponding to 2,766,000 indirect access lines and 62,000 direct access lines, confirming its position as the second largest fixed telecommunications operator in Spain. Fierce competition led to a reduction in rates and a consequent contraction of margins.

EresMas Interactiva is the new name of Retevisión Interactiva, established by the de-merger of the business segment of Retevisión operating in the *Internet* sector for residential customers. The change in the name of the company is consequent to changing the name of the portal from Alehop.com to EresMas.com. The company closed 2000 with 1,420,000 customers, confirming its position as the second largest operator in the Spanish market of *Internet* Service Providers and portals, with 664 million pages visited during the year.

In 2000, **AUNA** reported revenues of Spanish pesetas 97.4 billion (Lire 1,133 billion), an increase compared to Spanish pesetas 91.4 billion (Lire 1,064 billion) in 1999; the operating result shows an operating loss of Spanish pesetas 42.9 billion (-Lire 500 billion) compared to - Spanish pesetas 10.4 billion (-Lire 121 billion) in 1999; there was a loss for the year of Spanish pesetas 53.3 billion (-Lire 623 billion); in 1999, the company reported a loss of Spanish pesetas 19.1 billion (-Lire 221 billion).

In 2000, in a rapidly growing mobile market of 24 million final customers (+62% compared to 1999), **Retevisión Movil (Amena)** reported excellent results, with more than 3.7 million lines (+267% compared to the end of 1999), with 15% of the total market and 29% of the incremental market. The operator distinguished itself by the dynamic, innovative nature of its offering, launching the first WAP service in Spain and proving very successful thanks particularly to the prepaid market and the “Duo” offering (similar to TIM’s “Duetto” offering). In fact, Amena is the affiliated company in which TIM has most successfully applied the “plug & play” type approach (the exportation of successful tariff plans and innovative services and turnkey operational processes in order to create fast start-ups), particularly in the franchising of the commercial chain, the installation of the UNI.TIM platform and the segmentation of the clientele. In March the company was also awarded a UMTS license for a total cost of Lire 255 billion. The company reported revenues of Spanish pesetas 139 billion (Lire 1,618 billion), showing a significant increase (+372%) compared to the end of 1999, as a result of the commercial success achieved during the year. However, the expansion of the clientele led to a considerable increase in operating costs, and reflected negatively on the operating result, which showed an operating loss of Spanish pesetas 113 billion (-Lire 1,317 billion), and on the result for the year, which was a loss of Spanish pesetas 81 billion (-Lire 938 billion).

Madritel has the telephone and cable TV license for the Madrid area. At the end of 2000, the company had approximately 33,000 active customers against 59,000 contracts already stipulated (compared to, respectively, approximately 6,000 and approximately 13,000 at the end of 1999). The access network is based on integrated HFC technology (optical fiber + co-axial cable); at the end of the year connections had been provided to 351,000 building units, of which 243,000 were passed to the sales team.

In May, along with Cable i Televisió de Catalunya and nine other cable operators, Madritel created the company Estreno Digital to acquire the contents for pay-TV on advantageous terms. During the year, moreover, the company extended its offering with the broadband *Internet* service and a broad range of services specially designed to meet customer requirements.

The company reported revenues of Spanish pesetas 2.9 billion (Lire 33 billion); the operating result showed an operating loss of Spanish pesetas 12.8 billion (-Lire 149 billion); the loss of Spanish pesetas 9.6 billion (-Lire 111 billion) can be attributed to the start-up phase.

Cable i Televisió de Catalunya (Menta) has the license for telephone services and the license for cable TV and operates in the Catalan region offering fixed telephone services, broadband *Internet* services, cable TV and data services. At the end of 2000, the company had approximately 20,000 active customers against 40,000 contracts. The network in HFC technology (optical fiber + co-axial cable), a common platform for the supply of voice, data and cable TV services, reached an adequate level of development, despite the delay in receiving digging permits: in fact, cables were laid to 320,000 building units, of which more than half are already available at a commercial level.

In 2000, the company reported revenues of Spanish pesetas 788 million (Lire 9.2 billion) compared to Spanish pesetas 132 million (Lire 1.5 billion) in 1999; the operating result showed an operating loss of Spanish pesetas 8,142 million (-Lire 94.8 billion); the loss of Spanish pesetas 5,664 million (-Lire 65.9 billion) is again due to the start-up phase.

Euskaltel was not involved in the process of setting up AUNA. The company offers direct and indirect telephone services, *Internet* services, mobile telephone and cable TV services



in the Basque regions, in which it has consolidated its position as the second largest wireline network operator, with about 330,000 indirect lines and 17,000 direct lines (respectively, +9% and +247% compared to 1999), and the third largest mobile telephone operator, with about 280,000 customers (+312% compared to 1999). *Internet* customers numbered 273,000, compared to 131,000 at the end of 1999 (+109%).

The positive trend for the year is reflected in revenues, which amounted to Spanish pesetas 14.1 billion (Lire 164 billion), +26% compared to 1999; the operating result showed an operating loss of Spanish pesetas 10.7 billion (-Lire 125 billion), -Spanish pesetas 5.8 billion (-Lire 67 billion) in 1999, and was affected by higher costs incurred for the acquisition of mobile customers which was also reflected in the net result for a loss of Spanish pesetas 8.2 billion (Lire 96 billion).

Netco Redes, again, was not involved in the creation of AUNA. Its business purpose is the administration, operation and maintenance of the fiber optic telecommunications networks of the Spanish electrical companies Endesa, Union Fenosa, Red Electrica de Espana and Hidrocanabrico. At the beginning of 2000, the company lost, against a modest compensation, its exclusive rights to use the networks, following a decision on the part of the Spanish Antitrust Authorities.

In 2000, the company closed with revenues of Spanish pesetas 3.4 billion (Lire 40 billion) and a net income of Spanish pesetas 0.9 billion (Lire 10 billion), in line with those of the prior year.

France

In a market that grew by 43% compared to 1999, which totaled almost 30 million lines and with a level of penetration of 50.2%, **Bouygues Telecom**, a mobile telecommunications operator in France achieved the best performance in the sector with a growth rate of 61.2%, enabling it to total 5.2 million lines at the end of 2000, with a market share of 18%. The company recently decided not to participate in the award of *UMTS* licenses owing to the high cost reached during the bidding (Euros 4.95 billion). However, the French government, which only awarded two of the four available licenses, is evaluating the possibility of starting another auction for the frequencies that have not yet been assigned. The company reported revenues of French francs 12.8 billion (Lire 3,783 billion), an increase of 62% compared to 1999 on account of the increase in the customer base. This was accompanied by a reduction in industrial and commercial costs, with significant repercussions on the operating result, which showed an operating loss of French francs 1.2 billion (-Lire 364 billion) +57% compared to 1999). The net result, which showed a loss of French francs 2.2 million (-Lire 655 billion), is however an improvement of 37% compared to 1999.

Austria

In 2000 **Telekom Austria**, the dominant carrier of wireline telephone services, *Internet* and data, lost a significant amount of the market share on account of growing pressure from competition. The company was therefore forced to speed up the launch of new services (including those using *ADSL* technology) and strengthen the *Internet* offering with the new company/trademark "Jet2 *Internet* Services", which will offer integrated broadband access and *Internet* services.

At the end of the year, corporate market shares amounted to 71% in terms of traffic (-18% compared to 1999) and 94% in terms of the number of lines, equal to almost 3.8 million (96% in 1999). *Internet* customers numbered 388,000 (with a market share of 25%); in this context its leadership in the residential segment was confirmed. *ADSL* lines amounted to over 39,000.

Within the framework of the plan to contain structure costs, the company Telekom Austria Personalmanagement (100%-owned by Telekom Austria) was set up at the end of the year. This company comprises staff with a public contract who will be asked to change to a private contract so that they can return to Telekom Austria. Thanks to outsourcing projects and early retirement schemes, at the end of 2000, the number of employees had already been reduced by 7% compared to the end of 1999.

In 2000, Telekom Austria reported revenues of Austrian schillings 35.7 billion (Lire 5,020 billion), slightly less than that in 1999 of Austrian schillings 38.2 billion (Lire 5,381 billion). The operating result showed an operating loss of Austrian schillings 1.9 billion (-Lire 276 billion), compared to an operating income in 1999 of Austrian schillings 3.8 billion (Lire 534 billion). This difference is due particularly to the higher costs of marketing and interconnection. The writedown of the investment in Libro AG and the extraordinary expenses of Austrian schillings 3.5 billion (Lire 493 billion) deriving from early retirement incentives generated a loss of Austrian schillings 6.3 billion (Lire 881 billion), compared to a profit in 1999 of Austrian schillings 2.8 billion (Lire 395 billion). **Jet2Web Internet Services** (*Internet* activities) reported revenues of Austrian schillings 507 million (Lire 71 billion); the operating result showed an operating loss of Austrian schillings 306 million (-Lire 43 billion) and the loss for the year was Austrian schillings 309 million (Lire 44 billion), both a result of the start-up phase.

In 2000, the Austrian mobile market, which is characterized by fierce competition, partly as a result of the entry, in May, of the fourth operator, reached a high level of penetration (74.5%, corresponding to more than 6 million lines), which slowed down development. In this context **Mobikom Austria** confirmed its leadership position with 2.8 million lines (+24% compared to the end of 1999) and a market share of 45%. The strategy of the company is geared to promote customer retention, develop customer service and, more particularly, develop value-added services. In particular, the offering has evolved towards the *Internet* sector with the launch, in January, of WAP applications and, subsequently, the start of the first large-scale experiments with *GPRS*. In November, Mobikom Austria was awarded *UMTS* license. Within the framework of a strategy of international growth, the company also acquired control of Vipnet Gsm in Croazia and Mobikom Liechtenstein.

During the year, the company reported revenues of Austrian schillings 18 billion (Lire 2,554 billion), +10% compared to 1999; the operating income was Austrian schillings 2.8 billion (Lire 389 billion); the net income was Austrian schillings 1.8 billion (Lire 258 billion). The net income was affected by high financial expenses attributable to the acquisition of the *UMTS* license and the investments in *GPRS*.

Czech republic

The Czech mobile market, which is characterized by a level of penetration of 38%, showed a net growth thanks partly to the entry of the third operator. In this context, at December 31, **Radiomobil** had more than 1.8 million lines, with an increase of 113% compared to the end of 1999. This commercial performance affected the economic results: the company reported revenues equal to Lire 966 billion (+65% compared to 1999); the net income was equal to Lire 93 billion (+33%).

Serbia

In Serbia, the Telecom Italia Group is present with a 29% investment through SIN in Telekom Srbija, the wireline carrier operating as a monopoly and the country's second



largest mobile operator. At December 31, 2000 the company had 2,220,000 subscribers to the fixed network (compared to 2,121,000 at the end of 1999) and 432,000 customers of the mobile network (compared to 99,000 at the end of 1999).

No official evaluation of the extent of the damage resulting from the hostilities in 1999 has as yet been forthcoming; the state secret imposed on this subject, which should have expired on June 26, has been postponed indefinitely. As a result of these events Telekom Srbija is still barred from operating telecommunications in the region of Kosovo. For this reason steps have already been taken to writedown the investment in SIN's 1999 and 2000 financial statements. The results of 2000 show revenues of Serbian dinars 17,610 million (Lire 581 billion based on an exchange rate of 30 Serbian dinars to the German mark), compared to Serbian dinars 8,640 million (Lire 1,424 billion based on an exchange rate of 6 Serbian dinars to the German mark) in 1999. The gross operating profit was Serbian dinars 7,335 million (Lire 242 billion), compared to Serbian dinars 3,408 million (Lire 562 billion) in 1999. The company reported a loss for the year of Serbian dinars 2,970 million (Lire 98 billion), compared to a profit in 1999 of Serbian dinars 1,050 million (Lire 173 billion). The loss can be attributed to the devaluation of the Serbian dinar against the German mark.

Latin America

Brazil

The Telecom Italia Group operates in the wireline telephony sector through **Brasil Telecom Participacoes** (BTP, the new name of Tele Centro Sul Participacoes), a company in which SIN has an investment through Solpart Participacoes, which owns 51.79% of the ordinary share capital. Within the framework of the corporate restructuring process, begun in 1999, during the year, action was taken to incorporate the eight operational companies controlled by Tele Centro Sul in Brasil Telecom (the new name of Telepar Participacoes), as well as acquire and incorporate Tele Brasil Sul and Companhia Riograndense de Telecomunicacoes (CRT). After these transactions, at the end of 2000, BTP holds 65.47% of the total share capital of Brasil Telecom (97.97% of ordinary shares and 39.34% of preferred shares).

The investments made during the year had the aim of strengthening the transmission and switching structures and completing the digitalization of the exchanges. At the end of 2000, including CRT, there are 7.2 million lines in service (of which about 2 million have been newly installed). In addition, during the year, the technological platform to support the new broadband *Internet* services became available.

The consolidated financial statements (which include the economic figures of CRT from August 1, 2000) showed revenues of Brazilian reais 4,732 million (Lire 5,444 billion) +48% compared to 1999; the operating income was Brazilian reais 869 million (Lire 999 billion); the consolidated profit attributable to the parent company was Brazilian reais 342 million (Lire 393 billion), with an increase of 21% compared to the prior year.

Chile

Entel Chile is the leading operator in the long-distance telephony sector, the mobile telephony sector (through the subsidiary Entel PCS) and the data-transmission/*Internet* segment. Through the subsidiary Americatel, the Group also addresses the American Hispanic-speaking market in the United States with the offering of long-distance telephone services between the USA and Latin America.

During the year, Entel stepped up the long-distance, mobile and *Internet* sectors, which were less sensitive to the recession that has been sweeping the country since 1998. Through the mobile telecommunications subsidiary Entel Telefonía Personal it reached a total of 1.3 million customers (+94% compared to the end of 1999); results were even more favorable in the *Internet* sector, where traffic increased by 96% compared to that of the prior year. The company reported consolidated revenues of Chilean pesos 523 billion (Lire 2,076 billion), an increase of 39% compared to 1999 (Chilean pesos 377 billion) particularly as a result of the positive trend of mobile telephone services (+86%) and the long-distance sector (+55%). The net income attributable to the parent company was Chilean pesos 3 billion (Lire 12 billion), a considerable reduction compared to 1999 (Chilean pesos 28 billion) due to nonrecurring extraordinary expenses. Furthermore, the 1999 result benefited from a gain of Chilean pesos 36 billion from the sale of a mobile telephone license to Bellsouth.

Cuba

The Telecom Italia Group operates in the country through **Etec S.A. Cuba**, exclusive carrier for national and international fixed telephone services. In order to achieve the objectives imposed by the regulations governing the license, during the year, the company made investments geared to developing the number of lines in service (from 424,000 in 1999 to 484,000 in 2000), increasing the level of digitalization of the network (from 40% to 53%) and strengthening the data network with the new *ATM/Frame Relay* technology.

During the year, Etec S.A. reported revenues of USD 293 million (Lire 616 billion), with a growth of 17% compared to 1999 due mainly to greater incoming international traffic (+22%). Net income was USD 160 million (Lire 336 billion), +11% compared to 1999.

On December 15, telephone connections with the United States were again interrupted because of the failure on the part of American operators to recognize the tax on calls between the USA and Cuba. The tax was levied by the Cuban government against the decision to destine part of the Cuban funds frozen in the United States to compensate the families of the victims of the two American civilian aircrafts shot down by Cuban aviation in 1996.

The company has already taken action to minimize the negative effects of this decision by negotiating new transit agreements and developing connections with other operators.

Other areas

Israel

The Telecom Italia Group operates in the Israeli market through **Golden Lines**, the second largest international telephony operator in the country. During the year, the company launched the offering of *Internet* access (through dial-up, *ISDN* and rented circuits), reaching a base of approximately 25,000 residential customers and 1,300 business customers.

In 2000, the company reported revenues of Israeli shekels 558 million (Lire 284 billion) +13% compared to the prior year. The net result was a loss of Israeli shekels 56 million (-Lire 28.5 billion), which shows an improvement of 30% compared to the 1999 (-Israeli shekels 80 million).



3.5

INFORMATION TECHNOLOGY ACTIVITIES

The Telecom Italia Group operates in the sector through the **Finsiel group**, **Netsiel**, **Telesoft** and **Sodalia**. The following table shows the highlights for fiscal year 2000, compared to those of 1999. It should also be mentioned that the contribution of the business segment “Information Systems Operations” by Telecom Italia to Netsiel affected capital expenditures and personnel, whereas the exclusion from the scope of consolidation of Webegg, which came under the direct control of Olivetti in 2000 as a result of corporate transactions, had an impact on the economic results.

(in billions of lire)	2000	1999	Change	
			amount	percentage
Sales and service revenues	3,137	3,074	63	2.0
Gross operating profit	388	405	(17)	(4.2)
Operating income	251	237	14	5.9
Capital expenditures	303	129	174	°
Number of employees at end of period	11,280	10,206	1,074	10.5

The mentioned companies above, together with the Information Technology function of the Parent Company, make up the “Information Technology Services” Business Unit. In 2001, their activities will come under the control of Telecom Italia Information Technology, a company 100% owned by Telecom Italia, set up in the second half of 2000 with the aim of ensuring the coordination of the information technology activities distributed throughout the various companies. The main aims of this reorganization are to fully concentrate the sector activities on the product/customer/market, make better use of specific professional skills and improve production efficiency.

The B.U. will be diversified into the following areas: “Telecommunications Services”, specialized in applications consultancy and in system integration services for the telecommunications market; “Operational Services”, devoted to managing computer infrastructures; “Market”, geared to the segments of finance, industry and the central Public Administration; “Web Professional Services”, with the aim of playing a leading role in the offering of professional services and innovative web-related solutions; “Regional Services”, devoted to the local Public Administration; “Consulting”, specialized in executive consultancy; and “Tax Services”, devoted to support activities for the tax-records office and the Ministry of Finance.

With reference to the individual companies, the **Finsiel group**, in addition to continuing its traditional activities geared to offering services to the central and local public administrations, extended its offering of services relating to systems integration and development, “Enterprise Resources Planning” (ERP) platforms, online services in the fields of e-business, e-banking and training.

For the group companies, the *Internet* constituted the main reference point in 2000; in fact, the whole offering was upgraded to offer customized web-based solutions to companies, banks and the Public Administration, with the aim of transforming traditional public or private enterprises into e-companies, partly through a review of internal processes.

For large industrial and services companies, the offering of ERP management systems was integrated with e-commerce and e-procurement solutions.

The offering for banks focused not only on the transition to the euro, but also on web-based solutions capable of seizing the new business opportunities arising from the network and meeting the requirements of a clientele demanding customized financial services that are available through a variety of channels, from the bank counter to the mobile phone or the web. These lines of development were a strong addition to the Banksiel group, which specializes in services for financial operators.

During the year, progress was made in the development of Tele Sistemi Ferroviari, a company supplying exclusive ICT services under an outsourcing contract to Ferrovie dello Stato (the Italian State Railroad) and in the growth of the Consiel group, specialized in management consultancy, which began a complex process of corporate restructuring.

SOGEL, in the role of main operations partner of the Ministry of Finance, expanded its telematic services by extending the possibility of digitally transmitting deeds and documents regarding the departments of Internal Revenue Service, Customs, Territorial administrators, by extending the number of users (taxpayers, professional people and companies) and, at the same time, guaranteeing security and privacy in relations between the user and the tax office. "Telematic taxation", begun in 1999, enabled the approximately 100,000 registered tax intermediaries to transmit more than 45 million documents online, including tax returns, deeds and other documents. In this sphere, for the first time, taxpayers can send their tax returns through the *Internet*. The technological foundations have also been laid to combat tax evasion, such as a system for verifying accounting documents and displaying a company's position. In addition, the company supervised the computer side of the management of ICI and other taxes, the computer system for the Tobacco Agency, the creation of special software for managing road taxes, the totalizers used for betting and the start-up of network services for professionals and craftsmen.

Overall, the Finsiel group reported revenues in 2000 for Lire 2,259 billion, with an increase of 2.5% compared to the prior year. The operating income was Lire 207 billion, which grew by 18.9% compared to 1999, while the net income attributable to the parent company was Lire 132 billion, with a growth of 57% due partly to the gains arising from the sales of data-processing centers to Lottomatica, Bisiel to Banca Agricola Mantovana, stock in Praxis and the dilution of Webegg capital.

At December 31, 2000, employees numbered 7,407 (8,130 at the end of 1999). The fall compared to the prior year also takes into account the 361 Netsiel employees who are no longer in the Finsiel group.

At December 31, 2000, Telecom Italia contributed the "Information Systems Operation" business segment, which operates the information infrastructures of Telecom Italia itself and related services, to **Netsiel**. After this transaction, Netsiel (formerly a wholly-owned subsidiary of Finsiel) is 68.65%-owned by Telecom Italia and 31.35%-owned by Finsiel.

From 2001, thanks to the outsourcing contract stipulated with the Parent Company, Netsiel will gradually concentrate the operation of the information services of the Telecom Italia Group in its own hands, thus creating synergies and economies of scale which will be useful in terms of developing its role in the "Operational Services" sector. Three channels, in fact, have been identified as being important for the development of this market (the "Information Technology Services" Business Unit, other Telecom Italia Group companies, the direct market), each requiring a different commercial approach. To this end, Netsiel will be the object of a reorganization plan with the aim of strengthening its



specific know-how (web, systems support, client server, help desk) and gearing its activities to the market, so that it will already be able to generate an increase in its sales to third parties by 2001.

In 2000, Netsiel revenues amounted to Lire 122 billion compared to Lire 141 billion in 1999. The operating income, which amounted to Lire 5 billion, and the net income of Lire 2 billion, are in line with the figures for 1999.

At December 31, 2000, employees numbered 1,467 compared to 361 at the end of 1999. The increase compared to 1999 also takes into account the 1,051 units who were transferred from Telecom Italia to Netsiel following the contribution of activities.

Telesoft confirmed its role as the main supplier of IT software and services in the Telecom Italia Group. In fact, the company is the Group's main partner in the creation and development of telecommunications network operating processes and support systems for marketing activities. In addition to consolidating its position on the national market, the company strengthened its presence in South America, Spain and Greece, in keeping with the Group's expansion strategies.

The production value in 2000 (Lire 832 billion) increased compared to 1999 (Lire 779 billion); the operating income was down (from Lire 40 billion to Lire 38 billion) and this was also reflected in the net income (which fell from Lire 17 billion to Lire 11 billion).

At December 31, 2000, employees numbered 1,726 (1,554 at the end of 1999).

On March 1, 2001, Telesoft received, from Telecom Italia, the "Development" business segment which is devoted to developing information systems and creating applications software, with 619 employees and, from Finsiel, the "Telecommunications" business segment, with 234 employees.

Sodalìa is active in developing software systems of the new generation, to support network management and telecommunications services. The quality of its production, confirmed by the award of ISO 9001 certification and by "level 3-CMM" (Capability Maturity Model) of the Software Engineering Institute, has strengthened its role as the strategic supplier to Verizon (formerly Bell Atlantic) and Telecom Italia.

The production value (Lire 47 billion) was virtually unchanged compared to 1999, despite the fact that, in 2000, grants formerly received from the Province of Trento were no longer forthcoming. The operating income (Lire 6 billion) grew principally as a result of the reduction in consumption; the net income (Lire 0.7 billion) on the other hand, was unchanged compared to 1999.

At December 31, 2000, employees numbered 318 (compared to 303 at the end of 1999).

■ RESEARCH AND DEVELOPMENT

In 2000, the **Finsiel** group devoted 174 years/person to research; the parent company, Finsiel S.p.A., on the other hand, devoted 25 years/person. The main areas of activity were telematic systems for monitoring and tutoring in large training projects; online territorial services that can be accessed through the Public Administration; the development of platforms for multi-channel distribution via the *Internet* or *GSM* of online banking services. In the various areas of the *Internet*, the main initiatives developed were electronic commerce for corporate closed systems, web learning and process improvement.

In 2000, **Telesoft** continued with the activities which had been started in the previous years, with the main aim of ensuring that its products keep up with technological evolution. Activities were mainly concentrated on methodologies and architectures, to allow the development, integration and re-engineering of systems that are flexible and can be rapidly applied in projects on behalf of Telecom Italia and TIM; software usability and re-usability, thanks to a laboratory in which the products undergo continuous tests, both during development and after installation; *Internet* and e-commerce, with particular attention to the evolution of web applications.

The activities of **Sodalìa** are geared to developing hi-tech software products with special characteristics in terms of modularity, portability, and re-usability, starting, wherever possible, with standardized basic products. This has generated the need to carry out applied research, oriented towards the study and realization of tools and infrastructures which permit the creation of a software “factory”, capable of supplying high-quality products at competitive prices, and allowing for further developments in the course of their life cycle. The main sectors of activity once again involved data network management and advanced telecommunications services.

3.6 MANUFACTURING ACTIVITIES

The Telecom Italia Group operates in the manufacturing sector through Italtel. In December, 80.1% of the capital of the company was sold to a group of foreign investors headed by Clayton, Dubilier & Rice and Cisco System. The new stockholder structure is as follows: CD&R, an investment company with considerable experience in turning around companies, 50.1%; Advent International and Brera Capital, companies belonging to the CD&R group, 11.1%; Cisco, 18.9%; Telecom Italia Group, 19.9%. The Group has retained an interest in the company with the aim of developing synergies with its industrial American partner, Cisco, the repercussions of which could find applications in services which Telecom Italia will offer the market.

Only the economic results for the first nine months of the year have been included in the 2000 consolidated financial statements of Telecom Italia Group. The figures cannot, therefore, be compared to those of 1999, a year in which, furthermore, following its reorganization, the results of Italtel were proportionally consolidated at 50% for the first ten months of the year and at 100% for the last two months.

(in billions of lire)	1/1-9/30/2000	Year 1999
Sales and service revenues	1,221	3,114
Gross operating profit	38	10
Operating (loss)	(26)	(115)
Capital expenditures	39	127
Number of employees at end of period	4,892	5,153

In fact, in the second half of 1999, the activities and subsidiaries operating in the sectors of radio, transport and mobile networks were transferred to Siemens; the simultaneous sale by Siemens of 50% of Telsi Ltd. gave Telecom Italia a 100% stake in Italtel. The company has therefore concentrated its activities in the wireline network segment, with



the aim of competing in the offering of switching systems and in the development of innovative solutions for the integration of phone and data by making better use of its specific expertise.

The experience of Italtel in this field, together with that of Cisco in the *Internet* sector and in network hardware, will mean that the potential exists for taking advantage of the commercial opportunities on the horizon and which, as has already been mentioned, the Telecom Italia Group also intends to exploit.

The results of the first nine months show revenues of Lire 1,221 billion, thanks partly to the significant contribution of activities conducted on foreign markets. Industrial operations also show a positive trend; however, the effects of writing down receivables and inventories have affected the operating income.

The number of employees, just like the balance sheet, was not considered for the purposes of the 2000 financial statements of the Telecom Italia Group.

3.7 INSTALLATION ACTIVITIES

In 2000, the Telecom Italia Group operated in the sector through the Sirti group. In November, Telecom Italia accepted the voluntary take-over bid launched by Wiretel on October 4 on 100% of the share capital, handing over all the shares owned (equal to 49.05% of capital) in exchange for a price of Euros 1.502 (Lire 2,910) per share. Wiretel is controlled by a group of companies comprising Stella International, Techint, Interbanca, 21 Investimenti and the venture capital company 3i.

Only the economic results for the first nine months of the year have been included in the 2000 consolidated financial statements of Telecom Italia Group and, therefore, are not comparable to the those of 1999.

(in billions of lire)	1/1-9/30/2000	Year 1999
Sales and service revenues	1,165	1,501
Gross operating profit	107	123
Operating income	20	76
Capital expenditures	29	81
Number of employees at end of period	11,775	12,704

In the Italian market, which was characterized by constant growth in data services and the *Internet*, the investments made by Telecom Italia have decreased; however, the evolution of the strategies and business models of other operators led to a marked increase in the demand for the installation of fixed and mobile networks from Sirti.

Foreign activities – with the exception of Brazil – showed comforting signs of recovery, which were accompanied by a general improvement in margins.

In the main European countries, business was affected by the persisting weakness in the demand from some traditional operators. However, significant new opportunities arose as a result of the investment programs of the new network and services operators, which favored an expansion of business in almost all the European subsidiaries. Particularly positive results were achieved in Spain and France, while the performance of the German and British subsidiaries also improved.

In Latin America, emphasis must be given to the results achieved in Argentina, where production in the first nine months of 2000 almost doubled compared to that of the same period in 1999, with a marked increase in operational profitability. In Brazil, on the other hand, the trend in operations of Construtel was affected by the unfavorable market conditions, which can be attributed both to the economic crisis affecting the country and the increase in competition, which led to a generalized fall in prices.

Although Sirti is no longer in the Group, Telecom Italia committed itself to maintaining commercial relations with the company, agreed in terms of price and duration, in the field of network installation and maintenance.

The first nine months of 2000 showed an increase in the production value (Lire 1,405 billion) and the gross operating profit, reflecting a general improvement in the operating conditions of the Group. The fall in capital expenditures, on the other hand, can be connected to the completion of the restructuring plan during 1999.

The number of employees, just like the balance sheet, was not considered for the purposes of the 2000 financial statements of the Telecom Italia Group.

3.8

OTHER ACTIVITIES

In 2000, the real estate segment of the Group was reorganized, with the following results:

- the creation of IMMSI S.p.A. (on February 10) following the partial demerger, on a proportional basis, of the real estate and connected activities of Sirti S.p.A., as voted by the extraordinary stockholders' meeting of December 15, 1999; on February 11, 2000 the stock exchange authorized the start of trading of IMMSI shares and the listing of the Sirti shares ex demerger;
- the contribution of the "Grandi Immobili" business segment of Telecom Italia, including the most prestigious properties of the Company, to IM.SER. S.p.A. (on December 1), and the subsequent sale of 60% of this company to Beni Stabili (45%) and Lehman Brothers (15%) Telecom Italia, for this operation, has realized a total cash of 2,7 billion of euro. In particular the real estate portfolio held by IM.SER consist of 581 properties, totalling 3.7 million square meters, divided into:
 - 386 properties, totalling 2.4 million square meters, including telecommunications equipment leased to Telecom Italia under long term leases (21 plus 6 years) at market rates;
 - 195 properties, totalling 1.3 million square meters, mainly leased to Telecom Italia utilizing standard contracts at market rates (6 years plus 6 years).

In 2000, Emsa continued to manage part of the Group's real estate assets. Revenues in 2000 amounted to Lire 79 billion, in line with those of 1999 (Lire 80 billion). The net income of Lire 38 billion (compared to a breakeven in 1999) is also due to the sale of a particularly important property during the year. At December 31, 2000, employees numbered 83, compared to 94 at the end of 1999.



The activities conducted by the two financial support companies, **Saiat** and **Softe**, continued during the six months. In particular, Saiat, entrusted with the domestic market, reported a net income of Lire 385 billion compared to Lire 4 billion in 1999 owing to the sale of the investments in Meie and Teleleasing, while Softe, which operates on international markets, posted a net income of Lire 34 million compared to Lire 37 billion in 1999.

As regards sales of participation, in February, Telecom Italia and the Mediobanca group reached an agreement for the sale of a 60% stake in Teleleasing. The sale reduced the Group's holding to 20%, bringing Mediobanca group's investment in Teleleasing to 80%. In April, Telecom Italia and Unipol Assicurazioni signed an agreement for the sale of the majority interest in Meie group. The agreement ended with the sale of 51.2% of Meie Assicurazioni and 51% of Meie Vita owned by Telecom Italia Group (the remaining 49% stake in Meie Vita is held by Meie Assicurazioni).

Atesia confirmed its leadership position in the Italian market of telemarketing and market research, by consolidating its supporting role for the Group marketing policies, with particular reference to the promotion of new services and *ISDN/ADSL* connections on behalf of Telecom Italia and the numerous initiatives on behalf of TIM. Revenues increased from Lire 98 billion in 1999, to Lire 149 billion in 2000; the net income amounted to Lire 43 billion compared to Lire 25 billion in 1999. At the end of 2000, employees numbered 120, 14 more than at the end of 1999.

Saritel, in keeping with its mission as the “*Internet* factory” of the Group, operated in the management of basic services and platforms and also in the integration of systems and the development of applications, thus contributing to the strengthening of the offering of *Internet* services on the fixed and mobile networks of Telecom Italia and TIM.

In more detail, activities in 2000 focused on supporting the extension of the offering of Telecom Italia for the corporate segment, which saw Saritel occupied in the “Village” services and in the start-up of the “Full Business Company” and “Full Business Management” offerings; the marked growth in Tin.it customers, of which the company managed the services center under an outsourcing arrangement; the installation of operational platforms and hi-tech services for TIM – for which Saritel supervised the integration of networks and systems to carry data and messages through mobile phones (the UNI.TIM service) – and for foreign mobile operators of the Group.

The offering of hi-tech telephony services, which was previously focused on voice messaging services, has gradually been directed towards the supply of “interactive voice response” applications, with significant repercussions on corporate know-how and on revenues; in this context achievements mainly involved the customer care services and unified messaging.

To support its activity, in 2000, two new *Internet* data centers were created with advanced content, capable of hosting a large number of customer servers and on the forefront in Europe, both from the technical point of view and in terms of size.

Revenues in 2000 amounted to Lire 276 billion compared to Lire 188 billion in 1999 (+46.8%); the increase is due mainly to the growth in *Internet* activities. The net income for the year is Lire 6 billion, an improvement compared to the previous year's result of Lire 5 billion.

At December 31, 2000, the company had 500 employees, compared to 384 at the end of 1999. When Tin.it S.p.A. was created on May 1, Saritel contributed the “Content Management” business segment to the new company, which is active in the field of information services and access to database banks for professional people and small and medium-size companies, and which has 10 employees.

In the area of advanced research, CSELT (Centro Studi e Laboratori Telecomunicazioni) confirmed its key role in the technological innovation process of the whole Group, in Italy and abroad, on the one hand transforming its knowledge of the most innovative technologies and applications into a competitive advantage for customers, through the timely transfer of the results of research, which is ever-more oriented towards results, and, on the other, identifying new opportunities for business areas that are already established and ways of creating value that can be configured as new business areas. In order to provide a more effective response to the pressures of a competitive context which now extends even to research activities, which are increasingly regarded as business opportunities, on March 1, 2001, Telecom Italia’s “Venture Capital” unit, composed of the research and development activities of the Group, was conferred to CSELT, which then changed its name to Telecom Italia Lab.

In 2000, the offering of the Center was diversified into three strategic areas, as follows: “Integration of systems and services”, “Development of solutions, products and technologies”, and “Consultancy”.

In the first area of activity, CSELT contributed firstly to extending the Telecom Italia offering in voice and data services for corporate and for residential clientele; the development of paper-based services was particularly important; the new public telephone services platform on *ISDN*; integrated intranet-extranet solutions based on *IP* to support voice and data services. With regard to mobile services, CSELT created a center for WAP services and a multi-access portal for Stet Hellas and, on behalf of TIM, implemented hi-tech solutions for network intelligence, making it possible to supply new services.

Important progress in the second area of activity includes the new “VoxNauta™” platform, which permits vocal surfing on websites using a fixed line or cell phone, the creation of tools to support the provisioning of services in *ADSL* technology, the management of information relating to the testing and operating of products and procedures and the monitoring of operative processes. On February 1, 2000, as a result of the contribution of the business segment “Tecno Voice”, the “VoxNauta™” platform was taken over by the joint stock company Loquendo, a company 100%-owned by CSELT.

Finally, as regards consultancy, the following actions are worthy of mention: the assistance offered to national and foreign operators in their dealings with the Regulatory Authorities; the support guaranteed to mobile operators in the *UMTS* (TIM, Telekom Austria, Bouygues Telecom) and *DCS 1800* (Is TIM in Turkey) auctions; the activities carried out for the creation of the Group’s pan-European *backbone*.

In April, CSELT sold the Optical Technologies Center S.r.l., a wholly owned company to which the Optical Technologies Center business segment had been contributed (in November 1999), consisting of 50 researchers, to Agilent Technologies. The transaction made it possible to exploit an asset composed of human resources, know-how and advanced laboratories, thus concentrating the Center’s activities on its core business.

In 2000, CSELT reported revenues of Lire 276 billion compared to Lire 278 billion in 1999; the financial statements closed with a profit of Lire 4 billion, compared to Lire 15 billion in 1999, including the gain from the contribution of the aforementioned business segment).

At December 31, 2000 employees numbered 1,181, compared to 1,149 at the end of 1999.



For **Stream**, 2000 was a year of significant change, both for the company and the pay-TV market. On June 29, the sale was concluded for the stakes held by the Cecchi Gori Group (18%) and SDS (12%) with 50% of each going to Telecom Italia and News Television, which then transferred the entire holding to Sky Global Networks. 50% of the share capital of Stream is therefore currently owned by Telecom Italia and 50% by Sky Global Networks.

During the year, the company changed its commercial offering for both new and existing subscribers although to a different extent in different ways. This was accomplished by significantly enhancing its services. In particular, the rights to seven new channels were acquired and added to the basic offering, including National Geographic (the best-known channel in the world for documentaries), Mt Channel (a highly respected channel of scientific information), Duel and Comedy Life (two of the most prestigious film channels). In addition, it acquired the rights for broadcasting the “Big Brother” television format, the success of which contributed largely to the growth in the number of customers.

The company also gave more coverage to sports by acquiring the television rights to broadcast the matches of Napoli Calcio in Series A, some teams in Series B and C and the “2000-2001 UEFA Champions League” game. In addition, some interactive and *Internet* applications were developed; in December, Stream was thus able to launch its first e-mail service via TV, which can be accessed by means of a decoder.

Commercial initiatives made it possible to considerably increase the number of customers who, at the end of 2000, numbered approximately 670,000, compared to 385,000 at the end of 1999, an increase of 74%. As a result, revenues also increased, reaching Lire 274 billion (+238% compared to 1999). However, the expenses incurred for the acquisition of content, sales assistance and extension of the technical infrastructures correlated to the increase in the number of subscribers led to a deterioration in the results for the year, which closed with a loss of Lire 687 billion, Lire 229 billion (+50%) more than in 1999.

Internet/Media

The Telecom Italia Group operates in the *Internet* sector through **Seat Pagine Gialle**, control of which was acquired (60,17% of ordinary share capital owned by Telecom Italia) in 2000. The entire process started on May 1, when the TIN Business Unit of Telecom Italia was conferred to the new joint-stock company Tin.it, the first step in the merger with Seat which was concluded on November 15 and which created the foremost *Internet* Service Provider in Italy and one of the most important in the world.

Specifically, the Board of Directors of Telecom Italia approved the plan for the industrial and corporate integration of Tin.it and Seat Pagine Gialle on March 15, 2000. The plan called for the following stages:

- contribution to Tin.it S.p.A., with effect from May 1, 2000, of a group of companies composed of the TIN division, the holdings in Esri Italia (49%), Excite Italia (50%) and the operational and advertising management of the official telephone directory of subscribers by Telecom Italia, the holding in Viasat (50%) by Telespazio and the Content Management division by Saritel;
- subsequent partial demerger through a transfer of a portion of the capital of Tin.it S.p.A. (about 8%) to Seat Pagine Gialle, which increased its capital by issuing new ordinary shares to be assigned equally to the ordinary and savings stockholders of Telecom Italia;

- merger by incorporation, with retroactive effective for accounting and tax purposes to May 1, 2000, of Tin.it S.p.A. in Seat Pagine Gialle, which increased its capital by issuing new ordinary shares to Telecom Italia.

The merger between the two companies stems from the desire to create an Italian pole with the infrastructures, the size and the business skills necessary for accelerating the development of the *Internet* market in Italy and to compete with large groups in Europe and the rest of the world.

With reference to *Internet*, in 2000, the Italian market confirmed the extraordinary growth of the prior year: according to a Sirmi survey, during the year, the network was “visited” by more than 10 million Italians. At the end of 2000, Tin.it had reached 4 million registered customers, an increase of 101% compared to December 31, 1999; about 1.5 million customers were acquired in the last month of the year (compared to 0.9 million in December 1999). There was a fall in the number of active paying customers to 524,000 (180,000 less than in December 1999). During the year, telephone traffic for *Internet* access almost doubled compared to 1999 (11.6 billion minutes, compared to 5.9 billion minutes in 1999), thanks partly to the increase in the average time of connection to the network.

In this context, the strategy of Seat was to promote value-added access services and to exploit the synergies between the contents of the Virgilio portal and the other *Internet* products of the Group. To this end, during the year, marketing began for broadband services in *ADSL* technology – capable of supporting an ever more complete offering of online content with high standards of quality and service accessories – through the “always on” *Internet* connection subject to the payment of a fixed monthly fee. At December 31, there were 8,000 active customers. The offering was also enhanced by the web services of the “Easy” and “Village” lines, geared mainly to the world of small and medium-size companies.

In 2000, revenues of the Seat group (whose economic results were not included in the consolidated financial statements of the Group because the legal effects of the merger with Tin.it became effective on November 15) were Lire 2,581 billion; the operating income amounted to Lire 275 billion; the loss attributable to the parent company was Lire 1.7 billion.

At December 31, 2000 employees numbered 7,515.

■ RESEARCH AND DEVELOPMENT

In addition to the activities conducted on behalf of other companies in the Group, which have already been mentioned, in 2000, **CSELT** conducted a certain number of experiments for technological and hi-tech service solutions, in the fields of supplying telephone services on *IP* networks, the access platform for broadband multimedia and interactive services and solutions for optical networking.

In the micro-electronics sector, a “bookcase” of complex circuit functions was planned, oriented towards networking, wireless and multimedia applications; in the multimedia sector a platform was created to distribute news in real time.



Finally, CSELT developed its own new models of innovation and value creation, by starting preparatory initiatives for the development of autonomous business areas in such sectors of excellence as vocal technologies, multimedia and the integration of systems using silicon.

In 2000, R&D expenditures by CSELT were approximately Lire 290 billion, of which almost Lire 200 billion were spent on commissioned activities and more than Lire 90 billion on strategic research activities.

The activities of **Saritel** again focused on technical and market exploration, creating prototypes and experimenting with innovative technologies, with particular attention to the development, implementation and organizational support of services that can be exploited by mobile phones (UNI.TIM, the WAP offering, extending the productive capacity of the Short Message Service center).

The achievements of the year (including the extension of SMS to TIM's *TACS* customers in Italy and the development of SMS for Amena in Spain), based on the integration between the technical competence and experience acquired in the provision of services, highlight the value of accumulated know-how, heralding further applications developments.

The commitment to research in 2000 remained virtually unchanged compared to 1999: approximately Lire 2 billion, equal to 12 years/person.

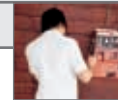


chapter

4

SOCIAL AND ENVIRONMENTAL AWARENESS





With the publication of the “Social and Environmental Report” (based on data from 1999), the Telecom Italia Group wanted to consolidate a practice which would measure precisely the level of satisfaction of its stockholders, identify new aims of excellence and help to spread the culture of sustainability through the simple example of its operations.

“Value” and “sustainability” are the two key words in terms of aims – and principles – which must guide the strategies and conduct of a company that wants to be a protagonist on the market.

The challenge for the future is to interpret “sustainability” as a competitive advantage, enabling the Group to operate efficiently in a stable framework, optimizing the management of risks for future generations.

The primary requirement to improve the competitiveness and remuneration of the capital invested and to gain the confidence of investors generated particular attention for the various internal and external stakeholders, highlighted by the conformity of the performance of Telecom Italia with the strict standards of the Dow Jones Sustainability Group Index, regarded as the definitive index of sustainability on a world scale, for which the company was selected in September 2000.

The Parent Company, firstly, contributed to the development of new technologies in schools, with the creation of the website <http://webscuola.tin.it>, which is the first virtual community for Italian schools where students and teachers can easily access information, qualified teaching resources and communication tools and interaction online, in an attempt to broaden and test new dynamics of teaching and learning.

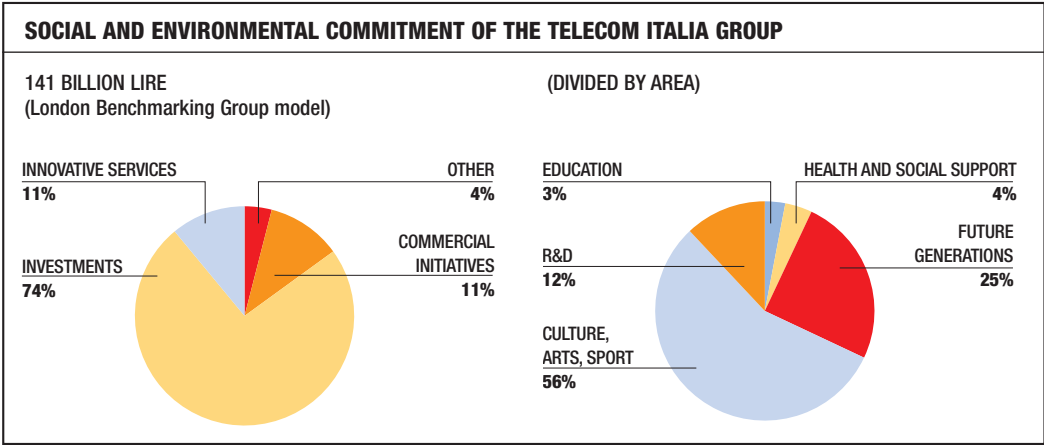
Telecom Italia’s activities geared to the social sphere include financing the creation of prototypes for the “Domus Aurea Project”, a control system for an “intelligent house” aimed at managing a domestic environment that is able to ensure the well-being and safety of the occupant, especially if afflicted by physical/motory disabilities or intellectual limitations, through the control of the various domestic functions (opening and closing doors and windows, operating lighting) and a dedicated safety system (controlling gas leaks, a burglar alarm, tele-emergency help, tele- assistance).

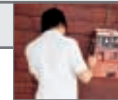
In the field of tele-medicine, TIM, through the mobile network, has made it possible to transmit electro-cardiograms and other vital parameters, for the long-distance management of health emergencies. To encourage the development and spread of this technology, the company has also activated a series of projects which include agreements with leading structures in the area of national health.

The “Great Jubilee of the Year 2000” involved Telecom Italia in a project which, in addition to supplying hi-tech structures and services devoted to the Holy See, the Nunciatures and Bishops’ Conferences all over the world, consisted in creating services for the common good, such as a “*Call Center*” to provide pilgrims with information, a website and additional public telephone structures in places where the Jubilee was being celebrated. During the various events, TIM, as the only mobile operator, made 1,000 speaker phone devices available to the disabled and supplied the health services of the Vatican with sophisticated tele-medicine equipment connected via the *GSM* network, for controls and

emergency cardiac treatment in the Vatican City and in the Roman basilicas involved in the events.

The Group assured its support of cultural events, art exhibitions, concerts and sporting events with a commitment corresponding to 56% of the contribution given to the stakeholders “Community” and “Future generations”, which, in 1999, was equal to 1.1% of the consolidated operating income.





With regard to the environment, the main indicators of the impact of corporate activities highlighted the sharing of the principle of sustainable development, with explicit reference to safeguarding the rights of future generations. The total consumption of electrical energy was about 1.3% lower than the prior year. This figure, despite a continuous development of the network and the extension of the offering of services, shows the considerable results achieved with regard to the optimization of consumption.

Telecom Italia has begun to collaborate with the department of “Production Engineering” at the University of Genoa, to identify a program of technical and operational intervention on air conditioning and electrical systems, with the aim of limiting energy consumption, such as: rationalizing the rooms where the energy stations (transformers) are located, introducing electronic controls to start the hydraulic pumps on cooling units, controlling internal and external lighting at industrial sites (with light-sensitive switches and timers), using a system to manage the switching on of cooling units according to necessity.

TIM carried out operational and maintenance work on the power units used in the base transceiver stations not connected to the ENEL network, replacing some of the older units with new apparatus with a low environmental impact and implementing improvements on the others.

The consumption of diesel fuel remained virtually unchanged, while methane consumption, increasingly used to heat offices, increased.

The amount of waste produced was reduced by 10.8%, mainly as a result of the significant efforts made in previous years to remove and replace obsolete apparatus and cables. The ways and techniques used to recover and treat industrial waste showed no change from the prior year, with approximately 80% of the waste being sent to processing plants with the aim of recovering or recycling materials.

In line with the methodological guidelines of the UNI EN ISO 14010-11 standards, Telecom Italia carried out a review to verify the effectiveness of its internal control system over the most significant environmental aspects of the corporate context. It looked at the main factors of environmental impact associated with the operation and maintenance of the telephone network, such as the management of waste, emissions from electromagnetic fields, noise pollution, the release of emissions into the earth’s atmosphere, as well as the aspects relating to the acquisition, management and disposal of dangerous substances and products which are to be introduced in the company.

With regard to safety – with reference to the principles and recommendations in Legislative Decree No. 626/1994 – audits were conducted regarding both the whole range of measures implemented to contain and control risk in the work environment, and specific aspects of particular importance, such as fire prevention and electrical hazards.

Within the framework of the purchasing processes, Telecom Italia has a practice of introducing and updating the technical specifications of products in compliance with international standards ISO Guide 64 (Guide for the inclusion of environmental aspects in product standards), IEC Guide 109 (Environmental aspects – inclusion in electro-

technical product standards) and the main environmental laws in force and, in particular, with Legislative Decree No. 22/1997 and subsequent modifications to the decree. The general aims pursued try to ensure that the products and materials brought into the company are designed, created and supplied in a responsible way from the environmental point of view and that, overall, the specifications issued by Telecom Italia contain technical and environmental requirements recognized by the manufacturers, with the following objectives: to minimize the use of energy and materials in the production phase; to minimize energy consumption and emissions during use; to encourage the use of materials and components which can be renewed and recycled; to minimize the amount of waste produced; to ensure that products/services comply with current laws on safety and safeguarding the environment.

In 2000, work continued to develop an organic management system for purchasing that is compatible with the environment, by integrating existing procedures with the use of innovative management tools, and able to cover most of the goods acquired by the companies in the Group. The aim is to ensure that all the goods and services are created and supplied in a responsible way from the environmental point of view.

All the installations of the Telecom Italia Group operate in full compliance with the national and international laws aimed at protecting the population from risks and dangers to health deriving from radio frequencies. This objective has been achieved and maintained thanks to the accuracy adopted in the design and installation phases, the care taken in the choice of locations and the continuous maintenance and control of the installations involved.

With regard to research in the medical and scientific field, the Group supports research in the field and carries out independent specific research through CSELT, geared, in particular, to identifying the possible consequences on biological systems, of electro-magnetic fields emitting from antennas and mobile telephones. In particular, in order to carry out a far-reaching verification nationwide that the intensity of electric fields (in Volts/m) and density of power emitted (in Watts/square meter) comply with current laws, the procedure of designing and controlling radio systems has been enhanced with a module that is capable of assessing the levels of emissions from radio installations. In this way, even for very large radio centers with numerous antennas, it is possible to identify precisely the global electro-magnetic field levels generated on the surrounding area.



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF TELECOM ITALIA GROUP

chapter 5**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS
OF OPERATIONS OF TELECOM ITALIA GROUP**

The year 2000 was characterized by a number of transactions within the framework of the industrial and corporate reorganization of the Telecom Italia Group. Such transactions had a significant impact on the scope of consolidation with varying degrees of effect on the statement of income and balance sheet.

The consolidated statement of income takes into account the consolidation of the Nortel Inversora group on a proportional basis as from January 1, 2000, the deconsolidation of Teleleasing and Webegg for all of 2000 and the Sirti group and the Italtel group as from October 1, 2000.

In addition to the above-mentioned transactions, the most significant effects on the consolidated balance sheet can be ascribed to the consolidation of the balance sheets of Seat Pagine Gialle, Maxitel, Jet Multimedia groups and the Venezuelan company Digital. Only the balance sheets of these businesses were consolidated as they were acquired by the Group during the last part of the year.

The contributions of business segments effected by the Parent Company did not have an impact on the consolidated financial statements, as they took place among companies of the Group, except for the contribution of the "Grandi Immobili" business segment to IM.SER, whose controlling interest was later sold to third parties.

Comments on the most significant variations in the statement of income and the balance sheet also give an indication of the changes on a comparable consolidation basis, for purposes of the comparison.

5.1

RESULTS OF OPERATIONS

CONSOLIDATED STATEMENTS OF INCOME

	2000	1999	Change	
(in billions of lire)			Amount	%
A. Sales and service revenues	55,979	52,481	3,498	6.7
Changes in inventories of work in progress, semifinished and finished goods	54	(127)	181	°
Changes in inventory of contract work in process	487	341	146	42.8
Increases in capitalized internal construction costs	1,765	2,056	(291)	(14.2)
Operating grants	39	39	=	=
B. Standard production value	58,324	54,790	3,534	6.4
Raw materials and outside services (*)	(23,234)	(21,531)	(1,703)	7.9
C. Value added	35,090	33,259	1,831	5.6
Labor costs (*)	(9,690)	(9,586)	(104)	1.1
D. Gross operating profit	25,400	23,673	1,727	7.3
Depreciation and amortization	(10,933)	(10,338)	(595)	5.7
Other valuation adjustments	(1,017)	(844)	(173)	20.5
Provisions to reserves for risks and charges	(305)	(195)	(110)	56.4
Net other income (expense)	34	160	(126)	(78.7)
E. Operating income	13,179	12,456	723	5.8
Net investment and financial income (expense) and value adjustments	(3,143)	(1,764)	(1,379)	78.2
F. Income before extraordinary items and taxes	10,036	10,692	(656)	(6.1)
Net extraordinary income (expense)	(415)	(981)	566	(57.7)
G. Income before taxes	9,621	9,711	(90)	(0.9)
Income taxes	(3,912)	(5,046)	1,134	(22.5)
H. Net income before minority interest	5,709	4,665	1,044	22.4
Minority interest	(1,782)	(1,301)	(481)	37.0
I. Net income	3,927	3,364	563	16.7

(*) Reduced by related cost recoveries.

Results of operations for 2000 showed a consolidated net income of Lire 3,927 billion (Lire 5,709 billion less the minority interest of Lire 1,782 billion), with an increase of Lire 563 billion (+16.7%) compared to 1999.

Positive contributions were made to consolidated net income by the gains on the sale of a part of the real estate properties, the sales of Sirti, 80% of Italtel, the Meie group and Teleleasing, as well as a more favorable tax rate.

The consolidated result, however, was hurt by the deterioration in the balance of financial income and expense on account of the results of the affiliated companies still in the start-up stage, which were impacted by the amortization of goodwill and higher financial expenses connected with higher debt.

The key figures are analyzed in the following paragraphs.

■ *Sales and service revenues* amounted to Lire 55,979 billion in 2000, an increase of 6.7% over 1999 (+1.7% on a comparable consolidation basis).

Revenues, net of the amount due to other telecommunications operators, totaled Lire 50,576 billion and increased by Lire 2,721 billion (+5.7%) compared to 1999. The growth in revenues can be ascribed to the inclusion in the scope of consolidation of Nortel Inversora group (Lire 3,532 billion) that was partly offset by the reduction in revenues of the manufacturing and installations sectors which, in 2000, cover a period of nine months against 12 months in the prior year, in addition to the deconsolidation of Teleleasing.

While mobile telecommunications in Italy and abroad showed a positive performance (+9.7%), revenues from wireline telecommunications services supplied in Italy decreased (-5.9%). Such reduction can be ascribed to the Parent Company, whose revenues from traffic, in spite of an increase of 27.3% in minutes (+Lire 2,273 billion) fell by 13.9%; the average return on traffic, in fact, was Lire 71 per minute compared to Lire 111 in the prior year (-35.8%; -Lire 5,006 billion in revenues). This reduction was partly compensated by the increase in basic subscription charges (+9.9%) following the August 1, 2000 rate changes, the development of data connections and the growing demand for interconnecting services with the Telecom Italia network by other operators.

■ *Raw materials and outside services* totaled Lire 23,234 billion, 7.9% higher than 1999 (+3.1% on a comparable consolidation basis). This increase is connected to the changes in the scope of consolidation (Nortel Inversora group: +Lire 1,335 billion; Sirti group and Italtel group: -Lire 204 billion) and to the increase in the costs of operating and developing mobile telecommunications services. Consumption by the Parent Company, instead, decreased by 7.6% due a general policy to control and reduce costs.

This item includes Lire 1,107 billion of the TLC license fee due to the state administration, of which Lire 603 billion relate to the Parent Company, Lire 359 billion to TIM and Lire 145 billion to foreign subsidiaries.

The percentage of raw materials and outside services to revenues was 41.5% (41% in 1999).

■ *Labor costs*, totaling Lire 9,690 billion, increased by Lire 104 billion compared to 1999 following the changes in the scope of consolidation (Nortel Inversora group: +Lire 541 billion; Sirti group and Italtel group: -Lire 367 billion) compensated by the lower costs of the Parent Company (-Lire 186 billion) essentially due to the reduction in the average number of employees compared to 1999, also on account of the resignations following the cutbacks under the agreements with the labor unions. As a percentage of gross revenues, labor costs fell from 18.3% in 1999 to 17.3% in 2000.

■ *Gross operating profit* of Lire 25,400 billion increased by Lire 1,727 billion, compared to 1999, (+7.3%; +1.5% on a comparable consolidation basis) and represented 45.4% of gross revenues (45.1% in 1999). The increase in the gross operating margin was due to the changes in the scope of consolidation (Nortel Inversora group: Lire 1,746 billion) and the good performance of mobile telecommunications (TIM's gross operating margin rose by Lire 723 billion), which was partly offset by the reduction in the Parent Company's gross operating margin (-Lire 829 billion).

■ *Depreciation and amortization* totaled Lire 10,933 billion (Lire 10,338 billion in 1999), including Lire 2,192 billion for the amortization of intangibles (of which Lire 349 billion relate to goodwill, Lire 198 billion in 1999) and Lire 8,741 billion for the depreciation of fixed assets. The increase is due to the entry of the Nortel Inversora group in the scope of consolidation for Lire 828 billion and higher depreciation and amortization taken by TIM, which was only partly compensated by the decrease in the depreciation and amortization taken by the Parent Company owing to a lower amount of depreciable assets, the change in the mix of depreciable assets, lower depreciation on public telephony installations and *DECT* assets written down in the 1999 financial statements and the adjustment of depreciation rates relating to the submarine network in the 2000 financial statements.

■ *Other valuation adjustments* of Lire 1,017 billion increased by Lire 173 billion compared to 1999 and mainly refer to the writedowns to reduce receivables from customers to their estimated realizable value. Of the total, Lire 370 billion refer to the Parent Company, Lire 162 billion to Nortel Inversora group, Lire 123 billion to TIM, Lire 115 billion to Tele Nordeste Celular Participacoes and Lire 62 billion to Tele Celular Sul Participacoes.

■ *Provisions to reserves for risks and charges*, amounting to Lire 305 billion, increased by Lire 110 billion, of which Lire 22 billion are for the inclusion in the scope of consolidation of Nortel Inversora group and Lire 47 billion for higher provisions by TIM and the Parent Company.

■ *Net other income (expense)* showed an income balance of Lire 34 billion (Lire 160 billion in 1999) and basically refers to fees charged by the telecommunications companies to customers for late payment of telephone bills (Lire 213 billion), the portion of capital grants credited to income during the year (Lire 139 billion), indirect duties and taxes (Lire 270 billion), together with other income and expense in the normal course of business.

■ *Operating income* of Lire 13,179 billion (Lire 12,456 billion in 1999) increased by Lire 723 billion compared to 1999, (+5.8%; +1.2% on a comparable consolidation basis); operating income represents 23.5% as a percentage of gross revenues compared to 23.7% in 1999. The increase in operating income is mainly attributable to the Nortel Inversora group (Lire 726 billion) and the good results of TIM (whose operating income increased by Lire 423 billion), partly reduced by the lower operating income of the Parent Company (-Lire 110 billion).

■ *Net investment and financial income (expense) and value adjustments* showed an expense balance of Lire 3,143 billion which comprises the following:

- value adjustments to financial assets show a negative balance of Lire 2,243 billion (Lire 1,131 billion in 1999). They mainly refer to the Group's share of the income and losses of the unconsolidated companies valued using the equity method, which also includes the amortization of goodwill upon the purchase of these investments (Lire 877 billion; Lire 356 billion in 1999). The increase in the balance is mainly due to the losses of some subsidiaries (in particular, Telekom Austria – owing to the extraordinary expenses incurred for the corporate reorganization - Maxitel and Stream) and the amortization of goodwill on the purchase of the investment in Seat Pagine Gialle (Lire 423 billion). The total also includes writedowns to adjust the value of the shares of listed subsidiaries carried in current assets to market price at the end of the year for a total of Lire 259 billion;

- net investment income (expense) showed an income balance of Lire 585 billion (Lire 277 billion in 1999) essentially in relation to dividends received from unconsolidated subsidiaries and affiliated companies (Lire 273 billion) and net gains on the sale of listed securities carried in current assets (Lire 312 billion);
- net financial income (expense) of Lire 1,485 billion (-Lire 910 billion in 1999). The higher expense balance is primarily attributable to the financial expenses of the Nortel Inversora group (Lire 297 billion) and the higher net expense balance of the Parent Company.

■ *Net extraordinary income (expense)* showed an expense balance of Lire 415 billion (-Lire 981 billion in 1999), including Lire 2,676 billion of income and Lire 3,091 billion of expense.

Extraordinary income includes:

- gains deriving from the Group's divestiture policy (Lire 1,877 billion) referring to the sale of 80% of Italtel group (Lire 760 billion), Meie group (Lire 450 billion), Teleleasing (Lire 41 billion) and Sirti group (Lire 22 billion) and the sale of the "Grandi Immobili" business segment by the Parent Company through the sale of 60% IM.SER (Lire 604 billion) to third parties;
- gains from the sale of other investment holdings, intangibles, fixed assets and business segments (Lire 342 billion) of which Lire 107 billion are from the sale of the investment in Bharti group;
- income (Lire 91 billion) representing lower previous taxes for TIM following the application of the official interpretations concerning the so-called Visco tax benefits.

Extraordinary expense comprises:

- restructuring expenses for Lire 953 billion, of which Lire 884 billion refer to the Parent Company in respect of the costs of the corporate reorganization plan;
- social security charges pursuant to Law No. 58/92 to guarantee uniform status under the former Telephone Employees Pension Fund (FPT) which, as required by the 2000 Finance Bill, has become part of the general "Employees Pension Fund" as from January 1 for Lire 297 billion and an extraordinary annual contribution of Lire 150 billion to INPS as established by the same Bill for the three years 2000 - 2002 to meet the higher financial requirements covered by the rules of the fund that was abolished;
- provision by TIM to the reserve for technological risk and the reserve for the costs to liberalize frequencies for Lire 812 billion;
- expenses and provisions connected to the transactions for the disposal of investment holdings and the reorganization of the Group for Lire 349 billion;
- Lire 78 billion for the fine imposed on TIM and Omnitel Pronto Italia by the Antitrust Authority for the alleged violation of rules against price-fixing; this figure is equal to an amount in excess of that recorded in the reserve for risks by TIM in the December 31, 1999 financial statements (Lire 22 billion).

■ *Income taxes* amount to Lire 3,912 billion, of which Lire 215 billion are due to the consolidation of the Nortel Inversora group.

Income taxes represented 40.7% as percentage of income before income taxes in 2000 compared to 52% in 1999. The reduction from 1999 is principally the result of the tax benefits on investments utilized by TIM and the taxation of gains from the sale of investments and the contribution of the business segment "Grandi Immobili" by the Parent Company to IM.SER using the substitute equalization tax. The tax rate was also affected by the release of deferred taxes by the Parent Company consequent to the application of art. 14 of Law 342/2000. Under this law, the "Reserve for accelerated depreciation" was reclassified and the tax expense for the year was reduced by the excess amount of the "reserve for deferred taxes".

5.2

FINANCIAL CONDITION

CONSOLIDATED BALANCE SHEETS

(in billions of lire)	12/31/2000	12/31/1999	Change
A. Intangibles, fixed assets and long-term investments			
Intangible assets	31,052	5,299	25,753
Fixed assets	45,358	45,518	(160)
Long-term investments:			
• equity investments and advances on future capital contributions	14,712	12,326	2,386
• other	2,085	891	1,194
	93,207	64,034	29,173
B. Working capital			
Inventories	1,405	1,995	(590)
Trade accounts receivable	16,124	15,883	241
Other assets	7,263	3,177	4,086
Trade accounts payable	(14,252)	(12,870)	(1,382)
Reserves for risks and charges	(3,425)	(2,006)	(1,419)
Other liabilities	(11,495)	(13,248)	1,753
	(4,380)	(7,069)	2,689
C. Invested capital, net of operating liabilities (A+B)	88,827	56,965	31,862
D. Reserve for employee termination indemnities	(2,554)	(2,896)	342
E. Invested capital, net of operating liabilities and the reserve for employee termination indemnities (C+D)	86,273	54,069	32,204
Financed by:			
F. Stockholders' equity (*)			
Parent Company interest	36,443	33,004	3,439
Minority interest	12,985	5,307	7,678
	49,428	38,311	11,117
G. Medium/long-term debt	16,010	10,002	6,008
H. Net short-term borrowings			
• short-term borrowings	29,307	9,622	19,685
• liquid assets and short-term financial assets	(8,586)	(4,049)	(4,537)
• financial accrued expense (income) and deferred expense (income), net	114	183	(69)
	20,835	5,756	15,079
(G+H)	36,845	15,758	21,087
I. Total (F+G+H)	86,273	54,069	32,204

(*) Net of "Receivables from stockholders for capital contribution".

The balance sheet of the Telecom Italia Group shows a net invested capital of Lire 86,273 billion (Lire 54,069 billion at December 31, 1999), of which 57.3% is financed by stockholders' equity (70.9% at December 31, 1999) and 42.7% by net borrowings (29.1% at December 31, 1999).

■ *Intangibles, fixed assets and long-term investments* of Lire 93,207 billion show an increase of Lire 29,173 billion compared to December 31, 1999.

"Intangible assets" amount to Lire 31,052 billion; the main changes during the year were as follows:

(in billions of lire)	2000	1999
At January 1, 2000	5,299	3,647
– additions	25,402	3,057
– disposals	(23)	(98)
– amortization	(2,192)	(1,913)
– writedowns	(70)	(7)
– change in scope of consolidation	2,646	692
– other	(10)	(79)
At December 31, 2000	31,052	5,299

Additions include goodwill deriving from the acquisition of subsidiaries for Lire 17,637 billion and mainly refer to the following transactions:

- acquisition of controlling interest in Seat Pagine Gialle (Lire 13,159 billion);
- acquisition of controlling interest, through 9 Telecom Reseau, in the Jet Multimedia group and Europe Explorer (Lire 1,381 billion);
- acquisition, by the Parent Company, of 50 million TIM ordinary shares (Lire 1,196 billion);
- acquisition of the controlling interest, through TIM, in Maxitel (Lire 646 billion) and Digitel (Lire 700 billion);
- transactions involving the reorganization of the international telecommunications business (Lire 409 billion).

Additions in 2000 also refer to the cost of the *UMTS* license acquired by TIM (Lire 4,680 billion) and a PCS 1900 license obtained through TIM Perù (Lire 381 billion).

The effect of the changes in the scope of consolidation mainly refers to the inclusion of the Nortel Inversora group (+Lire 931 billion, of which Lire 253 billion refer to the remaining goodwill on the increment in the investment in Nortel Inversora in 1999), Maxitel group (+Lire 1,055 billion) and Seat Pagine Gialle group (+Lire 1,238 billion) and to the exclusion of Italtel and Sirti (-Lire 375 billion, of which Lire 336 billion refer to the residual goodwill for the purchase of 50% of Italtel in 1999).

“Fixed assets” total Lire 45,358 billion; the main changes during the year were as follows:

(in billions of lire)	2000	1999
At January 1, 2000	45,518	45,665
– additions	7,530	7,503
– disposals	(199)	(330)
– sale of “Grandi Immobili” business segment	(4,632)	=
– depreciation	(8,741)	(8,425)
– writedowns	(22)	(138)
– change in scope of consolidation	5,766	1,513
– other	138	(270)
At December 31, 2000	45,358	45,518

Additions remain substantially unchanged compared to the prior year as a result of the combined effect of a reduction in investments by the Parent Company and the inclusion of the Nortel Inversora group (Lire 937 billion).

The increase due to the changes in the scope of consolidation principally refers to the inclusion of the Nortel Inversora group (Lire 5,056 billion), Seat Pagine Gialle group (Lire 340 billion), Maxitel (Lire 734 billion) and Digitel (Lire 207 billion) and to the exclusion of Sirti group (Lire 398 billion) and Italtel group (Lire 336 billion).

“Long-term investments”, amounting to Lire 16,797 billion, increased by Lire 3,580 billion, mainly on account of:

- the acquisition of the investment in GLB Servicos Interativos, the Internet company of Globo Organizações, (30%, for an equivalent amount of Lire 1,686 billion);
- the purchase, by the Parent Company, of No. 104,978,070 treasury savings shares (equal to 1.41% of the entire share capital) for Lire 1,281 billion, under the tender offer and later purchases, as voted by the ordinary stockholders’ meeting of January 14, 2000;
- the formation of the company IS TIM which won the third GSM 1800 license in Turkey (Lire 594 billion);
- the consolidation of Seat Pagine Gialle group (Lire 436 billion);
- the valuation of Italtel group using the equity method after the sale of an 80.1% stake (Lire 204 billion).

Such increases were partly compensated by the consolidation of Nortel Inversora group which was previously valued using the equity method (Lire 961 billion) and the sale of the investments in the Meie group (Lire 220 billion) and Bharti group (Lire 162 billion).

■ *Working capital* showed a negative balance of Lire 4,380 billion (-Lire 7,069 billion at December 31, 1999).

The reduction of Lire 3,087 billion is due to:

- the decrease in “inventories” (from Lire 1,995 billion at the end of 1999 to Lire 1,405 billion; -Lire 590 billion) mainly for the exclusion of the companies operating in the manufacturing and installations sectors which are no longer in the Group.
- the increase in “trade accounts receivable”, from Lire 15,883 billion at the end of 1999 to Lire 16,124 billion, connected principally to the consolidation of the Seat Pagine Gialle group (Lire 1,376 billion) and the Nortel Inversora group (Lire 891 billion).

These increases were countered by the reduction in trade accounts receivable by the Parent Company and the mobile telephony companies. Such reduction, for the Parent Company, is due to a decrease in revenues and the assignment of receivables to factoring companies while, for the mobile telecommunications companies, the reduction derives from the ever-increasing amount of traffic generated by the prepaid service as opposed to subscriptions;

- the increase in “other assets” from Lire 3,177 billion at the end of 1999 to Lire 7,263 billion. Other assets mainly consist of:
 - deferred tax assets of Lire 1,928 billion;
 - receivables from the Tax Administration of Lire 1,116 billion;
 - customer payments in transit with banks and the postal system of Lire 362 billion;
 - receivables from employees of Lire 152 billion;
 - trading securities in portfolio of Lire 843 billion;
 - prepaid expenses and accrued income of Lire 1,684 billion of which Lire 1,454 billion relate to the premium paid on the call option on Seat Pagine Gialle shares agreed as part of the transaction to defer the put option on the Seat shares;
- the increase in “trade accounts payable” from Lire 12,870 billion at the end of 1999 to Lire 14,252 billion, connected with the changes in the scope of consolidation. Such changes refer to increases for the proportional consolidation of Nortel Inversora group (+Lire 832 billion) and for the acquisition of Seat Pagine Gialle group (Lire 765 billion) and to decreases for the sale of the Sirti group (Lire 542 billion) and the Italtel group (Lire 383 billion). As for the Parent Company, the reduction in trade accounts payable is attributable to the decrease in costs and lower investments in installations;
- the increase in the “reserves for risks and charges” from Lire 2,006 billion at the end of 1999 to Lire 3,425 billion, mainly for the risk reserve for technological advances by TIM (Lire 840 billion) set up to meet the risks originating from the evolution of the market and the technological scenario and the reserve for corporate restructuring costs set up by the Parent Company (Lire 295 billion) following the union agreements in 2000; the total also includes the reserve for litigation (432 billion).
- the decrease in “other liabilities” from Lire 13,248 billion at the end of 1999 to Lire 11,495 billion. Other liabilities include:
 - amounts owed to customers of Lire 3,261 billion, mainly including deposits made by customers and pre-billed basic charges, as well as the portion of the prepaid magnetic cards not yet used;
 - contributions to pension and social security institutions of Lire 1,808 billion;
 - taxes payable of Lire 1,800 billion;
 - employee-related payables of Lire 1,560 billion;
 - payables for investments made in investment holdings of Lire 520 billion;
 - accrued expenses and deferred income of Lire 1,977 billion, of which Lire 824 billion relate to capital grants.

■ *Stockholders' equity* is Lire 49,428 billion (Lire 38,311 billion at the end of 1999), of which Lire 36,443 billion (Lire 33,004 billion at December 31, 1999) is the Parent Company interest and Lire 12,985 billion (Lire 5,307 billion at December 31, 1999) the minority interest.

The Parent Company interest increased by Lire 3,439 billion compared to December 31, 1999 due mainly to the effect of the conversion of TIM and Seat Pagine Gialle savings shares into ordinary shares (+Lire 3,952 billion), the net income for the year (+3,927 billion), net of the 1999 Telecom Italia dividends (-Lire 4,505 billion).

■ *Net debt* of Lire 36,845 billion (Lire 15,758 billion at the end of 1999) consists of Lire 16,010 billion of medium/long-term debt (Lire 10,002 billion at the end of 1999) and Lire 20,835 billion of net short-term borrowings (Lire 5,756 billion at December 31, 1999).

The increase in net debt, compared to December 31, 1999, of Lire 21,087 billion, is mainly due to the following:

- the acquisition of the controlling interest in Seat Pagine Gialle (Lire 12,426 billion); from a financial standpoint, the acquisition of Seat will be completed when the put option on the Seat stock is closed. This is described in the notes in "Purchases and sales commitments" under memorandum accounts;
- the buy-back of savings shares by the Parent Company (Lire 1,281 billion);
- the acquisitions and subscriptions of capital increases in the investment holdings abroad (Lire 6,245 billion);
- the acquisition of the *UMTS* license by TIM (Lire 4,680 billion);
- dividends paid out (Lire 5,903 billion);
- changes in the scope of consolidation (Lire 6,289 billion);

The above-described transactions were partly financed by receipts from the conversion of TIM savings shares into ordinary shares (Lire 8,073 billion) and those deriving from the divestiture plan for the non-core businesses of the Group (Lire 8,545 billion).

Gross debt amounts to Lire 45,317 billion at December 31, 2000 (Lire 19,624 billion at December 31, 1999).

An analysis based on maturity is given in the following table:

(in billions of lire)					12/31/2000		12/31/1999	
	Lire	%	Foreign currency	%	Total	%	Total	%
Medium/long-term debt	9,346	29	6,664	52	16,010	35	10,002	51
Short-term debt	23,134	71	6,173	48	29,307	65	9,622	49
Total	32,480	100	12,837	100	45,317	100	19,624	100

5.3

FINANCIAL PERFORMANCE

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in billions of lire)	2000	1999
A. Net short-term borrowings at beginning of year	(5,756)	(4,987)
B. Cash flows - operating activities		
Net income	5,709	4,665
Depreciation and amortization	10,933	10,338
(Gains) losses on sales of intangibles, fixed assets and long-term investments	(2,112)	116
(Upward adjustments) writedowns of intangibles, fixed assets and long-term investments	2,195	1,189
Change in working capital (*)	(3,088)	(1,371)
Net change in "reserve for employee termination indemnities"	(342)	185
Change in scope of consolidation, foreign exchange gains (losses) and other changes	364	292
	13,659	15,414
C. Cash flows - investing activities		
Intangibles, fixed assets and long-term investments:		
• intangible assets	(25,402)	(3,057)
• fixed assets	(7,530)	(7,503)
• long-term investments	(5,810)	(2,517)
Proceeds from sale, or redemption value, of intangible assets, fixed assets and long-term investments	8,348	1,063
	(30,394)	(12,014)
D. Cash flows - financing activities		
New borrowings	2,822	1,485
Capital contributions	8,082	80
Capital grants	52	128
Debt repayment	(609)	(370)
Change in medium-long term debt due within one year	(2,788)	(2,214)
	7,559	(891)
E. Dividends	(5,903)	(3,278)
F. Cash flows for the year (B+C+D+E)	(15,079)	(769)
G. Net short-term borrowings at end of year (A+F)	(20,835)	(5,756)

(*) The difference compared to the variation between the 1999 and 2000 consolidated balance sheets is mainly due to recording 40% of the gain on the sale of the "Grandi Immobili" business segment in deferred income.

In 2000, net cash outflows amounted to Lire 15,079 billion, with a consequent increase of the same amount in net short-term borrowings.

This change is due to the requirements for investing and financing activities and dividends (Lire 28,378 billion) that were not entirely financed by the cash flows from operating activities (Lire 13,659 billion).

Investments in 2000 totaled Lire 38,742 billion, of which Lire 32,932 billion for industrial investments and Lire 5,810 billion for financial investments.

Industrial investments refer mainly to the Parent Company and TIM and include:

- goodwill (Lire 17,637 billion) arising from the acquisition of the controlling interest in Seat Pagine Gialle, Maxitel, Digitel, Jet Multimedia and the purchase, on the part of the Parent Company, of 50 million TIM ordinary shares and the reorganization of the international telecommunications sector;
- the cost of the *UMTS* license acquired by TIM in Italy (Lire 4,680 billion) and the PCS 1900 license obtained through TIM Perù (Lire 381 billion).

Financial investments include:

- Lire 1,686 billion for the acquisition of 30% of GLB Servicios Interativos,
- Lire 1,281 billion connected with the buy-back of Telecom Italia treasury savings shares,
- Lire 594 billion for setting up IS TIM which won the third *GSM* 1800 license in Turkey.

5.4

RESULTS OF OPERATIONS, FINANCIAL CONDITION AND PERFORMANCE EXPRESSED IN EUROS

CONSOLIDATED STATEMENTS OF INCOME

(in millions of euros)	2000	1999
A. Sales and service revenues	28,911	27,104
Changes in inventories of work in progress, semifinished and finished goods	28	(65)
Changes in inventory of contract work in process	251	176
Increases in capitalized internal construction costs	912	1,062
Operating grants	20	20
B. Standard production value	30,122	28,297
Raw materials and outside services (*)	(11,999)	(11,120)
C. Value added	18,123	17,177
Labor costs (*)	(5,005)	(4,951)
D. Gross operating profit	13,118	12,226
Depreciation and amortization	(5,647)	(5,339)
Other valuation adjustments	(525)	(436)
Provisions to reserves for risks and charges	(158)	(101)
Net other income (expense)	17	83
E. Operating income	6,805	6,433
Net investment and financial income (expense) and value adjustments	(1,623)	(911)
F. Income before extraordinary items and taxes	5,182	5,522
Net extraordinary income (expense)	(214)	(507)
G. Income before taxes	4,968	5,015
Income taxes	(2,020)	(2,606)
H. Net income before minority interest	2,948	2,409
Minority interest	(920)	(672)
I. Net income	2,028	1,737

(*) Reduced by related cost recoveries.

CONSOLIDATED BALANCE SHEETS

(in millions of euros)	12/31/2000	12/31/1999
A. Intangibles, fixed assets and long-term investments		
Intangible assets	16,037	2,737
Fixed assets	23,425	23,508
Long-term investments:		
• equity investments and advances on future capital contributions	7,598	6,366
• other	1,077	460
	48,137	33,071
B. Working capital		
Inventories	726	1,030
Trade accounts receivable	8,327	8,203
Other assets	3,751	1,641
Trade accounts payable	(7,360)	(6,647)
Reserves for risks and charges	(1,769)	(1,036)
Other liabilities	(5,937)	(6,842)
	(2,262)	(3,651)
C. Invested capital, net of operating liabilities (A+B)	45,875	29,420
D. Reserve for employee termination indemnities	(1,319)	(1,496)
E. Invested capital, net of operating liabilities and the reserve for employee termination indemnities (C+D)	44,556	27,924
Financed by:		
F. Stockholders' equity (*)		
Parent Company interest	18,821	17,045
Minority interest	6,706	2,741
	25,527	19,786
G. Medium/long-term debt	8,268	5,165
H. Net short-term borrowings		
• short-term borrowings	15,136	4,969
• liquid assets and short-term financial assets	(4,434)	(2,091)
• financial accrued expense (income) and deferred expense (income), net	59	95
	10,761	2,973
	(G+H)	8,138
I. Total (F+G+H)	44,556	27,924

(*) Net of "Receivables from stockholders for capital contribution".

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions of euros)	2000	1999
A. Net short-term borrowings) at beginning of year	(2,973)	(2,576)
B. Cash flows - operating activities		
Net income for the year	2,948	2,409
Depreciation and amortization	5,647	5,339
(Gains) losses on sales of intangibles, fixed assets and long-term investments	(1,091)	60
(Upward adjustments) writedowns of intangibles, fixed assets and long-term investments	1,134	614
Change in working capital (*)	(1,595)	(708)
Net change in "reserve for employee termination indemnities"	(177)	96
Change in scope of consolidation, foreign exchange gains (losses) and other changes	189	151
	7,055	7,961
C. Cash flows - investing activities		
Intangibles, fixed assets and long-term investments:		
• intangible assets	(13,119)	(1,579)
• fixed assets	(3,889)	(3,875)
• long-term investments	(3,001)	(1,300)
Proceeds from sale, or redemption value, of intangible assets, fixed assets and long-term investments	4,311	549
	(15,698)	(6,205)
D. Cash flows - financing activities		
New borrowings	1,457	767
Capital contributions	4,174	41
Capital grants	27	66
Debt repayment	(314)	(191)
Change in medium-long term debt due within one year	(1,440)	(1,143)
	3,904	(460)
E. Dividends	(3,049)	(1,693)
F. Cash flow for the year (B+C+D+E)	(7,788)	(397)
G. Net short-term borrowings at end of year (A+F)	(10,761)	(2,973)

(*) The difference compared to the variation between the 1999 and 2000 consolidated balance sheets is mainly due to recording 40% of the gain on the sale of the "Grandi Immobili" business segment in deferred income.

5.5

OUTLOOK FOR 2001

For the Telecom Italia Group, the fundamental aim in 2001 is to transform itself into a global operator in the major sectors of business (wireline, wireless and Internet/media), which are also organized by Business Unit at the international level, with an integrated management and a strong operational focus on Europe and Latin America.

The implementation of the new organizational model by Business Unit, begun in 2000, and the restructuring of the international portfolio are the first fundamental steps in this direction. In keeping with this approach, the results for 2001 – and a proforma version of the results for 2000 – will show the contribution of each individual Business Unit to the consolidated results, in a framework of transparency and clarity with regard to the stockholders and the market.

The focusing of management and the operational structures on the various business units will make it possible to maximize efforts in the pursuit of the fundamental aim of **creating value** for the stockholders, which will have to be achieved by acting in three basic directions.

1. **Growth**, first and foremost, by:

- completing the process to turnaround the **wireline telephony services**, which is expected to generate a sharp increase in the data business, maintaining the leadership position with the most valuable clientele in voice services and producing a further recovery in efficiency;
- giving a strong boost to **mobile telephony**, deriving from the growth of the data business – particularly in the national market – and from the increase in the number of customers served in the international market;
- strongly developing the **Internet and Media** business by consolidating the Seat Pagine Gialle group and integrating it with other companies in the Telecom Italia Group by exploiting the considerable synergies generated by the convergence of the various business areas.

In economic and financial terms, in 2001, this aim will translate into achieving a gross operating margin increasing compared to 2000 thanks partly to the contribution of the companies acquired in 2000 and in the first months of 2001.

2. Maintaining the **return on invested capital** (ROIC), the fundamental factor in guaranteeing a substantial growth in the value of the Group, even in the presence of various business areas in the start-up phase. This objective will be pursued by increasing the return of the individual business areas, and by focusing portfolio management on the most promising business.

3. Strict **financial management**, focused on generating cash flows and aimed at a highly selective policy of investment programs. On the one hand, in concrete terms, this aim will be achieved by keeping the financial debt at a level similar to that of 2000, thus improving the debt/EBITDA ratio; on the other, by improving the debt structure, by extending the average life and diversifying the sources and markets of funding.

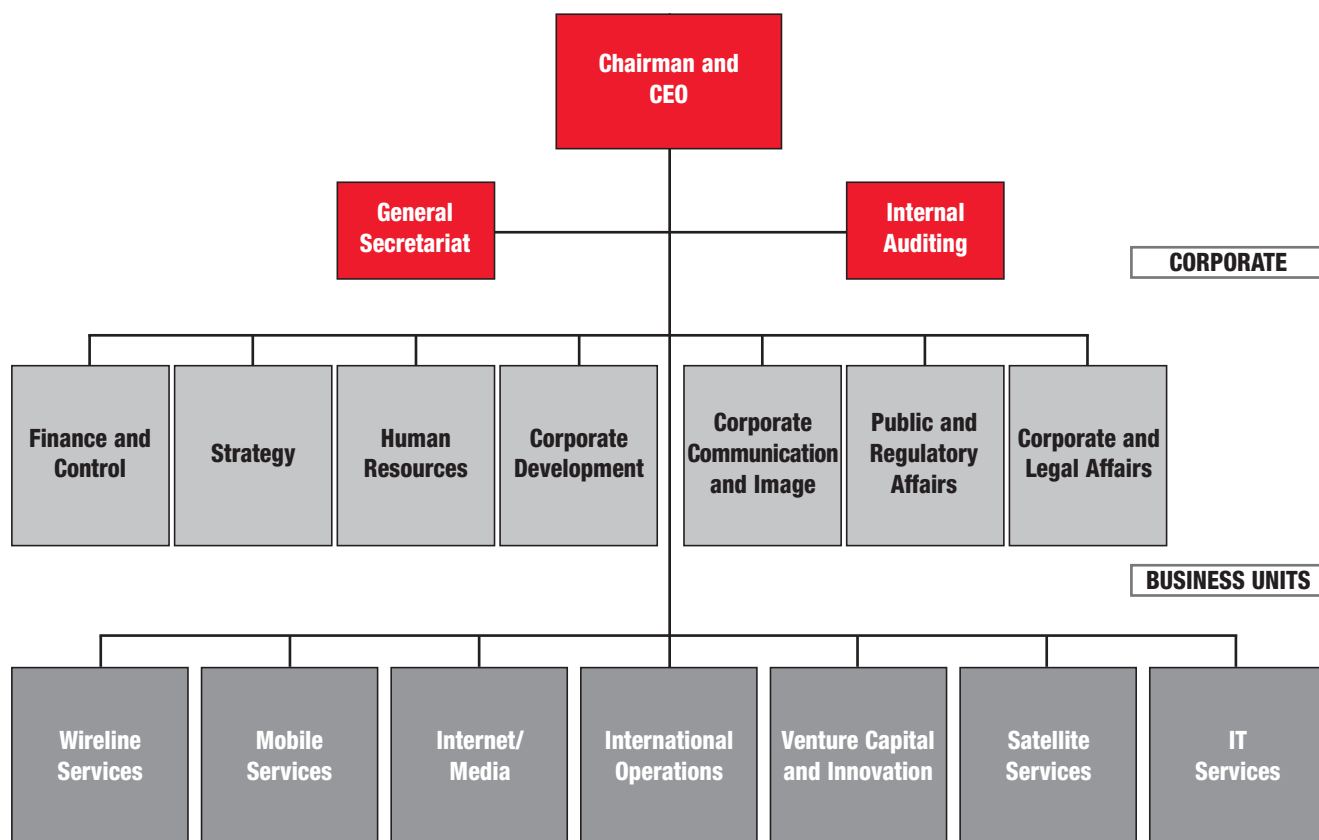
5.6 BREAKDOWN OF GROUP RESULTS BY BUSINESS UNIT

2000 marked the start of the transformation of the Telecom Italia Group announced in conjunction with the take-over and exchange bid. The transformation was shaped by the divestiture of non-strategic businesses, the focus on the core areas and the reorganization of the controlling structure of the international companies and, above all, the deep-seated reorganization of the seven autonomous Business Units from the standpoint of management, objectives, strategies and operational leverage.

The identity and the performance of the Business Units will become increasingly clearer and easier to recognize in terms of budget planning and in terms of actual figures and publication of results.

Consistent with the decentralization of all operations to the Business Units, the Corporate function has been streamlined from the point of view of role, operation and resources employed. The Corporate function will be responsible for guiding and controlling the Group, which signifies the selection of the portfolio, the identification of business to be developed, the allocation of resources, the definition of overall objectives of the Group and specific objectives of the individual Business Units.

The operational activities, at one time concentrated in the General Management function, have been allocated – and are still being shifted – to the Business Units, wherever they are needed for their operational autonomy, or to the companies providing common services: such as, personnel administration (transferred to TE.SS.), information systems operations (transferred to Netsiel), the management of the administrative cycle and training activities. The reorganization of the Group, which will be completed during the course of 2001, will be reflected in the economic results and the financial condition of each individual business sector on the basis of the structure described below.



The operations allocated to the Business Units are, in summary, the following.

- “Wireline Services” (Telecom Italia) is responsible for the data and voice business on the fixed network and call centers on a national scale; its offering is geared to final customers and other operators. Its aims are to supervise telephone services and encourage the growth of the data business by continuously innovating the offering, both in terms of services and rates; the development of integrated solutions and Internet; the spread of broadband access systems (*XDSL* and fiber optics).
- “Mobile Services” (TIM Group) is responsible for mobile, national and international telecommunications. Its aims are to protect its market shares; to expand in countries with a high rate of growth, thanks partly to the “plug & play” formula (the exportation of successful rate plans and innovative services and turnkey operational processes in order to create fast start-ups); the spread of new services – including Internet – through implementation of the latest technological platforms (*WAP*, *UMTS*).
- “Internet/Media” (Seat Pagine Gialle group) is responsible for developing Internet services for residential customers and small and medium-size companies, in all its components: access, portals, and web services. The Seat group, in addition to being – after the merger by incorporation of Tin.it – the leading Italian Internet Service Provider, is also in charge of the whole chain of value in the media sector, extending its activities to publishing, information and television.
- “International Operations” (Telecom Italia, SIN) is responsible for managing foreign wireline subsidiaries and developing the business of international networks for wholesale customers. In this context, the creation of the “Mediterranean Nautilus”, “Latin American Nautilus” and “Pan- European Backbone” projects will provide the Telecom Italia Group with a ring of fiber optics that will enable it to reinforce its presence in the areas of greatest strategic importance.
- “Venture Capital and Innovation” (Telecom Italia Lab, the new name of CSELT) is responsible both for identifying and managing new initiatives in the Information & Communication Technology sector, and coordinating the Group’s R&D activities. The contribution of the “Venture Capital” business segment of Telecom Italia (on March 1, 2001) to TI Lab is in response to the pressures of a competitive context which now also extends to research activities, increasingly seen as a business opportunity.
- “Satellite Services” (Telespazio group and the “Satellite Telecommunications” business segment of Telecom Italia) is responsible for developing satellite communication systems for phone and data applications (with particular emphasis on Internet), radio and television broadcasts and earth observation. The Telespazio group is also involved in the main innovative projects on a world scale, such as Astrolink (the broadband multimedia system) and Galileo (the European system for locating mobile vehicles).
- “Information Technology Services” (IT Telecom) is responsible for the development of the information technology of the Group. Now in the process of being set up following the integration of various companies (Finsiel, Netsiel, Telesoft, Sodalia, the “Information Technology” department of Telecom Italia), IT Telecom will cover the whole chain of value of information technology services, with the aim of re-positioning products with greater added value and transforming operative territorial units into development centers for the various geographical areas.

The following table presents the results of the Telecom Italia Group for 2000 pro-forma, broken down by major Business Unit. The results do not include those of the Seat group, as it was acquired in the last part of the year and, as a result, only the balance sheet has been consolidated (the related employees are included in “Other activities”); however, “Other activities” does include the results of the manufacturing and installations sectors for the first nine months (the Italtel group and the Sirti group were sold at the end of the year). For purposes of comparison with 1999, the figures relating to International Operations BU have are presented net of the Nortel Inversora group.

(billions of lire)		Wireline Services	Mobile Services	International Operations	Satellite Services	IT Services	Sub-total	Other activities and eliminations	Total consolidated
Sales and service revenues	2000	31,420	18,235	7,187	659	4,139	61,640	(5,661)	55,979
	1999	33,583	16,750	3,756	612	4,337	59,038	(6,557)	52,481
Gross operating profit	2000	13,817	8,610	2,243	96	638	25,404	(4)	25,400
	1999	14,358	7,526	900	89	682	23,555	118	23,673
Operating income	2000	7,350	5,786	663	(100)	258	13,957	(778)	13,179
	1999	7,152	5,243	400	(21)	233	13,007	(551)	12,456
Capital expenditures (1)	2000	4,626	9,884	3,517	59	243	18,329	14,603	32,932
	1999	5,088	3,552	646	67	307	9,660	900	10,560
N. of employees at the period	2000	60,548	15,257	11,592	1,206	12,005	100,608	14,061	114,669
	1999	67,428	12,363	3,263	1,287	11,796	96,137	26,525	122,662

International Operations (net of Nortel Inversora group)	2000	Sales and services revenues	Gross operating profit	Operating income	Capital expenditures	N. of employees at the end of the period
		3,727	499	(45)	2,503	4,094

(1) Investments in fixed assets and intangibles, including goodwill from the acquisition of consolidated companies, amount, for 2000, to Lire 17,637 billion (Lire 1,078 billion in the 1999).

5.7

TRANSACTIONS BETWEEN TELECOM ITALIA GROUP AND RELATED PARTIES

Transactions with related parties – including parent companies and their subsidiaries, unconsolidated subsidiaries and affiliated companies, as well as the Parent Company's Directors (see pag. 264) and the companies in which they hold corporate office or significant responsibility – all such transactions fall under the Group's normal operations and were conducted at standard conditions or in accordance with specific regulatory provisions. The table below provides a breakdown of transactions with such parties:

Statement of income and balance sheet items for the year 2000	Amounts in billions of lire	Nature of transactions
Sales and services revenues	1,620	These mainly comprise revenues from Seat Pagine Gialle (Lire 409 billion), Teleleasing (Lire 219 billion), Stream (Lire 198 billion), Nortel Inversora group (*) (Lire 157 billion), Lottomatica (Lire 112 billion) and Auna group (Lire 110 billion).
Raw materials and outside services	730	These mainly refer to expenses regarding Siemens Informatica (Lire 155 billion), Seat Pagine Gialle (Lire 119 billion), Teleleasing (Lire 114 billion), Entel Chile group (Lire 77 billion), Etec S.A. (Lire 46 billion) and IM.SER (Lire 44 billion).
Net other (income) expense	37	These mainly relate to cost recoveries for personnel on loan to some foreign subsidiaries and affiliates.
Net financial (income) expense	105	These comprise dividends received from the Eutelsat satellite consortium (Lire 123 billion) plus interest earned on loans made to some foreign subsidiaries and affiliates and interest expense payable to Teleleasing (Lire 60 billion) for financial leasing transactions.
Loans in long-term investments	268	These refer to loans granted to BDT (Lire 198 billion) and other foreign subsidiaries and affiliates.
Trade accounts receivable	540	These comprise mainly trade accounts receivable from Telekom Srbija (Lire 127 billion), Auna group (Lire 92 billion), Golden Lines International (Lire 49 billion), Stream (Lire 45 billion), Nortel Inversora group (*) (Lire 43 billion), Consorzio CSIA (Lire 26 billion) and Etec S.A. (Lire 25 billion).
Trade accounts payable	1,386	These pertain to supplier relationships connected with investments and transactions. In particular, they comprise trade accounts payable to Italtel group (Lire 536 billion), Entel Chile group (Lire 79 billion), Siemens Informatica (Lire 74 billion), Telekom Srbija (Lire 44 billion), Teleleasing (Lire 43 billion), Golden Lines International (Lire 32 billion), Auna group (Lire 25 billion), Etec S.A. (Lire 22 billion) and Telekom Austria group (Lire 20 billion).
Medium and long-term financial liabilities	1,073	These refer to payables to Teleleasing for financial leasing contracts.
Short-term financial liabilities	266	These include payables to IM.SER (Lire 156 billion), Webegg (Lire 57 billion) and Italtel group (Lire 38 billion).
Short-term financial receivables	339	These mainly refer to receivables from the affiliates of Seat Pagine Gialle (Lire 116 billion), Stream (Lire 106 billion) and Telekom Srbija (Lire 41 billion).
Other assets	95	These mainly refer to prepaid expenses for lease payments to IM.SER (Lire 89 billion).
Other liabilities	229	These comprise mainly payables to Astrolink (Lire 183 billion) for capital contributions payable.
Contract work in process	138	This refers to contract work in process by Telespazio for Astrolink.
Investments in fixed and intangible assets	453	These mainly consist of acquisitions from Italtel (Lire 357 billion) and Siemens Informatica (Lire 61 billion).

(*) Nortel Inversora group is consolidated proportionally.

On the basis of a contract drawn up on March 15, 2000 among Telecom Italia and all the partners of Huit which differs from Telecom Italia, Lorenzo Pelliccioli, Huit and Huit II, relating to the integration of Tin.it into Seat Pagine Gialle, as explained, among others, in the prospectus prepared according to Article 70 of the CONSOB regulations No. 11,971 of May 14, 1999, Telecom Italia has acquired shares of Seat Pagine Gialle, as shown on page 227.

Furthermore, by virtue of previous agreements, in July 2000, Lorenzo Pelliccioli, the CEO of Seat Pagine Gialle, became a stockholder of Huit II through a capital increase of 1.05% reserved for him. Consequently, the number of Seat shares held by Telecom Italia, indirectly through Huit, was proportionally reduced. Lorenzo Pelliccioli later sold the stake in Huit II to the parent company Huit. Telecom Italia contributed, as a partner of Huit, for Lire 37 billion, in the benefits thus obtained by Lorenzo Pelliccioli.

5.8

TREASURY STOCK

At December 31, 2000 the Parent Company Telecom Italia holds No. 104,978,070 shares of treasury savings stock of par value Lire 1,000 each, corresponding to 1.41% of share capital.



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF TELECOM ITALIA

chapter 6

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF TELECOM ITALIA

The financial condition and the results of operations of Telecom Italia in the year 2000 reflect the results emerging from the transactions involving the companies described below. As far as the contributions are concerned, the balance sheet does not include the assets and liabilities contributed, whereas the statement of income takes into account the results of the companies contributed up to the date the transactions became effective.

The corporate transactions which took place during the year were as follows:

- contribution, with effect from May 1, 2000, of all the assets and liabilities consisting of the segments and investment holdings inherent to the operations and marketing of online services and products by Telecom Italia, Telespazio and Saritel to Tin.it S.p.A.; on August 10, 2000, the extraordinary stockholders' meeting passed a resolution for the partial demerger, on a proportional basis, of Telecom Italia, finalized on November 10, through the transfer of a 8.168% stake in Tin.it to Seat; on November 15, 2000, the merger of Tin.it in Seat Pagine Gialle was finalized and is effective for accounting and tax purposes as from May 1, 2000;
- contribution to TE.SS. - Tele Payroll Services S.p.A., operational since November 1, 2000, of the business segment for the management of the personnel administration services of the companies of the Group;
- contribution, on December 1, 2000, of the business segment "Grandi Immobili", consisting of Telecom Italia's most prestigious real estate properties, to IM.SER, and the successive sale of 60% of this company to Beni Stabili (45%) and Lehman Brothers (15%);
- total spin-off of Stet International to Telecom Italia and TIM as part of the rationalization of the international communications sector. The spin-off was concluded on December 27, 2000 and is effective for accounting and tax purposes as from January 1, 2000. On December 29, 2000, Telecom Italia contributed its entire stake in Stet Mobile Holding to TIM, receiving 1.94% of TIM ordinary shares (after the conversion of savings shares into ordinary shares) following the share capital increase set aside by TIM for Telecom Italia;
- contribution to Netsiel, which took place on December 31, 2000, of the business segment for the operations of the information technology services. This transaction falls under the reorganization program for the sector which calls for concentrating all of the Group's operations in the Information Technology sector in I.T. Telecom S.p.A..

6.1

RESULTS OF OPERATIONS

STATEMENTS OF INCOME

		2000	1999	Change	
(in billions of lire)				Absolute	%
A.	Sales and service revenues	33,723	35,856	(2,133)	(5.9)
	Changes in inventory of contract work in process	16	(20)	36	°
	Increases in capitalized internal construction costs	22	26	(4)	(15.4)
	Operating grants	1	3	(2)	(66.7)
B.	Standard production value	33,762	35,865	(2,103)	(5.9)
	Raw materials and outside services (*)	(13,290)	(14,325)	1,035	(7.2)
C.	Value added	20,472	21,540	(1,068)	(5.0)
	Labor costs (*)	(5,920)	(6,106)	186	(3.0)
D.	Gross operating profit	14,552	15,434	(882)	(5.7)
	Depreciation and amortization	(7,201)	(7,766)	565	(7.3)
	Other valuation adjustments	(370)	(542)	172	(31.7)
	Provisions to reserves for risks and charges	(121)	(156)	35	(22.4)
	Net other income (expense)	101	126	(25)	(19.8)
E.	Operating income	6,961	7,096	(135)	(1.9)
	Net investment and financial income (expense)	1,727	2,471	(744)	(30.1)
F.	Income before extraordinary items and taxes	8,688	9,567	(879)	(9.2)
	Net extraordinary income (expense)	(348)	(657)	309	(47.0)
G.	Income before taxes	8,340	8,910	(570)	(6.4)
	Income taxes	(3,386)	(3,860)	474	(12.3)
H.	Net income	4,954	5,050	(96)	(1.9)

(*) Reduced by related cost recoveries.

Results of operations for the year 2000 showed a net income of Lire 4,954 billion, a decrease of Lire 96 billion (-1.9%) compared to 1999. This result was mainly affected by the reduction in sales and service revenues and the lower contribution made by net financial income and expense, that were almost completely compensated by the reduction in operating costs, lower amortization and depreciation and provisions in addition to an improvement in balance of net extraordinary expense and income taxes.

The key figures are analyzed in the following paragraphs:

■ *Sales and service revenues*, amounting to Lire 33,723 billion, decreased by 5.9% compared to 1999 (Lire 35,856 billion) and are recorded gross of the amount due to other domestic and international TLC operators (Lire 6,099 billion). The total includes revenues from services of Lire 33,036 billion and revenues from sales of Lire 687 billion (respectively, Lire 34,835 billion and Lire 1,021 billion in 1999).

The decrease in revenues (-Lire 2,133 billion) can mainly be attributed to traffic, which fell by 13.9% even though the number of minutes rose by 27.3% (corresponding to +Lire 2,273 billion in terms of revenues). The average return on traffic, in fact, was Lire 71 per minute compared to Lire 111 per minute in the prior year, (-35.8%, -Lire 5,006 billion in terms of revenues). Such performance was negatively affected by the reduction, beginning August 1, 1999, in long-distance and international rates, the discount policies

aimed at customer retention, the effect of replacing out-of-district rates with the less remunerative online rates and the application of new interconnecting rates for traffic to and from mobile phones. These phenomena were partly compensated by the increase in basic subscription charges (+9.9%) following the August 1, 2000 rate changes, the development of data connections and the growing demand for interconnecting services with the Telecom Italia network by other operators.

The reduction in revenues was also affected, for Lire 212 billion, by the contribution to Tin.it of the businesses for placing advertising and selling the official “White Pages” telephony directory, as part of the Seat – Tin.it merger.

Revenues from transactions with other fixed network carriers were Lire 1,364 billion (Lire 748 billion in 1999).

■ *Raw materials and outside services* of Lire 13,290 billion net of the related cost recoveries, include:

(in billions of lire)	2000	1999	Change %
Direct service costs	2,040	2,202	(7.4)
Operating costs	2,484	2,818	(11.9)
Marketing costs	1,797	1,907	(5.8)
Know-how development costs	267	321	(16.8)
	6,588	7,248	(9.1)
Amounts due to other carriers	6,099	6,321	(3.5)
TLC license fee	603	756	(20.2)
Total	13,290	14,325	(7.2)

In regard to the changes in these costs, the following notes apply:

- “direct service costs”, pertaining to the operation and maintenance of the network, decreased by Lire 162 billion consequent to savings arising from the ongoing equipment rationalization program, concentrating especially on line installations and public telephony installations;
- “operating costs”, inclusive of the management and maintenance of buildings, vehicles, information systems and equipment, as well as overheads, decreased by Lire 334 billion owing to both an overall policy to control and reduce costs and due to the fact that in 1999, nonrecurring costs were incurred for the take-over bid and the negotiations with Deutsche Telekom for Lire 130 billion. The operating costs also include Lire 26 billion (Lire 87 billion in 1999) to upgrade the information systems to ensure *carrier preselection* and *number portability*;
- “marketing costs”, inclusive of sales expense, post-sales assistance, customer relations, advertising and promotion, decreased by Lire 110 billion. This reduction is due to the combined effect of the following factors: lower costs (-Lire 130 billion) for the printing and delivery of the White Pages telephone directories, contributed to Tin.it as part of the Seat – Tin.it merger; lower costs for the sale of products (-Lire 277 billion), insofar as in the second half of 2000, for certain customers, the Company only plans the telecommunications systems, leaving manufacturers with the responsibility for the direct sale of the equipment (this also explains the reduction in revenues from the sales of the products, described previously); higher costs for advertising campaigns, both for institutional and product and service advertising (+Lire 203 billion);
- “know-how development costs”, comprising training, studies and research and technical consulting services, were down by Lire 54 billion.

The above costs total Lire 6,588 billion for 2000, a decrease of 9.1% from 1999.

- e) “amounts due to other carriers” decreased by Lire 222 billion, primarily as a result of the difference between the amounts due to mobile carriers (-Lire 678 billion) foreign correspondents (+Lire 88 billion) and fixed carriers (+Lire 413 billion). The decrease in the amount due to mobile carriers is on account of the reduction in fixed-mobile traffic rates; as regards fixed carriers, the increase is in relation to fiercer competitive pressure and the greater presence of new carriers on the wireline telecommunications market;
- f) “TLC license fee” decreased by Lire 153 billion and includes the fee on sales revenues (Lire 595 billion), and the fee to operate the Regulatory Authority (Lire 8 billion). The reduction in the first fee is due to a decrease in the rate from 3% to 2.7% and a decline in revenues.

The percentage of raw materials and outside services to revenues was 39.4% compared to 40% in 1999.

■ *Labor costs* (net of cost recoveries for employees on loan to subsidiaries and affiliated companies of Lire 61 billion) amounted to Lire 5,920 billion, with a decrease of Lire 186 billion (-3.0%), compared to 1999, and Lire 198 billion (-3.2%) gross of such cost recoveries. This gross change is due mainly to the reduction in the average number of employees, which dropped from 77,184 in 1999 to 72,936 in 2000 (-5.5%), also on account of the resignations, concentrated in the last quarter, as a result of the cutbacks made under ex Law No. 223/1991 covered by the agreements reached with the labor unions in July. The effects of this reduction were partly counterbalanced by the increases due to collective bargaining agreements, career developments, merit bonuses and seniority increases.

The percentage of labor costs to revenues rose from 17.0% in 1999 to 17.6% in 2000.

■ *Gross operating profit* of Lire 14,552 billion decreased by Lire 882 billion compared to 1999 (-5.7%) due to the reduction in revenues, which, however, was largely compensated by the decrease in operating costs. The percentage of gross operating profit to sales and service revenues shows a slight improvement and was around 43.2% compared to 43.0% in the prior year. This reflects the Company's ability to initiate adequate cost-curbing policies to counter the contraction in revenues induced by the context of the market.

■ *Depreciation and amortization*, totaling Lire 7,201 billion, decreased by Lire 565 billion compared to 1999. This item comprises Lire 1,162 billion for the amortization of intangible assets and Lire 6,039 billion for the depreciation of fixed assets.

“Amortization of intangible assets” decreased by Lire 91 billion, due to lower software investments which became amortizable during 2000.

“Depreciation of fixed assets” decreased by Lire 474 billion; this change derives from a reduction in the amount of depreciable assets, the change in the mix of depreciable assets, lower depreciation on public telephony installations and *DECT* fixed assets written down in the 1999 financial statements and the adjustment of depreciation rates relating to the submarine network in the 2000 financial statements for about Lire 40 billion.

■ *Other valuation adjustments*, amounting to Lire 370 billion, decreased by Lire 172 billion compared to the prior year, which was characterized by the writedowns of public

telephone installations (Lire 93 billion) and the residual amount of the *DECT* platform (Lire 50 billion) and also higher writedowns of accounts receivable. Of the total, Lire 332 billion (Lire 399 billion in 1999) are for writedowns to reduce accounts receivables to their estimated realizable value and Lire 38 billion for the writedown of software projects that will be abandoned in 2001.

■ *Provisions to reserves for risks and charges*, amounting to Lire 121 billion, decreased by Lire 35 billion compared to 1999 and refer to provisions for disputes covering commercial and regulatory questions and adjustments to the “reserve for litigation” for third-party controversies.

■ *Net other income (expense)*, amounting to an income balance of Lire 101 billion, represents the difference between Lire 465 billion of other income and Lire 364 billion of other expenses.

“Other income” includes mainly fees charged to customers for the late payment of telephone bills of Lire 149 billion (Lire 227 billion in 1999), non-telephone services rendered to TIM (Lire 57 billion, as in the previous year), the portion of capital grants credited during the year of Lire 79 billion (Lire 75 billion in 1999) and sundry damages and recoveries (Lire 90 billion, as in the previous year).

“Other expense” mainly includes indirect duties and taxes for the year of Lire 156 billion (Lire 134 billion in 1999) and losses on disposals of fixed and intangible assets of Lire 94 billion (Lire 206 billion in 1999). The reduction in such losses reflects the substantial completion of the rationalization of installations begun in the mid-nineties.

■ *Operating income* amounted to Lire 6,961 billion, a decrease of Lire 135 billion from 1999 (-1.9%) essentially due to a reduction in revenues, which was almost completely compensated by savings in outside costs, labor costs, depreciation and amortization and provisions. The ratio of operating income to revenues was 20.6%, compared to 19.8% in 1999.

■ *Net investment and financial income (expense)* showed an income balance of Lire 1,727 billion (Lire 2,471 billion in 1999) which can be analyzed as follows:

■ *Investment income (expense)* shows an income balance, detailed as follows:

(in billions of lire)	2000	1999	Change %
Dividends and tax credits	3,401	3,239	5.0
Net gains on sales of investments	63	88	(28.4)
Total	3,464	3,327	4.1

a) dividends and tax credits include:

- dividends accruing in the fiscal year in respect of holdings in subsidiaries (Lire 1,862 billion) and mainly referring to TIM (Lire 1,761 billion);
- dividends recorded on the cash basis (Lire 426 billion) mainly in respect of investments in foreign companies and TIM shares purchased during the year;
- tax credits on dividends received (Lire 19 billion) and on those accruing during the year (Lire 1,094 billion);

b) net gains from the sales of investments refer principally to the gains realized on the sale of TIM shares (Lire 48 billion) and venture capital companies.

■ *Net financial income (expense)* shows an expense balance of Lire 889 billion (-Lire 561 billion in 1999) is detailed as follows:

(in billions of lire)	2000	1999	Change %
Balance from financial transactions	(996)	(632)	57.6
Other net financial income (expense)	107	71	50.7
Total	(889)	(561)	58.5

- a) the balance from financial transactions comprises the income (Lire 149 billion) and expense (Lire 1,145 billion) related to financial receivables and payables making up the net debt position. The increase in the net expense balance is attributable to higher financial expense on short-term borrowings to cover the financial requirements for the payment of Seat shares purchased from Huit II and through public offers of purchase, as described in the comments on the Company's financial condition.
- b) other net financial income (expense) refers to interest income earned on medium/long-term loans (Lire 32 billion), net gains on exchange (Lire 42 billion) and net sundry other income (Lire 33 billion).

■ *Value adjustments to financial assets* show a negative balance of Lire 848 billion (-Lire 295 billion in 1999) and are almost entirely composed of writedowns to investments, mainly in the subsidiary TMI - Telemedia International Italia (Lire 197 billion) and in the affiliated company Stream (Lire 392 billion); the total also includes writedowns to adjust the value of TIM shares and venture capital companies carried in current assets to market price.

■ *Net extraordinary income (expense)* shows a net expense balance of Lire 348 billion (-Lire 657 billion in 1999) which derives from the difference between extraordinary income of Lire 1,461 billion and extraordinary expense of Lire 1,809 billion.

"Extraordinary income" mainly includes the gains (Lire 1,290 billion) from the contribution of the business segment "Grandi Immobili" to the company IM.SER and the sale of investments (mainly Sirti).

"Extraordinary expense" mainly comprises the expenses connected with corporate restructuring (Lire 884 billion, of which Lire 552 billion for operating agreements reached with the labor unions concerning employee cutbacks and layoffs); social security charges pursuant to Law No. 58/92 (Lire 297 billion) to guarantee uniform status under the former Telephone Employees Pension Fund (FPT) which, as required by the 2000 Finance Bill, has become part of the general "Employees Pension Fund" as from January 1; extraordinary annual contribution (Lire 144 billion) to INPS – as established by the same Bill for the three years 2000 - 2002 – to meet the higher financial requirements covered by the rules of the fund that was abolished. Extraordinary expense also includes Lire 329 billion for expenses connected with the previously-mentioned transactions for the disposals of investments and contributions of business segments.

■ *Income taxes* amounted to Lire 3,386 billion (Lire 3,860 billion in 1999). They represented 40.6% as percentage of income before income taxes in 2000 compared to 43.3% in 1999. The tax rate for 2000 was affected by the taxation of the gains on the sale of the investment in Sirti and the contribution of the business segment "Grandi Immobili" using the substitute equalization tax (19%) and, above all, by lower deferred taxes following the reclassification of the "Reserve for accelerated depreciation", pursuant to the application of art. 14 of Law No. 342/2000. The excess amount in the "reserve for deferred income taxes" was used to reduce the provision for the year.

In the absence of the above entries, the tax rate would have been in line with that of the prior year.

6.2

FINANCIAL CONDITION

BALANCE SHEETS

(in billions of lire)	12/31/2000	12/31/1999	Change
A. Intangibles, fixed assets and long-term investments			
Intangible assets	2,302	2,259	43
Fixed assets	29,305	36,520	(7,215)
Long-term investments:			
• equity investments and advances on future capital contributions	38,429	17,939	20,490
• other	1,765	1,705	60
	71,801	58,423	13,378
B. Working capital			
Inventories	149	233	(84)
Trade accounts receivable	9,846	10,460	(614)
Other assets	6,097	2,923	3,174
Trade accounts payable	(8,459)	(9,313)	854
Reserves for risks and charges	(1,711)	(1,242)	(469)
Other liabilities	(6,887)	(7,676)	789
	(965)	(4,615)	3,650
C. Invested capital, net of operating liabilities (A+B)	70,836	53,808	17,028
D. Reserve for employee termination indemnities	(1,997)	(2,163)	166
E. Invested capital, net of operating liabilities and reserve for employee termination indemnities (C+D)	68,839	51,645	17,194
Financed by:			
F. Stockholders' equity			
Share capital paid-in	7,426	7,426	=
Reserves and retained earnings	23,855	23,101	754
Net income	4,954	5,050	(96)
	36,235	35,577	658
G. Medium/long-term debt	6,174	8,220	(2,046)
H. Net short-term borrowings			
• short-term borrowings	30,424	10,028	20,396
• liquid assets and short-term financial assets	(4,129)	(2,297)	(1,832)
• financial accrued expense (income) and deferred expense (income), net	135	117	18
	26,430	7,848	18,582
(G+H)	32,604	16,068	16,536
I. Total (F+G+H)	68,839	51,645	17,194

The balance sheet shows net invested capital of Lire 68,839 billion (Lire 51,645 billion at December 31, 1999), of which 52.6% is financed by stockholders' equity and 47.4% by net borrowings.

■ As far as *intangibles, fixed assets and long-term investments* are concerned, the following should be mentioned:

- a) "intangible assets" amounted to Lire 2,302 billion and show an increase of Lire 43 billion compared to December 31, 1999. The increase represents the difference between additions (Lire 1,300 billion), the amortization charge (Lire 1,162 billion), disposals and other changes (Lire 6 billion), writedowns of software projects (Lire 38 billion), transfers, mainly for software in use, as a result of the corporate transactions entered into during the year (Lire 51 billion);
- b) "fixed assets" of Lire 29,305 billion showed a decrease of Lire 7,215 billion from December 31, 1999. The decrease represents the difference between additions (Lire 3,674 billion), the depreciation charge (Lire 6,039 billion), disposals and other changes (Lire 3 billion); transfers (Lire 4,847 billion) mainly for the contributions of the business segment "Grandi Immobili" to IM.SER and the business segment "Information Systems Operations" to Netsiel;
- c) "long-term investments" amounted to Lire 40,194 billion, up by Lire 20,550 billion compared to December 31, 1999. This increase is mainly on account of the following:
 - new investments of Lire 20,632 billion, primarily due to: the acquisition of the investment in Seat Pagine Gialle (Lire 12,427 billion), as part of the merger between Seat and Tin.it and the conversion of Seat savings shares into ordinary shares (Lire 563 billion); loans for the future capital increase of Stet International Netherlands (Lire 1,865 billion) directed to the acquisition of foreign holdings, mainly in Spain, France and Latin America; the acquisition of ordinary TIM shares (Lire 3,423 billion), both directly and through the conversion of No. 305,439,248 savings shares into ordinary shares, for an equivalent amount of Lire 2,188 billion;
 - writedowns of holdings amounting to Lire 648 billion, mainly pertaining to Stream (Lire 392 billion) and TMI - Telemedia International Italia (Lire 197 billion);
 - acquisition of investments as a consequence of corporate transactions (Lire 7,512 billion), relating mainly to IM.SER (Lire 5,615 billion), Netsiel (Lire 210 billion) and Stet International Netherlands (Lire 1,547 billion);
 - cancellation of the investment in Stet International (Lire 1,407 billion) as a result of the total spin-off of this company within the framework of the reorganization of the international holdings, which were followed by the previously-mentioned assignment of the investment in SIN and the increase in the investment in TIM (Lire 1,533 billion) through the capital increase set aside for the transfer of the remaining investment in SMH to TIM;
 - sales of investments for a total of Lire 5,860 billion related mainly to IM.SER (Lire 5,224 billion), Bitel Partecipacoes (Lire 260 billion) and Sirti (Lire 86 billion);
 - loan repayments for Lire 1,041 billion; these refer mainly to loans repaid by Teleleasing following the agreement for the sale of 60% of Teleleasing by Saiat to Mediobanca;
 - buy-back of No. 104,978,070 treasury savings shares with a par value of Lire 1,000 each, equal to 1.41% of the share capital, deriving from the tender offer made during the period February 17, 2000 to March 17, 2000 (No. 1,793,820 shares) and later buy-backs (No. 103,184,250 shares), as voted by the ordinary stockholders' meeting of January 14, 2000 which authorized the tender offer that continued until January 10, 2001. Such shares are recorded at a cost of Lire 1,281 billion at December 31, 2000. A specific reserve was set aside in stockholders' equity for this transaction.

- *Working capital* showed a negative figure of Lire 965 billion (Lire 4,615 billion at December 31, 1999), thus representing, as it does traditionally, a source of operating cash flow.

In detail:

- a) “trade accounts receivable”, net of the related allowance account (Lire 654 billion), amounted to Lire 9,846 billion and decreased by Lire 614 billion compared to December 31, 1999. Trade accounts receivables from customers, in particular, decreased by Lire 1,092 billion owing to the reduction in revenues and the assignment of receivables to factoring companies (Lire 400 billion);
- b) “other assets” amounted to Lire 6,097 billion and increased by Lire 3,174 billion, compared to December 31, 1999. These essentially refer to receivables from subsidiaries (Lire 2,000 billion), mainly relating to 2000 dividends accrued; deferred tax assets net of deferred tax liabilities (Lire 939 billion); receivables from employees (Lire 157 billion); customer payments in transit with banks and the postal system (Lire 278 billion); trading of stock in portfolio (Lire 643 billion, principally TIM stock); prepaid expenses (Lire 1,559 billion), mainly relating to the premium paid by Telecom Italia for the call option on Seat shares, agreed as part of the transaction to defer the put option on the Seat shares owned by Huit II. The transaction is described in the notes in “Purchases and sales commitments” under memorandum accounts;
- c) “trade accounts payable” amounted to Lire 8,459 billion, with a decrease of Lire 854 billion compared to December 31, 1999 due primarily to the reduction in costs and lower expenditures for the purchase of installation investments. They include Lire 747 billion due to other national and international telecommunications carriers;
- d) “reserves for risks and charges” of Lire 1,711 billion increased by Lire 469 billion compared to December 31, 1999, chiefly on account of the creation of the “reserve for corporate restructuring” following agreements with the labor unions over employee cutbacks and layoffs (Lire 295 billion). This item includes the “reserve for taxes” (Lire 273 billion), the “reserve for capital grants” (Lire 254 billion), the “reserve for litigation” (Lire 262 billion), the “reserve for contractual risks and other risks” (Lire 598 billion) and the “reserve for losses of subsidiaries and affiliates” (Lire 29 billion);
- e) “other liabilities”, amounting to Lire 6,887 billion, decreased by Lire 789 billion compared to December 31, 1999. They mainly comprise employee-related payables (Lire 1,208 billion), contributions to pension and social security institutions (Lire 1,657 billion), amounts owed to customers (Lire 2,032 billion), taxes payable (Lire 957 billion) and accrued expenses and deferred income (Lire 781 billion).

- *Stockholders’ equity* amounted to Lire 36,235 billion (Lire 35,577 billion at December 31, 1999), and increased by Lire 658 billion compared to December 31, 1999. The increase represents the net income for the year (Lire 4,954 billion); the portion of capital grants that became available (Lire 32 billion transferred from “reserves for risks and charges” to “reserves”); the increase in “other reserves” (Lire 177 billion) as a result of the spin-off of Stet International and the partial spin-off of a 8.168% stake in Tin.it by Telecom Italia to Seat; 1999 dividends (Lire 4,505 billion). Furthermore:

- in connection with the tender offer for treasury savings shares, Lire 1,281 billion were reclassified from the “special reserve” to the “reserve for treasury shares in portfolio”;
- pursuant to Law No. 342/2000, Lire 1,720 billion were reclassified from the “reserve for accelerated depreciaton” to the special reserve set up in accordance with this law.

■ *Net debt* totals Lire 32,604 billion (Lire 16,068 billion at December 31, 1999). The increase over December 31, 1999 of Lire 16,536 billion can be ascribed to the increase in short-term debt (Lire 18,582 billion) mainly to cover the financial requirements to pay for the Seat shares purchased from Huit II and through the public offers of purchase and, in anticipation of changing the type of debt and expiry dates, short-term financing arranged by the Company for the opening of two one-year credit facilities obtained from a banking syndicate headed by Chase Manhattan International Ltd.

From a financial standpoint, the acquisition of Seat will be completed when the put option on the Seat stock is closed. This is described in the notes in “Purchases and sales commitments” under memorandum accounts;

Gross debt amounts to Lire 36,598 billion (Lire 18,248 billion at December 31, 1999).

An analysis based on maturity is given in the following table:

(in billions of lire)					12/31/2000		12/31/1999	
	Lire	%	Foreign currency	%	Total	%	Total	%
Medium/long-term debt	5,313	15	861	44	6,174	17	8,220	45
Short-term debt	29,339	85	1,085	56	30,424	83	10,028	55
Total	34,652	100	1,946	100	36,598	100	18,248	100

6.3 FINANCIAL PERFORMANCE

STATEMENTS OF CASH FLOWS

(in billions of lire)	2000	1999
A. Net short-term borrowings, at beginning of the year	(7,848)	(7,127)
B. Cash flows - operating activities		
Net income	4,954	5,050
Depreciation and amortization	7,201	7,766
(Gains) losses on sales of intangibles, fixed assets and long-term investments	(1,180)	175
(Upward adjustments) writedowns of intangibles, fixed assets and long-term investments	634	416
Change in working capital (*)	(3,612)	(2,350)
Net change in "reserve for employee termination indemnities"	(166)	146
	7,831	11,203
C. Cash flows - investing activities		
Intangibles, fixed assets and long-term investments:		
• intangible assets	(1,300)	(1,352)
• fixed assets	(3,674)	(4,574)
• long-term investments	(21,985)	(3,973)
Intangibles, fixed assets and long-term investments in as a result of corporate transactions	(9,146)	=
Proceeds from sale, or redemption value, of intangible assets, fixed assets and long-term investments	8,091	507
Intangibles, fixed assets and long-term investments out as a result of corporate transactions	7,946	=
	(20,068)	(9,392)
D. Cash flows – financing activities		
New borrowings	3	1,138
Capital grants	33	114
Debt repayment	(581)	(209)
Capital contributions	=	64
Change in stockholders' equity as a result of corporate transactions	177	=
Change in medium-long term debt due within one year	(1,472)	(1,518)
	(1,840)	(411)
E. Dividends	(4,505)	(2,121)
F. Cash flows for the year (B+C+D+E)	(18,582)	(721)
G. Net short-term borrowings, at end of year (A+F)	(26,430)	(7,848)

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

In 2000, net cash outflows amounted to Lire 18,582 billion, mainly due to the financial requirements for investing activities – especially long-term investments following the previously mentioned purchase of Seat shares – in part offset by the proceeds received on the disposal of investments and the contributions of business segments. This gave rise to an increase in short-term financial borrowings for the same amount, which are now Lire 26,430 billion.

Investments, amounting to Lire 4,974 billion (Lire 5,926 billion in 1999), decreased in respect of installations and real estate as a result of the rationalization process and greater selectivity in the choice of network investments and also on account of the reorganization of the real estate area.

6.4**RESULTS OF OPERATIONS, FINANCIAL CONDITION AND PERFORMANCE EXPRESSED IN EUROS****STATEMENTS OF INCOME**

(in millions of euros)	2000	1999
A. Sales and service revenues	17,416	18,518
Changes in inventory of contract work in process	8	(10)
Increases in capitalized internal construction costs	11	13
Operating grants	1	2
B. Standard production value	17,436	18,523
Raw materials and outside services (*)	(6,864)	(7,398)
C. Value added	10,572	11,125
Labor costs (*)	(3,057)	(3,153)
D. Gross operating profit	7,515	7,972
Depreciation and amortization	(3,719)	(4,011)
Other valuation adjustments	(191)	(280)
Provisions to reserves for risks and charges	(62)	(81)
Net other income (expense)	52	65
E. Operating income	3,595	3,665
Net investment and financial income (expense)	892	1,276
F. Income before extraordinary items and taxes	4,487	4,941
Net extraordinary income (expense)	(179)	(340)
G. Income before taxes	4,308	4,601
Income taxes	(1,749)	(1,993)
H. Net income	2,559	2,608

(*) Reduced by related cost recoveries.

BALANCE SHEETS

(in millions of euros)	12/31/2000	12/31/1999
A. Intangibles, fixed assets and long-term investments		
Intangible assets	1,189	1,166
Fixed assets	15,135	18,861
Long-term investments:		
• equity investments and advances on future capital contributions	19,847	9,265
• other	912	880
	37,083	30,172
B. Working capital		
Inventories	77	120
Trade accounts receivable	5,085	5,402
Other assets	3,149	1,510
Trade accounts payable	(4,369)	(4,810)
Reserves for risks and charges	(884)	(641)
Other liabilities	(3,557)	(3,964)
	(499)	(2,383)
C. Invested capital, net of operating liabilities (A+B)	36,584	27,789
D. Reserve for employee termination indemnities	(1,031)	(1,117)
E. Invested capital, net of operating liabilities and reserve for employee termination indemnities (C+D)	35,553	26,672
Financed by:		
F. Stockholders' equity		
Share capital paid-in	3,835	3,835
Reserves and retained earnings	12,320	11,931
Net income	2,559	2,608
	18,714	18,374
G. Medium/long-term debt	3,188	4,245
H. Net short-term borrowings		
• short-term borrowings	15,713	5,179
• liquid assets and short-term financial assets	(2,132)	(1,186)
• financial accrued expense (income) and deferred expense (income), net	70	60
	13,651	4,053
	(G+H)	8,298
I. Total (F+G+H)	35,553	26,672

STATEMENTS OF CASH FLOWS

(in millions of euros)	2000	1999
A. Net short-term borrowings, at beginning of year	(4,053)	(3,681)
B. Cash flows - operating activities		
Net income	2,559	2,608
Depreciation and amortization	3,719	4,011
(Gains) losses on sales of intangibles, fixed assets and long-term investments	(610)	90
(Upward adjustments) writedowns of intangibles, fixed assets and long-term investments	327	215
Change in working capital (*)	(1,865)	(1,214)
Net change in "reserve for employee termination indemnities"	(86)	75
	4,044	5,785
C. Cash flows - investing activities		
Intangibles, fixed assets and long-term investments:		
• intangible assets	(671)	(698)
• fixed assets	(1,898)	(2,362)
• long-term investments	(11,354)	(2,052)
Intangibles, fixed assets and long-term investments in as a result of corporate transactions	(4,724)	=
Proceeds from sale, or redemption value, of intangible assets, fixed assets and long-term investments	4,179	262
Intangibles, fixed assets and long-term investments out as a result of corporate transactions	4,104	=
	(10,364)	(4,850)
D. Cash flows - financing activities		
New borrowings	2	588
Capital grants	17	59
Debt repayment	(300)	(108)
Capital contributions	=	33
Change in stockholders' equity as a result of corporate transactions	91	=
Change in medium-long term debt due within one year	(761)	(784)
	(951)	(212)
E. Dividends	(2,327)	(1,095)
F. Cash flows for the year (B+C+D+E)	(9,598)	(372)
G. Net short-term borrowings, at end of year (A+F)	(13,651)	(4,053)

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

6.5

OUTLOOK FOR 2001

In 2000, one of the guiding strategies of TIWS (Telecom Italia Wireline Services, the Business Unit operating in the domestic market of telecommunications services) was the intense focus on the broadband market, in which, in less than eight months, about 115,000 access lines were sold in *XDSL* technologies and in optical fibers to companies and other operators. The broadband offering for families, on the other hand, found an effective market penetration tool in the form of “Teleconomy *ADSL*”, a service launched last December which, accompanied by other significant innovations, will not begin to express its full potential until 2001.

TIWS will base its growth on this solid basis in 2001, a year in which it intends to seize further opportunities for growth both in terms of revenues and, particularly, in the more demanding area of the gross operating margin, by reversing the reduction recorded in 2000. The main factors involved in achieving these objectives are:

- growth in revenues from data-transmission and Internet services for business customers, in line with that of 2000;
- greater penetration of Internet services for the residential market, thanks to the spread of *ADSL* technology and the continuous growth of online traffic;
- an increase in revenues from the sale of *wholesale* services (interconnection for other operators and broadband access for Internet Service Providers);
- the adoption of pricing policies by customer group in the voice market clientele.

On the subject of recovering efficiency, TIWS intends to follow these guidelines:

- completion of the reorganization of human resources begun in 2000;
- considerable reduction in the costs of information systems and the lease of premises;
- evolution of the network towards an architecture based on *IP* protocols.

In the data segment, greater emphasis will be placed on services integrated with Internet applications (“RING” and “Full Business Company”), according to the winning “pay per use” formula: customers will be offered the range of band as requested, with changes made automatically as their requirements change. In the development of this strategy, agreements with leaders in the sector, for example IBM, SAP, Broadvision, Lotus and Oracle, will play an increasingly important role. In 2001, more than 100,000 new broadband access lines are anticipated for the business segment alone. During the year, TIWS will also create the third Italian Internet data center.

In 2000, in the field of voice services, thanks to an aggressive pricing policy and the introduction of flat-rate and forfeit offerings, special programs were launched to promote loyalty which covered more than 50% of the market of large customers and persuaded 2.2 million subscribers (out of a potential market of 3 million) to subscribe to the “Teleconomy” offerings. In the new competitive scenario, characterized by the introduction of *carrier preselection* and *local loop unbundling*, in 2001, TIWS will propose new versions of the “Teleconomy” offerings.

As for the network, a profound transformation of infrastructures is taking place: the current architecture, based on separate platforms for voice and data, is evolving towards a model which, at a lower cost, will make it possible to develop a new generation of services. The strategy can be summarized as follows:

- completion of national *ADSL* coverage and the subsequent introduction of new *XDSL*-type technologies;
- evolution of the carrier network (*backbone*);
- the gradual integration of voice and data platforms into a single platform based on *IP* protocols.

6.6

TRANSACTIONS BETWEEN TELECOM ITALIA AND RELATED PARTIES

Pursuant to the disclosure requirements of Article 2428 of the Italian Civil Code and Consob communications No. 97001574 of February 20, 1997 and No. 98015375 of February 27, 1998, concerning transactions with related parties – including parent companies and their subsidiaries, unconsolidated subsidiaries and affiliated companies, as well as the Telecom Italia's Directors and the companies in which they hold corporate office or significant responsibility – all such transactions fall under Telecom Italia's normal operations and were conducted at standard conditions or in accordance with specific regulatory provisions. Relating to the purchase of shares by Huit, see pag. 96. In accordance with the provisions of article 2428 of the Italian Civil Code, the table below provides a breakdown of the transactions ⁽¹⁾ with such parties:

Statement of income and balance sheet items 2000	Amounts in billions of lire	Nature of transaction
Sales and service revenues	2,987	These refer mainly to revenues from telecommunications services as well as revenues for mobile-fixed interconnections and rental of lines acquired by TIM. They also include the management fee from Telecom Argentina and revenues to Seat Pagine Gialle.
Raw materials and outside services	4,209	These refer to acquisitions from subsidiaries and affiliates and other related parties (in particular from Finsiel, Teleleasing, Italtel, TIM, CSELT, Siemens Informatica, Telesoft, Scuola Superiore Guglielmo Reiss Romoli, IM.SER) mainly for lease and leasing installments, equipment maintenance, software, personnel training, as well as the amounts due to TIM and Telespazio for their share of telecommunications services.
Net other (income) expense	228	These refer, in particular, to income connected with miscellaneous services rendered to subsidiaries and affiliates, including outsourcing services rendered to TIM.
Net financial (income) expense	2,351	These mainly comprise dividends and the interest accrued on current accounts held for purposes of centralized cash management.
Net extraordinary (income) expense	987	These mainly refer to the gain realized on the contribution of the business segment "Grandi Immobili" to IM.SER.
Loans in long-term investments	97	These refer to loans granted to the subsidiary Telespazio.
Trade accounts receivable	1,527	These are mainly items connected with telecommunications services rendered.
Other assets	3,747	These mainly refer to dividends accrued for the year 2000 receivable from subsidiaries and prepaid expenses relating to the premium paid by Telecom Italia to Stet International Netherlands for the call option on Seat Pagine Gialle shares stipulated as part of the transaction for the deferral of the put option on Seat shares.
Trade accounts payable	2,971	Essentially, these are the supplier transactions connected with normal investments and operations, in particular with Telesoft, Italtel and IM.SER, as well as the amounts due to TIM for its share of services invoiced by Telecom Italia.
Other liabilities	209	These refer to the amount payable in connection with the Group's VAT procedure and deferred income from TIM.
Net short-term financial liabilities	5,822	These mainly regard transactions on the current accounts held for purposes of centralized cash management.
Investments in fixed and intangible assets	1,805	These mainly regard the acquisitions from Italtel (exchanges), Telesoft and Finsiel (software projects), Siemens Informatica.

⁽¹⁾ The following transactions do not include those with Sirti since this company was not considered a related party at December 31, 2000.

chapter 7

SIGNIFICANT EVENTS SUBSEQUENT TO DECEMBER 31, 2000

7.1 BUY-BACK OF TELECOM ITALIA SAVINGS SHARES

The buy-back of Telecom Italia savings shares, resolved by the ordinary stockholders' meeting of January 14, 2000 ended on January 10, 2001.

The related resolution called for:

- a tender offer to purchase a maximum of No. 742,615,722 savings shares at a price of Euros 6.5 per share, for a maximum equivalent amount of Euros 4,827 million (Lire 9,346 billion), carried out between February 17 to March 17, 2000;
- the purchase of treasury savings shares, within nine months after the end of the offer period, up to a maximum quantity equal to the difference between the maximum number of No. 742,615,722 and the number of savings shares tendered under the offer, by placing orders on the screen-trading market, as set forth by applicable laws, at the same price of Euros 6.5 per share.

No. 1,793,820 shares were tendered under the offer; Telecom Italia therefore purchased savings shares up to January 10, 2001, the expiration date of the authorization, taking into account the suspensions and extension voted by the stockholders' meeting of July 3, 2000.

The Company purchased a total of No. 112,998,070 savings shares, equal to about 5.2% of savings share capital, for a total equivalent amount of about Euros 711 million (Lire 1,376.5 billion).

7.2 CONVERSION OF SAVINGS SHARES AND BUY-BACK OF ORDINARY SHARES OF TELECOM ITALIA

On March 31, 2001, the Board of Directors of Telecom Italia, in continuing with the work begun on March 30, 2001, has re-examined the project for the conversion of the savings shares and buy-back of ordinary shares presented on February 5, 2001. The project, which has been modified as a result of the performance of the stock market and the inclinations emerging from the market in response to the original proposal, covers the following:

- the re-denomination of Telecom Italia share capital into euros, increasing the par value per share to Euro 0.55, to be effected by the cancellation of the treasury shares held and, for the remaining amount, by a credit to share capital of part of the reserve for inflation adjustments Law No. 72 of March 19, 1983, with the related increase in share capital;
- the voluntary conversion of Telecom Italia savings shares into an equivalent number ordinary shares against payment of a premium price between 38% and 42% of the average official market price of Telecom Italia ordinary shares in proximity to the transaction date, with a minimum of Euros 5.25 per share. The conversion, proposed to holders of all the No. 2,053,122,025 outstanding savings shares and structured so that those tendering shares can present the next dividend coupon, is subordinated to reaching the conversion of a minimum threshold of 60% of savings share capital, subject to the right of the Board to refrain from effecting the conversion. Assuming that all 100% of the savings shares will be converted, minimum cash inflows will be about Euros 10.8 billion. The Board reserves the right to launch the conversion whenever suitable conditions exist for ensuring the success of

- the operation, and, in any case, by December 31, 2001, the deadline for launching the conversion otherwise the time period will be considered to have lapsed. In the event that all savings shares are converted, the percentage of Telecom Italia voting rights held by Olivetti will decline from the current 54.8% to about 40%, corresponding to the total share capital currently held, which will remain unchanged. In order to obtain full consensus of the market, Olivetti has announced that it will not approve the operation if, at the Telecom Italia extraordinary stockholders' meeting called to approve the conversion, stockholders representing an absolute majority of the shares not held by Olivetti vote against the proposal;
- the subsequent buy-back, through a tender offer, of ordinary shares up to a maximum of 10% of share capital, at a price equal to the market price immediately preceding the start of the buy-back plan, increased by a premium suitable to ensure the success of the operation and, in any case, not more than 25%. In order to reduce the time between the collection of the price difference and the payment for the shares buy-back, the shares will be purchased, through the tender offer, by a new company ("Newco", 100%-owned by Telecom Italia) specifically set up and provided with available reserves equal to the inflow coming from the conversion. Subsequent to the conclusion of the buy-back and before approval of the 2001 financial statements, Newco will be merged by absorption in Telecom Italia, which will become the holder of the shares delivered in the tender offer. The total outlay for the buy-back will exceed the inflow from the conversion. Any cash remaining after the conversion will be distributed, subject to a resolution passed by the stockholders' meeting, to all stockholders as an extraordinary dividend;
 - assuming the conversion of 100% of the savings shares at the minimum price difference of Euros 5.25 per share, gross receipts for Olivetti would be about Euros 4.3 billion.

The extraordinary stockholders' meeting to approve the above operation has been convened, in first call on April 18, 2001 and, in second call, on May 3, 2001.

The project is aimed at optimizing Telecom Italia's share capital structure which, if all shares are converted, will be composed of one single class of stock, and reducing its costs, in view of the equity preferences to which the holders of savings shares are entitled; to improve the economic indicators per share, including earnings per share (the latter, in particular, by about 10%,) and to raise the Company's financial flexibility, improving its credit rating and, therefore, the conditions for access to the financial markets.

7.3

FISCAL AUDIT

At the end of February 2001, the revenue authorities completed a general fiscal audit of Telecom Italia begun on February 3, 2000. The findings, which are based upon interpretations, will be appealed according to the normal procedures followed in such cases. Although it is currently not possible to determine to what extent the findings formulated by the tax auditors will give rise to adjustments in the tax returns which have been filed, the existing provisions are deemed sufficient to meet any contingencies.

7.4

UMTS

On January 10, the Regulator informed the five highest bidders (TIM, Omnitel, Wind, Andala and Ipse) that they had been awarded the licenses and frequencies to supply services using UMTS technology. This technology forms the basis for the third-generation mobile telecommunications system that will be fully applied commercially by 2002. The award of the license, which was scheduled for December 20, 2000, has been postponed owing to problems encountered on some frequency bands, which were suspected of creating problems of interference and for which a technical solution was proposed by the same operators.

7.5 LOCAL LOOP UNBUNDLING

On January 12, 2001, Telecom Italia was informed that resolution No. 14/00/CIR had been passed by the Regulator on December 21, 2000. This resolution approves Telecom Italia's offering to supply services for unbundling local loops, subject to certain changes. The Company therefore presented the price list for the various ways of providing access, on copper or fiber optic cable, and supplied detailed information about the numbering groups available and about the exchanges which have been equipped with areas to house the other operators' equipment. In fact, the Regulator drew up a first list of the 550 co-location sites; a second list of 550 is scheduled for March and a third for July, making a total of 1,650 sites. By March, 30 operators had already presented Telecom Italia with a request for interconnection to the so-called "last mile"; the necessary operational agreements have already been finalized with some of them.

7.6 WIRELESS LOCAL LOOP

On January 15, 2001, the Regulator issued a call for the advisor who will supervise the auction of the frequency licenses for the wireless local loop (disaggregated access via radio to the local wireline network). The advisor will collaborate with the Antitrust Authority during all the various stages of the auction, from the preparation of the rules, to the verification and evaluation of the applications for participation, and the preparation of the disclosure documents about the status of the bidding.

7.7 COMMERCIAL AGREEMENTS AND NEW SERVICES

During the first few months of the year, Telecom Italia concluded important agreements with technical partners, particularly with Alcatel, with a view to augmenting efficiency and network capacity through *SDH* transmission systems, and with Marconi Communications to strengthen the fiber optic network using the new "smartphotonix" systems, which are capable of significantly increasing the capacity of broadband networks and, hence, the traffic of the Company.

The followings products were also launched: "Hyperway", the new data service on dedicated networks characterized by the "pay per use" model and by a wide range of options that permit a high level of customization according to the individual requirements of corporate customers; "Full Business Government", a data solution package, with the "pay per use" formula, which enables the various departments of the Public Administration to distribute online information and value-added services, through the creation of dedicated portals.

During the first part of 2001, TIM signed agreements with: the banking group Credem, thus acquiring an important new partner in the sphere of e-banking solutions; the Local Health Authority and the San Raffaele Hospital in Milan to design "Medguard", the tele-medicine and tele-assistance service via *GSM*; Telegate Italia (the Seat group) for the launch of a new mobile phone service for receiving, through a call center, directory information about subscribers, commercial businesses and for direct connection to the number requested; Webraska, a global supplier of wireless services and navigation technologies, to enable its customers, wherever they are, to find the best route to their destination.

In January, IT Telecom, through Finsiel and Banksiel, launched a euro portal for the companies and organizations facing the changeover to the new European currency, thus acquiring the role of an information "link" between institutions and companies.

7.8 INTERNATIONAL DEVELOPMENT STRATEGIES

At the beginning of 2001, Telecom Italia signed an agreement with the American carrier Teleglobe to supply high-speed *IP* connectivity services over the next five years.

In March, the Company concluded an agreement for the sale of 30% of Mediterranean Nautilus S.A. to a company of the Fishman group, a leader in the media and telecommunications sectors in Israel. The agreement aims to develop the backbone in the Eastern Mediterranean.

On March 12, the share transfer (totaling 28.61%) was completed giving SIN control of Entel Chile.

In January, TIM signed a commercial agreement with the German operator, T-Mobil, based on reciprocal “privileged” roaming. Also in January, TIM signed agreements with Sony Computer Entertainment and with the operators KPN Mobile (the Netherlands) and NTT DoCoMo (Japan) to develop Internet services on the mobile network using *UMTS* technology. In Brazil, in February, TIM was also awarded two *GSM* licenses for the areas of San Paolo and Brasilia, for a total cost of Lire 1,500 billion; in March, for approximately Lire 550 billion, it was awarded a third license for the northern, northwest and central southern regions, thus becoming the leading mobile telephony operator in the country.

On January, 2 Seat Pagine Gialle signed an agreement with RSL, minority interest of Telegate Holding, in order to purchase, in 2001, 48.63% of the share capital of the same company.

On February 15, 2001, Telecom Italia Group, in relation of the December 2000 memorandum agreement, purchased 100% of NetCreations Inc., U.S. company listed on the New York NASDAQ, leader in e-mail marketing services.

Always in February, Seat Pagine Gialle purchased 54.5% of the share capital of Consodata, a company listed on the Paris Nouveau Marchè and a leader in information marketing.

7.9 CORPORATE TRANSACTIONS

In order to more effectively respond to the demands of a competitive context now even encompassing the field of research, which is increasingly being viewed as a business opportunity, on March 1, 2001, Telecom Italia’s “Venture Capital” unit, composed of the research and development activities of the Group, was conferred to CSELT, which then changed its name to Telecom Italia Lab.

Within the scope of the reorganization of the Information Technology business and its allocation to the “IT services” Business Unit, on March 1, 2001, Telesoft received, from Telecom Italia, the “Development” business segment which is devoted to developing information systems and creating applications software, with 619 employees and, from Finsiel, the “Telecommunications” business segment, with 234 employees.

7.10 TELECOM ITALIA DEBENTURES CONVERTIBLE INTO TIM OR SEAT SHARES

On January 23, 2001, the Board of Directors of Telecom Italia approved the issue of exchangeable 5-year debentures convertible into Tim or Seat shares for an amount of Euros 2 billion and with a green shoe option of Euros 500 million. The deal was announced on January 29.

The issue of the debentures by the underwriter Sogerim S.A. was concluded on March 15, 2001 and the conversion into Tim or Seat shares can begin as from June 1, 2001. The annual coupon is 1% and debenture holders are entitled to early redemption at the end of the third year of issue.

chapter 8

OTHER INFORMATION

8.1 LITIGATION

There follows a description of the main disputes in which the Telecom Italia Group was involved in 2000, and the developments in the first few months of 2001.

8.1.1 Sale of Cecchi Gori Communications to Seat Pagine Gialle

On August 7, 2000, Seat Pagine Gialle stipulated a contract for the purchase, from Fin.Ma.Vi. S.p.A., of Cecchi Gori Communications (CGC), which holds the concessions for the two TV channels TMC and TMC2. On August 8, the Antitrust Authority was informed of this fact by Seat. On November 9, the Antitrust Authority began an investigation of Seat and CGC, as it deemed the transaction susceptible of constituting or reinforcing a dominant position in the communications sector; the investigation ended positively for the Telecom Italia Group on January 23, 2001, with the authorization to proceed with the sale, albeit subject to certain conditions.

On September 12, 2000, the Communications Authority, the Regulator, also started an investigation into the transaction, pursuant to Italian Law No. 249/97, which ended on January 18, 2001 without authorizing the transaction. Telecom Italia and Seat filed an appeal to the Regional Administrative Court (TAR) of Lazio, asking for the suspension and nullification of the decision. On January 31, the TAR granted the request for a suspension and ordered the Regulator to re-examine the case. In February, the Regulator reaffirmed its negative ruling. Seat and Telecom Italia immediately filed an appeal to the TAR of Lazio against the new, unfavorable ruling; on March 7, the TAR, deciding on the case, permanently nullified the decision of the Regulator, thus effectively authorizing the transaction. The Regulator has said that it will appeal to the Council of State.

The Council of State is also hearing an appeal from Fin.Ma.Vi. against the first decision by the TAR, which now cannot proceed because of the aforementioned final decision by the TAR of Lazio. Furthermore, Fin.Ma.Vi. presented an urgent appeal to the Civil Court of Rome to declare the contract between the parties null and void; the appeal was rejected on March 12, 2001.

8.1.2 Pagine Italia – Telecom Italia/Seat Pagine Gialle

On July 27, the Antitrust Authority authorized the acquisition of Seat Pagine Gialle by Telecom Italia and the merger of Seat and Tin.it against, amongst other things, Telecom Italia's commitment to provide, from September 1, the electronic database of telephone subscribers – free of charge to authorized subjects and against a fee to all others – and to

allow bidding for the collection of advertising in the “White Pages” telephone directory as from January 1, 2008.

However, on November 13, 2000, Pagine Italia appealed to the TAR of Lazio asking for the nullification upon suspension of the decision by the Antitrust. At the hearing on December 6, Pagine Italia asked the court to postpone suspension until the case is heard.

On March 22, 2000, Telecom and Seat had already been notified of the summons by Pagine Italia in which the Court of Appeals of Turin was asked to: i) nullify the contract giving Seat the concession for the exclusive collection of advertising in the White Pages since this violated fair trade practices; ii) declare the illegitimacy of the investment by Telecom Italia in Seat as the agreement is illegal and considered an abuse of a dominant position under the same law; iii) prohibit the continuation of such relations.

At the October 17, 2000 hearing, Telecom Italia and Seat raised some preliminary exceptions regarding inadmissibility; Pagine Italia, for its part, filed an urgent appeal, asking the Court of Appeals to forbid the continuation of the exclusive collection of advertising by Seat and to order Telecom Italia to arrange a bid for the collection of advertising in the official telephone directories, for each single local directory.

At the November 21 hearing, the Court of Appeal rejected the appeal presented by Pagine Italia, which filed an official complaint against the decision. The complaint was also rejected by court order of February 14, 2001. The case is adjourned to May 15, 2001.

8.1.3 Buy-back of Telecom Italia savings shares

The buy-back of Telecom Italia savings shares, resolved by the ordinary stockholders’ meeting of January 14, 2000 ended on January 10, 2001. The buy-back program, begun with a tender offer from February 17 to March 17, 2000 and later continued with direct purchases on the stock market, was directed to the purchase of treasury stock not to exceed 10% of total capital, at the price of Euros 6.5 per share. The Company purchased a total of No. 112,998,070 shares (of which No. 1,793,820 were tendered under the purchase offer), equal to about 1.5% of share capital.

Elliott International L.P. and Liverpool Limited Partnership, mutual fund investment companies in the American group Elliott, recently filed a claim for damages against Olivetti and Telecom Italia, as well as the Chairman and Deputy Chairman of the latter company, for a total of Euros 18.9 million (Lire 36.6 billion). The claim is based on the alleged non-fulfillment of the commitments stated in the “Offer Document” relating to the take-over by Olivetti and Tecnost over Telecom Italia, and also the resolutions passed by the stockholders’ meeting of January 14, 2000, especially in relation to the mandate to purchase treasury savings stock on the screen trading market, as set forth by applicable laws, subsequent to the end for the tender offer period.

* * *

The resolution passed by the stockholders’ meeting of January 14, 2000, moreover, was contested in March 2000 by the stockholder, Alberto Reale, who pleaded that the resolution was null and void for the circumstance that a proposal was put to the stockholders’ meeting that had been changed from the one deposited prior to the stockholders’ meeting.

On March 6, 2001, the judge, after hearing the parties, exhausted all attempts to reconcile the parties. The next hearing is scheduled for July 4, 2001.

8.1.4 Universal service

Omnitel and Infostrada appealed to the TAR of Lazio against the ruling by the Regulator and against Telecom Italia to cancel Resolution No. 8/00/CIR regarding the “Application of the sharing mechanism for the net cost of the Universal Service for 1999” (on this subject, see also the section entitled “The regulatory framework”).

According to the aforementioned resolution, part of the cost, which is recognized as an “unfair burden” for Telecom Italia, the company which, by law, must provide the service, was divided between the companies presenting the appeal and TIM. While judgment is pending, the two companies did not pay their quotas (totaling Lire 18 billion) to the special fund set up by the Ministry of Communications, thus preventing the latter from paying the whole amount recognized to Telecom Italia towards the costs incurred in 1999 (Lire 52 billion).

At the hearing to decide on the request for the suspension of the ruling filed by Omnitel (January 24, 2001), the TAR fixed the date for the case on May 30, 2001 without commenting on the appeal.

8.1.5 Infostrada/Albacom - Telecom Italia: services with access in ADSL technology and RING services

On July 21, 1999, Infostrada accused Telecom Italia, before the Antitrust Authority, of marketing network access services for data transmission using *ADSL* technologies. As a consequence, Telecom Italia would derive an unfair advantage on the data and Internet services market for companies and Internet Service Providers, given the impossibility of its competitors to supply their customers with similar access services; according to Infostrada, this constitutes an unfair trade practice. The Antitrust Authority has therefore begun a preliminary investigation of Telecom Italia to evaluate whether, under the circumstances, this can be construed as an abuse of a dominant position.

In the meantime, under order of August 16, 2000 by the Court of Appeals in Rome, following an urgent appeal presented by Infostrada and Albacom, Telecom Italia is forbidden to “promote and/or offer and/or directly conclude contracts for RING services or their equivalent, under whatever name”. After the appeal was upheld, Telecom Italia was prohibited from offering RING services for an indefinite period of time. The Company filed a complaint, which was rejected on February 13, 2001.

8.1.6 Full Business Company/permanent Virtual Channel

On December 6, 2000, Telecom Italia notified the Regulator that an appeal had been filed with the TAR of Lazio asking for the nullification upon suspension of the November 22, 2000 ruling whereby the Regulator suspended the offering known as “Full Business Company”, and forbade the Company to continue to market or promote the said offering. The offering consists in the supply of telecommunications services based on access using *XDSL* technology (the so-called broadband technology): the competing operators are disputing the failure of the Company to apply the regulatory ruling by which any offering of such services to the public (*retail*) must always be accompanied by a corresponding and symmetrical *wholesale* offering to the competition.

In the meantime, the Regulator issued Resolution No. 15/00/CIR, establishing Telecom Italia's obligation to make a *wholesale* offering ("permanent virtual channel") for access to *XDSL* technologies to other operators. Telecom Italia challenged this resolution before the TAR of Lazio, asking for the annulment of some of the offering terms established by the Regulator. However, subsequently, the Regulator issued Resolution No. 4/01/CIR of February 22, 2001, definitively approving the contents of the *wholesale* offering and allowing to resume the marketing of the "Full Business Company" and "Ring" services to resume (with effect 30 days after the approval of Telecom Italia's *wholesale* offering). Some other licensed operators contested this decision, asking that it should be suspended; the TAR of Lazio rejected the appeals on March 21, 2001.

8.1.7 Antitrust proceedings against TIM and Omnitel

With regard to the September 28, 1999 decision by the Antitrust Authority which ordered TIM and Omnitel to pay penalties – to be calculated on the basis of their respective revenues in 1998 – for their collusion in price-fixing agreements for fixed-to-mobile calls for the period 1995-1998, in December, the Council of State partially upheld the appeals filed by the companies. In fact, the Council cancelled the most serious of the three sanctions (equal to approximately Lire 62 billion), regarding alleged collusion in the price-fixing in 1998. The fine originally imposed on TIM for Lire 100 billion (paid on June 30, 2000 so as not to incur the risk of further legal sanctions) was thus reduced to Lire 38 billion.

8.1.8 Acquisition of the Telekom Srbija investment

In February 2001, the Attorney's General Office of Turin ordered the start of a preliminary investigation into the transaction involving the acquisition, by Telecom Italia, of 29% of the share capital of Telekom Srbija. Telecom Italia immediately made all the documentation and figures relating to the above-mentioned transaction available to the judicial authorities. On the basis of the tests and procedures performed, with the full cooperation of the responsible corporate functions, the audit firm and the statutory auditors have stated that no facts have emerged, at the present time, which could call into question the correctness of the statutory financial statements and consolidated financial statements of Telecom Italia at December 31, 1997, 1998 and 1999, also for the effects on the fiscal year ended December 31, 2000.

8.2**THE EURO**

In 2000, Euro Project, the organizational department of the Telecom Italia Group devoted to the task of supervising and coordinating the changeover to the new currency, continued the actions initiated in 1999, both within and outside the Group.

In Telecom Italia, the Project outlined the steps to be taken in the final phase:

- upgrading of information systems by the third quarter of 2001;
- definition, creation and tests of contingency plans by December 2001;
- “Independent Verification & Validation” of the main corporate systems, carried out using suppliers, methods and tools other than those used during the changeover stage so as to identify eventual problems in time to make the necessary corrections.

The intranet website devoted to the euro, which can be consulted by all the companies in the Group, has been completely revised and transformed into a portal on the Single European Currency, and is continuously updated.

As far as activities with the world outside the company is concerned, the Euro Project implemented the following initiatives:

- the conclusion of the “Eurologo” campaign, promoted by the “Euro Committee” of the Ministry of Treasury, in which the Telecom Italia and TIM shops participated;
- the direct participation in the “Provincial Euro Committees” of nine of the most representative provinces in terms of the various economic and social conditions;
- the creation of courses about the new currency within the sphere of personnel training operating on SAP;
- participation, along with other prominent national companies (Alitalia, Agip Petroli, Banca di Roma, Enel), in the “Focus Group” on the new European currency promoted by the Gartner Group;
- the implementation, upon the specific request of Unioncamere, of five training sessions for future instructors (who will train other instructors) and businessmen in retail distribution in 50 areas of Italy.

8.3

PERFORMANCE OF TIN AND INTERBUSINESS INTERACTIVE SERVICES

As required by the Antitrust Authority, the accounting principles used to determine the economic values for Telecom Italia Net (TIN) and Interbusiness services are described below. These accounting principles have audited starting from the year 1996; in 2000, this examination will be performed by Pricewaterhouse Coopers S.p.A..

Notwithstanding the fact that Telecom Italia reorganized its Internet business by setting up the company Tin.it and later merging it with Seat Pagine Gialle, it was still required to prepare a separate statement of income for TIN up to the time it was contributed to Tin.it (May 1, 2000). Therefore, this section presents the results for TIN for the first four months of the year. The reorganization, on the other hand, had no effect on the presentation of separate accounting results for Interbusiness.

- *Revenues* are stated at market prices for competitive services and at rates established by law for services granted by license and are recorded on the accrual basis. In the case of services whose provision implies the use of dedicated access circuits by the final customers, the revenues also include the income from the leasing of such circuits (valued on the basis of the rates defined in the ministerial decrees), with the consequent recording of the same amount under costs.
- *Direct costs:*
labor costs represent the cost of personnel who worked to provide such services; the cost includes salary and wages, social security costs, provisions for employee termination indemnities and other sundry costs recorded on the basis of the number of persons in the dedicated operating structures and using cost accounting standards;
network utilization costs include the cost to use the regulated transport services (usually direct connections) and the cost for the use of the transport of products/services offered in a competitive environment; they are therefore valued, respectively, using the rates by law and the rates applied to all third-party customers, the same as that which occurs in the cost structure of the other carriers in the sector;
other direct costs refer to direct costs (advertising, marketing, service connection, operations and maintenance, etc.) and indirect costs (corporate structure costs supporting the operating lines) valued using unambiguous cost accounting standards and applying specific allocation methods.
- *Depreciation* of fixed assets directly employed in providing the services in question are determined on the basis of the estimated useful lives of the assets of Telecom Italia. Goodwill is amortized on the straight-line method over five years.
- *Other provisions* refer to the allowance for doubtful receivables made during the year.
- *Other income and expense, net*, includes the losses on receivables.

The economic results of the interactive services are reported as follows:

	TIN	Interbusiness
(in millions of lire)	2000 (*)	2000
Revenues	69,928	234,683
Costs	(117,543)	(195,408)
Of which:		
Labor cost	(9,226)	(12,422)
Network utilization costs	(39,547)	(103,026)
Other costs	(68,770)	(79,960)
Gross operating profit	(47,615)	39,275
Depreciation and amortization	(12,232)	26,468
Other provisions	(9,202)	=
Other income and expense, net	(6,763)	=
Operating income	(75,812)	12,807

(*) First four months

In the first four months of 2000, **TIN** recorded strong commercial growth. The final number of subscribers was 2,807,000, an increase of 41% compared to the end of 1999.

Despite the marked increase in revenues, the operating income was again negative, although there was an improvement, in relative terms, compared to the entire year 1999. A contributory factor was the change in various items of cost deriving from the growth in operations. In particular, again in relative terms, though “network utilization costs” (the supply of infrastructures, expenses for Intelligent charges and toll-free numbers) were significantly lower, “labor costs” and “other costs” increased, especially the latter on account of advertising, sales and information systems expenses. Higher depreciation charges, instead, are due to the greater amount of assets used for the services. The “other provisions” include the provision to the allowance for doubtful receivables.

TIN’s performance can therefore be particularly appreciated, since it was achieved in a scenario characterized by fierce competitiveness. In fact, during the first four months of the year, TIN continued to proceed with a huge campaign of communication and promotion begun in the previous year which has helped to make potential Internet customers more aware, thus stimulating the growth of the entire Internet market in Italy where the extension of the access network now allows the entire population to connect to the Internet with just one local call.

The offering by TIN, which has been confirmed as the market leader during the period, has been developed in terms of both connectivity (*dial-up*, *ADSL* and wireless) and services, through hosting offers, e-commerce solutions and portals for companies. The growing quality in the exploitation of services, has also sustained the increase in brand awareness, laying the foundations for an extension of the offering to other types of service, especially Web services for small and medium-size companies.

The 200 results by **Interbusiness** confirm and support the 1999 performance. The operating income was Lire 13 billion, more than triple that of the previous year, and is the result of the marketing success of the offering, which generated a 16% gain in revenues over 1999. The lower increase in total costs (+12%) comes from a significant increase in network operating costs and depreciation and amortization, a lower increase in labor costs and a reduction in other costs. In view of the low risk of uncollectable receivables, also in 2000, no provisions were made to the specific allowance account.

8.4

EQUITY INVESTMENTS HELD BY DIRECTORS AND STATUTORY AUDITORS

Pursuant to the rules issued by Consob under Resolution No. 11971 on May 14, 1999 for the introduction of Legislative Decree No. 58/1998, the following table presents the equity interests held by the directors and statutory auditors in the Company and its subsidiaries.

Name	Company		Number of shares held at end of prior year	Number of shares purchased	Number of shares sold	Number of shares held at the end of 2000
Board of Directors						
Roberto COLANINNO	(¹) Telecom Italia ord. shares		23,000	494,000	225,000	292,000
	Telecom Italia sav. shares		=	910,000	380,000	530,000
	TIM ord. shares		=	449,000	195,000	254,000
	TIM sav. shares		=	260,000	260,000	=
	Seat P.G. ord. shares		=	471,532	=	471,532
Antonio TESONE	(¹) TIM ord. shares		625	=	=	625
Sergio EREDE	=		=	=	=	=
Angelo BENESSIA	=		=	=	=	=
Peter A. COHEN	=		=	=	=	=
Salvatore DONATO	=		=	=	=	=
Paolo FERRO-LUZZI	=		=	=	=	=
Ettore LONATI	(²) Telecom Italia ord. shares		109,250	2,250	111,500	=
	Telecom Italia sav. shares		7,500	109,000	10,500	106,000
	Seat P.G. ord. shares	(³)	950,500	=	257,224	1,724,324
	Seat P.G. sav. shares	(³)	975,000	50,000	1,025,000	=
	TIM ord. shares	(⁴)	105,500	156,250	111,750	150,000
	TIM sav. shares	(⁴)	500	85,500	86,000	=
Emilio GNUTTI	(¹) Telecom Italia		660,000	703,500	1,362,000	1,500
	Seat P.G. ord. shares	(⁵)	=	1,288,084	=	1,288,084
	Seat P.G. sav. shares	(⁵)	8,000	=	8,000	=
	TIM ord. shares		=	1,388,000	1,288,000	100,000
	TIM sav. shares		=	260,000	260,000	=
Jeffrey E. LIVINGSTON	=		=	=	=	=
Domenico Giovanni SINISCALCO	=		=	=	=	=
Joseph M. TUCCI	=		=	=	=	=
Gérard WORMS	=		=	=	=	=
Enrico BONDI	=		=	=	=	=
Board of Statutory Auditors						
Paolo GERMANI	=		=	=	=	=
Mario BOLDI	=		=	=	=	=
Paolo GOLIA	=		=	=	=	=
Fabrizio QUARTA	=		=	=	=	=
Gianfranco ZANDA	=		=	=	=	=
Piero ADONNINO	(⁶) Telecom Italia ord. shares		1,100	1,000	=	2,100
	Telecom Italia sav. shares		=	1,000	=	1,000
	Telecom Italia ord. shares	(¹)	=	3,000	=	3,000
	Telecom Italia sav. shares	(¹)	=	1,000	=	1,000
	Seat P.G. ord. shares		=	5,112	=	5,112
	Seat P.G. ord. shares	(¹)	=	6,000	=	6,000
	TIM ord. shares		=	1,000	=	1,000
	TIM	(¹)	=	1,000	=	1,000

(1) Shares not held directly.

(2) Shares held from May 15, 2001, beginning term of office.

(3) The purchases and sales take into account No. 1,025,000 Seat Pagine Gialle savings shares converted into ordinary shares.

(4) The purchases and sales take into account No. 50,000 TIM savings shares converted into ordinary shares.

(5) The purchases and sales take into account No. 8,000 Seat Pagine Gialle saving shares converted into ordinary shares.

(6) Shares held until July 2, 2000, date of the end of office.

chapter 9

GLOSSARY

Access Charge

Charge paid by an operator owning a public TLC network for the use of another public TLC network.

ADSL

Asymmetric Digital Subscriber Loop.

Technology that enables the transmission of broad bandwidth signals (2-8 Mbit/sec.) over the normal telephone's twisted pairwire.

ATM

Asynchronous Transfer Mode. Technique for the transfer of information for the integrated supply of data, voice and image services, based on a dynamic allocation of the transmission and switching resources.

Authority

Board entrusted with regulatory functions, legally distinct and functionally independent of the TLC organizations.

Backbone

The ridge of the network.

Band

Range of frequencies that can be transmitted by a channel. Term also used to indicate the range of frequencies occupied by a transmission.

BRA

Basic Rate Access. Basic access to the 144 Kbit/s ISDN network, composed of two telephone channels and one data access.

Call center

A company's customer service system to which calls are made by customers for commercial, technical and administrative request, and from which calls are made for telemarketing, market research activities, etc.

Call set up

The "call set up" model involves the application of a fixed initial charge to a communication regardless of its duration, plus a charge per second calculated on the actual communication time "t".

Channel

Part of a communication system that links a source to one or more destinations. Also called circuit, line, link or path. The term "channel rate" is used to indicate the maximum transmission rate that can be used on a given channel.

Contribution for TLC activities

Annual charge that TLC service providers are obliged to pay to the concession-issuing board, corresponding to an amount established by current law and calculated on all the gross income from the services under concession.

Carrier

Company that provides physical connections.

Carrier selection

Service that enables the customer to choose a *long distance* operator other than the pre-established service provider.

DECT

Digital European Cordless Telecommunications. Standard for cordless and wireless communications for voice and data transmission, for applications in the private and public sectors.

Dial-up

Direct link to Internet using modems or normal telephone and ISDN lines made possible by applications developed on the two protocols, SLIP (Serial line Internet protocol) and PPP (point-to-point protocol).

Easy access carrier selection

Method for selecting the long distance operator each time a call is made by means of a specific code that is input before the national or international telephone number.

E-mail

Electronic mail.

**Equal access carrier selection
(or carrier pre-selection)**

Method for permanently selecting a different long distance operator from the one selected by the access operator, by means of a pre-selection process.

Flexible network

Network architecture for direct numerical circuits that, through advanced routing reconfiguration functions, enables excellent levels of reliability and optimization in the allocation of the plant engineering resources.

Frame Relay

International standard for data transfer services that ensures excellent performance in terms of transmission rate and low transit times.

Gateway

System providing an interface between the network and the services offered at national level with the rest of the world.

GSM

Global System for Mobile communications. Digital system for mobile radio connections developed at European level and operating on the 900 MHz. bandwidth.

HDSL

High bit-rate Digital Subscriber Line, is a system that augments the capacity of copper networks to provide connections at 2 Mbit/s, thus making it possible to reduce the time required to supply the service, thanks to being able to avoid resorting to signal re-generation equipment in the section between the exchange and the user.

Infomobility

A set of systems and services made available to private and business customers in the world of vehicle traffic to meet their safety and information needs.

Intelligent costing

Intelligent network services that enable customers to share the cost of the traffic in pre-arranged proportions between the caller and the called party (e.g. Toll-free and shared charges).

Intelligent network

Network architecture integrated with the telephone network which, thanks to interaction with centralized databases, enables advanced services to be implemented and made available.

IP (Internet Protocol)

This is the data transfer method (or protocol) used in Internet.

ISDN

Integrated Services Digital Network. A numerical integrated services network that enables multimedial communications (voice, data, animated text and images), accessible at a rate of 128 Kbit/sec (2 channels at 64 Kbit/sec - standard access) and 2 Mbit/sec (primary access).

The particular feature of the ISDN service is that it provides numerical user-to-user connectivity. The ISDN network incorporates functions that enable high-capacity and broadband multiple service accesses, evolving towards an integrated numerical network also in the broadband services.

Local loop unbundling

Lease of user connection (so-called “last mile”).

Number portability

The opportunity to use one’s own telephone number regardless of the operator chosen or the place of residence.

Open Network Provision (ONP)

Conditions for accessing and using the public providers’ network and TLC services open to all users with the same technical and usage methods.

Portal

An Internet interface with the Web that has the aim of putting the company in touch with the outside world and being able to transmit its identity and role. It is created in such a way as to allow simple, rational access to the information, providing an overall view of the company.

POTS

Plain Ordinary Telephone Services. Telephone network made up of all the existing connections (operating, on stand-by and in service).

PRA

Primary Rate Access. Primary access to the 2 Mbit/s ISDN network, composed of 30 equivalent channels.

Price cap

System that regulates the charges applied by the dominant provider, imposing a maximum limit on the average global

variation in the price of a set of services over a period of several years, but enabling the provider to define the price of each of these services.

Reseller

Traffic retailers who succeed, by exploiting the differences between the charges in different countries and the traffic volume-based discounts offered by the conventional providers, in offering their customers telephone services at competitive rates.

Roaming

Service that enables a GSM mobile radio user to automatically access a network other than his own.

SDH

Synchronous Digital Hierarchy. New hierarchy for the transmissive multiplexing of numerical signals.

SOCRATE

Sviluppo Ottico Coassiale Rete Accesso Telecom Italia. Network platform dedicated to the development of multimedial services (and CATV, in particular).

TACS

Total Access Communication System. Mobile radio network that makes connections with a standard analog technique.

UMTS

Universal Mobile Telecommunications System. Broadband transmission service that will become the universal mobile radio standard for high-speed communications. With UMTS (the so-called “third-generation mobile radio”) the cell phone will become a multimedial terminal capable of receiving voice, data and animated images.

WAP

Wireless Application Protocol. Technology which allows access to Internet using mobile radio sets, even without the use of a computer. It works thanks to software which, inserted in special GSM terminals, makes information offered on Internet to the fixed network also available to the mobile network.

Wholesale

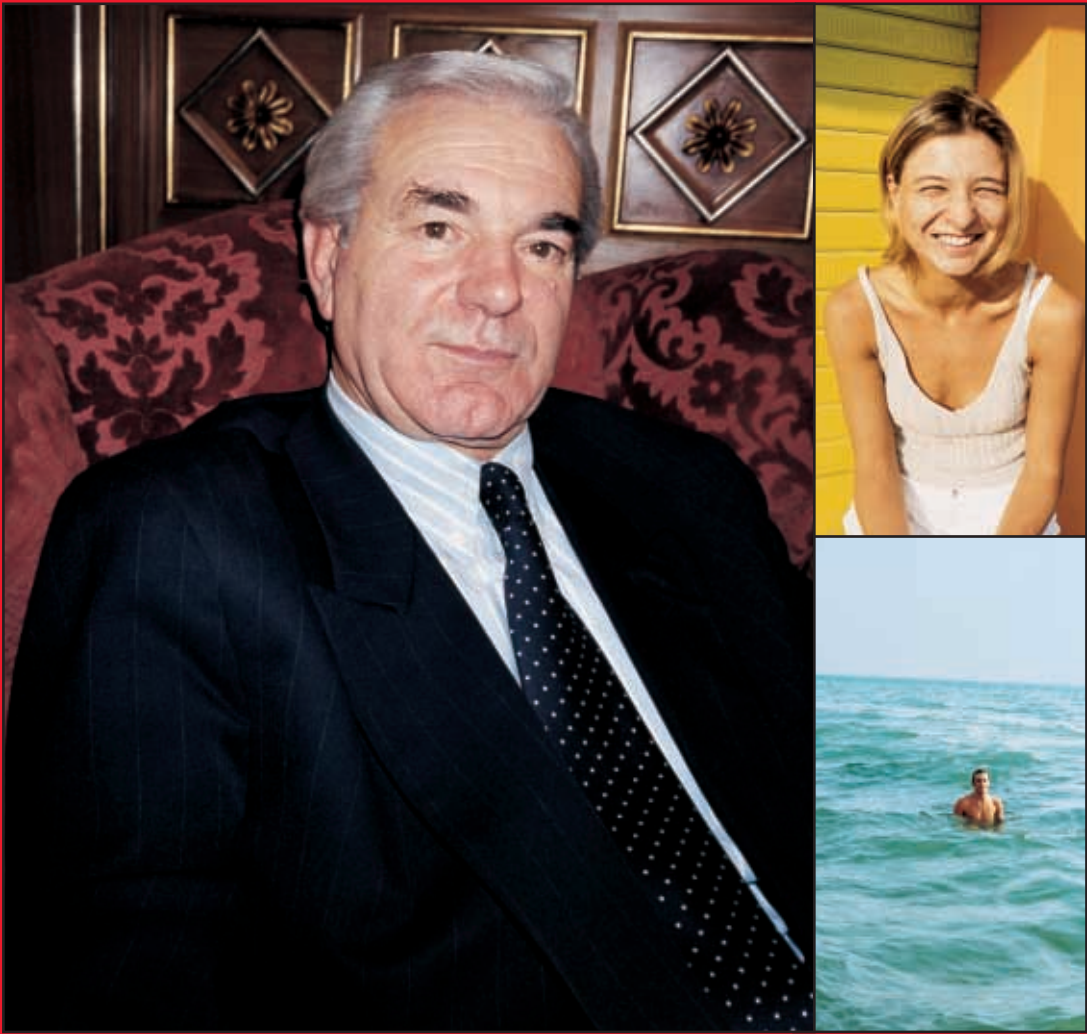
Intended for the new TLC operators ("intermediate" customers), this consists

in a specific agreement for the supply of basic services that these intermediate customers do not provide on their own (a typical example is the carriage of international traffic).

XDSL

X - Digital Subscriber Loop.

Initials summarizing various technologies (ADSL, HDSL, etc.) which allow the transmission of broadband signals on copper networks.



CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2000 OF TELECOM ITALIA GROUP AND TELECOM ITALIA

**CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2000
OF TELECOM ITALIA GROUP**

ASSETS (in billions of lire)

	12.31.2000		12.31.1999	
Receivables from stockholders for capital contributions				
Portion called in	=		=	
Portion not called in	3		3	
		3		3
Intangibles, fixed assets and long-term investments				
INTANGIBLE ASSETS				
Start-up and expansion costs	194		127	
Industrial patents and intellectual property rights	1,585		1,507	
Concessions, licenses, trademarks and similar rights	6,787		296	
Goodwill	133		8	
Consolidation difference	19,809		1,967	
Work in progress and advances to suppliers	1,626		755	
Other intangibles	918		639	
		31,052		5,299
FIXED ASSETS				
Land and buildings	5,706		9,823	
Plant and machinery	35,096		31,991	
Manufacturing and distribution equipment	152		240	
Other fixed assets	1,619		1,097	
Construction in progress and advances to suppliers	2,785		2,367	
		45,358		45,518
LONG-TERM INVESTMENTS				
Equity investments in:				
unconsolidated subsidiaries	41		235	
affiliated companies	13,939		11,510	
other companies	369		579	
	14,349		12,324	
Advances on future capital contributions	363		2	
Accounts receivable:				
affiliated companies	(*) 246		(*) 258	
other receivables	212 546		190 628	
	212 792		190 886	
Other securities	12		5	
Treasury stock (for an overall par value of Lire 105 billion at 12/31/2000)	1,281		=	
		16,797		13,217
Total intangibles, fixed assets and long-term investments		93,207		64,034
Current assets				
INVENTORIES				
Raw materials and supplies	40		189	
Work in progress and semifinished goods	26		134	
Contract work in process	905		1,217	
Finished goods and merchandise:				
finished goods	3		23	
merchandise	415		403	
Advances to suppliers	16		29	
		1,405		1,995
ACCOUNTS RECEIVABLE				
Trade accounts receivable	(**) 9 15,484		(**) 67 14,942	
Accounts receivable from unconsolidated subsidiaries	79		75	
Accounts receivable from affiliated companies	800		953	
Accounts receivable from parent companies	5		2	
Other receivables	944 6,641		582 3,093	
	953 23,009		649 19,065	
SHORT-TERM FINANCIAL ASSETS				
Equity investments in unconsolidated subsidiaries	759		122	
Equity investments in affiliated companies	11		=	
Other equity investments	73		11	
Other securities	3,911		2,450	
Receivables for sales of securities	1		9	
	= 4,755		= 2,592	
LIQUID ASSETS				
Bank and postal accounts	2,516		1,294	
Cash and valuables on hand	9		18	
		2,525		1,312
Total current assets		31,694		24,964
Accrued income and prepaid expenses				
Issue discounts and similar charges	3		3	
Accrued income and other prepaid expenses	1,947		177	
		1,950		180
TOTAL ASSETS		126,854		89,181

(*) Amounts due within one year (**) Amounts due beyond one year

LIABILITIES AND STOCKHOLDERS' EQUITY (in billions of lire)

	12.31.2000		12.31.1999	
Stockholders' equity				
PARENT COMPANY INTEREST IN:				
Share capital	7,426		7,426	
Reserve for treasury stock	1,281		=	
Reserves and retained earnings	23,809		22,214	
Net income	3,927		3,364	
	36,443		33,004	
MINORITY INTEREST IN:				
Share capital, reserves and retained earning	11,206		4,009	
Net income	1,782		1,301	
	12,988		5,310	
	49,431		38,314	
Reserves for risks and charges				
Reserve for pensions and similar obligation	30		=	
Reserve for taxes				
for taxes	307		309	
for deferred taxes	390		292	
	697		601	
Other reserves	2,698		1,405	
	3,425		2,006	
Reserve for employee termination indemnities	2,554		2,896	
Liabilities	(••)		(••)	
Debentures	3,229	3,512	1,578	1,906
Due to banks	8,318	32,522	7,136	15,780
Due to other lenders	2,454	3,270	1,276	1,738
Advances		716		733
Trade accounts payable	67	13,129	12	11,775
Notes payable	97	97		=
Accounts payable to unconsolidated subsidiaries		12		39
Accounts payable to affiliated companies	980	2,463		1,156
Accounts payable to parent companies		3		5
Taxes payables	5	1,800	11	2,295
Contributions to pension and social security institutions	1,260	1,808	1,376	1,855
Other liabilities	1,130	9,755	13	6,960
	17,540	69,087	11,402	44,242
Accrued expenses and deferred income	2,357			1,723
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		126,854		89,181

(••) Amounts due beyond one year

(in billions of lire)

	12.31.2000	12.31.1999
Guarantees provided		
Sureties		
on behalf of unconsolidated subsidiaries	39	87
on behalf of affiliated companies	4,482	1,828
on behalf of others	461	527
	4,982	2,442
Endorsements:		
on behalf of others	326	28
Other guarantees:		
on behalf of unconsolidated subsidiaries	1	
on behalf of affiliated companies	134	64
on behalf of others	232	23
	367	87
	5,675	2,557
Collateral provided		
For obligations of others	1	14
For own obligations, not including liabilities	3	3
	4	17
Purchases and sales commitments	9,492	1,666
Other memorandum accounts	454	7,820
TOTAL MEMORANDUM ACCOUNTS	15,625	12,060

(in billions of lire)

	2000	1999
Production value		
Sales and service revenues	55,979	52,481
Changes in inventories of work in progress, semifinished and finished goods	54	(127)
Changes in inventory of contract work in process	487	341
Increases in capitalized internal construction costs	1,765	2,056
Other revenue and income:		
<i>operating grants</i>	39	39
<i>other</i>	787	959
	826	998
	59,111	55,749
Production cost		
Raw materials, supplies and merchandise	(3,893)	(4,354)
Semifinished and finished goods	(480)	(441)
Services	(16,252)	(14,289)
Use of property not owned	(1,546)	(1,363)
Personnel		
<i>wages and salaries</i>	(6,796)	(6,773)
<i>social security contributions</i>	(2,183)	(2,155)
<i>termination indemnities</i>	(469)	(487)
<i>other costs</i>	(281)	(221)
	(9,729)	(9,636)
Amortization, depreciation and writedowns		
<i>amortization of intangible assets</i>	(2,192)	(1,913)
<i>depreciation of fixed assets</i>	(8,741)	(8,425)
<i>other writedowns of intangibles and fixed assets</i>	(93)	(142)
<i>writedowns of receivables included in current assets and liquid assets</i>	(924)	(702)
	(11,950)	(11,182)
Changes in inventory of raw materials, supplies and merchandise	(4)	37
Provisions for risks	(231)	(155)
Other provisions	(74)	(40)
Miscellaneous operating costs	(1,773)	(1,870)
	(45,932)	(43,293)
Operating income	13,179	12,456
Financial income and expense		
Income from equity investments:		
<i>dividends from unconsolidated subsidiaries</i>	7	3
<i>dividends from affiliated companies</i>	123	=
<i>dividends from other companies</i>	137	112
<i>other income from equity investments</i>	323	167
	590	282
Other financial income from:		
<i>accounts receivable included in long-term investments</i>		
<i>affiliated companies</i>	18	6
<i>other</i>	19	22
	37	28
<i>securities, other than equity investments, included in long-term investments</i>	1	3
<i>securities, other than equity investments, included in current assets</i>	201	184
<i>other income</i>		
<i>interest and fees from unconsolidated subsidiaries</i>	1	3
<i>interest and fees from affiliated companies</i>	28	26
<i>interest and fees from others and miscellaneous income</i>	778	547
	807	576
	1,046	791
Interest and other financial expense:		
<i>interest and fees paid to unconsolidated subsidiaries</i>	(1)	(1)
<i>interest and fees paid to affiliated companies</i>	(64)	(1)
<i>interest and fees paid to others and miscellaneous expense</i>	(2,471)	(1,704)
	(2,536)	(1,706)
Total financial income and expense	(900)	(633)

(CONTINUED) (in billions of lire)

	2000	1999
Value adjustments to financial assets		
Upward adjustments of:		
<i>equity investments</i>	533	467
Writedowns of:		
<i>equity investments</i>	(2,517)	(1,562)
<i>long-term investments,</i>		
<i>other than equity investments</i>		(36)
<i>securities, other than equity investments,</i>		
<i>included in current assets</i>	(259)	
	(2,776)	(1,598)
Total value adjustments	(2,243)	(1,131)
Extraordinary income and expense		
Income:		
<i>gains on disposals</i>	2,219	50
<i>miscellaneous</i>	457	230
	2,676	280
Expense:		
<i>losses on disposals</i>	(23)	(21)
<i>prior years' taxes</i>	(11)	(7)
<i>miscellaneous</i>	(3,057)	(1,233)
	(3,091)	(1,261)
Total extraordinary items	(415)	(981)
Income before taxes	9,621	9,711
Income taxes		
<i>current taxes</i>	(4,815)	(5,585)
<i>deferred taxes</i>	903	539
	(3,912)	(5,046)
Net income before minority interest	5,709	4,665
Minority interest	(1,782)	(1,301)
Net income	3,927	3,364

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements at December 31, 2000 have been prepared in accordance with the provisions of the Italian Civil Code.

Following certain changes to some items of the consolidated financial statements, the consolidated financial statements at December 31, 1999 have been reclassified for purposes of a meaningful comparison.

The consolidated statement of cash flows, although presented in the Report on Operations, constitutes an integral part of these notes to consolidated financial statements pursuant to Article 29, Section 3 of Legislative Decree No. 127/1991.

The consolidated financial statements are also accompanied by the Report on the Group's operations together with the Report on the Parent Company.

The disclosure relating to the introduction of the euro conforms to Consob Communication No. 98083971 of October 26, 1998 and is presented in a specific paragraphs of these Notes and the Report on operations.

The scope and principles of consolidation, the summary of significant accounting policies, along with the composition and changes in the individual components of the consolidated financial statements are set out below.

SCOPE OF CONSOLIDATION

The scope of the consolidation at December 31, 2000 includes the Italian and foreign companies listed in Annex 5, in which the Parent Company Telecom Italia holds a majority of voting rights, and all other companies in which it exercises a dominant influence. The proportional method of consolidation, pursuant to Article 37 of Legislative Decree 127/1991, is used to consolidate the following companies controlled jointly with other stockholders at 50%:

- Nortel Inversora and Telecom Argentina group controlled by it (Nortel Inversora group);
- Viasat (through Seat Pagine Gialle) and the subsidiary Viasat Assistance;

The complete list of companies consolidated by the proportional method is given in Annex 6.

The following changes have taken place in the scope of consolidation since December 31, 1999:

a) added to the scope of consolidation (the balance sheets and the statements of income have been consolidated for the entire year):

- *Nortel Inversora group*: following the acquisition, in 1999, of an additional stake (17.50%) in the holding company Nortel Inversora by Telecom Italia through Stet International Netherlands, with effect from January 1, 2000, Nortel Inversora and the Telecom Argentina group controlled by it, were consolidated on a proportional basis, insofar as they jointly controlled on a 50-50 basis with the France Telecom group;

- *Centrosiel*: 47% owned by Banksiel in addition to a proxy of 4% authorized by Centrobanca to exercise voting rights at the stockholders' meetings;
- *Med-1 group*: following the purchase of the majority stake in the Israeli company Med-1, through the investments held by Stet International Netherlands (27.83%) and directly by Telecom Italia (23.17%), the following companies became subsidiaries: Med-1 Submarine Cables, Med-1 IC-1(1999), Med-1 Netherlands and Med-1 Italy;
- *Mediterranean Nautilus Ltd, Mediterranean Nautilus S.A., Latin American Nautilus Ltd, Latin American Nautilus S.A.*, established as part of the development of the Nautilus project;
- *TI Belgium, TI France, TI Germany, TI Switzerland, TI United Kingdom, Telecom Italia Netherlands*, established following the development of a pan-European network;
- *BBNED*, established in 2000 and entirely controlled by Stet International Netherlands;
- *IMMSI and TELIMM*, deriving, respectively, from the partial spin-offs of Sirti and Teleleasing;
- *Tele Payroll Services*, set up through the contribution of the business segment for the management of personnel administration services of the companies of the Group to the company Teleporti Italia S.p.A. in liquidation;
- *TI.IT - Telecom Italia Information Technology (IT Telecom)*: set up as part of the reorganization of the information technologies sector, using the company Reseau S.r.l. in liquidation;
- *TI WEB*, established by Telecom Italia, which holds 99.97%, and to which the investment in Globo.com was transferred by Softe;
- *Tim International*, established by TIM;
- *Tim Perù*, established by Stet Mobile Holding;
- *Timnet.com*, established in June 2000 by Tele Nordeste Celular and Tele Celular Sul.

The following balance sheet and statement of income highlights are presented for the Nortel Inversora group at December 31, 2000, at 50%, for a more meaningful understanding of the effects on the results of operations and financial condition of Telecom Italia Group (in billions of lire):

Nortel Inversora Group	
Balance Sheet	
• Intangibles, fixed assets and long-term investments	5,928
• Current assets including accrued income and prepaid expenses	1,541
• Stockholders' equity	2,147
• Reserves for risks and charges	329
• Liabilities including accrued expenses and deferred income	4,993
Statement of income	
• Production value	3,672
• Production costs	2,946
• Operating income	726
• Investment and financial income (expense), net	- 302
• Extraordinary income (expense)	- 60
• Income taxes	- 215
• Net income, before minority interest	149

b) added to the scope of consolidation only the balance sheets have been consolidated as the companies were acquired during the last part of the year, because in the terms of approving Board of Director's report on operations, the economic results were not available:

- *Seat Pagine Gialle group*;
- *Jet Multimedia group*;
- *Europe Explorer group*;
- *Mageos*;
- *Corporacion Digitel*;
- *Maxitel group*;
- *Eustema*.

The following balance sheet highlights are presented for the Seat Pagine Gialle group at December 31, 2000, for a more meaningful understanding of the effects on the financial condition of Telecom Italia Group (in billions of lire):

Seat Pagine Gialle Group	
Balance sheet	
• Intangibles, fixed assets and long-term investments	3,951
• Current assets including accrued income and prepaid expenses	3,810
• Stockholders' equity	3,358
• Reserves for risks and charges	241
• Liabilities including accrued expenses and deferred income	4,162

c) eliminated from the scope of consolidation:

- *Webegg*, following the dilution of share capital with the capital increase reserved for Olivetti. After this transaction, the company is held 50% by Olivetti, 30.20% by Finsiel and 19.80% by I.T. Telecom; the company has been valued using the equity method.
- *Finsiel Hellas*, put into liquidation in December 2000.
- *Optical Technologies Center*, sold to third parties;
- *Stet France*, non-operating company;
- *Tecnitel*, which, after the wind-up was revoked, changed its name to IM.SER, and after the contribution of the "Grandi Immobili" business segment by Telecom Italia, 60% of the company has been sold. In the 2000 financial statements, the company is valued using the equity method;
- *Teleleasing*, following the disposal of the controlling interest; the investment held by Saiat is now equal to 20% and the company has been valued using the equity method;

d) consolidated (only the statements of income have been consolidated since the companies were disposed of during the last part of the year):

- *Sirti group*;
- *Italtel group*;
- *U-Mobil*;
- *Bisiel*.

The following balance sheet highlights are presented for the Sirti group and the Italtel group at December 31, 1999, for a more meaningful understanding of the effects on the financial condition of Telecom Italia Group (in billions of lire):

	Sirti Group	Italtel Group
Balance sheet		
• Intangibles, fixed assets and long-term investments	430	383
• Current assets including accrued income and prepaid expenses	1,748	2,223
• Stockholders' equity	955	800
• Reserves for risks and charges	223	429
• Liabilities including accrued expenses and deferred income	1,000	1,377

e) other changes in the scope of consolidation:

- *Comitsiel*, merged by incorporation in Banksiel, effective for accounting purposes (balance sheet and statement of income) on January 1, 2000;
- *Metis*, merged in Consiel, effective for accounting purposes (balance sheet and statement of income) on January 1, 2000.

As regards some recently acquired foreign holdings operating in the “new economy”, no writedowns were effected notwithstanding the fall in the market values of this sector. This was decided in consideration of the prospects for business in the medium and long-term which are deemed unchanged and also on account of the industrial – and thus strategic – nature of such investments in relation to the competitive positioning of the Telecom Italia Group in the reference markets. Nevertheless, in view of the rapid evolution of the sector, these holdings will be continually and carefully monitored.

The end of December 2000 marked the conclusion of the reorganization of the international telecommunications sector, with the acquisition of 100% of Stet Mobile Holding by TIM and the acquisition of 100% of Stet International Netherlands by Telecom Italia, which also received 1.94% of TIM ordinary shares, with a share capital increase reserved for the Parent Company. The Parent Company interest, therefore, does not take into account the reduction of the stake in Stet Mobile Holding or the concurrent increase of the holding in TIM.

Annexes 7 and 8 list those subsidiaries excluded from consolidation for the following reasons: their inclusion would not have been material for purposes of a true and fair representation of the consolidated financial statements and/or because they were not operational or in liquidation and/or are involved in business areas markedly different to those of the other companies in the Group.

At December 31, 2000, Telecom Italia's subsidiaries and affiliates listed in Annexes 5 to 8, were categorized as follows:

	Subsidiaries			Affiliates			Total
	Italy	Abroad	Total	Italy	Abroad	Total	
Companies:							
• consolidated on the line-by-line method	81	155	236	=	=	=	236
• consolidated on the proportional method	=	=	=	2	8	10	10
• valued by the equity method	2	7	9	34	28	62	71
• valued at cost	30	17	47	27	11	38	85
Total companies	113	179	292	63	47	110	402

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The data for consolidation purposes have been taken from the financial statements at December 31, 2000 of each consolidated company, approved by the respective boards, and adjusted where necessary to conform to the accounting principles adopted by the Parent Company Telecom Italia.

The financial statements expressed in foreign currency have been translated into Italian lire by applying the average exchange rate for the year to the individual items of the statement of income and the year-end exchange rate to the items of the balance sheet.

The difference arising from the translation of beginning stockholders' equity and the net income for the year at the year-end exchange rate is recorded in the reserves under consolidated stockholders' equity.

The exchange rates used in translation are listed in the "other information" section of the notes.

All subsidiaries included in the scope of consolidation have been consolidated using the line-by-line method, which can be summarized as follows:

- a. assumption of the total amount of assets, liabilities, revenues and expenses, regardless of the interest held, separately showing the minority interest in stockholders' equity and net income;
- b. the difference arising from the elimination of the carrying value of an investment in a company included in the scope of consolidation against the underlying share of the stockholders' equity at the date of acquisition is allocated, where possible, to the assets and liabilities of the company. Any residual amount is treated as follows:
 - if positive, it is recorded in "consolidation difference" under "intangible assets" and is amortized on the straight-line method over the estimated time required to recover the amount and, in any case, not more than a period of 15 years;
 - if negative, it is recorded in stockholders' equity as "consolidation reserve", or, when the amount is due to expectations of unfavorable financial results, to "consolidation reserve for future risks and charges";
- c. elimination of receivables and payables, as well as expenses and revenues among consolidated companies;
- d. elimination of profit included in fixed assets and intangible assets which stem from intraGroup purchases of goods and services at market prices. The portion of intraGroup revenues referring to the above goods and services has been reclassified, net of intraGroup profit, to the item "increase in capitalized internal construction costs".

The following have been eliminated:

1. capital gains on the transfer of fixed assets among consolidated companies;
2. profit, if significant, on transactions among consolidated companies involving the sale of goods remaining in inventory which have not been realized with third parties;
3. writedowns and reinstatements of value for long-term investments in consolidated companies, as well as intraGroup dividends.

Provisions and value adjustments made by individual consolidated companies exclusively for the purpose of securing tax benefits allowed by law, such as accelerated depreciation and transfers to the reserves for operating grants, have also been eliminated from the consolidated financial statements.

The consolidation of investments on a proportional basis was effected by including the individual items of assets, liabilities, costs and revenues of the companies jointly

controlled, in proportion to the percentage of ordinary shares held. The consolidated financial statements therefore present the portion of receivables, payables, costs and revenues of the companies consolidated on a line-by-line basis not eliminated against the underlying share of the companies consolidated on a proportional basis.

The value of investments consolidated proportionally has been eliminated against the corresponding share of the net equity of the investments consolidated proportionally; the minority interest in the stockholders' equity will include any proportional share of the net equity in the event of the consolidation of a group.

ACCOUNTING PRINCIPLES

The accounting principles adopted in preparing the consolidated financial statements at December 31, 2000 conform to the law and have been applied on a basis consistent with the prior year, with the exception of the accounting treatment for finance leases.

The accounting principles are set out below:

Intangible assets

Intangible assets are recorded at acquisition or production cost and are amortized systematically over their estimated period of benefit.

When full recovery of the investments is not expected, appropriate writedowns are made.

Fixed assets

Fixed assets are recorded at acquisition or production cost and depreciated on the straight-line method at rates determined on the basis of their estimated remaining useful life. They include inflation adjustments made on the basis of the laws.

For assets whose value is permanently below the historical cost, net of their accumulated depreciation, the appropriate writedowns are made. Such lower value will be reversed in subsequent years if the underlying assumptions are no longer correct.

Construction in progress is stated at the amount of direct costs incurred.

Equity investments

Equity investments considered long-term in nature are recorded in long-term investments or, if acquired for subsequent sale, recorded in short-term financial assets.

Long-term equity investments in unconsolidated companies are valued by the equity method; positive differences arising upon acquisition, between the carrying value of the investments in said companies and the underlying share of net equity at current values, are included in the value of the investments and amortized on the straight-line method over their expected period of recoverability and, in any case, for a period not exceeding 15 years. Such amortization is charged to the statement of income among "value adjustments to financial assets" in (writedowns of investments).

Other long-term investments in unconsolidated subsidiaries are recorded at acquisition or subscription cost, adjusted for any reasonable expectations of a decline in profitability or recoverability in future years.

For long-term investments in companies operating at a loss, the value of the investments is written down to an amount equal to the corresponding share of the underlying net equity, if lower, as shown by the latest financial statements of the respective companies. Losses exceeding the corresponding carrying values are recorded among “*reserves for risks and charges*”.

Contracts for the loan of securities are represented in the financial statements as two functionally related transactions: a loan and a repurchase transaction on the securities with the obligation of the borrower to resell them at maturity. Accordingly, “Other receivables” and “Other liabilities” include, respectively, a receivable and a payable of the same amount at the fixed amount of the contract (market price of stock at the date of delivery of the securities).

Investments included under current assets, consisting mainly of shares of consolidated listed companies purchased for trading purposes, are stated at the lower of cost and realizable value, based on the year-end stock market prices.

Writedowns of investments, whether included in long-term investments or current assets, will be reversed in subsequent years if the underlying assumptions are no longer correct.

Other securities (other than equity investments)

Securities that the company intends to hold to maturity are included among long-term investments; those bought for trading purposes are listed under short-term financial assets. Securities held as long-term investments are valued at cost, adjusted for the portion of the difference for the year between the cost and the redemption value.

Securities included in current assets are valued at the lower of cost, adjusted for the portion of issue differences and realizable value based on market.

Writedowns of securities will be reversed in subsequent years, if the underlying assumptions are no longer correct.

Securities acquired under repurchase agreements, for which the obligation exists to resell them at maturity, are included at purchase cost in receivables under current assets. The difference between the sales price and the purchase price is allocated to income as it accrues with a contra-entry to accrued income/expense in the balance sheet.

Inventories

Inventories are valued at the lower of purchase or production cost and market.

The methods mainly used in computing cost are the following:

- raw materials and finished goods: LIFO with annual adjustments;
- merchandise: weighted average;
- work in progress and semifinished goods: production cost;
- contract work in process:
 - contracts covering less than 12 months: industrial cost;
 - contracts covering more than one year: at estimated revenues using the percentage of completion method.

In determining the value of contract work in process, anticipated losses upon completion and any other risks are also taken into account. Inventories of raw materials, finished goods and merchandise which exceed foreseeable manufacturing requirements or have become obsolete are written down their estimated realizable value.

Accounts receivable and liabilities

Receivables are stated at the estimated realizable value and classified under long-term investments or current assets. Liabilities are shown at their nominal value.

Accounts receivable and liabilities in foreign currency, based on the concept of prudence, are recorded at the year-end exchange rates. The positive and negative differences between the balance of accounts receivable and liabilities converted at year-end exchange rates and their balance at the original exchange rates are recorded in the statement of income, respectively, in “*financial income*” and “*financial expense*”.

Accruals and deferrals

These items are recorded on the accrual basis.

Reserves for risks and charges

For taxes: this reserve includes prudent provisions for estimated tax charges (including any surtaxes and late payment interest) on positions not yet agreed or in dispute.

For deferred taxes: this reserve includes deferred taxes calculated on the timing differences of the individual consolidated companies between the value attributed to assets and liabilities for statutory purposes and the value attributed to the same assets and liabilities for tax purposes, as well as those generated by consolidation adjustments. Deferred tax assets are recorded among “*other receivables*” in current assets.

Deferred tax assets and deferred tax liabilities are set off, whenever the assumptions for doing so exist.

Deferred taxes on reserves on which taxation has been suspended, regarding consolidated companies or companies valued by the equity method, are recorded when such reserves are expected to be distributed or otherwise used and their distribution or utilization will give rise to tax charges.

The tax benefit of tax loss carryforwards is recorded whenever there is reasonable expectation of realization.

“*Other reserves*” relate primarily to provisions to cover charges of certain or likely existence whose amount or date of occurrence could, however, not be determined at the end of the year. The provisions reflect the best possible estimate, based on the commitments made and on the available data.

Reserve for employee termination indemnities

The amount of this reserve is determined in accordance with current laws and collective bargaining agreements and includes the liability matured at the end of the year in favor for all personnel employed by the Italian consolidated companies. The item *other receivables*, under long-term investments, includes the receivable stemming from the advance payment of tax on the reserve for employee termination indemnities (Law 662/96).

Employee benefit obligations under Law No. 58/1992

Employee benefit obligations, as required by Law No. 58/1992, are accounted for on a cash basis, as described in the notes to financial statements of the Parent Company Telecom Italia. The remaining liability for such obligations, payable in fifteen annual installments

on the basis of the statement updated to December 31, 2000 by the National Social Security Institute (INPS) and according to its interpretation, amounts to Lire 2,923 billion, divided as follows:

- a) Lire 1,911 billion for the principal amount (except for the portion attributable to former Iritel employees);
- b) Lire 1,012 billion in accrued interest.

As regards pre-amortization interest and the related accrued interest, as described in the notes of the Parent Company, in compliance with the sentence handed down by the Court of Appeals, No. 4242 of April 5, 2000, payment of the above-described interest and accrued interest related thereto (for a residual amount of Lire 789 billion) has been suspended as from June 2000.

The consolidated financial statements also include Lire 1,377 billion due to INPS, relating to the estimate for the employees of the former State Company for Telephone Services (ASST) made by the special Ministerial Commission established under Law No. 58/1992, upon the contribution of the assets of the Post and Telecommunications Administration to Iritel.

The employee benefit obligations to guarantee uniform insurance status recorded in the consolidated statement of income for the year 2000 (under *extraordinary expense*) amount to Lire 297 billion inclusive of accrued and pre-amortization interest.

Grants

Operating grants (directly credited to the statement of income) and capital grants or grants for installations are recorded in the accounting period in which the paperwork documenting the grants is received, or in the period in which the respective costs are incurred, provided that the certainty of payment is confirmed by established procedures. Specifically, capital grants are recorded in deferred income and recognized in future years in the statement of income in relation to the amount of depreciation taken on the underlying assets to which the grants refer.

Revenues and expenses

Revenues and expenses are recorded on an accrual basis and recognized in the consolidated statement of income as follows.

- a. *telecommunications services*: in the year in which the services are rendered; in particular traffic revenues are shown gross of the amounts due to other carriers which are recorded, for the same amount, in production cost;
- b. *information technology and innovative network services, other activities*: to the extent to which the connected services were rendered during the fiscal year.

Leased assets

Since Teleleasing is no longer in the scope of consolidation, assets covered by finance lease contracts with a purchase option are recorded in fixed assets and depreciated from the date of the lease contract using rates consistent with those used for similarly owned assets. At the same time, a liability is recorded for the same amount, adjusted by the principal lease payments. The statement of income is charged for the financial expenses for the period and the depreciation charge on the assets acquired in leasing.

Memorandum accounts

Starting from these financial statements, the manner of accounting for and presenting memorandum accounts has been changed. In particular:

- guarantees provided are presented net of counter-guarantees received;
- financial derivative contracts are only presented in the notes.

Collateral and guarantees provided – essentially relating to sureties – are recorded for an amount equal to the guarantee provided; those in foreign currencies are translated at year-end exchange rates.

Purchases and sales commitments are determined on the basis of the unperformed portion of contracts outstanding at the end of the fiscal year which do not fall under the normal “operating cycle”.

Other memorandum accounts mainly refer to assets of third parties at consolidated subsidiaries.

Financial derivatives

Financial derivative contracts are used by the Group to hedge exposure to interest rate and currency exchange risks.

Interest rate swaps involve the exchange of flows of interest between the counterparts calculated on the notional amount of reference at the agreed fixed or variable rates at the specified maturity date: normally the differential between the two interest rates is paid or received.

Cross currency and interest rate swaps are used both to hedge interest rate risk and exchange risk on loans denominated in foreign currency: they make it possible to covert the notional amount in foreign currency to the domestic currency and also to convert from a variable rate to a fixed rate.

The interest paid or received or the differential paid or received is recorded in the statement of income in specific accounts under financial income and expense. Moreover, related accruals are made at the year-end or interim closings with a counter-entry to “accrued income and prepaid expenses or accrued expenses and deferred income”.

CONSOLIDATED BALANCE SHEETS

ASSETS

Intangibles, fixed assets and long-term investments

Intangible assets

Lire 31,052 billion

(Lire 5,299 billion at December 31, 1999)

Intangible assets increased by Lire 25,753 billion compared to the end of 1999. A breakdown of the composition and the changes in this account are provided below:

(in billions of lire)	12.31.1999	Additions	Amortization	Change in scope of consolidation	Other changes	12.31.2000
Start-up and expansion costs	127	90	(44)	40	(19)	194
Industrial patents and intellectual property rights	1,507	647	(1,455)	37	849	1,585
Concessions, licenses, trademarks and similar rights	296	5,098	(91)	1,505	(21)	6,787
Goodwill	8		(6)	129	2	133
Consolidation difference	1,967	17,637	(349)	568	(14)	19,809
Work in progress and advances to suppliers	755	1,634		10	(773)	1,626
Other intangibles	639	296	(247)	357	(127)	918
Totale	5,299	25,402	(2,192)	2,646	(103)	31,052

Other changes include Lire 70 billion of write-downs, of which Lire 38 billion are for writedowns of the software projects of the Parent Company that will be abandoned during 2001.

- *Start-up and expansion costs* refer primarily to registration fees paid when consolidated companies are established or when their capital is increased.
- *Industrial patents and intellectual property rights* consist mainly of applications software either owned outright or acquired under a license for an unspecified period of time.
- *Concessions, licenses, trademarks and similar rights* increased by Lire 6,491 billion mainly as a result the acquisition of the UMTS license by TIM in Italy (Lire 4,680 billion), in addition to the value, net of amortization, of the mobile telephony licenses of Maxitel (Lire 1,055 billion), Telecom Argentina (Lire 368 billion) and TIM Perù (Lire 366 billion).
- The *consolidation difference* increased by Lire 17,842 billion since the end of 1999, mainly due to the purchase of the controlling interest in Seat Pagine Gialle (Lire 12,736 billion), and the increase for the investment in TIM (Lire 1,525 billion), both of which are net of the amortization charge for the year. The balance also includes the residual value of the difference between the cost incurred for the acquisition of the Jet Multimedia group and Europe Explorer (Lire 1,381 billion), Digitel (Lire 700 billion), Maxitel (Lire 646 billion), TDL Infomedia (Lire 595 billion), Tele Celular Sul

Participacoes (Lire 506 billion) and Tele Nordeste Celular Participacoes (Lire 503 billion) and their underlying stockholders' equity at their acquisition date. It also includes Lire 1,044 billion relating to the companies in the Seat Pagine Gialle group.

- *Work in progress and advances to suppliers* increased by Lire 871 billion, compared to December 31, 1999, and represent the difference between the capitalization of costs incurred by the Parent Company for software development projects in progress and the projects which came into use during the year.
- *Other intangibles*, totaling Lire 918 billion (Lire 639 billion at December 31, 1999), include Lire 506 billion (Lire 357 billion at December 31, 1999) of leasehold improvements.

Fixed assets

Lire 45,358 billion

(Lire 45,518 billion at December 31, 1999)

Fixed assets decreased by Lire 160 billion compared to the end of 1999. They are shown net of depreciation and writedowns and have been adjusted to eliminate intraGroup profits generated by purchases of internally produced goods and services. An analysis of fixed assets at December 31, 2000 is provided in the following table:

(in billions of lire)							12.31.2000	12.31.1999
	Owned assets			Leased assets			Net book value	Net book value
	Gross value	Accumulated depreciation	Total	Gross value	Accumulated depreciation	Total	Total	
Land and buildings	7,618	2,774	4,844	1,027	165	862	5,706	9,823
Plant and machinery	109,738	74,726	35,012	139	55	84	35,096	31,991
Manufacturing and distribution equipment	1,935	1,783	152	3	3	=	152	240
Other fixed assets	4,233	2,719	1,514	151	46	105	1,619	1,097
Construction in progress and advances to suppliers	2,633		2,633	152		152	2,785	2,367
Total	126,157	82,002	44,155	1,472	269	1,203	45,358	45,518

The gross value of owned assets is composed as follows:

(in billions of lire)	Cost	Upward adjustments	Write-downs	Gross value
Land and buildings	6,503	1,119	4	7,618
Plant and machinery	110,028	1,596	1,886	109,738
Manufacturing and distribution equipment	1,930	5	=	1,935
Other fixed assets	4,220	14	1	4,233
Construction in progress and advances to suppliers	2,628	11	6	2,633
Total	125,309	2,745	1,897	126,157

Seat Pagine Gialle revalued its industrial buildings pursuant to Law No. 342 of November 21, 2000 for a total amount of Lire 29 billion.

Accumulated depreciation covered 65.9% of gross fixed assets, compared to 64.1% at the end of last year.

A summary of the changes in fixed assets during the year is shown in the following table:

(in billions of lire)	2000	1999
At January 1	45,518	45,665
• Additions	7,530	7,503
• Disposals	(199)	(330)
• Sale of "Grandi Immobili" business segment	(4,632)	=
• Depreciation for the year	(8,741)	(8,425)
• Writedowns	(22)	(138)
• Change in the scope of consolidation	5,766	1,513
• Other	138	(270)
At December 31	45,358	45,518

Additions for the year amounted to Lire 7,530 billion (Lire 7,503 billion in 1999), including a total of Lire 1,139 billion in Southern Italy (Lire 1,391 billion in 1999). A breakdown by sector is provided below:

(in billions of lire)	2000	1999
Wireline telecommunications Italy	3,675	4,574
Mobile telecommunications Italy	1,668	1,582
Satellite telecommunications	57	56
International telecommunications	1,974	955
Information technology activities	232	73
Manufacturing activities	34	46
Installation activities	27	58
	7,667	7,344
Other activities and intraGroup eliminations	(137)	159
Total	7,530	7,503

Additions in 2000 are in line with those of the prior year mainly on account of a reduction in investments by the Parent Company that were offset by higher investments by the mobile telephony companies and the consolidation of the Nortel Inversora group (Lire 937 billion).

Long-term investments

Lire 16,797 billion

(Lire 13,217 billion at December 31, 1999)

Long-term investments, which increased by Lire 3,580 billion from December 31, 1999, include the following:

(in billions of lire)	12.31.2000	12.31.1999
Equity investments in:		
• unconsolidated subsidiaries	41	235
• affiliated companies	13,939	11,510
• other companies	369	579
	14,349	12,324
Advances on future capital contributions	363	2
	14,712	12,326
Accounts receivable:		
• affiliated companies	246	258
• other receivables	546	628
	792	886
Other securities	12	5
Treasury stock	1,281	=
Total	16,797	13,217

Equity investments in affiliated companies, amounting to Lire 13,939 billion, increased by Lire 2,429 billion from December 31, 1999 chiefly due to the purchase of the investment in GLB Servicos Interativos, the Internet company of Globo Organizações (30%, for an equivalent amount of Lire 1,686 billion) and the formation of the company IS TIM (Lire 594 billion) which won the third GSM 1800 license in Turkey.

Equity investments in affiliated companies refer to the following:

(in billions of lire)	12.31.2000
Telekom Austria	3,523
GLB Servicos Interativos	1,566
Mobilkom Austria	1,135
Etec S.A.	1,043
Auna (formerly Retevision)	986
Solpart Participacoes	893
Entel Chile	733
IS TIM	684
Astrolink	507
Eutelsat	419
IM.SER	395
Telekom Srbija	378
BDT	333
Netco Redes	261
Cecchi Gori Communications	229
Italtel Holding	204
Stream	194
Mondus	110
Other	346
Total	13,939

The total of the investments valued by the equity method included the unamortized portion (Lire 5,645 billion, against Lire 4,815 billion at December 31, 1999) of the excess of book values over the corresponding share of the underlying stockholders' equity at the time of purchase. The excess refers to Telekom Austria (Lire 1,891 billion), GLB Servicos Interativos (Lire 1,521 billion), Mobilkom Austria (Lire 593 billion), AUNA (Lire 543 billion), Entel Chile (Lire 313 billion), Bouygues Decaux Telecom (Lire 257 billion), Netco Redes (Lire 218 billion), Etec S.A. (Lire 216 billion), and other minor investments. As regards Telekom Srbija, the investment in this company was reduced to the underlying share of net equity in view of the devaluation of the Serbian dinar against the German mark, and also on account of the loss for the year.

A list of the companies valued by the equity method is provided in Annex 7; equity investments in unconsolidated subsidiaries and affiliates are listed in Annex 8.

Accounts receivable from affiliated companies, amounting to Lire 246 billion, refer to loans made to foreign affiliates, in particular, to BDT (Lire 198 billion) and Golden Lines (Lire 24 billion).

Other receivables, amounting to Lire 546 billion, included the revalued amount of the tax receivable from the prepayment of the tax on the reserve for employee severance indemnities (Lire 261 billion), loans to employees (Lire 124 billion), loans to other companies, security deposits and capital contributions to the Chinese joint venture, Jilin Huatai Communications (Lire 21 billion).

Other securities amounted to Lire 12 billion and increased by Lire 7 billion from December 31, 1999 mainly due to in the inclusion of the Nortel Inversora group in the scope of consolidation.

Treasury stock, of Lire 1,281 billion, refers to No. 104,978,070 savings shares bought back by the Parent Company.

Current Assets

Inventories

Lire 1,405 billion

(Lire 1,995 billion at December 31, 1999)

Inventories include the following:

(in billions of lire)	12.31.2000	12.31.1999
Raw materials and supplies	40	189
Merchandise	415	403
	455	592
Work in progress and semifinished goods	26	134
Finished goods	3	23
	29	157
Contract work in process	905	1,217
Advances to suppliers	16	29
	921	1,246
Total	1,405	1,995

Inventories are held by companies providing telecommunications services for Lire 878 billion (Lire 844 billion at December 31, 1999) and companies providing information technology services for Lire 420 billion (Lire 303 billion at December 31, 1999).

The reduction in inventories of Lire 590 billion can mainly be ascribed to the exclusion of the manufacturing and installations companies from the scope of consolidation.

Raw materials and supplies and work in progress and semifinished goods are substantially in line with current costs.

Accounts receivable*(Lire 19,065 billion at December 31, 1999)***Lire 23,009 billion**

A breakdown of accounts receivable, which increased by Lire 3,935 billion, is provided below:

(in billions of lire)	12.31.2000	12.31.1999
Trade accounts receivable	16,917	16,239
• allowance for doubtful accounts	(1,433)	(1,297)
Total trade accounts receivable	15,484	14,942
Accounts receivable from unconsolidated subsidiaries	79	75
Accounts receivable from affiliated companies	800	953
Accounts receivable from parent companies	5	2
Other receivables	6,641	3,093
Total	23,009	19,065

In particular:

- Gross *trade accounts receivable* totaled Lire 16,917 billion and consist, for the most part, of receivables for telecommunications services. Receivables have been adjusted to estimated realizable value by writedowns and they, too, refer mostly to telecommunications companies. Accounts receivable also include Lire 2,067 billion of receivables from other telecommunications carriers and Lire 250 billion of services to be performed by Seat Pagine Gialle representing the advertising commitments assumed and invoiced by the company for directories that will be published in 2001.
- *Accounts receivable from unconsolidated subsidiaries*, which totaled Lire 79 billion, include loans and trade receivables from subsidiary consortium companies.
- *Accounts receivable from affiliated companies* amounted to Lire 800 billion, a decrease of Lire 153 billion. They refer to financial receivables for Lire 283 billion, and trade and other receivables for Lire 517 billion. Financial receivables mainly refer to Stream (Lire 106 billion), Cecchi Gori Communication (Lire 75 billion) and Telekom Srbija (Lire 41 billion); while trade and other receivables chiefly refer to Telekom Srbija (Lire 127 billion), Auna (Lire 93 billion), Golden Lines (Lire 49 billion), Stream (Lire 45 billion) and other foreign companies.
- *Other receivables* of Lire 6,641 billion (Lire 3,093 billion at December 31, 1999), included the following:
 - financial receivables of Lire 1,810 billion (Lire 58 billion at December 31, 1999), which increased almost entirely on account of the transaction for the loan of securities by the Parent Company, covered by the specific guarantee contracts;
 - other receivables totaling Lire 4,831 billion (Lire 3,035 billion at December 31, 1999), which refer to the following:

(in billions of lire)	12.31.2000	12.31.1999
Government and other public entities for subsidies and grants	82	112
Customer payments in transit	362	532
Due from the Tax Administration	1,116	442
Deferred tax assets	1,928	940
Employees	152	144
Other receivables from the Government, other public entities and items in transit	1,191	865
Total	4,831	3,035

During 2000, TIM assigned trade accounts receivable to factoring companies for Lire 6,203 billion (without recourse within the pre-established limits of the receivables from dealers with collection at the due date). At December 31, 2000, receivables sold and not yet due amounted to Lire 510 billion.

The Parent Company, Telecom Italia, assigned receivables without recourse, not due on December 31, 2000, to factoring companies for a total of Lire 400 billion, with a loss on the sale of Lire 5 billion.

Net deferred tax assets are composed as follows:

(in billions of lire)	12.31.2000	12.31.1999
Deferred tax assets	1,928	940
Reserve for deferred taxes	(390)	(292)
Total	1,538	648

Deferred tax assets mainly refer to the writedowns of receivables and software and the reserves for risks and charges; deferred tax liabilities mainly originated from gains.

The increase in the net tax asset balance is principally due to lower deferred taxes of the Parent Company following the reclassification of the "Reserve for accelerated depreciation", pursuant to the application of art. 14 of Law No. 342/2000.

No deferred tax assets have been set aside because of uncertainty over their recoverability against future taxable profits. In particular, tax loss carryforwards, which have not been considered in the determination of deferred tax assets, amount to some Lire 5,000 billion, of which about Lire 2,600 billion can be utilized under the known circumstances.

Short-term financial assets

Lire 4,755 billion

(Lire 2,592 billion at December 31, 1999)

This item, which increased by Lire 2,163 billion compared to December 31, 1999, includes the following:

(in billions of lire)	12.31.2000	12.31.1999
Equity investments in unconsolidated subsidiaries	759	122
Equity investments in affiliated companies	11	=
Other equity investments	73	11
Other securities	3,911	2,450
Receivables for sale of securities	1	9
Total	4,755	2,592

Equity investments refer mainly to listed shares of Group companies purchased by Telecom Italia for trading. The carrying value at the end of the year approximates market value.

Other securities, which consist almost entirely of government securities and bonds, rose by Lire 1,461 billion compared to December 31, 1999 mainly as a result of the consolidation of Maxitel (Lire 527 billion), Telecom Argentina (Lire 331 billion) and due to the increase in marketable securities held by Softe and Sogerim (Lire 443 billion). The carrying value at the end of the year approximates market value.

Liquid assets

Lire 2,525 billion

(Lire 1,312 billion at December 31, 1999)

Liquid assets increased by Lire 1,213 billion. They consist mainly of funds on deposit in Italian and foreign banks on current accounts.

Accrued income and prepaid expenses

Lire 1,950 billion

(Lire 180 billion at December 31, 1999)

This item, which increased by Lire 1,770 billion, can be analyzed as follows:

(in billions of lire)	12.31.2000	12.31.1999
Issue discounts and similar charges	3	3
Accrued income:		
• production value	24	30
• financial income	115	24
• other	=	40
	139	94
Other prepaid expenses:		
• production costs	192	63
• financial expenses	151	16
• other	1,465	4
	1,808	83
Accrued income and other prepaid expenses	1,947	177
Total	1,950	180

Other prepaid expenses increased primarily on account of the effect of the expenses (Lire 1,454 billion) relating to the deferral of the put option on the Seat Pagine Gialle shares (see the memorandum accounts).

An analysis of accounts receivable and accrued income by maturity and type is provided in Annex 1.

LIABILITIES AND STOCKHOLDERS' EQUITY***Stockholders' equity******Lire 49,431 billion****(Lire 38,314 billion at December 31, 1999)*

A breakdown of stockholders' equity is presented below:

(in billions of lire)	12.31.2000	12.31.1999
Parent company interest, Telecom Italia	36,443	33,004
Minority interest	12,988	5,310
Total	49,431	38,314

Stockholders' equity of the Parent Company and the minority interest increased by Lire 11,117 billion compared to December 31, 1999. In particular:

- the *share capital of the Parent Company*, unchanged compared to December 31, 1999, consists of 5,260,037,131 ordinary shares and 2,166,120,095 savings shares, both with a par value of Lire 1,000 each;
- Telecom Italia's interest in *reserves and retained earnings* includes the Parent Company's retained earnings and own reserves, as well as the consolidated companies' retained earnings and inflation adjustment reserves and tax-deferred reserves. No deferred taxes have been provided on the latter reserves since, based on current plans, no transactions are expected to be entered into which would warrant taxation.

The Parent Company interest increased by Lire 3,439 billion compared to December 31, 1999 due mainly to the effect of the conversion of TIM savings shares into ordinary shares (Lire 3,236 billion), the net income for 2000 (Lire 3,927 billion), net of the 1999 Telecom Italia dividends (Lire 4,505 billion).

The reconciliation of Telecom Italia's financial statements with the consolidated financial statements as regards stockholders' equity and net income for the year, and the changes in the components of consolidated stockholders' equity, are provided in Annexes 3 and 4.

Reserves for risks and charges***Lire 3,425 billion****(Lire 2,006 billion at December 31, 1999)*

These reserves increased by Lire 1,419 billion from December 31, 1999 and refer to the following:

- the *reserve for taxes*, amounting to Lire 307 billion, (-Lire 2 billion compared to December 31, 1999), mainly consists of estimated tax liabilities on positions still to be agreed or in dispute;
- the *reserve for deferred taxes*, amounting to Lire 390 billion (+Lire 98 billion compared to December 31, 1999), includes deferred taxes provided by the individual consolidated companies on the income components subject to deferred taxation and also provided on consolidation adjustments;
- *other reserves*, amounting to Lire 2,698 billion, increased by Lire 1,293 billion compared to December 31, 1999 and include the reserve for litigation (Lire 432 billion), the reserve for restructuring charges (Lire 318 billion, of which Lire 295 billion relate to the Parent Company, set up following the union agreements in 2000) and other reserves (Lire 1,733 billion), of which Lire 840 billion refer to the risk reserve for technological advances by TIM.

Reserve for employee termination indemnities**Lire 2,554 billion***(Lire 2,896 billion at December 31, 1999)*

A breakdown of the changes which occurred during the year is provided below:

(in billions of lire)	2000
Balance at December 31, 1999	2,896
• provisions charged to income	469
• utilizations for:	
• indemnities paid to employees	(390)
• advances	(90)
• other changes	(331)
Balance at December 31, 2000	2,554

Other changes mainly refer to the change in the scope of consolidation, principally due to the exclusion of the manufacturing and installation companies (Lire 333 billion) which was in part compensated by the inclusion of the Seat Pagine Gialle group (Lire 75 billion).

Liabilities**Lire 69,087 billion***(Lire 44,242 billion at December 31, 1999)*

A breakdown of liabilities, which increased by Lire 24,845 billion from December 31, 1999, is as follows:

(in billions of lire)	12.31.2000		12.31.1999	
	Financial accounts payable	Trade accounts payable and miscellaneous payable	Financial accounts payable	Trade accounts payable and miscellaneous payable
Debentures	3,512		1,906	
Due to banks	32,522		15,780	
Due to other lenders	3,270		1,738	
Advances		716		733
Trade accounts payable	526	12,603	123	11,652
Notes payable	97			
Accounts payable to unconsolidated subsidiaries		12	9	30
Accounts payable to affiliated companies	1,339	1,124	11	1,145
Accounts payable to parent companies		3		5
Taxes payable		1,800		2,295
Contributions to pensions and social security institutions		1,808		1,855
Other liabilities	4,051	5,704	57	6,903
Total	45,317	23,770	19,624	24,618

In particular:

- *debentures*, which totaled Lire 3,512 billion and increased by Lire 1,606 billion from December 31, 1999, include the following:
 - debentures maturing between 2001 and 2008 issued by Nortel Inversora group for a total of Lire 1,936 billion;
 - the 1992/2010 debenture issue of the Parent Company Telecom Italia, which is reserved for subscription by employees in service and retired, for a total amount of Lire 282 billion at December 31, 2000 (Lire 825 billion at December 31, 1999);

- debentures maturing between 2001 and 2002 issued by Softe through different financial institutions for US\$ 229 million, equivalent to Lire 477 billion;
 - debentures issued by TDL Infomedia Ltd (Seat Pagine Gialle group), maturing beyond 2005, for Lire 392 billion.
 - debentures maturing between 2002 and 2005 issued by the Brazilian companies Tele Nordeste Celular and Tele Celular Sul for Lire 425 billion.
- *Due to banks*, of Lire 32,522 billion, are secured by mortgages and liens for Lire 402 billion. Due to banks increased, compared to 1999, by Lire 16,742 billion owing to the credit facilities utilized by the Parent Company to finance the purchase of the Seat Pagine Gialle shares from the company Huit II and through tender offers (Lire 11,572 billion). The amount also increased as a result of the consolidation of the liabilities of the new foreign companies, including Telecom Argentina (Lire 1,581 billion), Maxitel (Lire 1,511 billion), Digitel (Lire 308 billion), as well as those of the Seat Pagine Gialle group (Lire 340 billion).
- *Due to other lenders*, of Lire 3,270 billion, increased by Lire 1,532 billion compared to December 31, 1999. This was due to a reduction in the loans payable to Cassa Depositi e Prestiti and IRI by the Parent Company (Lire 1,276 billion; -Lire 334 billion compared to 1999) and an increase deriving from the consolidation of Seat Pagine Gialle group (Lire 1,871 billion). Such liabilities mainly refer to the loan payable to Seat Pagine Gialle S.p.A. of Lire 1,848 billion by Seat Pagine Gialle Finance S.r.l., a corporate vehicle operating under Law No. 130/99 on securitization. In July, the vehicle company brought, from a banking syndicate, the medium-term loan payable to Seat Pagine Gialle, in addition to an investment certificate of Euros 50 million issued by the same company, financing itself by issuing medium-term debentures divided into two tranches of, respectively, Euros 700 million for three years and Euros 300 million for five years. The medium/long-term loan sold without recourse by the financing banks to the vehicle company calls for an amortization plan with six-monthly installments up to June 30, 2005. Based on this transaction, the vehicle company will use the net proceeds from the installments to purchase the investment certificates issued by Seat Pagine Gialle with the same maturity dates as the portions of the debentures issued by the vehicle itself; the amortization plan for Seat Pagine Gialle's liability to the vehicle company and that of the 3-year and 5-year debentures issued by the vehicle company will have the same maturity dates. For purposes of the structure of the transaction and to hedge the interest rate risk, Seat Pagine Gialle has, at the same time, concluded a series of swap and collar contracts with financial intermediaries.
- *Advances*, which totaled Lire 716 billion, decreased by Lire 17 billion compared to December 31, 1999 and include advances received from customers of Lire 232 billion and installment billings of Lire 484 billion. The reduction, due to the exclusion of the manufacturing and installation companies from the scope of consolidation, is compensated by the increase in the amount of advances by Telespazio for the Astrolink contract.
- *Trade accounts payable* amounted to Lire 13,129 billion and show an increase of Lire 1,354 billion compared to December 31, 1999. The increase is mainly due to the inclusion in the scope of consolidation of Nortel Inversora group (Lire 832 billion), Maxitel (Lire 570 billion) and Seat Pagine Gialle group (Lire 743 billion). Accounts payable to other telecommunications carriers stood at Lire 1,007 billion.

- *Notes payable*, of Lire 97 billion, refer to the investment certificates issued in July by Seat Pagine Gialle as part of the securitization transaction.
- *Accounts payable to affiliated companies* of Lire 2,463 billion increased by Lire 1,307 billion compared to the end of 1999. They include financial payables for Lire 1,339 billion, mainly to Teleleasing (Lire 1,073 billion) for financial lease contracts. Trade accounts payable and other payables amount to Lire 1,124 billion and are due to the Italtel group (Lire 536 billion) and Astrolink (Lire 183 billion, for capital contributions).
- *Taxes payable* amounted to Lire 1,800 billion and decreased by Lire 495 billion compared to December 31, 1999. The decrease is attributable to the Parent Company and TIM for the reduction in current income taxes and higher advances paid during 2000. Taxes payable include Lire 572 billion for income taxes and Lire 1,228 billion for indirect taxes and withholding taxes. The liability of the Parent Company includes the taxes due on the portion of income which could possibly be set aside in the “Reserve for accelerated depreciation” when the financial statements are approved by the stockholders’ meeting; in this case, these same taxes will be reclassified to the “Reserve for deferred taxes”.
- *Contributions to pensions and social security institutions* totaled Lire 1,808 billion and decreased by Lire 47 billion compared to December 31, 1999 and include amounts owed to social security and health institutions. This item includes Lire 1,377 billion payable to INPS for the remaining balance of the estimated charges assessed for employees of the former ASST pursuant to Law No. 58/1992.
- *Other liabilities* of Lire 9,755 billion, increased by Lire 2,795 billion compared to December 31, 1999. A breakdown is provided below:

(in billions of lire)	12.31.2000	12.31.1999
Customer-related items	3,261	3,394
Residual amounts due for investments	315	764
Employee-related items	1,560	1,060
Telecommunications license fee	1,191	1,174
Dividends and other financial items	2,973	57
Other recurring and miscellaneous items (contra-entries for accrued costs, accrued interest expense at December 31 and payable the following year, sundry payables, etc.)	455	511
Total	9,755	6,960

In particular, customer-related items consist of deposits paid by customers and pre-billed basic charges (attributable mainly to January and February), as well as prepaid traffic. The item also includes other liabilities for services to be performed by Seat Pagine Gialle (Lire 250 billion). The financial payables refer to the Parent Company for Lire 1,680 billion, for the transaction for the loan of securities, and TIM for Lire 680 billion, in reference to the remaining liability payable to the Ministry of Communications for the purchase of the UMTS license.

Gross debt analyzed by the interest rate is presented in the table below:

(in billions of lire)	12.31.2000		12.31.1999	
	ITL	Foreign currency (equivalent in ITL)	Total	
Up to 2.5%	1,928	15	1,943	3,411
From 2.5% to 5%	6,681	819	7,500	9,671
From 5% to 7.5%	20,887	5,912	26,799	5,240
From 7.5% to 10%	1,304	2,045	3,349	1,284
Beyond 10%		4,046	4,046	18
Total	30,800	12,837	43,637	19,624
Non-interest bearing	1,680		1,680	
Total	32,480	12,837	45,317	19,624

The largest amount of gross debt (equal to 83%) falls within the range of rates up to 7.5%; in particular, the range between 5% and 7.5% includes the short-term debt of Telecom Italia S.p.A. to cover financial requirements using short-term credit facilities. The total also includes medium and long-term loans payable to various financial institutions with 3% interest subsidies paid by the Treasury Ministry (pursuant to Law No. 67 of March 11, 1988), loans made by the Cassa Depositi e Prestiti (pursuant to Law No. 887 of December 22, 1984), as well as loans made with EIB funds. The other ranges of interest rates mainly include the medium/long-term and short-term positions of the foreign companies.

At December 31, 2000, the companies of Telecom Italia Group had unused credit lines for about Lire 12,600 billion.

Accrued expenses and deferred income

Lire 2,357 billion

(Lire 1,723 billion at December 31, 1999)

A breakdown of accrued expenses and deferred income, which increased by Lire 634 billion over December 31, 1999, is as follows:

(in billions of lire)	12.31.2000	12.31.1999
Accrued expenses:		
• production costs	83	45
• interest expense	358	193
• other charges	1	2
	442	240
Deferred income:		
• capital grants (unavailable amount)	824	920
• production value	663	510
• interest income	22	30
• other income	406	23
	1,915	1,483
Total	2,357	1,723

An analysis of liabilities and accrued expenses by maturity and type is provided in Annex 2.

MEMORANDUM ACCOUNTS

Memorandum accounts at December 31, 2000 total Lire 15,625 billion and increased, compared to December 31, 1999, by Lire 3,565 billion. The total is not comparable to that of the prior year since, starting from 2000, the guarantees provided are presented net of counter-guarantees received and the derivative hedging contracts are only disclosed in the notes.

Memorandum accounts are detailed as follows:

(in billions of lire)	12.31.2000	12.31.1999
Guarantees provided	5,675	2,557
Collateral provided	4	17
Purchases and sales commitments	9,492	1,666
Other	454	7,820
Total	15,625	12,060

In particular:

- *guarantees provided*, net of counter-guarantees received of Lire 1,085 billion, total Lire 5,675 billion and mainly consist of sureties provided by the Parent Company Telecom Italia and Stet Mobile Holding on behalf of affiliated companies and others for medium/long-term loan transactions and guarantees on bids to acquire fixed line and mobile licenses abroad;
- *collateral provided* of Lire 4 billion refers to liens and mortgages covering the assets of the companies included in consolidation;
- *purchases and sales commitments* outstanding at the end of the year of, respectively, Lire 9,344 billion and Lire 148 billion, refer to the commitments which do not fall within the normal operating cycle of the individual consolidated companies.

In particular, the purchases commitments refer to:

- Lire 5,780 billion of the Parent Company for the put option on Seat shares. Under the contract stipulated on March 15, 2000 (as subsequently amended and integrated), Telecom Italia gave Huit II a put option on No. 710,777,200 Seat Pagine Gialle shares at a strike price of Euros 4.2. The contract provided for the exercise of such option after the deed of merger between Seat and Tin.it was recorded in the Companies Register. Huit II later transferred the put option to Chase Equity Limited (CEL), together with the ownership of the corresponding Seat shares. On December 4, 2000, CEL renegotiated the contract with Telecom Italia, extending the period to five years, with the possibility of an early exercise of the option in April and May 2003, 2004 and 2005. The time extension made it possible to defer the financial impact. Stet International Netherlands then purchased from CEL, through the Liberator Ltd. trust, a call option on No. 660,777,200 Seat shares with the same expiry date and strike price as the put option, paying a total premium of Euros 747,016,226 (Lire 1,446,425 million). For the purpose of transferring the effects of this latter transaction to Telecom Italia, a call option was stipulated, with the same features, between Telecom Italia and Stet International Netherlands. The implicit rate of interest was 6.2%. At December 31, 2000, the market price of Seat ordinary

shares is significantly lower than the strike price. At the expiration, the purchase of Seat Pagine Gialle shares will involve the enter of a consolidation difference equal to the cost of acquisition, entered in the commitments less the pro-quota of the Seat Pagine Gialle's stockholders' equity at that date;

- Lire 1,857 billion of Stet International Netherlands for the purchase of the 25.63% stake in Entel Chile and from the Chilquinta group and 2.98% from the Matte group;
- Lire 1,355 billion of Seat Pagine Gialle for the commitment to purchase 40% of Webfin S.p.A. by June 30, 2003.

This caption also includes the commitment for the purchase and sale options on listed investments for a total nominal value of Lire 229 billion.

- *other memorandum accounts* of Lire 454 billion refer mainly to third party assets held by the individual consolidated companies, mainly those in the information technology sector.

Furthermore:

- the consolidated companies of the Group issued weak letters of patronage totaling Lire 574 billion chiefly on behalf of unconsolidated subsidiaries and affiliated companies to guarantee insurance policies, lines of credit and overdraft arrangements;
- assets of third parties on loan, on deposit for safekeeping or for similar purposes amounted to Lire 723 billion and consist mainly of equipment leased to customers;
- collateral received amounts to Lire 30 billion;
- guarantees received amount to Lire 182 billion;
- guarantees provided by others for obligations of the Group companies, which consist primarily of sureties to guarantee the performance of non-financial contractual obligations, totaled Lire 797 billion;
- orders from customers in the portfolios of the consolidated companies amount to Lire 22 billion;
- the stock of employees and private stockholders deposited on December 31, 2000 at the listed companies of the Group amount to about Lire 600 billion;
- the bonds reserved for subscription by the employees of the Parent Company are equal to Lire 718 billion.

Financial derivatives

The Group uses derivatives mainly for the management of its debt positions, primarily interest rate swaps and interest rate options (to reduce the interest rate exposure on fixed-rate and floating-rate bank loans and bonds) and cross-currency & interest rate swaps (to convert foreign currency loans – US dollar, pound sterling, Japanese yen and euro – into the functional currencies of the various subsidiaries).

The following table gives a description of the financial derivative contracts outstanding at December 31, 2000 to hedge medium/long-term debt positions.

(in billions of lire)	Notional amount/ Capital exchanged at 12.31.2000	Market value of derivatives at 12.31.2000 (a)	Market value of underlying debt positions at 12.31.2000 (b)	Market value of debt including- related derivatives at 12.31.2000 (c = b + a)
Interest rate swaps				
and interest rate options	5,629	46	5,637	5,591
Cross currency and interest rate swaps	2,367	38	2,264	2,226

IRS (interest rate swaps) and IRO (interest rate options) involve the exchange of flows of interest calculated on the notional amount of reference at the agreed fixed or variable rates at the specified maturity date with the counterparts. This amount does not represent the amount exchanged between the parties and therefore does not constitute a measure of exposure to credit risk, which is instead limited to the amount of interest or interest differentials to be received at the interest date.

Furthermore, the counterparts to derivative contracts are only the best rated banks and financial institutions and continually monitored in order to minimize the risk of non-performance.

The same also applies to CIRSs which involve the exchange of capital, in the respective currencies of denomination, in addition to the settlement of periodic interest flows, at maturity and eventually at another date.

The market value of CIRSs (currency & interest rate swaps) reflects the differential between the fixed rate paid by the Company and the market interest rate for the same maturities. The CIRSs also reflect the difference between the forward exchange rate at the closing of the swap and the market rate at December 31, 2000.

To determine the market value of the above financial derivatives, the Company uses adequate pricing models.

Hedges were also considered for the USD Libor in respect of USD loans contracted by Telecom Argentina, consolidated at 50%.

Besides derivative contracts used for managing the debt positions, at December 31, 2000 the Luxembourg subsidiary SOFTE had IRSs and CIRSs to hedge investments in bonds for a notional capital of Lire 526 billion.

Lastly, in addition to the various transactions to hedge the short-term positions of SOFTE, there were also transactions to hedge the interest rate exposure on short-term US dollar loans contracted by TIM.

CONSOLIDATED STATEMENTS OF INCOME

Production value**Lire 59,111 billion***(Lire 55,749 billion at December 31, 1999)*

Production value increased by Lire 3,362 billion (+6% compared to 1999). The main components of this item are:

- *sales and service revenues*, amounting to Lire 55,979 billion, with an increase of Lire 3,498 billion over 1999 (+6.7%). This increase is due to the inclusion of the Nortel Inversora group in the scope of consolidation which is partly offset by the reduction in the revenues of the manufacturing and installations sectors which were included for a nine-month period in 2000 compared to a 12-month period in the prior year. The deconsolidation of the revenues on leasing contracts with third parties stipulated by Teleleasing also had an effect. The breakdown of revenues by sector is as follows:

(in billions of lire)	2000	1999	Change	
			Amount	%
Wireline telecommunications Italy	33,723	35,856	(2,133)	(5.9)
Mobile telecommunications Italy	15,352	14,425	927	6.4
Satellite telecommunications	659	619	40	6.5
International telecommunications	7,615	3,253	4,362	°
Information technology activities	3,137	3,074	63	2.0
Manufacturing activities	1,221	1,776	(555)	°
Installation activities	1,165	1,501	(336)	°
	62,872	60,504	2,368	3.9
Other activities and IntraGroup eliminations	(6,893)	(8,023)	1,130	°
Consolidated Group revenues	55,979	52,481	3,498	6.7

Revenues from telecommunications services are shown gross of the amount due to other carriers of Lire 5,403 billion (Lire 4,626 billion in 1999).

Revenues from foreign operations totaled Lire 11,374 billion (Lire 7,542 billion in 1999).

- *Increases in capitalized internal construction costs* totaled Lire 1,765 billion (Lire 2,056 billion in 1999; -Lire 291 billion). A breakdown is provided below:

(in billions of lire)	2000		1999		Change	
• intragroup revenues from sales of systems		1,632		1,989		(357)
• other capitalized costs:						
• personnel	45		32		13	
• financial expenses	80		6		74	
• materials and other costs	8	133	29	67	(21)	66
Total		1,765		2,056		(291)

Financial expenses were charged to “construction in progress and advances to suppliers” in fixed assets.

- *other revenues and income* of Lire 826 billion (Lire 998 billion in 1999) include the following:

(in billions of lire)	2000	1999	Change
• operating grants	39	39	=
• gains on disposal of intangibles and fixed assets	18	35	(17)
• portion of capital grants recorded in income	139	141	(2)
• other income	630	783	(153)
Total	826	998	(172)

In particular:

- operating grants refer chiefly to the amounts bestowed by public institutions to defray the costs incurred for research, development and technological innovation;
- the portion of capital grants recorded in income represents the portion that became available during the year;
- other income from operations mainly includes charges to customers of the telecommunications services companies for the late payment of telephone bills (Lire 213 billion compared to Lire 252 billion in 1999).

Production cost

Lire 45,932 billion

(Lire 43,293 billion in 1999)

Production cost, which increased by Lire 2,639 billion (+6.1%) compared to 1999, includes the following:

- *raw materials, supplies and merchandise*, totaling Lire 3,893 billion (Lire 4,354 billion in 1999), and *semifinished and finished goods*, amounting to Lire 480 billion (Lire 441 billion in 1999). These costs, which represent purchases of raw materials and other goods to be used in operations, decreased by Lire 422 billion;
- *services costs*, amounting to Lire 16,252 billion (Lire 14,289 billion in 1999), and *cost for the use of property not owned*, totaling Lire 1,546 billion (Lire 1,363 billion in 1999). Overall, these two items increased by Lire 2,146 billion mainly due to the inclusion in the scope of consolidation of the Nortel Inversora group (Lire 996 billion), the rise in operating costs, the expansion of mobile telecommunications services (Lire 333 billion) and the increase in the operations of certain foreign companies;
- *personnel costs* of Lire 9,729 billion (Lire 9,636 billion in 1999), including Lire 7,787 billion relating to companies which provide telecommunications services. The average cost per capita for the Group was Lire 78 million (Lire 79 million in 1999). At December 31, 2000, employees of the Group numbered 114,669 (122,662 at December 31, 1999), a decrease of 7,993 owing to personnel turnover and the effect of the change in the scope of consolidation. In particular, the exclusion of the Sirti group and the Italtel group led to a reduction in the number of employees of 17,857, compensated by the addition of 10,316 units in international telecommunications,

mainly for the Nortel Inversora group (+7,498) and Maxitel (+1,229) and the inclusion of the Seat group (+7,515). A breakdown of personnel by business segment is presented as follows:

	12.31.2000	12.31.1999	Change
Wireline telecommunications Italy	66,541	76,113	(9,572)
Mobile telecommunications Italy	9,634	9,375	259
Satellite telecommunications	1,194	1,287	(93)
International telecommunications	15,943	5,714	10,229
Information technology activities	11,280	10,206	1,074
Manufacturing activities	=	5,153	(5,153)
Installation activities	=	12,704	(12,704)
Other activities	10,077	2,110	7,967
Total	114,669	122,662	(7,993)

The equivalent average number of salaried employees was 124,696 in 2000 (121,327 in 1999).

A breakdown by category follows:

2000 Average equivalent number of salaried employees of companies consolidated:			
	On a line-by-line basis	By the proportional method	Total
Executives	2,272	25	2,297
Middle management	8,858	333	9,191
Clerical staff	84,383	2,864	87,247
Technicians	21,911	4,050	25,961
Total	117,424	7,272	124,696

– *amortization, depreciation and writedowns* amounted to Lire 11,950 billion (Lire 11,182 billion in 1999), with an increase of Lire 768 billion. This item refers to the following:

- amortization of intangible assets totaling Lire 2,192 billion, compared to Lire 1,913 billion in 1999, with an increase of Lire 279 billion. The change is due to higher amortization charges by TIM (+Lire 102 billion) and inclusion in the scope of consolidation of the Nortel Inversora group;
- depreciation of fixed assets totaled Lire 8,741 billion, compared to Lire 8,425 billion in 1999, with an increase of Lire 316 billion. A breakdown of depreciation expense by asset category is provided below:

(in billions of lire)	2000	1999	Change
Nonindustrial and industrial buildings	513	528	(15)
Plant and machinery	7,443	7,165	278
Manufacturing and distribution equipment	95	146	(51)
Other fixed assets	690	586	104
Total	8,741	8,425	316

Depreciation expense increased due to the inclusion in the scope of consolidation of the Nortel group (+Lire 740 billion) which was only partly compensated by the decrease in the

depreciation expense of the Parent Company (-Lire 439 billion) owing to the reduction in the amount of depreciable assets, the change in the mix of depreciable assets, lower depreciation on public telephony installations and DECT fixed assets written down in the 1999 financial statements and the adjustment of depreciation rates relating to the submarine network in the 2000 financial statements;

- other writedowns of intangibles and fixed assets of Lire 93 billion (Lire 142 billion in 1999). The reduction in the amount of provisions is due to the writedown of the public telephony installations effected by the Parent Company in the 1999 financial statements.
- writedowns of receivables included in current assets and liquid assets amounted to Lire 924 billion (Lire 702 billion in 1999) and represent the provisions made during the year to adjust receivables to their estimated realizable value;
- *provisions for risks and other provisions* totaled Lire 305 billion (Lire 195 billion in 1999) and consist of provisions made during the year to the various reserves for contractual risks and pending disputes;
- *miscellaneous operating costs*, amounting to Lire 1,773 billion (Lire 1,870 billion in 1999), include the following:

(in billions of lire)	2000	1999
• TLC license fee	1,107	1,174
• losses on disposal of intangibles and fixed assets	101	241
• indirect duties and annual taxes, including the local property tax (ICI)	270	215
• membership dues and other costs	295	240
Total	1,773	1,870

Financial income and expense (-Lire 633 billion in 1999)

-Lire 900 billion

Financial income and expense shows a net financial expense referring to the following items:

(in billions of lire)	2000	1999	Change
Income from equity investments	585	277	308
Other financial income	1,046	791	255
Interest and other financial expense	(2,531)	(1,701)	(830)
Total	(900)	(633)	(267)

- *income from equity investments, net* totaled Lire 585 billion (Lire 590 billion, net of Lire 5 billion in losses on disposals; Lire 277 billion in 1999); this item includes dividends from unconsolidated companies of Lire 273 billion, as well as gains realized by Telecom

Italia on the sale of TIM shares in current assets and venture capital investments (Lire 312 billion);

- *other financial income* of Lire 1,046 billion (Lire 791 billion in 1999) includes the following:

(in billions of lire)	2000		1999		Change	
Interest and capital gains on fixed-income securities		202		187		15
Interest and fees from:						
• unconsolidated subsidiaries	1		3		(2)	
• affiliated companies	28		32		(4)	
• banks	143		104		39	
• customers	6	178	24	163	(18)	15
Foreign exchange gains		379		270		109
Other financial income		287		171		116
Total		1,046		791		255

Interest and capital gains on fixed-income securities refer to interest on long-term investment securities for Lire 1 billion (Lire 3 billion in 1999) and interest and capital gains on marketable securities for Lire 201 billion (Lire 184 billion in 1999);

- *interest and other financial expense* of Lire 2,531 billion (Lire 1,701 billion in 1999) can be analyzed as follows:

(in billions of lire)	2000		1999		Change	
Interest and fees paid to:						
• unconsolidated subsidiaries	1		1		=	
• affiliated companies	64		1		63	
• banks	1,313		680		633	
• suppliers and other lenders	177	1,555	184	866	(7)	689
Interest and other charges on debenture issues		287		96		191
Foreign exchange losses		338		317		21
Other financial expense		351		422		(71)
Total		2,531		1,701		830

In particular:

- interest and fees paid to other lenders consist mostly of interest on medium/long-term borrowings of the Parent Company;
- interest and fees paid to banks include Lire 481 billion of interest on medium/long-term borrowings and Lire 832 billion of charges relating to short-term positions. Interest is shown net of the interest expense on loans, equivalent to three percentage points, subsidized by the government under Budget Law 1988 (Law No. 67 of March 11, 1988), in connection with loans that replaced those which should have been made by Cassa Depositi e Prestiti.

Value adjustments to financial assets**-Lire 2,243 billion***(-Lire 1,131 billion in 1999)*

These include:

(in billions of lire)	2000	1999	Change
Upward adjustments of:			
• equity investments	533	467	66
	533	467	66
Writedowns of:			
• equity investments	(2,517)	(1,562)	(955)
• long-term investments, other than equity investments	=	(36)	36
• securities other than equity investments included in current assets	(259)	=	(259)
	(2,776)	(1,598)	(1,178)
Total	(2,243)	(1,131)	(1,112)

Value adjustments primarily refer to the Group's share of net income or loss of unconsolidated subsidiaries and affiliated companies accounted for by the equity method, including the amortization of positive differences that arose upon the acquisition of such investments (Lire 877 billion), mainly in respect of Seat Pagine Gialle (Lire 423 billion). The higher amount of valuation adjustments is due substantially to the negative results of the Maxitel group (Lire 433 billion), Stream (Lire 392 billion), Auna (Lire 340 billion) and Telekom Austria (Lire 101 billion).

Extraordinary income and expense**-Lire 415 billion***(-Lire 981 billion in 1999)*

This item includes the following:

- income of Lire 2,676 billion (Lire 280 billion in 1999) analyzed as follows:
 - gains deriving from the divestiture plan of the Group (Lire 1,877 billion) which refers to the sale of 80% of the Italtel group (Lire 760 billion), the Meie group (Lire 450 billion), Teleleasing (Lire 41 billion) and the Sirti group (Lire 22 billion) and the sale of the “Grandi Immobili” business segment through the sale of 60% IM.SER (Lire 604 billion) to third parties;
 - the gains on the sale of other investments and intangibles, fixed assets and business segments (Lire 342 billion) of which Lire 107 billion comes from the sale of the investment in the Bharti group;
 - income (Lire 91 billion) representing lower previous taxes for TIM following the favorable evolution of the official interpretations concerning the so-called Visco tax benefits set forth in Law No. 133/99, with specific reference to Circular No. 101 issued by the Ministry of Finance on May 19, 2000.
- expenses of Lire 3,091 billion (Lire 1,261 billion in 1999), analyzed as follows:
 - restructuring expenses for Lire 953 billion, of which Lire 884 billion refer to the Parent Company in respect of the costs of the corporate reorganization plan;
 - social security charges pursuant to Law No. 58/92 to guarantee uniform status under the former Telephone Employees Pension Fund (FPT) which, as required by the 2000

Finance Bill, has become part of the general “Employees Pension Fund” for Lire 297 billion and an extraordinary annual contribution of Lire 150 billion to INPS as established by the same Bill for the three years 2000 - 2002 to meet the higher financial requirements covered by the rules of the fund that was abolished;

- the provision by TIM to the reserve for technological risk and the reserve for the costs to liberalize frequencies for Lire 812 billion. The provision includes the estimates determined by evaluating the risks connected with the evolution of third-generation technologies. Besides the economic risks deriving from the development of new technologies and the expenses consequent to need to replace certain types of network installations in advance, the reserve also includes the valuation of the risks connected with need to make important and early revisions to the billing system to accommodate new types of services;
- expenses and provisions connected to the transactions for the disposal of investment holdings and the “Grandi Immobili” business segment for Lire 349 billion;
- Lire 78 billion for the fine imposed on TIM and Omnitel Pronto Italia by the Antitrust Authority for the alleged violation of rules against price-fixing; this figure is equal to an amount in excess of that recorded in the reserve for risks by TIM in the December 31, 1999 financial statements (Lire 22 billion).

Income taxes

Lire 3,912 billion

(Lire 5,046 billion in 1999)

Income taxes decreased by Lire 1,134 billion. The taxes to gross profit ratio is 40.7%, compared to 52% in 1999. The reduction from 1999 is mainly due to the following:

- the tax benefits on investments utilized by TIM;
- the taxation of gains from the sale of investments and the contribution of the business segment “Grandi Immobili” by the Parent Company using the substitute equalization tax;
- the reduction of deferred taxes subsequent to the reclassification of the “Reserve for accelerated depreciation” by the Parent Company pursuant to art. 14 of Law 342/2000.

Income taxes include current taxes for Lire 4,815 billion and deferred tax assets for Lire 903 billion.

OTHER INFORMATION

Introduction of the Euro

The expenses borne for the introduction of the Euro currency total about Lire 14 billion and have been charged to the statement of income under Production cost as they refer to services rendered to revise and update the information systems.

Remuneration to directors and statutory auditors

The remuneration to which the directors and statutory auditors of Telecom Italia are entitled for fiscal 2000 for carrying out their responsibilities and functions in the Parent Company and also in other consolidated companies, total Lire 8,902 million for the directors and Lire 1,593 million for the statutory auditors.

Exchange rates used to translate foreign currency financial statements

	2000 exchange rates	
	Year-end exchange rates (balance sheet items)	Average exchange rate for the year (statement of income items)
Venezuelan bolivar	2.856	3.051
Bolivian boliviano	326.924	342.789
Costarican colon	6.491	6.809
Canadian dollar	1,386.5163	1,414.986
Hong Kong dollar	266.7847	269.833
USA dollar	2,080.8920	2,102.587
Greek drachma	5.6824	5.752
Portuguese escudo	9.65807	9.658
Dutch guilder	878.6410	878.641
Hungarian forint	7.3060	7.446
Belgian-Luxembourg franc	47.9989	47.9989
French franc	295.182	295.182
Swiss franc	1,271.1857	1,243.507
Romanian leu	0.08	0.098
Pound sterling	3,102.4996	3,178.432
German mark	989.999	989.999
Peruvian nuevo sol	590.156	603.000
Spanish peseta	11.637	11.637
Argentinean peso	2,080.8920	2,102.587
Chilean peso	3.722	3.969
Brazilian real	1,063.79	1,150.407
Russian ruble	72.885	74.809
Austrian schilling	140.71423	140.71423
Polish zloty	502.953	483.407

The following Annexes numbered 1 to 8 are an integral part of these notes.

ACCOUNTS RECEIVABLE AND ACCRUED INCOME BY MATURITY AND TYPE

(in billions of lire)	12/31/2000				12/31/1999			
	Amounts due				Amounts due			
	Within one year	From two to five years	After five years	Total	Within one year	From two to five years	After five years	Total
Accounts receivable in long-term investments								
Affiliated companies	-	246	-	246	-	11	247	258
Other								
• customers	4	8	2	14	3	10	-	13
• others	208	291	33	532	187	392	36	615
	212	545	35	792	190	413	283	886
Accounts receivable in current assets								
Other loans from								
Unconsolidated subsidiaries	56	-	-	56	19	-	-	19
Affiliated companies	283	-	-	283	201	-	-	201
Others	1,803	7	-	1,810	58	-	-	58
	2,142	7	-	2,149	278	-	-	278
Trade receivables								
Customers	15,475	9	-	15,484	14,875	67	-	14,942
Unconsolidated subsidiaries	20	-	-	20	53	-	-	53
Affiliated companies	515	-	-	515	745	-	-	745
Parent companies	5	-	-	5	2	-	-	2
Others	95	5	-	100	141	-	-	141
	16,110	14	-	16,124	15,816	67	-	15,883
Other receivables								
Unconsolidated subsidiaries	3	-	-	3	3	-	-	3
Affiliated companies	2	-	-	2	7	-	-	7
Others	3,800	532	399	4,731	2,312	270	312	2,894
	3,805	532	399	4,736	2,322	270	312	2,904
Total accounts receivable	22,057	553	399	23,009	18,416	337	312	19,065
Accrued income	139	-	-	139	94	-	-	94

LIABILITIES AND ACCRUED EXPENSES BY MATURITY AND TYPE

	12/31/2000				12/31/1999			
	Amounts due				Amounts due			
(in billions of lire)	Within one year	From two to five years	After five years	Total	Within one year	From two to five years	After five years	Total
Medium and long-term debt								
Debentures	283	2,070	1,159	3,512	328	753	825	1,906
Due to banks	1,670	6,968	1,350	9,988	1,831	6,508	628	8,967
Due to other lenders	779	2,243	211	3,233	343	1,005	271	1,619
Notes payable	-	97	-	97	-	-	-	-
Accounts payable to affiliated companies	93	359	621	1,073	-	-	-	-
Due to suppliers	5	62	-	67	9	8	-	17
Other liabilities	312	864	6	1,182	1	3	1	5
	3,142	12,663	3,347	19,152	2,512	8,277	1,725	12,514
Short-term debt								
Due to banks	22,534	-	-	22,534	6,813	-	-	6,813
Due to other lenders	37	-	-	37	119	-	-	119
Due to suppliers	459	-	-	459	106	-	-	106
Accounts payable to unconsolidated subsidiaries	-	-	-	-	9	-	-	9
Accounts payable to affiliated companies	266	-	-	266	11	-	-	11
Other liabilities	2,869	-	-	2,869	52	-	-	52
	26,165	-	-	26,165	7,110	-	-	7,110
Trade payables ⁽¹⁾								
Accounts payable to suppliers	12,599	4	-	12,603	11,648	1	3	11,652
Accounts payable to unconsolidated subsidiaries	4	-	-	4	22	-	-	22
Accounts payable to affiliated companies	926	-	-	926	458	-	-	458
Accounts payable to parent companies	3	-	-	3	5	-	-	5
	13,532	4	-	13,536	12,133	1	3	12,137
Other payables								
Payable to unconsolidated subsidiaries	8	-	-	8	8	-	-	8
Accounts payable to affiliated companies	198	-	-	198	687	-	-	687
Taxes payable	1,795	5	-	1,800	2,284	11	-	2,295
Contributions to pension and social security institutions	548	492	768	1,808	479	474	902	1,855
Other liabilities	5,444	247	13	5,704	6,894	8	1	6,903
	7,993	744	781	9,518	10,352	493	903	11,748
Total liabilities ⁽¹⁾	50,832	13,411	4,128	68,371	32,107	8,771	2,631	43,509
Accrued expenses	434	8	-	442	240	-	-	240

⁽¹⁾ does not include advances.

RECONCILIATION OF THE STOCKHOLDERS' EQUITY AND NET INCOME OF TELECOM ITALIA AND THE CONSOLIDATED FIGURES FOR THE YEAR ENDED DECEMBER 31, 1999

(in billions of lire)	Telecom Italia interest				Minority interest			Total
	Share capital and reserves		Net income	Total	Share capital and reserves	Net income	Total	
	Share capital	Reserves and retained earnings						
Financial statements of Telecom Italia at December 31, 1999	7,426	23,101	5,050	35,577				35,577
Results of consolidated companies			747	747		1,442	1,442	2,189
Capital and reserves of consolidated companies		19,359		19,359	3,911		3,911	23,270
• <i>carrying value of investments in consolidated companies</i>		(21,087)		(21,087)				(21,087)
Consolidation adjustments:								
• <i>elimination of tax-related entries</i>		(299)	31	(268)	7	(2)	5	(263)
• <i>valuation of investments by the equity method</i>		(109)	(364)	(473)	(53)	(112)	(165)	(638)
• <i>positive differences on purchase of investments</i>		1,833	(161)	1,672	359	(37)	322	1,994
• <i>elimination of intraGroup dividends</i>		576	(2,258)	(1,682)	2	(28)	(26)	(1,708)
• <i>losses of subsidiaries included in the results of parent companies</i>		(298)	356	58	(52)	66	14	72
• <i>gains on sales of investments</i>		15	(25)	(10)	8	(7)	1	(9)
• <i>elimination of intraGroup profits included in fixed assets and intangibles</i>		(752)	(36)	(788)	(164)	(4)	(168)	(956)
• <i>other</i>		(125)	24	(101)	(9)	(17)	(26)	(127)
Consolidated financial statements at December 31, 1999	7,426	22,214	3,364	33,004	4,009	1,301	5,310	38,314

RECONCILIATION OF THE STOCKHOLDERS' EQUITY AND NET INCOME OF TELECOM ITALIA AND THE CONSOLIDATED FIGURES FOR THE YEAR ENDED DECEMBER 31, 2000

(in billions of lire)	Telecom Italia interest				Minority interest			Total
	Share capital and reserves		Net income	Total	Share capital and reserves	Net income	Total	
	Share capital	Reserves and retained earnings						
Financial statements of Telecom Italia at December 31, 2000	7,426	23,836	4,951	36,213				36,213
Results of consolidated companies			2,029	2,029		2,122	2,122	4,151
Capital and reserves of consolidated companies		40,781		40,781	11,419		11,419	52,200
• <i>carrying value of investments in consolidated companies</i>		(54,564)		(54,564)				(54,564)
Consolidation adjustments:								
• <i>elimination of tax-related entries</i>		(278)	35	(243)	6		6	(237)
• <i>valuation of investments by the equity method</i>		(1,894)	(1,437)	(3,331)	(1,444)	(288)	(1,732)	(5,063)
• <i>positive differences on purchase of investments</i>		18,639	(281)	18,358	1,209	(61)	1,148	19,506
• <i>elimination of intraGroup dividends</i>		21	(2,034)	(2,013)	4	(23)	(19)	(2,032)
• <i>losses of subsidiaries included in the results of parent companies</i>		(322)	126	(196)	52	(54)	(2)	(198)
• <i>gains on sales of investments</i>		(388)	168	(220)	4	(4)		(220)
• <i>elimination of intraGroup profits included in fixed assets and intangibles</i>		(730)	188	(542)	(86)	42	(44)	(586)
• <i>other</i>		(11)	182	171	42	48	90	261
Consolidated financial statements at December 31, 2000	7,426	25,090	3,927	36,443	11,206	1,782	12,988	49,431

STATEMENT OF CHANGES IN CONSOLIDATED STOCKHOLDERS' EQUITY DURING THE YEAR ENDED DECEMBER 31, 1999

(in billions of lire)	Telecom Italia				Minority interest			Total
	Share capital	Reserves and retained earnings	Net income	Total	Share capital and reserves	Net income	Total	
Consolidated financial statements at December 31, 1998	7,421	20,400	3,830	31,651	2,612	1,422	4,034	35,685
Appropriation of 1998 net income:								
<i>dividends distributed</i>			(2,121)	(2,121)		(688)	(688)	(2,809)
<i>transfer to reserves</i>		1,709	(1,709)	-	734	(734)	-	-
Distribution of reserves					(469)		(469)	(469)
Stock options	5	60		65				65
Line-by-line consolidation of Tele Celular Sul Participacoes and Tele Nordeste Celular Participacoes					1,082		1,082	1,082
Translation adjustments on the conversion of financial statements in foreign currencies and other		45		45	50		50	95
Net income for the year			3,364	3,364		1,301	1,301	4,665
Consolidated financial statements at December 31, 1999	7,426	22,214	3,364	33,004	4,009	1,301	5,310	38,314

STATEMENT OF CHANGES IN CONSOLIDATED STOCKHOLDERS' EQUITY DURING THE YEAR ENDED DECEMBER 31, 2000

(in billions of lire)	Telecom Italia				Minority interest			Total
	Share capital	Reserves and retained earnings	Net income	Total	Share capital and reserves	Net income	Total	
Consolidated financial statements at December 31, 1999	7,426	22,214	3,364	33,004	4,009	1,301	5,310	38,314
Appropriation of 1999 net income: <i>dividends distributed</i>		(1,141)	(3,364)	(4,505)	(97)	(1,301)	(1,398)	(5,903)
Changes in the scope of consolidation		716		716	2,084		2,084	2,800
Conversion of TIM saving shares in ordinary shares		3,236		3,236	4,837		4,837	8,073
Translation adjustments on the conversion of financial statements in foreign currencies and other		65		65	373		373	438
Net income for the year			3,927	3,927		1,782	1,782	5,709
Consolidated financial statements at December 31, 2000	7,426	25,090	3,927	36,443	11,206	1,782	12,988	49,431

Legend: A) Financial statements consolidated for entire year;
B) Balance sheet only consolidated;
C) Statement of income only consolidated.

LIST OF COMPANIES CONSOLIDATED ON A LINE-BY-LINE BASIS

Name (type of business)	Head office	Share capital	%	held by	% held by Telecom Italia Group
Wireline Telecommunications - Italy					
A TELECOM ITALIA S.p.A. (wireline telecommunications)	Turin (Italy)	ITL 7,426,157,226,000	54.95	OLIVETTI	
Mobile Telecommunications - Italy					
A TELECOM ITALIA MOBILE S.p.A. (mobile telecommunications)	Turin (Italy)	EUR 513,942,973	55.68	TELECOM ITALIA	54.82
Satellite Telecommunications					
A TELESPIAZIO S.p.A. (satellite telecommunications services)	Rome (Italy)	ITL 184,000,000,000	100.00	TELECOM ITALIA	100.00
A - COM.STAR S.r.l. (cabling systems)	Rome (Italy)	ITL 2,000,000,000	100.00	TELESPIAZIO	100.00
A - CTM - Centro di Telerilevamento Mediterraneo S.c.p.A. (research)	Palermo (Italy)	ITL 1,839,000,000	51.00	TELESPIAZIO	51.00
A - DAMOS SUDAMERICA S.A. (supply of Orbcomm satellite services)	Rio de Janeiro (Brazil)	BRL 19,520,000	77.87 4.01	TELESPIAZIO ENTEL CHILE	77.87
A - EURIMAGE S.p.A. (distribution and sale of remote sensing data)	Rome (Italy)	ITL 8,600,000,000	51.00	TELESPIAZIO	51.00
A - EUROPEAN COMPANY FOR MOBILE COMMUNICATION SERVICES B.V. (marketing of Orbcomm satellite services in European Area)	Amsterdam (Holland)	EUR 15,463,572	69.44	TELESPIAZIO	69.44
A - EUROPEAN COMPANY FOR MOBILE COMMUNICATION OPERATIONS B.V. (mobile telephony services)	Amsterdam (Holland)	EUR 45,500	100.00	EUROPEAN COMPANY FOR MOBILE COMM. SERV.	69.44
A - TELEO S.p.A. (distribution of products and services for satellite mobile communications)	Rome (Italy)	ITL 6,100,000,000	100.00	TELESPIAZIO	100.00
A - TELESPIAZIO LUXEMBOURG S.A. (holding company)	Luxembourg	USD 156,946,730	100.00	TELESPIAZIO	100.00
A - TELESPIAZIO IRELAND Ltd (holding company)	Dublin (Ireland)	USD 1,000,000	100.00	TELESPIAZIO LUXEMBOURG	100.00
A IRIDIUM ITALIA S.p.A. (satellite-based mobile services)	Rome (Italy)	ITL 5,000,000,000	30.00 35.00 35.00	TELECOM ITALIA TELECOM ITALIA MOBILE TELESPIAZIO	84.19
International Telecommunications					
International Wireline Telecommunications					
A ELETTRA TLC S.p.A. (installation and maintenance of submarine cable systems)	Rome (Italy)	ITL 20,000,000,000	100.00	TELECOM ITALIA	100.00
A STET INTERNATIONAL NETHERLANDS N.V. (holding company)	Amsterdam (Holland)	NLG 3,562,960,500	100.00	TELECOM ITALIA	100.00
A - BBNET N.V. (formerly Bbnet) (telecommunications services)	Amsterdam (Holland)	EUR 12,000,000	100.00	STET INTERNATIONAL NETHERLANDS	100.00
A - 9 TELECOM RESEAU S.A.S. (telecommunications services)	Boulogne Billancourt (France)	FRF 2,833,276,800	92.82 1.17	STET INTERNATIONAL NETHERLANDS TMI TELEMEDIA INT. Ltd	93.99
B - JET MULTIMEDIA S.A. (internet hosting)	Paris (France)	EUR 10,133,483	94.50 1.00	9TELECOM RESEAU SOFTE	89.82
B - OMEGA S.a.r.l. (intergroup services)	Lyon (France)	FRF 500,000	100.00	JET MULTIMEDIA	89.82
B - JET MEDIA S.A. (advertising on TV, radio and press)	Lyon (France)	FRF 250,000	99.76 0.04 0.20	JET MULTIMEDIA OMEGA Nominees	89.60

Legend: A) Financial statements consolidated for entire year;
 B) Balance sheet only consolidated;
 C) Statement of income only consolidated.

(continued) List of companies consolidated on a line-by-line basis

Name (type of business)	Head office	Share capital	%	held by	% held by Telecom Italia Group
B - PUBLICLAIR S.A. (advertising services for magazines)	Paris (France)	FRF 250,000	98.80 0.20 1.00	JET MEDIA OMEGA Nominees	88.76
B - LE SERVEUR JUDICIAIRE S.A. (realization data bank)	Lyon (France)	FRF 3,250,000	99.91 0.09	JET MULTIMEDIA Nominees	89.74
B - JET MULTIMEDIA INTERACTIVE S.A. (e-commerce and Web management)	Nanterre (France)	EUR 1,000,000	99.98 0.02	JET MULTIMEDIA Nominees	89.80
B - DIS WEBSIZING S.a.r.l. (Web agency)	Nanterre (France)	FRF 50,000	100.00	JET MULTIMEDIA INTERACTIVE	89.80
B - DE VIRIS COMMUNICATION S.A. (consulting for internet technologies)	Rueil Malmaison (France)	EUR 80,000	99.95 0.05	JET MULTIMEDIA Nominees	89.78
B - JET VENTURE S.A. (financing and development of Internet services)	Paris (France)	EUR 8,000,000	99.87 0.12	JET MULTIMEDIA OMEGA	89.82
B - JET MULTIMEDIA HOSTING S.A. (design, development and maintenance of Web and Audiotel, Minitel services)	Lyon (France)	FRF 21,736,000	99.99 0.01	JET MULTIMEDIA Nominees	89.82
B - JET MULTIMEDIA S.r.l. (internet services)	Milan (Italy)	EUR 20,000	100.00	JET MULTIMEDIA HOSTING	89.82
B - METAPHORA S.A. (consulting for management of information systems)	Toulouse (France)	FRF 3,080,000	46.50 13.80	JET MULTIMEDIA HOSTING JET VENTURE	54.15
B - IB TELEMATIC S.A. (Minitel services)	Paris (France)	FRF 2,151,400	99.97 0.03	JET MULTIMEDIA HOSTING Nominees	89.79
B - ICOR S.A. (Internet, Extranet and Intranet for tourism)	Chambery (France)	FRF 600,000	99.87 0.02 0.11	JET MULTIMEDIA HOSTING OMEGA Nominees	89.70
B - VILLAGES TOURS S.a.r.l. (travel agency and website for tourism)	Lyon (France)	FRF 260,000	100.00	ICOR	89.82
B - TRAVEL MANIA S.a.r.l. (travel agency and website for tourism)	Lyon (France)	FRF 2,000,000	97.00	VILLAGES TOURS	87.13
B - EUROPE EXPLORER S.A. (internet services)	Lyon (France)	EUR 5,555,544	90.00	9TELECOM RESEAU	84.60
B - BELGIUM EXPLORER S.A. (internet services)	Bruxelles (Belgium)	EUR 62,000	100.00	EUROPE EXPLORER	84.60
B - FRANCE EXPLORER S.A. (internet services)	Lyon (France)	FRF 10,050,000	99.90	EUROPE EXPLORER	84.52
B - HOLLAND EXPLORER B.V. (internet services)	Amsterdam (Holland)	EUR 20,000	100.00	EUROPE EXPLORER	84.60
B - IBER EXPLORER S.A. (internet services)	Barcelona (Spain)	ESP 10,000,000	99.99 0.01	EUROPE EXPLORER JET MULTIMEDIA	84.60
B - INFOCONCERT S.A. (website for shows and concerts)	Lyon (France)	FRF 450,800	64.73	EUROPE EXPLORER	54.76
B - ITALIA EXPLORER S.r.l. (internet services)	Milan (Italy)	EUR 11,000	100.00	EUROPE EXPLORER	84.60
B - PORTUGAL EXPLORER S.A. (internet services)	Lisbon (Portugal)	EUR 11,000	100.00	EUROPE EXPLORER	84.60
B - SWISS EXPLORER S.A.R.L. (internet services)	Lousanne (Switzerland)	CHF 20,000	100.00	EUROPE EXPLORER	84.60
B - MAGEOS S.A.S (internet services)	Boulogne Billancourt (France)	EUR 40,001,505	100.00	9TELECOM RESEAU	93.99
A - ICH – International Communication Holding N.V. (holding company)	Amsterdam (Holland)	NLG 100,000	100.00	STET INTERNATIONAL NETHERLANDS	100.00

Legend: A) Financial statements consolidated for entire year;
B) Balance sheet only consolidated;
C) Statement of income only consolidated.

(continued) List of companies consolidated on a line-by-line basis

Name (type of business)	Head office	Share capital	%	held by	% held by Telecom Italia Group	
A - ETI Euro Telecom International N.V. (holding company)	Amsterdam (Holland)	NLG	100,100	100.00	ICH	100.00
A - ENTEL Empresa Nacional de Telecomunicaciones S.A. (domestic and international long distance telephone services)	La Paz (Bolivia)	BOB	1,280,898,800	50.00	ETI	50.00
A - DATACOM S.A. (data transmission services)	La Paz (Bolivia)	BOB	21,746,600	100.00	ENTEL BOLIVIA	50.00
A - INDIAN TELECOMMUNICATION HOLDING B.V. (holding company)	Amsterdam (Holland)	NLG	303,000	100.00	STET INTERNATIONAL NETHERLANDS	100.00
A - INTELCOM SAN MARINO S.p.A. (telecommunications services in San Marino)	Republic of San Marino	ITL	3,000,000,000	70.00	STET INTERNATIONAL NETHERLANDS	70.00
A GOLDEN NETHERLANDS N.V. (holding company)	Amsterdam (Holland)	NLG	486,400	39.06 60.94	TELECOM ITALIA STET INTERNATIONAL NETHERLANDS	100.00
A - MEDITERRANEAN NAUTILUS Ltd (installation and maintenance of submarine cable systems)	Dublin (Ireland)	USD	100,000	51.00	STET INTERNATIONAL NETHERLANDS	51.00
A - TELECOM ITALIA DE ESPANA S.A. (formerly Intelectus Business Communication Espana) (telecommunications services)	Madrid (Spain)	ESP	350,000,000	100.00	STET INTERNATIONAL NETHERLANDS	100.00
A MED-1 SUBMARINE CABLES Ltd (construction and maintenance of submarine cable Lev)	Ramat Gan (Israel)	ILS	100,000	23.17 27.83	TELECOM ITALIA STET INTERNATIONAL NETHERLANDS	51.00
A - MED-1 IC-1(1999) Ltd (installation and maintenance of submarine cable IC1)	Tel Aviv (Israel)	ILS	1,000	99.99 0.01	MED-1 Ltd MED-1 ITALY	51.00
A - MED-1 NETHERLANDS B.V. (holding company)	Amsterdam (Holland)	NLG	40,000	100.00	MED-1 Ltd	51.00
A - MED-1 ITALY S.r.l. (installation and maintenance submarine cable systems in Italian seas)	Rome (Italy)	ITL	1,062,000,000	100.00	MED-1 NETHERLANDS B.V.	51.00
A LATIN AMERICAN NAUTILUS S.A. (holding company)	Luxembourg	USD	60,000,000	70.00 10.00 10.00 10.00	TELECOM ITALIA ENTEL BOLIVIA ENTEL CHILE TELECOM ARGENTINA	76.40
A - LATIN AMERICAN NAUTILUS Limited (installation and maintenance of submarine cable systems)	Dublin (Ireland)	USD	1,000,000	100.00	LATIN AMERICAN NAUTILUS S.A.	76.40
A MEDITERRANEAN NAUTILUS S.A. (holding company)	Luxembourg	USD	30,000	99.97 0.03	TELECOM ITALIA Nominees	99.97
A TELECOM ITALIA DO BRASIL S/C Ltda (telecommunications promotional services)	Rio de Janeiro (Brazil)	BRL	2,699,758	99.99 0.01	TELECOM ITALIA Nominees	99.99
A TELECOM ITALIA NETHERLANDS B.V. (telecommunications services)	Amsterdam (Holland)	EUR	18,200	100.00	TELECOM ITALIA	100.00
A TELECOM ITALIA OF NORTH AMERICA Inc. (telecommunications promotional services)	New York (USA)	USD	5,550,000	100.00	TELECOM ITALIA	100.00
A TI BELGIUM S.P.R.L.-B.V.B.A. (telecommunications services)	Bruxelles (Belgium)	EUR	1,500,000	99.99 0.01	TELECOM ITALIA Nominees	99.99
A TI FRANCE S.A.R.L. (telecommunications services)	Paris (France)	EUR	7,800	100.00	TELECOM ITALIA	100.00
A TI GERMANY GmbH (telecommunications services)	Frankfurt (Germany)	EUR	25,000	100.00	TELECOM ITALIA	100.00
A TI SWITZERLAND GmbH (telecommunications services)	Zurich (Switzerland)	CHF	20,000	95.00 5.00	TELECOM ITALIA Nominees	95.00
A TI UNITED KINGDOM Ltd (telecommunications services)	London (UK)	GPB	1,000	100.00	TELECOM ITALIA	100.00

Legend: A) Financial statements consolidated for entire year;
B) Balance sheet only consolidated;
C) Statement of income only consolidated.

(continued) List of companies consolidated on a line-by-line basis

Name (type of business)	Head office	Share capital	%	held by	% held by Telecom Italia Group
A TI WEB S.A. (holding company)	Luxembourg	USD 30,000	99.97 0.03	TELECOM ITALIA Nominees	99.97
A TMI TELEMEDIA INTERNATIONAL ITALIA S.p.A. (acquisition of investments in Italian and international telecommunications companies and institutions)	Rome (Italy)	EUR 86,511,459.20	100.00	TELECOM ITALIA	100.00
A - TMI TELEMEDIA INTERNATIONAL NETHERLANDS B.V. (holding company)	Amsterdam (Holland)	NLG 40,000	100.00	TMI TELEMEDIA INTERNATIONAL ITALIA	100.00
A - TMI TELEMEDIA INTERNATIONAL LUXEMBOURG S.A. (holding company)	Luxembourg	EUR 82,150,674	99.99 0.01	TMI TELEMEDIA INTERNATIONAL ITALIA Nominees	100.00
A - TMI TELEMEDIA INTERNATIONAL Ltd (telecommunications services)	London (UK)	USD 379,400,225	100.00	TMI TELEMEDIA INTERNAT. LUXEMBOURG	100.00
A - EURO DATACOM Ltd (telecommunications services)	Huddersfield (UK)	GBP 306,666	100.00	TMI TELEMEDIA INT. Ltd	100.00
A - TMI – HUNGARY TRADING AND SERVICES Ltd (telecommunications services)	Budapest (Hungary)	HUF 3,000,000	100.00	TMI TELEMEDIA INT. Ltd	100.00
A - TELEMEDIA INTERNATIONAL USA Inc. (telecommunications services)	New Jersey (USA)	USD 107,866,216	100.00	TMI TELEMEDIA INT. Ltd	100.00
A - TELECOM MEDIA INTERNATIONAL ITALY-CANADA Inc. (telecommunications services)	Montreal (Canada)	CAD 952,100	100.00	TMI TELEMEDIA INT. Ltd	100.00
A - TMI TELEMEDIA INTERNATIONAL DO BRASIL Ltda (telecommunications services)	San Paolo (Brazil)	BRL 2,443,217	99.99 0.01	TMI TELEMEDIA INT. Ltd Nominees	100.00
A - TMI TELEMEDIA INTERNATIONAL HONG KONG Ltd (telecommunications services)	Hong Kong	HKD 540,480,247	99.99 0.01	TMI TELEMEDIA INT. Ltd TELEMEDIA INT. USA	100.00
International Mobile Telecommunications					
A - STET MOBILE HOLDING N.V. (holding company)	Amsterdam (Holland)	NLG 398,159,000	100.00	TELECOM ITALIA MOBILE	54.82
A - BITEL PARTICIPACOES S.A. (holding company)	Rio de Janeiro (Brazil)	BRL 2,290,264,028	99.99 0.01	STET MOBILE HOLDING Nominees	54.82
A - TELE CELULAR SUL PARTICIPACOES S.A. (holding company for operating companies providing mobile network services)	Curitiba (Brazil)	BRL 175,772,360.95	51.79	BITEL	10.56
A - TELEPAR CELULAR S.A. (mobile telephony operator)	Curitiba (Brazil)	BRL 333,880,024.30	87.43	TELE CELULAR SUL	9.23
A - TEDESCO CELULAR S.A. (mobile telephony operator)	Florianopolis (Brazil)	BRL 240,625,509.88	91.39	TELE CELULAR SUL	9.65
A - CTMR CELULAR S.A. (mobile telephony operator)	Pelotas (Brazil)	BRL 21,251,917.26	81.32	TELE CELULAR SUL	8.59
A - TELE NORDESTE CELULAR PARTICIPACOES S.A. (holding company for operating companies providing mobile network services)	Brasilia (Brazil)	BRL 108,842,588.19	51.79	BITEL	10.56
A - TELEPISA CELULAR S.A. (mobile telephony operator)	Teresina (Brazil)	BRL 22,775,029.55	97.88	TELE NORDESTE CELULAR	10.34
A - TELECEARA' CELULAR S.A. (mobile telephony operator)	Fortaleza (Brazil)	BRL 87,049,911.88	85.28	TELE NORDESTE CELULAR	9.01
A - TELERN CELULAR S.A. (mobile telephony operator)	Natal (Brazil)	BRL 42,823,497.29	92.57	TELE NORDESTE CELULAR	9.78
A - TELPA CELULAR S.A. (mobile telephony operator)	Joao Pessoa (Brazil)	BRL 42,268,926.78	95.08	TELE NORDESTE CELULAR	10.04
A - TELPE CELULAR S.A. (mobile telephony operator)	Recife (Brazil)	BRL 108,688,270.74	95.06	TELE NORDESTE CELULAR	10.04

Legend: A) Financial statements consolidated for entire year;
B) Balance sheet only consolidated;
C) Statement of income only consolidated.

(continued) List of companies consolidated on a line-by-line basis

Name (type of business)	Head office	Share capital	%	held by	% held by Telecom Italia Group
A - TELASA CELULAR S.A. (mobile telephony operator)	Maceio' (Brazil)	BRL 30,255,839.16	97.39	TELE NORDESTE CELULAR	10.28
A - TIMNET.COM S.A. (mobile services)	Sao Paulo (Brazil)	BRL 18,000,000	50.00 50.00	TELE NORDESTE CELULAR TELE CELULAR SUL	10.56
B - MAXITEL S.A. (license holder for mobile telecommunications in Bahia e Sergipe areas)	Belo Horizonte (Brazil)	BRL 677,679,703	43.15 46.85	STET MOBILE HOLDING BITEL	52.99
B - MAXITEL TELECOMUNICACOES Ltda (mobile telephony operator)	Salvador-Bahia (Brazil)	BRL 1,000	99.99 0.01	MAXITEL S.A. Nominees	52.99
B - OFFSHORE FINANCIAL & SECURITIES Inc. (mobile telephony operator)	Tortola (British Virgin Island)	USD 6,104,860	100.00	MAXITEL S.A.	52.99
A - STET HELLAS TELECOMMUNICATIONS S.A. (operation of GSM services in Greece)	Athens (Greece)	GRD 36,300,000,000	58.14	STET MOBILE HOLDING	31.88
A - TELEPOLIS SERVICES OF MOBILE TELEPHONY S.A. (mobile telephony)	Athens (Greece)	GRD 500,000,000	100.00	STET HELLAS	31.88
C - U-MOBIL B.V. ⁽¹⁾ (holding company)	Amsterdam (Holland)	NLG 77,240,000	100.00	STET MOBILE HOLDING	100.00
A - TIM PERÙ S.A.C. (mobile telephony)	Lima (Perù)	PEN 652,231,998	100.00	STET MOBILE HOLDING	54.82
A - TIM INTERNATIONAL B.V. (holding company)	Amsterdam (Holland)	EUR 20,000	100.00	TELECOM ITALIA MOBILE	54.82
B - CORPORACION DIGITEL C.A. (mobile telecommunications services)	Caracas (Venezuela)	BOL 42,823,450,241	56.56	TIM INTERNATIONAL	31.01

Information Technology Activities

A TI.IT-TELECOM ITALIA INFORMATION TECHNOLOGY S.p.A. (information and communication technology)	Rome (Italy)	ITL 50,000,000,000	100.00	TELECOM ITALIA	100.00
A - NETIKOS S.p.A. (formerly Ditel Engineering) (consulting)	Rome (Italy)	ITL 5,000,000,000	100.00	TI.IT-TELECOM ITALIA I.T.	100.00
A FINSIEL – Consulenza e Applicazioni Informatiche S.p.A. (conception and implementation of projects in information technology applications)	Rome (Italy)	ITL 116,132,400,000	77.19 0.63	TELECOM ITALIA SOGEI	77.68
A - ASPASIEL S.r.l. (information systems)	Rome (Italy)	ITL 500,000,000	50.00	FINSIEL	38.84
A - BANKSIEL – Società di Informatica e Organizzazione p.A. (design, installation, operation and maintenance of information systems for bank and insurance companies)	Milan (Italy)	ITL 20,000,000,000	55.50	FINSIEL	43.11
C - BISIEL – Banca e Impresa Sistemi Elettronici S.p.A. ⁽²⁾ (multibank software)	Mantua (Italy)	ITL 8,000,000,000	51.00	BANKSIEL	21.99
A - CARISIEL Sistemi Informativi Elettronici per il Settore Credito e Finanziario S.p.A. (electronic information systems for banking and financial industry)	Rende (Cosenza, Italy)	ITL 1,490,000,000	2.00 98.00	FINSIEL BANKSIEL	43.80
A - CENTROSIEL S.p.A. (information systems)	Milan (Italy)	EUR 516,600	47.00	BANKSIEL	20.26
A - CONSIEL – Società di Management Consulting e Formazione p.A. (corporate consulting and management services)	Milan (Italy)	ITL 9,900,000,000	90.50	FINSIEL	70.30
A - ASKA S.r.l. (consulting)	Milan (Italy)	ITL 20,000,000	60.00	CONSIEL	42.18

(1) The percentage of share capital as at September 30, 2000.

(2) The percentage of share capital as at June 30, 2000.

Legend: A) Financial statements consolidated for entire year;
 B) Balance sheet only consolidated;
 C) Statement of income only consolidated.

(continued) List of companies consolidated on a line-by-line basis

Name (type of business)	Head office	Share capital	%	held by	% held by Telecom Italia Group
A - CONSIEL DO BRASIL Ltda (formerly Finsiel do Brasil) (consulting and information systems)	Sao Paulo (Brazil)	BRL 222,223	99.99 0.01	CONSIEL Nominees	70.30
A - HITECO CONSULTANTS S.r.l. (consulting)	Milan (Italy)	ITL 50,000,000	60.00 40.00	CONSIEL Nominees	70.30
A - JMAC CONSIEL S.p.A. (data collection and analysis for systems sales and business)	Milan (Italy)	ITL 300,000,000	45.00	CONSIEL	31.64
A - EIS – Elettronica Ingegneria Sistemi S.p.A. (design, installation, operation and maintenance of sophisticated electronic systems)	Rome (Italy)	ITL 10,000,000,000	87.81	FINSIEL	68.21
A - FINSIEL ROMANIA S.r.l. (information systems)	Bucharest (Romania)	ROL 11,841,500,000	90.53	FINSIEL	70.33
A - INSIEL – Informatica per il Sistema degli Enti Locali S.p.A. (information systems)	Trieste (Italy)	ITL 15,000,000,000	52.00	FINSIEL	40.39
A - SIT – Sistemi Interportuali Trieste S.p.A. (information technologies, automation and company management services)	Trieste (Italy)	ITL 250,000,000	56.00	INSIEL	22.62
A - INTERSIEL – Società Interregionale Sistemi Informativi Elettronici S.p.A. (design, installation, operation and maintenance of information systems)	Rende (Cosenza, Italy)	ITL 2,000,000,000	100.00	FINSIEL	77.68
A - KRENESIEL S.p.A. – Società Sarda di Informatica (information systems)	Sassari (Italy)	ITL 5,000,000,000	41.00 10.00	FINSIEL INSIEL	35.89
A - SOGEI - Società Generale d'Informatica S.p.A. (information systems and related services for the Ministry of Finances and Italian and foreign public Administration)	Rome (Italy)	ITL 20,000,000,000	100.00	FINSIEL	77.68
A - TELE SISTEMI FERROVIARI S.p.A. (information systems)	Rome (Italy)	ITL 149,099,000,000	61.00	FINSIEL	47.39
A - SINTESIEL S.r.l. (information systems)	Rome (Italy)	ITL 250,000,000	88.00	TELE SISTEMI FERROVIARI	41.70
A - VENIS - Venezia Informatica e Sistemi S.p.A. (information systems for the municipality of Venice and other public entities)	Venice (Italy)	ITL 3,000,000,000	20.40 30.60	FINSIEL INSIEL	28.21
A NETSIEL - Networks Produttivi per Sistemi Informativi Elettronici S.p.A. (information products and production of software for sale)	Bari (Italy)	ITL 126,000,000,000	68.65 31.35	TELECOM ITALIA FINSIEL	93.00
A - SIBISIEL – Società di Informatica per la Banca e l'Impresa S.p.A. (information systems)	Bari (Italy)	ITL 2,000,000,000	90.20 9.80	NETSIEL SIBISIEL	93.00
A SODALIA S.p.A. (production of advanced software for telecommunications networks and services)	Trento (Italy)	ITL 6,000,000,000	100.00	TELECOM ITALIA	100.00
A - TELESOFT AMERICA Inc. (telecommunications software)	New Jersey (USA)	USD 700,000	100.00	SODALIA	100.00
A TELESOFT S.p.A. (telecommunications software)	Rome (Italy)	ITL 40,500,000,000	60.00 40.00	TELECOM ITALIA FINSIEL	91.07
B - EUSTEMA S.p.A. (design, research, development and marketing of software, information and online systems)	Rome (Italy)	ITL 600,000,000	67.33	TELESOFT	61.32
A - TECO SOFT ESPANA S.A. (telecommunications software)	Madrid (Spain)	ESP 60,000,000	100.00	TELESOFT	91.07
A - TELESOFT HELLAS S.A. (telecommunications software)	Athens (Greece)	GRD 20,000,000	100.00	TELESOFT	91.07
A - TELESOFT RUSSIA Z.A.O. (telecommunications software)	Moscow (Russia)	RUR 1,592,000	75.00	TELESOFT	68.30

Legend: A) Financial statements consolidated for entire year;
B) Balance sheet only consolidated;
C) Statement of income only consolidated.

(continued) List of companies consolidated on a line-by-line basis

Name (type of business)	Head office		Share capital	%	held by	% held by Telecom Italia Group
Manufacturing Activities ⁽³⁾						
C - ITALTEL S.p.A. (telecommunications systems)	Milan (Italy)	ITL	396,000,000,000	100.00	TELSI Ltd	100.00
C - ITALCOM – Sistemi Italiani di Commutazione S.p.A. (interactive television systems)	Milan (Italy)	ITL	200,000,000	100.00	ITALTEL	100.00
C - ITALTEL CERM Palermo S.c.p.A. (research)	Carini (Palermo, Italy)	ITL	4,122,500,000	90.00 10.00	ITALTEL CSELT	100.00
C - ITALTEL B.V. (marketing and finance)	Amsterdam (Holland)	NLG	4,000,000	100.00	ITALTEL	100.00
C - ITALTEL A.O. (telecommunications systems)	S. Petersburg (Russia)	RUR	20,000,000	100.00	ITALTEL B.V.	100.00
C - ITALTEL DE CHILE S.A. (telecommunications systems)	Santiago (Chile)	CLP	46,789,237	90.00 10.00	ITALTEL B.V. ITALTEL	100.00
C - ITALTEL NIGERIA Ltd (maintenance of telecommunications systems)	Lagos (Nigeria)	NGN	20,000	99.99 0.01	ITALTEL B.V. ITALTEL	100.00
C - ITALTEL S.A. (telecommunications systems)	Madrid (Spain)	ESP	675,000,000	100.00	ITALTEL B.V.	100.00
C - ITALTEL DE COSTA RICA S.A. (marketing)	San José (Costa Rica)	CRC	1,000,000	100.00	ITALTEL B.V.	100.00
C - ITALTEL KENIA Ltd (marketing)	Nairobi (Kenia)	SHS	500,000	99.99 0.01	ITALTEL B.V. ITALTEL	100.00
C - ITALTEL ARGENTINA (formerly Transdigi S.A.) (telecommunications systems)	Buenos Aires (Argentina)	ARS	2,093	96.00 4.00	ITALTEL B.V. ITALTEL	100.00
Installation activities ⁽³⁾						
C SIRT S.p.A. (design and installation of telecommunications and electrical services)	Milan (Italy)	ITL	220,000,000,000	48.98	TELECOM ITALIA	48.98
C - CONSTRUTEL MATRICIAL DE CHILE S.A. (design and installation of telecommunications services)	Santiago (Chile)	CLP	301,243,641	100.00	SIRTI	48.98
C - CONSTRUTEL PROJETOS E CONSTRUÇÕES Ltda (design and installation of telecommunications services)	Belo Horizonte (Brazil)	BRL	20,255,900	85.00	SIRTI	41.63
C - SIRT GmbH (construction and maintenance of telecommunications systems)	Berlin (Germany)	DEM	20,000,000	100.00	SIRTI	48.98
C - SIRT Ltd (construction and maintenance of telecommunications systems)	London (UK)	GBP	17,000,000	100.00	SIRTI	48.98
C - SIRT S.A. (construction and maintenance of telecommunications systems)	Paris (France)	FRF	37,258,358	100.00	SIRTI	48.98
C - SIRT BOLIVIA S.A. (construction and maintenance of telecommunications systems)	La Paz (Bolivia)	BOB	4,980,000	91.00	SIRTI	44.57
C - SEIRT Sociedad Española de Instalaciones Redes Telefonicas S.A. (construction and maintenance of telecommunications systems)	Madrid (Spain)	ESP	366,112,000	100.00	SIRTI	48.98
C - SIRT ARGENTINA S.A. (construction and maintenance of telecommunications systems)	Buenos Aires (Argentina)	ARS	5,000,000	100.00	SIRTI	48.98
C - SIRT POLSKA Sp. z o.o. (construction and maintenance of telecommunications systems)	Warsaw (Poland)	PLN	10,778,000	100.00	SIRTI	48.98
C - SIRT PORTUGAL TELECOMUNICAÇÕES S.A. (construction and maintenance of telecommunications systems)	Lisbon (Portugal)	PTE	1,200,000,000	99.00 1.00	SIRTI SEIRT	48.98
C - SETELCO S.A. (construction and maintenance of telecommunications systems)	Lugano (Switzerland)	CHF	50,000	100.00	SIRTI	48.98

(3) The percentage of share capital as at September 30, 2000.

Legend: A) Financial statements consolidated for entire year;
 B) Balance sheet only consolidated;
 C) Statement of income only consolidated.

(continued) List of companies consolidated on a line-by-line basis

Name (type of business)	Head office		Share capital	%	held by	% held by Telecom Italia Group
Other activities						
A ATESIA – Telemarketing Comunicazione Telefonica e Ricerche di Mercato S.p.A. (telemarketing)	Rome (Italy)	ITL	6,100,000,000	100.00	TELECOM ITALIA	100.00
A CSELT – Centro Studi e Laboratori Telecomunicazioni S.p.A. (studies and research in telecommunications and electronics)	Turin (Italy)	EUR	618,000	100.00	TELECOM ITALIA	100.00
A EMSA – Società Immobiliare p.A. (real estate management)	Turin (Italy)	ITL	1,123,596,000	100.00	TELECOM ITALIA	100.00
A HUIT S.a.r.l. (holding company)	Luxembourg	ITL	10,619,650,000	78.04	TELECOM ITALIA	78.04
A - HUIT II S.a.r.l. (holding company)	Luxembourg	ITL	39,838,500,000	98.96	HUIT	77.22
A IMMSI S.p.A. (real estate management)	Turin (Italy)	ITL	220,000,000,000	45.31	TELECOM ITALIA	45.31
A PATH.NET S.p.A. (networking systems and telecommunications)	Rome (Italy)	ITL	50,000,000,000	99.99 0.01	TELECOM ITALIA SODALIA	100.00
A SAIAT – Società Attività Intermedie Ausiliarie Telecomunicazioni p.A. (financing)	Turin (Italy)	ITL	69,408,000,000	100.00	TELECOM ITALIA	100.00
A - TELIMM S.p.A. (real estate)	Turin (Italy)	ITL	8,238,730,000	79.42 0.58	SAIAT TELECOM ITALIA	80.00
A - TELSIS Elettronica e Telecomunicazioni S.p.A. (manufacturing and sale of systems for encrypted telecommunications)	Turin (Italy)	ITL	750,000,000	100.00	SAIAT	100.00
A SARITEL S.p.A. (group factory for added value network services)	Pomezia (Rome, Italy)	EUR	11,445,360	100.00	TELECOM ITALIA	100.00
A SCUOLA SUPERIORE GUGLIELMO REISS ROMOLI S.p.A. (training)	L'Aquila (Italy)	ITL	3,000,000,000	100.00	TELECOM ITALIA	100.00
B SEAT PAGINE GIALLE S.p.A. (publishing and internet services)	Milan (Italy)	ITL	548,130,222,150	60.17 4.23 0.02	TELECOM ITALIA HUIT II SARITEL	58.89
B - DATABANK S.p.A. (marketing)	Milan (Italy)	ITL	1,820,000,000	93.46	SEAT PAGINE GIALLE	55.04
B - DBK S.A. (marketing)	Madrid (Spain)	ESP	16,500,000	99.99	DATABANK S.p.A.	55.03
B - DATABANK WETTBEWERBS MARKT-UND FINANZANALYS GmbH (marketing)	Darmstadt (Germany)	DEM	1,700,000	60.00	DATABANK S.p.A.	33.02
B - DATABANK CONSULTING S.p.A. (marketing)	Milan (Italy)	ITL	500,000,000	100.00	DATABANK S.p.A.	55.04
B - EUREDIT S.A. (realization, promotion and marketing european technology of commerce annual "Europages")	Paris (France)	FRF	2,500,000	84.99	SEAT PAGINE GIALLE	50.05
B - FINANZIARIA WEB S.p.A. (financing)	Turin (Italy)	ITL	35,235,904,000	60.00	SEAT PAGINE GIALLE	35.33
B - MATRIX S.p.A. (internet services)	Milan (Italy)	ITL	2,200,000,000	66.00 0.70	FINANZIARIA WEB SEAT PAGINE GIALLE	23.73
B - GIALLO MARKET S.r.l. (owner of Virgilio.it)	Milan (Italy)	EUR	900,000	100.00	MATRIX	23.73
B - GOALLARS B.V. (internet services)	Amsterdam (Holland)	EUR	100,000	55.00	MATRIX	13.05
B - KMATRIX S.r.l. (consulting)	Milan (Italy)	EUR	100,000	100.00	MATRIX	23.73
B - OLÀ S.r.l. (advertising on line)	Milan (Italy)	ITL	20,000,000	51.00	MATRIX	12.10

Legend: A) Financial statements consolidated for entire year;
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(continued) List of companies consolidated on a line-by-line basis

Name (type of business)	Head office		Share capital	%	held by	% held by Telecom Italia Group
B - ZDNET ITALIA S.r.l. (internet services)	Milan (Italy)	EUR	400,000	51.00	MATRIX	12.10
B - FINSATEL S.r.l. (holding company)	Rome (Italy)	ITL	266,000,000	100.00	SEAT PAGINE GIALLE	58.89
B - GIALLO DAT@ S.p.A. (services of direct marketing; creation, management and marketing of data bank)	Turin (Italy)	EUR	6,500,000	100.00	SEAT PAGINE GIALLE	58.89
B - DOMINO RESEARCH S.r.l. (data processing geomarketing sector)	Milan (Italy)	ITL	90,000,000	60.00	GIALLO DAT@	35.33
B - DWI S.p.A. (design, realization software)	Verona (Italy)	EUR	500,000	51.00	GIALLO DAT@	30.03
B - FINANZA E GESTIONE S.r.l. (design, management and marketing of banking sector data bank)	Milan (Italy)	ITL	150,000,000	60.00	GIALLO DAT@	35.33
B - PHARMASOFT CONSULTING S.r.l. (design, management and marketing of pharmaceutical sector data bank)	Rome (Italy)	ITL	2,000,000,000	60.00	GIALLO DAT@	35.33
B - PUBBLIBABY S.p.A. (design, management and marketing of native sector data bank)	Cusago (Milan, Italy)	EUR	100,000	61.00	GIALLO DAT@	35.62
B - GIALLO LAVORO S.p.A. (research, selection and training of human resources)	Turin (Italy)	EUR	100,000	100.00	SEAT PAGINE GIALLE	58.89
B - GIALLO PROFESSIONAL PUBLISHING S.p.A. (publishing, typographic and graphic marketing, advertising)	Turin (Italy)	EUR	100,000	100.00	SEAT PAGINE GIALLE	58.89
B - QUASAR E ASSOCIATI S.r.l. (publishers)	Milan (Italy)	EUR	20,408	51.00	GIALLO PROFESSIONAL PUBLISHING	30.03
B - EDITORIALE QUASAR S.r.l. (publishers)	Milan (Italy)	ITL	20,000,000	100.00	QUASAR E ASSOCIATI	30.03
B - GIALLO VIAGGI.it S.p.A. (reserch, development, production of information and telematic products for tourism)	Turin (Italy)	EUR	100,000	100.00	SEAT PAGINE GIALLE	58.89
B - GRUPPO BUFFETTI S.p.A. (products cartotecnici stampa poligrafica editoria)	Rome (Italy)	ITL	22,725,000,000	96.28	SEAT PAGINE GIALLE	56.70
B - INDUSTRIAL SERVICE S.p.A. (wholesale magnetic stand)	Lecco (Italy)	ITL	1,500,000,000	84.00	GRUPPO BUFFETTI	47.63
B - IS PRODUCTS S.p.A. (marketing of office automation)	Pogliano Milanese (Milan, Italy)	ITL	18,000,000,000	72.22 27.78	INDUSTRIAL SERVICES GRUPPO BUFFETTI	50.15
B - INCAS PRODUCTIONS S.r.l. (wholesale production and marketing of office consumable products)	Venaria Reale (Turin, Italy)	ITL	1,000,000,000	100.00	IS PRODUCTS	50.15
B - MAGIQ 32 S.r.l. (wholesale of paper and millboard)	Rome (Italy)	ITL	1,000,000,000	100.00	GRUPPO BUFFETTI	56.70
B - SK DIRECT S.r.l. (graphic arts)	Rome (Italy)	ITL	4,621,000,000	4.31 95.69	GRUPPO BUFFETTI INDUSTRIAL SERVICES	48.02
B - OR.MA. INFORMATICA S.r.l. (wholesale information products)	Milan (Italy)	ITL	20,000,000	100.00	SK DIRECT	48.02
B - ITALBIZ.COM Inc. (internet services)	California (USA)	USD	13,800	72.46	SEAT PAGINE GIALLE	42.67
B - KOMPASS ITALIA S.p.A. (publishing annuals, sale telematic products)	Turin (Italy)	ITL	2,739,744,000	100.00	SEAT PAGINE GIALLE	58.89
B - POLIX S.p.A. (recording, elaboration e publishing of public opinion poll)	Milan (Italy)	ITL	200,000,000	55.00	SEAT PAGINE GIALLE	32.39
B - TDL INFOMEDIA Limited (holding)	Hampshire (UK)	GBP	139,509.21	99.60	SEAT PAGINE GIALLE	58.65

Legend: A) Financial statements consolidated for entire year;
 B) Balance sheet only consolidated;
 C) Statement of income only consolidated.

(continued) List of companies consolidated on a line-by-line basis

Name (type of business)	Head office	Share capital	%	held by	% held by Telecom Italia Group	
B - TDL INFOMEDIA FINANCE Limited (holding)	Hampshire (UK)	GBP	9,734.09	100.00	TDL INFOMEDIA Ltd	58.65
B - TDL INFOMEDIA HOLDINGS PLC (holding)	Hampshire (UK)	GBP	397,126.43	100.00	TDL INFOMEDIA FINANCE	58.65
B - TDL INFOMEDIA GROUP PLC (holding)	Hampshire (UK)	GBP	624,576.64	100.00	TDL INFOMEDIA HOLDINGS	58.65
B - TDL GROUP Limited (holding)	Hampshire (UK)	GBP	89,864.25	100.00	TDL INFOMEDIA GROUP Plc	58.65
B - THOMSON DIRECTORIES Limited (publishing and marketing directories)	Hampshire (UK)	GBP	1,340,000	100.00	TDL GROUP Ltd	58.65
B - BUSINESS INFORMATION GROUP Limited (publishing and marketing directories)	Hampshire (UK)	GBP	1	100.00	THOMSON DIRECTORIES	58.65
B - FOREST RENTAL SERVICES Limited (publishing and marketing directories)	Hampshire (UK)	GBP	2	100.00	THOMSON DIRECTORIES	58.65
B - HILL CLEANING SERVICES Ltd (publishing and marketing directories)	Hampshire (UK)	GBP	2	100.00	THOMSON DIRECTORIES	58.65
B - HILL ENTERPRISES Limited (publishing and marketing directories)	Hampshire (UK)	GBP	2	100.00	THOMSON DIRECTORIES	58.65
B - INFOMEDIA GROUP Limited (publishing and marketing directories)	Hampshire (UK)	GBP	2	100.00	THOMSON DIRECTORIES	58.65
B - INFONATION Limited (publishing and marketing directories)	Hampshire (UK)	GBP	1	100.00	THOMSON DIRECTORIES	58.65
B - LAKE BUILDING SERVICES Limited (publishing and marketing directories)	Hampshire (UK)	GBP	2	100.00	THOMSON DIRECTORIES	58.65
B - PEAK MAINTENANCE SERVICES Limited (publishing and marketing directories)	Hampshire (UK)	GBP	2	100.00	THOMSON DIRECTORIES	58.65
B - THOMSON DIRECTORIES PENSION COMPANY Limited (publishing and marketing directories)	Hampshire (UK)	GBP	2	100.00	THOMSON DIRECTORIES	58.65
B - TELEGATE HOLDING GmbH (holding company)	Martinsried (Germany)	DEM	51,000	51.37	SEAT PAGINE GIALLE	30.25
B - TELEGATE A.G. (internet services)	Martinsried (Germany)	EUR	12,730,000	50.99 13.54	TELEGATE HOLDING SEAT PAGINE GIALLE	23.40
B - 11880.com GmbH (internet services)	Martinsried (Germany)	EUR	25,000	100.00	TELEGATE A.G.	23.40
B - DATAGATE GmbH (call center services)	Martinsried (Germany)	EUR	25,000	100.00	TELEGATE A.G.	23.40
B - TELEGATE ANKLAM GmbH (internet services)	Anklam (Germany)	DEM	50,000	100.00	TELEGATE A.G.	23.40
B - TELEGATE CALL CENTER GmbH (call center services)	Martinsried (Germany)	EUR	25,000	100.00	TELEGATE A.G.	23.40
B - PHONECOM GmbH (call center services)	Munchen (Germany)	EUR	77,000	50.68	TELEGATE CALL CENTER	11.86
B - MEDIA EVOLUTION GmbH (call center services)	Munchen (Germany)	DEM	60,000	100.00	PHONECOM	11.86
B - TGT HOLDING B.V. (call center services)	Schipol (Holland)	EUR	18,200	100.00	TELEGATE A.G.	23.40
B - TELEGATE COMMUNICATION SYSTEMS S.A. (call center services)	Madrid (Spain)	EUR	61,000	99.00 1.00	TGT HOLDING TELEGATE A.G.	23.40
B - TELEGATE ITALIA S.r.l. (call center services)	Milan (Italy)	EUR	129,000	95.00	TGT HOLDING	22.23

Legend: A) Financial statements consolidated for entire year;
 B) Balance sheet only consolidated;
 C) Statement of income only consolidated.

(continued) List of companies consolidated on a line-by-line basis

Name (type of business)	Head office	Share capital	%	held by	% held by Telecom Italia Group
B - TELEGATE Inc. (call center services)	Texas (USA)	USD 1,000	100.00	TGT HOLDING	23.40
B - TELEGATE Ltd (call center services)	London (UK)	GBP 50,000	100.00	TGT HOLDING	23.40
B - TICKETONE S.p.A. (tickets sale)	Milan (Italy)	EUR 500,000	50.10	SEAT PAGINE GIALLE	29.50
A SOFTE S.A. (financing)	Luxembourg	USD 100,000,000	99.99 0.01	TELECOM ITALIA SAIAT	100.00
A - SOGERIM S.A. (marketing and financing)	Luxembourg	EUR 525,000	99.95 0.05	SOFTE SAIAT	100.00
A TELE PAY ROLL SERVICES S.p.A. (information payroll services)	Rome (Italy)	ITL 2,500,000,000	100.00	TELECOM ITALIA	100.00
A TELSI (holding companies for telecommunications)	London (UK)	GBP 1,119,364,000	100.00	TELECOM ITALIA	100.00
A TRAINET S.p.A. (development, operation and sales of lines teaching systems)	Rome (Italy)	ITL 1,305,800,000	100.00	TELECOM ITALIA	100.00

LIST OF COMPANIES CONSOLIDATED BY THE PROPORTIONAL METHOD

Name (type of business)	Head office		Share capital	%	held by	% held by Telecom Italia Group
Satellite Telecommunications - Italy						
VIASAT S.p.A. (design and testing of advanced technologies in data transmission and data processing)	Rome (Italy)	EUR	2,425,956	33.54 16.46	SEAT PAGINE GIALLE FINSATEL	29.44
- VIASAT ASSISTANCE S.p.A. (telecommunications sales and operation)	Rome (Italy)	ITL	1,200,000,000	100.00	VIASAT	29.44
International Telecommunications						
NORTEL INVERSORA S.A. (holding company)	Buenos Aires (Argentina)	ARS	80,942,695	32.50 17.50	TELECOM ITALIA STET INTERNATIONAL NETHERLANDS	25.52
- TELECOM ARGENTINA STET-FRANCE TELECOM S.A. (telecommunications services)	Buenos Aires (Argentina)	ARS	984,380,978	54.74	NORTEL INVERSORA	13.97
- PUBLICOM S.A. (telecommunications services)	Buenos Aires (Argentina)	ARS	16,000,000	99.99 0.01	TELECOM ARGENTINA NORTEL INVERSORA	13.97
- TELECOM PERSONAL S.A. (telecommunications services)	Buenos Aires (Argentina)	ARS	310,514,481	99.99 0.01	TELECOM ARGENTINA PUBLICOM	13.97
- CABLE INSIGNIA S.A. (telecommunications services)	Asunción (Paraguay)	Guaranies	10,000,000,000	75.00	TELECOM PERSONAL	10.48
- NUCLEO S.A. (telecommunications services)	Asunción (Paraguay)	Guaranies	60,000,000,000	67.50	TELECOM PERSONAL	9.43
- TELECOM INTERNET S.A. (internet services)	Buenos Aires (Argentina)	USD	12,000	98.00 2.00	TELECOM ARGENTINA PUBLICOM	13.97
- MICROSISTEMAS S.A. (telecommunications services)	Buenos Aires (Argentina)	ARS	210,000	99.99 0.01	TELECOM INTERNET PUBLICOM	13.97

LIST OF COMPANIES CONSOLIDATED BY THE EQUITY METHOD

Name (type of business)	Head office	Share capital	%	held by	% held by Telecom Italia Group
SUBSIDIARIES					
BUFFETTI S.r.l. sole director (retail trade of stationary, books, office kits)	Rome (Italy)	ITL 20,000,000	100.00	GRUPPO BUFFETTI	56.70
EDOTEL S.p.A. (holding company)	Turin (Italy)	ITL 2,000,000,000	60.00 40.00	TELECOM ITALIA TELECOM ITALIA MOBILE	81.93
RARTEL S.A. (construction and management of telecommunications network in Romania)	Bucharest (Romania)	ROL 4,685,000,000	50.06 1.00	TELESPAZIO TELEO	51.06
STET FRANCE S.A. (holding company)	Paris (France)	FRF 6,000,000	99.99 0.01	9 TELECOM RESEAU Nominees	93.98
TELEFONIA MOBILE SAMMARINESE S.p.A. (mobile telecommunications)	Republic of S. Marino	ITL 150,000,000	51.00	INTELCOM S.MARINO	35.70
TELEOS B.V. (operative holding company)	Amsterdam (Holland)	NLG 40,000	100.00	TELESPAZIO	100.00
TELEOS INTERNATIONAL B.V. (marketing of products and services for satellite mobile communications)	Amsterdam (Holland)	NLG 40,000	100.00	TELEOS	100.00
TELECOM ITALIA GmbH (holding company)	Wien (Austria)	ATS 500,000	100.00	TELECOM ITALIA	100.00
TELECOM ITALIA CAPITAL S.A. (financing)	Luxembourg	USD 30,000	99.97 0.03	TELECOM ITALIA Nominees	99.97
AFFILIATED COMPANIES					
ARSMOVENDI.COM A.G. (internet services)	Munchen (Germany)	EUR 150,000	33.33	TELEGATE A.G.	7.80
ASCAI SERVIZI S.r.l. (promotion of communications strategies and process)	Rome (Italy)	ITL 142,000,000	35.21	SAIAT	35.21
ASTELIT Ltd (telecommunications services)	Moscow (Russia)	RUR 500	50.00	TELECOM ITALIA	50.00
ASTROLINK INTERNATIONAL LLC (satellite telecommunications services)	Delaware (Usa)	USD 1,350,100,000	18.52	TELESPAZIO LUXEBURG	18.52
AUNA- Operadores de telecomunicaciones S.A. (holding of telecommunications companies)	Barcelona (Spain)	ESP 89,707,660,000	22.76 7.24	STET INTERNATIONAL NETHERLANDS STET MOBILE HOLDING	26.73
BOUYGUES DECAUX TELECOM S.A. (holding company)	Guyancourt (France)	FRF 1,931,471,800	19.61	STET MOBILE HOLDING	10.75
BOUYGUES TELECOM S.A. (mobile telecommunications)	Velizy Villacoublay (France)	FRF 3,679,000,000	55.00	BDT BOUYGUES DECAUX TELECOM	5.91
BRASIL TELECOM PARTICIPACOES S.A. (holding companies for investments in wireline telecommunications companies in various Brazilian states)	Brasilia (Brazil)	BRL 1,993,609,334	51.79	SOLPART	7.11
BROAD BAND SERVICE S.A. (production and sales of multimedia services)	Republic of S. Marino	ITL 500,000,000	20.00 20.00	INTELCOM S.MARINO STREAM	24.00
CARTESIA-Cartografia digitale S.p.A (design, realization, marketing of numeric cartography)	Rome (Italy)	ITL 200,000,000	50.00	TELECOM ITALIA	50.00
CECCHI GORI COMMUNICATIONS S.p.A. (production, marketing on tv and press)	Rome (Italy)	ITL 9,805,000,000	25.00	SEAT PAGINE GIALLE	14.72
CRUED Servizi Informatici S.p.A. (information systems)	Perugia (Italy)	ITL 3,000,000,000	49.00	FINSIEL	38.06

(continued) List of companies consolidated by the equity method

Name (type of business)	Head office	Share capital	%	held by	% held by Telecom Italia Group
CYAGENT Inc. (development and marketing software)	California (USA)	USD 28,708,549	22.48	TELECOM ITALIA	22.48
DATASIEL – Sistemi e Tecnologie di Informatica S.p.A. (data processing products and services for public administration Agencies, institutions and enterprises under Ligurian Regional Law n. 17/85)	Genoa (Italy)	ITL 5,000,000,000	50.00	FINSIEL	38.84
DATASPAZIO - S.p.A. (computational software and hardware development and sale)	Rome (Italy)	ITL 980,000,000	49.00	TELESPAZIO	49.00
DISCOVERITALIA S.p.A. (communication systems)	Novara (Italy)	ITL 10,000,000,000	25.00	SEAT PAGINE GIALLE	14.72
EISYS S.p.A. (information systems)	Rome (Italy)	ITL 1,200,000,000	25.00	EIS	17.05
ELETTROCLIK S.p.A. (production of software managerial automation)	Milan (Italy)	ITL 200,000,000	20.00 20.00	SEAT PAGINE GIALLE WISEQUITY	11.78
ENTEL CHILE S.A. (telecommunications services)	Santiago (Chile)	CLP 367,045,650,291	26.16	STET INTERNATIONAL NETHERLANDS	26.16
ESRI ITALIA S.p.A. (development and distribution of GIS products and services and related and related software packages)	Rome (Italy)	ITL 500,000,000	49.00	SEAT PAGINE GIALLE	28.86
EURODIRECTORY S.A. (management publishing companies of annuals Kompas)	Luxembourg	NLG 3,580,000	50.00	SEAT PAGINE GIALLE	29.45
ETEC S.A. – Empresa de Telecomunicaciones de Cuba S.A. (telecommunication services)	La Habana (Cuba)	USD 1,441,900,000	29.29	STET INTERNATIONAL NETHERLANDS	29.29
EXPERT SYSTEM S.p.A. (development linguistic software)	Modena (Italy)	ITL 276,923,000	35.00	MATRIX	8.31
FINTECH FINANZIARIA TECNOLOGICA S.p.A. (minority interests holding in small and medium sized companies)	Turin (Italy)	ITL 50,000,000,000	50.00	TELECOM ITALIA	50.00
GAY.IT S.p.A. (internet services)	Pisa (Italy)	EUR 1,000,000	22.50	MATRIX	5.34
GLB SERVICOS INTERATIVOS S.A. (internet services)	Rio de Janeiro (Brazil)	BRL 100,000,000	30.00	TI WEB	29.99
GENERAL ELECTRIC INFORMATION SERVICES S.p.A. (added value information services)	Milan (Italy)	ITL 2,450,000,000	40.00	TELECOM ITALIA	40.00
GEOWEB S.p.A. (information systems)	Rome (Italy)	ITL 1,000,000,000	40.00	SOGEI	20.51
GOLDEN LINES INTERNATIONAL COMMUNICATIONS SERVICES Ltd (long distance telephony services)	Ramat Gan (Israel)	ILS 3,000,000	26.40	GOLDEN NETHERLANDS	26.40
IMSER S.p.A. (real estate management)	Turin (Italy)	ITL 280,000,000,000	40.00	TELECOM ITALIA	40.00
INFORMATICA TRENINA S.p.A. (design, installation, management and maintenance of information systems)	Trento (Italy)	ITL 6,000,000,000	40.41	FINSIEL	31.39
IRIDIUM SERVICES EUROPE VERWALTUNG GmbH (Iridium Service Europe GmbH management)	Düsseldorf (Germany)	DEM 50,000	34.00	IRIDIUM ITALIA	28.62
IS TIM TELEKOMUNIKASYON-HZMETLERI A.S. (mobile telecommunications)	Istanbul (Turkey)	TRL 355,000,000,000,000	49.00	TIM INTERNATIONAL	26.86

(continued) List of companies consolidated by the equity method

Name (type of business)	Head office	Share capital	%	held by	% held by Telecom Italia Group
ITALTEL HOLDING S.p.A. (holding company)	Milan (Italy)	ITL 216,160,000,000	19.90	SOGERIM	19.90
KIMTRAVEL CONSULTING A.G. (internet services)	Munchen (Germany)	EUR 69,493	33.33	TELEGATE A.G.	7.80
LOCALPORT S.p.A. (internet services)	Ivrea (Italy)	ITL 670,000,000	22.40	CSELT	22.40
LOTTOMATICA S.p.A. (automation system for State lottery)	Rome (Italy)	EUR 63,335,000	25.50	SOGEI	19.81
MAREMS-V & D SERVICE S.A. (provision of satellite services for mobile voice communications using vehicle-mounted terminals)	Moscow (Russia)	RUR 7,135,500	49.00	TELESPAZIO	49.00
MIA ECONOMIA.com S.r.l. (publishing development in the area del personal finance)	Milan (Italy)	EUR 1,500,000	30.00	MATRIX	7.12
MOBILKOM AUSTRIA A.G. (GSM mobile telecommunications provider)	Wien (Austria)	ATS 1,000,000,000	25.00 75.00	STET MOBILE HOLDING TELEKOM AUSTRIA	32.46
MOBILSAFE A.G. (internet services)	Meerbusch (Germany)	EUR 150,000	33.33	11180.com	7.80
MONDUS Ltd (development data bank and internet market place)	Oxford (UK)	GBP 1,879.9	46.44	SEAT PAGINE GIALLE	27.35
MULTIMEDIA CABLE S.A. (holding company for investments in companies dealing with telecommunications and audiovisual systems)	Barcelona (Spain)	ESP 1,936,000,000	44.00	STET INTERNATIONAL NETHERLANDS	44.00
NETCO REDES S.A. (provider of telecommunications infrastructures)	Madrid (Spain)	ESP 1,004,680,000	30.00	STET INTERNATIONAL NETHERLANDS	30.00
NETEX S.r.l. (management license of software of Netex Ltd)	Milan (Italy)	EUR 10,000	50.00	MATRIX	11.87
PRAXIS CALCOLO S.p.A. (technical and organizational services for automatic data processing)	Milan (Italy)	EUR 1,080,000	22.00	FINSIEL	17.09
SAPED – Studio Analisi Programmazione Elaborazione Dati S.p.A. (information systems)	Siena (Italy)	ITL 2,000,000,000	20.00	BANKSIEL	8.62
SAPENDI S.p.A. (realization and marketing of publishing, graphic, and data bank products and services)	Novara (Italy)	ITL 10,000,000,000	25.00	SEAT PAGINE GIALLE	14.72
SIEMENS INFORMATICA S.p.A. (sale, leasing and maintenance of data processing systems)	Milan (Italy)	EUR 6,192,000	49.00	TELECOM ITALIA	49.00
SIOSISTEMI S.p.A. (systems networking with special emphasis on the design of LAN and WAN systems and related hardware support systems)	Brescia (Italy)	ITL 500,000,000	40.00	TELECOM ITALIA	40.00
SISPI S.p.A. (information systems for the municipality of Palermo and other private and public entities)	Palermo (Italy)	ITL 4,000,000,000	49.00	FINSIEL	38.06
SITEBA Sistemi Telematici Bancari S.p.A. (support services for payments systems)	Milan (Italy)	ITL 5,000,000,000	30.00	TELECOM ITALIA	30.00
SOLPART PARTICIPACOES S.A. (holding company of Brasil Telecom Participacoes S.A.)	Rio de Janeiro (Brazil)	R\$ 2,126,000,000	38.00	STET INTERNATIONAL NETHERLANDS	38.00
STREAM S.p.A. (multimedia services)	Rome (Italy)	ITL 816,040,000,000	50.00	TELECOM ITALIA	50.00
STT – SOCIETÀ TRASPORTO TELEMATICO S.p.A. (online transport services provider)	Verona (Italy)	ITL 10,000,000,000	40.00	TELECOM ITALIA	40.00

(continued) List of companies consolidated by the equity method

Name (type of business)	Head office		Share capital	%	held by	% held by Telecom Italia Group
TDL BELGIUM S.A. (publishing e marketing of directories)	Bruxelles (Belgium)	FB	100,000,000	47.00	THOMSON DIRECTORIES	27.57
TELELEASING – Leasing di Telecomunicazioni e Generale S.p.A. (financial leasing of real estate and other assets)	Turin (Italy)	ITL	18,977,770,000	20.00	SAIAT	20.00
TELEKOM AUSTRIA A.G. (wireline telephony)	Wien (Austria)	EUR	1,090,500,000	29.78	STET INTERNATIONAL NETHERLANDS	29.78
TELEKOM SRBIJA a.d. (wireline telephony)	Belgrade (Serbia)	YUN	10,907,385,234	29.00	STET INTERNATIONAL NETHERLANDS	29.00
TRADECOM – Soluzioni avanzate per il commercio, il turismo e i servizi S.p.A. (services related to telecommunications, information and multimedia technologies)	Rome (Italy)	ITL	500,000,000	24.50 24.50	FINSIEL SARITEL	43.53
UBA – NET S.A. (teledidactic services)	Buenos Aires (Argentina)	ARS	1,430,000	50.00	TRAINET	50.00
WEBEGG S.p.A. (information systems)	Ivrea (Turin, Italy)	EUR	33,107,000	30.20 19.80	FINSIEL TI.IT-TELECOM ITALIA I.T.	43.26

LIST OF OTHER INVESTMENTS IN SUBSIDIARIES AND AFFILIATED COMPANIES

Name	Head office	Share capital	%	held by
SUBSIDIARIES				
9 TELECOM WEB EURL	Boulogne Billancourt (France)	EUR 8,000	100.00	9 TELECOM RESEAU
9 TELECOM PORTAIL EURL	Boulogne Billancourt (France)	EUR 8,000	100.00	9 TELECOM RESEAU
CONSUTEL S.p.A. (in liquidation)	Rome (Italy)	ITL 2,594,340,000	100.00	TELECOM ITALIA
CZECH COMMUNICATION COMPANY A.S. (in liquidation)	Prague (Czech Rep.)	CSK 1,000,000	100.00	ETI
DATABANK Ltd (in liquidation)	London (UK)	GBP 230,000	99.99	DATABANK
DMR CONSIEL S.p.A. (in liquidation)	Rome (Italy)	ITL 500,000,000	51.00	CONSIEL
e-GEOS S.p.A.	Matera (Italy)	EUR 105,000	51.00 1.00 2.00	TELESPAZIO FINSIEL EURIMAGE
EMMEDI 97 S.r.l. sole shareholder (in liquidation)	Rome (Italy)	ITL 20,000,000	100.00	GRUPPO BUFFETTI
FINSIEL HELLAS S.A. (in liquidation)	Koropi (Greece)	GRD 230,000,000	91.00	FINSIEL
GIALLO e.com S.p.A.	Turin (Italy)	EUR 100,000	100.00	SEAT PAGINE GIALLE
GIALLO VOICE S.p.A.	Turin (Italy)	EUR 100,000	99.00	SEAT PAGINE GIALLE
GIALLO WEB S.r.l.	Milan (Italy)	EUR 10,000	100.00	SEAT PAGINE GIALLE
IC SOFT S.p.A. (in liquidation)	Naples (Italy)	ITL 200,000,000	100.00	FINSIEL
IL CENTRO CONTABILE S.p.A. (in liquidation)	Rome (Italy)	ITL 4,379,426,000	89.70	GRUPPO BUFFETTI
INCAS FRANCE S.A. (in liquidation)	Asnieres (France)	FRF 19,168,900	100.00	IS PRODUCTS
IREOS S.p.A. (in liquidation)	Rome (Italy)	ITL 200,000,000	100.00	TELECOM ITALIA
LATIN AMERICAN NAUTILUS ARGENTINA S.A.	Buenos Aires (Argentina)	ARS 12,000	99.99 0.01	LATIN AMERICAN NAUTILUS S.A. Nominees
MARKET & INDUSTRY ANALYSTS S.A.	Bruxelles (Belgium)	FB 4,340,000	80.00 20.00	DATABANK DATABANK CONSULTING
MC LINK S.p.A.	Rome (Italy)	ITL 2,311,000,000	66.00	SEAT PAGINE GIALLE
MEDITERRANEAN BROAD BAND ACCESS S.A.	Creta (Greece)	GRD 4,000,000,000	60.00	STET INTERNATIONAL NETHERLANDS
MEDITERRANEAN NAUTILUS ITALY S.p.A.	Rome (Italy)	EUR 100,000	100.00	MEDITERRANEAN NAUTILUS Ltd
MEDITERRANEAN NAUTILUS ISRAEL Ltd	Tel Aviv (Israel)	ILS 1,000	100.00	MEDITERRANEAN NAUTILUS Ltd
NETHERTELEC S.A.	Quito (Ecuador)	XAF 40,000,000	99.99 0.01	STET INTERNATIONAL NETHERLANDS Nominees
NICKEL ACQUISITION CORPORATION	New York (Usa)	USD 1	100.00	SOGERIM
SCS COMUNICAZIONE INTEGRATA S.p.A. (in liquidation)	Rome (Italy)	ITL 1,200,000,000	100.00	SEAT PAGINE GIALLE
SEAT CAPITAL INVESTMENTS S.A.	Luxembourg	EUR 4,300,000	99.99	SEAT PAGINE GIALLE
TELECOM ITALIA IRELAND LIMITED	Dublin (Ireland)	EUR 2	100.00	TELECOM ITALIA
TELEHOUSE-INTERNET EXCHANGE S.A.	Gualdicciolo (Rep. S. Marino)	ITL 3,000,000,000	70.00	INTELCOM

(continued) List of other investments in subsidiaries and affiliated companies

Name	Head office	Share capital	%	held by
T.I.SCOM S.A. (in liquidation)	Curitiba (Brazil)	BRL 7,735,000	51.00	TELESPAZIO
VALORIUS S.A.	Boulogne Billancourt (France)	FRF 250,000	100.00	9 TELECOM RESEAU
AFFILIATED COMPANIES				
BIBOP RESEARCH INT. S.p.A.	Milan (Italy)	ITL 1,000,000,000	41.20	SEAT PAGINE GIALLE
CESEN S.p.A.	Genoa (Italy)	ITL 1,219,000,000	39.00	CONSIEL
CITEL - Corporacion Interamericana de Telecomunicaciones S.A.	Monterrey (Mexico)	MXN 2,073,729,933	25.00	STET INTERNATIONAL NETHERLANDS
COMETEL Societe Espagnole	Bilbao (Spain)	EUR 35,000	40.00	JET MULTIMEDIA HOSTING
COSER S.c.p.A.	Catanzaro (Italy)	ITL 40,000,000	20.00	TRAINET
CZECH TELESPAZIO S.r.l. (in liquidation)	Prague (Czech Rep.)	CSK 1,500,000	40.00	TELECOM ITALIA
EXCITE ITALIA B.V.	Amsterdam (Holland)	NLG 100,000	50.00	SEAT PAGINE GIALLE
L'UFFICIO MODERNO S.r.l.	Florence (Italy)	ITL 20,000,000	15.00 15.00	GRUPPO BUFFETTI IL CENTRO CONTABILE
INFOMOBILITY Inc.	Delaware (USA)	USD 10	100.00	VIASAT
IRIDIUM SERVICES EUROPE GmbH & CO.KG (in liquidation)	Düsseldorf (Germany)	DM 29,000,000	34.00	IRIDIUM ITALIA
LABIA SERVICES S.p.A. (in liquidation)	Rome (Italy)	ITL 120,000,000,000	33.00 1.00	SAIAT FINSIEL
NETRIA S.A.	Lyon (France)	FRF 758,500	34.00	JET MULTIMEDIA
NORCABLE S.A. (in liquidation)	Buenos Aires (Argentina)	ARS 12,000	33.33	STET INTERNATIONAL NETHERLANDS
POLITEL S.A.	Warsaw (Poland)	PLZ 100,000	10.00 10.00	TMI TELEMEDIA INT. Ltd TELESPAZIO
SUD PARTNER S.a.r.l.	Tolosa (France)	EUR 40,000	24.00	JET MULTIMEDIA HOSTING
VOICEMAIL INTERNATIONAL Inc. (in liquidation)	California (USA)	USD 48,580	37.07	TELECOM ITALIA
CONSORTIUM SUBSIDIARIES				
CONSORZIO ABECA	Rome (Italy)	ITL 200,000,000	33.33 33.33	FINSIEL INTERSIEL
CONSORZIO CAISI - Consorzio annuari Internazionali Seat Italcable (in liquidation)	Turin (Italy)	ITL 20,000,000	85.00	SEAT PAGINE GIALLE
CONSORZIO CONNET FORMAZIONE	Bari (Italy)	ITL 100,000,000	60.00 40.00	CONSIEL NETSIEL
CONSORZIO C.R.I.A.I. (in liquidation)	Naples (Italy)	ITL 110,002,000	27.27 27.27	FINSIEL SOGEI
CONSORZIO GEODOC	Rome (Italy)	ITL 200,000,000	90.00 10.00	FINSIEL TELESPAZIO
CONSORZIO GRUPPO STET PER ITALIA '90 (in liquidation)	Rome (Italy)	ITL 100,000,000	80.00 20.00	TELECOM ITALIA SIRTI
CONSORZIO IRIS BENI CULTURALI	Rome (Italy)	ITL 330,000,000	90.91 9.09	FINSIEL NETSIEL
CONSORZIO ISIB	Rome (Italy)	ITL 100,000,000	30.00 70.00	INTERSIEL FINSIEL
CONSORZIO NAUTILUS	Rome (Italy)	ITL 150,000,000	30.00 20.00	SSGRR MEDITERRANEAN NAUTILUS Ltd
CONSORZIO PAOLA	Udine (Italy)	ITL 16,000,000	100.00	INSIEL
CONSORZIO PROTER	Rome (Italy)	ITL 20,000,000	61.11	TELESPAZIO

(continued) List of other investments in subsidiaries and affiliated companies

Name	Head office		Share capital	%	held by
CONSORZIO SEGISIEL (in liquidation)	Rende (Cosenza, Italy)	ITL	200,000,000	85.00 15.00	INTERSIEL FINSIEL
CONSORZIO SER	Catanzaro (Italy)	ITL	200,000,000	46.00 5.00	INTERSIEL INSIEL
CONSORZIO SESIT	Rome (Italy)	ITL	100,000,000	70.00	FINSIEL
CONSORZIO SITA (in liquidation)	Rome (Italy)	ITL	250,000,000	80.00	FINSIEL
CONSORZIO SOFTIN (in liquidation)	Naples (Italy)	ITL	1,700,000,000	100.00	FINSIEL
CONSORZIO TURISTEL	Rome (Italy)	ITL	150,000,000	33.33 33.33	SARITEL FINSIEL
CONSORTIUM AFFILIATES					
CONSORZIO ACCAM	Rome (Italy)	ITL	12,000,000	33.33	EIS
CONSORZIO AIACE	Milan (Italy)	ITL	20,000,000	25.00	DATABANK
CONSORZIO ALINARI 2000	Florence (Italy)	ITL	50,000,000	50.00	FINSIEL
CONSORZIO ALTEL	Rome (Italy)	ITL	100,000,000	50.00	TELESPAZIO
CONSORZIO ARCHIMEDE (in liquidation)	Catania (Italy)	ITL	75,000,000	50.00	FINSIEL
CONSORZIO ATLAS (in liquidation)	Rome (Italy)	ITL	140,000,000	42.84 14.29 14.29	TELESPAZIO ESRI ITALIA EUSTEMA
CONSORZIO CIFRA	Cagliari (Italy)	ITL	120,000,000	25.00	KRENESIEL
CONSORZIO C.O.M.P.A. (in liquidation)	Bologna (Italy)	ITL	250,000,000	20.00	FINSIEL
CONSORZIO CSIA	Rome (Italy)	ITL	400,000,000	44.00	FINSIEL
CONSORZIO DREAM FACTORING	Rome (Italy)	ITL	150,000,000	20.00	TELECOM ITALIA
CONSORZIO ELETTRA 2000	Pontecchio Marconi (Bologna, Italy)	ITL	1,800,000,000	20.00	TELECOM ITALIA MOBILE
CONSORZIO FORFIN	Rome (Italy)	ITL	10,000,000	15.00 15.00	CONSIEL SOGEI
CONSORZIO PER LA FORMAZIONE INTERNAZIONALE - C.F.I.	Rome (Italy)	ITL	200,000,000	20.00	TELECOM ITALIA
CONSORZIO I.T.A.	Rome (Italy)	ITL	24,000,000	33.33	TELESPAZIO
CONSORZIO R.E.S. - Raggruppamento Europeo per la Sicurezza	Rome (Italy)	ITL	600,000,000	50.00	TELECOM ITALIA
CONSORZIO SI.GE.T. (in liquidation)	Rome (Italy)	ITL	100,000,000	40.00	FINSIEL
CONSORZIO SIMT	Rome (Italy)	ITL	100,000,000	45.00	FINSIEL
CONSORZIO SISIM (in liquidation)	Rome (Italy)	ITL	90,000,000	50.00	TELESPAZIO
CONSORZIO TECNOSIEL	Rome (Italy)	ITL	200,000,000	50.00	FINSIEL
CONSORZIO TELAER	Capodichino (Naples, Italy)	ITL	200,000,000	50.00	TELESPAZIO
CONSORZIO TELCAL	Catanzaro (Italy)	ITL	1,700,000,000	24.00 24.00	TELECOM ITALIA INTERSIEL
CONSORZIO TELEMED (in liquidation)	Rome (Italy)	ITL	200,000,000	33.33	TELECOM ITALIA
EUTELSAT	Paris (France)	EUR	381,700,000	20.37	TELECOM ITALIA

ASSETS (in millions of euro)

	12/31/2000		12/31/1999	
Receivables from stockholders for capital contributions				
Portion called in	=		=	
Portion not called in	2		2	
		2		2
Intangibles, fixed assets and long-term investments				
INTANGIBLE ASSETS				
Start-up and expansion costs	100		66	
Industrial patents and intellectual property rights	819		778	
Concessions, licenses, trademarks and similar rights	3,505		153	
Goodwill	69		4	
Consolidation difference	10,230		1,016	
Work in progress and advances to suppliers	840		390	
Other intangibles	474		330	
		16,037		2,737
FIXED ASSETS				
Land and buildings	2,947		5,073	
Plant and machinery	18,126		16,522	
Manufacturing and distribution equipment	78		124	
Other fixed assets	836		567	
Construction in progress and advances to suppliers	1,438		1,222	
		23,425		23,508
LONG-TERM INVESTMENTS				
Equity investments in:				
unconsolidated subsidiaries	21		121	
affiliated companies	7,199		5,944	
other companies	191		299	
	7,411		6,364	
Advances on future capital contributions	187		2	
Accounts receivable:				
affiliated companies	(*) 127		(*) 133	
other receivables	109	282	98	324
	109	409	98	457
Other securities		6		3
Treasury stock (for an overall par value of Euro 54 million at 12/31/2000)		662		=
		8,675		6,826
Total intangibles, fixed assets and long-term investments		48,137		33,071
Current assets				
INVENTORIES				
Raw materials and supplies	21		98	
Work in progress and semifinished goods	13		69	
Contract work in process	467		628	
Finished goods and merchandise:				
finished goods	2		12	
merchandise	214	216	208	220
Advances to suppliers		8		15
		725		1,030
ACCOUNTS RECEIVABLE				
Trade accounts receivable	(**) 5	7,997	(**) 35	7,717
Accounts receivable from unconsolidated subsidiaries		41	=	39
Accounts receivable from affiliated companies		413	=	492
Accounts receivable from parent companies		3	=	1
Other receivables	488	3,429	301	1,597
	493	11,883	336	9,846
SHORT-TERM FINANCIAL ASSETS				
Equity investments in unconsolidated subsidiaries	(**) 392		(**) 63	
Equity investments in affiliated companies	6			
Other equity investments	38		6	
Other securities	2,020		1,265	
Receivables for sales of securities	1		5	
		2,457		1,339
LIQUID ASSETS				
Bank and postal accounts	1,299		668	
Cash and valuables on hand	5		9	
		1,304		677
Total current assets		16,369		12,892
Accrued income and prepaid expenses				
Issue discounts and similar charges	2		2	
Accrued income and other prepaid expenses	1,005		91	
		1,007		93
TOTAL ASSETS		65,515		46,058

(*) Amounts due within one year (**) Amounts due beyond one year

LIABILITIES AND STOCKHOLDERS' EQUITY (in millions of euro)

	12/31/2000		12/31/1999	
Stockholders' equity				
PARENT COMPANY INTEREST IN:				
Share capital	3,835		3,835	
Reserve for treasury stock	662			
Reserves and retained earnings	12,296		11,473	
Net income	2,028		1,737	
		18,821		17,045
MINORITY INTEREST IN:				
Share capital, reserves and retained earning	5,788		2,071	
Net income	920		672	
		6,708		2,743
		25,529		19,788
Reserves for risks and charges				
Reserve for pensions and similar obligation	15			
Reserve for taxes				
for taxes	159		160	
for deferred taxes	201		151	
	360		311	
Other reserves	1,393		725	
		1,768		1,036
Reserve for employee termination indemnities		1,319		1,496
Liabilities	(••)		(••)	
Debentures	1,668	1,814	815	984
Due to banks	4,296	16,796	3,685	8,150
Due to other lenders	1,267	1,689	659	898
Advances		370		378
Trade accounts payable	35	6,781	6	6,081
Notes payable	50	50		
Accounts payable to unconsolidated subsidiaries		6		20
Accounts payable to affiliated companies	506	1,272		597
Accounts payable to parent companies		2		3
Taxes payables	3	930	6	1,185
Contributions to pension and social security institutions	651	934	711	958
Other liabilities	583	5,038	7	3,594
	9,059	35,682	5,889	22,848
Accrued expenses and deferred income		1,217		890
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		65,515		46,058

(••) Amounts due beyond one year

(in millions of euro)

	12/31/2000	12/31/1999
Guarantees provided		
Sureties		
on behalf of unconsolidated subsidiaries	20	45
on behalf of affiliated companies	2,315	944
on behalf of others	238	272
	2,573	1,261
Endorsements:		
on behalf of others	168	14
Other guarantees:		
on behalf of unconsolidated subsidiaries	1	
on behalf of affiliated companies	69	33
on behalf of others	120	12
	190	45
	2,931	1,320
Collateral provided		
For obligations of others	1	7
For own obligations, not including liabilities	2	2
	3	9
Purchases and sales commitments	4,902	860
Other memorandum accounts	234	4,039
TOTAL MEMORANDUM ACCOUNTS	8,070	6,228

(in millions of euro)

	2000	1999
Production value		
Sales and service revenues	28,911	27,104
Changes in inventories of work in progress, semifinished and finished goods	28	(65)
Changes in inventory of contract work in process	251	176
Increases in capitalized internal construction costs	912	1,062
Other revenue and income:		
<i>operating grants</i>	20	20
<i>other</i>	406	496
	426	516
	30,528	28,793
Production cost		
Raw materials, supplies and merchandise	(2,011)	(2,249)
Semifinished and finished goods	(248)	(228)
Services	(8,394)	(7,380)
Use of property not owned	(798)	(704)
Personnel		
<i>wages and salaries</i>	(3,510)	(3,498)
<i>social security contributions</i>	(1,128)	(1,113)
<i>termination indemnities</i>	(242)	(252)
<i>other costs</i>	(145)	(114)
	(5,025)	(4,977)
Amortization, depreciation and writedowns		
<i>amortization of intangible assets</i>	(1,132)	(988)
<i>depreciation of fixed assets</i>	(4,515)	(4,351)
<i>other writedowns of intangibles and fixed assets</i>	(48)	(73)
<i>writedowns of receivables included in current assets and liquid assets</i>	(477)	(363)
	(6,172)	(5,775)
Changes in inventory of raw materials, supplies and merchandise	(2)	19
Provisions for risks	(119)	(80)
Other provisions	(38)	(21)
Miscellaneous operating costs	(916)	(965)
	(23,723)	(22,360)
Operating income	6,805	6,433
Financial income and expense		
Income from equity investments:		
<i>dividends from unconsolidated subsidiaries</i>	4	2
<i>dividends from affiliated companies</i>	64	
<i>dividends from other companies</i>	71	58
<i>other income from equity investments</i>	167	86
	306	146
Other financial income from:		
<i>accounts receivable included in long-term investments</i>		
<i>affiliated companies</i>	9	3
<i>other</i>	10	11
	19	14
<i>securities, other than equity investments, included in long-term investments</i>	1	2
<i>securities, other than equity investments, included in current assets</i>	104	95
<i>other income</i>		
<i>interest and fees from unconsolidated subsidiaries</i>	1	2
<i>interest and fees from affiliated companies</i>	14	13
<i>interest and fees from others</i>		
<i>and miscellaneous income</i>	402	283
	417	298
	541	409
Interest and other financial expense:		
<i>interest and fees paid to unconsolidated subsidiaries</i>	(1)	(1)
<i>interest and fees paid to affiliated companies</i>	(33)	(1)
<i>interest and fees paid to others</i>		
<i>and miscellaneous expense</i>	(1,277)	(880)
	(1,311)	(882)
Total financial income and expense	(464)	(327)

(CONTINUED) (in millions of euro)

	2000	1999
Value adjustments to financial assets		
Upward adjustments of:		
<i>equity investments</i>	275	241
Writedowns of:		
<i>equity investments</i>	(1,300)	(806)
<i>long-term investments, other than equity investments</i>		(19)
<i>securities, other than equity investments, included in current assets</i>	(134)	
	(1,434)	(825)
Total value adjustments	(1,159)	(584)
Extraordinary income and expense		
Income:		
<i>gains on disposals</i>	1,146	26
<i>miscellaneous</i>	236	119
	1,382	145
Expense:		
<i>losses on disposals</i>	(12)	(11)
<i>prior years' taxes</i>	(5)	(4)
<i>miscellaneous</i>	(1,579)	(637)
	(1,596)	(652)
Total extraordinary items	(214)	(507)
Income before taxes	4,968	5,015
Income taxes		
<i>current taxes</i>	(2,486)	(2,884)
<i>deferred taxes</i>	466	278
	(2,020)	(2,606)
Net income before minority interest	2,948	2,409
Minority interest	(920)	(672)
Net income	2,028	1,737

**AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 156 OF LAW
DECREE N° 58 DATED 24 FEBRUARY 1998**

To the Shareholders of
Telecom Italia SpA

- 1 We have audited the consolidated financial statements of Telecom Italia SpA and subsidiaries (Telecom Italia Group) as of December 31, 2000. These financial statements are the responsibility of Telecom Italia's directors. Our responsibility is to express an opinion on these financial statements based on our audit.
- 2 We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.

The financial statements and the consolidated financial statements of certain subsidiaries (mainly Seat Pagine Gialle SpA, Telecom Italia Mobile SpA, TI Web SA and 9 Telecom Reseau SAS), whose total assets constitute 29 per cent of consolidated total assets and whose sales revenues constitute 33 per cent of consolidated sales revenue, have been audited by other auditors who gave us their related reports. Our opinion, expressed herein, insofar as it relates to the accounts of those subsidiaries included in the consolidated financial statements, is based also on the audits performed by other auditors.

For the opinion on the consolidated financial statements of the prior period, which are presented for comparative purposes as required by law, reference is made to the report issued by Arthur Andersen SpA dated April 10, 2000.

- 3 In our opinion, the consolidated financial statements of the Telecom Italia Group as of December 31, 2000 comply with the laws governing the criteria for their preparation; accordingly, they give a true and fair view of the financial position and of the results of operations of Telecom Italia Group.
- 4 For a better understanding of the consolidated financial statements, reference should be made to the information included in the notes to the consolidated financial statements, in the section "Summary of significant accounting policies", regarding the accounting criteria utilised for the employee benefit obligations as required by law no. 58/1992.

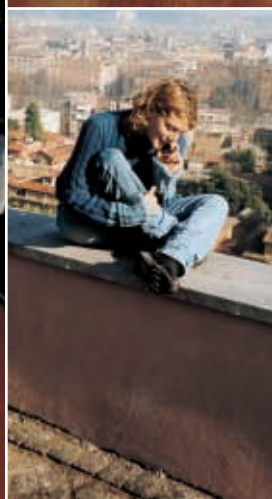
Turin, May 21, 2001

PricewaterhouseCoopers SpA



Sergio Duca
(Partner)

This report has been translated from the original, which was issued in accordance with Italian legislation.



**FINANCIAL STATEMENTS
AT DECEMBER 31, 2000
OF TELECOM ITALIA**

ASSETS

	12/31/2000	12/31/1999
Receivables from stockholders for capital contributions	=	=
Intangibles, fixed assets and long-term investments		
INTANGIBLE ASSETS		
Industrial patents and intellectual property rights	821,197,642,197	1,192,287,973,472
Concessions, licenses, trademarks and similar rights	90,087,698,225	112,597,712,848
Goodwill	=	3,800,000,000
Work in progress and advances to suppliers	1,240,085,318,042	740,383,001,914
Other intangibles	150,280,849,708	209,545,589,009
	2,301,651,508,172	2,258,614,277,243
FIXED ASSETS		
Land and buildings	3,009,903,427,953	7,828,564,194,639
Plant and machinery	25,122,423,857,618	26,861,306,532,511
Manufacturing and distribution equipment	77,774,584,426	115,494,217,508
Other fixed assets	162,229,256,863	450,448,157,343
Construction in progress and advances to suppliers	933,184,970,140	1,264,138,275,703
	29,305,516,097,000	36,519,951,377,704
LONG-TERM INVESTMENTS		
Equity investments in:		
<i>subsidiaries</i>	35,272,942,768,832	8,731,260,669,751
<i>affiliated companies</i>	1,113,025,614,859	217,062,232,620
<i>other companies</i>	177,709,571,197	382,070,643,130
	36,563,677,954,888	9,330,393,545,501
Advances on future capital contributions	1,864,889,846,350	8,610,089,959,614
Accounts receivable:	(*)	(*)
<i>subsidiaries</i>	= 96,813,500,000	35,132,635,231
<i>other receivables</i>	145,441,854,211	115,605,661,864
	145,441,854,211	150,738,297,095
Treasury stock (for an overall par value of Lire 104,978 million at 12/31/2000)	1,280,571,215,216	=
	40,193,558,120,695	19,644,996,159,252
Total intangibles, fixed assets and long-term investments	71,800,725,725,867	58,423,561,814,199
Current assets		
INVENTORIES		
Contract work in process	69,532,910,686	53,980,144,546
Finished goods and merchandise:		
<i>merchandise</i>	79,855,096,041	179,048,323,568
	149,388,006,727	233,028,468,114
ACCOUNTS RECEIVABLE	(**)	(**)
Trade account receivable	= 8,317,409,563,828	= 9,408,833,303,276
Accounts receivable from subsidiaries	= 5,234,670,666,250	= 4,489,010,804,102
Accounts receivable from affiliated companies	= 467,819,462,867	= 405,400,980,178
Accounts receivable from parent companies	= 2,339,263,798	= 2,483,472,556
Other receivables due from:		
<i>Government and other public entities for grants and subsidies</i>	= 2,450,099,055	= 250,132,500
<i>deferred tax assets</i>	270,262,000,000	157,673,000,000
<i>other receivables</i>	= 2,692,943,096,090	= 749,676,087,665
	270,262,000,000	157,673,000,000
	3,634,881,874,069	1,095,408,559,666
	17,657,120,830,812	15,401,137,119,778
SHORT-TERM FINANCIAL ASSETS		
Equity investments in subsidiaries	632,642,453,951	108,813,071,995
Other equity investments	9,965,809,136	10,394,249,513
Other securities	=	=
	642,608,263,087	119,207,321,508
LIQUID ASSETS		
Bank and postal accounts	210,319,555,471	139,520,548,879
Checks	9,279,000	918,250
Cash and valuables on hand	622,684,172	930,322,778
	210,951,518,643	140,451,789,907
Total current assets	18,660,068,619,269	15,893,824,699,307
Accrued income and prepaid expenses		
Issue discounts and similar charges	2,411,464,299	3,583,755,554
Accrued income and other prepaid expenses	1,631,941,597,093	45,895,181,046
	1,634,353,061,392	49,478,936,600
TOTAL ASSETS	92,095,147,406,528	74,366,865,450,106

(*) Amounts due within one year (**) Amounts due beyond one year

LIABILITIES AND STOCKHOLDERS' EQUITY

	12/31/2000		12/31/1999	
Stockholders' equity				
Share capital		7,426,157,226,000		7,426,157,226,000
Additional paid-in capital		3,490,921,704,021		3,490,921,704,021
Reserves for inflation adjustments under Law No. 72 of 3.19.1983 Law No. 413 of 12.30.1991		4,805,244,324,456 908,002,695,834		4,805,724,896,946 908,093,505,185
		5,713,247,020,290		5,713,818,402,131
Legal reserve		1,014,784,879,175		762,266,733,660
Reserve for treasury stock		1,280,571,215,216		=
Other reserves:				
Reserve for accelerated depreciation	=			1,487,794,069,538
Reserve under Law No. 342 of 11.21.2000 - article 14	1,720,298,969,169		=	
Special reserve	2,407,506,798,151			3,627,806,188,538
Reserve for capital grants	884,133,649,752			852,912,941,046
Miscellaneous reserves	7,343,451,544,178			7,165,723,210,753
		12,355,390,961,250		13,134,236,409,875
Net income		4,954,261,597,624		5,050,362,910,293
		36,235,334,603,576		35,577,763,385,980
Reserves for risks and charges				
Reserves for taxes				
for taxes		273,475,401,146		254,498,226,933
for deferred taxes	=		=	
		273,475,401,146		254,498,226,933
Other reserves		1,437,616,500,881		987,710,203,535
		1,711,091,902,027		1,242,208,430,468
Reserve for employee termination indemnities		1,996,825,051,128		2,163,171,175,327
Liabilities	(••)		(••)	
Debentures	281,641,600,000	281,641,600,000	824,914,300,000	824,914,300,000
Due to banks	5,014,710,078,075	24,727,109,137,198	6,124,631,833,005	12,422,073,233,245
Due to other lenders	877,577,650,895	1,275,966,787,107	1,270,718,794,627	1,609,805,276,838
Advances	=	2,281,297,022	=	1,861,497,443
Trade accounts payable	=	5,485,150,036,347	=	6,187,987,820,825
Accounts payable to subsidiaries	=	10,006,562,999,808	=	6,178,550,042,135
Accounts payable to affiliated companies	=	1,106,083,077,222	=	376,042,918,666
Accounts payable to parent companies	=	2,529,000,687	=	4,568,403,495
Taxes payables	=	956,726,358,610	=	928,685,160,964
Contributions to pension and social security institutions	1,260,476,802,127	1,656,923,057,898	1,371,767,041,620	1,709,280,600,754
Other liabilities	6,318,402,213	5,661,223,408,366	9,518,161,100	4,213,724,456,901
	7,440,724,533,310	51,162,196,760,265	9,601,550,130,352	34,457,493,711,266
Accrued expenses and deferred income		989,699,089,532		926,228,747,065
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		92,095,147,406,528		74,366,865,450,106

(••) Amounts due beyond one year

	12/31/2000	12/31/1999
Guarantees provided		
Sureties		
on behalf of subsidiaries	5,444,146,520,911	2,918,499,385,504
on behalf of parent companies	3,957,082,055,595	1,611,022,225,134
on behalf of others	(765,972,924,351)	297,147,050,313
	8,635,255,652,155	4,826,668,660,951
Collateral provided	=	=
Purchases and sales commitments	6,767,140,708,406	1,341,401,529,791
Other memorandum accounts	17,412,906,774	6,577,053,774,410
TOTAL MEMORANDUM ACCOUNTS	15,419,809,267,335	12,745,123,965,152

	2000	1999
Production value		
Sales and service revenues	33,723,158,497,143	35,856,163,914,656
Changes in inventory of contract work in process	15,552,766,140	(20,214,974,676)
Increases in capitalized internal construction costs	22,005,798,990	26,471,232,876
Other revenue and income		
<i>operating grants</i>	1,009,878,819	2,637,046,637
<i>other</i>	624,482,204,208	751,717,681,651
	625,492,083,027	754,354,728,288
	34,386,209,145,300	36,616,774,901,144
Production cost		
Raw materials, supplies and merchandise	(783,387,024,738)	(1,174,167,790,236)
Services	(11,028,534,658,193)	(11,571,326,138,134)
Use of property not owned	(875,363,156,328)	(852,638,485,552)
Personnel		
<i>wages and salaries</i>	(4,155,804,333,281)	(4,292,923,869,352)
<i>social security contributions</i>	(1,366,436,422,716)	(1,399,774,857,070)
<i>termination indemnities</i>	(332,906,091,685)	(337,102,761,869)
<i>other costs</i>	(125,144,685,181)	(148,896,049,936)
	(5,980,291,532,863)	(6,178,697,538,227)
Amortization, depreciation and writedowns		
<i>amortization of intangible assets</i>	(1,161,933,999,943)	(1,253,214,484,376)
<i>depreciation of fixed assets</i>	(6,038,790,673,822)	(6,513,033,000,989)
<i>other writedowns of intangibles and fixed assets</i>	(37,628,161,680)	(142,299,399,869)
<i>writedowns of receivables included in current assets and liquid assets</i>	(332,489,993,229)	(399,035,341,310)
	(7,570,842,828,674)	(8,307,582,226,544)
Changes in inventory of raw materials, supplies and merchandise	(99,193,227,527)	(10,370,058,561)
Provisions for risks	(121,690,006,812)	(156,224,875,480)
Miscellaneous operating costs		
<i>losses on disposals of assets</i>	(94,349,396,057)	(206,470,992,855)
<i>license fee</i>	(602,528,779,225)	(755,717,622,336)
<i>other miscellaneous costs</i>	(269,396,937,271)	(307,990,934,481)
	(966,275,112,553)	(1,270,179,549,672)
	(27,425,577,547,688)	(29,521,186,662,406)
Operating income	6,960,631,597,612	7,095,588,238,738
Financial income and expense		
Income from equity investments		
<i>dividends from subsidiaries</i>	2,044,891,407,767	1,964,630,677,427
<i>dividends from affiliated companies</i>	132,864,624,205	7,632,143,922
<i>dividends from other companies</i>	110,156,614,332	110,779,838,851
<i>other income from equity investments</i>	1,176,655,753,685	1,243,898,267,436
	3,464,568,399,989	3,326,940,927,636
Other financial income from		
<i>accounts receivable included in long-term investments</i>		
<i>subsidiaries</i>	8,104,386,364	43,703,337,749
<i>affiliated companies</i>	7,531,579,624	=
<i>other</i>	15,983,869,086	17,742,152,434
	31,619,835,074	61,445,490,183
<i>securities, other than equity investments, included in long-term investments</i>	=	269,742,252
<i>securities, other than equity investments, included in current assets</i>	2,531,242,205	3,987,500
<i>other income</i>		
<i>interest and fees from subsidiaries</i>	81,587,342,692	78,648,614,971
<i>interest and fees from affiliated companies</i>	13,705,985,433	22,805,213,460
<i>interest and fees from others and miscellaneous income</i>	224,136,436,214	146,473,411,550
	319,429,764,339	247,927,239,981
	353,580,841,618	309,646,459,916
Interest and other financial expense		
<i>interest and fees paid to subsidiaries</i>	(151,392,238,587)	(70,447,331,936)
<i>interest and fees paid to affiliated companies</i>	(11,042,045,895)	(1,010,948,109)
<i>interest and fees paid to others and miscellaneous expense</i>	(1,080,814,699,633)	(798,866,280,156)
	(1,243,248,984,115)	(870,324,560,201)
Total financial income and expense	2,574,900,257,492	2,766,262,827,351

(CONTINUED)

	2000	1999
Value adjustments to financial assets		
Writedowns of		
<i>equity investments</i>	(847,616,110,483)	(294,604,698,500)
	(847,616,110,483)	(294,604,698,500)
Total value adjustments	(847,616,110,483)	(294,604,698,500)
Extraordinary income and expense		
Income		
<i>gains on disposals</i>	1,290,377,360,384	=
<i>miscellaneous</i>	171,010,249,061	71,286,696,965
	1,461,387,609,445	71,286,696,965
Expense		
<i>losses on disposals</i>	(19,108,935,007)	=
<i>prior years' taxes</i>	(6,842,007,236)	(5,624,086,716)
<i>miscellaneous</i>	(1,782,919,834,366)	(722,633,182,850)
	(1,808,870,776,609)	(728,257,269,566)
Total extraordinary items	(347,483,167,164)	(656,970,572,601)
Income before taxes	8,340,432,577,457	8,910,275,794,988
Income taxes		
<i>current taxes</i>	(2,677,680,979,833)	(3,257,766,884,695)
<i>deferred taxes</i>	(708,490,000,000)	(602,146,000,000)
	(3,386,170,979,833)	(3,859,912,884,695)
Net income	4,954,261,597,624	5,050,362,910,293

NOTES TO FINANCIAL STATEMENTS

The financial statements at December 31, 2000 have been prepared in accordance with the provisions of the Italian Civil Code.

The accounting policies adopted in preparing the financial statements at December 31, 2000, disclosed below, have been applied on a basis consistent with the prior year.

No special situations that would require the use of the waivers allowed under Article 2423, Section 4, of the Italian Civil Code occurred during the year.

Following certain changes to some items of the financial statements, the financial statements at December 31, 1999 have been reclassified for purposes of a meaningful comparison.

As required by Legislative Decree No. 127/1991, the consolidated financial statements have also been prepared and are presented together with the financial statements of Telecom Italia.

The disclosure relating to the introduction of the euro is presented in a specific paragraph "Other information" of these Notes and in the Report on operations.

The statement of cash flows, although presented in the Report on Operations, constitutes an integral part of these notes to financial statements pursuant to Article 2423, Section 3 of the Italian Civil Code.

Unless otherwise specified, all figures are stated in millions of Italian lire.

As described in the comments under "Management's discussion and analysis of financial condition and results of operations", following the contributions made during 2000, the balance sheet does not include the assets and liabilities contributed, whereas the statement of income takes into account the results of the companies contributed up to the date the transactions went into effect. These financial statements include the assets and liabilities of Stet International, acquired as part of the total spin-off of this same company, effective for accounting and tax purposes as from January 1, 2000.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Intangible assets

Intangible assets are recorded at acquisition or production cost and are amortized systematically over their estimated period of benefit.

When full recovery of the investments is not expected, the appropriate writedowns are made by applying the method adopted for fixed assets, to which reference should be made. Detailed amortization policies are presented in the following paragraphs.

Start-up and expansion costs are amortized in five years, starting from the year the costs were incurred or became due.

Industrial and intellectual property rights are amortized over their estimated period of benefit on a five-year basis (industrial patents) or on a three-year basis (software), starting from the year of their initial use.

Concessions, licenses, trademarks and similar rights refer mainly to the rights for the use of satellites and are amortized on the straight-line method on the basis of the useful life of the satellites.

Goodwill is amortized in five years starting from the year in which the cost was incurred.

The item *Others* consists primarily of:

- *leasehold improvements*: the amortization is calculated on the basis of the remaining duration of the lease contracts;
- *rights of transmission*: the rights guarantee the extension of transmission capacity of the Company over a foreign territory and are amortized over the period of the contracts entered with the foreign operators who own the installations to which the rights refer;
- *exclusive rights to the “Great Jubilee 2000” event*: these refer to the charges incurred by Telecom Italia for the acquisition of the exclusive right as the sole telecommunications operator of the Jubilee and are amortized up to the expiration of the right (January 2001).

Research, development and advertising costs are charged to income in the year incurred.

Fixed assets

Fixed assets are recorded at acquisition or production cost and depreciated on the straight-line method at rates determined on the basis of their estimated remaining useful life. They include inflation adjustments made on the basis of the special laws regarding assets existing on or before December 31, 1981 (Law No. 74 of February 11, 1952; Law No. 576 of December 2, 1975; Law No. 72 of March 19, 1983), the entries required under Law No. 823 of December 19, 1973, regarding the settlement of tax liabilities, as well as mandatory upward adjustments of all real estate as required by Law No. 413 of December 30, 1991.

For assets whose value is permanently below the historical cost, net of their accumulated depreciation, the appropriate writedowns are made pursuant to Article 2426, Section 1, item 3 of the Italian Civil Code. To determine such writedowns, specific methods are used based on the expected future profitability of the assets. In particular, an analysis is made of the value of those assets affected by events compromising the possibility of a full recovery of book value. This value is compared with the – non discounted – cash flows expected from use of the assets. If the cash flow is less than the book value, writedowns are determined by adjusting the book value of the assets to their fair value, represented by cash flows, discounted at the rate used for the valuation of the investments. Any writedowns are recorded in the statement of income under the item “amortization, depreciation and writedowns” among “other writedowns of fixed assets and long-term investments”.

Construction in progress is stated at the amount of direct costs incurred (materials used for the installations or intended therefor, third-party services, miscellaneous expenses, as well as company labor). The value of fixed assets does not include maintenance costs

incurred for their upkeep to guarantee their expected useful life, their original capacity and productivity, and costs borne to repair malfunctions and failures; such expenses are charged to the statement of income in the year incurred.

The total depreciation charge for the year was determined taking into account the estimated useful lives of the installations and the review, made in 2000, regarding those of the submarine network.

Total accumulated depreciation for fixed assets was upwardly adjusted where called for by the previously mentioned special laws.

Equity investments

Equity investments in subsidiaries, affiliated companies and other companies are included either under long-term investments or short-term financial assets, based on the anticipated holding period.

Long-term equity investments in *subsidiaries, affiliated companies and other companies* are valued at acquisition or subscription cost – determined according to the continuous LIFO method – increased by the statutory inflation adjustments, as well as the voluntary one made to several investments during the preparation of the financial statements at December 31, 1981.

The carrying value of investments recorded in long-term investments is adjusted for any reasonable expectations of a decline in profitability or recoverability in future years.

For long-term investments in companies operating at a loss, the value of the investments is written down to an amount equal to the corresponding share of the underlying net equity, if lower, as shown by the latest financial statements of the respective companies. Losses exceeding the corresponding carrying values are recorded among *reserves for risks and charges*.

Contracts for the loan of securities are represented in the financial statements as two functionally related transactions: a loan and a repurchase transaction on the securities with the obligation of the borrower to resell them at maturity. Accordingly, “Other receivables” and Other liabilities” include, respectively, a receivable and a payable of the same amount at the fixed amount of the contract (market price of stock at the date of delivery of the securities).

Equity investments included under current assets, consisting mainly of shares of consolidated listed companies purchased for trading purposes, are stated at the lower of cost – determined according to the continuous LIFO method – and realizable value, based on the year-end prices on the Italian Online Stock Market.

The costs of investments in foreign companies have been translated into Italian lire at historical exchange rates prevailing at the time of acquisition or subscription.

Writedowns of investments, whether included in long-term investments or current assets, will be reversed in subsequent years if the underlying assumptions are no longer correct.

With regard to investments in “international organizations for satellite systems”, the value shown in the financial statements consists of the equivalent value in Italian lire of the net financial contributions calculated at the exchange rates in effect at the time of each transaction. The holding in such organizations is adjusted each year in relation to the actual use of the satellite systems.

Other securities (other than equity investments)

Securities that the company intends to hold to maturity are included among long-term investments; those bought for trading purposes are listed under short-term financial assets.

Securities held as long-term investments are valued at cost, adjusted for the portion of the difference between the cost and the redemption value that accrued during the year.

Securities included in current assets are valued at the lower of cost of acquisition, adjusted for the portion of issue differences and realizable value, and the year-end prices on the Italian Online Stock Market.

Writedowns of securities will be reversed in subsequent years, if the underlying assumptions are no longer correct.

The cost of securities, whether included in long-term investments or current assets, is determined by the continuous LIFO method.

Inventories

Inventories – consisting of goods intended for sale, as well as stock on hand of technical materials and replacement parts to be used in the business during the year and for maintenance – are valued at the lower of cost, calculated using the weighted-average method, and realizable value.

The carrying value of goods in stock is reduced, through appropriate writedowns, for obsolete materials.

Inventories include the amount of work on behalf of third parties in progress at the end of the year, valued according to the “costs” already incurred.

Accounts receivable and liabilities

Accounts receivable are stated at estimated realizable value and classified under long-term investments or current assets. They include – as far as telecommunications services are concerned – the amount of services already rendered to customers and other carriers, already billed or still to be billed, as well as the invoices for the sale of telephone and online products.

Liabilities are shown at their nominal value.

Accounts receivable and liabilities in foreign currency, based on the concept of prudence, are recorded at the year-end exchange rates; the positive and negative differences between the balance of accounts receivable and liabilities converted at year-end exchange rates and their balance at the original exchange rates are recorded in the statement of income, respectively, in *financial income* and *financial expense*.

Accruals and deferrals

These items are recorded on the accrual basis. *Issue discounts and similar charges* consist of costs in connection with long-term loans, which are charged to the statement of income over the duration of the loan in proportion to the accrued interest.

Reserves for risks and charges

For taxes: this reserve includes prudent provisions for estimated tax charges (including any surtaxes and late payment interest) on positions not yet agreed or in dispute.

For deferred taxes: this reserve includes deferred tax liabilities – net of deferred tax assets, whenever the assumptions for doing so exist – calculated on the timing differences between the value attributed to assets and liabilities for statutory purposes and the value attributed to the same assets and liabilities for tax purposes.

Whenever the amount of deferred tax assets is higher than deferred tax liabilities, the balance is recorded among “*other receivables*” in current assets.

Others: relate primarily to provisions to cover charges of certain or likely existence whose amount or date of occurrence could, however, not be determined at the end of the year. The provisions reflect the best possible estimate, based on the commitments made and on the available data.

Reserve for employee termination indemnities

The amount of this reserve is determined in accordance with current laws (in particular Law No. 297 of May 29, 1982, which provides for fixed and variable cost-of-living adjustments) and collective bargaining agreements. The reserve is adjusted to the liability matured at the end of the year for personnel in force at that date and is net of advances paid. The item *other receivables*, under long-term investments, includes the receivable stemming from the advance payment of tax on termination indemnities in accordance with Law No. 662 of December 23, 1996 and its subsequent amendments. This receivable is revalued according to the provisions of the law.

Employee benefit obligations under Law No. 58/1992

With regard to Telecom Italia’s obligation required by Law No. 58/1992 to guarantee a uniform insurance status under the Telephone Workers’ Social Security Fund – FPT (part of the general “Employees Pension Fund” beginning January 1, 2000) to all employees in service in the Group’s telephone companies (Stet, Sip, Italcable and Telespazio) as of February 20, 1992, as well as those who moved from the Public Administration to Iritel, Article 66, Section 1 of Law 331/1993 and converted into Law No. 427/1993 specifies that the sums due to the Fund should be shown in the financial statements and are tax deductible in the years in which the payments to fulfil this obligation – in fifteen equal annual installments, payable in arrears – are actually made.

At the present time, the amount of the liability, which will be determined by the National Social Security Institute (Istituto Nazionale della Previdenza Sociale - INPS), can be estimated only roughly, due to problems relating to the interpretation and application of the social security legislation and to the lack of certain data which only the social security institutions currently possess. Nevertheless, these financial statements include Lire 1,366 billion of residual payables to INPS, (net of the amount attributed to TIM, TE.SS., Netsiel and Tin.it for the employees transferred to those companies), relating to the estimate

made for the employees of the former State Company for Telephone Services (ASST) by the special Ministerial Commission established under Law No. 58/1992 upon the transfer of the assets of the Post and Telecommunications Administration to Iritel, and recorded by the latter company in its financial statements at December 31, 1993. As a result, these charges will have no impact on the results of future years, since they were already included in the aforementioned calculation.

A dispute concerning the application and interpretation of this law is pending with INPS regarding, firstly, the effective date for the computation of the accrued interest due under Law No. 58/1992, in view of the fact that the liability is paid in installments. Telecom Italia believes that interest should accrue from the time INPS notifies it of the actual amount of the liability, while INPS claims that the computation should be made as of February 20, 1992 or on the date of the transfer to Iritel, thus giving rise to pre-amortization interest. The second issue is the exclusion from the effects of Law No. 58/1992 of all employees (except for employees of the former Iritel) who had filed an application to join pursuant to Law No. 29/1979 before February 20, 1992, unless that application had not been processed by INPS. The position of the Company is that the criteria set forth in Law No. 29/1979 – and, therefore, payment of the respective obligations – apply to these employees.

At the present time, the parties have agreed that the differences in interpretation shall be settled through test appeals, with recourse to the Court of Appeals being waived for a final determination of the correct interpretation of the law in question.

While the proceedings are pending, Telecom Italia has agreed to pay under protest the amounts requested by INPS based on the criteria determined by the latter, subject to subsequent equalization adjustments, if the Courts ultimately accept the Company's interpretation.

Based on the above, a reasonable estimate of the principal amount of the liability attributable to the Company (excluding, as mentioned earlier, the part relating to the former Iritel employees) could vary between Lire 1,900 billion and Lire 2,500 billion (Lire 509 billion of which has already been paid), depending on conflicting interpretations and taking into account all personnel involved. However, these estimates are merely indicative, lacking complete data from INPS. As of December 31, 2000, INPS had submitted formal requests for about 96% of the employees whose change in insurance status will result in a charge for Telecom Italia.

In either case, the impact of the charge should definitely be compatible with the income of future years, since, as allowed under Article 5, Section 3 of Law No. 58/1992, the payments requested by INPS will be made in fifteen equal annual installments payable in arrears (including annual interest of 5%), starting when INPS formally submits its requests.

The remaining liability for obligations under Law No. 58/1992, to be paid in fifteen annual installments on the basis of the formal requests made by INPS on December 31, 2000 and the interpretation of said requests, amounts to Lire 2,923 billion, divided as follows:

- Lire 1,911 billion for the principal amount (except for the portion attributable to former Iritel employees);
- Lire 1,012 billion in accrued interest.

Pre-amortization interest (including that relating to the employees of the former Iritel), subsequent to the agreement between INPS and Telecom Italia, was paid by the latter – with reservation – in fifteen equal annual installments, payable in arrears, including interest at an annual rate of 5%, up to the end of 1999, for a total amount of Lire 216

billion. In compliance with the sentence handed down by the Court of Appeals, No. 4242 of April 5, 2000, which upheld Telecom Italia's position, payment of the above-described interest and accrued interest related thereto was suspended (for a residual amount of Lire 789 billion, of which Lire 68 billion relates to the amount due for 2000).

The charge to income for the year 2000 (under "extraordinary expense") amounts to Lire 297 billion inclusive of accrued interest.

During 2000, Telecom Italia paid INPS the above-mentioned charges also on behalf of other Group companies – mainly TIM and CSELT – for those employees transferred and covered by the obligation of a uniform insurance status under Law No. 58/1992, recovering the amounts paid from these same companies. The recovery is recorded in the statement of income under "extraordinary income" and amounts to Lire 4 billion.

Grants

Operating grants (directly credited to the statement of income) and capital grants or grants for installations are recorded in the accounting period in which the paperwork documenting the grants is received, or in the period in which the respective costs are incurred, provided that the certainty of payment is confirmed by established procedures. The treatment of capital grants and grants for installations in the balance sheet is as follows:

- a) grants received through December 31, 1992, are included under *reserves for risks and charges*. The portions equivalent to the depreciation taken on assets financed with the grants in question (the so-called "available" portion) are transferred to a special equity reserve in order to obtain the benefits allowed under the tax law;
- b) for grants received from January 1, 1993 to December 31, 1997, 50% of the amount received is recorded in a special reserve of stockholders' equity in order to take advantage of the benefits available under the tax laws, and the remaining 50% is recorded under *deferred income*. These amounts are gradually credited to income in accordance with the pertinent laws;
- c) for grants received from January 1, 1998, the amount is recorded under *deferred income* and progressively credited to the statement of income in relation to the depreciation taken on the assets to which the grants refer.

Revenues and expenses

Revenues and expenses are recorded on an accrual basis. Revenues relating to telecommunications services are shown gross of the amounts due to other carriers which are recorded, for the same amount, in production cost.

Fees for new access lines and line transfers are recorded as income when the service is provided. Dividends from subsidiaries are recorded when they accrue, that is, in the year when the income from which they are paid is earned by the subsidiaries, providing a substantial certainty that they will be paid, and, in any event, when the stockholders' resolution declaring the dividend is passed or when the appropriation of net income is set forth in the preliminary financial statements prepared by the management of the subsidiaries prior to the Board meeting of the parent company that resolves upon the financial statements. Dividends from affiliated companies and other companies, on the other hand, are recognized in the statement of income according to when they are declared or in the year in which the respective right to the receivable arises, following the stockholders' resolution of those companies.

Leased assets

Capital goods acquired under leasing agreements are shown in the financial statements by a method consistent with current legislation, which requires that leasing payments be recorded as operating costs.

Memorandum accounts

These financial statements contain changes to the presentation of memorandum accounts. In particular:

- guarantees provided are presented net of counter-guarantees received;
- financial derivative contracts are only presented in the notes.

Guarantees provided consist of sureties on behalf of Group companies to secure their borrowings and other obligations. They are shown for an amount equal to the guarantee provided. Those provided in foreign currencies are translated at year-end exchange rates. *Purchases and sales commitments* are determined on the basis of the unperformed portion of contracts outstanding at the end of the fiscal year which do not fall under the normal “operating cycle”.

These are largely represented by the purchases commitments for future lease installments plus the buyout amounts of assets leased.

Other memorandum accounts mainly refer to assets of third parties on loan, on deposit for safekeeping or for similar purposes.

Financial derivatives

Financial derivative contracts are used by the Company to hedge exposure to interest rate and currency exchange risks.

Interest rate swaps involve the exchange of flows of interest between the counterparts calculated on the notional amount of reference at the agreed fixed or variable rates at the specified maturity date: normally the differential between the two interest rates is paid or received.

Cross currency and interest rate swaps are used both to hedge interest rate risk and exchange risk on loans denominated in foreign currency: they make it possible to covert the notional amount in foreign currency to the domestic currency and also to convert from a variable rate or a fixed rate in the foreign currency into a variable rate or fixed rate in the domestic currency.

The interest paid or received or the differential paid or received is recorded in the statement of income in specific accounts under financial income and expense. Moreover, related accruals are made at the year-end or interim closings with a counter-entry to “accrued income and prepaid expenses or accrued expenses and deferred income”.

BALANCE SHEETS

ASSETS

Intangibles, fixed assets and long-term investments

Intangible assets**Lire 2,301,652 million***(Lire 2,258,614 million at December 31, 1999)*

A summary of the changes during the year is presented as follows:

(in millions of lire)	2000
– Additions	1,299,715
– Disposals and other changes	(17,679)
– Contributions of business segments	(52,025)
– Transfers from Stet International for spin-off	1,340
– Writedowns	(37,628)
– Amortization	(1,161,934)
– Reclassifications	11,249
Total	43,038

An analysis of the composition and the changes in intangible assets during the year is presented as follows:

(in millions of lire)	12/31/1999			
	Cost	Writedowns	Amortization	Total
Industrial patents and intellectual property rights	4,184,882	(58,386)	(2,934,208)	1,192,288
Concessions, licenses, trademarks and similar rights	227,471	=	(114,873)	112,598
Goodwill	19,000	=	(15,200)	3,800
Work in progress and advances to suppliers	740,383	=	=	740,383
Other intangibles (*)	892,391	=	(682,846)	209,545
Total	6,064,127	(58,386)	(3,747,127)	2,258,614
(*) Including:				
Leasehold improvements	782,090	=	(619,481)	162,609
Great Jubilee 2000	109,512	=	(62,578)	46,934

(in millions of lire)	Changes during the year					Total
	Additions	Reclassifica- tions	Sales/ Retirements/ Transfers (a)	Writedowns/ Reinstatements	Amortization	
Start-up and expansion costs	=	=	1,020	=	(1,020)	=
Industrial patents and						
intellectual property rights	16,334	697,124	(55,573)	(4,635)	(1,024,340)	(371,090)
Concessions, licenses,						
trademarks and similar rights	40	940	45	=	(23,535)	(22,510)
Goodwill	=	=	(2,532)	=	(1,268)	(3,800)
Work in progress and						
advances to suppliers	1,229,982	(686,815)	(10,472)	(32,993)	=	499,702
Other intangibles (*)	53,359	=	(852)	=	(111,771)	(59,264)
Total	1,299,715	11,249	(68,364)	(37,628)	(1,161,934)	43,038

(*) Including:						
Leasehold improvements	53,359	=	224	=	(69,439)	(15,856)
Great Jubilee 2000	=	=	(1,076)	=	(42,330)	(43,406)

(a) Broken down as follows:				Cost	Amortization	Carrying value
Start-up and expansion costs				5,102	(4,082)	1,020
of which transfers from Stet International				5,102	(4,082)	1,020
Industrial patents and						
intellectual property rights				(548,424)	492,851	(55,573)
of which contributions of business segments				(168,444)	129,423	(39,021)
of which transfers from Stet International				2	(1)	1
Concessions, licenses, trademarks and similar rights				151	(106)	45
of which transfers from Stet International				250	(156)	94
Goodwill				(19,000)	16,468	(2,532)
of which contributions of business segments				(19,000)	16,468	(2,532)
Work in progress and advance to suppliers				(10,472)	=	(10,472)
of which contributions of business segments				(10,472)	=	(10,472)
Other intangibles				(203,026)	202,174	(852)
of which transfers from Stet International				761	(536)	225
Total				(775,669)	707,305	(68,364)
of which contributions of business segments				(197,916)	145,891	(52,025)
of which transfers from Stet International				6,115	(4,775)	1,340

12/31/2000				
(in millions of lire)	Cost	Writedowns	Amortization	Total
Start-up and expansion costs	5,102	=	(5,102)	=
Industrial patents and				
intellectual property rights	4,349,916	(63,021)	(3,465,697)	821,198
Concessions, licenses,				
trademarks and similar rights	228,602	=	(138,514)	90,088
Goodwill	=	=	=	=
Work in progress and				
advances to suppliers	1,273,078	(32,993)	=	1,240,085
Other intangibles (*)	742,724	=	(592,443)	150,281
Total	6,599,422	(96,014)	(4,201,756)	2,301,652

(*) Including:				
Leasehold improvements	634,935	=	(488,181)	146,754
Great Jubilee 2000	107,000	=	(103,473)	3,527

Start-up and expansion costs =

This item shows a nil balance between the transfer from Stet International (Lire 1,020 million) and the amortization charge for the year (Lire 1,020 million).

Industrial patents and intellectual property rights *Lire 821,198 million*

These decreased by Lire 371,090 million from December 31, 1999.

They are detailed as follows:

(in millions of lire)	12/31/2000	12/31/1999
• software in use	820,943	1,191,960
• industrial patents	255	328
Total	821,198	1,192,288

Capitalized costs for applications software show a decrease of Lire 371,017 million compared to December 31, 1999, mainly due to some projects which came into use during the year (Lire 713,372 million), net of the amortization charge (Lire 1,024,181 million), disposals (Lire 16,553 million), the writedown of software in use (Lire 4,635 million) and net transfers as a result of corporate transactions entered into during the year (Lire 39,020 million).

Industrial patents decreased by Lire 73 million compared to December 31, 1999, and represent the difference between capitalized costs incurred to file new patents and extend already filed patents to foreign countries (totaling Lire 86 million) and the amortization charge (Lire 159 million).

Concessions, licenses, trademarks and similar rights *Lire 90,088 million*

This item shows a decrease of Lire 22,510 million compared to December 31, 1999, representing the difference between additions and projects which came into use during the year (Lire 980 million), the amortization charge (Lire 23,535 million), disposals (Lire 49 million) and the transfer from Stet International during the year (Lire 94 million).

Goodwill =

Goodwill shows a nil balance owing to the amortization charge for the year 2000 (Lire 1,268 million) and the contribution of the business segment to Tin.it (Lire 2,532 million).

Work in progress and advances to suppliers *Lire 1,240,085 million*

Work in progress and advances to suppliers show an increase of Lire 499,702 million compared to December 31, 1999, due to investments in software development projects relating to network applications and operating programs (Lire 1,229,982 million), completed software projects which came into use during the year (Lire 686,815 million), the writedown of software projects that will be abandoned in 2001 (Lire 32,993 million) and the contributions of business segments during the year (Lire 10,472 million).

*Other intangibles**Lire 150,281 million*

These assets, which decreased by Lire 59,264 million compared to December 31, 1999, include:

- “leasehold improvements” (Lire 146,754 million) made up by costs incurred to adapt leased properties to the Company’s operating needs. This item shows a decrease of Lire 15,856 million compared to December 31, 1999, representing the difference between new capitalized items (Lire 53,359 million), the amortization charge (Lire 69,439 million) and other changes mainly referring to the transfers from Stet International (+Lire 225 million);
- “exclusive rights to the Great Jubilee 2000 event” (Lire 3,527 million), acquired in 1999 and made up by the costs incurred to obtain the exclusive TLC provider rights for the Jubilee. This asset shows a decrease mainly on account of the amortization charge for the year (Lire 42,330 million).

Fixed assets***Lire 29,305,516 million****(Lire 36,519,951 million at December 31, 1999)*

A summary of the changes during the year is presented as follows:

(in millions of lire)	2000
– Additions	3,674,626
– Disposals and other changes	7,765
– Contributions of business segments	(4,847,519)
– Transfers from stet international for spin-off	733
– Depreciation	(6,038,791)
– Reclassifications	(11,249)
Total	(7,214,435)

An analysis of the composition and the changes in fixed assets during the year is presented as follows:

12/31/1999					
(in millions of lire)	Cost	Upward adjustments	Writedowns	Accumulated depreciation	Total
Land and buildings	10,409,499	1,978,817	(3,939)	(4,555,813)	7,828,564
• non industrial buildings	94,942	10,550	=	(7,622)	97,870
• industrial buildings	10,314,557	1,968,267	(3,939)	(4,548,191)	7,730,694
Plant and machinery	87,563,843	1,682,971	(1,912,380)	(60,473,127)	26,861,307
Manufacturing and distribution equipment	1,754,708	5,366	=	(1,644,580)	115,494
Other fixed assets	3,029,300	8,374	=	(2,587,226)	450,448
Construction in progress and advances to suppliers	1,264,138	=	=	=	1,264,138
Total	104,021,488	3,675,528	(1,916,319)	(69,260,746)	36,519,951

(in millions of lire)	Changes during the year					Total
	Additions	Reclassifications	Sales/ Retirements/ Other changes (a)	Writedowns	Depreciation	
Land and buildings	1,076	190,667	(4,616,152)	=	(394,252)	(4,818,661)
• non industrial buildings	1,076	33,251	(69,354)	=	(1,658)	(36,685)
• industrial buildings	=	157,416	(4,546,798)	=	(392,594)	(4,781,976)
Plant and machinery	1,213,870	2,459,111	(97,703)	=	(5,314,161)	(1,738,883)
Manufacturing and distribution equipment	24,967	338	(516)	=	(62,508)	(37,719)
Other fixed assets	94,337	100,963	(215,649)	=	(267,870)	(288,219)
Construction in progress and advances to suppliers	2,340,376	(2,762,328)	90,999	=	=	(330,953)
Total	3,674,626	(11,249)	(4,839,021)	=	(6,038,791)	(7,214,435)

(a) Broken down as follows:

	Cost	Upward adjustments	Writedowns	Accumulated depreciation	Net value
Land and buildings	(6,333,499)	(1,050,707)	=	2,768,054	(4,616,152)
• non-industrial buildings	(66,127)	(7,749)	=	4,522	(69,354)
• industrial buildings	(6,267,372)	(1,042,958)	=	2,763,532	(4,546,798)
• of which contributions of business segments	(6,311,784)	(1,040,387)	=	2,759,503	(4,592,668)
• non-industrial	(62,288)	(4,021)	=	2,917	(63,392)
• industrial	(6,249,496)	(1,036,366)	=	2,756,586	(4,529,276)
Plant and machinery	(1,913,279)	(119,925)	44,143	1,891,358	(97,703)
• of which contributions of business segments	(254,504)	(1,657)	=	219,684	(36,477)
• of which transfers from Stet International	691	=	=	(658)	33
Manufacturing and distribution equipment	(23,778)	(68)	=	23,330	(516)
• of which contributions of business segments	(32)	=	=	27	(5)
Other fixed assets	(1,979,669)	(2)	=	1,764,022	(215,649)
• of which contributions of business segments	(1,613,826)	=	=	1,404,820	(209,006)
• of which transfers from Stet International	3,165	=	=	(2,465)	700
Construction in progress and advances to suppliers	90,999	=	=	=	90,999
• of which contributions of business segments	(9,363)	=	=	=	(9,363)
Total	(10,159,226)	(1,170,702)	44,143	6,446,764	(4,839,021)
• of which contributions of business segments	(8,189,509)	(1,042,044)	=	4,384,034	(4,847,519)
• of which transfers from Stet International	3,856	=	=	(3,123)	733

12/31/2000					
(in millions of lire)	Cost	Upward adjustments	Writedown	Accumulated depreciation	Total
Land and buildings	4,267,743	928,110	(3,939)	(2,182,011)	3,009,903
• non-industrial buildings	63,142	2,801	=	(4,758)	61,185
• industrial buildings	4,204,601	925,309	(3,939)	(2,177,253)	2,948,718
Plant and machinery	89,323,545	1,563,046	(1,868,237)	(63,895,930)	25,122,424
Manufacturing and distribution equipment	1,756,235	5,298	=	(1,683,758)	77,775
Other fixed assets	1,244,931	8,372	=	(1,091,074)	162,229
Construction in progress and advances to suppliers	933,185	=	=	=	933,185
Total	97,525,639	2,504,826	(1,872,176)	(68,852,773)	29,305,516

“Construction in progress and advances to suppliers” include labor costs of Lire 22,006 million. The gross value of the fixed assets transferred as a result of the corporate transactions for the contributions of business segments and the total spin-off of Stet International is Lire 9,227,697 million (of which Lire 7,608,740 million relates to the contribution of the business segment “Grandi Immobili” to IM.SER), whereas the related accumulated depreciation accounts total Lire 4,380,911 million (of which Lire 2,976,942 million relates to IM.SER).

Accumulated depreciation at December 31, 2000, as a whole, is considered sufficient in relation to the remaining period of utilization of the assets, determined on the basis of the estimated useful lives of the installations making up the domestic telecommunications network. Accumulated depreciation covered 68.8% of fixed assets at December 31, 2000 and 64.3% at December 31, 1999.

Since the accounting values of the installations are considered congruous and the most prestigious real estate properties were contributed to IM.SER, the fixed assets were not upwardly adjusted as allowed by Law No. 342/2000. However, as set forth by art. 14 of this law, in order to obtain tax benefits, the "Reserve for accelerated depreciation" pertaining to the fixed assets still in use at the end of 2000 was reclassified to the special reserve as provided by the same law. As a result of this law, the carrying value of the fixed assets subjected to accelerated depreciation transferred to the new reserve also expresses the cost of the fixed assets recognized for tax purposes.

At December 31, 2000, the upward adjustments made to fixed assets in 1952, 1975, 1983 and 1991 as well as those made under Law No. 823/1973 have been depreciated by an average of approximately 75%.

The Company uses fixed assets purchased through lease contracts with its subsidiary Teleleasing, which are essentially stipulated under market conditions, as disclosed in the memorandum accounts and related notes. Had these contracts been accounted for using the financial method, entries would have been made in the statement of income for the interest on the financed principal and the depreciation charge attributable to the leased assets and assets would have been recorded in fixed assets and the residual debt under liabilities. The use of this method, however, would have had no material economic effect on the financial statements. The amount of financial expense included in the lease payments recorded in the 2000 statement of income is separately indicated in the note on the "use of property not owned".

Additions during the year include Lire 692,429 million of projects completed in Southern Italy.

Long-term investments

Lire 40,193,558 million

(Lire 19,644,996 million at December 31, 1999)

This item increased by Lire 20,548,562 million compared to December 31, 1999 and includes the following:

(in millions of lire)	12/31/2000	12/31/1999
Equity investments in		
• subsidiaries	35,272,942	8,731,261
• affiliated companies	1,113,026	217,062
• other companies	177,710	382,070
	36,563,678	9,330,393
Advances on future capital contributions	1,864,890	8,610,090
Accounts receivable		
• subsidiaries	96,814	1,300,011
• other receivables	387,605	404,502
	484,419	1,704,513
Treasury stock	1,280,571	=
Total	40,193,558	19,644,996

*Equity investments**Lire 36,563,678 million*

Annexes 9 and 10 present the changes in each investment during the year, together with the corresponding amount at the beginning of the year and at December 31, 2000, as well as, according to Article 2427, Section 5, of the Italian Civil Code, a list of all the Company's equity investments in subsidiaries and affiliated companies. Overall, investments in subsidiaries, affiliates and other companies increased by Lire 27,233,285 million compared to December 31, 1999, as shown below:

(in millions of lire)

Increases:

<ul style="list-style-type: none"> Subscription to capital increases, recapitalizations and loss coverage of: TIM (2,188,228), Stream (205,000), Iridium Italia (26,059), Tin.it (formerly Savigliano Immobiliare) (6), Seat Pagine Gialle (563,417), IM.SER (154), Edotel (12,909), N.TC in liquidation (1,321), I.T. Telecom (formerly Reseau) (51,538), Czechtel in liquidation (21), TMI – Telemedia International Italia (166,741), Fintech (15,000), e Fusion (1,860), Trainet (6,889), Stet International Netherlands (2,050), Eutelsat (203,923), Media Technology Venture (1,106), Mix (19), Cygent (18,058), Cartesia (900). 	3,465,199
<ul style="list-style-type: none"> Acquisition/subscription of shares/quotas at time of corporate formation of: Stream (354,395), TIM (1,234,481), Seat Pagine Gialle (12,426,614), TI France (15), TI Germany (49), TI Switzerland (25), TI United Kingdom (3), TI Web (61), SIA (20,593), Latin American Nautilus (92,677), Mediterranean Nautilus (68), Netsiel (199), Telecom Italia Capital (66), TI Belgium (2,904), TI Netherlands (35), Is Tim Telekomunikasyon Hizmetleri (242,543), STT (4,400), Consorzio Dream Factory (172), Dmail.it (8,472), Gemini Israel III (1,181), IFM Infomaster (1,323), Italtel (80), Jerusalem Global Venture (1,496), Consorzio Energia Fiera District (3). 	14,391,855
<ul style="list-style-type: none"> Permanent transfer to capital stock of advances on future capital contributions relating to Stet International Netherlands (8,401,122), Stet Mobile Holding (1,118,604), Cartesia (100), CAF Italia 2000 (1). 	9,519,827
<ul style="list-style-type: none"> Acquisition of investments following corporate transactions: Netsiel (209,860), TE.SS. (2,274), Seat Pagine Gialle (46,409), IM.SER (5,615,183), Stet International Netherlands (1,547,389), Stet Mobile Holding (89,580), Saiat (1,000). 	7,511,695
<ul style="list-style-type: none"> Reclassification of long-term receivable from Bitel to investments (259,981) and acquisition of investment in IMMSI through partial demerger of Sirti (45,575). 	305,556
Total increases (A)	35,194,132

(milioni di lire)

Decreases:

• Sale of shares/quotas in: IM.SER (5,224,408), Bitel (259,981), IMMSI (10,281), Edotel (80), Teleleasing (14), Consorzio Promotore ISDN in liquidation (229), Consorzio Multimediale di Terni (1,750), Sistemi e Telematica (420), TSP (7,023), Accel (891), Intelsat (23,493), Media Technology Venture (1,309), The Fantastic Corporation (548), Huit (199), Sirti (86,348), Itinera (127), Is Tim Telekomunikasyon Hizmetleri (242,543), Italtel (80), Italdata (720).	5,860,444
• Writedown for losses of investments charged to statement of income of: Iridium Italia (5,700), Stream (391,881), TMI - Telemedia International Italia (197,081), Tin.it (formerly Savigliano Immobiliare) (6), Consorzio Civita (12), Trainet (1,306).	595,986
• Writedown for losses of investments covered by the reserve for risks and charges on investments of: Iridium Italia (20,359), Stream (1,169), N.TC in liquidation (1,321), Edotel (11,629), Czechtel in liquidation (21), Consorzio CIMSC (9), I.T. Telecom (formerly Reseau) (1,538), IM.SER (137), Geis (9,692), Trainet (5,583).	51,458
• Reduction of the investment in Sirti following the partial demerger and consequent creation of the company IMMSI.	45,575
• Total spin-off of Stet International	1,407,384
Total decreases (B)	7,960,847
Net change for the year (A-B)	27,233,285

In particular:

- subsequent to the resolutions of the extraordinary stockholders' meeting of December 15, 1999, on February 7, 2000, the real estate assets and connected activities of Sirti S.p.A. were partially demerged, on a proportional basis, and attributed to the newly formed company IMMSI S.p.A.. The legal effects of the demerger had effect from February 10 and from February 11, the stock exchange authorized the trading of IMMSI shares and the listing of Sirti shares ex demerger. In November, Telecom Italia tendered all of its shares in Sirti to the voluntary take-over bid by Wiretel for 100% of Sirti stock.
- on April 7, Telecom Italia subscribed to the share capital increase of Savigliano Immobiliare – from Lire 20 million to Lire 1,000 million – voted by the stockholders' meeting of the company acquired the previous February 29. The same stockholders' meeting passed a resolution to transform the company from a limited liability company to a joint stock company, changing the registered name to Tin.it S.p.A.. Also on the same occasion, a second capital increase was voted for Lire 40 billion with the contributions of assets consisting of the business segments and investments inherent to the operations and marketing of online services and products by Telecom Italia, the investment held in Viasat by Telespazio and the "Content Management" division by Saritel. On August 10, 2000, the extraordinary stockholders' meeting passed a resolution for the partial demerger, on a proportional basis, of Telecom Italia, finalized on November 10, through the transfer of a 8.168% stake in Tin.it to Seat, and also the merger of Tin.it and Seat Pagine Gialle, finalized on November 15, 2000. At December 31,

2000, the investment in Seat Pagine Gialle – taking into account this last transaction and the purchase of shares during the year, from Huit II (No. 816,809,603 ordinary shares at 4.5 euro per share, plus interests), through public purchase offers (No. 339,291,608 ordinary shares at 4.2 euro per share and No. 326,944,623 saving shares at 2.94 euro per share) and by JP Morgan (No. 53,009,681 ordinary shares at 4.87 euro per share), was equal to 55.20% of the entire share capital. The shares held by Telecom Italia, equal to No. 6,051,510,901, are composed of No. 5,168,475,885 unencumbered ordinary shares, No. 218,754,174 unencumbered savings shares, No. 339,291,608 ordinary shares pledged and No. 324,989,234 shares on loan (of which No. 216,798,785 ordinary shares and No. 108,190,449 savings shares). These latter shares derive from specific contracts for the loan of securities (see the accounting policies under investments), covered by specific guarantee contracts;

- during the month of April, Telecom Italia purchased 50 million TIM ordinary shares at a price of Lire 1,230,947 million in order to increase its holding in the company. In July, the Board of Directors of Telecom Italia voted to accept TIM's offer to covert all of TIM savings shares into ordinary shares. The outlay by Telecom Italia totaled Lire 2,188,228 million.
- during the first half, Telecom Italia and News Television acquired the investments held by Cecchi Gori group and SDS in Stream, each by equally subscribing to capital increases and making stock purchases. After these transactions, Telecom Italia's stake in Stream increased from 35% to 50%;
- in June, Telecom Italia contributed No. 46,104,648 Meie Assicurazioni shares to Saiat that were carried in the 1999 financial statements at quantity and not at value, realizing a gain of Lire 1,000 million;
- on November 1, 2000, Telecom Italia contributed to TE.SS. – Tele Payroll Services S.p.A. – the business segment consisting of the personnel administration services through the subscription of No. 117,500 shares of the same for an equivalent amount of Lire 2,274 million;
- on December 1, 2000, Telecom Italia contributed the business segment "Grandi Immobili", including the majority of the most prestigious real estate properties, to IM.SER for an amount of Lire 5,615,183 million, acquiring 100% control of the company; later, a 45% stake in IM.SER was sold to Beni Stabili and an additional 15% stake to Lehman Brothers. Telecom Italia's interest thus fell to 40%.
- on December 27, 2000, the total spin-off of Stet International to Telecom Italia and TIM as part of the rationalization of the international telecommunications sector was concluded. The deal is effective for accounting and tax purposes beginning January 1, 2000. This transaction led to the cancellation of the entire stake in Stet International (Lire 1,407,385 million) and the simultaneous increase in the investments in Stet International Netherlands (Lire 1,547,389 million) and in Stet Mobile Holding (Lire 89,581 million). Telecom Italia subsequently contributed the entire stake held in Stet Mobile Holding to TIM, receiving 1.94% of TIM ordinary shares (after the conversion of savings shares into ordinary shares) following the share capital increase set aside by TIM for the same Telecom Italia;
- on December 31, 2000, Telecom Italia, as part of the plan for the reorganization of the information technology sector, which calls for concentrating all of the Group's operations in this sector to I.T. Telecom S.p.A., contributed the business segment for the operations of the information technology services to Netsiel, by subscribing to the capital of the same for an equivalent amount of Lire 209,860 million; after this transaction Telecom Italia's stake in Netsiel is equal to 68.7%;

- some investments in subsidiaries and affiliated companies are recorded at an amount in excess of the corresponding share of the underlying stockholders' equity, net of dividends and after the consolidation adjustments. These investments are maintained at their carrying values since they are expected to show future earnings and their assets are worth more than their respective book values. In particular, in the case of TIM, the higher value – which is nevertheless significantly lower than market value, as later described – is the result of the method (proportion of market value) used in separating the value of the holding from that of the former company Telecom Italia following the demerger in 1995. As for Finsiel, the value of the investment has not been changed in view of its current earnings potential.

A comparison between the market price of the listed shares at December 31, 2000 and their carrying value shows an unrealized gain of Lire 83,954 billion. Further details are given in Annex 11.

Advances on future capital contributions

Lire 1,864,890 million

These show a decrease of Lire 6,745,200 million compared to December 31, 1999, principally due to the reclassification to “equity investments in subsidiaries” of the payments made to the companies Stet International Netherlands and Stet Mobile Holding in prior years and during 2000. At December 31, 2000, the amount is composed as follows:

- Stet International Netherlands (Lire 1,864,633 million);
- Tecno Idro Meteo (Lire 189 million);
- Ti Austria GmbH (Lire 68 million).

Accounts receivable

Lire 484,419 million

These are recorded at nominal value, which corresponds to estimated realizable value, decreased by Lire 1,220,094 million compared to December 31, 1999, and are analyzed as follows:

	12/31/1999	Changes during the year				12/31/2000
(in millions of lire)		Disburse- ments	Reimburse- ments	Reclassifi- cations Other	Total	
Subsidiaries	1,300,011	9,611	(962,918)	(249,890)	(1,203,197)	96,814
Other receivables	404,502	63,266	(78,017)	(2,146)	(16,897)	387,605
Total	1,704,513	72,877	(1,040,935)	(252,036)	(1,220,094)	484,419

Accounts receivable from subsidiaries

Lire 96,814 million

These decreased by Lire 1,203,197 million mainly on account of the repayment of loans by Teleleasing following the sale to Mediobanca of a 60% interest in Teleleasing itself. The balance at December 31, 2000 only includes loans granted at market terms to the company Telespazio.

Other receivables

Lire 387,605 million

These decreased by Lire 16,897 million and refer to:

- *receivables from customers* *Lire 1,819 million*
these are made up by 50% of the new connection charges borne by residential customers paying in 12 bi-monthly installments, as allowed by law. These receivables show a decrease of Lire 24 million from December 31, 1999;
- *receivables from employees* *Lire 95,047 million*
these include the outstanding amount of loans receivable from employees, of which Lire 78 million was made in connection with the Initial Public Offering of ordinary Telecom Italia shares;
- *guarantee deposits* *Lire 9,744 million*
these include cash deposits to third parties paid mainly to municipalities to guarantee proper work to roads;
- *other financial receivables* *Lire 280,995 million*
These mainly refer to:
 - the loan made to Ros Telecom (Lire 42,610 million) for the installation of the ITUR project (optic submarine cable linking Italy, Turkey, Ukraine and Russia);
 - the prepayment of the tax on the reserve for employee termination indemnities (Lire 220,344 million) required under Law No. 662 of December 23, 1996 and subsequent amendments, revalued as required by law;
 - the outstanding amount (Lire 211 million) of low-rate loans granted to personnel of the other Italian companies of the Telecom Italia Group in connection with the Initial Public Offering (IPO) of ordinary Telecom Italia shares.

Treasury stock

Lire 1,280,571 million

At December 31, 2000, the Company had a total of No. 104,978,070 treasury savings shares, with a par value of Lire 1,000 each, equal to 1.41% of share capital. The buy-backs were made following the tender offer to purchase during the period February 17, 2000 to March 17, 2000 (No. 1,793,820 shares) and later buy-backs (No. 103,184,250 shares) as voted by the ordinary stockholders' meeting of January 14, 2000. A specific reserve was set up under stockholders' equity for this purpose.

As required by Article 2358 of the Italian Civil Code, we report that the amount of the available reserves recorded in the financial statements at December 31, 2000 is sufficient to cover the outstanding balance of the loans made to employees of Telecom Italia and Telecom Italia Group companies for the purchase of ordinary Telecom Italia shares in connection with the Initial Public Offering under Decree of August 8, 1997 by the President of the Council of Ministers.

As required under Article 2427, Section 6 of the Italian Civil Code, Annex 12 sets forth a breakdown of loans under long-term investments by maturity within and beyond five years.

As required by Article 10 of Law No. 72/1983 the table below sets forth a breakdown of upward adjustments by type of assets held by the Company.

(in millions of lire)						Fixed assets	Other assets	
Description	Land and buildings	Plant and machinery	Manufacturing and distribution equipment	Other assets	Construction in progress and advances to suppliers	Total	Investments	
							Subsidiaries	Affiliates
Historical cost of additions to 12/31/2000:								
Upward adjustments under								
Special laws	1,549,506	3,504,769	16,231	14,930	=	5,085,436	1,491,224	4,680
Not adjusted	2,718,237	85,818,776	1,740,004	1,230,001	933,185	92,440,203	33,665,302	1,426,676
Total	4,267,743	89,323,545	1,756,235	1,244,931	933,185	97,525,639	35,156,526	1,431,356
Upward adjustments:								
Under Law								
No. 74 of 2/11/1952	700	=	=	=	=	700	724	=
Under Law								
No. 823 of 12/19/1973	24,615	=	=	=	=	24,615	1,057	=
Under Law								
No. 576 of 12/2/1975	48,140	67,887	5,298	928	=	122,253	26,187	=
Under Law								
No. 72 of 3/19/1983	356,394	1,495,159	=	7,444	=	1,858,997	180,079	2,757
Under Law								
No. 413 of 12/30/1991	498,261	=	=	=	=	498,261	=	=
Voluntary adjustment made in 1981	=	=	=	=	=	=	83,255	=
Total	928,110	1,563,046	5,298	8,372	=	2,504,826	291,302	2,757
Grand total	5,195,853	90,886,591	1,761,533	1,253,303	933,185	100,030,465	35,447,828	1,434,113

Current assets

Inventories

Lire 149,388 million

(Lire 233,028 million at December 31, 1999)

These decreased by Lire 83,640 million compared to December 31, 1999 and include the following:

Contract work in process

Lire 69,533 million

This item, which increased by Lire 15,553 million compared to December 31, 1999, represents the value of the work being performed on behalf of third parties at December 31, 2000.

Merchandise

Lire 79,855 million

Merchandise decreased by Lire 99,193 million compared to December 31, 1999 owing to both higher consumption of goods held for sale and used for maintenance (telephone products and materials) and improvements in the management of merchandise inventories.

Accounts receivable**Lire 17,657,120 million***(Lire 15,401,138 million at December 31, 1999)*

Accounts receivable increased by Lire 2,255,982 million compared to December 31, 1999. A breakdown and the changes that occurred during the year are given in the table below:

(in millions of lire)	12/31/1999	Changes during the year			12/31/2000
		Utilizations	Provisions	Change	
Trade accounts receivable	10,136,833			(1,165,424)	8,971,409
• allowance for doubtful accounts	(728,000)	406,490	(332,490)	74,000	(654,000)
Total trade accounts receivable	9,408,833			(1,091,424)	8,317,409
Accounts receivable from					
subsidiaries	4,489,011			745,660	5,234,671
of which financial receivables	2,083,785			(26,660)	2,057,125
Accounts receivable from					
affiliated companies	405,401			62,418	467,819
of which financial receivables	64,789			56,282	121,071
Accounts receivable from					
parent companies	2,484			(145)	2,339
Other receivables	1,095,409			2,539,473	3,634,882
• Government and					
other public entities					
for grants and subsidies	250			2,200	2,450
• deferred tax assets	345,483			594,006	939,489
• other receivables	749,676			1,943,267	2,692,943
Total	15,401,138			2,255,982	17,657,120

Trade accounts receivable**Lire 8,317,409 million**

Trade accounts receivable decreased by Lire 1,091,424 million, compared to December 31, 1999, owing to the assignment of receivables without recourse, not due on December 31, 2000, to factoring companies (Lire 399,895 million, with a loss of Lire 5,204 million). Trade accounts receivable are shown net of the allowance for doubtful accounts (Lire 654,000 million, of which Lire 332,490 million were provided during the year). The latter decreased by Lire 74,000 million compared to December 31, 1999 (Lire 728,000 million), mainly due to a reduction in the amount of doubtful receivables. Trade accounts receivable include Lire 1,382,473 million of receivables from other operators (Lire 751,227 million from fixed telecommunications carriers, Lire 57,637 million from mobile telecommunications operators and Lire 502,209 million from foreign correspondents).

*Accounts receivable from subsidiaries**Lire 5,234,671 million*

Accounts receivable from subsidiaries increased by Lire 745,660 million, compared to December 31, 1999, and include trade, financial and other receivables. The financial receivables reflect current account transactions carried out at market rates for cash management purposes and short-term loans granted to the companies; such receivables can be analyzed as follows:

(in millions of lire)	12/31/2000	12/31/1999
Financial receivables from		
Subsidiaries:		
Aspasiel	1,682	1,606
Consiel	69,350	52,943
Consultel (in liquidation)	1,738	384
Cselt	29,949	24,191
Edotel (formerly Sidac)	=	11,480
Eis	36,722	7,556
Elettra Tlc	27,088	41,889
Emsa	=	26,365
Finsiel	199,459	391,052
I.T. Telecom (formerly Reseau)	9,071	1,685
IM.SER (formerly Tecnitel)	=	2,600
Insiel	5,815	1,390
Intersiel	5,208	3,021
Ireos (in liquidation)	2,220	1,915
Iridium	=	429
Italtel	=	200,000
Latin America Nautilus	11,653	=
Netsiel	36,107	16,516
N.TC (in liquidation)	=	1,295
Saiat	=	64,095
Saritel	122,220	77,291
Seat Pagine Gialle	2,927	=
Sic	11	=
Sintesi	1,309	974
Sodalìa	40,889	32,790
Softe	=	295,485
Sogei	51,935	=
Stet International	=	29,303
TE.SS.	323	=
Teleleasing	=	266,110
Telesoft	218,366	259,907
Telespazio	194,328	120,635
Telimm	16,063	=
TIM	908,250	=
Tmi-Telemedia International Italia	25,581	73,110
Tmi-Telemedia International Ltd	31,949	69,478
Trainet	=	=
Venis	6,912	4,630
Webegg (formerly Logicasiel)	=	3,660
Total	2,057,125	2,083,785

Trade receivables, amounting to Lire 1,177,895 million, are mostly due from TIM (Lire 298,934 million), Telespazio (Lire 209,145 million), Seat Pagine Gialle (Lire 184,692 million), Stet International Netherlands (Lire 76,036 million) and Telesoft (Lire 56,192 million).

Other receivables, amounting to Lire 1,999,651 million, primarily represent accrued dividends from subsidiaries (Lire 1,862,344 million) and other receivables connected with the Group's VAT settlement system.

Accounts receivable from affiliated companies

Lire 467,819 million

Accounts receivable from affiliated companies increased by Lire 62,418 million compared to December 31, 1999. Receivables include trade, financial and other receivables. The financial receivables reflect current account transactions carried out at market rates for cash management purposes and short-term loans; such receivables can be analyzed as follows:

(in millions of lire)	12/31/2000	12/31/1999
Financial receivables from		
Affiliated companies:		
Astelit	344	344
Datasiel	110	=
Esri Italia	4,497	7,121
Excite Italia BV	9,846	989
Lares Tecno	=	34
Sispi	4	12
Stream	106,270	56,270
Consorzio Telcal	=	19
Total	121,071	64,789

Trade receivables, amounting to Lire 346,403 million, are mostly due from Retevision (Lire 88,164 million), Telecom Argentina (Lire 57,321 million) and Golden Lines (Lire 48,883 million); other receivables total Lire 345 million.

Accounts receivable from parent companies

Lire 2,339 million

Accounts receivable from parent companies refer to the amounts due from the parent company Olivetti, of which Lire 2,205 million refers to trade receivables.

Other receivables

Lire 3,634,882 million

Government and other public entities for grants and subsidies

Lire 2,450 million

These consist of the receivable from the Ministry of Industry, Commerce and Handicrafts for grants to defray the costs incurred for the realization of the telecommunications installations in Southern Italy.

Deferred tax assets

Lire 939,489 million

These are shown net of the reserve for deferred taxes (Lire 1,111,127 million). The main items which gave rise to deferred tax assets are the writedown of receivables and software and the reserve for risks; those which generated deferred tax liabilities are gains and

capital grants. Both the reserve for “deferred tax liabilities” and “deferred tax assets” include tax credits on dividends accrued.

At December 31, 2000, about Lire 435,000 million of deferred tax assets have not been recorded since future recovery is not reasonably assured.

The balance of deferred tax assets and liabilities is made up as follows:

	Due at December 31, 2000				Due at December 31, 1999			
	Within 1 year	From 2 to 5 years	Beyond 5 years	Total	Within 1 year	From 2 to 5 years	Beyond 5 years	Total
Deferred tax assets	1,766,937	283,679	=	2,050,616	1,373,688	541,039	40,120	1,954,847
Reserve for deferred taxes	(1,097,710)	(13,417)	=	(1,111,127)	(1,185,878)	(383,366)	(40,120)	(1,609,364)
Net balance	669,227	270,262	=	939,489	187,810	157,673	=	345,483

The increase in net deferred tax assets at December 31, 2000 is mainly due to lower deferred tax liabilities following the reclassification of the “Reserve for accelerated depreciation”, pursuant to art. 14 of Law No. 342/2000.

Other receivables

Lire 2,692,943 million

These increased by Lire 1,943,267 million compared to December 31, 1999 and can be analyzed as follows:

(in millions of lire)	12/31/2000	12/31/1999
• receivables from Tax Administration	83,196	46,079
• receivables relating to personnel	156,581	142,600
• transaction for the loan of securities	1,679,977	=
• amounts paid by customers and in transit with the banking and postal banking system	278,140	340,064
• other items	495,049	220,933
Total	2,692,943	749,676

The contra-entry to the transaction for the loan of securities described under “Investments” can be found in “Other liabilities”.

Short-term financial assets**Lire 642,608 million***(Lire 119,207 million at December 31, 1999)*

These increased by Lire 523,401 million compared to December 31, 1999 and the composition and changes during the year are shown in the following table:

	12/31/1999	Changes during the year				12/31/2000
(in millions of lire)		Acquisition	Sales/ Reimburse- ments	Writedowns/ Reinstatement- ments	Total	
Equity investments						
in subsidiaries	108,813	1,119,153	(428,654)	(166,670)	523,829	632,642
Equity investments in						
affiliated companies	=	139,199	(139,199)	=	=	=
Other equity investments	10,394	76,511	(23,224)	(53,715)	(428)	9,966
Other securities	=	156,308	(156,308)	=	=	=
Total	119,207	1,491,171	(747,385)	(220,385)	523,401	642,608

These refer to listed shares acquired both in trading transactions and in the form of dividends “in kind” distributed by some venture capital companies (Accel, Media Technology Venture).

The net gains realized on the sales of shares in subsidiaries and other companies, totaling Lire 63,723 million, refer mainly to TIM (Lire 47,946 million); the losses, on the other hand, amount to Lire 746 million and refer to Sirti (Lire 424 million) and Agil Software (Lire 322 million).

Further details are given in Annex 11.

Liquid assets**Lire 210,952 million***(Lire 140,452 million at December 31, 1999)*

Liquid assets increased by Lire 70,500 million compared to December 31, 1999 and include the following:

(in millions of lire)	12/31/2000	12/31/1999
Bank and postal accounts	210,320	139,521
Checks	9	1
Cash and valuables on hand	623	930
Total	210,952	140,452

Accrued income and prepaid expenses**Lire 1,634,353 million***(Lire 49,479 million at December 31, 1999)*

These increased by Lire 1,584,874 million compared to December 31, 1999 and include the following:

(in millions of lire)	12/31/2000	12/31/1999
Issue discounts and similar charges	2,411	3,584
Accrued income		
• financial income	33,737	30,506
	33,737	30,506
Other prepaid expenses		
• production costs	104,644	15,183
• financial expenses	39,623	206
• other	1,453,938	=
	1,598,205	15,389
Accrued income and other prepaid expenses	1,631,942	45,895
Total	1,634,353	49,479

Issue discounts and similar charges**Lire 2,411 million**

These decreased by Lire 1,173 million compared to December 31, 1999 due to the amounts charged to the statement of income for the portion attributable to the current year.

Issue discounts and similar charges are made up by the expenses incurred to obtain loans.

Accrued income and other prepaid expenses**Lire 1,631,942 million**

These increased by Lire 1,586,047 million compared to December 31, 1999.

Accrued income includes the interest expense (Lire 12,301 million) subsidized until 1991 by the government under Law No. 67/1988, equivalent to three percentage points of the cost of the loans which replaced those assigned to the Company through Cassa Depositi e Prestiti under Law No. 887/1984.

Prepaid expenses are mainly related to building rents (Lire 95,427 million), financial expenses (Lire 39,623 million) pertaining to amounts already accrued or paid, but attributable to future years, expenses relating to the deferral of the put option on the Seat shares (Lire 1,453,938 million), to which reference should be made to "Purchases and sales commitments" in the memorandum accounts.

A breakdown of receivables and accrued income by maturity and type is given in Annex 12.

LIABILITIES AND STOCKHOLDERS' EQUITY

Stockholders' equity**Lire 36,235,335 million***(Lire 35,577,763 million at December 31, 1999)*

The table below shows the changes that occurred during the year:

	12/31/1999	Change during the year				12/31/2000
(in millions of lire)		Appropriation of 1999 net income	Other changes	Net income	Total	
Share capital	7,426,157	=	=	=	=	7,426,157
Additional paid-in capital	3,490,922	=	=	=	=	3,490,922
Reserves for inflation adjustments under						
• Law No. 72 of 3/19/1983	4,805,725	=	(481)	=	(481)	4,805,244
• Law No. 413 of 12/30/1991	908,093	=	(90)	=	(90)	908,003
Legal reserve	762,267	252,518	=	=	252,518	1,014,785
Reserve for treasury stock	=	=	1,280,571	=	1,280,571	1,280,571
Other reserves:						
• reserve for accelerated depreciation	1,487,794	298,828	(1,786,622)	=	(1,487,794)	=
• reserve Law No. 342 of 11/21/2000, art. 14	=	=	1,720,299	=	1,720,299	1,720,299
• special reserve	3,627,806	=	(1,220,299)	=	(1,220,299)	2,407,507
• reserve for capital grants	852,913	=	31,221	=	31,221	884,134
• miscellaneous reserves	7,165,723	=	177,728	=	177,728	7,343,451
Net income	5,050,363	(551,346)	(4,499,017)	4,954,262	(96,101)	4,954,262
Total stockholders' equity	35,577,763	=	(4,296,690)	4,954,262	657,572	36,235,335

Share capital**Lire 7,426,157 million**

Share capital has remained unchanged compared to December 31, 1999 and consists of 5,260,037,131 ordinary shares and 2,166,120,095 savings shares of par value Lire 1,000 each.

Reserve for inflation adjustments under Law No. 72 of 3/19/1983 **Lire 4,805,244 million**

This reserve decreased by Lire 481 million compared to December 31, 1999, following the partial spin-off of No. 3,348,922 Tin.it ordinary shares by Telecom Italia to Seat Pagine Gialle, as voted by the extraordinary stockholders' meeting on August 10, 2000.

Reserve for inflation adjustments under Law No. 413 of 12/30/1991 **Lire 908,003 million**

This reserve decreased by Lire 90 million compared to December 31, 1999, due to the aforementioned partial spin-off to Seat Pagine Gialle.

*Reserve for treasury stock**Lire 1,280,571 million*

This reserve has been set up in respect of the tender offer for treasury savings shares and subsequent buy-backs, to which reference should be made under the specific caption in assets. The amount was transferred from the “special reserve”.

Reserve for accelerated depreciation

=

This reserve shows a nil balance due to the following:

- increase as a result of the appropriation of 1999 profit (Lire 298,828 million);
- reclassification of Lire 1,720,299 million to the recently formed “Reserve Law No. 342 of November 21, 2000, art. 14, to which reference should be made;
- reclassification of Lire 66,323 million to the “special reserve” for fixed assets disposed of or retired during 2000.

*Reserve Law No. 342 of November 21, 2000, art. 14**Lire 1,720,299 million*

This reserve was set up by reclassifying part of the “Reserve for accelerated depreciation” pertaining to the fixed assets still in use at the end of 2000. Pursuant to the provision under which the new reserve was set up, it became possible to bring the tax deductible costs of these same fixed assets into line with those carried in the financial statements (which do not take into account accelerated depreciation taken only for tax purposes) through the payment of a substitute equalization tax equal to 19% of the reclassified amount. Tax treatment of this reserve is regulated by DM No. 162 of April 13, 2001, art. 10.

*Special reserve**Lire 2,407,507 million*

The special reserve shows a decrease of Lire 1,220,299 million compared to December 31, 1999. The reduction represents the difference between the reclassification from the “Reserve for accelerated depreciation”, the transfers to the “Reserve for treasury stock” and the utilization of Lire 6,051 million to round off the special dividend for 1999 to the highest lire, as voted by the ordinary stockholders’ meeting of July 3, 2000. In fact, at that date, dividends on the treasury stock held by the Company were uniformly redistributed over all the other shares.

*Reserve for capital grants**Lire 884,134 million*

The reserve for capital grants increased by Lire 31,221 million compared to December 31, 1999. The increase represents the difference between the transfer of a portion of the capital grants received up to December 31, 1992, equal to Lire 31,306 million, which became available during 2000 as a result of the depreciation of the assets to which the grants refer and the transfer of Lire 85 million following the partial spin-off in favor of Seat Pagine Gialle.

*Other reserves**Lire 7,343,451 million*

Other reserves increased by Lire 177,728 million, compared to December 31, 1999, due to the surplus arising the total spin-off of Stet International through the transfer of all the

assets and liabilities to the beneficiary companies Telecom Italia and TIM, as voted by the extraordinary stockholders' meeting of October 20, 2000; the amount (Lire 181,457 million), in fact, derives from the difference between the accounting value of the assets and liabilities transferred to Telecom Italia and the cancellation of the investment in Stet International. The same amount was partly offset by the effect of the partial spin-off to Seat Pagine Gialle.

Current plans do not include any transactions affecting equity reserves in abeyance of taxes which would be subject to taxation under current laws.

Reserves for risks and charges

Lire 1,711,092 million

(Lire 1,242,208 million at December 31, 1999)

These increased by Lire 468,884 million compared to December 31, 1999. The composition and changes in these reserves are described as follows:

	12/31/1999	Changes during the year					12/31/2000
(in millions of lire)		Provisions	Utilizations	Released to income	Reclassification/ Other	Total	
Reserve for taxes	254,498	1,076,796	(1,351,498)	(971)	294,650	18,977	273,475
For taxes	254,498	24,419	(4,471)	(971)	=	18,977	273,475
For deferred taxes	=	1,052,377	(1,347,027)	=	294,650	=	=
Other reserves	987,710	693,415	(180,982)	=	(62,526)	449,907	1,437,617
Reserve for litigation	257,694	17,183	(12,806)	=	120	4,497	262,191
Reserve for capital grants	284,653	=	=	=	(31,306)	(31,306)	253,347
Reserve for losses of subsidiaries and affiliates	49,438	31,245	(51,458)	=	=	(20,213)	29,225
Reserve for corporate restructuring	=	294,523	=	=	=	294,523	294,523
Reserve for contractual risks and other risks	395,925	350,464	(116,718)	=	(31,340)	202,406	598,331
Total	1,242,208	1,770,211	(1,532,480)	(971)	232,124	468,884	1,711,092

Reserve for taxes

Lire 273,475 million

The reserve for taxes increased by Lire 18,977 million compared to December 31, 1999 and entirely refers to income taxes and other duties and taxes.

The reserve for deferred taxes shows a nil balance attributable to the set-off with deferred tax assets.

Other reserves

Lire 1,437,617 million

These increased by Lire 449,907 million, compared to December 31, 1999 and include the following reserves:

- reserve for litigation (Lire 262,191 million): this includes prudent provisions – charged to various items of the statement of income – for probable expenses in connection with personnel disputes and litigation with third parties which had not yet been settled at the end of the year. The provisions (Lire 17,183 million) are related to litigation with third parties and the utilizations refer to disputes with personnel (Lire 6,641 million), social security institutions (Lire 60 million) and others (Lire 6,105 million);

- reserve for capital grants (Lire 253,347 million): this includes the unavailable portion of capital grants received up to December 31, 1992 recorded herein solely for purposes of taking advantage of the tax benefits. Utilizations during the year (Lire 31,306 million) stem from the transfer to stockholders' equity of the portion of the capital grants which became available;
- reserve for losses of subsidiaries and affiliates (Lire 29,225 million): this includes the provisions to account for the losses in excess of the carrying value of some investments, in particular, Iridium Italia (Lire 8,541 million) and Trainet (Lire 5,594 million). Utilizations of Lire 51,458 million refer almost entirely to the coverage of the losses of the companies Iridium Italia (Lire 20,359 million) and Edotel (Lire 11,629 million);
- reserve for corporate restructuring (Lire 294,523 million): this includes the provision made during the year subsequent to the operating agreements reached in July with the unions concerning cutbacks and layoffs under unemployment compensation plans;
- reserve for contractual risks and other risks (Lire 598,331 million): this mainly includes the provisions recorded in the previous years for risks relating to the former Iraq construction contracts (Lire 120,000 million), as well as those made in 2000 for probable charges stemming from the settlement of trade and sundry positions (Lire 350,464 million), of which Lire 241,500 million are connected to the disposals of the investments and the contribution of the business segment "Grandi Immobili" and Lire 81,807 million for disputes of a regulatory nature. Utilizations (Lire 116,718 million) mainly refer to payments made as a consequence of the definition of the 1999 interconnecting rates by the Regulatory Authority (February 15, 2000).

Reserve for employee termination indemnities**Lire 1,996,825 million***(Lire 2,163,171 million at December 31, 1999)*

This item decreased by Lire 166,346 million compared to December 31, 1999. The following changes took place in the account:

(in millions of lire)

Balance at December 31, 1999	2,163,171
Changes during the year:	
- Provisions charged to income for amounts to fund employee termination indemnities accrued in favor of employees during the year plus the fixed and variable cost-of-living adjustments required under Law No. 297/1982	332,906
- Utilizations for:	
• Indemnities paid to employees who took retirement or resigned during the year	(346,289)
• Advances under Law No. 297/1982	(31,067)
• Advances under agreements with labor unions regarding layoffs under unemployment compensation plans	(45,484)
- Amounts transferred to/from subsidiaries and other changes	(76,412)
Balance at December 31, 2000	1,996,825

Liabilities**Lire 51,162,196 million***(Lire 34,457,494 million at December 31, 1999)*

A breakdown of liabilities and accrued expenses pursuant to Article 2427, Section 6, of the Italian Civil Code, is given in Annex 13.

Liabilities, which increased by Lire 16,704,702 million compared to December 31, 1999, include the following:

(in millions of lire)	12/31/2000			12/31/1999		
	Financial accounts payable	Trade accounts payable and miscellaneous payables	Total	Financial accounts payable	Trade accounts payable and miscellaneous payables	Total
Debentures	281,642	=	281,642	824,914	=	824,914
Due to banks	24,727,109	=	24,727,109	12,422,073	=	12,422,073
Due to other lenders	1,275,967	=	1,275,967	1,609,805	=	1,609,805
Advances	=	2,281	2,281	=	1,862	1,862
Trade accounts payable	=	5,485,150	5,485,150	=	6,187,988	6,187,988
Accounts payable to subsidiaries	7,739,320	2,267,243	10,006,563	3,343,202	2,835,348	6,178,550
Accounts payable to affiliated companies	260,531	845,552	1,106,183	6,426	369,617	376,043
Accounts payable to parent companies	=	2,529	2,529	=	4,568	4,568
Taxes payable	=	956,726	956,726	=	928,685	928,685
Contributions to pension and social security institutions	=	1,656,923	1,656,923	=	1,709,281	1,709,281
Other liabilities	2,313,161	3,348,062	5,661,223	41,738	4,171,987	4,213,725
Total	36,597,730	14,564,466	51,162,196	18,248,158	16,209,336	34,457,494

Debentures**Lire 281,642 million**

Debentures decreased by Lire 543,272 million compared to December 31, 1999.

They include the 1992/2010 debenture issue, passed by resolution of the extraordinary stockholders' meeting of SIP (then Telecom Italia) on April 30, 1992, reserved for employees in service and retired for a maximum amount of Lire 1,000,000 million. The maximum period of the debentures extends to July 1, 2010, although the Company has the option of redeeming the debentures before maturity, by resolution of the Board of Directors. Outstanding debentures owned by employees total No. 5,632,832, with a face value of Lire 50,000 each.

The semi-annual nominal interest rate is variable (1.69% for the December 31, 2000 coupon) and payment is made on January 1 and July 1 of each year.

Due to banks**Lire 24,727,109 million**

These increased by Lire 12,305,036 million compared to December 31, 1999.

They comprise medium/long-term debt totaling Lire 6,089,197 million (Lire 7,592,885 million at December 31, 1999) – of which Lire 96,000 million is secured by collateral – and short-term borrowings totaling Lire 18,637,912 million (Lire 4,829,188 million at December 31, 1999). Of the latter amount, Lire 6,413,519 million refer to loans taken out to cover temporary liquidity requirements, Lire 11,572,080 million for credit facilities, mainly to finance the purchase of Seat shares from Huit II and through the public offers of purchase and Lire 652,313 million of bank overdrafts.

The changes in medium/long-term debt are as follows (in millions of lire):

– new loans	=
– loan repayments	1,508,372
– increase to adjust debt in foreign currency	4,684

Medium/long-term loans will be repaid under the following loan amortization plans:

Year	(in millions of lire)
2001	1,074,487
2002	1,584,027
2003	2,204,341
2004	723,097
2005	349,895
2006 and after	153,350
Total	6,089,197

Corresponding nominal interest rates at December 31, 2000 are shown below:

	(in millions of lire)
Up to 2.5%	1,154,034
From 2.5% to 5%	3,443,325
From 5% to 7.5%	938,124
From 7.5% to 10%	553,714
Total	6,089,197

The largest amount of gross debt falls within the range of rates up to 5% and includes loans made by various institutions to replace those by Cassa Depositi e Prestiti (pursuant to Law No. 887/1984), with 3% interest subsidies paid by the Treasury Ministry (pursuant to Law No. 67/1988), plus part of the loans made with EIB funds.

Foreign currency loans amount to Lire 1,946,291 million (Lire 1,395,645 million at December 31, 1999) and are detailed in the following table:

	Currency (in millions)		Millions of lire	
	12/31/2000	12/31/1999	12/31/2000	12/31/1999
USD	420	150	950,382	288,240
Euro-zone currencies	120	167	231,565	322,914
GBP	252	258	755,590	774,632
JPY	880	992	8,754	9,859
Total			1,946,291	1,395,645

At December 31, 2000, unused credit lines total Lire 10,377,094 million.

Due to other lenders

Lire 1,275,967 million

These decreased by Lire 333,838 million compared to December 31, 1999.

They consist of medium/long-term loans mainly made by Cassa Depositi e Prestiti (Lire 888,023 million) and amounts due to Iri (Lire 384,522 million).

Such medium/long-term loans will be repaid as follows:

Year	(in millions of lire)
2001	398,389
2002	261,326
2003	198,094
2004	140,765
2005	74,560
2006 and after	202,833
Total	1,275,967

Corresponding nominal interest rates at December 31, 2000 are shown below:

	(in millions of lire)
Up to 2.5%	3,422
From 5% to 7.5%	974,159
From 7.5% to 10%	298,386
Total	1,275,967

Trade accounts payable

Lire 5,485,150 million

These decreased by Lire 702,838 million compared to December 31, 1999, mainly as a result of lower investments in installations, and include amounts assigned by some suppliers to credit institutions, factoring companies, etc.. They also comprise payables to other TLC carriers amounting to Lire 1,119,070 million, of which Lire 428,601 million are due to foreign correspondents, Lire 311,587 million to wireline telecommunications carriers and Lire 378,882 million to mobile telecommunications operators.

*Accounts payable to subsidiaries**Lire 10,006,563 million*

These increased by Lire 3,828,013 million compared to December 31, 1999.

They consist of financial payables, trade accounts payable and other payables. Financial payables (Lire 7,739,320 million) refer to current account transactions negotiated at market rates for cash management purposes and can be analyzed as follows:

(in millions of lire)	12/31/2000	12/31/1999
Financial payables to subsidiaries		
Atesia	18,989	2,556
Banksiel	53,285	38,019
Bisiel	=	73
Carisiel	2,762	2,106
Consorzio Gruppo Stet per Italia '90 (in liquidation)	12	14
Consorzio Itinera (in liquidation)	=	270
Consorzio Promotore ISDN (in liquidation)	=	411
Dmr Consiel	=	1,520
Edotel (formerly Sidac)	123	=
Emsa	22,758	=
Ic Soft (in liquidation)	120	20
IMMSI	13,107	=
Iridium Italia	16,098	=
Italtel	=	248,132
Krenesiels	580	487
Meie	=	423
Meie Vita	=	262
Netikos	4,988	=
Path.Net	10,721	14,582
Saiat	586,116	=
Scuola Superiore Guglielmo Reiss Romoli	499	5,111
Seat Pagine Gialle	1,520,000	=
Sibisiel	2,151	46
Sirti	=	65,340
Softe	2,667	=
Sogei	=	12,706
TE.SS. (formerly Teleporti)	=	1,279
Tele Sistemi Ferroviari	45,667	18,292
Telsy	10,231	781
TIM	5,408,023	2,929,503
Tmi-Telemedia International Italia	180	=
Tmi-Telemedia International Ltd	12,297	=
Trainet	7,946	1,269
Total	7,739,320	3,343,202

Trade accounts payable (Lire 2,133,672 million) mainly refer to payables to TIM (Lire 782,629 million), Telesoft (Lire 549,908 million), Telespazio (Lire 154,923 million) and TMI - Telemedia International Italia (Lire 137,245 million).

Other payables (Lire 133,571 million) primarily refer to capital contributions paid to the company Path.Net (Lire 34,997 million) and amounts owed in connection with the Group's VAT settlement system.

*Accounts payable to affiliated companies**Lire 1,106,083 million*

These increased by Lire 730,040 million, compared to December 31, 1999.

They refer to financial payables, trade accounts payable and other payables. Financial payables (Lire 260,531 million) refer to current account transactions negotiated at market rates for cash management purposes and can be analyzed as follows:

(in millions of lire)	12/31/2000	12/31/1999
Financial payables to affiliated companies		
Consorzio Telcal	30	=
IM.SER	156,259	=
Datasiel	=	90
Italdata	5,052	550
Italtel	38,287	=
Labia Service	=	10
Seat Pagine Gialle	=	120
Siemens Informatica	2,378	3,427
Stream	90	2,229
Teleleasing	1,270	=
Webegg	57,165	=
Total	260,531	6,426

Trade accounts payable (Lire 1,149,397 million) mainly refer to payables to Italtel (Lire 515,745 million).

Other payables (Lire 10,680 million) refer to the liability for capital contributions, mainly Fintech (Lire 10,500 million).

*Accounts payable to parent companies**Lire 2,529 million*

These refer to trade accounts payable to the parent company Olivetti.

*Taxes payable**Lire 956,726 million*

These increased by Lire 28,041 million, compared to December 31, 1999 and mainly refer to:

- the payable to the Italian Treasury for withholding taxes of Lire 158,926 million (Lire 167,312 million at December 31, 1999);
- the VAT liability totaling Lire 377,980 million (Lire 288,067 million at December 31, 1999);
- the income tax liability for the year, net of advances paid and dividend tax credits, of Lire 343,630 million (Lire 455,764 million at December 31, 1999). The decrease compared to the prior year is attributable to the reduction in current income taxes and higher advances paid during 2000. The liability at December 31, 2000 includes the taxes due on the portion of income which could possibly be set aside in the "Reserve for accelerated depreciation" when the financial statements are approved by the stockholders' meeting; in this case, these same taxes will be reclassified to the "Reserve for deferred taxes".

Contributions to pension and social security institutions *Lire 1,656,923 million*

These decreased by Lire 52,358 million compared to December 31, 1999 and include amounts owed to social security and health institutions with regard to personnel. These specifically include Lire 1,366,403 million payable to INPS for charges, pursuant to Law No. 58/92 (see related accounting policy) and relating to the merged company Iritel, estimated by the special Ministerial Commission in relation to the valuation of assets contributed to Iritel by the Post and Telecommunications Administration.

Other liabilities *Lire 5,661,223 million*

These increased by Lire 1,447,498 million compared to December 31, 1999.

They include, in particular, liabilities for the:

- payable to customers totaling Lire 2,032,136 million (Lire 2,363,402 million at December 31, 1999), including deposits by subscribers against telephone conversations, pre-billed basic charges (essentially monthly charges for January and February 2001) and the unused portions of prepaid magnetic telephone cards;
- payable to employees amounting to Lire 1,207,581 million (Lire 732,295 million at December 31, 1999) for 2000 payrolls paid in 2001;
- payable for the TLC license fee totaling Lire 637,741 million (Lire 803,056 million at December 31, 1999);
- transactions for the loan of Seat Pagine Gialle ordinary and savings shares (Lire 1,679,977 million); these transactions are described under "Investments" in long-term investments, with a contra-entry to "Other receivables".

Accrued expenses and deferred income ***Lire 989,699 million***
(Lire 926,229 million at December 31, 1999)

These increased by Lire 63,470 million compared to December 31, 1999 and include the following:

(in millions of lire)	12/31/2000	12/31/1999
Accrued expenses		
• production costs	5,410	6,232
• financial expense	202,265	141,443
	207,675	147,675
Deferred income		
• capital grants (unavailable portion)	283,763	329,049
• production value	492,003	443,911
• financial income	6,258	5,594
	782,024	778,554
Total	989,699	926,229

Accrued expenses particularly refer to leasing installments (Lire 5,334 million) and financial items (Lire 202,265 million). Deferred income mainly includes pre-billed basic charges and rentals of telephone equipment (Lire 283,940 million), the unavailable portion of capital grants received after December 31, 1992, and financial items mainly connected to loans to employees.

MEMORANDUM ACCOUNTS

Memorandum accounts totaled Lire 15,419,809 million and can be analyzed as follows:

Guarantees provided

Lire 8,635,255 million

Guarantees provided consist of sureties, including Lire 5,444,146 million on behalf of subsidiaries – mainly on financial transactions and debentures issued by Softe, other medium/long-term financial transactions and supply contracts – and Lire 4,279,847 million on behalf of affiliated companies and others in connection with medium/long-term financial transactions, supply contracts and guarantees on bids to acquire mobile licenses abroad.

The sureties are net of counter-guarantees received by Telecom Italia (Lire 1,088,738 million).

Purchases and sales commitments

Lire 6,767,141 million

This item consists almost entirely of purchases commitments (Lire 6,718,734 million) and the commitments regarding the sale of call options on the listed securities in portfolio (Lire 48,407 million).

In particular, the purchases commitments refer to the put option on the Seat Pagine Gialle shares already held by Huit II (Lire 5,780,278 million), described below, future lease installments plus the buyout amounts of the assets leased (Lire 857,472 million), the five-year commitment for the Lire 60,000 million contribution to the “Interaction Design Institute” association of Ivrea.

Put option on Seat shares

Under the contract stipulated on March 15, 2000 (as subsequently amended and integrated), Telecom Italia gave Huit II a put option with on No. 710,777,200 Seat Pagine Gialle shares at a strike price of Euros 4.2. The contract provided for the exercise of such option after the deed of merger between Seat and Tin.it was recorded in the Companies Register.

Huit II later transferred the put option to Chase Equity Limited (CEL), together with the ownership of the corresponding Seat shares. On December 4, 2000, CEL renegotiated the contract with Telecom Italia, extending the period to five years, with the possibility of an early exercise of the option in April and May 2003, 2004 and 2005. The time extension made it possible to defer the financial impact.

Stet International Netherlands then purchased from CEL, through the Liberator Ltd. trust, a call option on No. 660,777,200 Seat shares with the same expiry date and strike price as the put option, paying a total premium of Euros 747,016,226 (Lire 1,446,425 million). For the purpose of transferring the effects of this latter transaction to Telecom Italia, a call option was stipulated, with the same features, between Telecom Italia and Stet International Netherlands. The implicit rate of interest was 6.2%.

At December 31, 2000, the market price of Seat ordinary shares is significantly lower than the strike price; Telecom Italia, however, intends to record the equivalent value of these same shares in “Investments” under long-term investments at the conclusion of the above transactions.

Other memorandum accounts**Lire 17,413 million**

These mainly refer to assets of third parties on loan, on deposit for safekeeping or for similar purposes (Lire 12,978 million), the licensing agreement (Lire 2,397 million) for the Great Jubilee 2000, equal to the minimum guaranteed amount not yet been covered by the marketing of telephone cards which bear a "Joint Logo" with the Great Jubilee 2000 Committee which ended in January 2001.

* * *

The Company issued weak letters of patronage totaling Lire 2,350,823 million chiefly on behalf of subsidiaries and affiliated companies to guarantee insurance policies, lines of credit and overdraft arrangements.

Assets of third parties on loan, on deposit for safekeeping or for similar purposes amounted to Lire 619,845 million and consist mainly of equipment leased to customers. Guarantees provided by others for Company obligations, which consist primarily of sureties to guarantee the performance of non-financial contractual obligations, totaled Lire 521,493 million.

The stock of employees and private stockholders deposited at December 31, 2000 with Telecom Italia, and hence subdeposited with Monte Titoli S.p.A., equal Lire 419,156 million.

The bonds set aside for subscription by employees are equal to Lire 718,358 million.

In accordance with Article 2503 of the Italian Civil Law, two deposits has been constituted at Mediobanca, in order to allow an early draw up of the partial demerger of Telecom Italia in favour of Seat Pagine Gialle and of the full demerger of Stet International in favour of Telecom Italia and TIM. A pool of banks has guaranteed the cash necessary for the deposits; the amounts are equal to Lire 3,917,459 million and Lire 2,752,976 million, respectively, and the maturities are January 4, 2001 and January 24, 2001, respectively.

Financial derivatives

Derivatives refer to cross currency and interest rate swaps (to convert pound sterling loans into euros) and interest rate swaps (to convert variable rate loans into fixed rate loans and convert debt linked to domestic parameters to the 6-month Euribor rate).

The following table gives a description of the financial derivative contracts outstanding at December 31, 2000 to hedge to medium/long-term debt positions.

(in billions of lire)	Notional amount/ Capital exchanged at 12/31/2000	Market value of derivatives at 12/31/2000 (a)	Market value of underlying debt positions at 12/31/2000 (b)	Market value of debt including related derivatives at 12/31/2000 (c = b - a)
<i>Interest rate swap</i>	3,287	38	3,280	3,242
<i>Cross currency and interest rate swaps</i>	756	37	784	747

In particular, the market value of interest rate swaps and cross currency and interest rate swaps reflects the difference between the fixed rate paid by the Company and the market interest rate for maturities having the same remaining life as the swaps. The cross currency and interest rate swaps also reflect the difference between the forward euro/pound sterling exchange rate at the closing of the swap and the same market rate at December 31, 2000.

To determine the market value of the above financial derivatives, the Company uses adequate pricing models.

The following table indicates the notional amount and the average interest rate to be paid/received by maturity for interest rate swaps.

	Maturity					
	2001	2002	2003	2004	2005	2006
<i>Interest rate swap</i>						
Fixed pay rate, variable receive rate:						
• notional amount (billions of lire)	129	300	1.100	46	58	=
• weighted average pay rate	3.80%	4.65%	3.92%	4.24%	4.71%	=
• received parameter	Libor	Libor	Libor	Libor	Libor	=
	3-mo	3-mo	3-mo	3-mo	3-mo	
	Euro	Euro	Euro	Euro	Euro	
Variable pay rate, variable receive rate:						
• notional amount (billions of lire)	=	=	=	591	780	283
• paid parameter	=	=	=	Euribor 6-mo	Euribor 6-mo	Euribor 6-mo
• received parameter	=	=	=	Rolint	Rolint Rendint Rendibot Robot	Rolint Rendint Rendibot Robot

Derivative contracts (interest rate swaps) stipulated to hedge interest rate exposure on short-term loans are equal to Lire 69,073 million.

STATEMENTS OF INCOME

Production value**Lire 34,386,209 million***(Lire 36,616,775 million in 1999)*

Production value, which decreased by Lire 2,230,566 million compared to 1999, includes the following:

Sales and service revenues**Lire 33,723,158 million**

Sales and service revenues decreased by Lire 2,133,006 million (-5.9%) compared to 1999. A breakdown of sales and service revenues by type of business and geographical region, as required under Article 2427, Section 10 of the Italian Civil Code, is given below:

Breakdown of "sales and service revenues" by type of business

(in millions of lire)	2000	1999	Change
Sales:			
- telephone products	677,454	1,008,453	(330,999)
- other goods	9,902	12,132	(2,230)
	687,356	1,020,585	(333,229)
Services:			
- Traffic (*)	18,333,337	21,288,013	(2,954,676)
- Basic charges (of which):	12,947,021	11,784,632	1,162,389
• lines leased to TLC operators	1,577,436	1,246,483	330,953
- Activation fees	461,831	419,343	42,488
- Consulting and co-ordination fees	307,163	240,617	66,546
- Miscellaneous services and other revenues	986,450	1,102,974	(116,524)
	33,035,802	34,835,579	(1,799,777)
Total	33,723,158	35,856,164	(2,133,006)

(*) of which:

(in millions of lire)	2000	1999	Change
• Traffic by Telecom Italia customers:			
- domestic	13,173,538	16,178,677	(3,005,139)
- outgoing non-domestic	1,361,357	1,637,120	(275,763)
- special services and other	860,846	1,055,161	(194,315)
	15,395,741	18,870,958	(3,475,217)
• Traffic by other operators			
- domestic	1,555,566	1,036,136	519,430
- foreign correspondents	1,382,030	1,380,919	1,111
	2,937,596	2,417,055	520,541

Breakdown of “sales and service revenues” by geographical region

(in millions of lire)	International revenues (incoming services)	Italian revenues (outgoing services)	Total
EUROPE	840,253	1,120,175	1,960,428
OTHER AREAS	549,271	768,316	1,317,587
	1,389,524	1,888,491	3,278,015
ITALY			30,445,143
Total			33,723,158

Note that, as stated in the summary of accounting policies, revenues are shown gross of Lire 6,098,813 million due to other carriers (Lire 6,320,978 million in 1999).

• **Sales revenues** Lire 687,356 million
Sales revenues, which decreased by Lire 333,229 million (-32.7%) compared to 1999, mainly derive from the sales of telephone and telematic products (special internal installations, facsimile machines, data transmission equipment and accessories). The reduction is attributable to the fact that in the second half of 2000, for some customers, the Company only plans the telecommunications systems, leaving manufacturers with the responsibility for the direct sale of the equipment.

• **Service revenues** Lire 33,035,802 million
Service revenues, which decreased by Lire 1,799,777 million (-5.2%) compared to 1999, are mostly composed of “traffic revenues” and are shown gross of the amount due to other carriers. Service revenues fell primarily as a result of a decrease in traffic in terms of amount (-13.9%), notwithstanding the increase of 27.3% in terms of minutes (+Lire 2,272,904 million in terms of revenues); the average return on traffic, in fact, was Lire 71 per minute compared to Lire 111 in the prior year (-35.8% or -Lire 5,005,454 million in terms of revenues). Service revenues were negatively affected by the reduction, beginning August 1, 1999, in long-distance and international rates, the discount policies aimed at customer retention, the effect of replacing out-of-district rates with the less remunerative online rates and the application of new interconnecting rates for traffic to and from mobile phones. These phenomena were partly compensated by the increase in basic subscription charges (+9.9%) following the August 1, 2000 rate changes, the development of data connections and the growing demand for interconnecting services with the Telecom Italia network by other operators. The reduction in revenues was also affected, for Lire 211,866 million, by the contribution to Tin.it of the businesses for placing advertising and selling the official “White Pages” telephony directory, as part of the Seat - Tin.it merger.

Changes in inventory of contract work in process Lire 15,553 million

Changes in inventory of contract work in process represent the difference between the increase in work in progress and the decrease as a result of completed contracts.

Increases in capitalized internal construction costs Lire 22,006 million

Increases in capitalized internal construction costs decreased by Lire 4,465 million (-16.9%) compared to 1999.

This item includes only capitalized personnel costs.

*Other revenues and income**Lire 625,492 million*

Other revenues and income, which decreased by Lire 128,863 million (-17.1%) compared to 1999, include the following:

Operating grants*Lire 1,010 million*

Operating grants decreased by Lire 1,627 million compared to 1999 and refer to grants made by the European Community to cover the costs of personnel training programs and the introduction of technological innovation.

Other*Lire 624,482 million*

Such item, which decreased by Lire 127,236 million compared to 1999, also includes revenues from services provided to Group companies (mainly TIM) under special contracts. A breakdown of this item is given below:

(in millions of lire)	2000	1999	Change
• Gains on disposal of production assets	3,155	29,202	(26,047)
• Refunds for costs of employees on loan, mainly at Group companies	60,616	72,348	(11,732)
• Refunds for damage by outsiders and customers	30,764	30,915	(151)
• Income from real estate investments	21,370	15,745	5,625
• Capital grants recorded in income	78,504	74,879	3,625
• Revenues from outsourcing services provided to Group companies	68,135	77,074	(8,939)
• Late payment fees	149,344	227,382	(78,038)
• Indemnification, reimbursements and recoveries and other miscellaneous income	212,594	224,173	(11,579)
Total	624,482	751,718	(127,236)

Production cost***Lire 27,425,577 million****(Lire 29,521,186 million in 1999)*

Production cost, which decreased by Lire 2,095,609 million compared to 1999, includes the items below:

*Raw materials, supplies and merchandise**Lire 783,387 million*

These decreased by Lire 390,781 million (-33.3%) compared to 1999 mainly due to lower costs of sale for products (-Lire 253,025 million) since, beginning from the second half of 2000, as mentioned under the comments for "sales revenues", for some customers, the Company only plans the telecommunications systems, leaving manufacturers with the costs of supplying the equipment.

This item refers mainly to the expenses for the sales of telecommunications products and systems, supplies of materials and other goods purchased for operating purposes.

*Services**Lire 11,028,534 million*

Service expenses, which decreased by Lire 542,792 million (-4.7%) compared to 1999, mainly include the operating costs for the TLC network, buildings and information systems, operating costs, as well as costs pertaining to training, studies and research and technical consulting services. Services include the following:

(in millions of lire)	2000	1999	Change
Direct service costs	1,399,847	1,570,113	(170,266)
Operating costs	2,041,786	2,312,225	(270,439)
Marketing costs	1,220,892	1,047,637	173,255
Know-how development costs	267,196	320,373	(53,177)
Amounts due to other carriers	6,098,813	6,320,978	(222,165)
Total	11,028,534	11,571,326	(542,792)

An analysis of the composition of such costs is as follows:

- a) “direct service costs” include the operating and maintenance costs of the TLC network, public telephone installations and terminals leased to customers. In particular, in 2000, the interconnecting costs to the other operators’ networks increased by Lire 35,096 million compared to 1999;
- b) “operating costs” refer to the operating and maintenance costs of buildings, vehicles, information systems and equipment, as well as general expenses. Operating costs include Lire 26,465 million to update the information systems to ensure *carrier preselection* and *number portability*;
- c) “marketing costs” include selling expenses, post-sales assistance, customer relations, advertising and promotion; in particular, such costs include Lire 473,274 million (Lire 361,129 million in 1999) for “institutional” advertising campaigns, individual product and service advertising and promotional expenses and Lire 113,257 million for the trade agreements with Internet Service Providers. The costs connected with the printing and delivery of the White Pages telephone directories, contributed to Tin.it as part of the Seat – Tin.it merger, decreased by Lire 130,382 million;
- d) “know-how development costs” are made up by costs pertaining to training, studies and research and consulting services;
- e) “amounts due to other carriers” include, amongst other items, Lire 4,071,448 million due to Italian mobile carriers, Lire 510,993 million to domestic fixed carriers, Lire 1,216,825 million to foreign correspondents and Lire 299,547 million to the service providers Audiotel and Videotel.

*Use of property not owned**Lire 875,363 million*

Use of property not owned, which increased by Lire 22,725 million (+2.7%) compared to 1999, includes mainly service costs (for the lease of TLC lines and satellite systems), amounting to Lire 526,503 million, and operating costs (for building rentals, building and vehicle leases and equipment rentals), amounting to Lire 345,714 million. As regards lease installments, principal and interest total, respectively, Lire 39,261 million and Lire 31,217 million.

*Personnel**Lire 5,980,292 million*

Personnel costs show a decrease of Lire 198,406 million (-3.2%) compared to 1999, due to the contrasting effects created, on the one hand, by the reduction in the average number of employees (as set forth in the table below), also on account of the resignations, concentrated in the last quarter, as a result of the employee cutbacks under Law No. 223/1991 covered by the agreements reached with the labor unions in July 2000, and, on the other hand, by the increases due to the collective bargaining agreements, career developments, the policy of merit bonuses and seniority increases.

Personnel costs include costs for employees on loan to other Group companies (Lire 60,616 million in 2000 and Lire 72,348 million in 1999). The recovery of such costs is recorded under “*other revenues and income*”.

A comparative breakdown of the average number of employees by professional category is given below:

(in millions of lire)	2000	1999	Change
Executives	1,084	1,113	(29)
Middle management	4,978	5,105	(127)
Clerical staff	55,214	58,318	(3,104)
Technicians	11,660	12,648	(988)
Total	72,936	77,184	(4,248)

*Amortization, depreciation and writedowns**Lire 7,570,843 million*

Amortization, depreciation and writedowns, which decreased by Lire 736,739 million (-8.9%) compared to 1999, include the following:

Amortization of intangible assets*Lire 1,161,934 million*

Amortization of intangible assets shows a decrease of Lire 91,281 million, compared to 1999, owing to lower investments in software that went into use during the year.

The amortization charge refers to the following assets:

(in millions of lire)	2000			1999			Change
• Start-up and expansion costs	1,020			=			1,020
• Industrial patents and intellectual property rights	1,024,340			1,128,436			(104,096)
• Concessions, licenses, trademarks and similar rights	23,535			23,630			(95)
• Goodwill	1,268			3,800			(2,532)
• Other intangibles:							
leasehold improvements	69,439		66,058			3,381	
exclusive rights to the Great Jubilee 2000							
and other intangibles	42,332	111,771	31,291	97,349	11,041	14,422	
Total	1,161,934			1,253,215			(91,281)

Depreciation of fixed assets*Lire 6,038,791 million*

Depreciation of fixed assets shows a decrease of Lire 474,242 million (-7.3%), compared to 1999; the decrease reflects the reduction in the amount of depreciable assets, the change

in the mix of depreciable assets, lower depreciation on the public telephony installations and the *DECT* fixed assets written down in the 1999 financial statements and the adjustment of depreciation rates relating to the submarine network which led to a lower depreciation charge of Lire 46,882 million.

The average depreciation rate, calculated by taking into account the above depreciation rate and the assets being depreciated, is equal to 8.5% (8.6% in 1999).

The depreciation charge is calculated using the following average rates:

Land and building	3.3%
Plant and machinery	9.1%
Manufacturing and distribution equipment	25.0%
Other fixed assets	29.8%

The total depreciation charge is calculated for all asset categories using the rates indicated in the Ministry of Finance Decrees of October 29, 1974 (for assets purchased up to 1988) and December 31, 1988 (for assets purchased thereafter). To the extent of depreciation rates, accelerated depreciation is also calculated in accordance with Article 67, Section 3, of Presidential Decree No. 917/1986. An analysis of the depreciation charge is shown below (in millions of lire):

(in millions of lire)

Land and buildings	394,252
Plant and machinery	5,314,161
Manufacturing and distribution equipment	62,508
Other fixed assets	267,870
Total	6,038,791

Other writedowns of intangibles and fixed assets Lire 37,628 million

Other writedowns of intangibles and fixed assets decreased by Lire 104,671 million, compared to 1999, mainly following the writedown of public telephone installations in the 1999 financial statements.

This item refers to the writedown of software projects in progress and in use that will be abandoned during 2001.

Writedowns of receivables included in current assets and liquid assets Lire 332,490 million

This item, representing the provision to the allowance for doubtful accounts, decreased by Lire 66,545 million, compared to 1999, owing to lower provisions due to a reduction in doubtful receivables.

Change in inventory of raw materials, supplies and merchandise Lire 99,193 million

The change is due to lower purchases in comparison to the utilization of the products intended for sale and maintenance, owing to the continuation of the efforts to improve inventory management, and also reflects the writedowns made to account for obsolescence and the diminished usefulness of materials.

*Provisions for risks**Lire 121,690 million*

These refer to provisions made to the “*reserve for litigation*” to cover expenses connected with the probable outcome of disputes with third parties (Lire 17,183 million) and to the “*reserve for contractual risks and other risks*” to cover risks stemming from the settlement of trade and regulatory questions (Lire 104,507 million).

*Miscellaneous operating costs**Lire 966,275 million*

Miscellaneous operating costs, which decreased by Lire 303,904 million compared to 1999, include the following:

Losses on disposal of assets*Lire 94,349 million*

Losses on disposal of assets decreased by Lire 112,122 million from 1999 as a result of having completed the network rationalization and modernization program, begun in previous years.

In fact, the gross amount of assets disposed of during 2000 dropped from Lire 3,627,192 million in 1999 to Lire 2,686,099 million in 2000.

TLC license fee*Lire 602,529 million*

The TLC license fee decreased by Lire 153,189 million, compared to 1999, owing to a reduction in the revenue base and a reduction in the rate which went from 3% in the prior year to 2.7% in 2000. This item includes the fee computed on sales revenues (Lire 594,923 million) and the fee for operating the Regulatory Authority (Lire 7,605 million).

Other miscellaneous costs*Lire 269,397 million*

Other miscellaneous costs, which decreased by Lire 38,593 million, compared to 1999, include the following:

(in millions of lire)	2000	1999	Change
• other indirect duties and annual taxes, relating mainly to the local property tax, local duties, stamp and register tax, vehicle tax, Technical Office and Finance taxes and fees, license tax on mobile equipment,	156,273	134,264	22,009
• contributions and membership fees	19,695	13,036	6,659
• other costs, essentially relating to compensation due to customers under service regulations for delays in hookups or line transfers, damages paid to third parties for line installations and maintenance and losses on settlements	93,429	160,690	(67,261)
Total	269,397	307,990	(38,593)

Financial income and expense
(Lire 2,766,263 million in 1999)

Lire 2,574,900 million

Financial income and expense, which decreased by Lire 191,363 million, compared to 1999, include the following:

(in millions of lire)	2000	1999	Change
Income from equity investments (A)	3,464,568	3,326,941	137,627
Other financial income (B)	353,581	309,647	43,934
Interest and other financial expense (C)	1,243,249	870,325	(372,924)
Total (A+B-C)	2,574,900	2,766,263	(191,363)

Income from equity investments refers to the following:

(in millions of lire)	2000	1999	Change
Dividends from subsidiaries, affiliates and other companies	2,287,913	2,083,042	204,871
Other income from equity investments:			
• tax credits for dividends	1,112,932	1,155,991	(43,059)
• gains on sales of investments	63,723	87,908	(24,185)
Total	3,464,568	3,326,941	137,627

Tax credits on dividends of Lire 1,112,932 million are made up of Lire 1,093,755 million of tax credits on dividends from subsidiaries accrued for 2000 and Lire 19,177 million of dividends collected in 2000.

Dividends can be analyzed as follows:

(in millions of lire)	2000		1999		Change	
Accrued dividends from subsidiaries						
TIM		1,761,219		1,400,836		360,383
Sirti		=		37,174		(37,174)
Finsiel		57,463		45,563		11,900
Atesia		33,550		23,500		10,050
Emsa		10,112		=		10,112
Saiat		=		3,933		(3,933)
		1,862,344		1,511,006		351,338
Receipt of dividends from						
• subsidiaries:						
TIM	22,181		1,980		20,201	
Sirti	89		451,613		(451,524)	
Teleleasing	=		31		(31)	
Huit	160,277	182,547	=	453,624	160,277	(271,077)
• affiliated companies						
Nortel Inversora	=		4,055		(4,055)	
General Electric Information Services	637		=		637	
Siemens Informatica	8,673		3,307		5,366	
Eutelsat	122,685		=		122,685	
Siteba	870	132,865	270	7,632	600	125,233
• other companies:						
Media Technology Ventures	17,238		1,122		16,116	
SIA	203		105		98	
Vertical Networks	=		5		(5)	
Accel	62,215		22,988		39,227	
Inmarsat	=		5,338		(5,338)	
Intelsat	30,501		25,753		4,748	
Eutelsat	=	110,157	55,469	110,780	(55,469)	(623)
		425,569		572,036		(146,467)
Total		2,287,913		2,083,042		204,871

Gains on sales of investments can be analyzed as follows:

(in millions of lire)	2000	1999	Change
• Subsidiaries:			
TIM shares	47,946	64,029	(16,083)
Sirti shares	=	394	(394)
IMMSI shares	737	=	737
Seat Pagine Gialle shares	2,474	=	2,474
	51,157	64,423	(13,266)
• Other companies:			
Activ Card	=	19,122	(19,122)
Redback Networks	4,949	2,241	2,708
The Fantastic Corporation	=	2,122	(2,122)
Cisco System	767	=	767
Informix Corporation	123	=	123
Commerce One	1,979	=	1,979
Digital Island	4,103	=	4,103
Interwoven	251	=	251
Agil software	394	=	394
	12,566	23,485	(10,919)
Total	63,723	87,908	(24,185)

Other financial income includes the following:

(in millions of lire)	2000		1999	Change
	Included in long-term investments	Included in current assets	Total	
Interest and fees on:				
– accounts receivable				
from subsidiaries	8,104	81,587	89,691	122,352
from affiliated companies	7,532	13,706	21,238	22,805
from others	15,984	117,849	133,833	80,756
– banks and the Postal Administration	=	14,196	14,196	14,867
– securities	=	2,531	2,531	274
	31,620	229,869	261,489	241,054
Foreign exchange gains			90,957	67,046
Other income			1,135	1,547
Total			353,581	309,647

*Interest and other financial expense**Lire 1,243,249 million*

Interest and other financial expense, which increased by Lire 372,924 million compared to 1999, can be analyzed as follows:

			2000	1999	Change
(in millions of lire)	Medium/ long-term debt	Short-term debt	Total		
Interest, premiums and other					
similar charges on debentures	18,294	=	18,294	26,860	(8,566)
Interest and fees on loans due					
to banks	315,458	483,760	799,218	515,907	283,311
Interest and fees on due					
to other lenders	92,103	=	92,103	111,807	(19,704)
Interest on trade accounts payable	=	66	66	6,916	(6,850)
Interest and fees on accounts payable					
to subsidiaries	=	151,392	151,392	70,447	80,945
Interest and fees on accounts payable					
to affiliated companies	=	11,042	11,042	1,011	10,031
Interest to others	=	3,942	3,942	1,919	2,023
	425,855	650,202	1,076,057	734,867	341,190
Foreign exchange losses			55,601	58,535	(2,934)
Accrued portion of issue discounts and					
similar charges on loans			1,172	1,418	(246)
Other financial expense			110,419	75,505	34,914
Total			1,243,249	870,325	372,924

“Interest and fees on loans due to banks” are shown net of the interest expense on loans, equivalent to three percentage points (Lire 65,606 million compared to Lire 77,209 million in 1999) subsidized under Law No. 67/1988, in connection with loans that replaced those which should have been made by Cassa Depositi e Prestiti.

Value adjustments to financial assets***-Lire 847,616 million****(- Lire 294,605 million in 1999)*

Value adjustments to financial assets, which increased by Lire 553,011 million compared to 1999, refer to writedowns of the following holdings:

Recorded in “long-term investments”

- Stream, for Lire 391,881 million;
- Iridium Italia, for 14,241 million, of which Lire 8,541 million recorded in a specific reserve;
- TMI Telemedia International Italia, for Lire 197,081 million;
- Trainet, for Lire 6,900 million, of which Lire 5,594 million recorded in a specific reserve;
- Telecom do Brasil, for Lire 2,110 million, entirely recorded in a specific reserve;
- other companies, for Lire 15,018 million, almost entirely recorded in a specific reserve;

Recorded in “short-term financial assets”

- TIM, for Lire 166,670 million, and venture capital companies, for Lire 53,715 million; writedowns were made to adjust the book value of the stocks acquired for trading purposes to market value.

Extraordinary income and expense***-Lire 347,483 million****(-Lire 656,971 million in 1999)*

This item shows a net expense balance of Lire 347,483 million, with a decrease of Lire 309,488 million compared to 1999.

Income (Lire 1,461,388 million) increased by Lire 1,390,102 million compared to 1999, mainly as a result of the gains (Lire 1,290,378 million) on the sale of investments and the contribution of the business segment “Grandi Immobili” to the company IM.SER.

Expense (Lire 1,808,871 million) increased by Lire 1,080,614 million over 1999. Such increase is mainly due to expenses connected with corporate restructuring activities (Lire 884,381 million, of which Lire 551,846 million for the operating agreements reached with the labor unions in July 2000 concerning cutbacks and layoffs under unemployment compensation plans); social security charges pursuant to Law No. 58/92 (Lire 296,910 million, Lire 363,688 million in 1999) to guarantee uniform status under the former Telephone Employees Pension Fund (FPT) which, as required by the 2000 Finance Bill, has become part of the general “Employees Pension Fund” as from January 1; extraordinary annual contribution for the year 2000 (Lire 144,430 million) to INPS – as established by the same Bill for the three years 2000 – 2002 – to meet the higher financial requirements covered by the rules of the fund that was abolished. Extraordinary expense also includes Lire 329,034 million for expenses connected with the above-mentioned transactions for the disposals of investments and contributions of business segments.

Income taxes***Lire 3,386,171 million****(Lire 3,859,913 million in 1999)*

This item includes current income taxes of Lire 2,677,681 million (Lire 3,257,767 million in 1999), and deferred income taxes of Lire 708,490 million (Lire 602,146 million in 1999). The total decrease of Lire 473,742 million is due to the combined effect of the decrease in current income taxes (owing both to a reduction in taxable income and the taxation of a part of such taxable income with the substitute equalization tax of 19%) and the increase in deferred taxes. The latter, principally due to the tax credits on dividends accrued in 2000, take into account the reduction in the reserve for deferred taxes following the reclassification of the “Reserve for accelerated depreciation” pursuant to the application of Law No. 342/2000, art. 14.

Total income taxes can be divided into Lire 2,835,415 million (IRPEG and the substitute equalization tax) and Lire 550,756 million relating to IRAP.

The effective tax rate in 2000 (40.6%) is lower than that of 1999 (43.32%) on account of the positive effects of Law No. 342/2000, as previously mentioned. The composition of the tax rates in 2000 is as follows:

		IRPEG	IRAP	Total
Theoretical taxes	(A)	3,085,960	550,040	3,636,000
• Temporary timing differences taxed and deductible in future years				
- dividends accrued		(1,093,757)	=	(1,093,757)
- provision for writedown of receivables		97,417	=	97,417
- net change relating to installation writedowns, other provisions and sundry		386,830	3,729	390,559
• Reversal of prior years' temporary timing differences				
- accelerated depreciation		24,540	2,819	27,359
- sundry		(348,755)	(17,523)	(366,278)
• Permanent differences		184,941	24,706	209,647
• DIT and other tax benefits		(211,655)	(11,611)	(223,266)
Current income taxes		2,125,521	552,160	2,677,681
Deferred income taxes		709,894	(1,404)	708,490
Taxes charged to statement of income	(B)	2,835,415	550,756	3,386,171
Income before income taxes	(C)			8,340,433
Theoretical tax rate	(A/C)			43.59%
Effective tax rate	(B/C)			40.60%

OTHER INFORMATION

Remuneration to directors and statutory auditors

In compliance with the instructions giving effect to Legislative Decree 58/1998, art. 78, issued by Consob under resolution No. 11971 of May 14, 1999, the remuneration to which the directors and statutory auditors are entitled for fiscal 2000 are presented in the following table.

The table has been prepared by reference to the term of office, on the accrual basis, except for bonuses and other incentives linked to the achievement of personal targets which are reported on a cash basis.

The remuneration for the post is that decided for the individual by the appropriate corporate governance body.

Non-cash benefits correspond to the amount subject to taxes based on current tax laws.

Remuneration – prorata over the term of office in Telecom Italia – for the posts of director or statutory auditor in companies of the Group and not handed over to third parties are reported in the column – “Other compensation”.

Any other type of remuneration is shown in the column “Other cash compensation”.

(in millions of lire)

Individual	Description of post	Term of office	Compensation				
			Fees for the post	Non-cash benefits	Bonuses and other incentives	Other compensation	Other cash compensation
First and last name	Post held						
Board Of Directors							
Roberto COLANINNO	Chairman and Chief Executive Officer	01/01-12/31/2000	(*) 6,800		7,000	(1) 200	
Antonio TESONE	Honorary Chairman	01/01-12/31/2000	122				
Sergio EREDE	Deputy Chairman	01/01-12/31/2000	205				(**)
Angelo BENESSIA	Director	01/01-12/31/2000	205				(***)
Peter A. COHEN	Director	01/01-12/31/2000	205				
Salvatore DONATO	Director	01/01-12/31/2000	125				
Paolo FERRO-LUZZI	Director	01/01-12/31/2000	95				
Ettore LONATI	Director	05/15-12/31/2000	78				
Emilio GNUTTI	Director	01/01-12/31/2000	122				
Jeffrey E. LIVINGSTON	Director	01/01-12/31/2000	208				
Domenico Giovanni SINISCALCO	Director	01/01-12/31/2000	208				
Joseph M. TUCCI	Director	01/01-12/31/2000	110				
Gérard WORMS	Director	01/01-12/31/2000	182				
Enrico BONDI	Director	01/01-05/14/2000	(2) 37				

Board of Statutory auditors

Paolo GERMANI	Chairman	07/03-12/31/2000	(7) 112				
Mario BOIDI	Acting Auditor	01/01-12/31/2000	175			(3) 47	
Paolo GOLIA	Acting Auditor	07/03-12/31/2000	75				
Fabrizio QUARTA	Acting Auditor	01/01-12/31/2000	175				
Gianfranco ZANDA	Acting Auditor	01/01-12/31/2000	175			(4) 238	
Ugo LA CAVA	Chairman	01/01-07/02/2000	125			(5) 191	
Piero ADONNINO	Acting Auditor	01/01-07/02/2000	100			(6) 180	

(*) The compensation is all-inclusive of the fees received for all the corporate posts held and also posts held in subsidiaries or other companies in which Telecom Italia S.p.A. has interests. In particular, also the compensation due to him as a member of the Board of Directors, as already voted by the Stockholders' Meeting of Telecom Italia S.p.A., ex art. 2389¹ is considered waived.

(**) The professional association Bonelli Erede Pappalardo, in 2000, were paid for professional services rendered by its members on behalf of Telecom Italia S.p.A. and its subsidiaries for Lire 10,300 million; (***) Avv. Angelo Benessia, in 2000, received compensation for professional services rendered to Telecom Italia S.p.A. and its subsidiaries for Lire 645 million;

(1) Compensation for the post of Chairman of Telecom Italia Mobile S.p.A. paid over to Telecom Italia S.p.A.;

(2) Fees for the post were not received by the Directors but paid over to third-party companies;

(3) Compensation for the post of Statutory Auditor in Stet International and for the post of Chairman of the Board of Statutory Auditors of Tin.it S.p.A.;

(4) Compensation for the post of Statutory Auditor in the subsidiaries Finsiel, Immsi, Telespazio and Telecom Italia Mobile S.p.A.;

(5) Compensation for the post of Statutory Auditor in the indirect subsidiary Sogei and for the post of Chairman of the Board of Statutory Auditors in the subsidiaries Finsiel, Immsi, Path.net e Saiat;

(6) Compensation for the post of Chairman of the Board of Statutory Auditors in the subsidiary Telecom Italia Mobile S.p.A.;

(7) Fees for the post were not received by the Chairman but paid over to the Administration Fund of the organization belonging.

STOCK OPTION PLAN

Article 6 of the corporate by-laws authorizes the Board of Directors to increase share capital by issuing ordinary shares set aside for the executives of Telecom Italia Group. The stockholders' meeting, by delegating this right, expressly destined the issue of such shares to the human resources assigned roles of particular importance and of greater strategic interest in shaping the success of the Company and Group, in order to provide the Company an effective tool to develop corporate loyalty and offer incentives, in line with the most recent internationally accepted practices.

In this framework, in particular, a group of beneficiaries identified as executives employed by Telecom Italia and its subsidiaries were assigned a total of No. 16,595,400 personal and non-transferable *inter vivos* rights, valid for the subscription against payment of the same number of new Telecom Italia ordinary shares, of which about a third of the total (No. 4,905,500) was subscribed to and issued by the end of 1999. The Board established the subscription price according to the terms of the authorization it received.

As for the total assigned shares:

- No. 4,905,500 shares were subscribed to and issued by the end of the year 1999;
- for No. 5,754,900 shares, the subscription period began on January 2, 2000 after having reached the specific parameter of stock market performance;
- for the remaining No. 5,935,000 shares, the subscription period begins from January 2002 on condition that the ordinary shares reach a predetermined performance target in December 2001.

As already disclosed in the 1999 annual report, the period to exercise the rights assigned in 1999 has been established in three years from notification of having reached the set incentive parameter; therefore, the capital increase servicing the 1999 stock option plan will be closed on January 31, 2005.

During 2000, in view of the evolution of the tax laws covering stock option plans, a decision was made to propose to the extraordinary stockholders' meeting a change in the mechanism for fixing the subscription price of the shares servicing the plan (that is, the average official price of the ordinary shares shown on the screen-trading market organized and operated by Borsa Italiana S.p.A. in the six months preceding the incentive period), assigning the Board of Directors the discretionary right to determine, each time, the price for every tranche of share capital increase; in the meantime, a proposal has been advanced to extend the plan to cover executives of the subsidiaries.

These proposed changes in the original mandate were approved by the extraordinary stockholders' meeting of August 10, 2000 and the related resolutions were homologated by decree of the Turin Courts on September 29, 2000, successively confirmed by decree of the Appeals Court in Turin on October 20, 2000 only for the part covering the change in price.

Subsequent to this change, all aspects of the stock option cycle begun in February 2000 were decided and, accordingly, a total of No. 51,430,000 options were assigned, valid for the subscription of the same number of newly issued ordinary shares (corresponding to 0.69% of outstanding share capital at December 31, 2000), against payment of an exercise price equal to the arithmetic average of the official prices of Telecom Italia ordinary shares during the period August 11, 2000 – September 11, 2000, consistent with existing laws. Such options can be exercised, also in part, in three distinct lots, subject to having reached the performance parameter represented by the comparison of the ratio between the average market prices recorded by the stock in specific periods and the ratio between the arithmetic average of the closing prices on the Dow Jones EuroStoxx TLC index

representing a basket of stocks in the sector over the same periods; however, in the event the incentive parameter is only reached for the second and third lot, the beneficiaries of the previous lots will nevertheless be allowed to exercise their rights.

Furthermore, the strategic resources who have the most impact on the Group's business have been assigned an additional extraordinary lot of options which can be exercised provided that, when the conditions for exercising the rights of the third lot are met, the market price of the ordinary shares will have also appreciated to a predetermined level. The period to exercise the subscription rights has been established in five years from notification of having reached the corresponding incentive parameter; therefore, the capital increase servicing the 2000 stock option plan will be closed on July 31, 2008.

As set forth by the recommendation contained in Consob Communication No. 11508 of February 15, 2000, the following table summarizes the essential elements of the stock option plan in 2000.

	2000			1999		
	Number of shares	Exercise price (euro)	Market price (euro)	Number of shares	Exercise price (lire)	Market price (lire)
(1) Rights at 1/1	11,689,900	6.791	14.118	=	=	14,669
(2) New rights assigned during year	51,430,000	13.815	13.815	16,595,400	13,150	18,806
(3) Rights exercised during year	=	=	=	4,905,500	13,150	25,305
(4) Rights expired and not exercised during year	=	=	=	=	=	=
(5) Rights at 12/31	63,119,900	12.514	11.902	11,689,900	13,150	27,207
(6) of which, rights which can be exercised	=	=	=	=	=	=

INTRODUCTION OF THE EURO

The expenses borne during the year for the introduction of the Euro currency total Lire 3.6 billion, of which Lire 3 billion were charged to the statement of income (in *Production cost* under *Services*, as they refer to services rendered to revise and update the information systems), and the remaining amount was recorded in the balance sheet (*Intangibles* under *Industrial patents and intellectual property rights*, as it refers to new and more complex functions added to the Company's own software).

The following Annexes numbered 9 through 13 are an integral part of these notes.

LONG-TERM INVESTMENTS AND ADVANCES ON FUTURE CAPITAL CONTRIBUTIONS OF SUBSIDIARIES AND AFFILIATED COMPANIES

(in millions of lire)	12/31/1999				Changes during the fiscal year						12/31/2000			
	Cost	Upward adjust- ments	Write- downs	Balance sheet value	Purchases / Subscrip- tions	Reclassi- fications	Dispo- sals (*)	Writedowns(-)/ Reinstatements of value(+)	Capital Replenish- ments	Total	Cost	Upward adjust- ments	Write- downs	Balance sheet value
Equity investments in subsidiaries														
ATESIA	7,177	-	-	7,177	-	-	-	-	-	-	7,177	-	-	7,177
BITEL PARTICIPACOES	-	-	-	-	-	259,981	(259,981)	-	-	-	-	-	-	-
CONSUTEL (in liquidation)	2,594	-	(2,594)	-	-	-	-	-	-	-	2,594	-	(2,594)	-
CSELT	150	5,012	-	5,162	-	-	-	-	-	-	150	5,012	-	5,162
ELETTRA TLC	25,900	-	(337)	25,563	-	-	-	-	-	-	25,900	-	(337)	25,563
EMSA	56,416	464	-	56,880	-	-	-	-	-	-	56,416	464	-	56,880
FINSIEL	701,066	-	-	701,066	-	-	-	-	-	-	701,066	-	-	701,066
GOLDEN														
NETHERLANDS	182	-	-	182	-	-	-	-	-	-	182	-	-	182
HUIT	-	-	-	-	-	98,958	(199)	-	-	98,759	98,759	-	-	98,759
IMMSI	-	-	-	-	-	45,575	(10,281)	-	-	35,294	8,573	26,721	-	35,294
IM.SER (formerly Tecnitel)	983	-	-	983	-	3,380,048	(3,381,185)	-	154	(983)	-	-	-	-
IREOS (in liquidation)	200	-	(200)	-	-	-	-	-	-	-	200	-	(200)	-
IRIDIUM ITALIA	63,004	-	(63,004)	-	20,359	(20,359)	-	(5,700)	5,700	-	1,500	-	(1,500)	-
LATIN AMERICAN														
NAUTILUS S.A.	-	-	-	-	92,677	-	-	-	-	92,677	92,677	-	-	92,677
LATIN AMERICAN														
NAUTILUS Ltd.	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MED-1 Submarine Cables	-	-	-	-	-	9	-	-	-	9	9	-	-	9
MEDITERRANEAN														
NAUTILUS S.A.	-	-	-	-	68	-	-	-	-	68	68	-	-	68
MEIE ASSICURAZIONI	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NETSIEL	-	-	-	-	199	209,860	-	-	-	210,059	210,059	-	-	210,059
N.TC. (in liquidation)	1,476	-	(1,476)	-	1,321	(1,321)	-	-	-	-	-	-	-	-
PATH.NET	49,995	-	-	49,995	-	-	-	-	-	-	49,995	-	-	49,995
I.T. TELECOM (formerly Reseau)	5,400	-	(5,400)	-	51,238	(1,538)	-	-	300	50,000	50,000	-	-	50,000
S.I.C. (in liquidation)	11	-	(11)	-	-	-	-	-	-	-	-	-	-	-
SAIAT	66,272	22,493	-	88,765	-	1,000	-	-	-	1,000	67,272	22,493	-	89,765
SARITEL	34,432	-	-	34,432	-	-	-	-	-	-	34,432	-	-	34,432
SCUOLA SUPERIORE														
GUGLIELMO REISS														
ROMOLI	3,000	-	-	3,000	-	-	-	-	-	-	3,000	-	-	3,000
SEAT PAGINE GIALLE	-	-	-	-	658,381	12,378,348	-	-	-	13,036,729	13,036,729	-	-	13,036,729
EDOTEL (formerly SIDAC)	247	-	(247)	-	12,709	(11,629)	(80)	-	200	1,200	1,200	-	-	1,200
SIRTI	32,041	99,882	-	131,923	-	(45,575)	(86,348)	-	-	(131,923)	-	-	-	-
SODALIA	8,012	-	(98)	7,914	-	-	-	-	-	-	8,012	-	(98)	7,914
SOFTE	11,390	73,686	-	85,076	-	-	-	-	-	-	11,390	73,686	-	85,076
STET INTERNATIONAL	1,511,046	-	(103,662)	1,407,384	-	(1,407,384)	-	-	-	(1,407,384)	-	-	-	-
STET INTERNATIONAL														
NETHERLANDS	1,128,771	-	(44,916)	1,083,855	2,050	9,948,511	-	-	-	9,950,561	11,079,332	-	(44,916)	11,034,416
STET MOBILE HOLDING	325,800	-	-	325,800	-	(325,800)	-	-	-	(325,800)	-	-	-	-
TELECOM ITALIA CAPITAL	-	-	-	-	66	-	-	-	-	66	66	-	-	66
TELECOM ITALIA GMBH	84	-	-	84	-	-	-	-	-	-	84	-	-	84
TELECOM ITALIA														
DO BRASIL	4,105	-	(4,105)	-	-	-	-	-	-	-	4,105	-	(4,105)	-
TELECOM ITALIA														
MOBILE	3,179,952	162,926	-	3,342,878	3,422,709	1,533,984	-	-	-	4,956,693	8,136,645	162,926	-	8,299,571
TELECOM ITALIA														
of NORTH AMERICA	6,941	-	(3,217)	3,724	-	-	-	-	-	-	6,941	-	(3,217)	3,724
TELELEASING	49	-	-	49	-	(35)	(14)	-	-	(49)	-	-	-	-
TELE PAY ROLL														
SERVICE (formerly Teleporti)	1,290	-	(44)	1,246	-	2,274	-	-	-	2,274	3,564	-	(44)	3,520
TELESOFT	24,300	-	-	24,300	-	-	-	-	-	-	24,300	-	-	24,300
TELESPAZIO	196,000	-	-	196,000	-	-	-	-	-	-	196,000	-	-	196,000
TELIMM	-	-	-	-	-	35	-	-	-	35	-	-	-	35
TELSI	1,066,088	-	-	1,066,088	-	-	-	-	-	-	1,066,088	-	-	1,066,088
TI BELGIUM	-	-	-	-	2,904	-	-	-	-	2,904	2,904	-	-	2,904
TI FRANCE	-	-	-	-	15	-	-	-	-	15	15	-	-	15
TI GERMANY	-	-	-	-	49	-	-	-	-	49	49	-	-	49

(continued) Long-term investments and advances on future capital contributions of subsidiaries and affiliated companies

(in millions of lire)				12/31/1999	Changes during the fiscal year						12/31/2000			
	Cost	Upward adjust- ments	Write- downs	Balance sheet value	Purchases / Subscrip- tions	Reclassi- fications	Dispo- sals (1)	Writedowns(-)/ Reinstatements of value(+)	Capital Replenish- ments	Total	Cost	Upward adjust- ments	Write- downs	Balance sheet value
TI IRELAND	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TI NETHERLANDS	-	-	-	-	35	-	-	-	-	35	35	-	-	35
TI SWITZERLAND	-	-	-	-	25	-	-	-	-	25	25	-	-	25
TI UNITED KINGDOM	-	-	-	-	3	-	-	-	-	3	3	-	-	3
TI WEB	-	-	-	-	61	-	-	-	-	61	61	-	-	61
TIN.IT	-	-	-	-	1,000	(1,000)	-	(6)	6	-	-	-	-	-
TMI-TELEMEDIA														
INTERNATIONAL ITALIA	167,528	-	(87,535)	79,993	-	-	-	(197,081)	166,741	(30,340)	167,528	-	(117,875)	49,653
TRAINET	1,336	-	(30)	1,306	5,583	(5,583)	-	(1,306)	1,306	-	1,306	-	-	1,306
Consorzio GRUPPO														
STET PER ITALIA 90 (in liquidation)	80	-	-	80	-	-	-	-	-	-	80	-	-	80
Consorzio ITINERA (in liquidation)	258	-	(131)	127	-	-	(127)	-	-	(127)	-	-	-	-
Consorzio PROMOTORE														
ISDN (in liquidation)	804	-	(575)	229	-	-	(229)	-	-	(229)	-	-	-	-
	8,684,380	364,463	(317,582)	8,731,261	4,271,452	26,038,359	(3,738,444)	(204,093)	174,407	26,541,681	35,156,526	291,302	(174,886)	35,272,942
(1)	IMMSI	BITEL PARTICIP.	LATIN A. NAUTIL. Ltd.	Cons. PROMOT. ISDN	MEIE	SIDAC	EDOTEL	TELELEASING	N.TC (in liquid.)	SIC (in liquid.)	Consorzio ITINERA	IM.SER	SIRTI	HUIT
Cost	10,281	259,981	-	804	-	247	80	14	1,476	11	258	3,381,322	86,348	199
Writedowns	-	-	-	(575)	-	(247)	-	-	(1,476)	(11)	(131)	(137)	-	-
	10,281	259,981	-	229	-	-	80	14	-	-	127	3,381,185	86,348	199

(continued) Long-term investments and advances on future capital contributions of subsidiaries and affiliated companies

(in millions of lire)														
	12/31/1999				Changes during the fiscal year						12/31/2000			
	Cost	Upward adjust- ments	Write- downs	Balance sheet value	Purchases / Subscrip- tions	Reclassi- fications	Dispo- sals (1)	Writedowns(-)/ Reinstatements of value(+)	Capital Replenish- ments	Total	Cost	Upward adjust- ments	Write- downs	Balance sheet value
Equity investments in affiliated companies														
ANCITEL	180	-	-	180	-	-	-	-	-	-	180	-	-	180
ASTELIT	2	-	(2)	-	-	-	-	-	-	-	2	-	(2)	-
CARTESIA	-	-	-	-	900	100	-	-	-	1,000	1,000	-	-	1,000
CENTRO MULTIMEDIALE														
DI TERNI	2,250	-	-	2,250	-	(500)	(1,750)	-	-	(2,250)	-	-	-	-
CYGENT INC.	4,888	-	-	4,888	18,058	-	-	-	-	18,058	22,946	-	-	22,946
CZECHTEL (in liquidation)	32	-	-	32	21	(21)	-	-	-	-	32	-	-	32
ESRI ITALIA	245	-	-	245	-	(245)	-	-	-	(245)	-	-	-	-
EUTELSAT	-	-	-	-	138,395	280,180	-	-	-	418,575	418,575	-	-	418,575
EXCITE ITALIA B.V.	44	-	-	44	-	(44)	-	-	-	(44)	-	-	-	-
FINTECH	10,000	-	-	10,000	15,000	-	-	-	-	15,000	25,000	-	-	25,000
GEIS - GENERAL ELECTRIC														
INFORMATION SERVICES	29,524	-	(18,000)	11,524	-	(9,692)	-	-	-	(9,692)	29,524	-	(27,692)	1,832
HUIT	98,958	-	-	98,958	-	(98,958)	-	-	-	(98,958)	-	-	-	-
IM.SER (formerly Tecnitel)	-	-	-	-	-	2,234,998	(1,843,223)	-	-	391,775	391,775	-	-	391,775
IS TIM TELEKOMUNIKASYON														
HIZMETLERI	-	-	-	-	242,543	-	(242,543)	-	-	-	-	-	-	-
ITALDATA	720	-	-	720	-	-	(720)	-	-	(720)	-	-	-	-
MED-1 Submarine Cables	9	-	-	9	-	(9)	-	-	-	(9)	-	-	-	-
NORTEL INVERSORA	37,010	-	-	37,010	-	-	-	-	-	-	37,010	-	-	37,010
SEAT PAGINE GIALLE	-	-	-	-	12,330,650	(12,330,650)	-	-	-	-	-	-	-	-
SIEMENS INFORMATICA	4,680	2,757	-	7,437	-	-	-	-	-	-	4,680	2,757	-	7,437
SIOSISTEMI	6,400	-	-	6,400	-	-	-	-	-	-	6,400	-	-	6,400
SISTEMI E TELEMATICA	600	-	(180)	420	-	-	(420)	-	-	(420)	-	-	-	-
SITEBA	1,454	-	-	1,454	-	-	-	-	-	-	1,454	-	-	1,454
STREAM	140,000	-	(112,300)	27,700	354,395	203,831	-	(391,881)	-	166,345	480,078	-	(286,033)	194,045
STT	-	-	-	-	4,400	-	-	-	-	4,400	4,400	-	-	4,400
TSP	7,296	-	(273)	7,023	-	-	(7,023)	-	-	(7,023)	-	-	-	-
VOICE MAIL INC.														
(in liquidation)	7,360	-	(7,360)	-	-	-	-	-	-	-	7,360	-	(7,360)	-
Consorzio AMBIENTE 2000														
(in liquidation)	11	-	(11)	-	-	-	-	-	-	-	-	-	-	-
Consorzio DREAMFACTORY	-	-	-	-	172	-	-	-	-	172	172	-	-	172
Consorzio FORMAZIONE														
INTERNAZIONALE	40	-	-	40	-	-	-	-	-	-	40	-	-	40
Consorzio R.E.S.	300	-	-	300	-	-	-	-	-	-	300	-	-	300
Consorzio TELCAL	408	-	-	408	-	-	-	-	-	-	408	-	-	408
Consorzio TELEMED														
(in liquidation)	20	-	-	20	-	-	-	-	-	-	20	-	-	20
	352,431	2,757	(138,126)	217,062	13,104,534	(9,721,010)	(2,095,679)	(391,881)	-	895,964	1,431,356	2,757	(321,087)	1,113,026
(1)														
	SISTEMI E TELEMATICA	TSP	CENTRO MULTIMEDIALE DI TERNI	ITALDATA	IS TIM TELEKOMUNIKASYON HIZMETLERI	IM.SER	Consorzio AMBIENTE 2000							
Cost	600	7,296	-	1,750	720	242,543	1,843,222				11			
Writedowns	(180)	(273)	-	-	-	-	-				(11)			
	420	7,023	-	1,750	720	242,543	1,843,222				-			

(continued) Long-term investments and advances on future capital contributions of subsidiaries and affiliated companies

(in millions of lire)														
12/31/1999				Changes during the fiscal year							12/31/2000			
	Cost	Upward adjust- ments	Write- downs	Balance sheet value	Purchases / Subscrip- tions	Reclassi- fications	Dispo- sals (1)	Writedowns(-)/ Reinstatements of value(+)	Capital Replenish- ments	Total	Cost	Upward adjust- ments	Write- downs	Balance sheet value
Equity investments in other companies														
ACCEL	3,949	-	-	3,949	-	-	(891)	-	-	(891)	3,058	-	-	3,058
CAF ITALIA 2000	-	-	-	-	-	1	-	-	-	1	1	-	-	1
CENTRO MULTIMEDIALE														
DI TERNI	-	-	-	-	-	500	-	-	-	500	500	-	-	500
DMAIL.IT	-	-	-	-	8,472	-	-	-	-	8,472	8,472	-	-	8,472
EDINDUSTRIA	86	-	(12)	74	-	-	-	-	-	-	86	-	(12)	74
EMITTENTI TITOLI	820	-	-	820	-	-	-	-	-	-	820	-	-	820
ERTICO	1	-	-	1	-	-	-	-	-	-	1	-	-	1
EURESCOM	17	-	-	17	-	-	-	-	-	-	17	-	-	17
EUTELSAT	214,652	-	-	214,652	65,528	(280,180)	-	-	-	(214,652)	-	-	-	-
FRATELLI ALINARI	6,004	-	-	6,004	-	-	-	-	-	-	6,004	-	-	6,004
GEMINI ISRAEL III LP	-	-	-	-	1,181	-	-	-	-	1,181	1,181	-	-	1,181
IFM INFOMASTER	-	-	-	-	1,323	-	-	-	-	1,323	1,323	-	-	1,323
INMARSAT	19,061	-	-	19,061	-	-	-	-	-	-	19,061	-	-	19,061
INSULA	480	-	-	480	-	-	-	-	-	-	480	-	-	480
INTELSAT	68,927	-	-	68,927	-	-	(23,493)	-	-	(23,493)	45,434	-	-	45,434
IRI MANAGEMENT	14	-	(2)	12	-	-	-	-	-	-	14	-	(2)	12
ISTITUTO														
DELLA ENCICLOPEDIA														
ITALIANA FONDATA DA														
GIOVANNI TRECCANI	8,800	-	(2,756)	6,044	-	-	-	-	-	-	8,800	-	(2,756)	6,044
ITALTEL ACQUISITION	-	-	-	-	40	-	(40)	-	-	-	-	-	-	-
ITALTEL HOLDING	-	-	-	-	40	-	(40)	-	-	-	-	-	-	-
ITXC (formerly Efusion)	2,142	-	-	2,142	1,860	-	-	-	-	1,860	4,002	-	-	4,002
JERUSALEM GLOBAL														
VENTURE	-	-	-	-	1,496	-	-	-	-	1,496	1,496	-	-	1,496
MEDIA TECHNOLOGY														
VENTURE	7,523	-	-	7,523	1,106	-	(1,309)	-	-	(203)	7,320	-	-	7,320
MIX	-	-	-	-	19	-	-	-	-	19	19	-	-	19
NEW SKIES SATELLITES	39,610	-	-	39,610	-	-	-	-	-	-	39,610	-	-	39,610
RETE TELEMATICA														
PIEMONTESE	478	-	-	478	-	-	-	-	-	-	478	-	-	478
SIA	1,244	-	-	1,244	20,593	-	-	-	-	20,593	21,837	-	-	21,837
SODETEL	8	-	-	8	-	-	-	-	-	-	8	-	-	8
STOA'	173	-	-	173	-	-	-	-	-	-	173	-	-	173
TECNO IDRO METEO														
(in liquidation)	84	-	(84)	-	-	-	-	-	-	-	84	-	(84)	-
TELEPORTO ADRIATICO	240	-	-	240	-	-	-	-	-	-	240	-	-	240
THE FANTASTIC														
CORPORATION	1,167	-	-	1,167	-	-	(548)	-	-	(548)	619	-	-	619
UBAE	3,674	-	-	3,674	-	-	-	-	-	-	3,674	-	-	3,674
VERTICAL NETWORKS	4,961	-	-	4,961	-	-	-	-	-	-	4,961	-	-	4,961
Consorzio C.I. MARK	5	-	-	5	-	-	-	-	-	-	5	-	-	5
Consorzio C.I.M.S.C.	20	-	(11)	9	-	(9)	-	-	-	(9)	-	-	-	-
Consorzio CAISI	3	-	-	3	-	-	-	-	-	-	3	-	-	3
Consorzio CIES	50	-	-	50	-	-	-	-	-	-	50	-	-	50
Consorzio CIVITA	12	-	-	12	-	-	-	(12)	-	(12)	-	-	-	-
Consorzio CO.TIM (in liquidation)	8	-	(5)	3	-	-	-	-	-	-	8	-	(5)	3
Consorzio CEFRIEL	70	-	-	70	-	-	-	-	-	-	70	-	-	70
Consorzio														
DI BIOINGEGNERIA ED														
INFORMATICA MEDICA	30	-	-	30	-	-	-	-	-	-	30	-	-	30
Consorzio Nazionale Imballaggi														
(CONAI)	2	-	-	2	-	-	-	-	-	-	2	-	-	2
Consorzio ELIS	5	-	-	5	-	-	-	-	-	-	5	-	-	5
Consorzio ENERGIA														
FIERA DISTRICT	-	-	-	-	3	-	-	-	-	3	3	-	-	3
Consorzio GE.SE.CE.DI	140	-	-	140	-	-	-	-	-	-	140	-	-	140
Consorzio NETTUNO	80	-	-	80	-	-	-	-	-	-	80	-	-	80
Consorzio TECHNAPOLI	400	-	-	400	-	-	-	-	-	-	400	-	-	400
	384,940	-	(2,870)	382,070	101,661	(279,688)	(26,321)	(12)	-	(204,360)	180,569	-	(2,859)	177,710
Total long-term equity investments														
	9,421,751	367,220	(458,578)	9,330,393	17,477,647	16,037,661	(5,860,444)	(595,986)	174,407	27,233,285	36,768,451	294,059	(498,832)	36,563,678
Advances on future capital contributions of subsidiaries and affiliated companies														
	8,610,090	-	-	8,610,090	2,979,627	(9,724,827)	-	-	-	(6,745,200)	1,864,890	-	-	1,864,890

(1)	ACCEL	Consorzio CIVITA	Consorzio CIMSC	THE FANTASTIC CORPORATION	MEDIA TECHNOLOGY VENTURE	ITALTEL ACQUISITION	ITALTEL HOLDING
Cost	891	12	20	548	1,309	40	40
Writedowns	-	(12)	(20)	-	-	-	-
	891	-	-	548	1,309	40	40

LIST OF EQUITY INVESTMENTS IN SUBSIDIARIES AND AFFILIATED COMPANIES AT 12/31/2000

(in millions of lire)

	Registered office		Share capital (1)	Stockholders' equity (1) (2)	Income/ (loss) (1)	Percentage ownership (%)	Share of stockholders' equity (A) (3)	Carrying value (B)	Difference (B-A)
Subsidiaries:									
ATESIA	Rome		6,100	76,264	35,230	100.00%	42,714	7,177	(35,537)
CONSULTELT (in liquidation)	Rome		2,594	(3,742)	(678)	100.00%	(3,742)	-	3,742
CSELT	Turin		1,197	39,572	5,091	100.00%	39,572	5,162	(34,410)
ELETTRA TLC	Rome		20,000	93,532	34,907	100.00%	93,532	25,563	(67,969)
EMSA	Turin		1,124	74,218	38,480	100.00%	64,106	56,880	(7,226)
FINSIEL	Rome		116,132	401,059	87,121	77.19%	428,160	701,066	272,906
GOLDEN NETHERLANDS	Amsterdam	NLG (.000)	486	32	559	-	-	-	-
	(Holland)	Lire	427	28,293	491	39.06%	11,051	182	(10,869)
HUIT	Luxembourg	Lire	-	-	-	78.04%	609,666	98,759	(510,907)
IMMSI	Turin		220,000	266,282	2,347	45.31%	120,644	35,294	(85,350)
IREOS (in liquidation)	Rome		200	(2,592)	(394)	100.00%	(2,592)	-	2,592
IRIDIUM ITALIA	Rome		5,000	(7,293)	(47,469)	30.00%	(2,188)	-	2,188
LATIN AMERICAN NAUTILUS SA	Luxembourg	USD (.000)	60,000	59,697	(303)	-	-	-	-
		Lire	124,854	124,223	(630)	70.00%	86,956	92,677	5,721
MED-1 Submarine Cables	Ramat Gan	ILS (.000)	26	(18,655)	(8,100)	-	-	-	-
	(Israel)	Lire	54	(38,819)	(16,855)	23.17%	(8,996)	9	9,005
MEDITERRANEAN NAUTILUS S.A.	Luxembourg	USD (.000)	30	(15)	(45)	-	-	-	-
		Lire	62	(32)	(94)	99.97%	(32)	68	100
NETSIEL	Bari		126,000	308,195	2,056	68.65%	211,579	210,059	(1,520)
PATH NET	Rome		50,000	49,236	(281)	99.99%	49,231	49,995	764
I.T.TELECOM (formerly RESEAU)	Milan		50,000	49,604	(379)	100.00%	49,604	50,000	396
SAIAT	Turin		69,408	565,610	386,161	100.00%	565,610	89,765	(475,845)
SCARITEL	Pomezia (Italy)		22,161	56,160	6,107	100.00%	56,160	34,432	(21,728)
SCUOLA SUPERIORE									
GUGLIELMO REISS ROMOLI	L'Aquila		3,000	4,524	518	100.00%	4,524	3,000	(1,524)
SEAT PAGINE GIALLE	Milan		548,130	3,320,410	58,868	55.20%	1,832,913	13,036,729	11,203,816
EDOTEL (formerly SIDAC)	Turin		2,000	1,779	(221)	60.00%	1,067	1,200	133
SODALIA	Trento		6,000	8,759	264	100.00%	8,759	7,914	(845)
SOFTE	Luxembourg	USD (.000)	100,000	207,900	25,275	-	-	-	-
		Lire	208,089	432,617	52,594	100.00%	432,617	85,076	(347,541)
STET INTERNATIONAL NETHERLAND	Amsterdam	NLG (.000)	3,562,961	14,603,966	216,630	-	-	-	-
	(Holland)	Lire	3,130,564	12,831,644	190,340	100.00%	12,831,644	11,034,416	(1,797,228)
TELECOM ITALIA CAPITAL	Luxembourg	USD (.000)	30	(735)	(765)	-	-	-	-
		Lire	62	(1,530)	(1,593)	99.97%	(1,530)	66	1,596
TELECOM ITALIA GMBH	Wien (Austria)	Ats (.000)	500	1,366	1,245	-	-	-	-
		Lire	70	192	175	100.00%	192	84	(108)
TELECOM ITALIA DO BRASIL	Rio de Janeiro	R\$ (.000)	2,700	(2,334)	(1,961)	-	-	-	-
	(Brazil)	Lire	2,871,976	(2,483)	(2,086)	99.99%	(2,483)	-	2,483
TELECOM ITALIA MOBILE	(6) Turin		995,132	19,524,484	3,604,710	54.82%	8,942,476	8,299,571	(642,905)
TELECOM ITALIA of NORTH AMERICA	New York (USA)	USD (.000)	5,550	2,646	106	-	-	-	-
		Lire	11,549	5,506	221	100.00%	5,506	3,724	(1,782)
TELE PAYROLL SERVICES									
(formerly TELEPORTI)	Rome		2,500	5,609	2,088	100.00%	5,609	3,520	(2,089)
TELESOFT	Rome		40,500	115,296	11,935	60.00%	69,178	24,300	(44,878)
TELESPAZIO	Rome		184,000	278,399	22,177	100.00%	278,399	196,000	(82,399)
TELIMM	Turin		8,239	65,797	797	0.58%	382	35	(347)
TELSI	London (UK)	Euro (.000)	1,781,014	968,205	30,871	-	-	-	-
		Lire	3,448,524	1,874,706	59,775	100.00%	1,874,706	1,066,088	(808,618)
TI BELGIUM	Bruxelles	Euro (.000)	1,500	1,417	(83)	-	-	-	-
	(Belgium)	Lire	2,904	2,744	(161)	99.99%	2,744	2,904	160
TI FRANCE	Parigi (France)	Euro (.000)	8	(287)	(295)	-	-	-	-
		Lire	15	(555)	(570)	100.00%	(555)	15	570
TI GERMANY	Francoforte	Euro (.000)	25	(342)	(367)	-	-	-	-
	(Germany)	Lire	48	(661)	(710)	100.00%	(661)	49	710
TI IRELAND	Dublin	Euro	2	2	-	-	-	-	-
	(Ireland)	Lire	-	-	-	100.00%	-	-	-
TI NETHERLANDS	Amsterdam	Euro (.000)	18	(95)	(113)	-	-	-	-
	(Holland)	Lire	35	(184)	(219)	100.00%	(184)	35	219
TI UNITED KINGDOM	London	Euro (.000)	2	(186)	(188)	-	-	-	-
	(UK)	Lire	3	(361)	(364)	100.00%	(361)	3	364
TI SWITZERLAND	Zurig (Switzerland)	Fr. Sv. (.000)	20	(383)	(403)	-	-	-	-
		Lire	25	(487)	(512)	95.00%	(463)	25	488
TI WEB	Luxembourg	USD (.000)	30	(1,188)	(1,218)	-	-	-	-
		Lire	62	(2,472)	(2,534)	99.97%	(2,471)	61	2,532
TMI TELEMEDIA INTERNAT. ITALIA	Rome		167,510	49,652	(197,105)	100.00%	49,652	49,653	1
TRAINET	Rome		1,306	1,602	(7,553)	100.00%	1,602	1,306	(296)
Consorzio GRUPPO STET PER									
ITALIA 90 (in liquidation)	Rome		100	100	-	80.00%	80	80	-
								35,272,942	6,528,563

(continued) - List of equity investments in subsidiaries and affiliated companies at 12/31/2000

(in millions of lire)

	Registered office		Share capital (1)	Stockholders' equity (1) (2)	Income/ (loss) (1)	Percentage ownership (%)	Share of stockholders' equity (A) (3)	Carrying value (B)	Difference (B-A)
Affiliated companies:									
ANCITEL	Rome		1,895	2,917	7	9.50%	277	180	(97)
ASTELIT	Moscow (Russia)	USD (.000)	0,02	(5,544)	(606)		-	-	-
		Lire	-	(11,536)	(1,261)	50.00%	(5,768)	(4)	5,768
CARTESIA	Rome		2,000	1,516	(484)	50.00%	758	1,000	242
CYGENT INC.	San Francisco (USA)	USD (.000)	11,076	4,083	(6,509)		-	-	-
		Lire	21,347	7,869	(12,546)	24.46%	1,925	22,946	21,021
CZECHTEL (in liquidation)	Prague (Czech Rep.)	K.C. (.000)	1,500	(252)	(1,002)		-	-	-
		Lire	80	(14)	(54)	40.00%	(6)	32	38
EUTELSAT	Paris (France)	Euro (.000)	533,770	850,112	316,342		-	-	-
		Lire	1,033,523	1,646,046	612,524	20.37%	335,259	418,575	83,316
FINTECH	Turin		50,000	46,185	(1,363)	50.00%	23,093	25,000	1,907
GEIS - GENERAL ELETTRIC INFORMATION SERVICES	Milan		2,450	2,674	(1,107)	40.00%	1,070	1,832	762
IM.SER (formerly TECNITEL)	Turin		280,000	968,162	(2,153)	40.00%	387,265	391,775	4,510
NORTEL INVERSORA	Buenos Aires (Argentina)	Pesos Arg. (.000)	80,943	986,000	130,000		-	-	-
		Lire	168,433	2,051,760	270,516	16.59%	340,346	(7)	37,010 (303,336)
SIEMENS INFORMATICA	Milan		11,989	116,577	18,398	49.00%	57,123	7,437	(49,686)
SIOSISTEMI	Brescia		500	2,398	154	40.00%	959	6,400	5,441
SITEBA	Milan		5,000	20,506	3,935	30.00%	6,152	1,454	(4,698)
STREAM (8)	Rome		816,040	331,089	(687,205)	50.00%	165,545	194,045	28,500
STT	Verona		10,000	12,099	1,121	40.00%	4,840	4,400	(440)
VOICEMAIL (in liquidation)	Santa Clara (USA)	USD (.000)	49	49	-		-	-	-
		Lire	101	101	-	37.07%	37	-	(37)
Consorzio DREAM FACTORY (9)	Rome		750	750	-	20.00%	150	172	22
Consorzio FORMAZIONE INTERNAZIONALE	Rome		200	155	(45)	20.00%	31	(4)	40
Consorzio R.E.S.	Rome		600	600	-	50.00%	300	300	-
Consorzio TELCAL	Catanzaro		1,700	1,700	-	24.00%	408	408	-
Consorzio TELEMED (in liquidation)	Rome		200	193	(108)	33.33%	64	20	(44)
								1,113,026	(206,802)

(1) Taken from the latest financial statements

(2) Includes net income (loss)

(3) Net of dividends paid

(4) Covered by reserve for charges of affiliates

(5) Taken from the latest consolidated financial statements

(6) Does not include stock included in short-term financial assets

(7) At December 31, 2000, the percentage of the ordinary capital is 32.50%, while the percentage of totale stockholders' equity, taking into account the redemption of the Class A preferred, is 16.59%.

(8) First financial statements of company, not yet approved

(9) First financial statements of company, will be on December 31, 2001.

(10) The figure has been determined on the base of which approved on December 21, 2000 Huit Shareholder's Meeting.

COMPARISON OF BOOK VALUE OF LISTED SHARES WITH MARKET PRICES

December 31, 2000

December 31, 2000	Market value			Carrying value		Difference	
	Shares	Unit price (in lire)	Total (millions of lire)	Unit price (in lire)	Total (millions of lire)	Unit price (in lire)	Total (millions of lire)
		(A)		(B)		(A-B)	
Long-term equity investments							
TELECOM ITALIA MOBILE							
- ordinary shares	4,695,889,519	16,564.79	77,786,423	1,767.41	8,299,571	14,797.38	69,486,852
SEAT PAGINE GIALLE							
- ordinary shares	5,724,566,278	4,598.64	26,325,226	1,853.79	10,612,137	2,744.85	15,713,089
- savings shares	326,944,623	2,664.31	871,082	7,415.91	2,424,593	(4,751.60)	(1,553,511)
	6,051,510,901		27,196,308		13,036,730		14,159,578
IMMSI	99,674,748	2,015.66	200,910	354.09	35,294	1,661.57	165,617
DMAIL	250,000	32,252.45	8,063	32,252.45	8,063	-	-
ITXC (formerly Efusion)	162,020	14,436.19	2,339	14,436.19	2,339	-	-
THE FANTASTIC CORPORATION	2,121	328,209.95	760	291,806.88	619	66,403.07	141
Short-term financial assets							
TELECOM ITALIA MOBILE							
- ordinary shares	38,192,000	16,564.79	632,642	16,564.79	632,642	-	-
AT HOME	3,004	11,509.83	35	11,509.83	35	-	-
AVICI SYSTEMS	12,396	51,241.97	635	51,241.97	635	-	-
BROADBASE SOFTWARE	9,292	13,005.58	121	13,005.58	121	-	-
DIGITAL ISLAND	56,834	8,453.62	480	8,453.62	480	-	-
FOUNDRY NETWORKS	68,716	31,213.38	2,145	31,213.38	2,145	-	-
MEDICAL LOGIC	44,698	4,812.06	215	4,812.06	215	-	-
NORTHPOINT COMMUNICATIONS	58,706	715.41	42	715.41	42	-	-
PORTAL SOFTWARE	385,538	16,322.10	6,293	16,322.10	6,293	-	-

ACCOUNTS RECEIVABLE AND ACCRUED INCOME BY MATURITY AND TYPE

(in millions of lire)	12/31/2000				12/31/1999			
	Amounts due				Amounts due			
	within one year	from two to five years	after five years	Total	within one year	from two to five years	after five years	Total
Accounts receivable in long-term investments								
– subsidiaries	-	96,814	-	96,814	35,133	501,337	763,541	1,300,011
– others								
• customers	1,447	372	-	1,819	1,465	378	-	1,843
• employees	15,197	59,087	20,763	95,047	18,028	55,201	10,822	84,051
• security deposits	1,147	7,313	1,284	9,744	672	1,132	9,936	11,740
• miscellaneous	127,650	153,345	-	280,995	95,441	211,427	-	306,868
	145,441	316,931	22,047	484,419	150,739	769,475	784,299	1,704,513
Accounts receivable in current assets								
Other loans from:								
– subsidiaries	2,057,125	-	-	2,057,125	2,083,785	-	-	2,083,785
– affiliated companies	121,071	-	-	121,071	64,789	-	-	64,789
– others	1,739,478	-	-	1,739,478	8,190	-	-	8,190
	3,917,674	-	-	3,917,674	2,156,764	-	-	2,156,764
Trade receivables								
– customers	8,317,409	-	-	8,317,409	9,408,833	-	-	9,408,833
– parent companies	2,205	-	-	2,205	2,183	-	-	2,183
– subsidiaries	1,177,895	-	-	1,177,895	712,749	-	-	712,749
– affiliated companies	346,403	-	-	346,403	335,837	-	-	335,837
– other receivables due from:								
• Government and other public entities for grants and subsidies	2,450	-	-	2,450	250	-	-	250
	9,846,362	-	-	9,846,362	10,459,852	-	-	10,459,852
Other receivables								
– parent companies	134	-	-	134	301	-	-	301
– subsidiaries	1,999,651	-	-	1,999,651	1,692,477	-	-	1,692,477
– affiliated companies	345	-	-	345	4,775	-	-	4,775
– miscellaneous receivables:								
• deferred tax assets	669,227	270,262	-	939,489	187,810	157,673	-	345,483
• other	953,465	-	-	953,465	741,486	-	-	741,486
	3,622,822	270,262	-	3,893,084	2,626,849	157,673	-	2,784,522
Total accounts receivable	17,386,858	270,262	-	17,657,120	15,243,465	157,673	-	15,401,138
Accrued income	33,737	-	-	33,737	30,506	-	-	30,506

LIABILITIES AND ACCRUED EXPENSES BY MATURITY AND TYPE

(in millions of lire)	12/31/2000				12/31/1999			
	Amounts due				Amounts due			
	within one year	from two to five years	after five years	Total	within one year	from two to five years	after five years	Total
Medium and long-term debt								
– debentures	-	-	281,642	281,642	-	-	824,914	824,914
– due to banks	1,074,487	4,861,360	153,350	6,089,197	1,468,254	5,621,387	503,244	7,592,885
– due to other lenders	398,389	674,745	202,833	1,275,967	339,086	1,001,265	269,454	1,609,805
	1,472,876	5,536,105	637,825	7,646,806	1,807,340	6,622,652	1,597,612	10,027,604
Short-term debt								
– due to banks	18,637,912	-	-	18,637,912	4,829,188	-	-	4,829,188
– subsidiaries	7,739,320	-	-	7,739,320	3,343,202	-	-	3,343,202
– affiliated companies	260,531	-	-	260,531	6,426	-	-	6,426
– other liabilities	2,313,161	-	-	2,313,161	41,738	-	-	41,738
	28,950,924	-	-	28,950,924	8,220,554	-	-	8,220,554
Trade payables ⁽¹⁾								
– suppliers	5,485,150	-	-	5,485,150	6,187,988	-	-	6,187,988
– parent companies	2,529	-	-	2,529	4,568	-	-	4,568
– subsidiaries	2,133,672	-	-	2,133,672	2,751,349	-	-	2,751,349
– affiliated companies	834,872	-	-	834,872	366,983	-	-	366,983
	8,456,223	-	-	8,456,223	9,310,888	-	-	9,310,888
Other payables								
– subsidiaries	133,571	-	-	133,571	83,999	-	-	83,999
– affiliated companies	10,680	-	-	10,680	2,634	-	-	2,634
– taxes payable	956,726	-	-	956,726	928,685	-	-	928,685
– contributions to pension and social security institutions	396,446	492,551	767,926	1,656,923	337,514	469,520	902,247	1,709,281
– other liabilities	3,341,744	6,015	303	3,348,062	4,162,469	8,663	855	4,171,987
	4,839,167	498,566	768,229	6,105,962	5,515,301	478,183	903,102	6,896,586
Total liabilities ⁽¹⁾	43,719,190	6,034,671	1,406,054	51,159,915	24,854,083	7,100,835	2,500,714	34,455,632
Accrued expenses	206,675	-	-	206,675	147,674	-	-	147,674

(1) Does not include advances

ASSETS (in euros)

	12/31/2000	12/31/1999
Receivables from stockholders for capital contributions	=	=
Intangibles, fixed assets and long-term investments		
INTANGIBLE ASSETS		
Industrial patents and intellectual property rights	424,113,188	615,765,350
Concessions, licenses, trademarks and similar rights	46,526,413	58,151,866
Goodwill	=	1,962,536
Work in progress and advances to suppliers	640,450,618	382,375,909
Other intangibles	77,613,582	108,221,265
	1,188,703,801	1,166,476,926
FIXED ASSETS		
Land and buildings	1,554,485,391	4,043,115,988
Plant and machinery	12,974,649,123	13,872,707,077
Manufacturing and distribution equipment	40,167,221	59,647,785
Other fixed assets	83,784,419	232,637,059
Construction in progress and advances to suppliers	481,949,816	652,872,934
	15,135,035,970	18,860,980,843
LONG-TERM INVESTMENTS		
Equity investments in:		
<i>subsidiaries</i>	18,216,954,644	4,509,319,810
<i>affiliated companies</i>	574,829,758	112,103,288
<i>other companies</i>	91,779,334	197,323,020
	18,883,563,736	4,818,746,118
Advances on future capital contributions	963,135,227	4,446,740,361
Accounts receivable:	(•)	(•)
<i>subsidiaries</i>	= 50,000,000	18,144,492
<i>other receivables</i>	75,114,449	671,399,324
	200,181,588	59,705,342
	75,114,449	208,907,996
	250,181,588	77,849,834
		880,307,320
Treasury stock (for an overall par value of Lire 104,978 million as at 12/31/2000)	661,359,839	=
	20,758,240,390	10,145,793,799
Total intangibles, fixed assets and long-term investments	37,081,980,161	30,173,251,568
Current assets		
INVENTORIES		
Contract work in process	35,910,751	27,878,418
Finished goods and merchandise:		
<i>merchandise</i>	41,241,715	92,470,742
	77,152,466	120,349,160
ACCOUNTS RECEIVABLE	(••)	(••)
Trade accounts receivable	= 4,295,583,552	= 4,859,256,872
Accounts receivable from subsidiaries	= 2,703,481,780	= 2,318,380,600
Accounts receivable from affiliated companies	= 241,608,589	= 209,372,133
Accounts receivable from parent companies	= 1,208,129	= 1,282,606
Other receivables due from:		
<i>Government and other public entities for grants and subsidies</i>	= 1,265,371	= 129,182
<i>deferred tax assets</i>	139,578,674	81,431,309
<i>other receivables</i>	= 1,390,789,041	= 387,175,388
	139,578,674	81,431,309
	1,877,259,822	565,731,308
	9,119,141,872	7,954,023,519
SHORT-TERM FINANCIAL ASSETS		
Equity investments in subsidiaries	326,732,560	56,197,262
Other equity investments	5,146,911	5,368,182
Other securities	=	=
	331,879,471	61,565,444
LIQUID ASSETS		
Bank and postal accounts	108,620,985	72,056,350
Checks	4,792	474
Cash and valuables on hand	321,590	480,472
	108,947,367	72,537,296
Total current assets	9,637,121,176	8,208,475,419
Accrued income and prepaid expenses		
Issue discounts and similar charges	1,245,417	1,850,855
Accrued income and other prepaid expenses	842,827,497	23,702,883
	844,072,914	25,553,738
TOTAL ASSETS	47,563,174,251	38,407,280,725

(•) Amounts due within one year (••) Amounts due beyond one year

LIABILITIES AND STOCKHOLDERS' EQUITY (in euros)

	12/31/2000		12/31/1999	
Stockholders' equity				
Share capital		3,835,290,133		3,835,290,133
Additional paid-in capital		1,802,910,598		1,802,910,598
Reserves for inflation adjustments under				
Law No. 72 of 3.19.1983		2,481,701,583		2,481,949,778
Law No. 413 of 12.30.1991		468,944,257		468,991,156
		2,950,645,840		2,950,940,934
Legal reserve		524,092,652		393,677,914
Reserve for treasury stock		661,359,839		=
Other reserves:				
Reserve for accelerated depreciation	=		768,381,512	
Reserve under Law No. 342 of 11.21.2000 - article 14		888,460,271	=	
Special reserve		1,243,373,496		1,873,605,534
Reserve for capital grants		456,616,923		440,492,773
Miscellaneous reserves		3,792,576,213		3,700,787,189
		6,381,026,903		6,783,267,008
Net income		2,558,662,582		2,608,294,768
		18,713,988,547		18,374,381,355
Reserves for risks and charges				
Reserves for taxes				
for taxes		141,238,258		131,437,365
for deferred taxes		=		=
		141,238,258		131,437,365
Other reserves		742,466,960		510,109,749
		883,705,218		641,547,114
Reserve for employee termination indemnities		1,031,274,074		1,117,184,677
Liabilities	(••)		(••)	
Debentures	145,455,747	145,455,747	426,032,681	426,032,681
Due to banks	2,589,881,617	12,770,486,108	3,163,108,365	6,415,465,422
Due to other lenders	453,231,032	658,981,850	656,271,488	831,395,041
Advances	=	1,178,192	=	961,383
Trade accounts payable	=	2,832,843,579	=	3,195,829,002
Accounts payable to subsidiaries	=	5,167,958,497	=	3,190,954,796
Accounts payable to affiliated companies	=	571,244,236	=	194,209,960
Accounts payable to parent companies	=	1,306,120	=	2,359,384
Taxes payables	=	494,107,928	=	479,625,858
Contributions to pension and social security institutions	650,981,941	855,729,345	708,458,553	882,769,759
Other liabilities	3,263,182	2,923,777,887	4,915,720	2,176,207,067
	3,842,813,519	26,423,069,489	4,958,786,807	17,795,810,353
Accrued expenses and deferred income		511,136,923		478,357,226
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		47,563,174,251		38,407,280,725

(••) Amounts due beyond one year

(in euros)

	12/31/2000	12/31/1999
Guarantees provided		
Sureties		
on behalf of subsidiaries	2,811,667,030	1,507,279,143
on behalf of parent companies	2,043,662,328	832,023,543
on behalf of others	(395,592,001)	153,463,644
	4,459,737,357	2,492,766,330
Collateral provided	=	=
Purchases and sales commitments	3,494,936,506	692,776,075
Other memorandum accounts	8,993,016	3,396,764,797
TOTAL MEMORANDUM ACCOUNTS	7,963,666,879	6,582,307,202

(in euros)

	2000	1999
Production value		
Sales and service revenues	17,416,557,865	18,518,163,228
Changes in inventory of contract work in process	8,032,333	(10,440,163)
Increases in capitalized internal construction costs	11,365,047	13,671,251
Other revenue and income		
<i>operating grants</i>	521,559	1,361,921
<i>other</i>	322,518,143	388,229,783
	323,039,702	389,591,704
	17,758,994,947	18,910,986,020
Production cost		
Raw materials, supplies and merchandise	(404,585,633)	(606,407,056)
Services	(5,695,762,811)	(5,976,091,215)
Use of property not owned	(452,087,341)	(440,351,028)
Personnel		
<i>wages and salaries</i>	(2,146,293,819)	(2,217,110,150)
<i>social security contributions</i>	(705,705,518)	(722,923,382)
<i>termination indemnities</i>	(171,931,648)	(174,099,047)
<i>other costs</i>	(64,631,836)	(76,898,392)
	(3,088,562,821)	(3,191,030,971)
Amortization, depreciation and writedowns		
<i>amortization of intangible assets</i>	(600,088,830)	(647,231,266)
<i>depreciation of fixed assets</i>	(3,118,775,106)	(3,363,700,827)
<i>other writedowns of intangibles and fixed assets</i>	(19,433,324)	(73,491,507)
<i>writedowns of receivables included in current assets and liquid assets</i>	(171,716,751)	(206,084,555)
	(3,910,014,011)	(4,290,508,155)
Changes in inventory of raw materials, supplies and merchandise	(51,229,027)	(5,355,688)
Provisions for risks	(62,847,644)	(80,683,415)
Miscellaneous operating costs		
<i>losses on disposals of assets</i>	(48,727,396)	(106,633,369)
<i>license fee</i>	(311,180,145)	(390,295,580)
<i>other miscellaneous costs</i>	(139,131,907)	(159,064,043)
	(499,039,448)	(655,992,992)
	(14,164,128,736)	(15,246,420,520)
Operating income	3,594,866,211	3,664,565,500
Financial income and expense		
Income from equity investments		
<i>dividends from subsidiaries</i>	1,056,098,275	1,014,647,068
<i>dividends from affiliated companies</i>	68,618,852	3,941,673
<i>dividends from other companies</i>	56,891,143	57,213,012
<i>other income from equity investments</i>	607,691,982	642,419,842
	1,789,300,252	1,718,221,595
Other financial income from		
<i>accounts receivable included in long-term investments</i>		
<i>subsidiaries</i>	4,185,566	22,570,890
<i>affiliated companies</i>	3,889,736	=
<i>other</i>	8,254,979	9,163,057
	16,330,281	31,733,947
<i>securities, other than equity investments, included in long-term investments</i>	=	139,310
<i>securities, other than equity investments, included in current assets</i>	1,307,278	2,059
<i>other income</i>		
<i>interest and fees from subsidiaries</i>	42,136,346	40,618,620
<i>interest and fees from affiliated companies</i>	7,078,551	11,777,910
<i>interest and fees from others and miscellaneous income</i>	115,756,809	75,647,204
	164,971,706	128,043,734
	182,609,265	159,919,050
Interest and other financial expense		
<i>interest and fees paid to subsidiaries</i>	(78,187,566)	(36,383,011)
<i>interest and fees paid to affiliated companies</i>	(5,702,741)	(522,111)
<i>interest and fees paid to others and miscellaneous expense</i>	(558,194,208)	(412,580,002)
	(642,084,515)	(449,485,124)
Total financial income and expense	1,329,825,002	1,428,655,521

(CONTINUED) (in euros)

	2000	1999
Value adjustments to financial assets		
Writedowns of		
<i>equity investments</i>	(437,757,188)	(152,150,629)
	(437,757,188)	(152,150,629)
Total value adjustments	(437,757,188)	(152,150,629)
Extraordinary income and expense		
Income		
<i>gains on disposals</i>	666,424,290	=
<i>miscellaneous</i>	88,319,423	36,816,506
	754,743,713	36,816,506
Expense		
<i>losses on disposals</i>	(9,868,941)	=
<i>prior years' taxes</i>	(3,533,602)	(2,904,598)
<i>miscellaneous</i>	(920,801,249)	(373,208,893)
	(934,203,792)	(376,113,491)
Total extraordinary items	(179,460,079)	(339,296,985)
Income before taxes	4,307,473,946	4,601,773,407
Income taxes		
<i>current taxes</i>	(1,382,906,816)	(1,682,496,183)
<i>deferred taxes</i>	(365,904,548)	(310,982,456)
	(1,748,811,364)	(1,993,478,639)
Net income	2,558,662,582	2,608,294,768

**AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 156 OF LAW
DECREE N° 58 DATED 24 FEBRUARY 1998**

To the Shareholders of
Telecom Italia SpA

1. We have audited the financial statements of TELECOM ITALIA SpA as of December 31, 2000. These financial statements are the responsibility of Telecom Italia's directors. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.

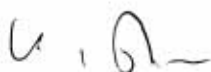
The financial statements of certain subsidiaries held directly by Telecom Italia SpA (mainly Seat Pagine Gialle SpA, Telecom Italia Mobile SpA, Huit Sarl and TI Web SA) which reflect 60 per cent of the total carrying value of "Investments in subsidiaries" and 24 per cent of total assets, and the financial statements of certain subsidiaries, held directly and indirectly, by Stet International Netherlands NV (mainly 9 Telecom Reseau SAS), have been audited by other auditors who gave us their related reports. Our opinion, expressed herein, insofar as it relates to the financial statements of those subsidiaries utilised in order to verify this valuation of the investments, is based also on the audits performed by other auditors.

For the opinion on the financial statements of the prior period, which are presented for comparative purposes as required by law, reference is made to the report issued by Arthur Andersen SpA dated April 10, 2000.

3. In our opinion, the financial statements of Telecom Italia SpA as of December 31, 2000 comply with the laws governing the criteria for their preparation; accordingly, they give a true and fair view of the financial position and of the results of operations of Telecom Italia SpA.
4. We draw your attention to the following points:
 - Telecom Italia SpA has investments in subsidiaries and has consequently prepared (as required by law) group consolidated financial statements. Such consolidated financial statements represent an integral part of the annual financial statements for the purposes of providing adequate information on the financial position and the results of operations of the company and the Group. We have examined the consolidated financial statements, which, together with the audit report, have been presented with the annual financial statements.
 - For a better understanding of the financial statements, reference should be made to the information included in the notes to financial statements, in the section "Summary of significant accounting policies", regarding the accounting criteria utilised for the employee benefit obligations as required by Law no. 58/1992.

Turin, May 21, 2001

PricewaterhouseCoopers SpA



Sergio Duca
(Partner)

This report has been translated from the original, which was issued in accordance with Italian legislation.

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE STOCKHOLDERS' MEETING OF TELECOM ITALIA S.P.A. PURSUANT TO LEGISLATIVE DECREE 58/1998 ART. 153 AND ART. 2429, PARAGRAPH 3, ITALIAN CIVIL CODE

To the Stockholders,

During the year ended December 31, 2000, the Board of Statutory Auditors carried out the supervisory work required by law, taking into account the code of ethics recommended by the National Boards of Dottori Commercialisti and Ragionieri. In preparing this report, the Board also took into consideration CONSOB Instructions No. 1025564 dated April 6, 2001, No. 97001574 of February 20, 1997 and No. 98015375 dated February 27, 1998.

1. The Board of Statutory Auditors has received periodic information and data, as set forth by Legislative Decree 58/1998, art. 150, paragraph 1 and article 13 of the corporate by-laws, from the Directors at the Board of Directors' Meetings, which have always been attended by the Board of Statutory Auditors.

The disclosure of this information shows that the most important economic, financial and equity transactions entered into by TELECOM ITALIA S.P.A. refer mainly to the merger of TIN.IT in SEAT S.P.A. (contribution of the Internet operations in TIN.IT S.P.A.; purchase of SEAT shares from HUIT II S.A.; voluntary tender offer for SEAT shares; partial demerger of TELECOM ITALIA with the transfer of TIN.IT shares to SEAT; merger by absorption of TIN.IT in SEAT), restructuring of international operations by TELECOM ITALIA (total non-proportional spin-off of STET INTERNATIONAL S.P.A. in favor of TELECOM ITALIA and TELECOM ITALIA MOBILE S.P.A.; contribution by TELECOM ITALIA of STET MOBILE HOLDING N.V. shares to TIM), purchase of TIM ordinary shares, buy-back of treasury shares, spin-off of the real estate business (contribution of the TELECOM ITALIA "Large Buildings" business segment to IM.SER S.P.A., 100%-owned by Telecom Italia; sale of 60% of IM.SER to BENI STABILI and LEHMAN BROTHERS), all of which have been exhaustively described in the Directors' report on operations and in the notes to the 2000 financial statements.

The Board of Statutory Auditors has ascertained that the above transactions have been carried out in accordance with the law, the by-laws and the general principles of economic rationale, ensuring that such transactions were not patently imprudent, risky, with potential conflict of interests, in contrast with the resolutions passed by the Stockholders' Meetings or such as to compromise the whole of the assets of the company.

2. The Board of Statutory Auditors has not noted any unusual and/or atypical transactions entered into with third parties, related parties or intercompanies.

The Directors, in their report on operations, disclose the major related party transactions entered into by TELECOM ITALIA Group and TELECOM ITALIA S.P.A., respectively, in paragraphs 5.7 and 6.6, to which reference should be made, also with respect to the characteristics of the transactions and their economic effects.

The Board of Statutory Auditors has verified, with the assistance of the Internal Auditing function, that, in TELECOM ITALIA S.P.A., adequate procedures are in force and have been followed in order to ensure that the above transactions are conducted at arms' length or according to specific regulatory provisions.

3. The disclosure provided in the report on operations accompanying the statutory and consolidated financial statements, concerning transactions entered into by TELECOM ITALIA S.P.A. with related parties or intercompanies, is sufficient, taking into account the size and structure of the Company.

4. The audit firm, PRICEWATERHOUSECOOPERS S.P.A., on May 21, 2001, has issued its audit report in accordance with Legislative Decree No. 58/1998, art. 156 stating that the statutory financial statements and the consolidated financial statements at December 31, 2000 give a true and fair view of the financial position and results of operations of the Company and the Group. The report makes reference to the usual comments concerning the pension costs regulated by Law No. 58/1992.
5. The Board of Statutory Auditors received nine complaints under ex art. 2408 of the Italian Civil Code, two of which were received in early 2001, concerning certain questions relating to the Stockholders' Meetings held in 2000 and matters of a commercial nature. The Board of Statutory Auditors carried out the appropriate inquiries and ascertained that there were no omissions, censurable facts or irregularities that needed to be brought to the attention of the Stockholders' Meeting.
6. The Board of Statutory Auditors received no petitions.
7. In 2000, TELECOM ITALIA appointed PRICEWATERHOUSECOOPERS S.P.A. to perform certain work other than the legal audit of the financial statements. The fees for this work, excluding out-of-pocket expenses and VAT, are summarized below (in millions of lire):

Audit work for Global Note Program	830
Audit work for the Annual Report Form 20-F	343
Other work	513
Total	1,686

The above fees appear adequate in relation to the complexity and magnitude of the work performed.

Furthermore, on July 21, 2000, the chief judge of the Turin Courts appointed PRICEWATERHOUSECOOPERS S.P.A. as the expert, pursuant to art. 2501 quinquies of the Italian Civil Code, within the framework of the operation for the total non-proportional spin-off of STET INTERNATIONAL in favor of TELECOM ITALIA and TIM.

8. In 2000, TELECOM ITALIA did not confer any appointments to parties connected by continuous working relationships with PRICEWATERHOUSECOOPERS S.P.A..
9. In 2000, the Board of Statutory Auditors issued a specific opinion to the Board of Directors, pursuant to ex art. 2389, paragraph 2 of the Italian Civil Code, concerning the remuneration assigned to the Chairman and CEO.
10. In 2000, the meetings of the Board of Statutory Auditors numbered fourteen. The Board also attended the ordinary and extraordinary sessions of the Stockholders' Meetings and the Board of Directors' Meetings, which numbered seventeen.
11. The Board of Statutory Auditors has acquired information and monitored, as far as its responsibilities are concerned, the proper keeping of administration, through direct observation, gathering of information from those in charge of the organizational functions, pursuant to Legislative Decree No. 58/1998, ex art. 151, paragraph 2, and meetings with the audit firm of PRICEWATERHOUSECOOPERS S.P.A., for purposes of a reciprocal exchange of important information and data.

12. The Board of Statutory Auditors has acquired information and monitored, as far as its responsibilities are concerned, the adequacy of the organizational structure of the Company, now organized in Business Units.
13. The Board of Statutory Auditors has evaluated and monitored the adequacy of the internal control system. In particular, it regularly gathered information on the activities carried out, by meetings with those in charge of the Internal Auditing function and by obtaining specific documentation on a periodical basis; it also requested and obtained evidence of the steps taken to correct critical areas.
As regards self-assessment of the risk profile of corporate activities, the Company has begun two projects in the Wireline Services Business Unit. The first is already operational in 2000 and involves the application of a CRSA (Control Risk Self Assessment) method to certain corporate operational processes. The second, begun in 2001, consists of the self-assessment of the risk profile for all the major macro-processes of the Business Unit and will be completed during the current year, with subsequent updates each year thereafter.
14. The Board of Statutory Auditors has evaluated and monitored the adequacy of the and the administrative and accounting system, as well as its reliability to correctly represent the operating events, by obtaining information from those in charge of the respective functions, examining corporate documentation and reviewing the results of the work carried out by the audit firm.
15. The instructions given by TELECOM ITALIA S.p.A. to its subsidiaries, pursuant to art. 114, paragraph 2, of Legislative Decree No. 58/1998, appear adequate for purposes of fulfilling the obligation regarding communication as required by law.
16. The Board of Statutory Auditors has ascertained that the laws have been respected with regard to the preparation and formation of the statutory financial statements of TELECOM ITALIA S.p.A. and the consolidated financial statements of the Group as well as the directors' report accompanying said statements. In particular, the Group's performance by business sector and by geographical area has been presented by taking into account Consob Instruction No. 98084143 dated October 17, 1998.
17. The Company, through its own code of conduct, follows the Code of Self-discipline of the Committee for the Corporate Governance of listed companies. To this end, the Audit and Corporate Governance Committee and the Committee for the Remuneration of the Directors have been set up and are operational.
18. During the course of the foregoing monitoring activities, there were no significant facts that came to our attention such that would need to be reported to the controlling bodies or mentioned in this report.
The examination of the reports issued as set forth by Legislative Decree No. 58/1998, art. 153 and art. 156, respectively by the Board of Statutory Auditors and the audit firms of the subsidiaries of TELECOM ITALIA S.p.A., listed on regulated markets and managed by the Borsa Italiana S.p.A. (TIM, SEAT, IMMSI and BUFFETTI GROUP), show no critical areas or significant matters for attention.
As regards the alleged irregularities surrounding the acquisition, in June 1997, by STET INTERNATIONAL NETHERLANDS N.V., of a 29% stake in TELEKOM SRBIJA, the Turin

judicial authorities have begun a formal inquiry and, as from February 22, 2001, have obtained documentation from TELECOM ITALIA made available by the Company in its offices in Turin and Rome.

As from February 28, 2001, Telecom Italia has also made practically the same documentation available to PRICEWATERHOUSECOOPERS S.P.A. which, on March 14, 2001, sent Consob and us, the Board of Statutory Auditors, a memorandum on the subject, with no other memo having been received since that date.

CONSOB, in its memorandum dated March 5, 2001, asked the Board of Statutory Auditors to begin an inquiry and to send the relative findings to the same Commission, with particular reference to the correctness of the disclosure made public in the 1997, 1998 and 1999 financial statements of TELECOM ITALIA as regards its investment in the affiliate TELEKOM SRBIJA.

The Board of Statutory Auditors, in close contact with PRICEWATERHOUSECOOPERS S.P.A., took advantage of the assistance of the structures of TELECOM ITALIA and kept in contact with the members of the Audit and Corporate Governance Committee. During the course of its work, the Board also proceeded to hold specific interviews with the managers in service. Lastly, the Board had direct contacts with representatives of CONSOB and a report was sent to Consob on April 12, 2001, and, more recently (May 15, 2001), an explanatory memorandum.

The report of the Board of Statutory Auditors has been drawn up by taking into account the tests carried out, as well as the information and documentation obtained in conformity with the powers held by the same Board.

The facts examined mainly regard the years 1997 and 1998. No facts have emerged as result of the above, at this time, which could refute the correctness of the statutory financial statements and the consolidated financial statements of TELECOM ITALIA at December 31, 1997, 1998 and 1999, also for the effects on the financial statements for the year ended December 31, 2000.

Lastly, it should also be pointed out that the matter is still under investigation by the judicial authorities in Turin, as mentioned above.

19. Finally, the Board of Statutory Auditors calls your attention to the resignation of the Director Avv. Angelo Benessia on April 5, 2001, and, consequently, you are called to appoint a new director to the Board.
20. As far as the Board of Statutory Auditors is concerned, having taken note of the results of the statutory financial statements for the year ended December 31, 2000, we have no objections to the proposal by the Board of Directors for the appropriation of the net income for the year.

Rome, May 21, 2001

The Board of Statutory Auditors

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE STOCKHOLDERS' MEETING OF TELECOM ITALIA S.P.A. PURSUANT TO LEGISLATIVE DECREE 58/1998 ART. 153 AND ART. 2429, PARAGRAPH 3, ITALIAN CIVIL CODE

To the Stockholders,

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10. In 2000, the meetings of the Board of Statutory Auditors numbered fourteen. The Board also attended the ordinary and extraordinary sessions of the Stockholders' Meetings and the Board of Directors' Meetings, which numbered seventeen.
11. The Board of Statutory Auditors has acquired information and monitored, as far as its responsibilities are concerned, the proper keeping of administration, through direct observation, gathering of information from those in charge of the organizational functions, pursuant to Legislative Decree No. 58/1998, ex art. 151, paragraph 2, and meetings with the audit firm of PRICEWATERHOUSECOOPERS S.P.A., for purposes of a reciprocal exchange of important information and data.

12. The Board of Statutory Auditors has acquired information and monitored, as far as its responsibilities are concerned, the adequacy of the organizational structure of the Company, now organized in Business Units.
13. The Board of Statutory Auditors has evaluated and monitored the adequacy of the internal control system. In particular, it regularly gathered information on the activities carried out, by meetings with those in charge of the Internal Auditing function and by obtaining specific documentation on a periodical basis; it also requested and obtained evidence of the steps taken to correct critical areas.
As regards self-assessment of the risk profile of corporate activities, the Company has begun two projects in the Wireline Services Business Unit. The first is already operational in 2000 and involves the application of a CRSA (Control Risk Self Assessment) method to certain corporate operational processes. The second, begun in 2001, consists of the self-assessment of the risk profile for all the major macro-processes of the Business Unit and will be completed during the current year, with subsequent updates each year thereafter.
14. The Board of Statutory Auditors has evaluated and monitored the adequacy of the and the administrative and accounting system, as well as its reliability to correctly represent the operating events, by obtaining information from those in charge of the respective functions, examining corporate documentation and reviewing the results of the work carried out by the audit firm.
15. The instructions given by TELECOM ITALIA S.p.A. to its subsidiaries, pursuant to art. 114, paragraph 2, of Legislative Decree No. 58/1998, appear adequate for purposes of fulfilling the obligation regarding communication as required by law.
16. The Board of Statutory Auditors has ascertained that the laws have been respected with regard to the preparation and formation of the statutory financial statements of TELECOM ITALIA S.p.A. and the consolidated financial statements of the Group as well as the directors' report accompanying said statements. In particular, the Group's performance by business sector and by geographical area has been presented by taking into account Consob Instruction No. 98084143 dated October 17, 1998.
17. The Company, through its own code of conduct, follows the Code of Self-discipline of the Committee for the Corporate Governance of listed companies. To this end, the Audit and Corporate Governance Committee and the Committee for the Remuneration of the Directors have been set up and are operational.
18. During the course of the foregoing monitoring activities, there were no significant facts that came to our attention such that would need to be reported to the controlling bodies or mentioned in this report.
The examination of the reports issued as set forth by Legislative Decree No. 58/1998, art. 153 and art. 156, respectively by the Board of Statutory Auditors and the audit firms of the subsidiaries of TELECOM ITALIA S.p.A., listed on regulated markets and managed by the Borsa Italiana S.p.A. (TIM, SEAT, IMMSI and BUFFETTI GROUP), show no critical areas or significant matters for attention.
As regards the alleged irregularities surrounding the acquisition, in June 1997, by STET INTERNATIONAL NETHERLANDS N.V., of a 29% stake in TELEKOM SRBIJA, the Turin

judicial authorities have begun a formal inquiry and, as from February 22, 2001, have obtained documentation from TELECOM ITALIA made available by the Company in its offices in Turin and Rome.

As from February 28, 2001, Telecom Italia has also made practically the same documentation available to PRICEWATERHOUSECOOPERS S.P.A. which, on March 14, 2001, sent Consob and us, the Board of Statutory Auditors, a memorandum on the subject, with no other memo having been received since that date.

CONSOB, in its memorandum dated March 5, 2001, asked the Board of Statutory Auditors to begin an inquiry and to send the relative findings to the same Commission, with particular reference to the correctness of the disclosure made public in the 1997, 1998 and 1999 financial statements of TELECOM ITALIA as regards its investment in the affiliate TELEKOM SRBIJA.

The Board of Statutory Auditors, in close contact with PRICEWATERHOUSECOOPERS S.P.A., took advantage of the assistance of the structures of TELECOM ITALIA and kept in contact with the members of the Audit and Corporate Governance Committee. During the course of its work, the Board also proceeded to hold specific interviews with the managers in service. Lastly, the Board had direct contacts with representatives of CONSOB and a report was sent to Consob on April 12, 2001, and, more recently (May 15, 2001), an explanatory memorandum.

The report of the Board of Statutory Auditors has been drawn up by taking into account the tests carried out, as well as the information and documentation obtained in conformity with the powers held by the same Board.

The facts examined mainly regard the years 1997 and 1998. No facts have emerged as result of the above, at this time, which could refute the correctness of the statutory financial statements and the consolidated financial statements of TELECOM ITALIA at December 31, 1997, 1998 and 1999, also for the effects on the financial statements for the year ended December 31, 2000.

Lastly, it should also be pointed out that the matter is still under investigation by the judicial authorities in Turin, as mentioned above.

19. Finally, the Board of Statutory Auditors calls your attention to the resignation of the Director Avv. Angelo Benessia on April 5, 2001, and, consequently, you are called to appoint a new director to the Board.
20. As far as the Board of Statutory Auditors is concerned, having taken note of the results of the statutory financial statements for the year ended December 31, 2000, we have no objections to the proposal by the Board of Directors for the appropriation of the net income for the year.

Rome, May 21, 2001

The Board of Statutory Auditors

PROPOSED RESOLUTIONS

The Shareholders' Meeting is convened on June 12, 2001 at 10.00 hours at the registered office of the Company – in Turin in Via Bertola, 34 – and, if necessary, on June 13, 2001 at the same time and place

FINANCIAL STATEMENTS AND APPROPRIATION OF NET INCOME FOR 2000; PERTINENT AND RELATED RESOLUTIONS

To our Shareholders

The financial statements of Telecom Italia S.p.A. for the year 2000 show a net income of Lire 4,954,261,597,624, which is basically in line with the figure for last year (Lire 5,050,362,910,293), reflecting a trend that has been illustrated in detail in the report on operations.

Thanks to this result, a unit dividend per ordinary share of Lire 605 is proposed (compared to the figure of Lire 603 effectively paid last year, inclusive of the increase stemming from the proportional allocation of net income accruing on treasury stock held in the Company's portfolio), as well as the preferential dividend due on savings shares. In this respect, it should be borne in mind that the nominal value of Telecom Italia shares benefited from a gratuitous increase following the re-denomination of the share capital in Euro approved by the Extraordinary Shareholders' Meeting held on May 3, 2001. This gave rise to an increase in the rights pertaining to savings shares, inasmuch as they are linked on a percentage basis to the nominal value of the stock, which was rounded off from Lire 1,000 to Euro 0.55. In particular, the extra dividend due on savings shares increased from Lire 20 to 0.011 Euro (Lire 22) per share.

Furthermore, the conversion of the share capital into Euro has given rise to the cancellation of own savings shares held in the Company's portfolio and consequently to a reduction in the total number of shares. Against this, a contrary variation is liable to come about as a result of issuing new ordinary shares in connection with the portion of the share capital increase deliberated by the Board of Directors on December 17, 1999, which is susceptible to implementation before the Shareholders' Meeting approving the financial statements is held. With regard to the offer for the voluntary conversion of savings shares into ordinary shares at a ratio of one ordinary share (regular dividend) for each savings share (regular dividend), which was also examined by the aforementioned Extraordinary Shareholders' Meeting, this will in no way affect payment of the 2000 dividend. When the report illustrating the operation was issued, it was in fact made clear that the eventual conversion offer will in any case be carried out following modalities that will allow those who agree to collect the dividend for the year ended December 31, 2000.

To better clarify the proposal for allocating the year's net income, emphasis should also be laid on a special reserve for a figure corresponding to 3% of the quotas of the TFR (reserve for employee termination indemnities) destined for supplementary pension funds (Telemaco and Fontedir), in such a way as to obtain an equivalent deduction for the purposes of determining IRPEG (corporate income tax) income for the year, as permitted by Legislative Decree 124/1993. The reserve thus set up will benefit from the tax suspension facility.

Finally, it should be stressed that access to the subsidies envisaged by Law 488/1992 – in connection with projects for investments in the regions of Southern Italy presented by the Company during the course of the year 2000 for a total figure of Lire 270,800 million – is subject, inter alia, to contributions of own resources (this may come in the form of net income for the year set aside as accelerated depreciation in the form of a special reserve for the entire duration of the special-term programmes) for a figure of Lire 229,792 million. To this end, it will be necessary to tie up a corresponding amount of the reserve for accelerated depreciation set up in the course of the year when applications to the Ministry of Industry, Trade and Crafts were presented.

In the light of the above, we submit to your approval the following

Agenda

The Ordinary Shareholders' Meeting of Telecom Italia S.p.A.

- after examining the financial statements of the Company for the year ended December 31, 2000;
- after examining the report on operations accompanying the financial statements;
- after acknowledging the report provided by the Board of Statutory Auditors and audit firm PricewaterhouseCoopers S.p.A.;
- in consideration of the conversion of the share capital into Euro approved by the Extraordinary Shareholders' Meeting held on May 3, 2001,
 - rounding off the nominal value of ordinary and savings shares from Lire 1,000 to Euro 0.55 for each share and consequently gratuitously increasing the share capital;
 - by means – inter alia – of cancelling 112,998,070 own savings shares held in the Company's portfolio, with a consequent reduction in the number of savings shares to 2,053,122,025;
- bearing in mind that the capital increase referred to in Article 6, paragraph 3, of the By-laws deliberated by the Board of Directors on December 17, 1999 (exercising the power referred to in Article 6, paragraph 2, of the By-laws) is susceptible to being partially implemented before the date on which the Extraordinary Shareholders' Meeting called to approve this deliberation is to be held, in such a way as to increase the number of ordinary shares with a regular dividend to a maximum of 5,265,792,031;
- in view of the advisability of benefiting from the tax relief envisaged by Legislative Decree 124/1993, by setting aside in a special reserve a figure corresponding to 3% of the TFR quotas earmarked for supplementary social security funds (for a total figure of Lire 327,810,645);
- in acknowledgement of applications for special financial terms, pursuant to Law 488/1992, presented by the Company to the Ministry of Industry, Trade and Crafts in the course of the year 2000, which envisage contributions of own resources – partly in the form of net income for the year set aside as accelerated depreciation in a special reserve for the entire duration of the investment projects hereinafter – for a figure of Lire 229,792 million, in exchange for investment projects in the regions of Southern Italy for a total figure of Lire 270,800 million.

resolves

1. to approve the report on operations drawn up by the Board of Directors, the balance sheet, the statements of income and the notes to the annual financial statements of Telecom Italia S.p.A. for the year ended on December 31, 2000, which shows a net income of Lire 4,954,261,597,624;
2. to appropriate the aforesaid net income as follows:
 - Lire 247,713,079,881 (corresponding to 5% of the net income generated) to the legal reserve;
 - Lire 327,810,645 to the "Reserve pursuant to Legislative Decree 124/1993";
 - A maximum of Lire 4,473,111,688,430 (corresponding to 90.3% of the net income) to be distributed in the form of a dividend of Lire 605 for each of the maximum total number of 7,318,914,056 shares existing as of the date of detaching the coupon, in addition to a further increase in the dividend due to the 2,063,122,025 savings shares of Lire 22 for each share;

- To the reserve for accelerated depreciation the minimum remainder of Lire 233,109,018,668 (corresponding to 4.7% of the net income generated), a maximum of Lire 229,792 million of which is tied up pursuant to Law 488/1992, subject to effectively obtaining the relevant special terms referred to in the introduction.

Any net income not distributed in the form of a dividend as a result of failure to fully subscribe the portion of the capital increase referred to in Article 6, paragraph 3, of the By-laws, which is presently liable to subscription, will be transferred to the reserve for accelerated depreciation;

3. to authorise the Board of Directors – and the Chairman of the Board on its behalf – to ascertain in due course the exact extent
 - of the total amount of the dividend due to be effectively distributed,
 - of the net income for 2000 earmarked for the reserve for accelerated depreciation; and
 - of the part of the aforesaid reserve tied up pursuant to Law 488/1992;
4. to pay the dividend as from June 21, 2001, detaching the coupon on June 18, 2001.

On the basis of Article 14 of Presidential Decree DPR 917 of December 22, 1986 and subsequent amendments, the total dividend will give shareholders a tax credit of 58.73% which can be used in full and without limitation.

APPOINTMENT OF A DIRECTOR

To our Shareholders

You are here also requested to appoint a Director to replace Mr. Angelo Benessia, who has resigned.

The Board of Directors invites the Shareholders' Meeting,

- after acknowledging the lapsing of a Director;
- in consideration of the deliberation passed by the Ordinary Shareholders' Meeting held on June 28, 1999, which amongst other things set at thirteen the number of members of the Company's Board of Directors and established that the duration of their mandate should be three financial years, and therefore until such time as the financial statements for the year ending on December 31, 2001 are approved;

to appoint a Board Director of the Company, whose mandate will expire together with that of the Directors currently in office and will therefore last until such time as the financial statements for the year ending on December 31, 2001 are approved.

RE-DETERMINING THE REMUNERATION DUE TO DIRECTORS AND AUDITORS; PERTINENT AND RELATED RESOLUTIONS

To our Shareholders

In this Meeting you are also asked to express your opinion with regard to the proposal to re-determine the remuneration due to the Corporate Bodies of Telecom Italia. The Group re-organisation process and the value creation schemes undertaken at all levels call for a special commitment in terms of management, guidance and control. Extraordinary operations have increased not only in number but also in terms of their dimension and complexity. At the same time routine business operations have had to cope with structural transformations in progress and with ever more challenging budget objectives, often in an unfavourable market framework.

In addition to the specific, ongoing commitment of the Chairman and Chief Executive Officer (remunerated separately, pursuant to Article 2389, paragraph 2, of the Civil Code), the number of meetings held by the Governing Body provides indirect but clear proof of all this. During 2000, the Board of Directors met seventeen times. If we also consider the time that Directors have to dedicate to preparing and examining the matters up for discussion in board meetings and shareholders' meetings and if we consider the fact that certain directors take part in the committees set up within the Board in order to optimise the corporate governance of both the Company and the Group, it would seem reasonable to propose a revision of the total annual remuneration of your Directors, solely in respect of the last of the three years in office.

The proposal submitted to your attention is therefore to re-determine, for the aforesaid period, the total remuneration of Lire two billion established by the Shareholders' Meeting held on June 28, 1999 at a figure of Lire three billion.

For similar reasons it is also proposed that, for the last two years in office, the remuneration already established for the Auditors' Committee by the Shareholders' Meeting held on July 3, 2000, which recommended that the Chairman's annual remuneration be set at a figure of Lire 225 million and that of each regular auditor at Lire 150 million, should also be correspondingly revised. The increased commitment required of Directors has also given rise to more work for the Controlling Body, whose members – all of whom have the professional and honourable requisites envisaged by Decree 162, March 30, 2000 of the Ministry of Justice and as such are qualified to continue exercising the mandate they have received – are under a duty to take part in Shareholders' Meetings of the Company and in Board Meetings. On top of this they are also expected - in periodical meetings and special checks and inspections carried out at the Company – to perform the surveillance and examination duties assigned to them by regulations, with special reference to listed companies. During the course of 2000, as well as taking part in shareholders' meetings and board meetings, the Auditors' Committee held fourteen meetings.

It is therefore proposed to re-determine, for each of the last two years of their assignment, the remuneration reserved for the Committee at a figure of Lire 300 million for the Chairman and Lire 225 million for each regular auditor, granting them an identical annual increase of Lire 75 million.

In view of the above, we therefore ask you to approve the following deliberations.

Re-determining the remuneration due to Directors

In the light of the issues raised in the explanatory report, we submit to your approval the following

Agenda

The Shareholders' Meeting of Telecom Italia S.p.A.

- after examining the explanatory report issued by the Board of Directors,
- in view of the decisions adopted by the Ordinary Shareholders' Meeting held on June 28, 1999,

resolves

to re-determine the total annual remuneration due to the Board of Directors pursuant to Article 2389, paragraph 1, of the Civil Code, for the remaining duration of the assignment and as from the year of assignment subsequent to the year in progress, at a figure of Lire 3 billion to be split between its members in accordance with deliberations to be adopted by the Board, in addition to reimbursement of out-of-pocket expenses incurred in performing their duties.

Re-determining the remuneration due to Statutory Auditors

In the light of the issues raised in the explanatory report, we submit to your approval the following

Agenda

The Shareholders' Meeting of Telecom Italia S.p.A.

- after examining the explanatory report issued by the Board of Directors,
- in view of the decisions adopted by the Ordinary Shareholders' Meeting held on July 3, 2000,

resolves

to re-determine the remuneration due to members of the Auditors' Committee, for the second and third year of their assignment, at a gross annual figure of Lire 225 million for each Regular Auditor and at a gross annual figure of Lire 300 million for the Chairman of the Auditors' Committee, in addition to reimbursement of out-of-pocket expenses incurred in performing their duties.

APPOINTING THE INDEPENDENT AUDIT FIRM; REVOCATION AND CONFERRAL OF A NEW ASSIGNMENT

To our Shareholders

In this Meeting you are asked to deliberate in respect of revoking the audit assignment conferred on PricewaterhouseCoopers S.p.A. for the three-year period 2000-2002 by the Shareholders' Meeting held on June 28, 1999.

The reasons why the Board has decided to make this proposal are as follows:

- as the audit assignment conferred by the parent company Olivetti S.p.A. on PricewaterhouseCoopers was due to expire at the close of the 2000 financial year, on July 4, 2000 the Shareholders' Meeting of the Group Leader conferred an audit assignment for the three-year period 2001-2003 on Reconta Ernst & Young S.p.A.;
- audit principles require that, in cases of corporate groups, the audit firm of the group leader should carry out the audit of the group's most important entities in terms of the nature of operations, in such a way that it can act as main group audit firm and express a professional evaluation of the financial statements in their entirety. For this reason, but partly also in order to optimise and simplify audit operations, Reconta Ernst & Young has been selected as the audit firm for the majority of Olivetti Group companies.

In view of the above, in accordance with Article 159, paragraph 2, of Legislative Decree 58/1998, the case in point is one of "revocation on just grounds" of the assignment previously conferred on PricewaterhouseCoopers, in view of the fact that otherwise Reconta Ernst & Young could not be qualified as the main audit firm in the framework of the Olivetti Group. The early extinction of the contract with PricewaterhouseCoopers is moreover already envisaged in the contract signed with Telecom Italia in September 1999. Following the revocation, it will therefore be necessary to proceed with a new audit assignment for the three-year period 2001-2003.

In the light of a) the determinations of the Group Leader, which has conferred Reconta Ernst & Young assignments for auditing its financial statements and half-year reports on Reconta Ernst & Young and, therefore, b) the need to ensure that it Reconta Ernst & Young is appointed as main audit firm in the framework of the Olivetti Group, your Board of Directors considers that the audit firm in question should also be given equivalent audit assignments for Telecom Italia.

The proposal presented by Reconta Ernst & Young – a highly prestigious audit firm – is competitive in economic, technical and quality terms. The consideration requested is in line with that previously established with the outgoing audit firm PricewaterhouseCoopers. Here is a resume of the proposal for professional services for each year of the three-year period 2001-2003:

Document	Extent of audit	Duration of assignment	No. hours (for each year of 3-year period)	Annual consideration	
				(Lire)	(Euro)
Financial statements	full audit	2001/2003	10,000	909,000,000	469,459.32
Consolidated financial statements	full audit	2001/2003	350	36,000,000	18,592.45
Half-year report in individual and consolidated form	limited review	2001/2003	1,200	109,000,000	56,293.80
Total			11,550	1,054,000,000	544,345.57

The figures shown do not include direct expenses or administrative costs and VAT. The surveillance contribution that the audit firm has to pay to Consob will not be re-debited. No mechanism is envisaged in order to adjust the fees to changes in the rate of inflation occurring during the 3-year period.

The hours and remuneration relating to the accounting audit of the financial statements also include those pertaining to the activities referred to in Article 155, paragraph 1, letter a) of Legislative Decree 58/1998 concerning checks during the year on regular corporate bookkeeping and on accurate representations of operations in accounting entries.

The fees will only be later adjusted by the Company's Shareholders' Meeting if during the course of the assignment exceptional and unforeseeable events occur such as to make it necessary to adjust the initially agreed consideration, in compliance with the criteria indicated in Consob communication 96003556 of April 18, 1996.

In view of the above, we submit to your approval the following

Agenda

The Shareholders' Meeting of Telecom Italia S.p.A.,

- after examining the explanatory report issued by the Board of Directors,
- after acknowledging the opinions of the Auditors' Committee on (i) the revocation on just grounds of the audit assignment conferred on PricewaterhouseCoopers S.p.A. for the 3-year period 2000-2002 by the Ordinary Shareholders' Meeting held on June 28, 1999 and (ii) the conferral of the new audit assignment,

resolves

1. to revoke – pursuant to Article 159, paragraph 2, of Legislative Decree 58/1998 - the audit assignment previously assigned to PricewaterhouseCoopers S.p.A. for the 3-year period 2000-2002 by the Ordinary Shareholders' Meeting held on June 28, 1999;
2. in accordance with Article 159 of Legislative Decree 58/1998, to confer on Reconta Ernst & Young S.p.A. (listed in the special Register of Audit Firms) an assignment for the accounting audit of the financial statements of Telecom Italia S.p.A. and the consolidated financial statements of the Telecom Italia Group for the 3-year period 2001-2003, determining the consideration due to the said audit firm for each of the financial years as follows: Lire 909,000,000 (corresponding to Euro 469,459.32) for the financial statements of Telecom Italia S.p.A. and Lire 36,000,000 (corresponding to Euro 18,592.45) for the consolidated financial statements of Telecom Italia Group;
3. in accordance with Consob Communication 97001574 of February 20, 1997, to confer on Reconta Ernst & Young S.p.A. an assignment in respect of the limited accounting audit of the half-year statement in individual and consolidated form of Telecom Italia S.p.A. for the 3-year period 2001-2003, determining the consideration due to the said audit firm for each of the aforementioned years at a figure of Lire 109,000,000 (corresponding to Euro 56,293.80);
4. to establish that the consideration referred to above in points 2 and 3 will only be later adjusted by the Company's Shareholders' Meeting if in the course of the assignment exceptional or unforeseeable circumstances arise such as to make it necessary to adjust the initially envisaged consideration, in compliance with the criteria indicated in Consob communication 96003556 of April 18, 1996.

OPINION ON THE PROPOSED REVOCATION OF THE AUDIT APPOINTMENT

To the Stockholders,
The Board of Statutory Auditors of Telecom Italia S.p.A.,

Having stated

- that the statutory financial statements and the consolidated financial statements for the year ended December 31, 2000 of Telecom Italia have been audited by PricewaterhouseCoopers S.p.A. on the basis of the appointment conferred by the Stockholders' Meeting of June 28, 1999 for the three years 2000-2001-2002,
- that on July 4, 2000, the Stockholders' Meeting of OLIVETTI appointed RECONTA ERNST & YOUNG S.p.A. to audit the financial statements for the three years 2001-2002-2003,
- that the early termination of the relationship had already been provided for in the contract between PRICEWATERHOUSECOOPERS S.p.A. and TELECOM ITALIA in September 1999, in order to allow TELECOM ITALIA to make the appointment of the same audit firm as the parent company OLIVETTI,

Notes

- that, on the basis of the decision taken by the parent company OLIVETTI, RECONTA ERNST & YOUNG is the principal auditor of OLIVETTI GROUP for the three years 2001-2002-2003,
- that the auditing standards recommended by Consob require that, in the case of a corporate group, the auditors of the parent company, so that they may act as the principal auditors of the group and express a professional opinion on the financial statements taken as a whole, should perform the audit of the most significant enterprises of the group in terms of operations,

Expresses

a favorable opinion for the revocation for a legitimate reason of the appointment previously conferred to PRICEWATERHOUSECOOPERS S.p.A., in accordance with Legislative Decree No. 58/1998, art. 159, paragraph 2, since – failing to do so – RECONTA ERNST & YOUNG would not be considered as the principal auditors of the OLIVETTI GROUP.

Rome, May 21, 2001

The Board of Statutory Auditors

OPINION ON THE PROPOSED APPOINTMENT OF THE AUDIT FIRM

To the Stockholders,

The Board of Statutory Auditors of TELECOM ITALIA S.P.A.,

Having stated

- that the Stockholders' Meeting of the parent company Olivetti has, on July 4, 2000, appointed RECONTA ERNST & YOUNG S.P.A. as the audit firm for the three years 2001-2002-2003
- that, for the reason indicated in the previous point, the audit appointment conferred for the years 2000-2001-2002 to PRICEWATERHOUSECOOPERS by the TELECOM ITALIA Stockholders' Meeting held on June 28, 1999 is revoked for a legitimate reason according to Legislative Decree No. 58/1998, art. 159, paragraph 2,
- that the Board of Directors of TELECOM ITALIA has voted on March 30, 2001 to propose to appoint RECONTA ERNST & YOUNG S.P.A. as the auditors of the financial statements of TELECOM ITALIA S.P.A. and the consolidated financial statements of TELECOM ITALIA GROUP for the years 2001-2002-2003, for purposes of ensuring that the audit firm maintains its position as the principal auditors of OLIVETTI GROUP,
- that, to this end, an ordinary Stockholders' Meeting has been called by TELECOM ITALIA to pass the related resolution pursuant Legislative Decree No. 58/1998, art. 159,

Having seen

Legislative Decree No. 58/1998, art. 159, paragraph 1 and art. 80 of the Rules issued by Consob under Resolution No. 11971 of May 14, 1999 and successive amendments

Having examined

the proposal by the audit firm of RECONTA ERNST & YOUNG S.P.A. formulated on March 12, 2001,

Notes

- that said proposal contains the audit plan of the statutory financial statements and consolidated financial statements for the years 2001-2002-2003 for purposes of expressing an opinion pursuant to Legislative Decree No. 58/1998, art. 156 and that such plan is adequate and complete,
- that such proposal contains a description of the procedures used to perform the tests pursuant to Legislative Decree No. 58/1998, art. 155, paragraph 1, letters a) and b) and that such procedures are adequate,
- that the audit firm in question has the requisites of independence called for by law and that there are no situations of incompatibility existing at this time,
- that the audit firm in question has an organization and technical resources sufficient for the size and complexity of the work to be carried out,
- that the fees requested are congruous,
- that, the Audit and Corporate Governance Committee also maintained, in its report presented to the Board of Directors at the time of the approval of the financial statements, that the proposal formulated by RECONTA ERNST & YOUNG S.P.A. is consistent with the standards and the normal conditions applied by the leading audit firms,

Expresses

- a favorable opinion, pursuant to Legislative Decree No. 58/1998, art. 159, paragraph 1, for the appointment of RECONTA ERNST & YOUNG S.P.A. as auditors of the statutory financial statements and the consolidated financial statements for the three years 2001-2002-2003, in conformity with the proposal by the same on March 12, 2001,
- a favorable opinion, as regards the appointment of RECONTA ERNST & YOUNG S.P.A. as auditors of the limited review of the six-month report on the interim statutory financial statements and the interim consolidated financial statements of TELECOM ITALIA for the three years 2001-2002-2003, in accordance Consob Instruction No. 97001574 of February 20, 1997.

Rome, May 21, 2001

The Board of Statutory Auditors

GIVING THE BOARD OF DIRECTORS THE POWER TO INCREASE THE SHARE CAPITAL IN SUPPORT OF *STOCK OPTION* INITIATIVES; AMENDING ARTICLE 6 OF THE BY-LAWS; PERTINENT AND RELATED RESOLUTIONS

To our Shareholders,

You have been called in extraordinary session to examine, amongst other things, the proposal to give the Board of Directors a fresh power to increase the share capital against payment, with a surcharge, reserving the increase – in accordance with the combined provisions of Articles 2443 and 2441, final paragraph, of the Civil Code and Article 134 of Legislative Decree 58 of February 24, 1998 – for senior managers and other employees of the Company or of parent companies and subsidiaries, who have particular responsibilities and/or skills of relevance to the success of the Company and the Group from a strategic and/or economic angle. Like the previous power originally granted by the Extraordinary Shareholders' Meeting held on December 15, 1998 – which was exercised virtually in full servicing the stock option plans already launched – the proposed power sets out to endow Telecom Italia with a further effective incentive and retention instrument directed towards valued resources for the Company and Group, thereby reflecting general practice at both the national and international level.

The most suitable method of reaching this objective would appear to be to grant subscription rights on newly issued ordinary shares that cannot be transferred *inter vivos* ("*Options*"), in accordance with the combined provisions of Article 2441, final paragraph, of the Civil Code and of Article 134 of Legislative Decree 58/1988. The price at which the said rights are exercised cannot be lower than the nominal value of the shares and will be established by the Board of Directors, after taking account of the applicable fiscal conditions.

In view of its objectives and characteristics, it is felt that the operation will have a positive impact on company operations, as it will encourage the resources most involved in creating the Company's value to give their best efforts. This will produce positive effects in terms of achieving the planned objectives and it will also favour the performance of the Company's stocks in the market.

If we consider the best interests of the Company and its shareholders, the proposed operation will give rise to exclusion of the option right in relation to a maximum capital increase to the order of approx. 1% of its current total figure.

The initiative may be divided into various plans aimed at managers and other employees of the Company or of parent companies and subsidiaries, who have special responsibilities and/or skills of relevance to the success of the Company and the Group from a strategic and/or economic angle and who will be individually selected by the Board of Directors.

The plans will be implemented in the form of one or more tranches of share capital increases approved by the Board of Directors pursuant to Article 2443 of the Civil Code. The Board of Directors will establish, also by special rules of implementation, a) the characteristics, terms, conditions and modalities in respect of implementing the plan (or plans) and exercising the Options and b) anything else that may be necessary and advisable with a view to implementing the said plans.

It is also proposed that the duration of the power conferred on the Directors should be set at the maximum period referred to in Article 2443 of the Civil Code, i.e. five years from the date on which this resolution is approved.

In view of the time-span of the power, it is also considered appropriate to set the maximum number of newly issued ordinary shares at 73,000,000, which corresponds to a nominal increase in the share capital of approximately 1% of the current total amount. This will be

subscribed with the surcharge established by the Board of Directors from time to time, whilst also bearing in mind, as previously indicated, the applicable fiscal conditions.

In view of the above, we submit to your approval the following

Agenda

The Extraordinary Shareholders' Meeting of Telecom Italia S.p.A.

- after examining the explanatory report issued by the Board of Directors; and
- in view of the certification of the Auditors' Committee attesting that the current share capital is fully paid in;

resolves

1. to grant the Board of Directors – for a maximum period of five years from the date of this deliberation, pursuant to Article 2443, paragraph two, of the Civil Code – the power to increase the share capital against payment, in one or more instalments, for a maximum nominal figure of Euro 40,150,000 by issuing a maximum of 73,000,000 ordinary shares, with regular dividend, to be offered for subscription to senior managers and other managers of Telecom Italia S.p.A. or parent companies and subsidiaries – who are to be selected individually by the Board of Directors – excluding the right of option in accordance with the combined provisions of Article 2441, final paragraph, of the Civil Code and Article 134 of Legislative Decree 58 of February 24, 1998. Rights to subscribe these shares will be personal and non-transferable *inter vivos*. The resolutions of the Board of Directors will set a special deadline for subscribing the shares and will envisage that, if the deliberated increase is not subscribed within this deadline, the capital will be increased by a figure equivalent to the subscriptions collected within the deadline;
2. to amend Article 6 of the By-laws by adding the following text as the final paragraph: “The Extraordinary Shareholders' Meeting held on ... June 2001 has granted the Board of Directors – for a maximum period of five years from the date of the shareholders' resolution approving the mandate – the right to increase the share capital against payment in one or more instalments by a maximum nominal figure of Euro 40,150,000 by issuing a maximum of 73,000,000 ordinary shares, with regular dividend, to be offered for subscription to senior managers and other employees of Telecom Italia S.p.A. or parent companies and subsidiaries – who are to be selected individually by the Board of Directors – excluding the right of option in accordance with the combined provisions of Article 2441, final paragraph, of the Civil Code and Article 134 of Legislative Decree 58 of February 24, 1998. Rights to subscribe these shares will be personal and non-transferable *inter vivos*. The resolutions of the Board of Directors will set a special deadline for subscribing the shares and will envisage that, if the deliberated increase is not subscribed within this deadline, the capital will be increased by a figure equivalent to the subscriptions collected within the deadline”;
3. to reserve the capital increase to be deliberated by the Board of Directors in one or more instalments, on the basis of the power referred to in point 1, to implementing one or more stock option plans aimed at senior managers and other employees of Telecom Italia S.p.A. or parent companies and subsidiaries – in accordance with any provisions that may be laid down in any special regulation(s) - who will be selected individually by the Board of Directors;

4. to authorise the Board of Directors, with reference to the aforementioned power to increase the share capital, to determine the price at which the shares are issued, bearing in mind the relevant fiscal provisions and in any case at a unit figure no lower than the nominal value;
5. to authorise the Board of Directors to draw up one or more rules of implementation reflecting the various stock option plans;
6. to empower the Board of Directors, and on its behalf, the Chairman and Deputy Chairman, if needs be on a separate basis:
 - to amend, whenever necessary, Article 6 of the By-laws as a result of the deliberations, execution and finalisation of the capital increase as authorised above, arranging to this end to comply with any formalities and public notices envisaged by the law;
 - to meet any other formality required in order that the approved deliberations are registered in the Register of Companies, accepting and introducing in them any non-substantial changes, additions or cancellations that may be requested or recommended by the competent Authorities.

AMENDING ARTICLE 9, PARAGRAPH 2, OF THE BYLAWS, FOLLOWING THE WITHDRAWAL OF THE PREVIOUS AUTHORISATION AND THE DELEGATION OF RENEWED POWERS TO THE BOARD OF DIRECTORS TO ISSUE DEBENTURES PURSUANT TO ARTICLE 2420 TER OF THE ITALIAN CIVIL CODE; AMENDING ARTICLE 12, PARAGRAPH 4 (PROCEDURES REGULATING THE HOLDING OF BOARD MEETINGS) AND ARTICLE 17 (APPOINTMENT OF THE AUDITORS' COMMITTEE) OF THE BYLAWS; PERTINENT AND RELATED RESOLUTIONS

To our Shareholders

The Extraordinary Shareholders' Meeting provides an opportunity to deal with a series of amendments aimed at updating the by-laws in such a way as to take account of (i) regulatory developments and (ii) the need to endow Telecom Italia with instruments geared to ensure maximum flexibility in operations in the face of rapidly changing markets.

In this spirit, you are asked to revise the clauses concerning the appointment of the Auditors' Committee (Article 17), the withdrawal of the current power on the Board of Directors to issue debentures – insofar as it has not been used – and its renewal (Article 9, paragraph 2, of the By-laws), and you are also asked to redefine procedures regulating the holding of board meetings (Article 12, paragraph 4, of the By-laws).

Auditors' Committee

As far as the Auditors' Committee is concerned, in Ministerial Decree DM 162 of March 30, 2000 the Ministry of Justice, in conjunction with the Ministry for Budget and Economic Planning – after consulting Consob, Banca d'Italia and ISVAP – approved “Regulations containing rules for establishing the professional and honourable requisites of members of the auditors' committee of listed companies, to be issued on the basis of Article 148 of Legislative Decree 58 of February 24, 1996”.

The measure directly regulates honourable requisites and confirms the previous requisite of professionalism which consists of exercising the activity of legally auditing accounts, this being required for a period of no less than three years; in particular, at least one or two regular auditors must meet this requisite (as well as one supply auditor), depending on whether the committee consists of three or more members. Since the regular and supply auditors of Telecom Italia have the aforesaid requisites, they can all therefore remain in office and duly proceed with the 3-year mandate conferred on them by the Ordinary Shareholders' Meeting held on July 3, 2000.

However, the same measure introduces other requisites qualifying the professionalism of auditors to be elected, in relation to the quota not reserved for official accounting auditors. In particular, alternative professional requisites to the activity of exercising the activity of legally auditing accounts have been envisaged. These include – in addition to administration, audit or management experience with joint-stock companies with a share capital of no less than Euro two million – experience for at least 3 years exercising “professional activities and full-time university teaching in legal, economic, financial and technical/scientific subjects closely linked to the enterprise's activity” or alternatively “management duties with public entities or administrations operating in the banking, financial and insurance sectors or in sectors closely linked to the enterprise's activity” (see Article 1, paragraph 2, letters b and c, of the Ministerial Decree). In this respect, the description of the subjects and sectors of activity closely linked to the enterprise's activity referred to above is left to the discretion of the by-laws, and you are therefore asked to approve amendments of the By-laws on this point.

In view of the fact that the presence in the Auditors' Committees of a minimum number of Auditors having the specific requisite of professionalism pertaining to the activity of legally auditing accounts (Article 1, paragraph 1, of the Ministerial Decree) must be guaranteed, amending the By-laws to the new rules also means that the clauses relating to procedures regulating the appointment of the Auditors' Committee will have to be integrated.

Power to issue debentures

As far as the power to issue debentures is concerned, this will be a question of confirming the solution already adopted by the Extraordinary Shareholders' Meeting held on April 30, 1997, whilst also bearing in mind the fact that the existing power expires in April 2002. To this end, it is proposed that this power should be withdrawn insofar as it has not been used and at the same time that a new power should be conferred guaranteeing the maximum possible extension of the power in terms of duration (five years from the time the resolution is passed), subject-matter (convertible and non-convertible debentures) and quantity (the maximum limits envisaged by current rules).

Procedures regulating the holding of board meetings

As far as procedures regulating the holding of board meetings are concerned, the proposed solution is the logical consequence of the choice previously made, by including in the By-laws the possibility of making use of the video-conference facility. Practice has confirmed how very useful this instrument has been - especially at a time when so many meetings of the Board of Directors are being held - as a result of the corporate governance policies adopted by Telecom Italia. You are therefore asked to allow for meetings to be held also using the audio-conference facility, whilst maintaining the necessary precautions in terms of identifying those taking part and guaranteeing an effective debate.

The comparative exposition of the by-law articles for which amendments are proposed – pursuant to Consob Resolution 11971/1999 – is shown in the text of the proposed resolution set forth hereafter.

In view of the above, you are asked to examine the following

Agenda

The Extraordinary Shareholders' Meeting of Telecom Italia S.p.A.

- after considering the power to issue debentures pursuant Article 2420 *ter* of the Civil Code conferred on the Board of Directors by the Extraordinary Shareholders' Meeting held on April 30, 1997;
- after considering recent corporate practice with regard to procedures regulating the holding of board meetings;
- after considering Decree 162 of the Ministry of Justice of March 30, 2000;

resolves

1. to withdraw the power conferred on the Board of Directors under the resolution of the Extraordinary Shareholders' Meeting of April 30, 1997, insofar as it has not been used;
2. to confer on the Directors, for a maximum of five years from the date on which this deliberation is approved, pursuant to Article 2420 *ter* of the Civil Code, the power to issue debentures in one or more instalments, up to the maximum amount permitted by current rules;
3. consequently to amend Article 9, paragraph 2, of the By-laws as follows:

Current wording

In accordance with Article 2420 *ter* of the Civil Code, the Board of Directors is authorised, for a maximum period of five years from April 30, 1997, to issue debentures in one or more instalments, for up to an amount that does not exceed the limit referred to in Article 2410, paragraph 1, of the Civil Code.

New wording

In accordance with Article 2420 *ter* of the Civil Code, the Board of Directors is authorised, for a maximum period of five years from ... June 2001, to issue debentures in one or more instalments (if needs be in the form of convertible debentures), for up to the maximum amount permitted by current rules.

4. to modify Article 12 of the By-laws, amending paragraph four as follows:

Current wording

Meetings of the Board of Directors – should the Chairman ascertain the need and provided that there is no objection on the part of at least two directors – may be validly held by video-conference, provided that the persons authorised to attend by video-conference are precisely identified and everyone is given a chance to intervene orally, in real time, on all matters and that they are able to inspect, receive and transmit documents; however, at least the Chairman and the Secretary must be present in the place of convocation chosen for the meeting where the meeting of the Board of Directors will be held to have taken place.

New wording

Meetings of the Board of Directors – should the Chairman or anyone acting in his place ascertain the need – may be validly held by video-conference or by audio-conference, on condition that all those taking part can be identified by the Chairman and by all the other participants, that they are allowed to follow the debate and intervene in real time in dealing with the matters being discussed, that they are allowed to exchange documents pertaining to such matters and that the above situation is fully recorded in the relevant minutes. Once the above assumptions have been verified, the Board meeting will be held to have taken place where the Chairman is located and where the Secretary to the meeting must also be.

5. to amend Article 17 of the By-laws as follows:

Current wording

The Auditors' Committee is formed by no less than five and no more than eight regular members. The Shareholders' Meeting will determine the number of members of the Committee and this number will remain unchanged until otherwise decided. The Shareholders' Meeting will also appoint two supply auditors.

New wording

Paragraph unchanged

For appointments and designations referred to in this Article, account will also be taken of special provisions of a legislative, statutory or regulatory nature or of any provisions that may be envisaged under convention.

Paragraph unchanged

Without prejudice to the provisions of the preceding paragraph, the Auditors' Committee will elect a Chairman from its regular members on a majority vote.

Paragraph unchanged

Without prejudice to situations of incompatibility envisaged by the law, any persons who occupy the position of regular auditor in more than five companies listed in regulated Italian markets may not be appointed as auditors and, if elected they will forfeit the appointment; in this limit TELECOM ITALIA S.p.A. and its subsidiaries are not to be considered.

Paragraph unchanged

For the purposes of the provisions of Article 1, paragraph 2, letters b) and c), of the rules referred to in Decree 162 of the Ministry of Justice of March 30, 2000, the following sectors of operation and subjects are held to be closely linked to that of the Company: telecommunications, information technology, computer technology, electronics and multimedia technology, as well as subjects inherent in private law and administrative legal disciplines, economic disciplines and disciplines relating to company organisation.

The appointment of the Auditors' Committee – without prejudice to the powers of appointment and designation referred to in paragraph two above – takes place on the basis of lists presented by shareholders in compliance with legal provisions envisaging the election of regular members on the part of the minority; in this case the procedure envisaged by the By-laws for appointing the Board of Directors will apply. One supply auditor will be taken from the minority list that has obtained the highest number of votes.

Paragraph unchanged

To this end, the lists will be divided into two sections: one for candidates to the position of regular auditor and the other for candidates to the position of supply auditor. The first of the candidates of each section must be selected from members of the register of chartered accountants who have exercised the activity of legally auditing accounts for a period of no less than three years.

The appointment of auditors required to replenish the Committee pursuant to Article 2401 of the Civil Code will be made by the Shareholders' Meeting in accordance with the majorities laid down by law, without prejudice to the powers of appointment and designation referred to in paragraph two above.

Paragraph unchanged

After informing the Chairman of the Board of Directors, the Auditors' Committee – or at least two regular auditors – may convene, in accordance with the law, the Board of Directors or the Executive Committee.

Paragraph unchanged

6. to confer on the Chairman and Deputy Chairman of the Board of Directors, if needs be on a separate basis, the powers required to meet any necessary formalities in order that the adopted deliberations are registered at the Companies Register, accepting and introducing in such deliberations any non-substantial amendments, additions or cancellations that may be required or recommended by the competent Authorities.

APPENDIX TO THE ANNUAL REPORT

**ADDITIONAL INFORMATION FOR US INVESTORS ON THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2000
OF THE TELECOM ITALIA GROUP****Introduction**

As a result of the listing of the Telecom Italia ordinary and savings shares on the New York Stock Exchange (NYSE) in the form of American Depositary Shares (ADSs), each of which represents 10 Telecom Italia shares, the company is required to file an annual report on Form 20-F as required under the regulations of the Securities and Exchange Commission (SEC).

The annual report on Form 20-F must be made available to investors in all of its markets in order to provide identical information. This document will include, among other information, a reconciliation to US Generally Accepted Accounting Principles (US GAAP) of the net income for the years ended December 31, 1998, 1999 and 2000 and stockholders' equity at December 31, 1999 and 2000. Telecom Italia's annual report to stockholders has been expanded to include the accounting information related to the reconciliation together with the 2000 condensed consolidated balance sheet and statement of income.

For purposes of convenience of the reader the 2000 figures included in the consolidated financial statements and the reconciliation to the US GAAP are shown in billions of lire, as well as in millions of USD, converted at the rate in effect on March 30, 2001: Lire 2,201.80 = USD 1.

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	12/31/1999 (billions of lire)	12/31/2000 (billions of lire)	12/31/2000 (millions of USD)
Receivables from stockholders for capital contributions	3	3	1
Intangibles, fixed assets and long-term investments			
INTANGIBLE ASSETS	5,299	31,052	14,103
FIXED ASSETS	45,518	45,358	20,601
LONG-TERM INVESTMENTS			
Equity investments and advances on future capital contributions	12,326	14,712	6,682
Accounts receivables	886	792	359
Other securities	5	12	5
Treasury stock	-	1,281	582
Total intangibles, fixed assets and long-term investments	64,034	93,207	42,332
Current assets			
INVENTORIES	1,995	1,405	638
ACCOUNTS RECEIVABLE			
Trade accounts receivable	14,942	15,484	7,032
Accounts receivable from unconsolidated subsidiaries, affiliated and parent companies	1,030	884	402
Other receivables	3,093	6,641	3,016
SHORT TERM FINANCIAL ASSETS:			
Equity investments and securities	2,592	4,755	2,160
LIQUID ASSETS	1,312	2,525	1,147
Total current assets	24,964	31,694	14,395
Accrued income and prepaid expenses	180	1,950	886
TOTAL ASSETS	89,181	126,854	57,614

LIABILITIES AND STOCKHOLDERS' EQUITY

	12/31/1999 (billions of lire)	12/31/2000 (billions of lire)	12/31/2000 (millions of USD)
Stockholders' equity			
TELECOM ITALIA'S INTEREST IN:			
Share capital	7,426	7,426	3,373
Treasury stock	-	1,281	582
Reserves and retained earnings	22,214	23,809	10,812
Net income	3,364	3,927	1,784
	33,004	36,443	16,551
MINORITY INTEREST	5,310	12,988	5,899
	38,314	49,431	22,450
Reserves for risks and charges	2,006	3,425	1,556
Reserve for employee termination indemnities	2,896	2,554	1,160
Liabilities			
Debentures	1,906	3,512	1,595
Due to banks	15,780	32,522	14,771
Due to other lenders	1,738	3,270	1,485
Advances	733	716	325
Trade accounts payable	11,775	13,129	5,963
Notes payable	-	97	44
Accounts payable to unconsolidated subsidiaries, affiliated and parent companies	1,200	2,478	1,125
Taxes payables	2,295	1,800	818
Contributions to pension and social security institutions	1,855	1,808	821
Other liabilities	6,960	9,755	4,431
	44,242	69,087	31,378
Accrued expenses and deferred income	1,723	2,357	1,070
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	89,181	126,854	57,614

MEMORANDUM ACCOUNTS

	12/31/1999 (billions of lire)	12/31/2000 (billions of lire)	12/31/2000 (millions of USD)
Guarantees provided	2,557	5,675	2,577
Collateral provided	17	4	2
Purchases and sales commitments	1,666	9,492	4,311
Other memorandum accounts	7,820	454	206
TOTAL MEMORANDUM ACCOUNTS	12,060	15,625	7,096

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	1998 (billions of lire)	1999 (billions of lire)	2000 (billions of lire)	2000 (millions of USD)
Production value				
Sales and service revenues	48,507	52,481	55,979	25,424
Changes in inventories of work in progress, semifinished and finished goods	(34)	(127)	54	25
Changes in inventory of contract work in process	(171)	341	487	221
Increases in capitalized internal construction costs	2,088	2,056	1,765	802
Other revenue and income	1,085	998	826	375
	51,475	55,749	59,111	26,847
Production cost				
Raw materials, supplies and merchandise	4,426	4,354	3,893	1,768
Semifinished and finished goods	109	441	480	218
Services	11,082	14,289	16,252	7,381
Use of property not owned	1,285	1,363	1,546	702
Personnel	9,665	9,636	9,729	4,419
Amortization and depreciation	10,480	10,338	10,933	4,965
Writedowns of intangibles and fixed assets	1,840	142	93	42
Writedowns of receivables included in current assets and liquid assets	705	702	924	420
Changes in inventory of raw materials, supplies and merchandise	57	(37)	4	2
Provisions for risks	345	155	231	105
Other provisions	17	40	74	34
Miscellaneous operating costs	2,278	1,870	1,773	805
	(42,289)	(43,293)	(45,932)	(20,861)
Operating income	9,186	12,456	13,179	5,986
Financial income and expense				
Income from equity investment	938	282	590	268
Other financial income	641	791	1,046	475
Interest and other financial expense	(1,327)	(1,706)	(2,536)	(1,152)
Total financial income and expense	252	(633)	(900)	(409)
Value adjustments to financial assets				
Upward adjustments of investments and securities	315	467	533	242
Writedowns of investments and securities	(669)	(1,598)	(2,776)	(1,261)
Total value adjustments	(354)	(1,131)	(2,243)	(1,019)
Extraordinary income and expense				
Income	981	280	2,676	1,215
Expense	(848)	(1,261)	(3,091)	(1,403)
Total extraordinary items	133	(981)	(415)	(188)
Income before taxes	9,217	9,711	9,621	4,370
Income taxes	(3,965)	(5,046)	(3,912)	(1,777)
Net income before minority interest	5,252	4,665	5,709	2,593
Minority interest	(1,422)	(1,301)	(1,782)	(809)
Net income after minority interest	3,830	3,364	3,927	1,784

RECONCILIATION TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN THE US (US GAAP) OF CONSOLIDATED NET INCOME FOR THE YEARS ENDED DECEMBER 31, 1998, 1999 AND 2000 AND CONSOLIDATED STOCKHOLDERS' EQUITY AT DECEMBER 31, 1999 AND 2000

The consolidated financial statements of the Telecom Italia Group are prepared in accordance with accounting principles established or adopted by the Italian Accounting Profession, which differ in certain significant respects from US GAAP. The comments on the significant differences are as follows:

Goodwill deriving from Stet - Old Telecom Italia merger

During 1997, Old Telecom Italia was merged with and into STET (which was renamed Telecom Italia). Under Italian GAAP, the combination was accounted for as a merger and the financial statements reflected the ownership change based on the net book value of the combined entities. For Italian GAAP purposes, the merger was recognized as of January 1, 1997. Under US GAAP, the combination was accounted for as a purchase, effective as of July 18, 1997. The assets and liabilities of Old Telecom Italia were recorded at fair value. The excess of the purchase price over the fair value of net assets was recorded as goodwill. This is being amortized until 2012, which represented the residual license period at the time of the merger.

Purchase method accounting transactions

Several pre-1997 transactions, which are required to be accounted for under the purchase method of accounting for US GAAP purposes, have been recorded differently under Italian GAAP:

- *Old Telecom Italia formation* - Upon the formation of Old Telecom Italia in 1994, Telecom Italia's ownership percentage in the combined companies was diluted. The Italian GAAP financial statements reflected the ownership change impact based on the net book value of the combined entities, while US GAAP required the ownership change to be treated as a purchase, at fair value. For US GAAP purposes, the difference between fair value and book value is being amortized until 2012, which represented the residual license period at the time of the formation.
- *Ownership change in Old Telecom Italia* - In 1994, Telecom Italia increased its ownership in Old Telecom Italia by receiving previously unissued stock and its Italian GAAP financial statements reflected this transaction as an equity reduction for the excess of the investment over the ownership percentage of Old Telecom Italia's book value. The US GAAP reconciliation treats this excess as an asset to be amortized over 19 years.
- *Investment in Telsi* - In 1995, Telecom Italia and Siemens A.G. each contributed assets for a fifty percent non-controlling interest in Telsi Limited. The Italian GAAP financial statements reflected a gain based on the original book value of the investments contributed while for US GAAP purposes the transaction has been accounted for using the fair market value of the investments contributed. The US GAAP reconciliation reflects the amortization of the underlying basis difference between Telecom Italia's investment in Telsi and Telsi's recorded equity. This was fully amortized at December 31, 1999.

Revaluation of fixed assets

The Group has revalued its fixed assets as permitted by Italian Law. Under Italian GAAP the depreciation charge is based on the revalued amounts. US GAAP does not permit revaluation of fixed assets and requires depreciation based on historical acquisition cost.

Elimination of intercompany profit on sales of intangibles and fixed assets and related depreciation

Until 1993, the Group did not eliminate intercompany profit on sales of intangibles and fixed assets. Therefore, certain intangibles and fixed assets are valued at the sales amount instead of historical book value. The amounts, principally from manufacturing and installation companies to telecommunication companies, are being depreciated over the useful life of the assets. US GAAP requires the elimination of intercompany profits and requires depreciation based on historical cost.

Capitalization of interest on tangible and intangible assets under construction

The Group capitalizes interest on construction projects only when specific borrowings can be attributed to the project. US GAAP requires interest to be capitalized on both tangible and intangible assets regardless of whether specific borrowings relate to the project. The capitalized interest is being depreciated over the remaining useful life of the assets.

Deferred taxes

The differences between Italian GAAP and US GAAP are related to the tax treatment for capital grants received by the Group prior to 1998.

Contributions to telephone workers social security fund

Pursuant to Italian laws, the Group has not recorded a liability for contributions due to the INPS. US GAAP requires the recognition of a liability when it is probable and can be reasonably estimated. Accordingly, the minimum amount of the range of the liability is reflected in the US GAAP reconciliation net of any payments made and expensed through the Italian GAAP income statement.

Accounting for long-term contracts under the percentage of completion method

Prior to 1999 the Group recognized revenues for its long – term contracts under the completed contract method. In 1999, the Group changed its accounting principle and started accounting for these contracts using the percentage of completion method. This is consistent with US GAAP.

Stock options

During 1999 and 2000, Telecom Italia and TIM awarded shares and granted stock options to certain managers. For purposes of Italian GAAP, the above transactions are treated by the Group as changes in share capital and additional paid-in-capital. For US GAAP purposes the Group uses Accounting Principles Board Opinion (“APB”) No. 25, “Accounting for Stock Issued to Employees”. Under APB No. 25, these transactions are treated as compensation expense for the difference between the quoted market price of the shares and the cost of those shares to the managers. This difference is determined on the “measurement date”, which is the first date on which both the ultimate number of shares and the option or award prices are known.

Restructuring reserve

The Italian GAAP financial statements include a restructuring reserve made during the year 2000 as part of a group plan to reduce the workforce and re-train employees. US GAAP requires that certain conditions must be met before a restructuring accrual can be established, as well as the type of costs, which can be accrued. Training costs included within the accrual do not meet these conditions, and therefore the US GAAP reconciliation reflects an adjustment to eliminate this amount.

Investments in marketable equity securities

Telecom Italia Group holds marketable equity securities of unrelated companies both for the purpose of selling them in the near term as well as holding them to take advantage of investment opportunities.

Under Italian GAAP, all investments are carried at the lower of cost or market value. Write-downs below historical cost are reversed in subsequent periods up to original cost if the fair market value of the securities increases.

Under US GAAP, the securities would be classified as trading and available for sale, respectively. The Group’s trading securities are recorded at fair market value, with unrealized gains and losses included in earnings.

Available for sale securities would be carried at fair market value, with any unrealized holding gains or losses each balance sheet date being reflected in other comprehensive income on a net of tax basis. Declines in fair value that are other than temporary are reflected in the consolidated statement of income.

Investment in stock of subsidiary companies

Telecom Italia Group has purchased, sold and holds stock of certain consolidated subsidiaries and records these investments within current assets. The portion of the earnings, losses and the ownership interest in the net assets associated with such stock is not consolidated under Italian GAAP. The equity securities are recorded at the lower of historical cost or fair market value within current assets. Write-downs below historical

cost are reversed in subsequent periods up to the original cost, if the fair market value of the equity securities increases. Write-downs and any subsequent reversals are recorded in the income statement.

Under US GAAP, the value of the investment in subsidiary stock has been adjusted to original cost and has been eliminated upon consolidation of the Group. The elimination of the investment results in additional goodwill, the reversal of any write-downs taken under Italian GAAP, and the accrual of the incremental income or losses from the additional ownership percentage being consolidated.

SEAT-Tin.it transaction

In 2000, several significant events occurred with the acquisition of a controlling interest in SEAT, giving rise to the following differences:

- In February 2000, the Group announced its intention to acquire a controlling interest in SEAT Pagine Gialle S.p.A., the publisher of the Italian yellow pages. The acquisition was made with a combination of cash and the issuance of shares in Telecom Italia's wholly owned internet subsidiary, Tin.it, to SEAT. For purposes of Italian GAAP, the transaction was accounted for as an acquisition using purchase accounting for the cash portion of the acquisition, and as a pooling of interest for the exchange of shares. For purposes of US GAAP the acquisition, including the shares exchanged, was accounted for at fair value. For US GAAP purposes the distribution of the subsidiary's shares to SEAT generated a gain of Lire 12,657 billion for the difference between the fair market value of the SEAT shares received and the book value of the subsidiary's shares issued. Additionally, Seat shares were issued directly to Telecom Italia shareholders in exchange for 8.168 percent of the wholly-owned subsidiary's shares, which has been accounted for as a dividend at fair value, generating a gain of Lire 2,574 billion.
- For purposes of Italian GAAP, the SEAT acquisition was considered effective as of December 31, 2000. For purposes of US GAAP, the acquisition was considered effective as of October 1, 2000, the date that operating control of SEAT passed to Telecom Italia. Therefore, an adjustment has been recorded to account for the fourth quarter results of SEAT.
- Under the US GAAP purchase accounting requirements, the fair market value of the SEAT acquisition was Lire 31,028 billion. Included in this amount was acquisition goodwill relating to Seat Pagine Gialle of Lire 26,787 billion. From the date at which the acquisition was announced until the end of the fiscal year, the market valuations of hi-tech companies, in particular those associated with internet activity, were severely reduced. The reduction was considered a possible indication of impairment, thereby requiring an analysis of Seat based upon SFAS 121. Based on this review, an impairment charge of Lire 15,424 billion was recorded to income to reduce the value of the SEAT investment.
- After the acquisition of SEAT by the Group, Seat made additional acquisitions in the fourth quarter of 2000. These acquisitions were done through the issuance of additional Seat shares for the targets stock. For purposes of Italian GAAP, these transactions were recorded as equity movements. For purposes of US GAAP, the dilution effect on Telecom Italia's shareholding percentage in SEAT resulted in a gain.

Sale of real estate portfolio

During the year 2000 the Group transferred certain real estate properties to a wholly owned subsidiary ("IM.SER"), which was then partially sold to third parties. Concurrent with the sale, the Group entered into a lease agreement for part of the portfolio. After the partial sale of the subsidiary, IM.SER borrowed funds from a syndicate of banks, with the funds being dispersed to the shareholders as a special dividend. For purposes of Italian GAAP, a gain was recognized to the extent of the fair market value of the transferred property over its historical cost for that portion sold to third parties. For purposes of US GAAP, the transfer of the assets to the wholly owned subsidiary, the subsequent lease agreement and the receipt of cash by the Group from the partial sale and the special dividend are treated as a secured borrowing, therefore no gain recognition is allowed.

Non-capitalizable expenses

The Group entered into several transactions in 2000 for which certain costs were capitalized under Italian GAAP. These costs include expenses related to the SMH transaction, and non-capitalizable costs associated with intangible assets. For purposes of US GAAP, these costs are not considered to be capitalizable, therefore they have been expensed.

Reversal of provisions

During the year 2000, due to the technological changes in the mobile phone industry, TIM determined that the invested cost related to analogic services, and the related network plants and billing systems, was rapidly approaching obsolescence due to the evolution of third generation services. The Italian GAAP financial statements reflect reserves for Lire 775 billion taken to accrue the estimated costs to rework these systems. US GAAP requires that certain conditions must be met before reserves can be established. These conditions, which are stricter and more formal based on US GAAP, have not been met, therefore, in the US GAAP reconciliation these provisions have been reversed.

Subsidiary stock conversions

In the course of 2000 two publicly traded subsidiaries, SEAT and TIM, each conducted share conversion offers related to their outstanding savings shares, a non-voting class of shares. As part of the conversion offering, holders of savings shares paid a premium to the applicable subsidiary and in return converted their savings shares to common voting shares. These transactions resulted in a net increase in the book value of each subsidiary over and above Telecom Italia's proportionate investment.

For purposes of Italian GAAP, these gains were accounted for as equity movements. For purposes of US GAAP, these gains are recognized as non-operating gains in the income statement.

Revenue Recognition

Under Italian GAAP, non-refundable activation and installation fees and related costs are generally charged and recognized at the outset of a service contract. Under US GAAP, upfront revenues related to non-refundable fees and certain related direct costs must be deferred and recognized over the expected customer relationship period, which is estimated to be 8 years.

Common control transactions

During 2000, Telecom Italia acquired an additional ownership percentage of TIM by contributing its ownership of SMH to TIM in exchange for new shares issued by TIM. Under Italian GAAP, this transaction resulted in an increase in equity and goodwill. As the timing of this transaction was near December 31, 2000, no amortization of the goodwill occurred in the Italian GAAP financial statements.

Under US GAAP, transactions between entities under common control require predecessor basis accounting. Therefore, the 2000 increase in equity and goodwill has been reversed.

Treasury stock

Telecom Italia has purchased and held as at December 31, 2000 its own savings shares. Under Italian GAAP, these savings shares are recorded at historical cost within long-term investments. Under US GAAP, the cost of the acquired shares is shown as a deduction from stockholders' equity.

Significant differences and the effect of the above on consolidated net income and stockholders' equity are set out below:

	1998 (billions of Lire)	1999 (billions of Lire)	2000 (billions of Lire)	2000 (millions of USD)
Net income				
Net income as reported in the consolidated statements of income	5,252	4,665	5,709	2,593
Minority interest (*)	(1,422)	(1,301)	(1,782)	(809)
Net income, net of minority interest applicable for US GAAP purposes	3,830	3,364	3,927	1,784
Items increasing (decreasing) reported net income:				
Goodwill deriving from STET-Old Telecom Italia merger	(375)	(375)	(375)	(170)
Purchase method accounting transactions	(113)	(113)	(81)	(37)
Revaluation of fixed assets	154	164	165	75
Elimination of intercompany profit on sales of intangibles and fixed assets and related depreciation	183	88	80	36
Capitalization of interest on tangible and intangible assets under construction and related depreciation	19	(121)	(57)	(26)
Deferred taxes	(782)	7	(33)	(15)
Contributions to telephone workers social security fund	183	75	(4)	(2)
Accounting for long-term contracts under the percentage of completion method	(28)	(56)	-	-
Stock options	-	(130)	(110)	(50)
Restructuring reserve	-	-	67	30
Investments in marketable equity securities	-	-	15	7
Investment in stock of subsidiary companies	-	-	150	68
SEAT - Tin.it transaction:				
SEAT acquisition	-	-	15,231	6,918
Effects of SEAT's 4 th quarter results	-	-	(310)	(141)
SEAT impairment	-	-	(15,424)	(7,005)
Gain on subsidiary dilution	-	-	770	350
Sale of real estate portfolio	-	-	(609)	(277)
Non-capitalizable expenses	-	-	(183)	(83)
Reversal of provisions	-	-	788	358
Subsidiary stock conversions	-	-	4,283	1,945
Revenue recognition	-	-	75	34
	(759)	(461)	4,438	2,015
US GAAP income before reconciliation effects of income taxes, minority interest and cumulative effect of accounting change in revenue recognition	3,071	2,903	8,365	3,799
Income taxes:				
- Tax effect of reconciling items	(203)	(58)	(1,245)	(565)
US GAAP income before reconciliation effect of minority interest and cumulative effect of accounting change in revenue recognition	2,868	2,845	7,120	3,234
Minority interest on reconciling items	86	70	(147)	(67)
Net income in accordance with US GAAP, before cumulative effect of accounting change in revenue recognition	2,954	2,915	6,973	3,167
Cumulative effect of accounting change (net of tax) in revenue recognition	-	-	(154)	(70)
Net income in accordance with US GAAP	2,954	2,915	6,819	3,097

(*) Under Italian GAAP, the Nortel Inversora group has been consolidated on the basis of the proportional method; whilst under US GAAP has been valued under the equity method. It has involved a reduction in minority interest equal to Lire 108 billion.

Earnings per Ordinary Share amounts in accordance with US GAAP (*)

	1998 (Lire)	1999 (Lire)	2000 (Lire)	2000 (USD)
Basic EPS-per Ordinary Share amounts in accordance with US GAAP before cumulative effect of accounting change in revenue recognition	392	387	937	0.43
Diluted EPS-per Ordinary Share amounts in accordance with US GAAP before cumulative effect of accounting change in revenue recognition	392	387	934	0.42
Basic EPS - per Ordinary Share amounts in accordance with US GAAP	392	387	916	0.42
Diluted EPS - per Ordinary Share amounts in accordance with US GAAP	392	387	913	0.42

Earnings per Savings Share amounts in accordance with US GAAP (*)

	1998 (Lire)	1999 (Lire)	2000 (Lire)	2000 (USD)
Basic EPS - per Savings Share amounts in accordance with US GAAP before cumulative effect of accounting change in revenue recognition	412	407	957	0.44
Diluted EPS - per Savings Share amounts in accordance with US GAAP before cumulative effect of accounting change in revenue recognition	412	407	954	0.44
Basic EPS - per Savings Share amounts in accordance with US GAAP	412	407	936	0.43
Diluted EPS – per Savings Share amounts in accordance with US GAAP	412	407	933	0.42

(*) The approximate earnings per share amounts have been calculated using the two class method due to ordinary and savings shares being outstanding, as set forth in SFAS No. 128, "Earnings Per Share". The calculations take into account the requirement that Savings Share stockholders are entitled to a Lire 20 premium (based on 2 percent of Savings Share par value) over dividends on Ordinary Shares. This taking into account the par value of Lire 1,000 per share as of December 31, 2000; following the resolution of the extraordinary stockholders' meeting held on May 3, 2001, regarding the re-denomination of Telecom Italia share capital into euros, the new par value per share is equal to Euro 0.55. For purposes of these calculations the weighted average number of Shares was 7,421,251,726 as of December 31, 1998, 7,421,660,518 as of December 31, 1999 and 7,398,247,829 as of December 31, 2000.

	12/31/1999 (billions of Lire)	12/31/2000 (billions of Lire)	12/31/2000 (millions of USD)
Stockholders' equity			
Stockholders' equity as reported in the consolidated balance sheets	38,314	49,431	22,450
Minority interest (*)	(5,310)	(12,988)	(5,899)
Stockholders' equity, net of minority interest	33,004	36,443	16,551
Items increasing (decreasing) reported stockholders' equity:			
Goodwill deriving from STET-Old Telecom Italia merger	5,061	4,686	2,128
Purchase method accounting transactions	1,052	971	441
Revaluation of fixed assets	(1,354)	(1,236)	(561)
Elimination of intercompany profit on sales of intangibles and fixed assets and related depreciation	(528)	(447)	(203)
Capitalization of interest on tangible and intangible assets under construction and related depreciation	1,188	1,144	520
Deferred taxes	227	192	87
Contributions to telephone workers social security fund	(1,525)	(1,529)	(694)
Restructuring reserve	-	67	30
Investment in stock of subsidiary companies	-	120	55
SEAT - Tin.it transaction:			
SEAT acquisition	-	10,945	4,972
Effects of SEAT's 4 th quarter results	-	(310)	(141)
SEAT impairment	-	(15,424)	(7,005)
Purchase accounting for acquisitions by the SEAT group	-	9,713	4,411
Sale of real estate portfolio	-	(609)	(277)
Non-capitalizable expenses	-	(183)	(83)
Reversal of provisions	-	788	358
Revenue recognition	-	75	34
Cumulative effect of accounting change (net of tax) in revenue recognition	-	(154)	(70)
Common control transactions	-	(409)	(186)
Treasury stock	-	(1,281)	(582)
Tax effect of reconciling items	850	(2,715)	(1,233)
Minority interest on reconciling items	90	(3,829)	(1,739)
Stockholders' equity in accordance with US GAAP	38,065	37,018	16,813

(*) Under Italian GAAP, the Nortel Inversora group has been consolidated on the basis of the proportional method; whilst under US GAAP has been valued under the equity method. It has involved a reduction in minority interest equal to Lire 1,873 billion.

CORPORATE GOVERNANCE

Corporate governance is an issue that Telecom Italia has been addressing in earnest since 1997, when for the first time ever the Board of Directors set up internally a special Audit and Corporate Governance Committee (November 28, 1997). Since then, the Company has expounded its decisions on this issue in special documents and it has continued to update these decisions to keep abreast of developments in the operating framework. The model code of self-discipline produced at the recommendation of Borsa Italiana S.p.A. (autumn 1999) has thus represented a further incentive and an important opportunity for verification.

Telecom Italia introduced its own Code of Self-discipline (approved in its final wording by the Board of Directors on April 4, 2000) and, enforcing a special provision contained in this Code, it introduced Rules regulating shareholders' meetings (approved by the Ordinary Shareholders' Meeting held on October 20, 2000). These rules were deposited at the Companies Register and have been published – together with the Code of Self-discipline and the By-laws – in the Internet site <http://www.telecomitalia.it>. A special printed version is also available to anyone who requests it.

The Company's governance structure is described in the By-laws and in the Code of Self-discipline; currently it focuses mainly on the Board of Directors, the Chairman and Chief Executive Officer, the internal committees of the Board of Directors, the Auditors' Committee and – of course – the Shareholders' Meeting.

During the course of 2000, ordinary shareholders met four times, while savings shareholders were only once convened to a Special Meeting. By-law rules in this respect have been changed to allow for the approval of Rules regulating Shareholders' Meetings and “provisions aimed at facilitating the collection of voting proxies from employees holding shares”, as permitted by Legislative Decree 58/1998 (Extraordinary Shareholders' Meeting held on August 10, 2000). Both these measures come under the framework of the spirit of the Code of Self-discipline, insofar as they aim to encourage broad and effective participation on the part of shareholders in the life of the Company. In this respect, it should be stressed that the By-laws also envisage the possibility of exercising the right to vote by mail.

The Board of Directors (elected by the Shareholders' Meeting held on 28th June 1999) consists of thirteen members, one of whom is appointed by the Government Authority pursuant to the special powers envisaged by Article 5 of the By-laws. The list vote mechanism applied to renew the Governing Body has ensured that minority shareholders are represented on the Board. There is only one Executive Director, i.e. the Chairman and Chief Executive Officer.

In 2000, seventeen board meetings were held, in which representatives of management (and sometimes consultants) usually contributed towards illustrating and examining in depth the matters up for discussion. The business of the Board of Directors gave the Chairman and Chief Executive Officer an opportunity to report on the fulfilment of mandates received and, more generally, it enabled the Governing Body to provide the information required by the Auditors' Committee. In this respect special emphasis was attached (in accordance with the law, By-laws and relevant Consob recommendations) to the most important economic, financial and asset-related operations conducted by Telecom Italia or by subsidiaries, operations involving a potential conflict of interest, inter-group operations or operations with related parties, and any non-typical or unusual operations compared to the enterprise's normal business. Meetings were normally preceded by the delivery of explanatory information to Directors and Auditors.

Last year, the Auditors' Committee (renewed on July 3, 2000 applying the list voting mechanism) met fourteen times. The Company has made available a permanent structure

to support the Committee in fulfilling its regular functions. Through its Chairman, the Committee also attends meetings of the internal audit and corporate governance committee. Committees set up within the Board (the internal audit and corporate governance committee and the directors' remuneration committee) have carried out functions in terms of (i) providing investigative and consultative services and (ii) putting forward proposals to the Governing Body. The solution adopted by the Code of Self-discipline is to leave committees broad margins of autonomy in defining their rules of operation. This flexibility has facilitated the flow of information and interaction between committees (also in terms of members) and the corporate structure, producing greater efficiency and speed in results. The internal committees (sometimes aided by contributions from non-committee Directors and/or management representatives) have thus also come to acquire specific investigation mandates in respect of matters inherent in the institutional responsibilities conferred by the Code of Self-discipline. In particular, the directors' remuneration committee has been entrusted with making a prior assessment of retention initiatives and management incentive schemes.

In fulfilling their functions, both the Auditors' Committee and the internal audit and corporate governance committee, each in its own domain, have had special meetings with the audit firm PricewaterhouseCoopers, and also with the corporate structures responsible for internal auditing (Internal Auditing Division), dedicating special meetings to issues of particular importance. In this respect, it should be stressed that the question of internal auditing and procedures has been the subject of special attention on the part of the Company.

Finally, a special mention should go to the policy adopted by Telecom Italia in its relations with the market, as this is a significant aspect of the decisions of a company's corporate governance. Here, the Company is making every effort to maintain an ongoing dialogue with shareholders as a whole and with the world of finance, in compliance with current rules. To this end, corporate organisation features a special Investor Relations Function in the framework of the Corporate Image and Communication Division and special instruments have been adopted (the toll free number dedicated to shareholders, but also the special section of the Internet site <http://telecomitalia.it>) dedicated to relations with shareholders and investors. These instruments are designed to ensure the provision of accurate, complete, homogeneous and ongoing information.

RESPONSIBILITIES

Board of Directors

The Board of Directors of Telecom Italia is solely and exclusively responsible for matters that cannot be subject to delegation pursuant to Article 2381 of the Civil Code. In addition,

- (a) it draws up and adopts rules for the Company's corporate governance and defines guidelines for the Group's corporate governance;
- (b) it examines and approves the Company's and the Group's strategic, industrial and financial plans;
- (c) it evaluates and approves the Company's and the Group's annual budget;
- (d) it evaluates and approves the periodical financial reports contemplated by current rules;
- (e) it examines and approves investments and disinvestments (including real estate operations) for figures in excess of Lire five hundred (500) billion;
- (f) it examines and approves operations (including, purely for the sake of example, acquisitions and disposals of direct or indirect majority interests) of particular economic and strategic interest, with special reference to operations with related parties;
- (g) it confers and revokes powers vested in the Chairman and Chief Executive Officer and in the Executive Committee, in cases where this has been set up, establishing the limits, modalities and frequency - usually no less than every three months - with which the delegated organs must report to the Board on the activity carried out in the course of exercising the powers conferred on them;
- (h) it arranges to appoint the chief executive officer and the chairman of subsidiaries whose turnover - based on the latest available financial statements - is equal to or higher than Lire two thousand (2,000) billion;
- (i) at the proposal of the Chief Executive Officer, it makes arrangements in respect of appointing and removing the Company's General Managers and granting them powers;
- (j) after examining the proposals of a special committee and after consulting the Auditors' Committee, it establishes the remuneration due to the Chief Executive Officer and to persons occupying special positions, and it also establishes, if the Shareholders' Meeting has not already so provided, the breakdown of the total remuneration due to individual members of the Board and of the Committees;
- (k) it monitors the general progress of operations, with special stress on situations involving a conflict of interest, taking special account of information provided by the Chief Executive Officer and the internal audit committee, whilst also comparing the results achieved with those planned;
- (l) it verifies the adequacy of the general administrative and organisational structure of the Company and the Group prepared by the Chief Executive Officer;
- (m) it arranges to modify, renew and enter into agreements with the Ministry of Communications.
- (n) it reports to the Shareholders' Meeting.

Chairman and Chief Executive Officer

The Chairman and Chief Executive Officer is vested with

- legal representation and the company signature;
- the task of updating the Auditors' Committee on the activity carried out and on the most important economic, financial and asset-related operations carried out by the Company and by the Group, in the manners and terms envisaged by Article 13 of the By-laws;
- all the Company's powers of ordinary and extraordinary administration (including the power to appoint proxies *ad negotia* for single deeds or series of deeds) with the sole exclusion of powers reserved for the Board of Directors, which he may however exercise in cases of urgency, subject to later informing the Board at its next meeting).

Deputy Chairman

The Deputy Chairman is vested with the company signature and with legal representation of the Company solely in cases where the Chairman and Chief Executive Officer is impeded or absent.

Internal committees

The following committees have been set up within the Board of Directors

- a Directors' Remuneration Committee. This committee puts forward proposals to the Board concerning the remuneration due to the Chief Executive Officer and to directors occupying special positions, and also, at the recommendation of the Chief Executive Officer, concerning the establishment of criteria for remunerating the Company's senior management;
- an Internal Audit and Corporate Governance Committee. This committee
 - (a) evaluates the adequacy of the internal auditing system;
 - (b) evaluates the work programme prepared by those in charge of internal auditing and receives periodical reports from them;
 - (c) evaluates proposals advanced by the audit firm with a view to receiving the relevant assignment, along with the work plan prepared for the audit and the results set out in the letter of recommendations;
 - (d) reports to the Board at least once every six months - when the financial statements and half-year reports are approved - on the activity carried out and on the adequacy of the internal auditing system;
 - (e) fulfils any further tasks that are vested in it by the Board of Directors, with special emphasis on relations with the audit firm.

The Internal Audit and Corporate Governance Committee also monitors the observance and periodical updating of corporate governance rules and compliance with the code of conduct and ethical standards that may have been adopted by Telecom Italia and/or by its subsidiaries.

CODE OF SELF-DISCIPLINE

1. Responsibilities of the Board of Directors

1.1. The board is the joint body responsible for running the company. It has full powers and responsibilities, in observance of legal and regulatory requirements and current rules laid down by the by-laws.

1.2. Neither the conferring of delegated powers nor the assignment of operational powers to units in charge of the various corporate divisions excludes the responsibility of the board, which continues to maintain a superior power of guidance and control over all the enterprise's activities in its various components. Insofar as it is vested with guidance and control responsibilities, the board must be promptly and immediately informed by those vested with delegated powers of the activity carried out by them in exercising such powers. The powers of guidance and control extend to all of Telecom's subsidiaries (referred to hereafter as the "Group"), i.e. the complex economic body coming under Telecom's framework, without prejudice to limits inherent in the diversity of the legal subjects concerned.

1.3. Without prejudice to the board's exclusive responsibility over matters that cannot be delegated, pursuant to Article 2381 of the Civil Code, the board will, on an exclusive basis:

- (a) draw up and adopt the company's rules of corporate governance and establish guidelines for the Group's corporate governance;
- (b) examine and approve the company's and the Group's strategic, industrial and financial plans;
- (c) evaluate and approve the company's and the Group's annual budget;
- (d) evaluate and approve the periodical report documents envisaged by current regulations;
- (e) examine and approve investments and disinvestments (including those pertaining to real estate) for figures in excess of five hundred (500) billion lire;
- (f) examine and approve operations of particular economic or strategic importance (including, for instance, the acquisition and disposal of direct or indirect controlling equity interests), with particular reference to operations with related parties;
- (g) grant and revoke powers delegated to the chief executive officer and the executive committee, if it has been set up, establishing the limits, operating procedures and frequency, usually not less than every three months, with which the delegated bodies have to report to the board on the activity carried out in exercising the powers conferred on them;
- (h) make arrangements for designations to the positions of chief executive officer and chairman of subsidiaries, whose turnover – based on the latest available financial statements – is equal to or higher than two thousand (2,000) billion lire;

- (i) at the chief executive officer's proposal, appoint, remove, and confer powers on the company's general managers;
- (j) after examining proposals put forward by the special committee and acquiring the opinion of the auditors' committee, determine (I) the fees due to the chief executive officer and directors who occupy special positions and (ii) unless the meeting of shareholders has already done so, the breakdown of the total remuneration due to individual members of the board and committees;
- (k) watch over the general progress of operations, paying special attention to situations involving conflicts of interest and bearing specifically in mind any information received from the chief executive officer and the internal audit committee, whilst also periodically comparing the results attained with those planned;
- (l) verify the adequacy of the company's and group's general organisational and administrative structure prepared by the chief executive officer;
- (m) arrange to modify, renew and enter into agreements with the Ministry of Communications;
- (n) report to shareholders during the meeting of shareholders.

1.4. The board may appoint external consultants to look into matters of particular importance whenever it deems fit to do so.

2. Independent directors

There will be an appropriate number of independent directors. These are directors who:

- (a) have no significant economic relations with the company, its subsidiaries, executive directors, the shareholder or group of shareholders controlling the company, such as to affect their freedom of judgment;
- (b) have no direct or indirect equity investments of an entity such as to allow them to exercise control over the company, and are not a party to shareholders' agreements in respect of controlling the company.

3. Meetings of the Board of Directors

3.1. The directors will act and deliberate with full knowledge of the facts and in complete autonomy, pursuing the objective of creating value for the shareholders. Directors will accept their appointment if they consider that they can devote the necessary time to diligently performing their duties.

3.2. Board meetings are chaired by the chairman, who will avail himself of the collaboration of the secretary to the board of directors.

3.3. The board will meet at least four (4) times a year and also whenever the chairman may deem appropriate. It will also meet on the initiative of the directors and auditors, in accordance with relevant provisions of the law and the by-laws.

3.4. On opening meetings, the board will usually be informed of the most important developments that have meanwhile occurred, and, at least every three months, of the company's and Group's general progress and the exercising of delegated powers.

3.5. Every director is entitled to propose matters to be discussed in later board meetings. During the meeting, every director is also entitled to raise matters not included in the agenda, but the majority of directors will however determine whether a formal resolution can be taken without previous notice.

3.6. With the participants' agreement, the chairman may ask the general managers, or other persons from outside the board, to attend meetings in order that they may either listen or provide their support.

4. Chairman of the Board of Directors

4.1. The chairman calls the meetings of the board of directors, establishes the agenda and guides the manner in which the meetings in question are held.

4.2. Preparatory to meetings, the chairman will announce the matters on the agenda and send to the directors, sufficiently in advance of meetings, the most appropriate documentation with a view to facilitating effective participation in the joint body's business.

4.3. The chairman will make efforts to ensure adequate flows of information between management and the board of directors. In particular, he will make efforts to guarantee information on the basis of which (i) formal resolutions are adopted and (ii) the board's powers of management, guidance and control over the company's and the Group's activity are more generally exercised.

4.4. The chairman is vested with emergency powers in matters covered by the responsibility of the board of directors and he will exercise them after consulting the consultative committee referred to hereafter in Article 6, as long as it is possible to do so. The board of directors will be informed about the exercising of such emergency powers at the next convenient meeting.

5. Chief executive officer

The chief executive officer is responsible for implementing the resolutions passed by the meeting of shareholders and the board of directors.

6. Consultative committee

6.1. The consultative committee consists of three members, including one member to be chosen amongst those directors taken from the slates different from that one that

obtained a majority of the votes cast by the shareholders according to the procedure set forth in the by-laws for the appointment of the board (hereafter the “minority director”), as well as the chairman and deputy chairman of the board of directors, and it deliberates on a majority of its members.

6.2. The committee will only meet (by conference call or videoconference, if necessary) in urgent cases, at the chairman’s convocation, when the chairman intends to exercise the emergency powers referred to in Article 4.4. The chairman will convene meetings of the committee informally (this may even be orally) without having to give advance notice.

6.3. The committee’s resolutions concerning the exercising of emergency powers by the chairman are purely consultative and are not binding, as the chairman is free to exercise such powers, under his own responsibility, even if the committee deliberates otherwise. The board of directors must be informed of such resolutions, according to the procedure set forth in Article 4.4.

7. Information for the Board of Directors

The chief executive officer will periodically report to the board on the activities he has carried out in exercising the powers conferred on him.

He will provide adequate information to the board and to the auditors on non-standard and unusual operations or on operations carried out with related parties, the examination and approval of which are not reserved for the board of directors.

8. Treatment of confidential information

8.1. The chief executive officer will monitor the handling of confidential information; to this end he will propose to the board of directors that an internal procedure be adopted in respect of communicating documents and information concerning the company outside the same company, with particular reference to price sensitive information.

8.2. All directors are under an obligation to maintain the confidentiality of any documents and information they may have acquired in the course of carrying out their duties and to comply with the procedure established for communicating such documents and information outside the company.

9. Directors’ fees committee

9.1. Within its framework, the board of directors will set up a fees committee. This committee, which will consist primarily of directors who have not been vested with special assignments and include at least one minority director, will formulate proposals to the board a) in respect of fees due to the chief executive officer and directors who have received special assignments, and b), at the chief executive officer’s indication, in respect of determining criteria establishing fees due to the company’s senior managers. To this end, it may avail itself of external consultants, at the company’s expense.

9.2. In determining the chief executive officer's total fees, the board of directors will normally envisage that a part of such fees is subject to the economic results achieved by the company and the Group and possibly also to the attainment of specific objectives previously indicated by the board itself.

10. Internal audit

10.1. The chief executive officer will ensure the due functioning and adequacy of the internal audit system, establishing the relevant procedures. For this purpose, he will appoint one or more persons in charge, endowing them with appropriate means.

10.2. The internal audit system is designed (i) to verify compliance with any internal operative and administrative procedures that may have been established in order to guarantee sound and efficient management and (ii) to identify, avert and, as far as possible, handle financial and operative risks and prevent the company from being harmed by fraudulent acts.

10.3. The persons in charge of the internal audit will not depend hierarchically on any operational area head and they will report on their work to those directors who may have been appointed to this end, the internal audit committee referred to hereafter in Article 11 and the auditors.

11. Internal audit and corporate governance committee

11.1. Within its framework, the board of directors will set up an internal audit and corporate governance committee, which will consist primarily of independent directors and include at least one minority director. Either the chairman of the auditors' committee or one statutory auditor to be designated by the chairman of the auditors' committee and the chief executive officer will attend the committee's meetings.

11.2. Whilst also bearing in mind the reports received in accordance with Article 10.3, the committee will

- (a) evaluate the adequacy of the internal audit system;
- (b) evaluate the plan of work presented by the persons in charge of the internal audit and receive the periodical reports submitted by them;
- (c) evaluate proposals formulated by the audit firm applying for the relevant assignment, along with the plan of work prepared for the audit and the results set out in the letter of recommendations;
- (d) report to the board, at least once every six months, when the annual and semi-annual reports are approved, on the activity it has carried out and on the adequacy of the internal audit system;
- (e) perform any further tasks that may be assigned to it by the board of directors, especially as far as relations with the audit firm are concerned.

11.3. The committee will also monitor compliance with, and the periodical updating of, the rules of corporate governance and compliance with the code of conduct and any ethical standards that may have been adopted by Telecom and/or its subsidiaries.

12. Meetings of shareholders

12.1. The ordinary meeting of shareholders exercises the functions envisaged by Article 2364 of the Civil Code. The powers referred to in Article 2365 of the Civil Code are vested in the extraordinary meeting of shareholders.

12.2. The directors will encourage and facilitate the broadest possible participation of shareholders in meetings of shareholders.

12.3. All directors will usually participate in meetings of shareholders.

12.4. Meetings of shareholders are also an opportunity to provide shareholders with information on the company, but the rules pertaining to price sensitive information must be observed.

12.5. The board of directors will submit to the approval of the meeting of shareholders a set of rules regulating the orderly and functional holding of the company's ordinary and extraordinary meeting of shareholders, guaranteeing each and every shareholder's right to speak on the matters up for discussion.

12.6. In the event of important changes in the total value of capitalisation, the ownership structure and the number of shareholders in the company, the directors will assess whether or not it is advisable to submit to the approval of the meeting of shareholders changes to by-laws concerning the percentages established for implementing actions and exercising the prerogatives designed to protect minorities.

13. Auditors

13.1. Proposals put to the meeting of shareholders for appointments of auditors, accompanied by comprehensive information concerning the personal and professional characteristics of candidates, will usually be deposited at the company's registered office either at least ten days prior to the date envisaged for the meeting or on depositing the lists.

13.2. The auditors will act autonomously and independently also vis-a'-vis the shareholders who elected them.

13.3. The auditors are under an obligation to maintain the confidentiality of any documents and information they may have acquired in the course of performing their duties and to observe the procedure adopted in respect of communicating such documents and information outside the company.

13.4. The auditors' committee will exercise the powers and abide by the duties envisaged by the law.

LIST OF MAJOR EQUITY HOLDINGS* OF TELECOM ITALIA

as per art. 120 of Legislative Decree No. 58, February 24, 1998

(Publication in accordance with Art. 126
of the Consob resolution No. 11791 of May 14, 1999)

* All investments are equity investments.

LIST OF MAJOR EQUITY HOLDINGS OF TELECOM ITALIA

Company name	Head office		Share capital	Company capital	%
Fixed telecommunications					
ANCITEL S.p.A.	Rome (Italy)	ITL	1,895,000,000	TELECOM ITALIA INSIEL	9.50 7.91
ASTELIT Ltd	Moscow (Russia)	RUR	500	TELECOM ITALIA	50.00
CONSUTEL S.p.A. in liquidation	Rome (Italy)	ITL	2,594,340,000	TELECOM ITALIA	100.00
LATIN AMERICAN NAUTILUS S.A.	Luxembourg	USD	60,000,000	TELECOM ITALIA ENTEL BOLIVIA	70.00 10.00
- LATIN AMERICAN NAUTILUS ARGENTINA S.A.	Buenos Aires (Argentina)	ARP	12,000	LATIN AMERICAN NAUTILUS S.A.	99.99
- LATIN AMERICAN NAUTILUS Limited	Dublin (Ireland)	USD	1,000,000	LATIN AMERICAN NAUTILUS S.A.	100.00
MED-1 Submarine Cables Ltd	Ramat Gan (Israel)	ILS	100,000	TELECOM ITALIA STET INTERNATIONAL NETHERLANDS	23.17 27.83
- MED-1 NETHERLANDS B.V.	Amsterdam (Holland)	NLG	40,000	MED-1 LTD	100.00
- MED-1 ITALY S.r.l.	Rome (Italy)	ITL	1,062,000,000	MED-1 NETHERLANDS	100.00
- MED-1 IC -1 (1999) LTD	Tel Aviv (Israel)	ILS	1,000	MED-1 LTD MED-1 ITALY	99.99 0.01
MEDITERRANEAN NAUTILUS S.A.	Luxembourg	USD	30,000	TELECOM ITALIA	100.00
NORTEL INVERSORA S.A.	Buenos Aires (Argentina)	ARP	80,942,695	TELECOM ITALIA STET INTERNATIONAL NETHERLANDS	32.50 17.50
PATH.NET S.p.A.	Rome (Italy)	ITL	50,000,000,000	TELECOM ITALIA SODALIA	99.99 0.01
- STET INTERNATIONAL NETHERLANDS N.V.	Amsterdam (Holland)	NLG	3,562,960,500	TELECOM ITALIA	100.00
- 9 TELECOM RESEAU S.A.S.	Boulogne - Billancourt (France)	FRF	2,833,276,800	STET INTERNATIONAL NETHERLANDS TMI - TELEMEDIA INTERN. Ltd	92.82 1.17
- 9 TELECOM PORTAIL EURL	Boulogne - Billancourt (France)	EUR	8,000	9 TELECOM RESEAU	100.00
- 9 TELECOM WEB EURL	Boulogne - Billancourt (France)	EUR	8,000	9 TELECOM RESEAU	100.00
- MAGEOS S.A.S.	Boulogne - Billancourt (France)	EUR	40,001,505	9 TELECOM RESEAU	100.00
- STET FRANCE S.A.	Paris (France)	FRF	6,000,000	9 TELECOM RESEAU	100.00
- EUROPE EXPLORER S.A.	Lyon (France)	EUR	5,555,544	9 TELECOM RESEAU	90.00
- BELGIUM EXPLORER S.A.	Bruxelles (Belgium)	EUR	62,000	EUROPE EXPLORER	100.00
- FRANCE EXPLORER S.A.	Lyon (France)	FRF	10,050,000	EUROPE EXPLORER	99.90
- HOLLAND EXPLORER B.V.	Amsterdam (Holland)	EUR	20,000	EUROPE EXPLORER	100.00
- IBER EXPLORER S.A.	Barcelona (Spain)	ESP	10,000,000	EUROPE EXPLORER JET MULTIMEDIA	99.99 0.01
- INFOCONCERT S.A.	Lyon (France)	FRF	450,800	EUROPE EXPLORER	64.73
- ITALIA EXPLORER S.r.l.	Milan (Italy)	EUR	11,000	EUROPE EXPLORER	100.00

(continued) List of major equity holdings of Telecom Italia

Company name	Head office	Share capital	Company capital	%
- PORTUGAL EXPLORER S.A.	Lisbon (Portugal)	EUR 11,000	EUROPE EXPLORER	100.00
- SWISSE EXPLORER S.a.r.l.	Lousanne (Switzerland)	CHF 20,000	EUROPE EXPLORER	100.00
- JET MULTIMEDIA S.A.	Paris (France)	EUR 10,133,483	9 TELECOM RESEAU SOFTE	94.50 1.00
- DE VIRIS COMMUNICATION S.A.	Rueil Malmaison (France)	EUR 80,000	JET MULTIMEDIA	99.95
- JET MEDIA S.A.	Lyon (France)	FRF 250,000	JET MULTIMEDIA OMEGA	99.76 0.04
- PUBLICLAIR S.A.	Paris (France)	FRF 250,000	JET MEDIA OMEGA	98.80 0.20
- JET MULTIMEDIA HOSTING S.A.	Lyon (France)	FRF 21,736,000	JET MULTIMEDIA	99.99
- COMETEL Societe Espagnole	Bilbao (Spain)	EUR 35,000	JET MULTIMEDIA HOSTING	40.00
- IB TELEMATIC S.A.	Paris (France)	FRF 2,151,400	JET MULTIMEDIA HOSTING	99.97
- ICOR S.A.	Chambery (France)	FRF 600,000	JET MULTIMEDIA HOSTING OMEGA	99.87 0.02
- VILLAGES TOURS S.a.r.l.	Lyon (France)	FRF 260,000	ICOR	100.00
- TRAVEL MANIA S.a.r.l.	Lyon (France)	FRF 2,000,000	VILLAGES TOURS	97.00
- JETMULTIMEDIA S.r.l.	Milan (Italy)	EUR 20,000	JET MULTIMEDIA HOSTING	100.00
- METAPHORA S.A.	Toulouse (France)	FRF 3,080,000	JET MULTIMEDIA HOSTING JET VENTURE	46.50 13.80
- SUD PARTNER S.a.r.l.	Toulouse (France)	EUR 40,000	JET MULTIMEDIA HOSTING	24.00
- JET MULTIMEDIA INTERACTIVE S.A.	Nanterre (France)	EUR 1,000,000	JET MULTIMEDIA	99.98
- DIS WEBSIZING S.a.r.l.	Nanterre (France)	FRF 50,000	JET MULTIMEDIA INTERACTIVE	100.00
- IO FACET S.A.	Paris (France)	FRF 1,500,000	JET MULTIMEDIA INTERACTIVE	12.51
- JET VENTURE S.A.	Paris (France)	EUR 8,000,000	JET MULTIMEDIA OMEGA	99.87 0.12
- AGENCY MULTIMEDIA S.A.	St. Denis La Plaine (France)	FRF 2,200,000	JET VENTURE	19.09
- FIRST ASSUR S.A.	Paris (France)	FRF 14,039,900	JET VENTURE	17.09
- RESACOM S.A.	Paris (France)	EUR 40,000	JET VENTURE	19.97
- LE SERVEUR JUDICIAIRE S.A.	Lyon (France)	FRF 3,250,000	JET MULTIMEDIA	99.91
- NETRIA S.A.	Lyon (France)	FRF 758,500	JET MULTIMEDIA	34.00
- OMEGA S.a.r.l.	Lyon (France)	FRF 500,000	JET MULTIMEDIA	100.00
- VALORIUS S.A.	Boulogne Billancourt (France)	FRF 250,000	9 TELECOM RESEAU	100.00

(continued) List of major equity holdings of Telecom Italia

Company name	Head office		Share capital	Company capital	%
- AUNA – Operadores de telecomunicaciones S.A.	Barcelona (Spain)	ESP	89,707,660,000	STET INTERNATIONAL NETHERLANDS STET MOBILE HOLDING	22.76 7.24
- BBNED N.V.	Amsterdam (Holland)	EUR	12,000,000	STET INTERNATIONAL NETHERLANDS	100.00
- CITEL – Corp. Interamericana de Telecomunicaciones S.A.	Monterrey (Mexico)	MXN	2,073,729,933	STET INTERNATIONAL NETHERLANDS	25.00
- ETEC S.A. – Empresa de telecomunicaciones de Cuba S.A.	Havana (Cuba)	USD	1,441,900,000	STET INTERNATIONAL NETHERLANDS	29.29
- ENTEL CHILE S.A.	Santiago (Chile)	CLP	367,045,650,291	STET INTERNATIONAL NETHERLANDS	26.16
- EUSKALTEL S.A.	Zamudio Bizkaia (Spain)	EUR	142,440,000	STET INTERNATIONAL NETHERLANDS	18.00
- GOLDEN NETHERLANDS N.V.	Amsterdam (Holland)	NLG	486,400	TELECOM ITALIA STET INTERNATIONAL NETHERLANDS	39.06 60.94
- GOLDEN LINES INTERNATIONAL COMMUNICATIONS SERVICES Ltd	Ramat Gan (Israel)	ILS	3,000,000	GOLDEN NETHERLANDS	26.40
- ICH – International Communication Holding N.V.	Amsterdam (Holland)	NLG	100,000	STET INTERNATIONAL NETHERLANDS	100.00
- ETI – Euro Telecom International N.V.	Amsterdam (Holland)	NLG	100,100	ICH	100.00
- ENTEL Empresa Nacional de Telecomunicaciones S.A.	La Paz (Bolivia)	BOB	1,280,898,800	ETI	50.00
- DATACOM S.A.	La Paz (Bolivia)	BOB	21,746,600	ENTEL BOLIVIA	100.00
- CZECH Communications Company A.S. in liquidation	Prague (Czech Rep.)	CZK	1,000,000	ETI	100.00
- INDIAN TELECOMMUNICATION HOLDING B.V.	Amsterdam (Holland)	NLG	303,000	STET INTERNATIONAL NETHERLANDS	100.00
- INELCOM SAN MARINO S.p.A.	Republic of San Marino	ITL	3,000,000,000	STET INTERNATIONAL NETHERLANDS	70.00
- TELEFONIA MOBILE SAMMARINESE S.p.A.	Republic of San Marino	ITL	150,000,000	INELCOM SAN MARINO	51.00
- TELEHOUSE INTERNET EXCHANGE S.A.	Republic of San Marino	ITL	3,000,000,000	INELCOM SAN MARINO	70.00
- BROAD BAND SERVICE S.A.	Republic of San Marino	ITL	500,000,000	INELCOM SAN MARINO	20.00
- MEDITERRANEAN BROADBAND ACCESS S.A.	Creta (Greece)	GRD	4,000,000,000	STET INTERNATIONAL NETHERLANDS	60.00
- MEDITERRANEAN NAUTILUS Ltd	Dublin (Ireland)	USD	100,000	STET INTERNATIONAL NETHERLANDS	51.00
- MEDITERRANEAN NAUTILUS ITALY S.p.A.	Rome (Italy)	EUR	100,000	MEDITERRANEAN NAUTILUS Ltd	100.00
- MEDITERRANEAN NAUTILUS ISRAEL Ltd	Tel Aviv (Israel)	ILS	1,000	MEDITERRANEAN NAUTILUS Ltd	100.00
- MULTIMEDIA CABLE S.A.	Barcelona (Spain)	ESP	1,936,000,000	STET INTERNATIONAL NETHERLANDS	44.00
- NETCO REDES S.A.	Madrid (Spain)	ESP	1,004,680,000	STET INTERNATIONAL NETHERLANDS	30.00
- NETHERTELEC S.A.	Quito (Ecuador)	ECS	40,000,000	STET INTERNATIONAL NETHERLANDS	99.99

(continued) List of major equity holdings of Telecom Italia

Company name	Head office		Share capital	Company capital	%
- NORCABLE S.A. in liquidation	Buenos Aires (Argentina)	ARP	12,000	STET INTERNATIONAL NETHERLANDS	33.33
- SOLPART Participações S.A.	Rio de Janeiro (Brazil)	BRR	2,126,000,000	STET INTERNATIONAL NETHERLANDS	38.00
- TELECOM ITALIA DE ESPANA S.A.	Madrid (Spain)	ESP	350,000,000	STET INTERNATIONAL NETHERLANDS	100.00
- TELEKOM SRBIJA a.d.	Belgrade (Serbia)	YUD	10,907,385,234	STET INTERNATIONAL NETHERLANDS	29.00
- TELEKOM AUSTRIA A.G.	Vienna (Austria)	EUR	1,090,500,000	STET INTERNATIONAL NETHERLANDS	29.78
TELECOM ITALIA GmbH	Vienna (Austria)	ATS	500,000	TELECOM ITALIA	100.00
TELECOM ITALIA CAPITAL S.A.	Luxembourg	USD	30,000	TELECOM ITALIA	99.97
TELECOM ITALIA DO BRASIL Ltda	Rio de Janeiro (Brazil)	BRR	2,699,758	TELECOM ITALIA	99.99
TELECOM ITALIA IRELAND Limited	Dublin (Ireland)	EUR	2	TELECOM ITALIA	100.00
TELECOM ITALIA NETHERLANDS B.V.	Amsterdam (Holland)	EUR	18,200	TELECOM ITALIA	100.00
TELECOM ITALIA OF NORTH AMERICA Inc.	New York (USA)	USD	5,550,000	TELECOM ITALIA	100.00
TI BELGIUM S.P.R.L.- B.V.B.A.	Bruxelles (Belgium)	EUR	1,500,000	TELECOM ITALIA	100.00
TI FRANCE S.a.r.l.	Paris (France)	EUR	7,800	TELECOM ITALIA	100.00
TI GERMANY GmbH	Frankfurt (Germany)	EUR	25,000	TELECOM ITALIA	100.00
TI SWITZERLAND GmbH	Zurich (Switzerland)	CHF	20,000	TELECOM ITALIA FIDUCIARI	95.00 5.00
TI UNITED KINGDOM Ltd	London (UK)	USD	1,000	TELECOM ITALIA	100.00
TI WEB S.A.	Luxembourg	USD	30,000	TELECOM ITALIA	99.97
- GLB SERVICOS INTERATIVOS S.A.	Rio de Janeiro (Brazil)	BRR	100,000,000	TI WEB	30.00
TMI – TELEMEDIA INTERNATIONAL ITALIA S.p.A.	Rome (Italy)	EUR	86,511,459.20	TELECOM ITALIA	100.00
- TMI – TELEMEDIA INTERNATIONAL NETHERLANDS B.V.	Amsterdam (Holland)	NLG	40,000	TMI – TELEMEDIA INTERN. ITALIA	100.00
- TMI – TELEMEDIA INTERNATIONAL LUXEMBOURG S.A.	Luxembourg	EUR	82,150,674	TMI – TELEMEDIA INTERN. ITALIA	99.99
- TMI – TELEMEDIA INTERNATIONAL Ltd	London (UK)	USD	379,400,225	TMI – TELEMEDIA INTERN. LUXEMBOURG	100.00
- EURO DATACOM Ltd	Huddersfield (UK)	GBP	306,666	TMI – TELEMEDIA INTERN. LTD	100.00
- TMI – HUNGARY TRADING AND SERVICES Ltd	Budapest (Hungary)	HUF	3,000,000	TMI – TELEMEDIA INTERN. LTD	100.00
- TELEMEDIA INTERNATIONAL USA Inc.	New Jersey (USA)	USD	107,866,216	TMI – TELEMEDIA INTERN. LTD	100.00
- TELECOM MEDIA – CANADA Inc. INTERNATIONAL ITALY	Montreal (Canada)	CAD	952,100	TMI – TELEMEDIA INTERN. LTD	100.00
- TMI TELEMEDIA INTERNATIONAL DO BRASIL Ltda	San Paolo (Brazil)	BRR	2,443,217	TMI – TELEMEDIA INTERN. LTD	99.99
- TMI TELEMEDIA INTERNATIONAL HONG KONG	Hong Kong	HKD	540,480,247	TMI – TELEMEDIA INTERN. LTD TMI – TELEMEDIA INTERN. USA	99.99 0.01
VOICE MAIL INTERNATIONAL Inc. in liquidation	California (USA)	USD	48,580	TELECOM ITALIA	37.07

(continued) List of major equity holdings of Telecom Italia

Company name	Head office		Share capital	Company capital	%
Mobile telecommunications					
TELECOM ITALIA MOBILE S.p.A.*	Turin (Italy)	EUR	513,942,972.66	TELECOM ITALIA SOFTE	56.13 0.03
- STET MOBILE HOLDING N.V.	Amsterdam (Holland)	NLG	398,159,000	TELECOM ITALIA MOBILE	100.00
- BITEL PARTICIPAÇÕES S.A.	Rio de Janeiro (Brazil)	BRR	2,290,264,028	STET MOBILE HOLDING	99.99
- TELE CELULAR SUL PARTICIPAÇÕES S.A.	Curitiba (Brazil)	BRR	175,772,360.95	BITEL	51.79
- TELEPAR CELULAR S.A.	Curitiba (Brazil)	BRR	333,880,024.30	TELE CELULAR SUL	87.43
- TELESC CELULAR S.A.	Florianopolis (Brazil)	BRR	240,625,509.88	TELE CELULAR SUL	91.39
- CTMR CELULAR S.A.	Pelotas (Brazil)	BRR	21,251,917.26	TELE CELULAR SUL	81.32
- TELE NORDESTE CELULAR PARTICIPAÇÕES S.A.	Brasilia (Brazil)	BRR	108,842,588.19	BITEL	51.79
- TELEPISA CELULAR S.A.	Teresina (Brazil)	BRR	22,775,029.55	TELE NORDESTE CELULAR	97.88
- TELECEARA' CELULAR S.A.	Fortaleza (Brazil)	BRR	87,049,911.88	TELE NORDESTE CELULAR	85.28
- TELERN CELULAR S.A.	Natal (Brazil)	BRR	42,823,497.29	TELE NORDESTE CELULAR	92.57
- TELPA CELULAR S.A.	Joao Pessoa (Brazil)	BRR	42,268,926.78	TELE NORDESTE CELULAR	95.08
- TELPE CELULAR S.A.	Recife (Brazil)	BRR	108,688,270.74	TELE NORDESTE CELULAR	95.06
- TELASA CELULAR S.A.	Maceiò (Brazil)	BRR	30,255,839.16	TELE NORDESTE CELULAR	97.39
- TIMNET. COM S.A.	San Paolo (Brazil)	BRR	18,000,000	TELE NORDESTE CELULAR TELE CELULAR SUL	50.00 50.00
- STET HELLAS TELECOMMUNICATIONS S.A.	Athens (Greece)	GRD	36,300,000,000	STET MOBILE HOLDING	58.14
- TELEPOLIS SERVICES OF MOBILE TELEPHONY S.A.	Athens (Greece)	GRD	500,000,000	STET HELLAS	100.00
- TIM PERÙ S.A.C.	Lima (Perù)	PEN	652,231,998	STET MOBILE HOLDING	100.00
- MAXITEL S.A.	Belo Horizonte (Brazil)	BRR	677,679,703	STET MOBILE HOLDING BITEL	43.15 46.85
- MAXITEL TELECOMUNICAÇÕES Ltda	Salvador de Bahia (Brazil)	BRR	1,000	MAXITEL S.A.	99.99
- OFFSHORE FINANCIAL & SECURITIES Inc.	Tortola (British Virgin Island)	USD	6,104,860	MAXITEL S.A.	100.00
- MOBILKOM AUSTRIA A.G.	Vienna (Austria)	ATS	1,000,000,000	STET MOBILE HOLDING	25.00
- BOUYGUES DECAUX TELECOM S.A.	Guyancourt (France)	FRF	1,931,471,800	STET MOBILE HOLDING	19.61
- C-MOBIL B.V.	AM Brummen (Holland)	NLG	40,000	STET MOBILE HOLDING	12.00
- TIM INTERNATIONAL B.V.	Amsterdam (Holland)	EUR	20,000	TELECOM ITALIA MOBILE	100.00
- CORPORACION DIGITEL C.A.	Caracas (Venezuela)	BOL	42,823,450,241	TIM INTERNATIONAL B.V.	56.56
- IS – TIM Telekomunikasyon Hizmetleri A.S.	Istanbul (Turkey)	L.T.	355,000,000,000,000	TIM INTERNATIONAL B.V.	49.00

* Company listed on Italian Stock Exchange.

(continued) List of major equity holdings of Telecom Italia

Company name	Head office		Share capital	Company capital	%
Satellite telecommunications					
IRIDIUM ITALIA S.p.A.	Rome (Italy)	ITL	5,000,000,000	TELECOM ITALIA TELESPAZIO TELECOM ITALIA MOBILE	30.00 35.00 35.00
- IRIIDIUM SERVICES EUROPE GmbH & Co.KG in liquidation	Düsseldorf (Germany)	DM	29,000,000	IRIDIUM ITALIA	34.00
- IRIIDIUM SERVICES EUROPE VERWALTUNG GmbH	Düsseldorf (Germany)	DM	50,000	IRIDIUM ITALIA	34.00
TELESPAZIO S.p.A.	Rome (Italy)	ITL	184,000,000,000	TELECOM ITALIA	100.00
- COM.STAR S.r.l.	Rome (Italy)	ITL	2,000,000,000	TELESPAZIO	100.00
- CTM – Centro di Telerilevamento Mediterraneo S.c.p.A.	Palermo (Italy)	ITL	1,839,000,000	TELESPAZIO	51.00
- DAMOS SUDAMERICA S.A.	Rio de Janeiro (Brazil)	BRR	19,520,000	TELESPAZIO	77.87
- e-GEOS S.p.A.	Matera (Italy)	EUR	105,000	TELESPAZIO EURIMAGE FINSIEL	51.00 2.00 1.00
- EURIMAGE S.p.A.	Rome (Italy)	ITL	8,600,000,000	TELESPAZIO	51.00
- EUROPEAN COMPANY FOR MOBILE COMMUNICATION SERVICES B.V.	Amsterdam (Holland)	EUR	15,463,572	TELESPAZIO	69.44
- EUROPEAN COMPANY FOR MOBILE COMMUNICATION OPERATIONS B.V.	Amsterdam (Holland)	EUR	45,500	EUROPEAN COMPANY FOR MOBILE COMMUNICATION SERVICES	100.00
- RARTEL S.A.	Bucharest (Romania)	ROL	4,685,000,000	TELESPAZIO TELEO	50.06 1.00
- TELEO S.p.A.	Rome (Italy)	ITL	6,100,000,000	TELESPAZIO	100.00
- TELEOS B.V.	Amsterdam (Holland)	NLG	40,000	TELESPAZIO	100.00
- TELEOS INTERNATIONAL B.V.	Amsterdam (Holland)	NLG	40,000	TELEOS	100.00
- TELESPAZIO LUXEMBOURG S.A.	Luxembourg	USD	156,946,730	TELESPAZIO	100.00
- ASTROLINK INTERNATIONAL LLC	Delaware (USA)	USD	1,350,100,000	TELESPAZIO LUX.	18.52
- TELESPAZIO IRELAND Ltd	Dublin (Ireland)	USD	1,000,000	TELESPAZIO LUX.	100.00
- T.I.SCOM S.A. in liquidation	Curitiba (Brazil)	BRR	7,735,000	TELESPAZIO	51.00
CZECH TELESPAZIO S.r.l. in liquidation	Prague (Czech Rep.)	CZK	1,500,000	TELECOM ITALIA	40.00
- DATASPAZIO S.p.A.	Rome (Italy)	ITL	980,000,000	TELESPAZIO	49.00
- MAREMS-V&D SERVICE S.A.	Moscow (Russia)	RUR	7,135,500	TELESPAZIO	49.00
- POLITEL S.A.	Warsaw (Poland)	PLN	100,000	TELESPAZIO TMI – TELEMEDIA INTERN. LTD	10.00 10.00
Information activities					
CARTESIA – Cartografia digitale S.p.A.	Rome (Italy)	ITL	200,000,000	TELECOM ITALIA	50.00
TI.IT – TELECOM ITALIA INFORMATION TECHNOLOGY S.p.A.	Rome (Italy)	ITL	50,000,000,000	TELECOM ITALIA	100.00
- NETIKOS S.p.A.	Rome (Italy)	ITL	5,000,000,000	TI.IT TELECOM ITALIA	100.00
FINSIEL – Consulenza e Applicazioni Informatiche S.p.A.	Rome (Italy)	ITL	116,132,400,000	TELECOM ITALIA SOGEI	77.19 0.63

(continued) List of major equity holdings of Telecom Italia

Company name	Head office		Share capital	Company capital	%
- ASPASIEL S.r.l.*	Rome (Italy)	ITL	500,000,000	FINSIEL	50.00
- BANKSIEL – Società di Informatica e Organizzazione p.A.	Milan (Italy)	ITL	20,000,000,000	FINSIEL	55.50
- CARISIEL Sistemi Informativi Elettronici per il Settore Creditizio e Finanziario S.p.A.	Rende (Cosenza, Italy)	ITL	1,490,000,000	FINSIEL BANKSIEL	2.00 98.00
- CENTROSIEL S.p.A.**	Milan (Italy)	EUR	516,600	BANKSIEL	47.00
- SAPED – Studio Analisi Program. Elaborazione Dati S.p.A.	Siena (Italy)	ITL	2,000,000,000	BANKSIEL	20.00
- CONSIEL – Società di Management Consulting e Formazione p.A.	Milan (Italy)	ITL	9,900,000,000	FINSIEL	90.50
- ASKA S.r.l.	Milan (Italy)	ITL	20,000,000	CONSIEL	60.00
- CESEN S.p.A.	Genoa (Italy)	ITL	1,219,000,000	CONSIEL	39.00
- CONSIEL DO BRASIL Ltda	San Paolo (Brazil)	BRR	222,223	CONSIEL	99.99
- DMR CONSIEL S.p.A. in liquidation	Rome (Italy)	ITL	500,000,000	CONSIEL	51.00
- HITECO CONSULTANTS S.r.l.	Milan (Italy)	ITL	50,000,000	CONSIEL FIDUCIARIO	60.00 40.00
- JMAC CONSIEL S.p.A.***	Milan (Italy)	ITL	300,000,000	CONSIEL	45.00
- CRUED Servizi Informatici S.p.A.	Perugia (Italy)	ITL	3,000,000,000	FINSIEL	49.00
- DATASIEL – Sistemi e Tecnologie d'Informatica S.p.A.	Genoa (Italy)	ITL	5,000,000,000	FINSIEL	50.00
- EIS – Elettronica Ingegneria Sistemi S.p.A.	Rome (Italy)	ITL	10,000,000,000	FINSIEL	87.81
- EISYS S.p.A.	Rome (Italy)	ITL	1,200,000,000	EIS	25.00
- POLCESCA S.r.l.	Rome (Italy)	ITL	2,020,000,000	EIS	16.66
- FINSIEL HELLAS S.A. in liquidation	Koropi (Greece)	GRD	230,000,000	FINSIEL	91.00
- FINSIEL ROMANIA S.r.l.	Bucharest (Romania)	ROL	11,841,500,000	FINSIEL	90.53
- IC SOFT S.p.A. in liquidation	Naples (Italy)	ITL	200,000,000	FINSIEL	100.00
- INFORMATICA TRENTINA S.p.A.	Trento (Italy)	ITL	6,000,000,000	FINSIEL	40.41
- INSIEL – Informatica per il Sistema degli Enti Locali S.p.A.	Trieste (Italy)	ITL	15,000,000,000	FINSIEL	52.00
- SIT – Sistemi Interportuali Trieste S.p.A.	Trieste (Italy)	ITL	250,000,000	INSIEL	56.00
- INTERSIEL – Società Interregionale Sistemi Informativi Elettronici S.p.A.	Rende (Cosenza, Italy)	ITL	2,000,000,000	FINSIEL	100.00
- KRENESIEL – Società Sarda di Informatica S.p.A.	Sassari (Italy)	ITL	5,000,000,000	FINSIEL INSIEL	41.00 10.00
- NETSIEL – Networks Produttivi per Sistemi Informativi Elettronici S.p.A.	Bari (Italy)	ITL	126,000,000,000	TELECOM ITALIA FINSIEL	68.65 31.35
- SIBISIEL – Società di Informatica per la Banca e l'Impresa S.p.A.	Bari (Italy)	ITL	2,000,000,000	NETSIEL SIBISIEL	90.20 9.80

* Finsiel also exercises the right to vote on 1% of the capital held by another stockholder.

** Banksiel also exercises the right to vote on 4% of the capital held by another stockholder.

*** Consiel also exercises the right to vote on 10% of the capital held by another stockholder.

(continued) List of major equity holdings of Telecom Italia

Company name	Head office		Share capital	Company capital	%
- PRAXIS CALCOLO S.p.A.	Milan (Italy)	EUR	1,080,000	FINSIEL	22.00
- SISPI S.p.A.	Palermo (Italy)	ITL	4,000,000,000	FINSIEL	49.00
- SOGEI Società Generale d'Informatica S.p.A.	Rome (Italy)	ITL	20,000,000,000	FINSIEL	100.00
- GEOWEB S.p.A.	Rome (Italy)	ITL	1,000,000,000	SOGEI	40.00
- LOTTOMATICA S.p.A.	Rome (Italy)	EUR	63,335,000	SOGEI	25.50
- TELESISTEMI FERROVIARI S.p.A.	Rome (Italy)	ITL	149,099,000,000	FINSIEL	61.00
- SINTESIEL S.r.l.	Rome (Italy)	ITL	250,000,000	TELESISTEMI FERROVIARI	88.00
- VENIS – Venezia Informatica e Sistemi S.p.A.	Venice (Italy)	ITL	3,000,000,000	FINSIEL INSIEL	20.40 30.60
- WEBEGG S.p.A.	Ivrea (Italy)	EUR	33,107,160	TI.IT TELECOM ITALIA FINSIEL	19.80 30.20
GEIS – General Electric Information Services S.p.A.	Milan (Italy)	ITL	2,450,000,000	TELECOM ITALIA	40.00
RETE TELEMATICA PIEMONTESE S.p.A.	Turin (Italy)	ITL	2,890,272,000	TELECOM ITALIA	16.52
SIEMENS INFORMATICA S.p.A.	Milan (Italy)	EUR	6,192,000	TELECOM ITALIA	49.00
SIOSISTEMI S.p.A.	Brescia (Italy)	ITL	500,000,000	TELECOM ITALIA	40.00
SODALIA S.p.A.	Trento (Italy)	ITL	6,000,000,000	TELECOM ITALIA	100.00
- TELESOFT AMERICA Inc.	New Jersey (USA)	USD	700,000	SODALIA	100.00
TELEPORTO ADRIATICO S.r.l.	Venice (Italy)	ITL	3,200,000,000	TELECOM ITALIA INSIEL	7.50 4.68
TELESOFT S.p.A.	Rome (Italy)	ITL	40,500,000,000	TELECOM ITALIA FINSIEL	60.00 40.00
- TELESOFT HELLAS S.A.	Athens (Greece)	GRD	20,000,000	TELESOFT	100.00
- TELESOFT RUSSIA ZAO	Moscow (Russia)	RUR	1,592,000	TELESOFT	75.00
- TECO SOFT ESPANA S.A.	Madrid (Spain)	ESP	60,000,000	TELESOFT	100.00
- EUSTEMA S.p.A.	Rome (Italy)	ITL	600,000,000	TELESOFT	67.33
- PAS GROUP S.r.l.	Milan (Italy)	ITL	180,000,000	EUSTEMA	16.66
Other activities					
ATESIA – Telemarketing Comunicazione Telefonica e Ricerche di Mercato S.p.A.	Rome (Italy)	ITL	6,100,000,000	TELECOM ITALIA	100.00
CYGENT Inc.	California (USA)	USD	28,708,549	TELECOM ITALIA	22.48
CSELT – Centro Studi e Laboratori Telecomunicazioni S.p.A.	Turin (Italy)	EUR	618,000	TELECOM ITALIA	100.00
- LOCALPORT S.p.A.	Ivrea (Italy)	ITL	670,000,000	CSELT	22.40
EDOTEL S.p.A.	Turin (Italy)	ITL	2,000,000,000	TELECOM ITALIA TELECOM ITALIA MOBILE	60.00 40.00
- FICOMPTA 3 S.p.A.	Milan (Italy)	EUR	6,300,000	EDOTEL	15.00

(continued) List of major equity holdings of Telecom Italia

Company name	Head office		Share capital	Company capital	%
ELETTRA TLC S.p.A.	Rome (Italy)	ITL	20,000,000,000	TELECOM ITALIA	100.00
EMSA – Società Immobiliare p.A.	Turin (Italy)	ITL	1,123,596,000	TELECOM ITALIA	100.00
EURESCOM – European Institute for Research and Strategic Studies in Telecommunications GmbH	Heidelberg (Germany)	EUR	100,000	TELECOM ITALIA	13.48
FINTECH FINANZIARIA TECNOLOGICA S.p.A.	Turin (Italy)	ITL	50,000,000,000	TELECOM ITALIA	50.00
FRATELLI ALINARI S.p.A.	Florence (Italy)	EUR	7,200,000	TELECOM ITALIA	11.35
HUIT S.à.r.l.	Luxembourg	ITL	10,619,650,000	TELECOM ITALIA	78.04
- HUIT II S.à.r.l.	Luxembourg	ITL	39,838,500,000	HUIT	100.00
IFM INFOMASTER S.p.A.	Genoa (Italy)	EUR	129,412	TELECOM ITALIA	15.00
IM.SER S.p.A.	Turin (Italy)	ITL	280,000,000,000	TELECOM ITALIA	40.00
IMMSI S.p.A.*	Turin (Italy)	ITL	220,000,000,000	TELECOM ITALIA	45.31
INSULA S.p.A.	Venice (Italy)	ITL	4,000,000,000	TELECOM ITALIA	12.00
IREOS S.p.A. in liquidation	Rome (Italy)	ITL	200,000,000	TELECOM ITALIA	100.00
MIX S.r.l.	Milan (Italy)	EUR	99,000	TELECOM ITALIA MC LINK	9.75 9.75
SAIAT – Società Attività Intermedie Ausiliarie Telecomunicazioni p.A.	Turin (Italy)	ITL	69,408,000,000	TELECOM ITALIA	100.00
- ASCAI SERVIZI S.r.l.	Rome (Italy)	ITL	142,000,000	SAIAT	35.21
- LABIA SERVICES S.p.A. in liquidation	Rome (Italy)	ITL	120,000,000,000	SAIAT FINSIEL	33.00 1.00
- TELELEASING – Leasing di Telecomunicazioni e Generale S.p.A.	Turin (Italy)	ITL	18,977,770,000	SAIAT	20.00
- TELIMM S.p.A.	Turin (Italy)	ITL	8,238,730,000	SAIAT TELECOM ITALIA	79.42 0.58
- TELS Y Elettronica e Telecomunicazioni S.p.A.	Turin (Italy)	ITL	750,000,000	SAIAT	100.00
SARITEL S.p.A.	Pomezia (Rome)	EUR	11,445,360	TELECOM ITALIA	100.00
- TRADECOM – Soluzioni Avanzate per il commercio, il turismo e i servizi S.p.A.	Rome (Italy)	ITL	500,000,000	SARITEL FINSIEL	24.50 24.50
SCUOLA SUPERIORE GUGLIELMO REISS ROMOLI S.p.A.	L'Aquila (Italy)	ITL	3,000,000,000	TELECOM ITALIA	100.00
SITEBA Sistemi Telematici Bancari S.p.A.	Milan (Italy)	ITL	5,000,000,000	TELECOM ITALIA	30.00
SOFTE S.A.	Luxembourg	USD	100,000,000	TELECOM ITALIA SAIAT	99.99 0.01
- SOGERIM S.A.	Luxembourg	EUR	525,000	SOFTE SAIAT	99.95 0.05
- ITALTEL HOLDING S.p.A.	Milan (Italy)	ITL	216,160,000,000	SOGERIM	19.90
- NICKEL ACQUISITION CORPORATION	New York (Usa)	USD	1	SOGERIM	100.00
STOÀ S.c.p.A.	Ercolano (Naples)	ITL	2,001,174,000	TELECOM ITALIA FINSIEL INTERSIEL	8.63 2.96 2.03

* Company listed on Italian Stock Exchange.

(continued) List of major equity holdings of Telecom Italia

Company name	Head office		Share capital	Company capital	%
STREAM S.p.A.	Rome (Italy)	ITL	816,040,000,000	TELECOM ITALIA	50.00
STT-Società Trasporto Telematico S.p.A.	Verona (Italy)	ITL	10,000,000,000	TELECOM ITALIA	40.00
TELE PAYROLL SERVICE S.p.A.	Rome (Italy)	ITL	2,500,000,000	TELECOM ITALIA	100.00
TELSI	London (UK)	GBP	1,119,364,000	TELECOM ITALIA	100.00
TRAINET S.p.A.	Rome (Italy)	ITL	1,305,800,000	TELECOM ITALIA	100.00
- UBA-NET S.A.	Buenos Aires (Argentina)	ARP	1,430,000	TRAINET	50.00
- CISIT S.c.p.A.	Rome (Italy)	ITL	210,000,000	TRAINET	16.66
- CO.SE.R S.c.r.l.	Catanzaro (Italy)	ITL	40,000,000	TRAINET	20.00
Publishing and internet activities					
SEAT PAGINE GIALLE S.p.A.*	Milan (Italy)	ITL	548,130,222,150	TELECOM ITALIA HUIT II TELESPAZIO SARITEL SOFTE	60.17 4.23 1.31 0.02 0.15
- BIBOP RESEARCH INT. S.p.A.	Milan (Italy)	ITL	1,000,000,000	SEAT PAGINE GIALLE	41.20
- CECCHI GORI COMMUNICATIONS S.p.A.	Rome (Italy)	ITL	9,805,000,000	SEAT PAGINE GIALLE	25.00
- DATABANK S.p.A.	Milan (Italy)	ITL	1,820,000,000	SEAT PAGINE GIALLE	93.46
- DATABANK CONSULTING S.p.A.	Milan (Italy)	ITL	500,000,000	DATABANK	100.00
- MARKET & INDUSTRY ANALYSTS S.A.	Bruxelles (Belgium)	FB	4,340,000	DATABANK DATABANK CONSULTING	80.00 20.00
- DBK S.A.	Madrid (Spain)	ESP	16,500,000	DATABANK	99.99
- DATABANK WETTBEWERBS-MARKT-UND FINANZANALYSE GmbH	Darmstadt (Germany)	DM	1,700,000	DATABANK	60.00
- DISCOVERITALIA S.p.A.	Novara (Italy)	ITL	10,000,000,000	SEAT PAGINE GIALLE	25.00
- ELETTRICK S.p.A.	Milan (Italy)	ITL	200,000,000	SEAT PAGINE GIALLE	20.00
- EUREDIT S.A.	Paris (France)	FRF	2,500,000	SEAT PAGINE GIALLE	84.99
- EURODIRECTORY S.A.	Luxembourg	NLG	3,580,000	SEAT PAGINE GIALLE	50.00
- ESRI ITALIA S.p.A.	Rome (Italy)	ITL	500,000,000	SEAT PAGINE GIALLE	49.00
- EXCITE ITALIA B.V.	Amsterdam (Holland)	NLG	100,000	SEAT PAGINE GIALLE	50.00
- FINANZIARIA WEB S.p.A.	Turin (Italy)	ITL	35,235,904,000	SEAT PAGINE GIALLE	60.00
- MATRIX S.p.A.	Milan (Italy)	ITL	2,200,000,000	SEAT PAGINE GIALLE FINANZIARIA WEB	0.70 66.00
- EXPERT SYSTEM S.p.A.	Modena (Italy)	ITL	276,923,000	MATRIX	35.00
- GAY.IT S.p.A.	Pisa (Italy)	EUR	1,000,000	MATRIX	22.50
- GIALLO MARKET S.r.l.	Milan (Italy)	EUR	900,000	MATRIX	100.00

* Company listed on Italian Stock Exchange.

(continued) List of major equity holdings of Telecom Italia

Company name	Head office	Share capital	Company capital	%
- GOALLARS B.V.	Amsterdam (Holland)	EUR 100,000	MATRIX	55.00
- KMATRIX S.r.l.	Milan (Italy)	EUR 100,000	MATRIX	100.00
- MIA ECONOMIA.com S.r.l.	Milan (Italy)	EUR 1,500,000	MATRIX	30.00
- NETEX S.r.l.	Milan (Italy)	EUR 10,000	MATRIX	50.00
- OLÀ S.r.l.	Milan (Italy)	ITL 20,000,000	MATRIX	51.00
- ZDNET ITALIA S.r.l.	Milan (Italy)	EUR 400,000	MATRIX	51.00
- FINSATEL S.r.l.	Rome (Italy)	ITL 266,000,000	SEAT PAGINE GIALLE	100.00
- GRUPPO BUFFETTI S.p.A.*	Rome (Italy)	ITL 22,725,000,000	SEAT PAGINE GIALLE	96.28
- BUFFETTI S.r.l. a socio unico	Rome (Italy)	ITL 20,000,000	GRUPPO BUFFETTI	100.00
- EMMEDI 97 S.r.l. a socio unico in liquidation	Rome (Italy)	ITL 20,000,000	GRUPPO BUFFETTI	100.00
- IL CENTRO CONTABILE in liquidation	Rome (Italy)	ITL 4,379,426,000	GRUPPO BUFFETTI	89.70
- INDUSTRIAL SERVICES S.p.A.	Lecco (Italy)	ITL 1,500,000,000	GRUPPO BUFFETTI	84.00
- IS PRODUCTS S.p.A.	Pogliano Milanese (Milan, Italy)	ITL 18,000,000,000	GRUPPO BUFFETTI INDUSTRIAL SERVICES	27.78 72.22
- INCAS PRODUCTION S.r.l.	Venaria Reale (Turin, Italy)	ITL 1,000,000,000	IS PRODUCTS	100.00
- INCAS FRANCE S.A.	Asnieres (France)	FRF 19,168,900	IS PRODUCTS	100.00
- L'UFFICIO MODERNO S.r.l.	Florence (Italy)	ITL 20,000,000	GRUPPO BUFFETTI IL CENTRO CONTABILE	15.00 15.00
- MAGIQ 32 S.r.l. a socio unico	Rome (Italy)	ITL 1,000,000,000	GRUPPO BUFFETTI	100.00
- SK DIRECT S.r.l.	Rome (Italy)	ITL 4,621,000,000	GRUPPO BUFFETTI INDUSTRIAL SERVICES	4.31 95.69
- OR.MA INFORMATICA S.r.l.	Milan (Italy)	ITL 20,000,000	SK DIRECT	100.00
- GIALLO DAT@ S.p.A.	Turin (Italy)	EUR 6,500,000	SEAT PAGINE GIALLE	100.00
- DOMINO RESEARCH S.r.l.	Milan (Italy)	ITL 90,000,000	GIALLO DAT@	60.00
- PHARMASOFT CONSULTING S.r.l.	Rome (Italy)	ITL 2,000,000,000	GIALLO DAT@	60.00
- PUBBLIBABY S.p.A.	Cusago (Milan, Italy)	EUR 100,000	GIALLO DAT@	61.00
- FINANZA E GESTIONE S.r.l.	Milan (Italy)	ITL 150,000,000	GIALLO DAT@	60.00
- DWI S.p.A.	Verona (Italy)	EUR 500,000	GIALLO DAT@	51.00
- GIALLO e.com S.p.A.	Turin (Italy)	EUR 100,000	SEAT PAGINE GIALLE	100.00
- GIALLO VIAGGI.it S.p.A.	Turin (Italy)	EUR 100,000	SEAT PAGINE GIALLE	100.00
- GIALLO LAVORO S.p.A.	Turin (Italy)	EUR 100,000	SEAT PAGINE GIALLE	100.00

* Company listed on Italian Stock Exchange.

(continued) List of major equity holdings of Telecom Italia

Company name	Head office	Share capital	Company capital	%
- GIALLO PROFESSIONAL PUBLISHING S.p.A.	Turin (Italy)	EUR 100,000	SEAT PAGINE GIALLE	100.00
- QUASAR E ASSOCIATI S.r.l.	Milan (Italy)	EUR 20,408	GIALLO PROFESSIONAL PUBLISHING	51.00
- EDITORIALE QUASAR S.r.l.	Milan (Italy)	ITL 20,000,000	QUASAR E ASSOCIATI	100.00
- GIALLO VOICE S.p.A.	Turin (Italy)	EUR 100,000	SEAT PAGINE GIALLE	99.00
- GIALLO WEB S.r.l.	Milan (Italy)	EUR 10,000	SEAT PAGINE GIALLE	100.00
- KOMPASS ITALIA S.p.A.	Turin (Italy)	ITL 2,739,744,000	SEAT PAGINE GIALLE	100.00
- ITALBIZ.COM INC.	California (Usa)	USD 13,800	SEAT PAGINE GIALLE	72.46
- MC LINK S.p.A.	Rome (Italy)	ITL 2,311,000,000	SEAT PAGINE GIALLE	66.00
- FUTUR COM S.r.l.	Sesto San Giovanni (Milan, Italy)	ITL 20,000,000	MC LINK	17.00
- MONDUS LTD	Oxford (UK)	GBP 1,879.90	SEAT PAGINE GIALLE	46.44
- POLIX S.p.A.	Milan (Italy)	ITL 200,000,000	SEAT PAGINE GIALLE	55.00
- SAPENDI S.p.A.	Novara (Italy)	ITL 10,000,000,000	SEAT PAGINE GIALLE	25.00
- SCS COMUNICAZIONE INTEGRATA S.p.A. in liquidation	Rome (Italy)	ITL 1,200,000,000	SEAT PAGINE GIALLE	100.00
- CLIPPER S.p.A. in liquidation	Rome (Italy)	ITL 200,000,000	SCS	50.00
- SEAT CAPITAL INVESTMENTS S.A.	Luxembourg	EUR 4,300,000	SEAT PAGINE GIALLE	99.99
- ISCE – Investors in Sapient & Cuneo Europe S.A.	Luxembourg	ITL 8,400,000,000	SEAT CAPITAL INV.	25.00
- WISEQUITY N.V.	Amsterdam (Holland)	EUR 50,000	SEAT CAPITAL INV.	50.00
- TELEGATE HOLDING GmbH	Martinsried (Germany)	DM 51,000	SEAT PAGINE GIALLE	51.37
- TELEGATE A.G.	Martinsried (Germany)	EUR 12,730,000	SEAT PAGINE GIALLE TELEGATE HOLDING	13.54 50.99
- 1180.COM GmbH	Martinsried (Germany)	EUR 25,000	TELEGATE A.G.	100.00
- MOBILSAFE A.G.	Meerbusch (Germany)	EUR 150,000	1180.COM	33.33
- TELEGATE ANKLAM GmbH	Anklam (Germany)	DM 50,000	TELEGATE A.G.	100.00
- ARSMOVENDI.COM A.G.	Munchen (Germany)	EUR 150,000	TELEGATE A.G.	33.33
- DATAGATE GmbH	Martinsried (Germany)	EUR 25,000	TELEGATE A.G.	100.00
- KIMTRAVEL CONSULTING A.G.	Munchen (Germany)	EUR 69,493	TELEGATE A.G.	33.00
- TELEGATE CALL CENTER GmbH	Martinsried (Germany)	EUR 25,000	TELEGATE A.G.	100.00
- PHONECOM GmbH	Munchen (Germany)	EUR 77,000	TELEGATE CALL CENTER	50.68
- MEDIA EVOLUTION GmbH	Munchen (Germany)	DM 60,000	PHONECOM	100.00
- TELEGATE HOLDING B.V.	Schiphol (Holland)	EUR 18,200	TELEGATE A.G.	100.00

(continued) List of major equity holdings of Telecom Italia

Company name	Head office	Share capital	Company capital	%
- TELEGATE Communication Systems S.A.	Madrid (Spain)	EUR 61,000	TELEGATE HOLDING B.V. TELEGATE A.G.	99.00 1.00
- TELEGATE INC.	Texas (USA)	USD 1,000	TELEGATE HOLDING B.V.	100.00
- TELEGATE ITALIA S.r.l.	Milan (Italy)	EUR 129,000	TELEGATE HOLDING B.V.	95.00
- TELEGATE LTD	London (UK)	GBP 50,000	TELEGATE HOLDING B.V.	100.00
- TDL INFOMEDIA LIMITED	Hampshire (UK)	GBP 139,509.21	SEAT PAGINE GIALLE	99.60
- TDL INFOMEDIA FINANCE LIMITED	Hampshire (UK)	GBP 9,374.09	TDL INFOMEDIA LIMITED	100.00
- TDL INFOMEDIA HOLDINGS PLC	Hampshire (UK)	GBP 397,126.43	TDL INFOMEDIA FINANCE LIMITED	100.00
- TDL INFOMEDIA GROUP PLC	Hampshire (UK)	GBP 624,576.64	TDL INFOMEDIA HOLDINGS PLC	100.00
- TDL GROUP LIMITED	Hampshire (UK)	GBP 89,864.25	TDL INFOMEDIA GROUP PLC	100.00
- THOMSON DIRECTORIES LIMITED	Hampshire (UK)	GBP 1,340,000	TDL GROUP LIMITED	100.00
- BUSINESS Information Group Limited	Hampshire (UK)	GBP 1	THOMSON DIRECTORIES LIMITED	100.00
- Forest Rental Services Limited	Hampshire (UK)	GBP 2	THOMSON DIRECTORIES LIMITED	100.00
- Hill Cleaning Services Limited	Hampshire (UK)	GBP 2	THOMSON DIRECTORIES LIMITED	100.00
- Hill Enterprises Limited	Hampshire (UK)	GBP 2	THOMSON DIRECTORIES LIMITED	100.00
- Infomedia Group Limited	Hampshire (UK)	GBP 2	THOMSON DIRECTORIES LIMITED	100.00
- Infonation Group Limited	Hampshire (UK)	GBP 1	THOMSON DIRECTORIES LIMITED	100.00
- Lake Building Services Limited	Hampshire (UK)	GBP 2	THOMSON DIRECTORIES LIMITED	100.00
- Peak Maintenance Services Limited	Hampshire (UK)	GBP 2	THOMSON DIRECTORIES LIMITED	100.00
- Thomson Directories Pension Company Limited	Hampshire (UK)	GBP 2	THOMSON DIRECTORIES LIMITED	100.00
- TDL BELGIUM S.A.	Bruxelles (Belgium)	FB 100,000,000	THOMSON DIRECTORIES LIMITED	47.00
- INDIRECT S.P.R.L.	Bruxelles (Belgium)	FB 6,000,000	THOMSON DIRECTORIES LIMITED	15.60
- MOBILE COMMERCE Limited	Surrey (UK)	GBP 1,358.10	THOMSON DIRECTORIES LIMITED	15.00
- TICKETONE S.p.A.	Milan (Italy)	EUR 500,000	SEAT PAGINE GIALLE	50.10
- TWICE SIM S.p.A.	Milan (Italy)	EUR 12,925,000	SEAT PAGINE GIALLE	18.64
- VIASAT S.p.A.	Rome (Italy)	EUR 2,452,956	SEAT PAGINE GIALLE FINSATEL	33.54 16.46

Useful information

A free copy of this report can be obtained by:

Writing to the following address:	TELECOM ITALIA S.p.A. Corporate Affairs Corso d'Italia, 41 00198 Roma
Sending a fax to:	+ 39 – 0636882225 + 39 – 0636883381
Calling:	Toll-free on 800020220 from Italy Toll-free on 08000569030 from the United Kingdom Toll-free on 18886892286 from the United States These toll-free numbers are provided for Shareholder inquiries and assistance. From other countries, the following numbers apply: + 39 – 068415895 / 068415911 / 068416043
E-mail	affarisocietari@telecomitalia.it
Internet	User of the world wide web can access the “Annual Report 2000” and obtain information about TELECOM ITALIA and its products and services at the following address: http://www.telecomitalia.it
Investor relations	+ 39 – 0636882660 / 0636882381 larry.kay@telecomitalia.it michele1.guerra@telecomitalia.it

TELECOM ITALIA S.p.A.

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Corporate Headquarters and Secondary Office: Corso d'Italia, 41 – 00198 Rome, Italy

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